

The Board of RTL Group recognises the importance of, and is committed to, high standards of corporate governance. The principles of good governance adopted by RTL Group have been applied in the following way.

### **Board of Directors and Chief Executive Officer**

On 31 December 2005, the Board of RTL Group had 11 members, one executive director, and 10 non-executive directors. The members elected at the Annual Shareholders' meeting of 16 April 2003 were appointed for a period of three years. The biographical details of the directors are set out on pages 64 to 65. Three of the non-executive directors, Onno Ruding, Jacques Santer and Martin Taylor, are independent of management and other outside interests that might interfere with the exercise of their independent judgement. The Internal Regulations and Governance (IRG), adopted by the Board set out the Company's procedures for ensuring good corporate governance. The Board of Directors has to review, if requested with the assistance of an expert, that to any transaction between RTL Group or any of its subsidiaries and any of the shareholders is at arm's length terms. Under the IRG the responsibility for day to day management of the Company is delegated to the CEO but the Board, which meets at least once every three months, has a formal schedule of matters reserved to it including approval of the annual overall Group budget, of significant acquisitions and disposals and of the Group's financial statements. The Board of Directors met four times in 2005 and adopted some decisions by circular resolution on matters presented and discussed at a previous Board meeting.

The IRG also provides for the establishment of the following Board committees.

### **Nomination and Compensation Committee**

The Nomination and Compensation Committee is made up of four non-executive directors. The Nomination and Compensation Committee consults with the CEO on the appointment and removal of executive directors and senior management and determines the Group's compensation policy.

### **Audit Committee**

The Audit Committee is made up of three (four, since 1 January 2006) non-executive directors, two of whom are independent, and meets at least three times a year.

The Committee's plenary meetings are attended by the CEO, the CFO, the Head of Internal Audit with or without the external auditors.

The Committee reviews the overall risk management and control environment, financial reporting and standards of business conduct.

The Head of Internal Audit and the external auditors have direct access to the Chairman of the Audit Committee.

### **Directors' fees**

In 2005 a total of €0.8 million (2004: €0.9 million) was allocated in the form of fees to the members of the Board of Directors and the Committees which emanate from it.

### **How we manage risks**

By their nature, media businesses are exposed to risk. Television and radio channels can lose audiences rapidly as new competitive threats emerge, with consequent loss of revenue. Broadcasters and producers are also exposed to legal risks, such as litigation by aggrieved individuals or organisations. Moreover, media businesses are more exposed than most to economic cycles – advertising is usually one of the first casualties in an economic downturn. RTL Group's international presence exposes it to further risks, such as adverse currency movements.

RTL Group has robust risk management processes in place, designed to ensure that risks are identified, monitored and controlled. Risk management is an essential part of our Group's system of internal controls and is founded on a specific policy and clearly defined set of procedures.

# Corporate governance

## Definition of risk

RTL Group defines a risk as the danger of a negative development arising that could endanger the solvency or existence of a profit centre, or impact negatively on the income statement of the Group.

## Risk reporting framework

We have developed a framework for the reporting of risks and related controls, in line with good corporate practice. This framework is based on a number of key principles:

- Comprehensive scope of risk assessment: risks are assessed within a framework of defined key risk categories. Regular risk assessments are undertaken to include a description of the risk, an indication of the potential financial impact, and the approach taken to mitigate the risk.
- Regular reporting: RTL Group's system of internal controls ensures that risks will be addressed, reported and mitigated when they arise. Within the specific risk reporting framework all significant risks are comprehensively assessed and reported to RTL Group management on a bi-annual basis. This ensures that the necessary actions are undertaken to manage, mitigate or offset the risks within the Group.

- Bottom-up approach: we assess risks at the level where they arise, i.e. in our operations.
- Harmonised reporting tool: our operations report on their risk assessment using a common reporting tool thus ensuring consistency in scope and approach.
- Consolidated Group matrix: we gain a comprehensive view of significant risks for the Group through the consolidation of the local risk assessments. A Risk Management Committee, chaired by the CFO and comprising senior Group management, prepares and reviews this consolidated Group risk matrix which is then submitted to RTL Group's Audit Committee.
- Audit approach: both the processes of local risk assessments as well as the consolidated Group risk matrix are regularly reviewed by the external auditors.

## Going forward

RTL Group's risk management framework is constantly challenged, both at the level of our operations as well as at Group level through the Risk Management Committee, in order to ensure it reflects the risk profile of the Group at any given moment.

## Risk management framework

- 1 Goals and objectives based on Company Mission
- 2 Risk assessment at operations and headquarter
- 3 Mitigation measures and action plans to control risks
- 4 Risk management reporting
- 5 Consolidation of risk management report and review by risk management committee. Reporting to Audit Committee
- 6 Actions at Group/local level

## Major risk factors

Type of Risks	Description and areas of impact	Mitigation activities
<b>External &amp; Market Risks</b>		
Legal	The local and European media regulations could change. Some changes could alter businesses and revenue (e.g. ban of certain types of advertisements, opening of markets, deregulation of well-regulated markets, cancellation of restrictions, limitation of advertising minutes).	RTL Group tries to anticipate any changes in legislation and to act accordingly.
Cyclical Development of Economy	Downturns and economic cycles impact directly the advertising market 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. In addition to that the Group tries to react quickly to market changes.
<b>Risks in Key Business</b>		
Audience & Market Share	A decrease in audience and/or market share may impact negatively RTL Group's revenue.	New talent and formats are developed or acquired. Performance of existing shows is under constant review with the aim to drive audience share performance and hence future revenue.
Talent Retention & Management	RTL Group's success relies partly on key talents. Competitors may try to attract them away from the Group.	Competitive remuneration and an attractive working environment are some of the tools to keep key talents at the Group.
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, in the long term, to rise.	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 to reduce costs via for example joint purchasing.
Customers	Bad debts or loss of customers may impact negatively RTL Group's financial statements.	Credit analysis of all new advertisers is systematically undertaken to prevent such a potential risk to happen. Depending on the customer's credit worthiness credit insurances are used. This risk is also mitigated by broadening the advertiser base.
<b>Financial Risks</b>		
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 versus EUR (feature films or sport 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.