



Hachette Livre

INVESTOR DAY

PARIS

FEBRUARY 2, 2004

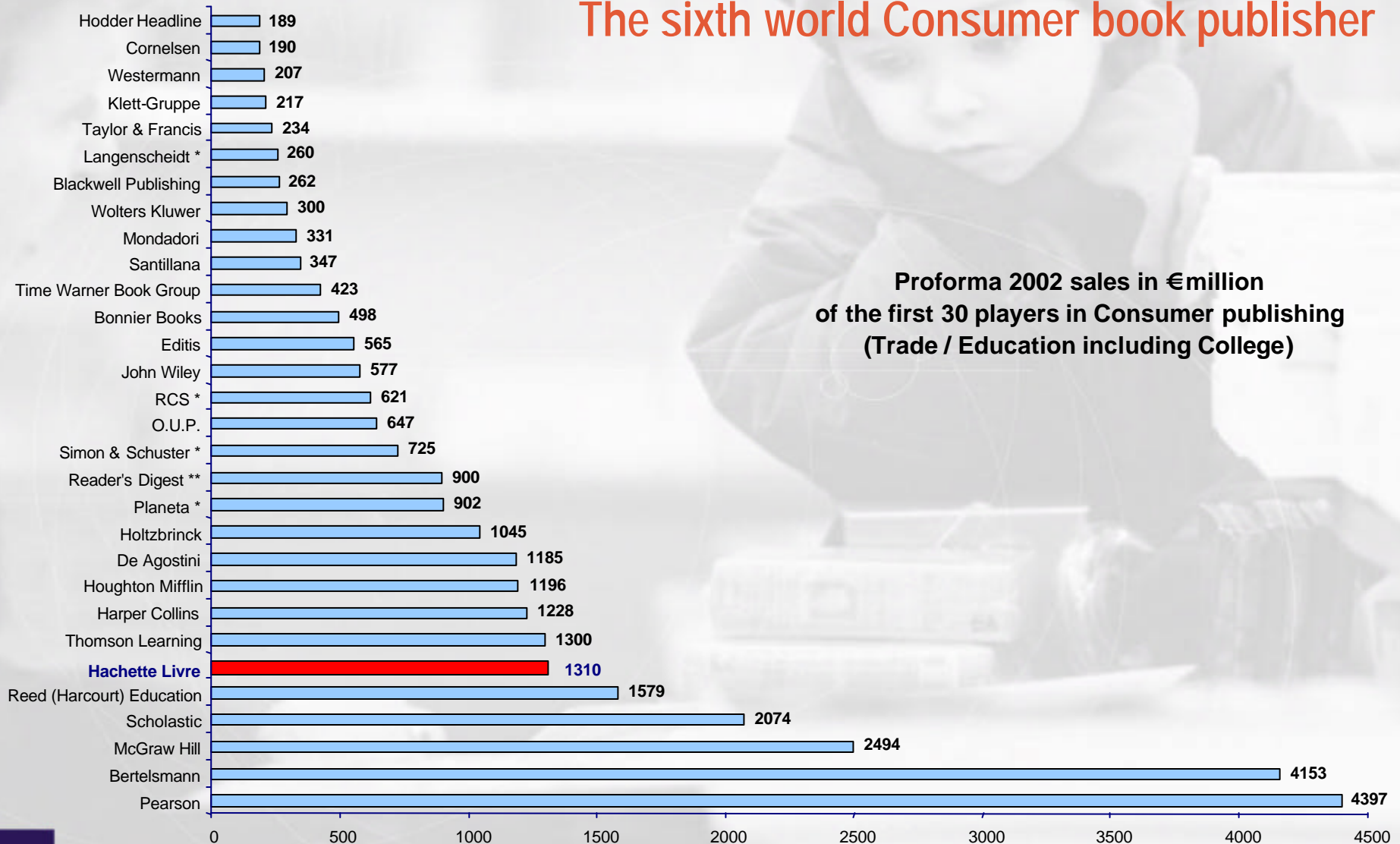
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Hachette Livre profile

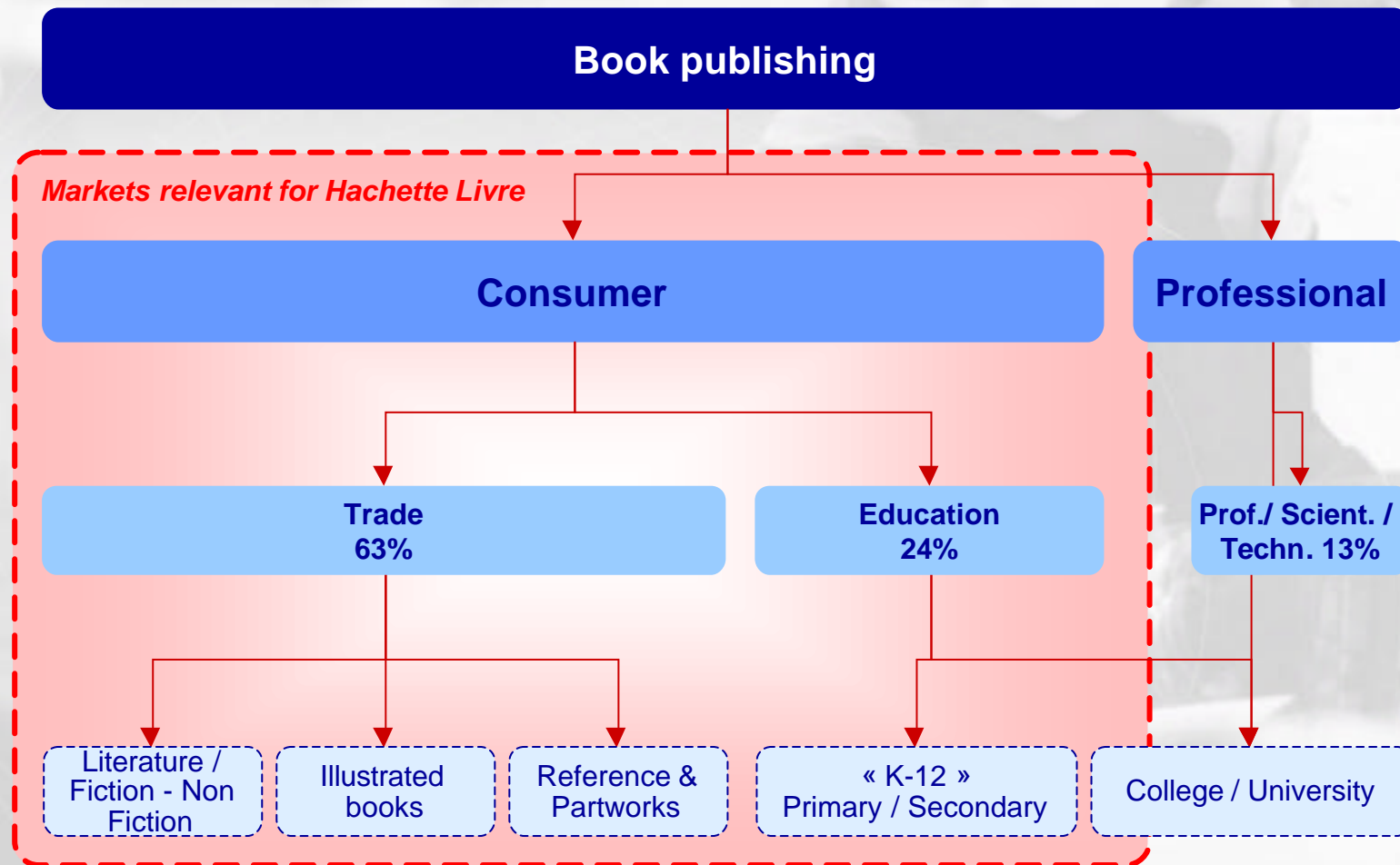
Competitive position on the world book market

