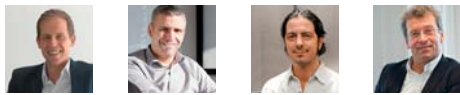
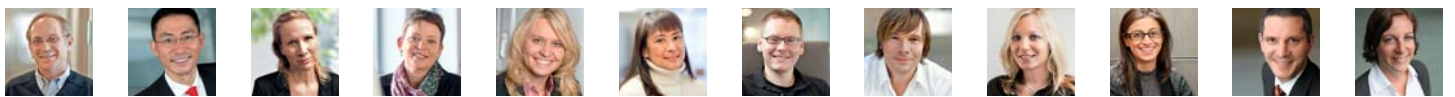
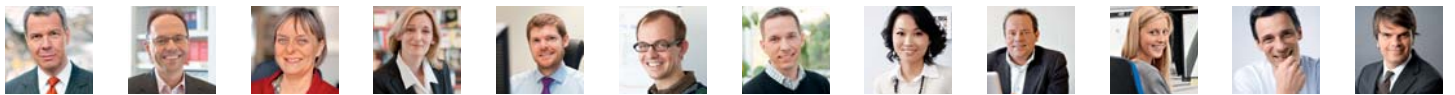


CREATIVITY



ENTREPRENEURSHIP



THE ANNUAL REPORT APP



Bertelsmann's Annual Report: App-ward Bound

Our Report is available as a free app on the Apple App Store or Android Market. This gives you convenient mobile access to all key figures and other information from fiscal year 2010, including the current structure of the Group.

The app works with iPad tablet computers, iPhone mobile digital devices versions iOS 4.0 and up and Android devices versions 2.2 and up (such as HTC Desire).



Bertelsmann is a leading international media and services company with operations in more than 50 countries in its core businesses of television (RTL Group), books (Random House), magazine publishing (Gruner + Jahr), media services (Arvato) and media clubs (Direct Group). In 2010, the company's approximately 100,000 employees generated revenues of 15.8 billion euros. The basis of Bertelsmann's success is a corporate culture based on partnership, entrepreneurship, creativity and citizenship.

Bertelsmann stands for creativity and entrepreneurship.

This combination sets us apart. It makes us unique and pushes us to deliver peak performance. This results in first-class media and communications offerings that inspire people around the world and provide innovative solutions for our customers.

We operate independently and are decentralized. We give our employees a high degree of responsibility and grant them extensive freedom to develop their own ideas and put them into action.

We strive for top positions in attractive markets and an appropriate return on capital. Bertelsmann pursues a long-term strategy of profitable growth. By continually strengthening our core businesses, steadily developing our portfolio and expanding into new areas of growth, we increase the company's value long-term and ensure its continuity.

Bertelsmann is shaping the future of media and services – in a responsible, performance-driven, creative way.

BERTELSMANN

AT A GLANCE

Key Figures (IFRS)

in € millions	2010	2009	2008	2007	2006
Business Development					
Consolidated revenues	15,786	15,110	16,118	18,758	19,297
Operating EBIT	1,852	1,438	1,568	1,811	1,867
Operating EBITDA	2,400	2,000	2,130	2,467	2,548
Return on sales in percent ¹⁾	11.7	9.5	9.7	9.7	9.7
Bertelsmann Value Added (BVA) ²⁾	371	50	88	133	101
Group profit	656	35	270	405	2,424
Investments	753	662	1,095	1,032	1,092
Consolidated Balance Sheet					
Equity	6,486	5,980	6,231	6,124	6,429
Equity ratio in percent	34.5	30.9	31.0	28.1	28.6
Total assets	18,779	19,378	20,132	21,776	22,498
Net financial debt	1,913	2,793	3,445	4,282	4,582
Economic debt ³⁾	4,915	6,024	6,627	7,720	8,450
Leverage factor	2.3	3.2	3.2	3.1	3.4
Employees (in absolute numbers)					
Germany	36,462	36,930	38,421	36,832	34,336
Other countries	67,957	65,774	67,662	65,565	62,796
Total	104,419	102,704	106,083	102,397	97,132
Dividends to shareholders of Bertelsmann AG	180	60	120	120	120
Distribution on profit participation certificates	44	76	76	76	77
Employee profit sharing	118	64	75	82	73

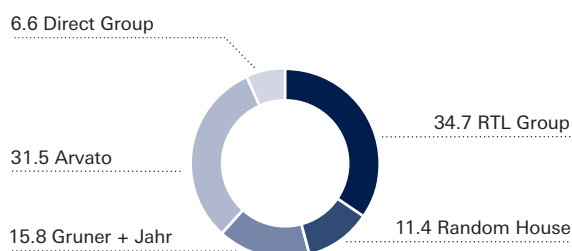
Figures adjusted for the fiscal year 2009; figures before 2009 as reported in the respective fiscal year.

¹⁾ Based on operating EBIT.

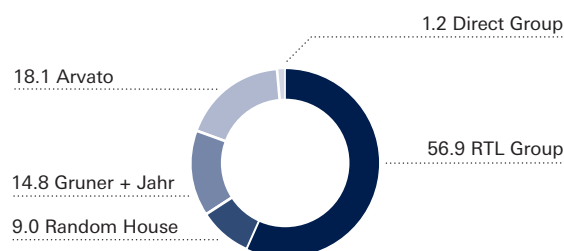
²⁾ Bertelsmann uses the BVA as a key performance indicator to evaluate the profitability of the operating business and the return on investment.

³⁾ Net financial debt plus pension provisions (in accordance with IAS 19.93A), profit participation capital and net present value of operating leases.

Total Revenues by Division in percent*



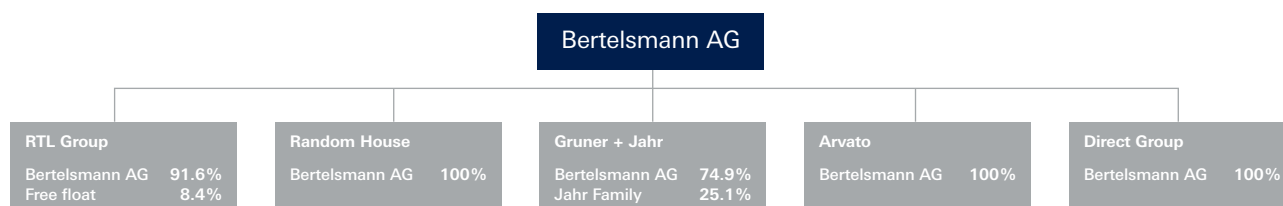
Operating EBIT by Divisions in percent*



* Based on total from divisions not including Corporate/Consolidation.

CORPORATE DIVISIONS

AT A GLANCE



RTL Group

in € millions	2010	2009	2008	2007	2006
Revenues	5,591	5,156	5,774	5,707	5,640
Operating EBIT	1,102	806	927	978	835
Employees (in absolute numbers)	12,339	12,241	12,360	11,392	11,307



Random House

in € millions	2010	2009	2008	2007	2006
Revenues	1,828	1,723	1,721	1,837	1,947
Operating EBIT	173	137	137	173	182
Employees (in absolute numbers)	5,264	5,432	5,779	5,764	5,804



Gruner + Jahr

in € millions	2010	2009	2008	2007	2006
Revenues	2,549	2,508	2,769	2,831	2,861
Operating EBIT	287	203	225	264	277
Employees (in absolute numbers)	13,337	13,571	14,941	14,448	14,529



Arvato

in € millions	2010	2009	2008	2007	2006
Revenues	5,083	4,826	4,993	4,917	4,782
Operating EBIT	350	345	369	366	367
Employees (in absolute numbers)	63,985	60,323	62,591	51,846	46,584



Direct Group

in € millions	2010	2009	2008	2007	2006
Revenues	1,069	1,246	1,259	2,555	2,665
Operating EBIT	24	28	22	10	110
Employees (in absolute numbers)	8,485	10,087	9,268	15,109	14,996

BERTELSMANN
media worldwide

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

Figures adjusted for the fiscal year 2009; figures before 2009 as reported in the respective fiscal year.

RTL Group is the leading European entertainment network. The portfolio of Europe's largest broadcaster includes interests in 40 TV channels and 33 radio stations in ten 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 across 54 countries. Bertelsmann now owns an approximately 92 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 print and digital trade book publishing group, comprised of 200 editorially independent imprints in 16 countries, which publish 10,000 new books a year. Random House sells 400 million print, audio, and electronic books annually. The group is a wholly owned division of Bertelsmann.

www.randomhouse.com

The Gruner + Jahr printing and publishing company is Europe's leading magazine publisher, with approximately 13,500 employees and over 500 magazines and digital offerings that reach readers and users in more than 30 countries. 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 custom 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 does business in twelve countries with its media clubs, booksellers, Internet operations, publishers and distribution companies and serves its approximately 14 million customers on all channels: via catalog, online, through club and book stores and through agents in the French- and German-speaking countries, Spain and Eastern Europe. Direct Group is a wholly owned subsidiary of Bertelsmann AG.

www.directgroup-bertelsmann.com



BERTELSMANN
media worldwide

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HARTMUT OSTROWSKI | Chairman and CEO, Bertelsmann AG

*Dear Readers,
Dear Friends of Bertelsmann,*

“175 Years of Bertelsmann – The Legacy for Our Future”: last year we celebrated our anniversary with this main theme. You are looking at one of the major achievements of this anniversary year: our financial results. They show that in 2010, Bertelsmann again has added a very gratifying chapter to the legacy for our future.

So the past fiscal year is memorable not only because we celebrated, in a variety of ways, the milestone rise of a small Protestant publishing house into an international media and services company. But also because we were able to seize opportunities for the future of our company, and to advance towards further growth.

The best example of this is our strong position in the digital business, which we have enhanced even further. We are successfully disseminating our content, brands and services wherever they are in demand – and therefore increasingly through digital channels.

IN SHORT: 2010 WAS ONE OF
THE MOST SUCCESSFUL FISCAL YEARS EVER
FOR BERTELSMANN!

Our revenues recovered strongly, increasing by 4.5 percent, and both our operating EBIT and our Group net income increased by leaps and bounds. At 1.85 billion euros, our operating EBIT is far above the previous year's level, and in some businesses has soared to record highs. Our return on sales reached a new peak at 11.7 percent. At 656 million euros, the Group net income exceeded our forecast. The release of funds from the operative business is also at a record level, having reached a good two billion euros. This has helped us reduce our net financial debt further and we have now freed up significant resources for investment, giving us new room for maneuver.

Of course, we have no intention of resting on our laurels now. Even though nearly all our businesses command leading market positions, some of them operate in mature markets, and many are in markets that are undergoing structural upheaval. New growth requires a clear, forward-looking strategy. And Bertelsmann has it:

WE ARE STRENGTHENING OUR CORE BUSINESSES. WE ARE DEVELOPING OUR PORTFOLIO. AND WE ARE EXPANDING INTO NEW AREAS OF GROWTH.

Specifically, this means that we first systematically expand the strong competitive positions of our existing businesses. For example, by actively embracing all the opportunities offered by digitalization – by expanding our e-book domain; through digital TV channels; increasing monetization of our Web portals and apps based on our strong brands; or through digital services for companies like Microsoft and Google. We are also using our existing entrepreneurial know-how in related fields of business, such as our journalistic expertise for corporate publishing and our services-related expertise in the field of e-commerce.

A few words about our second strategic pillar: after the divestment in recent years of low-growth businesses such as our recorded-music unit, parts of Direct Group and the British TV channel Five, the major steps in developing our portfolio have been completed. But we will continue to carefully review the strategic position of all Bertelsmann businesses in the future.

In the case of the third point – expansion – how well our businesses are doing is paying off nicely. We have the necessary funding flexibility and entrepreneurial experience to tap new growth areas. Opportunities for this are emerging in many fields that are not yet part of our core business but that promise future growth. Here we are thinking of education and professional information services, among others. Our venture capital funds, BDMI and BAI, are already targeting their investments toward new trends in technology and growing economies, in order to advance tomorrow's business opportunities.

The rapid rise of our new music rights business BMG shows how expansion can succeed when experience, a solid concept and an attractive market come together.

The key to our success remains what has always made Bertelsmann strong over the past 175 years – a combination of two characteristics that I believe distinguish us from other companies: the unique alignment of

CREATIVITY + ENTREPRENEURSHIP

These set Bertelsmann apart. We have more than 100,000 colleagues with excellent ideas, and we give them the necessary decentralized freedom to turn these ideas into thriving businesses.

Creativity without entrepreneurship is often fruitless. Entrepreneurship is truly emboldened if there is a creative spirit behind it. The task at hand, now and in the future, is to enable these two forces – creativity and entrepreneurship – to take flight across the best and most rewarding pathways.

Yours sincerely,





MARKUS DOHLE ROLF BUCH THOMAS RABE HARTMUT OSTROWSKI GERHARD ZEILER BERND BUCHHOLZ

BERTELSMANN EXECUTIVE BOARD

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).

GROUP STRATEGY

Bertelsmann seeks to ensure the continuity of the company in the best interests of all stakeholders, and to increase its value, steadily and long-term, through growth and an appropriate return on invested capital. The Group strategy is based on the Strategic Guidelines, which define the Group's development with regard to industries, regions, market position, diversification, business management and governance, and which evolve to reflect changing markets and conditions.

In accordance with the Strategic Guidelines, the Executive Board has derived three strategic priorities for the Group:

STRENGTHEN
STRENGTHEN THE CORE BUSINESSES



DEVELOP
DEVELOP THE PORTFOLIO



EXPAND
EXPAND INTO NEW GROWTH AREAS

WHAT DOES STRENGTHEN MEAN?

- + Improve existing businesses and invest into their strengthening and expansion
- + Exploit market opportunities consistently, in particular digitization

WHAT DOES DEVELOP MEAN?

- + Monitor businesses continuously
- + Expand portfolio in the existing business segments, particularly in geographical terms

WHAT DOES EXPAND MEAN?

- + Enter new growth segments through organic development of new businesses and through acquisitions

BERTELSMANN ESSENTIALS

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.

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 Bertelsmann Stiftung – 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.

CORPORATE RESPONSIBILITY

RESPONSIBILITY IS PART OF OUR IDENTITY

As one of the four Bertelsmann Essentials, citizenship – also known as corporate responsibility – has always been deeply rooted in Bertelsmann’s corporate culture and therefore in our business as well. Bertelsmann sees itself as a part of – and partner to – its community. But when we refer to corporate responsibility, we are talking about more than a responsibility to society or to the community in the strict sense. We want to act responsibly long-term – especially wherever our value creation and our stakeholders’ expectations intersect: in our business environment, toward our employees, in our community and in our treatment of the environment. Our efforts take their cue from our decentralized corporate structure: we get involved worldwide at our sites, along our value chains and on issues that are thematically related to the media and services business.

OUR BUSINESS 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.

OUR RESPONSIBILITY TO EMPLOYEES

The idea of partnership between employees and their company guides our thoughts and actions – to the benefit of everyone involved: Bertelsmann’s shareholders, management and employee representatives share the basic understanding that a spirit of partnership not only promotes everyone’s satisfaction and identification with the company and their personal jobs, but is also one of the key requirements for business success. For this reason, responsibility toward our employees has always been a special priority for us.

OUR RESPONSIBILITY TO SOCIETY

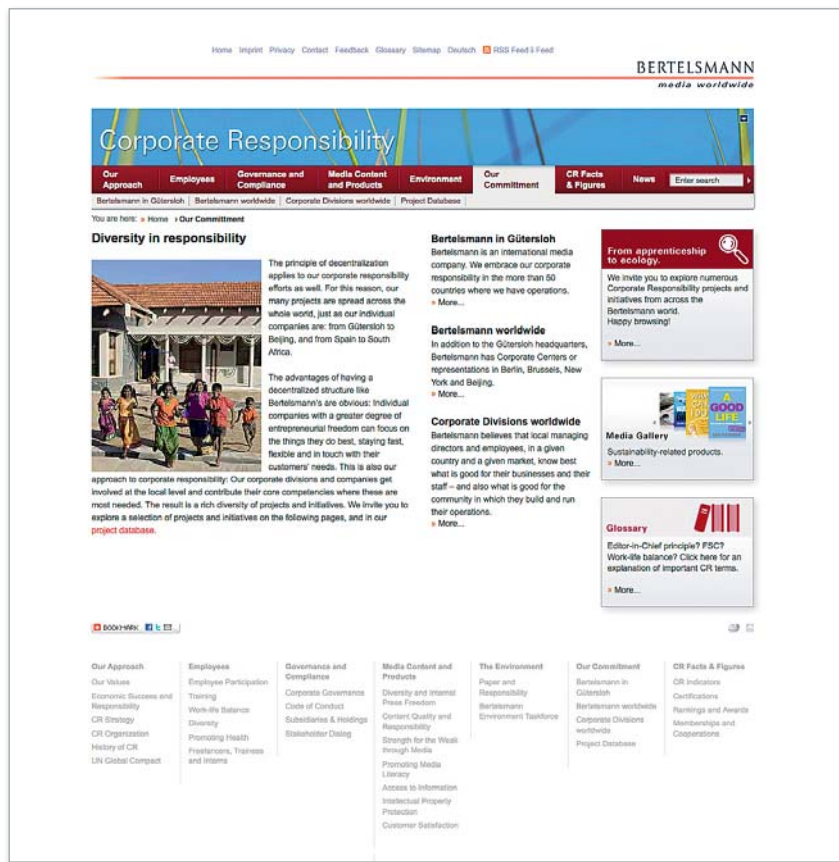
Media are more than simply a commodity. Media content is an economic asset as well as a cultural asset. This implies a special responsibility for us as media makers: we seek to contribute to a diverse media landscape by providing a wide variety of creative entertainment and information offerings. Responsible business conduct governs our daily business as a services company as well. Our goal is to reconcile economics and ecology in cooperation with our customers and to make all processes sustainable. Above and beyond this, we systematically target important societal issues, thereby building people's awareness and increasing public attention on these issues. We comport ourselves as a good citizen and work actively and supportively to promote a livable environment and against social ills in the communities in which we do business. We are also committed to promoting literacy and media skills, and next-generation talent in the media industry.

OUR RESPONSIBILITY TO THE ENVIRONMENT

Anyone who prints and publishes books and magazines, creates television programs and produces films, ships CDs and DVDs and offers a wide range of different services, enters into complex interaction with the environment, and we see protecting our environment and our climate as a central priority: dealing responsibly with natural resources across our entire value chain is an immutable element of our entrepreneurial responsibility. The "be green" team, an international committee comprised of environmental experts from all of the corporate divisions, manages our efforts in this area.

CORPORATE RESPONSIBILITY

Bertelsmann's Corporate Responsibility portal offers a wide range of information about how we view our social and environmental responsibility. This includes our treatment of employees as partners, Ethics & Compliance, responsibility for media content, products and services, and a sustainable use of natural resources. Facts and figures are provided to illustrate the commitment of Bertelsmann, its corporate divisions and companies all over the world. In addition, selected sustainability-related products are presented.



www.bertelsmann.com/responsibility

01



02



OUR ENGAGEMENT

03

Employee Survey 2010
Your opinion counts!

04

be green.
The environmental initiative of Bertelsmann AG

01 COMMITMENT TO COMPLIANCE AND ETHICAL CULTURE

Bertelsmann is committed to ensuring compliance with the law and promoting an organizational culture that fosters ethical conduct. To this end, Bertelsmann has implemented a comprehensive Ethics & Compliance program. Its key pillars are a compliance organization with clear roles and responsibilities; a Code of Conduct with principles and standards that provides guidance to all managers and employees in their decision-making; mechanisms for monitoring compliance with these standards, including a whistleblowing system for raising concerns as well as procedures for investigation and resolution of alleged violations; ongoing training and communication activities to ensure high awareness of these resources.

03 EMPLOYEES ACTIVELY HELP SHAPE OUR COMPANY'S FUTURE

Partnership also means jointly shaping the company with our employees. The employee survey has become established as an instrument of active participation in processes of change. In 2010, more than 83,000 employees around the world were asked to spark important change processes by voicing their opinions on their workaday life. 70,000 employees in 47 countries seized the opportunity and took part in the survey. Of the more than 5,000 executives who received a team report, 90 percent have used it to draw up an action plan with their employees. In addition to this, the results are being used long-term at company, division and Group level.

02 THE "LESESPASS" (READING FUN) INITIATIVE

To mark its 175th anniversary, Bertelsmann AG partnered with Stiftung Lesen and the Goethe-Institut e.V. to launch the "Lesespaß" initiative on September 1, 2010. The aim of the project is to introduce reading to children from families who don't read or who have an immigrant background. The special thing about "Lesespaß" is its holistic approach – a concentration in terms of time and space of many reading promotion measures that build on each other, and the close cooperation with local literacy promotion stakeholders. This path has for some time been seen as theoretically promising with regard to reading promotion, but it has rarely been put into practice.

04 WORLDWIDE EMPLOYEE EFFORTS FOR CLIMATE PROTECTION

Involving and motivating employees is a central pillar in Bertelsmann's climate protection strategy, "be green." In this spirit, the first international "be green Days" were held at Bertelsmann around June 1, 2010. These "green action" days at more than 35 sites in ten countries brought the issue of environmental and climate protection to life with a number of "green" actions. For one thing, on the "be green Days" employees could learn what Bertelsmann and its local companies are already doing to protect the environment and our climate. They were also given advice on how to be even more environmentally friendly at work, on their commute or at home. A motivational film "starring" Bertelsmann employees was produced to get people thinking, and served as a binding, emotional element for the many different projects around the world.

BERTELSMANN DIVISIONS





BERTELSMANN
CORPORATE

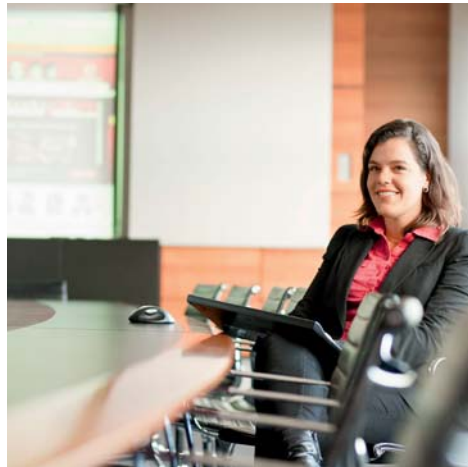
22	RTL Group
28	Random House
34	Gruener + Jahr
40	Arvato
46	Direct Group
52	Corporate

VOICE OF HOLLAND: AN RTL FORMAT FOR ALL CHANNELS

SUCCESSFUL CASE

Annemarieke Loderus, responsible for online product development and new business opportunities, says: "We enabled the audience to deepen their experience, get close to their idols and satisfy their need for information on any given platform at any given time."

Annemarieke Loderus,
Development Manager, RTL Digital Media,
RTL Nederland, Hilversum



LIVE BROADCAST ON ALL DEVICES

"Simultaneously creating a live Internet broadcast on all devices" is what Jan Paul Dekker says makes "The Voice of Holland" so special. "Thanks to social media the show attracts millions of users online who expect the videos to be available immediately."

Jan Paul Dekker, Manager Production,
RTL Nederland, Hilversum

A WHOLE NEW DIMENSION

"The Voice of Holland' brings a whole new dimension to watching TV," says Arthur Clement. "The viewer doesn't just watch a program. The interaction through social media makes viewer participation accessible and makes it possible for users to voice an opinion directly."

Arthur Clement,
Senior Account Manager Digital Media,
RTL Nederland, Hilversum



CREATIVITY



RTL Group
Random House
Gruner + Jahr
Arvato
Direct Group
Corporate



SECOND SCREEN

Arno Otto has his sights set on the “second screen”: “There have always been viewers who do something else while watching TV. But now with the rise of tablet PCs, the threshold for using them while watching TV is much lower – a huge opportunity for RTL.”

Arno Otto, Managing Director Digital Media, RTL Nederland, Hilversum

ENTREPRENEURSHIP

ADAPTIVE, ATTENTIVE, ENTREPRENEURIAL

Björn Fuchs manages the team responsible for TV-related telecom business. “Being adaptive, attentive and entrepreneurial at the same time” is what helps him deal with a combination of changing consumer behavior, legislation and complex revenue models.

Björn Fuchs, Manager Data Products, RTL Nederland, Hilversum



INTERACTION

“Think technology and talk business, think business and talk technology” – this is how Jan-Willem Borsboom describes the skill often called upon in his job. “The Voice of Holland” offers him and his team an excellent platform for interacting with TV viewers.

Jan-Willem Borsboom, Manager Product Development & Business-to-Consumer Marketing Digital, RTL Nederland, Hilversum



AN AVERAGE OF 2.8M VIEWERS
AGED 6 AND OLDER WATCH
EACH EPISODE.

No other talent show on Dutch television has ever been this successful: "The Voice of Holland" toppled all previous ratings records. The final was watched by a remarkable 3.8 million viewers.

rt(4)

rt|nederland



BEN SAUNDERS

The 27-year-old emerged as the winner, scoring 59 percent of the viewer votes during the finale.

SOCIAL PHENOMENON

"The Voice of Holland" becomes the most-watched talent show ever broadcast on RTL 4.



"WATCH WHATEVER YOU WANT, WHENEVER YOU WANT AND ON WHATEVER DEVICE YOU WANT – this, in a nutshell, is RTL Nederland's business strategy," says Arno Otto. In essence, it describes what television may look like in the future.

There is hardly another broadcasting group that has as strong a presence in the digital world with its content as RTL Group's Dutch broadcaster. Why? "We see the Internet not as a separate medium, but as a distribution technology,"

says Otto. "So we are no longer a pure broadcasting company. We're a company that sells audiovisual content, for all channels and for all devices."

The talent show "The Voice of Holland" illustrates just what "360° marketing" looks like. For Otto, it is "the world's first 100 percent cross-media format." The very selection of applicants for the sing-off on RTL 4 is new and unprecedented: candidates can audition on the "Voice of Holland" homepage, and other online visitors rate their performance – the more

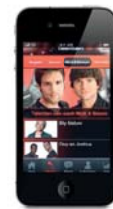
RTL Group
 Random House
 Gruner + Jahr
 Arvato
 Direct Group
 Corporate



ONLINE

More than 2.4 million unique visitors to the website, approx. 14.5 million video views: "The Voice of Holland" is an online phenomenon.

40,000
 FACEBOOK FANS
 90,000
 HYVES FANS
 38,000
 TWITTER FOLLOWERS



MOBILE APP

The "Voice of Holland" app has been downloaded 75,000 times.



IN PRINT AND ON POSTERS

Whether as a magazine or an advertising banner – "The Voice of Holland" is everywhere, not just on television.

positive the online response, the greater their chance of performing on the show. This close contact between viewers and participants never lapses thereafter: candidates use a special app to keep their fans up to date throughout the season; a reporter delivers additional information to the show's 40,000 Facebook fans and 38,000 Twitter followers; and in the reality show "The Voice of Holland – Real Life" the viewers get to know more about the stars' personal backgrounds. The concept clearly works: songs by the show participants, available as downloads, are storming the Dutch

charts, and attention is guaranteed – by countless YouTube clips, an accompanying printed magazine and several live concerts by the candidates – even after the show is no longer on TV. A true network of creativity.

And a strategy that pays off on the business front as well: on television "The Voice of Holland" has become the most-watched talent show ever broadcast by RTL 4. RTL Nederland earns money from the online page views, the online advertising, the concerts and the print magazine.



RTL Group is the leading European entertainment network, with interests in 40 TV channels and 33 radio stations in ten countries and content production throughout the world. The TV portfolio of Europe's largest broadcaster includes RTL Television in Germany, M6 in France, 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 54 countries.

€5,591

million revenues

€1,102

million operating EBIT

12,339

employees worldwide

»Catch-up TV, Internet-connected TV sets, mobile apps, casual video games based on popular TV formats. The TV business has always been driven by new technologies – and vice versa. Television has won through every innovation, becoming even more diverse and popular. And I firmly believe that the same still applies today. Therefore I say: the future of TV is TV.«

GERHARD ZEILER, CEO, RTL Group

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Gruner + Jahr
Arvato
Direct Group
Corporate



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HIGHLIGHTS 2010

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01 CONTINUING SUCCESS, ALL UNDER ONE ROOF

Mediengruppe RTL Deutschland now has all its operations under one roof in Cologne-Deutz, in one of the most modern and well-equipped broadcasting centers in Europe. The move has laid the foundation for enhanced communication, coordination and collaboration across the unit, particularly between news formats. RTL Television was the market leader among viewers aged 14 to 49 for the 18th consecutive year, with 18.1 percent, while the German family of channels attracted 35 percent of Germany's whole TV audience in this age group. In 2010, RTL Television also led the total audience share, with 13.6 percent.

03 FURTHER DIVERSIFICATION THROUGH KEY ACQUISITIONS

Fremantle Media has taken a 62.5 percent share in Radical Media, and taken its share of Montreal-based interactive game developer Ludia to 80 percent. The deals form part of Fremantle Media's ongoing plans to broaden and diversify its business scope through new business models and customer groups. Radical Media is one of the leading TV commercials production companies in the U.S. and a creator of branded entertainment content. Ludia develops casual video games for leading consoles and PCs, as well as iPhone and iPad apps, many of them based on well-known Fremantle Media formats such as "The Price is Right" and "Family Feud."

02 NEW TECHNOLOGY INCREASES TV AUDIENCE FIGURES

An expanding range of video on demand and mobile applications is proving very popular across RTL Group, which has launched over 60 apps, registering 10 million downloads to date. Meanwhile, online and on-demand offers collectively generated more than 1.4 billion views in 2010 – up 46 percent year on year. RTL Television and M6 are making progress across new technology platforms, offering the channels' programs live on iPhones and iPads, as well as their catch-up TV services. Another innovation is M6's subscription service, "Pass Séries VIP," which offers U.S. drama series such as "NCIS" just 24 hours after they are screened in the U.S.

04 X-FAKTOR HAS IMMEDIATE IMPACT ON RTL KLUB

In August, the launch of "X-Faktor" in Hungary on RTL Klub was the main event in the country's most competitive slot for local productions, Saturday evening. Attracting 53.3 percent of viewers aged 18 to 49, "X-Faktor" prevailed over fierce competition from "Megasztár" on TV2 – a rival talent show format already in its fifth season – securing almost double the audience for the audition stages. Jointly produced by Grundy Light Entertainment and IKO Productions, for RTL Klub, and featuring well-known Hungarian presenters and judges from the world of music, "X-Faktor" has proven its strength from the outset.

HOW A RANDOM HOUSE TEAM BRINGS THE JAY-Z EXPERIENCE TO LIFE



CREATIVITY AND OPENNESS

Avidah Bashirrad worked together with Jay-Z's brand-management team on an overall marketing strategy and awareness-building campaign to make "Decoded" a big hit. "Creativity and openness to new ideas" helped her do so.

Avidah Bashirrad, Director, Marketing,
Random House and Spiegel & Grau,
New York

ASSISTING JAY-Z

Christopher Jackson says, "As the acquiring editor, my primary responsibility was assisting Jay-Z in developing this beautiful, important book from initial concept to final pages, to tell the story of an art form and a generation of Americans."

Christopher Jackson, Executive Editor,
Spiegel & Grau, New York



CREATIVITY



NEW DIGITAL FORMATS

He helped transform "Decoded" for the digital world: Kenneth Wohlrob was responsible for creating the "Decoded" apps and the enhanced e-book. A challenging yet smoothly achieved task: "Jay-Z's book lent itself naturally to new digital formats."

Kenneth Wohlrob,
Director, Digital Content,
Random House Publishing Group,
New York



PHENOMENAL POSITIVE RESPONSE

Jay-Z's online fan base is unparalleled. This was invaluable for Matthew Schwartz to determine a broad strategy for releasing "Decoded" in multiple digital formats. Reward for his work: "Phenomenal positive response from his fans."

Matthew Schwartz, Vice President,
Director, Digital Marketing and Strategy,
Random House Publishing Group,
New York

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Gruner + Jahr
Arvato
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LEADING PRIORITY

“We’ve published a book that surpassed our ambitious goals,” Gina Centrello says. She negotiated the book deal and made “achieving its creative and commercial success a leading priority.”

Gina Centrello, President and Publisher, Random House Publishing Group, New York

ENTREPRENEURSHIP



EMPOWERING MESSAGES

“Its empowering messages are beautifully expressed to broad-ranging readers,” Barbara Fillon says about “Decoded.” She devised the overall publicity strategy and organized the public events for the book.

Barbara Fillon, Deputy Publicity Director, Random House Publishing Group, New York



PUSH THE BOUNDARIES

“Juggling – and setting priorities”: this is how Julie Grau describes her special talents often called upon during the publication of “Decoded.” “In Jay-Z we had an author whose mandate to us was to innovate – and who gave us much to work with to push the boundaries.”

Julie Grau, Senior Vice President, Publisher, Spiegel & Grau, New York

RAPPER, PRODUCER, BUSINESSMAN

Jay-Z – aka Shawn Carter – is a man of many talents: he makes his own music, writes and produces songs for other musicians and operates a fashion label. His songs have earned Jay-Z many awards over the years, including several Grammys.



ADVERTISING

“Decoded” is promoted with a high-visibility campaign from Bing.

HARDCOVER OR PAPERBACK?

Time was when bookbuyers’ choices were limited to just those two editions. But in an innovative publishing initiative that befits its author’s status as a pop-culture icon, Random House Publishing Group imprint Spiegel & Grau last fall published “Decoded,” a memoir and lyric guide by Jay-Z, in five different versions: hardcover print, standard e-book, “enhanced e-book” with exclusive video content, and as two separate apps.

As developed by Spiegel & Grau Publisher Julie Grau and a Random House Group team, the “Decoded” print book is an eye-catching literary collage of personal narrative, lyrics and images. Its digital versions integrate music and video files. Purchasers of the app editions get to choose either the standard version, with ten Jay-Z compositions, and “decode” a book section with each song, creating their individualized version of the book. Or a “full version” of “Decoded,” with 36 songs, is downloadable as an app in the iTunes and the Apple apps stores.

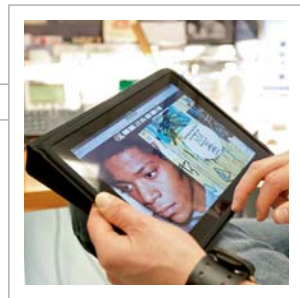


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TEXT AND SOUND

Personal narration, lyrics, pictures and more: the "Decoded" app is available in two versions.



"DECODED"
HAS SOLD
500,000
UNITS



THE JAY-Z EXPERIENCE

Videos, pictures, lyrics and songs: the "Decoded" app brings fans closer to Jay-Z.

Widely admired by book-publishing professionals as a multi-format groundbreaker, "Decoded" received many rave reviews from major literary critics. It is a big commercial success, selling half a million print and digital copies, and newly connecting Jay-Z to his fans as an author, as well as a musical artist.

"The experience we gained with this project will benefit us for a long time to come," Grau said. Summarizing the business strategy behind the project, Gina Centrello, Random House Publishing Group President and Publisher, added, "Going forward, we want to deliver all our content more excitingly and accessibly to consumers. We already are brainstorming how we can top 'Decoded.'"



Random House is the world's trade-book market leader, a commercial and literary powerhouse publishing 10,000 new hardcovers, paperbacks, audio and electronic books annually in the local languages of 16 countries, and selling 400 million books a year. More than 25,000 English-, German- and Spanish-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 and international leaders. It is a company of people who love books and who are passionate supporters of their authors, booksellers and readers.

€1,828

million revenues

€173

million operating EBIT

5,264

employees worldwide

»In a year of sweeping changes in how we publish, sell and read books, Random House advanced our mission to bring the best stories to the widest audience, no matter the format. Through creative teamwork with our authors and booksellers, we will continue to grow our business by publishing books that impact people's lives.«

MARKUS DOHLE, Chairman and CEO, Random House

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HIGHLIGHTS 2010

01 STIEG LARSSON: RANDOM HOUSE'S "HOTTEST" AUTHOR

On its cover, "Entertainment Weekly" magazine in the U.S. called "The Girl With the Dragon Tattoo" "the hottest book on the planet." Make that the three hottest: Stieg Larsson's "Millennium" trilogy is the biggest literary franchise since "Harry Potter," selling more than 15 million copies in the U.S. and Germany in 2010 from Random House hardcover, paperback, audio and e-book imprints. The much-anticipated "Dragon Tattoo" Christmas film release also will increase multi-format sales for "The Girl Who Played with Fire," and "The Girl Who Kicked the Hornet's Nest."

02 RANDOM HOUSE'S 250% E-BOOK SALES GROWTH

Random House in 2010 again recorded triple-digit percentage growth in digital-publishing revenues over the previous year, with e-book sales increasing exponentially across all its international publishing divisions. The company has more than 25,000 e-books available for download across its divisions. Random House is strategically expanding its English-, German- and Spanish-language digital-content publishing programs and resources to fully capitalize on the rapid growth in electronic reading devices, e-book retailers, and e-book and apps purchases.

03 2010 RANDOM HOUSE LITERARY MULTI-HONORS

The U.S. Pulitzer and Newbery prizes, and Spain's Premio Nacional de Narrativa, were among the many significant literary honors bestowed in 2010 upon Random House titles. The Pulitzers went to "The First Tycoon" by T. J. Stiles (Biography), and "The Dead Hand" by David E. Hoffman (General Nonfiction). Rebecca Stead's "When You Reach Me" won the Newbery Medal, a top honor for Children's Literature, and Javier Cercas was the Spanish honoree for "Anatomía de un instante" (Mondadori). The UK Group won 57 literary and industry awards across its divisions last year.

04 RANDOM HOUSE FILMS CO-PRODUCES "ONE DAY"

"One Day," the second co-production in the unique partnership between Random House, Inc.'s Random House Films division and NBC Universal's Focus Features, will be released theatrically during the prime-time box office season in summer 2011. Based on the bestselling and critically praised 2010 Vintage U.S. trade paperback by David Nicholls, the movie stars Anne Hathaway and Jim Sturgess, telling the story of an enduring, surprising friendship. Directed by Oscar nominee Lone Scherling ("An Education"), the film's debut should return the novel to the bestseller lists.

“STERN” GOES MULTIDIMENSIONAL



STRENGTHENING STRENGTHS

In his job of “digitally enriching” the printed version of “Stern” magazine, David Heimburger requires expertise in designing articles for the Internet, TV and magazines. He is convinced that “we are intensifying ‘Stern’s’ core strengths.”

David Heimburger,
“Stern” Managing Editor e-magazine,
Gruner + Jahr, Hamburg

EXCITING SHOWCASE

Thomas Osterkorn describes his primary task in developing the e-magazine as “creating editorial ideas to advance the project.” For him, the digital version of “Stern” is a “very exciting showcase that we learn from every day.”

Thomas Osterkorn, Editor-in-chief “Stern,”
Gruner + Jahr, Hamburg



CREATIVITY



VISUALLY TRANSLATING “STERN”

Visually translating the contents of the magazine for the iPad in a “modern and radical way” is Donald Schneider and Mark Ernsting’s approach. “We focus on the content rather than on gimmicky graphics.”

Donald Schneider, “Stern” Art Director,
and Mark Ernsting, “Stern” Deputy Art Director,
Gruner + Jahr, Hamburg



BREAKING WITH CONVENTION

Wencke Bugl creates several video reports a week exclusively for “Stern” e-magazine. She says the most important skills in her daily work are “imagination, communication skills – and being able to break with convention every once in a while.”

Wencke Bugl,
TV Editor at “Stern” e-magazine
and Stern.de,
Gruner + Jahr, Hamburg

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 Arvato
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CURIOSITY

"A one-to-one replication of the printed magazine on the iPad wouldn't do justice to 'Stern's' capabilities and strengths!" says Tobias Seikel, the operational project manager who ensures "that the digital 'Stern' actually appeals to very digitally savvy demographics." The most important characteristic here is: "Always stay curious."

Tobias Seikel,
 Deputy Publishing Director and Project
 Manager of "Stern" e-magazine,
 Gruner + Jahr, Hamburg

ENTREPRENEURSHIP



COURAGE AND CONSISTENCY

Thomas Lindner is proud that G+J has "so courageously and consistently transferred 'Stern' to the digital world." His duties on this path were to allocate resources, classify trends – "and to always question past achievements for the benefit of the project."

Thomas Lindner,
 Publishing Director of "Stern"/"Geo"/"Art,"
 Gruner + Jahr, Hamburg



NOT A 1:1 TRANSLATION
PLENTY OF NEW DISCOVERIES ON
“STERN” FOR THE IPAD

Videos, links and, of course, even more pictures: the “Stern” iPad app contains lots of new discoveries even for readers of the printed magazine. For instance, videos present a different angle on the printed stories.



PRECISE PLANNING
Each page is meticulously
reviewed.

HEAR “STERN” HERE
The iPad version contains
audio tracks for many of
the photo spreads.



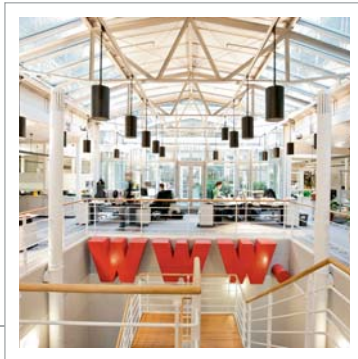
THERE HAS NEVER BEEN SO MUCH “STERN”
Expanding on excellence is another of Bertelsmann's entrepreneurial approaches. The “Stern” editorial team at Gruner + Jahr have been illustrating this to the point of perfection since November 2010 – week after week, in fact. Since that time, a digital iPad edition of the popular magazine has been published alongside the print edition magazine: “Stern” e-magazine.

“In addition to in-depth stories, sumptuous photographs are one of ‘Stern’s’ great journalistic strengths. For a picture-

driven magazine like ours, brilliance and emotionality are what counts. A tablet like the iPad is a perfect device for both of these factors,” says Thomas Osterkorn, explaining the basic idea behind the project. “‘Stern’ and iPad are a perfect match.”

Thomas Lindner agrees completely: “Our Stern.de iPhone app, released in 2009, is still the most successful app ever launched for a news site. By introducing the e-magazine, we are systematically extending this path into mobile contexts.” One thing is especially

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IN
2010
G+J PRESENTED
"STERN" FOR
THE IPAD

LAYOUT

The layout is even more generous in "Stern" for the iPad.



