

**Management Report of Deutsche Welle Anstalt des öffentlichen Rechts, Bonn,**  
**for Financial Year 2011**

**1. Business development and general conditions**

In the expired financial year, the core elements of the ongoing reform process were implemented or, respectively, prepared to such an extent that the new programs can start at the beginning of 2012.

The objective of the reform process is to increase the competitiveness and attractiveness of Deutsche Welle and, at the same time, to compensate for the additional burdens arising from cutbacks in funds as well as wage, salary and cost increases.

As part of the reform process, Deutsche Welle made major changes to both its journalistic services and its internal structures. These measures have already been described in general terms in the task planning for the years 2010 to 2013. They refer mainly to the multimedia orientation of Deutsche Welle at the two locations, including an expansion of television with channels for German, English, Spanish and Arabic, among others.

At the same time, the radio programs outside of Africa have been reduced considerably and short-wave transmission has largely been discontinued while IT-based distribution methods and distribution via partner stations have been expanded.

The multilingualism of Deutsche Welle is retained without any change, i.e. none of the thirty languages must be given up.

In the TV sector, the preparations with regard to the program were made to such an extent that it was possible at the beginning of 2012 to expand the Spanish television service from 2 to 20 hours daily and the Arabic television service from 4 to 10 hours daily. In all, Deutsche Welle has six TV channels. The basic TV channel of Deutsche Welle can be watched in North America, Africa, Asia and Australia. It offers a 24-hour program in English. Five other television services are tailored to the viewers in certain regions with respect to language and content; besides the aforementioned new Spanish and Arabic television services, this refers to DW Europe (18 hours in English, 6 hours in German) and to DW America and DW Asia which each provide 20 hours in German and four hours in English.

The redesigned news program Journal is the flagship of information programming. Three and 15-minute versions have been added to supplement the standard 30-minute edition. Other focal points of programming

are culture, the daily TV magazine Euromaxx and, at the weekend, live concerts and a magazine covering the latest developments in the digital world of communication.

DW provides an inside look into a variety of issues with magazines, reports and elaborately produced documentaries. With its talk shows DW explores current events and developments. Among them, in the Arabic program, is the youth program Shabbat Talk, which is a coproduction with a strong Egyptian partner broadcaster, and which has viewing figures of 12% to 15% every week.

For its television services, Deutsche Welle increasingly makes use of programming from German public broadcasters ARD and ZDF.

Among others, DW broadcasts the ZDF shows Berlin direkt, Länderspiegel, Maybrit Illner, 37 Grad, as well as the ARD programs Günther Jauch, Bericht aus Berlin, hart aber fair, Presseclub and Menschen bei Maischberger.

Deutsche Welle's television program is available via satellite and partner stations, via cable providers and in hotels and can also be watched as live stream and video on demand. Besides television which largely determines the perception of DW in international media markets, the online services have become increasingly important. Particularly the regional expertise of Deutsche Welle is showcased online; here, users have access to multimedia content in thirty languages. In financial year 2011, the website was also prepared for the relaunch in February 2012 with regard to methodology, content and technology. In that process, the website was subject to comprehensive changes and adjusted to modern requirements regarding content, structure and design. The new website in the look of a high-quality magazine provides plenty of room for background information. A key area of focus is on Germany and Europe - a central editorial team for Germany and comprehensive reports on Europe in all languages reflect that. Culture and education is another area of focus. The website is supplemented by audio content and video content, which increases its attractiveness. An example of this is the fact that the editorial teams in Southeast Europe started producing European magazines for TV partners in the target region in 2011 which have enjoyed a positive response and acceptance.

As a consequence of the global decline in the acceptance of radio programming, Deutsche Welle discontinued linear radio programming in German with the beginning of winter time in 2011, as it was hardly used any more.

In order to fulfill the mission of fostering the German language in the future as well, Deutsche Welle simultaneously expanded the range of its German-language TV and online services. Deutsche Welle particularly concentrates on interactive German courses.

Radio still remains an important medium in Africa and parts of Asia. That is why DW continues to offer radio programming via shortwave and local radio partners in major regional languages – such as Kiswahili for East

Africa and Urdu for Pakistan. Following the end of linear programming in German the relay stations of Deutsche Welle in Sines/Portugal and Trincomalee/Sri Lanka also discontinued their activities. In accordance with the terms of the contract, the station in Trincomalee was handed over to the local broadcasting authority SLBC; only training activities will still be carried out there until mid 2012.

