Annual Report 2009

Digitization
INNOVATION
Culture
FREEDOM
Commitment
Change
Creativity
Entertainment
High-quality journalism
Performance
Services
Independence
Responsibility
Flexibility
BESTSELLERS
ENTREPRENEURSHIP
Values
Internationality
Inspiration
Sales expertise
Continuity
Media
Partnership
QUALITY
Citizenship
Publishing companies
Tradition

175 YEARS OF BERTELSMANN
THE LEGACY FOR OUR FUTURE

BERTELSMANN
media worldwide

Strong roots are essential for a company to prosper and grow. Bertelsmann's roots go back to 1835, when Carl Bertelsmann, a printer and bookbinder, founded C. Bertelsmann Verlag. Over the past 175 years, what began as a small Protestant Christian publishing house has grown into a leading global media and services group. As media and communication channels, technology and customer needs have changed over the years, Bertelsmann has modified its products, brands and services, without losing its corporate identity. In 2010, Bertelsmann is celebrating its 175-year history of entrepreneurship, creativity, corporate responsibility and partnership, values that shape our identity and equip us well to meet the challenges of the future. This anniversary, accordingly, is being celebrated under the heading "175 Years of Bertelsmann – The Legacy for Our Future."

175 YEARS
OF BERTELSMANN
THE LEGACY FOR
OUR FUTURE

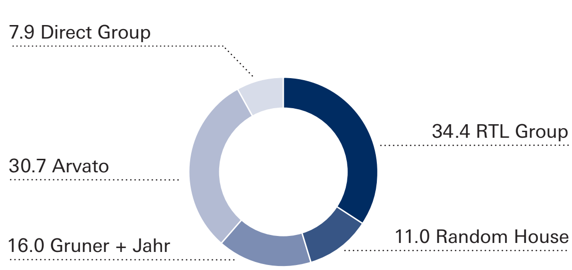
# Bertelsmann at a Glance

## Key Figures (IFRS)

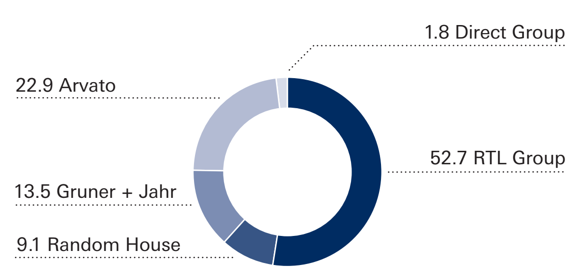
| in € millions | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Business Development** | | | | | |
| Consolidated revenues | 15,364 | 16,249 | 16,191 | 19,297 | 17,890 |
| Operating EBIT | 1,424 | 1,575 | 1,717 | 1,867 | 1,610 |
| Operating EBITDA | 2,003 | 2,138 | 2,292 | 2,548 | 2,274 |
| Return on sales in percent[1] | 9.3 | 9.7 | 10.6 | 9.7 | 9.0 |
| Bertelsmann Value Added (BVA[2]) | 26 | 90 | 173 | 101 | 28 |
| Net income | 35 | 270 | 405 | 2,424 | 1,041 |
| Investments | 662 | 1,095 | 1,032 | 1,092 | 2,565 |
| | | | | | |
| **Consolidated Balance Sheet** | | | | | |
| Equity | 5,980 | 6,238 | 6,141 | 6,429 | 9,170 |
| Equity ratio in percent | 30.9 | 31.0 | 28.2 | 28.6 | 40.0 |
| Total assets | 19,378 | 20,142 | 21,793 | 22,498 | 22,932 |
| Net financial debt | 2,793 | 3,445 | 4,282 | 4,582 | 1,578 |
| Economic debt[3] | 6,024 | 6,627 | 7,720 | 8,450 | 3,931 |
| Leverage factor | 3.2 | 3.2 | 3.1 | 3.4 | – |
| | | | | | |
| **Employees** (in absolute numbers) | | | | | |
| Germany | 36,930 | 38,421 | 36,584 | 34,336 | 32,570 |
| Other countries | 66,053 | 68,733 | 58,965 | 62,796 | 58,989 |
| Total | 102,983 | 107,154 | 95,549 | 97,132 | 91,559 |
| | | | | | |
| Dividends to shareholders of Bertelsmann AG | 60 | 120 | 120 | 120 | 287 |
| Distribution on Profit Participation Certificates | 75 | 76 | 76 | 77 | 76 |
| Employee profit sharing | 65 | 75 | 82 | 73 | 48 |

This overview shows the figures reported in the Annual Reports of preceding years.
[1] Based on Operating EBIT
[2] Bertelsmann uses the BVA as a controlling instrument to assess the profitability of its operations and its return on capital
[3] From 2006 extended definition: Net financial debt plus provisions for pensions (taking into account IAS 19.93 A), profit participation capital and net present value of operating leases. Before 2006, without net present value of operating leases and effects result from IAS 19.93 A

## Total Revenues by Division in percent*




## Operating EBIT by Divisions in percent*




* Based on total from divisions not including Corporate/Consolidation

# Corporate Divisions at a Glance

**Bertelsmann AG**

| RTL Group | Random House | Gruner + Jahr | Arvato | Direct Group |
|---|---|---|---|---|
| Bertelsmann AG 91.0% | Bertelsmann AG 100% | Bertelsmann AG 74.9% | Bertelsmann AG 100% | Bertelsmann AG 100% |
| Free float 9.0% | | Jahr Family 25.1% | | |

**RTL Group**

| in € millions | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Revenues | 5,410 | 5,774 | 5,707 | 5,640 | 5,112 |
| Operating EBIT | 793 | 927 | 978 | 835 | 756 |
| Employees[1] | 12,520 | 12,360 | 11,392 | 11,307 | 8,970 |

**Random House**

| in € millions | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Revenues | 1,723 | 1,721 | 1,837 | 1,947 | 1,828 |
| Operating EBIT | 137 | 137 | 173 | 182 | 166 |
| Employees[1] | 5,432 | 5,779 | 5,764 | 5,804 | 5,395 |

**Gruner + Jahr**

| in € millions | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Revenues | 2,508 | 2,769 | 2,831 | 2,861 | 2,624 |
| Operating EBIT | 203 | 225 | 264 | 277 | 250 |
| Employees[1] | 13,571 | 14,941 | 14,448 | 14,529 | 13,981 |

**Arvato**

| in € millions | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Revenues | 4,826 | 4,993 | 4,917 | 4,782 | 4,365 |
| Operating EBIT | 345 | 369 | 366 | 367 | 341 |
| Employees[1] | 60,323 | 62,591 | 51,846 | 46,584 | 42,155 |

**Direct Group**

| in € millions | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Revenues | 1,246 | 1,396 | 1,308 | 2,665 | 2,384 |
| Operating EBIT | 28 | 29 | 18 | 110 | 53 |
| Employees[1] | 10,087 | 10,339 | 10,050 | 14,996 | 13,493 |

BERTELSMANN
*media worldwide*

www.bertelsmann.com | www.rtl-group.com | www.randomhouse.com | www.guj.com | www.arvato.com | www.directgroup-bertelsmann.com

[1] In absolute numbers.

This overview shows the figures reported in the Annual Report of preceding years.

RTL Group is the leading European entertainment network. The portfolio of Europe's largest broadcaster includes interests in 45 television channels and 31 radio stations in eleven countries. Its content production arm, Fremantle Media, is one of the largest international producers outside the U.S. Each year, it produces 9,500 hours of programming in 57 countries. Bertelsmann now owns a 91.0 percent interest in RTL Group, making it the principal shareholder of the listed company.
www.rtl-group.com

Random House is the world's largest trade book publishing group. Its portfolio comprises more than 120 editorially independent imprints in 17 countries which publish some 11,000 new books each year. Random House sells more than 500 million print, audio and electronic books annually. The group is a wholly owned division of Bertelsmann.
www.randomhouse.com

The printing and publishing company Gruner + Jahr is Europe's biggest publisher of magazines and periodicals. G+J reaches readers and users in over 30 countries with more than 500 magazines and digital offerings. Bertelsmann AG owns 74.9 percent of Gruner + Jahr, the Jahr publishing family of Hamburg owns 25.1 percent.
www.guj.com

Arvato is one of the leading internationally networked media and communication service providers. More than 60,000 employees design and implement bespoke solutions for all kinds of business processes through integrated service chains, serving business customers from around the world. Arvato is a wholly owned division of Bertelsmann AG.
www.arvato.com

Direct Group Bertelsmann is comprised of media clubs as well as bookstores and Internet, publishing and distribution companies in 16 countries, and serves its approximately 15 million customers through all channels: catalogs, the Internet, club stores, retail outlets and agents. The company takes advantage of its decades of direct-marketing expertise to sell other products as well. Direct Group is a wholly owned subsidiary of Bertelsmann AG.
www.directgroup-bertelsmann.com

BERTELSMANN
media worldwide

Bertelsmann is an international media company with a long-standing heritage and operations deeply rooted in many countries around the world. Our “Spirit to Create” empowers us. We inspire people through a variety of creative media and communications offerings: information, entertainment and services. Our corporate culture of partnership forms the foundation of our economic success and our dedication to corporate responsibility. As an independent company of entrepreneurs, we shape the media world of tomorrow.

## The Sum of Our Values

# Content



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# Company Information

# Financial Information

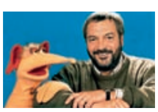
# 175 YEARS OF BERTELSMANN THE LEGACY FOR OUR FUTURE



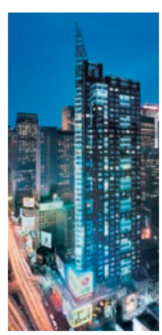
1835 – 1930

1930 – 1950


1950 – 1980



1980 – 1990


1990 – 2000



2000 – 2009

With more than 100,000 employees, revenues of 15.4 billion euros in fiscal 2009 and operations in over 50 countries around the world, Bertelsmann is one of the leading international media companies. It is also one of the world's oldest media companies, especially of this scale. All developments and changes of the past 175 years aside, history remains a definitive identification factor for the company, its owners and its employees. This common thread leads the way to a creative, entrepreneurial and successful future. A historical overview can be found on the following pages; the full Bertelsmann chronicle is posted online at: www.bertelsmann.com/175

1835 – 1930


Carl Bertelsmann chose Psalm 24 as the motto of his new publishing company: "Lift up your heads, O gates! and be lifted up, O ancient doors! that the King of glory may come in"

1829 – Carl Bertelsmann's residence and place of business at Alte Kirchplatz (old church square)

In 1868, the company left its original headquarters on Kirchplatz and moved to Bahnhofstrasse (today Eickhoffstrasse) in Gütersloh

Carl Bertelsmann, a printer and bookbinder, founded C. Bertelsmann Verlag in 1835. In the first one hundred years of its history, the publishing company's program was dominated by the Christian-Protestant tradition. The founder's son, Heinrich Bertelsmann, and his son-in-law Johannes Mohn continued to run the business in the traditional way, but gradually expanded the publishing program to include philology, history, youth literature and missionary writings.

Providing support for a children's school in Gütersloh was a particular priority for Johannes Mohn (picture from circa 1890)

1913 – three generations of Mohns: head of company Johannes Mohn with son and successor Heinrich and grandson Hans-Heinrich


"Der Christliche Erzähler" (The Christian Narrator), 1927: The journal contained stories and serialized novels – this was the starting point for expanding the company's range of publications

At the same time they devoted their energies to church and civic affairs for the benefit of the community. Heinrich Mohn, the owner from 1921, modernized the company and began publishing fiction in the late 1920s.

religious writings
*social responsibility*
MODERNIZATION

1930 – 1950

View inside the printing hall, 1935

1930s technology: typecase with composing stick, punches and galley

The publication of nationalistic, “völkisch” and even some anti-Semitic literature revealed that the company’s Christian conservative tradition was compatible with Nazi ideology. Bertelsmann acquired large market shares: The total print run of approximately 19 million copies of special armed forces editions made C. Bertelsmann the country’s dubious No.1 book supplier to the military. As the result of a court case pertaining to illegal procurement of paper stocks and as part of the mobilization of Germany’s entire economy, C. Bertelsmann Verlag was shut down in 1944.

The printing and publishing building after a bombing raid in March 1945

Reinhard Mohn speaking to employees at the turn of the year 1946/47

Reinhard Mohn, who took over the business from his father after returning from an American prisoner of war camp in 1947, ushered in a new era in the company's history in 1950 with the founding of the Lesering: The economic miracle had arrived in Gütersloh. The basis for the rise of the company into today's media group was created.

*ideological compatibility*
SHUTDOWN
*reconstruction*

# 1950 – 1980

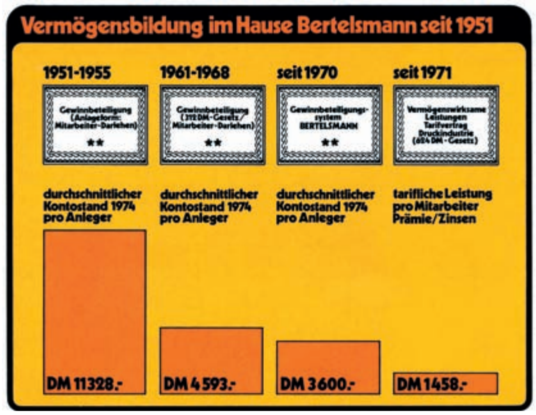

Founded on June 1, 1950: "Lesering – das Bertelsmann Buch"

1958 – Reinhard Mohn, Johannes Thordsen (mail-order bookseller from Hamburg) and Herbert Multhaupt (head of technology) admire the first record made by Sonopress

To mark Bertelsmann's 125th anniversary in 1960, Wilhelmstrasse in Gütersloh was renamed "Carl-Bertelsmann-Strasse"


"Stern" magazine cover, 1969

The dawning of a new era at Bertelsmann: The success of the Lesering allowed Reinhard Mohn to undertake business initiatives in the areas of member services, music, mailing-list marketing, engineering, logistics and much more. This growth paved the way for subsequent internationalization, diversification into other media sectors, such as acquiring a stake in the Hamburg-based publishing company Gruner + Jahr, and finally the founding of Bertelsmann AG.




The system of wealth creation at Bertelsmann in 1973

1967 – Reinhard Mohn on one of the scooters used by Círculo de Lectores couriers to deliver club products

New headquarters in Gütersloh, 1976

At the same time, Reinhard Mohn advanced the systematic development of a corporate culture of partnership. Profit sharing, employee surveys and the extensive delegation of responsibility remain a visible expression of Bertelsmann's cooperative approach to business.

economic miracle
internationalization
corporate culture

1980 – 1990

The first Executive Board without Reinhard Mohn: Manfred Fischer, Mark Wössner, Herrmann Hoffmann, Ulrich Wechsler, Egmont "Monti" Lüftner, Hans Zopp (from left to right)

Reinhard Mohn and Mark Wössner in New York in 1987. The acquisition of RCA and Doubleday had been announced in 1986

In 1981, when he turned 60, Reinhard Mohn handed over the reins of the company to Manfred Fischer, head of Gruner + Jahr at the time. Fischer was succeeded in 1983 by Mark Wössner, who brought the company back on track for growth. With two major acquisitions in the U.S. in 1986 (Doubleday and RCA), Bertelsmann achieved a breakthrough in the world's largest media market.

Early RTL logos

RTL Plus was launched in 1984 – and Bertelsmann was on board; presenter Björn-Hergen Schimpf with "Karlchen" the Puppet; programming head Marc Conrad and CEO Helmut Thoma (from left to right)

The entry into German commercial television two years earlier was an expression of a changing understanding of the media, and testament to the Group's undiminished ability to take innovative entrepreneurial steps. Immediately after the fall of the Berlin Wall, Bertelsmann expanded to East Germany, with a Club branch opening in Dresden as early as December 1989.

CHANGE OF MANAGEMENT
commercial television
**USA**

1990 – 2000

Opening of the first Club branch in Dresden

The Bertelsmann Building in New York

The fall of the "Iron Curtain" was followed by further investments in East Germany and Eastern Europe. The company entered the Internet age with a joint venture with AOL, and soon afterwards, in 1998, it reinforced its commitment to the core business by acquiring the prestigious American publisher Random House.

175 YEARS | OF BERTELSMANN THE LEGACY FOR OUR FUTURE

Planet M at night

In the same year, Mark Wössner was succeeded as Chairman and CEO by Thomas Middelhoff, who expanded Bertelsmann's portfolio to include Internet businesses. The decade ended with a spectacular presentation by the Group at Expo 2000 in Hanover: Planet M.

HEADING EAST
INTERNET
globalization

2000 – 2009


In its 175th year, Bertelsmann remains a decentralized company with strong roots in its hometown of Gütersloh


Digitization is an integral part of operations in all corporate divisions

When the "New Economy" collapsed at the start of the new millennium, Bertelsmann sold its shares in AOL Europe early enough to make a good profit and maintained its strong position among the big media conglomerates. Gunter Thielen consolidated the company from 2002 and strengthened the principle of decentralization. Digitization became the dominant trend of those years.

175 YEARS OF BERTELSMANN | THE LEGACY FOR OUR FUTURE

Reinhard Mohn giving an interview in 2001

In 2006, Bertelsmann bought back shares worth 4.5 billion euros from the Belgian Groupe Bruxelles Lambert, having previously traded them for additional shares in RTL Group. Portfolio adjustments followed. During the economic crisis at the end of the decade, the new CEO, Hartmut Ostrowski, initiated the biggest cost and efficiency program in the company's history. Reinhard Mohn's death on October 3 cast a shadow over the year 2009.

CONSOLIDATION
digitization
economic crisis

175 years of Bertelsmann are in sum an entrepreneurial and cultural success story, a story of enduring growth and sustained value creation, of tradition and innovation. On this foundation, the company will continue to grow and add other successful chapters to its history.

»Our origins determine our future. The roots of Arvato's media and communications services divisions are inextricably interwoven with Bertelsmann's 175-year success story. Innovative solutions, a customer focus, entrepreneurial spirit and dedicated staff have been the foundation of our success for many decades, and this will continue to hold true. Taking a leading role in tomorrow's world requires an awareness of one's roots and experience.«
**ROLF BUCH,** Chairman of the Executive Board, Arvato

»175 years of Bertelsmann: This is more than just an anniversary. It is a milestone that underscores the success story of a company that has kept growing in the face of historic events and upheavals, a story demonstrating that with our entrepreneurial approach, we can master even the most daunting challenges – such as last year's economic crisis and the digital revolution. Furthermore, with the help of our corporate culture, we will continue to shape the legacy for our future.«
**HARTMUT OSTROWSKI,** Chairman and CEO, Bertelsmann AG

»A culture of entrepreneurial responsibility is our greatest legacy and at the same time our greatest mandate. We all benefit from this culture every day, as we are able to enjoy freedom, assume responsibility and act entrepreneurially. Acting responsibly also means meeting the challenge of leading Gruner + Jahr into a successful future – economically strong, journalistically independent, with creative ideas and new business models – and dealing consistently with change.«
**BERND BUCHHOLZ,** CEO, Gruner + Jahr

»During these past 175 years Bertelsmann was built on books. Random House is very proud that our global book publishing represents both the foundation and an important part of the future of our parent company. Through its creative collaborations with our authors, Random House has been privileged to publish some of the most honored and widely read books for adults and children. In both print and digital editions, our books will continue to create an everlasting bond with readers worldwide as they contribute to Bertelsmann's growth and prosperity.«
MARKUS DOHLE, Chairman and CEO, Random House

»Bertelsmann's financing strategy has always focused on the long term, in the interest of safeguarding the independence and development of the Group and its businesses. To that end, Bertelsmann is active in the capital market, and it is a noted issuer of bonds in the European market. Bertelsmann provides the public disclosure required by the capital market, as evidenced by its financial policy goals, which take their cue from international standards; its corporate management, which focuses on creating value; and its transparent accounting practices, which conform to IFRS requirements.«
THOMAS RABE, Chief Financial Officer
and Head of the Bertelsmann AG Corporate Center

»Looking back on more than eight decades of broadcasting experience, RTL Group relies on two principles to guide it into the future of the TV business. First: The audience alone decides – what they want to see, when and how they want to see it. Second: A lot of money does not automatically mean lots of viewers. Our success depends on our creativity, smart scheduling and sensitivity to trends. In the digital world there will truly be TV for everyone – for broad audiences as well as narrow niche audiences. RTL Group will be present with its contents and brands wherever the audience is.«
GERHARD ZEILER, CEO, RTL Group

»The rise of Bertelsmann after World War II was based on the brilliant idea of bringing books to people through the Lesering book club. This idea has fascinated me from the beginning. But an idea can only lead to success if an entrepreneur manages to put it into action in the real world – efficiently, with courage and foresight. Only then is it possible to shape changes and adapt a company to new conditions. This is precisely what we are doing at Direct Group.«
FERNANDO CARRO, CEO, Direct Group

History
Responsibility
FUTURE


HARTMUT OSTROWSKI
Chairman and CEO, Bertelsmann AG

Dear Readers,
Dear Friends of Bertelsmann,

Bertelsmann is celebrating its 175$^{th}$ anniversary in 2010. Last year, as well as this year, will be remembered as an important period in our long and successful history. The year 2009 saw two significant watershed events for Bertelsmann. The first was the death of Reinhard Mohn, our post-war founder and one of the great entrepreneurs of the 20$^{th}$ century. The second was a global economic crisis of historic proportions. This year, too, is a milestone. As we celebrate "175 Years of Bertelsmann – The Legacy For Our Future," we will focus on the future – the future of Bertelsmann, the future of media and services, and the future of one of the most exciting industries in the world.

First, however, let us look back at the key business decisions and developments of the past year, as reflected in the Annual Report 2009 you hold in your hands.

The year 2009 was dominated by one word: crisis. The crisis affected all of us directly or indirectly, and was felt by our company as well. Bertelsmann has overcome this crisis. We used the decentralized power of our company to act quickly and consistently – each division and company in its own way. Once again, the entrepreneurs who make up Bertelsmann's "company of entrepreneurs" acted decisively, aided by their close proximity to their markets and to their customers. This approach – identifying and meeting challenges, and transforming them into opportunities – has characterized the staff and executives at Bertelsmann for decades.

Decentralization is an essential part of our culture, and together with the structure of our company, it forms the secret of our success. This approach has allowed us to find many different responses to the challenges of the past months, each of them tailored to the situation at hand.

## A Company of Entrepreneurs

We have reduced costs as never before while maintaining or even strengthening our market positions. We have enhanced our processes and productivity. Within only a few months we achieved savings of around one billion euros, which will continue to have a lasting effect beyond 2009. At the same time we further increased our digital revenues – closely synchronized with the respective businesses, in line with our strategy and our company's structure. Thus all corporate divisions had a role in this achievement. The bottom line is that, despite the economic and commercial crisis, Bertelsmann ended fiscal 2009 in the black and posted consolidated profits of 35 million euros. Our net financial debt was reduced by 652 million euros, to 2.8 billion euros. The release of funds from the operative business was well above that of the previous year. I say all this, dear readers, with pride. Bertelsmann performed well in a difficult year. During the crisis our company proved extremely adaptable and robust – as did the entire media industry.

In recent weeks I have often heard it said that "2009 was a tough year." That is clearly true. But, frankly, every year requires our full commitment. Entrepreneurial courage, drive and confidence are always essential.

These are the characteristics that have enabled Bertelsmann to continue to grow throughout its history, from a mid-sized company into a major corporation, from a Christian publishing company into a comprehensive media and services company, and have allowed it to expand from the region of eastern Westphalia to more than 50 countries around the world.

Bertelsmann's development is closely connected to Reinhard Mohn. His death last October has left a gap that can never be filled. But his legacy – Bertelsmann and its unique corporate culture – leaves us with a mandate that goes far beyond the anniversary year of 2010.

Despite the death of Reinhard Mohn, the continuity of our company is assured as it was before. Going back 175 years, Bertelsmann is one of the oldest media and service companies in the world. This alone is reason enough for us to celebrate this extraordinary anniversary with pride and confidence, and especially the past six decades, the period during which Reinhard Mohn carried out his life's work.

Bertelsmann was successful
in a difficult year

This celebration is an opportunity to look back on an unparalleled business and cultural success story, which continues to form the basis for Bertelsmann's self-image and structures. Moreover, the company's 175th anniversary inspires us to look ahead and define our aspirations for the future.

Bertelsmann is a company that has always embraced change and will continue to do so. It has successfully overcome a wide variety of challenges. It will continue to be acutely aware that in its role as a media company, it helps write history, and will aspire to shape the future in a creative and entrepreneurial way. There are many examples of this. Some highlights from 2009 can be found in this report.

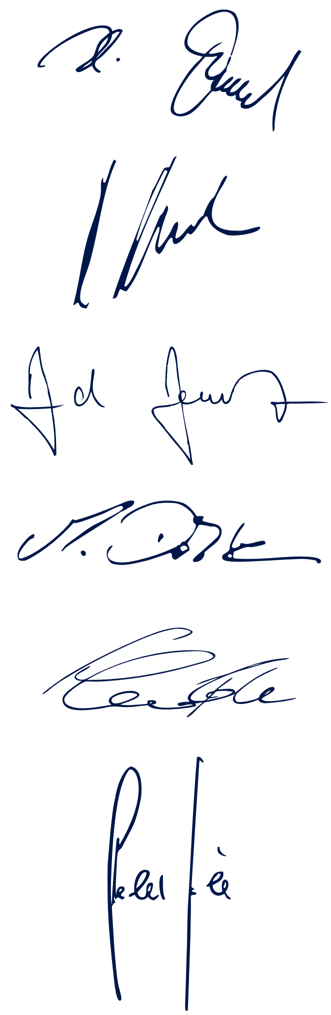
During every phase of its history, Bertelsmann has pursued technological innovation and responded to shifts in consumer habits and to market changes, such as the current megatrends of digitization and fragmentation. In the past, we revolutionized book sales, helped to bring commercial television to Germany and were among the first to introduce employee profit participation. As we look back on this constant interplay of continuity and change, we are confident that we are well equipped to meet the challenges of the years ahead.

The year 2010 will continue to be marked by the difficult macroeconomic environment, but we expect our revenues and operating profits to remain stable. We will continue to optimize our business and establish the necessary conditions for future growth. Accordingly, we are shifting the focus of our "2+5" program from cost and cash management to creating and utilizing growth potential, with an emphasis on the opportunities of digitization for all of the divisions, and gaining market share. Recent developments give me cause for confidence in this respect.

While 2009 was not an easy year, it too is part of the 175-year history of our company. We will embrace the opportunities and challenges of the future as we write another chapter in our legacy for the future.

Yours,

# Bertelsmann Executive Board



# Entrepreneurship


The Bertelsmann Executive Board in the Heritage Room at the Corporate Center in Gütersloh

HARTMUT OSTROWSKI
Member of the Bertelsmann AG Executive Board since September 1, 2002, Chairman and Chief Executive Officer of Bertelsmann AG, Gütersloh, since January 1, 2008. Born February 25, 1958 in Bielefeld (Germany).

ROLF BUCH
Member of the Bertelsmann AG Executive Board since January 1, 2008, Chairman of the Arvato AG Executive Board, Gütersloh.
Born April 2, 1965 in Weidenau/Siegen (Germany).

DR. BERND BUCHHOLZ
Member of the Bertelsmann AG Executive Board since July 17, 2009, Chief Executive Officer of Gruner + Jahr AG, Hamburg.
Born November 2, 1961 in Berlin (Germany).

MARKUS DOHLE
Member of the Bertelsmann AG Executive Board since June 1, 2008, Chairman and Chief Executive Officer of Random House, New York.
Born June 28, 1968 in Arnsberg (Germany).

DR. THOMAS RABE
Member of the Bertelsmann AG Executive Board since January 1, 2006, Chief Financial Officer and Head of the Bertelsmann AG Corporate Center, Gütersloh. Born August 6, 1965 in Luxembourg.

GERHARD ZEILER
Member of the Bertelsmann AG Executive Board since October 1, 2005, Chief Executive Officer of RTL Group, Luxembourg.
Born July 20, 1955 in Vienna (Austria).

The Bertelsmann Essentials convey the goals and basic values of our company's employees, executives and shareholders and are based on the Corporate Constitution. It is the responsibility of our executives to spread and exemplify these values and to serve as role models. The Bertelsmann Essentials reflect the current status of consensus and are subject to constant review, revision and improvement.

# Bertelsmann Essentials

Partnership

Creativity

ENTREPRENEURSHIP

Citizenship

## Our Core Values

## Partnership

Our corporate culture is based on a mutually beneficial partnership between our employees and the company. Motivated individuals who identify with our values are the driving force behind quality, efficiency, innovation and growth within our corporation. The hallmarks of our participatory leadership approach are mutual trust and respect as well as the principle of delegation of responsibility. Our employees enjoy autonomy to the greatest extent possible. They receive comprehensive information and participate in decision-making as well as in the financial success of the company. We are committed to the professional development of our employees and seek to provide long-term employment.

## Creativity

We provide a home for artists, authors and creative talents in all of our fields of business, promoting their creative development as well as their commercial success. We strive for the protection of intellectual property on a worldwide basis. We promote artistic freedom and freedom of thought, the protection of democracy and human rights, and the respect of traditions and cultural values. Consequently, the content we provide reflects a wide range of viewpoints and opinions. Continuous innovation and improvement, guided by customer needs and interests, are the cornerstones of our success, both in media services and in content businesses.

## ENTREPRENEURSHIP

The principle of decentralization is at the heart of Bertelsmann's management philosophy. It enables our employees to act with flexibility, responsibility, efficiency and entrepreneurial freedom. Our operating businesses are run by managers who act as entrepreneurs: They enjoy considerable independence and bear full responsibility for the performance of their companies. Our executives act not only in the best interests of their individual businesses but are also obligated to the interests of the Group as a whole.

## Citizenship

The continuity and development of Bertelsmann as an independent entity is ensured by the Bertelsmann Management Company's control of the majority of voting rights. In the view of our shareholders, the possession of property creates an obligation to the community. They are committed to the idea that in a market economy a corporation derives its legitimacy by making a valuable contribution to society. The work done by the Bertelsmann Stiftung foundation – to which the majority of Bertelsmann shares has been contributed – is also guided by this principle. Our businesses are managed in accordance with the spirit and the letter of the law. They maintain high standards of ethical conduct and act responsibly toward society and the environment.

## Our Commitment

We expect everyone at Bertelsmann to adhere to this mission and these core values.

# Corporate Responsibility

Ensuring social responsibility has always been an integral part of our corporate culture. As an international media and services company, Bertelsmann plays an active role in society. We embrace our social responsibilities in more than 50 countries and at all of our sites and operations. We practice sustainable, responsible conduct toward our business environment, our employees, society at large and the environment. Our commitment to society is closely aligned with our corporate structure: We practice decentralized, local involvement, in close proximity to our media and services business.

## Economic responsibility

Growth and corporate continuity form the basis of our corporate responsibility. This means generating profits and securing a return on capital that ensures such growth and continuity. Only in this way can we secure and create jobs, thereby contributing to prosperity in the countries and cities in which we operate. Our entrepreneurial actions follow the principles of good corporate management and are guided by ethical values.

## Responsibility for our employees

A sense of partnership between the company and its employees guides our thinking and actions for the benefit of all stakeholders: Bertelsmann's owners, management and employee representatives share a basic understanding that treating each other as partners not only increases everyone's satisfaction and identification with the company and his or her personal role in the company but is also one of the key prerequisites for business success. That is why employee programs have always been a special focus of corporate responsibility at Bertelsmann.

## Responsibility for society

Media are more than just a commodity. Media content is both an economic and a cultural asset. Accordingly, we media makers have a special responsibility: We seek to contribute to a diverse media landscape by providing a variety of creative entertainment and information services. In addition, we serve as good citizens and are active locally, helping to create a liveable environment and reduce social injustice. Finally, we are committed to promoting reading skills and media literacy as well as young talent in the media industry.

## Responsibility for the environment

Any company that prints and publishes books and magazines, distributes CDs and DVDs, and offers a wide range of services inevitably enters into a complex interrelationship with the environment. Although the media sector has less impact on the environment than other industries, we at Bertelsmann take our responsibilities in this context very seriously. Treating natural resources responsibly at every stage of our value chain, in the interest of protecting the environment and the climate, is an important aspect of our social responsibility.

# Our Responsibility

# Corporate Responsibility

Bertelsmann's new Corporate Responsibility portal offers a wide range of information about how we view social responsibility. We attach great importance to treating employees as partners, corporate governance and compliance, taking responsibility for media content and products, as well as the sustainable management of natural resources. Facts and figures testify to this commitment by Bertelsmann and by its divisions and companies all over the world. The portal also presents selected sustainability-related products.


www.bertelsmann.com/responsibility

## Code of Conduct training for employees

Bertelsmann's success is dependent upon its commitment to ethical conduct and compliance with the spirit and letter of the law. In 2008, Bertelsmann introduced a binding global Code of Conduct to underscore its commitment to good corporate citizenship, heighten awareness of key principles underlying our daily business, and provide information about ways in which employees can raise their concerns and report violations of the Code of Conduct. Bertelsmann continues to further enhance and develop the measures aimed at insuring ethical conduct and compliance. In 2009, a basic training was introduced to familiarize employees worldwide with the Code of Conduct.

## BeFit: healthy employees for a healthy company

Getting and staying fit is enormously important for each and every one of us. As a business, we also have a strong interest in making sure that our employees are healthy and motivated. This is why we offer our employees a range of preventive measures and excellent medical care. Bertelsmann's various workplace health management activities are part of the "BeFit" campaign. Among other things, we have developed modular health checks, in which more than 1,300 staff members participated in 2009. The sports and health program was successfully expanded to include other divisions last year.

## Long-term assistance in disaster areas

Natural disasters quickly disappear from the headlines, but the people affected have to live with the consequences every day, and long-term aid is needed. This is why, for example, since 2005 Bertelsmann has been providing food, clothing, medical care, and educational support for some 250 tsunami orphans in six SOS Children's Villages, and this support is to continue for a total of at least ten years. Following the devastating May 2008 earthquake in southern China, Bertelsmann made a donation to the international children's relief organization Plan to support the long-term rebuilding of schools in that region. Bertelsmann again chose Plan as its partner after the earthquake disaster in Haiti in January 2010. In all, direct donations and fund drives by Bertelsmann companies around the world have resulted in well over 45 million euros being raised for Haiti.

## Working to protect the climate

In 2008, the Bertelsmann Executive Board initiated a comprehensive climate-protection strategy to supplement Bertelsmann's existing environmental policy, which was formulated in 2004, and the 2005 Bertelsmann Paper Policy. In order to develop and define binding targets for climate protection, the first Group-wide carbon footprint was calculated in 2009. It indicates that the Bertelsmann Group generated approximately 1.5 million tons of greenhouse gas emissions ($CO_2$ equivalents) from January to December 2008. The development and implementation of Bertelsmann's climate protection strategy is managed by the "Be green" team, an international panel of environmental experts from all divisions.

# Our Engagement

RTL GROUP

RANDOM HOUSE
BERTELSMANN

G+J

arvato
BERTELSMANN

DIRECTGROUP
BERTELSMANN

# Bertelsmann Divisions

RTL Group is the leading European entertainment network, with interests in 45 TV channels and 31 radio stations in eleven countries and content production throughout the world. The TV portfolio of Europe's largest broadcaster includes RTL Television in Germany, M6 in France, Five in the U.K., the RTL channels in the Netherlands, Belgium, Luxembourg, Croatia and Hungary, Alpha TV in Greece, Ren TV in Russia and Antena 3 in Spain. RTL Group's flagship radio station is RTL in France. RTL Group's content production arm, Fremantle Media, is one of the largest international producers outside the U.S. Each year, it produces 9,500 hours of programming across 57 countries.

€5,410 million revenues €793 million operating EBIT 12,520 employees worldwide

»At the beginning of 2009, in the midst of the economic uncertainty, we made it our top priority to significantly reduce the cost base in our core business of TV broadcasting without losing audience shares. We have clearly achieved this goal. In almost every country, we actually increased our audience shares. Our industry is flexible, and our decentralized structure with strong CEOs gives the company a solid competitive edge.«

GERHARD ZEILER, CEO, RTL Group

# Highlights 2009


## RTL Television the clear number one – again

For the 17th successive year, RTL Television in Germany was again the leading broadcaster among 14- to 49-year-olds, achieving an audience share of 16.9 percent. The draw for viewers is a winning combination of both familiar and new programs in the popular genres – big entertainment shows and series, sporting events, comedies, quiz and reality formats. The Mediengruppe RTL Deutschland family of channels attracted 34.4 percent of this preferred target group, extending their lead over their nearest competitor. RTL Television was home to 78 of the 100 programs most watched by young viewers.

## M6 only French channel to increase viewership with news

Launched in September 2009, M6's evening news show, "Le 19.45," attracted a peak audience of 3.7 million on its first airing. By the end of the year it had become the only televised news broadcast in France to attract new viewers, and it is already the second most popular news show among viewers under the age of 50. The live show features a stand-up presenter, and as well as providing in-depth coverage and location reporting of the main issues on people's minds, it encourages audience participation. Viewers can submit questions on key news issues online, and many are subsequently answered on the show.



## Fremantle Media's got talent

The third season of "Britain's Got Talent," produced by Fremantle Media's Talkback Thames, was a huge, record-breaking hit in 2009. Nearly one-third of the U.K. population tuned into the final, making it the U.K.'s highest rated entertainment show of the last decade with an audience of 18.3 million viewers. The star of the season was the 48-year-old singer Susan Boyle, who came in second. The clip of her performing "I Dreamed a Dream" became the year's most-watched video on YouTube worldwide, while her album of the same name was the best-selling debut in U.K. chart history.

## Fifth channel a new venture for RTL Nederland

Following the implementation of a flatter and more responsive structure in 2008, RTL Nederland launched RTL Lounge in October 2009 – its first special-interest channel which is available on certain national cable packages. Aimed primarily at today's young women, its programming is based on drama series and lifestyle, with the prime-time lifestyle slot focusing on a different theme each day. Fans of soaps can watch the latest episodes before they are broadcast on the main channels, as well as catch up on repeats.

RANDOM HOUSE
BERTELSMANN

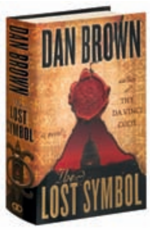
Random House is the world's trade-book market leader, a commercial and cultural powerhouse publishing more than 11,000 new hardcovers, paperbacks and electronic books annually in the local languages of 17 countries and selling more than 500 million books a year. More than 15,000 English- and German-language titles are available as Random House e-books. Random House is home to many of the world's most popular and culturally admired adult and children's authors, including Nobel laureates, U.S. President Barack Obama and other world leaders. It is a company of people who love books and who are passionate supporters of their authors, booksellers and readers.

€1,723 million revenues €137 million operating EBIT 5,432 employees worldwide

»Despite the worldwide recession, Random House gained market share in 2009 for its physical and e-books in many countries, thanks to great creative publishing and excellent teamwork. We strengthened our author and bookseller partnerships, while also taking the lead in, and actively advancing, our transition to digital.«

MARKUS DOHLE, Chairman and CEO, Random House

# Highlights 2009

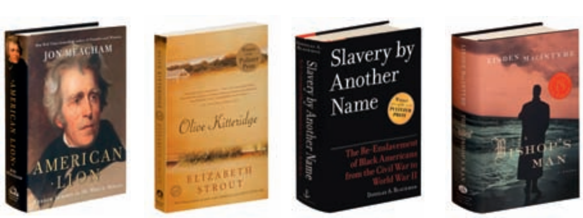



## "The Lost Symbol": a Random House record breaker

Few current novels have been as eagerly awaited and quickly purchased as the page-turner "The Lost Symbol," by "The Da Vinci Code" author Dan Brown. In just three and a half months, the Robert Langdon adventure sold almost eight million copies in its hardcover, audio and electronic book English-language editions for Random House North America and the Random House Group UK, making it the world's biggest-selling 2009 fiction title. The book, which set single-day and single-week Random House sales records, is expected to remain high on the bestseller lists in 2010.

## Random House's triple-digit increases in e-book sales

The fast-growing market for electronic books contained major new revenue opportunities for most of Random House's English- and German-language imprints in 2009. In the U.S., Canada, the U.K. and Germany, the company's overall e-book sales grew by triple-digit percentages relative to the previous year. The publishing group's strategy includes a strong commitment to digital initiatives and expanding its e-book publishing programs. Random House is well positioned to benefit from the growing popularity of electronic reading devices and increased digital reading by consumers.




## Random House wins multiple Pulitzer Prizes

The Pulitzer Prize is the most prestigious U.S. literary award. In the eleven years since Random House became part of Bertelsmann, its books have won Pulitzers eighteen times – a feat unmatched by any other trade-book publishing company. In 2009, its Pulitzer winners were "Olive Kitteridge" by Elizabeth Strout, for Fiction; "American Lion: Andrew Jackson in the White House" by Jon Meacham, for Biography; and "Slavery by Another Name" by Douglas A. Blackmon, for Nonfiction. Canada's most coveted fiction award, the Scotiabank Giller, went to Random House Canada's "The Bishop's Man" by Linden MacIntyre in 2009.

RANDOM HOUSE CHILDREN'S ENTERTAINMENT

RANDOM HOUSE CHILDREN'S SCREEN ENTERTAINMENT

## Random House Children's Books presents movie and TV entertainment

In 2009, Random House Children's Books in the U.S. and U.K. formed new film and television companies. Random House Children's Entertainment in the U.S. will expand the reach of its print content to include a variety of new and traditional platforms. Its first venture, an animated Dr. Seuss preschool television series, will be broadcast in 2010. In the U.K., the Random House Children's Screen Entertainment co-venture will develop content for theatrical films, the Internet and digital channels, as well as producing video games based on the publisher's books and characters.

The printing and publishing company Gruner + Jahr is Europe's biggest publisher of magazines and periodicals. G+J reaches readers and users in over 30 countries with more than 500 magazines and digital offerings. G+J's holdings include Dresdner Druck- und Verlagshaus (60 percent), Motor Presse Stuttgart (59.9 percent) and Europe's largest gravure printing group, Prinovis Ltd. & Co. KG (37.45 percent). In 2009, G+J generated revenues of 2.5 billion euros. International revenues amounted to 54.4 percent. Bertelsmann AG owns 74.9 percent of Gruner + Jahr, the Jahr publishing family of Hamburg owns 25.1 percent.

€2,508 million revenues €203 million operating EBIT 13,571 employees worldwide

»Our goal is to safeguard our quality media as a guarantor for diversity of opinion in the future. Competent journalists are essential for achieving this goal, but economic independence and long-term profitability are crucial as well. We resolutely countered the crisis, so that our operating profit has held up well overall despite extremely weak ad sales markets.«

BERND BUCHHOLZ, CEO, Gruner + Jahr

# Highlights 2009


G+J | MEDIA SALES
Relevance makes the difference.

## The future of quality media

In 2009, Gruner + Jahr successfully introduced extensive structural measures to safeguard its core business for the future. The goal is to create viable structures to ensure the long-term profitability of all of our magazines while maintaining their quality. Major reconstruction projects include merging the editorial departments of all business periodicals into the new G+J Business Media unit, the realignment of G+J Media Sales, and the development of core editorial teams with shared service teams in the Exclusive & Living publishing group.

## Compelling quality journalism

Gruner + Jahr is and will remain synonymous with innovative magazine concepts and high-quality journalism. Even in challenging times, its editorial teams have succeeded in establishing innovative magazine concepts in the market. In 2009, “Nido” and “Geomini” were successfully launched, as were the magazines “Beef!,” “Gala Men” and “Business Punk,” which made their debut in the fall. And quality journalism apparently convinces the public as well: In Germany and many other countries, Gruner + Jahr journalists won numerous awards in 2009.


G+J Corporate Editors
EDITORIAL SOLUTIONS FOR CORPORATE CHALLENGES



## International growth markets

Gruner + Jahr’s international growth strategy centers on China, where it has further consolidated its position as the market leader in high-end women’s magazines. In addition, the launch of the monthly men’s magazine “Leon” in spring 2009 demonstrated future potential in the Chinese magazine market, especially in the advertising business – in fact, the magazine is now operating in a promising segment with new marketing options. Supplementing our existing parenting magazines and our successful titles in the lifestyle and automotive sectors, G+J now offers a range of publications for both men and women in China, with promising growth prospects.

## Growth opportunities for Gruner + Jahr

Gruner + Jahr has good growth opportunities in selected divisions of its core business. These include online marketing and corporate publishing in particular. The Prisma Presse subsidiary Prisma Corporate Média got off to a very successful start in France and now publishes the customer magazines of the pay-TV channel Canal+ as well as “Aéroports de Paris” magazine. In Germany, Gruner + Jahr’s corporate publishing subsidiary has been reorganized and now offers its customers an expanded portfolio of services under the new name of G+J Corporate Editors.

Arvato is one of the leading internationally networked media and communications services providers. More than 60,000 employees design and implement bespoke solutions for all kinds of business processes across integrated service chains, for business customers from around the world. Its portfolio includes all services related to the creation and distribution of printed materials and digital storage media, as well as data management, customer care, CRM services, supply-chain management, digital distribution, financial services, professional and custom IT services, and the direct-to-customer distribution of educational media.

€4,826 million revenues €345 million operating EBIT 60,323 employees worldwide

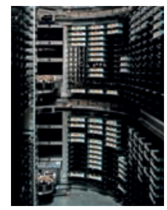
»Arvato's performance in fiscal 2009 clearly proves that our business strategy is not only forward-looking but crisis-proof. It is built on three pillars: the idea of growing with new customers, in new markets, and through new services; the systematic expansion of our integrated value chains; and our corporate values.«

ROLF BUCH, Chairman of the Executive Board, Arvato

# Highlights 2009

## Print management for Reader's Digest

Arvato Print and Reader's Digest Association, Inc. (RDA) signed a far-reaching business-process outsourcing (BPO) contract in October. As part of the services agreement, Arvato is assuming responsibility for much of RDA's purchasing and production management in a total of 35 countries in North America, Europe and Asia. The five-year agreement, with a projected purchasing volume of around 400 million U.S. dollars over the term of the contract, is a significant milestone in the systematic development of Arvato Print's services portfolio.



## Full service for the Universal archive

ABBA, U2, The Jackson Five or Herbert von Karajan and the Berlin Philharmonic all have one thing in common: The original recordings of their works are stored in the Universal Music Group International central media archives, which have been located in Gütersloh since September 2009 and are managed by Arvato Digital Services. The storage of more than 500,000 tapes, cylinders, vinyl records and CDs is just one of the services Arvato Digital Services provides; other services include digitization, long-term storage and the retrieval of recordings for studios and other users around the world.

## Logistics Services in China

At the beginning of 2009, Arvato Services set up a new logistics center in the southern Chinese city of Shenzhen in partnership with the local cell phone providers Telling Group and Sinomaster Group. Arvato Services retains a 51 percent holding in the joint venture, known as Arvato Logistics Services China Ltd. The fledgling joint venture, which has quickly and successfully established itself in the market, provides supply-chain management services for the mobile phone and high-tech industries in China. Its range of services includes distribution, pick-and-pack, fulfillment and value-added services.

## Global partnership with Microsoft

Arvato and Microsoft are expanding their international collaboration. At the end of 2009 the leading provider of standard software chose Arvato as its preferred BPO partner. In the future, Arvato – working from locations in Europe, America and Asia – will manage BPO services for the four major divisions Commercial Operations, Microsoft Business Solutions, OEM (Original Equipment Manufacturers) and Premier Services, handling service order management, contract management and related processes. Arvato has been providing services for Microsoft for more than 15 years, successfully meeting every challenge.

DirectGroup
BERTELSMANN

Direct Group Bertelsmann is comprised of media clubs as well as bookstores and Internet, publishing and distribution companies in 16 countries, and serves its roughly 15 million customers through all channels: catalogs, the Internet, club stores, retail outlets and agents. The clubs include well-known brands such as Der Club in Germany, France Loisirs in France and Círculo de Lectores in Spain. The company also uses its decades of direct-marketing expertise to sell additional products to members and new customer groups. The Direct Group brands Chapitre.com (France) and Bertrand (Portugal) are market leaders in book retailing. In publishing, its subsidiaries in Eastern Europe and Portugal command strong market positions.

€1,246 million revenues €28 million operating EBIT 10,087 employees worldwide

»Even in a difficult year, we advanced the radical transformation of Direct Group's media club operations. The integration of our multi-channel business and the development of new direct marketing concepts also remain on our agenda. New social networks and digital content strategies will open up other opportunities in the future.«

FERNANDO CARRO, CEO, Direct Group

# Highlights 2009

### Chapitre.com: a consistent presence in French bookstores

Direct Group France is forging ahead with the linking of its club, bookstore and Internet distribution channels: Along with the media club division and its France Loisirs and Grand Livre du Mois brands, the second pillar of Direct Group's largest subsidiary has now been uniformly organized. Since acquiring the remaining 50 percent of the online bookseller Chapitre.com in January 2009, the bookselling business now combines the off- and online realms with 70 stores under the shared Chapitre.com brand identity, making Direct Group France the second biggest bookseller in the country.

### Zeilenreich open bookselling concept: one book – two prices

As a supplement to the media club business, Direct Group Germany is testing a new bookselling concept under the Zeilenreich brand. In three club shops, initially, as well as through the mail-order magazine and online, Zeilenreich customers can buy the same licensed edition at one of two prices: Regular customers receive a discount of up to 40 percent, while all other customers pay the regular retail price. In addition, the tour business of the new company Via Sol Reisen is off to a promising start: In its first year, more than 30,000 German customers traveled with Via Sol.

### Five million copies of exclusive "IBOC" titles sold by Direct Group

Direct Group's expertise in books is reflected in its club programs as well as book-publishing operations in seven countries. With more than 11 million members around the world, the clubs offer new authors unrivalled marketing power. Exclusive club premieres introduce newly discovered authors' books to a wide readership; club members are given the opportunity to read these books first. Since 1993, more than five million units of "International Books of the Clubs" have been sold. Harlan Coban, Kitty Sewell and Karin Slaughter are among the authors who have become famous with IBOC titles.

### Social networks: Buchgesichter.de reader's community

The reader's community Buchgesichter.de ("Book Faces") has been online since spring 2009. The Direct Group Germany online social network provides a platform for bookworms and anyone who is interested in books. Here they can rate books, write reviews and interact with like-minded people about their (favorite) books, authors and other topics. Beyond the usual social network features – from asking the question "What are you reading?" to the use of geographical features – Buchgesichter.de helps users determine their personal reading DNA, making it possible to connect readers with similar tastes.

# 175 Years
# Entrepreneurship
# at Bertelsmann

175 YEARS | OF BERTELSMANN THE LEGACY FOR OUR FUTURE

# spirit

BERTELSMANN – A ROOM FOR OPPORTUNITIES

2030

2010

1984

1973

# THE SITES OF AN INTERNATIONAL COMPANY


| | |
|---|---|
| 1 \| Bertelsmann Corporate Center, Gütersloh | 4 \| Bertelsmann's Berlin premises "Unter den Linden 1" |
| 2 \| Random House, New York | 5 \| Arvato, Gütersloh |
| 3 \| RTL Group, Luxembourg | 6 \| Gruner + Jahr, Hamburg |

HARTMUT OSTROWSKI
Chairman and CEO, Bertelsmann AG

**Dear Readers,**

Bertelsmann's "legacy for our future" was written by people, chapter by chapter, over the course of 175 years. It was written by generations of entrepreneurs, led by Reinhard Mohn. The high level of trust he placed in his staff laid the foundations for our company's decentralized culture and structure, for the delegation of responsibility, and for the freedom that we enjoy to this day. This freedom has made Bertelsmann great, and it has given rise to the entrepreneurs who make up our company. Indeed, our company's success story is in many ways the sum of many individual stories.

My own Bertelsmann story, for example, reads as follows: At the age of 25, only a year after starting as an assistant, I assumed responsibility for 50 employees. I worked my way up the career ladder, step by step, until I was named CEO a little over two years ago. And all of this happened because a job advertisement with a simple yet compelling heading caught my eye: Entrepreneurial talent sought.

Many people have been inspired by this message in recent years and decades. They have recognized and – more importantly – taken advantage of the freedom Bertelsmann offers, freedom that they would not have found anywhere else. Entrepreneurs like Fritz Wixforth, Monti Lüftner, Herbert Multhaupt, Suzanne Herz, Helmut Thoma, Axel Ganz, Hans Meinke and Annabelle Long are all part of the history of Bertelsmann, and their stories are found in this special supplement to the 2009 annual report. Together with many others in the past, present and future, they make up the unique spirit of Bertelsmann: the spirit that Reinhard Mohn once breathed into this company and that will continue to live on long after his death.

I am confident that in keeping with our central theme of "175 Years of Bertelsmann – The Legacy for Our Future," we will find inspiration for upcoming tasks and new ideas in our corporate history. During the past six decades, Bertelsmann has often shown the courage to take unusual and risky steps – especially in the face of difficulties. Some of these steps have led to milestones in the Group's history. But when they were first being explored, their success was far from certain. And, indeed, not every new fork in the road led to the desired result.

I am proud to lead a Group with such an exemplary corporate culture. I would like to invite you to take a short break and scroll through some high points of the company's history – and then to look forward again, into a successful future.

Yours,

# MEMORIES OF AN OUTSTANDING ENTREPRENEUR...

*“I’m convinced that humanity is more successful than capitalism.”*

1


2


3


“I wanted to lead in a different way.”

4


1 | Portrait, 1971

2 | In New York, 1954

3 | In Barcelona in 1967 on a Lambretta of the Círculo de Lectores

4 | With Helmut Kohl: Bertelsmann Forum 1982 in the canteen of headquarters in Gütersloh

5 | On a bike ride in 1994

6 | With Mikhail Gorbachev: International press conference in 1992 at the Bertelsmann Stiftung in Gütersloh

7 | With wife, Liz Mohn, in 1991

8 | Portrait, 2001

“It’s not enough to just earn money, what you’re doing also has to matter to society.“



"Fairness and modesty are the best components of success."



*"Those who want to succeed must also have the courage to make mistakes."*

# "Humanity always wins!"

**… HIS PRINCIPLES LIVE ON**
**(REINHARD MOHN, 1921-2009)**

# Coming out of the cold

Bertelsmann's story begins in 1835, when a small printing press in Gütersloh receives a license to print books. The transformation from a mid-sized company to an international corporation begins in earnest, however, when a young man called **Reinhard Mohn** leads the company out of the ruins of World War II.

On January 2, 1947, the first working day of the year, it's bitterly cold. Germany, still in ruins from the war, is experiencing the hardest winter of the century. The effects of the war and the cold can be seen on the faces of the people – including the some 150 employees of Bertelsmann, who've gathered to hear a speech by the 25-year-old Reinhard Mohn.

It was never the plan that he should take over the helm of the company. As the second youngest of six children, Mohn had naturally assumed that one of his older brothers would become the head of Bertelsmann. But the war turned everyone's plans upside down. When he returned from a U.S. prisoner of war camp, there was no one else left to take over from his ailing father. Moreover, after doubts had arisen over Heinrich Mohn's political activities during the Reich, military officials had pressed him to hand over the company to someone who was above reproach. He transferred control to his son, Reinhard, who immediately agreed to take on the unexpected job, and set to work.

At the time of Reinhard Mohn's New Year's speech, the company found itself in difficult straits. Herbert Multhaupt, who would later head up the technical division that subsequently became Arvato, had largely rebuilt the printing house. On the order of the British occupying authorities, Bertelsmann was publishing textbooks – a business that tended to lose money. It was only by selling the books it had in storage, mainly religious literature, that it was making money at all. No one knew how long the company would be able to continue to pay its employees' salaries.

Unlike many of his contemporaries, Reinhard Mohn wasn't the type of person to keep such problems from his employees. Instead, he spoke openly for all to hear about which parts of the company had made or lost money in 1946. For him, transparency was a virtue.

He also sought to create an atmosphere of trust. He mentioned the Christmas gift he'd been given by his employees – an album with photos documenting the company's history. Leafing through it, he had first stopped to pore over the photos from before the war, followed by scenes from spring 1945 showing "destruction, collapse and hopelessness." The last photos showed "buildings being reconstructed, order being restored and working life beginning anew." Looking at these pictures, Mohn said, he felt a clear sense of relief. His message to Bertelsmann's workers that day: "The worst is over – things are once again looking up."

