Hachette Livre since 2010
  - Hachette Livre today
  - 2003-2013 highlights

Hachette Livre’s successful digital transformation
  - Market environment: a new deal
  - Actions put in place and results today
  - Opportunities

Three year outlook
  - Pursue digital transformation
  - Consolidate market position
  - Invest in emerging markets

Conclusion
HACHETTE LIVRE IS THE WORLD’S #3 CONSUMER BOOK PUBLISHER, A LEADER IN CORE MARKETS

**Top 3 Consumer book publishers worldwide**

Based on 2013 pro-forma turnover (€m)
(Consumer: Trade & Education including Higher Education)

- **5,085**
- **3,259**
- **2,066**

**Pearson**

**Penguin Random House**

*Pearson excludes Penguin revenues
**Internal estimate including 100% of Penguin revenues
Based on 2013 average exchange rates. Revenues from STM, professional markets and other activities than book publishing have been excluded when it could be isolated Sources: annual reports, internal estimates, Ipsos, Nielsen Bookscan

**Ranking in core markets**

Based on 2013 market data and results

- **Worldwide #3**
- **#1**
- **#2**
- **#3**
- **#4**
- **#2**
IN FRANCE, ITS HOME TURF, HACHETTE LIVRE IS THE #1 PUBLISHING PLAYER

**INVESTOR DAY – PRESENTATION**

**CONTRIBUTION TO 2013 GLOBAL SALES**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Contribution</th>
<th>2013 Sales (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>France**</td>
<td>37%</td>
<td>€2,066m</td>
</tr>
</tbody>
</table>

**SPLIT OF 2013 SALES BY BUSINESS**

<table>
<thead>
<tr>
<th>Business</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade</td>
<td>25%</td>
</tr>
<tr>
<td>Education</td>
<td>50%</td>
</tr>
<tr>
<td>Distribution</td>
<td>25%</td>
</tr>
</tbody>
</table>

**Focus on France**

### 3 BUSINESSES IN FRANCE

<table>
<thead>
<tr>
<th>Sector</th>
<th>TRADE</th>
<th>EDUCATION</th>
<th>DISTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 ranking and market share in value</td>
<td><img src="#" alt="20.5%" /> #1</td>
<td><img src="#" alt="45%" /> #1</td>
<td><img src="#" alt="33%***" /> #1</td>
</tr>
</tbody>
</table>

### Main segments of presence and examples of imprints

- **Trade**
  - Fiction & Non Fiction: Stock, JC Lattès, Calmann-Lévy, Fayard, Grasset
  - Illustrated & Children: Phébus, Pika, Poche, Jeulin
  - Reference: Larousse, Dalmatien

- **Education**
  - Primary: Hachette Education, Foucher
  - Secondary: Hachette Education
  - Academic & Professional: Hachette Education

- **Distribution**
  - Owned imprints: Dalloz, Delcourt, Albin Michel
  - Third-party clients (40%)

### Key business factors

- **Trade**
  - High level of production
  - From “boutique” to mass market
  - Exceptional brands
  - Outstanding performances in 2013 (Fiction bestsellers, new album of Asterix, Violetta)

- **Education**
  - 75% backlist
  - Dependant on curriculum change (none in 2013/2015)
  - High margins associated with high market shares

- **Distribution**
  - Working capital negative
  - Extremely resilient

---

*Sales by country of origin ** Including other French-speaking countries ***Distribution in Trade (internal estimates for print market)
Sources: Ipsos (physical sales only), Education group of Syndicat National de l’Edition, internal estimates
# Hachette Book Group is the #4 Player in the US Trade Market

## Contribution to 2013 Global Sales* (€ 2,066m)

<table>
<thead>
<tr>
<th>Business</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade</td>
<td>23%</td>
</tr>
<tr>
<td>Distribution</td>
<td>4%</td>
</tr>
</tbody>
</table>

## Split of 2013 Sales by Business

<table>
<thead>
<tr>
<th>Business</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution</td>
<td>4%</td>
</tr>
<tr>
<td>Trade</td>
<td>96%</td>
</tr>
</tbody>
</table>

## 2 Businesses

### Trade

- 2013 ranking and market share in volume
  - 5.8%**
  - # 4

### Distribution

- Working capital negative
- Achieved digital transformation
- Aggressive growth strategy in 3rd-party business

## Main Segments of Presence and Examples of Imprints

- Owned imprints
- Third-party clients: ~40% of the activity

## Key Business Factors

- Brilliant Frontlist Publisher, # 1 in the market, experiencing good performance in 2013
- 206 print and 84 ebook NYT bestsellers (52 titles in #1 positions)
- All authors have agents
- Stronger in Adult Fiction than in other segments
- Acquisition of Hyperion in 2013 to reinforce the Non Fiction list