The sixth world Consumer book publisher



Sources : accounts of the 30 main worldwide players, proforma as of end of 2003 ; Hachette Livre : proforma after integration of Editis assets
Turnover 2002 or 2003 (depending on fiscal year end) except : * 2001 data ** 2000 data

Book publishing : a highly segmented market



Developed markets have recently proven to be sources of growth (USA, UK, France etc.)

In developed markets growth is sourced from :

- cycles in governmental reforms (education)
 - rebound expected in 2004 in Spain, in 2005 in France, in 2005-06 in the US / UK
- changes in the object « book » depending on its use
 - Partworks : +40% in France in 2002
- changes in topics covered, depending on sociological trends
 - Mind Body Spirit : +10,2% in 2002 in the UK
 - Children's paperbacks : +8% in 2002 in France
- lifestyle changes : 35 hours etc (how-to books)
- technological developments related to editorial contents : digital contents and services (education)

Emerging markets : significant reservoirs for growth

- China, Russia, Central Europe, Latin America...
- The book as the basic educational tool
 - The book as the first entertainment and cultural medium

Russia

Population : 144 m inhab.

Market size : €700 m

Production : 72.000 titles
(+59% 1997-2002)

Total print run : 591 m copies

| | % of title production | % of print run |
|---------------|-----------------------|----------------|
| Education | 31% | 40% |
| Scient. Books | 21% | 2% |
| Literature | 16% | 23% |
| Children 's | 6% | 12% |

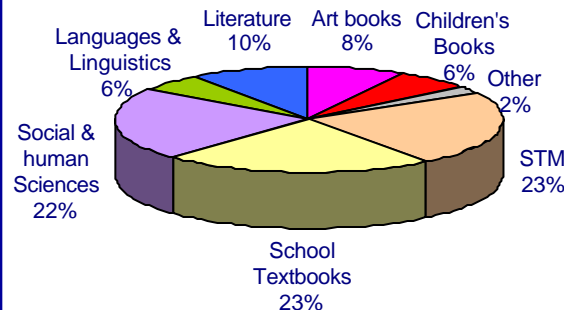
China

Population : 1289 m inhab.

Market size : €6,4 bn
(+8,5% 2001-02)

Production : 154.000 titles
Total print run : 6,31 bn copies

Title production : breakdown



Latin America

| | Mexico | Argentina | Brazil | Total |
|-------------------------------------|------------|------------|------------|-------------|
| Population (in m inhab.) | 105 | 37 | 176 | 318 |
| Schoolbooks | 40% | 21% | 45% | 37% |
| College / Acad. | 20% | 10% | 19% | 17% |
| Trade | 28% | 50% | 20% | 30% |
| ELT | 8% | 7% | 9% | 8% |
| Other | 4% | 12% | 7% | 8% |
| TOTAL in value, in US\$ m | 500 | 520 | 940 | 1960 |

Zoom on the French book market

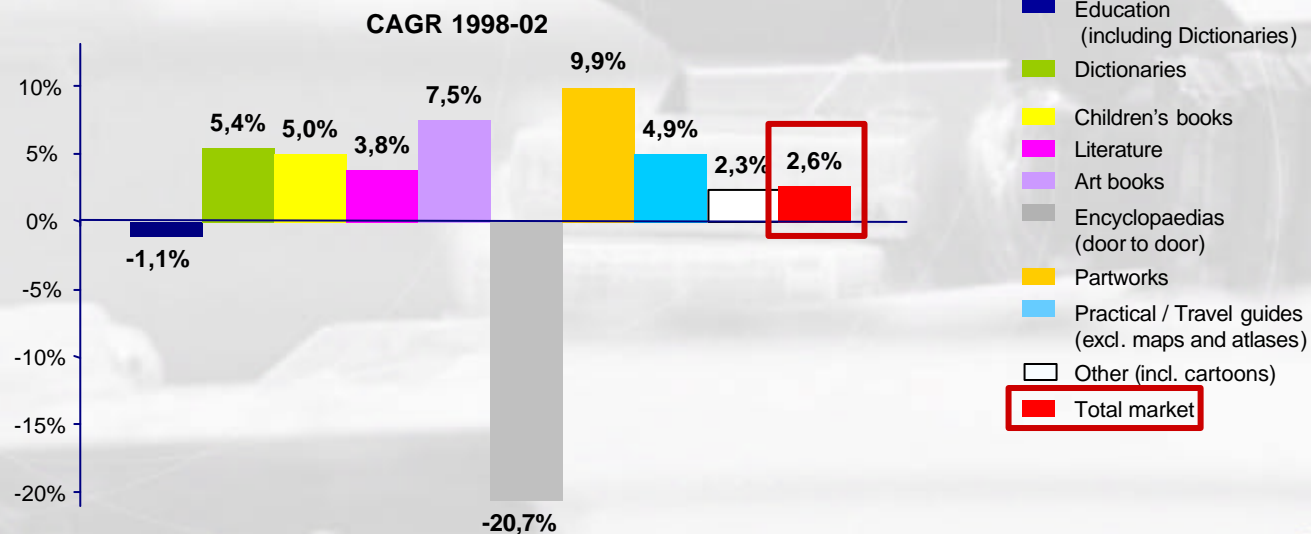
→ Behind the apparent stability (CAGR 1998-2002 : +2,6%)

