Risk management

Type of risk	Description and areas of impact	Mitigation activities
External and market risk		
Change in market environment	Digitisation has significantly transformed the TV market, offering various ways of reaching viewers. Higher competition for audience attention and programme acquisitions as well as accelerated audience fragmentation due to streaming services, new channels, and expansion of platform operators may affect RTL Group's position. In the past ten years, many international media groups have been folded into vertically integrated conglomerates that control both the production and distribution of content. This period of consolidation created a handful of content giants with significant back catalogues. The classic TV advertising market may be affected by higher competition for audience attention on linear TV and by lower total viewing figures such as reach. As a result, advertising budgets may partly shift to alternative digital channels. The production business also shows a consolidation trend as increasing demand for talent – such as authors, scriptwriters, showrunners, actors – leads large production businesses to merge or acquire smaller production companies.	In Europe, RTL Group has initiated an in-country consolidation strategy to scale up its broadcasting businesses and to form national cross-media champions to compete with the global tech platforms. This can take many forms: for example the planned merger of Groupe M6 and Groupe TF1, after which RTL Group would be in a minority position; the planned merger of RTL Nederland and Talpa Networks, after which RTL Group remains in the majority position; and RTL Deutschland's acquisition of Gruner + Jahr. These consolidation moves would create significant synergies, which RTL Group could use for more investment in local content, streaming and ad tech. Within this strategy, RTL Group embraces new digital opportunities by ensuring its channels and stations are platform-neutral (that is, available on the widest possible choice) and by developing families of channels and streaming services, based on its leading brands. By forming alliances and partnerships, RTL Group aims to counteract the dominance of global tech platforms. Examples include Ad Alliances in Germany and the Netherlands and the new European sales house that will combine RTL AdConnect, G+J iMS and the media division of Smartclip. In TV advertising, RTL Group expands its addressable TV offerings, which connect precise, data-driven targeting with premium content in a brand-safe environment, delivered via traditional linear TV. Thereby, addressable TV offers the opportunity to compensate for potential future declines of classic TV advertising revenues. RTL Group intends to secure or improve its share in the resulting total TV advertising market. Within its global content business, Fremantle, RTL Group established a buy-and-build strategy to expand its global content business and to gain market share.
Cyclical development of economy	The cyclical development of the economy is highly correlated with the development of the advertising markets and therefore impacts RTL Group's revenue.	Continuous monitoring of market conditions, scenario planning and strict cost control allow RTL Group to react to economic downturns. RTL Group tries to diversify its revenue base by introducing new products and services that generate non-advertising revenue.
Legal	Local and European regulations are subject to change. Some changes could alter businesses and revenue streams (for example, a ban on certain types of advertisements, opening of markets, deregulation of markets, cancellation of restrictions, limitation of advertising minutes, data protection).	RTL Group aims to anticipate any changes in legislation and to act accordingly by developing and exploiting new revenue sources.

Type of risk	Description and areas of impact	Mitigation activities
Risks in key business		
Poor strategic decisions	Strategic decisions are associated with risks. The resource allocation based on the strategic direction could become disadvantageous to RTL Group's revenue and ultimately lead to a potential loss of revenue. This particularly relates to portfolio changes if acquired assets do not perform in line with assumed business plans and an impairment of goodwill may be triggered.	Investment policies are followed, underpinned by realistic and conservative business planning. Approval procedures are followed to ensure relevant risk assessment and management sign-off. A regular review of strategic options is undertaken.
Audience share and market share performance	A decrease in audience and/or market share may have a negative impact on RTL Group's revenue.	New talents and formats are developed or acquired. Performance of existing shows is under constant review with the aim of improving audience share performance and hence future revenue. RTL Group's strategy is to extend and enhance the diversity and quality of its programmes – especially on its streaming services – to create national cross-media champions.
Customers	Bad debts or loss of customers may negatively affect RTL Group's profits.	Credit analysis of all new advertisers is systematically undertaken. Depending on the customer's creditworthiness, insurance may be used. This risk is also mitigated by broadening the advertiser base.
Suppliers	The supply of certain types of content is limited and may lead to cost increases.	The Group aims to diversify its sources of supply wherever possible, partly by producing content in-house. RTL Group benchmarks purchasing terms and conditions to identify best practices with the aim of reducing costs by, for example, joint purchasing. RTL Group selects high-quality and solid suppliers for key services or equipment, to reduce the risk of bankruptcy of its business partners.
Inventories	There is a risk of over-accumulation of stock that could become obsolete. This may lead to write-offs or impairments.	RTL Group has strict commercial policies, very close follow-up of existing inventories, and strict criteria for approval of investment proposals for rights.
Pricing/discounting	There is potential price erosion either at broadcaster level or at production level, or in the digital environment, where competition could impact margin levels.	RTL Group aims to satisfy customer needs by providing unique, tailored proposals that are possible due to alliances and the company's unique network position.
IT infrastructure	Potential vulnerabilities within RTL Group operation systems and infrastructure may compromise business activities.	RTL Group entities use approved processes to continually monitor IT infrastructure and to update operation systems, if necessary, in line with the Group's IT policies.
Financial risks		
Foreign exchange exposure	The operating margin and programme costs are affected by foreign exchange volatility, especially if there is a strong increase of the USD against the EUR (such as feature films, sports and distribution rights, and scripted programmes).	RTL Group has in place a strict policy regarding foreign exchange management, which is monitored and followed up by Group Treasury, using hedging instruments and applying hedge accounting principles to mitigate volatility on the income statement.