7.5 MILLION READERS

Close to 900,000 printed copies of "Stern" are sold each week.

important to him from an entrepreneurial viewpoint: "We realize that readers are willing to pay for special magazine quality and we create this experience on a mobile device."

For this to work, the producers of "Stern" e-magazine put in a great deal of effort every week. After all, the digital edition of "Stern" – which means "star" in German – should shine as brightly as its printed-paper equivalent. In addition to all the texts and images in the printed version, the digital iPad version contains extras such as

exclusive videos, interactive features like Sudoku and crossword puzzles, and direct access to Stern.de.

As soon as the print edition of "Stern" goes to press on Monday evening, David Heimburger and his team begin preparing digital content for everything the iPad can do, selecting video stories and setting photo series to music. "Each article from the print issue is given a whole new layout for the e-magazine – the stories have to be properly readable in the display, both horizontally and vertically," he explains. "We want to exploit this new space in the right way."



The Gruner + Jahr printing and publishing company is Europe's leading magazine publisher, with approximately 13,500 employees and over 500 magazines and digital offerings that reach readers and users in more than 30 countries. Gruner + Jahr publications include "Stern," "Brigitte," "Geo," "Capital," "Gala" and "Eltern" magazines, "P.M.-Gruppe," the "Financial Times

"Deutschland," "Essen & Trinken" and "National Geographic." With foreign revenues accounting for 54 percent of its income, Gruner + Jahr is one of the most international publishing companies in the world. Bertelsmann AG owns 74.9 percent of Gruner + Jahr, the Jahr publishing family of Hamburg owns 25.1 percent.

€2,549

million revenues

€287

million operating EBIT

13,337

employees worldwide

»In 2010, Gruner + Jahr was very successful not only in Germany but also internationally. Our result is significantly above plan and actually exceeds pre-crisis levels. We are successful because at Gruner + Jahr we were willing to change – and the market successes such as with 'Schöner Wohnen' and G+J Media Sales show that we have chosen the right path.«

BERND BUCHHOLZ, CEO, Gruner + Jahr

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01 11 FRIENDS: GRUNER + JAHR WELCOMES A NEW PLAYER ON BOARD

The timing was truly world-class. On June 28, 2010, shortly before the Netherlands second-round soccer World Cup match versus Slovakia kicked off, G+J CEO Bernd Buchholz introduced the newcomer “11 Freunde” from Berlin at G+J in Hamburg. With vuvuzelas, whistles and thunderous applause, G+J employees gave “11 Freunde” editor-in-chief Philipp Köster and his team an enthusiastic welcome to the Baumwall offices. G+J acquired a 51 percent stake in the magazine, which fits perfectly into G+J’s high-quality portfolio with its high journalistic quality and a positive image among advertisers and readers.

03 SCHÖNER WOHNEN

“Schöner Wohnen” magazine celebrated 50 years of success in 2010. Not only is it the market leader in the living and decorating magazine segment, it also managed to do something no one would have thought possible – “Schöner Wohnen” increased its newsstand sales by a third in 2010. Advertisers also found the magazine so compelling that advertising revenue also increased by about a third year on year. Such success requires continuous work on the magazine and the courage to try new approaches. That was the motto taken by editor-in-chief Stephan Schäfer, who was able to inspire his team to take a new path, in an act of courage that has paid off handsomely.

02 INTERNATIONAL IPAD APPS (MUY, GEO FRANCE/SELECTION, NEWS)

In addition to iPad apps in Germany, G+J launched several digital versions of its magazines abroad. For instance, in June Prisma Presse published “Geo” as an app for the iPad. This was followed by the “Geo Selection” for the iPad, a monthly selection of three reports from the international English-speaking edition of “Geo.” Since October a digital version of the Spanish magazine “Muy Interessante” has been published for the iPad, and “News,” the largest weekly magazine in Austria, introduced its iPad version to the market in December.

04 PRISMA PRESSE MOVE

The reorganization at Prisma Presse was primarily designed to ensure the future viability of its print, online and mobile media. In early December the Prisma Presse Group moved into its new publishing offices in Gennevilliers, Paris, bringing the 1,000 Prisma Presse employees previously distributed at four sites together under one roof. The move was accompanied by a reorganization of the editorial department, carried out with the aim of adapting the editorial and publishing operations to changes in the media industry and making them more efficient, in order to give Prisma Presse the best possible positioning for the future.

ALL-ROUNDER: HOW ARVATO SERVES MICROSOFT

TAKING CARE OF WEBSITES

Keeping texts, prices, banners and pictures up to date on customers' websites is what Lysann Triebel and her team do. "Ongoing process optimization and frequent enquiries from potential new customers require an approach that is both entrepreneurial and creative."

Lysann Triebel,
Content Manager E-Commerce,
Arvato, Herzbrock-Clarholz



STAYING FOCUSED

"New trends and tools keep being developed that enable us to further optimize the business," says Jan Hildburg, describing the appeal of his work. His priorities: working purposefully and staying focused on the essentials.

Jan Hildburg, Program Manager,
Arvato, Herzbrock-Clarholz



BE THE CUSTOMER

Benjamin Schäfer says his job is to "empathize with the customer as much as possible, evaluate the situation from his viewpoint, and optimize it." An analytical mind, a conceptual approach, and marketing and communication skills are prime assets in this.

Benjamin Schäfer,
Online Marketing Manager,
Arvato, Cologne



CREATIVITY



KNOWING USERS' NEEDS

Stephan Bruhs ensures the functionality of the Microsoft Store and facilitates its ongoing development. Essential to this is "a profound understanding of users' needs when it comes to e-commerce."

Stephan Bruhs,
IT E-Commerce Project Manager,
Arvato, Herzbrock-Clarholz

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BROAD RANGE OF SERVICES

“Arvato commands a broad range of processes and services that not many companies in this sector can offer,” Nicholas Wrulich says proudly. He sees himself as an entrepreneur – “in an extremely exciting field of work.”

Nicholas Wrulich,
Head of ESD E-Commerce,
Arvato, Herzebrock-Clarholz

ENTREPRENEURSHIP

RESPONSIBILITY FOR OPERATIONS

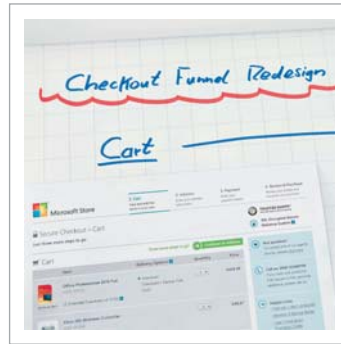
Christian Kirsten has been on board the Microsoft Store project since the first meeting was held in November 2007. “My job is an entrepreneurial one, as I am responsible for dealing with operations and costs and optimizing the daily business.”

Christian Kirsten,
E-Commerce Operations Manager,
Arvato, Versmold



ALL OVER THE WORLD

Europe, Australia, Russia, Brazil and beyond: Arvato independently handles Microsoft's e-commerce operations on eleven different Web portals.

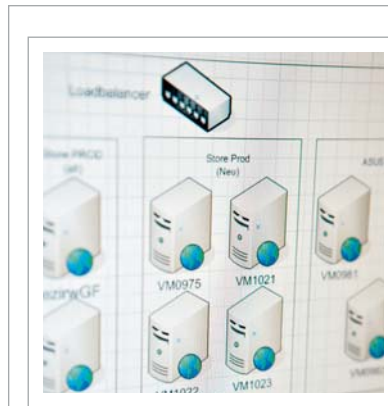


MADE BY ARVATO

The e-commerce platform for the Microsoft online shop was developed by Arvato.

ONGOING OPTIMIZATION

The Microsoft Store website is continually optimized for search engines.

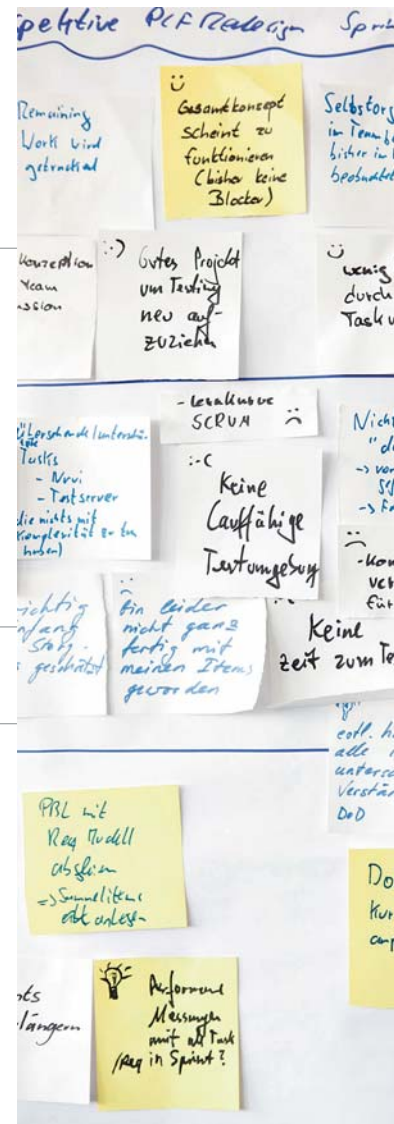


EVERYONE'S TALKING ABOUT A DIGITIZED WORLD

Arvato makes it possible. If you use the Windows operating system or other Microsoft products at home or at work, it's likely that Arvato, the service provider, had a hand in it. At least on a virtual level. "E-commerce services" is the magic word for entrepreneurs in this area. Technical as it may sound, "it's one of the most exciting fields a services company can be operating in," Nicholas Wrulich says with conviction.

No wonder, considering the term covers an area of activity that is wider than most: from webshop programming to marketing, from customer service to payment processing and delivery – Arvato handles the full chain of services in the digital world.

Let's take Microsoft again: the Bertelsmann subsidiary Arvato independently manages the corporation's e-commerce business generated on eleven Web portals in Europe, Australia, Canada, Brazil and, most recently, Russia. "In other words, we program the online shop,



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DIGITAL DOWNLOADS ARE IN DEMAND

GROWTH OPPORTUNITIES FOR SERVICE PROVIDERS LIKE ARVATO

More and more people are choosing to quickly download programs. The worldwide market for digital software downloads has a volume of around 37 billion euros and will continue to grow in the years ahead.



90%
OF ALL ITEMS BOUGHT FROM THE MICROSOFT STORE ARE DOWNLOADED



VALUE CHAIN

Full service: apart from operating its online store, Arvato also handles marketing, customer service, payment processing and fulfillment for Microsoft.

make sure it has an appealing design, we run marketing campaigns – we do it all,” says Wrulich. The business clearly holds a lot of potential for creative and entrepreneurial minds, “also and especially in regions like China or Eastern Europe, where we’re only just getting started. And here in Germany too, customers’ buying behavior is changing – not long from now, half of all software purchases will be made online.”

So there are bright prospects ahead for companies with the right know-how – and Arvato has plenty. Once a web-

shop has been created, work on it is far from finished. On the contrary: What text works better on a button, for instance? “Add to shopping cart” or “Buy”? Arvato knows, thanks to ongoing homepage optimization.

Obviously, its key customer in the U.S. also benefits from this level of commitment – and rewards Arvato by entrusting it with ever more tasks. “Microsoft imposes the highest demands on the performance of its service providers. The fact that they allow us to contact customers for them shows how deeply they trust us.”



BERTELSMANN

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.

€5,083

million revenues

€350

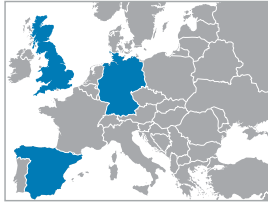
million operating EBIT

63,985

employees worldwide

»In fiscal 2010 we further optimized Arvato's business model and continued to develop into a provider of integrated market solutions according to our strategic 'from product to solution' approach. We systematically networked our offerings, bundled services and provide our customers with one-stop custom-tailored services.«

ROLF BUCH, Chairman of the Executive Board, Arvato



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HIGHLIGHTS 2010



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01 EXPANSION OF PUBLIC SECTOR SERVICES IN EUROPE

Arvato significantly expanded its activities in the area of public sector services again in 2010. In the UK it won its third public-sector client with Chesterfield Borough Council. In Spain, Arvato employees handle an information and consulting service for the citizens of Barcelona and the emergency hotline for the entire region of Andalusia, among other things. And in Germany, two state ministries in Baden-Württemberg and the State Chancellery of North Rhine-Westphalia are on the customer list.

02 FURTHER EXPANSION OF MARKET POSITION IN FRANCE

The customer-care market in France developed very dynamically in 2010 and Arvato Services benefited disproportionately from this, with sales increasing by 26 percent. The major customers of Orange, SFR, GDF and EDF renewed – and in some cases significantly expanded – their collaboration with Arvato Services. To meet this additional demand, a new service center was opened in Morocco and five existing sites in France were expanded. Arvato Services France now has more than 7,000 employees in the customer-care segment alone.

03 FULL SERVICE FOR MUSIC LOVERS

They are as much a fixture at concerts and festivals as replica shirts are in the stands of major sports stadiums: t-shirts with current tour dates of famous bands, caps, mugs or bags carrying their logo. The business of merchandising and advertising is one of the most promising segments in the entertainment sector. Arvato Digital Services consistently continued to expand its services business in 2010 and entered the lucrative merchandising business with well-known clients such as Universal Music, Warner Music and the Ministry of Sound Group. Another step on the way to becoming an integrated full-service provider for the entertainment industry.

04 E-COMMERCE SERVICES FOR REAL

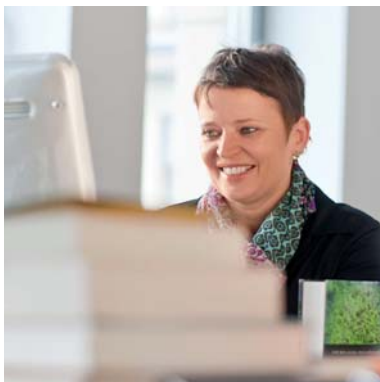
While retailers in German city centers are struggling with declining sales, online retailers continue to enjoy double-digit increases. In 2010 Arvato benefited from this trend and won various online merchants as customers – including the Real department store chain. Thanks especially to its IT expertise, Arvato now provides comprehensive e-commerce services for Real's online shop, which opened in May. The services cover everything from the design of e-shops to customer services, logistics and transport as well as order, risk and credit management, including overall payment processing.

HOW ZEILENREICH IS TAKING OFF ON EBAY

INNOVATIVE IT SOLUTIONS

“Developing innovative IT solutions while always keeping an eye on costs and benefits” is an important balance Petra Wrenger strives to achieve. Structured, analytical thinking is especially helpful to her in her work as an IT project manager.

Petra Wrenger,
SAP Senior Consultant, Nionex,
Direct Group Germany, Rheda-Wiedenbrück



A WATCHFUL EYE

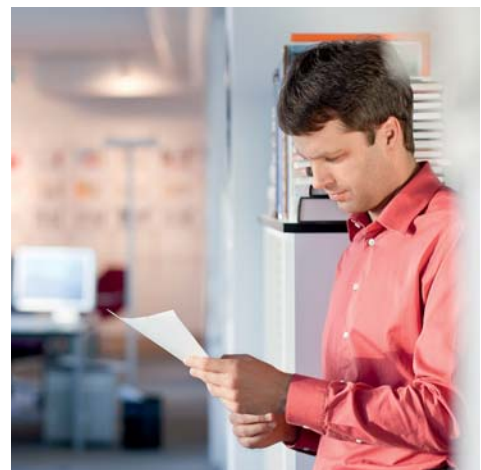
“‘Online’ means constant motion,” says Katharina Greis. In her job she needs to keep a watchful eye on “innovation, the e-commerce market and the competitive environment.” And she feels there’s another thing you must never lose sight of: the customer.

Katharina Greis,
Marketing Manager E-Commerce,
Direct Group Germany, Berlin

CONNECTING WORLDS

“Lots of patience, iron nerves and a nose for future challenges” are the special talents Robert Kelm needs for his job. He and his team were responsible for creating the technological link between Ebay and Direct Group’s IT and process worlds.

Robert Kelm,
Project Manager
Technology and E-Commerce,
Direct Group Germany, Berlin



CREATIVITY



- RTL Group
- Random House
- Gruner + Jahr
- Arvato
- Direct Group**
- Corporate

DIRECTGROUP
BERTELSMANN



ORGANIZING COOPERATION

Setting up the collaboration between Direct Group Germany and Ebay was Bernd Schröder's role. "Based on the sales it became increasingly clear to us during the course of the project that this partnership is already very exciting – but it will get even better in future."

Bernd Schröder, CEO,
Direct Group Germany, Berlin

DOING THINGS BETTER

Ulrike Brisso and her team design new processes and improve workflows – keeping things as entrepreneurial as possible. "Processes need to be simple and IT costs kept under control," she says.

Ulrike Brisso,
Project Coordination Team Leader,
Direct Group Germany, Rheda-Wiedenbrück

ENTREPRENEURSHIP



HOLDING IT ALL TOGETHER

"Holding it all together, motivating the team and always keeping an eye on the numbers" is how Laura Kohler describes her role as project manager. "It's also important to always remain optimistic, but we do that pretty well at Direct Group anyway."

Laura Kohler,
Head of E-Commerce Marketing,
Direct Group Germany, Berlin



A LARGE SELECTION OF PRODUCTS

THE ZEILENREICH CONCEPT:
ONE BOOK, TWO PRICES



DVDs, fiction, nonfiction, audiobooks and board games – and that’s not all: the Zeilenreich shop on Ebay has something for every taste. Zeilenreich’s defining trait is evident in the online marketplace as well: selected books can be bought at regular prices or at a discount if customers commit to buying several Zeilenreich products in a year.



zeile



LOTS OF MEDIA CUSTOMERS

Ebay has a wide reach among users, Direct Group Germany has the expertise to select the most popular media – so both partners benefit from the arrangement.



WHETHER IT'S BESTSELLERS, AUDIOBOOKS OR DVDS YOU'RE AFTER

– you can get all your new media products conveniently and inexpensively at the Zeilenreich online shop on Ebay with just a few clicks of the mouse, including free shipping. Presumably this is one reason that people are flocking to the German Direct Group brand’s virtual shop in the global online marketplace. Launched in September 2010, the shop has clearly exceeded its ambitious revenue target for the year. “We’re off to a dream start,” says project manager Laura Kohler.

No wonder – from the outset, the cooperation between Direct Group Germany and Ebay was designed to benefit both partners. “On the one hand Ebay has an enormous reach, and on the other it has great interest in combining brand shops from a wide range of product segments under its umbrella. We have the creative know-how to select and offer the most popular media. And we know how to present these media to make customers buy,” says Kohler. Zeilenreich on Ebay – a perfect match.

RTL Group
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 Gruner + Jahr
 Arvato
Direct Group
 Corporate

DIRECTGROUP
 BERTELSMANN

GOOD-LOOKING

The look of the Ebay shop is modeled on Zeilenreich's online store.



nreich



EASY SHOPPING

Finding the right media on Ebay without having to search: anyone who wants recommended reads rather than reading through long lists, will find the right titles in the Zeilenreich-branded shop.

THE RANGE
 COMPRISES
 MORE THAN
100,000
 PRODUCTS

The special feature of the partnership is that the Zeilenreich concept “one book – two prices,” also applies to the Ebay brand shop. Customers are offered selected books at a cheaper price if they agree to buy at least two products from Zeilenreich within a year.

It's a novelty on the Ebay site – and an entrepreneurial concept that works. Just before Christmas, Ebay actually included Zeilenreich's products in its big marketing campaign. “We are the only media retailer that works this

intensively with Ebay; the number of units we've sold here far exceeds our expectations,” says Kohler.

And so it has already been decided that Zeilenreich's business on Ebay will be gradually expanded, with the aim of generating at least ten percent of Direct Group Germany's online sales through the shop on the Internet giant's website. This goal was already achieved in the last months of 2010 – and Kohler is convinced that “there is still a lot of potential in this business.”

DIRECTGROUP

BERTELSMANN

Direct Group Bertelsmann has media clubs, bookstores, online activities and publishing and distribution businesses in 12 countries and serves its approximately 14 million customers on all channels: via catalog, Internet sales, club shops and bookstores, as well as through agents. The clubs include well-known brands such as Der Club Bertelsmann in Germany, France Loisirs in

France and Círculo de Lectores in Spain. The company also leverages its direct marketing expertise for the distribution of additional products. The Direct Group brand Chapitre.com (France) is the market leader in stationary and online book retail. The group's Eastern European publishing subsidiaries command strong positions in their markets.

€1,069

million revenues

€24

million operating EBIT

8,485

employees worldwide

»We are focusing on the digital business and are transferring our expertise into the digital world in all markets. Direct Group is also managing its club businesses with a strict cash orientation, integrating its multichannel businesses along the book value chain, and expanding direct-to-customer sales of other products.«

FERNANDO CARRO, CEO, Direct Group

RTL Group
Random House
Gruner + Jahr
Arvato
Direct Group
Corporate



01



02

HIGHLIGHTS 2010



03



04

01 A NEW PARTNER FOR CÍRCULO: COOPERATION PROJECTS WITH GRUPO PLANETA

The Spanish media club Círculo de Lectores has signed a partnership agreement with Grupo Planeta. The joint projects range from intensified cooperation regarding the book program to the branches of Planeta's bookselling chain Casa del Libro, where club corners ("Espacio Círculo") are designed to draw customers' attention to Círculo's offerings. Other cooperation projects have been initiated in the digital realm and in direct marketing. As part of the new partnership, Planeta has taken a 50 percent stake in Círculo de Lectores.

02 CHAPITRE.COM ENTERS THE E-BOOK ERA BY LAUNCHING OYO

Chapitre.com has launched the first e-book reader on the French book market. The Oyo – a project of the "Oyo Alliance" of leading booksellers in Europe – was unveiled at the Frankfurt Book Fair. Customers can buy and read e-books from Chapitre.com directly on the device. The Oyo can store up to a thousand e-books and is very easy to use. Even apart from the Oyo launch, 2010 was marked by strong growth for Chapitre.com's online business: revenues grew in the high double-digit percentage range, and the Christmas season also went very well.

03 PUBBLES: LAUNCH OF THE DIGITAL READING PLATFORM

"Pubbles" launched Germany's first "online newsstand" at the Frankfurt Book Fair. The platform for digital reading developed by Direct Group and DPV (Gruner + Jahr) distributes digital magazines, newspapers and books via an iPad app and its own webshop. A key advantage for publishers is that they retain control of their content, marketing, pricing and customer relationships. "Pubbles" bundles all types of digital reading content on an independent platform. In addition to the existing iPad and Web platforms, a "Pubbles" application for Android devices is currently being developed.

04 FAMILY LEISURE CLUB: ANNIVERSARY YEAR BRINGS GROWTH IN THE UKRAINE

The Family Leisure Club had a great year in 2010: in the year of its tenth anniversary, everything pointed to growth. The revenues of the company's bookselling, publishing, club and distribution operations grew as robustly as its results. The Family Leisure Club is the biggest book company in the Ukraine, and its club membership and customer numbers are rising along with the volume of media products sold. The company is also seeing further growth in its distribution, publishing, direct marketing and e-commerce operations.

DEVELOPING TOMORROW'S BUSINESSES TODAY

KNOWS IT ALL

Hartwig Masuch has known the music business and all its facets for over 30 years. "At BMG, artists aren't pushed with unnecessary marketing efforts; instead, we take care of what they really want: first-class service, reliable billing, and personal support."

Hartwig Masuch, CEO,
BMG, Berlin



CREATIVITY



GREAT MUSIC FOR A WIDE AUDIENCE

What Stéphane Berlow enjoys most about his daily work is being able to apply his entrepreneurial spirit in a creative setting. "I find it immensely exciting to discover good artists – and then make their music accessible to as large a public as possible."

Stéphane Berlow, Managing Director France,
BMG, Paris



RTL Group
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BERTELSMANN CORPORATE



LONG-TERM ACCESS

Since 2008 Annabelle Yu Long heads Bertelsmann Asia Investments: “We’re interested in long-term access to attractive markets and ideas, not only quick profits. The knowledge we’ve gained through our investment participation is a very valuable return,” says Long.

Annabelle Yu Long, Managing Director,
Bertelsmann Asia Investments, Beijing

ENTREPRENEURSHIP



TO BROADEN ACCESS

Jeff Shelstad is passionate about the business of publishing. “It just so happens that the business model we have chosen at ‘Flat World Knowledge’ dramatically broadens access to world-class content,” he says.

Jeff Shelstad, Founder & CEO,
Flat World Knowledge, Inc., New York

CHARTBREAKERS

The BMG rights catalog includes popular writers and performers like the hip-hop band Black Eyed Peas and David Garrett.



BMG



MORE THAN
300,000
BMG'S TALLY
OF SONGS
AND RECORDINGS



“For an artist it is crucial these days to have someone who collects the money for him and settles the accounts in a transparent way,” declares Hartwig Masuch. A business worth millions has grown from this idea of no longer relying primarily on sales of recorded music in an increasingly digital world, but instead giving artists a modern, tailored service for exploiting the rights to their songs – and it has done so very quickly. Says Masuch: “The use of music is increasing steadily, and the protection of music rights is being continually strengthened worldwide, so it is only logical from an entrepreneurial point of view to be active in this field!” A recipe for success can be that simple.

Detecting such trends and creatively spinning entrepreneurial business approaches from them: BMG is a

prime example of how a major business can rapidly develop from small beginnings under the umbrella of Bertelsmann AG. Supported by the private equity firm KKR, in 2010 the joint venture developed into one of the most important companies in the music rights business. It now manages the worldwide rights to no fewer than 300,000 songs – including catchy tunes like “I Gotta Feeling” by the Black Eyed Peas and Michael Jackson’s “Remember the Time.”

In Annabelle Yu Long’s career, the words “Remember the Time” probably cause November 17, 2010 to spring to mind. It was a day to remember. The company “BitAuto” went public on the New York Stock Exchange – and Long was one of the people who stepped up to end

RTL Group
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Gruner + Jahr
Arvato
Direct Group
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BAI | Bertelsmann
Asia
Investments

22 TIMES OVERSUBSCRIBED
When the BAI holding “BitAuto,” the Chinese market leader for online marketing in the automotive sector, went public on November 17, the share was 22 times oversubscribed.



BDMI | Bertelsmann
Digital Media
Investments



VIRTUAL LEARNING
In 2010 BDMI bought a stake in “Flat World Knowledge,” a start-up that offers free textbooks for college students online, and the online language school “LearnShip.”

the day’s trading by ringing the famous NYSE bell. Bertelsmann Asia Investments (BAI) had owned a stake in the fledgling online company since September 2009 – and its IPO was the high point of a winning investment. “We very carefully analyzed and observed “BitAuto” for over a year,” Long recalls. It was a perfect example of entrepreneurial action – and just one of several actions that show how successfully BAI has been expanding its investments since its inception in January 2008, in promising businesses in the growing Asian market, especially China.

As well as BAI, Bertelsmann’s other investment fund, Bertelsmann Digital Media Investments (BDMI), also has a flair for turning small investments into big business.

As the Group’s technology trend scout, BDMI primarily invests in innovative, pioneering start-ups. One of its focuses is education. Last year, Bertelsmann bought a stake in the online language school “LearnShip,” and early this year invested in “Flat World Knowledge,” an American start-up that offers online textbooks for college students – for free. Students don’t pay until they want to print out chapters or download them as a PDF file, e-book or audiobook. “Our business model dramatically broadens access to first-class content,” says “Flat World Knowledge” cofounder and CEO Jeff Shelstad with conviction. “We’re bringing textbook publishing into the 21st century.” Once again, Bertelsmann is on the cutting edge of a trend.

BERTELSMANN CORPORATE

€25

million revenues

€-88

million operating EBIT

1,009

employees worldwide

»At the Corporate Center, Bertelsmann's characteristic entrepreneurial spirit is everywhere. In addition to its steering functions, operationally significant future businesses are developed here. With our BDMI and BAI funds we are tracking new opportunities in digital media and in the Asian markets. The rapid rise of the BMG music rights business shows that corporate investments can quickly become global players.«

THOMAS RABE, CFO, BERTELSMANN AG

01



175 YEARS | **BERTELSMANN**
THE LEGACY FOR
OUR FUTURE



02

HIGHLIGHTS 2010

03



04



01 "HAPPY BIRTHDAY":

BERTELSMANN CELEBRATES ITS 175TH ANNIVERSARY

Bertelsmann celebrated its 175th anniversary with a huge ceremony at Berlin's Konzerthaus am Gendarmenmarkt in September. The festive celebration, during which such prominent celebrities as German Chancellor Angela Merkel and EU Commission President José Manuel Barroso congratulated Bertelsmann in person, was the culmination of a series of anniversary activities. In June, the Group had hosted an enormous open-air party in its German hometown, attended by nearly 12,000 Bertelsmann employees from around the world. The Bertelsmann Anthology, in which independent academics and publicists trace Bertelsmann's recent history, was published in October.

03 IPO: ASIA FUND BAI GOES PUBLIC WITH BITAUTO IN THE U.S.

China, the Internet and cars: it goes without saying that interest in a company whose business model combines these three areas is large. Accordingly, shares in "BitAuto," the Chinese market leader for online marketing in the automotive sector, were 22 times oversubscribed when the company went public on the New York Stock Exchange on November 17. It was a winning investment for Bertelsmann Asia Investments: the holding company for the Asian region had held ten percent of the company since 2009 – and the initial offering price reflected a tripling of its original investment. At the end of 2010, BAI had direct holdings in four companies and two fund-of-funds investments.

02 MAJOR PLAYER:

BMG PUMPS UP THE VOLUME IN THE U.S.

In just one year, BMG Rights Management achieved a breakthrough in the world's most important music market, the U.S.: by taking over Cherry Lane Music Publishing and Evergreen Copyrights, the company secured the rights to more than 130,000 titles, including legendary songs by Elvis Presley, the Black Eyed Peas and Joe Cocker. The acquisitions turned the Bertelsmann-KKR joint venture into one of the leading music rights marketers in the U.S., even though it has only been doing business there since the end of 2009. Worldwide, BMG now owns the licenses to 300,000 compositions and recordings.

04 QEEP AND MOJIVA: BDMI HOLDINGS REPORT GROWTH EXCEEDING 100 PERCENT

Twice as nice: "Qeep," the entertainment network in which Bertelsmann owns a stake via the Bertelsmann Digital Media Investments fund, increased its number of registered users from 3.1 million to 6.4 million people from more than 200 countries last year. Each month, some two million games are played on the international mobile community. Meanwhile, the mobile ad sales network "Mojiva" increased the number of ads served by 170 percent to 26 billion in 2010, almost quadrupling its revenues. BDMI owns a stake in "Mojiva" as well; in, all the BDMI portfolio comprises holdings in 16 companies.

VOICE
MAGAZINE

VOICE

PROFESSIONALISM AND PRESS FREEDOM



*An academy dedicated to fostering
journalistic skills in the digital age*

- 3 **Taking responsibility:** Hartmut Ostrowski on press freedom and diversity of opinion
- 4 **What remains:** To mark its 175th anniversary, Bertelsmann founds the International Academy of Journalism (Intajour)
- 8 **Forming a global network:** Intajour Director Werner Eggert on the academy's goals and educational approach
- 11 **Independence:** How Bertelsmann guarantees editorial autonomy with its chief editor principle
- 12 **Dialogue** and media prizes: Press freedom requires active support
- 13 **Press freedom** during war, crisis and repression: Five journalists share personal recollections
- 18 **The power of witnesses:** How the Internet platform "Ushahidi" shares hidden information with the world
- 20 **Twitter revolution?** Howard Rheingold on the power of digital media and how to master them
- 22 **Courage and skill:** Ghana's media is profiting from a new generation of journalists with international training
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HARTMUT OSTROWSKI
Chairman and CEO
Bertelsmann AG

Dear reader,

Top-quality publishing, together with the guaranteed independence of journalists and publishers, is both characteristic of and essential to Bertelsmann's work – whether in our magazines, TV shows and productions or in our books. The freedom of our chief editors to make decisions, the responsibility of a publisher or the pluralism of opinions within a corporation – elements such as these are integral to Bertelsmann, which marked its 175th anniversary in 2010.

To commemorate this company anniversary, we wanted to create something of lasting value. Something that will continue to stand long after the celebrations. Something befitting Bertelsmann's long tradition of social engagement but that also reflects the way we value quality journalism and freedom of expression. After much consideration, we decided to establish the International Academy of Journalism, or Intajour.

It's an academy that will give dedicated journalists from all over the world the opportunity to improve their professional skills and learn more about the digital future. A future that opens up new options, new paths and new opportunities – not just in journalism but for freedom of the press and freedom of expression the world over.

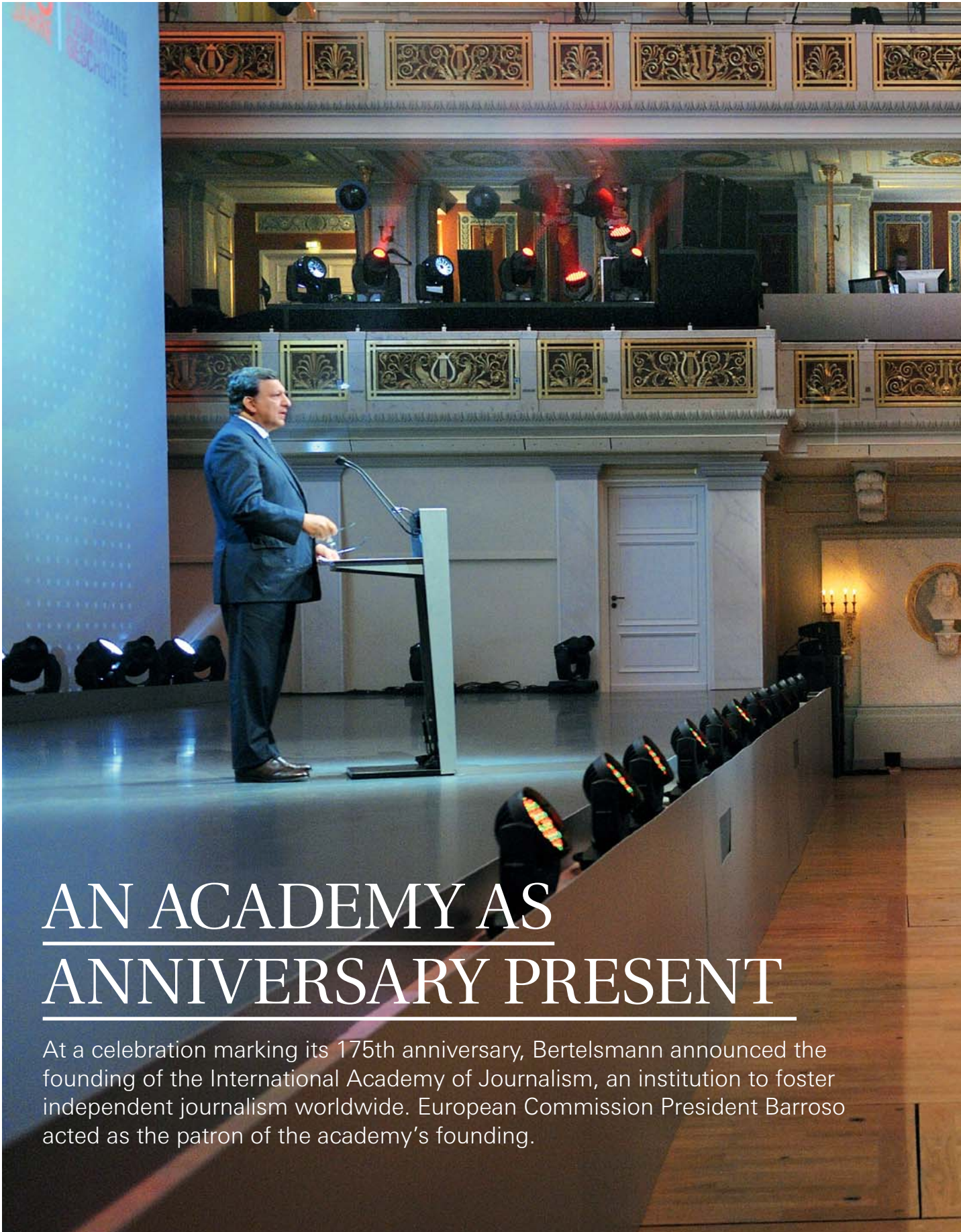
Thanks to technical innovation, new opportunities in research and publishing are emerging almost daily. But journalists still need to learn how to use them and to combine them with the traditional basics of reporting. Only in this way can trusted sources of information with high standards be the result.

The need for such sources is great – perhaps, in the age of social media, blogs and “citizen journalism” it's greater than ever. And no one can fill this need better than well-trained journalists with clear principles founded on basic democratic values.

The President of the European Commission, José Manuel Barroso, who took over the patronage of Intajour's founding, summarized the situation impressively when he spoke at our ceremony in September 2010. “Journalists often give us decision-makers a hard time, but high-quality journalism makes the hard time worthwhile. We know that free, independent, quality journalism is a pre-condition for democracy and the rule of law,” Barroso said.

We are proud that President Barroso supports our aims. I wish you an exciting read.

*Yours,
Hartmut Ostrowski*



AN ACADEMY AS ANNIVERSARY PRESENT

At a celebration marking its 175th anniversary, Bertelsmann announced the founding of the International Academy of Journalism, an institution to foster independent journalism worldwide. European Commission President Barroso acted as the patron of the academy's founding.



On September 16, 2010, prominent guests of honor including European Commission President José Manuel Barroso, German Chancellor Angela Merkel, Federal Finance Minister Wolfgang Schäuble and Berlin Mayor Klaus Wowereit, together with Bertelsmann family representative Liz Mohn and Chairman and CEO of Bertelsmann AG Hartmut Ostrowski, gathered in the Konzerthaus on the Gendarmenmarkt to commemorate the founding of Intajour.



Andreas Wolfers (head of the Henri Nannen School of Journalism, left), Katja Gloger (reporter at “Stern” magazine) and Peter Kloeppe (chief editor of RTL) explained the aims of the new International Academy of Journalism during the ceremony.

As always, the appointment book was chock full, the timing was tricky. On the afternoon of September 16, 2010, José Manuel Barroso was meeting with the heads of state of the European Union in Brussels. The debates of the day were heated and important. Despite this, he immediately departed for Berlin after wrapping up the summit. The European Commission President was one of the guests of honor among 1,200 invitees to Bertelsmann’s 175th anniversary celebration held at the Konzerthaus on Berlin’s Gendarmenmarkt.

But Barroso wasn’t just there to show his appreciation for Europe’s biggest media company. He had taken on

a larger commitment. In his speech for the occasion, he took on the patronage for the founding of a project that had been introduced to the assembled guests only minutes before: the International Academy of Journalism. The creation of such an institution was “a great initiative,” Barroso told the crowd. (For excerpts from his speech, see the sidebar on page 7.)

“It’s better to shine a light than complain about the darkness.”

Peter Kloeppe, chief editor, RTL

The intention of the academy is to support journalists from countries where press freedom is not universally guaranteed and help them to work more professionally. The idea came from Bertelsmann CEO Hartmut Ostrowski in May 2010. He wanted to contribute something of lasting value during the company’s anniversary year – something that would serve society. Since the protection and further development of press freedom is a personal cause of his, the establishment of an institution dedicated to this aim quickly became a done deal.

After an intensive planning and preparation phase, the establishment of the International Academy of

“Today, we are happy to stand on the stage, because we are truly convinced that Bertelsmann’s journalism academy can bring about change.”

Andreas Wolfers, head of the Henri Nannen School of Journalism

Journalism followed, as planned, at the anniversary celebration in Berlin. Three renowned journalists from Gruner + Jahr and RTL first took to the stage: the award-winning “Stern” reporter Katja Gloger; head of the Henri Nannen School of Journalism, Andreas Wolfers; and Peter Kloeppe, chief editor of RTL. “During my career, I have seen my colleagues courageously stand up for press freedom time and again,” said Gloger, who has worked as a correspondent in both Moscow and Washington, D.C. Such journalists are aware that their actions are risky, and yet they overcome their fear – sometimes on a daily basis. “We want to be a source of support for them, in that we help strengthen their professional qualifications,” said Wolfers.

The “founding fathers” freely admitted on stage that the International Academy of Journalism and its annual scholarships can be no more than a drop in the bucket in the fight for greater press freedom. “But even when faced with such a problem, it’s still better to shine a light than complain about the darkness,” said the evening’s moderator, Peter Kloeppe, summarizing the initiative’s guiding principle. Kloeppe is a member of the Journalistic Advisory Council of Intajour.

Media companies enjoy speaking in idealistic terms at gala events, said Wolfers. And journalists react, as a rule, with more than a degree of skepticism. But he said that, on that particular evening, “we are happy to stand on the stage, because we are truly convinced that Bertelsmann’s journalism academy can bring about change. It will do its small part to strengthen press freedom.” The Hamburg-based Henri Nannen School is working with the International Academy, as is the RTL Journalism School in Cologne. ■



European Commission President José Manuel Barroso acted as patron of the founding of the new academy.

Excerpts from the speech delivered by the President of the European Commission on September 16, 2010

(...)

The creation of the International Academy of Journalism, as just announced, is an excellent initiative. Journalists often give us decision-makers a hard time, but high-quality journalism makes the hard time worthwhile. We know that free, independent, quality journalism is a pre-condition for democracy and the rule of law. I sincerely hope that this new academy will contribute to this. I wish it every success and hope that it attracts the most excellent journalists from all over the world.

The academy is yet another expression of the digital revolution we have seen over the past few years. It is an opportunity to be seized.

(...)

It is also important, of course, to preserve the independence and diversity of the media. This is vital to vigorous democracy in Europe. It is a political issue, in that it touches on two non-negotiable freedoms that lie at the very heart of our democratic societies: freedom of expression and freedom of the press. Just 20 years ago, these freedoms did not exist in half of our continent, notably in Central and Eastern Europe. In the South of Europe of the early 1970s, my generation dreamed of Europe because we dreamed of freedom.

(...)

I also strongly welcome the European Charter on Freedom of the Press, an initiative launched by Gruner + Jahr, signed in 2009 by 48 editors-in-chief and leading journalists from 19 European countries.

(...)