- Market value : €2,4 bn, 374 million units in 2002
- far ahead of the music market : €1,3 bn, 171 million units

→ the different market segments are highly volatile

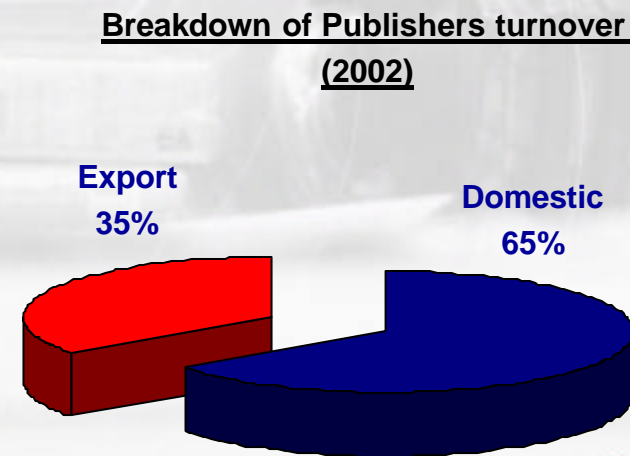
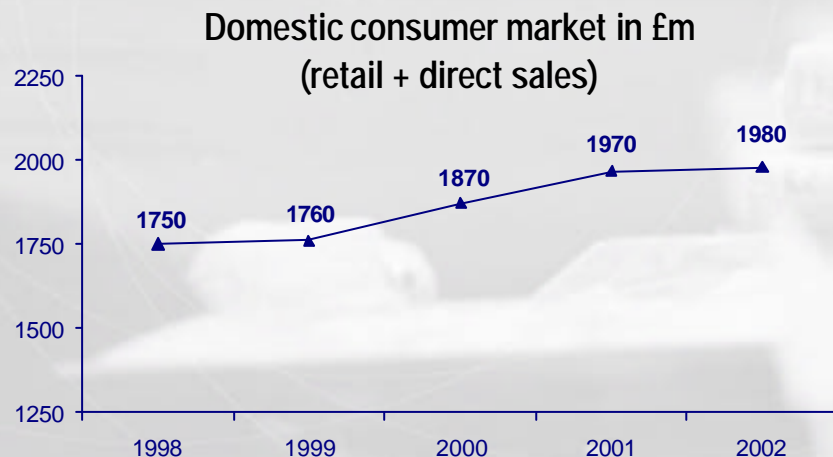
- Strong growth disparities between the segments.
- Within each segment, fluctuating annual growth rate

⊖ Existing growth potential

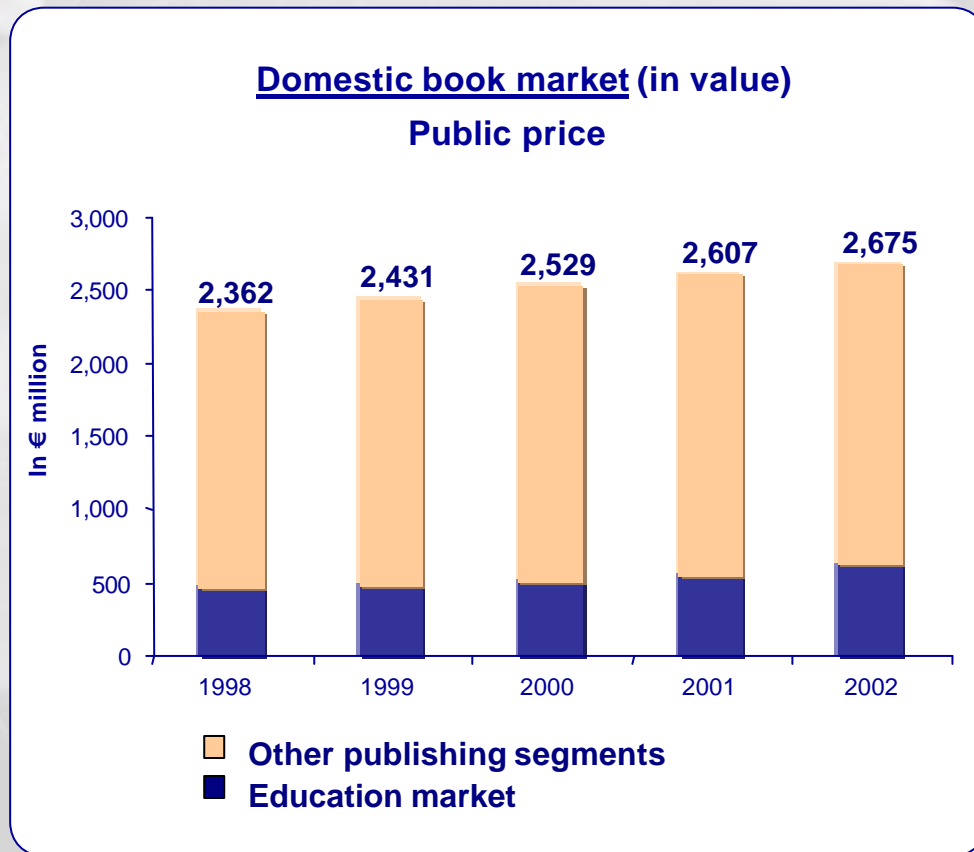


The British book market : regular and strong growth

- Annual growth 1998-2002 of +3.1% in domestic consumer market to £2 bn
 - Difficult time for the educational publishers in 2003-04
- Export sales represent approx. 35% of global book sales, due to the general practice of co-edition (and despite an unfavourable exchange rate) and to the size of English speaking markets.
 - Sale of international rights in order to amortise creation and development costs.
 - This model has guaranteed the success of the most prestigious English-language reference co-edition publishers : Dorling Kindersley, Octopus, Phaidon, Thames & Hudson.



The Spanish book market : moderate growth underpinned by Education and Export



- The growth engine in the overall Spanish book market is the education segment, posting an annual growth (1998-02) of +7,4%.
- The 10% annual growth rate (1995-02) for export sales reflects the spread of the Spanish language.

