# Bertelsmann

## Bond Investor Presentation

September 2006

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# Bertelsmann investment highlights

- Top-tier, international media company with market leading positions in
  - broadcasting
  - book publishing
  - consumer magazines
  - music
  - services and printing
- Diversified revenue and earnings streams both by business and geography
- Prudent financial policy underpinned by a strong de-leveraging track record, commitment to rating and conservative financial targets
- Strong commitment to the international financial disclosure standards
- Positive outlook for FY2006 with strong focus on organic growth potential

**Bertelsmann benefits from its scale, leading market positions, content ownership and diversification – both by business and geography**

# The Bertelsmann Group

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**Bertelsmann**

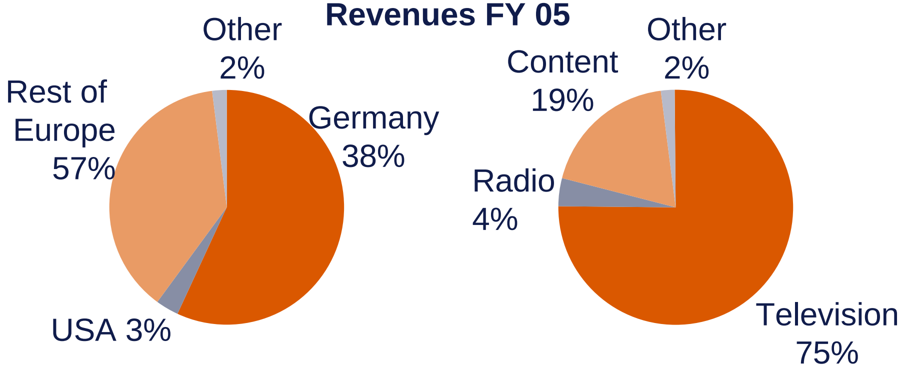
| | RTL GROUP | RANDOM HOUSE BERTELSMANN | G+J | BMG BERTELSMANN | arvato BERTELSMANN | DIRECTGROUP BERTELSMANN |
|---|---|---|---|---|---|---|
| | TV / Radio Broadcasting and Production | Book Publishing | Magazine and Newspaper Publishing | Music Recording and Publishing | Media and Business Services | Book and Music Clubs |
| **2005 Group Revenues** EUR 17.9bn | 27.7% | 9.9% | 14.2% | 11.5% | 19.6% | 13.0% |
| **2005 Group Operating EBIT** EUR 1.6bn | 43.3% | 9.5% | 14.3% | 10.3% | 23.7% | 3.0% |

# RTL Group – Pan-European TV market leader

**Business description**
- Europe's largest TV and Radio broadcaster
- 34 TV Channels, 34 Radio Stations, 11 countries
- One of the largest producers of programmes in 40 countries worldwide through Fremantle Media with production operations in 25 countries

**Strategic priorities**
- Strengthen position in key markets
- Family of channels
- Expand into Eastern Europe
- Increase share of non-ad revenues

**Revenues FY 05**



# Random House – World's largest English language trade book publisher

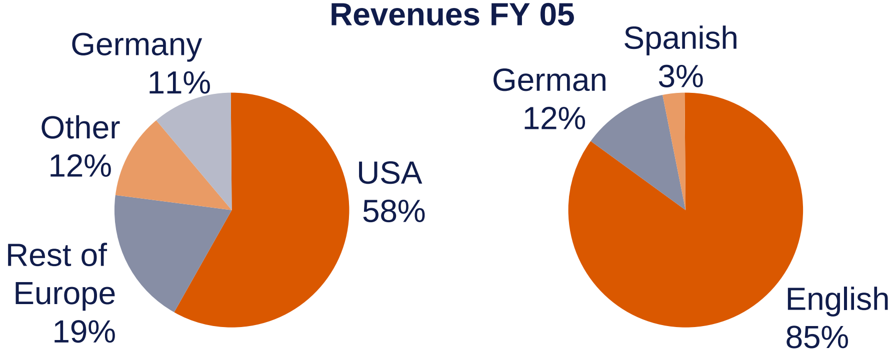
### Business description

- More than 100 imprints in 16 countries
- 9,000 new publications every year
- More than 50,000 backlist titles
- 135 Random House titles in Publishers Weekly annual bestseller list for 2005

### Strategic priorities

- Expand market leadership in the US and UK
- Further growth through acquisitions

