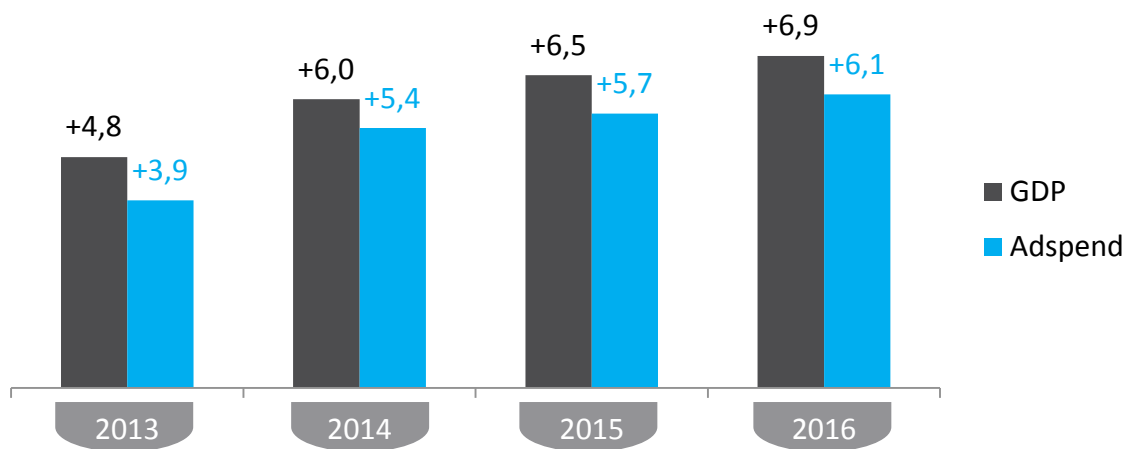


Executive summary: Advertising Expenditure Forecasts June 2014

ZenithOptimedia predicts global ad expenditure will grow 5.4% in 2014, reaching US\$524bn by the end of the year. Our forecast for 2014 is down fractionally (by 0.1 percentage points) on our last forecast in April, after the widening conflict in Ukraine severely disrupted its ad market, and Russia has suffered from economic sanctions and a withdrawal of foreign investment.

Growth of advertising expenditure and GDP 2013-2016 (%)

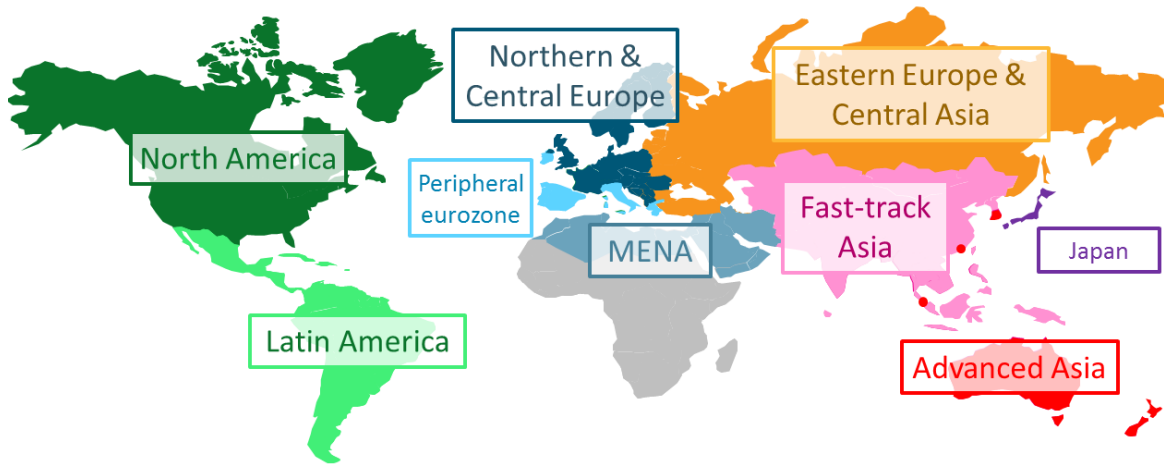


Source: ZenithOptimedia/IMF

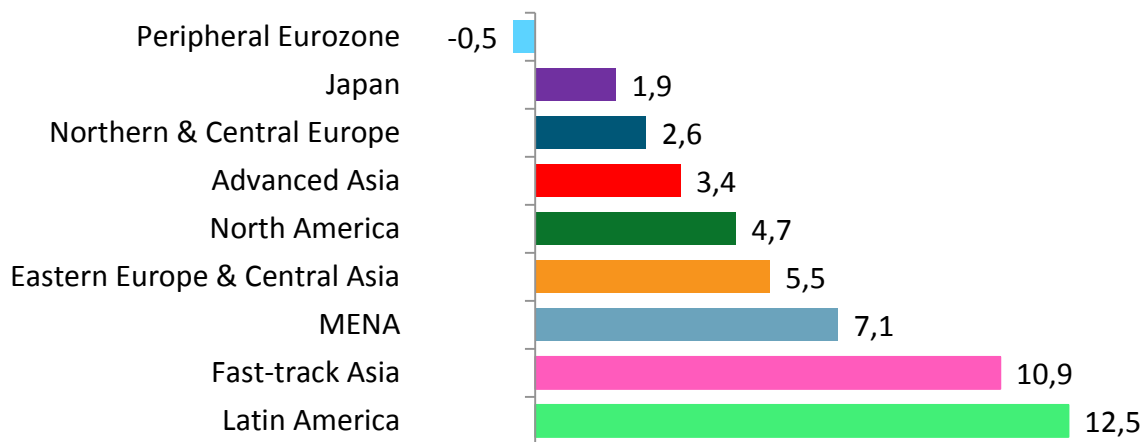
We have also reduced our forecast for 2015 by 0.1 points to 5.7%, but held our forecast for 2016 steady at 6.1%.