The winning business model of Hachette Livre

- Hachette Livre is one of the few multi-lingual / multi-specialist publishers in the world « Consumer » (Trade and Education) market, successfully smoothing the economic cycles of its different editorial segments, through a wide portfolio approach.
- Its editorial diversity, as well as its ability to manage it efficiently, represents :
 - the best guarantee for stability, for the Group and its shareholders
 - the best asset to grow more than market average by targeting dynamic segments (children's books, paperbacks, partworks, illustrated books)
 - This requires the company's ability to simultaneously manage multiple time cycles;
 - This competitive advantage is an integral part of the company's structure as a decentralised federation of publishers.
- The know-how required to manage a complex system balancing 4 segments (education, literature, illustrated, partworks) and high-performing distribution facilities have proven to be key to the Group's success in France and the UK ; this business model can be replicated tomorrow in Spain and, beyond, on other language zones.

Hachette Livre profile

Distinctive features of Hachette Livre's business portfolio

Strategic position : diversified presence

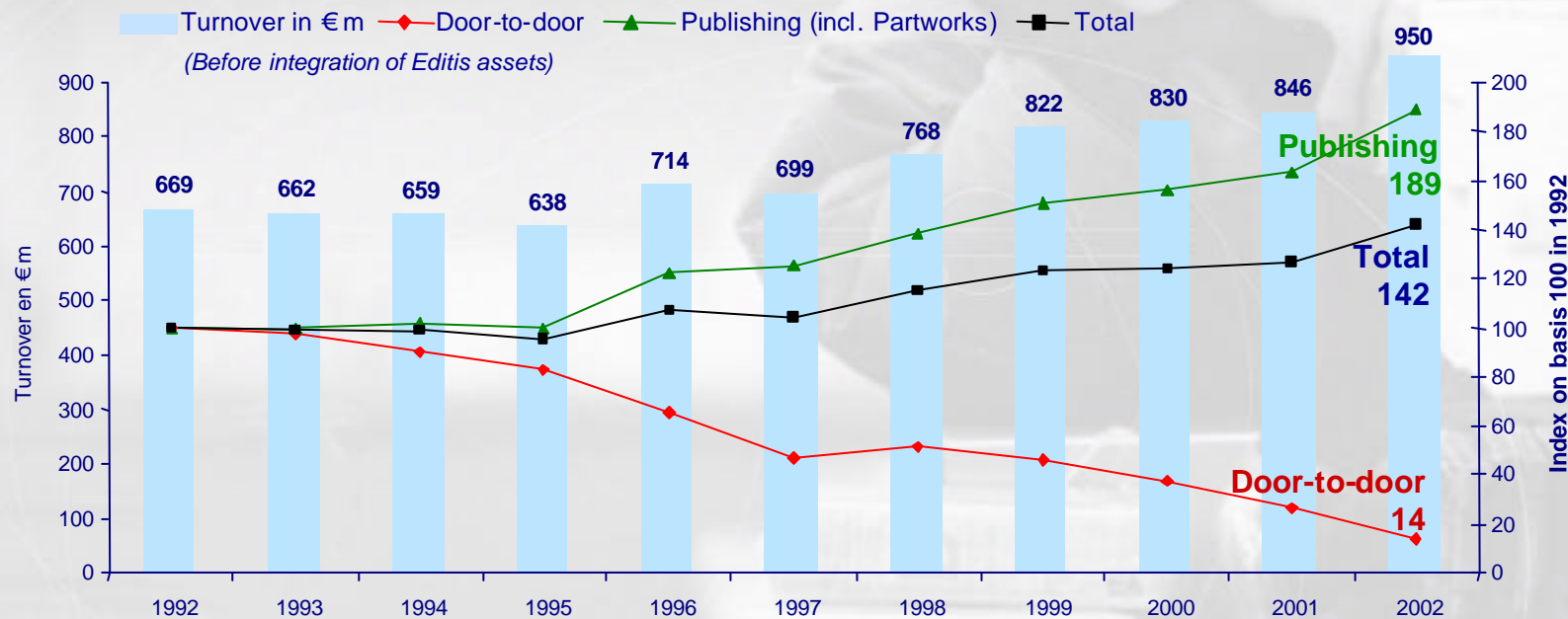


Hachette Livre profile

Distinctive features of Hachette Livre's business portfolio

Strong position resulting from the strategy implemented since 1992

→ Continued growth of the publishing segments in France, then abroad, have offset the decline in door-to-door sales.



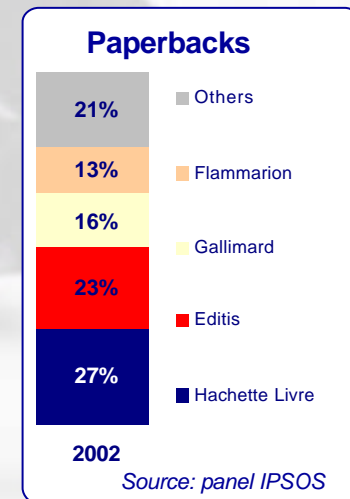
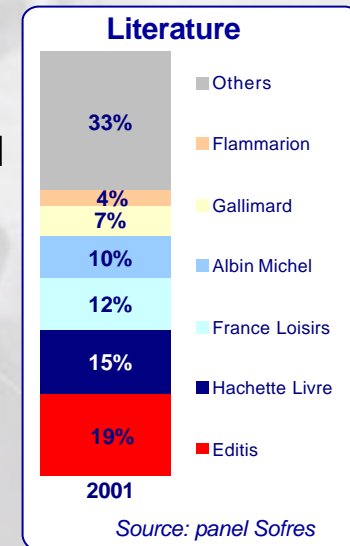
Recovery & strategic repositioning

Growth and internationalisation strategy

Contribution of international sales to turnover : 21% 21% 25% 32% 35% 35% 42%

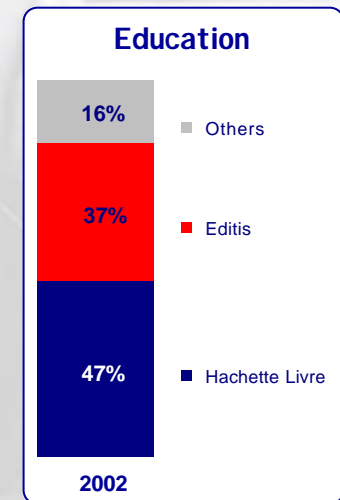
Literature : Fiction / Non-fiction

- A fully integrated business model addressing the whole value chain
 - Autonomy of publishers promoting internal competition and fostering editorial creativity
 - Qualitative author sourcing, leading to the control of rights portfolio
 - also supplying paperback publishing and multiple media licensing opportunities
 - Maximum retention of value through self distribution and paperback
- Longstanding prestigious, award-winning and best-selling publishing houses
 - Powerful brands with strong mutual emulation
 - Fayard, Grasset, Stock, Calmann-Lévy, Livre de Poche
 - Covering a large range of French and international literature titles
 - Novels, essays, biographies, history, human sciences, documents...
- Recent trends
 - Impact of digitalisation
 - management of digital rights, production in digital format
 - International cross-fertilisation UK - France
 - Orion-J.C. Lattès (Rankin, Binchy), Fayard (Rolling Stones, worldwide rights with Orion).



