
Chief Executive's report

In 2008 RTL Group increased its revenue and operating result for the seventh year running, despite increasingly difficult advertising markets in Europe. We therefore face the current economic crisis in a position of serenity and strength, helped by the fact that we have no debt and a well-balanced portfolio.

by Gerhard Zeiler

In view of an increasingly difficult economy, one thing still holds true: television is and will remain the leading medium. Television delivers great value, for our viewers and for our advertisers. While the structure of RTL Group's business model remains intact, there is a need to continuously optimise our operations, increasing efficiencies and reviewing costs across the board. This will result in a significantly lower cost base in all of our operations.

In 2008 Group revenue increased by 1.2 per cent to €5,774 million (2007: €5,707 million). Adjusted for portfolio changes and at constant exchange rates, underlying revenue was up 2.6 per cent. Reported EBITA exceeded €900 million for the first time and increased by 2.0 per cent to €916 million (2007: €898 million) – despite a tougher economic climate and the special programme investment by Groupe M6 for the European football championship. In particular, strong performances at Mediengruppe RTL Deutschland and FremantleMedia contributed to the increase in profits. The reported EBITA margin improved to 15.9 per cent (2007: 15.7 per cent), the highest ever.

Net profit attributable to RTL Group shareholders decreased to €194 million (2007: €563 million), mainly due to an impairment of goodwill of the UK TV activities amounting to €337 million. This impairment is primarily a result of the significant worsening in the UK advertising market conditions, which we have experienced since September 2008.

Many successful businesses in many countries

In Germany, RTL Group's profit centre had its best year ever. EBITA rose 25.6 per cent and Mediengruppe RTL Deutschland significantly strengthened its leading position in the German TV advertising market. Although audience ratings in 2008 were markedly influenced by the European football championship and the Olympic Summer Games in Beijing, as both events were televised by the public broadcasters ARD and ZDF, Mediengruppe RTL Deutschland remained the clear market leader in the key 14 to 49 target group.

The flagship channel RTL Television continued to be the number one among young viewers, by a large margin and for the 16th

consecutive year, while Super RTL celebrated ten years of uninterrupted leadership in Germany's children's television market. With shows such as *Deutschland sucht den Superstar*, *Das Supertalent*, *Ich bin ein Star – Holt mich hier raus!* and the docu-soap *Bauer sucht Frau*, RTL Television once again proved its power to create the talk of the moment. In addition to established hit formats such as *Raus aus den Schulden* and *Die Super Nanny*, RTL Television launched popular new factual programmes in 2008, including *Die Ausreißer – Der Weg zurück* and *Vermisst*. These shows not only attract audiences and advertisers, but also illustrate part of what we consider to be the value of television for society.

In France, Groupe M6 reported stable revenue despite a significant slowdown of the country's TV advertising market. M6 was the only major terrestrial channel with stable audience figures in prime time, benefiting from the record audiences watching the Euro 2008 broadcasts. The France vs Italy football match attracted 13.2 million viewers – a new audience record for M6. In the digital arena, the group's free DTT channel W9 continued its rapid audience and revenue growth and generated positive EBITA for the first time. As a result, the family of channels strategy has paid off for Groupe M6: despite accelerated audience fragmentation, the combined total audience share of M6 and W9 actually increased year on year.

RTL Group's worldwide production arm FremantleMedia reported growing revenue and EBITA figures for the fifth consecutive year. EBITA increased significantly by 18.3 per cent, mainly driven by higher earnings from FremantleMedia North America, the unit's biggest profit contributor. In 2008, FremantleMedia's global network of production companies produced 9,917 hours of award-winning TV programming across 57 countries, making it one of the largest creators of international programme brands. The company distributed its programmes to more than 150 countries.

Many of FremantleMedia's titles hit new audience records during 2008, proving that viewers continue to have an appetite for must-see entertainment and drama programming. Shows from FremantleMedia such as *Idols*, *Got Talent*, *The X Factor* and *The Farmer Wants A Wife* occupied top positions in their genres in key markets such as the US, the UK, Germany, France, the Netherlands and Australia.

Following the asset deal with Talpa Media, the acquisition of Radio 538 and the launch of the fourth free-TV channel RTL 8 in



2007, RTL Nederland announced a new organisational structure in September 2008. The profit centre will become a flatter and more responsive organisation, promoting entrepreneurship with clear-cut responsibilities for its three business units TV, radio and new media. One-time charges in connection with this restructuring, amounting to €18 million, impacted RTL Nederland's EBITA, which was down 17.6 per cent in total.

2008 was a challenging year for all commercial broadcasters in the UK, following a marked downturn in TV advertising. Nevertheless, the Five group of channels actually managed to grow its share of net advertising revenues from 9.3 per cent in 2007 to 9.6 per cent in 2008. In terms of adult share of viewing, it was the only family of channels in the UK to increase its share. In local currency, revenue of the profit centre was stable.

Portfolio management: geographic expansion...

In 2008, the leading European entertainment network again grew larger: RTL Group entered the Greek TV market by acquiring a 66.6 per cent majority shareholding in Alpha Media Group. The deal meant the national TV channel Alpha TV, the regional TV channel Kanali 9 Thessaloniki, two radio stations and an in-house production company, all became part of the international RTL family. With currently 45 TV channels in 11 European countries, RTL Group has a very well-balanced portfolio as a TV broadcasting company.

