

# Chief executive's report

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**2006 was a very satisfying year for RTL Group. Just look at the figures: RTL Group again managed to improve all key financial measures. This was made possible by our five largest profit contributors, all achieving record earnings. We have grown our revenue, EBITA, net profit and market capitalisation figures consistently each year since 2002.**

Group revenue has grown since 2002 by an average of 6.6 per cent a year. In 2006, it rose by another 10.3 per cent to €5,640 million. Group EBITA has doubled over the last four years, from €424 million to €851 million. While net profit was negative in 2002, we now deliver €890 million to the equity holders of the company. We've enhanced the overall value of our company: RTL Group's market capitalisation has tripled since the end of 2002 – from €4.4 billion to €13.1 billion. The fact that over the years we have achieved these results under mixed and sometimes difficult market conditions, provides solid proof that our pan-European strategy is working well.

## **Sound strategy**

In 2006, RTL Group continued to develop families of channels. We started two new channels in the UK, Five US and Five Life. In the Netherlands, repositioning the family of channels had a positive effect in a challenging market. In France, the mini-generalist station W9 is already one of the most watched channels on the free digital terrestrial television platform, having only launched in 2005. And in Germany, we started three new digital pay-TV channels in December: RTL Crime, Passion and RTL Living.

We also continued our efforts to broaden our sources of revenue, in line with our belief that successful broadcasters need to have a well balanced, diversified revenue mix, made up of advertising, subscription fees, transactional revenues and content sales.

With currently 38 TV channels in 10 countries, RTL Group has a very well balanced portfolio as a TV broadcaster. Nevertheless, our third strategic goal remains to further expand geographically. However, this is not a goal in itself. We will only expand if it is financially reasonable and if we can contribute with our expertise, as strategic investors.

## **Balanced portfolio**

The five biggest profit contributors are RTL Germany, M6 Group, FremantleMedia, RTL Nederland and Antena 3. In 2006, they all achieved record EBITA. This is especially remarkable as ratings for the year were affected considerably by two major sports events broadcast mainly by public channels: the winter Olympics and the football World Cup.

In Germany our RTL family of channels increased its audience lead over the main competitor ProSiebenSat1, thanks in part to a powerful performance by Vox, the second channel. RTL Group now leads the TV advertising market with a 43.8

A portrait of Gerhard Zeiler, Chief Executive Officer, wearing a light blue button-down shirt. He is leaning forward, looking directly at the camera with a serious expression. The background is a blurred office setting with a large painting on the wall.

**“Since 2002, we have grown our revenue, EBITA, net profit and market capitalisation figures consistently each year.”**

*Gerhard Zeiler, Chief Executive Officer*



per cent share. This figure includes RTL II which is not marketed by RTL Group's IP and which, against the trend, declined. RTL Radio Deutschland outperformed the slight growth seen in the radio advertising market.

In France, M6 Group improved its EBITA despite significant programme investments. And these programme investments are already paying off: M6 grew its audience share to an all-time high of 19.3 per cent in the target group, mainly thanks to strong primetime programming.

Our content arm FremantleMedia was successful with new formats and established programme brands across all key markets in 2006. *Idols* continued its success story, scoring top ratings all over the world; in the US, *American Idol* continued to be the most-watched primetime series in 2006; in the Netherlands, *Idols* became the most popular entertainment show ever. Other notable successes are the entertainment shows *Got Talent*, *The X Factor*, and event movies like *Dresden* and *Die Sturmflut*, produced by the German UFA group.

RTL Nederland maintained its market-leading position despite a new competitor in the Dutch TV market, John de Mol's channel, Talpa. Following a repositioning of the entire RTL family in August 2005, RTL 4 retained its position as the leading family channel, RTL 5 closed in as a powerful second channel and the new RTL 7 brand established itself as a 'second chance' broadcaster, showing reruns of the best from the other channels of the RTL family.