Education : the company's historical core business

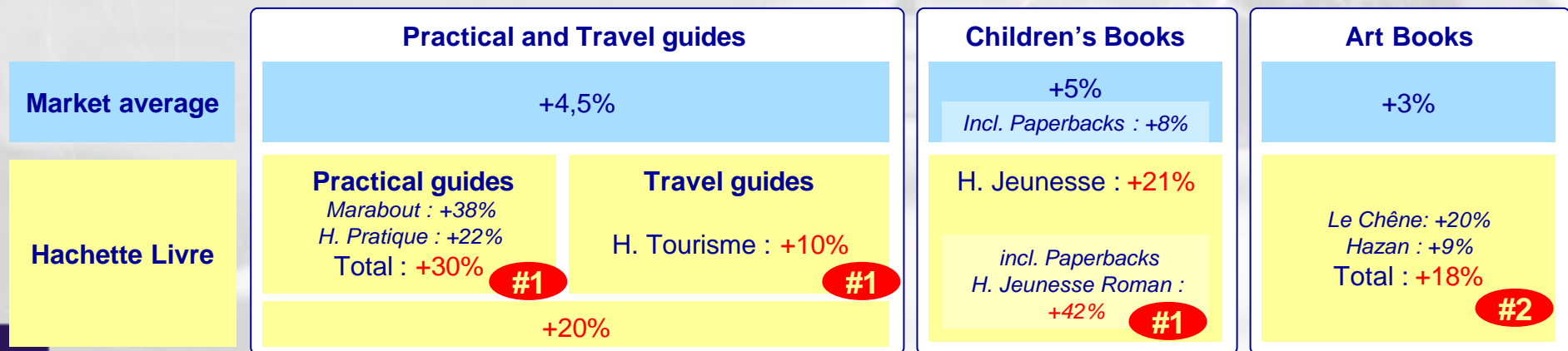
- Hachette Livre is the #1 educational publisher in France
 - Two distinct entities at Hachette : Hachette Education (1826) and Groupe Alexandre Hatier (1880)
 - Imprints Hachette, Hatier, Didier, Foucher (vocational education)
 - Well-known brands : Bled, Bescherelle, Littré, Gaffiot...
 - Key positions on the supplemental market (Passeport, Annabac...)
- A cyclical market subject to governmental policies
 - 2002-04 : entry into a challenging period for French educational publishers related to the slower-paced curriculum reforms and their reduced impact
 - Rebound expected as from 2005
- Education lies in the heart of future developments
 - Education is a core Governmental policy issue and parental concern and, as such, it is a high potential market long term
 - Multiple public initiatives currently promote the integration of new technologies in the classroom
- Despite the difficult educational environment, Hachette Livre has been able to gain market share and improve its profitability.



Source: internal data

Illustrated books

- Cover the whole range of illustrated books from « useful » to « entertaining »
 - practical guides and how-to books, travel guides, art books, cartoons
 - Hachette Pratique, Marabout, Hachette Tourisme, Le Routard, Le Chêne, Hazan
 - Brands : Le Guide Bleu, Le Guide Voir, Le Guide Bleu Evasion,...
- Children's books :
 - Well-known series based on Hachette's rich historical back-list and key characters (Astérix, Franklin, Babar...), complemented by children's reference works and non fiction
 - Livre de Poche Jeunesse, Bibliothèques Rose & Verte
 - Disney-Hachette Edition : joint-venture with Disney
- Based on its strengths, in 2002 Hachette Livre displays growth rates far above market average
 - Well-known brands, high profitability, access to the UK publishers' back-list



**Through the integration of Editis assets,
Hachette Livre will get access to new major segments in 2004**

→ **Dictionaries / Reference : Larousse**

- The New Dictionary of the French Language was first published in 1856
- Today Larousse is #1 in France on the monolingual as well as bilingual dictionaries market
- 80% of French homes own a copy of *Le Petit Larousse*
- The Larousse brand enjoys an international reputation
 - More than 50% of sales made in Spanish language
 - A household brand across Latin America
 - Current development projects in Poland, Italy, Brazil...

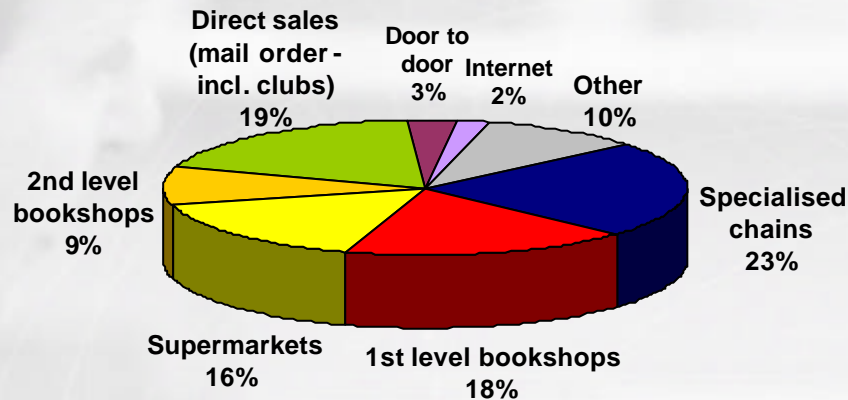
→ **Higher Education / Specialist publishing : Dalloz, Dunod, Armand Colin**

- Well positioned on the French market
- Leading brands on each market segment that they cover
- High profitability
- Controlled implementation of digitalisation and approach of professional markets

Hachette Livre : our international span of activities

The French speaking world as our homebase

Salesforce



→ In an environment where supermarkets and chains play an increasing role, French independent booksellers still remain the 2nd largest sales channel in bookselling.