The station in Portugal is intended to be sold within the framework of a tendering procedure. As the broadcasting license for this station is expiring, the station must possibly be rebuilt at another location. Solutions for a reduction in the local workforce under the best possible social conditions were developed in cooperation with the local representatives/trade unions.

The programming measures are also intended to ensure that Deutsche Welle will be able to hold its ground against the increasingly stronger competition of national foreign broadcasters and also local broadcast stations which, in many cases, have more financial power than Deutsche Welle. In this respect, it is also useful that, according to the findings of its evaluation, Deutsche Welle is expressly commended by its users for the credibility and balance of the content of most of its services. For example, 93% of the users of DW services say that DW helps them to be better informed about what happens in Germany and Europe. DW is predominantly considered to be a reliable, objective and analytical information provider. Despite its reduced financial means, Deutsche Welle still reaches a total number of some 80 to 90 million viewers, listeners and users per week.

The media services of Deutsche Welle are supplemented by the training program of DW Academy for journalists, documentalists, technicians and managers. The Academy trains, advises and accompanies our broadcasting partners comprehensively and on a long-term basis at a local level. It offers traineeships and a Master's program as well as media training for executives of German enterprises and institutions who go abroad. In this field, the activities within the framework of project support provided by the Federal Foreign Office, the Federal Ministry for Economic Cooperation and Development and the European Union were further expanded in the current financial year.

In line with the extension of programming, the internal structures of Deutsche Welle underwent fundamental changes particularly in the areas of programming in 2011. The previous TV and program management divisions are developed to become multimedia management divisions working across locations and on a multimedia basis.

Assignment according to languages and topics also means the removal of redundant structures. For example, the co-existing Arabic and English editorial teams of audio/online and TV have been combined with effect from August 1, 2011. The multimedia management division "Global" is responsible for the global multimedia services in German, English, Spanish and Arabic. The multimedia management division "Regional" is in charge of regional multimedia services in German and English as well as the other 26 languages of DW; its focus is on the communication of topics such as education, development, democracy and good governance in the target regions. Another focus is on the fostering of German as a foreign language.

The two management divisions make their respective services available to each other and work together as equals across locations. The location in Bonn creates the technical preconditions for the production of TV programs, while the location in Berlin will also increasingly work online in the future.

The financial situation of Deutsche Welle continues to be tight.

The € 2 million cutback in the federal allowance to € 274 million, announced in the course of 2010, was carried forward to 2011. At the same time, Deutsche Welle had to cope with additional charges resulting from the turnover tax liability for services which Deutsche Welle uses in third countries (including the lease of satellites) in a volume of approx. € 1 million (the change took effect on July 1, 2011 and means additional expenses of € 1.9 million for a full year). Further cutbacks in allowances are planned to be made in the following years.

The collective labor agreements for moderate salary increases, which had been concluded in 2009, expired in November 2011. So far, no agreement has been reached on a new collective labor agreement, due, among other things, to the inclusion of issues relating to old-age pensions. In order to avoid disadvantages to employees, Deutsche Welle arranged for a unilateral payout of a pay increase for 2012, starting from the beginning of 2012. Given the current state of negotiations it can be assumed that the collective bargaining for the period to November 30, 2013 will be completed in the course of 2012.

## **2. Net assets, financial position and results of operations**

Deutsche Welle completed the year 2011 with net income for the year amounting to € 32.9 million (prior year: net loss for the year of € 0.9 million).

In the annual financial statements for 2011, the provision for other benefit obligations towards retirees (€ 48.3 million) was included in the compensation claim against the German Federal Government (as had previously been done with the pension and early retirement provisions) in order to enhance clarity; this resulted in a (one-time) improvement in earnings which led to the net income for the year.

The provision for other benefits refers to future payments to retirees and therefore belongs to the pension provisions in terms of substance.

