



**RANDOM HOUSE**

BERTELSMANN

PETER W. OLSON  
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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Dear Colleagues,

In the face of all the ongoing uncertainties of our world as we close this year, it is a good time to celebrate our accomplishments together in 2004, especially the quality and breadth of our publishing and sales achievements, the quality of our corporate culture, and the quality and variety of the entrepreneurial initiatives we recently began undertaking, which will further propel the growth of our business in the years ahead.

Thanks to your hard work, your creativity, and your commitment, our company has never been fiscally stronger or sounder. Notwithstanding the more sluggish demand for new trade titles industrywide these past few months, Random House is on course to equal or exceed 2003's record full-year operating results worldwide.

We can all be proud that once again this fiscal year every one of our North American publishing divisions will be very profitable, which has been achieved against unrelenting marketplace competition and ever-greater consumer selectivity. In helping our publishers achieve their goals, our Sales Groups and our Distribution Centers, along with our operations and corporate support teams, have never been more vital or more appreciated.

These goals were achieved in great part because of our unequalled yearlong bestseller performance. In each of the six years since the merger between Random House and Bantam Doubleday Dell that formed this company, we have placed the most titles of any publishing group on the adult and children's hardcover and paperback (non-extended) national bestseller lists of the *New York Times*: 182 so far in 2004, already exceeding last year's total. Twenty of these were #1. In Canada we have an industry-leading eighty-five titles on the national *Toronto Globe and Mail* lists, fifteen at #1.

While each of these bestsellers was an event for us, our publishing of two of them was frequently front-page news: Dan Brown's *THE DA VINCI CODE*, enhancing its stature as the biggest-selling adult hardcover novel ever by an additional 4.35 million copies this year, bringing its total in print to 9.5 million copies (and twenty-six more weeks at #1); the record-setting first-week sale in hardcover and audio, the former more than one million copies, of *MY LIFE* by Bill Clinton, now with 2.6 million total in print.

Our books continue to be held in the highest critical esteem as well. Of the "10 Best Books of 2004" chosen this month by the editors of the *New York Times Book Review*, we publish three: *RUNAWAY* by Alice Munro, *SNOW* by Orhan Pamuk, and *WAR TRASH* by Ha Jin. Of their "100 Notable Books of the Year," Random House, Inc. publishes thirty-four, nearly twice as many as our nearest competitor. Last month, the *Times Book Review* chose our *THE PEOPLE COULD FLY: THE PICTURE BOOK* by Virginia Hamilton, illustrated by Leo and Diane Dillon as one of the "10 Best Illustrated Children's Books of 2004." Twenty-six of the top 100 books of the year just selected by the *Globe and Mail* are published by Random House of Canada, including one-third of the Canadian fiction titles they honored.

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Happily, Random House companies overseas also publish many of our North American successes in their territories, where, together with their original publishing programs, they are contributing to our fiscal year results and to our growing international distinction as the one truly global trade book publisher.

The Random House Group is having an exceptional year in the United Kingdom, Australia, New Zealand, and South Africa. Random House in the U.K., whose breakout blockbusters were the paperback editions of *THE CURIOUS INCIDENT OF THE DOG IN THE NIGHT-TIME* by Mark Haddon and all four Dan Brown novels, published almost 50 percent of 2004's *Sunday Times of London* national bestsellers, enabling them to record a significant year-on-year increase in their market share.

Verlagsgruppe Random House in Germany, which has completed its integration and restructuring following the Heyne acquisition, had their most-ever national bestsellers and as a result outperformed a negative-growth German marketplace. Random House Mondadori, now strongly profitable after a tremendous turnaround, set a record this fall for a first-month sale of fiction: nearly one million copies in Spain and Latin America of *MEMORIA DE MIS PUTAS TRISTES* by Nobel laureate Gabriel García Márquez (which also has been a benchmark Spanish-language bestseller for us here in simultaneous paperback and hardcover editions). In its first full year of operation in Japan, Random House Kodansha is off to a promising start, and eleven-month-old Random House JoongAng is already a profitable market leader in Korea.