Mohn wasn't one to dwell on the past; he was a man of action. He quickly turned to the challenges facing the company. There was no time for complacency, not even on this day.

Gütersloh, 1947: On the first working day of the year, Reinhard Mohn holds a speech before the entire company as the new head of Bertelsmann. He's honest about the dire situation, but he also conveys a sense of trust and hope to the gathered employees.

"We weren't used to moments of celebration, and immediately went back to work," remembers Mohn's longtime friend, Rudolf Wendorff, who later became the head of Bertelsmann's publishing business.

Music and hors d'oeuvres may have been missing on that day, but Reinhard Mohn gave his employees something far more meaningful: confidence that the company had a future. And he was right. The small printing company ultimately gave rise to an international printing group, with companies such as Mohn Media in Germany, Eurohueco in Spain and Nuovo Istituto Italiano d'Arti Grafiche in Italy.


Red Bertelsmann Lesering buses aim to catch the eye of new members in cities throughout Germany

# Welcome to the club

In 1950, the Lesering – or Reader's Circle – was born out of necessity. It was an attempt to get people in post-war Germany reading, and also to get Bertelsmann's own business moving again. The result was the Bertelsmann club business, and it was worth millions. At the time the profits from this business provided a cornerstone for entering other media businesses.

It was an unexpected shock, and it went deep. In 1949 books were being returned to publishers by the boxload. Booksellers simply couldn't sell them. This time, almost the entire range was affected: Books were sitting on shelves, heavy as lead. And it was happening at a time when consumer optimism in Germany had reached a new peak, what with the introduction of the Deutschmark in 1948. How could it be that the market for books was practically non-existent?

Germans were consuming once again, but they weren't hungry for books. In 1949, people were interested in buying things like clothing and cosmetics, fridges and radios, mopeds and furniture. The frustration in Gütersloh is palpable. Just getting back into the book business in occupied Germany had been a massive undertaking. Would all that effort prove to be for nought? Bertelsmann's very existence is under threat. How can the company ensure that its printers and >



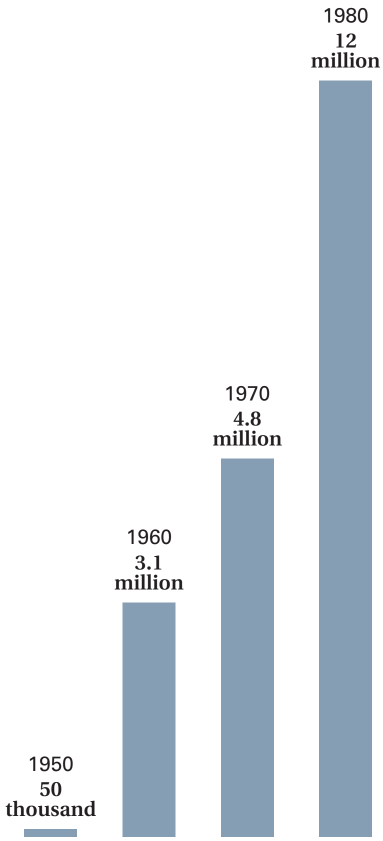



1 | Bertelsmann brings books to the reader, even on a lawn
2 | Boosting sales with unconventional advertising: "Good books for everyone in the Bertelsmann Readers' Circle" 3 | Reinhard Mohn and Fritz Wixforth 4 | A Club Center in 1970 5 | Desired: decorative leather-bound books with gold leaf

imprints have enough to do? How can it get people reading again and find customers among people who've hardly ever picked up a book?

The company's young CEO, Reinhard Mohn, isn't alone with these questions. His head of sales, Fritz Wixforth, has had particularly extensive experience in selling books and had implemented some very successful sales tactics before World War II. For days, Mohn and Wixforth consult with other staff members and jot down plenty of ideas, most of which they immediately throw overboard. But among the ideas is one that is about to bring the publisher unimagined wealth. At that time, however, it seemed very risky. The talk is of founding a "book club."

The idea is to sell books at a reduced price to a group of subscribers. Since the subscribers are obligated to make regular purchases, the publisher can be sure that books will sell – unlike in a bookstore. While existing book clubs circumvent conventional booksellers in order to sell their products, Bertelsmann wants to avoid conflict with powerful, well organized retailers. The executives in Gütersloh continue to play with the idea of a book club.




## CLUB MEMBERSHIP

Impressive numbers: Bertelsmann's book club grows in leaps and bounds. Available solely in Germany until the early 60s, membership increases steadily thanks to the club's global expansion.

The necessary initiative to kickstart the project comes from someone who has close contact with readers: mail order and traveling bookseller Johannes Thordsen. He offers a partnership, saying he can sell books directly to customers at especially low prices and guarantee turnover. Wixforth, however, doesn't want to bypass his partners in the bookselling business. They decide to proceed with two goals in mind: satisfied booksellers and guaranteed amounts of turnover. Wixforth's plan is for customers to be offered membership in the club via a promoter. But in addition to mail order retailers like Thordsen, booksellers and magazine sales agents can also act as promoters.

The publisher decides to appeal directly to readers with a catalog. The new company is to be called Lesering. Mohn summarizes the concept as follows: "Don't wait for the reader. Bring the book to the reader, and encourage the customer to read."

In the early summer of 1950, the first program is printed with about 60 books on offer. For a fixed membership fee, subscribers can buy books four times a year. They can also place their order at a bookstore. In this way, booksellers get new customers into their



## CLUB EXPANSION ABROAD:

From 1962, the book club expands worldwide:

**1962** Spain
**1966** Austria (Donauland; joint venture)
**1967** Netherlands
**1969** Mexico, Colombia
**1970** France
**1971** Portugal, Argentina, Venezuela (takeover)
**1972** Brazil
**1973** Denmark (record club; subsidiary)
**1975** Norway (record club; subsidiary)
**1977** U.K., Ecuador, Uruguay
**1978** Costa Rica, Peru, Chile
**1980** Israel
**1986** Australia/New Zealand (takeover)
**1987** U.S. (takeover)
**1992** Czech Republic
**1994** Poland
**1997** China
**2004** Ukraine (takeover)


A modern bookstore in Berlin called "Zeilenreich."
It is operated by Direct Group, which also runs the book clubs.

stores, and these customers then have the opportunity to buy books from other publishers.

Business booms. By the end of 1950, the book club has 50,000 members, and by one year later that number has tripled. By 1955, the number of subscribers has reached 1.5 million. Bertelsmann has to move quickly to buy more and more licenses in order to be able to offer more titles. Red Lesering buses can soon be found at many market squares, advertising for membership in the book club.

In the mid 1950s, many people in Germany have difficulties in accessing books. Bertelsmann prides itself on selecting books for its customers, who are interested in new literary trends – that makes it easier for them to decide which books they'll buy. The company is soon focused on bestsellers, entertaining books that invite readers to browse. But decorative books in leather covers and stamped gold leaf are also in high demand. After all, the books should look impressive on the shelf at home.

The books which are automatically sent to customers who don't specify other titles in their order also perform well. They're considered to be the Lesering's "insider picks." The novel "Gone with the Wind," for example, sells more than half a million copies in the 1950s. In comparison, conventional bookstores had only managed to sell around 100,000 copies.

Such turnover means rapid growth for Bertelsmann. In 1950, there were around 400 people working in Gütersloh, but by 1955, the company is already employing 2,200 people and has a second location in Rheda.

But the expanding publisher is also the target of criticism. Some of the promoters it's been working so successfully with turn out to be using dubious methods. They harangue housewives and students to get permission to send them a catalog – no strings attached. But having given their address and signature, many of these people suddenly find they'd become new Lesering members who are required to place an order. Bertelsmann doesn't ignore the problem and takes action against such promoters. But for a long time, the club's image is somewhat tarnished by the pushy sales tactics.

Reinhard Mohn and Fritz Wixforth are convinced that the book club will also work in other countries. They choose Spain as their first foreign market. In 1962, the Círculo de Lectores is established in Barcelona – and its similar concept soon leads it to huge success.

The results in Spain spur on the team in Gütersloh: In the years that follow, they expand to countries such as Austria, France and several South American countries. Then comes the peak of the Bertelsmann book club.

In 1964, a chain of stores springs up all over Germany. By 1969, these stores are called "Club Centers." Later, the whole Lesering company is renamed into "Club Bertelsmann."

Given the rise of new media, it seems only logical today that a book club can't continue on the old road to success. And so it was that Bertelsmann saw big declines in its membership numbers. While Lesering still had 5 million members at the start of the 1980s, today there are around 2.7 million. Despite this, fresh ideas enabled the clubs to keep customers and also win over new fans. But much more importantly for the development of the Group as a whole, at the time the profits from the club business – combined with other lucrative businesses – had made it possible for Bertelsmann to invest in new media early on, build new revenue mainstays, and expand internationally. All thanks to the million-strong club that started as a small readers' circle.

# Creative routes to the client

Not every employee can be a sales associate or handle customer projects, especially within a conglomerate. Bertelsmann, however, found ways to bring in-house services to external clients. It did create some conflict, but the main upshot was new energy – and enormous business potential in the services sector.

Fall 1973. The Middle East oil crisis is causing a drop-off in the supply of crude oil, which in turn leads to a cut in the production of PVC. Suddenly, the most important element in producing vinyl records is scarce. Uwe Swientek from Bertelsmann's vinyl section Sonopress is afraid that he might not be able to maintain supplies to his customers. A crisis meeting is held in Reinhard Mohn's office.

"Ariola head Monti Lüftner was at the meeting too," recalls Swientek. "He wanted our own internal music outfit, Ariola, to have preference in deliveries." Lüftner argued that pressing vinyl for other publishers would have to be suspended given the lack of raw materials.

Swientek expects Mohn to accede to the Ariola head's request. After all, Lüftner published artists like Udo Jürgens, Mireille Mathieu and Heintje. He had seen to it that Bertelsmann made a name for itself in the music business in German-speaking countries.

But Mohn takes another view, namely that external clients would not be left in the lurch in a crisis situation. Sonopress was to deal with all customers on an equal basis. "Mohn was well prepared; he had all the numbers and knew that third-party clients accounted for 60 percent of our revenue," recalls Swientek. "If he had decided otherwise, we would have lost our position as a reliable supplier and squandered our future growth potential."

It was at moments like these that Bertelsmann plotted a course for dynamic development within its services unit, Arvato – a unit that has recently seen strong growth. Today, clients across the globe have access to the services provided by Arvato in more than 30 countries. These range from integrated offerings in customer communications to comprehensive financial services and global logistics solutions. It all started with book distribution.

Decentralization was introduced at Bertelsmann as part of a restructuring effort at the end of the 1950s. This saw the setting-up of an independent division for warehousing and distributing books. In 1959, Reinhard Mohn and the head of printing, Herbert Multhaupt, decided to turn this unit into a stand-alone entity. The workers at what became known as the "Kommissionshaus Buch und Ton" initially processed orders for the Bertelsmann Verlag and Book Club, with some 60,000 packages leaving the building each day. It was a major achievement and the basis for the services enterprise with external clients.

Arvato's beginnings: At first, distribution is limited to books and records. In 1959 some 60,000 packages a day are being shipped.

At around the same time, bookdealer Walter Georg Olms founded a small publishing house in Hildesheim. It specialized in reprints of scholarly standard works. Olms took on the risk of producing the books, but he did not see any sense in setting up his own distribution service. So it was fortuitous that he came into contact with staff from the new Bertelsmann unit. They were ready to do the job for Olms. Up until that point, these staff members had only worked internally within the distribution department and did not have to deal with pricing or shared costs, like those for order management. Now they did. Olms received a quote, and decided to go for it. His publishing business was the first external customer for Bertelsmann's services unit. That

Arvato's central storage facility is located directly on the highway linking Dortmund and Hannover. From here, books, CDs, videos, games and more are shipped worldwide.

## HIGHLIGHTS

**1959** Entry into the services sector, starting with book distribution
**1966** The founding of AZ Direct sees the beginning of direct marketing business
**1969** Start of IT business activities
**1978** Collaboration with ADAC publishing begins
**1992** Deliveries of mobile phones begin (for Mannesmann D2, later Vodafone)
**1993** Taking care of Lufthansa's Miles & More program, including call center activity
**1995** Collaboration with Microsoft begins
**1996** Founding of Bertelsmann financial services
**1999** Various Bertelsmann production and services activities are bundled together under the Arvato umbrella
**2004** Entry into the government services sector in the U.K.
**2005** Widening of services for the healthcare sector
**2008** Launch of the DeutschlandCard multi-partner program

was in 1960 and the relationship lasts to this day.

By 1961, the distribution service was working for more than 10 publishing houses, and the client base continued to expand over the coming years. By 1977, some 100 publishers were using the services of what had by then become the "Vereinigte Verlagsauslieferung" (VVA), or United Publishing Distributors. Now, clients from outside the publishing sector were using its services – the first among them being automakers Volkswagen and Ford.

The printing presses had to be updated in order to serve the needs of these new customers. At the end of the 1960s, Bertelsmann invested in new offset printing machines that could produce brochures in color. Since then, VW and Ford have been putting their new models on paper at the printing presses in Gütersloh. The job doesn't just end there, however. "We had to deliver the brochures directly to the car dealerships," says Günter Wilmsmeier, who worked for Arvato for 30 years, most recently as chief financial officer. "Naturally, we were up to the task."

Printing boss Multhaupt suspected that VW and Ford, two competitors in the automotive sector, were not overjoyed at the thought of getting their brochures from the same provider. The astute manager found a solution: he gave a 24-year-old employee 20,000 Deutschmarks to set up a subsidiary in the vicinity. Now the car dealerships would be serviced by two distinct companies: one at Bertelsmann headquarters in Gütersloh, the other 30 kilometers away in Versmold.

Soon enough, Bertelsmann was to take on business from other carmakers. Banks and insurance companies quickly followed. "Our sales people went to potential clients and asked them how much they were paying for the delivery of brochures to their outlets," says Wilmsmeier. "Most of them didn't know and when they calculated the cost, they were surprised to see how expensive it was. Our people told them that we could do it more cost effective." In the days before outsourcing was a buzzword, the approach was revolutionary.

On a Sunday in November 1979, a devastating fire broke out in the technical facility at Bertelsmann. The blaze destroyed large parts of the distribution center. Reinhard Mohn decided to rebuild at another site. The new facility came to life right beside the Dortmund-Hannover highway and boasted huge capacity with the biggest storage racks in Europe. It was the cornerstone of a global infrastructure that consists of distribution centers across the world. They ensure delivery of not just books and brochures but high-tech gadgets and other consumer items.

Right alongside the warehouse with the high-rise racks, Bertelsmann's new computer center came to life. Third-party clients can now make use of the IT services here. "It continually surprised me just how much energy was released when staff quickly moved from serving internal users to serving external clients," says Wilmsmeier.


# The world is enough

First, "Geo" brought a "new picture of the Earth" into German living rooms. Then, the magazine itself ventured out into the world, where today, it can even be found at kiosks in India. But this never would have happened if managers at Gruner + Jahr had given up in the face of initial setbacks.

Mumbai, summer 2007: Torsten-Jörn Klein is talking with his host when, suddenly, loud noises penetrate the publisher's conference room. Klein, a member of the Executive Board at Gruner + Jahr, hears angry cries and breaking glass. Minutes later, a nervous security guard interrupts the meeting to announce that, four floors down, the editorial offices of Outlook have been stormed by members of a radical political group. The intruders violently forced their way in to demonstrate their anger over a recent article.

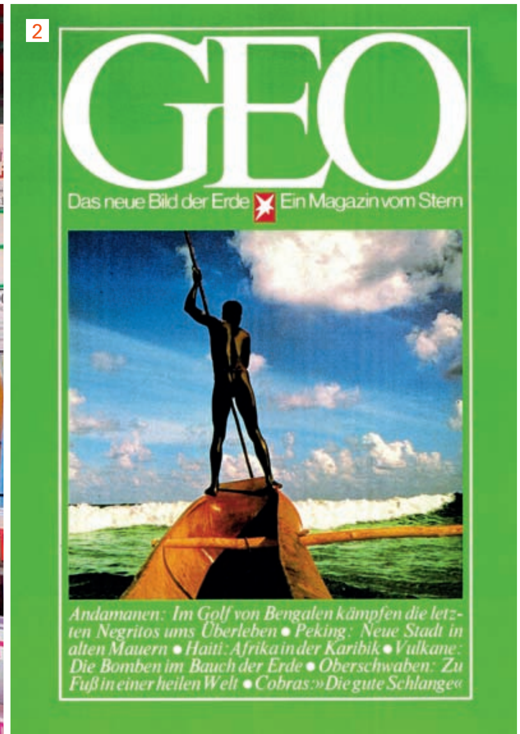
Across from Klein, the magazine's publisher and CEO of the Outlook Group remains calm. "That's the price you pay for freedom of the press," says Maheshwar Peri with a stoic smile. Klein is impressed by his response. Anyone willing to uphold such principles would make an ideal partner for G+J.

Peri is also impressed – with the content and the success of the magazine that Klein has brought to him: "Geo." He feels confident that such a publication would do well, even on the notoriously difficult Indian market, and asks to be licensed to print the title. Klein agrees.

Nine months later, "Geo" hits newsstands in Mumbai, Delhi and Bangalore for the first time – side by side with local magazines and international titles such as "Time" and "Reader's Digest." Although few people on the Indian subcontinent can afford to buy magazines, especially one as expensive as "Geo," the magazine with the green cover soon has a regular readership of some 40,000 people. In India, that's a lot.

"Geo" is now available in 18 international editions, including the one in India. A year later, Brazil is added to the list. This level of international presence is unusual for a German magazine. Generally, reading habits are too different, and the language is too regional. Local editions are normally spin-offs of English-language publications. Despite this, "Geo" has successfully ventured abroad, gaining many loyal readers.

"I make a point of reading the letters to the editor from our international editions. Every time, I'm amazed at the almost reverent response our concept inspires in very different societies," says Peter-Matthias Gaede, editor-in-chief of the German edition of "Geo." Gaede has been with the editorial team since 1983 and is still fascinated by the "marathon-like quality of the founding fathers' concept."




## AN INTERNATIONAL BRAND

1 | "Geo" has won many loyal fans in India since the launch of a national edition in 2008, published in English

2 | Cover of the very first issue of "Geo," October 1976

3 | Within a short time, "Geo" was able to bring other products under its brand umbrella and establish successful magazine lines, including a title for children – "Geolino"


3

Those "founding fathers" are the photographers Rolf Gillhausen and Rolf Winter. Both men were working for G+J when, in 1976, they had the idea for a magazine that would offer readers a "survey of the Earth," in all its diversity. At the time, Gillhausen and Winter were working at "Stern," which then had the largest circulation of any European magazine. It was a magazine that spared no effort in delivering to its 8.2 million readers the most spectacular photos and the best, most current features from all ends of the Earth, week after week. The countless reporters regularly filing stories from around the globe could only fit a fraction of their work into "Stern." Why not communicate their extensive knowledge in the form of longer, more in-depth articles and photo spreads, the two photographers asked? And with that, "Geo" was born.

The publishing managers liked the idea, but what would potential buyers think? In a "Stern" supplement, the publishers introduced the "Geo" concept and included order forms for subscriptions. "Back then, it was a revolutionary approach to testing the market," says Jürgen Althans, who joined the "Geo" group in 1986, serving as publishing manager for 14 years. The response was overwhelming: More than 100,000 people subscribed to the new magazine without ever having seen a copy.

The high cost of allowing prize-winning journalists to work for weeks or even months at a time in remote locations was reflected in the magazine's cover price. At eight German marks (four euros), "Geo" cost three times as much as the news magazine "Der Spiegel". But readers were in- >

trigued by the articles about foreign countries and cultures, and after six issues, the new monthly already had more than 200,000 readers and was turning a profit.

As the magazine was so successful in Germany, G+J decided to take “Geo” to the United States, the biggest magazine market in the world. The company was willing to bet that stories about Bengal tigers and desert fossils would interest Americans just as much as Germans. The articles would only have to be translated into English.

In 1979, “Geo” appeared on the U.S. market – and was a huge flop. For years, the publishing managers at G+J did everything they could to make the U.S. edition a success, in vain. “Too expensive, too European, too environmental and too political,” the publishers were forced to conclude. “When I became CEO of G+J in 1981, ‘Geo USA’ was already a hopeless case, and the board decided to sell. By that time, we’d lost about 30 million German marks (15 million euros),” remembers Gerd Schulte-Hillen, who continued to serve as the head of G+J until 2000.

At the same time as the U.S. version, G+J also brought out a French version and faced similar difficulties. There was no magazine like “Stern” to serve as a trusted link to win over subscribers. And the French prefer to buy magazines spontaneously at a kiosk rather than take out a subscription. Axel Ganz, who had moved to Paris to head up the French subsidiary in charge of “Geo,” responded to these cultural differences. He made changes to the cover so that the magazine was more visible on the shelf. From the start, he was convinced that French “Geo” could only be successful if it had its own editorial team. It was a risky and expensive approach, but it worked. The local editorial team moved French topics into the spotlight, set their own focus and increasingly found favor with readers. By the mid-1980s, circulation had reached more than 800,000 copies. Here, unlike in the U.S., determination paid off. Strengthened by his success in France, Axel Ganz launched a Spanish edition of “Geo” in 1987, modeled on the French edition.

By this point, “Geo” had long since separated from “Stern” to establish its own editorial team for the domestic market in Germany. Since contributors to the magazine often spent several weeks on location researching a single topic, a natural next step was to print monothematic, in-depth special editions. At their inception, the biannual “Specials” focused on very different topics, such as photography, weather or space. But soon they focused on destinations. “People who were looking for information on a certain city or country suddenly found ‘Geo’ special editions at the bookstore,” says current publishing manager Gerd Brüne, adding: “These magazines frequently appealed to people who were nothing like our core reader.” Many special editions became valuable collectors’ items which continued to sell well even years after they were first published.

The knowledge of the contributors, and their skill in turning complicated subjects into easy-to-read copy, led to the launch of a second special edition series in 1987: “Geo Wissen.” The editorial team sought to present scientific topics from the fields of technology, natural science and medicine in a way that was easily understandable for lay people. By this time, “Geo” had become a household name in Germany, and in addition to the regular monthly issue, many readers also subscribed to the specials.

From an economic point of view, it was clear that there was a lot of potential in founding a family of magazines under the strong “Geo” name. But the idea of starting a travel magazine didn’t go over well with the journalists. “Many of our colleagues associated it with rating hotels and swimming pools, and were worried about their integrity.

Editor-in-chief Peter-Matthias Gaede consults his head of photography, Ruth Eichhorn, on photo selection

“Geo’s” hot air balloon, photographed on the “Geo” Day of Species Diversity, 2007, in Crawinkel, Germany

1 | “Geo” founder Rolf Gillhausen served as editor-in-chief until 1978
2 | The first cover of “Geo-Wissen” in 1987


## THE GLOBAL DEVELOPMENT OF GEO'S EDITIONS

There are currently 19 editions of GEO magazine, which are mainly put together and edited at the international desk in Hamburg.

Over the last three decades, the GEO family has grown consistently. The green magazine's most recent launch took place in Brazil in 2009.

Travel writers are offered a lot of freebies, something that can tempt them into biased reporting," says Gaede by way of explaining the skepticism. Back then, he was working as head reporter and remembers having his own concerns. It took a few years and lots of heated discussions before editorial staff began to accept that it was possible to create a serious, journalistic magazine, even with "fluffy" travel topics. The result was "Geo Saison" – "sunshine on paper," as Gaede quotes the magazine's long-serving editor-in-chief, Christiane Breustedt.

At the start of the new millennium, the "Geo" family gained more members. Some were long planned, others were created more spontaneously. When the head of marketing for Unicef suggested putting out an issue for children, journalists immediately jumped on the idea, working on it during their free time. "Geolino" was launched to coincide with "Geo's" 20th anniversary. It quickly became a hit and began to be produced on a regular basis. The new titles also help to find new readers for the core publication, "Geo," with its trademark green cover. The group is increasingly generating new revenues with products outside the world of magazines: books, calendars, reader trips and reference works that sell millions.

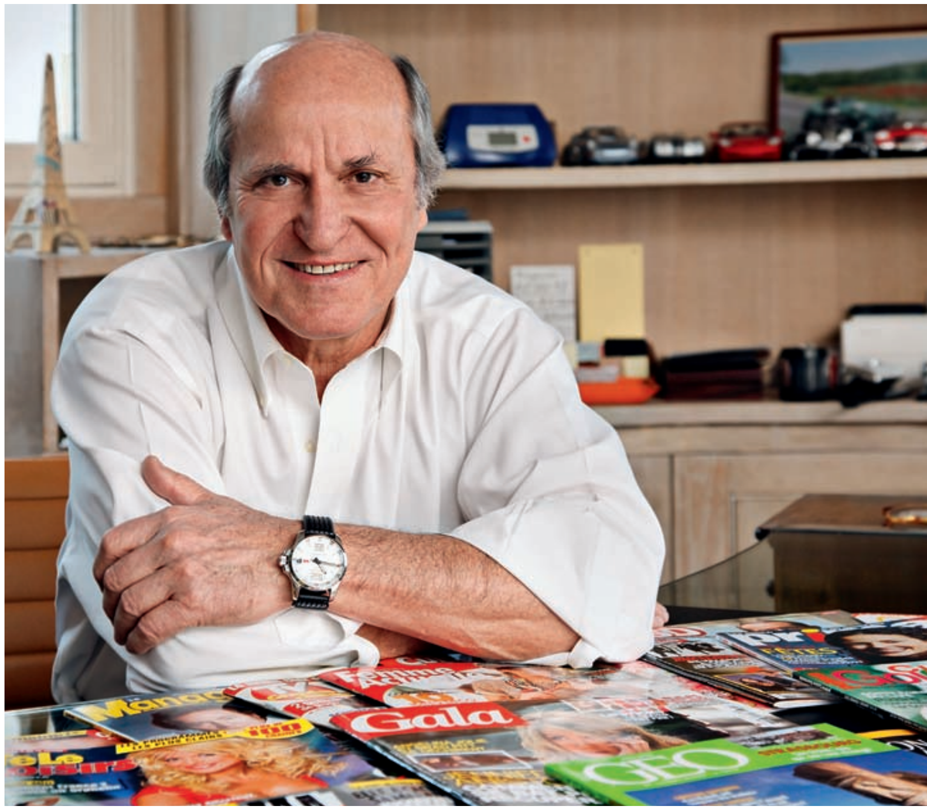
By 2003, "Geo" is an established brand in Germany. But its foreign expansion is somewhat sluggish. Building up a local editorial team like that in France or Spain takes a long time, costs a lot of money and, for smaller countries, makes no economic sense. And G+J hasn't had good experiences with the alternative – licensing the brand to interested publishing companies abroad. The first licensing partners in Japan and South Korea aren't able to implement "Geo's" journalistic concept. Their editions fail on the newsstands, damaging the reputation of G+J's "Geo" editions.

G+J managers realize that the "Geo" brand needs to be cultivated, so they set up an international editorial office in Hamburg to support the foreign publishers in producing their local editions. Instead of translating entire issues, the foreign partners can choose from a pool of articles, translate them and supplement the issue with their own local articles. The concept works, and in 2005, "Geo" expands to six more countries. Since then, each year has seen the addition of another country. Even India's Outlook publishing house borrows from the pool of articles by German journalists for the production of the Indian edition.

"With the international expansion and diversification of 'Geo,' we succeeded in creating one of the strongest brands in the magazine market. If my colleagues had given up in the face of those first few setbacks, we'd have never made it so far," says G+J Chairman Bernd Buchholz. "Sometimes, you have to wait a bit before you can harvest the fruits of your labor." ■

Rolf Gillhausen and his deputy editor-in-chief, Max Scheler (sitting)

Longtime editor at "Geo": Ernst Arthur Albaum




# The magazine maker

The managers of G+J were quick to notice the many talents of Axel Ganz. Here was a man who could be both: a journalist and a businessman. Getting him wouldn't be easy. But when they offered him the chance to create magazine titles in France, he came. And when he had the opportunity to do more of the same in a host of other countries, he stayed.

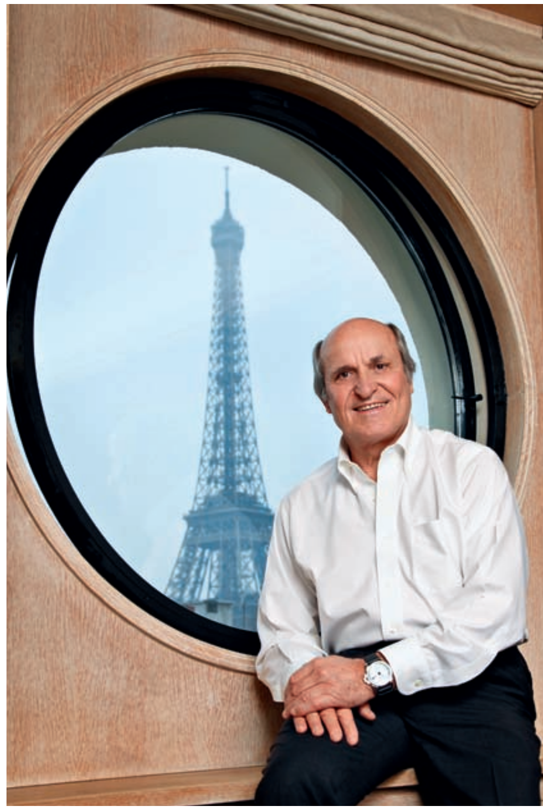
Can a person create 27 magazines in as many years while managing 60 titles in eight different countries? Axel Ganz can. When he came to Gruner + Jahr (G+J) in 1978 at the age of 41, he was tasked with building up a magazine publishing unit in Paris. When he retired in 2005 at the age of 67, Ganz, a member of the Executive Board, could look back on a career that included establishing France's second-largest magazine publishing group as well as magazine subsidiaries in countries such as Russia, Italy, Spain and Poland.

When Ganz shares anecdotes from his working life, it quickly becomes clear just how much energy – and how many air miles – it took to create so many titles and lead so many of them to success. In 1987, for example, Ganz was simultaneously overseeing the launch of a women's magazine in Britain and a television magazine in France. "During the day, I was in London, where we were working on the launch of 'Prima.' Late in the evening when I was back in Paris, I'd go from the airport straight to the office to work all night long with our editorial team on 'Télé Loisirs,' as it was just about to debut," he recalled.

Ganz has many such stories. Like the time he was bringing "Gala" onto newsstands in France while at the same time creating a magazine publishing company in Poland in 1993. Or how, in 1994, he was jetting from Paris to New York to negotiate the acquisition of five U.S. magazine titles, among them the popular "Family Circle." At the time, he was already in his 50s and, in many respects, had proved his worth to G+J many times over. Yet he never became tired or complacent; the indefatigable magazine maker was always much too fascinated by the world of magazine publishing for that.

When G+J board member Jan Hensmann met Axel Ganz at an event in 1978, he was immediately impressed. At that time, Ganz was working as a manager for a different publisher and had previously worked as a journalist. Hensmann knew that it was extremely rare to make such a career leap successfully. And he also knew he'd found the man G+J needed for a special mission: the establishment of a magazine sub-

Every third Frenchman reads one of the magazines founded by Axel Ganz and published by Prisma Presse. Based in Paris, Ganz (now 72, shown in his home office) has also launched magazines for many other countries.

sidiary in France. By this time, Bertelsmann had already demonstrated with its book club that a German publisher could be successful abroad. The company was ready to do the same with its magazines.

Axel Ganz seemed like the perfect choice for the job. "With him, we found a manager who also had the skills of an editor-in-chief," said Hensmann. After a few talks and a meeting with owners John Jahr and Reinhard Mohn, Ganz dove into his new task with alacrity. He continued to be fully committed to his old job until the day he left while devoting his free time to his new job. "I often conducted job interviews at the airport in Paris at night, but the next morning, I'd be back in Hamburg at 7:00 a.m.," said Ganz.

In order to keep costs low at the start-up, Prisma Presse, the 12-member team shared two rooms with "Stern's" Paris correspondent. Ganz didn't even wait for the new company to get its own bank account. "Since we didn't have our own account yet, I advanced 100,000 francs of my own money," he said.

He quickly learned that he'd have to adapt German magazine concepts somewhat if they were to be successful in France. His first test case was "Geo." French readers liked the continuous color pages – something of a novelty on the French market at the time. In comparison to the German edition of "Geo," the articles in the French version were shorter, and the cover picture was edgier.

When Ganz launched a new title in 1981 – a science magazine called "Ça m'intéresse" – French "Geo" was already in the black. Even so, he often had to find ways around opposition from headquarters in Hamburg or even from Gütersloh. Reinhard Mohn was skeptical when Ganz presented him with an idea for a new women's magazine, for example. Nonetheless, he gave his blessing and was quickly rewarded. Shortly after its launch, "Prima" reached a circulation of 1.5 million copies.

By this point, Prisma Presse had more than 100 employees. Ganz remained closely involved in operations. He wasn't content to leave layout design to the creative team, or to let the buyers alone decide what kind of paper to print on. "When we launched "Femme Actuelle" in 1984, it cost just 3.50 francs (0.53 euros). But the coated paper and an elegant layout made this popular magazine more high-end," said Ganz.

For the most part, the manager/magazine maker was successful, as was the case with "Femme Actuelle," which at its peak, had a circulation of 2 million copies. But there were also missteps. Ganz admits that with every new title, he took "a totally new risk." "There's no guarantee," he said. "The recipe for success is lots of hard work, the pursuit of perfection and the ability to be self-critical."

That's the approach Ganz took first to his work in France, and later in Spain, Italy, Poland, Russia, the U.S. and Britain. "Axel Ganz is a born publisher. We were successful, but he always remained hungry" said Gerd Schulte-Hillen, who served as CEO of G+J until 2000.

Ganz was always firmly on board for every title, flying back and forth, building an editorial team and managing his staff. "I've probably spent about two years of my life on a plane," he joked. And does he know how much money his magazines earned in the years up to his retirement? "Way over a billion euros," said Ganz – and smiled.

# Just the usual craziness

With the founding of the station RTL Plus in 1984, Bertelsmann made its first foray into television – as the partner of a Luxembourg-based company and under the leadership of an Austrian executive. It may be a billion-euro business today, but it began with a small budget, lots of humor and even more improvisational talent.

Cologne Cathedral towers majestically over the banks of the Rhine. For centuries, it has been the city's emblem and landmark. Directly opposite, on the other side of the river, the new headquarters of Mediengruppe RTL Deutschland is being built – and with it, another city landmark.

In the coming months, some 2,000 employees will be moving into the brick buildings of the former trade fair grounds facing the cathedral. Together with its sister stations Vox, N-TV and Super RTL, RTL Television will occupy 77,000 square meters. The new headquarters with its 80-meter-high tower is another visible sign of the rapid growth RTL has undergone since its creation 26 years ago. Today, RTL is the biggest private broadcaster in Europe. But the road began in a modest villa and a bus garage – not in Cologne but roughly 200 kilometers southwest of the city, in Luxembourg.

When the legal foundations for commercial television were being laid in Germany in the early 80s, Bertelsmann's new chairman of the board, Mark Wössner, sensed a huge opportunity. He gathered a group of talented staff members to seize on the enormous potential of private television, which was clear from a quick glance over the border. But they recognized their own limitations: "We didn't have any real experience in television, aside from being able to turn a TV on and off without incident," jokes Bernd Schiphorst. At that time, Schiphorst was working for Gruner + Jahr, serving as a member of the Wössner Group, and was soon to head up all of Bertelsmann's film, TV and radio operations.

Aware of their limits, the team started looking for a partner. Leo Kirch, Germany's premier supplier of film and television productions, was going in a different direction. The public broadcasters ARD and ZDF had extensive television experience, but Bertelsmann was not interested in trying to lure away their personnel. >


1 | Bartringen in Luxembourg: RTL Television headquarters until 1988

2 | The new headquarters of Mediengruppe RTL Deutschland on the Rhine, at the former trade fair grounds opposite the cathedral: 77,000 square meters for 2,000 employees

3 | The launch of RTL Plus: On January 2, 1984 at 5:27 p.m., presenter Rainer Holbe gives birth to the new "TV baby" live but definitely not yet in High-Definition

4 | Peter Kloeppel, with the station since 1985, is now editor-in-chief of RTL Television

5 | Programming head Marc Conrad and CEO Helmut Thoma: two successful founding fathers of private television in Germany

6 | In 1984, Hans Meiser and Geert Müller-Gerbes present an unusual and audience-friendly news format with "7 vor 7"

Instead, the company began holding meetings with other publishing colleagues from companies such as Bauer, Burda, Springer, WAZ or the Frankfurt Allgemeine newspaper. There was enormous interest in a publishing-television project, but no one seemed to have the necessary know-how and technology for such a venture.

Bertelsmann finally finds what it was looking for in Luxembourg. There, Austrian executive Helmut Thoma had been heading the German radio service of the Compagnie Luxembourgoise de Télédiffusion (CLT) since 1982. The German service first hit the airwaves as “Radio Luxemburg” in 1957. During the 60s and 70s, it became one of the most popular radio stations in Germany under the leadership of Frank Elstner and his team. For millions of Germans at the start of the 80s, RTL was already synonymous with unconventional, diverse entertainment, thanks to Luxembourg’s “hit” station. Spurred on by the success of the radio station, Thoma wanted to get involved in the start of private television in Germany, and was also looking for a partner. There was already a connection to Bertelsmann, as RTL Radio had a cooperation agreement with the Bertelsmann book club. Meetings ensue, and then, in December 1983, a partnership is formed. Together, CLT and Bertelsmann agreed to establish a private German broadcaster. Bertelsmann took a 40 percent stake.

In addition to television production technology and a tall transmitter tower from which to broadcast the pictures, CLT had two crucial advantages: a positive atmosphere and improvisational talent. Thanks to these qualities, decisions were made quickly and pragmatically. CLT was also launching a private station in the Netherlands and was already producing TV programs for France, Belgium and Luxembourg. Thoma decided to use the same promo trailers produced by his Dutch colleagues for the German launch – name and logo included: RTL Plus is born. Today, RTL Group, the leading European broadcasting company, continues to be based in Luxembourg.

Thoma found the name “practical,” because it signaled to Germans that they would find the “familiar and successful RTL Radio plus pictures,” whether in the form of news, music or humorous talk shows. That is how the new station started when it went on the air at 5:27 p.m. on January 2, 1984.

## LOGO DEVELOPMENT

The first logo is from the predecessor in Luxembourg; the logo and name of RTL Plus for the 1984 launch was taken over from CLT in order to save costs. The third logo was created to coincide with the transfer from Luxembourg to Cologne. Now, the broadcaster is known by its tri-color logo and is easily recognized by viewers.

1984

1984

1988

1992

1993

2004

In the first few minutes, it was already evident that humor will be the constant companion of the programming: dressed as a doctor, radio host Rainer Holbe was shown in the operating room, assisting at the birth of a television bearing the RTL Plus logo. The fact that the new channel chose to celebrate its broadcasting start with a cheeky grin is proof that the team wasn’t planning on following convention.

In the early stages, RTL broadcast for five hours, from 5:30 until 10:30 p.m. A former bus garage served as a production studio. There was a group of chairs, a bar and a news desk, but there was no money for anything else. “Our annual budget at that time wouldn’t cover a single afternoon at today’s RTL,” Jochen Pützenbacher, one of the first presenters, says with a smile. At 25 million marks (12.5 million euros), the budget was modest – about a tenth of what rival Sat.1 invested in its first year of operations.

As RTL wasn’t available on cable in the beginning, the programs could only be seen in parts of Saarland and Rhineland-Palatinate. Only 200,000 households were able to receive the station via rooftop antennas. To attract new viewers, RTL Radio started broadcasting ads, which were then shown hours later – complete with pictures – on RTL Plus. Employees produced their own live programs, played video clips or just sat in front of the camera while playing songs.

Thoma continued to pursue the unusual strategy of giving a face to an already popular radio program, which appeared to be working. Some of his radio hosts with television experience couldn’t have been happier. Rainer Holbe had already hosted ZDF’s “Starparade,” Helga Guitton was once on ZDF’s “Liederzirkus” as well as NDR’s “Aktuelle Schaubude,” and Jochen Pützenbacher had been on WDR television. “We had a lot of celebrity guests, did live talk shows and let stars sing their hits to recorded music,” says Pützenbacher. It was risky, authentic and went down well with viewers. The station started to attract an audience, and the program makers were having fun.

When German folk/pop artist Roy Black was a guest on one of the shows, he lost a crown while singing. Laughter broke out around the studio,

1 | The RTL morning show "Guten Morgen Deutschland," here with Wolfram Kons and Anja Stehmeyer, was a new addition in 1987
2 | Equally spectacular: the "Tutti Frutti" show in 1990 with Hugo Egon Balder 3 | "Knight Rider" starring David Hasselhoff was the first American series on RTL Plus in August 1985

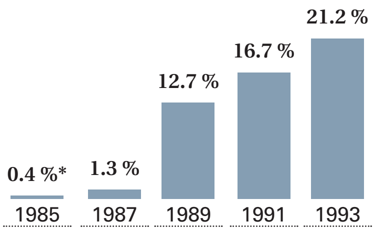
and he reattached the crown with the help of some chewing gum. The programmers did not shy away from even the most basic games and contests. Hundreds of viewers call in; they had never seen television like this before.

"A lot of things we did were very homespun," admits Thoma. "But our decades of experience with live radio helped smooth the way." Thoma's aims were very simple. "We wanted people to watch – that's all." And he couldn't really ask for anything more, as there was no money to produce features, series or TV movies. The producers couldn't even rely on material from the vault in the early years. "We owned only 12 films when we started," says Thoma. RTL's first film buyer, Erhard Puschnig, remembers having a difficult time even getting his hands on films. The budget allowed for no more than kitschy Italian movies or niche films from France.

The five-member news team also had difficulty securing good video material in the beginning. The station couldn't afford satellite vans and reporters. For international stories, they had access to material from Eurovision, because Luxembourg was a founding member of the European Broadcasting Union. "But when it came to local stories, we rarely had any video footage," remembers Marc Conrad, the former editor-in-chief.

As RTL was unable to compete with the public broadcasters in showing images of the news, the station sought at least to get a jump on the competition when it came to broadcasting times. The daily news program was broadcast at 6:53 p.m. No other station had ever dared to deviate from the tradition of beginning broadcasts of serious programming exactly on the hour. RTL calls its 20-minute news show "7 vor 7." And what was lacking in video footage was made up for by a creative presentation style. When it rained, attentive viewers could even hear the raindrops on the studio roof.

In 1985, a fresh talent from the Henri Nannen School for Journalism moved from Gruner + Jahr to the news team: Peter Kloeppel. Kloeppel, currently editor-in-chief of RTL, looks back fondly on his early days at the station. He started work as a correspondent in Bonn. "The competition would transfer their reports to the main studio electronically, but I was sending mine by courier," he says. "If the tapes were to be in Luxembourg on time, I had to be finished by no later than 4:00 p.m." Given such constraints, why did he choose to join RTL? "I found the team really motivating, and the presentation style of the news was fresh and modern."




## VIEWER MAGNET

RTL's audience share development in Germany

When it began, few people saw RTL's programs. During the 90s, things changed. Source: AGF/GFK / RTL market research.

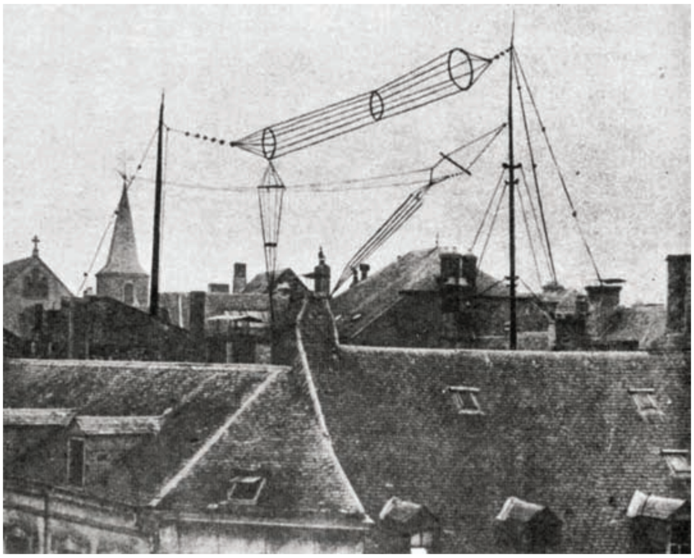
* target audience age 14 - 49

This fresh approach brought the station high ratings – for its news, music and quiz shows. "Our programs weren't there to impress us or the critics. We wanted the viewers to like us, and they noticed that," says Conrad. In his small broadcasting region, initial surveys showed that RTL had nearly a 30 percent audience share when it was on the air. Interest in advertising on the new station grew.

Good contact with RTL Radio led many advertisers to RTL Television. In its first year, 30 seconds of ad time cost 1,000 marks (500 euros). Bertelsmann was hoping to make up to 10 million marks (5 million euros). It succeeded in reaching that goal, which meant that the new station had earned around 40 percent of its entire budget in the first year – an enormous accomplishment.

RTL retained this pioneering spirit in the years that followed. Viewers were attracted by such programs as the morning breakfast show and the daily soap operas. It wasn't long before bare breasts ("Tutti Frutti") and screeching cars (Formula 1) were electrifying the lineup. When Boris Becker and Steffi Graf won Wimbledon in 1989, RTL had the exclusive rights to the coverage. By this time, the station was already broadcasting from Cologne. RTL was growing up.

"In hindsight, the start of RTL was clever, professional and cheap," says Bernd Schiphorst. But in the station's early days, the atmosphere at RTL was reminiscent of the title of the first series that RTL ever broadcast: "Der ganz normale Wahnsinn," or "Just the usual craziness."



A home-made antenna on the roof of their house was the beginning of the Anen brothers' first radio station in Luxembourg

# The cradle of private broadcasting

In 1997, Bertelsmann merged its film and television subsidiary, UFA, with the Luxembourg-based broadcasting group CLT. The merger laid the foundation for today's RTL Group. But its roots reach back much further – to an attic in the 1920s.

In spring 1996, Bertelsmann Executive Board member Michael Dornemann and Audiofina majority shareholder Albert Frère decide to merge their broadcasting groups. A year later, CLT-UFA was born. Back then, it was home to eight TV channels and six radio stations broadcasting in six European countries. Today, Bertelsmann's vast TV and radio activities, known as RTL Group, owns shares in 45 TV channels and 31 radio stations in 11 countries.

For a long time, building such a media group would have been unthinkable. For decades, radio and television in Europe were strictly national affairs, headed by state institutions with strong restrictions on commercial input. But not everywhere in Europe.

In the home of today's RTL Group in the Grand Duchy of Luxembourg, broadcasting had always been handled very differently. The billion-euro corporation's roots can be found close to its headquarters: In 1925, Radio Luxembourg first broadcast from the attic of the house at 28 rue Beaumont.

For two years, radio enthusiast François Anen had been tinkering with some broadcasting equipment, along with his two brothers. They installed a 100-meter long, 35-meter high antenna cage on their roof. "The radio station was meant to advertise the radios that the Anen brothers were selling," said David Dominguez-Muller, author of a book on the history of Radio Luxembourg.

The Anen brothers played records, broadcast sports results on Saturdays, and regularly invited an orchestra to play in their attic studio. In 1927, they were on the air for two to three hours per week. Radio broadcasters from neighboring countries began looking to Luxembourg where the three brothers were running their station without any state interference.

When France begins to talk of nationalizing radio, many broadcasters consider moving to Luxembourg, and approach the Anen brothers. The owners of Radio Toulouse give them a three-kilowatt antenna and propose creating a more powerful, shared station. The brothers agree.

But then, Luxembourg decides to regulate its own broadcasting sector. The Grand Duchy grants a license to a consortium that includes the Havas advertising agency and the owners of Radio Paris. François Anen is also a member. In 1931, it starts broadcasting under the name "Compagnie Luxembourgeoise de Radiodiffusion," or CLR. The company makes the most of two decisive competitive advantages in Europe: It's allowed to sell advertising time, and it broadcasts in several languages.

Soon, programs hit the airwaves in various languages and countries, and air time is being sold to advertising clients in the respective markets. This Europe-wide expansion creates what, at the time, was the most powerful long-wave broadcasting station on the continent. François Anen heads up the technical side of things and remains technical director until after World War II, when CLR becomes CLT and makes its first foray into television.

# A royal addition

Admired for his efforts to promote peace and his enduring advocacy of access to culture, Spain's King Juan Carlos became the first honorary member of the Círculo de Lectores – or Readers' Circle – in 1989. For Bertelsmann's Spanish book club, it was evidence of the significance the club had attained in Spain over many years – as well as its commercial success.

1 | King Juan Carlos (center) with Hans Meinke (right) in 1989 2 | Store of Círculo's sister company, book chain Bertrand
3 | Fernando Carro greets Prince Felipe (2006)

A scene from Don Quixote, the classic of Spanish literature by Miguel de Cervantes, served as the basis for the illustration on the king's membership certificate – the first honorary certificate issued by the Círculo de Lectores. Hans Meinke, managing director at that time, presented it to King Juan Carlos himself. Meinke recalls the ceremony at the royal residence in Madrid: "The king was very taken with it; he and the queen graciously accepted honorary membership in the Círculo."

This was a way of recognizing the monarch – and it was also a major coup for the book club, one with long-lasting effects. "The king's honorary membership has reinforced our members' ties to the club," says Fernando Carro, who has been managing the club's business in Spain since 2001. "Now all major writers want to be represented in the Círculo." As CEO of the Direct Group division, Carro is also in charge of all Bertelsmann book clubs.

It was in 1962 that Bertelsmann took the first steps toward creating a book club outside the German-speaking countries – and headed for the Iberian Peninsula. The environment was very different from back home; about half of Spain's rural population could not read or write at the time.

Bertelsmann saw commercial opportunities. "There were few book stores, and they focused on a small and exclusive readership that no one was attempting to expand," says Meinke. Those seeking to modernize the country welcomed the Círculo's reading promotion program, drawing on it for ideas. All the same, the beginning was difficult as censorship was rife under the Franco regime: "We often pushed the boundaries," recalls Meinke.

With Spain's transition to democracy, the Círculo's cultural offer not only attracted new members but also drew the attention of many writers at home and abroad. Günter Grass became an honorary member and his works again appeared in the Círculo's program. Mikhail Gorbachev, then president of the Soviet Union, also joined the illustrious ranks of the honorary members.

With the founding of Galaxia Gutenberg in 1995, the Círculo began to publish its own books. Publication of Catalan works attracted an additional 60,000 subscribers in the region around Barcelona. Titles in Basque and Galician have been added to the club's catalog. Overall, the Círculo counts a million households among its members. "The position of the Círculo within Spanish society is the result of successful business decisions," says Fernando Carro.

## THE SPANISH BOOK CLUB

**1962** Reinhard Mohn and the Spanish publisher, Vergara, found the Círculo de Lectores.
**1989** The Círculo's first honorary member: King Juan Carlos.
**1995** Founding of the publishing house Galaxia Gutenberg.

# Betting on the book business

In the midst of the German bookselling crisis, Bertelsmann decided to go ahead with a large publishing acquisition deal. After marathon negotiations and months of talks with competition authorities, Random House Germany became the owners of the Heyne publishing group. The purchase of the paperback pioneer was risky, but it quickly became profitable.

Düsseldorf, February 11, 2003, 4:00 a.m. The ink on the Ullstein Heyne List acquisition contract between the Axel Springer publishing group and Random House is still drying. In 14 of the 15 white Vitra chairs surrounding the long table of a Düsseldorf law firm sit utterly exhausted men. They've got four long days of hard work behind them.

The empty chair was occupied by Joerg Pfuhl. The lead negotiator for Random House left the room without saying a word once the contract was signed. While the tension of the last few days slowly seeps out of the 14 others, the man who paved the way for 400 authors – including bestsellers like John Grisham, Nicholas Sparks, Stephen King, Mary Higgins-Clark and Robert Harris – to move under Random House's roof is at a snack bar, waiting on 15 orders of the Westphalian-style fries known as pommes schranke.

The staff at the law firm is used to conclusions of this kind; that's why a fridge stocked with champagne features prominently in the meeting room. While Pfuhl surprises the group with fast food, the lawyers start letting the corks fly. The first chapter in the secret negotiating marathon to buy Heyne comes to a close with a feast of bubbly, sausage and fries.

After signing the contract in Düsseldorf, Pfuhl flies to Munich, where he calls a staff meeting at 9:30 a.m. The foyer is full. For many employees, it's the first time they've seen their boss, who took on the job only a few weeks earlier. "Random House is taking over Ullstein Heyne List, pending the approval of the cartel office," Pfuhl announces. There's silence, astonishment. And then a roar of applause.

At 10:30 a.m., Springer board member Hubertus Meyer-Burckhardt explains the sale to Random House in a press release as follows: "Despite the reorganization measures that have been introduced, we don't see sufficiently attractive prospects for financial returns in the group's current structure."

At this time, Germany's bookselling market is in crisis. The number of books being sold by traditional booksellers has decreased significantly, and there's an atmosphere of uncertainty due to electronic media and new consumer reading habits. The German book market registered sharp declines in revenues from 9.41 billion euros in 2001 to 9.07 billion euros in 2003. Despite this, Random House continues to believe in the book as an important cultural asset and investment opportunity.

But the takeover proves to be a difficult undertaking. Fearing a "position of market dominance" on the paperback market, the German cartel office indicates a ruling against the acquisition of the entire group in May 2003. Yet the authorities agree to a solution proposed by Random House: the acquisition will be limited to Heyne's core business with the imprints Südwest, Ludwig, Ansata and Integral. The other publishing houses belonging to the group – Econ, Ullstein, List and Claassen – are to be sold to the Swedish publishing group Bonnier, together with the paperback lines from Heyne Esoterik and Heyne Fantasy.

On November 25, 2003, Pfuhl welcomes all the new employees joining the Random House Group and promises to provide a corporate culture of stability. But skepticism still reigns. And it is only over the course of the months that follow that the mood transforms into confidence, not least because the integration takes place quickly and opens up many new opportunities. Within a month, financial systems have been synchronized and integrated. A month later, the new corporate organization is in place, and sales and marketing soon follow. Employees are informed about the integration team's every major move via the intranet "@random."

In the Random House Group with its 43 publishing companies, almost all the Heyne employees find new roles. “It was an enormously professional integration,” remembers Heyne managing director Ullrich Genzler. During this period, he devoted himself wholeheartedly to the task, and in this way ensured that new books – among them the new Grisham bestseller “The King of Torts” – continued to make their impact in the book marketplace.

In May 2004, the Heyne publishing group celebrated its 70-year anniversary in Munich. Staff members were able to let loose and danced until the early morning hours. Genzler even put in a turn as DJ Groove under the arches of the Praterinsel nightclub. Today, employees still talk about how there was a tangible sense of relief at the party, along with the conviction that things were once again looking up.

The acquisition proved to be an engine for change. “I think that, had we not bought Heyne, it would have been much more difficult to get the company to change course,” says Pfuhl. “Our new decentralized structure creates the ideal framework for talented editors, creative marketing staff and ambitious publishers.” And that’s not just the case at Heyne. “In principle, the integration of Heyne laid the groundwork for everything that we’ve achieved here together in the past seven years.”

While size alone is not the goal, it does offer certain advantages, in that successes and failures tend to balance each other out. None of the publishing companies belonging to the Random House Group risks folding if they have a weak year, for example. And that guarantees the continuity that late founder Rolf Heyne always sought – for all the publishers. There’s also the competitive factor within the very diverse group: one company’s success spurs the others on to come up with new ideas.

Numerous imprints launched by Random House in recent years have proven that this principle works. The new fantasy imprint, Penhaligon, landed a surprise hit with “Demonkeeper,” the debut novel by previously unknown writer Royce Buckingham. The book remained on the bestseller list for weeks. Heyne Hardcore, Pantheon and cbj didn’t need long before they were also turning a profit. And the audio book project, “Starke Stimmen” (“Strong Voices”), by Random House Audio in cooperation with the G+J magazine Brigitte, was a bestselling sensation.

The belief that books will continue to be profitable assets in the 21st century has been beneficial for Random House Germany, as reflected in their latest results. How did it happen? “With understanding and patience for the book business but speed and efficiency in management. And by letting each respective publisher do their work,” says Pfuhl.


