

Management Report of Deutsche Welle Anstalt des öffentlichen Rechts, Bonn,
for Financial Year 2010

1. Business development and general conditions

For Deutsche Welle, the expired financial year was marked by enhanced efforts to implement the ongoing reform processes with the aim to increase Deutsche Welle's competitiveness and, at the same time, to compensate for additional burdens arising from cutbacks in funds as well as wage, salary and cost increases.

After the task planning for the years 2010 to 2013, transmitted to the Federal Government in March 2010, still assumed a considerable increase in funds, it has become evident in the course of the budget preparation process for 2011 that the present budgets of Deutsche Welle will be reduced, which is, among other things, due to the cost saving measures taken by the Federal Government. The cutback in the federal allowance by € 2 million to € 273 million announced during the year shall also be carried forward to the following year.

Based on the processes initiated in prior years, a large number of organizational and program measures were implemented in the reporting year. The combination of the radio and online editorial departments was completed and, simultaneously, the program schemes were redesigned in favor of stronger background reporting. The linear production and broadcasting of a German radio program is gradually discontinued in favor of its further improved online presentation.

Television largely determines the perception of DW in international media markets, being, so to speak, DW's visiting card. In this regard, the cooperation opportunities with ARD and ZDF have been further used, enhancing the quality of programs through an increased adoption of individual contributions or entire broadcastings, respectively. At the same time, the gradual conversion of the TV program from simultaneous to time-shifted transmission according to the time zones of the receiver regions (continental splitting) has, for the first time, been implemented during the entire year.

In order to reach its different target groups in the best possible way, DW-TV aims at establishing parallel transmission channels per region. This will make it possible that German-speaking viewers are provided with a mainly German-language channel, and non-German speaking viewers with a language channel, which normally offers English programs with, to some extent, windows in local languages.

The reform measures are also necessary to enable Deutsche Welle to hold its ground against the increasingly stronger competitors of national foreign broadcasters and also local broadcast stations. More and more states afford a strong foreign broadcast station, and increasingly more commercial providers are entering this market. The most significant competitors continue to be BBC World Service and BBC World News, respectively, CNN International, France 24, Russia Today, Voice of America, Al Jazeera, Voice of Russia as well as China Central Television and China Radio International, respectively.

In addition to international providers, regional and national providers - the number of which has increased considerably in almost all regions of the world due to liberalization and progressing technology - are, naturally, also competitors for Deutsche Welle.

Deutsche Welle meets the challenge of intensified international competition by its multi-platform strategy. Being the guiding principle of the DW activities, this strategy makes it possible to offer differentiated contents presenting the German view regarding international, national and regional issues relevant for the target groups via correspondingly suitable media and distribution channels. In this connection, the distribution channels to reach the target groups are also optimized.

In order to complement DW's online presentation by moving pictures, recording and production facilities for moving pictures are also created in Bonn to some extent.

By means of an evaluation, it is reviewed on an ongoing basis to which extent Deutsche Welle reaches the relevant target groups with its programs. This evaluation forms an integral component of Deutsche Welle's business strategy, as its own program offer is further developed and optimized for international competition on the basis of the corresponding results.

In this regard, Deutsche Welle mainly relies on inquiries and analyses of independent research institutions.

The evaluation is based on quantitative criteria, such as reach, number and profile of partners as well as prominence of programs offered, and qualitative criteria, such as credibility, feedback and journalistic quality.

The credibility, balance and contents of most of the DW programs offered are expressly commended. For example, 93% of the users of DW programs stated that DW is helpful to be better informed about the events taking place 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 evaluation also provides the possibility to derive strategies for an improvement of Deutsche Welle's program offer, which, in view of increasingly stronger international competitors, is necessary in order to be able to reach the relevant target groups also in the future.

The DW Academy (training centre, journalistic training and internal qualification) has further extended its activities in its core field of training of qualified broadcasting staff from developing countries, and through the acquisition of project assignments, in particular with federal institutions and the European Union. The academization of the training activities was further advanced; the master degree program already accredited has proved to be successful, triggering a great response: therefore, only a very small portion of applicants can be accepted.