**Revenues FY 05**




# Gruner + Jahr –
# Europe's largest magazine publisher

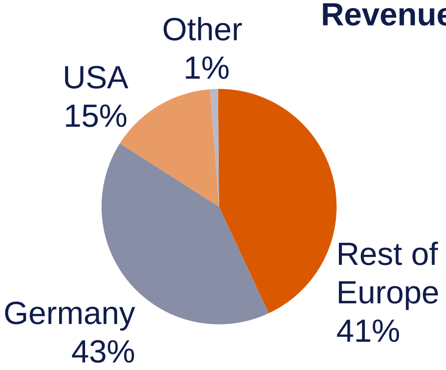
**Business description**

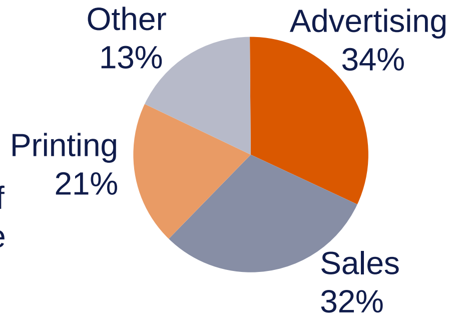
- 260 magazines and newspapers in 20 countries
- Core segments include business, lifestyle, women, family and men/automotive
- High-circulation titles provide excellent cross-promotional opportunities

**Strategic priorities**

- Strengthen presence in Germany, France, Eastern Europe
- Expand brands into other businesses

**Revenues FY 05**




## #1 in Germany


## #2 in France


## Significant Presence in Europe


Austria | Spain | Poland | Italy | Russia | NL

# BMG – A truly global music company

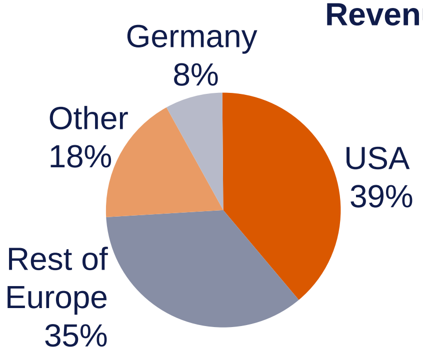
### Business description

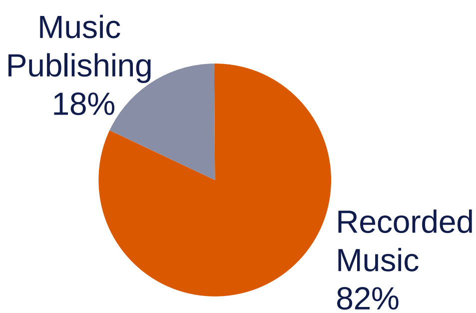
- More than 200 labels in 40 countries
- Sony BMG world-wide No. 2 in recorded music
- BMG Music Publishing world-wide No. 3 (sold)
- For 2005 Sony BMG won 22 Grammys from 125 nominations and BMG Music Publishing won 12 Grammys from its 40 nominations