By their nature, media businesses are exposed to risk. Television, radio channels and streaming services can lose audiences as new competitive threats emerge, with consequent loss of revenue. Broadcasters and producers are exposed to legal risks, such as litigation by aggrieved individuals or organisations, and advertising businesses are more exposed than most to economic cycles. RTL Group's international presence exposes it to further risks, such as adverse currency movements.

RTL Group defines its risk management as a continuous process at both business unit and Group level to prevent, protect, mitigate and leverage risks when executing RTL Group's strategy. RTL Group's risk management system has been designed to align fully with international risk management standards (such as the COSO framework).

RTL Group's robust risk management processes are designed to ensure that risks are identified, monitored and controlled, and its risk-management system is based on a specific policy and a clear set of procedures. Policies and procedures are reviewed on a regular basis by the Internal Audit department and/or external consulting companies. Risk management and risk reporting are coordinated by the Head of Enterprise Risk Management (ERM), and reporting is reviewed by Internal Audit.

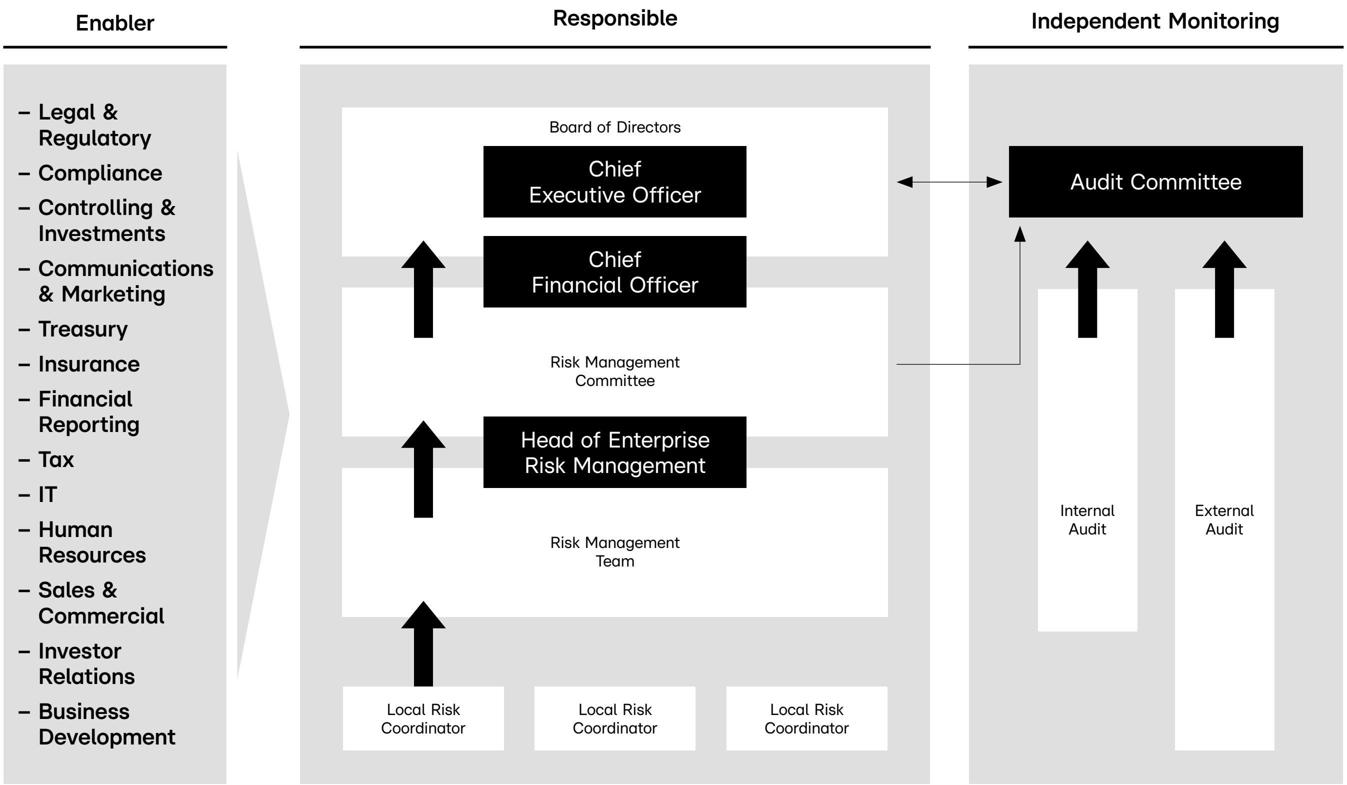
RTL Group's risk management process is designed to meet the following three main objectives:
– **Embedded culture**: promote and embed a common risk management culture in the daily work of all RTL Group employees.
– **Consistent policy**: develop consistent risk policies on key matters, to be tailored and implemented at business unit level with consideration for local challenges and environment.