All of us, as European citizens, have a duty of vigilance, a responsibility towards European democracy. This is also true for our companies. The Bertelsmann Group plays an important role in projecting these values – Europe’s values – in Germany, Europe and the world.



Werner Eggert explains the view of Intajour as follows: "For press freedom, you need professionally trained journalists."

AN ACADEMY FOR THE AGE OF DIGITAL JOURNALISM

The International Academy of Journalism (Intajour) has not yet opened its doors. Yet its head, Werner Eggert, has been pushing full steam ahead for months, meeting with potential teachers and supporters, building a global network and working with electronic learning tools.

Mr. Eggert, Intajour intends to equip journalists from all over the globe for the digital age, and in so doing, promote greater press freedom. Is that even necessary in the world of blogs and citizen reporters?

Professional journalism is still important on the Internet and it's here to stay. The new form of global civic journalism on the Web that you referred to is merely a complement. The role and the task of journalism haven't changed with the young and fascinating new medium of the Internet – nor has the basic skill set of a professional journalist. However, digitization has added many new possibilities that journalists and editorial teams can take advantage of in their work. Our goal is to communicate these possibilities.

At whom is the academy aimed?

We hope to appeal, among others, to journalists from countries and regions where press freedom is not guaranteed in the same measure as it is here, or where journalistic training is lacking or offered at the most basic level, at best.

Promoting press freedom is a huge task.

How do you plan to do this?

Our view is as follows: For press freedom, you need professionally trained journalists who are able to practice their profession. And for that, they need to have learned the skills for working in the digital age. Journalists in many countries simply don't have the kind of advanced training options available here in Germany. This is where Intajour comes into play with its offer of advanced education at an international level. Starting with twelve students a year, it's a small but hopefully effective contribution to greater professionalism.

What character traits and career experience should your students bring with them?

We're looking for applicants who have already demonstrated a certain level of ability and potential. That means we're interested in men and women who have already worked as journalists, because it's more likely that the investment in their advanced training will pay off for all involved. Graduates from our academy should, in addition to continuing to work in their field, also contribute to furthering the development of journalism in their countries. That's important to us.

How can people apply?

Those who are interested can apply on their own initiative via our website. It's

currently still under construction but should be online in June 2011 at the latest. Intajour can also accept candidates who are recommended to us by third parties.

And how are you advertising the academy's program?

Thanks to the Internet, Intajour is already quite well known. In the first few days after the announcement of its establishment was made in September 2010, we were getting letters from journalists all over the world offering their services or registering their interest in attending. We're checking these, of course. In addition, we've had offers from journalists, media and regional institutions with a similar orientation to help promote our program in their countries. We've already set up a good network, which

currently still under construction but should be online in June 2011 at the latest. Intajour can also accept candidates who are recommended to us by third parties. Thanks to the Internet, Intajour is already quite well known. In the first few days after the announcement of its establishment was made in September 2010, we were getting letters from journalists all over the world offering their services or registering their interest in attending. We're checking these, of course. In addition, we've had offers from journalists, media and regional institutions with a similar orientation to help promote our program in their countries. We've already set up a good network, which

In countries where there is little press freedom, how do you find the independent spirit that you're seeking?

Most of the journalists in question work for newspapers, radio and TV stations that are government mouthpieces.

Intajour International Academy of Journalism

With the new International Academy of Journalism, Bertelsmann AG is contributing to the advancement of professional, independent journalism in a global world. The institute for advanced education is aimed at journalists from countries with limited options for learning about working with new media. In its first academic year starting in September, twelve students are expected to take part in the introductory course in Hamburg. The journalists will also complete part of their training via modern e-learning modules.

Note: Information on applications and further details on the Intajour International Academy of Journalism will be available by June 2011 at "www.intajour.com."

we'll continue to expand. And after all, Intajour is firmly anchored within Bertelsmann, even though it is completely removed from its operative business. Journalists working for the various media groups all over the world are helping to support us in very different ways.

That begs the question: Who is the right applicant? The candidates have very different qualifications, after all.

It is most likely that we're going to have a very heterogeneous group of appli-

We're not aimed at a stereotypical kind of journalist, nor are we focused on any particular country or system. We'll most likely have participants who have worked for a government-sponsored paper but have a desire to learn about concepts such as the Western idea of press freedom. We're making a clear statement about what people can expect to learn from us. When we have the impression that our course can help an applicant and encourage a more independent, professional press, ➤



EXPERIENCE AND ESPRIT

Journalist and lecturer Werner Eggert (born 1961) has a great deal of experience training international journalists. During the 1990s, he worked for four years as an editor and instructor at the Namibian Broadcasting Corporation in Windhoek. Later, he was responsible for the concept and organization of courses on media ethics and online journalism at the International Institute for Journalism in Berlin, training journalists from Afghanistan, Pakistan, Vietnam and sub-Saharan Africa. Most recently, he served as the chief editor and manager of the Hamburg-based public and education channel "Tide." Eggert has lectured at various journalism schools both in Germany and abroad.

then that's good. No matter where he or she comes from.

What's on the Intajour syllabus?

For one, a practical approach to journalism on the Internet with the elements of research and Web publishing. But there are also topics in media ethics, which we will link to practical experience. For example, to what extent can one alter photos during processing? We'll also be examining the responsibilities of journalists and looking at the meaning of freedom of the press – with all the different aspects that you have to consider. In many countries, for example, there are journalists who see "nation building" in the state sense as their direct function and who place less value on balanced or critical reporting. That's also something that we will be discussing.

Is it true that, during the course, the students will spend only limited time in Germany and be mostly in their home countries?

That's correct, we're launching a blended learning program. The participants come to Hamburg for three weeks at the beginning, and in this time they learn the basics of the course. Then, they get their assignments for the first e-learning phase, which they can complete back home. Midway through the course they will come to Cologne for two weeks, and

at the end, they'll come to a third location of the Bertelsmann Group, most likely Berlin.

What does your e-learning concept look like?

For the e-learning phases, we've thought of a new concept. Instead of working through learning modules, the participants will take home with them projects that they developed together with us during the live workshop. In their own working environments, they can pursue the project before we meet again face to face to discuss their progress. In the meantime, exchanges are possible via the secure area of our website. In order for this model to work, the relevant project has to closely fit with the working realities of the participant. That's why it's important that the

project be the result partly of their ideas.

But how can the students improve their skills when each participant is back in his or her own country?

They'll receive feedback from us via the Web. And they will be putting their results on an internal platform online, so that the other students will be able to comment on their

projects. In this way, they can benefit from each other and remain in contact. It's important that the Intajour training and working environment are closely linked. The participants know best what type of project they can do without restrictions in their homeland. We want to train journalists and help strengthen their awareness, but we certainly don't want to over-challenge them.

There are already various institutions dedicated to the advanced training of international journalists. Do you see them as your competition?

We would like to cooperate with organizations that have a similar focus, because together we are stronger. I think everyone involved would benefit from such cooperation. ■

PRACTICING INDEPENDENCE

Bertelsmann is a firm believer in allowing its chief editors and book publishers to make autonomous decisions. The result: media diversity is flourishing within the Group.

The message from the chancellor's office was unmistakable. If RTL were to actually produce the planned show "Wie war ich, Doris?" (How was I, Doris?) as a satire about Gerhard Schröder and his wife, the chancellor would see it as a malicious act and take the necessary consequences. Such as canceling an interview he'd already agreed to as part of RTL's political summer talks. Or, stop granting interviews to RTL altogether.

The reaction at the Cologne-based broadcaster was friendly, but direct. Schröder was asked to understand that RTL conducted its programming in the same way that the chancellor conducted politics: independently. "We made it perfectly clear that we would not be intimidated," remembers Hans Mahr, who served as RTL Television's chief editor from 1994 to 2004.

When the issue became public and the chancellor did, in fact, cancel his summer interview, Bertelsmann "registered it without comment," says Mahr. "Nobody called me to ask me about it; there was no intervention."

For the news expert, this episode is a good example of Bertelsmann's total commitment to its chief editors' power to make decisions. "I've worked for various media companies, but I don't know any that upholds the independence of its editorial teams as strictly as Bertelsmann," Mahr says.

The chief editor principle is one of the main reasons that RTL, as a private broadcaster, was able to build up a respected news desk. The second rea-



The chief editor principle and a long-term economic outlook are key to building a successful news team, as is the case at "RTL Nachtjournal."

son was a long-term economic view. Before RTL was completely owned by Bertelsmann, there were frequent voices that called for the cancellation of news formats such as "RTL Nachtjournal" because of the high cost of news production. According to Mahr, Bertelsmann always blocked such demands. In the end, this was rewarded economically: after five years, Nachtjournal was generating enough to cover its costs. And even the chancellor's embargo against RTL only lasted for one year.

Mahr is convinced: all this was only possible because nobody on the editorial team had to fear internal or external pressure. "When in doubt, Bertelsmann always puts journalism first."

The same can be said for Gruner + Jahr (G+J). "A publisher shows how seriously it takes the editorial sovereign-

ty of its chief editor when there is external pressure, such as from a political official or an advertising client," said Thomas Osterkorn. "In my many years at 'Stern,' I've seen that G+J, and with it, Bertelsmann, takes this issue very seriously indeed, even in stormy periods." Osterkorn has been chief editor of "Stern" magazine since 1999 and is a member of the Journalistic Advisory Council of Intajour.

The autonomy of those in decision-making positions at publishing group Random House is also taken very seriously, as CEO Klaus Eck confirms. "Every one of our 43 book publishers in Germany is led by an independent head who decides autonomously over the publishing program," said Eck. "Business sense and responsibility as a publisher" should go hand in hand, he says. Independently of whether the executives or top management don't like the odd book out of the around 200 titles that the publishing group brings out each month. It's only this sort of autonomy that has created an atmosphere of true media diversity, says Eck. Klaus Eck and Hans Mahr are members of Intajour's Board of Trustees. ■

"When in doubt, Bertelsmann always puts journalism first."

*Hans Mahr,
RTL chief editor from 1994 to 2004
and member of Intajour's Board of Trustees*



“China is a country in transition”

How did G+J come to get involved in the Chinese magazine market?

My predecessor, Axel Ganz, made the first foray into China in 1998 with the founding of a magazine about cars. In 2006, we significantly expanded our activities in China, mainly through the



Torsten-Jörn Klein has been a member of the Executive Board at Gruner + Jahr since 2004 and is a member of Intajour's Board of Trustees.

BODA joint venture, which has enabled us to become the Chinese market leader in the women's magazine segment.

How has the Chinese magazine landscape developed in recent years?

There's a lot more choice and significantly more diversity on the market. That goes for printed magazines as well as for Internet portals. The Chinese market continues to grow, and we're really excited to be successfully represented in this market with our ventures.

And how are things looking in terms of freedom of the press and freedom of expression? Censorship cases continue to make headlines in the international press, and “Reporters Without Borders” hasn't exactly given China a positive assessment.

How does a publisher such as Gruner + Jahr with its high journalistic standards cope with that?

Gruner + Jahr does indeed have high journalistic standards and principles, and these apply worldwide. China is a country in transition. It's our view that it's better to actively accompany this process rather than shut out this important country with its fantastic culture. We have chosen a path of dialogue and exchange. It's been our experience that our partners would like to be part of a dialogue of equals and have shown understanding for our culture. For over 10 years now, we've maintained a respectful, open and constructive relationship with our Chinese colleagues and partners, as change can only result through dialogue and mutual respect.

Award for media independence



In 2010, the award for press freedom went to Maziar Bahari (above), who represented all repressed journalists in Iran.

The Henri Nannen Award is one of the most prestigious awards in German journalism. In addition to categories such as “Best Feature,” “Best Investigative Reporting” or “Best Photo Journalism,” an award is given each year to recognize outstanding effort in defending media freedom in Germany and abroad. In previous years, the award has gone to “Reporters Without Borders” founder Robert Ménard, Iraqi journalist Zainab Ahmed and the editorial team at the Russian newspaper “Nowaja Gaseta.”

PUTTING PRESS FREEDOM TO THE TEST

Personal recollections by journalists
from the Bertelsmann Group

“One of our employees, a 21-year-old Egyptian, was on the scene from the very start of the demonstrations in Cairo; she had an overwhelming desire for freedom,” said Antonia Rados, 57, who reported on the civil uprising in Egypt in February 2011 for RTL and n-tv. “She only knew about the start of the protests because she was linked in via Facebook and had access to information that you couldn’t find on the wires. Internet platforms such as Facebook and Twitter led to the demise of President Hosni Mubarak’s regime. After 28-year-old blogger Khaled Said was beaten to death by police for publishing his views on the Internet, Egyptian youth organized themselves into a mass protest movement via the digital platforms. They were so effective that Mubarak blocked access to the Internet for a few days at the end of January. But it was for naught: on February 11, Mubarak stepped down. “Everyone who publishes information to serve the cause of freedom, regardless of the medium used, must be protected,” said Rados. “The image of press freedom is undergoing radical change.” ■

**“The image of press freedom
is undergoing radical change.”**

*Antonia Rados,
RTL Television*

*Antonia Rados, 57, is chief
foreign correspondent at
RTL Television. The
Austrian native has been
traveling the globe for over
30 years to report from war
and crisis zones. Her work
has earned her several
awards.*

Photo credits: RTL / Suzy Stöckl





“Journalists in crisis regions are not there to be missionaries – our task is to report what’s happening as thoroughly as possible.”

*Gabriele Riedle,
“Geo”*

A woman in a crowd of people in central Tripoli is waving a green flag – the color of Libyan dictator Muammar Gaddafi. A Libyan camera team moves in on the European woman, shoves a photo of the “Revolutionary Leader” into her hand, and films her as she walks through the city. It’s Thursday, February 17, 2011. One day later, the country will be shaken by bloody unrest. The woman with the flag is Gabriele Riedle, and she’s anything but a Gaddafi supporter. The 52-year-old is actually an experienced reporter for “Geo” magazine, renowned for her uncompromising reports from the world’s crisis zones. It took her more than eight months to get a visa to enter the country. When the protests break out, she’s the only Western journalist on the spot. But doing independent research is difficult. She has a government minder who never leaves her side, her telephone is tapped and her driver has been threatened with imprisonment. “I couldn’t work the way I wanted to,” she explained. The only way she could get insight into the daily life and the protests was to fake enthusiasm for Gaddafi. “That was my survival strategy,” said Riedle. She describes her view of her work as follows: “Journalists in crisis regions are not there to be missionaries. Our task is to report what’s happening as thoroughly as possible.” Even if that means resorting to some unorthodox measures, like flag-waving. ■

Photo credits: Steffen Roth; Kai Wiedenhofer



Gabriele Riedle, 52, is a reporter for “Geo” magazine. The Stuttgart native reports mainly from crisis regions. She has won recognition for her reporting on the genocide in Darfur, Sudan, as well as for her work in Liberia following the civil war. In her spare time, Riedle writes novels.

“Those who want independent reporting from all over the world must make this possible for their own correspondents, without condition.”

*Andrzej Rybak,
Financial Times Deutschland*

Renting a Jeep and hitting the road is normally not a problem in most places around the world. But in the days leading up to March 20, 2003, it was almost impossible in Kuwait. U.S. troops were massing, preparing to march into neighboring Iraq to free the country from its dictator, Saddam Hussein. Most international reporters who ended up in Iraq were taken there under the supervision of U.S. soldiers. As “embedded” journalists, they saw only the convoys and camps of the occupying force. But on this March day, Andrzej Rybak, a reporter with the “Financial Times Deutschland,” got into a rental car and drove off alone, chased by Kuwaiti police officers, until he crossed the border into Iraq. He followed the front until he reached Baghdad. “We visited hospitals, spoke with victims of American shrapnel, saw agents of the dictator Hussein,” Rybak said. “In brief, we were in places that no other foreign journalist had access to.” Rybak accepted the risks of what he was doing, but he also had the limitless support of his colleagues back in Hamburg, unlike journalists working for other media outlets. “Those who want independent reporting from all over the world must make this possible for their own correspondents, without condition,” he said. ■

Andrzej Rybak, 52, has been a foreign correspondent for the “Financial Times Deutschland” for eleven years. He has visited more than 130 countries. The Polish-born journalist has reported frequently from the Balkans, Chechnya, Afghanistan and Iraq.



Photo credits: Nils Hendrik Müller, Tom Stoddart/Getty Images



“We have freedom of the press in Western Europe and the U.S., but when journalists meet important decision-makers from these parts of the world, there are often attempts to influence them in the run-up.”

*Rick Nieman,
RTL 4 Netherlands*

Rick Nieman, 45, has been a news anchor for Dutch broadcaster RTL 4 for 13 years. Before that, he worked for CNN and studied journalism and international relations in the U.S. Nieman is the author of several books on management and journalism.

The phone rang in the middle of the night: “Hello, this is the White House. Mr. Nieman, can I put you through to the First Lady’s spokesperson?” Rick Nieman, news anchor for Dutch broadcaster RTL 4, had interviewed a lot of politicians and celebrities before, among them Hillary Clinton, Condoleezza Rice and Benjamin Netanyahu. Each time, there were lots of preliminary talks. But the “screening” for his interview with Laura Bush in the spring of 2005 gave him pause to thought. Time and again, Bush’s press people wanted to know what Nieman would be asking in the interview. Before his meeting with the First Lady in a Dutch hotel, Nieman and his camera team were frisked three times by security staff. All that effort is just to impress the reporters, thought Nieman. Or was it meant more to intimidate? Of course, all these hurdles and steps weren’t seen by the viewers when the interview aired on May 8. “We have freedom of the press in Western Europe and the U.S., but when journalists meet important decision-makers from these parts of the world, there are often attempts to influence them in the run-up.” Nieman believes in independent television journalism; controversial questions are his trademark. ■



“The situation of press freedom in Russia has grown continuously worse in recent years.”

*Katja Gloger,
“Stern”*

Tapped phone lines and interview partners subjected to intimidation tactics – for Katja Gloger, “Stern” magazine’s Russia correspondent from 1989 to 1994, those were just normal working conditions. During the attempted coups in August 1991 and October 1993, Russian Army tanks rumbled past Gloger’s front door on Kutusowskij Prospekt, a short hop away from the seat of the Russian government. “As a foreign correspondent, you are well aware of the risks and dangers of the job,” said Gloger. “Even with all the restrictions foreign correspondents face when trying to work independently, we’re still not subjected to nearly as much repression as our Russian colleagues. For them, critical reporting and freedom of expression can become life-threatening risks. They often pay for their work with their health or even their lives.” In 2010 alone, eight journalists were murdered in Russia and 40 were subjected to beatings. “The situation of press freedom in Russia has grown continuously worse in recent years,” Gloger said, “especially for our Russian colleagues. We have to support and protect them.” ■



In 2007, the journalists of the Russian newspaper “Nowaja Gaseta” won the Henri Nannen Award for press freedom.



Katja Gloger, 50, has worked for “Stern” for over 20 years. During the fall of the Soviet Union, she was Moscow correspondent, not even shying away from reporting from the destroyed nuclear reactor in Chernobyl. In 2004, the political scientist went to work as a correspondent in Washington.



NEWS PORTAL WITH A DIFFERENCE

Many parts of the world are underserved by the media. In the event of a conflict or natural disaster, journalists lack information sources. A platform called “Ushahidi” offers a solution.

The Congo is on the dark side of the moon,” sighs Lisa Cowley. “In any case, there’s hardly a region that’s further removed from the newsflows of the world.” The American freelance journalist should know. For years, she has been accompanying wildlife protection agents and making documentaries about their efforts in the eastern part of the country to protect the mountain gorillas of the Virunga National Park from militias. At the end of 2008, violence erupted in the area as children were being kidnapped and turned into child soldiers. Nobody helped. Out of desperation, Lisa sent a text message with her mobile phone: “More kidnappings north of Goma. Situation worsening.” She sent the SMS to a number that she’d found on the Internet.

A short time later, the place from where Lisa sent her SMS showed up as one of several dots on a digital map of a news portal with “Ushahidi” technolo-



Ory Okolloh initiated the “Ushahidi” platform. In 2008, she used the Internet to call on programmers to collect eyewitness reports from her homeland, Kenya.

gy. Users can click on one of the dots to call up a short news summary. Thanks to Cowley’s information, users of the Internet portal were able to learn about the attacks in Congo.

Such information is essential for journalists who want to report about

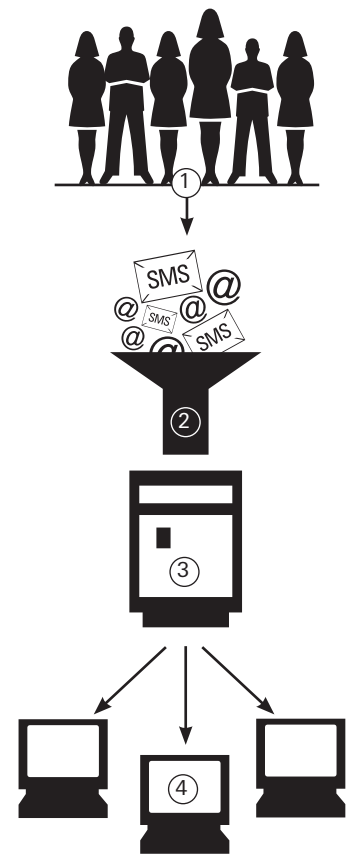
regions that lie outside the focus of the mainstream press. The traditional news agencies seldom carry items from such regions on their wires, and there’s a general lack of reliable information sources.

This is exactly the problem that “Ushahidi” seeks to address. In principle, the site works along the lines of the online encyclopedia Wikipedia: anyone can contribute information to the platform. The greater the number of contributions, the more balanced the news coverage becomes. The information platform is an open-source project, meaning that it is supported by software experts around the world and fed by reports from eyewitnesses. Newspapers and broadcasters are thus able to recognize a brewing crisis much sooner than a classic news agency, so they can report on the story and get the authorities involved.

Reporters from Britain’s “The Guardian,” the “Chicago Tribune” and the Arabic broadcaster “Al Jazeera” have



Team members of the Web platform “Ushahidi” check the credibility of the information sent from crisis regions all over the world.



VOLUNTEER POWER

- 1 | In the event of a crisis or natural disaster, witnesses can send news directly from the region to a platform with “Ushahidi” technology; by SMS, MMS, e-mail or online form.
- 2 | With the help of special software, the incoming information is sorted, filtered and assigned specific keywords. Thousands of contributions can be processed within a short time frame.
- 3 | The news summaries are pegged to a map, and in many cases are checked for authenticity by volunteers.
- 4 | Journalists around the world have access to information that classic news agencies frequently can’t provide.

already worked with information from the new portal. Anyone can download “Ushahidi” applications for free and use them for their own purposes. For this reason, the technology also has to protect itself from incorrect information. In Congo, for example, the reports delivered are authenticated by local aid organizations and given a credibility rating.

The roots of this innovative news tool are in Kenya. At the start of January 2008, bloody tribal conflicts erupted there as a reaction to a manipulated presidential election. At the time, native Kenyan Ory Okolloh was living in Johannesburg and was frustrated at the lack of good information about the explosive events unfolding in her homeland. In her blog, she asked if it would be possible for people on the ground to send information to a central platform via their mobile phones, for example, so that an impression of the overall situation could be gained. What Okolloh wanted, essentially, was a kind of news crowdsourcing. “I thought that

it would be helpful to fill the information gap with a medium in which ordinary citizens could report about what they were seeing,” Okolloh said.

“Can somebody quickly put something like that together?” she typed into her blog site at the time. Programmers around the world saw her request and got to work. Just three days later, a new platform was born, and the first map showing the hotspots of the Kenyan unrest was online. It quickly became clear that the media weren’t mentioning many violent incidents. Okolloh named the Web application “Ushahidi,” which means “witness” in Swahili.

A similar technique was already being used by aid organizations in their emergency missions. “Ushahidi” broke ground, however, by reversing the flow of information. “From the very start, “Ushahidi” was used much less by professional aid workers or reporters and more so by those in the thick of a situation,” said Erik Hersman, one of the platform’s co-founders.

Its benefits are obvious. “It’s not an exaggeration to say that many events in the Kenyan crisis would never have been reported had it not been for ‘Ushahidi,’” said Anthony Kariuki, an online journalist at the Kenyan newspaper Daily Nation. “Ushahidi” is particularly suited to the eastern African country, as mobile phones provide the most common means of communication.

“Ushahidi” has long since expanded beyond the developing world to the

West. The Washington Post, for example, uses “Ushahidi” technology to report on the snowstorms that frequently bring the city to a standstill. Everyone who knows of a blocked street can report it to the Internet portal “Washington Snow Cleanup.” “The New York Times” dubbed “Ushahidi” “Africa’s gift to Silicon Valley.”

In the meantime, the Internet platform has now been refined to the point where it can be used for humanitarian missions. It found new uses, for example, during the massive earthquakes in Chile and Haiti. ■

“Many events in the Kenyan crisis would never have been reported had it not been for ‘Ushahidi.’”

Anthony Kariuki, Daily Nation

TECHNOLOGY VERSUS TRADITION IN JOURNALISM

Howard Rheingold is something of a prophet when it comes to the digital world. The 64-year-old teaches journalism at Stanford University in California and is an expert on the effects of new media on information-gathering and the traditional role of the press.



Howard Rheingold at his home desk in San Francisco. In the 1980s, he was a member of the first online community, "The Well." In 1994, he helped build one of the first commercial websites for "Wired" magazine. At Stanford University, the book author and media critic teaches the courses "Digital Journalism" and "Virtual Communities and Social Media."

Given the wealth of information in the digital era – from news sites and blogs to Facebook and Twitter – how can journalists benefit from all these sources rather than be overwhelmed by them?

I regularly discuss this question when I teach journalists at Stanford University. I call the required skill "infotention," meaning you need to observe and filter the information with maximum attention and efficiency. With most sources, you start out being skeptical, think like a detective, look for clues,

"It's about evaluating information. There are mental skills and technical tools, and journalists ought to know them."

Howard Rheingold

triangulate. There are all kinds of things you can do to verify information online. For example, on Snopes.com, you can check out rumors. On "Whois" you can find out where a website is hosted and who registered it. It's about evalu-

ating information and knowing how to find it in the first place. There are mental skills and technical tools, and journalists ought to know them.

Could technology at some point even take over the role of journalists to evaluate sources and information?

A combination of algorithms and social filtering is definitely coming about, but you need more to make an authoritative verdict: you need social media literacy. In fact, I'm currently writing a book about it, and I think it's a literacy



* While the text of this Twitter-Tweet is authentic, the picture and username have been altered.



New social media technologies have been playing a key role in spreading information during the latest protests in the Middle East. Such media can also be important sources of information for journalists, assuming that they're trained in evaluating their credibility.



that people ought to learn. In the digital era, there are very sophisticated ways to manipulate public opinion for those who can afford it. So I think it's important that there is a minimum number of people in the population who think twice about the information they find online. This is a role that well-trained journalists can fulfill best.

With more and more sources of information that people can directly access, will we still need traditional media in the future?

Trusted brands in journalism are important – and will continue to be so. While even the best traditional media sources have been wrong on occasion, you can typically trust them. I certainly trust the New York Times more than I trust an unknown person on the Internet. Some blogs might also grow to be trustworthy brands, but broadly speaking you will still need institutions that tie together individuals into a trusted information source. They are the basis for a free press. And without a free and independent press that mistrusts the state and tries to find out what its secrets are, democratic societies are in trouble. That fact remains a constant, no matter how quickly the world seems to be changing technologically.

Talking about change and technology: many people speak of a “Twitter Revolution” and the role of Facebook

to explain what has triggered recent events in the Middle East. Are social media really powerful enough to topple dictators?

Any kind of event like the regime change in Tunisia or Egypt involves a lot of different factors. In the Middle East, a lot has to do with demographics and the economic situation – young men without jobs who are tired of being suppressed or tortured and who are no longer afraid to protest. Still, I think it's beyond question that social media have played a decisive role in the chain of events.

Why are we seeing political effects of social media only now?

Facebook, YouTube and Twitter are still very new. When technology makes a new communication medium available, it takes some time for people, including journalists, to understand how to use it to their benefit. On top of that, you need particularly sophisticated skills to organize in extremely oppressive regimes.

New technology also means that authoritarian regimes can more easily identify their opponents and track them down, even in near-real time – a big risk, it seems, for the general public, but especially for critical journalists.

Yes, absolutely. It's power and counter-power. Much depends on how far a regime is willing to go. In some places –

as in Iran, for example – the authorities strive to keep complete control, crushing dissent. In other cases they're just trying to keep a lid on it. China is a good example. There are many examples of protests that would have been unthinkable before the rise of social media, such as farmers organizing to shut down a chemical plant. China is clearly trying to contain these challenges to state authority, but so far they seem unable to completely keep them in check.

How does journalism change in a world of real-time information?

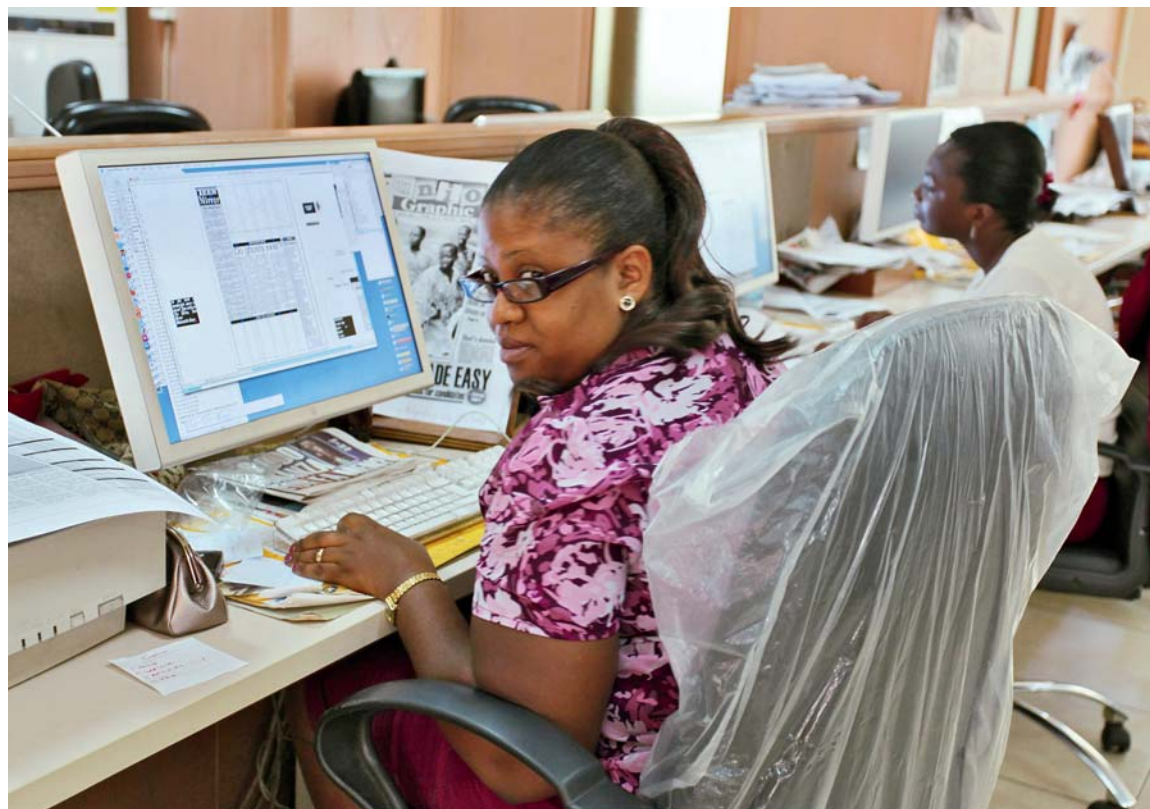
Journalists used to be the reporters, the collectors of information, and also the ones who verify, who contextualize and narrate. Now, everybody is a reporter, in the sense that everybody can collect and publish information. Journalists no longer have a monopoly on reporting itself – but there is a need for expertise in the refining of reporting into journalism. When information comes from everywhere instantaneously, how do you sort through that? How do you find the good stuff, how do you understand what it means? That's what journalists need to take care of. We still need that. It requires being Internet-savvy and knowing how online networks work. Not everyone needs to be a video editor, but I think you need to understand how these media work, and you need to be plugged into them.

Newspapers have a tough market in Ghana given the population's 26 percent illiteracy rate. Thus, many people rely on radio or TV. Reading the papers is also expensive, as they can cost up to 75 cents - almost 40 percent of the average daily wage.



CONVICTION WRITERS

In Ghana, a new generation of journalists is emerging, marked by self-confidence and the pursuit of noble principles. International organizations are offering training to help broaden the journalists' skills and experience.



A reporter working in the newsroom of Ghana's biggest newspaper, the "Daily Graphic."

The customs inspector wants money when he sees the new shipbroker coming toward him: “Never forget to show that you’re a friend.” And when the slim man from the Tiger Shipping Company doesn’t quite understand what it’s all about on his first day, the official names his sum: 100 cedis, around 50 euros, is what such “proof of friendship” costs. “Don’t forget that the next time,” the inspector says in parting.

Weeks later, Anas Aremeyaw Anas is still shocked at how casually customs officials, harbor police and private security staff hold open their hands while doing their jobs. The 32-year-old reporter and his team investigated the black market at Ghana’s Tema international harbor for three months. He posed as a clearance agent – someone who helps the ship manager with immi-

“The seminars really helped me to understand what responsibility journalists have. And they also helped make me more confident in doing this work.”

Shirley Asiedu-Addo

gration and customs formalities. When, in February, he published his series of articles on bribery, systematic tax evasion and theft of imported goods in the daily, “The New Crusading Guide,” they made nationwide headlines for weeks.

Despite his young age, Anas is already one of the established greats in the western African country. He’s won all the journalism prizes his country offers, and in 2010 he was recognized for his work as an investigative reporter by the FAIR forum – the African equivalent of a Pulitzer prize. U.S. President Barack Obama even mentioned him by name as a role model in a speech he gave before parliament during his state visit to Ghana.

Today, Anas is privileged. He can make a living from his career, some-

thing that only few journalists in Ghana can claim. Many can’t afford to feed their families. Many others sit for hours in a tro-tro, one of the ubiquitous small buses, in order to get to their appointments.

Despite this, journalists in Ghana seem to love their jobs, and they do them with great passion. Anas and his contemporaries are part of a generation of journalists around the age of 30 who see themselves as fighters for democracy and justice, working to build a nation that got its first democratic constitution in 1992. Their ideal is the journalist as watchdog.

“Journalists shouldn’t just report, they should analyze and criticize what’s not working,” said Shirley Asiedu-Addo. The 31-year-old works in the university town of Cape Coast as a regional reporter for the “Daily Graphic.” With a print run of 50,000, it’s the biggest nationwide paper. She’s had plenty of offers to move to the capital, Accra, but she sees her task as helping to improve living conditions in the region where she comes from. “I love my profession,” she says. She specializes in police and court reporting, as well as reporting on regional politics. And she dreams of Western job standards, like having a car to get quickly to a place where something is happening.

Unlike Asiedu-Addo, 28-year-old online journalist Kent Mensah isn’t interested in regional events – he wants to work internationally. He thinks that far too few people in Africa are informed about their neighboring countries. He works in Accra for Africanews.com, a network of 1,700 African journalists. They prepare news from all over the continent for use by local journalists. Via the website, their fellow journalists also have access to international media. “We also sometimes pass on paid assignments from Western media to one reporter or another,” said Mensah. It’s a way for international news agencies such as Reuters or AFP to close the gap in their own network of correspondents.

Mensah, Anas and Asiedu-Addo learned some of the skills they use on a daily basis from Western >



SHIRLEY ASIEDU-ADDO, 31, works as a regional reporter at the “Daily Graphic” newspaper in the university town of Cape Coast.



ANAS AREMEYAW ANAS, 32, from “The New Crusading Guide” always obscures his face on pictures to avoid being discovered during his disguised investigations.



KENT MENSAH, 28, is an online journalist in Accra working for Africanews.com, a news portal on Africa for and by local reporters around the continent.



journalism training institutes – things like the principles and problems in doing research or how to structure a text. Mensah and Asiedu-Addo took seminars from the International Institute for Journalism (IJ), financed by German development aid, as well as courses from the Reuters Foundation of the news service provider Thomson Reuters, and from Free Voice, a Dutch organization. “The seminars really helped me to understand what responsibility journalists have. And they also helped make me more confident in doing this work,” said Shirley Asiedu-Addo. The courses helped steer Kent Mensah toward online journalism. It’s still true that in many parts of Ghana, the Internet is either not available for technical reasons or too expensive for normal Ghanaians. But news portals such as Africanews.com are increasingly doing the job of news agencies. They are popular with readers in the big Internet cafes with their fast connection speeds – cafes that are used as offices for hours at a time by many small businesses in Accra.

Both journalists agree that without the international seminars, they wouldn’t be where they are in their careers. Shirley Asiedu-Addo has also been named Journalist of the Year, and earns far more than her colleagues without advanced training. Kent Mensah plans to take on an additional part-time



A newspaper stand in Accra (top). The offices of the “Daily Graphic” (bottom). Journalists earn an average wage of 100 euros a month, according to a research institute of Ghana’s unions.

job working for an international news agency, and Asiedu-Addo and her husband, who is a university lecturer, are managing fine with their two incomes.

Only Anas is so far managing to support a family with his income. The investigative reporter studied law and journalism. He has also attended courses given by the German IJ and Thomson Reuters. Eight years ago, he started as a reporter on the political desk of a daily newspaper. “I wrote about political scandals and fraud, but then we started getting a lot of pressure from the government and big companies,” he said. Sources began withdrawing their statements, and the newspaper gave in. Anas accepted the consequences: he quit, and began doing his research under cover. Through his work, he ex-

posed the prostitution ring of a Chinese human trafficker and the case of caregivers at a psychiatric clinic who were dealing drugs.

In Tema harbor, Anas took on organized corruption. The strands that make up the western African country’s economic web come together at the giant container dock. From here, cocoa, gold, coffee and bauxite begin their journey to points all over the world. It’s also where goods such as cars, food, construction materials and aid supplies arrive in the desperately poor nation – if they arrive at all.

Anas writes about Becky. The Canadian of Ghanaian origin had organized a container of laptops, school books, children’s backpacks, notebooks, pens and food for a school in her hometown of Cape Coast. But despite handing over the “proof of friendship,” the container could not be found. Weeks later, it turned up. It had been broken into, and the goods valued at \$120,000 were gone.

The headlines, says Anas, are not what matters to him. “What I want is to see the criminals go to jail.” He says his country will never prosper as long as corruption and fraud are so prevalent in business. He’s convinced that if all business people paid their taxes, Ghana would soon no longer need development aid. “I want change, and I’m fighting on the side of the poor and the disenfranchised.”

Unlike so many Ghanaians, all three journalists say they are not interested in emigrating. After all, they say, things are slowly improving in their country. They’re proud of the fact that Ghana occupies 27th place in the global press freedom ranking from “Reporters Without Borders” – not so far behind the United States (20th) and ahead of Poland (32nd). Parliament is currently debating a law on freedom of information that should give citizens and the media widespread information rights.

In bridging toward press freedom and democratization, journalists frequently resort to unconventional methods. At the last elections in December 2008, local radio stations nationwide agreed with the independent electoral commission that reporters could release the results of each individual voting station, before the containers were sent on their way to the capital. This prevented any attempt to manipulate the results along the way. ■

AN IDEA THAT IS BRINGING RESULTS

No press freedom, no trained journalists – that’s how Britta Petersen saw Afghanistan in 2002, shortly after the Taliban were ousted. She moved there in order to change things. With success.



Britta Petersen with students in front of the media house in Jalalabad, Afghanistan, during a visit from the local governor (right, next to Petersen). The second media house is in Peshawar, Pakistan (below). Petersen is the honorary chairperson of the Initiative Freie Presse, which she founded. She has also been serving as the local director of the Heinrich Böll Foundation in Pakistan since July 2010. She currently lives in Lahore.

Ms. Petersen, you were working at a German business newspaper before you went to Afghanistan to train journalists. What led you to make this decision?

I went to Afghanistan in January 2002 in my role as a reporter for the international desk. It was shortly after the fall of the Taliban, and it became clear to me just how desolate the situation in the country was, the media included. There were practically no journalists, and there was no tradition of press freedom. I remember asking myself then if there wasn't some way I could contribute to improving the situation.

While very honorable, that sounds like very difficult, pioneering work, particularly for someone who wasn't familiar with the country.



That's true. I was fortunate to know Sultan Karimi, an Afghan who had lived in Germany for many years and who had returned to his country to help with the reconstruction effort. Karimi was planning to build political and cultural centers in Afghan cities. I suggested to him that they could also host journalism courses, and he thought it was a great idea.

How did you set about making it happen, and who helped you along the way?

I set up the Initiative Freie Presse (IFP), which was supported by the Foreign Ministry, among other bodies. The preparatory work took some time, but in the fall of 2003, I finally moved to Kabul in order to get things started. ➤



Students learn basic journalism skills through hands-on assignments in small groups. So far, 300 men and women in Afghanistan and Pakistan have received training.

And what did that involve?

We started with seminars in Kabul that lasted for several weeks, but we also offered courses in the north and south of the country, for example in Mazar-i-Sharif, Kunduz, Jalalabad and Wardak. In our course on basic journalism, participants explored the basic principles of journalistic work. We taught them how to do research, how to write news reports and how to accurately quote interview partners. We often had to practice these things over and over, as it was all new material for most of the course participants. It was hardly surprising – where should they have learned such skills? The Taliban had suppressed everything. And before, there were professors teaching who'd been trained in Moscow in the principles of Soviet-style journalism during the 1970s.

How many people attended each course?

We wanted to keep the classes small in order to allow for as much hands-on work and individual feedback as possible. Originally, we had planned to limit the number of participants to ten per course, but we often had more simply because of the sheer number of applications. The basic course was followed by specialized seminars, for example in radio, photography, business journalism or special offers for women. For our course on political and business journalism, former colleagues of mine

would come from Germany during their vacation time.

What language were the journalism courses held in?

In English – with simultaneous translation in Dari and Pashtu. It was challenging and took up a lot of time, but find-



“I recently turned on the television in Afghanistan, and the news anchor I saw on the screen was someone who had participated in our courses. That was a great feeling.”

Britta Petersen

ing native speakers to teach the courses wasn't possible in the initial phase. That has changed. Course participants from those early days now teach courses themselves in their mother tongue.