---

*Sales by country of origin

**Including sales of some distribution clients. Post-acquisition sales for Hyperion included. Physical sales only

Sources: Nielsen Bookscan, internal estimates
**HACHETTE UK IS A LEADING PLAYER IN THE UK AND COMMONWEALTH COUNTRIES**

**CONTRIBUTION TO 2013 GLOBAL SALES**

*(€ 2,066m)*

<table>
<thead>
<tr>
<th>UK</th>
<th>21%</th>
</tr>
</thead>
</table>

Including Ireland, India and Australia

**Focus on the UK**

<table>
<thead>
<tr>
<th>3 BUSINESSES IN THE UK</th>
<th>TRADE</th>
<th>EDUCATION</th>
<th>DISTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 ranking and market share in value</td>
<td>12.8%</td>
<td># 2</td>
<td>~23-24%</td>
</tr>
<tr>
<td>Main segments of presence and examples of imprints</td>
<td>Fiction &amp; Non Fiction</td>
<td>Secondary Schools Market: # 3 on this segment</td>
<td>Owned imprints</td>
</tr>
<tr>
<td></td>
<td>Illustrated</td>
<td>Need for size</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Children</td>
<td>Extremely concentrated</td>
<td></td>
</tr>
<tr>
<td>Key business factors</td>
<td>All authors have agents</td>
<td>More digital than France but only ~10%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Most unregulated market</td>
<td>Strong performance in 2013 (curriculum change in Scotland)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>High retail concentration</td>
<td>Working capital negative</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Outstanding performances in 2013: 112 Times bestsellers</td>
<td>Less profitable than France and US</td>
<td></td>
</tr>
</tbody>
</table>

*Sales by country of origin*

Sources: Nielsen Bookscan (physical sales only); Education group of Publisher’s Association; The Publishers Association; internal estimates
HACHETTE LIVRE ESPAÑA IS A LEADING PLAYER IN SPAIN AND LATIN AMERICA

CONTRIBUTION TO 2013 GLOBAL SALES* (€ 2,066m)

8%

SPLIT OF 2013 SALES BY BUSINESS

70% 26% 4% 1%

Trade Distribution Education

4 BUSINESSES

EDUCATION (SPAIN)

Trade (SPAIN)

DISTRIBUTION (SPAIN)

LATIN AMERICA

2013 ranking and market share

20.3% # 1 # 4 --

Main segments of presence and examples of imprints

# 2 in Adult Non Fiction (market share of 7.1%)

# 5 in Adult Fiction (market share of 2.4%)

# 4 in Juvenile segment (8.5%)

• Educational books

• Reference

• Mainly for owned imprints

Key business factors

• Several languages and curricula

• Heavily funded by public

• Reform in 2014

• Very concentrated

• Hurt by very difficult environment

• Opportunities to come?

• Not an established business in Spain

*Sales by country of origin

Sources: Internal estimates for education. Nielsen Bookscan for Trade market shares (print sales, in volume)
HACHETTE LIVRE OPERATES A PARTWORKS BUSINESS WITH A STRONG PRESENCE WORLDWIDE

CONTRIBUTION TO 2013 GLOBAL SALES* (€ 2,066m)

Partworks 11%

AT A GLANCE
33 Countries
16 Languages
157 Employees
69 Launches in 2013
177 Active collections around the world

*Sales by country of origin
## 2013 ranking and market share in value

- Partworks activity has been extending its international network year after year: compared to 2009, new countries became the main contributors of sales in 2013

<table>
<thead>
<tr>
<th>Year</th>
<th>Study Area</th>
<th>Sales Share</th>
<th>EBIT Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>France, Spain, Italy</td>
<td>61%</td>
<td>57%</td>
</tr>
<tr>
<td>2013</td>
<td>Russia, Brazil, UK, Japan</td>
<td>51%</td>
<td>69%</td>
</tr>
</tbody>
</table>

### Key business factors

- Successes on all markets excluding Spain in 2013
- High R&D, marketing and promotional expenses
- Need for very professional testing processes
- Need for tight operational management

* Internal estimates based on sales in newsstands

** Spain, Portugal, and Latin America excluding Brazil
HACHETTE LIVRE EXTENDED ITS REACH THROUGH BUSINESSES IN DEVELOPING COUNTRIES

### Overview
- Joint venture with Phoenix Publishing Media Group
  - 17 people
- Joint venture with Librairie Antoine established at the end of 2009
  - 21 people
- Participation in Azbooka-Atticus Publishing Group since 2011
  - 407 people
- Launched in 2008
  - English language consumer book subsidiary