In recent years, the UK advertising market has grown, unlike many other markets in Europe. In 2006, it was the other way round and the UK market went down substantially. Five outperformed the market and cut costs efficiently. The new digital channels, Five US and Five Life, have been available on all three digital platforms since October 2006 and have grown their viewing since launch.

In Croatia, RTL Televizija reached break-even in its second full year of operations. The channel became the nation's most watched TV programme in the target group and also outperformed the TV advertising market, increasing its market share to 42.9 per cent.

### **Ongoing diversification**

Advertising won't pay for everything in the future. Therefore, we are diversifying our revenue streams. All our profit centres are developing new non-advertising businesses as laid out in the group strategy.

"We at RTL Group will continue to deliver our content and brands to customers on every relevant platform, wherever the demand is."

Today, 39 per cent of our revenue comes from non-advertising businesses. These activities include content production and merchandising, shopping-TV, telephony and, of course, new digital business models such as video on demand (VOD), mobile TV, online communities, gaming and a lot more.

The M6 Group continues to lead the field in creating alternative revenue streams. Its broad offer encompasses home shopping activities (including *Mistergooddeal.com*), M6 Mobile by Orange (more than 767,000 customers at the end of 2006) and web-based activities, including VOD which received over 700,000 downloads in 2006. Even the soccer club Girondins de Bordeaux contributed to the result as it finished second in the French championship.

In Germany, RTL Interactive established the home-grown video community *Clipfish.de*, which already registers more than 200 million page views a month. Video on demand services particularly attract users who cannot get enough of their favourite soaps and crime series. Mobile phone and computer games about winter sports or in connection with excellent brands like *Wer wird Millionär* are well established.

FremantleMedia expanded its brand *The Price Is Right*, presenting it in 2006 as a live event on stage in Las Vegas, and even licensing *The Price Is Right* slot machines. Also, we have a lot of content for mobile phones in preparation or production already: just one example is the humorous clips sold in the US under the brand *Atomic Wedgie*.

### Portfolio management

This year we adjusted our portfolio in three different deals. Following an announcement by the M6 Group and TF1 in December 2005, that TPS was to be combined with the pay TV activities of Canal Plus, the deal was implemented in August 2006. M6 Group owns a 5.1 per cent stake in the new entity.

Sportfive was sold to Lagardère SCA in a competitive tender process. Accompanying this process, RTL Group in November 2006 announced that it had sold its 25 per cent stake. The strategic exit had started a few years ago. We do not consider the handling of sports rights as part of RTL Group's core business.

In April 2006 the Group acquired the remaining 50 per cent of its German news channel N-TV from CNN. This enables us to continue to develop this channel, which is already an important member of the German TV family.

### Management changes

Elmar Heggen succeeded Ignace van Meenen as RTL Group's Chief Financial Officer and Head of the Corporate Centre. Elmar Heggen has been with the Group since the year 2000. He has extensive experience steering the Group's finances and operations, and has been a key force in formulating RTL Group's strategy in recent years.

### Special dividend

Based on our strong operating earnings, the Board recommends the distribution of a gross ordinary dividend per share of €1.20, up 14 per cent on the previous year. In the light of significant disposals resulting in substantial cash generation in 2006 and at the beginning of 2007, we also propose an extraordinary dividend of €1.80 per share, to make a total dividend payout of €3.00 per share.

### Looking ahead

One of the questions I'm often asked regarding strategy for an entertainment network like RTL Group, is whether I am concerned about the effect of new technologies. My answer is always the same: No, I am not, and neither are any of my colleagues at RTL Group.

Web 2.0, Web 3.0, IP-TV, Mobile-TV, VOD and other technology buzzwords don't describe threats for us broadcasters. In fact, they offer new means of distribution, new ways to reach the consumer. As such they are, more than anything, new opportunities for us.

We at RTL Group will continue to deliver our content and brands to customers on every relevant platform, wherever the demand is. We will use every sensible path to the consumer to enrich their lives. And by doing so, we will further increase the value of our company – just as we have done in the past.

**Gerhard Zeiler**  
Chief Executive Officer