

# CHIEF EXECUTIVE'S



# REPORT

**2009 changed the television industry. Like all commercial TV companies, RTL Group had to deal with the recession, a downfall in advertising, and structural changes through digitisation, all at the same time. RTL's profit centres reacted quickly, cutting costs yet managing to increase audience shares. Acting early from a position of strength, RTL Group was able to prove reliability even in times of crisis.**

**BY GERHARD ZEILER**

This was a crucial year for the TV industry. The economic crisis led to a significant advertising downturn. Most TV markets across Europe fell by double-digit figures. In addition, increasing digitisation is leading to substantial structural changes in the television industry. And digitisation leads to fragmentation, which brings more choice, for viewers as well as for advertisers.

At the same time – contrary to the predictions of many sceptics – TV proved that it is, and will remain, the leading medium: an increase in average viewing time shows how much media consumers love television. In many European countries, including Germany and France, people spent more time watching TV than in previous years, while in the UK, average viewing time was 225 minutes per day – the highest figure since 1992. Beyond the traditional ways to watch television, internet and mobile video content are growing markets.

Facing extraordinary challenges, the television industry proved that it is flexible and resilient, even in difficult situations. Broadcasters and producers can adapt to economic and technological changes quicker than many other industries.

At the beginning of 2009, in the midst of the economic uncertainty, RTL Group had three top priorities:

- To reduce the cost base in our core business of TV broadcasting, without losing substance.
- To further invest in content and brand extensions.
- To proceed in the transition from the linear to the digital world.

The results speak for themselves:

- The bottom line of the cost-cutting measures at our profit centres is significant: RTL Group managed to reduce its operating costs by €371 million in 2009. As our local management teams combined comprehensive cost cutting with smart programming decisions, we managed to increase audience shares in almost every country.
- Investment in content production and diversification businesses helped to better balance our financial position. Our content arm, FremantleMedia, acquired a majority stake in the production company Original Productions, and extended the *Idols* brand by launching a live attraction at Walt Disney World, while new pay channels were introduced in Germany, France, and the Netherlands.

- Adopting the digital opportunities, RTL Group's profit centres improved and extended their popular catch-up services. Throughout Europe, our online platforms registered more than 1 billion video streams. Several new platforms were launched, which are now available via the internet, TV and mobile phones.

These successes are only possible due to RTL Group's decentralised structure, where strong CEOs in the various countries in which we operate act like entrepreneurs, with the power to make local decisions. This structure provides the company with a solid competitive edge.

## **HIGH PROFITABILITY NET RESULT UP**

The Group's profitability continued to be high in 2009: EBITA margins of the big five profit contributors – Mediengruppe RTL Deutschland, Groupe M6, FremantleMedia, RTL Nederland and RTL Belgium – remained stable or even increased.

Given the double-digit declines in Europe's TV advertising markets, however, revenue and profits fell to below the previous year's levels. Revenue decreased by 6.3 per cent to €5,410 million (2008: €5,774 million).

With a record second half-year result of €437 million (up 5.6 per cent year-on-year), full-year EBITA reached €755 million (down 17.6 per cent), despite higher start-up losses (mainly resulting from the first-time full-year consolidation of Alpha Media Group in Greece) and significant one-time charges, including restructuring costs in the UK, Germany and Greece, and a significant programme write-down at Five. RTL Group's EBITA margin for 2009 is 14.0 per cent (2008: 15.9 per cent).

Net profit attributable to RTL Group shareholders increased by 5.7 per cent to €205 million (2008: €194 million) despite goodwill impairments on Five Group in the UK and Alpha Media Group in Greece.

Net cash from operating activities is €763 million, resulting in an operating cash conversion of 106 per cent. At the end of 2009, the net cash position reached €789 million.

## PROFITABILITY AND AUDIENCE LEADERS

In Germany, the EBITA of RTL Group's profit centre **Medien-gruppe RTL Deutschland** reached €366 million, down 11.6 per cent due to significantly lower advertising revenue.

At the same time, the German family of channels increased its clear audience leadership in the key 14 to 49 target group significantly, by 1.5 percentage points to 34.4 per cent (2008: 32.9 per cent), a new record level.