How did you ensure that the skills being taught were being put to good use and bringing results?

In 2005, we started publishing a monthly paper with the students called “Afghanistan Today.” It still exists (see: www.afghanistan-today.org). But the most important step we took in this direction was the creation of our media houses. On the one hand, they serve as resources for journalists looking for somewhere to write texts, surf the Internet, take part in events – similar to our press clubs. But they also offer accommodation so that journalists from rural regions can come and take part in the training program. That's why both of our media houses are near so-called “tribal areas.” There's one in the Afghan city of Jalalabad, and the other is in Peshawar, Pakistan.

How would you assess the training offered over the last few years?

We've taught journalism to 300 women and men in Afghanistan and Pakistan. The fruits of our labor can be seen if you read or watch media in the region regularly. I recently turned on the television in Afghanistan, and the news anchor I saw on the screen was someone who had participated in our courses. That was a great feeling. ■



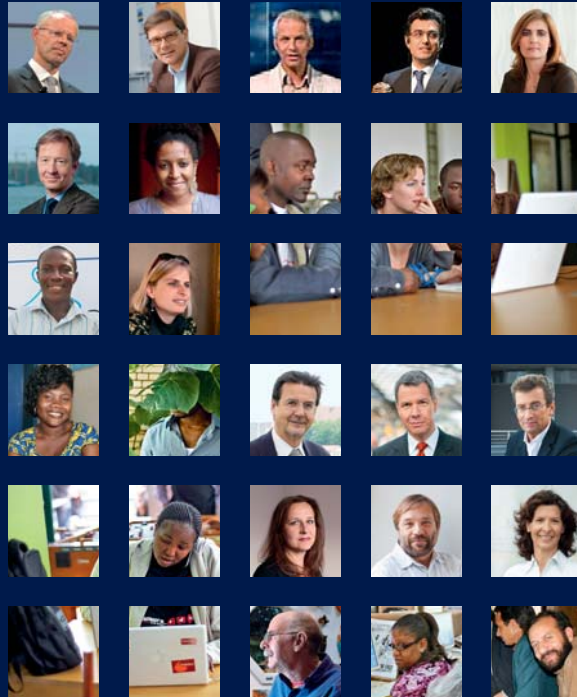
“The International Academy of Journalism will help young journalists from all over the world deepen their grasp of the basic principles of research and reporting. In doing so, it will focus on teaching them about the new opportunities and tools of the digital age and encourage greater press freedom. I very much welcome this mission and the academy’s approach. The more diversity we have in opinions and their means of expression, the more the voice of the people will be heard.”

Peter Kloeppe, Editor-in-Chief of RTL and member of the Journalistic Advisory Council of Intajour



“Those who want to do serious journalism need financial backing, support from colleagues and firm publishing principles. In this way, the media can best fulfill their role as the fourth estate. Many countries around the world lack such a tradition and the means to establish it. That’s why I’m especially pleased to witness the founding of the International Academy of Journalism. Promoting press freedom is a noble goal and using new digital tools a clever way to achieve it.”

Thomas Osterkorn, Editor-in-Chief of “Stern” and member of the Journalistic Advisory Council of Intajour



intajour International Academy
of Journalism

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www.intajour.com
(Website will be available by June 2011)

FINANCIAL INFORMATION

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Group Management Report

Bertelsmann's performance in fiscal year 2010 was very positive, with revenues and earnings up sharply. Revenues from continuing operations reached €15.8 billion, up from €15.1 billion in the previous year, and operating EBIT from continuing operations came to €1,852 million, up from €1,438 million in the previous year. The growth in revenues and earnings was fueled by the economic recovery, especially the rising advertising market, and by the cost-cutting measures. The return on sales rose to 11.7 percent (previous year: 9.5 percent), a new record. Group profit increased sharply by €621 million to €656 million. Operating free cash flow of €2.1 billion (previous year: €1.8 billion) was at a very high level and helped reduce the net financial debt to €1.9 billion (previous year: €2.8 billion). Bertelsmann expects the economic recovery to continue in fiscal 2011.

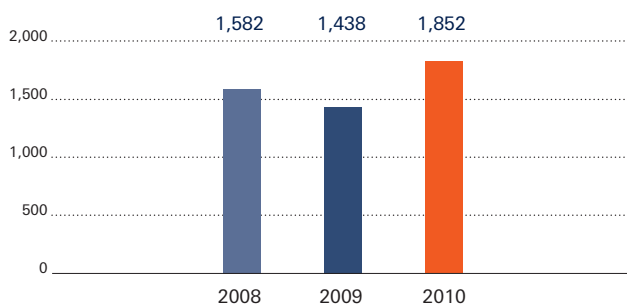
Business and Economic Conditions

Description of Business and Organizational Structure

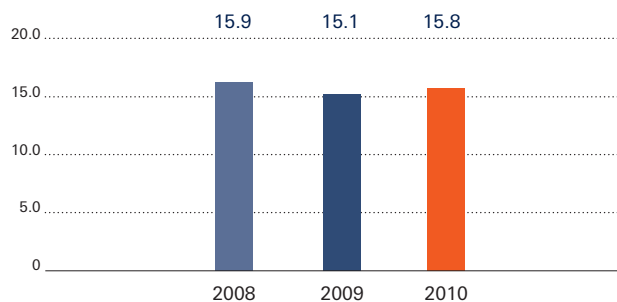
Bertelsmann is active in the core business fields of media content and media-related production and service operations in more than 50 countries. The company is involved in television, radio and television production (RTL Group); books (Random House); magazines (Gruner + Jahr); media services (Arvato); and media clubs and bookstores (Direct Group). Revenue sources are diversified across the sale of products and merchandise, advertising, services, rights and licenses. Bertelsmann's geographic core markets lie in Western Europe (in particular Germany, France, the United Kingdom and Spain) and the United States.

Bertelsmann AG is an unlisted stock corporation under German law with a two-tier system of management and governance. Bertelsmann AG functions as an operational management holding company within the Group organization and is responsible for the Group's strategic management and business policies. The Executive Board is responsible for the 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 follow the Group's organizational structure, made up of the five

Operating EBIT in € millions*



Revenues in € billions*



*The figures for the fiscal year 2008 have been adjusted for the discontinued operations.

divisions of RTL Group, Random House, Gruner + Jahr, Arvato and Direct Group as well as Corporate.

RTL Group is represented by 40 television stations and 33 radio stations in 10 European countries. Its television business includes Mediengruppe RTL Deutschland, Groupe M6 in France, the RTL channels in the Benelux countries and RTL Klub in Hungary. With its subsidiary Fremantle Media, RTL Group is also among the global key players in the production and distribution of TV content. RTL Group S.A. is a listed company in Brussels and Luxembourg.

The international publishing group Random House encompasses 200 independent imprints, including Alfred A. Knopf and Doubleday in the U.S., Ebury and Transworld in the UK and Siedler and Goldmann in Germany. Random House publishes novels, non-fiction and youth titles in hardcover, paperback, audio and electronic format, with 10,000 new titles published and 400 million units sold each year around the world. The publishing group is the largest supplier in the e-book segment with some 25,000 titles available in electronic format.

The publishing activities of Gruner + Jahr encompass over 500 magazines, newspapers and websites 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 Austria, China, Italy, Poland and Spain. Gruner + Jahr bundles its gravure printing business with Arvato (37.45 percent each) and Axel Springer AG (25.1 percent) in the joint venture Prinovis.

Arvato is a business process outsourcing service provider whose portfolio encompasses customer-specific integrated solutions in the areas of customer loyalty, supply chain management, call and service centers, receivables and risk management, address and database management, gravure and offset printing, optical storage media production, direct media sales and IT services.

Direct Group operates media clubs, bookstores, online activities, publishing houses and distribution companies in twelve countries. The company's clubs include such popular brands as Der Club Bertelsmann in Germany, France Loisirs in France and Círculo de Lectores in Spain. The company also draws on its direct marketing expertise in the media business to sell additional products to members and new customer groups.

The Corporate segment includes the Corporate Center and Corporate Investments. The Corporate Center in Gütersloh and the regional centers in New York and Beijing support the Executive Board in managing the Group and support the

divisions in managing business operations. Corporate Investments includes the stake in the music rights company BMG, the Bertelsmann Digital Media Investments (BDMI) fund for new technologies and innovations, and the Bertelsmann Asia Investments (BAI) fund.

Strategy

Bertelsmann's core business lies in media and media-related services. Its geographic core markets are in Western Europe and in the United States. Over the medium to long term, Bertelsmann is working to strengthen its presence in major growth markets such as China and India.

Bertelsmann aims to achieve leading positions in attractive markets and has already done so in most business segments. Future investments are to focus on business fields with stronger organic growth. Bertelsmann always aims to achieve full ownership of its businesses. Working with partners may be practical or necessary in justified exceptions, however. At present, two divisions (RTL Group, Gruner + Jahr) are not 100 percent controlled.

The Executive Board follows the model of a unified corporation in managing and developing Bertelsmann. The individual companies and the Group portfolio are subject to ongoing strategic reviews. The Executive Board is focused on strengthening core operations and utilizing organic growth opportunities close to its businesses. Noncore businesses will be divested as the market permits. Bertelsmann seeks to gradually enter new growth areas while adhering to financial targets. One example is the partnership with the investor KKR to establish the music rights company BMG. Bertelsmann will continue to study and take advantage of attractive opportunities to enter new markets so that it can grow in new business fields.

The work of the Executive Board in fiscal 2010 focused on strengthening and expanding the core businesses and further developing the Group portfolio. The diverse cost-cutting programs from the previous year were continued and the core businesses were expanded through targeted acquisitions and the development of new, primarily digital products and services. Digitization opens up wide-ranging opportunities to a broadly based media corporation such as Bertelsmann. Seizing these opportunities is an integral part of the Bertelsmann strategy. Traditional products can be marketed through new channels, for example, or additional digital services can be offered to new and existing customers. Bertelsmann Digital Media Investments, the venture capital fund for new technologies and innovations, is a source of important initiatives here.

The Executive Board remains committed to the goal of increasing the Group's organic growth with an appropriate return on investment by strengthening core businesses, further developing the portfolio and expanding into new growth segments.

Controlling Systems

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 and is the basis for management compensation.

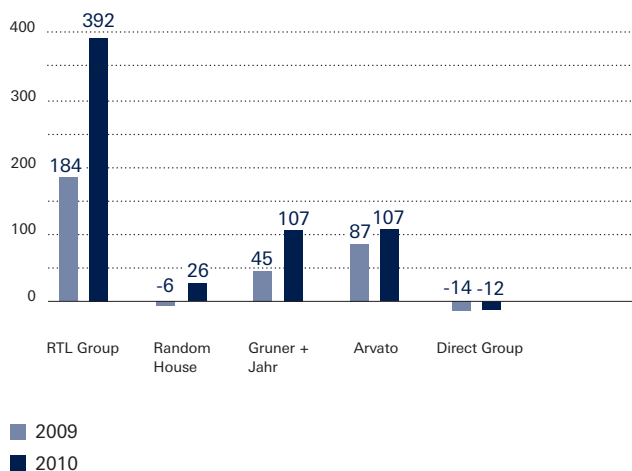
BVA is calculated as the difference between net operating profit after tax (NOPAT) and the cost of capital. NOPAT is calculated as operating EBIT less a standard tax rate of 33 percent. Cost of capital is the product of the weighted average cost of capital and the level of capital invested. The uniform 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. BVA rose from €50

million to €371 million in fiscal 2010. The main reasons for the positive development of BVA are the increase in operating EBIT and a reduction of invested capital.

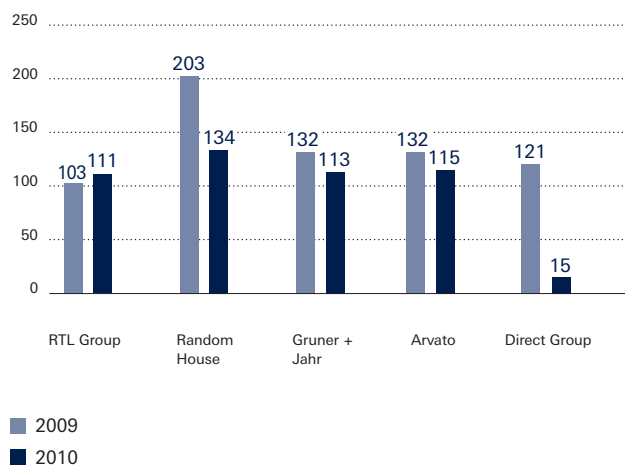
Operating EBIT not only affects BVA through NOPAT but is a relevant performance indicator in its own right. Operating EBIT is calculated before net interest expenses and taxes and adjusted for special items. This procedure yields a normalized, sustainable performance indicator that helps to improve predictability and comparability. Operating EBIT came to €1,852 million in the year under review (previous year: €1,438 million).

Operating free cash flow, as measured through the cash conversion rate, also warrants attention 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 average. The cash conversion rate in fiscal 2010 was 112 percent (previous year: 125 percent).

BVA by Division in € millions



Cash Conversion Rate by Division in percent



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

Significant Events in the Fiscal Year

In January, Arvato acquired the remaining 37 percent interest in the Arvato Infoscore Group – a full-service provider for integrated data, information and receivables management acquired in July 2005 – for €141 million.

In February 2010, French RTL Group subsidiary M6 exercised a put option of €384 million to Vivendi SA on M6's 5.1 percent stake in the French pay TV channel Canal Plus France.

In the first quarter of 2010, Bertelsmann called upon the owners of profit participation certificates from 2001 to submit sales proposals. When the offer expired on February 22, 2010, the company had received sales proposals for profit participation certificates from 2001 with a nominal value of €214 million. The total purchase price for the profit participation certificates offered for sale came to €386 million.

On July 23, 2010, RTL Group sold the UK broadcasting group Five to the Northern & Shell publishing group of UK publisher Richard Desmond.

In October, RTL Group subsidiary Fremantle Media acquired 62.5 percent in Radical Media, a leading producer of TV advertising spots in the U.S.

BMG, the music rights joint venture with KKR, continued to expand its business through targeted acquisitions of numerous music publishers and music catalogs in the course of fiscal 2010, most notably the acquisition of U.S. music publisher Cherry Lane and the takeover of UK music publisher Chrysalis initiated in late 2010.

Direct Group divested itself of its businesses in Italy, Portugal, Australia and New Zealand in the course of 2010. Effective July 1, 2010, the Spanish media group Planeta acquired a 50 percent stake in the Spanish club Círculo de Lectores from Direct Group, which had been the sole shareholder.

The venture capital fund BDMI acquired three new participations during the year and successfully exited from BuyVIP. "BitAuto," the Chinese market leader for online content and part of the Bertelsmann Asia Investments portfolio, has been listed on the New York Stock Exchange since November 2010.

Overall Economic Developments

The world economy defied expectations and recovered in 2010. The rise in worldwide gross domestic product (GDP) was especially strong in the first half of 2010. While many emerging economies reported a stronger upswing, economic growth in most advanced national economies has been more restrained and volatile. The Kiel Institute for the World Economy (IfW) finds that although the latest indicators point toward continued global economic expansion, there remain significant risks to recovery in industrialized nations. Growth was supported primarily by the emerging markets, the expansive fiscal policies of the industrialized nations and low interest rates around the world.

Economic recovery in the U.S. remained modest, bucking the global economic trend. Private consumption, the cornerstone of the U.S. economy, triggered only moderate growth according to the European Central Bank due to continued high unemployment, the weak growth in incomes and low real estate prices.

The crisis of confidence in the financial markets has greatly increased the risks of an economic setback in the euro zone – with major ramifications for Greece, Ireland, Spain and Portugal in particular. Overall economic production rose only slightly, with a wide disparity among member states. Germany is proving to be an important engine of recovery in the euro zone.

The expansionary dynamics of Germany's economy has increased noticeably. According to the Federal Statistics Office, GDP in 2010 was up 3.7 percent from the previous year. There were positive signs of growth at home and abroad. The major factor in the upswing was the dynamics of investments and foreign trade, but private and state consumer spending also contributed to the growth in GDP. Despite positive indicators, IfW experts point toward a climate of great uncertainty characterized by rising national debts, skittishness in the European financial markets and overheating economies in emerging markets, especially China.

Developments in Relevant Markets

The strong recovery of the global economy in 2010 from the previous year has led to a noticeable rebound in some of the markets in which Bertelsmann operates. The extent of this upswing depended on the cyclicity of the market in question.

Most European TV advertising markets reported a strong recovery in 2010 following the sharp declines of the previous

year. In the three key countries (Germany, France and the Netherlands), TV advertising markets grew some 10 percent year on year while continuing to shrink in Hungary, Greece and other countries.

The U.S. book market was largely stable in fiscal 2010. The downward market trend in physical book sales in the U.S. was compensated by strong growth in e-book sales. The book market in Germany showed a positive market trend while shrinking in the UK due to the difficult overall economic situation. The digital book business is generating positive growth in these markets as well.

The magazine advertising markets in Germany and France stabilized in 2010 while circulation revenues in both countries fell slightly.

The printing markets for magazines, catalogs and advertising materials in Europe remained stable overall despite continued 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 grew thanks to the trend toward outsourcing.

Regulatory Environment

Bertelsmann has radio and television operations in several European countries that are subject to regulation. Bertelsmann Group 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 its profit participation certificates and bonds are publicly listed, Bertelsmann is required to comply in full with capital market regulations applicable to publicly traded companies.

Research, Development and Innovation

Innovation and research & development (R&D) are crucial to long-term business success. Most R&D activities occur in the operating units, close to the markets they serve, since these units have the best understanding of their own markets and can respond quickly to new challenges.

RTL Group's core business is focused on developing and acquiring new, high-revenue TV formats and working more closely and flexibly with its advertising customers. Fremantle Media took a major step into the growth market of "branded entertainment" with its purchase of a minority holding in Radical Media in 2010. RTL Group also attaches great importance to developing new distribution channels in the digital age, especially expanding non-linear TV programming and mobile services. The complementary use of TV and Internet

offers RTL Group numerous opportunities to create an even closer bond between its viewers and its programming. In addition, a wide range of R&D activities supports the (ongoing) development and refining of online and offline diversification businesses. RTL Group's strong brands and promotional expertise play a crucial role in this work.

Random House identifies and develops new authors, marketing their content to the largest possible readership in every format, both physical and digital. With over 25,000 titles worldwide, Random House has more downloadable e-books than any other trade book publisher. In addition to maximizing the availability of digital content, Random House develops new business models and online services, and creates new content formats that integrate audio, video and text. Through innovative Web verticals, enhanced e-books and apps, the publisher is strengthening its leading position in the rapidly growing digital market and widening the reach of its content.

Gruner + Jahr is expanding its publishing operations along all media platforms and value chains. This includes developing the quality of the existing portfolio, launching new titles, digitally transforming journalistic content into new digital channels and optimizing its services. In 2010, many new titles were launched in Germany and abroad, e-magazines and mobile apps were developed, and the corporate publishing business was internationalized and expanded to include digital content. The focus in advertising marketing was on gaining further market share, building up client business, expanding performance marketing and developing mobile advertising formats. G+J sales service provider DPV expanded its portfolio of magazine services for Gruner + Jahr and external publishers and launched the online platform "Pubbles" in collaboration with Direct Group to distribute digital newspapers, magazines and books.

One particular emphasis of 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's innovations are focused on the opportunities of digitization. Other topics of innovation ranged from mobile apps to mobile shopping sites for the brands of Direct Group Germany. Direct Group is constantly developing new products and concepts in the area of direct marketing.

Innovative expertise is an important driver of Bertelsmann's organic growth, so it is very important for the Group. Along-

side the market-oriented R&D activities of the operating units, support is given to Group-wide initiatives that actively promote knowledge transfer and collaboration among innovators in all divisions and business units. At innovation forums such as “Shaping the Future,” executives meet with internal and external experts to examine relevant technological, economic and social trends and develop ideas for their own businesses.

The key success factors in innovation management include not only Group-wide continuing education, but also the continuous monitoring of cross-sector trends and new markets. Thanks to these and other measures, Bertelsmann is ready to succeed in a changing environment and create sustainable value.

The venture capital fund Bertelsmann Digital Media Investments allows direct access to new, strategically relevant technologies and business models in the field of 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 Continuing Operations

The following analysis concerns continuing operations as of December 31, 2010. The previous year’s figures have been adjusted for discontinued operations in accordance with IFRS 5. These separately reported activities include the operations of the UK broadcasting group Five, which was sold in fiscal 2010. The discontinued operations also include follow-up effects from the sale of operations formerly classified as discontinued.

Revenues

Bertelsmann’s consolidated revenues in fiscal year 2010 increased 4.5 percent to €15.8 billion (previous year: €15.1 billion). The growth in revenues was boosted by the overall economic recovery, especially the rising advertising market. Organic growth was 3.2 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 1.7 percent, while the portfolio effects and other effects came to -0.4 percent.

RTL Group’s performance reflects the positive trend of TV advertising markets in Western Europe, which regained significant ground following the declines in the previous year. The increase in RTL Group’s revenues to €5.6 billion (previous year: €5.2 billion) can be attributed primarily to Mediengruppe RTL Deutschland, Fremantle Media, Groupe M6 and RTL Nederland. Random House also experienced a positive revenue trend, with year-on-year growth of 6.1 percent to €1.8 billion (previous year: €1.7 billion) despite a continued weak economy in the UK and Spain. At Gruner + Jahr, advertising revenues outperformed the market average, especially in Germany, supporting a 1.6 percent growth in revenues to €2.5 billion (previous year: €2.5 billion) despite a slight decline in circulation revenues.

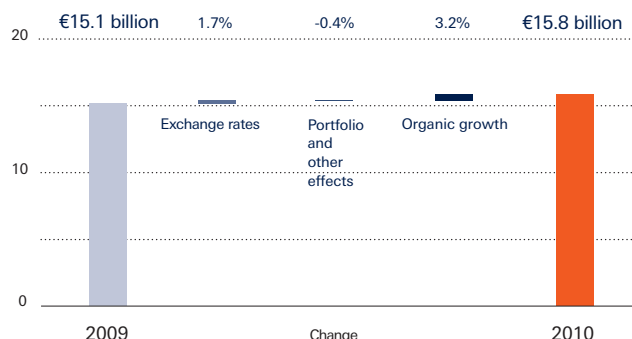
Arvato profited from revenue growth in all business units. Revenues in fiscal 2010 increased 5.3 percent to €5.1 billion (previous year: €4.8 billion). Direct Group revenues of €1.1 billion were down from the previous year’s level of €1.2 billion.

There were minor changes in the geographical breakdown of revenues compared to fiscal 2009. While the share of revenues from Germany was down slightly to 34.9 percent from 35.6 percent in the previous year, the revenue share generated by other European countries amounted to 46.2 percent (previous year: 46.9 percent). At the same time, the U.S. share of total revenues rose from 12.7 percent to 13.4 percent. The share from other countries was 5.5 percent (previous year: 4.8 percent). This means that the proportion of total revenues attributable to countries other than Germany rose slightly from 64.4 percent to 65.1 percent. The ratio of the four revenue streams (products and services, advertising, services, rights and licenses) to overall revenue changed only slightly from the previous year.

Revenues by Division

in € millions	2010		2009			
	Germany	International	Total	Germany	International	Total
RTL Group	1,985	3,606	5,591	1,867	3,289	5,156
Random House	276	1,552	1,828	269	1,454	1,723
Gruner + Jahr	1,170	1,379	2,549	1,153	1,355	2,508
Arvato	2,083	3,000	5,083	2,078	2,748	4,826
Direct Group	180	889	1,069	208	1,038	1,246
Total revenues by division	5,694	10,426	16,120	5,575	9,884	15,459
Corporate/Consolidation	(191)	(143)	(334)	(198)	(151)	(349)
Continuing operations	5,503	10,283	15,786	5,377	9,733	15,110

Revenues Breakdown



Operating EBIT and Operating EBITDA

In fiscal year 2010, Bertelsmann generated an operating EBIT of €1,852 million (previous year: €1,438 million). The growth in earnings reflects the overall economic recovery and the rising advertising markets. Bertelsmann also profited from a cost-cutting and efficiency program. The return on sales of 11.7 percent was above the previous year figure of 9.5 percent. Thanks to the economic recovery, all divisions except Direct Group increased their operating EBIT. RTL Group benefited from higher revenues, while costs – which had been reduced in fiscal 2009 – remained largely stable. This gave RTL Group a disproportionate rise in operating EBIT to €1,102 million, compared to €806 million in the previous year. Random House generated an operating EBIT of €173 million in fiscal 2010, which was above the previous year's level (€137 million). Gruner + Jahr benefited

from rising advertising revenues, particularly in Germany, and nationally and internationally from the cost-cutting measures. The operating EBIT shot up 41.4 percent to €287 million (previous year: €203 million). Arvato, with its late-cyclical business model, ended fiscal 2010 with an operating EBIT of €350 million (previous year: €345 million). Direct Group earnings came in lower year on year at €24 million (previous year: €28 million).

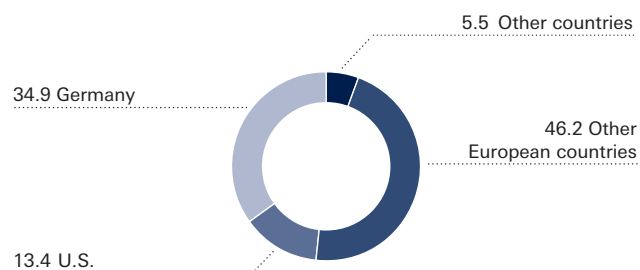
Operating EBITDA rose in 2010 to €2,400 million from €2,000 million in the previous year.

Special Items

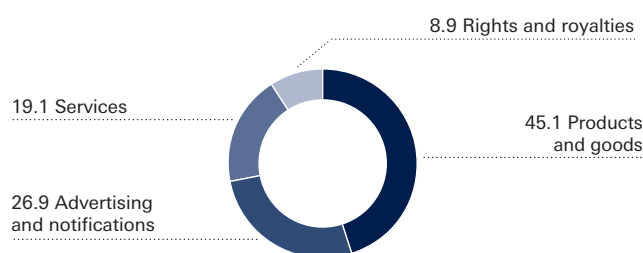
Special items came to €-356 million in fiscal year 2010, from €-545 million in the previous year. They included impairments on goodwill, intangible assets with indefinite useful life and financial assets totaling €216 million (previous year: €179 million) stemming from factors such as the re-evaluation of the business situation of Direct Group France in conjunction with a possible sale and the TV business in Greece.

Expenses, primarily for restructuring and severance payments and for impairments on non-current assets and intangible assets of €-139 million, were distributed among the Random House, Gruner + Jahr, Arvato and Direct Group divisions. They include the effects of programs to increase efficiency and optimize organizational and cost structures, especially in print. This also includes impairments on the property, plant and equipment of Arvato's print businesses in Italy and Spain. The special items also include capital gains and losses totaling €-1 million (previous year: €13 million).

Consolidated Revenues by Region in percent



Revenues by Category in percent



Results Breakdown

in € millions	2010	2009
Operating EBIT by division		
RTL Group	1,102	806
Random House	173	137
Gruner + Jahr	287	203
Arvato	350	345
Direct Group	24	28
Total operating EBIT by division	1,936	1,519
Corporate/Consolidation	(84)	(81)
Operating EBIT continuing operations	1,852	1,438
Special items	(356)	(545)
EBIT (earnings before interest and taxes)	1,496	893
Financial result	(538)	(407)
Earnings before taxes from continuing operations	958	486
Income taxes	(248)	(249)
Earnings after taxes from continuing operations	710	237
Earnings after taxes from discontinued operations	(54)	(202)
Group profit or loss	656	35
– of which: Share of profit of Bertelsmann shareholders	478	(82)
– of which: Non-controlling shareholders	178	117

Group Net Income

Adjusting the operating EBIT for special items of €-356 million resulted in an EBIT of €1,496 million (previous year: €893 million). The financial result moved from €-407 million in the previous year to €-538 million. An improved net interest balance was offset by higher other financial expenses consisting largely of higher earnings shares of minority interests in partnerships and the effects from the buyback of Bertelsmann profit participation certificates in fiscal 2010. The improved overall economic trend and good prospects for future earnings resulted in the reversal of valuation allowances on deferred tax assets, especially in Germany. In this context, tax expenses were nearly unchanged at €248 million (previous year: from €249 million) despite the sharply improved earnings situation.

Taking into account the after-tax earnings from discontinued operations of €-54 million, this yields a Group net income of €656 million. This represents a year-on-year increase of €621 million. The share of non-controlling shareholders in the Group net income was €178 million (previous year: €117 million). The share of Bertelsmann shareholders came to

€478 million (previous year: €-82 million). The shareholders of Bertelsmann AG are to receive a dividend of €180 million for fiscal year 2010.

Results of Discontinued Operations

Discontinued operations in the period under review include the activities of the UK broadcasting group Five, which was sold by RTL Group on July 23, 2010. Also included are follow-up effects in connection with businesses classified as discontinued operations before.

Revenues from discontinued operations came to €158 million, up from €254 million during the same period in the previous year. The operating EBIT from discontinued operations was €-7 million (previous year: €-14 million). Special items came to €-39 million, from €-185 million in the previous year. Last year's high value is due chiefly to a goodwill impairment of the UK broadcasting group Five. After special items were taken into account, the EBIT was €-46 million (previous year: €-199 million). The after-tax earnings from discontinued operations was €-54 million (previous year: €-202 million).

Financial Targets

	Target	2010	2009
Leverage factor: Economic debt / operating EBITDA ¹⁾	< 2.5	2.3	3.2
Coverage ratio: Operating EBITDA / financial result ¹⁾	> 4.0	4.1	4.5
Equity ratio: Equity to total assets (in percent)	> 25.0	34.5	30.9

¹⁾ After modifications

Net Assets and Financial Position

Financial Guidelines

The primary objective of Bertelsmann's financial policy is to achieve a balance between financial security, return on equity and growth. For this, Bertelsmann bases its financing policy on the requirements of a "Baa1/BBB+" credit rating and the associated qualitative and quantitative criteria. Credit ratings and transparency are of great importance to the company'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 consists largely of 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 lesser 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 2.5. Economic debt is defined as net financial debt plus provisions for pensions, profit participation capital and present value of operating leases. Bertelsmann lowered the leverage factor from 3.0 to 2.5 at the end of the fiscal year due to the economic crisis and as part of a general limit deleveraging of corporates.

As of December 31, 2010, the Group had a leverage factor of 2.3 (December 31, 2009: 3.2). Net financial debt was reduced by €880 million in the fiscal year and totaled €1,913 million as of December 31, 2010 (December 31, 2009: €2,793 million). The reason for this fall was the significant increase in operating earnings in the fiscal year combined with a strict cash orientation in business transactions, which yielded a high cash flow from operations. The economic debt came to €4,915 million, €1,109 million less than the previous year.

Another key financial target is the coverage ratio, calculated as the ratio of operating EBITDA (after modifications) to financial result, which is supposed to be above 4.0. The coverage ratio in the past fiscal year was 4.1 (previous year: 4.5) as a result of effects from the buyback of profit participation certificates and higher income from partnerships. The Group equity ratio improved to 34.5 percent (previous year: 30.9 percent), well above the minimum of 25 percent.

Financing Activities

In the first quarter of 2010, Bertelsmann spent a total of €386 million purchasing profit participation certificates from 2001 that had been offered for sale to Bertelsmann following a public buyback offer. The purpose of the buyback offer was to simplify the capital structure. In April 2010, the U.S. financing company Bertelsmann U.S. Finance LLC repaid a US\$100 million tranche of a U.S. private placement from 2003 on schedule. A €750 million bond maturing in June 2010 was also repaid. A nominal volume of €75 million from this bond had already been acquired through the capital market in 2009. The repayments were made from existing liquidity.

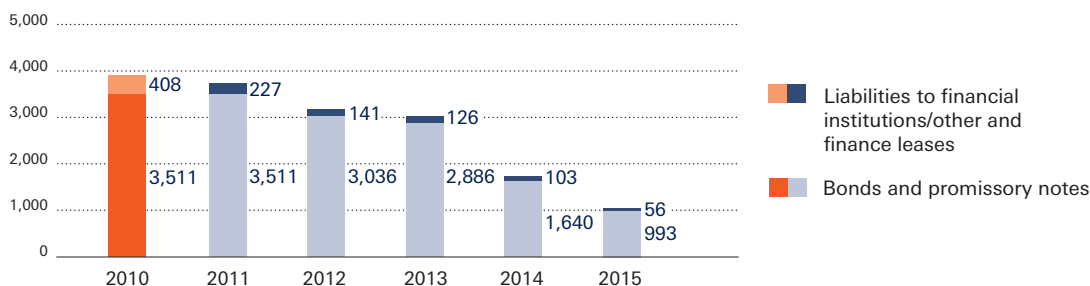
Bertelsmann acquired its own promissory notes with a face value of €135 million and its own 2006/2012-issue bonds of €24 million during the fiscal year.

Rating

Credit ratings represent 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 investment grade category. Bertelsmann's short-term credit quality rating remains unchanged at "P-2" from Moody's and "A-2" from S&P.

Maturity Structure of Financial Debt in € millions



Lines of Credit

The Bertelsmann Group has access to syndicated and bilateral credit agreements negotiated through Bertelsmann AG and Bertelsmann U.S. Finance LLC with major international banks. These revolving lines of credit can be utilized at floating rates based on EURIBOR or LIBOR. 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. Bilateral credit agreements are also in place. These lines of credit give Bertelsmann a total financial reserve of approximately €1.3 billion that can be freely used for business activities. As in the previous year, Bertelsmann had not utilized the existing lines of credit as of December 31, 2010.

Cash Flow Statement

Earnings before interests and taxes (EBIT) is the starting parameter for preparing the Bertelsmann cash flow statement. In the period under review, Bertelsmann generated net cash from operating activities of €2,052 million (previous year: €1,777 million). The Group's long-term operating free cash flow adjusted for non-recurring items was €2,075 million (previous year: €1,771 million), and the cash conversion rate of 112 percent (previous year: 125 percent)

remained at a high level (see the section entitled "Controlling Systems" above for a definition). The cash flow from investment activities came to €-149 million (previous year: €-545 million). Proceeds from the disposal of subsidiaries and joint ventures and other fixed assets came to €624 million (previous year: €107 million). This includes proceeds of €384 million from exercising the put option to Canal Plus France. These proceeds were offset by purchase price payments for consolidated investments (net of acquired cash and cash equivalents) totaling €-205 million (previous year: €-157 million). The cash flow from financing activities came to an outflow of €-2,000 million in the period under review (previous year: €-741 million) as a result of high due and premature repayments and the buyback of profit participation certificates. Dividends paid to the shareholders of Bertelsmann AG came to €-60 million (previous year: €-120 million). Dividends to non-controlling shareholders and payments to shareholders in partnerships came to €-289 million (previous year: €-206 million).

As of December 31, 2010, the Bertelsmann Group had cash and cash equivalents of €2.0 billion (previous year: €2.1 billion).

Off-Balance-Sheet Liabilities

The volume of off-balance-sheet liabilities declined from the previous year. These include contingent liabilities and other

Cash Flow Statement (Summary)

in € millions	2010	2009
Cash flow from operating activities	2,052	1,777
Cash flow from investing activities	(149)	(545)
Cash flow from financing activities	(2,000)	(741)
Change in cash and cash equivalents	(97)	491
Currency effects and other changes in cash and cash equivalents	18	11
Cash and cash equivalents at the beginning of the year	2,085	1,583
Cash and cash equivalents at the end of the year	2,006	2,085

Bonds, Promissory Notes, U.S. Private Placements

Nominal interest, issuer, maturity	Type	Effective interest rate in %	Issue volume in millions
4.375% Bertelsmann AG 09/26/2012	Bond	4.47	EUR 500
5.23% Bertelsmann U.S. Finance LLC 04/17/2013	U.S. private placement	5.38	USD 200
7.875% Bertelsmann AG 01/16/2014	Bond	7.72	EUR 750
5.05% Bertelsmann AG 02/25/2014	Promissory note	5.17	EUR 500
6.00% Bertelsmann AG 03/24/2014	Promissory note	6.00	EUR 30
5.33% Bertelsmann U.S. Finance LLC 04/17/2015	U.S. private placement	5.46	USD 200
3.625% Bertelsmann AG 10/06/2015	Bond	3.74	EUR 500
4.75% Bertelsmann AG 09/26/2016	Bond	4.89	EUR 1,000

financial commitments, almost all of which result from operating activities conducted by the divisions.

Investments

Total investments of €753 million in the cash flow statement during fiscal 2010 were up from the previous year (€662 million). As in previous years, the majority of the €249 million investment in property, plant and equipment (previous year: €249 million) stemmed from Arvato. An amount of €209 million was invested in intangible assets (previous year: €199 million). This stemmed primarily from RTL Group and involved investments in film rights. An amount of €90 million was invested in financial assets (previous year: €57 million). Purchase price payments for consolidated investments (less cash and cash equivalents) rose sharply from €157 million in the previous year to €205 million in the period under review and stemmed primarily from Arvato and RTL Group. The increase can be attributed primarily to the €141 million acquisition of the remaining 37 percent share in the Arvato Infoscore Group. Fremantle Media's acquisition of majority shares in two companies also contributed to this increase.

Investments

in € millions	2010	2009
RTL Group	285	287
Random House	15	22
Gruner + Jahr	58	38
Arvato	307	198
Direct Group	28	47
Corporate/Other	60	70
Total	753	662
Less discontinued operations	9	12
Continuing operations	744	650

Consolidated Balance Sheet

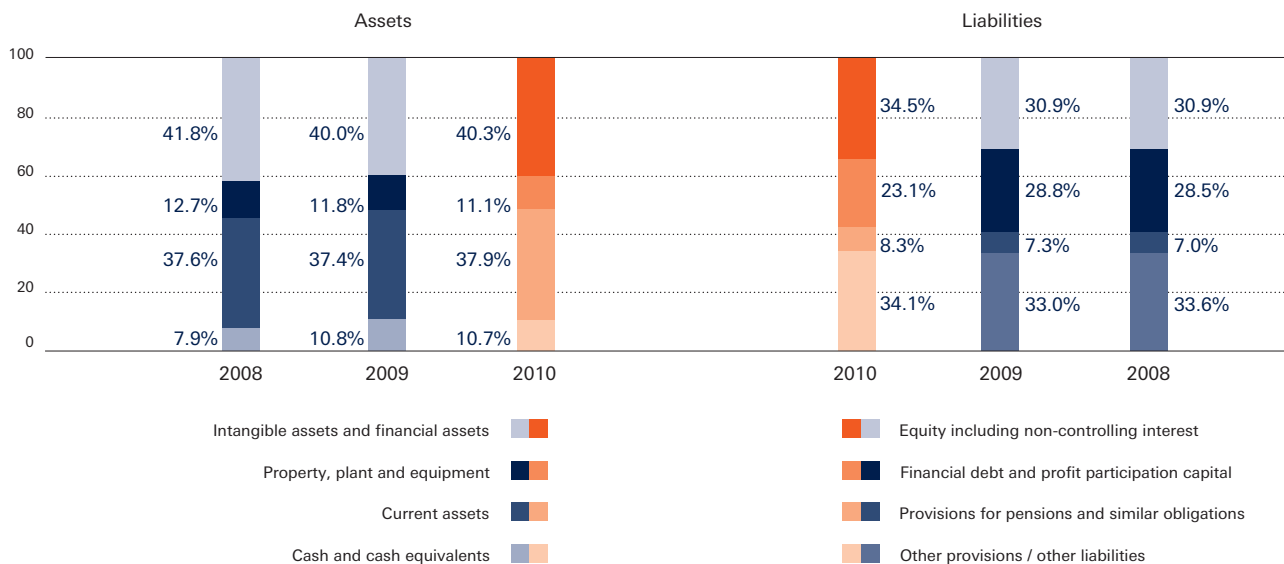
Total assets came to €18.8 billion as of December 31, 2010 (December 31, 2009: €19.4 billion). The movement of shares to Canal Plus France through the exercising of a put option reduced other short-term financial assets. The decline in total assets is attributable primarily to the repayment of financial liabilities and the buyback of profit participation certificates from existing liquidity. Equity increased from €6.0 billion to €6.5 billion thanks to improved earnings. This constitutes an equity ratio of 34.5 percent (previous year: 30.9 percent). Equity attributable to Bertelsmann AG shareholders was €5.5 billion (previous year: €4.9 billion). Provisions for pensions and similar obligations increased significantly from €1,406 million to €1,565 million. The primary reason for this increase is the lower long-term capital market interest rates that must be applied in discounting the obligations for which provisions must be set aside. Otherwise, the balance sheet structure remained largely unchanged from the previous year.

Profit Participation Capital

As of December 31, 2010, the nominal amount of profit participation capital was €301 million (previous year: €516 million). If the effective interest method is applied, the carrying amount of profit participation capital comes to €413 million as of December 31, 2010 (previous year: €706 million). The profit participation certificates from 2001 (ISIN DE0005229942) account for 94 percent of notional profit participation capital, while the 1992 profit participation certificates (ISIN DE0005229900) account for the remaining 6 percent.

In the first quarter of 2010, Bertelsmann called upon the owners of profit participation certificates from 2001 to submit sales proposals. When the offer expired on February 22, 2010, the company had received sales proposals for 2001 profit participation certificates with a nominal value of €214 million, some 43 percent of the outstanding volume. Bertelsmann purchased

Balance Sheet



all the profit participation certificates offered for a total price of €386 million. On the basis of the corresponding authorizations granted by the Annual General Meeting and the Supervisory Board, all 21,429,521 of the acquired 2001 profit participation certificates with a notional value totaling €214,295,210.00 were retired and their securitized profit-sharing rights invalidated. The aim of the profit participation certificate buyback was to simplify the capital structure and lower the long-term financing costs.

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 lowest closing rate of the 2001 profit participation certificates in fiscal 2010 was 138.00 percent in January, their highest was 219.10 percent in November.

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 sufficient Group 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 2010.

The 1992 profit participation certificates, approved for trading on the Regulated Market in Frankfurt, have only a limited cash trade 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 2010 was 6.23 percent (previous year: 2.97 percent), the payout on the 1992 profit participation certificates for fiscal year 2010 will be 7.23 percent of their notional value (previous year: 3.97 percent).

