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Bertelsmann well prepared for the future with record results

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Revenues increase by 21 percent to 20bn EUR / Earnings before interest, taxes and amortization rise by 79 percent to over three billion EUR / Annual net income up by 44 percent to 968 million EUR / Transition at Bertelsmann: half of current corporate value attributable to initiatives and decisions implemented after 1995 / RTL Group biggest business with highest profits / Turnaround in the club businesses / Music business restructured / Capital expenditures up again / 82,000 employees worldwide

Bertelsmann launches the BEX innovation and synergy program / Ambitious target yields

Bertelsmann, the international media company, is pushing through with its realignment in the global media and communications markets with strategic determination in spite of the difficult economic situation. In the process, it has managed to serve up good economic results. With revenues up by 21 percent to 20bn EUR (previous year: 16.5bn EUR), Bertelsmann achieved earnings before interest, taxes and amortization of 3.16bn EUR in FY 2000/01, a 79 percent increase (PY: 1.77bn EUR). At the company's business press conference on Thursday in Berlin, Bertelsmann Chairman & CEO Thomas Middelhoff emphasized that this is the highest profit in the history of the company. At 1.20bn EUR, the divisional results (EBITA) - excluding Internet businesses and positive/negative one-off items - were nearly on a par with the previous year's record levels (1.25bn EUR). During the period under review (July 1, 2000 through June 30, 2001), net income increased by 44 percent to 968m EUR (PY: 672m EUR), large investments and disproportionate tax expenditures notwithstanding.

The focus of corporate strategy has shifted away from access ventures (AOL Europe) and network operators (mediaWays). Bertelsmann is able to realize profits of nearly ten billion EUR from the holdings it sold off as part of this strategic shift. Only about half of this sum has been included in the present balance sheet and in those of previous years. It allowed Bertelsmann to further develop existing fields of business and make strategic investments.

Says Thomas Middelhoff: "Over the past three years, Bertelsmann has nearly doubled its revenues and more than tripled its profits. During this time, we have undergone more changes than ever before: we have become a content powerhouse. In 1985, content ventures contributed 30 percent to total turnover - today, they make up more than 60 percent. In the past three and a half years alone, Bertelsmann has invested some three billion Euros into its content businesses. Add to this our acquisition of the majority stake in RTL Group, which was agreed upon in February, and the integration of Pearson TV (now FremantleMedia) prior to that. Whether you consider print media, music or moving pictures: Bertelsmann offers the entire range from a single source. Our future vision is of an integrated media company that generates appealing content and fosters talent on the one hand and sustains an in-depth, trusting relationship with its customers, club members and subscribers on the other."

The television business forms the top of the group, both in a strategic sense and from an economic performance point of view. Middelhoff stressed that RTL Group has delivered an exemplary performance in a difficult market environment. Following personnel and structural changes, BMG's music business now strides confidently into the future. After long years of low yields, the company is back on track under a new management, which has brought a new leadership

style and a new focus to the business. Although plans of a merger with the British music company EMI were abandoned because of antitrust concerns, in Bertelsmann's opinion, there are opportunities for expansion both through organic growth and through acquisitions in the medium term. Despite its leading position in quality-oriented markets, the magazine, newspaper and print publisher Gruner + Jahr is laboring under the worldwide cyclical decline in advertising spend, but nonetheless managed to make the second-largest contribution to Bertelsmann's divisional results.

Random House's book-publishing business, the media services group Arvato, and the specialist information and science publisher BertelsmannSpringer all show encouraging development. DirectGroup's book clubs are increasingly benefiting from the opportunities that arise from the convergence between online and offline. Innovations including special-interest clubs, a modern IT system and resolute cost management have yielded positive results in this long-established division.