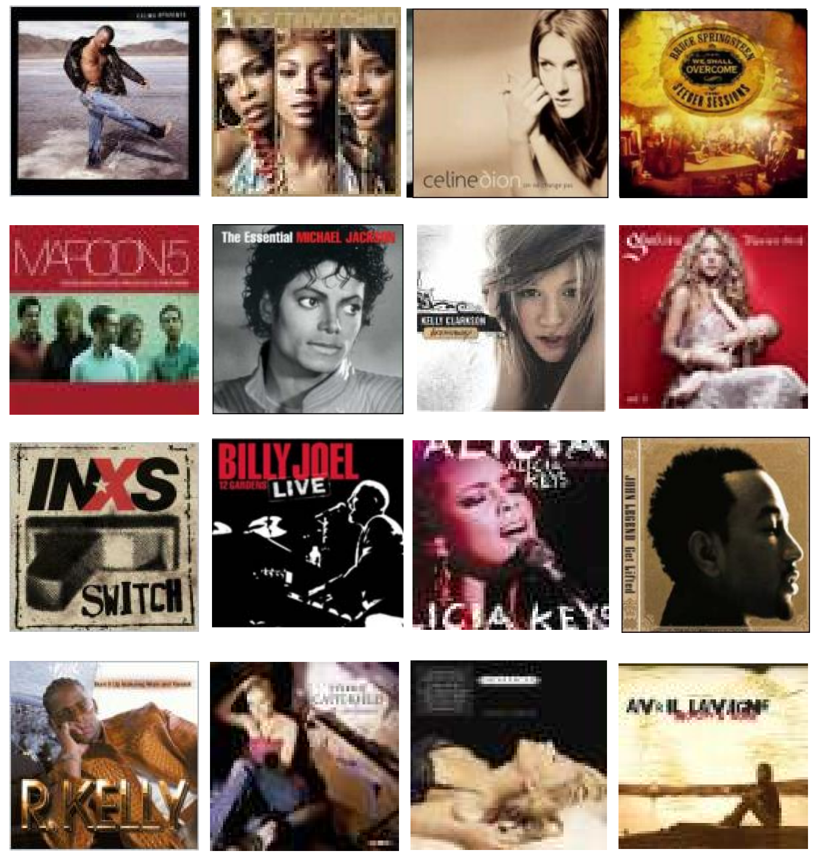
### Strategic priorities

- Regain market share via focus on creative output

**Revenues FY 05**



# arvato – Leading international media services provider

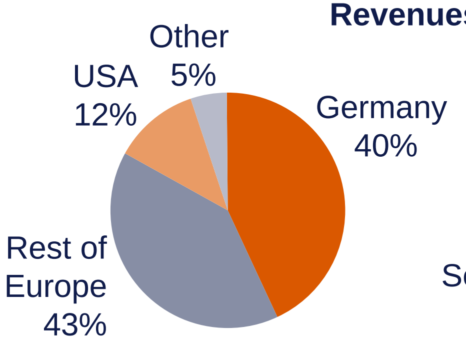
**Business description**

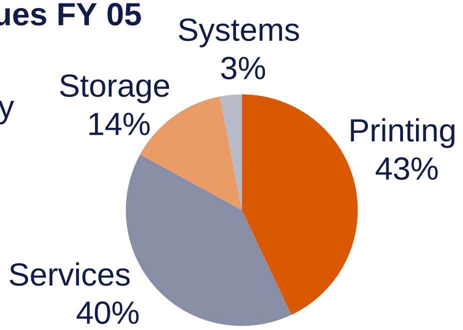
- Printing, data replication and service operations in 37 countries
- Majority of revenues derived from non-Bertelsmann customers
- Outsourcing trend ensures growth for services

**Strategic priorities**

- Expand service business in the US and Europe
- Focus on core competencies & economies of scale in printing business

**Revenues FY 05**




## Selected Services of arvato

**Gravure and Offset Printing**
Magazines, Catalogues, Direct Mailings

**Direct Services**
Call center, Address management, Public private partnership, Loyalty systems

**Financial Services**
Online payments, Credit scoring

**Contract Logistics**
Media, Mobile, Software

**Storage Media - Data Replication**
CDs, DVDs, CD-Roms

**Mobile, Empolis and Media systems**
Media distribution, Knowledge Management, IT Services

DIRECTGROUP
BERTELSMANN

# DirectGroup – Global market leader among media clubs

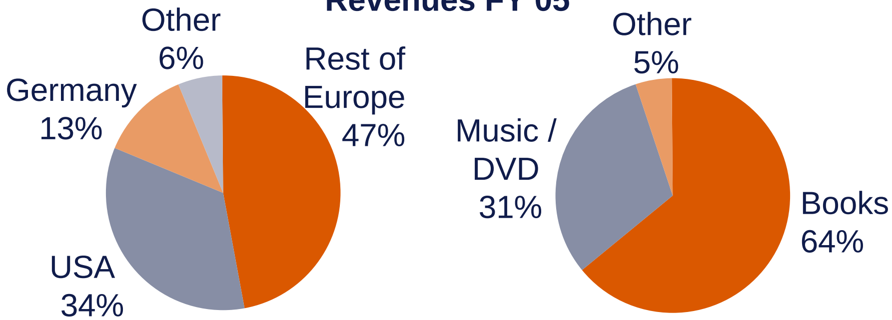
**Business description**

- Serves 35 million club members in 22 countries
- Bookspan (USA) operates over 45 book clubs for its about 8 million members
- BMG Columbia House is largest specialized DVD retailer in the US
- France Loisirs published half of the top 10 bestsellers in France in 2005

**Strategic priorities**

- Sustainable turnaround in Germany and UK
- Expansion into book retail business

**Revenues FY 05**




## Book Clubs

Der Club BERTELSMANN
FRANCE LOISIRS
CÍRCULO de LECTORES
bookspan
book-of-the-month www.bomc.com
ECI laat je verrassen!
BCA
KNIŽNÍ KLUB
贝塔斯曼书友会 Bertelsmann Book Club