1


2

3



1 | Heyne publisher and managing director Ulrich Genzler as DJ at the party marking the company’s 70-year anniversary in May 2004
2 | Joerg Pfuhl, CEO of Random House Germany, and his team ensured that Heyne was quickly and successfully integrated into the group
3 | Heyne has published many international bestselling authors in Germany

# Cracking the code

An author in search of success, and a determined editor. When this duo makes a career move, they get to enjoy the advantage of how a publisher uses clever marketing strategies to turn their new book into a mega-bestseller. The story behind Dan Brown's "The Da Vinci Code."

On March 18, 2003, readers of the New York Times can barely escape her world-famous smile: almost every section of the paper features an image of the Mona Lisa with the headline "Why is this man smiling?" The ads promise an answer to the enigmatic question at the back of the Arts section. But there, readers merely find information about a new book on sale.

Any publisher willing to launch such a teaser campaign needs money and certainty. Ads in the New York Times sell for six-digit sums, after all. Such extensive advertising for a publication launch is unusual. Normally, publishers only go out on a limb like this for celebrity authors or established bestselling writers.

But a non-bestselling author receiving this kind of sendoff in the New York Times is practically unheard of. Dan Brown may have written three previous novels, but none of them managed to sell more than 10,000 copies. Why should his fourth book do any better? Its protagonist is even the same as that in Brown's second book: Robert Langdon, a Harvard professor and symbologist. The only difference is that, this time, Brown is with a new U.S. publisher – Doubleday, an imprint of Random House. People there really believe in his new book, so much so that they're willing to commit to an unprecedented marketing strategy. "It was a very unusual move," admits then Doubleday Associate Publisher and now Senior V.P. Publishing Suzanne Herz.

By this point, Random House had already done a lot of work behind the scenes to arouse interest in "The Da Vinci Code" among sales representatives, booksellers, reviewers and broadcasters. But before all this happened, Dan Brown had to find his way to Random House. And that had a lot to do with his editor, Jason Kaufman.

It's the fall of 2000, and Kaufman is working for a different publisher – and he's frustrated. "I believed in my authors and the books on my list, but for whatever reason, there hadn't been a lot of successes," he remembers. One of those authors was Dan Brown. Kaufman believed in him particularly strongly, but Brown's most recent book had sold only 8,000 hardcover copies. The ambitious editor can't understand it, and makes the decision to try his luck at a new publisher – Doubleday.

In spring 2001, Kaufman shows his new boss, Bill Thomas, Doubleday's editor-in-chief, the proposal for Dan Brown's new book, and urges signing a contract for it. Thomas immediately agrees. Brown is offered a lucrative contract for his next two books, a great vote of confidence considering his previous sales. There is interest from other publishers as well, but Brown decides to stick with his trusted editor, Kaufman, and moves to Doubleday and Random House to be with him. "Doubleday felt like a terrific fit," Kaufman said, "and Dan agreed."

Over the course of a year, Brown writes and Kaufman edits the first pages of "The Da Vinci Code." When publishing colleagues read the entire manuscript in spring 2002, they're unanimous that it's got the makings of a huge bestseller. Doubleday gets an early start on a campaign to pique interest in the unknown author; they don't want Brown's book to get lost in a sea of new titles. At a summer sales conference, for example, Brown is invited to talk with sales reps about his fascination with

1 | Doubleday editor Jason Kaufman with bestselling author Dan Brown
2 | The successful duo with Suzanne Herz and editor-in-chief Bill Thomas
3 | The Doubleday marketing team at a meeting in their New York office




symbols and codes – and the role they'll play in his new book. A short while later, the publisher sends the modest, charming Brown to meet with executives at the headquarters of the biggest book retailers in the U.S. He tells them about his forthcoming thriller, and the curiosity and enthusiasm grows.

Random House prints and distributes more than 10,000 advance reader copies – normally, this number is just 3,000, even for established bestselling authors. The strategy works. Advance orders start climbing. Bookseller Barnes & Noble alone orders 75,000 copies. That's already 40,000 copies more than the initial planned first print run for all of North America. The enthusiasm among booksellers is so great that they even band together to suggest their own marketing measures for the book – another atypical occurrence.

The ad campaign in the New York Times to mark the launch of "The Da Vinci Code" thus lands on fertile ground, which has been amply primed with expectation. And those expectations aren't disappointed. In the first week, more than 10 percent of the 230,000 copies printed are sold, and "The Da Vinci Code" stuns the publishing world by hitting the New York Times bestseller list at #1.


The Mona Lisa – a man? With this surprising advertising campaign in the New York Times in March 2003, Random House launches Dan Brown's new thriller, "The Da Vinci Code"

While most bestsellers have their best sales weeks shortly after they've been launched, sales of "The Da Vinci Code" keep growing, week after week. In addition to a riveting book, an all-encompassing marketing strategy plays an important role in this development. When ABC-TV airs a documentary titled "Jesus, Mary and Da Vinci," the publishers ensure that Brown makes a live appearance on the station's morning television program. There, he reveals that the book jacket on his new bestseller contains a code. Anyone that cracks it could win a trip to Paris. During this week, sales of the book surpass the previous sales record – at a time when the book has already been in stores for 33 weeks.

When Dan Brown's next book, "The Lost Symbol" is published in fall 2009, "The Da Vinci Code" is one of the most successful books of all time, having sold more than 80 million copies worldwide and been translated into more than 50 languages. "We continue to benefit enormously from the tremendous editorial partnership between Dan and Jason and from the entrepreneurial publishing campaign Doubleday created and implemented for 'The Da Vinci Code,'" says Markus Dohle, Chairman and CEO of Random House and member of the Executive Board at Bertelsmann. Just how much the publisher profited can be seen in sales of "The Lost Symbol": the new thriller sold a million copies in its first 24 hours on the market. That's a record.

# Sowing seeds for the future

Bertelsmann is developing new markets in Asia, new sales methods in Europe and the U.S. and new services for the global network. We don't yet know which of these activities will be the milestones of tomorrow. What we do know is that there are plenty of entrepreneurial opportunities for talented people and that they are receiving support – for example, through the Bertelsmann Entrepreneurs Program.

Following the Bertelsmann Entrepreneurs Program, Annabelle Long now runs the "Corporate Center" in Beijing and is looking for investment opportunities in Asia

Annabelle Long is astonished. The young Chinese woman has just presented a concept in Beijing showing how Bertelsmann can be part of the rapid development in Asia's growth markets. Her suggestion: to establish an investment fund. Now, she's waiting for feedback. She's hoping that her idea won't be immediately rejected, that it might become part of further discussions in Gütersloh. On that November day in 2007, Chief Financial Officer Thomas Rabe doesn't leave the promising manager hanging for long. "Let's do it," he says.

"I never thought I'd get a decision like that right away," Long recalls. "I was amazed, but mainly, I was impressed." A few weeks later, in January 2008, she starts work as the managing director of Bertelsmann Asia Investments. The Bertelsmann Executive Board dedicated 100 million dollars to the fund – seed money for startups in the Asian media and service sector.

So far, Long and her team have invested about half of the money. The fund has a stake in an Internet lifestyle and online shopping community for young people (Yoho) and the No. 1 digital platform for further education (China Distance Education Learning). The leading integrated ad solution provider focusing on China's booming automobile sector, Bitauto is also part of the portfolio, as are shares in the multimedia subsidiary of broadcaster Phoenix, which operates China's fifth-largest online portal ("ifeng.com"). "With these investments, we get to directly experience how entrepreneurial ideas and new technologies are being turned into reality. Strategically, it's important to be able to recognize new business potential early on in the game in emerging markets like China," said Long, who also heads Bertelsmann's Corporate Center in Beijing.

But the country also has a lot of potential in classic media businesses, as evident in Gruner + Jahr's latest business development in China. Despite the global crisis in advertising, the

## E-BOOKS

With a catalog of 13,000 titles, Random House U.S. is among the largest providers of e-books. In Germany and the U.K., more than 2,000 Random House digital titles respectively are available, some with bonus material. A market study has shown that many buyers of e-books have made few or no recent print book purchases.


## CATCH-UP TV

Those who miss their favorite series or a show when it airs on television can call up entire episodes via the RTL Group stations' on-demand platforms. On M6 in France and RTL in the Netherlands, viewers can even enjoy programs they've missed directly on their TV screens.


Chinese ad marketing agency Boda, which G+J operates in conjunction with the Rayli publishing house, registered an increase in revenue, setting it apart from the local competition.

The joint venture is the undisputed market leader in the women's segment and recently entered the men's segment with the launch of the magazine "Leon" in 2009. This daring step has already paid off. In terms of both sales and ad bookings, "Leon" has already exceeded expectations.

Adding to this, the titles of a second joint venture, Clip, which include "Fumo Parents" parenting magazine and "Focus" science magazine, G+J has long since become an established presence in the fastest growing magazine market in the world. But that doesn't mean it's ignoring new sales and presentation methods. The website "Rayli.com.cn" is one of the biggest Internet portals for women in Asia. The monothematic web journals from "Parents" get hundreds of thousands of hits and are exclusively booked per issue by advertising clients.

On its domestic market, too, G+J is exploring digital ways to present its editorial content, such as for the iPhone. Just one month after Financial Times Deutschland launched its app in February 2009, the paper had already become one of the most frequently loaded German-language news sites. The opportunities of digitization have also led to the development of new concepts at Direct Group. Given the fragmented nature of French publishing, the group sees potential in supporting publishers who want to digitize their titles. With the bookseller Chapitre.com and the France Loisirs club, France is now Direct Group's most important market.

Together with the G+J sales subsidiary DPV, the company plans to open the first virtual kiosks to sell electronic books, magazines and newspapers in Germany. It should be possible to use the kiosk with all manner of mobile devices and eReaders, including the Blackberry and iPhone. The goal is to establish mobile reading on the German market. Consumers should be able to make spontaneous purchases, says Thomas Feinen, head of corporate development at Direct Group. "For example, if someone is sitting on a train and has just finished reading the second installment of a tril-

## BUSINESS PROCESS OUTSOURCING (BPO)

In order to concentrate on their core competencies, many corporations are outsourcing entire business processes. They often supply the service provider with goals but no concrete plan as to how they should be realized. Arvato is ready and able, as evidenced by a major contract it recently signed with Microsoft.


## DIGITAL READING

Direct Group has spotted new business opportunities in the growing popularity of electronic reading. In France, for example, many publishers are in need of support in the digitization of their catalog stocks. And in Germany, the group is planning to launch an online kiosk for digital books, magazines and newspapers.

ogy and wants to start reading the third can immediately buy the book in our shop with an eReader or mobile phone," he says.

Perhaps this trilogy could be Christopher Paolini's "Eragon." The bestselling author's novels long have been published in e-book editions by Random House. The world's largest trade-book publisher began offering e-books in the early 1990s, mainly in the U.S. And it's increasingly paying off. While Random House has roughly tripled its number of available e-books in the past three years, sales have multiplied greatly – almost fourfold in the last year alone. In the U.S., customers can choose from some 13,000 titles.

In the U.S. and U.K., Random House also sells many of its e-books with bonus material, such as an introductory video from the author. "In order to make use of the advantages of the Web and the audiovisual opportunities of smartphones, we've developed premium e-books," said manager Fionnuala Duggan, pointing to the website "bookandbeyond.com." And a study by German market research group GfK delivered especially encouraging results. The study revealed that more than half of e-book buyers included few or no conventional books in their recent purchases. That means that new target groups are being created through this new method of selling books.

For RTL Group, the main advantage of digital sales methods is greater flexibility in terms of time. It used to be that viewers had to sit in front of the television at the right time in order to catch their favorite TV shows. Today, they have the flexibility of watching shows from RTL Group channels when it suits them simply by calling up missed programs online. This sort of "catch-up" TV service is usually free of cost in the days immediately following the original broadcast – and it's growing in popularity.

In 2009, the online platforms of RTL Group registered more than a billion video requests Europe-wide – an increase of around 50 percent in comparison to 2008. In France and the Netherlands, viewers can also call up programs via their cable box and watch them directly on their television screen. Studies have shown that viewers accept that on-demand videos are periodically interrupted by ads, just like normal television. And that means that RTL has spotted an interesting new source of income.

Arvato also sees huge potential in the digital network, but on a totally different level: taking over entire business processes for companies that are global players. "Many large corporations are increasingly interested in standardization of global processes such as customer registration or billing, because that offers them huge savings potential," says Matthias

## MAGAZINES IN CHINA

China is one of the fastest-growing magazine markets in the world. Gruner + Jahr has been able to successfully position itself there with the help of two valued joint venture partners. G+J and its partner publishing house Ray Li are leading the market in the women's segment, and "Leon," a men's title, launched last year.






Mierisch, head of Arvato in the U.K. and Ireland. Creating such standardization is anything but easy, but Arvato is properly equipped to do it.

Under Mierisch's leadership, Arvato was recently able to get Microsoft on board for a major new contract; now it manages entire business process chains worldwide for the world's largest software company. "I'm sure that other companies are interested in such all-in-one solutions," says Mierisch, pointing to the extensive expertise bundled at Bertelsmann's service arm. "In the area of online payment systems alone, we're already handling billing processes in up to 220 countries around the world," he says.

It's still not known which of the current steps being taken today will emerge in a few years as milestones in the corporation's development. What is known is that there are huge opportunities for entrepreneurial talent to unfold – and that's something that is being actively supported.

One example of this is the Bertelsmann Entrepreneurs Program, in which selected young managers are offered opportunities to grow their skills in various areas of the corporation. Anabelle Long has already finished the program. When the young Chinese woman completed her MBA at California's elite Stanford University in 2005, she had plenty of offers from top banks and well-known consulting firms. "I didn't really want to go back to the media branch," remembers Long, who had previously worked in television in China. But after meeting with various Bertelsmann managers, she changed her mind. In New York, she gained experience at the Random House headquarters, at the television production company Fremantle and at Bertelsmann's investment fund for digital media. At the end of 2006, she was transferred to Beijing – yet another station in the Entrepreneurs Program. It might surprise outsiders to hear that one year later, the 35-year-old was entrusted with the management of a fund with assets in the nine-figure range. But her analytical skill and the concept which she so meticulously researched and presented left no doubt that the Bertelsmann Board could hand her such responsibility – a sign of their confidence in her ability. Quite simply, it was about presenting a talented entrepreneur with an extraordinary opportunity.

That was one of Reinhard Mohn's great strengths – and it's something that will continue to be a distinguishing characteristic of Bertelsmann in the future. "No one can say for sure which talents will prove themselves and which business ideas will be successful, even after the most careful consideration. But it's a risk we're willing to take, because it's part of how Bertelsmann defines itself," says Chairman of the Board Hartmut Ostrowski, adding: "I'm sure that we've already planted the seeds today for the milestones of tomorrow."

1835

1921

1967

1950

# Content



# Financial Information

# Group Management Report

In the face of the global economic crisis, Bertelsmann recorded both declining revenues and earnings in fiscal year 2009. Revenues reached €15.4 billion, following €16.2 billion in the previous year, and operating EBIT was €1,424 million, down from €1,575 million in the previous year. Some €1 billion in cost-cutting and efficiency measures significantly slowed the decline in earnings. Strict cash orientation resulted in high liquidity from operations and a reduction in net financial debt by €652 million to €2,793 million. Net income of €35 million (previous year: €270 million) was achieved despite one-time expenses. Bertelsmann does not anticipate a noticeable economic recovery in 2010. Visibility regarding further economic development remains low, especially in the advertising markets.

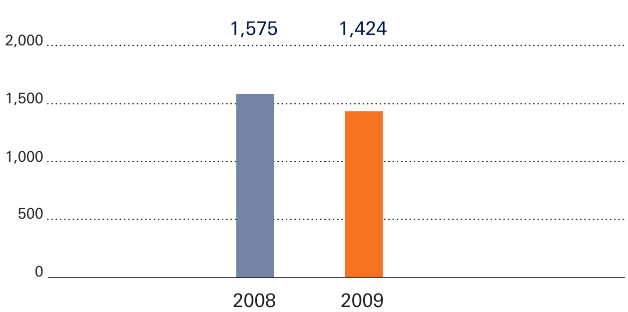
## Business and Economic Conditions

### Description of Business and Organizational Structure

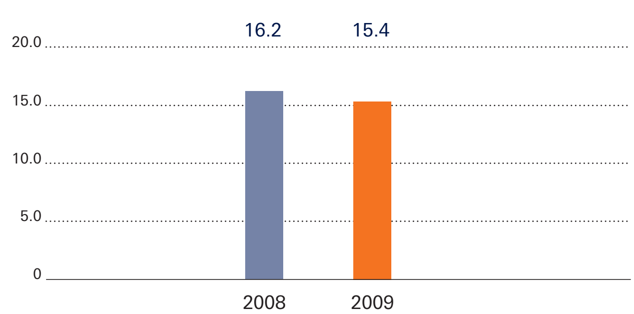
Bertelsmann's core business consists of media content as well as media-related production and services businesses. The company is a global player in television, radio and television production (RTL Group); books (Random House); magazines (Gruner + Jahr); media services (Arvato); and media clubs and bookstores (Direct Group). Revenues are broadly diversified. The Group companies generate revenues from the sale of products and merchandise, advertising, services, rights and licenses. The company's core markets are Western Europe (in particular Germany, U.K., France, Spain) and the U.S. The diversification by business field and region helps mitigate the company against economic risks.

Bertelsmann AG is a stock corporation under German law and as such has a two-tier system of management and governance. The stock of Bertelsmann AG is unlisted. Bertelsmann AG acts as an operational management holding company for the corporation. Its responsibilities include both business policy and strategic management of the Group. The Executive Board is responsible for the entrepreneurial management of the Group. The Bertelsmann AG Articles of Association and resolutions adopted by the Executive Board, Supervisory Board and the Annual General Meeting form the basis for corporate governance. Internal financial management and reporting are conducted on the basis of the Group's organizational structure, consisting

**Operating EBIT** in € millions




**Revenues** in € billions



of the five divisions RTL Group, Random House, Gruner + Jahr, Arvato and Direct Group.

RTL Group businesses concentrate on television, radio and TV production. With 45 television channels and 31 radio stations in eleven countries, RTL Group is Europe's leading entertainment network. Its television business includes Mediengruppe RTL Deutschland, Groupe M6 in France, the RTL channels in the Benelux countries, Five in the U.K. and Alpha TV in Greece. With its wholly owned subsidiary Fremantle Media, RTL Group is also among the global leaders in the production and distribution of TV content. RTL Group is a listed company in Brussels and Luxembourg.

Random House, the world's largest publishing group, has a presence in 17 countries and encompasses over 120 independent imprints, including Alfred A. Knopf and Doubleday in the U.S., Ebury and Transworld in the U.K. and Siedler and Goldmann in Germany. Random House publishes novels, nonfiction and youth titles in hardcover, paperback, audio and electronic format, with more than 11,000 new titles published and 500 million units sold each year around the world.

Printing and publishing giant Gruner + Jahr is Europe's leading magazine publisher. The company publishes over 500 magazines and digital content in more than 30 countries. Prisma Presse, France's second-largest magazine publisher, represents the most significant activity outside of Germany. Other countries in which Gruner + Jahr operates include China, Italy, Poland and Spain. Gravure printing company Prinovis is a joint venture of Gruner + Jahr, Arvato (37.45 percent each) and Axel Springer AG (25.1 percent).

Arvato is an international media and communications service provider represented in over 35 countries around the world. Arvato AG's business units are Arvato Services, Arvato Print, Arvato Digital Services and Arvato Systems. The company's business activities include customer loyalty programs, logistics services, supply chain management, call and service center activities, gravure and offset printing, optical storage media production, IT services, address and database management and direct media sales.

Direct Group operates media clubs, bookstores, online activities, publishing houses and distribution companies in 16 countries. Direct Group businesses occupy leading positions in their markets. The clubs include popular brands as Der Club in Germany, France Loisirs in France and Círculo de Lectores in Spain.

### Strategy

Bertelsmann's core business is focused on media content and media-related services and production activities. While developing the existing businesses further, Bertelsmann is focusing on moving into new growth markets. Bertelsmann sees the geographic core markets of Western Europe and the U.S. as the focus of its future investments as well. Over the medium to long term, Bertelsmann is working to expand its presence in major growth markets such as China.

Most of the businesses hold leading positions in attractive, developed markets. Future investments are focused on business fields with strong organic growth.

In keeping with the objective of operational management, Bertelsmann aims for 100 percent ownership of its businesses wherever possible. At present, two divisions (RTL Group, Gruner + Jahr) are not 100 percent controlled.

The Executive Board manages and develops Bertelsmann as a unified corporation. This means continually analyzing the structure of the businesses and Group portfolio. The Executive Board is focused on optimizing operations and utilizing organic growth opportunities close to the core business. Noncore businesses will be divested as the market permits. The aim is to gradually enter new growth businesses with an eye on the financial targets.

In fiscal year 2009, the work of the Executive Board was centered around developing and implementing measures to respond to the global economic crisis. Scenario analyses were used to simulate various courses the crisis might take, develop alternative options for action and define appropriate countermeasures. In addition to a cautious investment policy and greater orientation on cash flow in managing business, a series of measures were taken to ensure liquidity. Significant costcutting measures were implemented across the board through a variety of individual business-specific initiatives that produced sustainable savings of some €1 billion.

Bertelsmann remains committed to accelerating organic growth for the Group by optimizing the portfolio, investing in growth businesses and promoting innovation. The achievement of this goal must be seen in the context of the ongoing nature and ramifications of the global economic crisis.

## Controlling Systems

Bertelsmann's overriding financial objective is to continuously enhance the value of the company by steadily increasing its profitability. The central performance indicator for assessing the profitability from operations and return on invested capital is Bertelsmann Value Added (BVA). BVA measures the profit realized above and beyond the appropriate return on invested capital. This focus on enterprise value is reflected in strategic investment and portfolio planning and in the management of Group operations; as an element within the management compensation system, it is integral to all business activities.

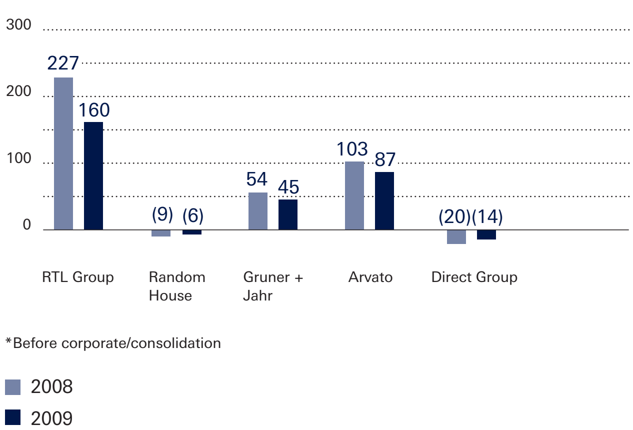
The basis for calculating BVA is the difference between net operating profit after tax (NOPAT) and the cost of capital. NOPAT is defined as operating EBIT adjusted for the lump-sum corporate tax rate of 33 percent. Cost of capital is the product of the weighted average cost of capital and the level of capital invested. The uniform weighted average cost of capital after taxes is 8 percent. Invested capital is calculated on the basis of the Group's operating assets less non-interest-bearing operating liabilities. The present value of operating leases is also factored into invested capital. In fiscal year 2009, BVA decreased from €90 million to €26 million. The key reason for the reduced BVA is the decline in operating EBIT.

Operating EBIT not only affects BVA through NOPAT but is a relevant performance indicator in its own right. Operating EBIT is calculated before net interest expenses and taxes and adjusted for special items. This procedure yields a normalized, sustainable performance indicator that helps to improve predictability and comparability. Operating EBIT came to €1,424 million in the year under review.

Operating free cash flow, as measured through the cash conversion rate, also plays a major role alongside BVA and operating EBIT. This is calculated as the ratio of operating free cash flow to operating EBIT and serves as a measure of cash generated from business activities. Operating free cash flow does not reflect interest, tax or dividend payments, and is already adjusted for replacement and expansion investments. Both operating EBIT and operating free cash flow are adjusted for special items. The Group aims to maintain a cash conversion rate of 95 to 100 percent as a long-term target. The cash conversion rate in fiscal year 2009 was 125 percent (previous year: 105 percent).

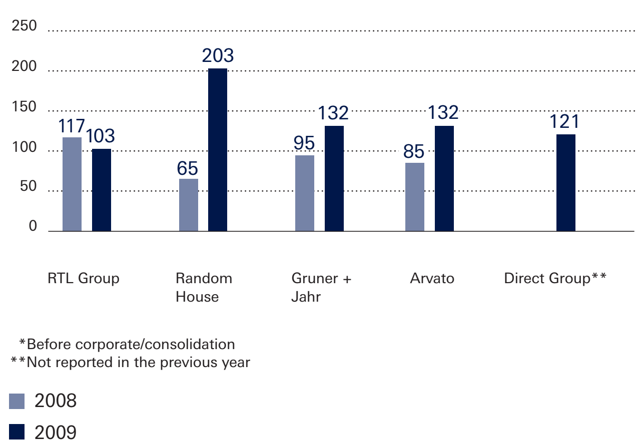
Bertelsmann's management and controlling system also includes the internal financial targets outlined under "Net Assets and Financial Analysis."

**BVA by Division** in € millions*




*Before corporate/consolidation

**Cash Conversion Rate by Division** in percent*




*Before corporate/consolidation
**Not reported in the previous year

## Significant Events in the Fiscal Year

Direct Group's U.K. businesses were divested with effect from January 1, 2009. Direct Group businesses in the Netherlands and in the Flemish part of Belgium were also sold with effect from January 1, 2009. The aforementioned businesses were included in discontinued operations as of December 31, 2008.

In January 2009, Bernd Buchholz took over as CEO of Gruner + Jahr from Bernd Kundrun, who resigned.

Also in January 2009, Bertelsmann AG issued a five-year bond in a €500 million transaction to ensure liquidity. This bond was increased by €250 million in April 2009 to €750 million.

BMG Rights Management, founded in late 2008, has operated as a joint venture with KKR since October 2009. Bertelsmann's share is currently 49 percent.

## Overall Economic Developments

The global economy was characterized by a severe crisis which continued in the early months of 2009. Slight growth tendencies have become discernible again since the spring of 2009. According to the University of Kiel´s Institute for the World Economy, this trend is based primarily on increased production in the emerging markets and positive effects from stimulus programs around the world.

In the U.S., key factors in the end of the recession were government interventions and positive effects from the lower exchange rate of the dollar. According to the Institute for the World Economy, the financial markets in the U.S. further stabilized in the course of 2009.

According to the Federal Statistics Office, overall economic performance in Germany declined 5.0 percent in 2009 from the previous year when adjusted for price changes. The primary reason for this trend was declining exports. Private consumption proved to be a stabilizing element thanks to government stimulus programs and the robust labor market.

## Developments in Relevant Markets

The severe collapse of the global economy in 2008 and 2009 affected the markets relevant to Bertelsmann to varying degrees.

The European television advertising markets were characterized by sharp declines and high volatility in 2009. Despite a recovery, especially in the fourth quarter, the German TV market shrank 9 percent year on year. The core countries of France, Great Britain and the Netherlands suffered and even greater impact, with declines of 9 to 13 percent.

The trend of the book markets in the U.S., U.K. and Germany was weaker in the first months of fiscal year 2009. The U.S. book market in particular was characterized by a general consumer restraint and the depletion of inventory in the retail book business during this period. Following a gradual recovery, the book markets showed stable development overall compared to the previous year.

The magazine advertising markets were severely affected by the economic crisis in 2009, with the German market falling 11 percent and the French market declining 9 percent. The overall trend in circulation revenues was largely stable.

The trend of the printing markets for magazines, catalogs and advertising materials in Europe was significantly weaker due primarily to lower volumes and ongoing price pressure. While the markets for storage media in Europe and the U.S. declined due to the growing importance of digital forms of distribution, the markets for services proved to be stable or only slightly down despite price pressure.

## Regulatory Environment

Bertelsmann has radio and television operations in several European countries that are subject to regulation. Bertelsmann companies occupy leading market positions in many lines of business and may therefore have limited potential for growth through acquisition due to antitrust legislation. Because our profit participation certificates and bonds are publicly listed, Bertelsmann is required to comply with applicable capital market regulations.

## Research and Development

Bertelsmann's competitiveness and long-term success depend in large measure on the innovative qualities of the media products and services it offers. Research and development activities (R&D) to develop innovative and marketable products and services are therefore considered an integral part of the business strategy. At Bertelsmann, these activities take place largely in the operating units, where the understanding of customers and markets and of technological innovations and their importance for the future is greatest.

RTL Group's core business is focused on developing and purchasing new, high-revenue TV programming. The development of new distribution channels in the digital age is also a high priority. In addition, a wide range of R&D activities support the (ongoing) development and refining of online and offline diversification businesses.

Random House sets trends by discovering and nurturing new authors and publishing new titles. In addition, the establishment and expansion of e-book business worldwide and the associated development of innovative product features play an important role in the R&D process.

Gruner + Jahr places great emphasis on the evolution of the publishing business along all media platforms and value chains. Additional key aspects of development are the expansion of the product and service portfolio in areas such as corporate publishing and the growth of digital business in areas such as online marketing.

One particular emphasis in R&D at Arvato is to push the continuous launch and development of integrated services, advancing new business models while tapping into new application fields and markets. An innovative service portfolio is being developed based on specific customer requirements.

Direct Group is focusing on the increasing interconnection of its distribution channels in the traditional club and retail book business. In addition, Direct Group is building upon its core competencies to develop additional business models in community management, e-books and even beyond the traditional media business.

Innovative expertise is an important driver of Bertelsmann's organic growth, so it is very important for the Group. Alongside market-oriented R&D activities of the operating units, Group-wide continuing education and training programs are provided, while knowledge sharing and collaboration among innovators are actively promoted in all divisions and business units. The venture capital fund Bertelsmann Digital Media Investments, with its portfolio of 16 investments in new companies, offers the additional opportunity to ensure direct access to new, strategically relevant technologies and business models in digital media. Investments in R&D are not recorded separately due to the diversified Group structure and the correspondingly diverse requirements this entails.

## Results of Operations

### Revenues

Revenues declined 5.4 percent to €15.4 billion (previous year: €16.2 billion) due to the economic crisis and its effects on the markets relevant to Bertelsmann. Organic growth was -5.8 percent when adjusted for portfolio and exchange rate effects. As a result of a stronger dollar on average during the year, the exchange rate effects came to -0.6 percent, while the portfolio effects and other effects came to 1.0 percent.

The trend in advertising markets was reflected in the performance of RTL Group, even though the division outperformed the market in some areas. The decline in revenue at RTL Group to €5.4 billion (previous year: €5.8 billion) can be attributed primarily to Mediengruppe RTL Deutschland, the British channel Five and RTL Nederland. The trend of revenues at Random House was stable compared to the previous year. Despite the depletion of inventory in the U.S. retail book business, revenues of €1.7 billion were in line with last year's level (previous year: €1.7 billion). A substantially declining advertising market as a result of the economic crisis was responsible for Gruner + Jahr revenues declining to €2.5 billion (previous year: €2.8 billion).

At Arvato, declining revenue in print was not fully compensated by the services business. Declining prices and volumes led to a drop in revenues in fiscal year 2009 from €5.0 billion to €4.8 billion. Direct Group revenues of €1.2 billion were down from last year (previous year: €1.4 billion).

A comprehensive cost-cutting and efficiency program coupled with the diversification of Bertelsmann's business in fiscal year 2009 helped mitigate the overall effects of the global economic crisis.

There were only minor changes in the geographical breakdown of revenues compared to fiscal year 2008. While the share of revenues from Germany was down slightly to 35.0 percent from 36.0 percent in the previous year, the revenues share generated by other European countries amounted to 47.7 percent (previous year: 48.0 percent). At the same time, the U.S. share of total revenues rose from 11.5 percent to 12.5 percent. The share from other countries was 4.8 percent (previous year: 4.5 percent). This means that the proportion of total revenues attributable to countries other than Germany rose from 64.0 percent to 65.0 percent. The ratio of the four revenue sources (products and merchandise, advertising, services, rights and licenses) remained largely balanced, even after a change in categorization from last year.

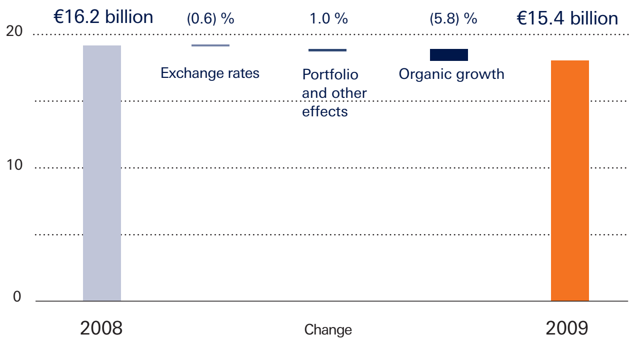
### Operating EBIT and Operating EBITDA

In fiscal year 2009, Bertelsmann generated an operating EBIT of €1,424 million (previous year: €1,575 million). The return on sales of 9.3 percent was below the previous year figure of 9.7 percent. All divisions except Random House reported declines in the operating EBIT due to the economic crisis. Through significant cost-cutting, RTL Group managed to limit the effects of revenue declines on operating EBIT. RTL Group's operating EBIT was €793 million, compared to €927 million in the previous year. Random House generated an operating EBIT of €137 million in fiscal year 2009, which was at the previous year's level. In advertising-dependent business, Gruner + Jahr was able to lower costs proportionally to the decline in revenues, thereby dampening the effect on operating EBIT. Gruner + Jahr achieved an operating EBIT of €203 million (previous year: €225 million). Arvato likewise saw a decline

### Revenues by Division

| in € millions | | | 2009 | | | 2008 |
|---|---|---|---|---|---|---|
| | Germany | International | Total | Germany | International | Total |
| RTL Group | 1,867 | 3,543 | 5,410 | 2,131 | 3,643 | 5,774 |
| Random House | 269 | 1,454 | 1,723 | 259 | 1,462 | 1,721 |
| Gruner + Jahr | 1,153 | 1,355 | 2,508 | 1,269 | 1,500 | 2,769 |
| Arvato | 2,078 | 2,748 | 4,826 | 2,178 | 2,815 | 4,993 |
| Direct Group | 208 | 1,038 | 1,246 | 287 | 1,109 | 1,396 |
| Total revenues by division | 5,575 | 10,138 | 15,713 | 6,124 | 10,529 | 16,653 |
| Corporate/Consolidation | (198) | (151) | (349) | (270) | (134) | (404) |
| Consolidated revenues | 5,377 | 9,987 | 15,364 | 5,854 | 10,395 | 16,249 |

## Revenue Breakdown




in operating EBIT from €369 million in the previous year to €345 million in the period under review due primarily to a drop in volumes. Direct Group earnings of €28 million were at last year's level (previous year: €29 million).

Operating EBITDA declined in 2009 to €2,003 million from €2,138 million in the previous year.

### Special Items

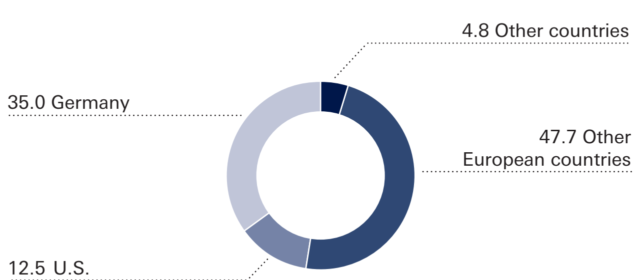
Special items came to €-730 million in fiscal year 2009, from €-676 million in the previous year. Special items consisted of impairment losses totaling €-319 million and a net balance of capital gains and losses of €13 million. Restructuring costs and severance payments as well as valuation allowances on assets, among others, in the amount of €-424 million (previous year: €-173 million) were distributed across all divisions and included the effects of programs for increasing efficiency and optimizing organizational and cost structures. At Prinovis there were valuation allowances on assets in the amount of €-111 million. The effects of the economic crisis also resulted in a re-evaluation of the earnings expectations of individual business areas, such as the TV business in Great Britain and Greece. In this context, fiscal year 2009 saw goodwill impairments and impairments of intangible assets with an indefinite useful life totaling €-319 million (previous year: €-502 million).

### Net Income

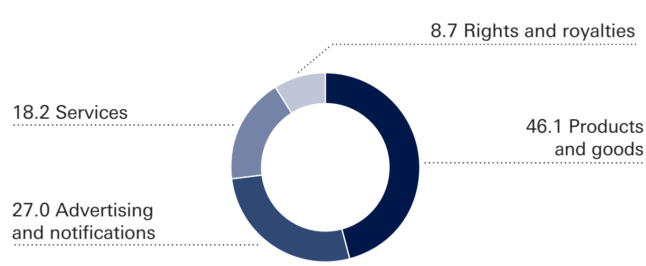
Adjusting operating EBIT for special items of €-730 million resulted in an EBIT of €694 million (previous year: €899 million). Net interest expenses improved slightly over the previous year, from €-429 million to €-424 million. Despite lower net financial debt, measures to protect liquidity led to a negative carry and thus to a higher negative net interest balance. This effect was more than compensated by a year-on-year decline in net income from minority interests in partnerships. Net interest expenses also include distributions of €75 million (previous year: €76 million) on Bertelsmann profit participation certificates. Income tax expenses increased from €-54 million to €-235 million. The year-on-year increase resulted primarily from an increase of deferred tax assets in the U.S. in the previous year.

Net income decreased from €270 million in the previous year to €35 million in the period under review. Minority interests in net income amounted to €117 million (previous year: €128 million). The share of Bertelsmann AG shareholders was €-82 million (previous year: €142 million). The shareholders of Bertelsmann AG are to receive a dividend of €60 million for fiscal year 2009, half of last year's distribution.

**Consolidated Revenues by Region** in percent




**Revenues by Category** in percent*




* Based on total from divisions not including Corporate/Consolidation

### Results Breakdown

| in € millions | 2009 | 2008 |
|---|---|---|
| Operating EBIT by division | | |
| RTL Group | 793 | 927 |
| Random House | 137 | 137 |
| Gruner + Jahr | 203 | 225 |
| Arvato | 345 | 369 |
| Direct Group | 28 | 29 |
| Total Operating EBIT by division | 1,506 | 1,687 |
| Corporate/Consolidation | (82) | (112) |
| Group Operating EBIT | 1,424 | 1,575 |
| Special items | (730) | (676) |
| EBIT (earnings before interest and taxes) | 694 | 899 |
| Financial result | (424) | (429) |
| Earnings before taxes from continuing operations | 270 | 470 |
| Income taxes | (235) | (54) |
| Earnings after taxes from continuing operations | 35 | 416 |
| Earnings after taxes from discontinued operations | – | (146) |
| Net income | 35 | 270 |
| of which: Share of profit of Bertelsmann shareholders | (82) | 142 |
| of which: Minority interest | 117 | 128 |

### Results of Discontinued Operations

Discontinued operations reported separately for the previous year had no effect on results in the period under review.

## Net Assets and Financial Analysis

### Financial Guidelines

The primary objective of Bertelsmann's financial policy is to achieve a balance between financial security, return on equity and growth. Accordingly, the Group's financing policy is based on the requirements of a "BBB+/Baa1" credit rating and the qualitative/quantitative criteria pertaining thereto. Credit ratings and transparency are of great importance to Bertelsmann's financial security and independence.

The Bertelsmann Group is centrally financed by Bertelsmann AG and its financing company Bertelsmann U.S. Finance LLC. Bertelsmann AG provides the Group companies with liquidity and manages the issuance of guarantees and letters of comfort for Group companies. The Group widely forms a single financial unit, thereby optimizing capital procurement and investment opportunities.

Bertelsmann utilizes a financial control system employing quantitative financial targets concerning the Group's economic debt and, to a decreasing extent, its capital structure. One key financial target is a dynamic leverage factor calculated as the ratio of economic debt to operating EBITDA (after modifications) and limited to a maximum of 3.0. Economic debt is defined as net financial debt plus provisions for pensions, profit participation capital and present value of operating leases.

As of December 31, 2009, the Group had a leverage factor of 3.2 (December 31, 2008: 3.2). Net financial debt was reduced by €652 million in the fiscal year and totaled €2,793 million as of December 31, 2009 (December 31, 2008: €3,445 million). The main reason for this decline was the strict cash orientation in business transactions, which resulted in a high cash flow from operations. Economic debt totaled €6,024 million, down €603 million from the previous year. Due to the declining trend in operating results, the significant reduction in economic debt did not lead to a corresponding improvement in the leverage factor compared with fiscal year 2008. Bertelsmann's liquidity

## Financial Targets

| | Target | 2009 | 2008 |
|---|---|---|---|
| **Leverage factor:** Economic debt/Operating EBITDA[1] | < 3.0 | 3.2 | 3.2 |
| **Coverage ratio:** Operating EBITDA/Financial result[1] | > 4.0 | 4.4 | 4.7 |
| **Equity ratio:** Equity to total assets (in percent) | > 25.0 | 30.9 | 31.0 |

[1] After modifications

position as of December 31, 2009, increased significantly to €2,085 million from €1,583 million as of December 31, 2008.

Another key financial target is a coverage ratio of above 4. The coverage ratio in the past fiscal year was 4.4 (previous year: 4.7). It is calculated as the ratio of operating EBITDA to the net interest expenses. The Group's equity ratio remained nearly unchanged at 30.9 percent (previous year: 31.0 percent).

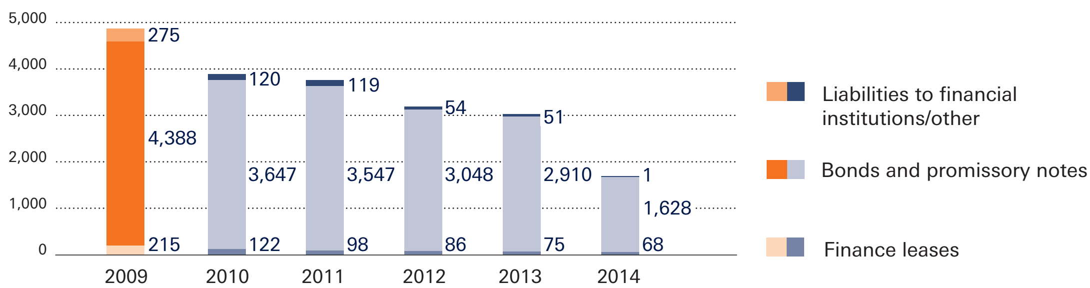
### Financing Activities

In January 2009, Bertelsmann AG issued a €500 million public bond with a five-year maturity. This bond was increased by €250 million in April 2009. In the spring of 2009, Bertelsmann AG also issued €30 million in five-year promissory notes. These financing activities were made in view of the emerging difficult situation in the capital markets and to further secure liquidity and pre-financing of pending maturities. In fiscal year 2009, Bertelsmann repaid two mature bonds with a total volume of €850 million.

### Rating

Credit ratings facilitate access to global capital markets and are one element of Bertelsmann's financing security. Bertelsmann has been rated by the rating agencies Standard & Poor's (S&P) and Moody's since June 2002. As a result of the economic crisis, which led to a re-evaluation of the outlook for the entire media sector, Bertelsmann's ratings were downgraded in 2009 for the first time by one notch. Bertelsmann has been rated "BBB" (outlook: stable) by S&P since June 2009 and "Baa2" (outlook: stable) by Moody's since September 2009. Both credit ratings remain in the category of investment grade. Bertelsmann's short-term credit quality rating remains unchanged at "A-2" from S&P and "P-2" from Moody's.

**Maturity Structure of Financial Debt** in € millions




## Lines of Credit

Bertelsmann has access to both variable and fixed-rate financing through various lines of credit. A syndicated line of credit has been in place since October 2004, which was last extended in 2005 and expires in 2012. Bertelsmann AG and its foreign financing company Bertelsmann U.S. Finance LLC can utilize these to draw down up to €1.2 billion of revolving funds in euros, U.S. dollars and pounds sterling. There are also bilateral credit agreements with major international banks. These lines of credit ensure Bertelsmann a total financial reserve of approximately €1.5 billion that can be used for general business purposes. As of December 31, 2009, Bertelsmann had not utilized the existing lines of credit as in the previous year.

## Cash Flow Statement

EBIT is the starting parameter for the Bertelsmann cash flow statement. In the period under review, Bertelsmann generated net cash from operating activities of €1,777 million (previous year: €1,789 million). The Group's sustainable operating free cash flow adjusted for non-recurring items was €1,771 (previous year: €1,624), resulting in a cash conversion rate of 125 percent compared with 105 percent for the previous year (see the section entitled "Controlling Systems" above for a definition). The higher cash conversion rate results from a strict cash orientation in business activities in 2009 and is helped along by the reduction in operational investments. Cash flow from investments was €-545 million (previous year: €-416 million). One reason for this change is the cautious investment policy in all businesses. Another reason is that the previous year figure included proceeds from the sale of the 50 percent share in Sony BMG.

**Cash Flow Statement** (Summary)

| in € millions | 2009 | 2008 |
|---|---|---|
| Cash flow from operating activities | 1,777 | 1,789 |
| Cash flow from investing activities | (545) | (416) |
| Cash flow from financing activities | (741) | (917) |
| Change in cash and cash equivalents | 491 | 456 |
| Currency effects and other changes in cash and cash equivalents | 11 | (4) |
| Cash and cash equivalents at the beginning of the year | 1,583 | 1,131 |
| Cash and cash equivalents at the end of the year | 2,085 | 1,583 |

## Bonds, Promissory Notes, U.S. Private Placements

| Nominal interest, issuer, due date | | Type | Effective interest rate in % | Issue volume in millions |
|---|---|---|---|---|
| 4.69 % Bertelsmann U.S. Finance LLC | 03/10 | U.S. private placement | 4.83 | USD 100 |
| 4.625 % Bertelsmann U.S. Finance LLC | 03/10 | Bond | 4.70 | EUR 750 |
| 5.65 % Bertelsmann AG | 08/11 | Promissory note | 5.79 | EUR 100 |
| 4.375 % Bertelsmann AG | 06/12 | Bond | 4.47 | EUR 500 |
| 5.23 % Bertelsmann U.S. Finance LLC | 03/13 | U.S. private placement | 5.38 | USD 200 |
| 7.875 % Bertelsmann AG | 09/14 | Bond | 7.72 | EUR 750 |
| 5.05 % Bertelsmann AG | 08/14 | Promissory note | 5.17 | EUR 500 |
| 6.00 % Bertelsmann AG | 09/14 | Promissory note | 6.00 | EUR 30 |
| 5.33 % Bertelsmann U.S. Finance LLC | 03/15 | U.S. private placement | 5.46 | USD 200 |
| 3.625 % Bertelsmann AG | 05/15 | Bond | 3.74 | EUR 500 |
| 4.75 % Bertelsmann AG | 06/16 | Bond | 4.89 | EUR 1,000 |

Additional payments resulting from the disposal were €-18 million (previous year: €608 million). These proceeds were offset by purchase price payments for the acquisition of consolidated investments (net of acquired cash and cash equivalents) totaling €-157 million (previous year: €-310 million). The cash flow from financing activities came to an outflow of €-741 million in the period under review (previous year: €-917 million). Dividends totaling €-270 million were paid to Bertelsmann AG shareholders and minority shareholders of consolidated subsidiaries (previous year: €-288 million). As of December 31, 2009, the Bertelsmann Group had cash and cash equivalents of €2,085 million (previous year: €1,583 million).

### Off-Balance Sheet Liabilities

The volume of off-balance sheet liabilities increased slightly compared to the previous year. These include contingent liabilities and other financial commitments, almost all of which result from operating activities conducted by the divisions.

### Investments

| in € millions | 2009 | 2008 |
|---|---|---|
| RTL Group | 287 | 415 |
| Random House | 22 | 30 |
| Gruner + Jahr | 38 | 138 |
| Arvato | 198 | 314 |
| Direct Group | 47 | 63 |
| Corporate/Other | 70 | 108 |
| Continuing operations | 662 | 1,068 |
| Discontinued operations | 0 | 27 |
| Total | 662 | 1,095 |

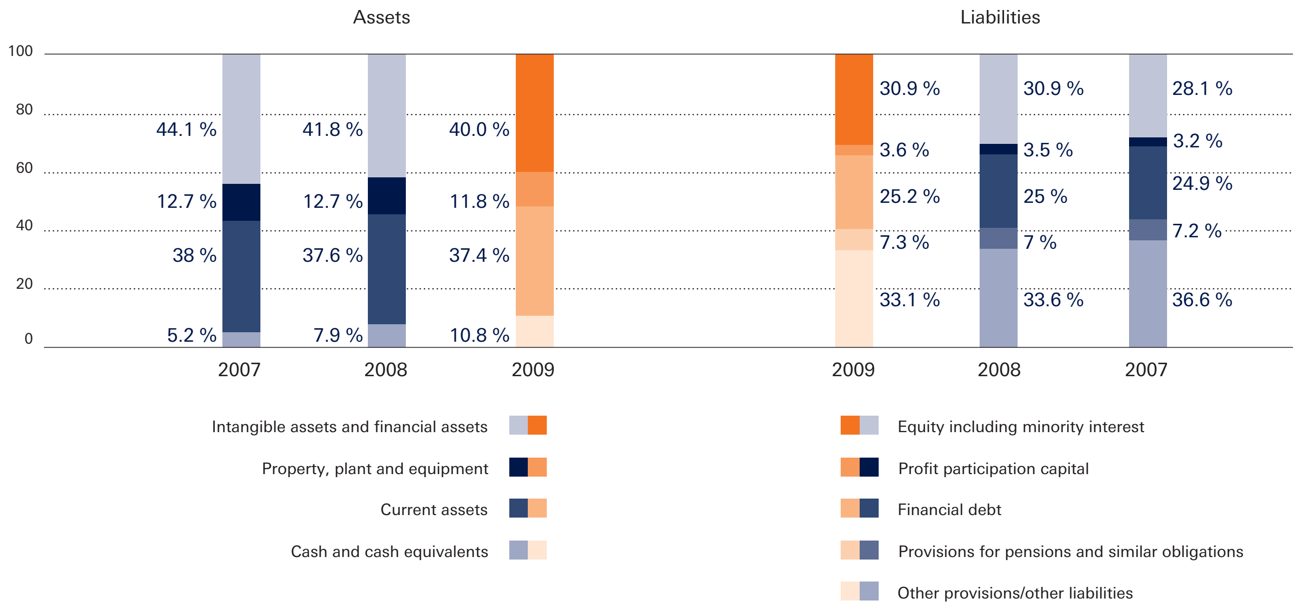
### Investments

According to the cash flow statement, total investments of €662 million during fiscal 2009 were down from last year (previous year: €1,095 million). This trend is attributable primarily to the low number of acquisitions in fiscal year 2009. As in previous years, the majority of the €249 million investment in property, plant and equipment (previous year: €389 million) stemmed from Arvato. An amount of €199 million was invested in intangible assets (previous year: €238 million). This resulted primarily from RTL Group and involved investments in film rights. An amount of €57 million was invested in financial assets (previous year: €158 million). Purchase price payments for consolidated investments (less cash and cash equivalents) decreased significantly from €310 million in the previous year to €157 million in the period under review and were distributed across virtually all divisions.

### Consolidated Balance Sheet

Total assets came to €19.4 billion as of December 31, 2009 (December 31, 2008: €20.1 billion). The effects of the economic crisis and the measures undertaken in response resulted only in slight changes to the balance sheet structure. Equity fell from €6.2 billion to €6.0 billion due to the decline in operating EBIT and special items, in particular goodwill impairments. This constitutes an equity ratio of 30.9 percent (previous year: 31.0 percent). Equity attributable to Bertelsmann AG shareholders was €4.9 billion (previous year: €5.1 billion). Provisions for pensions decreased slightly from €1,409 million to €1,406 million.

## Balance Sheet




## Profit Participation Capital

As of December 31, 2009, the nominal amount of the Group's profit participation capital was unchanged year-on-year at €516 million. Including the premium, profit participation capital on the balance sheet totaled €706 million, as in the previous year. The 2001 profit participation certificates (ISIN DE0005229942) account for 97 percent of notional profit participation capital, while the 1992 profit participation certificates (ISIN DE0005229900) account for the remaining 3 percent.

The 2001 profit participation certificates are officially listed for trading on the Regulated Market of the Frankfurt and Düsseldorf stock exchanges. Their price is listed as a percentage of nominal value. The trading price of the profit participation certificates has been affected by general events on the capital markets in 2009, which exhibited great volatility and increasing risk premiums. In February 2009, the 2001 profit participation certificates closed at 115.30 percent, the lowest price since their introduction in 2001. In fiscal year 2009, the highest closing price in Frankfurt was 169.40 percent.

Under the terms and conditions of the 2001 profit participation certificates, the payout for each full fiscal year is 15 percent of notional value, subject to the availability of consolidated net income and net income at the level of Bertelsmann AG. These conditions were met in the past fiscal year. Accordingly, a payout of 15 percent of the notional value of the 2001 profit participation certificates will be made for fiscal year 2009.

For the 2001 profit participation certificates, Bertelsmann had adopted a resolution in August 2009 clarifying that the consolidated net income used to assess the basis for a payout is to be adjusted for goodwill impairments that reduce net income. This specific regulation is in accordance with how the 1992 profit participation certificates are handled.

The 1992 profit participation certificates, approved for trading on the Regulated Market in Frankfurt, have only a limited liquidity due to their low volume. Payouts on the 1992 profit participation certificates are based on the Group's return on total assets, which is not used as an internal performance indicator. As the return on total assets for fiscal year 2009 was 2.97 percent (previous year: 4.12 percent), the payout on the 1992 profit participation certificates for fiscal year 2009 will be 3.97 percent of their notional value (previous year: 5.12 percent).

The payout distribution date for both profit participation certificates is expected to be May 18, 2010. Under the terms and conditions of the profit participation certificates, the auditors appointed by Bertelsmann AG are responsible for verifying whether amounts to be distributed have been calculated correctly. The auditor of both profit participation certificates provides confirmation of this.

Corporate Divisions

# RTL Group

RTL Group, the leading European entertainment network, continued to be highly profitable in 2009, although revenues and profits were below the previous year's level due to double-digit declines in the TV advertising markets in Europe. Revenues for the most recent fiscal year were €5.4 billion and therefore 6.3 percent down from the previous year (€5.8 billion), operating EBIT was €793 million, compared to €927 million in the previous year (-14.5 percent). The return on sales was 14.7 percent (previous year: 16.1 percent). At the end of the year the RTL Group had a total of 12,520 employees (December 31, 2008: 12,360).

For the RTL Group, 2009 was characterized by cost-cutting in order to compensate for revenue losses sustained in the advertising market. In particular, the company reduced its program costs but also made cuts in other areas and thereby lowered its cost basis considerably.

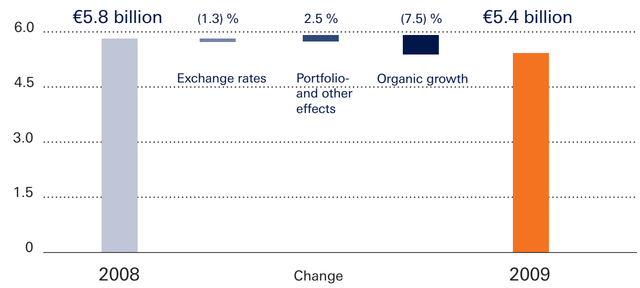
Despite the cost-cutting measures, the various channels within the RTL Group were able to increase their audience market shares in almost all core markets. For example, Mediengruppe RTL Deutschland consolidated its market leadership. In the Netherlands and Belgium, the families of programs also gained audience market shares. In France, slight declines at the main channel M6 were more than compensated by increases in audience figures for the digital niche channel W9. In the U.K., the Five family of channels recorded a small rise in their audience market share in an increasingly fragmented competitive environment.

In terms of revenues and operating EBIT, the channels within Mediengruppe RTL Deutschland remained below the previous year due to the crisis in the advertising industry and price pressure. In the year under review, Groupe M6 generated slightly higher revenues and income year on year; in this case, a lower contribution to operating EBIT from the main channel was more than offset by improved performance by the digital channels and the diversification business. At Five, revenues and operating EBIT fell short of the previous year's figure due to the sharply declining advertising market and negative exchange-rate effects. In 2009 there were impairments on Five and the Alpha Media Group in Greece, which has now been fully consolidated for a full fiscal year. The Greek group of channels restructured its program range and thereby significantly increased its audience market share.