### Segments
- International Fiction, Non Fiction / Practical, Children
- Trade: local and international Fiction & Non Fiction, Children, Practical, Reference
- Education
- Local and international Fiction, Children, Non Fiction / Practical
- Marketing and distributing books for HUK and HBG
  - Fiction, Children’s and Reference books as well as Non Fiction

### Key trends
- **91 titles** in 2013
  - Fiction: D. Kennedy, J-C Grangé, D. Baldacci, acquisition of G. Musso
  - Non Fiction: *I Am Malala*, David Beckham illustrated biography, self-help, soft business, biographies
  - Strong Children line, with «Disney Learning » license and other Edutainment titles, and Children Fiction
- **227 titles** in 2013
  - Growth of 2013 sales: +10%
  - Fiction: Arab classics as well as very contemporary bestsellers (both Arab like Ahlam Mosteghanemi, and Western like J.K. Rowling, Harlan Coben)
  - Disney license, Mr. Men & Little Miss license
  - Practical titles (*Méthode Dukan*, cook books)
- **1,229 new titles** in 2013
  - Growth of 2013 sales: +10%
  - Fiction: development of foreign authors (JK Rowling, Jojo Moyes, Jo Nesbø), strong line of classics
  - Children: strong authors (Enid Blyton, Astrid Lindgren), new *Harry Potter* edition for 2014
  - Development in new segments such as business books, coffee-table books
- **~35 adult books and 15 children’s books** published per year

*Not consolidated in the Trade market*
Examples of 2013 bestsellers

<table>
<thead>
<tr>
<th>Literature</th>
<th>Trade</th>
<th>Children</th>
<th>Education and References</th>
<th>Partworks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

Examples of 2013 bestsellers in various categories:
- **Children**
- **Trade**
- **Literature**
- **Education and References**
- **Partworks**
Hachette Livre since 2010
   - Hachette Livre today
   - 2003-2013 highlights

Hachette Livre’s successful digital transformation
   - Market environment: a new deal
   - Actions put in place and results today
   - Opportunities

Three year outlook
   - Pursue digital transformation
   - Consolidate market position
   - Invest in emerging markets

Conclusion
THE GROWTH OF THE GROUP WAS FUELLED BY ACQUISITIONS AND INTERNATIONAL DEVELOPMENT

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td></td>
<td>LAROUSSE</td>
<td>ARMAND COLIN</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>UK</td>
<td></td>
<td>HodderHeadline</td>
<td></td>
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<tr>
<td>Spain</td>
<td></td>
<td>GrupoANAYA</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>USA</td>
<td></td>
<td></td>
<td>hachette book group</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Latin America</td>
<td>Argentina</td>
<td>AQUE</td>
<td>Mexico</td>
<td></td>
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<tr>
<td>China</td>
<td></td>
<td></td>
<td></td>
<td>hachette phoeniX (JV)</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Others</td>
<td>India</td>
<td>Lebanon</td>
<td>Russia (25%)</td>
<td></td>
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</tr>
</tbody>
</table>
Hachette Livre results 2003-2013 (in €m)

Share of International sales*

- 2003: 35%
- 2004: 45%
- 2005: 52%
- 2006: 62%
- 2007: 65%
- 2008: 67%
- 2009: 69%
- 2010: 68%
- 2011: 67%
- 2012: 67%
- 2013: 68%

Twilight

Revenues

CAGR 03-13: +8%

Increase in net sales in 2013 on like-for-like basis: +1.9% vs 2012

EBIT

CAGR 03-13: +8%

*Sales by country of destination
HACHETTE LIVRE HAS SUCCESSFULLY ASSEMBLED A PORTFOLIO OF BUSINESSES ACROSS 3 MAJOR LANGUAGES AND ALL MARKET SEGMENTS

2013 revenues: €2,066m

Sales by geographic area*

- France and other French-speaking countries: 37%
- Spain & Latin America: 11%
- USA: 23%
- Partworks: 8%
- UK / ANZ: 21%

Sales by activity

- Fiction and Non Fiction: 42%
- Education: 16%
- Illustrated & Children: 15%
- Distribution: 12%
- Partworks: 11%
- Reference: 4%
- Other: 0%
**Hachette Livre is a best-in-class, very profitable and cash generative group**