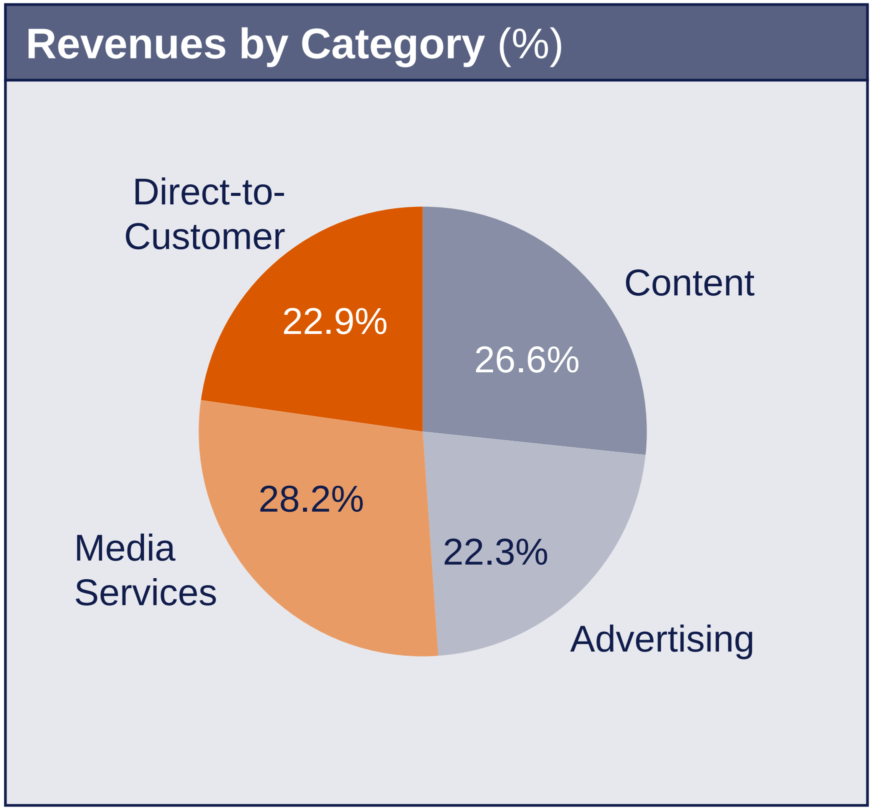
## CD and DVD Clubs

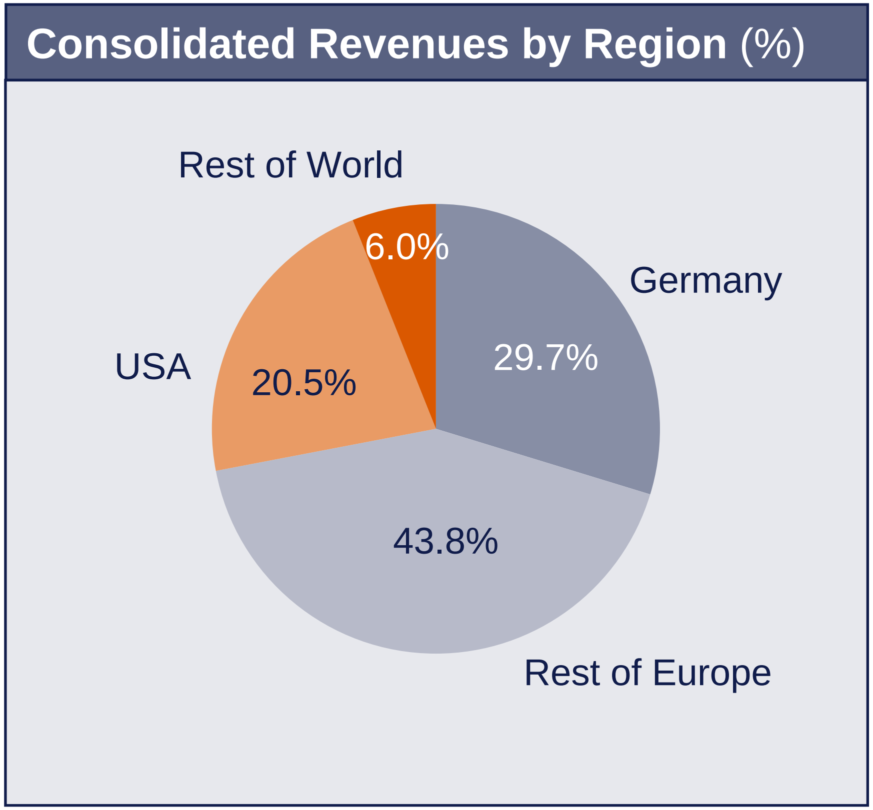
BMG music service
COLUMBIA HOUSE

## Media Retail

Librairies Privat
alsatia

# Revenues by category and regions in 2005




- **Well-balanced portfolio in terms of category and geographical contributions**
- **Limited operating foreign exchange risk due to nature of business**

Basis: Sum total of all divisions not including corporate / consolidation

# Strategic goals

**Bertelsmann's core business is the creation and distribution of prime media content worldwide.**

| | |
|---|---|
| **Focus on core media businesses** | • Maintain market positions in Europe and North America<br>• Expand into Eastern Europe and Asia<br>• Develop portfolio through organic growth & selective acquisitions |
| **Create value from leading positions in attractive markets** | • Core market selection (size, growth, margins)<br>• Maintain or achieve strong competitive position (#1 or #2) |
| **Foster co-operation within the group** | • Exploit cross marketing and promotion opportunities<br>• Cross-divisional sharing of best practices |
| **Prudent financial policy** | • Achieve 10% ROS by the end of 2007<br>• Increase conversion rate of EBIT into free cash flow<br>• Commitment to maintain current ratings |

# Results of BCG Project – solid portfolio, some challenges

| | |
|---|---|
| **Market position** | **Market leading positions**<br>75% of businesses with #1 or #2 position (revenue share) |
| **Profitability** | **Sound profitability**<br>• 13 out of 22 analyzed businesses more profitable than market average (58% of analyzed revenue)<br>• Only 4 out of 22 businesses below average |
| **Growth potential** | **Medium-term growth of 5-8% p.a. realistic**<br>• Average market growth of 2% expected<br>• Market share gains and acquisitions (from 2008 onwards) render ca. 3-6% additional growth possible |
| **Technological challenges** | **Technological developments drive rapid change in media markets**<br>• Bertelsmann must actively manage these changes<br>• New media redesigns businesses (digitalization, fragmentation, new media business models) |