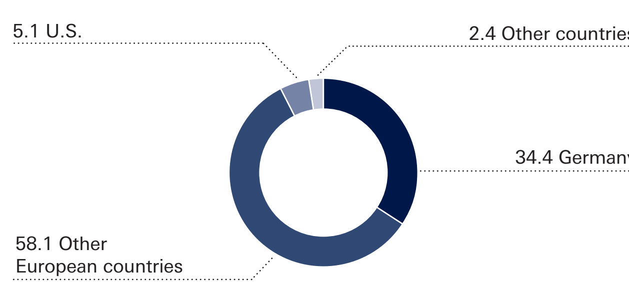
At the Fremantle Media production arm, the declining advertising market resulted in a slight fall in demand from TV channels for formats. Revenues remained largely stable, however, and operating EBIT once again reached last year's record level. In 2009 it was above all the casting shows produced by Fremantle Media that achieved extremely high audience shares in core markets such as the U.S., U.K., Germany and France. The company acquired the U.S. production firm Original Productions in the year under review.

Despite the ongoing program of cost-cutting measures, the RTL Group continued in 2009 to invest in the expansion of its digital business segments such as niche channels, online video services or high definition programs, and in diversification businesses and program production. In 2009 the Group's wide range of online platforms in Europe generated over one billion video calls; further catch-up TV services were launched, including "Vox Now" in Germany, "W9 Replay" in France, or "RTL Most" in Hungary. In Hungary, the RTL Group expanded its capital share of the leading market channel RTL Klub to 67 percent.

**Revenue Breakdown**




**Revenues by Region** in percent*




* Without intercompany revenues

# Random House

In a difficult economic environment, Random House, the world's leading trade-book publishing group, generated stable revenues in 2009 and maintained its operating EBIT. Revenues amounted to €1.7 billion (previous year: €1.7 billion, +0.1 percent), while the operating profit reached €137 million (previous year: €137 million). The return on sales remained at 8.0 percent. At the end of the year, Random House, with its more than 120 individual publishing imprints, had a total of 5,432 employees (December 31, 2008: 5,779)

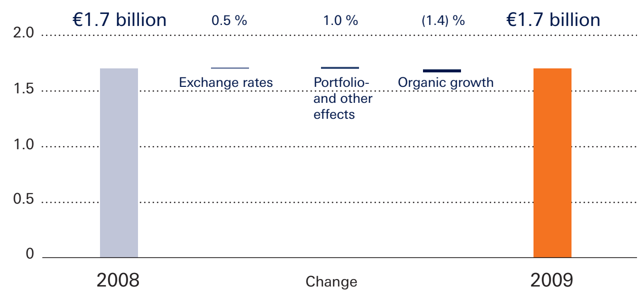
In 2009, Random House confronted the widening effects of the global recession by enhancing its author and retailer partnerships and taking advantage of emerging digital publishing opportunities. Thanks to commercially strong publishing programs, cost reductions in all core divisions, and exchange-rate effects, the company maintained its income even year on year. In most markets, Random House was able to increase its market share of physical and electronic books. The restructuring of the U.S. publishing units, which was initiated in 2008, was successfully implemented in the year under review. In February 2009, Random House's U.S. division acquired the nonfiction publisher Ten Speed Press and integrated it into the Crown Publishing Group.

The year's biggest success was Dan Brown's "The Lost Symbol," published in mid-September which in its hardcover, audio, and e-book editions sold five million copies for Random House North America alone and almost three million copies for the U.K. Group. Stieg Larsson's Millennium series proved to be very successful and sold more than seven million copies in Germany and the U.S. in hardcover and paperback. Random House Mondadori benefited from the half-million copy hardcover sales of the new Ildefonso Falcones novel in Spain and Latin America.

In the U.S., Random House publishing houses placed 238 titles on the "New York Times" bestseller lists, including 28 at #1. Random House Group U.K. reinforced its outstanding presence on the "Sunday Times" bestseller lists, with 34 titles at #1. In German-speaking countries, Verlagsgruppe Random House provided booksellers with several million-copy titles and a dominant share of "Der Spiegel" nonfiction bestsellers.

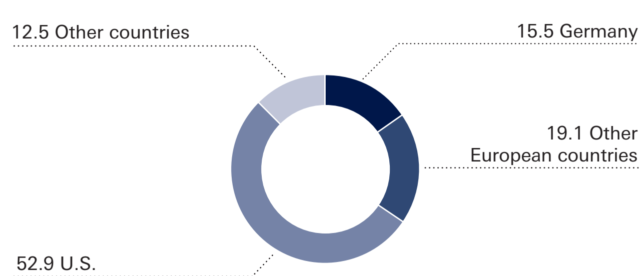
Year on year, Random House publishing companies registered triple-digit percentage increases in e-book sales in the U.S., U.K., Germany and Canada. While e-book downloads currently represent under two percent of the company's total revenues, it is the company's fastest-growing business segment, and gaining market share through its digital publishing is a primary goal of Random House's corporate strategy.

## Revenue Breakdown




Random House authors won a number of prestigious awards in 2009, including three Pulitzer Prizes: Elizabeth Stroud won the award for "Olive Kitteridge" (Fiction), Jon Meacham for "American Lion: Andrew Jackson in the White House" (Biography) and Douglas A. Blackmon for "Slavery By Another Name" (Nonfiction). Other major honors bestowed upon Random House books included two National Book Awards in the U.S., the coveted Canadian Scotiabank Giller Prize, and the "Best Read" at the British Book Awards.

## Revenues by Region in percent*




* Without intercompany revenues

# Gruner + Jahr

The leading European magazine publisher Gruner + Jahr recorded a year-on-year decline in revenues and operating EBIT in 2009 as a result of a major slump in advertising and extensive structural changes, but was largely able to cushion the impact of the declining markets. Revenues came in at €2.5 billion, some 9.4 percent lower than the previous year (€2.8 billion), while operating EBIT was down 9.8 percent to €203 million (previous year: €225 million). Return on sales amounted to 8.1 percent (previous year: 8.1 percent). Gruner + Jahr had 13,571 employees at year's end (December 31, 2008: 14,941).

On January 6, 2009, Bernd Buchholz took over as CEO of Gruner + Jahr. His main focus was to implement swift and targeted cost control measures as well as restructuring measures designed to take effect in the medium term and to expand new growth segments.

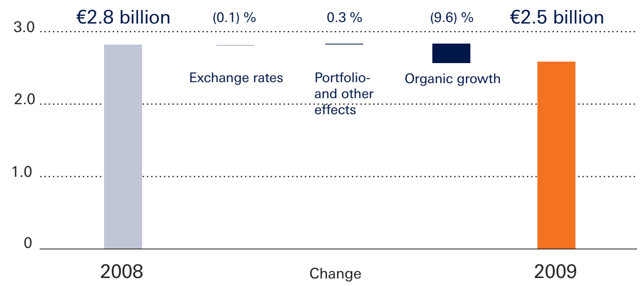
In 2009 the performance of the brand business at Gruner + Jahr was largely characterized by the weakened global economy. The advertising markets in the core countries of Germany, France and Austria declined by 15 to 20 percent while the Spanish market recorded even greater losses. The countermeasures that were introduced took effect and were largely able to offset this development.

The circulation revenues had a stabilizing effect during the economic crisis. While the sales environment for businesses in Germany, France and Austria was relatively intact, Spain was also adversely affected in this respect.

In the period under review the new business segments performed well with the expansion of the client business in advertising and circulation, digital marketing and gaining new corporate publishing customers.

The German publishing business was driven by strong brands such as "Stern", "Brigitte", "Gala", "Auto Motor Sport" and "Geo", even though their advertising revenues also fell. The ad marketing in the period under review was optimized by a restructuring at G+J Media Sales and the business media editorial offices ("Financial Times Deutschland", "Börse Online", "Capital" and "Impulse") were merged. The editorial offices for the Living titles were also restructured. Gruner + Jahr launched several magazines, such as "Nido", "Geomini", "Gala for Men", "Business Punk" and "Beef!". The titles "Emotion" and "Healthy Living" were sold or brought into a joint venture respectively.

## Revenue Breakdown

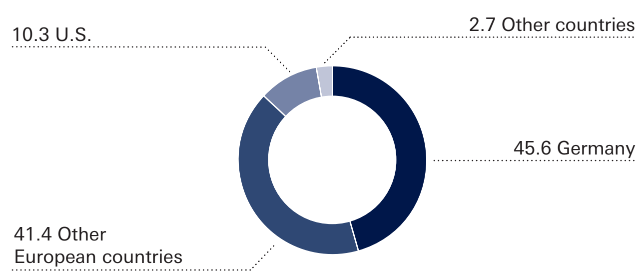



The performance of the Gruner + Jahr International businesses was highly varied: In China, the continued positive development of the publishing subsidiary Boda was reinforced by a successful expansion of the portfolio of titles. In France, Prisma Presse steered a successful path through the crisis in the advertising and circulation market and gained market share; meanwhile, there was a management change at the French subsidiary during the period under review. In Spain, comprehensive restructuring measures were implemented, while Gruner + Jahr pulled out of the Russian market due to a lack of future prospects.

The revenues and operating EBIT of key Gruner + Jahr holdings were significantly reduced as a result of the economic crisis. The declining order volumes made it necessary to implement a significant impairment on property, plant and equipment at Prinovis. Meanwhile, the U.S. print shop Brown Printing proved to be comparatively crisis-proof and the Dresdner Druck- und Verlagshaus even managed to improve its operating EBIT year-on-year.

In Germany and in other countries, G+J journalists again won many prizes for their work in 2009.

## Revenues by Region in percent*

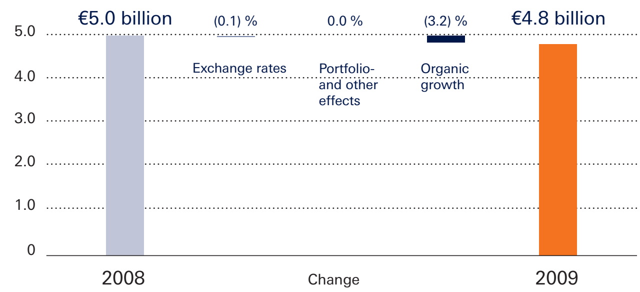



* Without intercompany revenues

# Arvato

In 2009 the media and communications service provider Arvato fell slightly short of the high revenue levels achieved in the previous year primarily due to lower order volumes and customer insolvencies; operating EBIT was also down year on year. Revenues of €4.8 billion were 3.3 percent lower than the previous year (€5.0 billion) and operating EBIT was €345 million, compared to €369 million in the previous year (-6.5 percent). The return on sales was 7.1 percent (previous year: 7.4 percent). Arvato had 60,323 employees at year-end (December 31, 2008: 62,591).

**Revenue Breakdown**




In the year under review, Arvato was largely able to offset the loss of revenues caused by the impact of the economic crisis thanks to new orders and extended services. Process and cost optimizations implemented at an early stage also had a positive effect on operating EBIT.

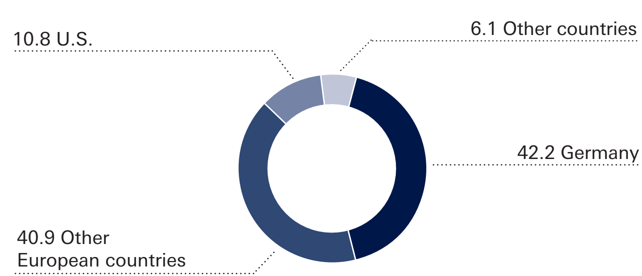
Arvato Services performed differently in individual markets and segments: while the service center activities in France were expanded further, the customer care businesses in other core markets reported lower volumes on existing contracts. Arvato Services comprehensively expanded its logistics network in 2009, for example with dynamically growing supply chain management activities in China and India, the takeover of a telecommunications logistics provider in Germany and the establishment of a European distribution center in Gütersloh for customers from the games industry. Despite falling advertising budgets, the customer retention businesses achieved further growth in revenues and operating EBIT, and international financial services also performed well.

Arvato Print gained additional market shares in 2009. Whereas the Arvato print units in Germany and the U.S. performed relatively well in a difficult market situation, the businesses in Southern Europe were under pressure. Arvato Print continued to drive forward development to become an integrated service provider for all aspects of print production. For example, the Print Group added the print management business segment to its service portfolio, and with Reader Digest Inc., gained its first major international customer in this growth segment. There were impairments on the Prinovis gravure printing group, which Arvato operates in conjunction with Gruner + Jahr and Axel Springer AG, and also on the print business in Italy. The Prinovis businesses in the U.K. performed well, whereas the performance in Germany was marked by the difficult market situation and restructuring measures.

The production and service businesses dealing with digital storage media remained stable in 2009. Despite globally declining CD and DVD production volumes, Arvato Digital Services was able to increase its own market share by consistently expanding its integrated range of solutions. In addition, the international production capacities for the high resolution Blu-ray format were further expanded. In Germany, Arvato Digital Services expanded its service portfolio by taking over Universal Music Group's central media archive. The electronic software distribution business segment was strengthened through the takeover of the Canadian technology provider Protexis and the establishment of further Microsoft webshops in Europe and Australia.

The Inmediaone direct marketing organization increased its revenues and operating EBIT in 2009, and through its subsidiary Wissenmedia, acquired the rights to the Brockhaus brand, including all content and inventory. The IT service provider Arvato Systems also reported a positive balance sheet, having maintained last year's good operating EBIT.

**Revenues by Region** in percent*




* Without intercompany revenues

# Direct Group

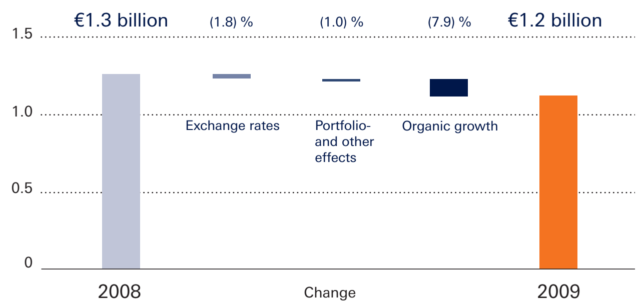
The club and bookselling businesses operated by Direct Group recorded lower revenues in fiscal year 2009 against the backdrop of the recession and continued falling membership levels; operating EBIT almost reached the previous year's level. At €1.2 billion, revenues were 10.7 percent below the previous year (€1.3 billion), operating EBIT was €28 million, which is 3.4 percent below the previous year's figure of €29 million. The return on sales was 2.2 percent (previous year: 2.1 percent). At the end of the year Direct Group had 10,087 employees (December 31, 2008: 10,339).

Direct Group responded to the difficult economic situation and the declining member revenues in its core markets by implementing a comprehensive cost-cutting program. As a result of this, new member recruitment and marketing for existing customers were consistently tailored to improve efficiency and profitability. At the same time, restructuring measures were implemented in several countries, in particular in order to streamline the structures further and to mesh the club, Internet and retail activities more efficiently. New club models and an extension of direct marketing activities outside the media business are intended to counteract the fact that club members are now more reluctant to enter into purchase commitments.

In Germany, Der Club Bertelsmann could only partially offset further losses in member numbers and revenues through revenues derived from ancillary businesses. Direct Group Germany developed a new bookselling concept called "Zeilenreich", which for the first time is open to all customers, not just members. The three pilot branches proved popular. The number of traditional club stores was reduced in the period under review. At the same time, for reasons of economic efficiency, Der Club Bertelsmann was interlinked more closely in operating terms with the Austrian club business (Donauland).

In France the France Loisirs club business proved comparatively crisis-resistant thanks to cost-cutting measures. The bookselling activities under the Chapitre.com brand, which are also part of Direct Group, performed well in the subdued consumer climate. Shareholdings in the online business Chapitre.com were increased from 50 to 100 percent in the year under review, and the online business was merged under this brand name with the bookselling chain, which was already part of the company. A centralization of logistics implemented in 2009 and the introduction of innovative customer and bonus card concepts in clubs and bookselling is expected to lead to further improvements.

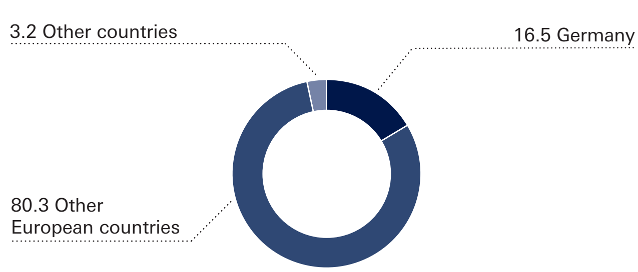
**Revenue Breakdown**




On the Iberian Peninsula, which was particularly badly affected by the economic crisis, the Direct Group companies responded by implementing restructuring measures. Direct Group's bookselling revenues increased in Spain and Portugal.

The Eastern European Direct Group businesses reported stable operating performance in 2009, although the key figures are subject to significant exchange rate fluctuations.

**Revenues by Region** in percent*




* Without intercompany revenues

# Corporate

The Corporate division, which includes the Bertelsmann Group Corporate Center and Corporate Investments, reported operating EBIT of €-84 million for 2009 (previous year: €-111 million). The number of employees in the Corporate division was 1,050 at year-end (December 31, 2008: 1,144).

Numerous cost-cutting measures as well as a bonus and/or salary waiver from board members, managers and pay scale employees in the year under review made it possible to reduce costs significantly at the Corporate Center. The measures were part of a cost control and efficiency program, the purpose of which was to examine and optimize the management, staff and administrative functions at all levels within the Group. This project resulted in restructuring costs for the Corporate division; these costs are disclosed separately and are not included in operating EBIT.

The cost savings realized in 2009 more than compensated for further start-up losses for the establishment of the "Scoyo.de" online learning platform and the BMG Rights Management music rights business. "Scoyo.de" will be integrated into the online portfolio of the Super RTL children's channel; this process was started in December 2009. At the same time, the assets of the learning platform were written down in the period under review. As of October 1, 2009 BMG Rights Management was brought into a joint venture between Bertelsmann AG and the financial investor Kohlberg Kravis Roberts & Co. (KKR), in order to accelerate the establishment of the business and, in particular, the internationalization of the company. BMG Rights Management expanded in six European countries and set up offices in the U.S. The company acquired several music catalogs in 2009, including Crosstown in the U.S. In Europe and the U.S., new contracts were signed with a number of well-known artists.

The Bertelsmann Digital Media Investments (BDMI) and Bertelsmann Asia Investments (BAI) funds, which are part of Corporate Investments, had a total of 23 holdings. During the course of the fiscal year, BAI acquired three new holdings; further investments made were predominantly follow-up investments.

## Bertelsmann AG

### Situation at Bertelsmann AG

Bertelsmann AG functions as an operational management holding company, managing the Bertelsmann Group and assuming investment management and financing responsibilities. Additional services are performed by various Corporate Center functions (see page 69).

Dividend payouts by subsidiaries and proceeds from services provided to subsidiaries constitute the main sources of income. At the close of fiscal year 2009, Bertelsmann AG's shareholder equity totaled €7.5 billion (previous year: €7.4 billion). Total assets for Bertelsmann AG came to €14.3 billion (previous year: €14.2 billion). Net income of Bertelsmann AG was €245 million (previous year: €1,059 million). The change is attributable primarily to a lower net investment income. Adjusted for last year's profits carried forward of €1,069 million, retained earnings were €1,314 million (previous year: €1,265 million).

### Shareholder Structure

The Bertelsmann Stiftung holds indirectly 77.4 percent of Bertelsmann AG shares, with the other 22.6 percent held also indirectly by the Mohn family. Bertelsmann Verwaltungsgesellschaft (BVG) controls all voting rights at the Bertelsmann AG Annual General Meeting.

### Employees

At the end of the fiscal year, the Group had 102,983 employees worldwide (previous year: 107,154). The decline by 4,171 employees can be attributed to portfolio changes and the implementation of measures from the cost-cutting and efficiency program.

One key priority in fiscal year 2009 was supporting a Group-wide efficiency analysis of the management, staff and administrative structures. The collaborative relationship between the company management and employee representatives made it possible to reach a quick consensus on necessary changes and to scale back the workforce in a way that was as socially acceptable as possible.

At the end of the fiscal year, the company had 1,359 trainees in Germany (previous year: 1,412). In the summer of 2009, Bertelsmann guaranteed jobs to all 226 trainees completing their training.

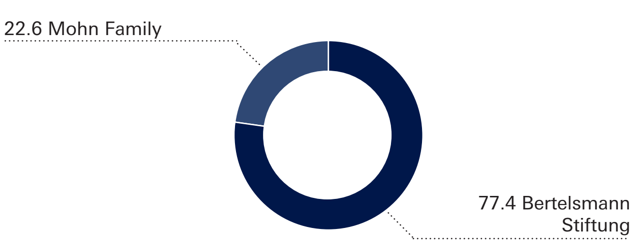
The first-ever global competition for ideas was announced in 2009 to celebrate the 50th anniversary of the corporate suggestion scheme, giving all employees the opportunity to play an active role in improving their professional environment.

Bertelsmann AG has been a leader in the area of employee profit sharing since 1970. For the first time, Group profit sharing was calculated and distributed according to the same criteria as performance-based management compensation. On this basis, the 16,500-plus employees of German Bertelsmann companies received profit-sharing payouts in 2009 totaling €15.1 million from the previous year's earnings. RTL Group, Gruner + Jahr and many Bertelsmann companies outside Germany operate their own profit-sharing or profit-participation models.

### Corporate Responsibility

Corporate responsibility is firmly established in the Bertelsmann corporate culture as one of the four Bertelsmann Essentials. Since 1974, the company has regularly published a Social Report, providing an account of its commitment and activities without relation to the performance targets. The content of the Bertelsmann Corporate Responsibility Portal (www.bertelsmann.com/responsibility) was revamped in December 2009 to meet the company's increased information and transparency needs. Here the company reports on the areas in which it exercises corporate responsibility: the collaborative relationship with employees, corporate governance and compliance, responsibility for media content and products, sustainable use of natural resources and the company's commitment at various locations. Facts and figures document the commitment of Bertelsmann, its divisions and its companies. The portal also presents selected products relating to the subject of sustainability.

**Ownership Structure – Shares** in percent



Bertelsmann sees environmental and climate protection as a key aspect of its corporate responsibility. Climate change presents one of the greatest challenges of the twenty-first century. It is with this in mind that the Bertelsmann Executive Board introduced a climate protection strategy in 2008. One element of this strategy is a Group-wide climate balance sheet, which was compiled for the first time in 2009 and included some 1.5 million tons of greenhouse gas emissions ($CO_2$ equivalents). An auditing firm reviewed the quality with which the climate balance sheet was compiled: the procedure for collecting Group-level data and the methodology used in calculating the carbon footprint. The audit found that the procedure meets the customary, relevant standards and methods currently in practice. The climate balance sheet is the key starting point for efforts to reduce carbon dioxide and other greenhouse gases. Other elements of the climate protection strategy include notifying and involving employees and external stakeholders to a greater extent and identifying so-called “green business models.” An international body made up of environmental experts from all divisions is responsible for implementing the strategy and other environmental and climate protection concepts and programs.

## Other Information

### Annual General Meetings

On May 5, 2009, the Bertelsmann AG Ordinary General Meeting approved the appointment of Christa Gomez, deputy chair of the Corporate Works Council, to the Supervisory Board. Ms. Gomez succeeds the deceased Supervisory Board member Oswald Lexer. Details concerning changes in the makeup of the Supervisory Board are provided in the report by the Supervisory Board on page 154.

### Significant Events after the Balance Sheet Date

On February 2, 2010, Bertelsmann asked the holders of the 2001 profit participation certificates to submit offers to sell at a rate of 180 percent. When the offer expired on February 22, 2010, the company had received offers to sell for 2001 profit participation certificates with a nominal value of €214.3 million, 43 percent of the outstanding volume. Bertelsmann accepted all offers to sell on February 23, 2010. The previous maximum nominal buyback figure of €150 million was raised to €214.3 million in accordance with the conditions of the offer. The total purchase price therefore came to €385.7 million. The purpose of this initiative is to simplify the capital structure, since the profit participation certificate has lost its original function as an equity instrument. Irrespective of the outcome of the public offer, Bertelsmann indicates its intention to buy back other outstanding profit participation certificates on the market at a later time.

Also in early February 2010, French RTL Group subsidiary M6 exercised a put option, selling its 5.1 percent investment in the French pay TV channel Canal Plus to Vivendi SA for €384 million.

In February 2010, Bertelsmann AG’s Italian subsidiary Società Holding Industriale di Grafica S.p.A. agreed, in a preliminary contract with the Italian publishing company Arnoldo Mondadori S.p.A., to sell its 50 percent interest in Mondolibri S.p.A. Mondadori already holds 50 percent of Mondolibri, the Italian book club operated together with Bertelsmann.

# Risk Report

## Risk Management System

The purpose of the Bertelsmann risk management system (RMS) is the early identification, evaluation and control of internal and external risks. The internal control system (ICS), an integral component of the RMS, controls and monitors the risks that have been identified. The aim of the RMS is to identify, at an early stage, material risks to the Group so that countermeasures and controls can be implemented. Risks are potential internal and external developments that can negatively affect the achievement of strategic, operational, reporting-related and compliance-related objectives of the Group.

The risk management process complies with recognized national and international norms and is organized in sub-processes of identification, quantification, management, control and monitoring. A major element of risk identification is the risk inventory that lists significant risks year by year, from the profit center level upward, and then aggregates them step by step at the division and Group level. This ensures that risks are registered where their impact would be felt. There is also a Group-wide semiannual re-assessment of critical risks and quarterly reporting with negative feedback. Ad hoc reporting requirements ensure that significant changes in the risk situation during the course of year are brought to the attention of the Executive Board. Identified and quantified risks are compared against management and control measures to determine the so-called net risk. A three-year risk assessment horizon is applied to enable the timely implementation of risk management measures. Risk monitoring is conducted by Group management on an ongoing basis. The RMS – along with its component ICS – is constantly undergoing further development and is integrated into ongoing reporting to the Executive Board and Supervisory Board. Corporate risk management committees and divisional risk meetings are convened at regular intervals to ensure compliance with statutory and internal requirements.

Under section 91 (2) of Germany's Stock Corporation Act (AktG), the auditor inspects the risk early warning system for its capacity to identify developments early on that could threaten the existence of Bertelsmann AG, then report its findings to the Supervisory Board. Bertelsmann AG Corporate Audit conducts ongoing reviews of the adequacy and functional capability of the RMS in the divisions of Random House, Arvato and Direct Group. The risk management systems of Gruner + Jahr is evaluated by divisional internal auditors and outside auditors. Any problems that are uncovered are promptly remedied through appropriate measures. The Bertelsmann AG Executive Board defined the scope and focus of the risk management system based on the specific circumstances of the company. However, even an appropriately designed and functional RMS cannot guarantee with absolute certainty that risks will be identified and controlled.

## Accounting-Related Risk Management System and Internal Control System

The following is a first-time description of the accounting-related RMS and ICS in response to new management reporting requirements under the German Accounting Law Modernization Act (BilMoG).

The objectives of the accounting-related RMS and ICS are to ensure that external and internal accounting is proper and reliable in accordance with applicable laws and that information is made available without delay. Reporting should also present a true and fair view of Bertelsmann's net assets, financial position and results of operation. The following statements pertain to both the consolidated financial statements and the interim reporting.

The ICS for the accounting process consists of the following areas: The Group's internal rules for accounting and the preparation of financial statements are made available without delay to all employees involved in the accounting process. The consolidated financial statements are prepared in a reporting system that is uniform throughout the Group. Automatic system controls ensure the consistency of the data in the financial statements. Systematized processes for coordinating intercompany business operations serve to prepare the corresponding consolidation steps. Circumstances that could lead to significant misinformation in the consolidated financial statements are monitored centrally by employees of Bertelsmann AG and by RTL Group then verified by external experts as required. Central contact persons from Bertelsmann AG and the divisions are also in continuous contact with the local subsidiaries to ensure IFRS-compliant representation of matters that are material to the Group and compliance with reporting deadlines and obligations. These preventive measures are rounded off by controls in the form of analyses by Bertelsmann AG's Corporate Consolidation department and RTL Group whose purpose is to quickly uncover Group-level misrepresentations in the financial statements. The further aim in introducing a globally binding control framework for the decentralized accounting processes by the end of 2010 is to achieve a standardized ICS format at the level of the local accounting departments of all fully consolidated Group companies. A standardized questionnaire was used throughout the Group to obtain a snapshot of the quality of the ICS in the key Group companies as part of a self-assessment conducted at the time of the 2009 annual financial statements. The findings were discussed in Audit and Finance Committee meetings at the divisional level.

Corporate Audit evaluates the accounting-related processes in the course of its auditing activities. As part of their work, auditors are also required to report to the Audit and Finance Committee of the Supervisory Board any significant vulnerabilities of the internal control and risk management system relating to the accounting process that they identify in the course of their audit.

### Significant Risks

The following significant risks for Bertelsmann were identified in the course of risk reporting:

### Financial Market Risks

Bertelsmann is exposed to various forms of financial risk. These include interest rate and currency risks in particular. These risks are largely controlled centrally by Corporate Treasury on the basis of guidelines established by the Executive Board. Derivative financial instruments are used solely for hedging purposes. Bertelsmann uses currency derivatives mainly to hedge recorded and future transactions involving foreign currency risk. Some firm commitments denominated in foreign currency are partially hedged when they are made, with the hedged amount increasing over time. A number of subsidiaries are based outside the euro zone. The resulting translation risk is managed based on economic debt in relation to operating EBITDA (leverage factor). Bertelsmann's long-term focus is on the maximum leverage factor permitted for the Group. Foreign currency translation risks arising from net investments in foreign entities are not hedged. Interest rate derivatives are used centrally for the balanced management of interest rate risk. The maturity structure of interest-bearing debt is managed on two levels: by selecting appropriate fixed interest rate periods for the originated financial assets and liabilities affecting liquidity, and through the use of interest rate derivatives. The liquidity risk is regularly managed and monitored on the basis of the planning calculation. Lines of credit at banks as well as appropriate liquidity provisions form a sufficient risk buffer for unplanned payments. Counterparty risks exist in the Group in invested cash and cash equivalents and in the default of a counterparty in derivatives transactions. Financial transactions and financial instruments are restricted to a firmly defined group of banks with an excellent credit rating. Against the background of the economic crisis, Bertelsmann has extended its internal guidelines on investment of cash and cash equivalents. Some of the investments are made on a very short-term basis so that the investment volume can be reduced if the credit rating changes (see also further explanatory remarks on "Risk Management" in section 26 of the "Notes").

### Strategic and Operational Risks

The risk position of Bertelsmann and its divisions was affected significantly by the global economic crisis in fiscal year 2009. No sustained easing of the economic tension is anticipated for 2010. Steps have been taken in response to the economic crisis through the implementation of significant restructuring measures in specific businesses, a cautious investment policy and the establishment of liquidity reserves. The principal risks to the divisions stem from the precarious economic situation worldwide.

RTL Group is exposed to a risk of the economic downturn precipitated by the economic crisis causing advertising revenues to fall more sharply than expected. As a result, TV broadcasters may also curb expenditure on programming generated by the TV production subsidiary Fremantle Media. By diversifying its revenue base, RTL Group strives to reduce its reliance on the advertising markets. RTL Group relies heavily on new technologies. Customer accounts and creditworthiness are continuously reviewed.

At Random House, the continuing economic uncertainty can lead to declining consumer spending. This in turn yields an ongoing risk of losing customers due to insolvencies. The creditworthiness of customers is continuously monitored.

For Gruner + Jahr, the deteriorating economic environment brought about by the economic crisis and the ensuing further decline in advertising revenues continue to pose significant risks for 2010. Capacities are being adjusted to the shifting demand, and work is underway to find alternative sources of revenue. Gruner + Jahr has identified an ongoing risk that income in the distribution market (German Interstate Broadcasting Treaty, amendment of the German Federal Data Protection Act, etc.) and in the advertisement market (e.g., possible advertising restrictions in the automotive and food sectors and for products with energy consumption labeling requirements) may be threatened at both national and European level.

The trend at Arvato in the past year was dominated by the economic crisis and the ensuing drop in volumes. In response, Arvato undertook numerous measures to adjust its cost structures and make them more flexible. The greatest risk to Arvato remains the uncertainty surrounding future economic development, although it does not expect the price situation to intensify in 2010. However, if this expectation is not borne out, the pressure on profitability will increase further while the consolidation tendencies already apparent in the relevant markets will intensify.

Direct Group is still subject to risk associated with an economically driven decline in purchasing power and negative changes in consumer spending behavior. Furthermore, all clubs are subject to the primary risks of the club business: insufficient customer acquisition, revenue per customer and customer retention. Heightened competition also poses structural challenges for clubs as new distribution channels arise.

### Compliance Risks

Bertelsmann, with its worldwide operations, is always exposed to a variety of legal risks ranging from litigation to varying interpretations of tax assessment criteria. Such matters do not pose any substantial risks to Bertelsmann from a current perspective.

### Significant Changes Compared with the Previous Year

Compared with the 2008 risk report, the slowing of the downward economic trend is resulting in some easing of economic risks.

### Overall Risk

Thanks to the broad diversification of Group businesses, there are now no concentration risks stemming from dependency on individual suppliers or customers. The Group's financial position is solid, with adequate liquidity through the year 2011 in the form of cash and unutilized lines of credit.

No risks endangering Bertelsmann's continued existence were identified in fiscal year 2009. Equally, from today's perspective, no substantial risks are apparent that could threaten the continued existence of the Group.

## Opportunities

Bertelsmann continually examines the technological opportunities and challenges in the media and service markets. Ongoing R&D efforts at all levels help to identify, analyze and advance potential areas of growth. Assuming a slight general improvement in overall economic conditions, Bertelsmann will see new opportunities for growth and profitability arise through the cost-cutting measures, efficiency increases and innovation initiatives already launched.

A number of emerging opportunities for Bertelsmann divisions are outlined below: For RTL Group, the TV advertising markets in some core markets could develop better than assumed. There are also opportunities in distribution and licensing. At Random House, successful debut publications present opportunities. Gruner + Jahr has moderate opportunities in specific markets through the potential for increasing advertising revenues and copy prices. At Arvato, the successful development of new businesses, particularly in the service sector and through the ongoing trend toward outsourcing, is creating additional opportunities. Direct Group has opportunities through increased cooperation with other businesses.

Bertelsmann's potential opportunities will undoubtedly be impacted by the continued uncertain economic developments. Given the diversification of the portfolio of businesses and its entrepreneurial potential, Bertelsmann still sees itself in a position to convert business opportunities into profits for the Group successfully over the medium to long term.

## Outlook

The global economy shrank significantly over the course of 2009. The University of Kiel´s Institute for the World Economy estimates the decline at 1.0 percent. Following the severe slump in the final quarter of 2008 and the first quarter of 2009, the global economy is now in a moderate recovery phase. For 2010, the European Central Bank (ECB) expects the global economy to return to growth. Although the short-term outlook for the world economy seems favorable, the ECB still feels that the strength of the upsurge is uncertain. The emerging countries and the positive effects of the economic stimulus programs worldwide are expected to offer some stabilization. The ECB considers the risks to the global economic outlook to be largely balanced. The ECB also sees positive growth prospects for the world economy in global trade and foreign demand within the euro zone. A slight rise in gross domestic product of about 0.8 percent is expected in the euro zone in 2010.

Despite improved expectations, the ECB feels that the dynamics of the economic recovery will only be modest. This assessment is based on the ongoing problems in the financial sector, the expected rise in unemployment, new increases in the price of oil and other commodities and a growing protectionism. The Institute for the World Economy expects GDP to grow by 2.0 percent in the U.S. and by about 1.2 percent in Germany. The Institute expects rising domestic demand and higher private consumer spending in Germany in 2010.

Traditional media markets in the geographic core markets of Bertelsmann are not expected to grow at all or only very slightly in 2010, while online advertising revenues might grow slightly. In the trend years, the advertising markets overall are expected to stabilize and may even experience moderate growth. In the coming years, the global media industry will continue to be characterized primarily by the progressive digitization of content and distribution channels and by a shift in media usage.

Bertelsmann's planning for fiscal year 2010 is characterized by lingering uncertainties in the market. At this time, economic conditions are expected to begin stabilizing in 2010, leading to a slight revenue and earnings recovery compared to fiscal year 2009. If the economic expectations for an uncertain and irregular picture in the first months of this year persist, Bertelsmann assumes that Group revenues and operating EBIT will post comparatively moderate overall growth in fiscal years 2010 and 2011 and, based on a return on sales of 9.3 percent in fiscal year 2009, a gradual movement toward the profitability level of 10 percent. Irrespective of the anticipated market environment, the objective of an average Group-level return on sales of 10 percent throughout the economic cycle remains. Acquisitions are not anticipated to contribute significantly to revenues, as no major investments or acquisitions are planned for 2010 given the continued uncertain situation. The Executive Board's top priority remains actively safeguarding and strengthening the company following the rapid cooling-off of the economy in 2009. Existing businesses are undergoing continuous review to identify further optimization potential, and cost structures are likewise being optimized and brought into alignment with business expectations.

Target financial parameters remain unchanged – in particular the maximum leverage factor of 3.0. Bertelsmann expects to move closer to this internal target in fiscal year 2010. Depending on how the economy develops, Bertelsmann does not currently anticipate interest rate changes to have any material impact on the average financing costs of the company's medium- to long-term financing.

It is anticipated that individual divisions will be impacted to varying degrees by the expected economic developments. The following business estimates for 2010 and 2011 are in relation to fiscal year 2009 figures. This means above all that they are adjusted for portfolio and exchange rate effects:

RTL Group expects TV advertising markets in the core countries to decline further or remain stable in 2010. RTL Group assumes a stable revenue and earnings trend. Random House expects book markets to be largely stable and revenues and earnings to rise slightly in fiscal years 2010 and 2011. Gruner + Jahr expects a slowing downward trend in the magazine advertising market in fiscal year 2010. A continued stabilization of the revenue and earnings trend can be expected in 2010 and 2011. The focus in the print business will remain on a cautious investment policy and further cost savings. Arvato expects a slight recovery in its businesses in fiscal years 2010 and 2011, although no such trend is discernible at present. Arvato is anticipating a moderate increase in revenues. The expected rise in earnings can be attributed in part to the cost-cutting measures introduced in fiscal year 2009, the full effect of which will be felt in 2010. Direct Group expects the business environment to remain difficult and revenues to further decline in 2010 and 2011. The expected improvements in earnings can be attributed to an improved costs structure and the continued restructuring of businesses, especially among the clubs.

These forecasts are based on Bertelsmann's current business strategy as outlined in the "Business and Economic Conditions" section. In general, the forecasts reflect a careful consideration of risks and opportunities and are based on operational planning and the medium-term outlook for the corporate divisions. The severity of the economic impact resulting from the economic crisis on Bertelsmann businesses cannot be reliably assessed at this time. All statements regarding potential economic developments represent opinions advanced on the basis of information currently available. Should underlying suppositions fail to apply and/or further risks arise, actual results may differ from those expected. Accordingly, no assurances can be provided concerning the accuracy of such statements.

# Group Financial Statements

## Group Income Statement

| in € millions | Notes | 2009 | 2008 |
|---|---|---|---|
| Revenues | 1 | 15,364 | 16,249 |
| Other operating income | 2 | 490 | 609 |
| Change in inventories | | (83) | (74) |
| Own costs capitalized | | 241 | 262 |
| Cost of materials | | (4,965) | (5,469) |
| Royalty and license fees | | (781) | (750) |
| Personnel costs | 3 | (4,406) | (4,480) |
| Amortization of intangible assets and depreciation of property, plant and equipment | 4 | (579) | (563) |
| Other operating expenses | 5 | (3,894) | (4,267) |
| Results from investments accounted for using the equity method | 6 | 27 | 47 |
| Income from other participations | 6 | 10 | 11 |
| Special items | 7 | (730) | (676) |
| EBIT (earnings before interest and taxes) | | 694 | 899 |
| | | | |
| Interest income | | 62 | 95 |
| Interest expenses | | (318) | (325) |
| Other financial income | 8 | 104 | 112 |
| Other financial expenses | 8 | (272) | (311) |
| Financial result | | (424) | (429) |
| | | | |
| Earnings before taxes from continuing operations | | 270 | 470 |
| Income taxes | 9 | (235) | (54) |
| Earnings after taxes from continuing operations | | 35 | 416 |
| | | | |
| Earnings after taxes from discontinued operations | | – | (146) |
| | | | |
| Group profit or loss | | 35 | 270 |
| | | | |
| attributable to: | | | |
| Bertelsmann shareholders | | (82) | 142 |
| Minority interest | | 117 | 128 |

The previous year's figures have been adjusted according to IFRS 5.36 for the amounts resulting from businesses, which were classified as discontinued operations before. The adjustment amounts are detailed on page 89 of the notes in the section "Discontinued operations"

## Group Statement of Comprehensive Income

| in € millions | 2009 | 2008 |
|---|---|---|
| Group profit or loss | 35 | 270 |
| | | |
| Currency translation differences | | |
| – Changes recognized directly in equity | (25) | 4 |
| – Reclassification adjustments for gains (losses) included in profit or loss | – | 105 |
| Available-for-sale financial assets | | |
| – Changes in fair value recognized in equity | 20 | (13) |
| – Reclassification adjustments for gains (losses) included in profit or loss | – | – |
| Cash flow hedges | | |
| – Changes in fair value recognized in equity | (1) | 34 |
| – Reclassification adjustments for gains (losses) included in profit or loss | (5) | 28 |
| Actuarial gains/losses on defined benefit plans | 45 | (10) |
| Share of other comprehensive income of at-equity consolidated investments | (5) | (12) |
| Other comprehensive income (after taxes) | 29 | 136 |
| | | |
| Group comprehensive income | 64 | 406 |
| | | |
| attributable to: | | |
| Bertelsmann shareholders | (56) | 275 |
| Minority interest | 120 | 131 |

Details are set out in note 19.

## Reconciliation to Operating EBIT (Continuing Operations)

| in € millions | Notes | 2009 | 2008 |
|---|---|---|---|
| EBIT from continuing operations | | 694 | 899 |
| Special items | 7 | | |
| Impairments of goodwill, other intangible assets with indefinite useful life, other financial assets and assets held for sale | | 319 | 502 |
| Capital gains/losses | | (13) | 1 |
| Other special items | | 424 | 173 |
| Operating EBIT from continuing operations | | 1,424 | 1,575 |
| Operating EBITDA from continuing operations | 29 | 2,003 | 2,138 |

The previous year's figures have been adjusted according to IFRS 5.36 for the amounts resulting from businesses, which were classified as discontinued operations before.

## Group Balance Sheet

| in € millions | Notes | 12/31/2009 | 12/31/2008 adjusted |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 10 11 | 6,124 | 6,377 |
| Other intangible assets | 10 12 | 770 | 805 |
| Property, plant and equipment | 10 13 | 2,282 | 2,559 |
| Investments accounted for using the equity method | 10 14 | 492 | 496 |
| Other financial assets | 15 | 366 | 742 |
| Trade accounts receivable | 17 | 8 | 7 |
| Other accounts receivable and other assets | 17 | 311 | 366 |
| Deferred tax assets | 9 | 1,053 | 1,115 |
| | | 11,406 | 12,467 |
| **Current assets** | | | |
| Inventories | 16 | 1,777 | 1,827 |
| Trade accounts receivable | 17 | 2,481 | 2,685 |
| Other accounts receivable and other assets | 17 | 1,125 | 1,300 |
| Other financial assets | 15 | 391 | 16 |
| Current income tax receivable | | 55 | 136 |
| Cash and cash equivalents | 18 | 2,085 | 1,583 |
| | | 7,914 | 7,547 |
| Assets held for sale | | 58 | 128 |
| | | 19,378 | 20,142 |
| | | | |
| **Equity and Liabilities** | | | |
| **Equity** | 19 | | |
| Subscribed capital | | 1,000 | 1,000 |
| Capital reserve | | 2,345 | 2,345 |
| Retained earnings | | 1,534 | 1,763 |
| Shareholders' equity | | 4,879 | 5,108 |
| Minority interest | | 1,101 | 1,130 |
| | | 5,980 | 6,238 |
| **Non-current liabilities** | | | |
| Provisions for pensions and similar obligations | 20 | 1,406 | 1,409 |
| Other provisions | 21 | 140 | 139 |
| Deferred tax liabilities | 9 | 103 | 159 |
| Profit participation capital | 22 | 706 | 706 |
| Financial debt | 23 | 3,889 | 4,017 |
| Trade accounts payable | 24 | 83 | 71 |
| Other liabilities | 24 | 590 | 754 |
| | | 6,917 | 7,255 |
| **Current liabilities** | | | |
| Other provisions | 21 | 412 | 412 |
| Financial debt | 23 | 989 | 1,011 |
| Trade accounts payable | 24 | 2,588 | 2,794 |
| Other liabilities | 24 | 2,257 | 2,054 |
| Current income tax payable | | 205 | 290 |
| | | 6,451 | 6,561 |
| Liabilities included in assets held for sale | | 30 | 88 |
| | | 19,378 | 20,142 |

The figures of the previous year were adjusted due to completion of the Alpha Media Group business combination.

## Group Cash Flow Statement

| in € millions | 2009 | 2008 |
|---|---|---|
| **EBIT (earnings before interest and taxes)** | 694 | 777 |
| Taxes paid | (230) | (231) |
| Depreciation and write-ups of non-current assets | 1,103 | 1,138 |
| Capital gains/losses | (13) | 1 |
| Change in provisions for pensions and similar obligations | (65) | (46) |
| Change in other provisions | 41 | 22 |
| Other effects | (3) | 36 |
| Change in net working capital | 250 | 92 |
| Cash flow from operating activities | 1,777 | 1,789 |
| – thereof from discontinued operations | – | 83 |
| Investments in: | | |
| – intangible assets | (199) | (238) |
| – property, plant and equipment | (249) | (389) |
| – financial assets | (57) | (158) |
| – purchase prices for consolidated investments (net of acquired cash) | (157) | (310) |
| Proceeds from disposal of investments | (18) | 608 |
| Proceeds from disposal of non-current assets | 125 | 110 |
| Contribution to/withdrawals from pension plans | 10 | (39) |
| Cash flow from investing activities | (545) | (416) |
| – thereof from discontinued operations | (22) | 581 |
| Proceeds from bonds and promissory notes | 806 | 599 |
| Redemption of bonds and promissory notes | (875) | (96) |
| Change in other financial debt | (67) | (791) |
| Interest paid | (339) | (365) |
| Interest received | 62 | 87 |
| Change in shareholders' equity | (2) | (14) |
| Dividends to Bertelsmann shareholders and minorities | (270) | (288) |
| Additional payments to minorities in partnerships (IAS 32.18b) | (56) | (49) |
| Cash flow from financing activities | (741) | (917) |
| – thereof from discontinued operations | - | (34) |
| Change in cash and cash equivalents | 491 | 456 |
| Currency effects and other changes in cash and cash equivalents | 11 | (4) |
| Cash and cash equivalents at 1/1 | 1,583 | 1,131 |
| Cash and cash equivalents at 12/31 | 2,085 | 1,583 |

The previous year's figures of discontinued operations have been adjusted for the amounts resulting from businesses that were reclassified as continuing operations according to IFRS 5.36. Details of the Cash Flow Statement are set out in note 27.

## Change in Net Financial Debt

| in € millions | 2009 | 2008 |
|---|---|---|
| Net financial debt at 1/1 | (3,445) | (4,282) |
| Cash flow from operating activities | 1,777 | 1,789 |
| Cash flow from investing activities | (545) | (416) |
| Interest, dividends and changes in equity, additional payments (IAS 32.18b) | (605) | (629) |
| Currency effects and other changes in net financial debt | 25 | 93 |
| Net financial debt at 12/31 | (2,793) | (3,445) |

Net financial debt is the net of cash and cash equivalents and financial debt.

## Group Statement of Changes in Equity

| in € millions | Subscribed capital | Capital reserve | Other retained earnings | Other comprehensive income[1] Currency translation differences | Available-for-sale financial assets | Cash flow hedges | Actuarial gains/losses on defined benefit plans | Share of other comprehensive income of at-equity consolidated investments | Shareholders' equity | Minority interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance as of 1/1/2008 | 1,000 | 2,345 | 2,447 | (532) | 37 | (43) | (291) | 7 | 4,970 | 1,154 | 6,124 |
| Adjustment | – | – | – | – | – | – | – | – | – | 17 | 17 |
| Balance as of 1/1/2008 (adjusted)[2] | 1,000 | 2,345 | 2,447 | (532) | 37 | (43) | (291) | 7 | 4,970 | 1,171 | 6,141 |
| Group comprehensive income | – | – | 142 | 116 | (13) | 51 | (11) | (10) | 275 | 131 | 406 |
| Dividends | – | – | (120) | – | – | – | – | – | (120) | (172) | (292) |
| Business combinations and other changes | – | – | (50) | – | – | – | 33 | – | (17) | (7) | (24) |
| Balance as of 12/31/2008 | 1,000 | 2,345 | 2,419 | (416) | 24 | 8 | (269) | (3) | 5,108 | 1,123 | 6,231 |
| Balance as of 1/1/2009 | 1,000 | 2,345 | 2,419 | (416) | 24 | 8 | (269) | (3) | 5,108 | 1,123 | 6,231 |
| Adjustment | – | – | – | – | – | – | – | – | – | 7 | 7 |
| Balance as of 1/1/2009 (adjusted)[2] | 1,000 | 2,345 | 2,419 | (416) | 24 | 8 | (269) | (3) | 5,108 | 1,130 | 6,238 |
| Group comprehensive income | – | – | (82) | (29) | 19 | (7) | 47 | (4) | (56) | 120 | 64 |
| Dividends | – | – | (120) | – | – | – | – | – | (120) | (138) | (258) |
| Business combinations and other changes | – | – | (68) | – | – | – | 15 | – | (53) | (11) | (64) |
| Balance as of 12/31/2009 | 1,000 | 2,345 | 2,149 | (445) | 43 | 1 | (207) | (7) | 4,879 | 1,101 | 5,980 |

[1] Of that, a total of €-2 million as of December 31, 2009 (previous year: €-14 million) is attributable to assets classified as held for sale.
[2] The adjustment to the balance as of January 1, 2009 is due to the completion of the Alpha Media Group business combination. The balance as of January 1, 2008 was thus adjusted as a result of the completion of the Radio 538 business combination.

# Notes to the Group Financial Statements

## Segment Information (Continuing Operations)

| | RTL Group | | Random House | | Gruner + Jahr | | Arvato | |
|---|---|---|---|---|---|---|---|---|
| in € millions | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Revenues from external customers | 5,401 | 5,762 | 1,721 | 1,717 | 2,477 | 2,740 | 4,503 | 4,629 |
| Intersegment revenues | 9 | 12 | 2 | 4 | 31 | 29 | 323 | 364 |
| Divisional revenues | 5,410 | 5,774 | 1,723 | 1,721 | 2,508 | 2,769 | 4,826 | 4,993 |
| Operating EBIT | 793 | 927 | 137 | 137 | 203 | 225 | 345 | 369 |
| Special items | (290) | (418) | (1) | (50) | (170) | (55) | (194) | (65) |
| EBIT | 503 | 509 | 136 | 87 | 33 | 170 | 151 | 304 |
| Return on sales in percent[1] | 14.7% | 16.1% | 8.0% | 8.0% | 8.1% | 8.1% | 7.1% | 7.4% |
| Scheduled depreciation and amortization | 199 | 167 | 28 | 29 | 72 | 81 | 223 | 228 |
| Impairment losses | 240 | 385 | 12 | (1) | 94 | 12 | 157 | 43 |
| – thereof in special items | 233 | 379 | 12 | (1) | 91 | 11 | 151 | 36 |
| Results from investments accounted for using the equity method | 26 | 46 | – | – | 6 | 6 | (1) | – |
| Segment assets[2] | 6,851 | 6,925 | 1,729 | 1,935 | 1,663 | 1,861 | 3,002 | 3,394 |
| Segment liabilities | 2,300 | 2,196 | 653 | 690 | 619 | 657 | 1,357 | 1,508 |
| Invested capital | 4,551 | 4,729 | 1,076 | 1,245 | 1,044 | 1,204 | 1,645 | 1,886 |
| Investments accounted for using the equity method | 416 | 442 | 4 | 3 | 13 | 12 | 5 | 6 |
| Additions to non-current assets[3] | 305 | 420 | 19 | 19 | 26 | 143 | 182 | 312 |
| Employees (closing date) | 12,520 | 12,360 | 5,432 | 5,779 | 13,571 | 14,941 | 60,323 | 62,591 |
| Employees (average) | 12,245 | 11,687 | 5,546 | 5,810 | 14,225 | 14,779 | 60,412 | 57,093 |

The previous year's figures have been adjusted according to IFRS 5.36 for the amounts resulting from businesses, which were classified as discontinued operations before.
1) Operating EBIT as a percentage of divisional revenues.
2) Including 66 percent of the net present value of operating leases.
3) Additions to property, plant and equipment as well as to intangible assets (including goodwill).

## Information by Geographical Areas (Continuing Operations)

| | Germany | | Other European countries | | U.S. | | Other countries | | Continuing operations | |
|---|---|---|---|---|---|---|---|---|---|---|
| in € millions | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Revenues from external customers | 5,377 | 5,854 | 7,332 | 7,792 | 1,924 | 1,875 | 731 | 728 | 15,364 | 16,249 |
| Non-current assets | 4,786 | 4,940 | 3,302 | 3,683 | 914 | 933 | 174 | 184 | 9,176 | 9,740 |

Details of Segment Information are set out in note 28.

| Direct Group | | Total divisions | | Corporate | | Consolidation/Other | | Continuing operations | |
|---|---|---|---|---|---|---|---|---|---|
| 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| 1,241 | 1,382 | 15,343 | 16,230 | 21 | 19 | – | – | 15,364 | 16,249 |
| 5 | 14 | 370 | 423 | 1 | 1 | (371) | (424) | – | – |
| 1,246 | 1,396 | 15,713 | 16,653 | 22 | 20 | (371) | (424) | 15,364 | 16,249 |
| | | | | | | | | | |
| 28 | 29 | 1,506 | 1,687 | (84) | (111) | 2 | (1) | 1,424 | 1,575 |
| (24) | (83) | (679) | (671) | (44) | 1 | (7) | (6) | (730) | (676) |
| 4 | (54) | 827 | 1,016 | (128) | (110) | (5) | (7) | 694 | 899 |
| | | | | | | | | | |
| 2.2% | 2.1% | 9.6% | 10.1% | – | – | – | – | 9.3% | 9.7% |
| | | | | | | | | | |
| 28 | 27 | 550 | 532 | 19 | 18 | – | – | 569 | 550 |
| 5 | 72 | 508 | 511 | 29 | 8 | 4 | 1 | 541 | 520 |
| 5 | 72 | 492 | 497 | 29 | 7 | 4 | 1 | 525 | 505 |
| | | | | | | | | | |
| (1) | 1 | 30 | 53 | (4) | (6) | 1 | – | 27 | 47 |
| | | | | | | | | | |
| 696 | 751 | 13,941 | 14,866 | 2,486 | 2,493 | (84) | (71) | 16,343 | 17,288 |
| 324 | 346 | 5,253 | 5,397 | 97 | 84 | (29) | (2) | 5,321 | 5,479 |
| 372 | 405 | 8,688 | 9,469 | 2,389 | 2,409 | (55) | (69) | 11,022 | 11,809 |
| | | | | | | | | | |
| 3 | 16 | 441 | 479 | 53 | 17 | (2) | – | 492 | 496 |
| | | | | | | | | | |
| 49 | 61 | 581 | 955 | 19 | 36 | – | – | 600 | 991 |
| | | | | | | | | | |
| 10,087 | 10,339 | 101,933 | 106,010 | 1,050 | 1,144 | – | – | 102,983 | 107,154 |
| 10,032 | 10,564 | 102,460 | 99,933 | 1,109 | 1,142 | – | – | 103,569 | 101,075 |

## Information to Revenue Sources (Continuing Operations)

| | Own products and merchandise | | Advertising | | Services | | Rights and licenses | | Continuing operations | |
|---|---|---|---|---|---|---|---|---|---|---|
| in € millions | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Revenues from external customers | 7,085 | 7,527 | 4,144 | 4,646 | 2,802 | 2,693 | 1,333 | 1,383 | 15,364 | 16,249 |

## General Principles

The Bertelsmann AG consolidated financial statements as of December 31, 2009, were prepared in accordance with International Financial Reporting Standards (IFRS) applicable in the European Union. The supplementary requirements set out in section 315a of the German Commercial Code (HGB) are met.