### **Net assets**

In the expired financial year, some € 9 million were invested in intangible assets and tangible assets, mainly in order to upgrade technical production systems, digitalize television and improve IT equipment. The carrying value of fixed assets decreased by € 6.2 million compared to the prior year to € 31.0 million, due to reduced investment and the disposal or, respectively, write-down of the fixed assets of the closed relay station in Trincomalee.

The compensation claim made against the German Federal Government in regard to pension, early retirement and other benefit obligations not covered by reinsurance policies increased by € 137.7 million to € 473.8 million. This was mainly due to the first-time inclusion of the provision for other benefits (€ 48.3 million) and the full inclusion of the still remaining one-time effect with regard to the pension and other benefit provisions from the changeover to the BilMoG requirements (€ 103.6 million).

Current assets increased by € 12.9 million to € 67.2 million, which was mainly due to an increase in claims from reinsurance policies, a closing date-related increase in liquid funds and receivables resulting from federal allowances not yet called (€ 2.5 million). The reduction in or, respectively, write-down of the inventories relating to the closed relay station in Trincomalee had an offsetting effect.

The prepaid expenses item was set up for satellite rental fees and operating costs paid in advance.

Due to the first-time inclusion, in 2011, of the provisions for other benefit obligations towards retirees into the compensation claim made against the German Federal Government and the related improvement in earnings, the deficit not covered by the Corporation's equity in the amount of € 19.2 million, which had been stated in the prior years, was not only removed but equity was even created in the amount of € 13.7 million.

Due to the fact that financing is guaranteed by the government, sufficient liquidity of Deutsche Welle is ensured at any time, irrespective of the disclosure of equity of the Corporation or a deficit not covered by equity of the Corporation. However, this accounting policy measure has not led to an immediate improvement of the liquidity situation.

In pension and other benefit provisions, the one-time effect still remaining from the changeover to the BilMoG requirements as of January 1, 2010 in the amount of € 103.6 million was allocated to its full extent for reasons of transparency. The early retirement provisions increased as a result of a limited relaunch of the early retirement program. As regards the remaining provisions, the increase is attributable to new provisions for follow-up costs relating to the closure of the relay stations in Sines and Trincomalee.

In liabilities, trade payables, other liabilities and payables to affiliated companies were, overall, by approx. € 3.3 million below the prior year's level, which was mainly due to the closing date.

## **Results of operations**

Income from federal allowances shown in the income statement mainly relates to allowances granted by the BKM (Bundesbeauftragter für Kultur und Medien - Federal Commissioner for Culture and Media) for the ongoing operations of Deutsche Welle. These allowances at the unchanged amount of € 273.1 million are determined for the financing of the operating budget and for capital expenditure. In addition, this item contains project promotion funds granted by the Federal Ministry for Economic Cooperation and Development (BMZ) for the Deutsche Welle Academy and other project promotion funds of public institutions - in particular the Federal Foreign Office. The slight increase in federal allowances results exclusively from an extension of project support programs in the reporting year.

On the expense side, expenses for wages and salaries as well as social contributions increased, due mainly to increased allocations to the early retirement obligations and increases in pay rates in the reporting year.

Program expenses increased slightly, due mainly to the increases in pay rates with respect to the minimum fees. Other program expenses were at the level of the prior year.

Transmission and radiation costs decreased, due, among other things, to a further reduction in short-wave and medium-wave transmissions. Here, the discontinuation of the broadcasting activities of the relay stations in Sines and Trincomalee at the beginning of winter time in 2011 had an impact too.

Other operating expenses were by some € 7 million above the prior year's level.

This increase mainly results from the fact that it was possible to carry out necessary operating and refurbishment measures for the broadcasting centers, which had been postponed until then, within the framework of the measures of the economic stimulus package II. Furthermore, the planned transfer and resulting revaluation of the fixed assets and inventories of the closed relay station in Trincomalee led to considerable one-time expenses.

Amortization/depreciation amounting to € 12.5 million was at the level of the prior year.

The interest expense (€ 26.3 million) results from the reclassification of interest portions contained in additions to pension provisions and long-term personnel provisions under the applicable regulations of the BilMoG.

Overall, the deficit arising from operating activities amounts to € 1.3 million.

After having set off the extraordinary net income (due to the increase in the compensation claims against the German Federal Government, resulting from the allocation of the one-time amount according to the BilMoG to the pension and other benefit provisions and the inclusion of the other benefit provisions into the compensation claim made against the German Federal Government), net income for the year amounts to € 32.9 million.