# Refinancing the Share Buyback from GBL

# The share buyback from GBL

## Transaction Cornerstones

- Buyback of GBL's stake of 25.1% in Bertelsmann AG completed on 4 July 2006
- Purchase price: EUR 4.5bn, final – no price adjustments, no dividend to GBL for FY 2006
- GBL representatives in the Bertelsmann AG Supervisory Board to step down

## Financing strategy

**EUR 4.5bn loan bridge financing**

**Loan to be repaid as follows:**

Majority of Financing: Sale of music publishing, Capital markets financing

| Sale of music publishing | Capital markets financing | Restrictive investment policy | Increase of operating CF | Moderate dividend policy |
|---|---|---|---|---|
| 2006 | 2006 | Until 2007 | Ongoing | Ongoing |
| Sale to Vivendi agreed | In execution | Agreed by Supervisory Board | Ongoing | Agreed by shareholders |

# Shareholder structure guarantees independence

**Bertelsmann Verwaltungsgesellschaft (BVG)**

**Bertelsmann Stiftung[1)]**

**Mohn Family**
**Liz Mohn, Reinhard Mohn and children**

**Voting rights**

**76.9%** **100%** **23.1%** Share of capital

**Shareholder's Meeting**
Decisions about changes in articles of association, capital increases, profit distribution and election of supervisory board members

**Supervisory Board**
Independent and international composition; appoints and supervises the Executive Board

**Executive Board**
Solely responsible for the management of the company

**Bertelsmann AG**

1) Founded by Reinhard Mohn in 1977 as an independent think tank in the fields of education, culture and social politics

# Sale of BMG Music Publishing to Vivendi
# First step in de-leveraging – no impact on credit profile

**Rationale for the disposal**

- No significant synergies with Sony BMG or other Bertelsmann businesses
- Relatively small business (2% of total revenue and 3% of total EBIT of Bertelsmann AG)
- High valuation of business due to favorable market environment

**Transaction details**

- Definitive Agreement for sale to Vivendi signed September 6
- Aggregate purchase price amounts to EUR 1.63 bn (enterprise value)
  - 4.4x revenues 2005 and 20.1x EBITDA 2005
- Low book value results in net income increase > EUR 1bn
- Proceeds expected to be received prior to year-end 2006

**Proceeds from the disposal will be used to significantly reduce leverage and regain financial flexibility by end 2007**

# Bertelsmann ratings in the context of the buyback

- Bertelsmann was first assigned credit ratings in 2002 at a level of Baa1/BBB+
- Following the announcement of the share buyback from GBL, both Moody's and S&P placed Bertelsmann's credit rating on credit watch negative

| Current situation | |
|---|---|
| Moody's<br>Baa1 (negative outlook) | STANDARD & POOR'S<br>BBB+ (negative outlook) |
| Bertelsmann's Baa1 affirmed with negative outlook on July 24, 2006 | Bertelsmann's BBB+ rating affirmed with negative outlook on Sept. 07, 2006 |
| *"…ratings reflect our expectation that Bertelsmann can reduce debt from asset sales (BMG Music Publishing), internally generated cash and reduced dividend levels"* | *"Bertelsmann expect to receive the funds (from the sale of BMG Publishing) prior to year-end 2006, which should allow it to repay a significant portion of the € 4.5bn of debt raised to finance the buyback"* |

**Bertelsmann is committed to maintain its Baa1/BBB+ ratings in the context of the buyback of GBL's stake**

# Bertelsmann committed to high level of disclosure

| Reporting | Communication | Research |
|---|---|---|
| **Adoption of IAS/ IFRS accounting in 2001** | **Investor meetings/ conference calls** | **Ratings coverage from Moody's and S&P** |
| Publication of annual reports for more than 30 years | Investor Relations Website | Credit analyst coverage due to Benchmark Bonds |
| Half-year reports according to IAS 34 | Time to market in line with industry standards | Equity analyst coverage from 2001 to May 2006, due to shareholding of the listed company GBL |
| Regular quarterly key figures at Group level | Annual press conference<br>Deal related roadshows | |

**Bertelsmann's buyback of GBL's stake will neither affect its capital market orientation nor its high disclosure standards**

BERTELSMANN
media worldwide

# Financial Strategy

# Prudent financial policy

**Bertelsmann’s financial policy is designed to maintain a strong financial profile:**

| Cornerstones for Financial Policy |
|---|
| • Growth funded mainly via **cash flow generation** and sale of non-strategic assets<br>• Proven **track record of de-leveraging** based on strict investment discipline and strong FCF generation<br>• Limitation of **structural subordination**: Funding centralized at the holding level (including financing subsidiaries): 78% of gross debt as of 31 Dec 2005. |

**Executive Board Guidelines of Bertelsmann AG – Rules for Corporate Financing:**

“If the 2.3x limit is not complied with, or if a variance is foreseeable, a plan stipulating countermeasures must be submitted. The plan must detail specific measures designed to ensure that the targets will be met again within no longer than a three-year period.”