The consolidated financial statements are prepared in euros; all amounts are stated in millions of euros (€ millions). For the sake of clarity, certain items in the income statement and balance sheet are combined. These items are disclosed in greater detail and explained in the notes.

Bertelsmann AG is a stock corporation domiciled in Gütersloh, Germany. The address of the company's registered headquarters is: Carl-Bertelsmann-Strasse 270, 33311 Gütersloh. The main activities of Bertelsmann AG and its subsidiaries are presented in detail in the Management Report.

## Effects of Applying New Accounting Standards

The following pronouncements by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) were applicable in the Bertelsmann Group for the first time in fiscal year 2009:

- Improvements to IFRS
- Amendments to IAS 1: Presentation of Financial Statements: A Revised Presentation
- Amendments to IAS 23: Borrowing Costs
- Amendments to IAS 32 and IAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendments to IAS 39: Reclassification of Financial Assets: Effective Date and Transition
- Amendments to IFRS 1 and IAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendments to IFRS 2: Share-Based Payment: Vesting Conditions and Cancellations
- Amendments to IFRS 7: Improving Disclosures about Financial Instruments
- IFRS 8: Operating Segments
- IFRIC 13: Customer Loyalty Programs
- IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Application of the revised IAS 1 means that the consolidated financial statements include the consolidated income statement as well as a separate statement of recognized income and expense, which includes the earnings for the period as well as all changes taken directly to equity that are not based on transactions with shareholders.

As a result of the first-time application of IFRIC 13 as of January 1, 2009, customer loyalty programs for which loyalty award credits are issued are carried as multi-component transactions. The impact of first-time application was not material.

Application of the amendments to IFRS 7 resulted in more extensive information on fair value of financial instruments and liquidity risk.

First-time application of IFRS 8 did not result in any changes with regard to segment delimitation, as the segments had already been delimited in the past using the management approach. However, first-time application led to the inclusion of operating leases in segment assets and increased information in the notes.

The effects of the first-time application of the amendments to IAS 23, IAS 32 and IAS 1, IAS 39, IFRS 1 and IAS 27, IFRS 2, IFRIC 14 and the improvements to IFRS are not material for the Group.

### Effects from the Future Compulsory Application of Accounting Standards

The IASB and the IFRIC have issued the following new or amended accounting standards and interpretations, the application of which is not yet compulsory for Bertelsmann's consolidated financial statements for fiscal year 2009.

- Improvements to IFRS
- Revised version of IAS 24: Related Party Disclosures
- Amendments to IAS 27: Consolidated and Separate Financial Statements
- Amendments to IAS 32: Classification of Rights Issues
- Amendments to IAS 39: Financial Instruments: Recognition and Measurement: Eligible Hedge Items
- Amendments to IFRIC 9 and IAS 39: Embedded Derivatives
- Amendments to IFRS 2: Group Cash-Settled Share-Based Payment Transactions
- Revised version of IFRS 1: First-Time Adoption of IFRS
- Amendments to IFRS 1: Additional Exemptions for First-Time Adopters
- Revised version of IFRS 3: Business Combinations
- IFRS 9: Financial Instruments
- IFRIC 12: Service Concession Arrangements
- Amendments to IFRIC 14: Prepayments of a Minimum Funding Requirement
- IFRIC 15: Agreements for the Construction of Real Estate
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation
- IFRIC 17: Distributions of Non-Cash Assets to Owners
- IFRIC 18: Transfers of Assets from Customers
- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

There is no early adoption of these standards and interpretations. Recognition of the following accounting standards and interpretations by the EU is still outstanding: Improvements to IFRS, amendments to IFRS1, IFRS 2 and IFRIC 14 as well as IFRS 9, IFRIC 19 and the revised IAS 24.

The application of IFRS 3 (revised 2008) and amendments to IAS 27 to the Bertelsmann consolidated financial statements will be compulsory starting in 2010. These rules have a major effect on the presentation of business combinations in the consolidated financial statements. The key new features of the revised IFRS 3 relate to the valuation of minority interests, the recognition of successive acquisitions and the treatment of conditional purchase price components and incidental acquisition costs. In the future, minority interests can be measured at their fair value (full goodwill method) or at the fair value of the proportionate identifiable net assets. In the case of successive company acquisitions, the revaluation and recognition in income of the interests held on the date control was transferred applies. In the future, adjustments to conditional purchase price components have to be recognized in income. Incidental acquisition costs are recognized as expenses on the date these arise. The key changes in IAS 27 (2008) relate to accounting for reductions and increases in the interest without a loss of control. According to the new provisions, changes in equity interests that do not impact full consolidation may only be taken directly to equity in the future (in line with acquisitions of treasury stock). The inclusion of hidden reserves and the adjustment to the goodwill already accounted for no longer applies. If control is lost, the remaining interests must be measured at fair value. In the case of minority interests, negative balances may be carried. This means that losses can be included in the future to an unlimited extent in line with the proportionate equity interest.

IFRS 9 is to be applied by 2013 and will replace IAS 39. This will have a far-reaching impact on the carrying amounts for and valuation of financial instruments.

The further amendments to IAS 24, IAS 32, IAS 39, IFRS 1, IFRS 2 and IFRIC 14 to be applied in the future, the improvements to IFRS and the interpretations IFRIC 12, IFRIC 15, IFRIC 16, IFRIC 17, IFRIC 18 and IFRIC 19 to be applied in the future relate in part to the Group's transactions, though these are not expected to have a material impact.

## Consolidation

### Principles of Consolidation

All subsidiaries that are controlled either directly or indirectly by Bertelsmann AG as defined by IAS 27 and conduct business operations are included in the consolidated financial statements. Control exists when Bertelsmann AG has the possibility or the actual ability (de facto control), either directly or indirectly, to determine the financial and business policy of an entity in such a way as to obtain benefits from its activities. The consolidation principles applied in the present consolidated financial statements remain unchanged in comparison with the previous year.

Material jointly controlled companies within the meaning of IAS 31 are proportionately consolidated. Material associates as defined by IAS 28 are consolidated using the equity method. This is generally the case for voting rights between 20 and 50 percent. Voting rights of less than 20 percent are accounted for using the equity method in accordance with IAS 28.7(a). See note 32 for a listing of major subsidiaries and shareholdings. Accounting and valuation policies are applied uniformly for all consolidated financial statements within the Bertelsmann Group. The Bertelsmann Group recognizes immaterial participations at cost.

In accordance with IFRS 3, business combinations are accounted for using the purchase method. As part of this method, the acquisition cost of the investment on the date of acquisition is offset against the equity share measured at fair value at the acquisition date. If the acquisition cost exceeds the fair values of the acquirer's interest in the assets, liabilities and contingent liabilities acquired, this difference is recognized in the balance sheet as goodwill. Deferred taxes are recognized on temporary differences arising as a result of recognizing the proportion of assets and liabilities acquired at fair value at the time of acquisition to the extent that such fair value adjustments are not also recognized for tax purposes. Differences arising as a result of recognizing the assets and liabilities acquired at fair value are carried forward, written down or released in the periods following the acquisition, depending on the nature of the assets and liabilities to which they relate. Negative goodwill is reflected as income in the period in which the acquisition is made. Minority interests also include the fair values of the respective minorities' share in the assets and liabilities. If the acquisition costs of the business combination or the fair values to be allocated to the identifiable assets and liabilities or contingent liabilities of the company acquired on the date of initial accounting can only be provisionally identified, the business combination is carried using these provisional values. Initial accounting is completed in line with IFRS 3.62. Comparative information for reporting periods prior to the completion of initial accounting are presented as if these had already been completed on the date of acquisition. Investments in proportionately consolidated companies are measured using the same principles.

Investments in associated companies recognized using the equity method are included at the proportionate equity share of the investment measured at fair value at the acquisition date. The same method used for fully consolidated subsidiaries is used when accounting for differences between the cost of a business combination at the time of acquisition and the share of net assets acquired. Losses at associates which exceed their carrying amounts are not recognized unless there is an obligation to make additional contributions.

All intercompany profits, losses, revenues, expenses, income, receivables, liabilities and provisions falling within the scope of consolidation are eliminated. Deferred taxes are recognized on temporary differences arising on consolidation in accordance with IAS 12. Proportionate consolidation is performed on a pro-rata basis using the same principles. The Group's share of unrealized gains or losses on intercompany transactions between Group companies and associated companies is eliminated.

## Scope of Consolidation

Including Bertelsmann AG, the Group consists of a total of 1,013 companies (previous year: 1,086). Of these, 857 (previous year: 915) are fully consolidated.

43 joint ventures are proportionally consolidated (previous year: 51). 113 associated companies are consolidated using the equity method (previous year: 120). A total of 236 (previous year: 222) affiliated companies without significant business operations were excluded from consolidation due to their negligible importance for the financial position, performance and changes in financial positions of the Group. This includes 45 companies that would have been consolidated using the equity method if they had met the criteria for materiality.

The following changes were made compared with the previous year to the companies included in the consolidated financial statements:

In accordance with section 325 in conjunction with section 313 (4) of the German Commercial Code (old version), the complete list of the Bertelsmann Group's shareholdings is published for the last time in the electronic Bundesanzeiger (Federal Gazette) as an annex to the present financial statements.

Those German subsidiaries disclosed in note 33 have elected to be exempted from the preparation, audit and publication of financial statements in the year under review as set out in section 264 (3) and 264b of the German Commercial Code.

## Change in Scope of Consolidation

| | Domestic | Foreign | Total |
|---|---|---|---|
| Consolidated at December 31, 2008 | 357 | 729 | 1,086 |
| Additions | 9 | 48 | 57 |
| Disposals | 26 | 104 | 130 |
| Consolidated at December 31, 2009 | 340 | 673 | 1,013 |

## Acquisitions and Disposals

The consideration paid for acquisitions and other additions of participating interests in fiscal year 2009 less cash and cash equivalents acquired amounted to €157 million. Acquisition costs for these acquisitions in the sense of IFRS 3 totaled €153 million.

At the extraordinary shareholders meeting held on March 20, 2009, the shareholders of the Hungarian television channel M-RTL Zrt. ("M-RTL") granted their consent and approval to the transfer by Pearson Netherlands BV ("PNBV") of its 20 percent stake in M-RTL to KOS Beteiligungs- und Verwaltungsgesellschaft mbH ("KOS"). As a result, disagreements among the shareholders were settled. Following the transfer of the 20 percent stake by PNBV to KOS, the economic and voting ownerships in M-RTL was as follows: RTL Group (49 percent), IKO-Telekom Média Holding Zrt. (31 percent) and KOS (20 percent). As a result of the arrangements among the shareholders entered into on March 20, 2009, RTL Group has the ability in practice to control M-RTL without the acquisition of additional shares and fully consolidates M-RTL since April 1, 2009. Until such date, M-RTL was accounted for using the equity method. RTL Group has recognized at the date of the gain of control a fair value of €7 million on the customer relationships and a related deferred tax liability of €1 million. Since April 1, 2009 M-RTL contributed €83 million to revenues and €14 million to group profit or loss. Had the business combination occurred on January 1, 2009 the contribution to the revenues and to group profit or loss would have been €102 million and €12 million, respectively.

On June 26, 2009 RTL Group acquired from KOS non-voting shares in M-RTL representing an economic interest of 18 percent for an amount of €42 million. As a result, RTL Group now owns an economic interest of 67 percent and voting rights of 49 percent in M-RTL.

Several smaller acquisitions with a total volume of €114 million were also implemented in the year under review. The resulting goodwill and the goodwill from other additions of participating interests amounted to €67 million. The adjustment amounts for the fair values for other intangible assets determined as part of purchase price allocations per IFRS 3 totaled €17 million.

The acquisitions during the year under review had the following impact on the Bertelsmann Group's assets and liabilities at the time of their initial consolidation:

## Effects of Acquisitions

| in € millions | M-RTL | | Other | | Total | |
|---|---|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value |
| Non-current assets | | | | | | |
| Goodwill | – | – | – | 67 | – | 67 |
| Other intangible assets | 17 | 24 | 18 | 35 | 35 | 59 |
| Property, plant and equipment | 9 | 9 | 4 | 4 | 13 | 13 |
| Other non-current assets | 1 | – | 20 | 20 | 21 | 20 |
| Current assets | | | | | | |
| Inventories | 36 | 36 | 21 | 21 | 57 | 57 |
| Other current assets | 27 | 27 | 11 | 11 | 38 | 38 |
| Cash and cash equivalents | 8 | 8 | 10 | 10 | 18 | 18 |
| Liabilities | | | | | | |
| Financial debt | – | – | 15 | 15 | 15 | 15 |
| Other liabilities | 52 | 52 | 46 | 46 | 98 | 98 |

Fair value is primarily measured using the market price-oriented method. In this method, assets and liabilities are measured at prices observed in active markets. If measurement using the market price-oriented method is not feasible, the capitalized value-oriented method is to be applied. This measures fair value of asset/liabilities as the present value of future net cash flows.

Since initial consolidation, total new acquisitions contributed a total €141 million to consolidated revenues and €19 million to consolidated earnings. If consolidated as of January 1, 2009, these would have contributed €170 million to consolidated revenues and €13 million to consolidated earnings. Goodwill arising from acquisitions reflects latent synergy potential.

Sales proceeds of €-18 million after cash and financial debt transferred in the transaction were generated from disposals and other disposals of equity interests.

The disposals during the year under review had the following impact on the Bertelsmann Group's assets and liabilities at the time of their deconsolidation:

## Effects of Disposals

| in € millions | 2009 |
|---|---|
| Non-current assets | |
| Goodwill | 2 |
| Other intangible assets | 14 |
| Property, plant and equipment | 1 |
| Other non-current assets | 13 |
| Current assets | |
| Inventories | 2 |
| Other current assets | 88 |
| Cash and cash equivalents | 24 |
| | |
| Liabilities | |
| Provision for pensions and similar obligations | – |
| Financial debt | 2 |
| Other liabilities | 7 |

## Discontinued Operations

The music joint venture Sony BMG, the North American direct-to-customer company Direct Group North America and the Direct Group club businesses in China, Australia, the United Kingdom, New Zealand, Poland, Russia, the Czech Republic, Slovakia, the Netherlands and the Flemish part of Belgium, were included as discontinued operations in the consolidated financial statements of Bertelsmann AG as of December 31, 2008. Two of these companies – Bertelsmann's interest in the Sony BMG joint venture and the North American direct-to-customer company Direct Group – were sold in the second half of fiscal year 2008. (For more detailed information, please refer to the 2008 annual report, page 72 ff.). The Chinese club business is under liquidation and was deconsolidated at the end of fiscal year 2008.
The club businesses in the United Kingdom (BCA) and Netherlands/Belgium (ECI) were sold with effect from January 1, 2009.

The Direct Group club businesses that were not sold as a result of changes to conditions on the market were reclassified back to continuing operations in these consolidated financial statements. Previous-year figures in the income and cash flow statements have been adjusted accordingly. The following table summarizes the adjustments in the previous year's income statement as a result of the reclassifications:

## Effects of Reclassification of Direct Group's Businesses that were not sold on the Income Statement 2008

| in € millions | 2008 adjusted | Adjustment | 2008 |
|---|---|---|---|
| Revenues | 16,249 | 131 | 16,118 |
| Other operating income | 609 | 3 | 606 |
| Change in inventories | (74) | 1 | (75) |
| Own costs capitalized | 262 | 8 | 254 |
| Cost of materials | (5,469) | (64) | (5,405) |
| Royalty and license fees | (750) | (4) | (746) |
| Personnel costs | (4,480) | (18) | (4,462) |
| Amortization of intangible assets and depreciation of property, plant and equipment | (563) | (1) | (562) |
| Other operating expenses | (4,267) | (49) | (4,218) |
| Results from investments accounted for using the equity method | 47 | – | 47 |
| Income from other participations | 11 | – | 11 |
| Special items | (676) | – | (676) |
| EBIT (earnings before interest and taxes) | 899 | 7 | 892 |
| | | | |
| Interest income | 95 | (2) | 97 |
| Interest expenses | (325) | – | (325) |
| Other financial income | 112 | – | 112 |
| Other financial expenses | (311) | – | (311) |
| Financial result | (429) | (2) | (427) |
| | | | |
| Earnings before taxes from continuing operations | 470 | 5 | 465 |
| Income taxes | (54) | (2) | (52) |
| Earnings after taxes from continuing operations | 416 | 3 | 413 |
| | | | |
| Earnings after taxes from discontinued operations | (146) | (3) | (143) |
| | | | |
| Group profit or loss | 270 | – | 270 |
| | | | |
| attributable to: | | | |
| Bertelsmann shareholders | 142 | – | 142 |
| Minority interest | 128 | – | 128 |

Ongoing earnings and the cash flows from the activities classified as having been discontinued were disclosed separately according to IFRS 5.

## Income Statement – Discontinued Operations

| in € millions | 2009 | 2008 |
|---|---|---|
| Revenues | – | 1,273 |
| Income | – | 24 |
| Expenses | – | (1,325) |
| Operating EBIT from discontinued operations | – | (28) |
| Special items | – | (94) |
| EBIT (earnings before interest and taxes) | – | (122) |
| Financial result | – | (13) |
| Earnings before taxes from discontinued operations | – | (135) |
| Income taxes | – | (11) |
| Earnings after taxes from discontinued operations | – | (146) |

The carrying amounts of the assets and liabilities classified as being held for sale can be seen in the following table.

The previous year's figures also include the assets and liabilities of the discontinued operations classified as such on December 31, 2008.

## Assets and Liabilities Held for Sale

| in € millions | 12/31/2009 | 12/31/2008 |
|---|---|---|
| **Assets** | | |
| Non-current assets | | |
| Goodwill | 3 | – |
| Other intangible assets | – | 9 |
| Property, plant and equipment | 3 | 15 |
| Other non-current assets | 5 | 2 |
| Current assets | | |
| Inventories | 14 | 30 |
| Other current assets | 25 | 63 |
| Cash and cash equivalents | 8 | 9 |
| | | |
| **Equity and Liabilities** | | |
| Non-current liabilities | | |
| Provision for pensions and similar obligations | 2 | 6 |
| Financial debt | 1 | 2 |
| Other non-current liabilities | – | – |
| Current liabilities | | |
| Trade accounts payable | 19 | 47 |
| Other current liabilities | 8 | 33 |
| | | |

## Proportionate Consolidation

The 43 (previous year: 51) proportionately consolidated joint ventures had the following effect on Bertelsmann Group assets, liabilities, income and expenses:

### Effects of Proportionate Consolidation

| in € millions | 12/31/2009 | 12/312008 |
|---|---|---|
| Non-current assets | 44 | 52 |
| Current assets | 135 | 146 |
| | | |
| Non-current liabilities | 6 | 10 |
| Current liabilities | 86 | 94 |
| | | |
| | 2009 | 2008 |
| Income | 299 | 1,157 |
| Expenses | 265 | 1,174 |

## Currency Translation

In the Bertelsmann AG consolidated financial statements, the financial statements of subsidiaries, joint ventures and associated companies from countries outside the euro zone are translated into euros using the functional currency concept set out in IAS 21. Assets and liabilities are translated into the reporting currency at the average conversion rate of the last day of the fiscal year, while income statement items are translated at the average rate for the year. Currency translation differences are charged or credited directly to shareholders' equity. Such differences arise from translating items in the balance sheet at different rates compared with the previous year and from using different rates (i. e., the average rate for the year and the rate as of the balance sheet date) to translate the consolidated earnings. When subsidiaries are deconsolidated, any related cumulative translation differences are recycled to income.

The following euro exchange rates were used to translate the currencies of those countries which are most significant to the Bertelsmann Group:

### Euro Exchange Rates for Major Foreign Currencies

| | | Average rate | | Closing rate | |
|---|---|---|---|---|---|
| Foreign currency unit per €1 | | 2009 | 2008 | 12/31/2009 | 12/31/2008 |
| U.S. Dollar | USD | 1.3960 | 1.4726 | 1.4406 | 1.3917 |
| Canadian Dollar | CAD | 1.5909 | 1.5563 | 1.5128 | 1.6998 |
| British Pound | GBP | 0.8948 | 0.7972 | 0.8881 | 0.9525 |
| Japanese Yen | JPY | 130.28 | 152.56 | 133.16 | 126.14 |
| Swiss Franc | CHF | 1.5059 | 1.5845 | 1.4836 | 1.4850 |

## Accounting and Valuation Policies

### Recognition of Income and Expense

Revenues are recognized when the product/service has been provided and risks associated therewith transferred. This excludes revenues from transactions applying the percentage of completion method per IAS 11. These include income from services measured by percentage of completion to the extent the point of completion thereof can be reliably determined at the balance sheet date. The percentage of completion is determined using the input-oriented method. Under the input-oriented method, contract costs accruing through the balance sheet date are applied as a percentage of total estimated contract costs (cost-to-cost method).

Other income is recognized when it is probable that the economic benefits will flow to Bertelsmann Group and the amount can be measured reliably. Expenses are deferred on the basis of underlying facts or the period of time to which they relate.

Interest income and expense are accrued. Dividends received from unconsolidated investments are recognized when the respective distribution is received. Revenues from services rendered are recognized based on their percentage of completion.

### Goodwill

Goodwill arising from business combinations accounted for in accordance with IFRS 3 represents acquisition cost in excess of the Group's share of the fair value of identifiable assets, liabilities and contingent liabilities acquired. Initial recognition is at acquisition cost, with subsequent recognition at acquisition cost less accumulated impairment losses. Goodwill is subject to at least annual impairment testing. Impairment losses are measured as the difference between the carrying amount and the recoverable amount of the cash-generating units to which the goodwill has been allocated. Any impairment loss is immediately recognized in profit or loss. Impairment of goodwill, including impairment losses recognized in the previous interim period, is not reversed. In the Bertelsmann Group, goodwill is tested for impairment each year as of December 31, as outlined in the section "Impairment Losses," or if a triggering event arises.

### Other Intangible Assets

Internally generated intangible assets of the non-current assets are carried at cost which require to be capitalized in the balance sheet if the criteria for recognition as set out in IAS 38 have been met.

Acquired intangible assets are carried at amortized cost. Intangible assets acquired as part of a business combination are initially recognized at fair value at the acquisition date in accordance with IFRS 3.

Intangible assets with definite useful life are amortized systematically on a straight-line basis over their estimated useful life. Impairment losses are determined by applying the requirements for impairment testing (IAS 36). As a rule, capitalized software is amortized over a period of between three and five years. Supply rights and subscriber portfolios are amortized over a period of two to 15 years, while the amortization period for trademarks and music, film and publishing rights is three to 15 years. Licenses are amortized over the term of the respective license agreement.

The useful life is reviewed annually and adjusted to reflect changes in expectations. Intangible assets with indefinite useful life are not amortized. Instead, they are subject to at least annual impairment testing and written down to their recoverable amount as applicable.

## Property, Plant and Equipment

Items of property, plant and equipment are carried at cost less depreciation and, where applicable, impairment losses. The cost of items of property, plant and equipment produced internally within the Group includes direct costs and a portion of overhead costs directly attributable to their production. The cost of property, plant and equipment produced over a longer period of time also includes borrowing costs accrued up to the completion date. The amounts involved are insignificant to the Group. All other borrowing costs are expensed in the period accrued.

Maintenance costs are carried as expenses for the period, whereas expenses for activities which lead to a longer useful life or improved use are generally capitalized.

Items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful life. The estimated useful life and depreciation methods are reviewed annually in accordance with IAS 16. During the year under review, scheduled depreciation was based on the following useful lives:

- Buildings: 20 to 50 years
- Plant, technical equipment and machinery: five to 15 years
- Furniture, fixtures and other equipment: three to twelve years

Individually significant components of non-current assets are recorded and depreciated separately (component approach).

## Impairment Losses

In accordance with IAS 36 "Goodwill," intangible assets and property, plant and equipment are tested for impairment at each balance sheet date, with impairment losses recognized if the recoverable amount of the respective assets has fallen below the carrying amount. The recoverable amount is the higher of fair value less cost to sell or value in use. If it is not possible to allocate cash inflows to an asset, the relevant impairment losses are determined on the basis of cash flows attributable to the next highest cash-generating unit. Projected cash flows are based on internal estimates for three planning periods. Two additional planning periods are applied in addition. For periods beyond this detailed horizon, a perpetual annuity is recognized, taking into account individual business-specific growth rates which as a rule range from 0 to 4 percent. Discounting is always based on the weighted average cost of capital (WACC) using the average after-tax cost of capital. If the reasons for impairment no longer apply, impairment losses may be reversed up to a maximum of the carrying amount of the respective asset if the impairment loss had not been recognized. The latter does not apply to goodwill and intangible assets with an indefinite useful life.

## Leasing

If the Bertelsmann Group bears all material opportunities and risks as part of leasing agreements and is thus to be regarded as the economic owner (finance lease), the leased item is capitalized when the contract is entered into at its market value or the lower present value of the future lease payments less the costs included therein for insurance, maintenance and taxes and the profits thereupon. Payment obligations arising from finance leases are recognized as financial liabilities in the same amount.

If it is sufficiently certain that ownership of the leased asset will pass to the lessee at the end of the lease term, the asset is depreciated over its useful life. Otherwise, it is depreciated over the term of the lease. There are no contingent rents.

Leased assets primarily relate to buildings. Finance leases for buildings are generally subject to non-cancelable minimum lease terms of approximately 20 years. Upon expiry of this term, the lessee is as a rule entitled to purchase the leased asset at its residual value.

The operating leases entered into by the Bertelsmann Group primarily relate to rental agreements for buildings and technical transmission facilities. The leased assets are allocated to the lessor – in economic terms. The lease installments constitute expenses for the period. The total amount of lease payments due over the non-cancelable minimum lease terms of these operating leases is disclosed in the notes under other financial commitments.

## Financial Assets

Financial assets are broken down into the following categories and sub-categories:

- Held-to-maturity investments
- Available-for-sale financial assets
- Recognized in income at fair value
  - Non-derivative and derivative financial assets held for trading
  - Financial assets initially recognized at fair value through profit or loss
  - Derivative financial assets used in hedging relationships
- Loans and receivables
  - Originated loans and trade account receivables (loans and receivables)
  - Cash and cash equivalents (loans and receivables)

If the trade date and the settlement date are different, the settlement date is applied for the purposes of initial recognition.

Held-to-maturity investments:
If the Company intends to hold financial instruments to maturity, they are measured at amortized cost using the effective interest method.

Available-for-sale financial assets:
The available-for-sale category primarily includes current and non-current securities and equity investments not classified as held-to-maturity investments or at fair value through profit or loss.

In accordance with IAS 39, available-for-sale securities are measured at their fair value at the balance sheet date to the extent this can be reliably measured. Otherwise these are carried at amortized cost. The resulting unrealized gains and losses, including deferred taxes, are taken directly to equity. However, permanent impairment losses are recognized in profit or loss. The unrealized gains and losses taken directly to equity are recycled in profit or loss when the respective assets are sold.

If fair value cannot be measured, the corresponding equity investments and securities are either carried at cost or measured on the basis of estimated discounted cash flows.

Non-derivative and derivative financial assets held for trading:
As a rule, this category includes derivatives that do not meet the formal requirements of IAS 39 for hedge accounting. They are measured at their fair value. Gains or losses from changes to the fair values are recognized in income.
Financial assets initially recognized at fair value through profit or loss:
This category contains financial assets that were classified as initially recognized at fair value through profit or loss. These are financial instruments that include one or several embedded derivatives that cannot be valued separately. Changes in fair value are recognized in the other financial result.

Derivative financial assets used in hedging relationships:
This category comprises all derivatives that fulfill the formal requirements of IAS 39 for hedge accounting. They are carried at their fair value.

Originated loans and trade account receivables:
Originated loans and trade account receivables are recognized at their nominal amount or, where appropriate, at fair value. Long-term loans and receivables are discounted. Foreign-currency items are translated at the exchange rate at the closing date. Valuation allowances are recognized for probable credit risks using allowance accounts.

Cash and cash equivalents:
Cash and cash equivalents include bank balances, cash on hand and securities with a term to maturity on acquisition of a maximum three months. Foreign-currency items are translated at the exchange rate at the balance sheet date.

Measurement at fair value:
In the case of financial assets measured at fair value, the valuation method applied depends on the respective valuation parameters present in each case. If listed prices can be identified on active markets, these are used for valuation (phase 1). If this is not possible, the fair values of comparable market transactions are applied and financial methods based on observable market data are used (phase 2). If the fair values are not based on observable market data, they are to be identified with the aid of recognized financial methods (phase 3).

Impairment losses on financial assets:
The carrying amounts of financial assets not recognized at fair value through profit or loss are examined at each balance sheet date in order to determine whether there is substantial evidence of impairment. If the fair value of a financial asset is lower than its carrying amount, a corresponding impairment loss is recognized in profit or loss. If it is established that the fair value has increased at a later measurement date, the impairment loss previously recognized is reversed up to a maximum of amortized cost. Impairment losses are not reversed in the case of unlisted equity instruments that are classified as available-for-sale assets and carried at cost. The fair value of available-for-sale assets carried at cost is calculated as the present value of the future cash flows discounted using the risk-adjusted interest rate.

## Inventories

Inventories, including raw materials and supplies, finished goods and work in progress as well as merchandise, are recognized at the lower of historical cost and net realizable value at the end of the year. Similar inventories are reported at average cost less cost to sell or using the FIFO (first-in, first-out) method. Inventories originating from intragroup suppliers are adjusted to eliminate intercompany profits and are measured at the Group's manufacturing cost.

Inventories carried at cost are reviewed for possible write-downs at the end of the year. Net realizable value is applied for this purpose as of the balance sheet date. Net realizable value is defined as the estimated sales price less expected costs to complete and estimated selling expenses. A write-down is recognized if the net realizable value of an item of inventories is lower than its historical cost. Write-downs are reversed if the circumstances causing their recognition no longer apply. The new carrying amount then represents the lower of historical cost and adjusted net realizable value. The consumption of inventories is reported in the income statement in the cost of materials or changes in inventories.

In addition to raw materials and supplies, finished goods, work in progress and merchandise, inventories include all short-term film, television and similar rights that are intended for broadcast or sale within the Group's normal operating cycle (i. e., one year). In particular, this includes films and TV shows currently in production, co-productions and acquired broadcasting rights. The carrying amount of such items at the balance sheet date is as a rule the lower of historical cost or net realizable value.

The amortization of film and television rights starts from the date of initial broadcast and depends either on the number of planned broadcasts or the expected revenues. The broadcast-based amortization of film and television rights is performed as follows:

- Entertainment programs, such as soap operas, documentaries and sports, quiz or music programs are written off in full at the initial broadcast date;
- 50 percent of the carrying amount of children's programs and cartoons is written off at each of the first two broadcast dates;
- The consumption of cinema productions, TV feature films and series also spans a maximum of two broadcasts: 67 percent of the value is consumed upon the first broadcast, the remaining 33 percent upon the second broadcast.

For in-house productions, consumption is reported in the income statement under changes in inventories, while the consumption of acquired rights is reported in the cost of materials.

## Customer-Specific Production Contracts

To the extent that they meet the requirements of IAS 11, customer-specific contracts are reported using the percentage-of-completion method.

In this method, revenues and gains on customer-specific contracts are recognized on the basis of the stage of completion of the respective project concerned. The percentage of completion is calculated as the ratio of the contract costs incurred up to the end of the year to the total estimated project cost (cost-to-cost method). Irrespective of the extent to which a project has been completed, losses resulting from customer-specific contracts are immediately recognized in full in the period in which the loss is identified.

## Deferred Taxes

In accordance with IAS 12, deferred tax assets and liabilities are recognized for temporary differences between the tax base and the carrying amount shown on the IFRS consolidated balance sheet, and for as yet unused tax loss carryforwards and tax credits. Deferred tax assets are only reported in the amount in which they can be subsequently utilized. The tax rates applied for computation are those expected as of the date of reversal of temporary differences and use of tax loss carryforwards, respectively.

## Other Comprehensive Income

The other comprehensive income taken directly to equity in accordance with IAS 39 includes foreign exchange gains and losses as well as unrealized gains and losses from the fair value measurement of available-for-sale securities and derivatives used in cash flow hedges or hedges of net investments in foreign operations. Actuarial gains and losses under defined benefit pension plans are also taken directly to equity in full in the year in which they arise in accordance with IAS 19.93A. Deferred taxes on the aforementioned items are also recognized directly in equity.

## Provisions

Provisions for pensions and similar obligations are calculated using the projected unit credit method within the meaning of IAS 19. This method involves the use of biometric calculation tables, current long-term market interest rates and current estimates of future increases in salaries and pensions.

The interest portion of pension expense and the expected return on plan assets are reported under net financial expense. With the exception of the other personnel-related provisions calculated according to IAS 19, all of the other provisions are formed based on IAS 37 to the extent that there is a legal or constructive obligation to a third party, the outflow of resources is probable and it is possible to reliably determine the amount of the obligation. Provisions are measured in the amount of the most probable extent of the benefit obligations. Long-term provisions are discounted.

## Liabilities

Trade payables and other originated financial liabilities are carried at amortized cost, non-current liabilities are discounted. Liabilities in foreign currencies are translated at the exchange rate on the balance sheet date.

The Bertelsmann Group has not yet exercised the option of classifying financial liabilities initially recognized at fair value through profit or loss.

Finance lease liabilities, which are also reported in financial liabilities, are carried at their present value in accordance with IAS 17.

## Derivative Financial Instruments

As set out in IAS 39, all derivative financial instruments are recognized at fair value on the balance sheet. Derivative financial instruments are recognized as of the transaction date. When a contract involving a derivative is entered into, it is initially determined whether that contract is intended to serve as a fair value hedge or as a cash flow hedge. However, some derivatives do not meet the requirements included in IAS 39 for recognition as hedges despite this being their economic purpose. Changes in the fair values of derivatives are recorded as follows:

1. Fair-value hedge: Changes in the fair value of these derivatives, which are used to hedge assets or liabilities, are recognized in profit or loss, the corresponding gain or loss on the change in fair value of the underlying balance sheet item is also directly included in the income statement.

2. Cash-flow hedge: The effective portion of the changes in the fair value of derivatives used to hedge future cash flows is recognized directly in equity under other comprehensive income. The amounts recognized in equity are then reversed to profit or loss when the hedged item is recognized in profit or loss. The ineffective portion of the changes in the fair value of the hedging instrument is recognized in profit or loss.

3. Hedge of a net investment in a foreign operation: For this hedge type, the effective portion of the gains and losses on changes in the fair value of the hedging instrument is taken directly to equity. The ineffective portion is recognized in profit or loss. On disposal of the investment, the changes in the fair value of the hedging instruments that are contained in equity are recognized in profit or loss.

4. Stand-alone derivatives (no hedge relationship): Changes in the fair value of derivatives that do not meet the criteria for recognition as hedges are recognized in profit or loss in accordance with the held-for-trading category and are therefore classified as at fair value through profit and loss.

If the trade date and the settlement date are different, the settlement date is applied for the purposes of initial recognition of derivatives.

Measurement at fair value:
In the case of derivatives (held for trading and derivatives with a hedge relationship) measured at fair value, the valuation method applied depends on the respective valuation parameters present in each case. If listed prices can be identified on active markets, these are used for valuation (phase 1). If this is not possible, the fair values of comparable market transactions are applied and financial methods based on observable market data are used (phase 2). If the fair values are not based on observable market data, they are to be identified with the aid of recognized financial methods (phase 3).

## Share-Based Payments

Share options are granted to certain directors and senior employees. The options are granted at the market price on the grant date and are exercisable at that price. No compensation cost is recognized in the income statement for share options granted before November 7, 2002. When the options are exercised, the proceeds received, net of any transaction costs, are taken directly to equity.

For share options granted after November 7, 2002, the fair value of the options granted is recognized as personnel costs with a corresponding increase in equity. The fair value is measured at the grant date and allocated over the vesting period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial option-pricing model, taking into account the terms and conditions at which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of share options vesting. Share options forfeited solely due to share prices not achieving the vesting threshold are excluded.

## Non-Current Assets Held for Sale and Related Liabilities

Non-current assets or disposal groups are carried as being available for sale if the associated carrying amount is mostly realized in a disposal transaction and not from continued use. These non-current assets and the associated liabilities are presented in separate line items in the balance sheet under IFRS 5. They are measured at the lower of carrying amount or fair value less cost to sell. Scheduled depreciation/amortization is not recorded if a non-current asset is classified as available for sale or forms part of a disposal group that is classified as available for sale.

Components of entities that fulfill the requirements of IFRS 5.32 are classified as discontinued operations and are thus carried separately in the income statement and cash flow statement. All of the changes in amounts made during the year under review that are directly connected with the sale of a discontinued operation in any preceding period are also stated in this separate category. If a component of an entity is no longer classified as available for sale, the results of this entity component that was previously carried under discontinued operations, are reclassified to continued operations for all of the reporting periods shown.

## Government Grants

A government grant is not recognized until there is reasonable assurance that the enterprise will comply with the conditions attaching to it and that the grant will be received. Grants for assets are recognized as accrued liabilities and recycled to income over the expected useful life of the respective asset using the straight-line method. Performance-related grants are recognized as income in the periods in which the expenses to be compensated by the grants were incurred.

## Estimates and Assumptions

The preparation of IFRS-compliant consolidated financial statements requires the use of estimates and assumptions that may impact the carrying amounts of assets, liabilities, income and expenses recognized. Amounts actually realized may differ from estimated amounts. The following section presents estimates and assumptions that are material in the Bertelsmann Group financial statements for understanding the insecurities associated with financial reporting.

Recognition of Income and Expense: Some Bertelsmann companies that enter into long-term production contracts with customers and recognize revenues according to the percentage-of-completion method do have to estimate the degree of completion. This results from the relationship between the contract costs already incurred by the end of the fiscal year and the estimated total project costs.

In the event of return rights, mostly for print products, estimates must also be made with regard to the anticipated return volume, as revenues are recognized taking the anticipated returns into account. Return ratios determined using statistical methods are used to identify the anticipated returns.

Inventories, trade receivables and other receivables: Write-downs are formed for doubtful receivables based on risk factors such as the customer's risk of default taking the maturity structure of the receivables into account.

Sales estimates and assumptions on future sales success are also made in connection with advances paid to authors to secure exploitation rights in their publications. In addition, in the case of sport and film rights, estimates are made with regard to anticipated revenues.

Impairment: Intangible assets with definite useful life and property, plant and equipment are tested for impairment in accordance with IAS 36 if indications exist that an asset may be impaired. Goodwill and intangible assets with indefinite useful life are tested for impairment at least once a year. Impairment is recorded when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less selling costs and the value in use, and generally at first the fair value less selling costs is ascertained. As a rule, this is identified using the discounted cash flow method, which is based on future cash flow forecasts identified as part of company forecasts. The cash flow forecasts are based on the management's best possible estimates with regard to future growth. The most important assumptions include estimated growth rates, the weighted average cost of capital and tax rates. Changes to these estimates as a result of more recent information could have a material impact on the amount of the possible impairment. For detailed information on the assumptions and estimates that are used in impairment testing for intangible assets (including goodwill) and property, plant and equipment in the Bertelsmann Group, please refer to notes 10 "Select non-current assets" and 11 "Goodwill".

Pension commitments and provisions: Pension obligations are measured based on the projected unit credit method, taking into account not only biometric calculations and prevailing long-term capital market interest rates but in particular assumptions about future salary and pension increases and anticipated returns on plan assets. Information on the assumptions made in pension accounting can be found under note 20.

Provisions for threatened losses, litigation and warranties are also based to a significant extent on management estimates with regard to their amount and probability of occurrence. Assessments of whether there is a present obligation, an outflow of resources is probable and if it is possible to reliably determine the amount of the obligation are generally based on the expertise of in-house or third-party specialists. More recent information could change the estimates and thus impact the Group's financial position and results of operations.

In the case of purchase price allocations, assumptions are also made regarding the valuation of intangible assets acquired as part of business combinations. Valuations are based on fair value. As a rule, this is the present value of the future incoming/outgoing payments after taking into account the present value of the tax amortization benefit.

In addition, the definition of uniform useful lives within the Group is also based on management estimates. Information on useful life can be found in the sections "Other Intangible Assets" and "Property, Plant and Equipment" on pages 92 and 93.

Assessments of the ability to realize future tax benefits are also based on assumptions and estimates. Deferred tax assets are only carried in the amount in which they are likely to be subsequently utilized. When assessing the probability of the ability to use deferred tax assets in the future, various factors are taken into account, including past earnings, company forecasts, tax forecast strategies and loss carryforward periods. Information relating to the ability to realize tax benefits is presented in note 9 "Income Taxes."

Assumptions are also made when identifying the fair values of non-exchange listed derivatives. In this regard, Bertelsmann uses various actuarial methods that take into account the market conditions and risks in effect on the respective balance sheet dates.

Estimates and assumptions also relate to share-based payments. The conditions of the stock option plans are presented in greater detail in the section "Stock Option Plans at Subsidiaries" under note 19, "Shareholders' Equity."

The estimates and assumptions applied within the Group are constantly reviewed. Adjustments to estimates are generally recognized in the period in which the respective adjustment is made and in future periods.

## Changes to Estimates

Random House determines the amount of the provision for returns by multiplying the gross revenues for the last twelve months, taking a return curve into account, with the average return rate. The proportion of the returns estimated but not yet received to gross revenues for each of the past twelve months is estimated by means the return curve.

In 2009, Random House U.S. performed extensive investigations to ascertain whether the assumed twelve-month return curve is reasonable. The analyses were based on improved information on inventories at customers and on reviews within the division and customer surveys with regard to changes to return behavior. Based on these analyses, Random House North America cut the period for the return curve used in the calculation from twelve to nine months. The change in the estimate led to an increase in EBIT of €23 million. This effect is carried under the item "Special items".

When determining the interest rate for discounting pension and similar obligations in the euro zone, corporate bonds with a long term were once again included as of December 31, 2009, by the actuary. These bonds had been disregarded as of December 31, 2008, due to the turbulence on the financial markets. Thereby, the applied interest rate increases. Without these effects, the actuarial gains in 2009 would have been €129 million lower.

## Notes to the Income Statement and the Balance Sheet

### 1 Revenues

| in € millions | 2009 | 2008 |
|---|---|---|
| Revenues from selling goods and merchandise | 7,216 | 7,676 |
| Revenues from providing services | 6,946 | 7,338 |
| Revenues from grant of use of assets | 1,333 | 1,383 |
| Gross revenues | 15,495 | 16,397 |
| Discounts | (131) | (148) |
| Revenues | 15,364 | 16,249 |

Revenues from customer-specific construction contracts amounted to €20 million (previous year: €23 million). This total includes “Revenues from providing services” of €18 million. A further €62 million (previous year: €64 million) of the revenues carried under this item stem from exchanges, in particular at RTL Group and Gruner + Jahr.

### 2 Other Operating Income

| in € millions | 2009 | 2008 |
|---|---|---|
| Extra and supplementary income | 202 | 268 |
| Currency gains | 4 | – |
| Prior-year income and reimbursements | 132 | 145 |
| Gains from disposals of non-current assets | 13 | 29 |
| Sundry operating income | 139 | 167 |
| | 490 | 609 |

Income from the reversal of provisions is generally recorded in the same income statement line item to which it was charged when the provision was initially recognized. Sundry operating income includes performance-linked government grants of €18 million (previous year: €17 million). Also included are earnings totaling €9 million from damages paid following the loss to fire of a main paper storage facility in Spain.

Gains from foreign currency translation for the assets and liabilities denominated in foreign currencies (without the amounts recorded within the meaning of IAS 39) totaled €24 million in the year under review (previous year: €-25 million). In the previous year these were carried under “Other operating expenses”.

### 3 Personnel Costs

| in € millions | 2009 | 2008 |
|---|---|---|
| Wages and salaries | 3,586 | 3,666 |
| Statutory social security contributions | 642 | 626 |
| Profit sharing | 65 | 75 |
| Expense for pensions and similar obligations | 97 | 99 |
| Other employee benefits | 16 | 14 |
| | 4,406 | 4,480 |

## 4 Amortization of Intangible Assets and Depreciation of Property, Plant and Equipment

| in € millions | 2009 | 2008 |
|---|---|---|
| Amortization/depreciation of | | |
| – intangible assets | 220 | 192 |
| – property, plant and equipment | 359 | 371 |
| | 579 | 563 |

## 5 Other Operating Expenses

| in € millions | 2009 | 2008 |
|---|---|---|
| Administrative expenses | 1,279 | 1,428 |
| Consulting and audit fees | 170 | 191 |
| Foreign exchange losses | – | 6 |
| Advertising costs | 528 | 620 |
| Selling expenses | 642 | 744 |
| Allowances for current assets | 244 | 219 |
| Operating taxes | 141 | 125 |
| Losses on disposals of non-current assets | 8 | 13 |
| Sundry operating expenses | 882 | 921 |
| | 3,894 | 4,267 |

The consulting and audit fees include fees of €8 million to KPMG AG Wirtschaftsprüfungsgesellschaft and the affiliates of KPMG Europe LLP for their audit of the consolidated financial statements. Auditor fees come to €5 million. Another €1 million falls under other audit-related services. The companies of KPMG Europe LLP were paid a total of €1 million for tax consulting services. Expenses for further services amount to €1 million.

A portion of administrative expenses relates to travel costs and communication expenses.

Other operating expenses include rentals, repair and maintenance costs.

## 6 Result from Investments Accounted for Using the Equity Method and Other Participations

| in € millions | 2009 | 2008 |
|---|---|---|
| Income from investments accounted for using the equity method | 38 | 61 |
| Expenses from investments accounted for using the equity method | (11) | (14) |
| Results from investments accounted for using the equity method | 27 | 47 |
| Results of participations | 10 | 11 |

The income from associates stems primarily from Antena 3 at €13 million (previous year: €19 million) and RTL II at €9 million (previous year: €12 million). Expenses from investments accounted for using the equity method relate to various companies. Write-downs of participating interests (including goodwill) from associates of €4 million (previous year: €12 million) are reported under special items. As in the previous year, Bertelsmann had no share in the contingent liabilities of associates.

## 7 Special Items

| in € millions | 2009 | 2008 |
|---|---|---|
| Impairment of goodwill, other intangible assets with indefinite useful life, other financial assets and assets held for sale | | |
| Five, RTL Group | (140) | (337) |
| Alpha Media Group, RTL Group | (66) | – |
| Qualytel, Arvato | (26) | – |
| Arvato Print Ibérica | (26) | – |
| Gruner + Jahr Spain | (21) | – |
| Random House Asia (IFRS 5) | (12) | – |
| Direct Group France | – | (50) |
| Radio Germany, RTL Group | – | (34) |
| Direct Group Portugal | – | (21) |
| Arvato Mobile | – | (15) |
| Arvato Loyalty Services | – | (9) |
| Other | (28) | (36) |
| Capital gains/losses | | |
| Empolis, Arvato | 7 | – |
| Xlibris, Corporate | 7 | – |
| RTL Shop | – | (13) |
| Sportfive, RTL Group | – | (4) |
| Fremantle Media Australia, RTL Group | – | 4 |
| Other | (1) | 12 |
| Other special items | | |
| Impairment on non-current assets, Prinovis, one half each Gruner + Jahr and Arvato | (111) | – |
| Impairments on rights and film assets, RTL Group | (40) | – |
| Impairment on non-current assets, Arvato Print Italy | (30) | – |
| Impairment on intangible assets, Scoyo, Corporate | (19) | – |
| Impairments on real estate, Gruner + Jahr | (13) | – |
| Impairment on intangible assets, Qualytel, Arvato | (10) | – |
| Restructuring and severance payments, Gruner + Jahr | (60) | (35) |
| Restructuring and severance payments, Arvato | (38) | – |
| Restructuring and severance payments, RTL Group | (34) | (32) |
| Restructuring and severance payments, Corporate | (23) | – |
| Restructuring and severance payments, Direct Group | (18) | (15) |
| Restructuring and severance payments, Random House | (16) | (51) |
| Restructuring and severance payments, Prinovis, one half each Gruner + Jahr and Arvato | (16) | (20) |
| Extraordinary income from changes to estimates in the calculation of provisions for returns, Random House | 23 | – |
| Costs of merging facilities in France, Gruner + Jahr | (7) | – |
| Special items, Arvato Mobile | – | (18) |
| Other | (12) | (2) |
| | (730) | (676) |

Special items are primarily business transactions that are not repeatable and therefore not operational in nature. They include income and expense items which distort the assessment of the results of operations of the divisions and of the Group due to their size and infrequency of occurrence. Special items in the period under review come to €-730 million.

## 8 Other Financial Expenses and Income

| in € millions | 2009 | 2008 |
|---|---|---|
| Other financial income | | |
| Expected return on plan assets from defined benefit plans | 51 | 70 |
| Minority interest in partnerships | 2 | – |
| Other | 51 | 42 |
| | 104 | 112 |
| | | |
| Other financial expenses | | |
| Interest expenses on provision for defined benefit plans | (131) | (126) |
| Dividend entitlement on profit participation certificates | (76) | (76) |
| Minority interest in partnerships | – | (39) |
| Financial expenses from put options | (34) | (31) |
| Non-operating forex losses | (8) | (10) |
| Other | (23) | (29) |
| | (272) | (311) |

Income and expenses from non-operating foreign currency hedging are netted against each other to better reflect the economic content.

## 9 Income Taxes

Income taxes, broken down into current and deferred income taxes, are as follows:

| in € millions | 2009 | 2008 |
|---|---|---|
| Net income before income taxes (total) | 270 | 335 |
| Current income taxes from continuing operations | (226) | (264) |
| Deferred income taxes from continuing operations | (9) | 210 |
| Income taxes from continuing operations | (235) | (54) |
| Current income taxes from discontinued operations | – | (11) |
| Total income taxes | (235) | (65) |
| Net income after income taxes (total) | 35 | 270 |

Tax loss carry-forwards of €395 million (previous year: €447 million) were utilized in the year under review, reducing current tax expenses by €88 million (previous year: €76 million). Among the tax loss carry-forwards utilized, €73 million relate to domestic corporate income tax, €175 million to domestic trade tax and €147 million to foreign income tax. These amounts include €11 million for tax loss carry-forwards for which no deferred tax assets were recognized in the past. These concern €1 million in domestic corporate income tax, €5 million in domestic trade tax and €5 million in foreign income tax.

Deferred tax assets and liabilities resulted from the following items and factors:

### Deferred Taxes

| in € millions | 12/31/2009 Assets | 12/31/2009 Liabilities | 12/31/2008 (adjusted) Assets | 12/31/2008 (adjusted) Liabilities |
|---|---|---|---|---|
| Intangible assets | 357 | 139 | 361 | 147 |
| Property, plant and equipment | 27 | 133 | 18 | 169 |
| Financial assets | 7 | 64 | 12 | 22 |
| Inventories | 59 | 2 | 57 | 2 |
| Accounts receivable | 95 | 32 | 86 | 36 |
| Advance payments and other assets | 175 | 77 | 139 | 79 |
| Provisions | 300 | 91 | 301 | 90 |
| Financial debt | 23 | 89 | 31 | 79 |
| Liabilities | 11 | 12 | 12 | 3 |
| Advance payments and other liabilities | 52 | 31 | 53 | 20 |
| Loss carry-forwards/tax credits | 2,741 | – | 2,686 | – |
| Subtotal | 3,847 | 670 | 3,756 | 647 |
| Valuation allowances | (2,227) | – | (2,153) | – |
| Total | 1,620 | 670 | 1,603 | 647 |
| Netting | (567) | (567) | (488) | (488) |
| Carrying amount | 1,053 | 103 | 1,115 | 159 |

Current and deferred tax assets and liabilities are netted against each other if they relate to the same tax authority and meet the criteria for offsetting.

Valuation allowances for deferred tax assets are recognized on temporary differences, tax loss carry-forwards and tax credits when it is unlikely that they can be utilized in the foreseeable future.

The need to recognize valuation allowance is assessed primarily based on existing deferred tax liabilities from temporary differences and projected taxable income within a specified planning period.

The deferred tax asset carried in the U.S. in the previous year is based on assumed positive income, which is confirmed in the current earnings.

Effective January 1, 2004, tax loss carry-forwards in Germany can only be offset against the first €1 million of taxable profits plus 60 percent of profits above that threshold. Tax loss carry-forwards in Germany can still be carried forward indefinitely.

The temporary differences, tax loss carry-forwards and tax credits against which valuation allowances were recognized can be carried forward for the following limited periods of time:

### Maturity

| in € millions | 12/31/2009 | 12/31/2008 |
|---|---|---|
| Tax loss carry-forwards | | |
| To be carried forward for more than 5 years | 7,128 | 6,678 |
| To be carried forward for up to 5 years | 163 | 467 |
| Temporary differences | | |
| To be carried forward indefinitely | 107 | 157 |
| Tax credits | | |
| To be carried forward for more than 5 years | 28 | 16 |

A reconciliation of expected net tax income/expense to actual tax income/expense is shown in the following table:

## Reconciliation of Expected Net Tax

| in € millions | 2009 | 2008 |
|---|---|---|
| Net earnings before income taxes | 270 | 335 |
| Income tax rate applicable to Bertelsmann AG | 30.00% | 30.00% |
| Expected tax expense | (81) | (101) |
| The tax effects of the following items led to differences between the expected and actual tax expense: | | |
| Adjustment for differing national tax rates | (18) | 27 |
| Effect of changes in tax rate and tax law | (3) | (5) |
| Non-tax-deductible impairments of goodwill | (78) | (137) |
| Tax-free disposal and merger gains | 9 | 223 |
| Current income taxes for previous years | 28 | 42 |
| Deferred income taxes for previous years | (4) | 24 |
| Valuation allowance on deferred tax assets, current year | (27) | (54) |
| Permanent differences | (43) | (62) |
| Other adjustments | (18) | (22) |
| Total of adjustments | (154) | 36 |
| Actual tax expense | (235) | (65) |

The income tax rate applied at Bertelsmann AG consists of corporate income tax, the solidarity surcharge and trade tax.

## Effective Tax Rate

| | 2009 | 2008 |
|---|---|---|
| Corporation tax including solidarity surcharges | 15.83% | 15.83% |
| Trade tax | 14.17% | 14.17% |
| Effective income tax rate | 30.00% | 30.00% |

## 10 Selected Non-Current Assets

| in € millions | Goodwill | Other intangible assets | Property, plant and equipment | Investments accounted for using the equity method | Total |
|---|---|---|---|---|---|
| Acquisition/production cost | | | | | |
| Balance as of 1/1/2009 | 6,988 | 3,132 | 6,952 | 795 | 17,867 |
| Currency translation differences | (5) | (25) | 2 | (13) | (41) |
| Acquisitions | 67 | 78 | 25 | 58 | 228 |
| Disposals and reclassifications according to IFRS 5 | (43) | (12) | (5) | (51) | (111) |
| Additions | – | 198 | 232 | 26 | 456 |
| Disposals | – | (82) | (209) | (36) | (327) |
| Reclassifications and other changes | 3 | 1 | 12 | 8 | 24 |
| Balance as of 12/31/2009 | 7,010 | 3,290 | 7,009 | 787 | 18,096 |
| Depreciation/amortization | | | | | |
| Balance as of 1/1/2009 | 611 | 2,327 | 4,393 | 299 | 7,630 |
| Currency translation differences | (5) | (26) | (9) | – | (40) |
| Acquisitions | – | 19 | 12 | – | 31 |
| Disposals and reclassifications according to IFRS 5 | (4) | – | (8) | 1 | (11) |
| Regular additions | – | 216 | 353 | – | 569 |
| Impairment losses | 281 | 59 | 164 | 4 | 508 |
| Disposals | – | (75) | (188) | (9) | (272) |
| Write-ups | – | (4) | (2) | – | (6) |
| Reclassifications and other changes | 3 | 4 | 12 | – | 19 |
| Balance as of 12/31/2009 | 886 | 2,520 | 4,727 | 295 | 8,428 |
| Carrying amount as of 12/31/2009 | 6,124 | 770 | 2,282 | 492 | 9,668 |
| Carrying amount as of 12/31/2008 | 6,377 | 805 | 2,559 | 496 | 10,237 |

The figures of the previous year were adjusted due to completion of the Alpha Media Group business combination.