Expansion in international publishing is just one of many ways we will be growing Random House. With the consolidation and restructuring that followed the integration of Random House and Bantam Doubleday Dell behind us, the focus of our investments in the future will increasingly be on new opportunities. While our top priority in investments will always be in our core publishing programs, new title acquisition, and author development, we cannot financially rely only on the probability of our publishing the next blockbuster—or waiting for a better economy to boost our overall sell-through. If we are to substantially increase our bottom line, we must generate organic growth by building on the strengths of our core publishing and service divisions. Our parent company, which is completing a great fiscal year, is enormously encouraging of our entrepreneurial initiatives and, as ever, is giving us a completely free hand in developing our plans.

We have begun seriously evaluating—and in some cases preparing business plans—for many potential initiatives: everything from new content formats and platforms (most of which would be adjuncts to our core publishing), to different pricing and distribution models, to further leveraging our superior services to outside companies. As a latter example, we expect to significantly expand our third-party distribution business beyond the seven publishing clients already on board, thanks to our state-of-the-art distribution centers in Westminster and Crawfordsville, the know-how of their staffs, and the savvy work of our sales development team. We also plan to market our outstanding royalty, payroll, accounting, and IT systems to other Bertelsmann and non-Bertelsmann companies.

In the year ahead I will report to you on our progress with these initiatives, which, in time, may include direct sales online of our books to readers as a complement to our existing sales channels and the expansion of our proprietary publishing, as well as many other publishing, marketing, and distribution ideas.

Along with planning and implementing our publishing and entrepreneurial programs, we also have accomplished much this year toward enhancing Random House's work environment as the best place for a career in book publishing. I am particularly proud of the new quality of life benefits we have added in 2004, such as our dollar-for-dollar corporate matching gifts, for which the initial outpouring of participation has been tremendous. Our Random House Sabbatical Program, unique in trade book publishing, has been a true success in its first year. Our productivity has not suffered during the absence of veteran employees, who have returned to work reinvigorated, and I have enjoyed listening to the stories from many of you who embarked upon fresh education and lifestyle pursuits during your sabbatical. Among the perks we will introduce next year is greater and more frequent access to free Random House, Inc. books for everyone.

In addition to our publishing work together, this year more of us have joined together to give back to our communities through such longstanding programs of ours as Adopt-A-School. Our books and we who publish them can change lives, and no division has worked harder, longer, or better at doing this than Random House Children's Books, under its President and Publisher, Chip Gibson.

They have made corporate social responsibility an imperative equal to publishing well. As a charter member of the First Book organization, they have donated more than 500,000 copies of their books to children nationwide who had never owned a book. In support of the national celebration of the freedom to read and the First Amendment rights of America's booksellers, librarians, and teachers, they re-created a newly relevant First Amendment First Aid Kit, ([www.firstamendmentfirstaid.com](http://www.firstamendmentfirstaid.com)), which is being widely and gratefully utilized across the country. For this and related endeavors, Random House Children's Books last month was honored by the National Coalition Against Censorship at their thirtieth anniversary benefit dinner. In addition, our colleagues have begun a relationship with the Robin Hood Foundation's Library Initiatives Program, which starts up or reopens libraries in New York City's public elementary schools.

With their emphasis on making a difference as well as on making a profit, Random House Children's Books exemplifies what Random House should strive for going forward.

To work at Random House is to be part of a company that supports and nurtures us like no other in pursuit of our publishing, entrepreneurial, and personal goals and dreams. Our terrific 2005 publishing lineup is only one of the many reasons I am so enthusiastic and optimistic about our future together.

It is a privilege to work together with you on behalf of our books, their authors, and our booksellers. Thank you.

Have a wonderful holiday season and a safe and restful year-end break.

All best,