→ Commercial B2B website « hachette-diffusion.fr » is now fully operational

- High capillarity
 - access to POS not visited by the salesforce
- Increased autonomy of independent booksellers
 - online ordering
- 5,200 clients subscribing (35% of clients)
- The ordering rate, connection number and turnover have doubled in 2003

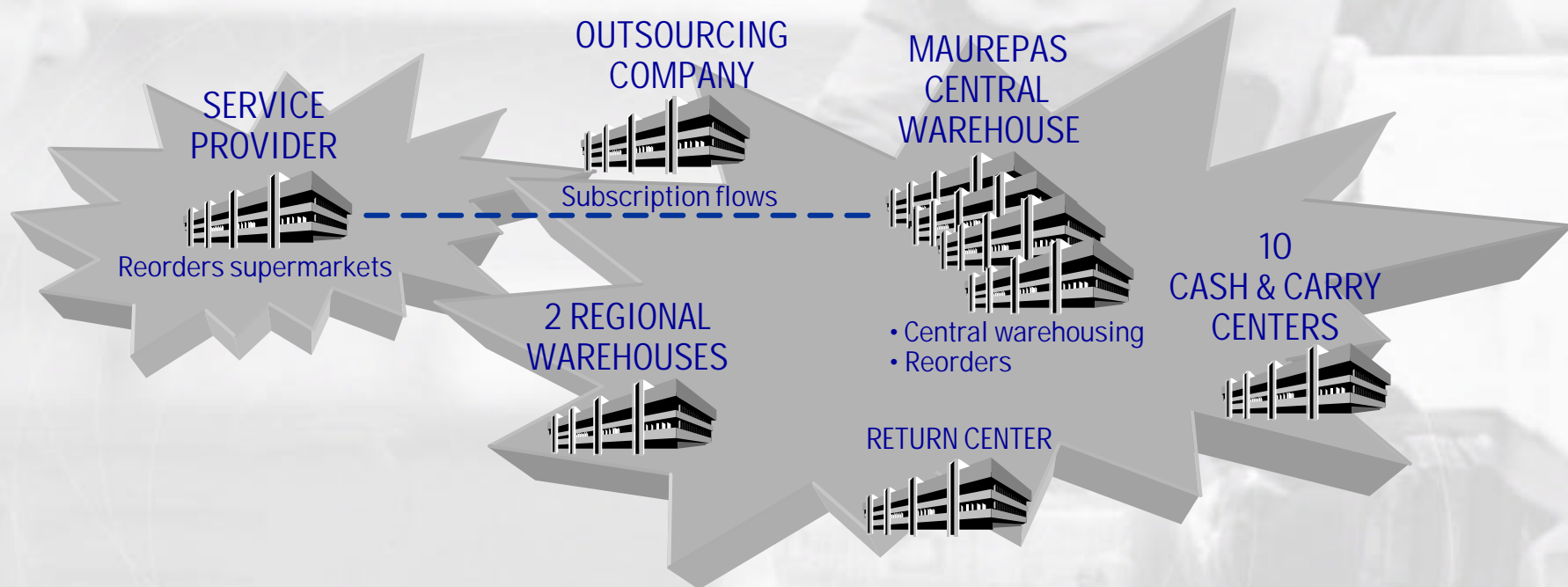


Hachette Livre : our international span of activities

The French speaking world as our homebase

Distribution

→ Completion of an organisational scheme by flow :



- Hachette Livre owns distribution platforms in the 3 key French speaking countries Belgium, Switzerland and Canada.
- In 2003 Hachette Livre's distribution processed over 200 million units.
- Regular and complementary third party publishers contribute for approx. one third of turnover.

Partworks : one of the key growth drivers in the last years

→ Business model based on customer retention and international cloning :

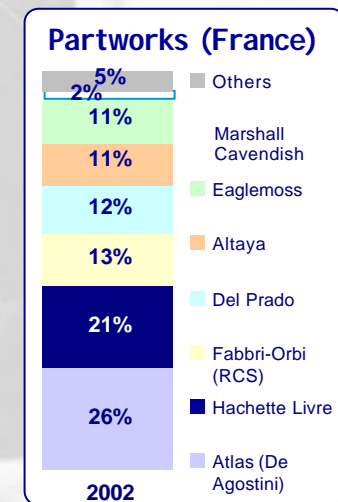
- Marketing-driven selection of collectible topics, heavy upfront launching investment to generate long term customer loyalty
- Careful cost management to maximise margin on follow-up issues
- Ability to replicate proven success on successive foreign markets

→ Rapid growth of the partworks business

- #2 on the French market with 20% market share
- Subsidiaries : Hachette Collections, Hachette Partworks & Hachette Fascicoli, Hachette Collections Japan, Hachette Kolecja
- Continued internationalisation (Spain, Latin America, UK, Italy, Japan) through organic growth or alliances
- Key success factors :
 - ability to create new products supporting internationalisation / customisation
 - marketing know-how

→ Huge growth reservoirs still available to build on

- Hachette Livre is #3 worldwide
- High business potentials in Italy (#1 market), the UK, Japan



Source: internal data

Hachette Livre : our international span of activities

A major inroad in the worldwide international markets : partworks

Internationalisation in partworks (1996-2003)



Hachette Livre : our international span of activities A prominent and growing presence on the English speaking market

Hachette Livre is the #5 Trade publisher in the UK

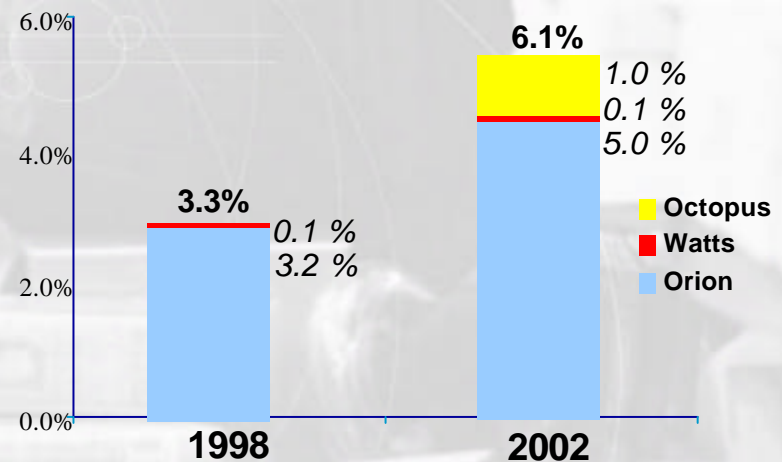
behind Bertelsmann (Random House), Pearson (Penguin / DK), News Corp. (HarperCollins) and WHSmith (Hodder Headline)

→ Hachette Livre achieved this position

- partly through Orion's organic growth
 - uninterrupted since 1998
- partly through Octopus acquisition in 2001
 - leader in adult illustrated books and practical guides
 - customisation of approach depending on local markets features : co-edition, direct sale, packaging, etc.
 - > 50% of turnover outside the UK, mainly in co-edition

→ With 3 autonomous publishing houses and a performing distribution center, Hachette Livre can now apply its business model to its UK infrastructure.