The payout distribution date for both profit participation certificates is expected to be May 31, 2011. 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 auditors of both profit participation certificates provide confirmation of this.

Corporate Divisions

RTL Group

In 2010 Europe's leading entertainment group benefited from strong growth in the TV advertising markets in Western Europe, successful programs and the comprehensive cost-cutting measures introduced in the previous year. The revenues for continuing operations increased by 8.4 percent to €5.6 billion (previous year: €5.2 billion), while operating EBIT grew by 36.7 percent to €1.1 billion (previous year: €806 million). The return on sales rose to 19.7 percent, compared to 15.6 percent in the previous year. In the period under review RTL Group sold the UK TV channel Five to the media group Northern & Shell; last year's figures were adjusted accordingly. At the end of the year RTL Group had a total of 12,339 employees (December 31, 2009: 12,241).

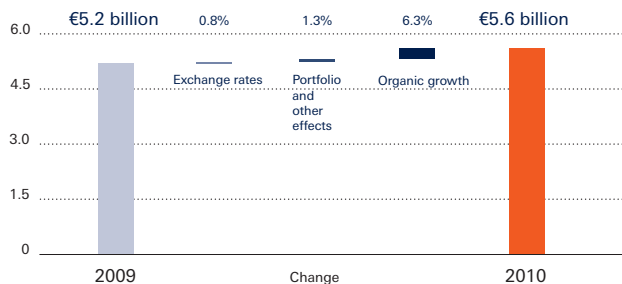
The positive operating EBIT development was primarily attributable to strong business performance at Medien-gruppe RTL Deutschland, at Groupe M6 in France and at RTL Nederland. RTL Group maintained its leading positions in audience markets in key countries, even though almost all of the World Cup matches with the highest ratings were broadcast by competitors.

Mediengruppe RTL Deutschland significantly improved its operating EBIT and its market position. The German family of channels achieved a record 35 percent audience share in the main target group; meanwhile the flagship RTL Television took over the leading position in the overall audience market for the first time since 2003, with a market share of 13.6 percent. Formats such as "Deutschland sucht den Superstar" and "Das Supertalent" posted record viewing figures.

In France the Group's main channel M6, the digital channels and the diversification businesses such as merchandising, e-commerce and mobile communication cooperations helped to boost the overall performance. At the same time, M6 and all other full-program providers lost market share due to the growth of digital terrestrial television in France. Overall the Groupe M6 channels slightly increased their audience market share to 14.3 percent. The digital free TV channel W9 continued its strong growth. RTL Nederland also gained audience share, achieving record viewing figures in 2010.

Fremantle Media, the production arm of RTL Group, increased its revenues thanks to many successful international formats, but its operating EBIT declined due to high margin pressure. The casting shows produced by Fremantle Media achieved extremely high audience shares in all core markets. In the period under review Fremantle Media

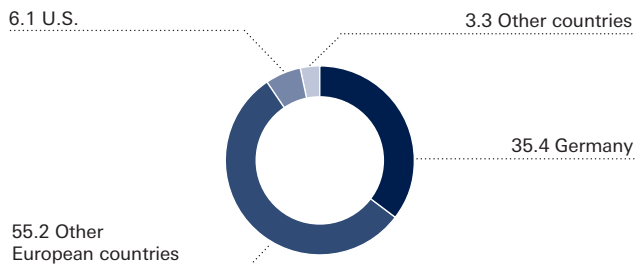
Revenue Breakdown



acquired shares in several production companies, including the U.S. production company Radical Media and the Canadian games developer Ludia.

In 2010 RTL Group continued to invest in the expansion of its digital business segments such as special interest channels, online video services, high-definition programs and diversification businesses. The Group's wide range of online and on-demand platforms in Europe generated over 1.4 billion video calls. RTL Group subsidiaries launched over 60 mobile applications, achieving high download figures. Digital pay channels in Germany, France and the Netherlands also operated profitably.

Revenues by Region in percent*



* Without intercompany revenues.

Random House

The world's leading trade book publishing group Random House increased both its revenues and operating EBIT in 2010 thanks to a strong portfolio of titles, a rapidly growing digital business, and positive exchange rate effects. Continued cost-saving measures also contributed to its improved performance. At €1.8 billion, revenues were up 6.1 percent from the previous year (€1.7 billion), while operating EBIT rose by 26.3 percent to €173 million (previous year: €137 million). Return on sales reached 9.5 percent after 8.0 percent last year. At the end of the year, Random House had 5,264 employees (December 31, 2009: 5,432).

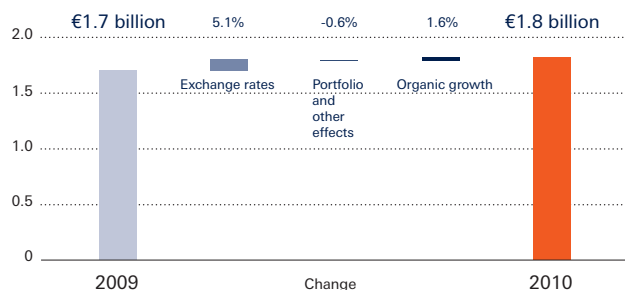
In 2010, Random House's imprints published some of the world's most widely read print and e-books, with print continuing as the most dominant reading format. Amidst the increasing use of e-readers and tablet PCs, Random House expanded its e-books programs to more than 25,000 titles cumulatively, with worldwide digital sales up 250 percent from the previous year. Some U.S. fiction titles now have as much as half of their first-weeks sales in the e-book format.

In the largest book market, the United States, Random House placed 230 titles on the "New York Times" bestseller lists, including 25 at #1. "Decision Points" by former U.S. President George W. Bush sold more than two million copies in print and digital editions in the first eight weeks. The "Millennium" trilogy by Stieg Larsson also continued its success, selling more than 13 million copies in hardcover, paperback, audio and e-editions last year in the United States alone, with Verlagsgruppe Random House in Germany selling a further two million Larsson paperbacks.

Six of the ten top-selling 2010 German-language titles were published by Verlagsgruppe Random House, including "Deutschland schafft sich ab" by Thilo Sarrazin, the only book to sell more than one million copies in Germany in 2010. During the year under review, Verlagsgruppe Random House acquired the prestigious audio publishing house Der Hörverlag (DHV).

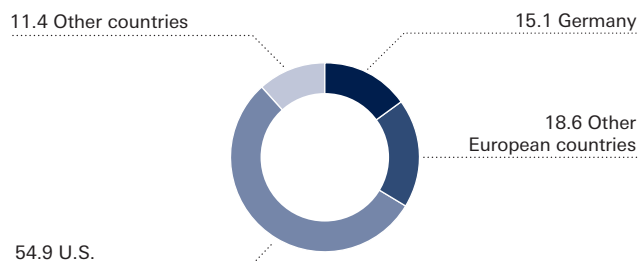
In the UK almost a third of all the titles on the "Sunday Times" bestseller lists were published by Random House Group UK, which also had more #1 titles than any other publishing group. Former British Prime Minister Tony Blair's memoirs ("A Journey") achieved record sales upon publication. In the Spanish-speaking countries, Random House Mondadori had two of the year's top five bestsellers: "La Caída de Los Gigantes" by Ken Follett and "Dime quién soy" by Julia Navarro.

Revenue Breakdown



During the year under review, Random House authors received numerous prestigious awards, including two Pulitzer Prizes: T.J. Stiles won the award for "The First Tycoon" (Biography), and David E. Hoffman won it for "The Dead Hand" (General Nonfiction).

Revenues by Region in percent*



* Without intercompany revenues.

Gruner + Jahr

In 2010 Europe's leading magazine publisher Gruner + Jahr benefited from increasing advertising revenues in key markets, restructuring and from cost-cutting measures. Revenues increased slightly by 1.6 percent to €2.5 billion (previous year: €2.5 billion), while operating EBIT increased significantly by 41.4 percent to €287 million (previous year: €203 million). Operating EBIT was therefore considerably above the pre-crisis level. The return on sales in the year under review came in at 11.2 percent, compared to 8.1 percent in the previous year. At the end of the year Gruner + Jahr had a total of 13,337 employees (December 31, 2009: 13,571).

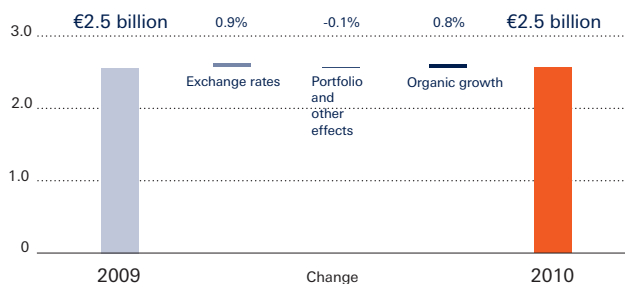
G+J Germany recorded a very positive business performance thanks to increased advertising business, sustainable structural changes and ongoing cost control. Despite slightly declining circulation revenues, operating EBIT improved year on year and was also above the pre-crisis level. G+J Germany made significant gains in advertising, with gross advertising volume growing ahead of the market. This market share increase is attributable to the good performance of its strong brands – notably “Stern,” “Gala” and the G+J business media brands – as well as the successful reorganization of the marketing company G+J Media Sales. In the period under review Gruner + Jahr acquired a 51 percent stake in the company that publishes the football magazine “11 Freunde.” The expansion of the core business was driven by the acquisition of many new customers, particularly in corporate publishing.

The digital businesses were strengthened by the launch of the online kiosk “Pubbles,” which is held in equal parts by DPV and Direct Group Bertelsmann. The revenue growth in the German digital business is above the market average and can be attributed primarily to the online sites for print brands and Chefkoch.de, xx-well.com as well as the expansion of the EMS marketing business (including Ligatus).

Operating EBIT at Prisma Presse in France improved significantly year on year. In December the company began to transfer all employees to the new publishing location in Gennevilliers. In Spain the advertising and circulation markets continued to decline due to the ongoing difficult economic environment. Nonetheless, Gruner + Jahr managed to generate significant profits here, thanks to the restructuring steps implemented in 2009 and continued cost-cutting measures.

In China there was above-average growth in advertising revenues. Magazines published by the Ray-Li group continued to be very profitable. In Austria, Verlagsgruppe News recorded a strong operating EBIT and stable revenues.

Revenue Breakdown

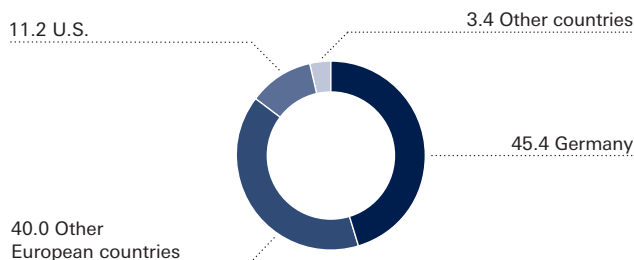


The key G+J holdings also performed well: the highly profitable Dresdner Druck- und Verlagshaus slightly increased its revenues. The markets for high-circulation print products in North America and Europe were dogged by high overcapacities and price pressure; meanwhile, capacity closures and the brighter economic situation resulted in a trend of improvement over the course of the year. For example, Brown Printing and the Prinovis gravure printing group, the latter operated in conjunction with Arvato and Axel Springer AG, increased their market share and operating EBIT by gaining new customers.

In addition, with effect from the end of the year, the G+J headquarters at “Am Baumwall” in Hamburg were acquired after terminating a financing leasing contract for this building.

In Germany and in other countries, G+J journalists again won numerous prizes for their work in 2010.

Revenues by Region in percent*



* Without intercompany revenues.

Arvato

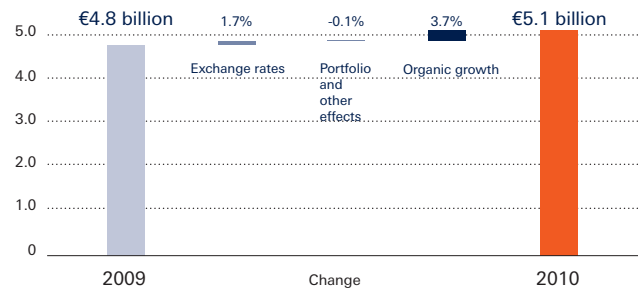
In 2010 the media and communications service provider Arvato increased its revenues by expanding existing businesses, establishing new services and acquiring new customers; operating EBIT remained stable. Revenues rose by 5.3 percent to €5.1 billion (previous year: €4.8 billion) and were therefore above the five billion euro mark for the first time; operating EBIT of €350 million was up 1.4 percent from the previous year's figure of €345 million. The positive business performance on Group level also benefited Arvato employees, who will receive over €40 million in profit sharing. This had a corresponding impact on Arvato's return on sales, which came in at 6.9 percent (previous year: 7.1 percent). At the end of the year Arvato had 63,985 employees (December 31, 2009: 60,323).

In 2010, Arvato continued the transformation to a provider of integrated market solutions in all its divisions.

The print services division Arvato Print increased revenues in the year under review and gained market shares. While the Arvato print units in Germany performed very well and the businesses in the U.S. were stable, the situation on the Southern European print markets remained tight. In 2010 Arvato Print continued to focus on becoming an integrated service provider for all aspects of print production. For example, the Print group added brochure printing to its service portfolio and produced almost one billion advertising brochures for its new customers Netto and Real. The Prinovis gravure printing group, which Arvato operates in conjunction with Gruner + Jahr and Axel Springer AG, performed well in an ongoing difficult market situation.

The Arvato service businesses performed very differently in individual countries, markets and segments: the main growth drivers were the French call center operations and the global financial services business. The services operations in the UK, Asia and Eastern Europe also developed well. Meanwhile, the services companies on the Iberian Peninsula and the customer care business in Germany remained under pressure due to difficult market conditions. Arvato Services extended its international supply chain management operations through the continued expansion of distribution services in China and India, the expansion of the pharmaceuticals business across Europe and the acquisition of new customers in the promising online trading business. The customer loyalty businesses remained stable overall. In 2010 Arvato took over the remaining shares in the Arvato Infoscore group.

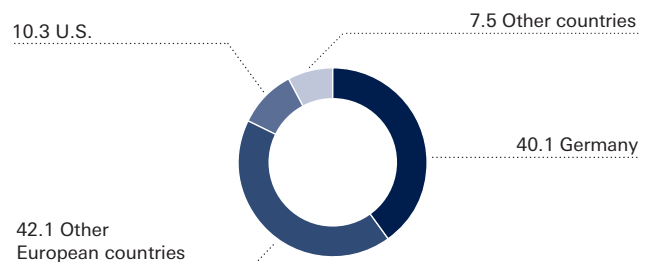
Revenue Breakdown



The production and service businesses operated by Arvato Digital Services grew slightly in 2010 despite globally declining CD and DVD production volumes. It was able to win new customers, significantly extend the business relationship with its existing customers and increase its own market share by consistently expanding its integrated range of solutions. In addition, Arvato invested in the global production capacities for the high resolution Blu-ray format. In Europe Arvato Digital Services successfully entered the merchandising business segment, and the company has also established itself as an innovative provider in the electronic software distribution segment. The storage media businesses also recorded strong growth in Asia, South America and, in particular, in Brazil.

The direct marketing organization Inmediaone increased its revenues and operating EBIT. Under the Brockhaus umbrella brand, it established the new Internet-based learning products Scholaris and Prescolaris on the market. The IT service provider Arvato Systems also reported a positive balance sheet. The company achieved profitable growth in 2010.

Revenues by Region in percent*



* Without intercompany revenues.

Direct Group

The club and bookselling businesses operated by Direct Group recorded declining revenues and operating EBIT in 2010; this is attributable to the withdrawal from a number of countries and falling member and bookselling revenues in key markets. Revenues declined by 14.2 percent to €1.1 billion (previous year: €1.2 billion), while operating EBIT fell by 14.3 percent to €24 million compared to €28 million for the previous year. The return on sales came in at 2.2 percent (previous year: 2.2 percent). At the end of the year Direct Group had 8,485 employees (December 31, 2009: 10,087); the decline primarily reflects the portfolio changes that were implemented.

In Spain, *Círculo de Lectores* was incorporated in a joint venture with the media group *Planeta*. Under the agreement, more *Círculo* retail spaces will be established in *Planeta* bookstores in an effort to increase sales. *Planeta* and *Círculo* also initiated a close cooperation in direct marketing, in order to target new customer groups and broaden the product range.

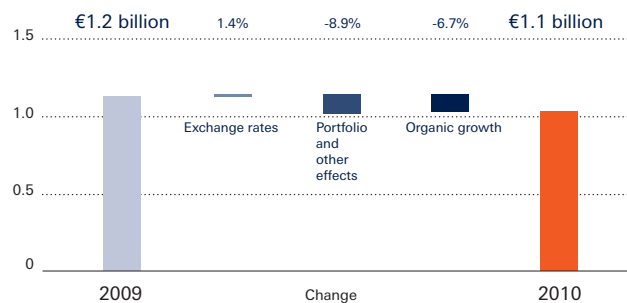
In Germany, Direct Group tested various open bookselling concepts intended to counteract the fact that customers are increasingly reluctant to join clubs. Customers liked the new concept and revenues rose accordingly. For direct marketing operations such as travel and lottery the main focus was on optimizing the business and launching new projects. The number of traditional club branches was reduced during the period under review.

The digital businesses were expanded with the launch of the online kiosk "Pubbles" for digital newspaper and magazine content as well as e-books, whose shares are equally held by Direct Group and the G+J subsidiary *DPV*.

In France, revenues declined at the club businesses around the flagship *France Loisirs* and the bookselling businesses under the *Chapitre.com* brand. In the online business *Chapitre.com* did increase its revenues significantly, however. Direct Group France launched the first e-reader on the French market with *Oyo*. In the period under review Direct Group started to look at the strategic options for its French businesses.

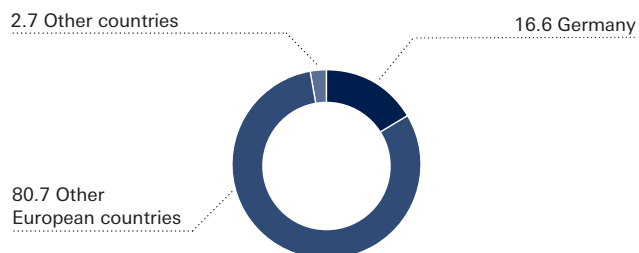
The Eastern European Direct Group operations performed well. The Group consolidated its market leadership position in the Ukrainian club, publishing and distribution business, maintained leading positions in the Czech Republic and Slovakia, while preparing for the sale of its Polish operations.

Revenue Breakdown



In the period under review Direct Group sold its club and bookselling operations in Portugal, Italy, Australia and New Zealand.

Revenues by Region in percent*



* Without intercompany revenues.

Corporate

The Corporate division, which includes the Bertelsmann Group Corporate Center and Corporate Investments, reported an operating EBIT of €-88 million for 2010, compared to €-84 million for the previous year.

The change can be attributed among other things to the scheduled start-up costs for expanding the music rights company BMG, which is operated as a joint venture between Bertelsmann and KKR. Provisions were also established for employee profit participation in 2010, reflecting the strong financial results for the year.

This was partially offset by efficiency measures, in particular the reorganization of the Corporate Center. For example, new service products for external customers were created through the divestment of individual service functions and a merger with Arvato units.

A key work aspect in 2010 was the 175th anniversary of Bertelsmann, including a party for around 12,000 employees at the Group's headquarters in Gütersloh and a big gala event in Berlin.

The BMG joint venture significantly expanded its business operations during the year under review. Major investments included the acquisition of the music publishers/catalogs Cherry Lane, Evergreen and Adage IV in the U.S. and Stage Three Music in the UK. At the end of the year BMG also initiated the acquisition of the long-established UK music publisher Chrysalis. In Europe and the U.S. new contracts were signed with a number of well-known artists in 2010. BMG now has offices in the eight most important music markets worldwide and manages the rights to over 300,000 compositions and recordings.

The Bertelsmann Digital Media Investments (BDMI) and Bertelsmann Asia Investments (BAI) funds, which are part of Corporate Investments, had a total of 25 holdings at the closing date. During the course of the fiscal year, BDMI acquired three new holdings with the start-up Deal United, the online language school "Learnship" and the textbook provider "Flat World Knowledge." The fund successfully sold the BuyVIP business. The BAI holding "BitAuto," Chinese market leader for online content and online marketing in the automobile sector, was successfully floated on the New York Stock Exchange in November.

The number of employees in the Corporate division was 1,009 at year-end (December 31, 2009: 1,050).

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.

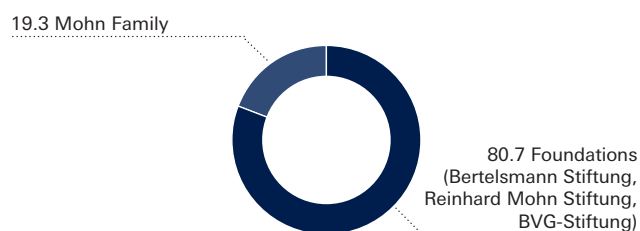
Dividend payouts by subsidiaries and proceeds from services provided to subsidiaries constitute the main sources of income. At the close of fiscal year 2010, Bertelsmann AG's shareholder equity totaled €7.2 billion (previous year: €7.5 billion). Total assets for Bertelsmann AG came to €13.3 billion (previous year: €14.3 billion). The declines are attributable primarily to the buyback of profit participation certificates in the first quarter of 2010. Under the guidelines of the German Commercial Code, the profit participation certificates issued by Bertelsmann must be recorded in equity. Net income of Bertelsmann AG was €111 million (previous year: €245 million). Here, too, earnings were reduced by the €93 million buyback of profit participation certificates. Beyond that, the change is attributable primarily to lower net investment income and extraordinary expenses. Both effects stem primarily from the increase in pension provisions by Bertelsmann AG and the companies affiliated with it through profit and loss transfer agreements arising from the initial application of Germany's Accounting Law Modernization Act (BilMoG). The option to distribute these expenses over a period of up to 15 years was not utilized.

Adjusted for last year's profits carried forward of €1,211 million, retained earnings were €1,322 million (previous year: €1,314 million).

Shareholder Structure

As of December 31, 2010, foundations (Bertelsmann Stiftung, Reinhard Mohn Stiftung, BVG-Stiftung) held 80.7 percent of Bertelsmann AG shares, with the other 19.3 percent held indirectly by the Mohn family. Since January 2011, the foundations have held 80.9 percent and the family 19.1 percent of the shares. Bertelsmann Verwaltungsgesellschaft mbH (BVG) controls all voting rights at the Bertelsmann AG Annual General Meeting.

Ownership Structure – Shares in percent*



* As of December 31, 2010.

Employees

At the end of the fiscal year, the Group had 104,419 employees worldwide (previous year: 102,704). The increase of 1,715 employees is attributable to both organic growth and acquisitions. As of December 31, 2010, the company had 1,339 trainees in Germany (previous year: 1,359).

Bertelsmann considers a collaborative relationship between the company and its employees to be an important factor in its success. Implementing and developing the collaborative corporate culture is one of the top priorities of Human Resources at Bertelsmann. The work of the past fiscal year focused on the following:

Bertelsmann AG conducted its third global employee survey in May 2010 following the earlier surveys in 2002 and 2006. More than 83,000 Bertelsmann employees were asked for their opinions on topics such as leadership and corporate culture. The rate of participation was very high at 85.1 percent. The results were broken down to the team and department level and passed along to the executives in the form of over 9,000 results reports for the purpose of determining appropriate follow-up measures. The high rate of participation and the diligence with which the findings are studied underscores the significance of this tool.

Bertelsmann University, a platform for the strategic development of the divisions and the individual development of executives, hosted the state-of-the-art forum "Shaping the Future" in June. Some 150 top executive and experts from all divisions met with leading figures from the business and research sectors to discuss future trends and the impact of social change. Another success was the 20th "Preparing for Opportunities" program for junior executives, hosted in collaboration with INSEAD Business School in France.

The in-house Bertelsmann Academy, founded at the beginning of 2011, offers all Bertelsmann employees in Germany qualification programs to thoroughly prepare them for current and future assignments.

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 our commitment and activities without relation to our financial performance targets. The cross-divisional Bertelsmann Corporate Responsibility Council (CRC) was established in August 2010 to meet the growing demands of Bertelsmann's stakeholders. The CRC has a mandate to identify and implement corporate responsibility objectives and initiatives at Bertelsmann. Its work focuses on areas such as the collaborative relationship with employees, ethics & compliance, responsibility for media content and the use of natural resources.

Bertelsmann has been a member of the United Nations Global Compact since October 2008. This association prompted Bertelsmann to publish its first progress report on the ten principles of the Global Compact in November 2010. This report, along with all other documents and information pertaining to corporate responsibility at Bertelsmann, can be found at www.bertelsmann.com/responsibility.

Bertelsmann is active in an international "media working group" as part of the Global Reporting Initiative (GRI), made up of representatives of non-government organizations and media companies. A transparent two-year process will develop indicators for sustainability reporting in the media sector (GRI Media Sector Supplement).

Bertelsmann sees environmental and climate protection as a key element of its corporate responsibility. Climate change presents one of the greatest challenges of the twenty-first century. This motivated the Bertelsmann Executive Board to initiate a climate protection strategy in 2008. One element of this strategy is a Group-wide carbon footprint, which was compiled for the first time in 2009 and included some 1.5 million tons of greenhouse gas emissions (CO₂ equivalents). Preparations are underway for the global carbon footprint for fiscal 2010, which will encompass not only greenhouse gas emissions but additional indicators for resource consumption.

Other elements of the climate protection strategy include notifying and involving employees and external stakeholders to a greater extent, convening a strategic stakeholder dialog and identifying so-called "green business models." On the occasion of its 175th anniversary, Bertelsmann founded the International Academy of Journalism (Intajour), which will act as a global advocate for greater freedom of the press and provide a forum in which journalists can pool their knowledge and network. This reinforces Bertelsmann's commitment to freedom of the press, quality journalism and social responsibility.

Other Information

Bertelsmann AG General Meetings of Shareholders

An extraordinary general meeting was held in the first quarter of 2010 to vote on a change to the Articles of Association regarding the profit participation certificates issued by the company. The agenda at the Bertelsmann AG Ordinary General Meeting in the second quarter included another change to the Articles of Association to adjust the profit participation capital and a vote on the appropriation of retained earnings. An extraordinary general meeting of Bertelsmann AG on July 21, 2010, also included a vote on a new member of the Supervisory Board. Details concerning changes in the makeup of the Supervisory Board are provided in the report by the Supervisory Board on pages 162 ff.

Significant Events After the Balance Sheet Date

In January 2011, Arvato announced a comprehensive reorganization of its corporate structure with an emphasis on the creation of strategic market units that will offer integrated solutions for individual markets and industries. With this change, Arvato will no longer be organized in the units Arvato Print, Arvato Digital Services and Arvato Services.

Risks and Opportunities

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 adversely 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. Risks are continuously monitored by Group management. 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 auditors inspect the risk early warning system for its capacity to identify developments early on that could threaten the existence of Bertelsmann AG, then report their 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, Direct Group and Corporate. The risk management systems of RTL Group and Gruner + Jahr are evaluated by the respective internal auditing departments for those divisions and by external auditors. Any problems that are identified 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 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 the consolidated financial statements (including the Notes and Management Report), interim reporting and internal management 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 (IFRS manual, guidelines, circulars, Web-based information portal, etc.) 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. The system is subject to ongoing development through a documented change process. Systematized processes for coordinating intercompany business operations are used 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 in the preconsolidated subgroup, then verified by external experts as required. Central contacts 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 supplemented by specific controls in the form of analyses by the Corporate Consolidation department of Bertelsmann AG and RTL Group in the preconsolidated subgroup. The purpose of such analyses is to quickly identify Group-level misrepresentations during the consolidation process. The Group- and division-level controlling departments are also integrated into the internal management reporting. The internal and external reporting is reconciled during the quarterly reconciliation of segments. The further aim in introducing a globally binding control framework for the decentralized accounting processes is to achieve a standardized ICS format at the level of the local accounting departments of all fully consolidated Group companies. The accounting-related findings of the external and internal auditors are promptly discussed with the affected companies, and solutions are developed. A Group-wide standardized questionnaire is used in an annual self-assessment to obtain a snapshot of the quality of the ICS in the key Group

companies. The findings are discussed in Audit and Finance Committee meetings at the divisional level.

Corporate Audit and the internal auditing departments of RTL Group and Gruner + Jahr divisions evaluate the accounting-related processes and the self-assessments submitted by the companies. As part of their work, auditors are also required to report to the Audit and Finance Committee of the Supervisory Board any significant weaknesses in 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 market risk, especially interest rate and currency risks. 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 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. Bertelsmann had extended its internal guidelines on the investment of cash and cash equivalents last year in the face of the economic crisis. 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 25 of the "Notes").

Strategic and Operational Risks

Contrary to expectations, the world economy recovered from the recession in 2010. The rise in worldwide gross domestic product was especially strong in the first half of 2010. The economic recovery in many nations slowed during the second half of the year, however, although the dynamics varied from country to country. While many emerging economies reported a stronger upswing, economic growth in most advanced national economies has been more restrained and volatile.

The strong recovery of the global economy in 2010 from the previous year has led to a noticeable rebound in some of the markets in which Bertelsmann operates. The extent of this upswing depended on the cyclicity of the market in question. The better overall economic environment eased the risk position of Bertelsmann and its divisions. Cost-cutting and efficiency initiatives provided further relief. Bertelsmann expects the economic recovery to continue at a slower pace in fiscal 2011.

RTL Group is more exposed to economic cycles than other companies. By diversifying its revenues, RTL Group strives to reduce its reliance on advertising revenue. A decrease in audience shares may have a negative impact on RTL Group's revenues. The Group's channels constantly develop or acquire new talent and formats and review the performance of existing shows. Moreover, RTL Group remains proactive in monitoring international programming trends. In the digital world, audiences have more choice while the barriers to market entry are falling. Higher competition in program acquisition, ongoing audience fragmentation and the increased number of platform operators may impact RTL Group's position. RTL Group's strategy is to build strong, complementary families of channels and to embrace new digital opportunities by ensuring that its channels and brands are available as widely as possible. In response to the Federal Cartel Office proceedings of 2007 stemming from the "share deals" offered by IP Deutschland and Seven One Media ("SOM"), RTL II filed suit in November 2008 against IP Deutschland, a wholly owned subsidiary of RTL Group, and SOM. MTV Networks (Viacom) and Tele München TV (Tele 5) filed similar suits against IP Deutschland and SOM in August 2009 and on December 1, 2009, respectively. The suits by RTL II, Viacom and Tele 5 currently seek only access to information. The parties believe

that this information will show they suffered losses through said share deals. The first oral arguments in these proceedings were tentatively scheduled for 2010 but have since been postponed until early 2011. In May 2010, the Federal Cartel Office searched the offices of Mediengruppe RTL Deutschland in connection with the investigations into alleged collusion with ProSieben-Sat1 Media AG on a strategy for dealing with platform operators regarding the encryption of free-TV programs and technical measures to protect the transmission signal. It is not currently possible to reliably predict the outcome of the investigation, since it is unclear whether the Federal Cartel Office will continue its proceedings against Mediengruppe RTL Deutschland. Generally speaking, RTL Group business could also be adversely affected by changes in overall legal conditions.

The Random House business is facing several risks: in February 2011 Borders Group Inc., one of the largest book retailers in the U.S., filed Chapter 11, while other customers apply pressure to increase their margins in a soft economy. Also, as of March 1, 2011, Random House US has adopted the agency pricing model for its e-book business in order to support the successful digital transition of its existing retail partners. This business continues to grow at a rapid pace with the introduction and proliferation of new devices and content. The uncertainties of these situations are providing very challenging conditions in Random House's marketplace and to the future business model, which also will be impacted by increased paper prices and the exchange rate.

A major risk for Gruner + Jahr remains a renewed deterioration of the overall economic environment in the markets. Should this risk materialize, the result could be shrinking advertising and circulation revenues, increased defaults or the loss of key accounts. There are also customer- and market-driven risks of falling prices in the advertising markets, in sales and in print. While the paper market – especially for magazine paper – is also threatened by an increase in the price of paper, new immission and health safety regulations and the Renewable Energies Act (EEG) may lead to higher costs.

The economy remains the greatest risk facing Arvato. Shrinking revenues lead directly to lower contribution margins. There is ongoing price pressure in many markets in which Arvato operates. If this price pressure were to intensify or new competitors were to enter the market, the competitive pressure could grow, eroding prices and margins. On the purchasing side are the risks of rising procurement prices from a stronger demand for paper and polycarbonate due to the econom-

ic recovery on the raw materials markets. Other material risks include defaults and the loss of key accounts. Changes to the regulatory environment could threaten some of Arvato's business models, including the collections business in Germany. Arvato's ongoing reorientation as a provider of business process outsourcing (BPO) services may lead to further risks from transferring employees on the one hand and from extensive contractual obligations as part of the BPO transactions on the other.

Despite a positive economic outlook, Direct Group faces risks from general economic uncertainty in some countries, which could have a negative impact on consumer behavior. The main risks for all clubs are inadequate customer recruitment, revenues per customer and customer retention. Heightened competition also poses structural challenges for clubs as new distribution channels arise (including digital downloads and mobile end-user devices such as e-book readers). Further risks include changes to the pricing controls for books, the scrapping of the discounted value-added tax rate for books, changes to consumer legislation or the regulation of direct marketing.

Legal 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 2009 risk report, the improved general economic environment has led to a slight easing of economic risks.

Overall Risk

The portfolio measures of recent years have greatly reduced the share of structurally at-risk businesses in the Group and helped improve the overall business risk profile of the Group. Thanks to the broad diversification of Group businesses, there are no concentration risks stemming from dependency on individual suppliers or customers. The Group's financial position is solid, with liquidity needs currently covered by available cash and unutilized lines of credit.

No risks endangering Bertelsmann's continued existence were identified in fiscal year 2010. Nor are there any substantial risks discernible from the current perspective that could threaten the continued existence of the Group.

Opportunities

Bertelsmann continually examines the technological opportunities and challenges in the markets for media content and media-related production and services. Ongoing R&D efforts at all levels help to identify, analyze and advance potential areas of growth. Based on the improved 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 and higher e-book revenues 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.

The extent to which potential opportunities are leveraged depends strongly on future economic development. Thanks to its diversified portfolio and entrepreneurial potential, Bertelsmann also expects to be able to successfully convert business opportunities into profits for the Group over the medium to long term.

Outlook

According to the winter forecast of the Kiel Institute for the World Economy (IfW), the global economy has recovered from the severe collapse triggered by the global economic crisis and is now in a phase of moderate expansion that is expected to last well into 2011. At the same time, dampening factors that work against continued rapid global economic expansion are making themselves increasingly felt. These factors include not only the severe tightening of financial policies in a growing number of countries but above all consolidation processes in the private sector that block the expansion of credit in many industrialized nations and thus lessen the impact of the monetary policy. In real terms, growth in global production is expected to reach 3.6 percent in 2011, a rate that more or less matches average growth recorded over the longer term. For 2012, the IfW expects global production to increase by 4.0 percent as the impact of the dampening factors gradually lessens.

The recovery has lost momentum in the United States. The IfW anticipates 2.5 percent growth in real GDP in 2011 and

3.0 percent in 2012. In the UK, real growth is expected to be 1.3 percent in 2011 and 1.6 percent in 2012. In the euro zone, the IfW expects 1.3 percent growth in real GDP in 2011 and again in 2012, down from 1.7 percent in the previous year. Although the expected monetary policy will boost the economic dynamics, the long-term consequences of the debt crisis affecting both public and household budgets and companies in some member states will work against a more rapid economic expansion. In Germany, the IfW expects real GDP to grow 2.3 percent in 2011 amid deteriorating export sales and robust domestic demand. In 2012, real GDP growth could be 1.3 percent.

The IfW points toward the uncertainties surrounding the future course of global economic development, which it says remain significant. Risks of a decline stem in part from financial policies. It is not clear how strongly the aggressive repayment of budget deficits will burden the economy. Another risk is that more countries will be forced to adopt austerity programs if more and more financial markets lose confidence. Another major source of risk is the overly expansive monetary policies, which could trigger turbulence on the foreign exchange markets.

The global media industry will continue to profit from the growth of the global economy, even though the economic development remains plagued by uncertainties and setbacks cannot be ruled out. Modest growth is expected in 2011 and 2012 in the traditional media markets in Bertelsmann's geographic core markets, while more robust growth is anticipated for online advertising revenues. Over the next few 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.

Through its businesses, Bertelsmann operates in a variety of different markets and regions whose developments are subject to a range of factors and do not respond in a linear fashion to overall economic tendencies. The following takes into account only those markets and regions large enough to be relevant for forecasting purposes and whose expected development can be appropriately aggregated and evaluated. The TV advertising markets in Western Europe are expected to grow slightly in 2011 and 2012. The overall trend of the book markets during these years is expected to be stable. Modest growth is expected in the French and German magazine business, with rising advertising revenues offset by declining circulation revenues. The general assumption is that paper prices will rise. A slight recovery is anticipated in the European printing market, though it is

expected that price pressure and continued overcapacities will remain the defining characteristics of the printing market, which is beset by structural vulnerabilities. The storage media market in Europe and the United States will shrink as a result of falling demand and increased digitization. The demand for business process outsourcing services should continue to grow in the coming years according to our own assessment.

If the economic expectations for the geographic core markets of Western Europe and the U.S. are accurate, Bertelsmann assumes a moderate overall increase in Group revenues and a stable operating EBIT in fiscal years 2011 and 2012. The extent of the growth will be based on the expected overall economic development in each region. In the euro zone, where Bertelsmann expects to realize more than two-thirds of its revenues and operating EBIT, the IfW assumes nominal GDP growth of 2.6 percent in 2011 and 2.9 percent in 2012. The OECD expects nominal GDP in the euro zone to increase by 2.7 percent in 2011 and 3.1 percent in 2012. The return on sales, which can be used to determine the absolute value of the expected operating EBIT, should be above the profitability level of 10 percent in 2011 and 2012. The return on sales of 11.7 percent achieved in fiscal 2010 could also mark the upper threshold in 2011 and 2012. Irrespective of the anticipated market trend, the objective remains an average Group-level return on sales of 10 percent throughout the economic cycle.

The Executive Board is committed to the goal of increasing the Group's organic growth with an appropriate return on investment by strengthening core businesses, further developing the portfolio and expanding into new growth segments. The expected growth in revenues is primarily based on expected organic growth. The level of operational investments (investments in intangible assets, fixed and financial assets) will be up from the previous year in fiscal years 2011 and 2012 due to greater investments in property, plant and equipment and in rights. The target maximum leverage factor of 2.5 remains unchanged beyond fiscal 2010. Bertelsmann expects a leverage factor below this threshold in fiscal 2011 and 2012. 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 2011 and 2012 are in relation to fiscal year 2010 figures. This means above all that they are adjusted for portfolio and exchange rate effects.

Although TV profited more strongly than other media from the economic recovery in 2010, it is still too early to make reliable predictions for all of 2011. RTL Group therefore remains cautious though very optimistic about the TV industry's overall growth prospects. Random House expects book markets to be largely stable and revenues and earnings to remain at the previous year's level in fiscal 2011 and 2012. The e-book business is delivering positive growth signals worldwide. Gruner + Jahr expects business to be stable in fiscal 2011 and 2012, with rising advertising revenues offset by slightly declining circulation revenues. Gruner + Jahr assumes a stable revenue trend in fiscal 2011 and 2012. Operating EBIT in 2011 and 2012 is expected to remain above pre-crisis levels but will be negatively impacted by increases in the price of paper. Print, which remains characterized by declining volumes, will continue to focus on a restrained investment policy, cost reductions and increased efficiency. Arvato expects robust revenue growth in fiscal 2011 and 2012 attributable primarily to increased demand for business process outsourcing. Operating EBIT in fiscal 2011 should be at the previous year's level amid increased investments. Arvato therefore strives to achieve sustained growth in profitability. Direct Group expects the business climate to remain difficult and revenues to decline in 2011. Moderate revenue growth is expected in fiscal 2012. The expectation is that earnings will develop in proportion to revenues.

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. All statements regarding potential economic and business 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	2010	2009
Revenues	1	15,786	15,110
Other operating income	2	509	488
Changes in inventories		(78)	(125)
Own costs capitalized		230	241
Cost of materials		(5,018)	(4,775)
Royalty and license fees		(888)	(778)
Personnel costs	3	(4,513)	(4,379)
Amortization of intangible assets and depreciation of property, plant and equipment	4	(548)	(562)
Other operating expenses	5	(3,684)	(3,819)
Results from investments accounted for using the equity method	6	45	27
Income from other participations	6	11	10
Special items	7	(356)	(545)
EBIT (earnings before interest and taxes)		1,496	893
Interest income	8	44	74
Interest expenses	8	(252)	(314)
Other financial income	9	65	104
Other financial expenses	9	(395)	(271)
Financial result		(538)	(407)
Earnings before taxes from continuing operations		958	486
Income taxes	10	(248)	(249)
Earnings after taxes from continuing operations		710	237
Earnings after taxes from discontinued operations		(54)	(202)
Group profit or loss		656	35
attributable to:			
Bertelsmann shareholders			
Earnings from continuing operations		515	101
Earnings from discontinued operations		(37)	(183)
Earnings attributable to Bertelsmann shareholders		478	(82)
Non-controlling interests			
Earnings from continuing operations		195	136
Earnings from discontinued operations		(17)	(19)
Earnings attributable to non-controlling interests		178	117

The previous year's figures have been adjusted according to IFRS 5. Further details are set out on page 97 of the notes in the section "Discontinued operations."