...and further diversification

With 37 per cent of its revenue coming from non-advertising sources, RTL Group also has a well-balanced portfolio in terms of revenue streams. And we will continue to grow our non-advertising revenue through diversification activities and content production.

Content is vital for today's broadcasting industry, and growth prospects are excellent as 'can't afford to miss' content becomes ever more valuable in the digital age. That is why RTL Group aims to grow its production arm FremantleMedia across all markets, with a combination of organic growth and selective acquisitions.

In September 2008, FremantleMedia acquired a 19.99 per cent equity stake in Beyond International, one of Australia's leading television and film producers. And in February 2009, FremantleMedia acquired a 75 per cent stake in the US-based company Original Productions. The deal will allow Original Productions to expand its growing slate of male-oriented factual programming, including the hit format *Ice Road Truckers*, and will strengthen FremantleMedia's position in the US cable network market.

Another move to round off our portfolio and to further diversify revenue streams was the relaunch of the sports rights agency UFA Sports.

Following a strategic review of its portfolio, RTL Interactive sold the German teleshopping channel RTL Shop to industrial investor Aurelius.



Digital strategy: we move with our audiences

The digital world offers RTL Group, as both a content company and a brand company, many opportunities for new business models. The Group has defined clear priorities for the digital world: the first is to develop our strong families of TV channels into multi-platform families. We call this 'moving with our audiences'. The second is to make further online investments in all areas with high growth potential that complement the company's core business.

In 2008, our operations significantly stepped up their digital activities with targeted acquisitions and investments in new launches. RTL Group has built up comprehensive catch-up TV services in its major markets Germany, France, the Netherlands and the UK. In total, our online platforms across Europe registered more than 500 million video streams in 2008, which delivered professionally produced content – from highlight clips to complete episodes of shows and series – to our viewers.

In the Netherlands, RTL 24 was launched in June 2008. It is the first exclusive news channel for mobile phones which offers RTL Nederland's most popular news programmes.

In Germany, Mediengruppe RTL Deutschland acquired 100 per cent of the fast-growing social network *Wer-kennt-wen.de* in two steps. The site was one of the big success stories on the web in 2008: its number of registered members grew from around one million in December 2007 to well over five million at the end of 2008. In France, Groupe M6 completed the full acquisition of the Cyréal group. The main activities of Cyréal include three editorial websites – focusing on high technology, video games

and e-business – plus a price comparison site. Thanks to the integration of Cyréalís, Groupe M6 reached an audience of 13 million unique visitors in November 2008 – two and a half times more than the previous year.

The German channel Vox launched two new thematic websites, one catering to women and a cooking community. Both sites have steadily increased their traffic since launch.

In November 2008, FremantleMedia announced an agreement with YouTube, making it the first global producer to offer two different strands of programming – firstly, new online formats that will be distributed exclusively via YouTube and secondly, utilising YouTube as a web platform for many of FremantleMedia's current and future TV shows. The new relationship enables both companies to share all advertising revenues generated from the FremantleMedia YouTube channels and videos.

Management changes

At the end of 2008, Andreas Rudas was appointed Executive Vice President Regional Operations & Business Development Central and Eastern Europe at RTL Group's headquarters and has become a member of the RTL Group Executive Committee. Among other responsibilities, Andreas Rudas will explore business opportunities for RTL Group in Central and Eastern Europe as well as in Asia. Thanks to his extensive experience in Eastern European markets, he is excellently qualified to handle this assignment.

In February 2008, Bert Habets took over from Fons van Westerloo as CEO of RTL Nederland. Bert will take on the big opportunities and challenges of the digital world, fully leveraging our strong TV, radio, diversification and internet activities in the Netherlands.

In October 2008, Dawn Airey returned to RTL Group as the new Chair and Chief Executive of Five, the channel she had already successfully led from 2000 to 2003. Dawn is one of the most experienced TV executives of her generation. With her perfect understanding of programmes, audiences and advertisers, she will ensure Five's positioning as a vitalised and entertaining broadcaster that cannot be ignored.

Dividend

Based on the 2008 results and the cash position, we propose a total dividend of €3.50 per share, including a special dividend of €2.10 per share. This would mean that RTL Group, which is debt-free, will have distributed almost €1.8 billion to its shareholders for the fiscal years 2006 to 2008 alone – and would continue to have a high net cash position.

Looking ahead

Operating in a very challenging time, we are experiencing a substantial slowdown in advertising bookings. We will respond to

"We are focusing on our core business and we are already in the process of reviewing all costs and structures."

this by focusing on our core business, and by reviewing all costs and structures.

Given the current state of the advertising markets, and the very short-term bookings cycle, it is impossible to give reliable full-year guidance. But it has to be expected that the profitability level will be down compared to 2008.

The value of television

The basic human need to lean back, relax and be entertained remains unchanged. That is what television does so well, and that is precisely what our customers expect and appreciate – especially in difficult economic times, as rising figures for TV viewing time prove.

RTL Group is a healthy company – profitable, debt-free, with strong cash flows. This is the result of the hard work of our creative and passionate employees and of our excellent management team which knows the needs of our business.

So I'd like to end this report on a high note: in a unique extension of the *Idols* brand, FremantleMedia succeeded in closing a deal to create a TV programme-based attraction at Walt Disney World Resort Florida, called the *American Idol Attraction*, which opened in February 2009. This attraction will make dreams come true – for future pop stars as well as for all of us who believe in the power of television.



Gerhard Zeiler
Chief Executive Officer