– **Harmonised response**: ensure harmonised risk management prevention, detection and mitigation measures across RTL Group and its business units against key risks, as well as a continuous related monitoring and improvement programme.

The risk management organisation is the combination of structures and relationships (see the diagram below) which enables a proper risk governance environment. RTL Group's risk management governance model has a strong vertical component – from the Board of Directors and Executive Committee to the Audit and Risk Management Committees, to the executive responsible (CEO, CFO and Head of ERM), down to all levels of the dedicated risk management functions, including local entities. This backbone is enabled by related control functions carried out by Group Risk Management and Internal Control, Legal and Regulatory, Compliance, Business Development, Controlling and Investments, Communications and Investor Relations, Treasury, Insurance, Group Financial Reporting, Tax, IT, Human Resources and Sales and Commercial departments. Independent monitoring is also carried out by Internal Audit and External Audit.

The Board of Directors is responsible for ensuring RTL Group maintains a sound system of internal controls, including financial, operational and compliance risks.

The internal control system is designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
– Effectiveness and efficiency of operations, and the optimal use of the Group's resources
– Integrity and reliability of financial and operational information
– Reliability of financial reporting
– Proper identification, assessment, mitigation and reporting of material risks
– Compliance with applicable laws, regulations, standards and contracts.



The Risk Management Committee is composed of the following permanent members:
– RTL Group Chief Financial Officer
– RTL Group Senior Vice President Internal Audit
– RTL Group Senior Vice President Compliance
– RTL Group Senior Vice President Treasury and Enterprise Risk Management
– RTL Group Senior Vice President Controlling and Investments
– RTL Group General Counsel
– RTL Group Senior Vice President Group IT
– RTL Group Senior Vice President Financial Reporting
– Media Assurances' Chief Executive Officer
– Additional guests may be invited to participate in Risk Management Committee meetings as subject matter experts, based on the topics to be addressed.

Definition of risk

A risk is defined as a potential future development or event that can negatively affect the achievement of the Group's strategic, operational, reporting-related and compliance-related objectives.

		Risk classification (potential financial loss in three-year period)				
Priority	Type of risk	Low (<€50million)	Moderate (<€100 million)	Significant (<€250 million)	Considerable (<€500 million)	Endangering (>€500 million)
1	Changes in market environment			■		
2	Audience and market share			■		
3	Cyclical development of economy			■		
4	Legal		■			
5	Supplier risks	■				
6	IT & infrastructure	■				
7	Customer risks	■				
8	Risks without cash impact	■				
9	Pricing/discounting	■				
10	Strategic risks	■				

Risk reporting framework

RTL Group has developed a framework for reporting risks, in line with good corporate practice.