On the Internet, Bertelsmann pointed the way to the future early on. Today, the company is one of the leaders in this field and is well positioned for competition. The ecommerce ventures and websites operated by Bertelsmann and affiliated companies reach 41 million unique visitors (June 2001). This figure puts them close to the world's biggest media corporation AOL Time Warner and far ahead of all other competitors. The Internet has been integrated into all Bertelsmann businesses. BeMusic, the world's biggest music retailer, was created in early summer. Bertelsmann's media e-commerce division is on its way to profitability: the online media vendor BOL has been integrated into club business. In the US, Bertelsmann's holding barnesandnoble.com is showing faster growth than its competitors in the media e-commerce sector.

"In a difficult economic environment, Bertelsmann has mastered a year of forwardlooking strategic and operational initiatives," emphasized Middelhoff. "The fact that we enjoy such a good position today is mainly attributable to hard work and successful investments, the resolute realignment of our corporate structure over the past three years, and the conscious evolution of our corporate culture. Half of our current corporate value is the result of initiatives and decisions implemented since 1995."

Both the ability to change and the acumen to make the right business decisions will continue to be important in the future. Middelhoff pointed to the recently launched Bertelsmann Excellence Initiative (BEX), which not only includes measures for cutting costs and boosting growth, but is also designed to foster innovation and the creation of synergies by way of cooperation throughout the group. Going forward, the range of services will focus more than before on strong brands and will be aligned to rapidly changing customer interests. Thus Bertelsmann has already adjusted to a worldwide cyclical downturn early on.

Major developments during FY 2000/01

The fiscal year saw an extension of the content business, major capital expenditures on extending the core Internet businesses, a realignment of the club and music businesses, and a massive influx of funds from sales of Internet holdings. Capital expenditures reached an all-time high at 3.27bn EUR. Nevertheless, the company managed to reduce its financial debt by 0.3bn EUR during the period under review, while strengthening the equity base. At the end of the fiscal year, Bertelsmann employed a staff of 82,162 employees in 58 countries - roughly 5,900 employees more than last year.

- A share swap with Groupe Bruxelles Lambert (GBL) gave Bertelsmann the majority share in and control of RTL Group. The pan-European company, which saw first-ever full-year consolidation this fiscal year, has become the media company's biggest and most profitable division. RTL Group is by far Europe's leading TV and radio corporation and one of the world's biggest producers of TV programming. By effectively linking its TV and radio business with program production and Internet activities, RTL Group has managed to further strengthen its powerful channels and program brands while tapping a wide range of

synergy and cross-promotion potential. In the TV business, the company was able to grow counter to the market trend in the major markets. RTL Group was able to increase its share of ad spending and audience both for RTL in Germany and for M6 in France with top programs like "Who wants to be a Millionaire" and "Loft Story." The 85 Internet websites run by RTL Group throughout Europe get approximately 300 million page views per month and attract approximately four million visitors. In Germany and France, RTL.de and M6.fr are the most frequently visited entertainment sites on the Net. The group is thus very well positioned to take advantage of the emerging convergence between TV and Internet in the cable network. All in all, RTL Group has a healthy core business and is in an excellent position to defend and extend its market position.