The - moderate - salary increases stipulated by the collective labor agreement of 2008, which has a term until the end of 2011, provides Deutsche Welle with planning certainty beyond the year 2010.

Due to the tighter financial situation, combined with fiercer competition in the media markets, it has become apparent that it will not be possible to fully maintain the present program offer provided by Deutsche Welle. The programs also need to be adjusted to market requirements to a greater extent. For this purpose the Director-General initiated a restructuring process at the beginning of November 2010, which is supposed to also overcome media and management boundaries within the internal organization. The central points of the reforms, which are, so to speak, to be understood as a work order, have been summarized in an 18-point paper, which shall be implemented by the end of the year 2011.

2. Net assets, financial position and results of operations

Deutsche Welle completed the year 2010 with net loss for the year amounting to € 0.9 million (prior year: net loss for the year of € 3.8 million).

In the reporting year, the German Accounting Law Modernization Act (BilMoG) had to be applied for the first time, which related almost exclusively to pension provisions and other long-term personnel provisions in Deutsche Welle's annual financial statements. The re-valuation of pension provisions pursuant to the criteria of the BilMoG (interest rate of 5.25%; taking into account future salary increases etc.) resulted in an increase in pension provisions by an amount of approx. € 100 million as of January 1, 2010, which will be spread over 15 years and added to pensions provisions on this basis. For provisions for other benefits (disclosed under other provisions) the one-off effect of the BilMoG conversion amounted to some € 11 million. This amount will also be spread over 15 years.

Furthermore, additions to pension provisions were, for the first time, split into an interest portion and a pension portion and disclosed in the income statement correspondingly.

In addition, the annual financial statements have been influenced by the following items:

In the expired financial year, some € 13.1 million were invested in intangible assets and tangible assets, mainly in order to upgrade technical production systems, digitalize television and radio as well as improve IT equipment. The carrying value of fixed assets slightly increased by € 0.3 million to € 39.1 million, with depreciation having decreased by € 1.7 million compared to the prior year.

The compensation claim made to the Federal Government in regard to pension and early retirement obligations not covered by reinsurances increased by € 7.2 million to € 336.1 million. This was, in addition to BilMoG effects, mainly due to an increased number of old-age pensioners and - by contrast - decreased provisions for early retirement obligations due to the scheduled changeover of staff under the early retirement scheme to the old age pension scheme.

Current assets increased by € 6.1 million to € 55.2 million, which was mainly due to an increase in claims from reinsurances by € 5.5 million.

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

The deficit not covered by the Corporation's equity increased to € 19.2 million, resulting from net loss for the year incurred (€ 0.9 million). Despite the Corporation's negative equity, the financial position of Deutsche Welle is well ordered and sufficient liquidity is ensured at any time due to the existing legal bases according to which financing is guaranteed by the government.

The fact that DW's liabilities exceed its assets on the balance sheet is mainly due to the provision for other benefits to be mandatorily created under commercial law (€ 37 million as of December 31, 2010), which has not been included in the compensation claim from the Federal Government by now. As these benefit obligations are pension-like obligations, it is planned to disclose the provision for other benefits under provisions for pensions and similar obligations in the future. These provisions shall be included in the compensation claim from the Federal Government in the future, eliminating, therefore the Company's over-indebtedness.

Provisions for pensions increased by € 15.9 million, which was mainly due to BilMoG effects as well as the scheduled changeover of staff under the early retirement scheme to the old age pension scheme. Other provisions are by € 1.2 million above the prior year's level, which is also due to effects arising from the conversion to BilMoG.

In liabilities, trade payables, other liabilities and payables to affiliated companies were, overall, by approx. € 2.9 million below the prior year's level, which was due to the closing date.

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 of 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 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 mainly due to the increase in pay rates in the reporting year. Expenses for old-age pensions are significantly below the prior year's level, which is mainly due to the new statutory provisions (BilMoG) requiring the reclassification of the interest portion as interest expenses.