Group Statement of Comprehensive Income

in € millions	Notes	2010	2009
Group profit or loss		656	35
Currency translation differences			
– Changes recognized directly in equity		200	(25)
– Reclassification adjustments for gains (losses) included in profit or loss		12	–
Available-for-sale financial assets			
– Changes in fair value recognized in equity		2	20
– Reclassification adjustments for gains (losses) included in profit or loss		–	–
Cash flow hedges			
– Changes in fair value recognized in equity		23	(1)
– Reclassification adjustments for gains (losses) included in profit or loss		(5)	(5)
Actuarial gains/losses on defined benefit plans		(57)	45
Share of other comprehensive income of investments accounted for using the equity method		20	(5)
Other comprehensive income (after taxes)	18	195	29
Group total comprehensive income		851	64
attributable to:			
Bertelsmann shareholders		657	(56)
Non-controlling interests		194	120

Reconciliation to Operating EBIT (Continuing Operations)

in € millions	Notes	2010	2009
EBIT from continuing operations		1,496	893
Special items	7		
Impairment on goodwill, other intangible assets with indefinite useful life, other financial assets and assets held for sale		216	179
Capital gains/losses		1	(13)
Other special items		139	379
Operating EBIT from continuing operations		1,852	1,438
Operating EBITDA from continuing operations	28	2,400	2,000

The previous year's figures have been adjusted according to IFRS 5.

Group Balance Sheet

in € millions	Notes	12/31/2010	12/31/2009
Assets			
Non-current assets			
Goodwill	11	6,068	6,124
Other intangible assets	11	629	770
Property, plant and equipment	12	2,086	2,282
Investments accounted for using the equity method	13	485	492
Other financial assets	14	378	366
Trade accounts receivable	16	7	8
Other accounts receivable and other assets	16	302	311
Deferred tax assets	10	1,155	1,053
		11,110	11,406
Current assets			
Inventories	15	1,468	1,777
Trade accounts receivable	16	2,673	2,481
Other accounts receivable and other assets	16	1,076	1,125
Other financial assets	14	77	391
Current income tax receivable		83	55
Cash and cash equivalents	17	2,006	2,085
		7,383	7,914
Assets held for sale		286	58
		18,779	19,378
Equity and Liabilities			
Equity			
Subscribed capital	18	1,000	1,000
Capital reserve		2,345	2,345
Retained earnings		2,107	1,534
Bertelsmann shareholders' equity		5,452	4,879
Non-controlling interests		1,034	1,101
		6,486	5,980
Non-current liabilities			
Provisions for pensions and similar obligations	19	1,565	1,406
Other provisions	20	110	140
Deferred tax liabilities	10	82	103
Profit participation capital	21	413	706
Financial debt	22	3,738	3,889
Trade accounts payable	23	51	83
Other liabilities	23	618	590
		6,577	6,917
Current liabilities			
Other provisions	20	378	412
Financial debt	22	181	989
Trade accounts payable	23	2,611	2,588
Other liabilities	23	2,196	2,257
Current income tax payable		159	205
		5,525	6,451
Liabilities included in assets held for sale		191	30
		18,779	19,378

Group Cash Flow Statement

in € millions	2010	2009
Consolidated EBIT (earnings before interest and taxes)	1,450	694
Taxes paid	(373)	(230)
Depreciation and write-ups of non-current assets	828	1,103
Capital gains/losses	40	(13)
Change in provisions for pensions and similar obligations	(65)	(65)
Change in other provisions	(66)	41
Other effects	(14)	(3)
Change in net working capital	252	250
Cash flow from operating activities	2,052	1,777
– thereof from discontinued operations	2	(51)
Investments in:		
– intangible assets	(209)	(199)
– property, plant and equipment	(249)	(249)
– financial assets	(90)	(57)
– purchase prices for consolidated investments (net of acquired cash)	(205)	(157)
Proceeds from disposal of subsidiaries and joint ventures	154	(18)
Proceeds from disposal of other fixed assets	470	125
Contribution to / withdrawals from pension plans	(20)	10
Cash flow from investing activities	(149)	(545)
– thereof from discontinued operations	105	(34)
Proceeds from bonds and promissory notes	–	806
Redemption of bonds and promissory notes	(917)	(875)
Proceeds from / redemption of other financial debt	(401)	(67)
Interest paid	(313)	(339)
Interest received	38	62
Change in shareholders' equity	(58)	(2)
Dividends to Bertelsmann shareholders	(60)	(120)
Dividends to non-controlling shareholders and payments to partners in partnerships (IAS 32.18b)	(289)	(206)
Cash flow from financing activities	(2,000)	(741)
– thereof from discontinued operations	(3)	(25)
Change in cash and cash equivalents	(97)	491
Currency effects and other changes in cash and cash equivalents	18	11
Cash and cash equivalents 1/1	2,085	1,583
Cash and cash equivalents 12/31	2,006	2,085

The previous year's figures for discontinued operations have been adjusted according to IFRS 5. Details of the Cash Flow Statement are set out in note 26.

Changes in Net Financial Debt

in € millions	2010	2009
Net financial debt at 1/1	(2,793)	(3,445)
Cash flow from operating activities	2,052	1,777
Cash flow from investing activities	(149)	(545)
Interest, dividends and changes in equity, additional payments (IAS 32.18b)	(682)	(605)
Currency effects and other changes in net financial debt	(341)	25
Net financial debt at 12/31	(1,913)	(2,793)

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

Group Statement of Changes in Equity

	Sub-scribed capital	Capital reserve	Other retained earnings	Other comprehensive income ¹⁾					Bertelsmann shareholders' equity	Non-controlling interests	Total
				Currency translation differences	Available-for-sale financial assets	Cash flow hedges	Actuarial gains/losses on defined benefit plans	Share of other comprehensive income of equity-accounted investments			
in € millions											
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 profit or loss	-	-	(82)	-	-	-	-	-	(82)	117	35
Other comprehensive income	-	-	-	(29)	19	(7)	47	(4)	26	3	29
Group total comprehensive income	-	-	(82)	(29)	19	(7)	47	(4)	(56)	120	64
Dividend distribution	-	-	(120)	-	-	-	-	-	(120)	(138)	(258)
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
Balance as of 1/1/2010	1,000	2,345	2,149	(445)	43	1	(207)	(7)	4,879	1,101	5,980
Group profit or loss	-	-	478	-	-	-	-	-	478	178	656
Other comprehensive income	-	-	(23)	221	2	17	(56)	18	179	16	195
Group total comprehensive income	-	-	455	221	2	17	(56)	18	657	194	851
Dividend distribution	-	-	(60)	-	-	-	-	-	(60)	(234)	(294)
Changes in ownership interests in subsidiaries that do not result in a loss of control	-	-	(28)	-	-	-	-	-	(28)	(27)	(55)
Other changes	-	-	6	-	-	(2)	-	-	4	-	4
Balance as of 12/31/2010	1,000	2,345	2,522	(224)	45	16	(263)	11	5,452	1,034	6,486

¹⁾ Of that, a total of €2 million as of December 31, 2010 (previous year: €-2 million) is attributable to assets classified as held for sale in accordance with IFRS 5.

²⁾ The adjustment to the balance as of January 1, 2009 is due to the completion of the Alpha Media Group business combination.

Notes to the Group Financial Statements

Segment Information (Continuing Operations)

in € millions	RTL Group		Random House		Gruener + Jahr		Arvato	
	2010	2009	2010	2009	2010	2009	2010	2009
Revenues from external customers	5,581	5,147	1,826	1,721	2,524	2,477	4,771	4,503
Intersegment revenues	10	9	2	2	25	31	312	323
Divisional revenues	5,591	5,156	1,828	1,723	2,549	2,508	5,083	4,826
Operating EBIT	1,102	806	173	137	287	203	350	345
Special items	(63)	(104)	(8)	(1)	(25)	(170)	(84)	(194)
EBIT	1,039	702	165	136	262	33	266	151
Return on sales ¹⁾	19.7%	15.6%	9.5%	8.0%	11.2%	8.1%	6.9%	7.1%
Scheduled depreciation and amortization	194	182	27	28	67	72	210	223
Impairment losses	63	82	4	12	10	94	51	155
– thereof in special items	55	79	3	12	9	91	48	151
Results from investments accounted for using the equity method	43	26	–	–	18	6	–	(1)
Segment assets ²⁾	6,596	6,532	1,780	1,729	1,677	1,663	3,082	3,002
Segment liabilities	2,311	2,122	730	653	640	619	1,548	1,357
Invested capital	4,285	4,410	1,050	1,076	1,037	1,044	1,534	1,645
Investments accounted for using the equity method	358	416	4	4	26	13	6	5
Additions to non-current assets ³⁾	303	280	13	19	46	26	167	181
Employees (closing date)	12,339	12,241	5,264	5,432	13,337	13,571	63,985	60,323
Employees (average)	11,876	11,950	5,264	5,546	13,314	14,225	61,601	60,412

The previous year's figures have been adjusted according to IFRS 5.

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)

in € millions	Germany		Other European countries		U.S.		Other countries		Continuing operations	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Revenues from external customers	5,503	5,377	7,296	7,078	2,118	1,924	869	731	15,786	15,110
Non-current assets ¹⁾	4,750	4,786	2,849	3,302	971	914	213	174	8,783	9,176

¹⁾ Non-current assets comprise property, plant and equipment as well as intangible assets (including goodwill). Details of Segment Information are set out in note 27.

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Direct Group		Total divisions		Corporate		Consolidation/other		Continuing operations	
2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
1,064	1,241	15,766	15,089	20	21	-	-	15,786	15,110
5	5	354	370	5	1	(359)	(371)	-	-
1,069	1,246	16,120	15,459	25	22	(359)	(371)	15,786	15,110
24	28	1,936	1,519	(88)	(84)	4	3	1,852	1,438
(156)	(24)	(336)	(493)	(20)	(44)	-	(8)	(356)	(545)
(132)	4	1,600	1,026	(108)	(128)	4	(5)	1,496	893
2.2%	2.2%	12.0%	9.8%	-	-	-	-	11.7%	9.5%
25	28	523	533	13	19	(1)	-	535	552
145	5	273	348	14	29	-	4	287	381
146	5	261	338	14	29	(1)	4	274	371
(2)	(1)	59	30	(14)	(4)	-	1	45	27
444	696	13,579	13,622	2,489	2,486	(91)	(84)	15,977	16,024
253	324	5,482	5,075	89	97	(49)	(29)	5,522	5,143
191	372	8,097	8,547	2,400	2,389	(42)	(55)	10,455	10,881
2	3	396	441	92	53	(3)	(2)	485	492
31	44	560	550	2	19	1	-	563	569
8,485	10,087	103,410	101,654	1,009	1,050	-	-	104,419	102,704
8,697	10,032	100,752	102,165	1,007	1,109	-	-	101,759	103,274

Information on Revenue Sources (Continuing Operations)

in € millions	Own products and merchandise		Advertising		Services		Rights and licenses		Continuing operations	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Revenues from external customers	7,121	7,085	4,254	3,869	3,010	2,781	1,401	1,375	15,786	15,110

Details of Segment Information are set out in note 27.

General Principles

The Bertelsmann AG consolidated financial statements as of December 31, 2010, 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) have been 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 Group Management Report.

Impact of 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 2010:

- Improvements to IFRS (published in April 2009)
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters
- Amendments to IFRS 2 Share-Based Payment: Group Cash-Settled Share-Based Payment Transactions
- Revised version of IFRS 3 Business Combinations
- Amendments to IAS 27 Consolidated and Separate Financial Statements
- Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of improvements to IFRS in 2008)

The revised IFRS 3 changed the measurement of non-controlling interests, the recognition of business combinations achieved in stages as well as the treatment of contingent purchase price components and acquisition-related costs. There is an option to recognize the non-controlling interests in the acquired company either at fair value or the corresponding share of the identifiable net assets of the acquired company. The Bertelsmann Group continues to measure non-controlling interests at the fair value of the proportionate identifiable net assets. In the case of business combination achieved in stages, the interests already held are remeasured at fair value on the acquisition date and resulting gain or loss is recognized in profit or loss. Adjustments to contingent purchase price components are recognized in profit or loss. Acquisition-related costs, with

the exception of costs for issuing equity instruments or debt instruments, are recognized as expenses on the date they arise. The key changes in IAS 27 (2008) relate to accounting for reductions and increases in the interest not changing the control relationship. According to the new provisions, changes in the interest that do not impact full consolidation are taken directly to equity. The inclusion of hidden reserves and the adjustment to the goodwill already accounted are no longer applicable. If control is lost, the remaining interests are remeasured at fair value. In the case of non-controlling interests, losses are allocated without restriction in line with the proportionate participation.

As part of the annual improvement to IFRS (published in 2009), IAS 7 Cash Flow Statements was adjusted such that, when presenting cash flows, only payments from investing activities can be included if they lead to the recognition of an asset.

Amendments to IFRS 1, 2 and 5 do not impact the Group. The effects of improvements to IFRS are not material for the Bertelsmann Group.

In addition, the following revised standards and interpretations were applied for the first time:

- Amendments to IFRIC 9 Reassessment of Embedded Derivatives
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 12 Service Concession Arrangements
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 Distribution of Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers

First-time application of these provisions does not have a material impact on the Bertelsmann 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 2010:

- Improvements to IFRS (published in May 2010)
- Revised version of IAS 24 Related Party Disclosures
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters; Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- Amendments to IFRS 7 Financial Instruments: Disclosures
- IFRS 9 (with amendments in October 2010): Financial Instruments
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets

- Amendments to IAS 32 Financial Instruments: Classification of Rights Issues
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement
- 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: Amendments to IFRS 7, IFRS 9, IAS 12 and IFRS 1.

IFRS 9 is only to be applied by 2013 and will replace IAS 39. This will have a far-reaching impact on the recognition and measurement of financial instruments.

The amendments to IAS 24, IAS 32, IFRS 1, IFRS 7, IFRIC 14, the improvements to IFRS (2010) which are also to be applied in the future and IFRIC 19, which is also to be applied in the future, will partially affect the Group's business, however they are not expected to have any 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, 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 were adjusted in these consolidated financial statements to the amended requirements of IAS 27. According to the new requirements, changes in shareholdings that do not affect full consolidation are taken directly to equity. Total comprehensive income is allocated to the owners of the parent company and the non-controlling interests, even though this results in the non-controlling interests having a negative balance.

Material jointly controlled companies within the meaning of IAS 31 are proportionately consolidated. Material associates as defined by IAS 28 are included using the equity method. This is generally the case for voting rights between 20 and 50 percent. Smaller shareholdings are accounted for using the equity method in accordance with IAS 28.7(a). Accounting and measurement policies are applied uniformly for all consolidated financial statements within the Bertelsmann Group. The Bertelsmann Group recognizes immaterial participations at cost taking IAS 39 into account.

In accordance with IFRS 3, business combinations are accounted for using the purchase method. The consideration transferred as part of a business combination (previously: acquisition costs) is offset against the fair value of equity on the date of the acquisition. As a rule, acquisition-related costs are recognized in profit or loss. If applicable, contingent consideration is measured at the fair value that applies on the date of acquisition. If the consideration transferred exceeds the fair values of the acquirer's interest in the assets acquired and liabilities assumed, this difference is recognized in the balance sheet as goodwill. Negative goodwill is reflected as income in the period in which the acquisition is made. Deferred taxes from assets acquired and liabilities assumed in a corporate acquisition are carried and measured according to IAS 12. Subsequent measurement of the acquired assets, liabilities taken over or entered into is performed in line with the other applicable IFRSs. Non-controlling interests are also measured at the proportionate fair value of the assets and liabilities. If the consideration transferred for the business combination or the fair values to be allocated to the identifiable assets and 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 3.45, taking

into account the one-year measurement period. Comparative information for reporting periods prior to the completion of initial accounting are presented as if they 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 accounted for the proportionate equity share of the investment measured at fair value at the acquisition date. The same method used for fully consolidated subsidiaries is applied when accounting for difference between the acquisition cost at the time of acquisition and the share of net assets acquired. Losses at associates that exceed their carrying amounts are not recognized unless there is an obligation to make additional contributions.

Scope of Consolidation

Including Bertelsmann AG, the Group consists of a total of 894 companies (previous year: 939). Of these, 821 (previous year: 857) are fully consolidated.

41 joint ventures are proportionally consolidated (previous year: 43). 32 associated companies are consolidated using the equity method (previous year: 39). A total of 222 (previous year: 236) affiliated companies without significant business operations were excluded from consolidation due to their negligible importance for the financial position, performance and changes in the financial position of the Group. These include 39 (previous year: 45) companies that would have been consolidated using the equity method.

The complete list of the Bertelsmann Group's shareholdings will be published in the electronic Bundesanzeiger

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 fully consolidated Group companies and associated companies is eliminated.

Changes in the parent's ownership interest in a subsidiary that do not lead to a loss of control are accounted for as equity transactions.

After the loss of control of a subsidiary, any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary are accounted for in accordance with other IFRSs from the date when control is lost.

(Federal Gazette) as an annex to these annual financial statements in accordance with section 313 (2) of the German Commercial Code and are presented at the General Meeting. The interests held by associated companies are no longer included in the list of shareholdings.

Those subsidiaries disclosed in note 31 have elected to be exempted from the preparation, audit and publication of financial statements in the year under review as set out in sections 264 (3) and 264b of the German Commercial Code and according to foreign regulations.

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

Changes in Scope of Consolidation

	Domestic	Foreign	Total
Consolidated at December 31, 2009 ¹⁾	337	602	939
Additions	23	33	56
Disposals	37	64	101
Consolidated at December 31, 2010	323	571	894

¹⁾ The scope of consolidation does not include the interests in companies that are owned by associated companies. The figures from the previous year have been adjusted accordingly.

Acquisitions and Disposals

The consideration paid for acquisitions in fiscal year 2010 less cash and cash equivalents acquired amounted to €205 million (previous year: €157 million). The consideration transferred for these acquisitions in 2010 in the sense of IFRS 3 totaled €108 million.

In January 2010, Arvato acquired from S. K. Management- und Beteiligungs GmbH the remaining 37 percent interest in the Arvato Infoscore Group – a full-service provider of solutions for integrated data, information and receivables management that was acquired in July 2005. The acquisition was based on a put option from the non-controlling shareholder. The purchase price totaled €141 million. According to IAS 32, the interest on which this put option was based was already fully consolidated in Bertelsmann AG's consolidated financial statements. As a result there was no material impact on the Group's financial position and results of operations during the year under review. The purchase price paid is disclosed in the cash flow from investing activities.

On October 1, 2010, RTL Group acquired a 62.5 percent majority shareholding in @radical.media LLC ("Radical Media"). Radical Media is one of the leading TV commercial production companies in the U.S., with offices in Australia, China and Germany. The remaining 37.5 percent interest held

by management is subject to a put/call option. The fair value of the put option has been recognized as a liability. The transaction qualifies as a business combination since RTL Group has gained control of Radical Media. The purchase consideration, net of cash acquired, amounts to €30 million, resulting in the recognition of a provisional goodwill of €39 million. At December 31, 2010, deferred payments amounted to €20 million. The acquisition-related costs of €1 million, mainly consisting of legal fees and due diligence costs, have been recognized on the income statement. The goodwill that is currently expected to be tax-deductible amounts to €15 million. Further goodwill will become eligible for a tax deduction as the deferred further consideration and option payments are paid. Had the acquisition occurred on January 1, 2010, the contribution to the consolidated revenues and to Group's consolidated result would have been €118 million and €5 million, respectively.

The Group also made several other acquisitions in 2010, none of which were material. The impact on the Group's financial position and results of operations was also minor. The other acquisitions resulted in goodwill totaling €61 million.

The acquisitions impacted the assets and liabilities in the Bertelsmann Group as follows on their date of initial consolidation:

Effects of Acquisitions

in € millions	Radical Media		Other		Total	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Non-current assets						
Goodwill	–	39	–	61	–	100
Other intangible assets	–	–	–	6	–	6
Property, plant and equipment	2	2	3	3	5	5
Other non-current assets	–	–	2	2	2	2
Current assets						
Inventories	9	9	10	10	19	19
Other current assets	26	26	22	22	48	48
Cash and cash equivalents	9	9	12	12	21	21
Liabilities						
Financial debt	4	4	9	9	13	13
Other liabilities	42	42	32	32	74	74

The fair values of the acquired identifiable assets, liabilities and contingent liabilities are measured according to IFRS 3, and primarily 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. Accordingly, the fair value of an asset or liability is the present value of the future cash inflows or outflows (cash flows).

After considering the cash and cash equivalents disposed of, the Group received payments totaling €154 million from the disposals that were carried out (previous year: €-18 million).

As part of its portfolio optimization, Direct Group sold its Portuguese businesses in April 2010 – the book club *Círculo de Leitores*, the bookstore chain *Bertrand* and the publishing companies belonging to the publisher *Bertrand* – to the Portuguese publishing group *Porto Editora*. The contractually agreed purchase price totaled €26 million and included the purchase price for the interests in the amount of €6 million and a loan for shareholder financing of €20 million, which the purchaser acquired as part of the purchase. The sale resulted in profits of €1 million.

In addition, Direct Group also sold several other businesses, including the 50 percent interest in the Italian book club

Since initial consolidation, total new acquisitions have contributed €71 million to revenues and €1 million to consolidated earnings. If consolidated as of January 1, 2010, they would have contributed €212 million to revenues and €6 million to consolidated earnings. Goodwill arising from acquisitions reflects latent synergy potential.

Mondolibri to the former joint venture partner *Mondadori* and the club businesses in Australia and New Zealand to local management via the *A&WN Trust*.

Random House's publishing activities in Korea and Gruner + Jahr's Russia business were also sold in the first half of 2010.

In Spain, the leading publishing and bookstore group, *Planeta*, acquired 50 percent of *Círculo de Lectores*. The EU Commission approved the joint venture in July 2010.

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	Five, RTL Group	Other	2010
Non-current assets			
Goodwill	–	2	2
Other intangible assets	60	8	68
Property, plant and equipment	10	14	24
Other non-current assets	–	14	14
Current assets			
Inventories	188	22	210
Other current assets	67	49	116
Cash and cash equivalents	–	49	49
Liabilities			
Provisions for pensions and similar obligations	–	–	–
Financial debt	–	5	5
Other liabilities	191	61	252

Discontinued Operations

On July 23, 2010, RTL Group sold the UK TV group Five to the UK publisher Richard Desmond's publishing group Northern & Shell.

Five was fully consolidated until its disposal. The terms of the agreement include a net cash payment of €118 million. The total cash consideration for the 100 percent shareholding in Five amounted to €124 million before adjustment related to a cash pool mechanism (€6 million). The regulatory risk was taken by the purchaser. The top holding company of Northern & Shell has provided back-to-back guarantees to RTL Group for the guarantees provided by RTL Group on behalf of Five in prior years.

As the conditions in IFRS 5 for disclosure as discontinued activities had been fulfilled, Five's ongoing results and its cash

flows were disclosed separately. The figures from the previous year have been adjusted accordingly in the income statement, statement of comprehensive income and disclosure in the cash flow statement in line with IFRS 5.

The sale of Five resulted in a loss on disposal of €-42 million. No taxes were incurred on the loss from the disposal.

The special items of €-39 million include the disposal loss for Five as well as additional income of €6 million and expenses of €-3 million that are connected to the former discontinued operations. The result from discontinued operations is broken down as follows:

Income Statement – Discontinued Operations

in € millions	2010	2009
Revenues	158	254
Income	-	44
Expenses	(165)	(312)
Operating EBIT from discontinued operations	(7)	(14)
Special items	(39)	(185)
EBIT (earnings before interest and taxes)	(46)	(199)
Financial result	(8)	(17)
Earnings before taxes from discontinued operations	(54)	(216)
Income taxes	-	14
Earnings after taxes from discontinued operations	(54)	(202)

Assets Held for Sale and Liabilities in Connection with Assets Held for Sale

Bertelsmann is negotiating with a private U.S. investment company for the possible sale of Direct Group France, which includes the French-speaking club business as well as the bookstore chain Chapitre.com. As the conditions in IFRS 5 have been met, the assets and liabilities held for sale have been reclassi-

fied to Direct Group France under "Assets Held for Sale" and "Liabilities in Connection with Assets Held for Sale."

The carrying amounts of the assets and liabilities held for sale mostly relate to Direct Group France and can be seen in the following table.

in € millions	12/31/2010	12/31/2009
Assets		
Non-current assets		
Goodwill	–	3
Other intangible assets	38	–
Property, plant and equipment	49	3
Other non-current assets	7	4
Deferred tax assets	11	1
Current assets		
Inventories	82	14
Other current assets	85	25
Cash and cash equivalents	14	8
Liabilities		
Non-current liabilities		
Provisions for pensions and similar obligations	8	2
Financial debt	9	1
Other non-current liabilities	1	–
Deferred tax liabilities	–	–
Current liabilities		
Trade accounts payable	106	19
Other current liabilities	67	8

Proportionate Consolidation

The 41 (previous year: 43) proportionately consolidated joint ventures had the following effect on Bertelsmann Group assets, liabilities, income and expenses:

Effects of Proportionate Consolidation

in € millions	12/31/2010	12/31/2009
Non-current assets	44	44
Current assets	126	135
Non-current liabilities	4	6
Current liabilities	88	86
	2010	2009
Income	294	299
Expenses	274	265

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 closing 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 other comprehensive income. 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 Group profit or loss. When subsidiaries are deconsolidated, any related cumulative translation differences are recycled to profit or loss.

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

Euro Exchange Rates for Major Foreign Currencies

Foreign currency unit per €1		Average rate		Closing rate	
		2010	2009	12/31/2010	12/31/2009
U.S. Dollar	USD	1.3299	1.3960	1.3362	1.4406
Canadian Dollar	CAD	1.3773	1.5909	1.3322	1.5128
British Pound	GBP	0.8585	0.8948	0.8608	0.8881
Japanese Yen	JPY	116.64	130.28	108.65	133.16
Swiss Franc	CHF	1.3787	1.5059	1.2504	1.4836

Accounting and Valuation Policies

Recognition of Income and Expense

Revenues are measured at the fair value of the compensation received or receivable and reduced by anticipated reductions in price, trade discounts and similar deductions.

Revenues from the sale of goods are recognized when the Group has transferred the key risks and opportunities associated with ownership of the goods to the purchaser and the amount of revenues can be reliably determined. 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 up to 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.

Income from royalties (licenses) is recognized on an accrual basis in line with the provisions of the underlying contract. Interest income and expenses are recognized using the effective interest method in accordance with IAS 39 on an accrual basis. Dividends are only recognized in income when the shareholder's legal entitlement to payment is established. 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 the consideration transferred in excess of the Group's share of the fair value of identifiable assets acquired, liabilities and contingent liabilities assumed. 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 be-

tween 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 on 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 must be capitalized in the balance sheet if the criteria for recognition as set out in IAS 38 have been met.

Intangible assets acquired separately are carried at acquisition cost less accumulated amortization and accumulated impairment losses. 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 and publishing rights is three to 15 years. Licenses are amortized on a straight-line basis over the term of the license agreement or depending on performance (based on the ratios of income from use generated in the reporting period to the estimated total income from use over the whole useful life).

The useful life and amortization periods are reviewed annually and prospectively adjusted to reflect changes in expectations. Intangible assets with indefinite useful life are not amortized on a systematic basis. 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 that 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. Estimates of useful life and the depreciation method are reviewed annually in line with IAS 16 and are adjusted prospectively according to the changed expectations. During the year under review, scheduled depreciation was generally based on the following useful lives:

- Buildings: ten to 50 years
 - Plant, technical equipment and machinery: four to 15 years
 - Furniture, fixtures and other equipment: three to twelve years
- Land is not subject to scheduled depreciation.

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

Impairment Losses

In accordance with IAS 36 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 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. 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.

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 at its fair value at the inception of the lease term or the lower present value of the future minimum lease payments. 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 assets will pass to the lessee at the end of the lease term, the assets are depreciated over their useful life. Otherwise, it is depreciated over the term of the lease. Conditional rent payments are recognized in income in the period in which they result.

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. In economic terms, the leased assets are allocated to the lessor. The lease installments constitute expenses for the period.

Financial Assets

Financial assets are recognized initially at fair value taking into account transaction costs that are directly attributable to the acquisition of the financial asset. In the case of financial assets that are recognized at fair value through profit or loss, transaction costs are recognized directly in the income statement. If the trade date and the settlement date are different, the settlement date is applied for the purposes of initial recognition. For subsequent measurement, financial assets are classified into the following categories and subcategories:

- Held-to-maturity investments
- Available-for-sale financial assets
- Financial assets recognized at fair value through profit or loss
 - 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
 - Cash and cash equivalents

Held-to-maturity investments:

Financial instruments are held to maturity if they have fixed or definable payments and a fixed term that the Group is to hold to maturity. They are subsequently 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, as loans and receivables or at fair value through profit or loss.

In accordance with IAS 39, available-for-sale financial assets are measured at their fair value at the balance sheet date to the extent that this can be reliably measured. Otherwise, they are carried at amortized cost. With deferred taxes taken into consideration, gains and losses resulting from fluctuations in the fair value are taken directly to other comprehensive income. However, if there is an objective evidence of impairment, this is recognized in profit or loss. A significant or longer decline in the fair value of an equity instrument held below its acquisition costs is also to be regarded as an objective evidence of impairment. If these assets are sold, the gains and losses recorded under other comprehensive income are recognized in profit or loss.

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 profit or loss.

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. 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 measured at their fair value.

Originated loans and trade account receivables:

Originated loans and trade payables are carried at amortized cost using the effective interest method. Long-term interest-free or low-interest 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 includes bank balances and cash on hand. Cash equivalents include short-term, highly liquid 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 for identical assets, they are used for valuation (phase 1). If this is not possible, the fair values of comparable market transactions are applied and financial methods that are based on observable market data are used (phase 2). If the fair values are not based on observable market data, they are identified using recognized financial methods (phase 3).

Impairment losses and gains 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. In the case of financial assets carried at amortized cost, the impairment corresponds to the difference between the carrying amount and the present value of the anticipated future cash flows. 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 are reviewed for possible write-downs on each balance sheet date. For this purpose net realizable value is estimated 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. 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.

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 projects. 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 losses are identified. In fiscal year 2010 no material revenues were recognized from customer-specific production contracts.

Deferred Taxes

In accordance with IAS 12, deferred tax assets and liabilities are recognized for temporary differences between the tax base and carrying amounts 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 includes foreign exchange gains and losses as well as unrealized gains and losses from the fair value measurement of available-for-sale financial assets and derivatives used in cash flow hedges or hedges of net investments in foreign operations in accordance with IAS 39. In addition, according to IAS 28.11, changes in equity for companies accounted for using the eq-

uity method that are taken directly to equity are also recorded. Actuarial gains and losses under defined benefit pension plans are also taken directly to other comprehensive income 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 financial result.

With the exception of the other personnel-related provisions calculated according to IAS 19, all of the other provisions are

established on the basis of IAS 37 where 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 accounts payable and other original financial liabilities including profit participation certificates (financial liabilities at amortized cost) are measured initially at their fair value less transaction costs. Subsequent measurement is based on amortized cost using the effective interest method. Liabilities denominated in foreign currency are translated at the exchange rate at 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 type of hedge, the effective portion of the gains and losses on changes in the fair value of the hedging instrument is taken directly to other comprehensive income. 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.

Income Statement
Statement of Comprehensive Income
Balance Sheet
Cash Flow Statement
Statement of Changes in Equity
Notes

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.

Share-Based Payment

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 classified as held for sale if the associated carrying amount will be recovered principally through sale 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 held for sale or forms part of a disposal group that is classified as held 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 held for sale, the results of this entity component that was previously carried under discontinued operations are reclassified to continuing operations for all of the reporting periods shown.

Government Grants

A government grant is not recognized until there is reasonable assurance that the entity will comply with the conditions attaching to it and that the grant will be received. Grants for assets are recognized as deferred income and recognized in

profit or loss over the expected useful life of the respective asset using the straightline 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: In the event of return rights, mostly for print products, estimates must 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 recognized 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.

Impairments: Intangible assets with definite useful life and property, plant and equipment are tested for impairment in accordance with IAS 36 if there are indications 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 cost to sell or value in use; fair value less cost to sell is always calculated first. 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 11 "Intangible Assets" and 12 "Property, Plant and Equipment."

Pension obligations and provisions: Pension obligations are measured using the projected unit credit method. This

takes into account biometric calculations and the prevailing long-term capital market interest rates and, in particular, assumptions about future salary and pension increases and the anticipated return on plan assets. Information on the assumptions made in pension accounting can be found under note 19.

Provisions for onerous contracts, 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, whether an outflow of resources is probable and whether it is possible to reliably determine the amount of the obligation are generally based on the expertise of inhouse 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 cash flows after taking into account the present value of the tax amortization benefit.

In addition, the definition of uniform useful lives within the Group is based on the management's assumptions. Information on useful lives can be found in the sections "Intangible Assets" and "Property, Plant and Equipment" on page 100.

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 10 "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 18 "Equity."

The estimates and the underlying assumptions are reviewed on an ongoing basis. As a rule, adjustments to estimates are taken into account in the period in which the change is made and in future periods.

- Income Statement
- Statement of Comprehensive Income
- Balance Sheet
- Cash Flow Statement
- Statement of Changes in Equity
- Notes

Prior year information

Individual figures from the previous year have been changed slightly to ease comparison with the current figures. The adjustments made relate to the separate disclosure of the dividend payments to Bertelsmann shareholders in the cash flow statement and the addition of “Advertising” to the revenue catego-

ries in order to provide consistent presentation of the sources of income in segment reporting. The adjustments do not impact the Group’s financial position and results of operations and cash flows.

Notes to the Income Statement and Balance Sheet

1 Revenues

in € millions	2010	2009
Revenues from selling goods and merchandise	7,121	7,085
Revenues from advertising	4,254	3,869
Revenues from providing services	3,010	2,781
Revenues from grant of use of assets	1,401	1,375
	15,786	15,110

Revenues also include income from exchanges in the amount of €65 million (previous year: €61 million), which were primarily incurred by RTL Group and Gruner + Jahr. This figure includes €51 million (previous year: €48 million) in the category “Revenues from advertising.” A further €13 million (previous

year: €12 million) is carried in the category “Revenues from providing services” and €1 million (previous year: €1 million) in the category “Revenues from selling goods and merchandise.”

Changes in revenues by segment and region can be found in the overview for segment reporting on pages 90 and 91.

2 Other Operating Income

in € millions	2010	2009
Extra and supplementary income	196	202
Foreign exchange gains	1	2
Prior-year income and reimbursements	162	132
Gains from disposals of non-current assets	22	13
Sundry operating income	128	139
	509	488

Sundry operating income includes performance-related government grants in the amount of €13 million (previous year: €18 million).

Foreign exchange gains for assets and liabilities denominated in foreign currencies (without derivative financial instruments from operating business transactions) totaled €5 million during the fiscal year (previous year: €22 million).

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.

3 Personnel Costs

in € millions	2010	2009
Wages and salaries	3,643	3,563
Statutory social security contributions	641	640
Profit sharing	118	64
Expense for pensions and similar obligations	97	96
Other employee benefits	14	16
	4,513	4,379

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

in € millions	2010	2009
Amortization/depreciation of		
– intangible assets	205	205
– property, plant and equipment	343	357
	548	562

5 Other Operating Expenses

in € millions	2010	2009
Administrative expenses	1,321	1,272
Consulting and audit fees	151	168
Advertising costs	537	514
Selling expenses	627	642
Allowances on current assets	196	248
Operating taxes	126	141
Losses on disposals of non-current assets	7	8
Sundry operating expenses	719	826
	3,684	3,819

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 Participants

in € millions	2010	2009
Profits from investments accounted for using the equity method	67	38
Losses from investments accounted for using the equity method	(22)	(11)
Results from investments accounted for using the equity method	45	27
Results of participations	11	10

The profit from associates stems primarily from Antena 3 at €23 million (previous year: €13 million), Spiegel Verlag at €18 million (previous year: €6 million) and RTL II at €14 million (previous year: €9 million). Losses from investments accounted for using the equity method include BMG Rights

Management at €-13 million (previous year: €-2 million) and various other companies. Impairments of participating interests (including goodwill) from associates of €5 million (previous year: €4 million) are reported under special items.

7 Special Items

in € millions	2010	2009
Impairment on goodwill, other intangible assets with indefinite useful life, other financial assets and assets held for sale		
Direct Group France	(144)	–
Alpha Media Group, RTL Group	(49)	(66)
Gruner + Jahr Adria	(4)	–
Qualytel, Arvato	–	(26)
Arvato Print Ibérica	–	(26)
Gruner + Jahr Spain	–	(21)
Random House Asia (IFRS 5)	–	(12)
Other	(19)	(28)
Capital gains/losses		
Ren TV, RTL Group	(12)	–
Empolis, Arvato	–	7
Xlibris, Corporate	–	7
Other	11	(1)
Other special items		
Impairment on intangible assets, Direct Group France	(10)	–
Impairment on intangible assets, Scoyo, Corporate	–	(19)
Impairment on intangible assets, Qualytel, Arvato	–	(10)
Impairment on property, plant and equipment, Arvato Print Italy	(30)	(30)
Impairment on property, plant and equipment, Arvato Print Ibérica	(15)	–
Impairment on non-current assets, Prinovis, one half each Gruner + Jahr and Arvato	–	(111)
Impairments on real estate, Gruner + Jahr	–	(13)
Restructuring and severance payments, Arvato	(29)	(38)
Restructuring and severance payments, Prinovis, one half each Gruner + Jahr and Arvato	(15)	(16)
Restructuring and severance payments, Direct Group	(10)	(18)
Restructuring and severance payments, Gruner + Jahr	(6)	(60)
Restructuring and severance payments, RTL Group	–	(25)
Restructuring and severance payments, Corporate	–	(23)
Restructuring and severance payments, Random House	(2)	(16)
Special income owing to change in the calculation of provisions for returns, Random House	–	23
Costs of combining business locations, Gruner + Jahr	(3)	(7)
Other	(19)	(16)
	(356)	(545)

Special items are primarily business transactions that are not repeatable and therefore not operational in nature. They include income and expense items that 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 €-356 million (previous year: €-545 million).

8 Interest Income and Interest Expenses

in € millions	2010	2009
Interest income		
Interest income on cash and cash equivalents	9	12
Interest income on interest derivatives	2	24
Other interest income	33	38
	44	74
Interest expenses		
Interest expenses on financial debt	(232)	(265)
Interest expenses on interest derivatives	(2)	(19)
Other interest expenses	(18)	(30)
	(252)	(314)

9 Other Financial Expenses and Income

in € millions	2010	2009
Other financial income		
Expected return on plan assets from defined benefit plans	45	51
Minority interest in partnerships	–	2
Other	20	51
	65	104
Other financial expenses		
Interest expenses on provision for defined benefit plans	(134)	(131)
Dividend entitlement on profit participation certificates	(43)	(76)
Minority interest in partnerships	(68)	–
Financial expenses from put options	(22)	(34)
Non-operating forex losses	(11)	(7)
Other	(117)	(23)
	(395)	(271)

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

10 Income Taxes

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

in € millions	2010	2009
Earnings before income taxes (total)	904	270
Current income taxes from continuing operations	(295)	(235)
Deferred income taxes from continuing operations	47	(14)
Income taxes from continuing operations	(248)	(249)
Current income taxes from discontinued operations	–	9
Deferred income taxes from discontinued operations	–	5
Income taxes from discontinued operations	–	14
Total income taxes	(248)	(235)
Net income after income taxes (total)	656	35

Tax loss carryforwards of €790 million (previous year: €395 million) were utilized in the year under review, reducing current tax expenses by €185 million (previous year: €88 million). Of the tax loss carryforwards utilized, €159 million (previous year: €73 million) was due to German corporation tax, €228 million (previous year: €175 million) was due to German trade tax, and €403 million (previous year: €147 million) was due to foreign income taxes. These amounts include

€290 million (previous year: €11 million) for tax loss carryforwards for which no deferred tax assets were recognized in the past. These relate to German corporation tax in the amount of €1 million (previous year: €1 million), German trade tax in the amount of €32 million (previous year: €5 million) and foreign income taxes in the amount of €257 million (previous year: €5 million). This led to a reduction in current tax expense of €78 million (previous year: €2 million).

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

Deferred Taxes

in € millions	12/31/2010 Assets	12/31/2010 Liabilities	12/31/2009 Assets	12/31/2009 Liabilities
Intangible assets	323	128	357	139
Property, plant and equipment	47	135	27	133
Financial assets	18	28	7	64
Inventories	55	2	59	2
Accounts receivable	101	32	95	32
Advance payments and other assets	72	55	175	77
Provisions	319	77	300	91
Financial debt	21	10	23	89
Liabilities	10	1	11	12
Advance payments and other liabilities	42	27	52	31
Loss carryforwards/tax credits	2,570	–	2,741	–
Subtotal	3,578	495	3,847	670
Valuation allowances	(2,010)	–	(2,227)	–
Total	1,568	495	1,620	670
Offsetting	(413)	(413)	(567)	(567)
Carrying amount	1,155	82	1,053	103

Current and deferred tax assets and liabilities are offset 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 carryforwards 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 reversal of the valuation allowance for deferred tax assets is due, in particular, to the positive general economic development that is reflected in the updated budget forecast. The reduction in the valuation allowance for deferred tax assets relates to companies with their registered offices in Germany in particular. The forecast results in improved earnings perspectives; it is probable that the deferred tax assets will be realized.

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

Temporary differences, tax loss carryforwards and tax credits for which no deferred tax assets have been formed can be carried forward as follows for limited periods:

Maturity

in € millions	12/31/2010	12/31/2009
Tax loss carryforwards		
To be carried forward for more than 5 years	6,231	7,128
To be carried forward for up to 5 years	248	163
Temporary differences	113	107
Tax credits		
To be carried forward for more than 5 years	38	28

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	2010	2009
Earnings before income taxes (total)	904	270
Income tax rate applicable to Bertelsmann AG	30.00%	30.00%
Expected tax expense	(271)	(81)
The tax effects of the following items led to differences between the expected and actual tax expense:		
Adjustment for differing national tax rates	(16)	(18)
Effect of changes in tax rate and tax law	(2)	(3)
Non-tax-deductible impairments of goodwill	(58)	(78)
Tax-free disposal and merger gains/losses	(4)	9
Current income taxes for previous years	35	28
Deferred income taxes for previous years	21	(4)
Valuation allowance on deferred tax assets	122	(27)
Permanent differences	(61)	(43)
Other adjustments	(14)	(18)
Total adjustments	23	(154)
Actual tax expense	(248)	(235)

As a result of the significant improvement in expected earnings, deferred tax assets on losses carried forward were revalued. This mostly relates to Germany.