**Hachette Livre financing 2003-2013 (€m)**

<table>
<thead>
<tr>
<th>Year</th>
<th>EBIT</th>
<th>Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>126</td>
<td>126</td>
</tr>
<tr>
<td>2004</td>
<td>217</td>
<td>173</td>
</tr>
<tr>
<td>2005</td>
<td>216</td>
<td>189</td>
</tr>
<tr>
<td>2006</td>
<td>247</td>
<td>220</td>
</tr>
<tr>
<td>2007</td>
<td>284</td>
<td>239</td>
</tr>
<tr>
<td>2008</td>
<td>301</td>
<td>260</td>
</tr>
<tr>
<td>2009</td>
<td>323</td>
<td>254</td>
</tr>
<tr>
<td>2010</td>
<td>277</td>
<td>244</td>
</tr>
<tr>
<td>2011</td>
<td>228</td>
<td>283</td>
</tr>
<tr>
<td>2012</td>
<td>216</td>
<td>239</td>
</tr>
<tr>
<td>2013</td>
<td>239</td>
<td>376</td>
</tr>
</tbody>
</table>

**Year-end cash situation**

| 2003     | 320 |
| 2004     | -118|
| 2005     | -17 |
| 2006     | -74 |
| 2007     | -16 |
| 2008     | -50 |
| 2009     | 144 |
| 2010     | 254 |
| 2011     | 244 |
| 2012     | 283 |
| 2013     | 376 |

**2013 profitability in Trade**

- Simon & Schuster: 13.1%
- Hachette Livre: 11.6%
- Penguin Random House: 11.6%
- HarperCollins: 7.9%
- Bonnier: 6.4%
- Scholastic: 2.9%

**2013 profitability in education**

- Hachette Livre: 15.7%
- Scholastic: 13.3%
- Pearson: 12.6%
- Santillana: 11.2%

Sources: Hachette Livre data; annual reports
INVESTOR DAY – PRESENTATION

AGENDA

- Hachette Livre since 2010
  - Hachette Livre today
  - 2003-2013 highlights

- Hachette Livre’s successful digital transformation
  - Market environment: a new deal
  - Actions put in place and results today
  - Opportunities

- Three year outlook
  - Pursue digital transformation
  - Consolidate market position
  - Invest in emerging markets

- Conclusion
Hachette Livre has been instrumental in the transformation of the industry in the USA.

- Entry of Amazon in 2007 with a high-discount policy on ebook prices
- Business model converted to agency contract in 2009 after Apple’s entry
- Very rapid growth in the USA in 2009-2013 fueled by retailer competition, installed basis of devices and depth of catalogs
- Even stronger growth in the UK which reached in 3 years the same penetration rate as the USA in 4 years
- France: digital market taking-off slowly
- US reaching a “plateau” and UK experiencing less important growth than in previous years as stated by initial 2013 market estimates
- Hachette Livre was the N°2 Digital Publisher in the US market in 2013

* Estimates
Sources: GfK, SNE, Bookstats, The Publishers Association, Hachette analysis
Once the investment phase is over, digital modifies the cost structure of a publisher (example: decrease of print volumes)

The across all formats slightly better incremental profitability of ebooks offsets the loss of contribution to fixed costs (distribution, sales forces) resulting from decline of print volumes

Cash flow improvement, lower upfront investments in working capital and shorter payment terms

Sources: Bookstats (Trade market excluding religion), internal estimates, The Publishers Association (home sales only for print)
E-retailers on the digital market are highly concentrated, with Amazon dominant

Breakdown of Hachette Livre digital sales by e-retailers in 2013

- A new kind of player, US-based or international technology and e-commerce companies, have entered the publishing arena with a different economic rationale from traditional retailers

- By leveraging its size, Hachette was able to implement balanced solutions with Google, Amazon, Apple: the agency model allowed new entrants without impacting the market dynamics

Source: Hachette Livre data
In most book markets, bookshops and traditional retail experience difficulties or bankruptcies.

These difficulties mostly result from financial failures in a changing environment (digital development, economic crisis).

These phenomena are gradual: the liability in terms of value is therefore limited by:
- market adjustments with the transfer of volumes to other bookstores & channels
- anticipation and monitoring of credit loss in publishers’ accounts
THE DIGITAL TRANSFORMATION HAS INCREASED COMPETITION

**Before**

- Established competing publishers
  - Gallimard
  - Planeta
  - Random House

- … or **new entrants** in Literature (Actes Sud, Le Dilettante…)

- **Retailers** (but at low level)
  - Barnes & Noble
  - WHSmith

  - Acquisition of Sterling Publishing in 2003 sold in 2012
  - Shareholder of Hodder Headline before its acquisition by Hachette Livre
  - + some French Bookstores publishing a few titles each year

**After**

- **Competing publishers**
  - Gallimard
  - Planeta
  - Flammarion Groupe
  - Penguin Random House

- **New competitors**
  - **Self-publishing platforms**
    - Amazon Publishing
    - Kindle Direct Publishing
    - Publir

  - **Agents**
    - Versilio, publishing house of agent Susanna Lea owning digital rights of Marc Lévy