% of retail market share



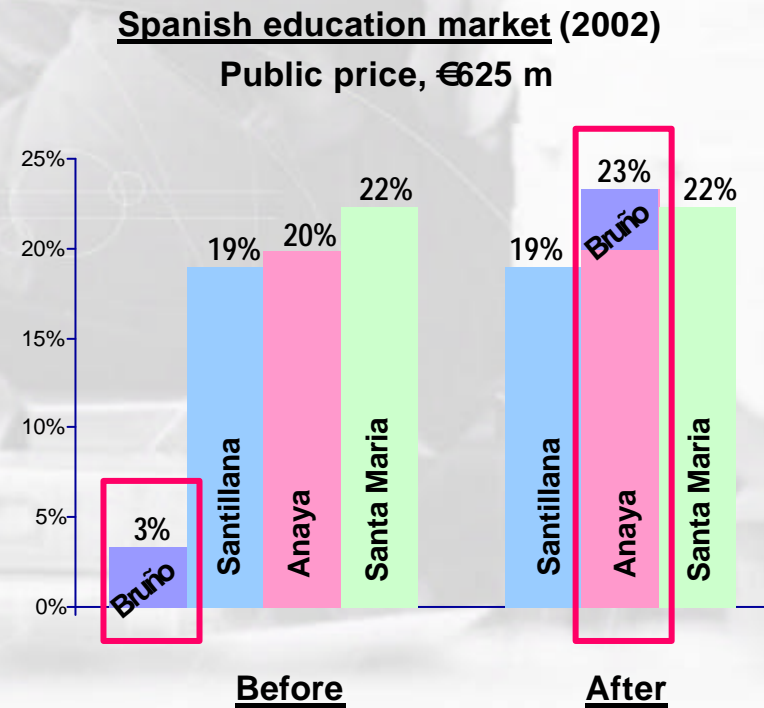
Source: Book Sales Yearbook 2003, p. 39, « General Retail Market 2002 : top 20 publishers »

Hachette Livre : our international span of activities
The attainment of a leading position on Spanish speaking markets

Spain : with Anaya, Hachette Livre becomes the #1 educational publisher

→ Anaya's integration into Hachette Livre is an ideal fit to accelerate the Group's transformation into a major Trade and Education publisher in the Spanish speaking markets.

- Based on its existing brands : Salvat, Bruño, Edelsa

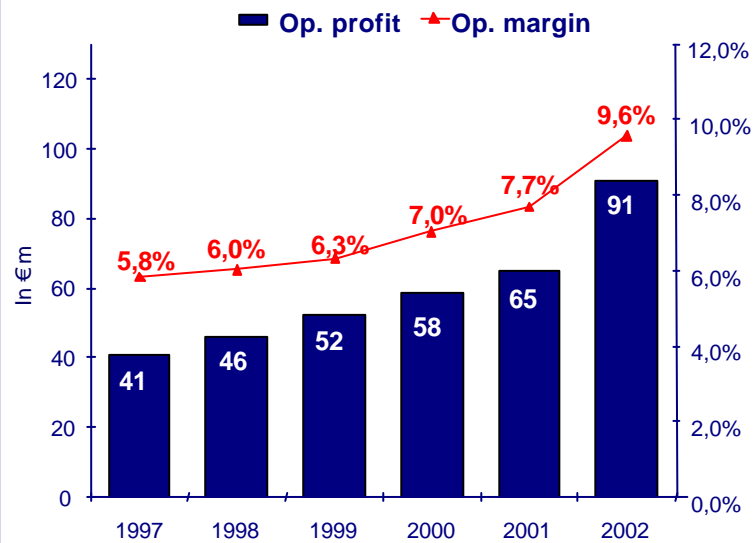


Sources : FGEE, Fedecali, company web sites, press articles

Key features of competitive and financial performance and outlook

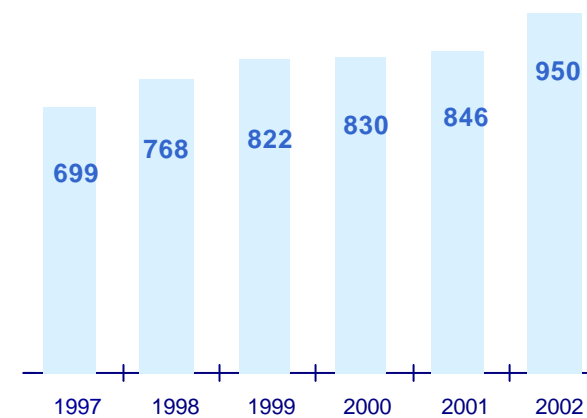
Historical financial performance

PROFITABILITY



GROWTH

Turnover (in M €)

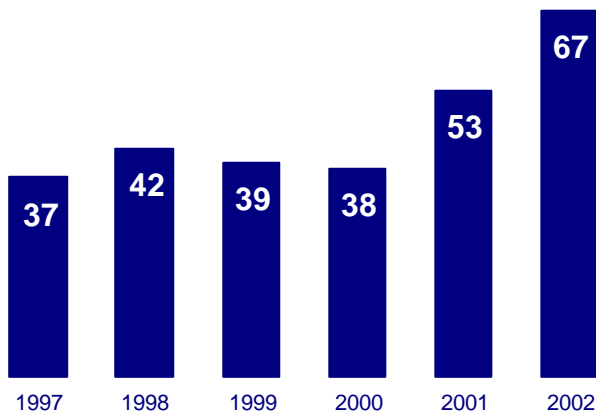


Key features of competitive and financial performance and outlook

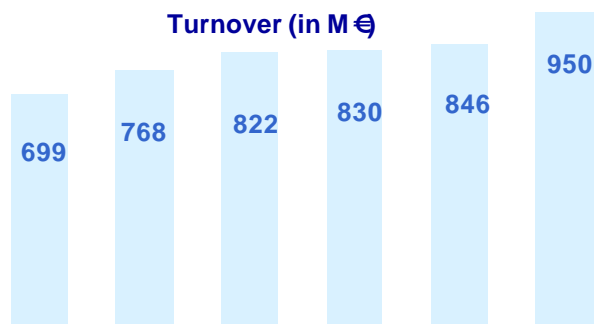
Historical financial performance

CASH FLOW

Free cash flow * (in M €)