The item "Disposals and reclassifications according to IFRS 5" includes additions from the reclassification of unsold club businesses in Direct Group back to continuing operations.

## 11 Goodwill

Goodwill is attributable to the following cash-generating units:

### Goodwill and Other Intangible Assets with Indefinite Useful Life Broken Down by Cash-Generating Unit

| | Goodwill | | Other intangible assets with indefinite useful life | |
|---|---|---|---|---|
| in € millions | 12/31/2009 | 12/31/2008 | 12/31/2009 | 12/31/2008 |
| **RTL** | 4,784 | 4,942 | 121 | 121 |
| Content | 938 | 899 | – | – |
| Television Germany | 869 | 869 | – | – |
| Television France | 415 | 418 | 120 | 120 |
| Other, accounted at RTL Group | 439 | 639 | 1 | 1 |
| Other, accounted at Corporate | 2,123 | 2,117 | – | – |
| **Random House** | 346 | 352 | – | – |
| Random House North America | 218 | 223 | – | – |
| Random House UK | 81 | 75 | – | – |
| Random House Germany | 42 | 42 | – | – |
| Other | 5 | 12 | – | – |
| **Gruner + Jahr** | 456 | 485 | 107 | 108 |
| Gruner + Jahr Germany | 230 | 230 | 50 | 51 |
| Gruner + Jahr Austria | 92 | 97 | 2 | 2 |
| Gruner + Jahr Spain | 30 | 51 | 3 | 3 |
| Gruner + Jahr China | 34 | 35 | 27 | 28 |
| Other | 70 | 72 | 25 | 24 |
| **Arvato** | 389 | 453 | – | – |
| Arvato Print Ibérica | – | 26 | – | – |
| Infoscore | 242 | 247 | – | – |
| Arvato Services France | 27 | 26 | – | – |
| Qualytel | – | 34 | – | – |
| Other | 120 | 120 | – | – |
| **Direct Group** | 149 | 145 | 4 | 4 |
| Direct Group Portugal | – | – | 3 | 3 |
| Direct Group France | 143 | 135 | 1 | 1 |
| Other | 6 | 10 | – | – |
| | 6,124 | 6,377 | 232 | 233 |

The figures of the previous year were adjusted due to completion of the Alpha Media Group business combination.

Intangible assets with an indefinite useful life are primarily M6 trademark rights (€120 million), MPS trademark rights in France and Germany (€58 million) and advertising marketing rights (€27 million).

For the purpose of impairment testing (IAS 36), goodwill acquired in a business combination is allocated to the cash-generating groups that are expected to benefit from the synergies of the business combination. Goodwill is tested for impairment at least once per year and whenever there is an indication for impairment as outlined in the section “Accounting Policies” and in the following illustrated approach. An impairment is needed when the recoverable amount of a cash-generating unit has fallen below its carrying amount. The recoverable amount is the higher of fair value less cost to sell or value in use; fair value less cost to sell is always calculated first. If the result is above the carrying amount, value in use is generally not computed. Only fair value less cost to sell is applied as a yardstick to assets held for sale. The internal value in use was chosen as the recoverable amount for RTL Group goodwill recognized at Corporate.

As long as an active market exists, the market price or the price in the most recent comparable transactions is used in determining fair value. If there is no active market, fair value less cost to sell is generally calculated using the discounted cash flow method. Cash flows are projected based on internal estimates for three planning periods plus two additional planning periods. For periods beyond this detailed horizon, a perpetual annuity is recognized, taking into account individual business-specific growth rates of generally 0 to 4 percent. Discounting is always based on the weighted average cost of capital (WACC) using the average after-tax cost of capital. Management estimates of cash flow are based on factors including assumptions of economic trends and the associated risks, the regulatory environment, the competitive environment, market share, investments and growth rates. The figures obtained using the respective discount rates reflect the short- to medium-term market outlook for the cash-generating units. Material changes in the market or competitive environment may therefore impair the value of cash-generating units.

Net present values were calculated using the following discount rates and segment-specific growth rates:

| | Growth rate in % per year | Discount rate in % per year |
|---|---|---|
| **RTL** | | |
| Content | 3.0 | 8.60 |
| Television Germany | 2.5 | 8.20 |
| Television France | 3.0 | 8.20 |
| Other, accounted at RTL Group | 2.5–3.0 | 8.2–13.8 |
| Other, accounted at Corporate | 1.0 | 8.29 |
| **Random House** | | |
| Random House North America | 1.5 | 7.45 |
| Random House UK | 1.0 | 7.69 |
| Random House Germany | 1.0 | 7.69 |
| Other | 1.0 | 7.45–7.69 |
| **Gruner + Jahr** | | |
| Gruner + Jahr Germany | 0.0 | 7.69 |
| Gruner + Jahr Austria | 0.0 | 7.69 |
| Gruner + Jahr Spain | (0.5) | 8.06 |
| Gruner + Jahr China | 4.0 | 7.69 |
| Other | 0.0–2.0 | 7.21–8.83 |
| **Arvato** | | |
| Arvato Print Ibérica | 0.0 | 7.21 |
| Infoscore | 1.0 | 7.69 |
| Arvato Services France | 1.0 | 7.69 |
| Qualytel | 1.0 | 11.77 |
| Other | 0.0–1.0 | 7.21–7.69 |
| **Direct Group** | | |
| Direct Group Portugal | 0.0 | 7.69 |
| Direct Group France | 0.0 | 8.04 |
| Other | 0.0 | 7.69 |

The impairment test for the RTL goodwill is based on the management's business forecast in a detailed planning period of five years. The discounted planned cash flow was based on a discount rate after taxes of 8.29 percent. For impairment testing, a growth rate of 1 percent was assumed for the period after the end of the detailed planning period. Accordingly, it was ascertained that no impairment was needed for the goodwill carried in the financial. Validation with stock market prices over the period prior to and on the balance sheet date confirmed this estimate.

A total of €-286 million in impairments of goodwill and intangible assets with an indefinite useful life were recorded in the year under review. €-17 million was allocated to assets held for sale. Impairments of goodwill and other intangible assets with an indefinite useful life are shown under "Special Items" on the income statement.

An impairment of €-140 million was recorded for the goodwill from the U.K. TV station Five Group on June 30, 2009. This extraordinary write-down reflects the worsening of both the advertising market and Five's share of the market. The "fair value less costs to sell" approach was retained, factoring the costs and the benefits of the contemplated restructuring program. The impairment test was based on a growth rate of 3 percent and a discount rate of 9.2 percent. The annual impairment test on December 31, 2009, with the same growth rate and a discount rate of 8.4 percent did not result in any additional impairment requirements. Even raising the discount rate by 1 percentage point (9.4 percent) would not have shown a need for impairment.

In addition, an impairment of €-70 million was recorded for the goodwill of the Greek radio and TV broadcaster Alpha Media Group as of June 30, 2009. A much weaker Greek advertising market, when compared to the original business plan, resulted in a significant underperformance. A cost reduction program was initiated during the first half-year 2009; this was not sufficient to compensate a significant decline in revenue. The "fair value less costs to sell" approach was retained at June 30, 2009, by factoring the costs and the benefits of the contemplated restructuring program. The impairment test was based on a growth rate of 3 percent and a discount rate of 9.5 percent. As the restructuring plan has been implemented in 2009, "value in use" has been retained at December 31, 2009, using a discount rate of 9.1 percent. It did not result in any additional impairment requirements. However, the finalization of the Alpha Media Group business combination resulted in a reallocation of the impairment amount: €-66 million were allocated to goodwill, €-4 million were due to intangible assets. As a result of the impairment, the carrying amount of the goodwill fell to €49 million.

An increase in the discount rate selected for the annual impairment test by 1 percentage point or a reduction of 1 percentage point in the growth rate used for the impairment test would not yield any additional impairment requirements as of December 31, 2009.

The annual impairment test at Arvato Print Ibérica, an Arvato unit comprising printing companies in Spain and Portugal, yielded a need for impairment of €-26 million. In the view of management, the reasons for the downward trend of business can be found in the ongoing recession in Spain and negative price development in the printing market. The impairment was fully allocated to goodwill. The impairment test was based on a growth rate of 0 percent. The discounting was based on a discount rate after taxes of 7.21 percent. Raising the discount rate by 1 percentage point would increase the needed impairment by €14 million. A reduction in the growth rate of 1 percentage point would have increased the amount of impairment by €11 million.

The Spanish call center operator Qualytel, which belongs to Arvato, is also suffering heavily from the economic situation in Spain. The negative trend stemming from the shrinking economy is aggravated by a significantly lower volume of business with a key client – a loss that could not be offset by new business. The annual impairment test revealed the need for an impairment of €36 million: €26 million for goodwill, reducing its carrying amount to zero, and €10 million for customer agreements recognized as asset. The extensive restructuring measures initiated in 2009 to adapt capacities to market conditions and reduce costs have been reflected in the impairment calculation. The impairment test was based on a growth rate of 1 percent. The discounting was based on a discount rate after taxes of 11.77 percent. The amount of the discount rate reflects the inclusion of South American businesses. Raising the discount rate by 1 percentage point would increase the needed impairment by €4 million. Applying a growth rate of 0 percent would have only an insignificant effect on the results of the impairment test.

The cash-generating unit "Gruner + Jahr Spain" underwent an impairment test in accordance with IAS 36 effective June 30, 2009. The test found the need for an impairment of €-21 million on the goodwill. The valuation allowance is attributable primarily to the downturn in the Spanish economy due to the economic crisis and to a general cautiousness in the advertising sector. The calculation was based on a discount rate of 7.59 percent. An impairment test at a discount rate of 8.06 percent effective December 31, 2009, did not show any additional need for impairment compared to the half-year calculation. Raising the discount rate by 1.6 percentage points or reducing the cash flow by 17 percent with otherwise unchanged assumptions would show an increased need for impairment.

In the spring of 2009, the Bertelsmann AG Executive Board decided to sell Random House's business in Asia. Sales negotiations were initiated. Carrying the business at fair value less cost to sell in line with IFRS 5 resulted in an impairment of €-12 million.

## 12 Other Intangible Assets

| in € millions | Music and film rights | Other rights and licenses | Internally generated intangible assets | Advance payments | Total |
|---|---|---|---|---|---|
| Acquisition/production cost | | | | | |
| Balance as of 1/1/2009 | 1,019 | 1,443 | 650 | 20 | 3,132 |
| Currency translation differences | (6) | – | (19) | – | (25) |
| Acquisitions | 6 | 69 | 3 | – | 78 |
| Disposals and reclassifications according to IFRS 5 | (18) | 7 | (1) | – | (12) |
| Additions | 28 | 96 | 61 | 13 | 198 |
| Disposals | (37) | (40) | (5) | – | (82) |
| Reclassifications and other changes | 36 | 28 | (37) | (26) | 1 |
| Balance as of 12/31/2009 | 1,028 | 1,603 | 652 | 7 | 3,290 |
| Depreciation/amortization | | | | | |
| Balance as of 1/1/2009 | 928 | 802 | 597 | – | 2,327 |
| Currency translation differences | (6) | (1) | (19) | – | (26) |
| Acquisitions | 6 | 11 | 2 | – | 19 |
| Disposals and reclassifications according to IFRS 5 | (5) | 5 | – | – | – |
| Regular additions | 67 | 123 | 26 | – | 216 |
| Impairment losses | 1 | 56 | 2 | – | 59 |
| Disposals | (37) | (33) | (5) | – | (75) |
| Write-ups | (4) | – | – | – | (4) |
| Reclassifications and other changes | 2 | 10 | (8) | – | 4 |
| Balance as of 12/31/2009 | 952 | 973 | 595 | – | 2,520 |
| Carrying amount as of 12/31/2009 | 76 | 630 | 57 | 7 | 770 |
| Carrying amount as of 12/31/2008 | 91 | 641 | 53 | 20 | 805 |

Other rights and licenses include trademark rights, delivery rights, publishing rights, licenses and acquired software.

Internally generated intangible assets are primarily film and TV productions and internally generated software.

Impairments on intangible assets totaling €59 million were recognized in the year under review, including €-15 million on the brand and customer agreements of the main TV station Five and €-4 million for rights of the Greek radio and TV company Alpha Media Group. In addition, there was an unscheduled write-down for the intangible assets of the online educational platform Scoyo. Scoyo will be absorbed effective April 1, 2010, into the online portfolio of the children's channel Super RTL and continued with a significantly reduced organization. The reappraisal of the online educational platform conducted as part of the search for an investor resulted in a €-19 million impairment of assets.

The carrying amount of other intangible assets effective December 31, 2009 was reduced to €770 million.

## 13 Property, Plant and Equipment

| in € millions | Land, rights equivalent to land and buildings | Plant, technical equipment and machinery | Other equipment, fixtures, furniture and office equipment | Advance payments and construction in progress | Total |
|---|---|---|---|---|---|
| Acquisition/production cost | | | | | |
| Balance as of 1/1/2009 | 2,042 | 3,575 | 1,266 | 69 | 6,952 |
| Currency translation differences | 4 | (6) | 4 | – | 2 |
| Acquisitions | 3 | 17 | 5 | – | 25 |
| Disposals and reclassifications according to IFRS 5 | (7) | (1) | 4 | (1) | (5) |
| Additions | 31 | 63 | 70 | 68 | 232 |
| Disposals | (4) | (125) | (73) | (7) | (209) |
| Reclassifications and other changes | 20 | 61 | (1) | (68) | 12 |
| Balance as of 12/31/2009 | 2,089 | 3,584 | 1,275 | 61 | 7,009 |
| Depreciation/amortization | | | | | |
| Balance as of 1/1/2009 | 899 | 2,599 | 894 | 1 | 4,393 |
| Currency translation differences | (1) | (11) | 3 | – | (9) |
| Acquisitions | 1 | 8 | 3 | – | 12 |
| Disposals and reclassifications according to IFRS 5 | (10) | (1) | 3 | – | (8) |
| Regular additions | 60 | 183 | 110 | – | 353 |
| Impairment losses | 24 | 135 | 3 | 2 | 164 |
| Disposals | (2) | (118) | (68) | – | (188) |
| Write-ups | – | – | (1) | (1) | (2) |
| Reclassifications and other changes | (5) | 15 | 2 | – | 12 |
| Balance as of 12/31/2009 | 966 | 2,810 | 949 | 2 | 4,727 |
| Carrying amount as of 12/31/2009 | 1,123 | 774 | 326 | 59 | 2,282 |
| Carrying amount as of 12/31/2008 | 1,143 | 976 | 372 | 68 | 2,559 |

Prinovis Germany took an impairment of €-111 million on assets effective June 30, 2009. The main reason for this is a significant decline in revenues in the gravure printing market. A recovery in the printing business is not expected until 2011. A program launched in 2009 to increase competitiveness through repositioning, restructuring and cost-cutting will be able to produce results over the medium term. The impairment was based on the fair value less cost to sell calculated as the net present value of future cash flows. The impairment test as of June 30, 2009 was based on a discount rate of 7.02 percent. Running this test again effective December 31, 2009, with a discount rate of 7.21 percent did not identify any further need for impairment.

At Arvato Print Italy, the ongoing recession in Italy, the collapse of the advertising markets in the magazine sector, falling order volumes and unfavorable price developments led to a significant downturn in revenues and earnings. The impairment test as of December 31, 2009, identified a required impairment of €30 million. This was taken into account in the form of unscheduled depreciation for technical equipment and machinery. The impairment test was based on a discount rate of 7.21 percent. The cash flow forecasts for the impairment test are based on reasonable and justifiable assumptions by management and are the best estimate of the underlying economic conditions.

The Spanish real estate crisis necessitated an impairment test for the real estate holdings of Motorpresse Spain. The property, with the building on it, was evaluated based on a DCF model, taking into account an average annual market rent and a discount rate of 9.0 percent. The result was a devaluation of the property with its building in the amount of €-13 million.

Impairments on property, plant and equipment totaled €-164 million.

## 14 Investments Accounted for Using the Equity Method

| in € millions | 12/31/2009 | 12/31/2008 |
|---|---|---|
| Proportionate equity | 180 | 169 |
| Goodwill | 312 | 327 |
| | 492 | 496 |

Total assets of investments accounted for using the equity method amounted to €1,538 million as of December 31, 2009 (previous year: €1,612 million). These were offset by total liabilities of €920 million as of December 31, 2009 (previous year: €1,036 million). Revenues totaled €1,511 million (previous year: €1,843 million). Net income totaled €116 million (previous year: €171 million). These disclosures represent accounting totals for significant investments accounted for using the equity method. The values are calculated on the basis of a 100 percent interest.

The following investments accounted for using the equity method are listed companies. The fair values of these investments as of December 31, 2009, were as follows:

### Fair Values of Investments Accounted for Using the Equity Method

| in € millions | 12/31/2009 | 12/31/2008 |
|---|---|---|
| Buch.de | – | 8 |
| Antena 3 | 353 | 192 |
| | 353 | 200 |

## 15 Other Financial Assets

| | At amortized cost | | At fair value | | Total | |
|---|---|---|---|---|---|---|
| in € millions | 12/31/2009 | 12/31/2008 | 12/31/2009 | 12/31/2008 | 12/31/2009 | 12/31/2008 |
| Current | | | | | | |
| Loans | 5 | 15 | – | – | 5 | 15 |
| Marketable securities available-for-sale | 1 | 1 | 1 | – | 2 | 1 |
| Securities, initial recognition at fair value through profit or loss | – | – | 384 | – | 384 | – |
| | 6 | 16 | 385 | – | 391 | 16 |
| Non-current | | | | | | |
| Loans | 94 | 89 | – | – | 94 | 89 |
| Investments in affiliates | 2 | 25 | 22 | – | 24 | 25 |
| Investments available-for-sale | 52 | 67 | 71 | 56 | 123 | 123 |
| Marketable securities available-for-sale | 2 | 4 | 42 | 31 | 44 | 35 |
| Securities, initial recognition at fair value through profit or loss | – | – | 81 | 470 | 81 | 470 |
| | 150 | 185 | 216 | 557 | 366 | 742 |

In accordance with IAS 39, available-for-sale investments and securities are measured at fair value or, if the fair value cannot be determined, at amortized cost or at amounts based on estimated discounted cash flows. Impairment losses on available-for-sale investments come to €-16 million in the year under review.

Securities initially recognized at fair value through profit or loss are carried at fair value in accordance with IAS 39. The short-term securities of this category of €384 million (previous year: €363 million), reported under the long-term securities of the category "initial recognition at fair value through profit or loss," are for the interest of M6 in Canal Plus, in which Vivendi Universal and TF1 also hold stakes.

The fair value measurement of securities initially recognized at fair value through profit or loss resulted in a total gain of €44 million (previous year: €18 million).

## 16 Inventories

| in € millions | 12/31/2009 | 12/31/2008 |
|---|---|---|
| Program rights | 993 | 1,004 |
| Raw materials and supplies | 142 | 169 |
| Work in progress | 92 | 110 |
| Finished goods and merchandise | 395 | 409 |
| Advance payments | 155 | 135 |
| | 1,777 | 1,827 |

Valuation allowances on inventories of €-159 million (previous year: €-124 million) were recognized in the period under review, of this total €-22 million is due to the TV series purchased from the U.S. for the U.K. station Five. Inventories are written up again when the reason for recognizing valuation allowances no longer applies. Write-ups on inventories in the amount of €96 million (previous year: €73 million) were recognized in the year under review; of this total €27 million were for the French RTL Group subsidiary M6.

## 17 Receivables and Other Assets

| in € millions | 12/31/2009 | 12/31/2008 |
|---|---|---|
| Non-current | | |
| Trade accounts receivable | 8 | 7 |
| Other accounts receivable and other assets | 311 | 366 |
| | | |
| Current | | |
| Trade accounts receivable | 2,480 | 2,684 |
| Accounts receivable from royalties and licenses | 1 | 1 |
| Trade accounts receivable | 2,481 | 2,685 |
| Accounts receivable from participations | 32 | 28 |
| Advance payments for royalties and licenses | 447 | 477 |
| Other tax receivables | 66 | 80 |
| Marketable securities available-for-sale | 17 | 9 |
| Derivative financial instruments | 46 | 173 |
| Prepaid expenses | 180 | 143 |
| Other receivables | 337 | 390 |
| Other accounts receivable and other assets | 1,125 | 1,300 |

The other non-current receivables and other assets of €311 million are made up primarily of advance payments for royalties and licenses of €181 million. Advance payments for fees and royalties are generally written off if no future related income is expected. These expectations are based on management estimates of future sales volumes and price changes using historical data.

## Maturity Analysis of Selected Financial Assets and Receivables

| in € millions | Neither impaired nor past due on the reporting date | Not itemized impaired as of the reporting date and past due by: < 1 month | 1–3 months | 3–6 months | 6–12 months | > 12 months | Gross value of receivables written down individually |
|---|---|---|---|---|---|---|---|
| Loans | 95 | – | – | – | – | – | 37 |
| Trade accounts receivable | 1,819 | 286 | 129 | 56 | 34 | 41 | 325 |
| Accounts receivable from royalties and licenses | 1 | – | – | – | – | – | – |
| Accounts receivable from participations | 32 | – | – | – | – | – | – |
| Other receivables | 370 | 20 | 11 | 14 | 3 | 3 | 35 |
| Non-current securities | 472 | – | – | – | – | – | 50 |
| Carrying amount as of 12/31/2009 | 2,789 | 306 | 140 | 70 | 37 | 44 | 447 |
| Loans | 94 | – | – | – | 8 | – | 23 |
| Trade accounts receivable | 1,976 | 295 | 184 | 64 | 58 | 55 | 230 |
| Accounts receivable from royalties and licenses | 1 | – | – | – | – | – | – |
| Accounts receivable from participations | 28 | – | – | – | – | – | 2 |
| Other receivables | 426 | 6 | 12 | 1 | 8 | 1 | 26 |
| Non-current securities | 64 | – | – | – | – | – | 42 |
| Carrying amount as of 12/31/2008 | 2,589 | 301 | 196 | 65 | 74 | 56 | 323 |

No valuation allowances were recognized for unsettled receivables not yet due as of the reporting date, as there was no indication of default.

## Schedule of Valuation Allowances According to IFRS 7

| in € millions | Previous year | Additions | Usage | Releases | Change of consolidation scope | Exchange rate effect | Year under review |
|---|---|---|---|---|---|---|---|
| Loans | (21) | (24) | 3 | 9 | – | – | (33) |
| Investments in affiliates | (616) | – | – | 10 | 1 | – | (605) |
| Investments available-for-sale | (72) | (9) | (8) | 20 | – | 1 | (68) |
| Securities | (7) | (4) | – | – | – | – | (11) |
| Trade accounts receivable | (174) | (82) | 14 | 38 | 2 | – | (202) |
| Accounts receivable from participations | (1) | – | – | – | 1 | – | – |
| Other receivables | (23) | (16) | 2 | 6 | – | – | (31) |
| Total 2009 | (914) | (135) | 11 | 83 | 4 | 1 | (950) |
| Loans | (19) | (2) | 1 | – | (1) | – | (21) |
| Investments in affiliates | (599) | (29) | – | 10 | – | 2 | (616) |
| Investments available-for-sale | (67) | (12) | – | 6 | 1 | – | (72) |
| Securities | (7) | – | – | – | – | – | (7) |
| Trade accounts receivable | (293) | (128) | 101 | 30 | 108 | 7 | (175) |
| Accounts receivable from participations | (1) | – | – | – | – | – | (1) |
| Other receivables | (21) | (8) | 2 | 4 | – | – | (23) |
| Total 2008 | (1,007) | (179) | 104 | 50 | 108 | 9 | (915) |

## 18 Cash and Cash Equivalents

| in € millions | 12/31/2009 | 12/31/2008 |
|---|---|---|
| Cash | 1,806 | 1,169 |
| Other securities | 279 | 414 |
| | 2,085 | 1,583 |

## 19 Equity

### Subscribed Equity

| Number of shares | 12/31/2009 | 12/31/2008 |
|---|---|---|
| Ordinary shares | 83,760 | 83,760 |
| Total shares | 83,760 | 83,760 |

As was the case in the previous year, Bertelsmann AG's subscribed capital totals €1,000 million as in the previous year, consisting of 83,760 no-par value bearer shares (ordinary shares). Indirect holdings in the subscribed capital are as follows: 77.4 percent Bertelsmann Stiftung, 22.6 percent Mohn family. Bertelsmann Verwaltungsgesellschaft (BVG) controls the voting rights at the Bertelsmann AG Annual General Meeting.

### Capital Reserve

The capital reserve mainly includes additional paid-in capital, or share premiums, received from the issue of preference and ordinary shares in excess of their par values.

### Retained Earnings

Retained earnings include the undistributed prior-year net profits of those companies included in the consolidated financial statements, as well as other comprehensive income.

### Other Comprehensive Income

The change in other comprehensive income after taxes is computed as follows:

| in € millions | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Before-tax amount | Taxes | Net-of-tax amount | Before-tax amount | Taxes | Net-of-tax amount |
| Currency translation differences | (25) | – | (25) | 109 | – | 109 |
| Assets held for sale | 20 | – | 20 | (13) | – | (13) |
| Cash flow hedges | (12) | 6 | (6) | 77 | (15) | 62 |
| Actuarial gains/losses on defined benefit plans | 38 | 7 | 45 | (26) | 16 | (10) |
| Share of other comprehensive income of at-equity consolidated investments | (5) | – | (5) | (12) | – | (12) |
| Other comprehensive income | 16 | 13 | 29 | 135 | 1 | 136 |

Changes in the fair value of hedging relationships in place since the previous year amounted to €1 million (previous year: €28 million) and new hedging relationships to €-5 million (previous year: €21 million) in fiscal year 2009. This was offset by the reversal to other comprehensive income of €-8 million (previous year: €28 million), which was recognized in other operating income (other operating expenses in the prior year).
Among the total expenses and income recognized directly in equity, €-5 million relates to non-current assets classified as held for sale.

### Stock Option Plans at Subsidiaries

Various stock option plans are in operation at subsidiaries. At RTL Group in particular, stock option plans for senior management were introduced in 2000. The option price is derived from the market price at the time the options are granted. Within RTL Group, there are also stock option plans at Métropole Télévision (M6).

### RTL Group Stock Option Plan

RTL Group established a stock option plan for selected directors on July 25, 2000. In order to participate in the stock option plan ("SOP"), participants must be employed by RTL Group or one of its subsidiaries at the date the options are granted.

The number of options granted to participants as part of the SOP is determined by the compensation committee. The compensation committee is made up of the company's executive board or a committee constituted of members thereof. Participants may choose not to accept the options granted to them and are not obliged to make any payments for options granted as part of the SOP.

The number of ordinary shares which may be placed as part of the SOP in any one year may not exceed 0.5 percent of the company's issued ordinary share capital.

As a general rule, the exercise price of options issued under the SOP is the average price of RTL shares over a period of 20 trading days before the date on which the options are granted. The exercise price may be a higher or lower amount to be determined by the compensation committee.

One third of options granted may be exercised on each of the second, third and fourth anniversaries of the initial grant date, or as otherwise determined by the compensation committee. The options granted must normally be exercised within ten years of the grant date, or within a shorter period of time to be determined by the compensation committee. Options may be exercised earlier by the heirs of participants in the event of their death.

The table below shows the change in stock options in the year under review:

### Options (RTL Group)

| in thousands | Average exercise price in € per share | 2009 | Average exercise price in € per share | 2008 |
|---|---|---|---|---|
| Options outstanding at the beginning of the year | 87 | 130 | 87 | 139 |
| Options exercised/expired during the year | 85 | (5) | 85 | (9) |
| Options outstanding at the end of the year | 87 | 125 | 87 | 130 |

The options outstanding at the end of the year have the following conditions:

## Conditions for Stock Options (RTL Group)

| Expiry date | Exercise price in € | Number of options (in thousands) 2009 | Number of options (in thousands) 2008 |
|---|---|---|---|
| August 2010 | 120.00 | 6 | 6 |
| December 2010 | 85.24 | 118 | 123 |
| May 2011 | 85.24 | 1 | 1 |
| | | 125 | 130 |

On December 31, 2009, RTL Group shares closed on the Brussels Stock Exchange at €47.

## Métropole Télévision (M6) Employee Stock Option Plan

Métropole Télévision has established an employee stock option plan open for directors and certain employees within the M6 Group. The number of options granted to participants is determined by the Board of Directors of Métropole Télévision, in accordance with the authorization given by the General Meeting of Shareholders.

The terms and conditions of the grants are as follows, and all options are exercised by the physical delivery of shares:

| Grant date | Number of options initially granted (in thousands) | Remaining options (in thousands) | Vesting conditions | Contractual life of options[1)] |
|---|---|---|---|---|
| **Stock option plans** | | | | |
| June 2002 | 710.50 | 0.00 | 4 years of service | 7 years |
| July 2003 | 713.50 | 421.00 | 4 years of service | 7 years |
| November 2003 | 20.00 | 20.00 | 4 years of service | 7 years |
| April 2004 | 861.50 | 527.00 | 4 years of service | 7 years |
| June 2005 | 635.50 | 421.50 | 4 years of service | 7 years |
| June 2006 | 736.75 | 504.25 | 4 years of service | 7 years |
| May 2007 | 827.50 | 651.50 | 4 years of service | 7 years |
| May 2008 | 883.83 | 793.73 | 4 years of service | 7 years |
| Free share plans | | | | |
| May 2007[2)] | 188.30 | 0.00 | 2 years of service + performance conditions | |
| May 2008[2)] | 280.72 | 200.76 | 2 years of service + performance conditions | |
| July 2009[2)] | 346.70 | 344.20 | 2 years of service + performance conditions | |
| December 2009[2)] | 45.65 | 45.65 | 2 years of service + performance conditions | |
| Total | 6,250.45 | 3,929.59 | | |

[1)] The contractual term of the options corresponds to the exercise condition (i. e., four years of service) plus three years (correspond to the period in which the options can be exercised).
[2)] The maximum number of free shares granted if the performance conditions are significantly exceeded would amount to 456,705. Such number could be reduced to zero if objectives are not met.

The price to be paid to exercise each of the remaining options is the average value of shares in Métropole Télévision on the Paris Stock Exchange over the 20 trading days preceding the issue date with the exception of the free-share allocation plan for management.

The table below shows the change in stock options in the year under review:

### Options (M6)

| in thousands | Average exercise price in € per share | 2009 | Average exercise price in € per share | 2008 |
|---|---|---|---|---|
| Options outstanding at the beginning of the year | 23 | 4,083 | 25 | 3,791 |
| Options granted during the year | – | – | 25 | 884 |
| Options expired during the year | 25 | (744) | 28 | (592) |
| Options outstanding at the end of the year | 22 | 3,339 | 23 | 4,083 |

Approximately 591,000 free shares are still exercisable at year-end compared to 448,000 at the beginning of the year. 392,000 free shares were granted in the course of the year. Of these, 112,000 were exercised and 138,000 forfeited.

The exercise terms for the stock options outstanding at the end of the year are as follows:

### Conditions for Stock Options (M6)

| Expiry date | Exercise price in € | Number of options (in thousands) 2009 | Number of options (in thousands) 2008 |
|---|---|---|---|
| Stock option plans | | | |
| 2009 | 28.06 | – | 393 |
| 2010 | 22.53 | 441 | 477 |
| 2011 | 24.97 | 527 | 567 |
| 2012 | 19.94 | 421 | 459 |
| 2013 | 24.60 | 504 | 584 |
| 2014 | 27.52 | 652 | 732 |
| 2015 | 14.73 | 794 | 871 |
| | | 3,339 | 4,083 |
| Free share plans | | | |
| 2009 | | – | 171 |
| 2010 | | 201 | 277 |
| 2011 | | 390 | – |
| | | 591 | 448 |
| Options outstanding at the end of the year | | 3,930 | 4,531 |
| of which exercisable | | 1,943 | 1,401 |

On December 31, 2009, M6 shares closed on the Paris Stock Exchange at €17.97.

The fair value of services received in exchange for the stock options granted is measured as the fair value of stock options granted. The fair value of services received is estimated using a binomial model. Free shares are valued at the share price on the issue date less discounted dividends, which employees are not entitled to receive during the vesting period.

### Fair Values of Stock Options (M6)

| | Stock option plans | | | | | Free share plans | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant date | 4/28/2004 | 6/2/2005 | 6/6/2006 | 5/2/2007 | 5/6/2008 | 6/6/2006 | 5/2/2007 | 5/6/2008 | 7/28/2009 | 12/23/2009 | |
| Share price | €24.97 | €20.17 | €24.63 | €26.55 | €15.22 | €24.63 | €26.55 | €15.22 | €13.00 | €18.02 | |
| Strike price | €24.97 | €19.94 | €24.60 | €27.52 | €14.73 | | | | | | |
| Volatility | 52.30% | 41.80% | 43.10% | 37.80% | 40.00% | | | | | | |
| Risk-free interest rate | 3.32% | 3.24% | 4.02% | 4.40% | 4.39% | 4.02% | 4.40% | 4.39% | 2.49% | 1.42% | |
| Expected return | 4.34% | 5.24% | 3.81% | 3.99% | 6.30% | 3.81% | 3.99% | 6.30% | 4.90% | 4.01% | |
| Liquidity discount | 15% | 15% | 15% | 15% | 15% | 0% | 15% | 15% | 15% | 15% | |
| Option life | 6 years | 6 years | 6 years | 6 years | 6 years | 2 years | 2 years | 2 years | 2 years | 2 years | |
| Personnel costs in € millions | | | | | | | | | | | |
| 2009 | – | 0.2 | 0.9 | 1.3 | 0.6 | – | (0.6) | 1.4 | 0.8 | – | 4.6 |
| 2008 | (0.8) | 0.4 | 1.1 | 1.3 | 0.4 | 1.7 | 1.7 | 1.1 | – | – | 6.9 |

### Minority Interests

Minority interests in the equity of consolidated subsidiaries consist primarily of minority interests in RTL Group.

## 20 Provisions for Pensions and Similar Obligations

| in € millions | 12/31/2009 | 12/31/2008 |
|---|---|---|
| Defined benefit plans | 1,281 | 1,277 |
| Obligations similar to pensions | 125 | 132 |
| | 1,406 | 1,409 |

The Bertelsmann Group operates various pension plans for current and former employees and their surviving dependents. The model of such plans varies according to the legal, fiscal and economic environment of the country concerned. These company pension plans include both defined contribution and defined benefit plans.

In the case of defined contribution plans, the company makes payments into an external pension fund or another welfare fund through a statutory, contractual or voluntary model. The company has no obligation to provide further benefits once it has made these payments, so no provisions are recognized. Expenses for defined contribution plans in the amount of €23 million were recognized in the year under review (previous year: €33 million).

All other pension plans are defined benefit plans. Some are financed through an external investment fund (plan assets), while others are unfunded. Provisions are recognized for these pension plans, most of which are final salary-type plans.

The provisions are calculated using actuarial formulas in accordance with IAS 19. The amount of provisions depends on employees' length of service with the company and their pensionable salary. Provisions are computed using the projected unit credit method, in which increasing salary costs are assumed over the period of service, in contrast to the entry-age normal method. The computation also involves using biometric calculations, prevailing long-term capital market interest rates and assumptions about future salary and pension increases. In Germany, the biometric calculations are based on the 2005 G mortality tables issued by Prof. Klaus Heubeck. The following actuarial assumed weightings have been applied:

## Actuarial Assumptions

| | 12/31/2009 Germany | 12/31/2009 Foreign | 12/31/2008 Germany | 12/31/2008 Foreign |
|---|---|---|---|---|
| Discount rate | 5.99% | 5.62% | 6.00% | 5.78% |
| Expected return on plan assets | 3.57% | 6.08% | 5.41% | 5.82% |
| Rate of salary increase | 1.92% | 3.80% | 2.50% | 4.18% |
| Rate of pension increase | 1.74% | 1.11% | 1.90% | 0.89% |
| Fluctuation | Experience values | | Experience values | |

Projected returns on plan assets are based exclusively on projections for the respective asset classes held. Historical data, economic forecasts, the interest rate outlook, inflation rates and stock market expectations are factored into expected plan returns. The majority of plan assets are managed by Bertelsmann Pension Trust e. V. under a contractual trust arrangement (CTA) for pension commitments of Bertelsmann AG and some German subsidiaries. Projected CTA plan returns are determined on the basis of the strategic asset allocation maintained in different asset classes. Projected plan returns are determined applying a risk-free rate of return for total plan assets based on current long-term government bond yields. A risk premium return is also calculated for each asset class based on historical market returns and economic forecasting. The market indices applied reflect the plan assets classified by region, asset class and industry. Projected plan returns are reviewed regularly – annually at a minimum – and factor in projected contributions and distributions of plan assets.

Changes in defined benefit obligations and plan assets in the year under review were as follows:

| in € millions | 2009 | 2008 |
|---|---|---|
| Defined benefit obligation on 1/1 | 2,206 | 2,695 |
| Current service cost | 37 | 50 |
| New past service cost | – | 2 |
| Interest expenses | 131 | 140 |
| Actuarial (gains) and losses | 18 | (216) |
| Curtailments and settlements | (1) | (17) |
| Contributions to plan assets by employees | 3 | 3 |
| Benefits directly paid by employer | (92) | (95) |
| Benefits paid out of plan assets | (15) | (26) |
| Change of consolidation scope | – | (218) |
| Disposal due to IFRS 5 | – | (55) |
| Currency translation differences | 8 | (64) |
| Other changes | 3 | 7 |
| Defined benefit obligation on 12/31 | 2,298 | 2,206 |
| | | |
| Fair value of plan assets on 1/1 | 930 | 1,282 |
| Expected return on plan assets | 51 | 80 |
| Actuarial gains and (losses) | 58 | (227) |
| Settlements | – | (4) |
| Contributions by employer | (10) | 42 |
| Contributions by the employees | 3 | 3 |
| Benefits paid out of plan assets | (15) | (26) |
| Change of consolidation scope | – | (117) |
| Disposal due to IFRS 5 | – | (50) |
| Currency translation differences | 6 | (53) |
| Other changes | (3) | – |
| Fair value of plan assets on 12/31 | 1,020 | 930 |
| | | |
| Funded status | 1,278 | 1,276 |

In Germany, Bertelsmann Pension Trust e. V. refunded Bertelsmann AG €37 million for pension payments made in the previous year as part of the contractual trust arrangement (CTA). This withdrawal from plan assets was netted with employer contributions.

The net pension liability reported on the balance sheet is composed as follows:

## Net Pension Liability

| in € millions | 12/31/2009 | 12/31/2008 |
|---|---|---|
| Defined benefit obligation of unfunded plans | 1,053 | 1,020 |
| Defined benefit obligation of funded plans | 1,245 | 1,186 |
| Total defined benefit obligation | 2,298 | 2,206 |
| Fair value of plan assets | (1,020) | (930) |
| Unrecognized assets due to the limit in IAS 19.58 | – | – |
| Net liability recognized in the balance sheet | 1,278 | 1,276 |
| thereof provisions for pensions | 1,281 | 1,277 |
| thereof other assets | 3 | 1 |

Actuarial gains and losses under defined benefit pension plans and the effects of the asset ceiling in accordance with IAS 19.58 are taken directly to pension provisions in the year in which they arise via Group statement of comprehensive income without affecting the income statement.

Actuarial gains of €40 million (previous year losses: €11 million) as well as €1 million in the previous year (2009: no effects) due to the asset ceiling prescribed by IAS 19.58 were reported in statement of other comprehensive income for the year under review. The statement of other comprehensive income includes cumulative actuarial losses of €-221 million (previous year: €-275 million).

Net liability can be broken down by geographic region as follows:

## Breakdown of Net Pension Liability by Region

| in € millions | 12/31/2009 | 12/31/2008 |
|---|---|---|
| Germany | 1,073 | 1,084 |
| U.S. | 72 | 75 |
| Other Europe | 128 | 113 |
| Other countries | 5 | 4 |
| Net liability recognized in the balance sheet | 1,278 | 1,276 |

Expenses for defined benefit plans in the amount of €116 million were recognized in the year under review (previous year: €100 million). Personnel costs of €36 million (previous year: €40 million) were recorded, along with other financial expenses of €80 million (previous year: 60 million). These expenses break down as follows:

### Expenses for Defined Benefit Plans

| in € millions | 2009 | 2008 |
|---|---|---|
| Current service cost | 37 | 50 |
| Interest expenses | 131 | 140 |
| Expected return on plan assets | (51) | (80) |
| Amortization of past service cost | – | 2 |
| Effect of curtailments or settlements | (1) | (12) |
| Net periodic pension expenses | 116 | 100 |

The actual return on plan assets in the year under review was €109 million (previous year: €-147 million).

The portfolio structure of plan assets is composed as follows:

| in € millions | 12/31/2009 | 12/31/2008 |
|---|---|---|
| Equity instruments | 312 | 262 |
| Debt instruments | 612 | 542 |
| Property | 3 | 3 |
| Cash and cash equivalents | 54 | 65 |
| Other | 39 | 58 |
| Fair value of any plan assets | 1,020 | 930 |

Employer contributions to plan assets are expected to amount to €19 million in the next fiscal year.

### Change in Net Pension Liability

| in € millions | 2009 | 2008 |
|---|---|---|
| Net liability at the beginning of the year | 1,276 | 1,416 |
| Pension expense | 116 | 100 |
| New actuarial (gains) and losses recognized directly in equity | (40) | 11 |
| Effects of asset ceiling (IAS 19.58) recognized directly in equity | – | (1) |
| Pension payments | (92) | (95) |
| Contributions to plan assets | 10 | (42) |
| Changes of consolidation scope | – | (102) |
| Disposal due to IFRS 5 | – | (5) |
| Currency translation differences | 2 | (11) |
| Other effects | 6 | 5 |
| Net liability at the end of the year | 1,278 | 1,276 |

The following table shows the portion of new actuarial gains and losses resulting from experience adjustments:

| in € millions | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Experience adjustments occurred | | | | | |
| (Gains)/losses on defined benefit obligation | 9 | (72) | (12) | (4) | 6 |
| Gains/(losses) on plan assets | 58 | (227) | (57) | 9 | 31 |

The changes in the defined benefit obligation and plan assets over the past five years were as follows:

| in € millions | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Defined benefit obligation | 2,298 | 2,206 | 2,695 | 2,995 | 3,053 |
| Plan assets | 1,020 | 930 | 1,282 | 1,217 | 969 |
| Funded status | 1,278 | 1,276 | 1,413 | 1,778 | 2,084 |

The U.S. subsidiaries' obligations for post-retirement employee healthcare costs constitute defined benefit obligations and are included in the provisions recognized in the amount of €60 million (previous year: €52 million).

These obligations have also been calculated using international standards as described above. Scaled annual increases of 8.6 to 9.1 percent were assumed for healthcare costs (previous year 9.1 percent). An increase or decrease of 1 percentage point in the assumptions for cost increases compared with the assumptions actually applied would have the following effects on pension cost and the defined benefit obligation:

| in € millions | 12/31/2009 | 12/31/2008 |
|---|---|---|
| Effect of 1 percentage point increase on pension cost | – | – |
| Effect of 1 percentage point increase on defined benefit obligation | 3 | 4 |
| Effect of 1 percentage point decrease on pension cost | – | – |
| Effect of 1 percentage point decrease on defined benefit obligation | (2) | (3) |

Similar obligations include provisions for bonuses for employee service anniversaries, partial retirement programs, amounts due but not yet paid to defined contribution plans, and severance payments at retirement. Severance payments at retirement are made when employees leave the company and are based on statutory obligations, primarily in Italy and Austria. Provisions for employee service anniversary bonuses and severance payments at retirement are recognized in the same way as defined benefit plans but with actuarial gains and losses recognized in profit or loss.

Employees in Germany who are at least 55 years old and have an unlimited employment contract with the company qualify for the partial retirement program. The partial retirement phase lasts two to five years.

Bertelsmann AG introduced a model for deferred compensation accounts in 2006. Under this model, employees defer part of their gross salary, which is then credited to deferred compensation accounts held by a trustee. The aim of this deferred compensation is to enable staff to take early retirement. The period of early retirement depends on the balance in the deferred compensation account. The balance in the deferred compensation accounts meets the definition of plan assets as set out in IAS 19.7, and the company's obligation at any given time corresponds to the fair value of the deferred compensation accounts. The deferred compensation account model has no effect on the balance sheet or income statement. Outsourced assets totaled €4 million at December 31, 2009 (previous year: €3 million).

## 21 Other Provisions

| in € millions | 12/31/2008 | of which > 1 year | Additions | Releases | Usage | Other effects | Change of consolida-tion scope | 12/31/2009 | of which > 1 year |
|---|---|---|---|---|---|---|---|---|---|
| Taxes | 7 | – | 1 | – | (3) | – | – | 5 | – |
| Restructuring | 93 | 4 | 77 | (10) | (88) | 9 | – | 81 | 9 |
| Litigation | 90 | 22 | 42 | (23) | (22) | 1 | – | 88 | 5 |
| Onerous contracts | 94 | 33 | 119 | (7) | (33) | (1) | – | 172 | 51 |
| Deferred remuneration | 55 | 53 | 3 | – | (8) | (14) | (1) | 35 | 34 |
| Personnel, miscellaneous | 28 | – | 7 | (2) | (10) | (7) | – | 16 | 4 |
| Guarantees and warranties | 17 | – | 6 | – | (1) | (11) | – | 11 | – |
| Sales and distribution | 11 | – | 5 | (5) | (3) | 2 | – | 10 | – |
| Other | 156 | 27 | 59 | (43) | (50) | 10 | 2 | 134 | 37 |
| | 551 | 139 | 319 | (90) | (218) | (11) | 1 | 552 | 140 |

In accordance with IAS 37, restructuring provisions include termination benefits and other costs relating to the discontinuation of business activities. Provisions of €81 million (previous year: €93 million) are recognized for various restructuring programs within the Bertelsmann Group.

Reported provisions for litigation of €61 million pertain to RTL Group companies.

## 22 Profit Participation Capital

| in € millions | 12/31/2009 | 12/31/2008 |
|---|---|---|
| Nominal value | 516 | 516 |
| Premium | 190 | 190 |
| | 706 | 706 |

The profit participation capital is made up of profit participation certificates issued in 2001 (ISIN DE 000 522 9942, hereafter referred to as: 2001 profit participation certificates) and profit participation certificates issued in 1992 (ISIN DE 000 522 9900, hereafter referred to as 1992 profit participation certificates). The 2001 profit participation certificates have a nominal value of €10, while the 1992 profit participation certificates have a nominal value of €0.01. As of the balance sheet date, as was the case in the previous year, nominal profit participation capital was comprised of €499 million in 2001 profit participation certificates and €17 million in 1992 profit participation certificates. The 1992 and 2001 profit participation certificates are listed for public trading on the Regulated Market.

## 23 Financial Debt

Financial debt includes all of the Bertelsmann Group's interest-bearing liabilities to banks and capital markets at the balance sheet date. Carrying amounts are calculated as follows:

| | Current | | Non-current | | | |
|---|---|---|---|---|---|---|
| | 12/31/2009 | 12/31/2008 | Remaining term in years | | 12/31/2009 | 12/31/2008 |
| in € millions | | | 1–5 | > 5 | | |
| Bonds | 741 | 804 | 1,391 | 1,628 | 3,019 | 3,083 |
| Promissory notes | – | – | 628 | – | 628 | 597 |
| Liabilities to banks | 123 | 148 | 82 | 1 | 83 | 98 |
| Lease liabilities | 93 | 30 | 54 | 68 | 122 | 209 |
| Other financial debt | 32 | 29 | 37 | – | 37 | 30 |
| | 989 | 1,011 | 2,192 | 1,697 | 3,889 | 4,017 |

The non-current financial debt recognized by the Group includes transaction costs and is adjusted over time. Foreign-currency liabilities are translated at the exchange rate at the balance sheet date. The Bertelsmann Group has access to variable-rate and fixed-rate funds through various contractual arrangements. Financial debt is generally unsecured and all has the same priority.

In January 2009, Bertelsmann AG issued a publicly-listed bond of €500 million with a five-year term. The securities have a coupon of 7.875 percent. The bond was increased to €750 million in April 2009. In addition, in March Bertelsmann AG issued a promissory note with a five-year term for €30 million as part of a private placement. The funds were used to increase the strategic liquidity reserve.

As of the balance sheet date, the Group had bonds, private placements and promissory note loans outstanding with a nominal volume of €4,402 million (previous year: €4,514 million).

The differences in carrying amount versus nominal value in the table below are attributable to transaction costs, premiums and discounts. In order to calculate the carrying amounts of the bond due in June 2010 for €750 million, in addition buybacks by Bertelsmann AG with a nominal volume of €75 million were considered. The items acquired on the secondary market are held to maturity in a separate portfolio and reduce the carrying amount and market value disclosed.

## Bonds and Promissory Notes

| in € millions | Due date | Effective interest rate in % | Carrying amount 12/31/2009 | Carrying amount 12/31/2008 | Fair Value 12/31/2009 | Fair Value 12/31/2008 |
|---|---|---|---|---|---|---|
| 3M-EURIBOR + 10 bp. Bertelsmann AG (€650 million floating rate note) 2007 | 03/05/2009 | n.a. | – | 604 | – | 604 |
| 4.375% Bertelsmann U.S. Finance LLC (€200 million bond) 1999 | 05/12/2009 | 4.53 | – | 200 | – | 201 |
| 4.69% Bertelsmann U.S. Finance LLC (US$ 100 million U.S. private placement) 2003 | 04/17/2010 | 4.83 | 69 | 72 | 70 | 72 |
| 4.625% Bertelsmann U.S. Finance LLC (€750 million bond) 2003 | 06/03/2010 | 4.70 | 672 | 738 | 685 | 752 |
| 5.65% Bertelsmann AG (€100 million promissory note) 2008 | 10/17/2011 | 5.79 | 100 | 100 | 105 | 99 |
| 4.375% Bertelsmann AG (€500 million bond) 2006 | 09/26/2012 | 4.47 | 499 | 499 | 519 | 475 |
| 5.23% Bertelsmann U.S. Finance LLC (US$ 200 million U.S. private placement) 2003 | 04/17/2013 | 5.38 | 139 | 143 | 147 | 145 |
| 7.875% Bertelsmann AG (€750 million bond) 2009 | 01/16/2014 | 7.72 | 754 | – | 854 | – |
| 5.05% Bertelsmann AG (€500 million promissory note) 2008 | 02/25/2014 | 5.17 | 498 | 497 | 522 | 492 |
| 6.00% Bertelsmann AG (€30 million promissory note) 2009 | 03/24/2014 | 6.00 | 30 | – | 32 | – |
| 5.33% Bertelsmann U.S. Finance LLC (US$ 200 million U.S. private placement) 2003 | 04/17/2015 | 5.46 | 138 | 143 | 144 | 145 |
| 3.625% Bertelsmann AG (€500 million bond) 2005 | 10/06/2015 | 3.74 | 497 | 497 | 479 | 409 |
| 4.75% Bertelsmann AG (€1,000 million bond) 2006 | 09/26/2016 | 4.89 | 992 | 991 | 1.002 | 847 |
| | | | 4,388 | 4,484 | 4,559 | 4,241 |

The documentation for the bond offering by Bertelsmann U.S. Finance LLC and Bertelsmann AG in 2005 and 2009 is within the framework of a base documentation for debt issuance programs.

The bonds issued by Bertelsmann AG in 2006 and 2007, the U.S. private placements and the promissory note loans were issued on the basis of separate documentation. The bonds have a rating of "BBB" (Standard & Poor's) and "Baa2" (Moody's).

The debt issuance program which was launched in 2008 was updated in April 2009. The framework documentation allows Bertelsmann AG and Bertelsmann U.S. Finance LLC to place bonds with a total volume of up to €4 billion on the capital market.

Documented hedging relationships between bonds and interest rate swaps per IAS 39 were dissolved in the preceding years.

The fair value of the bonds was last assessed when the hedging relationships were dissolved. The difference between the nominal volume and the latest fair value will be amortized over the residual term of the respective instruments. Amortization resulted in carrying amount increases of €8 million in the year under review (previous year: €8 million). Similarly, the transaction costs and discounts or premiums will also be reversed to interest income over the remaining term and change the carrying amount of the bonds. Transaction costs, discounts and premiums resulted in a difference to the nominal volume of €-14 million at year-end (previous year: €-18 million).

The fair values of the issued bonds are generally determined on the basis of their quoted market price at the respective reporting dates. At December 31, 2009, the listed bonds had a cumulative fair value of €3,539 million (previous year: €3,288 million), a nominal volume of €3,425 million (previous year: €3,554 million) and a carrying amount of €3,414 million (previous year: €3,529 million). The quoted prices applied in determining the fair values are shown in the table below.

## Quoted Prices

| in percent | 12/31/2009 | 12/31/2008 |
|---|---|---|
| 3M-EURIBOR + 10 bp. Bertelsmann AG (€650 million floating rate note) 2007 | – | 99.881 |
| 4.375% Bertelsmann U.S. Finance LLC (€200 million bond) 1999 | – | 100.275 |
| 4.625% Bertelsmann U.S. Finance LLC (€750 million bond) 2003 | 101.472 | 100.200 |
| 4.375% Bertelsmann AG (€500 million bond) 2006 | 103.719 | 94.993 |
| 7.875% Bertelsmann AG (€750 million bond) 2009 | 113.860 | – |
| 3.625% Bertelsmann AG (€500 million bond) 2005 | 95.900 | 81.744 |
| 4.75% Bertelsmann AG (€1,000 million bond) 2006 | 100.222 | 84.721 |

The fair values of private placements and promissory note loans are determined using actuarial methods based on yield curves adjusted for the Group's credit margin. This credit margin results from the market price for credit default swaps at the respective reporting date.

The table below shows the interest rates of the bonds and promissory notes issued after adjustment for existing interest rate swaps:

## Interest on Bonds and Promissory Notes

| | Carrying amount as of 12/31/2009 | | | Carrying amount as of 12/31/2008 | | |
|---|---|---|---|---|---|---|
| in € millions | Fixed interest | Floating rate | Total | Fixed interest | Floating rate | Total |
| Bonds | 3,660 | 100 | 3,760 | 3,185 | 702 | 3,887 |
| Promissory notes | 628 | – | 628 | 597 | – | 597 |
| | 4,288 | 100 | 4,388 | 3,782 | 702 | 4,484 |

The following table shows the remaining term of the financial liabilities. The figures are based on undiscounted cash flows at the earliest date at which the Group can be held liable for payment.

## Contractual Maturity of Financial Liabilities

| in € millions | Carrying amount | Undiscounted cash flows up to 1 year | 1 to 5 years | over 5 years | Total |
|---|---|---|---|---|---|
| Profit participation capital | 706 | | | 706 | 706 |
| Fixed interest bonds and promissory notes | 4,388 | 744 | 2,019 | 1,639 | 4,402 |
| Floating rate bonds and promissory notes | – | – | – | – | – |
| Liabilities to banks | 206 | 123 | 82 | 1 | 206 |
| Lease liabilities | 215 | 103 | 74 | 85 | 262 |
| Other financial debt | 69 | 32 | 37 | – | 69 |
| Trade accounts payable | 2,671 | 2,588 | 72 | 11 | 2,671 |
| Liabilities to participations | 32 | 32 | – | – | 32 |
| Derivative financial instruments with hedge relation | 40 | 33 | 7 | – | 40 |
| Derivative financial instruments without hedge relation | 13 | 13 | – | – | 13 |
| Social security liabilities | 108 | 104 | 3 | 1 | 108 |
| Financial guarantees | 7 | 1 | 4 | 2 | 7 |
| Sundry liabilities | 917 | 809 | 89 | 19 | 917 |
| Balance as of 12/31/2009 | 9,372 | 4,582 | 2,387 | 2,464 | 9,433 |
| Profit participation capital | 706 | | | 706 | 706 |
| Fixed interest bonds and promissory notes | 3,880 | 200 | 1,566 | 2,144 | 3,910 |
| Floating rate bonds and promissory notes | 604 | 604 | – | – | 604 |
| Liabilities to banks | 246 | 148 | 93 | 5 | 246 |
| Lease liabilities | 239 | 30 | 130 | 79 | 239 |
| Other financial debt | 59 | 29 | 21 | 9 | 59 |
| Trade accounts payable | 2,865 | 2,794 | 52 | 19 | 2,865 |
| Liabilities to participations | 22 | 22 | – | – | 22 |
| Derivative financial instruments with hedge relation | 52 | 52 | – | – | 52 |
| Derivative financial instruments without hedge relation | 25 | 25 | – | – | 25 |
| Social security liabilities | 104 | 103 | 1 | – | 104 |
| Sundry liabilities | 978 | 821 | 129 | 28 | 978 |
| Balance as of 12/31/2008 | 9,780 | 4,828 | 1,992 | 2,990 | 9,810 |

Current cash outflows from financial obligations are offset by planned cash inflows from receivables and other assets. To cover current cash flows, Bertelsmann AG also has adequate financial reserves in the amount of the cash and cash equivalents and unutilized lines of credit in place as of the balance sheet date.