In program expenses, fees remained almost at the prior year's level due to savings achieved to the amount of pay rate increases. Other program expenses decreased as a result of savings in large program purchases (€ -3.2 million).

Transmission and radiation costs decreased, among other things, due to a further reduction in short-wave and medium-wave transmissions.

Other operating expenses were by some € 4.2 million below the prior year's level.

In addition to a reduction in services used, this decrease mainly results from the fact that it has been possible to finance parts of necessary operating and refurbishment costs for broadcasting centers through measures of the economic stimulus package II.

Amortization/depreciation was by € 1.6 million below the prior year's level amounting to € 12.5 million.

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 new regulations of the BilMoG.

Overall, the surplus arising from operating activities amounts to € 0.4 million.

After having set off the extraordinary loss due to the pro-rata BilMoG effect arising from the increase in pension and long-term personnel provisions, and taking into account the increase in compensation claims to the Federal Government, net loss for the year amounts to € 0.9 million.

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.

Due to the balance sheet date, the revenue and expenditure account shows a slight increase by € 0.3 million to € 1.4 million in liquid funds, which are composed of cash on hand and bank balances as well as federal subsidies not utilized.

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 years. 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 federal allowances granted to Deutsche Welle for 2010 were reduced by € 2.0 million to € 273.1 million under a parliamentary procedure. 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, 2010, no events of particular importance, having an effect on the annual financial statements, which needed to be reported at this point, have occurred.

5. Forecast report

In November 2010, Deutsche Welle established restructuring objectives for Deutsche Welle in an 18-points paper of the Director-General.

Further measures regarding a structural reorientation of Deutsche Welle result from the task planning for the years 2010 to 2013, which was revised on the basis of statements made by the Federal Government and adopted by the Broadcasting Board on March 15, 2011.

In this connection it needs to be taken into account that it will not be possible to realize the increases in funds originally assessed in the task planning, but that a stagnant federal allowance is to be expected at most.

As the scheduled measures need to be implemented as soon as possible due to the financial situation, Deutsche Welle adopted a binding financial planning for the years 2011 and 2012 already in the first quarter of 2011.

As a measure in terms of program it is planned to reduce a great number of East European languages as well as some Asian languages (Hindi, Bengali and Indonesian) to background reporting. The linear production and transmission of the German radio program will be gradually discontinued by the start of the winter broadcasting schedule. 2011.

Short-wave transmission will be limited to Africa and some Asian countries; therefore, some 80% of transmission capacities will be omitted. In this connection the relay stations in Sines (Portugal) and Trincomalee (Sri Lanka) will gradually be closed, starting from the winter broadcasting schedule in 2011.

In the TV sector, the Spanish program will be extended from 2 hours to 20 hours daily; the necessary funds will largely be generated by a restructuring of the news programs, increased takeovers from ARD and ZDF as well an optimization of the technical department.

The offers shall be further complemented by regional TV windows in Russian, Brazilian as well as several Asian languages.

In the course of these restructurings, the complementing TV programs shall also be produced at the Bonn broadcasting center, which will require an extension of the technical infrastructure.

In order to structure the downsizing in staff in the best socially acceptable manner, the introduction of an early retirement program, based on the existing collective labor agreements, is considered to a limited extent. The implementation of these measures will facilitate balanced budgets combined with a better reach of the targets groups in the year 2012 and possibly, also in the following year.

Due to the collective labor agreement regarding remuneration, which will be effective until the end of 2011, negotiations on increases in remuneration will only be due at the end of the year 2011 and thereafter.

The results plan contained in the economic plan 2011 comprises liquidity-related and non-liquidity-related expenses and income. Budgeted liquidity-related income and expenses result in a surplus of approx. € 16.5 million, which will be used for investments. Non-liquidity-related expenses and income result in a net loss of approx. € 15.2 million, which is, among other things, due to depreciation and amortization; therefore, the results plan closes with a surplus of € 1.2 million, which will be disclosed in the budget.

Bonn, April 15, 2011

Deutsche Welle Anstalt des öffentlichen Rechts

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