The outstanding performance was driven mainly by the flagship channel RTL Television, which, for the 17th consecutive year, and by a large margin, was the number one choice among young viewers, with a 16.9 per cent audience share (2008: 15.7 per cent).

The sixth season of the talent show *Deutschland sucht den Superstar* (Idols) scored an average audience share of 30.6 per cent in the 14 to 49 target group, up from 29.5 per cent in 2008. The third season of *Das Supertalent* (Got Talent) delivered the format's highest ratings yet, with an average audience share of 33.2 per cent (2008: 27.9 per cent).

RTL Television also succeeded in establishing new formats across all genres, including new shows such as *5 gegen Jauch* and new series such as *Lasko – Die Faust Gottes*. The channel introduced a new afternoon line-up featuring scripted docu-soaps, which helped to boost its audience share in the target group. Real-life formats such as *Bauer sucht Frau* (The Farmer Wants A Wife), *Raus aus den Schulden* (Get Out Of Debt) and *Rach – Der Restauranttester* also performed strongly in prime time.

In terms of total audience, the boxing match between Vitali Klitschko and Kevin Johnson on 12 December 2009 was RTL Television's highest rated programme of the year, attracting 11.18 million viewers.

In French television, **Groupe M6** demonstrated its resilience in a strong economic downturn: an almost stable EBITA of €195 million, resulting from significantly lower programme costs at the main channel M6, and higher profit contributions from its digital channels and diversification activities.

Groupe M6 was the only family of channels in France with growing ratings. The combined audience share in the commercial target group of housewives aged under 50 increased to 21.6 per cent (2008: 21.2 per cent), driven by the strong growth of W9.

The audience share of flagship channel M6 in the commercial target group remained almost stable at 17.2 per cent (2008: 17.5 per cent). As a result, M6 not only remained the second most popular channel in France in this demographic, it also continued to reduce the gap to the market leader, TF1. The channel continued to draw large audiences with its established programme brands, including the talent show *Nouvelle Star* (Idols), factual entertainment formats such as *L'amour est dans le pré* (The Farmer Wants A Wife) and *Pékin Express*, as well as the popular information magazines, *Capital* and *Zone Interdite*.

Groupe M6's main digital channel, W9, continued its rapid growth throughout 2009. The channel's total audience share increased to 2.5 per cent (2008: 1.8 per cent) – the biggest increase recorded by any French channel.

Worldwide production arm, **FremantleMedia**, again reached the record results level of the previous year, despite general pressure on profit margins. Its EBITA remained stable at €155 million.

FremantleMedia continues to produce the highest-rated shows around the globe. In 2009, its global network of production companies was responsible for nearly 9,500 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 around the world.

FremantleMedia productions topped the ratings charts in nearly every major territory, including the US, the UK, Germany, Australia and France. Many of the company's key formats also set new records and delivered larger audiences than ever before, including *Got Talent* in the UK and Germany, *The X Factor* in the UK and Denmark, and *The Farmer Wants A Wife* in France and the Netherlands.

**RTL Nederland** increased its EBITA by €2 million to €72 million thanks to an early focus on cost reduction. The Dutch family of channels achieved a combined prime time audience share of 32.3 per cent in the main commercial target group of shoppers aged 20 to 49, up 1.8 percentage points from 2008. The strong ratings performance is mainly driven by the flagship channel RTL 4.

With the UK TV market strongly affected by the economic downturn, **Five Group** registered an operating loss of €10 million, excluding a significant programme write-down of €22 million, and restructuring charges of €9 million. Five undertook stringent cost management across all of its channels to limit the EBITA impact of the advertising revenue shortfall. The business took the decision to concentrate its efforts on the more commercially valuable parts of the schedule, such as prime time. The Five Group reduced its underlying operating costs by 19 per cent in 2009.

Nevertheless, Five was the only terrestrial family of channels in the UK to increase its adult viewing share in 2009, up slightly to 6.27 per cent (2008: 6.24 per cent).

In Greece, the newly acquired **Alpha Media Group** initiated comprehensive restructuring and cost reduction measures in reaction to the downturn of the Greek market. Despite these savings, Alpha TV's audience share increased significantly year-on-year, proving that the new programming strategy – which positions Alpha as a family-oriented channel with a focus on docu-soaps and entertainment – is working.