  - **Digital-only imprints**
    - Pocket Star
    - Simon & Schuster

  - **New digital entrants**
    - Players from the gaming and animation industry producing enriched apps and books for children (Chocolapps, Auryn, etc.)
IN REACTION TO THIS CHANGING LANDSCAPE, GLOBAL PUBLISHERS HAVE INITIATED A NEW CONSOLIDATION PHASE

- **Acquisition of Flammarion by Gallimard**
  - Transaction closed in September 2012
  - Consolidated market share on the French print market of ~13% in value and ~14% in volume

- **Penguin – Random house merger**
  - Announced in October 2012
  - Completion of transaction expected in July 2013
  - Consolidated market share of ~28% in the US

- **Acquisition of Santillana Ediciones Generales by Penguin Random House**
  - Reinforcement of Penguin Random House on the Spanish-language market and on the Portuguese-language market
    - Imprints such as Aguilar, Alfaguara, Punta de Lectura, Suma de Letras, Taurus in Spain and Latin America
    - Editora Objetiva in Brazil

- **Acquisition of Harlequin by News Corp (HarperCollins)**

Hachette Livre had anticipated this market consolidation as early as in 2003-2006

Sources: Ipsos, Nielsen Bookscan
Hachette Livre since 2010
  – Hachette Livre today
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Hachette Livre’s successful digital transformation
  – Market environment: a new deal
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Conclusion
Since 2007, proactive actions have been taken to succeed in the digital transition and preserve market value (1/2)

- Securing of rights through systematic acquisition of print and digital rights
- Digitization of backlists and systematic release of front list titles in both print and digital formats
- Ensuring availability of ebooks on all platforms and formats
- Implementation of innovative R&D policy regarding products to anticipate evolutions especially on the Children and Educational segments

- Training teams to use new tools (production of ebooks…)
- Recruitment and development of new skills (webmarketing, websites, community management, CRM…)

- Investments in internal digital infrastructures (Digital Asset Delivery, metadata management system, CRM…)
- Adaptation of traditional structures (distribution, sales forces…)

Development of a legal digital offer

Human resources and expertise

Development of digital infrastructures and adaptation of traditional structures
### SINCE 2007, PROACTIVE ACTIONS HAVE BEEN TAKEN TO SUCCEED IN THE DIGITAL TRANSITION AND PRESERVE MARKET VALUE (2/2)

<table>
<thead>
<tr>
<th>Fostering competition among e-retail partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supporting competition among e-retailers to avoid dominant position in the value chain: development of a large network of clients composed of both international and local clients (Amazon, Apple, Kobo as well as Cultura, Fnac, independent French bookstores through Numilog partnership…).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Control over business models</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreement with Google for out-of-print books</td>
</tr>
<tr>
<td>Agreement with authors on a “new publishing contract” in France</td>
</tr>
<tr>
<td>Agency model implemented with e-retailers thanks to Hachette Livre’s size and Anglo-Saxon presence in order to retain control over ebook pricing</td>
</tr>
<tr>
<td>Cautious approach towards new business models</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Adequate protection mechanisms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of adequate protection mechanisms (DRM) with interoperable formats (Epub) which are user-friendly</td>
</tr>
<tr>
<td>Active search of illegal contents through anti-piracy tools limiting the proliferation of illegal copies</td>
</tr>
<tr>
<td>Publishing benefits from consumer awareness regarding fraudulent nature of file sharing and the existing legal frameworks against piracy</td>
</tr>
<tr>
<td>Participation of Hachette Livre in development on interoperability and standard norms (IPDF, W3C)</td>
</tr>
</tbody>
</table>
Hachette Livre digital revenues increased strongly since 2010 and now account for ~10% of total revenues, driven by strong growth of Trade digital sales from Hachette Book Group and Hachette UK.

- Book publishing is the first media industry to successfully enter the digital arena: no market decrease, limited piracy, flat profits.

Source: Hachette Livre data
Hachette Livre has successfully concentrated its investment and strategic focus on organic development when other players (Vivendi, …) did proceed to very expensive build up of digital acquisitions.

In European countries, the pace of penetration of digital depends on:
- The funding of equipment in classes and broadband infrastructure in schools
- The training and use of technology by teachers: today’s teaching methodologies are based on print content
- … in a context of tight budget availability and high conservatism

Therefore, the weight of digital within education activities remains marginal in the countries in which Hachette Livre operates (UK, France and Spain observing similar trends as France).

**Share of digital within Education sales**

<table>
<thead>
<tr>
<th>Year</th>
<th>UK</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>4.8%</td>
<td>0.2%</td>
</tr>
<tr>
<td>2013</td>
<td>3.0%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

Note: UK figures include revenues from Dynamic Learning and ebook sales; figures for France includes educational ebooks and apps.
Source: Hachette Livre data
Several initiatives have been implemented by Hachette in order to be ahead in digital and ready when the market takes off.