Based on the remaining contractual terms of its financial liabilities at the balance sheet date, the Group has the following future interest payments:

### Future Undiscounted Interest Payments

| | Undiscounted interest payments | | | |
|---|---|---|---|---|
| in € millions | up to 1 year | 1 to 5 years | over 5 years | Total |
| Fixed interest bonds and promissory notes | 225 | 697 | 117 | 1,039 |
| Floating rate bonds and promissory notes | – | – | – | – |
| Liabilities to banks | 7 | 7 | 1 | 15 |
| Lease liabilities | 14 | 16 | 11 | 41 |
| Other financial debt | 2 | – | – | 2 |
| Interest derivatives | (3) | – | – | (3) |
| Balance as of 12/31/2009 | 245 | 720 | 129 | 1,094 |
| Fixed interest bonds and promissory notes | 179 | 534 | 215 | 928 |
| Floating rate bonds and promissory notes | 6 | – | – | 6 |
| Liabilities to banks | 13 | 4 | 1 | 18 |
| Lease liabilities | 15 | 26 | 14 | 55 |
| Other financial debt | 4 | 6 | 1 | 11 |
| Interest derivatives | 1 | (3) | 1 | (1) |
| Balance as of 12/31/2008 | 218 | 567 | 232 | 1,017 |

### Credit Reserve

The Bertelsmann Group has access to syndicated and bilateral credit agreements entered into with major international banks by Bertelsmann AG and Bertelsmann U.S. Finance LLC. These revolving lines of credit can be drawn down at floating rates based on EURIBOR or LIBOR.

The unutilized lines of credit available to the Group total €1,510 million (previous year: €1,670 million) and can be disposed of freely in the course of the Group's ordinary business activities. The table below shows the remaining terms and the utilization of these credit agreements at the balance sheet date:

### Remaining Terms

| in € millions | Line of credit 12/31/2009 | Drawn down 12/31/2009 | Available lines of credit 12/31/2009 | Available lines of credit 12/31/2008 |
|---|---|---|---|---|
| < 1 year | 310 | – | 310 | 470 |
| 1 to 2 years | – | – | – | – |
| 2 to 3 years | 1,200 | – | 1,200 | – |
| 3 to 4 years | – | – | – | 1,200 |
| 4 to 5 years | – | – | – | – |
| > 5 years | – | – | – | – |
| | 1,510 | – | 1,510 | 1,670 |

## Lease Liabilities

Finance leases exist for the following assets:

### Leased Assets

| | 12/31/2009 | | 12/31/2008 | |
|---|---|---|---|---|
| in € millions | Acquisition costs | Net carrying amount | Acquisition costs | Net carrying amount |
| Land, rights equivalent to land and buildings | 35 | 34 | 35 | 34 |
| Office, factory and other buildings | 299 | 183 | 299 | 192 |
| Machinery and technical equipment | 11 | 5 | 11 | 6 |
| Other property, plant and equipment | 9 | 3 | 9 | 3 |
| | 354 | 225 | 354 | 235 |

The beneficial ownership of leased assets lies with the lessee, providing that the lessee also bears the significant risks and rewards of ownership. The Group's finance lease activities primarily relate to long-term agreements for office space. The Group generally has the option to acquire such properties at the end of the lease term.

### Minimum Lease Payments for Finance Leases

| | 12/31/2009 | | | 12/31/2008 | | |
|---|---|---|---|---|---|---|
| in € millions | Nominal value of lease payments | Discount amounts | Present value | Nominal value of lease payments | Discount amounts | Present value |
| up to 1 year | 103 | 10 | 93 | 39 | 9 | 30 |
| 1 to 5 years | 74 | 20 | 54 | 167 | 37 | 130 |
| over 5 years | 85 | 17 | 68 | 99 | 20 | 79 |
| | 262 | 47 | 215 | 305 | 66 | 239 |

## 24 Liabilities

| in € millions | 12/31/2009 | 12/31/2008 |
|---|---|---|
| Non-current | | |
| Trade accounts payable | 83 | 71 |
| Other liabilities | 590 | 754 |
| Current | | |
| Trade accounts payable | 2,588 | 2,794 |
| Liabilities to participations | 32 | 22 |
| Tax liabilities | 170 | 131 |
| Derivative financial instruments | 46 | 77 |
| Social security liabilities | 104 | 104 |
| Personnel-related liabilities | 480 | 457 |
| Received advance payments | 50 | 41 |
| Deferred items | 299 | 279 |
| Sundry liabilities | 1,076 | 943 |
| Other liabilities | 2,257 | 2,054 |

Other non-current liabilities totaled €590 million (previous year: €754 million). This includes liabilities from minority shareholder put options in the amount of €114 million (previous year: €110 million), minority interests in partnerships of €182 million (previous year: €218 million) and derivative financial instruments of €7 million (previous year: €0 million). Prepaid expenses include performance-linked government grants of €1 million. An amount of €18 million was received in the year under review and recognized as income. These grants were primarily to finance film projects of RTL Group subsidiaries.

Other liabilities include supplier obligations, debtors with credit balances and liabilities to minority shareholders. This item also includes put options for minority shareholders in the amount of €146 million (previous year: €146 million).

Minority interests in partnerships are carried at nominal value, as their fair value cannot be determined.

## 25 Off-Balance Sheet Liabilities

### Contingent Liabilities and Other Commitments

| in € millions | 12/31/2009 | 12/31/2008 |
|---|---|---|
| Guarantees | 51 | 90 |
| Rental and lease commitments | 1,331 | 1,301 |
| Other commitments | 3,233 | 3,211 |
| | 4,615 | 4,602 |

The guarantees are offset by recourse rights of €8 million. It is considered unlikely that these guarantees will be called in.

Other commitments in the amount of €2,751 million (previous year: €2,722 million) pertain to RTL Group. These concern supply agreements for (co-)productions, contracts for TV licenses and broadcasting rights, and other rights and services. Random House reported other obligations in the amount of €376 million (previous year: €404 million). These represent the portion of obligations to authors for which no payments have yet been made, where future payments are contingent upon other events (such as delivery and acceptance of manuscripts).

Within RTL Group, program rights have been sold to a special purpose vehicle and simultaneously leased back under a finance lease arrangement that does not meet the definition of a finance lease under IAS 17. The cash received is placed in a "restricted bank account" in order to satisfy the lease payments and is not considered as an asset in accordance with SIC 27. As of the balance sheet date, outstanding obligations are €72 million (previous year: €78 million). The remaining lease term is eight years.

The following payment obligations exist from all of the Group's long-term rental commitments classified as operating leases:

## Minimum Payments under Operating Leases

| in € millions | 12/31/2009 | 12/31/2008 |
|---|---|---|
| Nominal amount | | |
| up to 1 year | 290 | 281 |
| 1 to 5 years | 606 | 595 |
| over 5 years | 435 | 425 |
| | 1,331 | 1,301 |
| Present value | 1,119 | 1,086 |

These commitments largely concern long-term tenancy and technical broadcasting facilities.

They are partially offset by expected minimum lease payments from subleases with a nominal value of €53 million.

Present values are calculated on the basis of national discount rates and indicate the net payment currently required to cover the respective commitments.

## 26 Additional Disclosures on Financial Instruments

### Carrying Amounts and Measurement Methods by Measurement Category

### Assets

| in € millions | Category according to IAS 39 | | | | | |
|---|---|---|---|---|---|---|
| | Loans and receivables | Available-for-sale | | Financial assets initially recognized at fair value through profit or loss | Financial assets held for trading | Derivatives with hedge relation |
| Measurement | At amortized cost | At cost | Fair value recognized in equity | Fair value recognized in profit or loss | Fair value recognized in profit or loss | |
| Loans | 99 | – | – | – | – | – |
| Investments in affiliates | – | 2 | 22 | – | – | – |
| Investments available-for-sale | – | 52 | 71 | – | – | – |
| Non-current securities | – | 2 | 42 | 81 | – | – |
| Trade accounts receivable | 2,488 | – | – | – | – | – |
| Accounts receivable from royalties and licenses | 1 | – | – | – | – | – |
| Accounts receivable from participations | 32 | – | – | – | – | – |
| Short-term securities available-for-sale | 7 | 1 | 11 | 384 | – | – |
| Derivative financial instruments | – | – | – | – | 31 | 34 |
| Other receivables | 425 | – | – | – | – | – |
| Cash | 1,806 | – | – | – | – | – |
| Other securities < 3 months | 272 | 7 | – | – | – | – |
| | 5,130 | 64 | 146 | 465 | 31 | 34 |

The 5.1 percent interest in Canal Plus received in exchange for the shares of TPS was classified by RTL Group as financial assets initially recognized at fair value through profit or loss. The fair value is €384 million (previous year: €363 million). The remaining assets classified as financial assets initially recognized at fair value through profit or loss amounting to €78 million (previous year: €60 million) mostly relate to structured financial products at RTL Group S.A.

### Liabilities

| in € millions | Category according to IAS 39 | | | |
|---|---|---|---|---|
| | Financial liabilities at amortized cost | Financial liabilities held for trading | Derivatives with hedge relation | Leases IAS 17 |
| Measurement | At amortized cost | Fair value recognized in profit or loss | | |
| Profit participation capital | 706 | – | – | – |
| Bonds and promissory notes | 4,388 | – | – | – |
| Liabilities to banks | 206 | – | – | – |
| Lease liabilities | – | – | – | 215 |
| Other financial debt | 69 | – | – | – |
| Trade accounts payable | 2,671 | – | – | – |
| Liabilities to participations | 32 | – | – | – |
| Derivative financial instruments | – | 13 | 40 | – |
| Social security liabilities | 108 | – | – | – |
| Sundry liabilities | 924 | – | – | – |
| | 9,104 | 13 | 40 | 215 |

| Total 12/31/2009 | Category according to IAS 39: Loans and receivables – At amortized cost | Available-for-sale – At cost | Available-for-sale – Fair value recognized in equity | Financial assets initially recognized at fair value through profit or loss – Fair value recognized in profit or loss | Financial assets held for trading – At amortized cost | Derivatives with hedge relation | Total 12/31/2008 |
|---|---|---|---|---|---|---|---|
| 99 | 104 | – | – | – | – | – | 104 |
| 24 | – | 25 | – | – | – | – | 25 |
| 123 | – | 67 | 56 | – | – | – | 123 |
| 125 | – | 4 | 31 | 470 | – | – | 505 |
| 2,488 | 2,690 | – | – | – | – | – | 2,690 |
| 1 | 1 | – | – | – | – | – | 1 |
| 32 | 28 | – | – | – | – | – | 28 |
| 403 | – | – | 9 | – | – | – | 9 |
| 65 | – | – | – | – | 68 | 106 | 174 |
| 425 | 458 | – | – | – | – | – | 458 |
| 1,806 | 1,169 | – | – | – | – | – | 1,169 |
| 279 | 404 | 8 | 2 | – | – | – | 414 |
| 5,870 | 4,854 | 104 | 98 | 470 | 68 | 106 | 5,700 |

| Total 12/31/2009 | Category according to IAS 39: Financial liabilities at amortized cost – At amortized cost | Financial liabilities held for trading – Fair value recognized in profit or loss | Derivatives with hedge relation | Leases IAS 17 | Total 12/31/2008 |
|---|---|---|---|---|---|
| 706 | 706 | – | – | – | 706 |
| 4,388 | 4,484 | – | – | – | 4,484 |
| 206 | 246 | – | – | – | 246 |
| 215 | – | – | – | 239 | 239 |
| 69 | 59 | – | – | – | 59 |
| 2,671 | 2,865 | – | – | – | 2,865 |
| 32 | 22 | – | – | – | 22 |
| 53 | – | 25 | 52 | – | 77 |
| 108 | 104 | – | – | – | 104 |
| 924 | 978 | – | – | – | 978 |
| 9,372 | 9,464 | 25 | 52 | 239 | 9,780 |

## Assets Measured at Fair Value Categorized Using the Fair Value Measurement Hierarchy

| in € millions | Level 1: Quoted prices in active markets | Level 2: Observable market data | Level 3: Not observable market data | Total 12/31/2009 |
|---|---|---|---|---|
| Financial assets initially recognized at fair value through profit or loss | – | 81 | 384 | 465 |
| Available-for-sale | 38 | 39 | 69 | 146 |
| Financial assets held for trading | – | 31 | – | 31 |
| Derivatives with hedge relation | – | 34 | – | 34 |
| | 38 | 185 | 453 | 676 |

## Financial Assets Measured at Fair Value Based on Level 3

| in € millions | Financial assets initially recognized at fair value through profit or loss | Available-for-sale | Financial assets held for trading | Derivatives with hedge relation | Total |
|---|---|---|---|---|---|
| Balance as of 1/1/2009 | 410 | 69 | – | – | 479 |
| Total gain or loss | – | – | – | – | – |
| – in profit or loss | 19 | – | – | – | 19 |
| – in other comprehensive income | – | (1) | – | – | (1) |
| Purchases | – | 1 | – | – | 1 |
| Issues | – | – | – | – | – |
| Settlements | (45) | – | – | – | (45) |
| Transfers out/in Level 3 | – | – | – | – | – |
| Balance as of 12/31/2009 | 384 | 69 | – | – | 453 |
| Gain (+) or loss (-) for assets still held at the end of the reporting period | 21 | – | – | – | 21 |

## Liabilities Measured at Fair Value Categorized Using the Fair Value Measurement Hierarchy

| in € millions | Level 1: Quoted prices in active markets | Level 2: Observable market data | Level 3: Not observable market data | Total 12/31/2009 |
|---|---|---|---|---|
| Financial liabilities held for trading | – | 13 | – | 13 |
| Derivatives with hedge relation | – | 40 | – | 40 |
| | – | 53 | – | 53 |

Phase 1: The fair value of the existing financial derivatives is determined on the basis of stock exchange listings at the balance sheet date.

Phase 2: To determine the fair values of unlisted derivatives, Bertelsmann uses various financial methods reflecting the prevailing market conditions and risks at the respective balance sheet date. Irrespective of the type of financial instrument, future cash flows are discounted as of the balance sheet date based on the prevailing market interest rates and interest rate structure curves on the balance sheet date.

The fair value of forward exchange transactions is calculated using the average spot prices as of the balance sheet date and taking into account forward mark-downs and mark-ups for the remaining term of the transactions.

The fair value of interest rate derivatives is calculated on the basis of the prevailing market rates and interest rate structure curves on the balance sheet date.

The fair value of forward commodity transactions is derived from the stock exchange listings published on the balance sheet date. Any incongruities to the standardized stock exchange contracts are reflected through interpolation or additions.

Phase 3: Cash-flow based valuation methods were mostly used to determine the fair values for which no observable market data was available.

## Net Result from Financial Instruments

| in € millions | Loans and receivables | Available-for-sale at cost | Available-for-sale at fair value recognized in equity | Financial assets initially recognized at fair value through profit or loss | Financial liabilities at amortized cost | Derivatives with hedge relation | Assets and liabilities with hedge relation | Financial instruments held for trading | Other currency effects |
|---|---|---|---|---|---|---|---|---|---|
| Dividends | – | 10 | – | – | – | – | – | – | – |
| Impairment/disposal | (94) | (10) | (2) | – | 7 | – | – | – | – |
| Fair value measurement | – | – | – | 44 | – | (12) | – | – | – |
| Currency translation differences | – | – | – | – | – | (22) | – | (23) | 54 |
| Interest | 22 | – | – | – | (264) | (1) | – | 6 | – |
| Disposal | – | 7 | – | – | – | – | – | – | – |
| Net income 2009 | (72) | 7 | (2) | 44 | (257) | (35) | – | (17) | 54 |
| Dividends | – | 11 | – | – | – | – | – | – | – |
| Impairment/disposal | (125) | (39) | – | – | 15 | – | – | – | – |
| Fair value measurement | – | – | – | 18 | – | (9) | – | – | – |
| Currency translation differences | – | – | – | – | – | 19 | – | 115 | (140) |
| Interest | 56 | – | – | – | (279) | – | – | (1) | – |
| Disposal | – | 8 | – | – | – | – | – | – | – |
| Net income 2008 | (69) | (20) | – | 18 | (264) | 10 | – | 114 | (140) |

Other currency translation differences consist of the exchange rate effects of loans and receivables and financial liabilities at amortized cost.

## Accounting of Derivative Financial Instruments and Hedges

All derivatives are reported at their fair value. When a contract involving a derivative is entered into, it is determined whether that contract is intended to serve as a fair value hedge or as a cash flow hedge. Some derivatives do not meet the requirements for recognition as hedges, however, even though they function this way financially.

Bertelsmann documents all relationships between hedging instruments and hedged items as well as its risk management objectives and strategies in connection with the various hedges. This method includes linking all derivatives used for hedging purposes to the underlying assets, liabilities, firm commitments and forecasted transactions. Furthermore, the Bertelsmann Group assesses and documents the degree to which changes in the fair values or cash flows of hedged items are effectively offset by changes in the corresponding hedging instruments, both when the hedges are initiated and on an ongoing basis.

## Financial Derivatives

Bertelsmann uses standard market financial derivatives, primarily unlisted (OTC) instruments, and in particular forward agreements, currency swaps, currency options, interest rate swaps and individual commodities forwards. Transactions are entered into solely with banks with an excellent credit rating. Transactions by the Corporate Treasury and Finance department are only conducted with banks approved by the Executive Board. The nominal volume is the total of all underlying buying and selling amounts.

The majority of the financial derivatives at the balance sheet date are used to hedge against exchange rate risks from the Group's internal financing (54 percent). Financial derivatives used to hedge currency risks from operating business totaled €506 million (25 percent) on the balance sheet date. Financial derivatives are also used to hedge against interest rate risks from financial debt. No financial derivatives were purchased for speculative purposes.

### Nominal Amounts of Financial Derivatives

| | Nominal amounts as of 12/31/2009 | | | | Nominal amounts as of 12/312008 | | | |
|---|---|---|---|---|---|---|---|---|
| in € millions | < 1 year | 1–5 years | > 5 years | Total | < 1 year | 1–5 years | > 5 years | Total |
| Currency derivatives | | | | | | | | |
| Forward contracts and currency swaps | 1,291 | 296 | 9 | 1,596 | 1,247 | 231 | 38 | 1,516 |
| Currency options | 4 | 7 | – | 11 | 4 | 4 | – | 8 |
| Interest rate derivatives | | | | | | | | |
| Interest rate swaps | 139 | 297 | 6 | 442 | 120 | 381 | 33 | 534 |
| Other derivative financial instruments | – | 15 | – | 15 | – | – | – | – |
| | 1,434 | 615 | 15 | 2,064 | 1,371 | 616 | 71 | 2,058 |

### Fair Values of Financial Derivatives

| | Nominal amounts | | Fair values | |
|---|---|---|---|---|
| in € millions | 12/31/2009 | 12/31/2008 | 12/31/2009 | 12/31/2008 |
| Currency derivatives | | | | |
| Forward contracts and currency swaps | 1,596 | 1,516 | (2) | 101 |
| Currency options | 11 | 8 | – | 1 |
| Interest rate derivatives | | | | |
| Interest rate swaps | 442 | 534 | 11 | (5) |
| Other derivative financial instruments | 15 | – | 3 | – |
| | 2,064 | 2,058 | 12 | 97 |

The following table provides an overview of the carrying amounts of the Group's derivative financial instruments, which correspond to their fair values. A distinction is made between derivatives that are included in an effective hedging relationship in accordance with IAS 39 and those that are not.

## Derivative Financial Instruments

| in € millions | Carrying amount as of 12/31/2009 | Carrying amount as of 12/31/2008 |
|---|---|---|
| Assets | | |
| Forward contracts and currency swaps | | |
| Without hedge relation | 13 | 67 |
| In connection with cash flow hedges | 31 | 106 |
| Currency options | | |
| Without hedge relation | – | 1 |
| Interest rate swaps | | |
| Without hedge relation | 18 | – |
| In connection with cash flow hedges | – | – |
| Other in connection with cash flow hedges | 3 | – |
| Equity and Liabilities | | |
| Forward contracts and currency swaps | | |
| Without hedge relation | 13 | 25 |
| In connection with cash flow hedges | 34 | 47 |
| Interest rate swaps | | |
| Without hedge relation | – | – |
| In connection with cash flow hedges | 6 | 5 |
| Other in connection with cash flow hedges | – | – |

RTL Group uses currency forwards to hedge the exchange rate risk relating to the purchase of program rights and output deals. RTL Group hedges between 80 and 100 percent of the future cash flows from the purchase of program rights in foreign currencies, which represent a fixed obligation (within one year) or a future transaction with a high probability of occurrence and between 20 percent and 85 percent of the longer-term (two to five years) expected future transactions under output deals. The derivatives used for this purpose are recognized as hedging instruments in connection with cash flow hedges. The effective portion of the changes in the fair value of hedging instruments is parked in OCI until the effects of the hedged items are recognized in profit or loss. The portion remaining in OCI at December 31, 2009, will thus impact the income statement in fiscal years 2010 through 2015. The ineffective portion of cash flow hedges amounted to €-12 million as of December 31, 2009 (previous year: €-9 million).

## Financial Instruments

### Financial Risk Management

The Bertelsmann Group is exposed to various forms of financial risk through its international business operations. This includes above all the effects of exchange and interest rate movements. Bertelsmann's risk management activities are designed to effectively mitigate these risks.

The Executive Board establishes basic risk management policy, outlining general procedures for hedging currency and interest rate risk and the utilization of derivative financial instruments. The Corporate Treasury and Finance department advises subsidiaries on operating risk and hedges risks using derivative financial instruments as necessary. However, subsidiaries are not obliged to use the services provided by this department for their operating risks. Certain subsidiaries, particularly RTL Group, have their own treasury departments, which are required to report their hedging activities to the Corporate Treasury and Finance on a quarterly basis.

## Exchange Rate Risk

Bertelsmann is exposed to exchange rate risk in various currencies. Its subsidiaries are advised, but not obliged, to hedge themselves against exchange rate risks in the local reporting currency by signing forward agreements with banks that possess an excellent credit rating. Loans within the Group that are subject to exchange rate risk are hedged using derivatives.

A number of subsidiaries are based outside the euro zone. The resulting translation risk is managed through the relationship of economic debt to operating EBITDA of key currency areas. The objective is to achieve a reasonable relationship between economic debt and operating results for each major currency area in the long term; Bertelsmann uses the upper limits for leverage defined for the Group as a performance indicator.

## Interest Rate Risk

Interest rate risk is managed on the basis of the Group's planned net financial debt and expected interest rate movements.

Available funds are generally invested at floating rates for periods of less than one year. In the period under review, the proportion of floating-rate liabilities was reduced by way of repayment.

## Liquidity Risk

Liquidity risks may arise through a lack of roll-over financing (liquidity risk in a narrower sense), delayed receipt of payment and unforeseen expenditure (budgeting risk). Budgeting risk concerns deviations in actual spending versus budget and reserve amounts. In a narrower sense, liquidity risk depends on the volume of debt due within a given period.

Liquidity risk is managed and monitored on an ongoing basis with reference to the budget for current and future years. New and unplanned transactions (e. g., acquisitions) are continuously tracked. The maturity profile of financial assets and liabilities is also reconciled on a regular basis. Budget risks are managed through effective cash management and constant monitoring of projected versus actual cash flows. Debt maturities are also diversified to ensure that rising financing costs do not have a short-term impact. Lines of credit are also maintained for unplanned expenditures.

## Default Risk

The Group is exposed to default risks in the amount of the invested cash and cash equivalents and the positive fair value of the derivatives in its portfolio. Money market securities and other financial instruments are transacted exclusively with a defined group of banks with an excellent credit rating ("core banks"). Bertelsmann has expanded internal policy restrictions concerning the investment of cash and cash equivalents since the outbreak of the financial crisis. Core banks are constantly monitored on the basis of quantitative and qualitative criteria (rating, CDS spreads, stock price, etc.) and rated for creditworthiness. Counterparty limits determined on the basis of credit ratings reflect cash holdings and positive fair value; adherence to limits is monitored daily. Funds are invested very short-term in some cases to preserve flexibility in the event of credit rating changes. Default risks arising from trade accounts payable are partially mitigated through credit insurance coverage.

## Capital Risk Management

The financing guidelines adopted by the Bertelsmann Group are designed to ensure a balance between financial security, return on equity and growth. The Group's net indebtedness is based specifically on the requirements for a credit rating of "BBB+/Baa1." Bertelsmann's manages its transactions using quantified financing objectives that are a central factor in ensuring the corporation's independence and capacity to act. These objectives, as elements of the planning process and regular monitoring, are part of corporate management. The key performance indicator for limiting economic debt within the Group is the leverage factor. The interest coverage ratio is to remain above 4. The equity ratio is not to fall below 25 percent of total assets. Control of these ratios is based on IFRS guidelines, thus including both shareholders' equity and equity attributable to minority interests. Although minority interests in partnerships represent equity in accordance with the principle of substance over form, they are classified as debt for accounting purposes.

In the year under review, the equity ratio amounted to 30.9 percent (previous year: 31.0 percent), meeting the internal target set by the Group.

## Interest Rate and Exchange Rate Sensitivity

For the analysis of interest rate risk, a distinction is made between cash flow and present value risks. Financial debt, cash and cash equivalents and interest rate swaps with variable interest terms are subject to a greater degree of cash flow risk, as changes in market interest rates have an effect on Group's net interest income, either immediately or with a short delay.

By contrast, medium- and long-term interest rate agreements are subject to a greater degree of present value risk. The accounting treatment of present value risks depends on the respective financial instrument or a hedging relationship documented in conjunction with a derivative (micro-hedge).

Originated financial debt is always carried at amortized cost. Changes in fair value are limited to opportunity effects, as changes in interest rates have no effect on the balance sheet or the income statement. The recognition of originated financial debt at fair value is only permitted for transactions for which a micro-hedge is documented in accordance with IAS 39 in conjunction with the purchase of an interest rate or exchange rate hedge involving derivatives. In this case, changes in the fair value of the respective items are recognized in the income statement in order to substantially balance out the offsetting effects of the fair value measurement of the related derivatives.

For derivative financial instruments, the effects of changes in interest rates are recognized in the income statement. In the case of documented hedging relationships (cash flow hedges), however, these effects are taken directly to equity.

Cash flow and present value risks at the respective balance sheet date are examined by means of sensitivity analysis, assuming a parallel shift in the yield curve of +/- 1 percent for all key currencies. The analysis is performed on the basis of financial debt, cash and cash equivalents and derivatives at the balance sheet date. The results are shown in the table below.

| | 12/31/2009 | | 12/31/2008 | |
|---|---|---|---|---|
| in € millions | Shift +1% | Shift -1% | Shift +1% | Shift -1% |
| Cash flow risks | 13 | (13) | 6 | (6) |
| Present value risks (income statement) | – | – | (1) | 1 |
| Present value risks (equity) | 6 | (6) | 7 | (7) |

The analysis of exchange rate sensitivity includes the Group's financial debt and operating transactions at the balance sheet date, as well as the hedging relationships entered into (forward agreements and options). The calculation is performed for the unsecured net exposure on the basis of an assumed 10 percent appreciation of the euro versus all foreign currencies. A uniform depreciation of all foreign currencies would have resulted in a change in the carrying amount recognized by the Group of €-8 million (previous year: €-1 million), with €-7 million (previous year: €3 million) relating to fluctuations in the U.S. dollar ex-change rate on the basis of a net exposure of US$108 million (previous year: US$45 million). Shareholders' equity would have declined by €-68 million (previous year: €-70 million) as a result of fluctuations in the fair values of documented cash flow hedges. Of this figure, €-71 million (previous year: €-72 million) relates to fluctuations in the U.S. dollar exchange rate on the basis of a documented cash flow hedge volume of US$1,018 million (previous year: US$1,001 million).

### Factoring

In individual cases, Bertelsmann Group sells receivables to banks. These exceptions are limited to agreements in which Bertelsmann grants financing to its customers in separate contracts. The volume of receivables sold is contractually limited to €512 million and amounted to €508 million at the balance sheet date (previous year: €500 million). The contractual conditions provide for transfer of major default and interest risks to the buyer of the receivables. Bertelsmann's remaining risk is limited, and therefore the receivables are recognized only to the extent of its continuing involvement. The resulting risks are recognized as provisions and amounted to €18 million at the balance sheet date (previous year: €15 million).

## 27 Cash Flow Statement

The Bertelsmann Group's cash flow statement has been prepared in accordance with IAS 7 and is intended to facilitate analysis of the Group's ability to generate cash and cash equivalents. Cash flows are divided into those relating to operating activities, investing activities and financing activities. Cash flows from operating activities are presented using the indirect method, with EBIT adjusted for non-cash items. Income and expenses relating to cash flows from investing activities are also eliminated.

The operational management of the Bertelsmann Group utilizes indicators that include operating EBIT, which is before interest. Operating results and the resulting cash flow from operating activities should therefore be consistent and comparable. Accordingly, the net balance of interest paid and interest received during the year is shown in the cash flow statement as part of financing activities.

Contributions to pension plans are a cash outflow reported as a separate item in the cash flow from investing activities.

The change in provisions for pensions and similar commitments represents the balance of personnel expenses for service costs and pension payments (see note 20).

The consolidated cash flow statement includes the effects of changes in foreign currencies and changes in the scope of consolidation. Items in the consolidated cash flow statement thus cannot be compared with changes in items disclosed on the consolidated balance sheet. Investing activities include investments for non-current assets and purchase price payments for investments acquired as well as proceeds from the disposal of non-current assets and participations. See section "Acquisitions and Disposals" concerning acquisitions made during the year under review. Significant disposals during the period are also described in that section. Financial debt of €15 million was assumed as part of acquisitions.

Cash flow from financing activities tracks changes in shareholders' equity affecting cash, changes in financial debt and net interest paid or received.

## 28 Segment Reporting

Application of IFRS 8 "Operating Segments" is mandatory from January 1, 2009. This standard requires that external segment reporting be based on internal organizational and management structure and on management and reporting indicators used internally. The first-time application of IFRS 8 only led to additional information in the notes for the Bertelsmann Group. It did not lead to any changes in the segments, as these already pursued the management approach in the past. The Bertelsmann Group comprises five operating segments, which differ according to the type of products and services they offer, and Corporate:

- TV, radio and TV production group RTL Group
- Global book publishing group Random House
- European magazine publisher Gruner + Jahr
- Media and communications service provider Arvato
- Direct Group, which operates book retail and club business

Each of these segments is run by a segment manager who is responsible for results. This manager reports to Bertelsmann AG's Executive Board in its role as the chief operating decision maker within the meaning of IFRS 8. The Corporate division includes the Bertelsmann Group's Corporate Center and Corporate Investments. The responsibilities of the Corporate Center comprise in particular activities in the areas of accounting and reporting, taxes, legal, human resources, information technology, internal auditing as well as management, internal control and strategic development of the Group, financing, risk management and the optimization of the Group's portfolio. Corporate does not constitute an operating segment. In segment reporting Corporate is shown separately.

Activities not allocated to any of these divisions and multi-segment link eliminations are carried in the column "Consolidation/Other."

As in the past, specific segment information is defined according to the definitions on which Group management is based. As a rule, accounting and valuation in the segment reporting uses the same IFRS principles as in the consolidated financial statements. Deviating from the IFRS principles, 66 percent of the net present value of the operating leases is considered in the calculation of invest capital. Intercompany revenues are recognized at the same arm's-length conditions applied to transactions with third parties.

The performance of the operating segments is assessed using operating EBIT. This represents the operating earnings before taxes and capital costs recorded by the respective segment's management and is calculated by adjusting EBIT for special items such as capital gains and losses, impairments, restructuring costs, severance payments and other valuation allowances. The elimination of these extraordinary factors allows the determination of a normalized result, thus simplifying forecasting and comparability.

Segment depreciation and amortization includes the depreciation of property, plant and equipment, and amortization of intangible assets as set out in the statement of selected non-current assets.

Segment assets constitute the operating assets for each segment. These consist of property, plant and equipment, intangible assets including goodwill, and financial assets. Also included are 66 percent of the net present value of the operating leases and current assets with the exception of cash and cash equivalents, tax receivables and other non-operating assets.

Segment liabilities consist of operating liabilities and provisions. Pensions and similar obligations, tax liabilities, financial debt or other non-operating liabilities and provisions are thus not included.

Additions to non-current assets are balancesheet additions to property, plant and equipment and intangible assets including goodwill.

Each segment shows the earnings of, and investments in, associated companies, provided these companies can be clearly allocated to the segment concerned. The results of associated companies are shown before impairment of goodwill.

In addition, the number of employees at balance sheet date and the average number of employees for the year are shown.

In addition to the segment breakdown, revenues are broken down by customer location and income source. Non-current assets are also stated according to the location of the respective company.

For information on the segment information tables, please refer to page 82f.

The following table shows the reconciliation of segment information to the consolidated financial statements:

### Reconciliation of Segment Information to the Group Financial Statements

| in € millions | 2009 | 2008 |
|---|---|---|
| Total amount of segments' EBIT | 827 | 1,016 |
| Corporate | (128) | (110) |
| Consolidation/Other | (5) | (7) |
| EBIT from continuing operations | 694 | 899 |
| Financial result | (424) | (429) |
| Earnings before taxes from continuing operations | 270 | 470 |
| Income taxes | (235) | (54) |
| Earnings after taxes from continuing operations | 35 | 416 |
| Earnings after taxes from discontinued operations | – | (146) |
| Group profit or loss | 35 | 270 |

| | 12/31/2009 | 12/31/2008 adjusted |
|---|---|---|
| Total assets of the segments | 13,941 | 14,866 |
| Corporate | 2,486 | 2,493 |
| Consolidation/Other | (84) | (71) |
| Total assets of the group[1] | 16,343 | 17,288 |
| Operating leases (66% of the net present value) | (738) | (721) |
| Cash and cash equivalents | 2,085 | 1,583 |
| Deferred tax assets | 1,053 | 1,115 |
| Other assets (not allocated)[2] | 635 | 877 |
| Total assets | 19,378 | 20,142 |
| | | |
| Total liabilities of the segments | 5,253 | 5,397 |
| Corporate | 97 | 84 |
| Consolidation/Other | (29) | (2) |
| Total liabilities of the group | 5,321 | 5,479 |
| Equity | 5,980 | 6,238 |
| Profit participation capital | 706 | 706 |
| Provisions for pensions and similar obligations | 1,406 | 1,409 |
| Financial debt | 4,878 | 5,028 |
| Deferred tax liabilities | 103 | 159 |
| Other liabilities (not allocated)[3] | 984 | 1,123 |
| Total liabilities | 19,378 | 20,142 |

Figures from the previous year were adjusted as a result of the Alpha Media Group business combination.
[1] Continuing operations; incl. 66 percent of the net present value of operating leases.
[2] Includes assets-held-for-sale.
[3] Includes liabilities included in assets held for sale.

## 29 Reconciliation to Operating EBITDA

Operating EBITDA is based on operating EBIT with the addition of other depreciation and amortization of non-current assets, less any write-ups.

### Reconciliation to Operating EBITDA (Continuing Operations)

| in € millions | 2009 | 2008 |
|---|---|---|
| Operating EBIT | 1,424 | 1,575 |
| Amortization/Write-ups of intangible assets | 220 | 192 |
| Depreciation/Write-ups of property, plant and equipment | 359 | 371 |
| Operating EBITDA | 2,003 | 2,138 |

## 30 Relationships with Related Parties

For the Bertelsmann Group, related parties as defined in IAS 24 are those persons and entities that control or exercise a significant influence over the Bertelsmann Group, as well as those persons and entities controlled by the Bertelsmann Group or over which it exercises a significant influence. Accordingly, the members of the Mohn family, the entities that are controlled or significantly influenced by the Mohn family, the members of the Executive Board and Supervisory Board of Bertelsmann AG and the joint ventures and associates forming part of the Bertelsmann Group are defined as related parties.

Bertelsmann Verwaltungsgesellschaft mbH, Gütersloh, a non-operating holding company, exercises control over the Bertelsmann Group. Johannes Mohn GmbH, Bertelsmann Beteiligungs GmbH, Reinhard Mohn Verwaltungsgesellschaft mbH and Mohn Beteiligungs GmbH have informed Bertelsmann AG that they each own more than one quarter of its share capital. For purposes of determining ownership, indirect as well as direct shares have been considered.

Transactions with material subsidiaries are eliminated in the course of consolidation and are not discussed in further detail in these notes. In addition to transactions with material subsidiaries, the following transactions with related persons and entities were conducted in the year under review:

| in € millions | Shareholders with joint control or significant influence | Key members of management | Joint ventures | Associated companies | Other related parties |
|---|---|---|---|---|---|
| Income statement | | | | | |
| 2009 | | | | | |
| Revenues | – | – | 35 | 53 | – |
| Other operating income | – | – | 4 | – | 8 |
| Cost of materials | – | – | (16) | (2) | – |
| Personnel costs | – | (14) | – | – | – |
| Other operating expenses | – | – | (3) | (1) | – |
| Financial result | – | (1) | 1 | – | – |
| 2008 | | | | | |
| Revenues | – | – | 94 | 68 | 6 |
| Other operating income | 1 | – | 8 | – | – |
| Cost of materials | – | – | (16) | (5) | – |
| Personnel costs | (1) | (26) | – | – | – |
| Other operating expenses | – | – | (5) | (1) | – |
| Financial result | – | (1) | 1 | – | – |
| Balance sheet | | | | | |
| 2009 | | | | | |
| Other financial assets | – | – | 6 | 12 | – |
| Accounts receivable | – | – | 11 | 36 | – |
| Provisions for pensions | – | 10 | – | – | 5 |
| Liabilities | – | – | 13 | 33 | – |
| 2008 | | | | | |
| Other financial assets | – | – | 9 | 10 | – |
| Accounts receivable | – | – | 15 | 36 | 4 |
| Provisions for pensions | – | 9 | – | – | 5 |
| Liabilities | – | – | 5 | 26 | – |

Transactions with related parties primarily relate to the provision of goods and services and other financial assets. These were conducted on arm's-length terms. The resulting income and expenses are of minor importance to the Group.

Compensation of the members of the Supervisory Board for 2009 amounted to €1,320,000 plus value-added tax. Total compensation of the Executive Board in the year under review was €10,883,530, of which €5,099,277 related to Bertelsmann AG.

Former members of the Executive Board and their surviving dependents received compensation of €4,312,862 including €3,962,437 from Bertelsmann AG.

The provision for pension obligations to former members of the Executive Board accrued at Bertelsmann AG amounts to €43,809,195. The members of the Executive Board and Supervisory Board are listed on pages 158 ff.

## 31 Events after the Reporting Date

In February 2010, M6, the RTL Group's French subsidiary, exercised its right to sell 5.1 percent of its interest in the French pay-TV station Canal Plus to Vivendi SA for €384 million.

On February 2, 2010, Bertelsmann AG asked holders of 2001 profit participation certificates to submit sales proposals at a rate of 180 percent. Upon expiration of the offer period on February 22, 2010, the company received an offer to buy 2001 profit participation certificates with a nominal amount of €214.3 million and thus around 43 percent of the outstanding volume. Bertelsmann fully accepted the sale offers on February 23, 2010. The maximum buyback amount of a previous nominal €150 million was thus increased to a nominal amount of €214.3 million in line with the offer conditions. The total purchase price is thus €385.7 million. The purpose of this initiative is to simplify the capital structure, since the profit participation certificate has lost its original function as an equity instrument. Irrespective of the outcome of the public offer, Bertelsmann AG reserves the right to buy back other outstanding profit participation certificates on the market at a later time.

In February 2010, Bertelsmann AG's Italian subsidiary Società Holding Industriale di Grafica S.p.A. agreed, in a preliminary contract with the Italian publishing company Arnoldo Mondadori Editore S.p.A., to sell its 50 percent interest in Mondolibri S.p.A. Mondadori already holds 50 percent of Mondolibri in the joint venture with Direct Group Bertelsmann.

## 32 Major Subsidiaries and Participations as of December 31, 2009

### RTL Group

| | | | |
|---|---|---|---|
| **Television** | | | |
| Alpha Doryforiki Tileorasi SA | Greece | 63.49 | v |
| Antena 3 de Televisión S.A., Madrid | Spain | 19.57 | e |
| Broadcasting Center Europe S.A., Luxemburg | Luxembourg | 90.74 | v |
| Channel 5 Television Group Limited, London | U.K. | 90.74 | v |
| CLT-UFA S.A., Luxemburg | Luxembourg | 90.74 | v |
| Gute Zeiten – Schlechte Zeiten Vermarktungsgesellschaft mbH, Cologne | Germany | 90.74 | v |
| IP Deutschland GmbH, Cologne | Germany | 90.74 | v |
| IP France S.A., Paris | France | 90.74 | v |
| IP Luxemburg S.A.R.L., Luxemburg | Luxembourg | 90.74 | v |
| M6 Editions S.A., Neuilly-sur-Seine | France | 44.18 | v |
| M6 Films S.A., Neuilly-sur-Seine | France | 44.18 | v |
| Magyar RTL Televizió Rt., Budapest | Hungary | 62.61 | v |
| Métropole Télévision S.A., Neuilly-sur-Seine | France | 44.18 | v |
| N-TV Nachrichtenfernsehen GmbH, Cologne | Germany | 90.74 | v |
| OOO Media Holding REN TV, Moscow | Russia | 27.31 | e |
| Paris Première S.A., Paris | France | 44.18 | v |
| RTL 2 Fernsehen GmbH & Co. KG, Munich | Germany | 32.58 | e |
| RTL 9 S.A., Luxemburg | Luxembourg | 31.76 | e |
| RTL Belgium S.A., Brussels | Belgium | 59.89 | v |
| RTL Disney Fernsehen GmbH & Co. KG, Cologne | Germany | 45.37 | q |
| RTL Hrvatska d.o.o za uslugue, Zagreb | Croacia | 67.15 | v |
| RTL Nederland B.V., Hilversum | Netherlands | 66.86 | v |
| RTL Television GmbH, Cologne | Germany | 90.74 | v |
| Société Immobilière Bayard D´Antin S.A., Paris | France | 90.74 | v |
| Studio 89 Production S.A.S., Neuilly-sur-Seine | France | 44.18 | v |
| Universum Film GmbH, Munich | Germany | 90.74 | v |
| VOX Television GmbH, Cologne | Germany | 90.46 | v |
| **Content** | | | |
| CLT Multi Media GmbH, Cologne | Germany | 90.74 | v |
| Be Happy Productions S.A.S., Neuilly-sur-Seine | France | 91.03 | v |
| Belga Films S.A., Brussels | Belgium | 59.89 | v |
| Blu A/S, Copenhagen | Denmark | 68.27 | v |
| Blue Circle B.V., Hilversum | Netherlands | 91.03 | v |
| Fremantle Media Australia Holdings Pty Ltd., St. Leonards | Australia | 91.03 | v |
| Fremantle Media Group Ltd., London | U.K. | 91.03 | v |
| Fremantle Media North America, Inc., Wilmington | U.S. | 91.03 | v |
| Fremantle Productions Asia Ltd., Hongkong | China | 91.03 | v |
| Grundy Light Entertainment GmbH, Hürth | Germany | 91.03 | v |
| Grundy UFA TV Produktions GmbH, Berlin | Germany | 90.74 | v |
| Talkback Productions Ltd., London | U.K. | 91.03 | v |
| Teamworx Television & Film GmbH, Berlin | Germany | 90.74 | v |
| Trebitsch Produktion Holding GmbH, Hamburg | Germany | 90.74 | v |
| UFA Entertainment GmbH, Berlin | Germany | 90.74 | v |
| UFA Fernsehproduktion GmbH, Berlin | Germany | 90.74 | v |
| UFA Film und Fernseh GmbH, Cologne | Germany | 90.74 | v |
| **Radio** | | | |
| AVE Gesellschaft für Hörfunkbeteiligungen mbH, Berlin | Germany | 90.74 | v |
| BCS Broadcast Sachsen GmbH & Co. KG, Dresden | Germany | 36.78 | e |
| Ediradio S.A., Paris | France | 90.74 | v |
| HITRADIO RTL Sachsen GmbH, Dresden | Germany | 66.86 | v |
| Neue Spreeradio Hörfunkgesellschaft mbH, Berlin | Germany | 90.74 | v |
| New Contact S.A., Brussels | Belgium | 45.37 | p |
| Radio 538 B.V., Hilversum | Netherlands | 66.86 | v |
| RTL Radio Deutschland GmbH, Berlin | Germany | 90.74 | v |
| **Diversification** | | | |
| Clipfish GmbH & Co. KG, Cologne | Germany | 90.74 | v |
| M6 Web S.A.S., Neuilly-sur-Seine | France | 44.18 | v |
| Mistergooddeal S.A., Ivry-sur-Seine | France | 44.18 | v |
| RTL Interactive GmbH, Cologne | Germany | 90.74 | v |
| UFA Sport GmbH, Cologne | Germany | 90.74 | v |

### Random House

| | | | |
|---|---|---|---|
| **Random House North America** | | | |
| G24 NA LLC, Wilmington | U.S. | 100.00 | v |
| Golden Treasures, Inc., Wilmington | U.S. | 100.00 | v |
| McClelland & Stewart Ltd., Toronto | Canada | 25.00 | e |
| Random House, Inc., New York | U.S. | 100.00 | v |
| Random House of Canada Limited, Mississauga | Canada | 100.00 | v |
| Triumph Books Corp., New York | U.S. | 100.00 | v |
| **Verlagsgruppe Random House** | | | |
| Gerth Medien GmbH, Asslar | Germany | 100.00 | v |
| Prestel Verlag GmbH & Co. KG, Munich | Germany | 100.00 | v |
| Verlagsgruppe Random House GmbH, Gütersloh | Germany | 100.00 | v |
| **Random House U.K., Australia, New Zealand, South Africa** | | | |
| Mainstream Publishing Company (Edinburgh) Limited, Edinburgh | U.K. | 50.00 | q |
| Random House New Zealand Limited, Glenfield | New Zealand | 100.00 | v |
| Random House Publishers India Private Limited, New Delhi | India | 100.00 | v |
| Random House Struik (Pty) Limited, Rosebank | South Africa | 49.95 | e |
| RHA Holdings Pty. Ltd., Melbourne | Australia | 100.00 | v |
| The Random House Group Limited, London | U.K. | 100.00 | v |
| Virgin Books Limited, London | U.K. | 90.00 | v |
| Woodlands Books Limited, London | U.K. | 85.00 | v |
| **Random House Mondadori** | | | |
| Editorial Sudamericana, S.A., Buenos Aires | Argentina | 50.00 | q |
| Editorial Sudamericana Uruguaya, S.A., Montevideo | Uruguay | 50.00 | q |
| Random House Mondadori S.A., Barcelona | Spain | 50.00 | q |
| Random House Mondadori S.A., Bogotá, D.C. | Colombia | 50.00 | q |
| Random House Mondadori S.A., Caracas | Venezuela | 50.00 | q |
| Random House Mondadori S.A. de C.V., Mexico City | Mexico | 50.00 | q |
| Random House Mondadori S.A., Santiago de Chile | Chile | 50.00 | q |
| **Random House Asia** | | | |
| Random House Korea, Inc., Seoul | Korea | 100.00 | v |
| **Random House Films** | | | |
| Random House Films LLC, Wilmington | U.S. | 100.00 | v |
| Random House VG LLC, Wilmington | U.S. | 100.00 | v |

### Gruner + Jahr

| | | | |
|---|---|---|---|
| **G+J Germany** | | | |
| Berliner Presse Vertrieb GmbH & Co. KG, Berlin | Germany | 67.04 | v |
| Börse Online Verlag GmbH & Co. KG, Hamburg | Germany | 74.90 | v |
| Chefkoch.de Marken & Dienste GmbH & Co. KG, Bad Neuenahr-Ahrweiler | Germany | 56.03 | v |
| DPV Deutscher Pressevertrieb GmbH, Hamburg | Germany | 74.90 | v |
| DPV Network GmbH, Hamburg | Germany | 74.90 | v |
| DPV Worldwide GmbH, Hamburg | Germany | 74.90 | v |
| Exclusive & Living digital GmbH, Hamburg | Germany | 74.90 | v |
| G+J Corporate Editors GmbH, Hamburg | Germany | 74.90 | v |
| G+J Electronic Media Sales GmbH, Hamburg | Germany | 74.90 | v |
| G+J Entertainment Media Verlag GmbH & Co. KG, Munich | Germany | 74.90 | v |
| G+J Events GmbH, Hamburg | Germany | 44.94 | v |
| G+J Wirtschaftsmedien GmbH & Co. KG, Hamburg | Germany | 74.90 | v |
| G+J Women New Media GmbH, Hamburg | Germany | 74.90 | v |
| G+J/RBA GmbH & Co. KG, Hamburg | Germany | 37.45 | q |
| Gruner + Jahr AG & Co. KG, Hamburg | Germany | 74.90 | v |
| Hamburger Journalistenschule Gruner + Jahr – Die Zeit GmbH, Hamburg | Germany | 71.16 | v |
| In Verlag GmbH & Co. KG, Berlin | Germany | 37.52 | v |
| Ligatus GmbH, Cologne | Germany | 74.90 | v |
| Motor Presse Stuttgart GmbH & Co. KG, Stuttgart | Germany | 44.87 | v |
| Neon Magazin GmbH, Hamburg | Germany | 74.90 | v |
| Norddeutsche Verlagsgesellschaft mit beschränkter Haftung, Hamburg | Germany | 74.90 | v |
| Picture Press Bild- und Textagentur GmbH, Hamburg | Germany | 74.90 | v |
| Pixelhouse GmbH, Sinzig | Germany | 56.03 | v |
| Rodale-Motor-Presse GmbH & Co. KG Verlagsgesellschaft, Stuttgart | Germany | 22.43 | q |
| Scholten Verlag GmbH, Stuttgart | Germany | 44.87 | v |
| Stern.de GmbH, Hamburg | Germany | 74.90 | v |
| View Magazin GmbH, Hamburg | Germany | 74.90 | v |
| W.E. Saarbach GmbH, Hürth | Germany | 74.90 | v |
| Xx-well.com AG, Berlin | Germany | 56.18 | v |
| **G+J International** | | | |
| Adria Media Ljubljana d o.o., Ljubljana | Slovenia | 28.09 | q |
| Adria Media Serbia d o.o., Belgrade | Serbia | 33.71 | q |
| Adria Media Zagreb d o.o., Zagreb | Croatia | 28.09 | q |
| Beijing Boda New Continent Advertising Company Limited, Beijing | China | 35.95 | v |
| Editorial GyJ Televisa S.A. de C.V., Mexico, D.F. | Mexico | 37.45 | q |
| G+J Bloom V.O.F., Amsterdam | Netherlands | 59.92 | v |
| G+J Glamour C.V., Diemen | Netherlands | 74.90 | v |
| G+J Publishing C.V., Diemen | Netherlands | 74.90 | v |
| G+J RBA Sp. z o.o. & Co. Spolka Komandytowa, Warsaw | Poland | 74.90 | v |
| G+J Uitgevers C.V., Diemen | Netherlands | 74.90 | v |

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|---|---|---|---|
| Gruner + Jahr (Beijing) Advertising Co., Ltd., Beijing | China | 74.90 | v |
| Gruner + Jahr / Mondadori S.p.A., Milan | Italy | 37.45 | q |
| Gruner + Jahr Polska Sp. z o.o. & Co. Spolka Komandytowa, Warsaw | Poland | 74.90 | v |
| GyJ España Ediciones S.L.S. en C., Madrid | Spain | 74.90 | v |
| GyJ Publicaciones Internacionales S.L. y Cia. S. en C., Madrid | Spain | 37.45 | v |
| GyJ Revistas y Comunicaciones S.L., Sociedad Unipersonal, Madrid | Spain | 74.90 | v |
| Media Star - MPC Advertising Co. Ltd., Beijing | China | 26.92 | q |
| Motorpress Argentina S.A., Buenos Aires | Argentina | 44.64 | v |
| Motorpress Brasil Editora Ltda., São Paulo | Brazil | 27.25 | v |
| Motor-Presse Budapest Lapkiadó Kft., Budapest | Hungary | 44.87 | v |
| Motor Presse France, S.A.S., Issy-les-Moulineaux | Frankreich | 44.87 | v |
| Motor-Presse Polska Sp. z o.o., Wroclaw | Poland | 44.87 | v |
| Motor-Presse (Schweiz) AG, Volketswil | Switzerland | 44.87 | v |
| Motorpress-Ibérica, S.A., Madrid | Spain | 44.87 | v |
| Motorpress Lisboa S.A., Cruz Quebrada | Portugal | 33.65 | v |
| MPC (Beijing) Co. Ltd., Beijing | China | 26.92 | q |
| NG France S.N.C., Paris | France | 74.90 | v |
| Pixelate Ventures Sp. z o.o., Krakow | Poland | 59.92 | v |
| Prisma Presse S.N.C., Paris | France | 74.90 | v |
| Prisma Corporate Media Snc, Paris | France | 74.90 | v |
| Verlagsgruppe News Gesellschaft m.b.H., Vienna | Austria | 41.96 | v |
| VSD S.N.C., Paris | France | 74.90 | v |
| **Newspapers** | | | |
| Döbelner Verlagsgesellschaft GmbH & Co. KG, Döbeln | Germany | 44.94 | v |
| Dresdner Druck- und Verlagshaus GmbH & Co. KG, Dresden | Germany | 44.94 | v |
| Dresdner Verlagshaus Druck GmbH, Dresden | Germany | 44.94 | v |
| Dresdner Magazin Verlag GmbH, Dresden | Germany | 44.94 | v |
| Media Logistik GmbH, Dresden | Germany | 22.92 | v |
| Morgenpost Sachsen GmbH, Dresden | Germany | 44.94 | v |
| MVD Medien Vertrieb Dresden GmbH, Dresden | Germany | 44.94 | v |
| Ortec Messe und Kongress GmbH, Dresden | Germany | 22.92 | v |
| Saxo-Phon GmbH, Dresden | Germany | 44.94 | v |
| SZ-Reisen GmbH, Dresden | Germany | 44.94 | v |
| WVD Mediengruppe GmbH, Chemnitz | Germany | 33.66 | v |
| **Printing** | | | |
| Prinovis Ltd. & Co. KG, Hamburg | Germany | 28.05 | v |
| Gruner + Jahr Printing and Publishing Company – Division Brown Printing, Waseca | U.S. | 74.90 | v |
| **Corporate Services** | | | |
| Druck- und Verlagshaus Gruner + Jahr AG, Hamburg | Germany | 74.90 | v |
| Manager Magazin Verlagsgesellschaft mbH, Hamburg | Germany | 18.65 | e |
| Spiegel-Verlag Rudolf Augstein GmbH & Co. KG, Hamburg | Germany | 18.91 | e |