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

Effective Income Tax Rate

	2010	2009
Corporation tax including solidarity surcharges	15.83%	15.83%
Trade tax	14.17%	14.17%
Effective income tax rate	30.00%	30.00%

11 Intangible Assets

	Goodwill	Other intangible assets				Total	Total
		Music and film rights	Other rights and licenses	Internally generated intangible assets	Advance payments		
in € millions							
Acquisition/production cost							
Balance as of 1/1/2009	6,988	1,019	1,443	650	20	3,132	10,120
Currency translation differences	(5)	(6)	–	(19)	–	(25)	(30)
Acquisitions through business combinations	67	1	58	–	–	59	126
Other additions	–	28	96	61	13	198	198
Reductions through disposal of investments	(30)	(19)	(1)	–	–	(20)	(50)
Other disposals	–	(37)	(40)	(5)	–	(82)	(82)
Reclassifications according to IFRS 5	(13)	–	8	–	–	8	(5)
Transfers and other changes	3	36	28	(37)	(26)	1	4
Balance as of 12/31/2009	7,010	1,022	1,592	650	7	3,271	10,281
Currency translation differences	73	10	36	31	–	77	150
Acquisitions through business combinations	100	–	6	–	–	6	106
Other additions	–	57	60	50	9	176	176
Reductions through disposal of investments	(630)	–	(190)	–	–	(190)	(820)
Other disposals	–	(99)	(50)	(3)	–	(152)	(152)
Reclassifications according to IFRS 5	(194)	–	(51)	(21)	–	(72)	(266)
Transfers and other changes	10	7	(18)	27	(3)	13	23
Balance as of 12/31/2010	6,369	997	1,385	734	13	3,129	9,498
Accumulated depreciation							
Balance as of 1/1/2009	611	928	802	597	0	2,327	2,938
Currency translation differences	(5)	(6)	(1)	(19)	–	(26)	(31)
Scheduled depreciation and amortization	–	67	123	26	–	216	216
Impairment losses	281	1	56	2	–	59	340
Reversals of impairment losses	–	(4)	–	–	–	(4)	(4)
Reductions through disposal of investments	(2)	(5)	–	–	–	(5)	(7)
Other disposals	–	(37)	(33)	(5)	–	(75)	(75)
Reclassifications according to IFRS 5	(2)	–	5	–	–	5	3
Transfers and other changes	3	2	10	(8)	–	4	7
Balance as of 12/31/2009	886	946	962	593	–	2,501	3,387
Currency translation differences	40	10	24	31	–	65	105
Scheduled depreciation and amortization	–	70	99	30	–	199	199
Impairment losses	199	–	16	11	–	27	226
Reversals of impairment losses	–	(1)	(1)	(1)	–	(3)	(3)
Reductions through disposal of investments	(628)	–	(122)	–	–	(122)	(750)
Other disposals	–	(99)	(37)	(3)	–	(139)	(139)
Reclassifications according to IFRS 5	(194)	–	(18)	(16)	–	(34)	(228)
Transfers and other changes	(2)	4	(10)	12	–	6	4
Balance as of 12/31/2010	301	930	913	657	–	2,500	2,801
Carrying amount as of 12/31/2010	6,068	67	472	77	13	629	6,697
Carrying amount as of 12/31/2009	6,124	76	630	57	7	770	6,894

Other rights and licenses include brands, supply rights, publishing rights, licenses and acquired software. Internally generated

intangible assets mostly include own film and TV productions and internally generated software.

Goodwill and other intangible assets are attributable to the following cash-generating units:

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

in € millions	Goodwill		Other intangible assets with indefinite useful life	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
RTL Group	4,832	4,784	121	121
Content	1,026	938	–	–
Television Germany	869	869	–	–
Television France	417	415	120	120
Other, disclosed under RTL Group	397	439	1	1
Other, disclosed under Corporate	2,123	2,123	–	–
Random House	368	346	–	–
Random House North America	235	218	–	–
Random House UK	83	81	–	–
Random House Germany	45	42	–	–
Other	5	5	–	–
Gruner + Jahr	461	456	107	107
Gruner + Jahr Germany	234	230	50	50
Gruner + Jahr Austria	92	92	2	2
Gruner + Jahr Spain	31	30	3	3
Gruner + Jahr China	38	34	30	27
Other	66	70	22	25
Arvato	399	389	–	–
Infoscore	242	242	–	–
Arvato Services France	27	27	–	–
Other	130	120	–	–
Direct Group	8	149	–	4
Direct Group Portugal	–	–	–	3
Direct Group France	–	143	–	1
Other	8	6	–	–
	6,068	6,124	228	232

Intangible assets with an indefinite useful life are primarily M6 trademark rights in France (€120 million; previous year: €120 million), MPS trademark rights in France and Germany (€58 million; previous year: €58 million) and advertising marketing rights (€30 million; previous year: €27 million).

The relevant factors that apply when determining the useful life include, in particular, developments on the advertising and sales markets, consumers' reading and leisure-time behavior, changes in the technology or regulatory environment and management strategies to maintain the brands. In addition, according to IAS 38.94, when defining the useful life extension periods are included if the extension is possible without significant additional costs. Consideration of these factors and past experience with regard to these and comparable internally generated brands and titles underscore the management's estimate that there are currently no foreseeable restrictions on the ability to use these rights to the extent that they are capable of generating corresponding cash flows for the unit.

For the purpose of impairment testing (IAS 36), goodwill acquired in a business combination is allocated to the cash-generating units 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 and Measurement Policies" and in the following illustrated approach. 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 not calculated in most cases. 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 of 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 recoverable amount of 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 individual business-specific growth rates:

	Growth rate in % p.a.	Discount rate in % p.a.
RTL Group		
Content	3.0	7.81
Television Germany	2.0	8.55
Television France	2.5	8.55
Other, disclosed under RTL Group	2.5–3.0	7.24–9.65
Other, disclosed under Corporate	2.0	7.40
Random House		
Random House North America	1.5	7.65
Random House UK	1.0	7.01
Random House Germany	1.0	7.01
Other	0.5	11.14
Gruener + Jahr		
Gruener + Jahr Germany	0.0	7.01
Gruener + Jahr Austria	0.0	7.01
Gruener + Jahr Spain	0.0	6.51
Gruener + Jahr China	4.0	7.01
Other	0.0–2.0	7.01–8.70
Arvato		
Infoscore	1.0	7.01
Arvato Services France	1.0	7.01
Other	0.0–1.0	7.01–7.99
Direct Group¹⁾		
Other	0.0–10.0	7.01–17.82

¹⁾ Growth rate for CGU Direct Group Ukraine/Russia is 10 percent, discount rate 17.82 percent.

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 7.4 percent. For impairment testing, a growth rate of 2.0 percent was assumed for the period after the end of the detailed planning period. Accordingly, no impairment was identified for the goodwill recognized in the financial statements. Validation with stock market prices over the period prior to and on the balance sheet date confirmed this estimate.

During the year under review, impairments were carried out for goodwill and intangible assets with indefinite useful

lives in the amount of €-207 million (previous year: €-146 million). Impairments on goodwill and other intangible assets with an indefinite useful life are shown under "Special Items" on the income statement. On December 31, 2010, impairment losses on goodwill were recorded for an amount of €-49 million against the carrying value of Alpha Media Group and the goodwill was consequently reduced to zero. This reflected the worse than expected downturn in Greek advertising markets. The impairment test was based on a growth rate of 3 percent and a discount rate of 9.65 percent. The "value in use" approach has been retained to determine the recoverable amount.

Bertelsmann is negotiating with a private U.S. investment company for a possible sale of Direct Group France, which includes the French-speaking club business and also the Chapitre.com bookstore chain. As the conditions of IFRS 5 have been met, the assets and liabilities of Direct Group France that are held for sale have been reclassified as "assets held for sale" and "liabilities in connection with assets held for sale." The fair value less costs to sell has thus been derived from the net sale price that is expected to be obtained and that has been

compared to the carrying amount. Immediately prior to the classification as held for sale according to IFRS 5, there was impairment on goodwill according to IAS 36 of €144 million and €11 million on non-current assets. Of this total, €10 million is due to intangible assets. On the reclassification date, a further impairment was required in the amount of €1 million from the measurement at the lower fair value less costs to sell. The impairment is recognized in profit or loss and carried under "special items" in the income statement.

12 Property, Plant and Equipment

	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
in € millions					
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 through business combinations	2	9	2	–	13
Other additions	31	63	70	68	232
Reductions through disposal of investments	(1)	(1)	(1)	–	(3)
Other disposals	(4)	(125)	(73)	(7)	(209)
Reclassifications according to IFRS 5	(6)	–	5	(1)	(2)
Transfers and other changes	20	61	(1)	(68)	12
Balance as of 12/31/2009	2,088	3,576	1,272	61	6,997
Currency translation differences	22	74	25	1	122
Acquisitions through business combinations	1	1	3	–	5
Other additions	34	76	95	64	269
Reductions through disposal of investments	(18)	(14)	(38)	–	(70)
Other disposals	(136)	(227)	(130)	–	(493)
Reclassifications according to IFRS 5	(118)	(18)	(59)	(2)	(197)
Transfers and other changes	16	48	2	(59)	7
Balance as of 12/31/2010	1,889	3,516	1,170	65	6,640
Accumulated depreciation					
Balance as of 1/1/2009	899	2,599	894	1	4,393
Currency translation differences	(1)	(11)	3	–	(9)
Scheduled depreciation and amortization	60	183	110	–	353
Impairment losses	24	135	3	2	164
Reversals of impairment losses	–	–	(1)	(1)	(2)
Reductions through disposal of investments	–	(1)	(1)	–	(2)
Other disposals	(2)	(118)	(68)	–	(188)
Reclassifications according to IFRS 5	(10)	–	4	–	(6)
Transfers and other changes	(5)	15	2	–	12
Balance as of 12/31/2009	965	2,802	946	2	4,715
Currency translation differences	9	57	17	–	83
Scheduled depreciation and amortization	64	168	110	–	342
Impairment losses	3	47	1	2	53
Reversals of impairment losses	–	(2)	(1)	–	(3)
Reductions through disposal of investments	(8)	(8)	(30)	–	(46)
Other disposals	(100)	(223)	(124)	–	(447)
Reclassifications according to IFRS 5	(85)	(15)	(48)	–	(148)
Transfers and other changes	4	9	(6)	(2)	5
Balance as of 12/31/2010	852	2,835	865	2	4,554
Carrying amount as of 12/31/2010	1,037	681	305	63	2,086
Carrying amount as of 12/31/2009	1,123	774	326	59	2,282

The ongoing difficult market environment with continued high pressure on prices for Southern European magazine printing has led to impairment testing for the assets carried for Arvato Print Italy and Arvato Print Ibérica.

As a part of impairment testing as of December 31, 2010, impairment was recognized for Arvato Print Italy in the amount of €30 million. This was taken into account in the form of impairment for technical equipment and machinery. The impairment test was based on a discount rate of 7.92 percent and a growth rate of -0.5 percent.

At Arvato Print Ibérica, a division of Arvato that includes the printing companies in Spain and Portugal, impairment on technical equipment and machinery was identified in the amount of €15 million. The impairment test was based on a discount rate of 8.04 percent and a growth rate of -0.5 percent. The cash flow forecasts for the impairment test are based on prudent, justifiable assumptions by management and are the best possible estimate of the underlying economic conditions.

Impairments on property, plant and equipment totaled €-53 million (previous year: €-164 million).

13 Investments Accounted for Using the Equity Method

in € millions	12/31/2010	12/31/2009
Proportionate equity	236	180
Goodwill	249	312
	485	492

Total assets of investments accounted for using the equity method amounted to €1,679 million as of December 31, 2010 (previous year: €1,538 million). On the other hand, total liabilities amounted to €937 million as of December 31, 2010 (previous year: €920 million). Revenues totaled €1,567 million (previous year: €1,511 million). Net income totaled €202 million (previous year: €116 million). These disclosures represent accounting totals for significant investments accounted for using the equity method. The values are calculated on the basis of 100 percent.

On April 15, 2010, RTL Group signed an option agreement with the majority shareholders of the Ren TV group and thus lost its significant influence over the Russian TV station. The loss of the significant influence led to the participating interest, which was previously carried at equity, being reclassified as "Other financial assets." The investment was allocated to the category of "financial assets initially recognized at fair value

through profit or loss." As a result, in the future the participating interest is subject to revaluation at fair value in line with IAS 39. The revaluation of the investment at fair value resulted in an adjustment of €+5 million that is carried under the other financial result. The reversal recognized in income of the currency translation differences accumulated in the other comprehensive income during the period in which this was a member of the Group resulted in a loss of €-12 million.

From the entities accounted for using the equity method, Antena 3 is a listed company. Its proportionate stock market value on December 31, 2010 totaled €315 million (previous year: €353 million).

The total assets of the associated companies that are not accounted for using the equity method totals €16 million. Their total liabilities amounted to €8 million. Revenues totaled €26 million and net income amounted to a total of €-0.5 million. The figures are based on 100 percent.

14 Other Financial Assets

in € millions	At amortized cost		At fair value		Total	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Current						
Loans	76	5	–	–	76	5
Securities and financial assets	1	1	–	385	1	386
	77	6	–	385	77	391
Non-current						
Loans	23	94	–	–	23	94
Investments in affiliates	25	2	–	22	25	24
Other investments	51	52	86	71	137	123
Securities and financial assets	1	2	192	123	193	125
	100	150	278	216	378	366

Other financial assets are measured at fair value according to IAS 39 or if there is no active market they are measured at amortized cost.

The loan to Talpa (de Mol) in the amount of €71 million (previous year: €67 million) has been reclassified from non-current to current loans. Of the current securities totaling €385 million in the previous year, €384 million related to interests held by Groupe M6 in Canal Plus France.

On February 1, 2010 the management of Groupe M6 exercised its put option to sell the 5.1 percent interest in Canal

Plus France to Vivendi. The payment of €384 million was made on February 22, 2010. This is disclosed in the Group cash flow statement under “Proceeds from disposal of other fixed assets.”

An increase in non-current securities and financial assets at fair value in the amount of €72 million is due to the reclassification of a participating interest in the Ren TV group previously accounted using the equity method (see note 13).

15 Inventories

in € millions	12/31/2010	12/31/2009
Program rights	779	993
Raw materials and supplies	167	142
Work in progress	113	92
Finished goods and merchandise	274	395
Advance payments	135	155
	1,468	1,777

In the period under review, valuation allowances on inventories were recognized to the amount of €-111 million (previous year: €-140 million). Inventories are written up if the reason for the write-down no longer applies. Write-ups on inventories in

the amount of €106 million (previous year: €96 million) were recognized in the year under review. The write-ups are due to higher prices on some markets or to broadcast-related factors.

16 Receivables and Other Assets

in € millions	12/31/2010	12/31/2009
Non-current		
Trade accounts receivable	7	8
Other accounts receivable and other assets	302	311
Current		
Trade accounts receivable	2,673	2,480
Accounts receivable from royalties and licenses	–	1
Trade accounts receivable	2,673	2,481
Accounts receivable from participations	22	32
Advance payments for royalties and licenses	405	447
Other tax receivables	60	66
Other financial instruments	12	17
Derivative financial instruments	64	46
Prepaid expenses	155	180
Other receivables and other assets	358	337
Other accounts receivable and other assets	1,076	1,125

Non-current other accounts receivable and other assets of €302 million (previous year: €311 million) mostly relate to advance payments for royalties and licenses in the amount of €171 million (previous year: €181 million). Advance payments for royalties and licenses 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.

Information on impairments and the analysis of maturities can be found in note 25 “Additional disclosures on financial instruments.”

17 Cash and Cash Equivalents

in € millions	12/31/2010	12/31/2009
Cash	1,325	1,806
Other securities < 3 months	681	279
	2,006	2,085

18 Equity

Subscribed Equity

	12/31/2010	12/31/2009
Number of shares		
Ordinary shares	83,760	83,760
Total shares	83,760	83,760

As was the case in the previous fiscal year, Bertelsmann AG's subscribed capital totaled €1,000 million, divided into 83,760 no-par value bearer shares (ordinary shares). As of December 31, 2010, foundations (Bertelsmann Stiftung, Reinhard Mohn Stiftung, BVG Stiftung) held 80.7 percent of Bertelsmann AG

shares, with the other 19.3 percent held indirectly by the Mohn family. Since January 2011, the foundations have held 80.9 percent and the Mohn family has held 19.1 percent. Bertelsmann Verwaltungsgesellschaft mbH (BVG) controls all 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.

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

in € millions	2010			2009		
	Before-tax amount	Taxes	Net-of-tax amount	Before-tax amount	Taxes	Net-of-tax amount
Currency translation differences	212	–	212	(25)	–	(25)
Available-for-sale financial assets	2	–	2	20	–	20
Cash flow hedges	34	(16)	18	(12)	6	(6)
Actuarial gains/losses on defined benefit plans	(116)	59	(57)	38	7	45
Share of other comprehensive income of equity-accounted investments	20	–	20	(5)	–	(5)
Other comprehensive income	152	43	195	16	13	29

Changes in the fair value of hedging relationships in place since the previous year amounted to €32 million (previous year: €1 million) and new hedging relationships to €5 million (previous year: €-5 million) in fiscal year 2010. The amount of

€-3 million relating to the other comprehensive income (previous year: €-8 million) was reversed and recognized in other operating income.

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. There are also other stock option plans at Groupe M6, which belongs to RTL Group.

RTL Group Stock Option Plan

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

The number of ordinary shares that may be placed as part of the SOP in any 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 will be the average closing middle market price of RTL shares on the Brussels Stock Exchange 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 as 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 in accordance with such other vesting schedule as 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 as 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 movements in the number of stock options in the year under review:

Options (RTL Group)

	Average exercise price in € per share	2010	Average exercise price in € per share	2009
in thousands				
Options outstanding at the beginning of the year	87	125	87	130
Options exercised/expired during the year	87	(124)	85	(5)
Options outstanding at the end of the year	85	1	87	125

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) 2010	Number of options (in thousands) 2009
August 2010	120.00	–	6
December 2010	85.24	–	118
May 2011	84.24	1	1
		1	125

On December 31, 2010, RTL Group shares closed on the Brussels Stock Exchange at €76.7 (on December 31, 2009: €47.0).

Groupe M6 Stock Option Plan

Métropole Télévision has established a stock option plan open to directors and certain employees within Groupe M6. The number of options granted to participants is approved

by the Supervisory Board of Métropole Télévision S.A. in accordance with the authorization given by the General Meeting of Shareholders.

The terms and conditions of the grants are as follows, whereby all options are settled 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				
July 2003	713.50	–	4 years of service	7 years
November 2003	20.00	–	4 years of service	7 years
April 2004	861.50	495.00	4 years of service	7 years
June 2005	635.50	391.50	4 years of service	7 years
June 2006	736.75	474.75	4 years of service	7 years
May 2007	827.50	614.00	4 years of service	7 years
May 2008	883.83	747.13	4 years of service	7 years
Free share plans				
May 2008	280.72	–	2 years of service + performance conditions	
July 2009	346.70	321.70	2 years of service + performance conditions	
December 2009	45.65	45.65	2 years of service + performance conditions	
March 2010	22.00	22.00	2 years of service + performance conditions	
July 2010 ²⁾	328.50	323.50	2 years of service + performance conditions	
December 2010 ²⁾	35.65	35.65	2 years of service + performance conditions	
Total	5,737.80	3,470.88		

¹⁾ The contractual term of the options corresponds to the vesting conditions (i.e., four years) plus three years (which represents the time frame during which the options may be exercised).

²⁾ The maximum number of free shares granted if the performance conditions are significantly exceeded would be 420,025. This number could be reduced to zero if the objectives are not met.

The price to be paid when exercising the remaining options is the average value of the shares of Métropole Télévision on the Paris Stock Exchange over 20 trading days preceding the

date of grant with the exception of the management free share allocation plan.

The table below shows the movements in the number of share options in the year under review:

Options (Groupe M6)

in thousands	Average exercise price in € per share	2010	Average exercise price in € per share	2009
Options outstanding at the beginning of the year	22	3,339	23	4,083
Options granted during the year	15	(3)	–	–
Options expired during the year	22	(614)	25	(744)
Options outstanding at the end of the year	22	2,722	22	3,339

Approximately 749 thousand free shares are still exercisable at the end of the year compared to 596 thousand at the beginning of the year. 386 thousand free shares were granted in the course

of the year. 206 thousand were exercised and 27 thousand were forfeited.

Share options outstanding at the end of the year have the following terms:

Conditions for Stock Options (Groupe M6)

Expiry date	Exercise price in €	Number of options (in thousands) 2010	Number of options (in thousands) 2009
Stock option plans			
2010	22.53	–	441
2011	24.97	495	527
2012	19.94	391	421
2013	24.60	475	504
2014	27.52	614	652
2015	14.73	747	794
		2,722	3,339
Free share plans			
2010		–	206
2011		368	390
2012		381	–
		749	596
Options outstanding at the end of the year		3,471	3,935
– of which exercisable		2,020	1,943

The market price of Métropole Télévision shares on the Paris Stock Exchange was €18.10 at December 31, 2010 (December 31, 2009: €17.97).

The fair value of services received in return for share options granted is measured by reference to the fair value of stock options granted. The estimate of fair value of the services received is measured based on a binomial model. Free shares

are valued at the share price at the date they are granted less discounted dividends, which employees are not entitled to receive during the vesting period.

Fair Values of Stock Options (Groupe M6)

	Stock option plans				Free share plans							Total
	6/2/2005	6/6/2006	5/2/2007	5/6/2008	5/2/2007	5/6/2008	7/28/2009	12/23/2009	3/25/2010	7/27/2010	12/22/2010	
Grant date												
Share price	€20.17	€24.63	€26.55	€15.22	€26.55	€15.22	€13.00	€18.02	€18.84	€17.66	€18.22	
Strike price	€19.94	€24.60	€27.52	€14.73								
Volatility	41.80%	43.10%	37.80%	40.00%								
Risk-free interest rate	3.24%	4.02%	4.40%	4.39%	4.40%	4.39%	2.49%	1.42%	1.00%	1.00%	1.13%	
Expected return	5.24%	3.81%	3.99%	6.30%	3.99%	6.30%	4.90%	4.01%	5.04%	5.38%	5.49%	
Option life	6 years	6 years	6 years	6 years	2 years	2 years	2 years	2 years	2 years	2 years	2 years	
Personnel costs in € millions												
2010	-	0.1	1.1	0.7	-	0.5	2.1	0.4	0.1	1.2	-	6.2
2009	0.2	0.9	1.3	0.6	(0.6)	1.4	0.8	-	-	-	-	4.6

Non-Controlling Interests

Non-controlling interests in the equity of consolidated subsidiaries consist primarily of non-controlling shareholders in RTL Group.

19 Provisions for Pensions and Similar Obligations

in € millions	12/31/2010	12/31/2009
Defined benefit plans	1,436	1,281
Obligations similar to pensions	129	125
	1,565	1,406

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 €25 million were recognized in the year under review (previous year: €23 million).

All other pension plans are defined benefit plans. Some are financed through an external investment fund (plan assets),

while others are unfunded. Provisions were formed for these plans. The plans are mostly final salary plans.

The provisions are determined 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 calculated 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. This takes into account 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

	12/31/2010 Germany	12/31/2010 Foreign	12/31/2009 Germany	12/31/2009 Foreign
Discount rate	5.31%	5.20%	5.99%	5.62%
Expected return on plan assets	5.37%	5.79%	3.57%	6.08%
Rate of salary increase	2.25%	3.73%	1.92%	3.80%
Rate of pension increase	1.80%	1.11%	1.74%	1.11%
Fluctuation	Experience values		Experience values	

Expected 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. Expected CTA plan returns are determined on the basis of the strategic asset allocation maintained

in different asset classes. Expected 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. Expected plan returns are reviewed regularly – at least once a year – 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	2010	2009
Defined benefit obligation on 1/1	2,298	2,206
Current service cost	40	37
New past service cost	2	–
Interest expenses	134	131
Actuarial (gains) and losses	188	18
Curtailments and settlements	(3)	(1)
Contributions to plan assets by employees	3	3
Benefits directly paid by employer	(98)	(92)
Benefits paid out of plan assets	(17)	(15)
Disposal due to IFRS 5	(6)	–
Currency translation differences	27	8
Other changes	1	3
Defined benefit obligation on 12/31	2,569	2,298
Fair value of plan assets on 1/1	1,020	930
Expected return on plan assets	45	51
Actuarial gains and (losses)	52	58
Contributions by employer	20	(10)
Contributions by the employees	3	3
Benefits paid out of plan assets	(17)	(15)
Disposal due to IFRS 5	(5)	–
Currency translation differences	19	6
Other changes	–	(3)
Fair value of plan assets on 12/31	1,137	1,020
Funded status	1,432	1,278

In 2009, in Germany, Bertelsmann Pension Trust e. V. refunded Bertelsmann AG €37 million for pension payments made in 2008

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	12/31/2010	12/31/2009
Defined benefit obligation arising from plans that are wholly unfunded	1,144	1,053
Defined benefit obligation arising from plans that are wholly or partly funded	1,425	1,245
Total defined benefit obligation	2,569	2,298
Fair value of plan assets	(1,137)	(1,020)
Net liability recognized in the balance sheet	1,432	1,278
– thereof provisions for pensions	1,436	1,281
– thereof other assets	4	3

Actuarial gains and losses under defined benefit pension plans and the effects of the asset ceiling in accordance with IAS 19.58 are taken to pension provisions in the year in which they arise with corresponding recognition in the other comprehensive income.

Actuarial losses of €-136 million (previous year gains: €40 million) were included in other comprehensive income in

the fiscal year. During the fiscal year and in the previous year the asset ceiling prescribed by IAS 19.58 did not impact the other comprehensive income. To date, cumulative actuarial losses of €-326 million (previous year: €-221 million) have been recognized in other comprehensive income.

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

Breakdown of Net Pension Liability by Region

in € millions	12/31/2010	12/31/2009
Germany	1,228	1,073
U.S.	82	72
Other Europe	115	128
Other countries	7	5
Net liability recognized in the balance sheet	1,432	1,278

Expenses for defined benefit plans in the amount of €127 million were recognized in the year under review (previous year: €116 million). Personnel costs of €38 million (previous year:

€36 million) were recognized, along with other financial income and other financial expenses of €89 million (previous year: €80 million).

These expenses break down as follows:

Expenses for Defined Benefit Plans

in € millions	2010	2009
Current service cost	40	37
Interest expenses	134	131
Expected return on plan assets	(45)	(51)
Amortization of past service cost	1	–
Effect of curtailments or settlements	(3)	(1)
Net periodic pension expenses	127	116

The actual return on plan assets in the year under review was €97 million (previous year: €109 million).

The portfolio structure of plan assets is composed as follows:

in € millions	12/31/2010	12/31/2009
Equity instruments	369	312
Debt instruments	660	612
Property	2	3
Cash and cash equivalents	27	54
Other	79	39
Fair value of any plan assets	1,137	1,020

Employer contributions to plan assets are expected to amount to €21 million in the next fiscal year.

Change in Net Pension Liability

in € millions	2010	2009
Net liability at the beginning of the year	1,278	1,276
Pension expense	127	116
New actuarial (gains) and losses recognized directly in equity	136	(40)
Pension payments	(98)	(92)
Contributions to plan assets	(20)	10
Disposal due to IFRS 5	(1)	–
Currency translation differences	8	2
Other effects	2	6
Net liability at the end of the year	1,432	1,278

The following table shows the portion of new actuarial gains and losses resulting from experience adjustments:

in € millions	2010	2009	2008	2007	2006
Experience adjustments occurred					
(Gains)/losses on defined benefit obligation	(1)	9	(72)	(12)	(4)
Gains/(losses) on plan assets	52	58	(227)	(57)	9

The changes in the defined benefit obligation and the plan assets over the past five years were as follows:

in € millions	2010	2009	2008	2007	2006
Defined benefit obligation	2,569	2,298	2,206	2,695	2,995
Plan assets	1,137	1,020	930	1,282	1,217
Funded status	1,432	1,278	1,276	1,413	1,778

The U.S. companies' obligations for healthcare costs for employees after they retire are defined benefit obligations and are included in the provisions on the balance sheet in the amount of €67 million (previous year: €60 million). These obligations have also been calculated using international standards as described above. Medical cost trade rates of 8.3 to 8.8 percent

(age-dependent) were assumed (previous year: 8.6 to 9.1 percent). An increase or decrease of one 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	12/31/2010	12/31/2009
Effect of 1 percentage point increase on pension cost	1	–
Effect of 1 percentage point increase on defined benefit obligation	3	3
Effect of 1 percentage point decrease on pension cost	(1)	–
Effect of 1 percentage point decrease on defined benefit obligation	(3)	(2)

Obligations similar to pensions include provisions for bonuses for employee service anniversaries, old age part-time schemes, 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 a permanent employment contract with the company qualify for the old age part-time schemes. 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 for each employee depends on the balance in the respective 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, 2010 (previous year: €4 million).

20 Other Provisions

in € millions	12/31/2009	Additions	Releases	Usage	Other effects	Change of consolidation scope	Accrued interest	12/31/2010	
	of which > 1 year							of which > 1 year	
Taxes	5	–	1	(1)	(4)	(1)	–	–	–
Restructuring	81	9	29	(16)	(44)	(1)	(2)	–	47
Litigation	88	5	51	(28)	(13)	1	–	–	99
Onerous contracts	172	51	67	(56)	(38)	(1)	–	–	144
Deferred remuneration	35	34	–	–	(2)	4	–	–	37
Personnel, miscellaneous	16	4	4	(1)	(6)	–	–	–	13
Guarantees and warranties	11	–	8	(6)	(2)	–	–	–	11
Sales and distribution	10	–	7	(7)	(5)	(1)	1	–	5
Other	134	37	54	(30)	(22)	(3)	(3)	2	132
	552	140	221	(145)	(136)	(2)	(4)	2	488
									110

In accordance with IAS 37 or IAS 19, respectively, restructuring provisions include termination benefits and other costs relating to the discontinuation of business activities. Provisions of €47 million (previous year: €81 million) are recognized for various restructuring programs within the Bertelsmann Group.

Reported provisions for litigation of €83 million pertain to RTL Group companies (previous year: €61 million).

21 Profit Participation Capital

in € millions	12/31/2010	12/31/2009
Profit participation certificates 1992	23	23
Profit participation certificates 2001	390	683
	413	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). As of the balance sheet date nominal profit participation capital consisted of €390 million in 2001 profit participation certificates (previous year: €683 million) and €23 million in 1992 profit participation certificates (previous year: €23 million). The 1992 and 2001 profit participation certificates are listed for public trading on the Regulated Market.

On December 31, 2010, the nominal value of the profit participation capital totaled €301 million (previous year: €516 million). Of this total, €284 million (previous year: €499 million) is due to 2001 profit participation certificates and €17 million (previous year: €17 million) is due to 1992 profit participation certificates. The 2001 profit participation certificates each have a basic amount of €10, and the basic amount of the 1992 profit participation certificates is €0.01 in each case. The market value of the 2001 profit participation certificates with a closing rate of 208 percent on the last day of trading

in the past fiscal year on the Frankfurt Stock Exchange was €591 million (previous year: €691 million with a rate of 138.50 percent) and correspondingly, for the 1992 profit participation certificates €20 million with a rate of 120 percent (previous year: 13 million with a rate of 77 percent).

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 million and thus around 43 percent of the outstanding volume. Bertelsmann accepted all the sale offers. The maximum nominal buyback amount, which was previously €150 million, was thus increased to a nominal amount of €214 million in line with the offer conditions. The total purchase price thus amounted to €386 million. The purpose of this initiative was to simplify the capital structure, since the profit participation certificate had lost its original function as an equity instrument. The payment is disclosed in the cash flow statement under "Proceeds from / redemption of other financial debt."

22 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:

in € millions	Current		Non-current		12/31/2010	12/31/2009
	12/31/2010	12/31/2009	Remaining term in years			
			1-5	> 5		
Bonds	–	741	2,025	993	3,018	3,019
Promissory notes	–	–	493	–	493	628
Liabilities to banks	105	123	101	–	101	83
Lease liabilities	24	93	45	55	100	122
Other financial debt	52	32	25	1	26	37
	181	989	2,689	1,049	3,738	3,889

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The initial recognition of the non-current financial debt is at fair value including transaction costs and the subsequent measurement is at amortized cost using the effective interest method. Foreign currency liabilities are translated at the exchange rate at the balance sheet date. The Bertelsmann Group has access to floating-rate and fixed-rate funds through various contractual arrangements. Financial debt is generally unsecured and all individual debts have the same priority.

In April 2010 the financing company Bertelsmann U.S. Finance LLC repaid a tranche of a U.S. private placement in the amount of US\$100 million on schedule. A mature bond was repaid in June 2010 in the amount of €750 million. Of this total, €75 million had already been bought back in 2009. During the second half of the year, Bertelsmann AG fully repaid a promissory note loan of €100 million that was due in October 2011 ahead of schedule. In addition, repayments were made

for a promissory note loan in the partial amount of €35 million and own bonds were bought back in the amount of €24 million.

As of the balance sheet date, the Group had bonds, private placements and promissory note loans outstanding with a nominal volume of €3,520 million (previous year: €4,402 million).

The differences in carrying amount versus nominal value in the table below are attributable to transaction costs, premiums and discounts. When calculating the carrying amounts of the bond maturing in September 2012 in the amount of €500 million, in addition the buybacks performed were also taken into account with a nominal volume of €24 million. The tranches acquired on the secondary market are held to maturity in a separate portfolio and reduce the carrying amount and market value disclosed. In addition, repayments of €35 million were taken into account in calculations for the carrying amount of the promissory note loan due in February 2014.

Bonds and Promissory Notes

in € millions	Due date	Effective interest rate in %	Carrying amount 12/31/2010	Carrying amount 12/31/2009	Fair value 12/31/2010	Fair value 12/31/2009
4.69% Bertelsmann U.S. Finance LLC (US\$100 million U.S. private placement) 2003	4/17/2010	4.83	–	69	–	70
4.625% Bertelsmann U.S. Finance LLC (€750 million bond) 2003	6/3/2010	4.70	–	672	–	685
5.65% Bertelsmann AG (€100 million promissory note) 2008	10/17/2011	5.79	–	100	–	105
4.375% Bertelsmann AG (€500 million bond) 2006	9/26/2012	4.47	475	499	496	519
5.23% Bertelsmann U.S. Finance LLC (US\$200 million U.S. private placement) 2003	4/17/2013	5.38	150	139	163	147
7.875% Bertelsmann AG (€750 million bond) 2009	1/16/2014	7.72	753	754	861	854
5.05% Bertelsmann AG (€500 million promissory note) 2008	2/25/2014	5.17	463	498	501	522
6.00% Bertelsmann AG (€30 million promissory note) 2009	3/24/2014	6.00	30	30	33	32
5.33% Bertelsmann U.S. Finance LLC (US\$200 million U.S. private placement) 2003	4/17/2015	5.46	149	138	167	144
3.625% Bertelsmann AG (€500 million bond) 2005	10/6/2015	3.74	498	497	509	479
4.75% Bertelsmann AG (€1,000 million bond) 2006	9/26/2016	4.89	993	992	1,061	1,002
			3,511	4,388	3,791	4,559

The documentation of the bonds issued 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, 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 that was launched in 2008 was updated in April 2010. The framework documentation allows Bertelsmann AG and Bertelsmann U.S. Finance LLC to place bonds with a 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 was amortized

for the last time in fiscal year 2010 over the residual term of the respective instruments. Amortization resulted in carrying amount increases of €3 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 €-9 million at year-end (previous year: €-14 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, 2010, the listed bonds had a cumulative fair value of €2,927 million (previous year: €3,539 million), a nominal volume of €2,726 million (previous year: €3,425 million) and a carrying amount of €2,719 million (previous year: €3,414 million). The quoted prices applied in determining the fair values are shown in the table below.

Quoted Prices

in percent	12/31/2010	12/31/2009
4.625% Bertelsmann U.S. Finance LLC (€750 million bond) 2003	–	101.472
4.375% Bertelsmann AG (€500 million bond) 2006	104.213	103.719
7.875% Bertelsmann AG (€750 million bond) 2009	114.835	113.860
3.625% Bertelsmann AG (€500 million bond) 2005	101.869	95.900
4.75% Bertelsmann AG (€1,000 million bond) 2006	106.098	100.222

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

in € millions	Carrying amount as of 12/31/2010			Carrying amount as of 12/31/2009		
	Fixed interest	Floating rate	Total	Fixed interest	Floating rate	Total
Bonds	3,018	–	3,018	3,660	100	3,760
Promissory notes	493	–	493	628	–	628
	3,511	–	3,511	4,288	100	4,388

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 €1,306 million (previous year: €1,510 million) and can be

disposed of freely in the course of the Group's ordinary business activities. During the year under review, Bertelsmann AG terminated individual bilateral credit agreements due to the excellent liquidity situation. The table below shows the remaining terms and the utilization of the existing credit agreements at the balance sheet date:

Remaining Terms

in € millions	Line of credit 12/31/2010	Drawn down 12/31/2010	Available lines of credit 12/31/2010	Available lines of credit 12/31/2009
< 1 year	106	–	106	310
1 to 2 years	1,200	–	1,200	–
2 to 3 years	–	–	–	1,200
3 to 4 years	–	–	–	–
4 to 5 years	–	–	–	–
> 5 years	–	–	–	–
	1,306	–	1,306	1,510

Lease Liabilities

Finance leases exist for the following assets:

Leased Assets

in € millions	12/31/2010		12/31/2009	
	Acquisition costs	Net carrying amount	Acquisition costs	Net carrying amount
Land, rights equivalent to land and buildings	13	13	35	34
Office, factory and other buildings	170	110	299	183
Machinery and technical equipment	13	6	11	5
Other equipment, fixtures, furniture and office equipment	6	2	9	3
	202	131	354	225

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.

The rental of the Gruner + Jahr headquarters "Am Baumwall" in Hamburg was ended on schedule on December 31, 2010 as part of a long-term finance lease. There was a purchase option for Gruner + Jahr to acquire the property at the end of the lease. This option was not exercised. Instead, the lease liability was repaid with the acquisition of interests in the lease company ALWA. This concerns economic and legal ownership.

Minimum Lease Payments for Finance Leases

in € millions	12/31/2010			12/31/2009		
	Nominal value of lease payments	Discount amounts	Present value	Nominal value of lease payments	Discount amounts	Present value
up to 1 year	29	5	24	103	10	93
1 to 5 years	62	17	45	74	20	54
over 5 years	64	9	55	85	17	68
	155	31	124	262	47	215

23 Liabilities

in € millions	12/31/2010	12/31/2009
Non-current		
Trade accounts payable	51	83
Other liabilities	618	590
Current		
Trade accounts payable	2,611	2,588
Liabilities to participations	11	32
Tax liabilities	166	170
Derivative financial instruments	30	46
Social security liabilities	94	104
Personnel-related liabilities	564	480
Received advance payments	53	50
Deferred items	312	299
Sundry liabilities	966	1,076
Other liabilities	2,196	2,257

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Other non-current liabilities totaled €618 million (previous year: €590 million). This includes liabilities from put options relating to shareholder with non-controlling interest in the amount of €149 million (previous year: €114 million), non-controlling interests in partnerships of €199 million (previous year: €182 million) and derivative financial instruments of €7 million (previous year: €7 million). Deferred items include performance-related government grants of less than €1 million (previous year: €1 million). An amount of €13 million (previous

year: €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.

Sundry liabilities include supplier obligations, debtors with credit balances and liabilities to non-controlling shareholders. This item also includes put options relating to non-controlling shareholders in the amount of €5 million (previous year: €146 million). The change relates to the put option exercised for the Arvato Infoscore Group (see “Acquisitions and Disposals”).

24 Off-Balance-Sheet Liabilities Contingent Liabilities and Other Commitments

in € millions	12/31/2010	12/31/2009
Guarantees	163	51
Rental and lease commitments	1,207	1,331
Other commitments	3,108	3,233
	4,478	4,615

The increase in guarantees compared to the previous year is mostly due to the sale of Five group (see “Discontinued Operations”). It is considered unlikely that these guarantees will be called in. Other commitments in the amount of €2,583 million (previous year: €2,751 million) pertain to RTL Group. These relate to 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 €398 million (previous year: €376 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 and sport rights were sold to a leasing company and were leased back under a finance lease (sale and leaseback). This agreement does not meet the criteria of IAS 17 for disclosure as a finance lease. 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 €67 million (previous year: €72 million). The remaining lease term is seven 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	12/31/2010	12/31/2009
Nominal amount		
up to 1 year	261	290
1 to 5 years	553	606
over 5 years	393	435
	1,207	1,331
Present value	1,024	1,119

These commitments largely concern long-term tenancy and technical broadcasting facilities. They are offset by expected minimum lease payments from subleases with a nominal value of €51 million (previous year: €53 million). The current values

have been calculated based on country-specific interest rates. They show the net payments currently required to settle the respective commitments.

25 Additional Disclosures on Financial Instruments**Maturity Analysis of Selected Financial Assets and Receivables**

in € millions	Neither impaired nor past due on the reporting date	Not itemized as of the reporting date and past due by:					Gross value of accounts receivable impaired by specific provision
		< 1 month	1–3 months	3–6 months	6–12 months	> 12 months	
Loans	99	–	–	–	–	–	32
Securities and investments	156	–	–	–	–	–	47
Trade accounts receivable	2,063	265	92	152	43	45	216
Accounts receivable from royalties and licenses	–	–	–	–	–	–	–
Accounts receivable from participations	22	–	–	–	–	–	–
Other receivables	405	43	10	15	1	1	16
Carrying amount as of 12/31/2010	2,745	308	102	167	44	46	311
Loans	95	–	–	–	–	–	37
Securities and investments	472	–	–	–	–	–	50
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
Carrying amount as of 12/31/2009	2,789	306	140	70	37	44	447

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

Schedule of Impairments According to IFRS 7

	Previous year	Additions	Usage	Releases	Change of consolidation scope	Exchange rate effect	Year under review
in € millions							
Loans	(33)	(3)	3	14	(12)	(1)	(32)
Investments in affiliates	(605)	(1)	(9)	8	–	–	(607)
Other investments	(68)	(4)	5	2	1	(2)	(66)
Securities and investments	(11)	(2)	2	2	–	–	(9)
Trade accounts receivable	(202)	(74)	30	49	7	(6)	(196)
Accounts receivable from participations	–	–	–	–	–	–	–
Other receivables	(31)	(9)	(5)	5	1	–	(39)
Total 2010	(950)	(93)	26	80	(3)	(9)	(949)
Loans	(21)	(24)	3	9	–	–	(33)
Investments in affiliates	(616)	–	–	10	1	–	(605)
Other investments	(72)	(9)	(8)	20	–	1	(68)
Securities and investments	(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)

As a result of the Bertelsmann Group's global activities and the diversified customer structure there is no material concentration

of default risks. The carrying amount of all receivables, loans and securities constitutes the Group's maximum default risk.