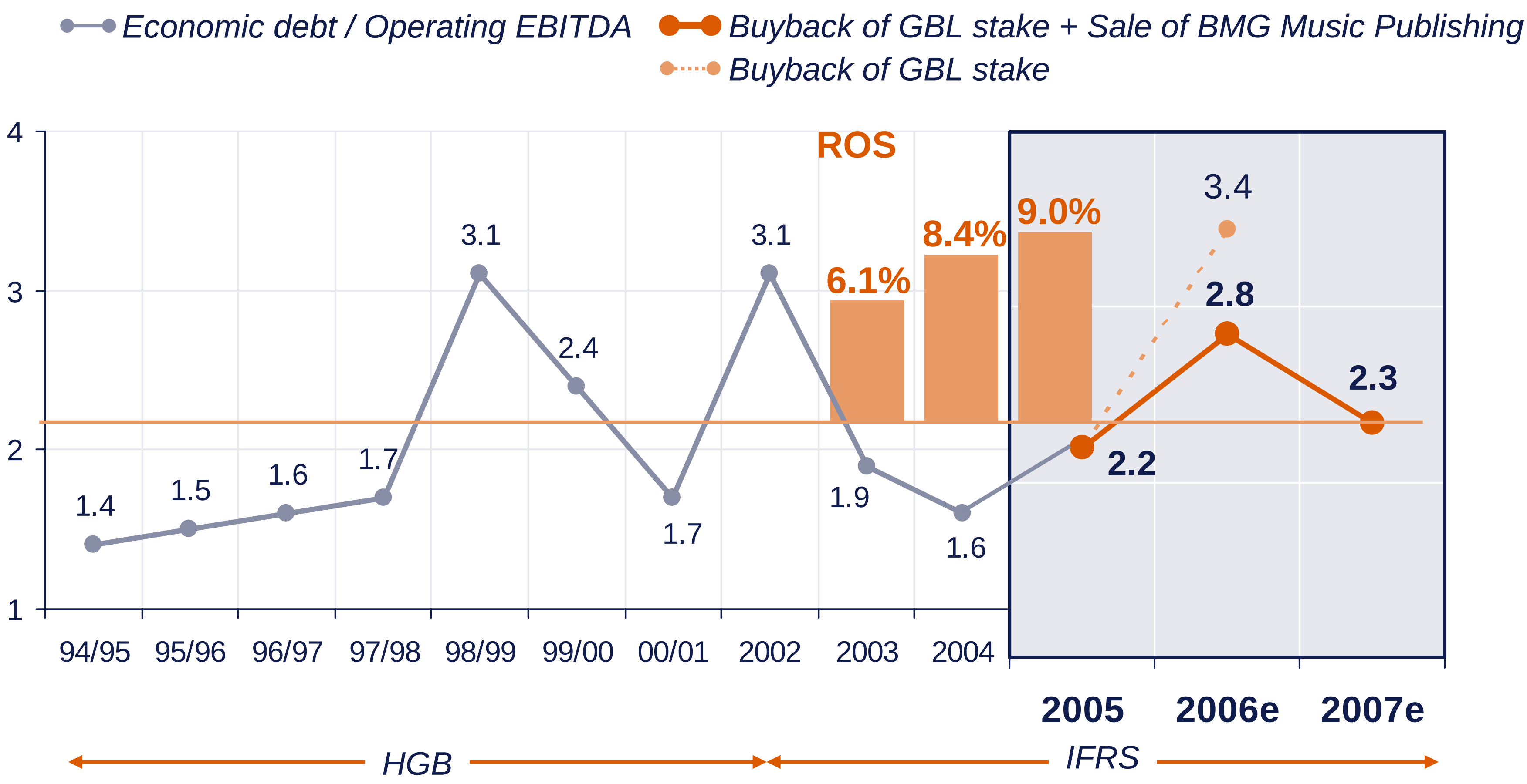
# Financial targets underscore Bertelsmann's prudent financial policy

| Overview of Key Financial Targets | Target | 2005 | 2004 | 2003 |
|---|---|---|---|---|
| **Leverage factor** (Economic Debt[1] / Operating EBITDA[1]) | **< 2.3** | **2.2** | 1.6 | 1.9 |
| **Interest coverage ratio** (Operating EBITDA[1] / Financial Result) | **> 4** | **5.3** | 7.0 | 5.5 |
| **Equity ratio** (Group Equity / Total Assets) | **> 25%** | **40%** | 42% | 38% |
| **Operating Leases (NPV)** (Operating Leases / Operating EBITDA[1]) | **< 0.7** | **0.8** | **0.7** | **0.7** |

**Bertelsmann's Executive Board is committed to preserve Bertelsmann's financial stability and reduce leverage to meet internal leverage targets by the end of 2007**

