

RISK MANAGEMENT

Risk matrix

Type of risk	Description and areas of impact	Mitigation activities
Strategic and market risks		
Legal	Local and European regulations are subject to change. Some changes could alter businesses and revenue streams (for example, a ban on certain types of advertisements, opening of markets, deregulation of markets, cancellation of restrictions, limitation of advertising minutes)	RTL Group tries to anticipate any changes in legislation and to act accordingly by developing and exploiting new revenue sources
Audience and market share	A decrease in audience and/or market share may have a negative impact on RTL Group's revenue	New talent and formats are developed or acquired. Performance of existing shows is under constant review with the aim of driving audience share performance and hence future revenue. Moreover, RTL Group remains constantly proactive in the monitoring of international market trends
Strategic direction	Wrong strategic decisions could lead to potential losses of revenue. Also, wrong strategic investment decisions and overpricing could imply the risk on an impairment of goodwill	Prudent investment policies are followed, underpinned by realistic and conservative business plans, approval levels being followed ensuring the relevant degree of management 'sign-off', solid valuation models and regular strategic planning sessions. A regular review of strategic options is undertaken ensuring that the strategic course of the Group is well understood and consistent over time
Cyclical development of economy	Economic development directly impacts the advertising markets and therefore RTL Group revenue	RTL Group tries to diversify the revenue base through regional expansion as well as new products and services generating non-advertising revenue
New entrants and market fragmentation	As countries move towards digital switchover, market entry barriers are reduced. New entrants will also provide further choice to the viewer. Higher competition in programme acquisition, fragmentation due to thematic channels, and expansion of platform operators may impact RTL Group's position	RTL Group's strategy is to embrace new digital opportunities by ensuring its channels and stations are platform neutral (available on the widest possible choice) and that we develop strong families of channels for the digital age based around our leading brands
Technological challenges/innovation	New broadcasting technologies becoming more and more important over the coming years (for instance, digital broadcasting, internet, video-on-demand) may imply not only opportunities, but also threats for RTL Group	RTL Group remains proactive on new technological and broadcasting trends and develops digitisation activities to offset the removal/loss of analogue activities
Risks in key business		
Customers	Bad debts or loss of customers may negatively impact RTL Group's financial statements	Credit analysis of all new advertisers is systematically undertaken to prevent such a risk. Depending on the customer's credit worthiness insurances may be used. This risk is also mitigated by broadening the advertiser base
Suppliers	The supply of certain types of content is limited and may lead to a rise in costs. Over-reliance on one supplier may also cause costs to rise in the long term	The Group tries wherever possible to diversify its sources of supply. RTL Group benchmarks purchasing terms and conditions to identify best practices with the aim of reducing costs via, for example, joint purchasing. RTL Group selects high quality and solid suppliers for key services or equipment to reduce the risk of bankruptcy of business partners
Inventories	There is a risk of over-accumulation of stock that would be unused or could become obsolete. This may imply that write offs/impairments are necessary	RTL Group has strict commercial policies, very close follow-up of existing inventories and strict criteria for approval of investment proposals for rights
Financial risks		
Foreign exchange exposure	Effective management of foreign exchange risk is an important factor. The operating margin and broadcasting costs are impacted by foreign exchange volatility, especially if there is a strong increase of the USD against the Euro (feature films or sport/distribution rights purchases)	RTL Group has in place a strict policy regarding foreign exchange management, which is monitored and followed up by Group Treasury, using plain vanilla hedge instruments to mitigate volatility on the income statement.