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			Total
		up to 1 year	1 to 5 years	over 5 years	
Profit participation capital	413	–	–	413	413
Fixed interest bonds and promissory notes	3,511	–	2,520	1,000	3,520
Liabilities to banks	206	105	101	–	206
Lease liabilities	124	29	62	64	155
Other financial debt	78	52	25	1	78
Trade accounts payable	2,662	2,611	40	11	2,662
Liabilities to participations	11	11	–	–	11
Derivative financial instruments with hedge relation	19	18	1	–	19
Derivative financial instruments without hedge relation	12	12	–	–	12
Financial guarantees	8	2	4	2	8
Sundry liabilities	851	819	18	14	851
Balance as of 12/31/2010	7,895	3,659	2,771	1,505	7,935
Profit participation capital	706	–	–	706	706
Fixed interest bonds and promissory notes	4,388	744	2,019	1,639	4,402
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
Financial guarantees	7	1	4	2	7
Sundry liabilities	917	809	89	19	917
Balance as of 12/31/2009	9,264	4,478	2,384	2,463	9,325

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 will have to make the following future interest payments:

Future Undiscounted Interest Payments

in € millions	Undiscounted interest payments			Total
	up to 1 year	1 to 5 years	over 5 years	
Profit participation capital	44	181	90	315
Fixed interest bonds and promissory notes	186	575	48	809
Liabilities to banks	10	5	–	15
Lease liabilities	5	17	9	31
Other financial debt	3	2	1	6
Interest derivatives	1	1	–	2
Balance as of 12/31/2010	249	781	148	1,178
Profit participation capital	75	309	232	616
Fixed interest bonds and promissory notes	225	697	117	1,039
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	320	1,029	361	1,710

Carrying Amounts and Measurement Methods by Measurement Category Assets

in € millions	Category according to IAS 39					Derivatives with hedge relation
	Loans and receivables	Available-for-sale		Financial assets initially recognized at fair value through profit or loss	Financial assets held for trading	
	At amortized cost	At cost	Fair value recognized in equity	Fair value recognized in profit or loss	Fair value recognized in profit or loss	
Measurement						
Loans	99	-	-	-	-	-
Investments in affiliates	-	25	-	-	-	-
Other investments	-	51	86	-	-	-
Securities and investments	-	2	37	155	-	-
Trade accounts receivable	2,680	-	-	-	-	-
Accounts receivable from royalties and licenses	-	-	-	-	-	-
Accounts receivable from participations	22	-	-	-	-	-
Other financial instruments	11	-	1	-	-	-
Derivative financial instruments	-	-	-	-	23	53
Other receivables	452	-	-	-	-	-
Cash	1,325	-	-	-	-	-
Other securities < 3 months	680	1	-	-	-	-
	5,269	79	124	155	23	53

On February 1, 2010, the 5.1 percent interest in Canal Plus France disclosed in the previous year under “Financial Assets Initially Recognized at Fair Value through Profit or Loss” was sold to Vivendi by exercising the put option. The payment of €384 million was made on February 22, 2010. The assets disclosed on December 31, 2010 as “Financial Assets Initially Recognized at Fair Value through Profit or Loss” mostly

relate to structured financial products for RTL Group S.A. in the amount of €78 million (previous year: €78 million) and a participation in Ren TV group in the amount of €72 million (see note 13). The market valuation of securities in the category “Financial Assets Initially Recognized at Fair Value through Profit or Loss” resulted in total profits of €10 million (previous year: €44 million).

Liabilities

in € millions	Category according to IAS 39		Derivatives with hedge relation	Payables out of scope of IAS 39
	Financial liabilities at amortized cost	Financial liabilities held for trading		
	At amortized cost	Fair value recognized in profit or loss		
Measurement				
Profit participation capital	413	-	-	-
Bonds and promissory notes	3,511	-	-	-
Liabilities to banks	206	-	-	-
Lease liabilities	-	-	-	124
Other financial debt	78	-	-	-
Trade accounts payable	2,662	-	-	-
Liabilities to participations	11	-	-	-
Derivative financial instruments	-	12	19	6
Social security liabilities	-	-	-	94
Financial guarantees	8	-	-	-
Sundry liabilities	851	-	-	-
	7,740	12	19	224

Total 12/31/2010	Category according to IAS 39						Derivatives with hedge relation	Total 12/31/2009
	Loans and receivables	Available-for-sale		Financial assets initially recog- nized at fair value through profit or loss	Financial assets held for trading			
	At amortized cost	At cost	Fair value recognized in equity	Fair value recognized in profit or loss	Fair value recognized in profit or loss			
99	99	-	-	-	-	-	99	
25	-	2	22	-	-	-	24	
137	-	52	71	-	-	-	123	
194	-	3	43	465	-	-	511	
2,680	2,488	-	-	-	-	-	2,488	
-	1	-	-	-	-	-	1	
22	32	-	-	-	-	-	32	
12	7	-	10	-	-	-	17	
76	-	-	-	-	31	34	65	
452	425	-	-	-	-	-	425	
1,325	1,806	-	-	-	-	-	1,806	
681	272	7	-	-	-	-	279	
5,703	5,130	64	146	465	31	34	5,870	

Total 12/31/2010	Category according to IAS 39				Derivatives with hedge relation	Payables out of scope of IAS 39	Total 12/31/2009
	Financial liabilities at amortized cost	Financial liabilities held for trading					
	At amortized cost	Fair value recognized in profit or loss					
413	706	-	-	-	-	706	
3,511	4,388	-	-	-	-	4,388	
206	206	-	-	-	-	206	
124	-	-	-	-	215	215	
78	69	-	-	-	-	69	
2,662	2,671	-	-	-	-	2,671	
11	32	-	-	-	-	32	
37	-	13	40	-	-	53	
94	-	-	-	-	108	108	
8	7	-	-	-	-	7	
851	917	-	-	-	-	917	
7,995	8,996	13	40	40	323	9,372	

Assets Measured at Fair Value Categorized Using the Fair Value Measurement Hierarchy

	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Not observable market data	Total 12/31/2010
in € millions				
Assets initially recognized at fair value through profit or loss	–	83	72	155
Available-for-sale financial assets	46	35	43	124
Original and derivative financial assets held for trading	–	23	–	23
Derivatives with hedge relation	–	53	–	53
	46	194	115	355
Total 12/31/2009				
Assets at fair value through profit and loss upon initial recognition	–	81	384	465
Available-for-sale financial assets	38	39	69	146
Original and derivative 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

	Financial assets initially recognized at fair value through profit or loss	Available- for-sale financial assets	Original and derivative financial assets held for trading	Derivatives with hedge relation	Total
in € millions					
Balance as of 1/1/2010	384	69	–	–	453
Total gain or loss	5	(3)	–	–	2
– in profit or loss	5	(2)	–	–	3
– in other comprehensive income	–	(1)	–	–	(1)
Reclassifications from interests in equity-accounted investments ¹⁾	67	–	–	–	67
Purchases	–	3	–	–	3
Issues	–	–	–	–	–
Settlements	(384)	–	–	–	(384)
Transfers out/in Level 3	–	(26)	–	–	(26)
Balance as of 12/31/2010	72	43	–	–	115
Gain (+) or loss (-) for assets still held at the end of the reporting period	5	(2)	–	–	3
Balance as of 1/1/2009	410	69	–	–	479
Total gain or loss	19	(1)	–	–	18
– in profit or loss	19	–	–	–	19
– in other comprehensive income	–	(1)	–	–	(1)
Reclassifications from interests in equity-accounted investments	–	–	–	–	–
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

¹⁾ Cf. note 13.

Liabilities Measured at Fair Value Categorized Using the Fair Value Measurement Hierarchy

	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Not observ- able market data	Total 12/31/2010
in € millions				
Financial liabilities held for trading	–	12	–	12
Derivatives with hedge relation	–	19	–	19
		31		31

	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Not observ- able market data	Total 12/31/2009
in € millions				
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 respective 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 markdowns and markups for the remaining term of the transactions.

The fair value of interest rate derivatives is calculated on the basis of the respective 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

	Loans and receivables	Available-for-sale financial assets, at cost	Available-for-sale financial assets at fair value recognized in equity	Assets initially recognized at fair value through profit or loss	Financial liabilities at amortized cost	Derivatives with hedge relation	Financial instruments held for trading	Other exchange rate changes
in € millions								
Dividends	–	11	–	–	–	–	–	–
Interest	19	–	–	–	(238)	(1)	1	–
Impairment	(53)	(4)	(3)	–	20	–	–	–
Fair value measurement	–	–	–	10	–	1	–	–
Currency translation differences	–	–	–	–	–	(4)	45	(54)
Disposal	–	7	–	–	–	–	–	–
Net income 2010	(34)	14	(3)	10	(218)	(4)	46	(54)
Dividends	–	10	–	–	–	–	–	–
Interest	22	–	–	–	(264)	(1)	6	–
Impairment	(94)	(10)	(2)	–	7	–	–	–
Fair value measurement	–	–	–	44	–	(12)	–	–
Currency translation differences	–	–	–	–	–	(22)	(23)	54
Disposal	–	7	–	–	–	–	–	–
Net income 2009	(72)	7	(2)	44	(257)	(35)	(17)	54

Other currency translation differences consist of the exchange rate effects of loans and receivables and liabilities at amortized cost.

Accounting of Derivative Financial Instruments and Hedges

All derivatives are recognized 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 as such in financial terms.

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 options, interest rate swaps and individual commodities forwards. Transactions are exclusively entered into with banks with an excellent credit rating. As a rule, the Corporate Treasury and Finance Department's transactions are only performed with a group of 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 operating business (49 percent). Financial derivatives used to hedge currency risks from operating business totaled €669 million (33 percent) as of 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

in € millions	Nominal amounts as of 12/31/2010				Nominal amounts as of 12/31/2009			
	< 1 year	1–5 years	> 5 years	Total	< 1 year	1–5 years	> 5 years	Total
Currency derivatives								
Forward contracts and currency swaps	1,340	304	8	1,652	1,291	296	9	1,596
Currency options	–	6	–	6	4	7	–	11
Interest rate derivatives								
Interest rate swaps	117	254	1	372	139	297	6	442
Other derivative financial instruments	–	10	–	10	–	15	–	15
	1,457	574	9	2,040	1,434	615	15	2,064

Fair Values of Financial Derivatives

in € millions	Nominal amounts		Fair values	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Currency derivatives				
Forward contracts and currency swaps	1,652	1,596	32	(2)
Currency options	6	11	–	–
Interest rate derivatives				
Interest rate swaps	372	442	9	11
Other derivative financial instruments	10	15	4	3
	2,040	2,064	45	12

Currency forwards are used to hedge the exchange rate risk relating to the purchase of program rights and output deals for the TV business. Bertelsmann 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) transactions expected in the future 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, 2010 will thus impact the income statement in fiscal years 2011 through 2016. The ineffective portion of cash flow hedges amounted to €1 million as of December 31, 2010 (previous year: €-12 million).

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 12/31/2010	Carrying amount as of 12/31/2009
Assets		
Forward contracts and currency swaps		
Without hedge relation	8	13
In connection with cash flow hedges	53	31
Currency options		
Without hedge relation	–	–
Interest rate swaps		
Without hedge relation	15	18
In connection with cash flow hedges	(4)	–
Other in connection with cash flow hedges	4	3
Equity and Liabilities		
Forward contracts and currency swaps		
Without hedge relation	12	13
In connection with cash flow hedges	17	34
Interest rate swaps		
Without hedge relation	–	–
In connection with cash flow hedges	2	6
Other in connection with IFRS 2	6	–

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. Some subsidiaries, such as RTL Group in particular, have their own finance departments. These report their hedge transactions to the Corporate Treasury and Finance Department each quarter.

Further information on financial market risks and financial risk management can be found in the Group management report.

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 have 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. Over the long term, the Group aims to achieve a reasonable relationship between financial debt and results of operations. Bertelsmann's focus is on the maximum leverage factor permitted for the Group.

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 rollover financing (liquidity risk in a narrower sense), delayed receipt of payment and unforeseen expenditure (budgeting risk). Budgeting risk is determined by comparing deviations in actual spending with budget and reserve amounts. In a narrower sense, liquidity risk depends on the volume of debt due within a given period.

Liquidity risk is 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.

Counterparty 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. Transactions involving money market securities and other financial instruments are exclusively conducted with a defined group of banks with an excellent credit rating (“core banks”). Core banks are constantly monitored on the basis of quantitative and qualitative criteria (rating, CDS spreads, stock price, etc.)

Capital 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 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

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.

the Group is the leverage factor of maximum 2.5. The interest coverage ratio has to remain above 4, while the equity ratio must not fall below 25 percent of total assets. Management of the equity ratio is based on the definition of equity in IFRS. Although minority interests in partnerships represent equity in financial terms, they are classified as debt for accounting purposes.

In the year under review, the equity ratio was 34.5 percent (previous year: 30.9 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 impact the Group’s net interest income almost immediately.

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 measured 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 con-

junction with the conclusion of an interest rate or exchange rate hedge transaction 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.

The cash flow or present value risks on the balance sheet date are analyzed using a sensitivity calculation, assuming a parallel shift in the interest rate curve of +/-1 percent for all major 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 following table:

in € millions	12/31/2010		12/31/2009	
	Shift +1%	Shift -1%	Shift +1%	Shift -1%
Cash flow risks	18	(18)	13	(13)
Present value risks (income statement)	-	-	-	-
Present value risks (equity)	7	(7)	6	(6)

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 devaluation of foreign currencies would have resulted in a change in the carrying amount recognized in income of €8 million (previous year: €-8 million). Of this figure, €2 million (previous year: €-7 million) relates to fluctua-

tions in the U.S. dollar exchange rate with a net exposure of US\$-23 million (previous year: US\$108 million). Shareholders' equity would have declined by €-63 million (previous year: €-68 million) as a result of fluctuations in the fair values of documented cash flow hedges. Of this figure, €-64 million (previous year: €-71 million) relates to fluctuations in the U.S. dollar exchange rate on the basis of a documented cash flow hedge volume of US\$854 million (previous year: US\$1,018 million).

Factoring

In individual cases, Bertelsmann 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 €543 million (previous year: €512 million) and amounted to €541 million at the balance sheet date (previous year: €508 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 €17 million at the balance sheet date (previous year: €18 million).

26 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 service costs and company payments for these obligations (see note 19).

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 €13 million was assumed as part of acquisitions; of this total, €8 million was paid on the date of the acquisition.

Cash flow from financing activities tracks changes in shareholders' equity affecting cash, changes in financial debt and net interest paid or received.

27 Segment Reporting

IFRS 8 “Operating Segments” stipulates that external segment reporting must be based on internal organizational and management structure and on management and reporting indicators used internally. 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 inter-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 measurement in the segment reporting uses the same IFRS principles as in the consolidated financial statements. Notwithstanding the IFRS principles, 66 percent of the net present value of the operating leases is considered in the calculation of invested 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 balance sheet 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.

The number of employees as of the balance sheet date and the average number of employees for the year are also shown.

In addition to the segment breakdown, revenues are broken down by customer location and revenue 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 pages 91f.

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	2010	2009
Total amount of segments' EBIT	1,600	1,026
Corporate	(108)	(128)
Consolidation/Other	4	(5)
EBIT from continuing operations	1,496	893
Financial result	(538)	(407)
Earnings before taxes from continuing operations	958	486
Income taxes	(248)	(249)
Earnings after taxes from continuing operations	710	237
Earnings after taxes from discontinued operations	(54)	(202)
Group profit or loss	656	35
	12/31/2010	12/31/2009 adjusted
Total assets of the segments	13,579	13,622
Corporate	2,489	2,486
Consolidation/Other	(91)	(84)
Total assets of the Group¹⁾	15,977	16,024
Operating leases (66% of net present value)	(676)	(712)
Cash and cash equivalents	2,006	2,085
Deferred tax assets	1,155	1,053
Other assets (not allocated) ²⁾	317	928
Total assets	18,779	19,378
Total liabilities of the segments	5,482	5,075
Corporate	89	97
Consolidation/Other	(49)	(29)
Total liabilities of the Group	5,522	5,143
Equity	6,486	5,980
Profit participation capital	413	706
Provisions for pensions and similar obligations	1,565	1,406
Financial debt	3,919	4,878
Deferred tax liabilities	82	103
Other liabilities (not allocated) ³⁾	792	1,162
Total liabilities	18,779	19,378

Figures from the previous year were adjusted in accordance with IFRS 5.

¹⁾ Continuing operations; including 66 percent of the net present value of operating leases.

²⁾ Includes assets held for sale.

³⁾ Comprises liabilities included in assets held for sale.

28 Reconciliation to Operating EBITDA

Based on operating EBIT, operating EBITDA is calculated by adding the other amortization and depreciation of non-current assets less write-ups.

Reconciliation to Operating EBITDA (Continuing Operations)

in € millions	2010	2009
Operating EBIT	1,852	1,438
Amortization/Write-ups of intangible assets	205	205
Depreciation/Write-ups of property, plant and equipment	343	357
Operating EBITDA	2,400	2,000

29 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, jointly controlled or over which it exercises a significant influence. Accordingly, certain members of the Mohn family, the entities that are controlled, jointly controlled or significantly influenced by them, the members of the Executive Board and Supervisory Board of Bertelsmann AG including close members of the family, and the joint ventures and associates forming part of the Bertelsmann Group are defined as related parties.

Bertelsmann Verwaltungsgesellschaft mbH, Gütersloh, has control of the Bertelsmann Group. This is a holding company

with no operating activities. 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 shares. Both direct and indirect shareholdings were taken into account when calculating these interests.

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					
2010					
Revenues	–	–	36	49	–
Other operating income	1	–	5	–	–
Cost of materials	–	–	(14)	(5)	–
Personnel costs	–	(33)	–	–	–
Other operating expenses	–	–	(1)	(1)	–
Financial result	–	(1)	1	–	–
2009					
Revenues	–	–	35	53	–
Other operating income	–	–	4	–	7
Cost of materials	–	–	(16)	(2)	–
Personnel costs	–	(14)	–	–	–
Other operating expenses	–	–	(3)	(1)	–
Financial result	–	(1)	1	–	–
Balance sheet					
12/31/2010					
Other financial assets	–	–	4	11	–
Accounts receivable	–	–	12	26	–
Provisions for pensions	7	14	–	–	5
Liabilities	–	20	13	11	–
12/31/2009					
Other financial assets	–	–	6	12	–
Accounts receivable	–	–	11	36	–
Provisions for pensions	–	10	–	–	5
Liabilities	–	–	13	33	–

The remuneration for members of management in key positions includes short-term employee benefits totaling €26 million (previous year: €13 million), post-employment benefits totaling €2 million (previous year: none) and other long-term employee benefits in the amount of €5 million (previous year: none).

Guarantees of €5 million (previous year: none) were entered into for associated companies. Bertelsmann AG has a financing obligation of €61 million to BMG Rights Manage-

ment in connection with the acquisition of a company. As was the case in the previous year, Bertelsmann has no share in the contingent liabilities at the associated companies.

There are liabilities from operating leases from jointly controlled companies to the Bertelsmann Group of €10 million (previous year: €11 million). The Group did not have any material contingent liabilities with regard to its jointly controlled companies.

30 Events After the Reporting Date

The bookstore chain Casa del Libro, a subsidiary of the Spanish media company Grupo Planeta, acquired all Librerías-Bertrand bookstores from Direct Group in Spain with retroactive effect from January 1, 2011. In addition, the sales process for the club business in Poland was initiated in January 2011.

In January 2011, the Arvato division announced the start of an extensive reorganization of its company structure. The heart

of this reorganization is the formation of strategic market units, which will offer integrated solutions for individual markets and industries in the future. The former structure with three divisions, Arvato Print, Arvato Digital Services and Arvato Services, will not be continued.

Income Statement
Statement of Comprehensive Income
Balance Sheet
Cash Flow Statement
Statement of Changes in Equity
Notes

31 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) of the German Commercial Code (HGB) relating to additional requirements for limited liability com-

panies to prepare annual financial statements and a management report, as well as the requirements for audit of, and publication by, limited liability companies for the year ended December 31, 2010:

"121" Musikproduktions- und Musikverlagsgesellschaft mbH	Cologne
Adportum Media GmbH	Munich
arvato AG	Gütersloh
arvato backoffice services Erfurt GmbH	Erfurt
arvato digital services GmbH	Gütersloh
arvato direct services Brandenburg GmbH	Brandenburg
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
arvato direct services GmbH	Gütersloh
arvato direct services Gütersloh GmbH	Gütersloh
arvato direct services Münster GmbH	Münster
arvato direct services Neckarsulm GmbH	Neckarsulm
arvato direct services Neubrandenburg GmbH	Neubrandenburg
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 Wilhelmshaven GmbH	Schortens
arvato distribution GmbH	Harsewinkel
arvato infoscure 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 Potsdam GmbH	Potsdam
arvato services Rostock GmbH	Rostock
arvato services Schwerin GmbH	Schwerin
arvato services solutions GmbH	Gütersloh
arvato services Stralsund GmbH	Stralsund
arvato services technical information GmbH	Harsewinkel
arvato systems GmbH	Gütersloh
arvato systems GmbH Infrastructure Consulting	Dortmund
arvato systems Mittelstand GmbH	Gütersloh
arvato systems Technologies GmbH	Rostock
arvato telco services Erfurt GmbH	Erfurt
arvato Transport GmbH	Gütersloh
AVE Gesellschaft für Hörfunkbeteiligungen mbH	Berlin
AVE V Vermögensverwaltungsgesellschaft mbH	Berlin
AZ Direct Beteiligungs GmbH	Gütersloh
AZ Direct GmbH	Gütersloh
BAG Business Information Beteiligungs GmbH	Gütersloh
BC Bonusclub GmbH	Berlin
Be Accounting Services GmbH	Gütersloh
Bertelsmann Aviation GmbH	Gütersloh
Bertelsmann Business Consulting GmbH	Gütersloh
Bertelsmann Capital Holding GmbH	Gütersloh
Bertelsmann Music Group GmbH	Gütersloh
Bertelsmann Treuhand- und Anlagengesellschaft 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
DeutschlandCard GmbH	Munich
DHV – Der HÖR Verlag GmbH	Munich
DirectGroup Bertelsmann GmbH	Gütersloh
DirectSourcing Germany GmbH	Munich
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
Gute Zeiten – Schlechte Zeiten Vermarktungsgesellschaft mbH	Cologne
Hotel & Gastronomie Gütersloh GmbH	Gütersloh
infoNetwork GmbH	Cologne
informa Insurance Risk and Fraud Prevention GmbH	Baden-Baden
informa Solutions GmbH (formerly informa Unternehmensberatung GmbH)	Baden-Baden
informa Solutions GmbH ¹⁾	Baden-Baden
infoscure Business Support GmbH	Baden-Baden

infoscure Consumer Data GmbH	Baden-Baden
infoscure Finance GmbH	Baden-Baden
infoscure Forderungsmanagement GmbH	Baden-Baden
inmediaONE] GmbH	Gütersloh
IP Deutschland GmbH	Cologne
maul + co – Chr. Belsler GmbH	Nuremberg
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
Nayoki Interactive Advertising GmbH	Munich
NIONEX GmbH	Gütersloh
Norddeich TV Produktionsgesellschaft-GmbH	Cologne
Nürnberg 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
RCB Radio Center Berlin GmbH	Berlin
Reinhard Mohn GmbH	Gütersloh
rewards arvato services GmbH	Munich
RM Buch und Medien Vertrieb GmbH	Gütersloh
RM Customer Direct GmbH	Nordhorn
RM Filial-Vertrieb GmbH	Rheda-Wiedenbrück
RM Kunden-Service GmbH	Gütersloh
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 Hessen GmbH	Frankfurt
RTL interactive GmbH	Cologne
RTL Nord GmbH	Hamburg
RTL Radio Berlin GmbH	Berlin
RTL Radio Deutschland GmbH	Berlin
RTL Radiovermarktung GmbH	Cologne
RTL West GmbH	Cologne
rtv media group GmbH	Nuremberg
teamWorx Television & Film GmbH	Potsdam
UFA Cinema GmbH	Potsdam
UFA Entertainment GmbH	Berlin
UFA Film & TV Produktion GmbH	Berlin
UFA Film und Fernseh GmbH	Cologne
UFA Filmproduktion GmbH	Berlin
Ufa Radio-Programmgesellschaft in Bayern mbH	Ismaning
UFA-Fernsehproduktion Gesellschaft mit beschränkter Haftung	Berlin
Universum Film GmbH	Munich
Verlag RM GmbH	Gütersloh
Verlagsgruppe Random House GmbH	Gütersloh
Verlegerdienst München GmbH	Gilching
Viasol Reisen GmbH	Berlin
Vogel Druck und Medienservice GmbH	Höchberg
VOX Holding GmbH	Cologne
Wahl Media GmbH	Munich
wer-kennt-wen.de GmbH	Cologne

The exemption provisions set out in section 264 b HGB were again used for the following companies for the year ended December 31, 2010:

"ALWA" Gesellschaft für Vermögensverwaltung mbH & Co.	
Grundstücksvermietung KG	Schönefeld
11 Freunde Verlag GmbH & Co. KG	Berlin
ARVATO MARGENTO SOLUTIONS GmbH & Co. KG	Munich
Berliner Presse Vertrieb GmbH & Co. KG	Berlin
Chefkoch.de Marken & Dienste GmbH & Co. KG	Bad Neuenahr-Ahrweiler
Dresdner Druck- und Verlagshaus GmbH & Co. KG	Dresden
G+J Entertainment Media GmbH & Co. KG	Munich
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	Berlin
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, 2010.

The consolidated subsidiary Sonopress Ireland Limited in Dublin, Ireland, has used the option offered in Section 17 of

the Irish Companies' (Amendment) Act 1986 for publication requirements for its annual financial statements.

32 Additional Information according to Section 315a HGB

Compensation of the members of the Supervisory Board for 2010 amounted to €1,350,000 plus statutory value-added tax. Compensation of the Executive Board in the year under review was €28,046,346, including €13,644,460 from Bertelsmann AG. Former members of the Executive Board and their surviving dependents received compensation of €3,714,374 including €3,360,979 from Bertelsmann AG.

The provision for pension obligations to former members of the Executive Board accrued at Bertelsmann AG amounts to €49,167,808. The members of the Executive Board and Supervisory Board are listed on pages 166 ff.

The fees for the group auditors KPMG AG Wirtschaftsprüfungsgesellschaft and its associated companies in KPMG Europe LLP totaled €6 million during the fiscal year. Of this total, €4 million was due to fees for the audit of the financial statements. Another €1 million was due to other audit-related services. KPMG Europe LLP was paid a total of less than €1 million for tax consulting services. Expenses for further services totaled €1 million.

33 Proposal for the Appropriation of Retained Earnings

€44 million is expected to be disbursed to profit participation certificates on May 31, 2011, in line with the articles of association from Bertelsmann AG's retained earnings of €1,322 million. The Executive Board will recommend to the Annual General

Meeting that the remaining retained earnings of €1,278 million after the disbursement to the holders of the profit participation certificates be appropriated as follows:

	in € millions
Remaining retained earnings	1,278
Dividends to shareholders	(180)
Carryforward to new year	1,098

Accordingly, the dividend per ordinary share is €2,149.

Bertelsmann AG's Executive Board approved the consolidated financial statements for submission to the Supervisory

Board on March 15, 2011. The Supervisory Board's task is to review the consolidated financial statements and to declare whether it approves them.

Gütersloh, March 15, 2011

Bertelsmann AG
The Executive Board

Ostrowski	Buch	Dr. Buchholz
Dohle	Dr. Rabe	Zeiler

Corporate Governance at Bertelsmann

The recognized standards stipulated in the German Corporate Governance Code in the version dated May 26, 2010 form the basis for Bertelsmann AG's guidelines on good corporate management and governance. In accordance with German stock corporation law, Bertelsmann AG operates a two-tier board system which draws a distinction, in personnel terms, between the Executive Board as a management body and the Supervisory Board as a supervisory body. The Bertelsmann AG boards are obliged to secure the continuity of the company and to enhance the enterprise value in the long term through responsible and sustainable corporate management.

Corporate Management: Transparent Structures and Clear Decision-Making Processes

The Bertelsmann AG Executive Board is responsible for independently managing the company. Its duties consist of determining the corporate objectives, the strategic direction of the Group, Group management as well as corporate planning and financing. The Executive Board provides the Supervisory Board with regular, prompt and comprehensive reports on all matters that are relevant to the company's business development and strategy implementation, planning, financial and earnings position as well as risk situation and risk management. It ensures compliance with the provisions of law and corporate guidelines within the Group. The Executive Board Chairman coordinates the cooperation between the Executive Board and the Supervisory Board and has regular consultation meetings with the Supervisory Board Chairman.

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 Bertelsmann AG 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 Supervisory Board, in turn, appoints the members of the Executive 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 system, risk management system and internal auditing system. It also monitors compliance within the Group. These committees prepare the topics to be addressed during the Supervisory Board's plenary meetings. The chairmen of the committees then report to the plenary meetings on the work performed. The Supervisory Board's decision-making powers have been transferred to the committees to the extent 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 its heterogeneous composition with competent members of distinct expertise are key factors in its effectiveness and independence.

Diversity in Practice

For a global, decentralized company like Bertelsmann, it is essential that management positions reflect diversity. In this respect, Bertelsmann is also particularly interested in increasing the proportion of women in management positions. The company has set up special promotion programs and is planning further measures for the development of female executives.

The diversity within the management positions is also reflected in the international composition of the Bertelsmann Supervisory Board. In addition, three of its members are women, which means that the proportion of female members on the Supervisory Board is already significantly above average. The Supervisory Board does take into account the aim of achieving diversity in its body when nominating candidates for election by the Annual General Meeting. However, it opposes a binding female quota, as decisions on appointments should be based exclusively on the qualifications and performance of individual

candidates and the interests of the company. Age limits for members of the Supervisory Board are regulated in the articles of association.

Closed Group of Shareholders

Three foundations (Bertelsmann Stiftung, Reinhard Mohn Stiftung, BVG-Stiftung) indirectly hold 80.9 percent of Bertelsmann AG shares, with the remaining 19.1 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 foundation and the Mohn family as Bertelsmann AG shareholders and ensuring the continuity of the company's management as well as 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, yet its corporate governance activities closely follow the recommendations of the German Corporate Governance Code in the version published on May 26, 2010, 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. This means that 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 Code of Conduct introduced in 2008 reinforces awareness of correct business conduct and provides information about the options for expressing concerns and reporting violations of the Code of Conduct. The employee survey conducted in 2010 showed that employees feel properly informed about the rules of conduct specified in the Code of Conduct.

The Executive Board has continuously developed and expanded Bertelsmann's compliance structure and organization over time, including during 2010. In particular, a risk inventory was drawn up in order to evaluate the relevant compliance risks. Furthermore, the training sessions offered to employees worldwide on the principles of the Code of Conduct, the importance of an open dialog in the workplace and the different whistleblower channels available which began in 2009 were completed in the year under review. The training sessions were conducted by the Ethics & Compliance department, whose other responsibilities include reviewing the reports received through the various whistleblower channels and coordinating 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 it on specific and general responses to violations and compliance activity.

The Executive Board and CCC submitted the 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 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 2010 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. A wide range of topics and projects requiring approval were presented for discussion and decision at the meetings of the Supervisory Board. Reporting concerned, but was not limited to, the position and operating results of the company, especially the current business situation and earnings position, material business transactions such as planned investments and divestments, 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. The risk situation and risk management were also a focus. The internal control system, risk management system and internal auditing system were also the subject of regular reports and discussions. The Executive Board and the Supervisory Board extensively discussed and coordinated the strategic growth strategy of the company and significant business transactions. 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 160–161.

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 plenary meetings. The committee chairmen report on the work of 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 very useful in practice for the

work of the Bertelsmann Supervisory Board. 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 also prepared the discussion of the remuneration structure of the Executive Board and the remuneration of the individual members of the Executive Board at the plenary meeting and also produced extensive analyses and comparisons for this purpose. 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 in accordance with the law. 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. It takes into account the aim of achieving diversity in its body when proposing candidates to be nominated.

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 as well as any negative deviations of business performance from budgeted performance. A further focus is the auditing of the annual financial statements and the consolidated financial statements. In this connection the Committee also addressed the independence of the auditor and the additional services to be performed by the latter. The Audit and Finance Committee is responsible for mandating the auditor and 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 election of the auditor.

The Audit and Finance Committee discussed initial findings from the audit of the annual financial statements in a conference call with the auditor before the actual balance sheet meeting. The 2010 Interim Report was extensively discussed with the committee prior to publishing. In the year under review the Committee also thoroughly examined the accounting process, the effectiveness of the internal control system, the risk management system, the internal audit system and in particular the corporate governance requirements arising as a result of the Accounting Law Modernization Act (BilMoG). In fiscal year 2010 the Audit and Finance Committee again closely monitored compliance and/or the compliance structures in the Bertelsmann Group. Other important issues that were addressed by the Audit and Finance Committee in this fiscal year were the buyback of profit participation certificates and the tender for the auditor mandate for the next few fiscal years.

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 the development of Group strategy, Group planning and the evaluation of planned investments and divestments. Within the framework established by the Supervisory Board, decisions were taken concerning said proposals. The Committee was extensively informed about proposals to strengthen and expand the core businesses and to develop the Group portfolio. The Strategy and Investment Committee also asked for reports on the current progress of the cost-cutting measures initiated by the Executive Board during the previous year. The Executive Board also reported regularly to the Strategy and Investment Committee on growth initiatives being 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 the individual divisions. These focused above all on the discussion of the results of the 2010 Group-wide employee survey as well as the continuous monitoring of the development and implementation of Group strategy. As stipulated by law, the articles of association or bylaws, the plenary meeting took decisions concerning Group planning, the annual financial statements and consolidated financial statements, Executive Board matters as well as particularly significant business proposals.

In fiscal year 2010, 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 six 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 and significant transactions. During a full-day meeting with the Executive Board, the Supervisory Board discussed fundamental issues of strategic Group development and the resulting portfolio measures. All Supervisory Board members attended at least half of the meetings convened and no potential conflicts of interest arose on 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 within the company is provided on pages 160 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.

Audit of the Annual and Consolidated Financial Statements

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, audited the annual and consolidated financial statements produced by the Executive Board for the fiscal year January 1 through December 31, 2010, as well as the Bertelsmann AG management and Group management reports dated December 31, 2010, 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) AktG [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 25, 2011 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.

Supervisory Board Membership Changes

The year under review saw the following changes to the composition of the Supervisory Board: The Annual General Meeting of Bertelsmann AG on May 17, 2010 marked the end of the terms of office of the Supervisory Board members Christa Gomez, Helmut Gettkant, Ian Hudson, Dr. Karl-Ludwig Kley, Dr. Hans-Joachim Körber and Erich Ruppik. The term of office of Dr. Karl-Ludwig Kley was extended up until the end of the Annual General Meeting, which will resolve upon the formal approval of the activities of the Supervisory Board for fiscal year 2012. The terms of office of Christa Gomez, Ian Hudson and Erich Ruppik were likewise extended and shall end with the Annual General Meeting which will resolve upon the formal approval of the activities

of the Supervisory Board for fiscal year 2013. In an extraordinary general meeting of Bertelsmann AG on July 21, 2010, Mr. Kai Brettmann was appointed to the Supervisory Board and since that time has been an employee representative on this board.

In fiscal year 2010, Bertelsmann’s core markets benefited to varying extents from the significant recovery of the global economy. In particular, the European TV advertising markets recorded strong growth after the sharp falls in the previous year. In general, the book, printing and magazine markets showed stable growth. While the markets for storage media declined, the markets for services grew. Overall, the Group reported a significant increase in operating EBIT and a strong recovery in revenues.

The Supervisory Board would like to express its gratitude for the excellent work of the Executive Board in a difficult economic environment during fiscal year 2010 and would like to thank all executives and employees for their commitment and achievements.

Gütersloh, March 25, 2011



Dr. Gunter Thielen

Supervisory Board

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

Liz Mohn

Chairwoman of the Board,
Bertelsmann Verwaltungsgesellschaft mbH (BVG)

Vice Chairwoman of the Executive Board, Bertelsmann Stiftung

Prof. Dr. Jürgen Strube

Vice Chairman

Honorary Chairman of the Supervisory Board, BASF SE

- BMW AG (Vice Chairman until May 18, 2010)
- Fuchs Petrolub AG (Chairman)

Dr. Wulf H. Bernotat

Former Chairman of the Executive Board, E.ON AG
(Chairman until April 30, 2010)

- Allianz SE
- Metro AG
- E.ON Energie AG
(Chairman until April 30, 2010)
- E.ON Ruhrgas AG
(Chairman until July 5, 2010)
- Deutsche Telekom AG
- E.ON Nordic AB
(Chairman until January 4, 2010)
- E.ON US Investments Corp.
(Chairman until April 30, 2010)
- E.ON Sverige AB
(Chairman until June 24, 2010)

Kai Brettmann (since July 21, 2010)

Editorial Director Online,
RTL Nord GmbH, Hamburg
Chairman of RTL Group
European Works Council
Chairman of the Mediengruppe
RTL Deutschland Corporate
Works Council
Chairman of the Works Council
of RTL Nord

Helmut Gettkant (until May 17, 2010)

Member of the Bertelsmann AG
Corporate Works Council

Christa Gomez

Member of the Bertelsmann AG
Corporate Works Council

Ian Hudson

Chairman of the Bertelsmann
Management Representative
Committee (BMRC)

- UK Publishers Association
(until April 28, 2010)

Dr. Karl-Ludwig Kley

Chairman of the Executive Board,
Merck KGaA

- BMW AG
(Vice Chairman since May 18, 2010)
- 1. FC Köln GmbH & Co. KGaA (Chairman)

Dr. Hans-Joachim Körber

(until May 17, 2010)

- Air Berlin PLC
- Esprit Holdings Ltd.
- Skandinaviska Enskilda Banken AB
(until May 11, 2010)
- Sysco Corporation
- WEPA Industrieholding SE
(since May 1, 2010)

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
- Phineo gAG

Christoph Mohn

Managing Director, Christoph Mohn
Internet Holding GmbH

Erich Ruppik

Chairman of the Bertelsmann AG
Corporate Works Council

Lars Rebién Sørensen

President and CEO, Novo Nordisk A/S

- Danmarks Nationalbank
- DONG Energy A/S
- ZymoGenetics, Inc. (until March 10, 2010)

- Membership of statutory domestic supervisory boards.
- Membership of comparable domestic and foreign supervisory bodies of business enterprises.

Committees of the Supervisory Board 2010

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
Kai Brettmann (since November 19, 2010)
Prof. Dr.-Ing. Joachim Milberg
Dr. Brigitte Mohn
Christoph Mohn
Lars Rebien Sørensen
Prof. Dr. Jürgen Strube

Working Group of Employee Representatives on the Supervisory Board

Liz Mohn (Chairwoman)
Kai Brettmann (since July 21, 2010)
Christa Gomez
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 S.A.

Rolf Buch **Chairman of the Executive Board,** **Arvato AG**

- 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.
- Media Finance Holding, S.L. (Chairman)
- Offset Paperback MFRS., Inc.
- Phone Assistance, S.A.
- Phone Serviplus, S.A.
- Phone Group, S.A.
- Printer Industria Gráfica Newco, S.L. (Chairman)
- Prinovis Ltd. (Chairman)

Dr. Bernd Buchholz **Chairman of the Executive Board,** **Druck- und Verlagshaus** **Gruner + Jahr Aktiengesellschaft**

- Henri-Nannen-Schule
Hamburger Journalistenschule
Gruner + Jahr – DIE ZEIT GmbH (Chairman)
- Motor Presse Stuttgart GmbH & Co. KG
- Spiegel-Verlag Rudolf Augstein
GmbH & Co. KG

Markus Dohle **Chairman and Chief Executive** **Officer, Random House**

- Random House Children's Entertainment LLC
- Random House Films LLC
- Random House, Inc. (Chairman)
- Random House Korea, Inc.
(until February 26, 2010)
- Random House Mondadori, S.A.
- Random House VG LLC (Chairman)
- Triumph Books Corp.

Dr. Thomas Rabe **Chief Financial Officer**

- Arvato AG (Vice Chairman)
- BMG RM Germany GmbH (Chairman)
- Druck- und Verlagshaus Gruner + Jahr Aktiengesellschaft
- IKB AG¹⁾
- Symrise AG¹⁾
- Bertelsmann Capital Investment S.A.
- Bertelsmann Digital Media Investments S.A.
- Bertelsmann, Inc.
- Edmond Israel Foundation¹⁾
- RTL Group S.A.
- Springer Science+Business Media S.A.
(since April 20, 2010)¹⁾

Gerhard Zeiler **Chief Executive Officer, RTL Group**

- Alpha Doryforiki Tileorasi S.A.
- CLT-UFA S.A.
- Ediradio S.A. (as representative of
CLT-UFA S.A.)
- Métropole Télévision S.A.
- Plus Productions S.A.
- 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, 2010. 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 16, 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

signed	signed
Prof. Dr. Nonnenmacher	Dr. Kreher
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 and 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 15, 2011

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. 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, 2011

Announcement of figures for the first three months of 2011

May 31, 2011

Payout of dividends on profit participation certificates for the 2010 fiscal year

August 31, 2011

Announcement of figures for the first half of 2011

November 10, 2011

Announcement of figures for the first nine months of 2011

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www.bertelsmann.de

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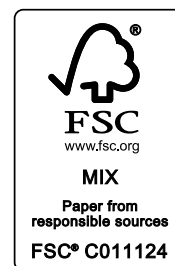
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Our employees on the cover, in alphabetical order.



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Dr. Schorb, ifeu-Institut



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