

# chief executives' report

**2004 was our best year yet, and we take great pride in our achievements. Our staff worked harder than ever before to deliver such impressive performance. Creativity is at the heart of our business, and the greatest asset we have is the programme-making and broadcasting talent that drives our businesses forward.**





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All our profit centres performed strongly, with record results coming from RTL Television in Germany, M6 in France, Five in the UK, our content business FremantleMedia, RTL Nederland and Antena 3 in Spain. FremantleMedia followed up its *Idols* success with exciting new formats. Management actions resulted in impressive turnarounds at our Dutch operations and at Antena 3 – the latter spectacularly so. We launched new television and radio operations – RTL Televizija in Croatia got off to a flying start, as did Plug TV in Belgium. We strengthened and developed our portfolio, disposing of non-core assets and acquiring new strategic holdings.

Conditions in Europe's advertising markets were mixed and in some cases challenging, which is what makes the achievements of our profit centres so remarkable. Our most important advertising market, Germany, was the weakest performer in Europe, yet our profit centre delivered a robust result. Netherlands was another weak market, while Belgium delivered modest growth. The UK and France were stronger, whilst the best-performing markets were Spain and Hungary.

Group revenue increased by 9.6% to €4,878 million. EBITA for the year was €711 million, up 46% on 2003. Stripping out restructuring costs and start-up losses, EBITA was up by 36.2% to €764 million. We propose a dividend of €0.95 per share for 2004, up 18.8%.

Thanks to our strong operational performance and the proceeds from disposals, our Group became debt-free in June 2004. At the end of 2003 debt stood at €298 million; by the end of 2004 we were in a net cash position of €246 million.

#### **A powerful strategy**

Our solid financial situation gives us an excellent base from which to pursue our strategy for growth. There are three drivers to the strategy, and we delivered on all of them in 2004.

The first driver is to further develop our family of channels in the markets where we already have operations. In 2004 we strengthened our families in Germany, France and Belgium by acquiring established channels or launching new ones.

The second driver is to develop diversified, non-airtime sources of revenue, for example by building businesses in such areas as telephony, content for mobile platforms, and subscription-funded web sites. Our German profit centre now has an extensive portfolio of such businesses in place, based on the highly successful model developed by M6 in France. In 2004, digital TV and diversification revenue accounted for 49.8% of M6's total revenue. We are making encouraging progress with our diversification businesses in several other markets, notably Belgium and the Netherlands.

The third driver is geographical expansion. We want to enter new markets in Europe where the regulatory environment and foreign ownership rules allow us, and where we believe we can build strong market positions. In 2004 we focused on Central, Eastern and Southern Europe, launching RTL Televizija in Croatia and buying into an existing media group in Portugal.

#### **Strong progress in all our businesses**

Our broadcasting businesses maintained strong audience and advertising market positions, in spite of the impact of the European Football Championships and the Olympic Games which benefited our competitors.

Our German TV group improved its profitability in a weak advertising market. Although it lost some audience share, RTL Television more than held its own and was well supported by RTL II, VOX and Super RTL, all of which had excellent years.

M6 in France enjoyed another excellent year, retaining its position as the number two station in the target market of housewives under 50. Its portfolio of digital TV businesses continued to grow with the acquisition of the well-regarded thematic channel Paris Première and the launch of two new music channels. We were recognised by the French media regulator as the principal shareholder in M6 following the sale of the Suez stake.

Our content business, FremantleMedia, had its best-ever year. *Idols*, the contest to find a national pop idol, broke more records in 2004 and launched in a further 11 territories. It was by no means the only format to perform well – demand was also strong for *The Apprentice*, *The X Factor*, *How Clean Is Your House?* and other recently-developed programmes. Established game shows, and drama properties such as *Neighbours* in Australia, *Good Times Bad Times* in Germany and *The Bill* in the UK, continued to thrive.

Our profit centre in the Netherlands made outstanding progress in 2004 under its new management team, delivering a strong turnaround in spite of start-up losses in radio. The process of integration is now complete – our Dutch businesses are now under one roof and have been rebranded RTL Nederland.

Other major successes were achieved in Belgium, where we launched a third TV channel, Plug TV, and a new radio station serving the Brussels region. Five in the UK continued its steady progression with increases in audience and advertising market share and profitability. Our radio interests in France also maintained their recent strong performance.

However, the star performance came from Antena 3 in Spain, which delivered a spectacular turnaround. An EBITA loss in our accounts of €35 million in 2003 was transformed into a profit of €17 million in 2004. The turnaround followed a restructuring of Antena 3's ownership and corporate governance during 2003, after which new management was put in place. Antena 3's CEO Maurizio Carlotti and his team deserve great credit for this remarkable achievement.

### **Expanding into new markets**

RTL Televizija in Croatia launched in April 2004, just nine months after a consortium led by RTL Group was awarded the licence. It was an immediate success with viewers and advertisers, and was soon contesting for market leadership of the target group, 18 to 49 year olds, with the public broadcaster HTV1.

In Portugal we bought a strategic stake in Grupo Media Capital. As well as being the leading television broadcaster in Portugal, Grupo Media Capital also has interests in radio, outdoor and internet and magazine publishing.

### **Portfolio development**

We continued to improve our Group's portfolio of shareholdings. In addition to the acquisition of the 11.6% stake in Grupo Media Capital, we bought two further stakes in RTL Televizija in Croatia to take our holding to 65.5%.

As part of a major restructuring of Sportfive's ownership, we reduced our holding from 46.4% to 25%. We are happy to remain a shareholder in Sportfive, which we believe has an exciting future. Already the new management team has scored an impressive success in winning the contract to distribute the international television rights to the European Football Championships in 2008.

In 2004 we sold 100% of our television facilities company London Playout Centre (LPC) to Ascent Media Group Inc and restructured our technical services division. The Cologne Broadcasting Center (CBC) has been integrated into profit centre Germany and BCE continues to play an important role in Luxembourg.

### **New chairman**

In December 2004, we welcomed Siegfried Luther to the position, of Chairman of the Board of RTL Group, replacing Juan Abelló. Siegfried was previously Vice Chairman and is a long-serving member of the Board with extensive knowledge of our Group. He is also the Deputy Chairman of the Bertelsmann AG Executive Board.

### **Looking ahead**

We do not expect the advertising markets in Europe to improve significantly during 2005, and competition is likely to intensify as audiences become further fragmented.

We know that we must be on our very best form if we are to maintain the strong performance of 2004 – but we also know that we have the right strategy and the people to make it happen. All our profit centres have highly focused management teams in place, intent on delivering to clearly-defined objectives.

We know that we would have never achieved the position we are in today without a passion for the product we make and the programmes we broadcast. RTL Group, with its unique mix of TV, Radio and Content and strong balance sheet is better placed than ever before to exploit the growth opportunities that are ahead of us. I am confident that the Group will continue to perform strongly in 2005.