## STRATEGY REMAINS IN PLACE

RTL Group reacted to the economic crisis from a position of strength. With interests in 45 television channels in 11 countries, RTL Group has a very well-balanced portfolio as a TV broadcasting company. With 38 per cent of its revenue coming from non-advertising sources, RTL Group also has a well-balanced portfolio in terms of revenue streams.

In the coming year, we will further develop activities that create revenues beyond advertising, such as pay strategies and diversification businesses, and will further strengthen investments in our rapidly growing internet activities, and in content production.

As part of FremantleMedia's global growth strategy, which combines organic growth with selected acquisitions, the company acquired a 75 per cent stake in Original Productions –



the US-based creator of hit TV shows such as *Ice Road Truckers* and *Ax Men* – in February 2009.

As well as investing in content production, we also invest in digital activities.

RTL Group's profit centres continually improve and extend their popular catch-up services, a short-term form of video-on-demand for viewers who missed the regular broadcast. New platforms were launched in Germany, France and Hungary, branded Vox Now, W9 Replay, and RTL Most.

Groupe M6 complemented its market-leading offer with a new paid service, M6 VOD – which features premium content such as movies and passes for whole seasons of popular TV series – and M6 Bonus, a free service offering highlights of M6's signature programmes, as well as interviews, making-ofs and outtakes.

The three special-interest digital channels, RTL Crime, RTL Living and Passion, continued to grow steadily, and are among the leading pay-TV channels in Germany, Austria and Switzerland, with over 2.5 million subscribing households.

At the beginning of October 2009, RTL Nederland launched the special-interest channel RTL Lounge, which targets young women with Dutch and international drama and lifestyle programmes. Within a few months, the channel has already become the leader among the digital channels in the Netherlands.

In a unique extension of the *Idols* brand, FremantleMedia created a TV programme-based attraction – *The American Idol Experience* – at Walt Disney World Resort, Florida, which opened in February 2009.

## CONTINUITY IN MANAGEMENT

RTL Group appointed three profit centre CEOs during the reporting period.

In May 2009, Christoph Mainusch took over from Rick Spinner as CEO of Alpha. The former CEO of RTL Televizija plans to combine audience success with sustainable financial results, even in difficult times.

In July 2009, Johannes Züll, CEO of Aegis Media in Germany, follows Christoph Mainusch as CEO of RTL Televizija. He has held various positions within RTL Group in the past. His proven excellence in both strategic and operative skills empowers him to lead the Croatian subsidiary through a challenging time.

In August 2009, Christopher Baldelli took over as chairman of RTL Radio's Executive Board. Baldelli, who headed the thematic TV channels division of Groupe M6, is a strong and dynamic leader. RTL Group's French radio business will benefit from his comprehensive experience in French media and his track record of growing new digital activities into profitable businesses.

## HIGH DIVIDEND PROPOSED

Based on the 2009 results and the cash position, the Board of Directors proposes a dividend of €3.50. This is the same as the total dividend in 2008, which then included an extraordinary dividend of €2.10 per share. If the Annual General Meeting follows this recommendation, RTL Group will have distributed €2.5 billion to its shareholders in the past five years alone, while remaining without debt and with a high net cash position.

## LOOKING AHEAD

Although the revenue decline has slowed considerably since autumn 2009, RTL Group does not expect a quick recovery of advertising revenues to previous levels. While the Group remains cautious, it will also continue to invest in promising business opportunities based on its strong brands and content. These include on-demand services as non-linear TV viewing grows rapidly, digital pay channels to establish a second revenue stream, content production, and the company's broad range of diversification businesses.

## HERE TO STAY

As I have already said, television remains the leading medium. In the future there will be more television than ever before, there will be more distribution channels for television than ever before, and there will be television programmes for truly everyone – for mass audiences and narrowly defined target groups alike.

RTL Group will be there with its content and brands, wherever the viewers are. But we will not only please our audiences. While I would be careful about prematurely announcing the end of the crisis, I may say that RTL Group is in excellent health, with strong businesses in many countries, double-digit return on sales, and a sound financial position. We are confident that we will continue to deliver significant value for the investments of our shareholders in the future.

Gerhard Zeiler, Chief Executive Officer