1) After modifications

# Bertelsmann's strong de-leveraging track record implies swift restoration of its leverage ratios



# Financials

# Bertelsmann continues its strong operational trend

| (in EUR mn) | H1 2006 | H1 2005[1] | 2005 | 2004 |
|---|---|---|---|---|
| Revenues | **9,144** | 7,988 | **17,890** | 17,016 |
| Operating EBIT[2] | **701** | 644 | **1,610** | 1,429 |
| ROS (Op. EBIT / Revenues) | **7.7%** | 8.1% | **9.0%** | 8.4% |
| Net income | **339** | 330 | **1,041** | 1,172 |
| Investments | **553** | 765 | **2,565** | 930 |
| Cash Flow from operating activities | **639** | 569 | **1,791** | 1,829 |
| | **30/06/06** | **31/12/05** | **31/12/05** | **31/12/04** |
| Economic Debt[3] | **8,723** | 3,931 | **3,931** | 2,632 |
| Employees | **92,772** | 88,516 | **88,516** | 76,266 |

1) Restated due to IAS 32
2) Earnings before financial results, taxes and special items
3) Net debt, pension provisions, profit participation certificates

# Divisional revenues 2004-2005 and H1 06 vs H1 05

| (in EUR mn) | Revenues | | | | | |
|---|---|---|---|---|---|---|
| | H1 2006 | H1 2005 | % Change | 2005 | 2004 | % Change |
| RTL Group | 2,854 | 2,397 | 19.1 | 5,112 | 4,878 | 4.8 |
| Random House | 859 | 799 | 7.5 | 1,828 | 1,791 | 2.1 |
| Gruner + Jahr | 1,374 | 1,188 | 15.7 | 2,624 | 2,439 | 7.6 |
| BMG | 888 | 952 | -6.7 | 2,128 | 2,547 | -16.5 |
| arvato | 2,202 | 1,874 | 17.5 | 4,365 | 3,756 | 16.2 |
| DirectGroup | 1,264 | 1,016 | 24.4 | 2,384 | 2,175 | 9.6 |
| **Total Divisions** | **9,441** | **8,226** | **14.8** | **18,441** | **17,586** | **4.9** |
| Corporate/Consolidation | -297 | -238 | | -551 | -570 | |
| **Total Group** | **9,441** | **7,988** | **14.5** | **17,890** | **17,016** | **5.1** |

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media worldwide

# Divisional Operating EBIT 2004-2005 and H1 06 vs H1 05

| (in EUR mn) | Operating EBIT[1)] | | | | | |
|---|---|---|---|---|---|---|
| | H1 2006 | H1 2005 | % Change | 2005 | 2004 | % Change |
| RTL Group | 471 | 371 | 27.0 | 756 | 668 | 13.2 |
| Random House | 48 | 48 | 0 | 166 | 140 | 18.6 |
| Gruner + Jahr | 111 | 126 | -11.9 | 250 | 210 | 19.1 |
| BMG | 2 | 48 | -95.8 | 177 | 162 | 15.4 |
| arvato | 96 | 100 | -4.0 | 341 | 310 | 9.3 |
| DirectGroup | 13 | -11 | nm | 53 | 32 | 65.6 |
| **Total Divisions** | **741** | **682** | **8.7** | **1,743** | **1,522** | **14.5** |
| Corporate/Consolidation | -40 | -38 | | -133 | -93 | |
| **Total Group** | **701** | **644** | **8.9** | **1,610** | **1,429** | **12.7** |

