

Chief executive's report



I'm delighted to report on an excellent set of results. 2005 was a year of solid and substantial achievement, during which we built on the successes of the previous year and made significant strategic progress. We enhanced our position in the UK, where we now own 100% of Five. We entered one new growth market – Russia – and we increased our investment in another – Portugal.

Group revenue has grown every year since 2001, and it rose by another 4.9% to €5,115 million in 2005. The increase in EBITA has been even more marked, and it testifies to the quality of our profit centre management teams. Group EBITA was €758 million in 2005, a year-on-year rise of 6.9% and an increase of no less than 78.8% on the figure for 2002. We take pride in this performance, as it has been accomplished during a testing period for the European media industry.

Despite the investments made in developing our portfolio in 2005 we remained cash positive, reflecting the excellent cash generation of our business. The dividend we are proposing for payment in 2006 is €1.05 per share, an uplift of 10.5% on the 2004 dividend. We continue to see opportunities for creating value for our shareholders by investing in new businesses, whether through development of our existing portfolio or by further external growth.

A resilient portfolio

Our 2005 results demonstrate the value of a diversified and balanced portfolio. The broad pan-European spread of our holdings and their quality helped to ensure a strong result in generally unfavourable market conditions. 2005 was a year of little or no growth in most of our advertising markets, and in some countries there was intensified competition for audiences as new channels and distribution platforms came on stream. Our TV and radio operations had to be at their best just to hold on to their market positions.

Conditions were toughest in Germany, our largest market. Advertising remained weak in the first half of the year, but there was a pick-up during the second half, which we hope continues into 2006. Our flagship channel RTL Television lost some audience share to smaller channels, but it remained the market leader in its target group. A powerful performance from VOX and strong support from Super RTL meant that our TV family remained the German number one, well ahead of its rivals.

Although Germany is our most important market, it now occupies a less dominant position in our portfolio as a result of new investments and development of our holdings in other countries. In 2003, Germany accounted for more than half of Group EBITA (52%) – in 2005 this had fallen to around a third (32%). France also accounts for around one third (35%), and our other territories together contribute the remaining 33%.

Our strong position in the French TV marketplace improved further in 2005, thanks to another impressive performance from M6, which enjoyed continued success with its locally produced programmes. M6's share of the TV advertising market was 23.2% – the highest in its history.

In the UK, Five again outperformed the market, achieving the largest year-on-year increase in TV advertising share of any UK terrestrial broadcaster. In Spain, Antena 3 went from strength to strength, its highly rated programmes propelling it to market leadership in the last two months of 2005 and into 2006. The turnaround in the

Netherlands continued, with further strengthening of our business and continued growth in EBITA contribution.

Our content business FremantleMedia also performed well. It took full advantage of the continuing popularity of international hit formats such as *Idols* and *The X-Factor*, while successfully introducing new concepts to TV audiences in Europe, such as the telenovela format of serialised love stories.

Strategic progress

We continued to implement our three central strategic objectives – to develop our families of channels, to build diversified businesses that reduce our dependence on advertising revenue, and to expand into new markets that offer potential for rapid growth. We made positive progress in all three.

Developing our families

The strengthening of our radio and TV families continued, notably in the Netherlands where our three TV channels were successfully regrouped and relaunched in August 2005. This has reinforced their position in a market made more competitive by the launch of the new channel, Talpa. RTL 4, the Dutch market leader, is now supported by a refreshed RTL 5. We launched a new channel, RTL 7, to replace Yorin, which we closed. Early in 2006 we severed our remaining connection with the Yorin name when we sold our interest in the radio station Yorin FM to SBS Broadcasting.

In France, M6 further developed its family with the launch of a new channel, W9, on the free digital TV platform TNT. Our plans for new channels and subscription-based offers were well advanced in Germany and in the UK, where Five reached an agreement in November 2005 to take a strategic investment in Top Up TV.

Building diversified businesses

Work continued at our profit centres to build cash generative diversified businesses that leverage our broadcasting and programme brands. M6 Group in France remains our model, and once again it demonstrated what can be achieved.

One of its most successful initiatives in 2005 was a mobile phone offer in partnership with Orange, which in just a few months doubled its target with nearly a quarter of a million (227,000 at the end of 2005) subscribers.

FremantleMedia also demonstrated the potential for generating new revenue streams. Its licensing and distribution business had its most successful year yet with successful telephony, CD and DVD products derived from FremantleMedia formats. For example, an interactive DVD based on the classic *Family Feud* gameshow sold over a quarter of a million units in the USA.

Our profit centres in Germany and Belgium both entered into agreements with cable and other operators. As well as earning revenue, these agreements are extending the digital reach of our channels.

One area of focus for the Group in the short term will be in the field of betting. In the UK Five entered into an exclusive partnership with partypoker.com and other companies within the Group are looking at the success of this, and other models, to develop their own offers.

Portfolio expansion

We improved our portfolio with three major investments. Firstly, we increased our presence in the UK, by acquiring the remaining stake in Five that we did not already own, UBM's 35.4% holding. This gives us freedom of action to continue the development of Five in what is Europe's largest net TV advertising market.

Secondly, we entered a new territory, Russia, where we acquired a 30% stake in REN TV. Russia is a huge market with great potential for growth and we are working closely with REN TV's other shareholders, Severstal-Group and Surgutneftegaz, to expand and develop the business.

Thirdly, we stepped up our investment in Portugal, where we also see exciting opportunities for growth. We now hold 33%

of Grupo Media Capital, which owns TVI, Portugal's leading TV broadcaster, as well as a number of TV content, radio and other media interests.

Management progression

We welcomed two new CEOs who will drive the future development of our families in two key profit centres. Anke Schäferkordt, who was appointed Chief Executive of RTL Television in April 2005, took over as Head of our German TV family the following September. Axel Duroux was appointed CEO of our French radio family in April 2005 and has been tasked with re-invigorating the business and preparing it for the digital age.

There were two changes of personnel in key positions at our corporate headquarters in Luxembourg. We said goodbye to Thomas Rabe, our Chief Financial Officer and Head of Corporate Centre. Thomas has made an important contribution to our Group's development and we wish him well in his new role as CFO of Bertelsmann AG. His replacement is Dr Ignace Van Meenen. The other major appointment was Elmar Heggen, who became Executive Vice President, Regional Operations and Development.

Early in 2006 we established a new Executive Management team, consisting of Ignace, Elmar and myself. This new structure will address the management requirements of our growing Group, which now has TV operations in 11 European countries and aspirations to grow even further.

Looking ahead

The digital revolution is fast gathering momentum across Europe, though it is more advanced in some countries than others. The UK has led the way with Freeview, which now reaches some six million homes, and in just two years' time the UK authorities will begin the process of switching off analogue TV signals entirely. In 2005 digital TV platforms were launched in France and Spain, and more will follow.

At the same time, TV is becoming more international, with global formats such as *Idols* travelling the world faster than ever before.

We are ideally positioned for success in the new media landscape that is now emerging. We have the right credentials with our Europe-wide portfolio, our family concept, and our ability to diversify and innovate. But to capitalise fully on the opportunities, we must plan far ahead and be ready to stretch our capabilities to the limit. Most important of all, we must apply all of our creative energies to generate new formats with enduring appeal for audiences around the world. We have an exciting future ahead of us.

Gerhard Zeiler
Chief Executive Officer