Examples in France:
- Development and production of eSchoolbooks by educational publishers, available on all devices and sold through the KNE (own distribution platform)
- Development of websites for students, parents, teachers presenting collections and digital applications
- Production of mobile applications

Examples in Spain:
- 2014 reform including budget dedicated to digital
- Anaya implemented a new platform to produce digital schoolbooks

Example in the UK: development of Dynamic Learning by Hodder Education, allowing teachers and students to access on all devices a content rich e-learning platform
- Hachette Livre since 2010
  - Hachette Livre today
  - 2003-2013 highlights

- **Hachette Livre’s successful digital transformation**
  - Market environment: a new deal
  - Actions put in place and results today
  - **Opportunities**

- Three year outlook
  - Pursue digital transformation
  - Consolidate market position
  - Invest in emerging markets

- Conclusion
PUBLISHER’S ROLE REMAINS CENTRAL IN THE CREATION, PRODUCTION AND SALE OF BOOKS

Consumers
- Advice and recommendations for cultural products needed

Authors
- Traditional publishers remain more attractive
  - Bestselling authors need exclusive services (advances, editorial expertise, marketing and sales clout…) not offered by new publishing structures
  - Rare self-published authors proving to be successful subsequently looked for a traditional publisher in order to increase their sales

A publisher is a sifter: culling of contents, focusing on superior works among a high number of projects submitted

Publisher’s mission is to finance, work with the author, format, promote, market, distribute the work

With a forecasted digital penetration of the market of <40%, publishing will still be driven by print book sales: the complexity of the business will remain and won’t be acquired by new players
Hachette Livre aims at reaching new readers by selling its ebooks worldwide:
- The digital sales network of the group is being extended to new territories
- Worldwide ebook distribution can allow the group to meet demand of new pools of readers (for example: expatriates, French-speaking readers abroad…)

Enriched contents, which are progressing, attract a new kind of readers won over by interactivity
- Boundaries between enriched books/applications and other media (gaming, animation…) are increasingly blurred: digital books therefore compete with these multimedia activities
- Young readers, who are not core readers but have increasing digital habits, will be attracted by these contents

Device penetration will continue to increase and develop the digital market:
- Digital will continue to grow in Hachette Livre’s core markets
- Emerging countries (Asia, Africa…) experiencing strong device penetration will offer new market opportunities in the mid-term

Therefore, digital increases the Trade book market size and Hachette Livre is fully prepared to take advantage of these new market opportunities
In the countries where Hachette Livre operates, digital market for Education is still marginal:
- The more advanced digital education market is the UK: ~10% of the publishing market
- Digital education remains embryonic in France (~1% of the market) and in Spain

The transition of Education to digital will occur by 2025 in France and Spain:
- In France: shift towards Digital-only Education at the latest by 2025
- Very similar scenario in Spain with even more complexity imposed by decentralization and local curriculum/language
- Educational publishing will move from print to print and digital content and services

The educational digital market is already quite developed in the USA and is a reality for US educational publishers:
- 33.5% of US college students enrolled took at least one online course in 2012
- High share of Digital in revenues of Education publishers
  - Pearson: 60% of total revenues derive from digital products and services
  - Houghton Mifflin Harcourt: 28% of revenues*

Without running ahead of market, Hachette Livre is in the process of building all the necessary skills. Its brands, market share and market knowledge will also represent a considerable advantage to benefit from this paradigm shift

* As of June 2013, Sources: Press; The Publishers Association; Babson annual online learning survey; Hachette Livre data, annual reports
INVESTOR DAY – PRESENTATION

AGENDA

- Hachette Livre since 2010
  - Hachette Livre today
  - 2003-2013 highlights

- Hachette Livre’s successful digital transformation
  - Market environment: a new deal
  - Actions put in place and results today
  - Opportunities

- Three year outlook
  - Pursue digital transformation
  - Consolidate market position
  - Invest in emerging markets

- Conclusion
Ebooks share of total sales in the USA should continue to increase but at a lower pace to stabilize between 25-35% by 2017.

UK market will follow the US market trend with ebook share reaching~35% of 2017 total market.

