



# **CHIEF EXECUTIVE'S REPORT**

**BY GERHARD ZEILER**

**What a difference a year makes. After a steep economic downturn, the TV industry experienced a powerful comeback in 2010. RTL Group's outstanding results reflect a stronger than expected rebound in the Western European TV advertising markets, the enduring impact of our significant cost savings in 2009 and the leading market positions of our families of channels.**

During the recession of 2008/09, advertising revenue declined significantly. Many sceptics questioned the future of TV. In fact, if everything said at media conferences, preached by internet visionaries, or predicted by consulting firms were true, then TV would be already dead.

Although no one – not even the biggest optimist – could have expected a recovery on this scale, we at RTL Group have always believed in the fundamental strength of commercial, advertising-funded TV. Not out of complacency, but because the facts speak for themselves. In the past ten years, average TV viewing time in Europe has risen steadily, to 228 minutes a day per person in 2010.

The facts prove that TV is the leading medium. And there are many opportunities for continued growth. In the digital age, viewers can watch what they want, whenever and wherever they want to. This leads them to watch more, not less, TV – through digital video recorders, on-demand platforms and mobile applications. Steep growth rates for RTL Group's on-line video views and app downloads show that our audience appreciates these digital services.

As an advertising medium, TV is compatible with online, radio, newspapers and magazines. Television establishes the central concept of a major advertising campaign which then resonates through other media. Consequently, advertisers have rediscovered that there is no way they can get their messages across to consumers without TV.

## ALL KEY FINANCIAL INDICATORS UP

With TV advertising markets in RTL Group's Western European key territories growing strongly, at between 9 and 12 per cent, consolidated revenue increased by 8.4 per cent to €5,591 million in 2010 (2009: €5,156 million).

Most of RTL Group's profit centres significantly improved their operating results, with particularly strong performances from Mediengruppe RTL Deutschland, Groupe M6, RTL Nederland and RTL Belgium. This resulted in new levels of profitability: Group EBITA increased by 39.6 per cent to €1,111 million (2009: €796 million) – this was €195 million better than the best result so far and exceeded €1 billion for the first time.

RTL Group's EBITA margin improved to 19.9 per cent (2009: 15.4 per cent), also the highest ever. The EBITA margins of the four big broadcasting operations – Mediengruppe RTL Deutschland, Groupe M6, RTL Nederland and RTL Belgium – improved significantly.

Net profit attributable to RTL Group shareholders almost tripled to €611 million from €205 million in 2009.

## OUTPERFORMING IN MANY MARKETS

In Germany, the EBITA of **Mediengruppe RTL Deutschland** soared 50.5 per cent to €551 million (2009: €366 million), mainly reflecting significantly higher advertising sales, but also comprehensive cost savings, initiated in 2009.

The combined average audience share of Mediengruppe RTL Deutschland in the key 14 to 49 target group increased to 35.0 per cent (2009: 34.4 per cent) – a new record level. This improvement was mainly driven by the flagship channel RTL Television, which was the number one choice among young viewers by a large margin, and for the 18th consecutive year. With an 18.1 per cent audience share (2009: 16.9 per cent) in its main target group, the channel achieved its best result since 2003. RTL Television also became the market leader in total audience share (13.6 per cent), for the first time since 2003.

Once again, RTL Television was particularly successful in prime time, where the channel led the market in nearly every time slot. The seventh season of *Deutschland sucht den Superstar* (Idols) was the most successful since the talent show's first season in 2003. The fourth season of *Das Supertalent* (Got Talent) set new ratings records with up to 8.5 million viewers and an average audience share of 37.4 per cent among young viewers.

The German family's number two channel, Vox, achieved the second-best audience share (7.7 per cent) in its history.

In France, EBITA of **Groupe M6** was up 25.6 per cent to €245 million (2009: €195 million), driven by significantly higher TV advertising sales.

The combined total audience share of Groupe M6 increased slightly to 14.3 per cent (2009: 14.2 per cent), thanks to its complementary family of channels. In the main commercial target group of housewives aged under 50, the combined audience share of Groupe M6 was 21.7 per cent (2009: 21.9 per cent). Over the past five years, Groupe M6 has been the only major broadcasting group to increase its share of the commercial target group.

In an increasingly competitive environment, M6 remained the second most popular channel in France among housewives under 50, reporting an audience share of 16.5 per cent (2009: 17.2 per cent). More importantly, M6 also continued to reduce the gap on the market leader, TF1, despite TF1 broadcasting most of the football World Cup matches. In total audience



share, M6 (10.4 per cent) is getting closer to its objective of overtaking France 3 (10.7 per cent) and becoming the number 3 channel after TF1 and France 2.

Groupe M6's main digital channel, W9, increased its average audience share among housewives aged under 50 to 3.9 per cent (2009: 3.3 per cent), making it the most watched DTT channel in the key commercial target group.

Despite higher revenue, **FremantleMedia** reported a lower EBITA of € 140 million (2009: € 155 million), mainly due to general pressure on margins and volumes from broadcasters.

In 2010, FremantleMedia's global network of production companies was responsible for nearly 9,500 hours of TV programming across 54 countries, making it one of the largest creators of award-winning international programme brands. RTL Group's content arm continued to produce the highest rated entertainment shows for broadcasters in the biggest TV markets worldwide – including the US, the UK, Germany, France and Australia – and distributed its programmes to more than 150 countries.