## Arvato

| | | | |
|---|---|---|---|
| **Printing** | | | |
| Arti Grafiche Johnson S.p.A., Seriate | Italy | 99.86 | v |
| Berryville Graphics, Inc., Wilmington | U.S. | 100.00 | v |
| Cobrhi, S.L., Ajalvir (Madrid) | Spain | 100.00 | v |
| Coral Graphic Services, Inc., New York | U.S. | 95.10 | v |
| Dynamic Graphic Finishing, Inc., Dauphin County | U.S. | 95.10 | v |
| Eurogravure S.p.A., Bergamo | Italy | 69.90 | v |
| Eurohueco, S.A., Castellbisbal (Barcelona) | Spain | 75.00 | v |
| Fernwärme Gütersloh GmbH, Gütersloh | Germany | 51.00 | v |
| GGP Media GmbH, Pößneck | Germany | 100.00 | v |
| Istituto Italiano d'Arti Grafiche S.p.A., Bergamo | Italy | 99.86 | v |
| Medienfabrik Gütersloh GmbH, Gütersloh | Germany | 90.00 | v |
| Mohn Media France SARL, Villepinte | France | 100.00 | v |
| Mohn Media Kalender & Promotion Service GmbH, Gütersloh | Germany | 100.00 | v |
| Mohn Media Mohndruck GmbH, Gütersloh | Germany* | 100.00 | v |
| Nuovo Istituto Italiano d'Arti Grafiche S.p.A., Bergamo | Italy | 99.86 | v |
| OAO Jaroslawskij Poligraphitscheskij Kombinat, Jaroslawl | Russia | 100.00 | v |
| Offset Paperback MFRS., Inc., Dallas | U.S. | 100.00 | v |
| OOO Distribuziony zentr Bertelsmann, Jaroslawl | Russia | 100.00 | v |
| Prinovis Liverpool Limited, London | U.K. | 37.45 | v |
| Prinovis Ltd. & Co. KG, Hamburg | Germany | 37.45 | v |
| Printer Colombiana S.A., Bogotá, D.C. | Colombia | 50.00 | v |
| Printer Industria Grafica Newco, S.L., Sant Vicenc dels Horts (Barcelona) | Spain | 100.00 | v |
| Printer Portuguesa – Indústria Gráfica, Limitada, Rio de Mouro | Portugal | 100.00 | v |
| Probind Mohn Media Binding GmbH, Gütersloh | Germany | 100.00 | v |
| Rotedic, S.A., Tres Cantos (Madrid) | Spain | 100.00 | v |
| RTV Media Group GmbH, Nuremberg | Germany | 100.00 | v |
| Vogel Druck und Medienservice GmbH, Höchberg | Germany | 100.00 | v |
| Wahl Media GmbH, Munich | Germany | 100.00 | v |
| **Services** | | | |
| ABDSF – Arvato Business Development Services France SARL, Vendin-Le-Vieil | France | 100.00 | v |
| ABIS GmbH, Frankfurt | Germany | 21.61 | q |
| ACSF – Arvato Communication Services France SARL, Metz | France | 100.00 | v |
| Adportum Media GmbH, Munich | Germany | 63.00 | v |
| ALSF – Arvato Logistique Services France SARL, Atton | France | 100.00 | v |
| AQUITEL SAS, Chasseneuil du Poitou | France | 100.00 | v |
| Arvato Direct Services Brandenburg GmbH, Brandenburg | Germany | 100.00 | v |
| Arvato Direct Services Cottbus GmbH, Cottbus | Germany | 100.00 | v |
| Arvato Direct Services Dortmund GmbH, Dortmund | Germany | 100.00 | v |
| Arvato Direct Services Eiweiler GmbH, Heusweiler-Eiweiler | Germany | 100.00 | v |
| Arvato Direct Services Frankfurt GmbH, Frankfurt | Germany | 100.00 | v |
| Arvato Direct Services GmbH, Gütersloh | Germany | 100.00 | v |
| Arvato Direct Services Gütersloh GmbH, Gütersloh | Germany | 100.00 | v |
| Arvato Direct Services Münster GmbH, Münster | Germany | 100.00 | v |
| Arvato Direct Services Neckarsulm GmbH, Neckarsulm | Germany | 100.00 | v |
| Arvato Direct Services Potsdam GmbH, Potsdam | Germany | 100.00 | v |
| Arvato Direct Services Stralsund GmbH, Stralsund | Germany | 100.00 | v |
| Arvato Direct Services Stuttgart GmbH, Kornwestheim | Germany | 100.00 | v |
| Arvato Direct Services Telco Neubrandenburg GmbH, Neubrandenburg | Germany | 100.00 | v |
| Arvato Direct Services Wilhelmshaven GmbH, Schortens | Germany | 100.00 | v |
| Arvato Direct Services Wuppertal GmbH, Wuppertal | Germany | 100.00 | v |
| Arvato Distribution GmbH, Harsewinkel | Germany | 100.00 | v |
| Arvato Entertainment Services (Milton Keynes) Limited, Milton Keynes | U.K. | 100.00 | v |
| Arvato Finance Services Limited, Dublin | Ireland | 100.00 | v |
| Arvato Government Services (ERYC) Ltd., Beverley | U.K. | 100.00 | v |
| Arvato Government Services Limited, Beverley | U.K. | 80.10 | v |
| Arvato Logistics Services China Limited, Shenzhen | China | 51.00 | v |
| Arvato Logistics Services GmbH, Gütersloh | Germany | 100.00 | v |
| Arvato Loyalty Services Ltd., Surrey | U.K. | 100.00 | v |
| Arvato Government Services (Sefton) Ltd., Beverley | U.K. | 80.10 | v |
| Arvato Media GmbH, Gütersloh | Germany | 100.00 | v |
| Arvato Online Services GmbH, Munich | Germany | 100.00 | v |
| Arvato SCM Limited, Milton Keynes | U.K. | 100.00 | v |
| Arvato Services AG, Pratteln | Switzerland | 100.00 | v |
| Arvato Services Australia Pacific Pty. Ltd., Newcastle | Australia | 100.00 | v |
| Arvato Services Chemnitz GmbH, Chemnitz | Germany | 100.00 | v |
| Arvato Services Estonia OÜ, Tallinn | Estonia | 100.00 | v |
| Arvato Services Healthcare France SAS, Lognes | France | 100.00 | v |
| Arvato Services Iberia, S.A., Barcelona | Spain | 100.00 | v |
| Arvato Services Italia S.r.l., Bergamo | Italy | 100.00 | v |
| Arvato Services k.s., Prague | Czech Republic | 100.00 | v |
| Arvato Services Limited, Liverpool | U.K. | 100.00 | v |
| Arvato Services München GmbH, Munich | Germany | 100.00 | v |
| Arvato Services Nederland B.V., Abcoude | Netherlands | 100.00 | v |
| Arvato Services Neubrandenburg GmbH, Neubrandenburg | Germany | 100.00 | v |
| Arvato Services Potsdam GmbH, Potsdam | Germany | 100.00 | v |
| Arvato Services Rostock GmbH, Rostock | Germany | 100.00 | v |
| Arvato Services S.A., Buenos Aires | Argentinia | 100.00 | v |
| Arvato Services Société Anonyme Telecommunications Services & Equipment, Athens | Greece | 100.00 | v |
| Arvato Services Spain, S.A.U., Alcorcón (Madrid) | Spain | 100.00 | v |
| Arvato Services Stralsund GmbH, Stralsund | Germany | 100.00 | v |
| Arvato Services Sweden AB, Malmö | Sweden | 100.00 | v |
| Arvato Services Technical Information GmbH, Harsewinkel | Germany | 100.00 | v |
| Arvato Telekomünikasyon Hizmetleri Anonim Sirketi, Istanbul | Turkey | 100.00 | v |
| Arvato Teleservice ApS, Esbjerg | Denmark | 100.00 | v |
| Arvato Teleservice GmbH, Baar | Switzerland | 100.00 | v |
| Arvato-AZ Direct GmbH, Vienna | Austria | 63.00 | v |
| ASF – Arvato Services France SARL, Vendin-Le-Vieil | France | 100.00 | v |
| AZ Direct AG, Risch | Switzerland | 63.00 | v |
| AZ Direct GmbH, Gütersloh | Germany | 63.00 | v |
| Bedirect GmbH & Co. KG, Gütersloh | Germany | 50.00 | q |
| Bertelsmann Marketing Services India Private Limited, New Delhi | India | 100.00 | v |
| BFS Finance GmbH, Verl | Germany | 63.00 | v |
| BFS Finance Münster GmbH, Münster | Germany | 63.00 | v |
| BFS Health Finance GmbH, Dortmund | Germany | 63.00 | v |
| BFS Risk & Collection GmbH, Verl | Germany | 63.00 | v |
| Ceacom SARL, Le Havre | France | 100.00 | v |
| Creditexpress Magyarország Pénzügyi Szolgáltató Korlátolt Felelősségű Társaság, Budapest | Hungary | 32.13 | v |
| Data Mailing SAS, Geispolsheim | France | 100.00 | v |
| Deutsche Post Adress GmbH & Co. KG, Bonn | Germany | 30.87 | q |
| Deutschlandcard GmbH, Munich | Germany | 100.00 | v |
| DM Michelotti AG, Risch | Switzerland | 63.00 | v |
| Document Channel SAS, Vendin-Le-Vieil | France | 60.00 | v |
| Duacom SARL, Douai | France | 100.00 | v |

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|---|---|---|---|
| Euroroutage Data Marketing et Logistique Services SAS, Geispolsheim | France | 100.00 | v |
| Informa Solutions GmbH, Baden-Baden | Germany | 63.00 | v |
| Informa Unternehmensberatung GmbH, Baden-Baden | Germany | 63.00 | v |
| Infoscore Austria GmbH, Vienna | Austria | 63.00 | v |
| Infoscore Business Support GmbH, Baden-Baden | Germany | 63.00 | v |
| Infoscore Consumer Data GmbH, Baden-Baden | Germany | 63.00 | v |
| Infoscore Finance GmbH, Baden-Baden | Germany | 63.00 | v |
| Infoscore Forderungsmanagement GmbH, Baden-Baden | Germany | 63.00 | v |
| Infoscore Inkasso AG, Schlieren | Switzerland | 63.00 | v |
| Media Log Spedition GmbH, Gütersloh | Germany | 100.00 | v |
| Moonriver Group Limited, London | U.K. | 100.00 | v |
| Nayoki Interactive Advertising GmbH, Munich | Germany | 32.13 | v |
| Nordcall SARL, Marcq-en-Baoreul | France | 100.00 | v |
| Nürnberger Inkasso GmbH, Nuremberg | Germany | 63.00 | v |
| Phone Assistance, S.A., Casablanca | Morocco | 60.00 | v |
| Phone Group, S.A., Casablanca | Morocco | 60.00 | v |
| Phone Online S.A.R.L., Casablanca | Morocco | 60.00 | v |
| Phone Serviplus, S.A., Casablanca | Morocco | 60.00 | v |
| Qualytel Andalucia S.A.U., Sevilla | Spain | 100.00 | v |
| Qualytel Latinoamerica S.A., Buenos Aires | Argentinia | 100.00 | v |
| Qualytel Teleservices, S.A., Madrid | Spain | 100.00 | v |
| Rewards Arvato Services GmbH, Munich | Germany | 100.00 | v |
| Shanghai Bertelsmann Commercial Services Co., Ltd, Shanghai | China | 100.00 | v |
| Shanghai Kaichang Information Technology Co., Ltd., Shanghai | China | 100.00 | v |
| SMED SAS, Bussy Saint-Georges | France | 100.00 | v |
| Teleservice International Portugal, Lda., Porto | Portugal | 100.00 | v |
| Teleservice International Telefon Onarim ve Ticaret Limited Sirketi, Istanbul | Turkey | 100.00 | v |
| Tria Global Services, S.L., Madrid | Spain | 100.00 | v |
| Verlag Automobil Wirtschaft (Pty.) Ltd., Port Elizabeth | South Africa | 100.00 | v |
| Verlegerdienst München GmbH, Gilching | Germany | 100.00 | v |
| **Digital Services** | | | |
| Arvato de Mexico, S.A. de C.V., Lomas de Chapultepec | Mexico | 100.00 | v |
| Arvato Digital Services Canada, Inc., Saint John | Canada | 100.00 | v |
| Arvato Digital Services GmbH, Gütersloh | Germany | 100.00 | v |
| Arvato Digital Services Limited, Hong Kong | China | 100.00 | v |
| Arvato Digital Services LLC, Wilmington | U.S. | 100.00 | v |
| Arvato Digital Services (Proprietary) Limited, Kya Sands, Randburg | South Africa | 100.00 | v |
| Arvato Digital Services Pte. Ltd., Singapore | Singapore | 100.00 | v |
| Arvato Digital Services Pty Ltd., New South Wales | Australia | 100.00 | v |
| Arvato Digital Services (Shanghai) Co., Ltd., Shanghai | China | 100.00 | v |
| Arvato Digital Services (Xiamen) Co., Ltd., Xiamen | China | 100.00 | v |
| Arvato Digital Technology (Shenzhen) Co. Ltd, Shenzhen | China | 100.00 | v |
| Arvato do Brasil Indústria e Servicos Gráficos, Logística e Distribuidora Ltda., São Paulo | Brazil | 100.00 | v |
| Arvato Logistics (Shenzhen) Co., Ltd., Shenzhen | China | 100.00 | v |
| Foshan City Xin Jin Sheng Electronics Company Ltd., Foshan | China | 65.00 | v |
| OOO Sonopress, Jaroslawl | Russia | 100.00 | v |
| Sonopress France SAS, Paris | France | 100.00 | v |
| Sonopress GmbH, Gütersloh | Germany* | 100.00 | v |
| Sonopress Iber-Memory S.A.U., Coslada (Madrid) | Spain | 100.00 | v |
| Sonopress Ireland Limited, Dublin[1)] | Ireland | 100.00 | v |
| Sonopress Italia S.r.l., Milan | Italy | 100.00 | v |
| Sonopress-Rimo Indústria e Comércio Fonográfica S.A., São Paulo | Brazil | 52.00 | v |
| Sonopress (UK) Limited, Wednesbury | U.K. | 100.00 | v |
| Topac GmbH, Gütersloh | Germany* | 100.00 | v |
| Zhejiang Huahong Opto Electronics Group Co. Ltd., Zhejiang Province | China | 29.70 | e |
| **IT** | | | |
| Arvato Systems GmbH Infrastructure Consulting, Dortmund | Germany | 100.00 | v |
| Arvato Systems GmbH, Gütersloh | Germany | 100.00 | v |
| Arvato Systems North America, Inc., Wilmington | U.S. | 100.00 | v |
| Arvato Systems Technologies GmbH, Rostock | Germany | 100.00 | v |
| Arvato Systems (Shanghai) Co. Ltd., Shanghai | China | 100.00 | v |
| S 4 M Solutions for Media GmbH, Cologne | Germany | 80.16 | v |
| **Others** | | | |
| Alldirekt Telemarketing GmbH, Salzburg | Austria | 100.00 | v |
| Inmediaone GmbH, Gütersloh | Germany | 100.00 | v |
| Verlagsservice für Bildungssysteme und Kunstobjekte Gesell-schaft m.b.H. & Co. KG, Vienna | Austria | 75.00 | v |
| Verlagsservice Süd AG, Zug | Switzerland | 100.00 | v |
| Wissenmedia GmbH, Gütersloh | Germany | 100.00 | v |

## Direct Group

| | | | |
|---|---|---|---|
| **German-speaking countries** | | | |
| Bertelsmann Medien (Switzerland) AG, Zug | Switzerland | 100.00 | v |
| Buchgemeinschaft Donauland Kremayr & Scheriau KG, Vienna | Austria | 75.00 | v |
| Nionex GmbH, Gütersloh | Germany | 100.00 | v |
| OTTO Media GmbH & Co KG, Hamburg | Germany | 50.00 | q |
| RM Buch und Medien Vertrieb GmbH, Gütersloh | Germany | 100.00 | v |
| **Iberian Peninsula** | | | |
| Bertrand Editora Lta., Lisbon | Portugal | 100.00 | v |
| Círculo de Lectores, S.A., Barcelona | Spain | 100.00 | v |
| Círculo de Leitores, S.A., Lisbon | Portugal | 100.00 | v |
| Distribuidora de Livros Bertrand Lda., Amadora | Portugal | 100.00 | v |
| Librerías Bertrand, S.L., Barcelona | Spain | 100.00 | v |
| Livraria Bertrand Sociedade de Comercio Livreiro S.A., Lisbon | Portugal | 100.00 | v |
| **French-speaking countries** | | | |
| Alsatia S.A., Mulhouse | France | 99.87 | v |
| Chapitre.com S.A.S., Paris | France | 100.00 | v |
| France Loisirs Belgique S.A., Ath | Belgium | 100.00 | v |
| France Loisirs S.A.S., Paris | France | 100.00 | v |
| France Loisirs (Suisse) S.A., Crissier | Switzerland | 100.00 | v |
| Librairies du Savoir S.A., Paris | France | 100.00 | v |
| Libris-Agora, S.A., Brussels | Belgium | 100.00 | v |
| Livres et Compagnie S.A.S., Paris | France | 100.00 | v |
| Loglibris S.A.S., Paris | France | 49.00 | e |
| Progi Invest S.A.S., Paris | France | 49.50 | e |
| Quebec Loisirs Inc., St. Laurent | Canada | 100.00 | v |
| Société Générale d'Edition et de Diffusion SGED, s.n.c. (e.l.), Paris | France | 50.00 | q |
| Voyages Loisirs S.A.S., Paris | France | 100.00 | v |
| **Italy / Eastern Europe** | | | |
| Bertelsmann Media Moscow ZAO, Moscow | Russia | 100.00 | v |
| Book Club Family Leisure Club Limited, Charkow | Ukraine | 100.00 | v |
| Book Club Family Leisure Club Ltd., Belgorod | Russia | 100.00 | v |
| Euromedia Group k.s., Prague | Czech Republic | 100.00 | v |
| Ikar a.s., Bratislava | Slovakia | 100.00 | v |
| Mondolibri S.p.A., Milan | Italy | 50.00 | q |
| Swiat Ksiazki sp. z o.o., Warsaw | Poland | 100.00 | v |
| **English-speaking countries** | | | |
| Doubleday Australia Pty. Ltd., Lane Cove (Sydney) | Australia | 100.00 | v |

As of December 31, 2009
Ownership of Group companies in percentage.

Consolidation method is defined as follows:
v = fully consolidated
q = proportionally consolidated
e = associated companies recognized at-equity
* = operating unit

[1)] The company has availed of exemptions under section 17 of the Irish Companies´ (Amendment) Act of 1986 from publicity filing its financial statements.

## 33 Exemption for Domestic Companies from Preparation, Audit and Publication of Financial Statements

The following subsidiaries took advantage of the exemption regulations set out in section 264 (3) HGB relating to additional requirements for limited liability companies to prepare annual financial statements and a management report as well as the requirements for the audit of, and publication by, limited liability companies for the year ended December 31, 2009:

| | |
|---|---|
| ADLER Immobilienverwaltungs GmbH | Gütersloh |
| Arvato AG | Gütersloh |
| Arvato Backoffice Services Erfurt GmbH | Erfurt |
| Arvato Digital Services GmbH | Gütersloh |
| Arvato Direct Services Brandenburg GmbH | Brandenburg, Potsdam |
| Arvato Direct Services Cottbus GmbH | Cottbus |
| Arvato Direct Services Dortmund GmbH | Dortmund |
| Arvato Direct Services Eiweiler GmbH | Heusweiler-Eiweiler |
| Arvato Direct Services Frankfurt GmbH | Frankfurt am Main |
| Arvato Direct Services GmbH | Gütersloh |
| Arvato Direct Services Gütersloh GmbH | Gütersloh, Springe |
| Arvato Direct Services Münster GmbH | Münster |
| Arvato Direct Services Neckarsulm GmbH | Neckarsulm |
| Arvato Direct Services Potsdam GmbH | Potsdam |
| Arvato Direct Services Rostock GmbH | Rostock |
| Arvato Direct Services Stralsund GmbH | Stralsund |
| Arvato Direct Services Stuttgart GmbH | Kornwestheim |
| Arvato Direct Services Telco Neubrandenburg GmbH | Neubrandenburg |
| Arvato Direct Services Wilhelmshaven GmbH | Schortens |
| Arvato Direct Services Wuppertal GmbH | Wuppertal |
| Arvato Distribution GmbH | Harsewinkel |
| Arvato Infoscore GmbH | Baden-Baden |
| Arvato Logistics Services GmbH | Gütersloh |
| Arvato Media GmbH | Gütersloh |
| Arvato Mobile Beteiligungs GmbH | Gütersloh |
| Arvato Online Services GmbH | Munich |
| Arvato Print Management GmbH | Gütersloh |
| Arvato Services Chemnitz GmbH | Chemnitz |
| Arvato Services Erfurt GmbH | Erfurt |
| Arvato Services Freiburg GmbH | Freiburg |
| Arvato Services München GmbH | Munich |
| Arvato Services Neubrandenburg GmbH | Neubrandenburg |
| Arvato Services Potsdam GmbH | Potsdam |
| Arvato Services Rostock GmbH | Rostock |
| Arvato Services Schwerin GmbH | Schwerin |
| Arvato Services Solutions GmbH | Gütersloh |
| Arvato Services Stralsund GmbH | Stralsund |
| Arvato Systems GmbH | Gütersloh |
| Arvato Systems GmbH Infrastructure Consulting | Dortmund |
| Arvato Systems Mittelstand GmbH | Gütersloh |
| Arvato Systems Technologies GmbH | Rostock |
| Arvato Telco Erfurt GmbH | Erfurt |
| AVE Gesellschaft für Hörfunkbeteiligungen mbH | Berlin |
| AVE V Vermögensverwaltungsgesellschaft mbH | Berlin |
| AZ Direct Beteiligungs GmbH | Gütersloh |
| AZ Direct GmbH | Gütersloh |
| BC Bonusclub GmbH | Berlin |
| Be Business Consulting GmbH | Gütersloh |
| Bertelsmann Capital Holding GmbH | Gütersloh |
| Bertelsmann Capital Investment Consulting GmbH | Gütersloh |
| Bertelsmann Immobilien GmbH | Gütersloh |
| Bertelsmann Music Group GmbH | Gütersloh, Munich |
| Bertelsmann Treuhand- und Anlagegesellschaft mit beschränkter Haftung | Gütersloh |
| BFS Finance GmbH | Verl |
| BFS Finance Münster GmbH | Münster |
| BFS Health Finance GmbH | Dortmund |
| BFS Risk & Collection GmbH | Verl |
| CBC Cologne Broadcasting Center GmbH | Cologne |
| Deutscher Supplement Verlag GmbH | Nuremberg |
| Deutschlandcard GmbH | Munich |
| Direct Group Bertelsmann GmbH | Gütersloh |
| Direct Sourcing Germany GmbH | Gütersloh |
| Easy Room GmbH | Gütersloh |
| FI Freizeitinvest GmbH | Nordhorn |
| Fremantle Licensing Germany GmbH | Berlin |
| Gerth Medien GmbH | Aßlar |
| GGP Media GmbH | Pößneck |
| Global Assekuranz Vermittlungsgesellschaft mit beschränkter Haftung | Gütersloh |
| Grundy UFA TV Produktions GmbH | Berlin |
| Hotel & Gastronomie Gütersloh GmbH | Gütersloh |
| Infonetwork GmbH | Cologne |
| Informa Solutions GmbH | Verl |
| Informa Unternehmensberatung GmbH | Baden-Baden |
| Infoscore Business Data Gesellschaft für Inkassodienstleistungen mbH | Baden-Baden |
| Infoscore Business Support GmbH | Baden-Baden |
| Infoscore Consumer Data GmbH | Baden-Baden |
| Infoscore Finance GmbH | Baden-Baden |
| Infoscore Financial Services GmbH [1] | Baden-Baden |
| Infoscore Forderungsmanagement GmbH | Baden-Baden |
| Infoscore Infodata Beteiligungs GmbH | Baden-Baden |
| Infoscore Informationsmanagement Beteiligungs GmbH | Baden-Baden |
| Inmediaone GmbH | Gütersloh |
| IP Deutschland GmbH | Cologne |
| Maul + Co. – Chr. Belser GmbH | Nuremberg |
| Media Log Spedition GmbH | Gütersloh |
| Medien Dr. phil. Egon Müller Service GmbH | Verl |
| Medienfabrik Gütersloh GmbH | Gütersloh |
| Mohn Media Energy GmbH | Gütersloh |
| Mohn Media Kalender & Promotion Service GmbH | Gütersloh |
| Mohn Media Print GmbH | Gütersloh |
| Mohn Media Sales GmbH | Gütersloh |
| Nionex GmbH | Gütersloh |
| Norddeich TV Produktionsgesellschaft mbH | Cologne |
| Nürnberger Inkasso GmbH | Nuremberg |
| Print Service Gütersloh GmbH | Gütersloh |
| Probind Mohn Media Binding GmbH | Gütersloh |
| PSC Print Service Center GmbH | Oppurg |
| Random House Audio GmbH | Cologne |
| Reinhard Mohn GmbH | Gütersloh |
| Rewards Arvato Services GmbH | Munich |
| RM Buch und Medien Vertrieb GmbH | Gütersloh, Berlin, Rheda-Wiedenbrück |
| RM Customer Direct GmbH | Nordhorn |
| RM Filial-Vertrieb GmbH | Rheda-Wiedenbrück |
| RM Kunden-Service GmbH | Gütersloh, Rheda-Wiedenbrück |
| RCB Radio Center Berlin GmbH | Berlin |
| RTL Creation GmbH | Cologne |
| RTL Group Cable & Satellite GmbH | Cologne |
| RTL Group Central & Eastern Europe GmbH | Cologne |
| RTL Group Deutschland GmbH | Cologne |
| RTL Group Deutschland Markenverwaltungs GmbH | Cologne |
| RTL Group GmbH | Cologne |
| RTL Interactive GmbH | Cologne |
| RTL Nord GmbH | Hamburg |
| RTL Radio Berlin GmbH | Berlin |
| RTL Radio Deutschland GmbH | Berlin |
| RTL Radiovermarktung GmbH | Berlin |
| Teamworx Television & Film GmbH | Potsdam |
| UFA Cinema GmbH | Potsdam |
| UFA Cinema Verleih GmbH | Berlin |
| UFA Entertainment GmbH | Berlin |
| UFA Fernsehproduktion Gesellschaft mit beschränkter Haftung | Berlin |
| UFA Filmproduktion GmbH | Berlin |
| UFA Film und Fernseh GmbH | Cologne |
| UFA Film & TV Produktion GmbH | Berlin |
| UFA International Film & TV Produktion GmbH | Berlin |
| UFA Radio-Programmgesellschaft in Bayern mbH | Ismaning |
| Verlag RM GmbH | Gütersloh |
| Verlagsgruppe Random House GmbH | Gütersloh, Munich |
| Verlagsgruppe Random House GmbH – Random House Audio | Cologne |
| Verlegerdienst München GmbH | Gilching |
| Viasol Reisen GmbH | Berlin |
| Vogel Druck und Medienservice GmbH | Höchberg |
| Wahl Media GmbH | Munich |
| Wissenmedia GmbH | Gütersloh |

The exemption provisions set out in section 264 b HGB were again used for the following companies for the year ended December 31, 2009:

| | |
|---|---|
| Berliner Presse Vertrieb GmbH & Co. KG | Berlin |
| Bertelsmann Special Investor GmbH & Co. KG | Gütersloh |
| Börse Online Verlag GmbH & Co. KG | Munich |
| Chefkoch.de Marken & Dienste GmbH & Co. KG | Bad Neuenahr |
| Döbelner Verlagsgesellschaft GmbH & Co. KG | Döbeln |
| Dresdner Druck- und Verlagshaus GmbH & Co. KG | Dresden |
| Ehrlich & Sohn GmbH & Co. KG | Hamburg |
| Entertainment Media Verlag GmbH & Co. KG | Dornach |
| G+J Immobilien GmbH & Co. KG | Hamburg |
| G+J Wirtschaftsmedien GmbH & Co. KG | Hamburg |
| Gruner + Jahr AG & Co KG | Hamburg |
| In Verlag GmbH & Co. KG | Baden-Baden |
| Kurier Direktservice Dresden GmbH & Co. KG | Dresden |
| Motor Presse International GmbH & Co. KG | Stuttgart |
| Motor Presse Stuttgart GmbH & Co. KG | Stuttgart |
| Prinovis Ltd. & Co. KG | Hamburg |

[1] Fiscal year ended June 30, 2009.

## 34 Proposal for the Appropriation of Retained Earnings

Of Bertelsmann AG's retained earnings of €1,314 million, €75 million will be disbursed to the profit-participation certificates on May 18, 2010, in line with the articles of incorporation. The Executive Board will recommend to the Annual General Meeting that the remaining retained earnings of €1,239 million be appropriated as follows:

| | in € millions |
|---|---|
| Remaining retained earnings | 1,239 |
| Dividends to shareholders | (60) |
| Carryforward to new year | 1,179 |

Accordingly, the dividend per ordinary share is €716.

Bertelsmann AG's Executive Board approved the consolidated financial statements for submission to the Supervisory Board on March 9, 2010. The Supervisory Board's task is to review the consolidated financial statements and declare whether it approves the consolidated financial statements.

Gütersloh, March 9, 2010

Bertelsmann AG
The Executive Board

| | | |
|---|---|---|
| Ostrowski | Buch | Dr. Buchholz |
| Dohle | Dr. Rabe | Zeiler |

# Corporate Governance at Bertelsmann

The recognized standards set forth by the German Corporate Governance Code in the version dated June 18, 2009 form the basis for Bertelsmann AG's guidelines on good corporate governance. Striving to achieve modern, responsible corporate governance is part of Bertelsmann's identity and an important element of its corporate culture.

## Corporate management: transparent structures and clear decision-making processes

The Bertelsmann AG Executive Board is responsible for independently managing the company. It provides the Supervisory Board with regular, prompt and comprehensive reports on all matters that are significant to the company's planning, business development, financial and earnings position, risk situation and risk management. The Supervisory Board monitors the Executive Board and advises it on strategic matters and significant business operations. The Executive and Supervisory Boards work in close cooperation and are therefore able to reconcile the demands of effective corporate governance with the need for rapid decision-making. Fundamental matters of corporate strategy and its implementation are discussed openly and coordinated in joint sessions. Any significant measures to be taken by the Executive Board are subject to the approval of the Supervisory Board. The shareholders exercise their rights and vote at the Annual General Meeting. The Annual General Meeting votes on amendments to the articles of association and the appropriation of net income, for example, and elects members to the Supervisory Board. The members of the Executive Board are appointed by the Supervisory Board. The members of both the Executive and Supervisory Boards are obliged to serve the company's best interests in their work.

For some time, an integral component of the Supervisory Board's work at Bertelsmann has been the delegation of tasks to committees of experts. This serves to increase the monitoring efficiency and advisory expertise of the Supervisory Board. In addition to the Personnel Committee, the Bertelsmann AG Supervisory Board has formed a Strategy and Investment Committee, an Audit and Finance Committee and a Working Group of Employee Representatives on the Supervisory Board. The Personnel Committee also performs the tasks of a Nomination Committee, in which capacity it recommends suitable candidates to the Supervisory Board for its proposed resolutions to the Annual General Meeting. The Audit and Finance Committee is also regularly involved in the accounting process and monitors the effectiveness of the internal control, risk management and internal auditing system. These committees prepare the topics to be addressed during the Supervisory Board's plenary meetings. The chairs of the committees then report to the plenary meetings on the work performed. The committees were also empowered with Supervisory Board decision-making authority as permitted by law. The breadth and range of responsibilities and tasks delegated to these committees is continuously reviewed through various evaluation processes. The appropriate size of the Supervisory Board and the professional expertise of its members, drawn from the diversity of Bertelsmann's business units, are key factors in its effectiveness and independence.

The Bertelsmann Stiftung foundation indirectly holds 77.4 percent of Bertelsmann AG shares, with the remaining 22.6 percent held indirectly by the Mohn family. Bertelsmann Verwaltungsgesellschaft (BVG) controls all voting rights at the Bertelsmann AG Annual General Meeting. BVG is responsible for upholding the interests of the Bertelsmann Stiftung and the Mohn family as Bertelsmann AG shareholders and ensuring the continuity of the company's management and Bertelsmann's distinctive corporate culture. BVG shareholders include three representatives of the Mohn family and three additional shareholders elected by the BVG shareholder meeting who are not members of the Mohn family.

Bertelsmann AG is an unlisted company, with 100 percent of its voting rights in the Annual General Meeting controlled by BVG. Nonetheless, Bertelsmann AG's corporate governance activities closely follow the recommendations of the German

Corporate Governance Code in the version published on June 18, 2009, which are primarily aimed at listed companies. Exceptions relate primarily to those guidelines which, in the opinion of Bertelsmann AG, apply to publicly held enterprises with large numbers of shareholders or anonymous shareholders. The individual remuneration and incentives paid to the members of the Bertelsmann AG Executive Board and Supervisory Board are not made public but are disclosed to the shareholders of Bertelsmann AG. Accordingly, no remuneration report is prepared.

## Compliance

Social responsibility and correct conduct towards employees, customers, business partners and public authorities are key elements of Bertelsmann's value system. Accordingly, Bertelsmann has always been fully committed to the principle of adhering to statutory provisions and internal regulations on the prevention of legal risks and their consequences.

The Executive Board has continuously developed and expanded Bertelsmann's compliance structure and organization over time, including during 2009. The Bertelsmann Code of Conduct, introduced in 2008, has been a core element in the individual, online and group training sessions offered to employees worldwide. The training sessions focused on teaching the principles of the Code of Conduct, the importance of an open dialog in the workplace and the various channels through which whistleblowers can report any compliance violations. The vast majority of employees took part in these training sessions in 2009. They will be continued and completed in 2010. The training sessions are conducted by the Ethics & Compliance department, whose other responsibilities include reviewing the reports received through the various whistleblower channels and coordinating the investigations.

The Corporate Compliance Committee (CCC), established as part of the compliance organization, held regular meetings during the period under review. The responsibilities of the CCC include monitoring the follow-up on reports of compliance violations and the measures taken. The CCC submitted the annual compliance report to the Executive Board and advised the Executive Board on specific and general responses to violations and compliance activity.

The Executive Board provided the Supervisory Board with regular status updates during fiscal year 2009 about compliance activity, especially the status of Code of Conduct training sessions. The Executive Board and CCC submitted their first annual compliance report to the Supervisory Board. All the reports received were investigated, and appropriate actions were taken in response to compliance violations. The report also included suggestions for increasing the effectiveness of the measures that ensure compliance.

The Executive Board The Supervisory Board

# Report of the Supervisory Board

GUNTER THIELEN
Chairman of the Supervisory Board of Bertelsmann AG

## Advising and Monitoring the Executive Board

In fiscal year 2009 the Supervisory Board diligently fulfilled the duties incumbent upon it by law and under the articles of association and bylaws. Its members regularly advised and monitored the Executive Board in its management of the company. The Supervisory Board was directly involved at an early stage in all important company decisions and transactions, and discussed and reviewed these at length on the basis of reports from the Executive Board. The Executive Board properly disclosed to the Supervisory Board all transactions requiring Supervisory Board approval pursuant to applicable law, the Bertelsmann AG articles of association or the bylaws. The Supervisory Board voted on the approval of these actions following thorough review and consultation.

The Supervisory Board was kept regularly informed by the Executive Board through timely and comprehensive written and verbal reporting. Reporting concerned, but was not limited to, the position and operating results of the company, especially the current business situation, material business transactions such as planned investments and divestitures, the staffing situation and fundamental corporate planning and strategy issues. Instances where business performance deviated from official projections and targets were discussed in detail with the Supervisory Board, which reviewed these matters on the basis of the documentation submitted. The Supervisory Board obtained regular information concerning financial debt levels and scheduled debt repayment. The risk situation and risk management were also a focus. The Supervisory Board reviewed the effectiveness of the Group-wide risk management system, hearing regular reports from the Executive Board.

The Supervisory Board extensively discussed and coordinated the strategic growth strategy of the company and significant business transactions with the Executive Board. The Supervisory Board also monitored and carefully followed corporate governance and compliance developments at Bertelsmann on an ongoing basis. The Executive Board and the Supervisory Board report jointly on corporate governance and compliance at Bertelsmann on pages 152–153.

## Supervisory Board Committees

The Supervisory Board has established three committees in the interest of conducting its work efficiently. With the exception of the Audit and Finance Committee, the Supervisory Board Chairman chairs all the committees. These committees prepare the topics to be addressed during the Supervisory Board's plenary meetings. The committee chairs report on the work carried out by their respective committees to the Supervisory Board at the next plenary meeting. The committees were empowered with Supervisory Board decision-making authority as permitted by law. In addition to these committees, there is a Working Group of Employee Representatives on the Supervisory Board. This arrangement has proven to be an excellent aid to the Supervisory Board's practical work.

The Personnel Committee is comprised of three other Supervisory Board members in addition to the Supervisory Board Chairman, who chairs the committee. In accordance with its mandate, the Personnel Committee supported the Supervisory Board in reviewing important personnel-related decisions, management continuity issues and fundamental issues concerning management hierarchies and human resources. The Personnel Committee passed resolutions on behalf of the Supervisory Board concerning Executive Board member employment contract provisions, while the remuneration was stipulated by the Supervisory Board's plenary meetings. The Personnel Committee also has taken on the task of a Nomination Committee, in which capacity it recommends to the Supervisory Board suitable candidates for endorsement at the Annual General Meeting.

The Audit and Finance Committee is currently composed of five members; the Supervisory Board Chairman is not a member of this committee. The Supervisory Board Vice Chairman chairs this committee. In particular, and in accordance with its mandate, the Audit and Finance Committee discussed issues of corporate financing and financial planning, accounting, risk management and auditor independence. The Audit and Finance Committee is additionally responsible for hiring an auditor and, in this connection, for establishing the focuses of the audit as well. The Audit and Finance Committee furthermore made a recommendation to the Supervisory Board supporting the latter's proposal to the Annual General Meeting concerning the choice of auditor for the fiscal year 2009. This included monitoring the independence and qualifications of the auditor and the additional services performed by him as well as the stipulation of his fee. The Audit and Finance Committee discussed initial findings from the audit of the annual financial statements in a teleconference with the auditor. The 2009 Interim Report was extensively discussed with the committee prior to publishing. During the year under review, the Audit and Finance Committee dealt intensively with the Group's liquidity and financial situation in the face of the economic crisis. The Committee also thoroughly examined the impact of the German Accounting Law Modernization Act (BilMoG), the structure of the Internal Control System (ICS), the structure and the conclusions of the internal audit department as well as the continued development of corporate governance within the Group; the Committee was kept continuously informed by the internal audit department of its work. This year, monitoring compliance and/or the development of compliance structures in the Bertelsmann Group were again very important for the Audit and Finance Committee. The Executive Board reported regularly to the Supervisory Board on these issues and put forward suggestions.

The Strategy and Investment Committee is currently composed of eight members. The Supervisory Board Chairman chairs this committee. The committee supported the Supervisory Board in its strategic dialog with the Executive Board, addressing in particular issues of strategic business planning, Group planning and the evaluation of the planned investments and divestitures. Within the framework established by the Supervisory Board, the Strategy and Investment Committee took decisions concerning said proposals. A key focus of the Committee's work during the year under review was to address the impact of the economic crisis on the Group's business performance. In order to do this, the Committee asked for regular reports on the progress of the cost-cutting measures defined by the Executive Board. In addition, the Strategy and Investment Committee regularly investigated growth initiatives pursued by the various divisions.

The Supervisory Board established a Working Group of Employee Representatives alongside the Supervisory Board committees. This Working Group facilitates the Executive Board's dialog with employee representatives on the Supervisory Board about corporate culture issues as well as the preparation and discussion of matters relevant to the Supervisory Board. The creation of this Working Group is indicative of the special corporate culture at Bertelsmann, and this idea has proven highly productive in practice.

In its plenary meetings the Supervisory Board regularly heard reports from the Executive Board on the current business and financial position of the Group and of individual divisions.

These focused above all on the impact of the general decline of Bertelsmann's core markets during the fiscal year, in particular the weak advertising markets, on the businesses and the progress of the successful countermeasures that were implemented. The Supervisory Board also looked at the management development structure within the Group and its elements. In implementing new legal provisions (VorstAG – Act on the Appropriateness of Management Board Remuneration) and the recommendation of the German Corporate Governance Code the Supervisory Board, in the absence of the Executive Board, addressed the system of remuneration for the Executive Board and approved it.

In fiscal year 2009, the Supervisory Board convened for four regular meetings. During the period under review the Strategy and Investment Committee and the Personnel Committee each met four times. The Audit and Finance Committee met seven times, including conference calls. The Working Group of Employee Representatives on the Supervisory Board convened four times. Between meetings, the Supervisory Board was notified in writing of projects and plans of special relevance and urgency for the company, and its opinion and or decision on matters was sought where necessary.

The Supervisory Board Chairman maintained ongoing contact with the Executive Board outside the framework of Supervisory Board meetings, in particular with the Executive Board Chairman, in order to stay abreast of the current business situation, significant transactions and the progress of the cost-cutting measures. During a full-day meeting with the Executive Board, the Supervisory Board discussed in detail fundamental issues of strategic Group development and the alignment of the Group portfolio in terms of market prospects, positioning for the future and competitive situation. All Supervisory Board members attended at least half of the meetings convened and no potential conflicts of interest arose in the Supervisory Board.

The Supervisory Board addressed the German Corporate Governance Code and Bertelsmann's compliance therewith. A joint report by the Supervisory and Executive Boards on corporate governance at the company is provided on page 152 ff. of this management report. As a non-listed company, Bertelsmann opted not to issue a formal declaration of compliance as per section 161 of the German Stock Corporation Act. The Supervisory Board subjected its work to a routine evaluation in fiscal year 2009. The comprehensive process resulted in a positive evaluation of the work of the plenary session and the Committees. As part of an ongoing process of further development, a number of suggestions were identified, some of which have already been implemented.

## Audit of the Annual and Consolidated Financial Statements

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, (formerly KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft) audited the annual and consolidated financial statements produced by the Executive Board for the fiscal year January 1 through December 31, 2009, as well as the Bertelsmann AG management and Group management reports dated December 31, 2009, each of which received an unqualified auditor's opinion. The annual financial statements were produced in accordance with HGB (German Commercial Code), and the Bertelsmann AG consolidated financial statements were produced in accordance with the International Financial Reporting Standards (IFRSs) as applicable in the European Union in line with section 315a HGB. The Supervisory Board's Audit and Finance Committee had mandated the auditor of the annual financial statements and consolidated financial statements in accordance with the Annual General Meeting resolution. The Audit and Finance Committee determined impairment testing of intangible assets acquired through acquisitions and of goodwill as a particular audit focus. The auditor performed the audit in observance of German accepted auditing principles established by the German Institute of Independent Auditors (IDW). The auditor was additionally instructed to audit Bertelsmann AG's Risk Early Warning System, which it found to be satisfactory as per section 91 (2) of the German Stock Corporation Act. The auditor of the annual and consolidated financial statements promptly submitted financial statement documents and the audit report to the Supervisory Board by the specified deadline in advance of the financial review meeting.

On March 19, 2010 the auditor attended the financial review meetings in both the Audit and Finance Committee and the plenary session of the Supervisory Board, gave an extensive report and answered questions. He was able to confirm that in the course of the audit, no significant weaknesses had been identified in the accounting-related internal control system. The Audit and Finance Committee discussed the annual financial statement documents and auditor's reports in detail. The findings of the auditor and group auditor of the annual and consolidated financial statements were carefully reviewed in an internal audit of the annual and consolidated financial statements. The Audit and Finance Committee reported comprehensively to the plenary session of the Supervisory Board concerning the audit of the annual and consolidated financial statements and the audit reports.

The plenary session of the Supervisory Board reviewed the annual financial statements, management report, consolidated financial statements and Group management report, taking into account the recommendations of the Audit and Finance Committee and of the audit reports and following further discussion with the auditor. The Supervisory Board concurred with the audit findings. After its own final scrutiny of the annual and consolidated financial statements and the management and Group management reports, the Supervisory Board – acting in accordance with the Audit and Finance Committee's recommendation – has raised no objections. The financial statements produced by the Executive Board are thus approved and the annual financial statements adopted.

The Supervisory Board furthermore reviewed and concurred with the Executive Board proposal to shareholders as to the amount of net retained profits for appropriation.
The amount of the proposed dividend is appropriate in the view of the Supervisory Board, in consideration of the economic environment, the company's economic situation and the interests of the shareholders.

**Executive and Supervisory Board Membership Changes**

Dr. Bernd Buchholz was appointed to the Executive Board effective July 17, 2009.

The year under review saw the following changes to the composition of the Supervisory Board: Christa Gomez was appointed to the Supervisory Board as an employee representative at the Bertelsmann AG Annual General Meeting held on May 5, 2009.

In fiscal year 2009, Bertelsmann's core markets largely declined in the face of the global economic crisis. In particular, the European TV and magazine advertising markets recorded double-digit percentage falls. The print and storage media markets also declined significantly, while the book markets were relatively stable. With the decline in total revenues, the Group's return on sales fell slightly short of the previous year.

The Supervisory Board would like to express its gratitude for the excellent work of the Executive Board in a difficult economic environment during the past fiscal year and would like to thank all executives and employees for their commitment and achievements.

Gütersloh, March 19, 2010

Dr. Gunter Thielen

# Supervisory Board

**Reinhard Mohn**
**Honorary Chairman** († 10/3/2009)

**Dr. Gunter Thielen**
**Chairman**
Chairman of the Executive Board, Bertelsmann Stiftung
- • Sixt AG (Chairman)
- • Sixt Allgemeine Leasing GmbH & Co. KGaA (Chairman)
- • Groupe Bruxelles Lambert
- • Leipziger Messe GmbH
- • Sanofi-Aventis SA (until 11/24/2009)

**Prof. Dr. Jürgen Strube**
**Vice Chairman**
Chairman of the Supervisory Board, BASF SE (until 4/30/2009)
- • Allianz Deutschland AG (until 4/2/2009)
- • BASF SE (Chairman, until 4/30/2009)
- • BMW AG (Vice Chairman)
- • Fuchs Petrolub AG (Chairman)
- • Hapag-Lloyd AG (until 3/17/2009)

**Dr. Wulf H. Bernotat**
Chairman of the Executive Board, E.ON AG
- • Allianz SE
- • Metro AG
- • E.ON Energie AG (Chairman)
- • E.ON Ruhrgas AG (Chairman)
- • Deutsche Telekom AG (since 1/1/2010)
- • E.ON Nordic AB (Chairman, until 1/4/2010)
- • E.ON US Investments Corp. (Chairman, until 5/7/2009)
- • E.ON Sverige AB (Chairman)

**Helmut Gettkant**
Member of the Bertelsmann AG Corporate Works Council

**Christa Gomez** (since 5/5/2009)
Vice Chairwoman of the Bertelsmann AG Corporate Works Council

**Ian Hudson**
Chairman of the Bertelsmann Management Representative Committee (BMRC)
- • UK Publishers Association

**Dr. Karl-Ludwig Kley**
Chairman of the Executive Board, Merck KGaA
- • BMW AG
- • 1. FC Köln GmbH & Co. KGaA (Chairman)

**Dr. Hans-Joachim Körber**
- • Air Berlin PLC
- • Esprit Holdings Ltd.
- • Skandinaviska Enskilda Banken AB
- • Sysco Corporation

**Prof. Dr.-Ing. Joachim Milberg**
Chairman of the Supervisory Board, BMW AG
- • BMW AG (Chairman)
- • Festo AG
- • SAP AG
- • ZF Friedrichshafen AG
- • Deere & Company

**Dr. Brigitte Mohn**
Chairwoman of the German Stroke Foundation
Member of the Executive Board, Bertelsmann Stiftung
- • Rhön-Klinikum AG

**Christoph Mohn**
Chief Executive Officer, Christoph Mohn Internet Holding GmbH
Chief Executive Officer, Lycos Europe N.V. (until 5/28/2009)
- • Lycos Armenia csjc (until 5/28/2009)
- • Lycos Italia S.r.l. (until 5/28/2009)
- • Lycos España Internet Services S.L. (until 5/28/2009)
- • Lycos Netherlands BV (until 5/28/2009)
- • Lycos Europe BV (until 5/28/2009)

**Liz Mohn**
Chairwoman of the Board, Bertelsmann Verwaltungsgesellschaft mbH (BVG)
Vice Chairwoman of the Executive Board, Bertelsmann Stiftung

**Erich Ruppik**
Chairman of the Bertelsmann AG Corporate Works Council

**Lars Rebien Sørensen**
President and CEO, Novo Nordisk A/S
- • Danmarks Nationalbank (since 3/17/2009)
- • DONG Energy A/S
- • ZymoGenetics, Inc.

• Membership of statutory domestic supervisory boards
• Membership of comparable domestic and foreign supervisory bodies of business enterprises

## Committees of the Supervisory Board

### Personnel Committee
Dr. Gunter Thielen (Chairman)
Prof. Dr.-Ing. Joachim Milberg
Liz Mohn
Prof. Dr. Jürgen Strube

### Audit and Finance Committee
Prof. Dr. Jürgen Strube (Chairman)
Ian Hudson
Dr. Karl-Ludwig Kley
Christoph Mohn
Erich Ruppik

### Strategy and Investment Committee
Dr. Gunter Thielen (Chairman)
Dr. Wulf H. Bernotat
Dr. Hans-Joachim Körber
Prof. Dr.-Ing. Joachim Milberg
Dr. Brigitte Mohn
Christoph Mohn
Lars Rieben Sørensen
Prof. Dr. Jürgen Strube (since 11/20/2009)

### Working Group of Employee Representatives on the Supervisory Board
Liz Mohn (Chairwoman)
Helmut Gettkant
Christa Gomez (since 5/5/2009)
Ian Hudson
Erich Ruppik

# Executive Board

## Hartmut Ostrowski
**Chairman and Chief Executive Officer**
- Arvato AG (Chairman)
- Druck- und Verlagshaus Gruner + Jahr Aktiengesellschaft (Chairman)
- Bertelsmann, Inc. (Chairman)
- RTL Group SA

## Rolf Buch
**Member of the Executive Board, Arvato AG** (Chairman)
- Arvato Digital Services Canada, Inc. (until 7/1/2009)
- Arvato Services Spain, S.A.U. (Chairman)
- Berryville Graphics, Inc. (Chairman)
- Coral Graphic Services of Kentucky, Inc. (Chairman)
- Coral Graphic Services of Virginia, Inc. (Chairman)
- Coral Graphic Services, Inc. (Chairman)
- Dynamic Graphic Finishing, Inc.
- Instituto Italiano d'Arti Grafiche S.p.A. (Chairman, since 4/22/2009)
- Lycos Europe N.V. (until 5/28/2009)
- Media Finance Holding, S.L. (Chairman)
- Offset Paperback MFRS, Inc.
- Phone Assistance, SA
- Phone Serviplus, SA
- Phone Group, SA
- Printer Industria Gráfica Newco, S.L. (Chairman)
- Prinovis Ltd. (Chairman)
- Stampers, LTD.

## Dr. Bernd Buchholz
(since 7/17/2009)
**Chairman of the Executive Board, Druck- und Verlagshaus Gruner + Jahr Aktiengesellschaft** (since 1/6/2009)
- Hamburger Journalistenschule Gruner + Jahr – Die Zeit GmbH (Chairman)
- Motor Presse Stuttgart GmbH & Co. KG
- Spiegel-Verlag Rudolf Augstein GmbH & Co. KG (since 1/6/2009)

## Markus Dohle
**Chairman and Chief Executive Officer, Random House**
- Istituto Italiano d'Arti Grafiche S.p.A. (Chairman, until 4/22/2009)
- Random House Children's Entertainment LLC
- Random House Films LLC
- Random House, Inc. (Chairman)
- Random House Korea, Inc.
- Random House Mondadori, SA
- Random House VG LLC (Chairman)
- Triumph Books Corp.

## Dr. Thomas Rabe
**Chief Financial Officer**
- Arvato AG (Vice Chairman)
- BMG RM Germany GmbH (Chairman, since 9/30/2009)
- Druck- und Verlagshaus Gruner + Jahr Aktiengesellschaft
- IKB AG (since 6/23/2009)[1)]
- Symrise AG (since 4/22/2009)[1)]
- Bertelsmann Capital Investment (SA) SICAR
- Bertelsmann Digital Media Investments SA
- Bertelsmann, Inc.
- Edmond Israel Foundation[1)]
- Ricordi & C. S.p.A. (Chairman)
- RTL Group SA

## Gerhard Zeiler
**Chief Executive Officer, RTL Group**
- Alpha Doryforiki Tileorasi SA
- Alpha Radiofoniki Kronos SA (until 11/27/2009)
- Alpha Radiofoniki SA (until 9/15/2009)
- CLT-UFA SA
- Ediradio SA (as representative of CLT-UFA SA)
- Kosmoradiotileoptiki SA (until 5/28/2009)
- Métropole Télévision SA
- M-RTL ZRT (Chairman, until 11/27/2009)
- Plus Productions SA
- RTL Nederland Holding B.V. (Chairman, until 2/9/2009)
- RTL Television GmbH (Chairman)
- RTL Radio Deutschland GmbH

• Membership of statutory domestic supervisory boards
• Membership of comparable domestic and foreign supervisory bodies of business enterprises
[1)] External mandates

# Auditor’s Report

We have audited the consolidated financial statements prepared by the Bertelsmann AG, comprising the balance sheet, the income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB are the responsibility of the parent company’s executive board. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.
We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [„Handelsgesetzbuch“: „German Commercial Code“] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the executive board, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.”

Bielefeld, March 10, 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| signed | signed |
| Dr. Bartels-Hetzler | Dr. Schurbohm-Ebneth |
| Wirtschaftsprüfer | Wirtschaftsprüfer |

# Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Gütersloh, March 9, 2010

Bertelsmann AG
The Executive Board

| | | |
|---|---|---|
| Ostrowski | Buch | Dr. Buchholz |
| Dohle | Dr. Rabe | Zeiler |

# Selected Terms at a Glance

### Bertelsmann Value Added (BVA)
A central performance indicator for assessing the profitability of operations and return on invested capital. The BVA is the difference between Net Operating Profit After Tax (NOPAT), defined as Operating EBIT adjusted for a uniform tax rate of 33 percent, and cost of capital. Cost of capital is the product of the weighted average cost of capital (a uniform 8 percent after taxes) and invested capital (operating assets less non-interest-bearing operating liabilities).

### Business Process Outsourcing
Business Process Outsourcing refers to the outsourcing of entire business processes to a third-party company.

### Cash Conversion Rate (CCR)
Indicator for assessing cash flow generated by operations. CCR is calculated based on the ratio of Operating Free Cash Flow to Operating EBIT.

### Contractual Trust Arrangement (CTA)
Concept of funding and insolvency protection of pension obligations by transfer of assets into a structure similar to a trust. Assets are classified as plan assets under IFRS and netted against the company's pension liabilities.

### Coverage Ratio
The (interest) Coverage Ratio is an important financing target. It represents the ratio of Operating EBITDA to financial result. Amounts reported in the annual financial statements are modified in calculating the coverage ratio.

### IFRS
International Financial Reporting Standards. Accounting standards intended to ensure internationally comparable accounting and reporting.

### Impairment
Write-down of assets to their recoverable amount.

### Leverage Factor
The Leverage Factor is the ratio of economic debt to Operating EBITDA. In calculating the leverage factor, modifications are made to the balance sheet figures to better reflect the Group's actual financial strength from an economic viewpoint.

### Operating EBIT
Earnings before interest, taxes and special items.

### Operating EBITDA
Earnings before interest, taxes, depreciation, amortization and special items.

### Rating
Expression of creditworthiness of a creditor or financial instrument by an agency specialized in creditworthiness analysis.

### Special Items
Income and expense items which are distinguished by their nature, amount or frequency of occurrence and disclosure of which is relevant for assessing the earnings power of the entity or its segments in the period affected. IFRS requires these items to be separately disclosed. They include, for example, restructuring measures, impairments and gains or losses on disposals of participations.

### Syndicated Credit Line
Syndicated loan facility involving a consortium of banks.

# Financial Calendar

**May 12, 2010**
Announcement of figures for the first three months of 2010

**May 18, 2010**
Payout of dividends on Profit Participation Certificates for the 2009 fiscal year

**August 31, 2010**
Announcement of figures for the first half of 2010

**November 11, 2010**
Announcement of figures for the first nine months of 2010

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**Information about Bertelsmann as an employer is also available on:**

**The Annual Report and current information about Bertelsmann are also posted at:**
www.bertelsmann.de
www.bertelsmann.com

This Annual Report is also available in German.

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175 YEARS OF BERTELSMANN
THE LEGACY FOR OUR FUTURE

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