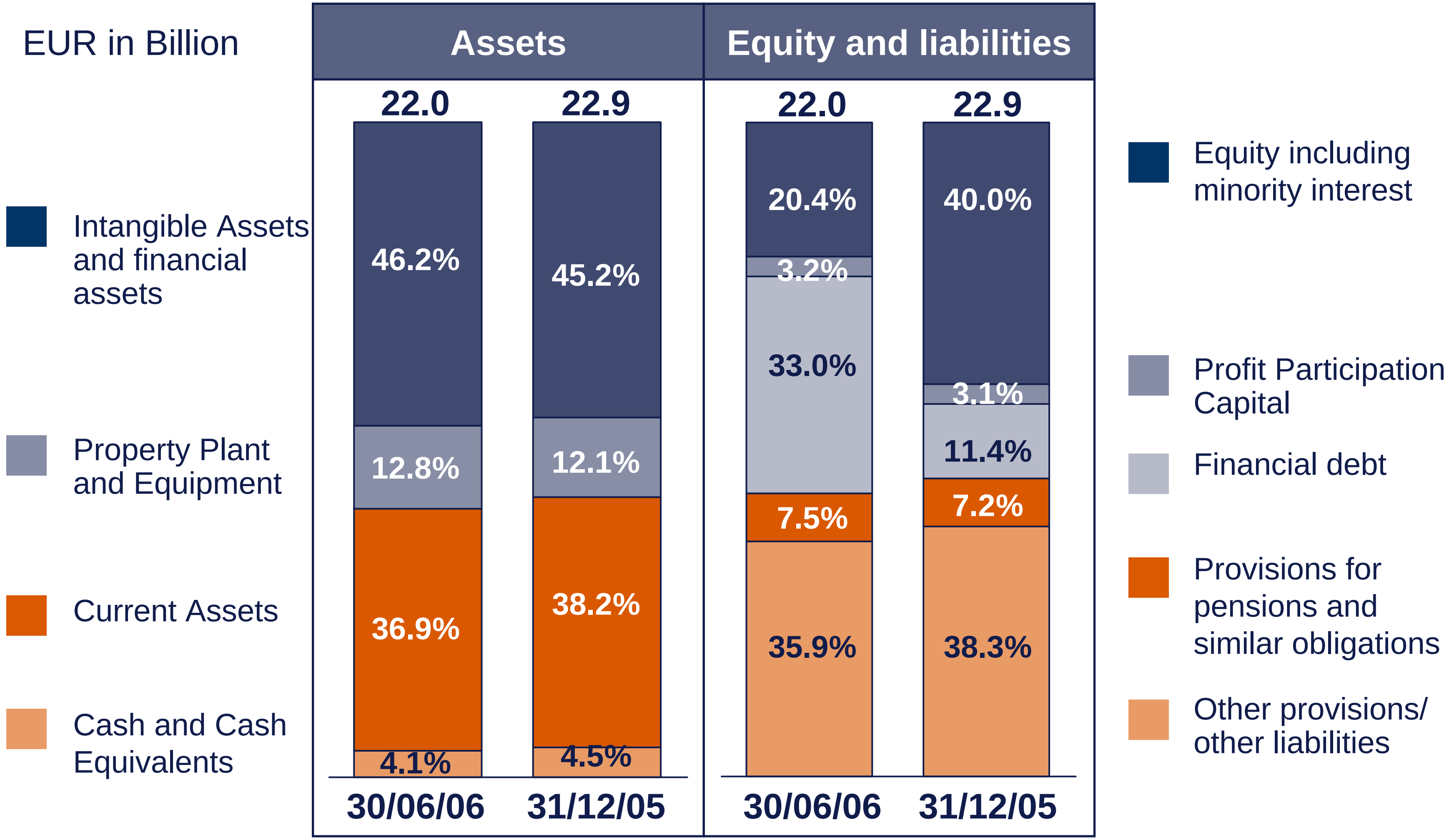
1) Earnings before Interest, Taxes and Special Items (non-operating, non-recurring items)

# Cash flow for FY 2003 to 2005

| (in EUR mn) | FY 2005 | FY 2004 | FY 2003[1)] |
|---|---|---|---|
| Cash flow from operating activities | **1,791** | 1,829 | 1,362 |
| Cash flow from investing activities | **-2,129**[2)] | -497 | 876 |
| Cash flow from financing activities | **-428** | -845 | -1,478 |
| **Change in cash and cash equivalents** | **-766** | **487** | **760** |
| Contribution to CTA | **-360** | - | - |
| FX effects and other changes in the period | **70** | -37 | -95 |
| Cash and cash equivalents at January 1 | **2,092** | 1,642 | 977 |
| **Cash and cash equivalents at Dec 31** | **1,036** | **2,092** | **1,642** |

1) Without the application of IAS32
2) High investment activities include Five, WAZ stake in RTL, Motorpresse Stuttgart and Columbia House

# Consolidated balance sheet at Dec 05 and Jun 06



# Outlook for FY 2006

**Supported by strategic investments, strict cost management and solid media markets, Bertelsmann has a positive outlook for 2006 and beyond:**

- All divisions to contribute to improving operating results and increased total group revenue growth of nearly 10%
- By end of FY 2006 debt reduction to 2.8x Leverage Factor will be achieved through:
  - Strong operating cash conversion
  - Proceeds from the sale of BMG Music Publishing
  - Moderate dividend and investment policy
- Bertelsmann expects to regain financial flexibility in line with its financial targets by the end of FY 2007

**Bertelsmann benefits from its scale, leading market positions, content ownership and diversification – both by business and geography**

# Transaction Summary

# Capital markets financing

| | |
|---|---|
| **Issuer** | Bertelsmann AG |
| **Ratings** | Baa1$^{neg}$ /BBB+$^{neg}$ |
| **Format** | Eurobond |
| **Size** | 2 tranches (benchmark size) |
| **Maturity** | Intermediate |
| **Use of proceeds** | Partial refinancing of bridge loan |
| **Listing** | Luxembourg, Frankfurt |
| **Bookrunners** | Barclays Capital, BNP Paribas, Deutsche Bank, RBS |

# Bertelsmann investment highlights

- Top-tier, international media company with market leading positions in
  - broadcasting
  - book publishing
  - consumer magazines
  - music
  - services and printing
- Diversified revenue and earnings streams both by business and geography
- Prudent financial policy underpinned by a strong de-leveraging track record, commitment to rating and conservative financial targets
- Strong commitment to the international financial disclosure standards
- Positive outlook for FY2006 with strong focus on organic growth potential

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