In France, despite a protracted take-off, ebooks will account for 10-15% of Trade market with Hachette Livre leading.
STRICT PRIORITIES (1/3): STRENGTHEN SUCCESSFUL BUSINESS MODEL

- Stand by our economic business model in which value is preserved:
  - Promote interoperability through unique format & DRM
  - Retain control over ebook pricing
  - Support sales in bookstores
- Be vigilant on intellectual property and protect author rights
- Complete the construction of digital infrastructures: Digital Asset Delivery, Sales Scan,…
- Pursue innovation policy (services to authors, R&D) in order to maintain leadership in digital landscape

- Gain scale to successfully ensure a profitable digital transition:
  - Keep pace on digital development: economies of scale in R&D and infrastructure costs will represent a tangible competitive advantage
  - Maintain bargaining power in commercial negotiations with retailers
Achieve worldwide ebook distribution for the group by end 2014

Distribution agreement between Hachette Book Group and Hachette UK to expand presence in English language markets worldwide (~190 countries)
  - Sales in the UK, Europe, Australia, India and Africa through Hachette UK
  - Sales in South America, the Caribbean and Asia through HBG

Distribution of French ebooks in 30 territories to date, with US and all other key territories planned in the coming months
Information pertaining to the final client belongs to retailers

Today Big data allows more players of the value chain to gain access to consumer knowledge and contacts: Consumer Insight / CRM

CRM for Hachette means building a relationship between publishers, editors, authors and readers/consumers in order to:

- Create a direct access to consumers
- Allow publishers to promote their books directly to targeted readers
- Support commercial operations and cross-selling activities
- Fight against piracy
- Optimize marketing costs
INVESTOR DAY – PRESENTATION

AGENDA

- Hachette Livre since 2010
  - Hachette Livre today
  - 2003-2013 highlights

- Hachette Livre’s successful digital transformation
  - Market environment: a new deal
  - Actions put in place and results today
  - Opportunities

- Three year outlook
  - Pursue digital transformation
  - Consolidate market position
  - Invest in emerging markets

- Conclusion
Joint venture between Penguin and Random House announced in October 2012 and completed in July 2013, creating a giant competitor especially in the US and the UK:
- Combined sales of ~€3bn
- ~28% market share in the USA and ~24% in the UK
- 15K publications per year, 250 imprints, 70 Nobel prizes as authors

News Corp (HarperCollins) announced in May 2014 the acquisition of Harlequin

Consolidation provides:
- Back-office synergies
- Higher attractiveness for valuable licenses
- Digital development synergies
- Improved market share and reinforcement of the bargaining power with respect to e-retailers seeking to force publishers to adjust commercial strategy for ebooks

Publishers need size and muscle in order to keep control over relations with authors, over pricing and distribution

Large US players share Hachette Livre strategic analysis that size is and will remain key

Sources: press ; Nielsen Bookscan (print volumes for the US market share and print value for the UK market share)
HACHETTE LIVRE IS PURSUING SIX STRATEGIC PRIORITIES TO CONSOLIDATE ITS MARKET POSITION

1. Organic growth
   - International development in Partworks
   - Development of the distribution activity for third-party clients
   - Development of catalogs in the USA mainly
   - Source more key authors and licenses

2. External growth
   - Rebalance USA/UK
   - Be a premier league competitor in the US Trade market (key in digital development)
Partworks activity of Hachette Collections experienced growth in 2013 except in Spain.

Hachette Collections maintains its strategy of expansion by:

- Paying strong attention to investment costs in European countries:
  - France, UK, Spain, Italy, Germany
  - United Kingdom
  - Germany
  - Italy

- Re-using all products in secondary markets:
  - ANZ
  - Canada
  - Poland
  - Eastern Europe

- Pursuing its international development strategy in countries experiencing growth and market size:
  - Japan
  - Russia
  - Brazil

- Testing new markets: China, India, South East of Asia
Hachette Livre’s distribution strategy is customized in each country with the objective to implement the most powerful organization:

- Internalizing the distribution capacity in core markets (US, UK, France, Spain and ANZ)
- Looking for the best partners in other markets (Canada, Switzerland)
- Share of best practices across markets

Hachette Livre benefits from best-in-class distribution assets in its core markets providing the group with platforms offering very profitable services to smaller publishers

In these markets, the Group aims at gaining significant third-party business in the years to come when small distributors will disappear:

- Three new third-party clients joining in 2014 in France
- Permanent flow of new contracts in the UK
- Expansion of HBG’s facility in Indiana to add distribution clients
As an example, Hachette Book Group is executing strategy to expand its Non Fiction presence through:
- the acquisition of the assets of Hyperion Books in 2013;
- the creation of Hachette Books, a new imprint focused on Non Fiction;
- as well as organic growth initiatives through existing imprints

The group is also strengthening its position through the recruitment of experienced and talented publishing teams, who will enhance the diversity of the book portfolio over many segments (UK, France...)