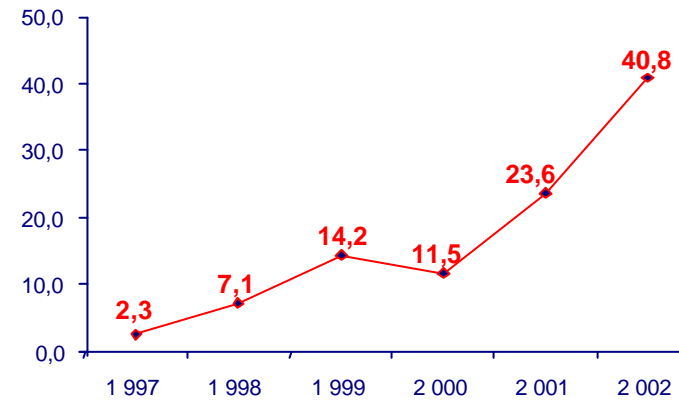


Turnover (in M €)

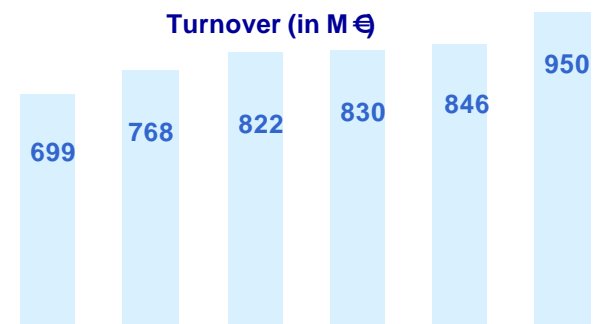


ECONOMIC VALUE ADDED

in M €



Turnover (in M €)



Key features of competitive and financial performance and outlook

Competitive position : summary



| | EDUCATION | TRADE | PARTWORKS (International) |
|--------------------------|--|--|---|
| UK | <ol style="list-style-type: none"> 1 Reed 2 Wolters Kluwer 3 Pearson | <ol style="list-style-type: none"> 1 Bertelsmann 2 Pearson 3 Harpers Collins 4 WH Smith 5 Hachette Livre | |
| SPANISH SPEAKING MARKETS | <ol style="list-style-type: none"> 1 Santillana 2 Hachette Livre 3 Santa Maria | <ol style="list-style-type: none"> 1 Planeta 2 Random House Mondadori 3 Santillana | <ol style="list-style-type: none"> 1 DeAgostini 2 RCS Libri (Fabbri) 3 Hachette Livre |
| FRENCH SPEAKING MARKETS | <ol style="list-style-type: none"> 1 Hachette Livre 2 Editis 3 Belin | <ol style="list-style-type: none"> 1 Hachette Livre 2 Editis 3 Gallimard | |

Key features of competitive and financial performance and outlook

Competitive position : summary

SWOT analysis

STRENGTHS

- Diversified presence on the Consumer market (multi-lingual / multi-specialist) and agile segment management
- Fully integrated, replicable business model
- Formidable brand collection with high international appeal, under the unique Hachette flagship
- Qualitative portfolio of famous and high-profile authors, with authoritative minds
- Fact-driven marketing approach
- State-of-the-art distribution facilities with in-depth bookselling market reach and strong appeal to third party publishers
- Demonstrated long term commitment of Lagardère Group to Book Publishing

WEAKNESSES

- Headroom for extra growth on the French speaking markets appears limited.
- Perception of Hachette Livre's position and role in its environment is often skewed by a « schizophrenic » approach (too small though too large)
- Absence of English language educational activity (ELT) to spearhead Hachette Livre's international growth in developing countries
- Pace and completion of the Hachette Livre development is very dependant on (sometimes unpredictable) acquisition opportunities.

OPPORTUNITIES

- **Short term : integration of Editis assets**
- Completion of the Hachette Livre fully integrated business model in major presence countries
- International cross-fertilisation in Literature and Illustrated books
- Organic growth on the partworks market
- Additional growth potential in emerging markets
- Technological developments in Education (digital contents and services)

THREATS

- Unstability of the French home market since the VUP sale may have turned a sanctuary into an international battlefield ? (still to be proven)
- Worldwide concentration in Book publishing may raise the stakes for scale-driven investments and / or future acquisitions
- Transferring from a challenger to a leader position may involve some cultural adjustments, to ensure that the impetus is maintained.

Although excellent, profitability can still outperform its track record

- The Group anticipates benefits from :
 - the synergetic effect of Editis assets integration
 - the expected rebound of educational markets in France and Spain within 2 to 5 years
 - the additional leverage on both organic growth and margins due to the completion of the Group's deployment in France, Spain and the UK
 - the external growth, still at the core of the company's growth strategy and that will be primarily seeked on its existing markets.

- This should enable Hachette Livre to keep growing its profitability within the next 3-4 years.

Among the largest world publishers, Hachette Livre is one of the best positioned to take its development further

- Hachette Livre demonstrated its ability to optimise the management of its brand portfolio, including in periods of slow market growth.
- Hachette Livre fundamentals kept improving in 2002-03 and now place the Group in the best position to face the changes in its environment, even when fast or unexpected :
 - new structure of the French market, less stable since the VUP sale
 - emerging opportunities for international growth within 3 to 5 years.
- Beyond current success, Hachette Livre intends to foster its offensive development strategy on key non French speaking markets.
- In the course of this process, the single move of Editis assets integration enables Hachette Livre to climb to the #6 worldwide position on the Consumer market.

- Beyond this first step, the strategy proposed by Hachette Livre for 2004-2008 is articulated around the following directions :
- To expand in education on the English speaking market
 - To extend the illustrated book publishers network around Octopus and in Spain, without excluding other language markets...
 - To accelerate the partworks international development
 - To invest actively in digital education
 - To continue the international growth in worldwide Trade publishing
 - To organise our involvement and presence in selected emerging markets with high growth potential