This framework is based on several key principles:

- Comprehensive scope of risk assessment: risks are assessed within a framework of defined key risk categories. Regular risk assessments include a description of the risk, an indication of the potential financial impact, and steps taken to mitigate the risk. These steps are performed throughout RTL Group, consolidated by the Head of Enterprise Risk Management and ultimately summarised in a dedicated risk management report. Results are presented to the Audit Committee.
- Regular and consistent reporting: RTL Group's system of internal controls ensures that risks are addressed, reported and mitigated when they arise. All significant risks are comprehensively assessed within the risk-reporting framework and reported to RTL Group management twice a year. This ensures that necessary actions are undertaken to manage, mitigate or offset risks within the Group. The risks are reported using a common reporting tool to ensure consistency in scope and approach.
- Bottom-up approach: RTL Group assesses risks where they arise in its operations. All business units assess themselves according to the three parts of the risk management report:
  - Risk management system: risk assessment and quantification of residual risks if applicable
  - Internal Control System: self-assessment on internal controls in place
  - Information Security Management System: risk assessment and quantification of IT-related risks
- Consolidated Group matrix: Group Risk Management and the Internal Control team aggregate a comprehensive view of significant risks for the Group by consolidating local risk assessments. A Risk Management Committee prepares and reviews this consolidated Group risk matrix. The committee also:
  - advises on the control and reporting process for any major risks, and recommends mitigation strategies to the Group CFO
  - monitors follow-up of risks and ensures mitigation measures have been taken
  - increases risk awareness within the Group
  - identifies potential optimisation opportunities in processes
- Audit approach: both the process of local risk assessments and the consolidated Group risk matrices are regularly reviewed by Internal Audit.

Risk management in the future

RTL Group's risk management framework is constantly challenged – at both operational and Group level – through the Risk Management Committee, to ensure it reflects the risk profile of the Group at any time.

To ensure RTL Group's Enterprise Risk Management process and reporting requirements are consistently implemented throughout the Group, it holds regular workshops to update staff and to introduce new tools available to assess risk.

General Management Statement on Risk Evaluation
RTL Group is committed to high risk management standards and applies principles endorsed by local and European regulations and expected by market authorities. Consequently, RTL Group has developed a risk management system integrated into an enterprise-wide process as outlined in the previous section.

RTL Group defines its risk management process as a continuous process at business unit and Group level to prevent, protect, mitigate and leverage risks considering the execution of the Group's strategic objectives and values. RTL Group's risk management strategy is a holistic and enterprise-wide process, aligned to the definition and execution of the Group's strategy. RTL Group may have to make strategic decisions involving a new set of risks or reassessment of existing risks that need to be addressed within the risk management framework.

As of the date of this report, management considers the overall risk position of the Group to be stable though the economic development remains highly uncertain with the continuation of the Covid-19 pandemic and the geopolitical risks resulting from the war in Ukraine. Changes in the industry – in particular due to new technologies and increasing competition with US platforms – will continue to affect the Group.

There are currently no risks that, individually or in combination with other risks, could have a material or lasting adverse effect on the revenue, earnings, financial position or performance of RTL Group over the projection period of three years.

Opportunity management

Opportunity-management system
An efficient opportunity-management system enables RTL Group to secure its success in the long term, and to exploit its potential in the best possible way. Opportunities are defined as future developments or events that could result in a positive change from either the Group's outlook or from strategic objectives. RTL Group's Risk Management System (RMS) is an important part of the company's business processes and decisions. Significant opportunities are identified from profit-centre-level upward, during the Group's annual strategy and planning process.

This largely decentralised system is coordinated by central departments to identify opportunities for cooperation across the Group and within the business units. Experience is shared within divisions, and this collaborative approach is reinforced by regular senior management meetings.

Opportunities
The Group has strategic, financial and regulatory opportunities. These could result from a better-than-expected performance of streaming services and advertising technology; from higher demand for content; from a better-than-expected macro-economic development, leading to higher advertising market growth; from higher market shares resulting from programme successes; and from changes in the laws regulating the Group's businesses, such as advertising. In addition, RTL Group's strategy to form cross-media champions could create significant value through the synergy potential of the planned mergers of Groupe M6 and Groupe TF1, RTL Nederland and Talpa Networks as well as the synergy potential of the combination of RTL Deutschland and Gruner + Jahr. The Covid-19 crisis continues to allow RTL Group to rethink its operational processes and to set the path for more open and agile collaboration across countries, departments and functions.