Hachette Livre intends to reinforce links between publishers and authors through proximity and tailor-made services:
- Traditional services in print
- Digital services such as:
  - Marketing and promotion on the internet
  - Monitoring of reputation on social networks

Example of Michael Connelly

Mobile App
Website

Twitter account
Editorial leadership is necessary to attract new talents: Hachette Livre endeavors to reach the best authors, thanks to its reputation and brand recognition, as well as a privileged access to agents.

Hachette Livre is actively looking for international bestsellers with worldwide rights: international bestsellers generate strong sales and can be strong contributors to profits if well-managed.

These talents are mainly sourced in the US:
- 40% of the worldwide book market is composed of English-language books
- International bestsellers come mostly from the US market

Hachette Livre is focusing on the US market to identify, acquire and develop top authors, titles, licenses to maintain its leading position in all markets.
- As an example, acquisition of Donna Tartt, author of the *Goldfinch*, who won the Pulitzer Prize for Fiction.
The US book market is larger than the UK market in terms of:
- Readership
- Number of new titles published

It is necessary to be a bigger player in the USA than in the UK in order to secure enough primary rights.

Historical establishment of Hachette in the UK first:
- Portfolio of activities between the USA and the UK is skewed
- British publishers of the group are insufficiently provided with US titles by Hachette Book Group
- Hachette UK publishes bestselling authors that are not published by Hachette Book Group but rather by competitors in the USA: Stephen King, Harlan Coben…

Rebalance the weight of the US vs the UK subsidiary
Hachette Intends to Be a Premier League Competitor in the US Trade Market as Size is, and Will Continue to Be, a Critical Asset in the Forthcoming Years in This Market

The US market is dominated by a few players

| 2013 top 5 pro-forma market shares on the US Trade print market (in volume) |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Penguin Random House        | HarperCollins                | Hachette Book Group         |
| 27.7%                       | 10.5%                       | 7.5%                        |
| HarperCollins Harlequin     | Simon & Schuster            | Macmillan                   |
| 7.5%                        | 5.8%                        | 4.9%                        |

- Penguin-Random House controlling ~28% of the print market
- US-based technology and e-commerce companies such as Amazon dominating the US digital market

Hachette Livre strategy and rationale

- In this new environment, scale is important:
  - To attract authors (particularly for bestselling authors), acquire valuable licenses and control more worldwide rights
  - To maintain bargaining power in a context of increasing downstream concentration of retailers: sales and profits expected to be preserved for publishers, even improved, as long as tight control is kept on business models
  - To benefit from synergies
- Hachette Book Group market share is only ~6%
- Objective to secure HBG’s position on this market by reviewing external growth opportunities, be it through creative JVs, synergy-driven small acquisitions

Source: Nielsen Bookscan
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Conclusion
Hachette Livre constantly monitors book markets worldwide.

After opening for business in China, India, Russia and Middle East (Lebanon), Hachette Livre intends to pursue its international expansion in emerging markets:
  – Focus on countries with high-profile economic and demographic growth potential such as Brazil, Turkey, Asia…

Hachette Livre relies on key principles when a decision to invest in a new international market is made:
  – Target a market with growth potential
  – Enter a new market through a partnership
  – Look for a partner with complementary strengths
Strong economic and demographic growth in French-speaking countries in Africa

Progression of French language: ~500m of French-speaking people in this area by 2050 (85% of total French-speaking community)

Increase of Education favoring:
  - The progression of French language
  - Literacy among population

Presence in Africa through Hachette Livre International:
  - Publication of textbooks, supplemental books, children and practical books

Well-positioned to benefit from the expected growth of book markets in this area

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**Presence of Hachette Livre International in Africa**

**Main markets in 2013**
- Congo
- Morocco
- Algeria
- Togo
- Cameroun
- Reunion

**Learners of and in French language worldwide – 2010**
- America/Carribean: 23,4%
- Asia/Oceania: 44%
- Europe: 22,6%
- North-Africa/Middle East: 8%
- Sub-Saharan Africa/Indian Ocean: 2%

Source: Observatoire International de la Francophonie
INVESTOR DAY – PRESENTATION

AGENDA

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  - Hachette Livre today
  - 2003-2013 highlights

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  - Market environment: a new deal
  - Actions put in place and results today
  - Opportunities

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Hachette Livre is the world’s #3 consumer book publisher with a strong presence worldwide.

The group delivers solid and predictable results thanks to a balanced portfolio.

Digital modifies the market environment of publishing but represents an opportunity for publishers, whose role remains central.

Hachette Livre is proactively transforming to ensure successful digital transition.

Hachette Livre will continue to deliver growth by focusing on the following strategic priorities:
  – Pursue digital transition and gain scale
  – Grow by acquisitions through cash or JV (depending on size) with a focus on the USA
  – Expand internationally