FremantleMedia entertainment formats continued to travel well in 2010. *Got Talent* added another 11 territories to its roster in 2010, and was successfully aired in 40 territories by the end of 2010, while the dating format *Take Me Out* rolled out to nine new territories, taking its total to 16.

Scoring its highest ratings since 1999 and outperforming a significantly growing TV advertising market, **RTL Nederland** increased its EBITA by 52.8 per cent to € 110 million (2009: € 72 million). The Dutch family of channels achieved a combined prime time audience share of 33.0 per cent in the target group of viewers aged 20 to 49, up from 31.7 per cent in 2009.

As in the previous year, the ratings increase was mainly driven by the flagship channel RTL 4. The first series of the highly interactive talent show *The Voice Of Holland* contributed strongly to the channel's ratings performance. With an average audience share of 47.7 per cent in the target group, the show has become the most watched talent format ever on RTL 4.

Based on growing advertising sales, **RTL Belgium's** EBITA increased by 25.0 per cent to € 45 million (2009: € 36 million), while **RTL Radio in France** reported EBITA growth of 60.0 per cent, reaching € 24 million (2009: € 15 million).

## OPTIMISING, INVESTING, DEVELOPING FUTURE GROWTH

RTL Group's strategy pursues two main goals: one is the ongoing, further optimisation of its core business of major TV and radio stations, the other is to advance the Group's growth.

High audience shares will continue to form the basis of RTL Group's success. So the building and extension of families of

channels remains an important task in responding to increasing audience fragmentation in a digital, multi-channel world.

The target for our broadcasters has always been very clear: we want to be the number one or a strong number two in each of our markets. Over the years, we examined all options for achieving this goal in the UK with Five. But given the competitive environment and the long-term market development, this was not possible and so we – sadly – decided to sell the channel in 2010 when the economic environment had become more positive.

We will also gradually establish families of channels in countries where we've operated just one main channel so far. For instance, RTL 2 went on air in Croatia at the beginning of January 2011.

One focus of RTL Group's growth strategy is a significant increase in non-advertising revenue by establishing a second revenue stream, continued expansion in content production and diversification businesses.

Our aim is to receive a fair revenue share for our brands and programmes from cable network operators, satellite companies and internet TV providers – for new services such as high-definition TV, on-demand services and digital pay channels, and eventually for the signal of our major free-TV channels as the platform operators get most of their audience and most of their money from these channels.

Our content production arm, FremantleMedia, also plays a key role in strengthening RTL Group's non-advertising revenue streams. In 2010, we strengthened FremantleMedia via several targeted acquisitions, including production companies in the Netherlands and Scandinavia.

In October, FremantleMedia took a 62.5 per cent share in Radical Media, a large-scale move into the branded entertainment market. Also in October, FremantleMedia announced the acquisition of a further 51 per cent stake in Ludia, a leading developer and publisher of interactive casual games. The transaction took the company's stake in Ludia to 80 per cent.

The acquisitions of Radical Media and Ludia form part of FremantleMedia's ongoing plan to broaden and diversify its business by developing new products (beyond TV content), attracting new customers (advertisers and end consumers in addition to TV broadcasters) and developing new business models for entertainment (advertiser-funded and direct-to-consumer).

Developing a profitable business model for the rapidly growing non-linear TV consumption will be one of the most important tasks for RTL Group in the years ahead. We want to be present wherever viewers look for our programmes. Our channels have already succeeded in establishing popular catch-up TV services such as RTL Now in Germany, M6 Replay in France, RTL XL in the Netherlands and RTL Most in Hungary.

In 2010 alone, RTL Group's online platforms and on-demand offers across Europe collectively generated more than 1.4 billion video views of professionally produced content – up 46

per cent year-on-year. Total online advertising revenue increased by 41 per cent. And our companies have launched more than 60 mobile applications which have registered 10 million downloads to date.

To sum things up: RTL Group will continue to invest in new programmes, new channels, content production and in its rapidly growing new media activities.

## DIVIDEND

RTL Group's continued focus on cash generation led to a net cash position of €1,456 million at the end of 2010. Based on the Group's improved financial performance and robust treasury position, the Board of Directors has decided to recommend a gross dividend payout of €5.00 per share. If the Annual General Meeting follows this proposal, RTL Group will have distributed €3.1 billion to its shareholders in the past five years, while always remaining debt-free.

## LOOKING AHEAD

Despite the fact that TV has profited more strongly than other media from the economic recovery in 2010, it is not possible to give reliable full-year guidance for 2011 at this point in time. As a consequence, RTL Group remains cautious while at the same time being very optimistic about the TV industry's overall growth prospects.

## INNOVATION NEVER STOPS

Consumer habits and the digital revolution are rapidly changing the media world. However, some constants remain: TV viewing time continues to rise. And television keeps on evolving, with new services and innovations such as catch-up TV, internet-connected TV sets, mobile apps, and casual video games based on popular TV formats. The TV business has always been driven by new technologies – and vice versa. Television has won through every innovation, becoming ever more diverse and popular. And I firmly believe that the same still applies today. The future of TV is TV.



GERHARD ZEILER  
CHIEF EXECUTIVE OFFICER