### **Financial position**

The revenue and expenditure account also to be prepared under the framework of the annual financial statements, in accordance with the budget systematics of the German Federal Government, is based on governmental accounting and, in contrast to the aforementioned accounts prepared according to commercial principles, solely focuses on payment transactions.

The revenue and expenditure account states an increase of € 3.4 million in cash and cash equivalents to € 4.8 million. This is a result of the fact that the cash flows from operation activities exceed capital expenditure (€ 9.7 million). Cash and cash equivalents include receivables resulting from federal allowances for 2011 in the amount of € 2.5 million.



### **3. Risk report**

Through an internal early risk detection system, Deutsche Welle annually analyzes its risks. The risks are specifically broken down according to business sector, dimension and probability as well as changes compared to the prior year. Resulting from this, it can be seen that, due to the almost exclusive financing granted by the German Federal Government, the development of the federal allowances represents a risk affecting the development of Deutsche Welle. Due to the current economic crisis and its effects on the federal budget, this risk has increased.

The € 2 million cutback in the federal allowance to € 273.1 million which had been made in the course of 2010 was carried forward to 2011. The mid-term financial plans state further cutbacks on a similar scale for the following years. Due to the saving measures taken by the Federal Government ("debt brake") there is a risk of further reductions in funds.

### **4. Significant events after the reporting date**

After the end of the financial year as of December 31, 2011, no events of particular importance, having an effect on the annual financial statements for 2011, which needed to be reported at this point, have occurred.

### **5. Forecast report**

The process of reorientation of Deutsche Welle with respect to both programming and internal organization will be continued in 2012.

The newly developed Spanish and Arabic programs were started, and the website was relaunched, according to plan on January 6, 2012. The response to the new programming has overall been positive so far. Due to the ever closer connection with regard to programming, the locations in Bonn und Berlin will become still more closely intertwined with respect to programming and production technology. In Bonn, the preconditions for TV productions are also created for this purpose. The first newly established studio will probably start operating in the first half of 2012.

Here, the regional TV windows established so far in Russian, several Asian and Southeast European languages are going to be produced and optimized. In addition, a Brazilian TV window is going to be opened.

The relay stations in Sines und Trincomalee will be liquidated according to plan. Due to a tendering procedure there are concrete purchasing offers for Sines; this means that it can be assumed that it will be possible to sell this station and avoid dismantling by Deutsche Welle.

Opportunities for safeguarding the future of Deutsche Welle are arising from the intended cooperation with ARD and ZDF. Based on a resolution adopted by the German Parliament within the framework of the task planning process, a structural paper for the joint improvement of international television services by federal and state governments will be prepared. A working group chaired by Deutsche Welle (consisting of representatives of ARD, ZDF and DeutschlandRadio) started with the preparatory work. Its objective is to significantly improve the media presence of Germany abroad and, at the same time, better align Deutsche Welle for the demands of the future. The working group intends to present a joint strategy document at the federal and state government meeting in autumn of 2012. The strategy document should indicate possible solutions with respect to programming and program distribution as well as organizational and financial issues.

In order to structure the downsizing in staff in the best socially acceptable manner, the early retirement program was opened to a limited extent until December 31, 2011, based on the existing collective labor agreements. It was used to a considerable extent. The implementation of these measures will facilitate a budget discharge in 2012 and possibly also in the following years.

The current process of collective bargaining on pay rates for the period from December 1, 2011 to November 30, 2013 is going to be completed in 2012. The increase in pay rates for 2012 is currently already paid out in advance.

The results plan contained in the economic plan 2012 comprises liquidity-related and non-liquidity-related expenses and income. Budgeted liquidity-related income and expenses result in a surplus of approx. € 14.5 million, which will be used for investments. Non-liquidity-related expenses and income result in a net loss of approx. € 14.3 million, which is due, among other things, to depreciation and amortization and the allocation to the pension provisions; therefore, the results plan closes with a surplus of € 0.2 million, which will be disclosed in the budget.

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Deutsche Welle Anstalt des öffentlichen Rechts

Erik Bettermann  
Director-General