- The Random House publishing companies, in which all Bertelsmann's trade book businesses have been united since April 2001, once again published a record number of bestsellers. In the period under review, 169 titles made it on to the New York Times bestseller list, 22 of them reaching No. 1. Eighteen titles climbed to the top of the London Sunday Times bestseller list. Random House authors received numerous prestigious literary awards, including two Pulitzer Prizes. Random House once again set standards for technological innovations and the development of new distribution paths (audiobooks, e-books, books-on-demand)
- A process of transition has been initiated at Bertelsmann Music Group (BMG). The company underwent insufficient development over the past ten years. Now, changes in management and comprehensive restructuring have re-set the points for BMG's future. The music clubs, for instance, have now been assigned to DirectGroup, which bundles all the group's direct-to-customer businesses (clubs, ecommerce), while the Storage Media division (which includes CD and DVD production) was reassigned to Arvato at the beginning of the new fiscal year. Under its new management, BMG can now concentrate on its core business: developing and promoting music. The streamlining of BMG's organizational structure to boost the company's competitiveness is accompanied by job cuts. This is done after careful deliberation in each individual case, and executed in a reasonable manner.
- The club businesses have reached a turning point in their earnings development: restructuring and realignment in the book clubs, and investments in their IT infrastructure promise to bring breakeven in 2002. This success is attributable in part to DirectGroup Bertelsmann's multi-channel strategy, which fosters an interweaving of online and offline offerings. In the medium term, measures such as the integration of BOL into Bertelsmann's book clubs are expected to greatly reduce start-up losses associated with e-commerce. The book clubs' Internet sites are seeing increasing traffic, and the number of new members won via the Internet also continues to grow steadily.
- With its acquisition of the prestigious business publications "Fast Company" and "Inc.", Gruner + Jahr worked its way up from No. 7 to No. 5 of the biggest magazine publishers in the US. This strategic investment created the base for continued growth in what is by far the world's most important magazine market.
- The specialist publisher BertelsmannSpringer experienced a very positive development, in particular the science publishing unit. Springer Verlag science publishers were able to improve their results by 40 percent over the previous year, with an expanded range of biomedical, mathematics and computer science titles, sales growth in the US, and tight cost management. BertelsmannSpringer as a whole also performed above last year.
- Its proclaimed withdrawal from the online service AOL Europe, and the sale of the network provider mediaWays to Telefónica, brought Bertelsmann pre-tax capital gains of 3.2bn EUR during FY 2000/01. Under the terms of the agreement with AOL, additional proceeds from the sale are expected in 2002. These funds give Bertelsmann additional room for maneuver in its growth and investment activities.

"Bertelsmann has made the transition to being a global player in the content business," declared Middelhoff. "Approximately 86 million customers - from club members and ecommerce customers, to magazine subscribers - and the provision of international media services - from logistics, distribution and fulfillment, to efficient customer care centers - are other keystones of our success. Building on its pillars of content, media services and direct-to-customer businesses, Bertelsmann is now in a position to permeate the media value chain and exploit group synergies, such as cross-marketing." One of the units that will ensure that this is carried out comprehensively is the Bertelsmann Content Network (BCN), which fosters content sharing and cooperation within the group. Another new unit founded during the past fiscal year is the Executive Board division Bertelsmann Capital, which controls strategic corporate development, mergers & acquisitions, IT strategy and all Bertelsmann's venture capital activities.

Bertelsmann sets its sights on further future markets and the stock market

The Bertelsmann CEO explained that his company's goals for the years ahead are clearly defined: "We will extend our various market-leading positions in the content business and continue aligning Bertelsmann's portfolio to the group strategy and to a changed overall environment. Media services, offered by Arvato AG, will continue to extend their rapidly growing range of offerings, expand into tomorrow's markets, and become even more active as a connecting link and service provider for the group's several hundred companies. In its direct-to-customer business, Bertelsmann will devote all its energy to maximizing the potential inherent in its

millions of customer contacts. We intend to take advantage of this wealth in every possible way - with creative, innovative business ideas and with contemporary sales concepts. The declared goal is to bring our media content to the customer on all possible paths. Customers can choose whether they wish to buy the latest hit on CD in a store or order it online, download it to their mobile phone, or keep it as a file in their digital locker (personal rights archive on the Internet). Later, the file-sharing technology made popular by Napster will round out this range of services. Bertelsmann has great hopes for file sharing, a technology that will be a permanent fixture in tomorrow's media landscape."

Bertelsmann's Chairman & CEO also stressed the possibility of his company going public in three or four years. The acquisition of a majority stake in RTL Group, agreed upon in February 2001 and completed in July, gave Groupe Bruxelles Lambert (GBL) a 25.1 percent share in the Bertelsmann AG, 0.1 percent of which are non-voting shares. GBL has the option of selling all or part of these shares on the market in the event that Bertelsmann goes public.

"The share swap with our partner and shareholder GBL means more than a broadening of our equity base," said Middelhoff. "By preparing for an IPO, we are becoming more modern and transparent." Last year, Bertelsmann switched from using the financial indicators of "operating result" and "return on total assets" to using EBITA and Bertelsmann Value Added (BVA) for purposes of assessing return on capital. At the same time, Bertelsmann is aligning its fiscal year to the calendar year, to simplify the group's accounting and increase its comparability with other companies. Moreover, the abbreviated business year from July 1 to December 31, 2001 marks the first time that the group balanced its accounts according to the IAS instead of the HGB as in the past.

