



RANDOM HOUSE
BERTELSMANN

PETER OLSON
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

December 13, 2005

Dear Colleagues:

Twenty-two #1 *New York Times* bestsellers. Our lowest-ever overall return percentage rate. The all-time-bestselling Oprah Book Club selection. Seven of the *New York Times Book Review*'s "10 Best Books of the Year." Two of the four National Book Award winners. Our eighth consecutive Pulitzer Prize winner. Ten new publishing clients to our distribution services business.

These are just a few of the many reasons why 2005 has been a good year for our company. Although our final full-year numbers won't be announced until March, Random House worldwide, with a half month to go, is well positioned for fiscal year 2005 to exceed both our sales and our operating results for 2004.

Once again each of our North American publishing divisions will be profitable in 2005, with the Knopf Publishing Group, Random House Children's Books, and Random House of Canada having banner years. As well, all our global territorial divisions will show a profit for this fiscal year, with the London-based Random House UK Group again posting record results that improve on the previous year's.

What made us successful in 2005?

Primarily the same core essentials that have proven indispensable to us year after year: our authors, and you who help publish them. This tandem, together with our booksellers, enabled us in 2005 to place more of our adult and children's titles on the various *New York Times* national bestseller lists than any other publishing group—as we have done every year since we formed the company in the last decade. This teamwork has produced impressive sales numbers for us in North America this year for many books, among them:

More than six million copies in hardcover and paperback print of John Grisham's #1 bestselling *THE BROKER*.

Almost two million copies in print of *ELDEST* by Christopher Paolini, a #1 bestseller for Random House in the UK, Germany, and Australia, as well as in the U.S. and Canada.

The three-million-plus-copy record-breaking Oprah Book Club selection in trade paperback for *A MILLION LITTLE PIECES* by James Frey.

The history-making sell-through of our audio editions of J. K. Rowling's *HARRY POTTER AND THE HALF-BLOOD PRINCE*, read by Jim Dale.

Our surging strength in lifestyle and cooking titles—a category we had identified as vital for us to grow—is exemplified by the 1.2 million-copy FRENCH WOMEN DON'T GET FAT by Mireille Guiliano; the 600,000-copy EVERYDAY ITALIAN by Giada De Laurentiis; and Rachael Ray's two #1 bestselling trade paperbacks.

An additional 1.6 million copies of Dan Brown's THE DA VINCI CODE, in its third year of publication, brings the total copies in print of the two hardcover editions to more than twelve million just in North America.

While we hardly take as a given the customarily extensive critical accolades our books receive, the recognition of our titles by the editors of the *New York Times Book Review* on their list of the "Best Books of 2005" is amazing and humbling.

We published four of their five choices for Best Fiction—KAFKA ON THE SHORE by Haruki Murakami; PREP by Curtis Sittenfeld; SATURDAY by Ian McEwan; and VERONICA by Mary Gaitskill—and three of their five selections for Best Nonfiction—DE KOONING: An American Master by Mark Stevens and Annalyn Swan (also this year's winner of both the Pulitzer Prize and the National Book Critics Circle award for Biography); THE LOST PAINTING by Jonathan Harr; and THE YEAR OF MAGICAL THINKING by Joan Didion (this year's National Book Award winner for Nonfiction).

Thirty-six of the *Times Book Review's* "100 Notable Books of the Year" are Random House, Inc. titles, once again more than double those from any other publishing group. The *Book Review's* Children's Books editors selected FLUSH by Carl Hiaasen and TRACTION MAN IS HERE!, written and illustrated by Mini Grey, as two of their "Notable Books of 2005," with the latter also chosen last month as one of the year's ten "Best Children's Illustrated Books."

Our colleagues in the Sales Groups, the Distribution Centers, and the Operations and support teams merit the highest superlatives for their contributions to the marketplace success of our books and publishing programs in 2005. In the context of the generally flat book retail economy, we have asked more from them this year than ever before, and based on our projected annual results and our publishing performance, they once again have come through brilliantly for our authors, our publishers, and our booksellers.

Among their greatest accomplishments of the year have been their efforts with our publishing divisions to bring our overall low return rate down even lower. This year the company reached a level of sell-through efficiency we only dreamed of previously.

Thanks to the best-in-class performance of our Sales, Distribution, and Operations people, we are well along toward rapidly realizing one of our major corporate growth initiatives: the expansion of our outside client distribution business. In the coming year we will be providing distribution as well as, for some, sales services for fifteen outside book-publishing clients, more than doubling the number of companies aboard with us a year ago. In less than two and a half years, our Random House Distribution Services entrepreneurs have built from scratch a business that will represent for us cumulative annual billings of well over \$100 million. Distribution Services will be a vital contributor to our future profitability.

Another key contributor to supporting our business development has been our IT Shared Services Group, which not only provides information technology infrastructure for North America but has also dramatically expanded the scope of its operations to serve other Bertelsmann affiliates such as BMG Columbia House, Bookspan, and SonyBMG.

Corporate growth and market leadership are not the only challenges we face going forward. How can we continue to make our company the best place to be if you want a career in trade-book publishing? One way is through an unparalleled package of benefits that enable all of us to achieve a balance between our career development and our personal and family lives. These include progressive health care, new-parent paid leave, extended vacation policies, the sabbatical program, our paid annual year-end week off, and such perks as our employee free-books program and the just-added after-school free online student homework tutorial support.

Our newest workplace initiative, which we are previewing today, is our sponsorship of the Random House Scholarship Program, which will begin in 2006. Our U.S. and Canadian employees will be eligible to apply for annual monetary stipends for their dependents who are pursuing a course of study at an accredited college, university, or vocational-technical school. Detailed information about the program will be provided by Human Resources early next year.

Our 2006 new-title publishing is shaping up promisingly and I look forward to presenting you with some highlights in our forthcoming divisional meetings. While the first Random House Films features are in the future, we do have a bumper crop of movie tie-ins in the year ahead, including the January national release of *MEMOIRS OF A GEISHA* by Arthur Golden; *CARS*, the summer release from Pixar, the creators of *Toy Story* and *The Incredibles*; *THE DEVIL WEARS PRADA*, starring Meryl Streep; Peter Mayle's *A GOOD YEAR*, starring Russell Crowe; *FLAGS OF OUR FATHERS*, directed by Clint Eastwood; *ERAGON*, based on the first volume in the trilogy by Christopher Paolini; and, of course, *THE DA VINCI CODE*, starring Tom Hanks and directed by Ron Howard, opening on May 19.

Our 2005 success is certainly a tribute to our books, their authors, and our publishing and sales and distribution excellence. But it is also a testimonial to your work ethic, your inspiration, and your commitment. You have played a tremendous part in producing results of which we can all be proud. We could not and cannot do it without you.

Thank you.

Have a happy, healthy, and restful holiday. May you have a New Year that brings all good things to you and to your loved ones.

All best,

A handwritten signature in black ink, appearing to read "Bill", is located at the bottom of the page.