Middelhoff announced that in the future there would be an increased focus on returns: "We have set ambitious targets; part of the BEX initiative launched by the Executive Board is to raise the net yield throughout the group to approximately ten percent within three years." Middelhoff stressed that the Bertelsmann Excellence Initiative comprises far more than target yields: "Our aim is not a short-term profit scheme, but a lasting, group-wide effort to improve all work processes. Every corporate division, every Bertelsmann company and each and every employee is being called on to see whether there isn't a way to create even more attractive media products and services for our customers by applying more creativity, cooperation, innovation, synergies or by optimizing processes. We are striving for excellence in corporate management and performance."

Another part of the Bertelsmann Excellence Initiative is the company's new look. Since early July, Bertelsmann AG has been doing business with a new logo and brand architecture for the group. A consistent corporate image will help sharpen Bertelsmann's profile and its appeal for opinion-makers, especially in the financial and job markets. "Although Bertelsmann has many hundreds of popular-appeal brands, we have failed to develop our corporate brand, i.e. the actual umbrella brand Bertelsmann. It was no longer contemporary. Our new brand management is designed to arouse the curiosity of artists, performers, authors, entrepreneurial talents and business partners, and win them over for Bertelsmann," explained Middelhoff. "No matter how rapidly the media landscape and our companies change: our corporate brand will ensure recognition."

Conscious evolution of the corporate culture

The transition at Bertelsmann is accompanied by a conscious evolution and internationalization of the media company's proven corporate culture of partnership. "Along with promoting entrepreneurial action, we also foster knowledge sharing at all levels, as well as internal communications and internal networking between companies," said Middelhoff. "This is the only way to actively shape the upheaval. Everyone must sense that they are a part

of it and feel empowered to provide ideas."

A few words on knowledge sharing: extensive training and continuing-education programs ranging from PC tutorials to the Bertelsmann University for executives tighten the networks that link employees all over the world for purposes of knowledge exchange, identification and motivation. Among other things, this has already resulted in a number of cooperation agreements between companies. Chairman & CEO Middelhoff personally attends each Bertelsmann University event. Virtual knowledge sharing takes place in chat forums, e.g. a forum that can be visited by all executives working in Asia. A bilingual corporate intranet - the BeNet - offers all employees a wealth of news and background information about the company on a daily basis.

Meanwhile, "townhall meetings", at which Thomas Middelhoff presents a yearly management report for employees - an institution limited to Germany in the past - are now organized for staff at all major international locations (Paris, Barcelona, London and New York). Next year, a worldwide employee survey will provide insights into workplace satisfaction and employee opinions. The profit-participation scheme introduced for Bertelsmann employees in Germany in the 1970s has since been expanded to include numerous Bertelsmann locations in Western Europe. This year will see its extension to some corporate units in the US as well. Another measure that met with great acclaim was the "PC4All!" campaign, wherein Bertelsmann offered all its employees worldwide a free PC including Internet access. The aim is to get employees and their families to embrace the new media in their personal lives as well. The company has successfully concluded the first phase of the campaign; 50,000 PC packages have been shipped to date.

Our Information on the Internet

Point your browser to <http://www.bertelsmann.com> to find, among other things:

- All press releases on the press conference on fiscal year-end results
 - Presentation charts for the press conference on fiscal year-end results
 - Video coverage of the entire press conference on fiscal year-end results
 - Downloadable, printable photos of all Executive Board members
 - Quotes from Thomas Middelhoff and Siegfried Luther
 - CVs of all Executive Board members

For further Questions:

Oliver Herrgesell,

Bertelsmann AG

Media Relations

Phone + 49 - 52 41 - 80 24 66

Fax + 49 - 52 41 - 80 66 13

oliver.herrgesell@bertelsmann.de

<http://www.bertelsmann.de>

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