Forecast by regional bloc

As we have been doing since the December 2012 edition of our forecasts, here we look in more detail at the growth rates of different regional blocs defined by the similarity of the performance of their ad markets as well as their geographical proximity. This captures the behaviour of different regional ad markets more effectively than looking at regions defined purely by geography, such as Western Europe, Central & Eastern Europe and Asia Pacific. See the end of the Executive Summary for a complete list of countries by bloc.



Growth in adspend by regional bloc 2013-2014 (%)



Source: ZenithOptimedia

Peripheral Eurozone

In Europe we have separated out the 'PIIGS' markets (Portugal, Ireland, Italy, Greece and Spain), which faced the full brunt of the Eurozone crisis, into the Peripheral Eurozone. During the great recession their ad markets fell even more sharply than their economies, as local advertisers cut back to reduce losses and preserve cash, and multinationals withdrew budgets to redeploy in more economically healthy regions. We estimate that ad expenditure in Peripheral Eurozone fell by 8.2% in 2013. 2014 looks a lot better, with ad expenditure forecast to shrink by just 0.5%, followed by recovery to 2.6% growth in 2015 and 3.6% growth in 2016. This assumes that the Eurozone avoids disaster over our forecast period, and in particular assumes that no country crashes out of the euro, or falls into disorderly default on its debts.

Northern & Central Europe

Our next bloc – Northern & Central Europe – includes the rest of Western Europe, as well as Central European countries like the Czech Republic, Hungary and Poland, which are currently

performing more like countries such as France, Germany or the UK than the much-faster growing markets of Eastern Europe. This is partly because many of these Central European markets are in the Eurozone, and because they have strong trading links with Western Europe. Recent signs of life in the Eurozone economy have encouraged advertisers to think about increasing their budgets again, after keeping them on hold for the last two years. After 0.7% growth in 2013 we expect ad expenditure in Northern & Central Europe to rise 2.6% in 2014, followed by 3.2% growth in 2015 and 3.0% in 2016.

Eastern Europe & Central Asia

Eastern European advertising markets, such as Russia and Turkey, generally recovered quickly after the 2009 downturn and have since continued their healthy pace of growth, largely (though not entirely) unaffected by the problems in the Eurozone. Their near neighbours in Central Asia, such as Azerbaijan and Kazakhstan, have behaved very similarly, so we have gathered them together under the Eastern Europe & Central Asia bloc. This bloc grew 11.2% in 2013.

The conflict in Ukraine has severely disrupted the local ad market, while Russia has suffered from sanctions imposed by the US and the EU, and a withdrawal of international investment. We forecast adspend in Ukraine to shrink 32.5% this year, while Russian adspend grows a relatively weak 6.9%. Overall we expect adspend growth in Eastern Europe & Central Asia to fall by more than half to 5.5% this year,

Japan

Japan behaves differently enough from other markets in Asia to be treated separately. Despite recent measures of economic stimulus Japan remains stuck in its rut of persistent low growth. Japan grew 2.0% in 2013, and we expect the growth rate to remain at 2% a year through to 2016.

Advanced Asia

Apart from Japan, there are five countries in Asia with developed economies and advanced ad markets that we have placed in a group called Advanced Asia: Australia, New Zealand, Hong Kong, Singapore and South Korea. Growth here was 2.6% in 2013; we forecast steady improvement from 3.4% growth in 2014 to 4.8% growth in 2016.

Fast-track Asia

We characterise the rest of Asia as Fast-track Asia (China, India, Indonesia, Malaysia, Pakistan, Philippines, Taiwan, Thailand and Vietnam). These economies are growing extremely rapidly as they adopt Western technology and practices, while benefiting from the rapid inflow of funds from investors hoping to tap into this growth. Fast-track Asia barely noticed the 2009 downturn (ad expenditure grew by 7.3% that year) and since then has grown very strongly. Ad expenditure in Fast-track Asia grew 10.7% in 2013, and we forecast growth of between 11% and 13% a year for 2014 to 2016.

We have not changed the definition of North America, Latin America or the Middle East & North

Africa (MENA) in this analysis.

North America

Adspend is more robust in North America than in precarious Europe. Adspend has grown 3.5% in 2013, and we forecast a strong 4.7% in 2014, boosted by the Winter Olympics and mid-term elections, followed by 4.4% growth in 2015 and 4.3% growth in 2016.

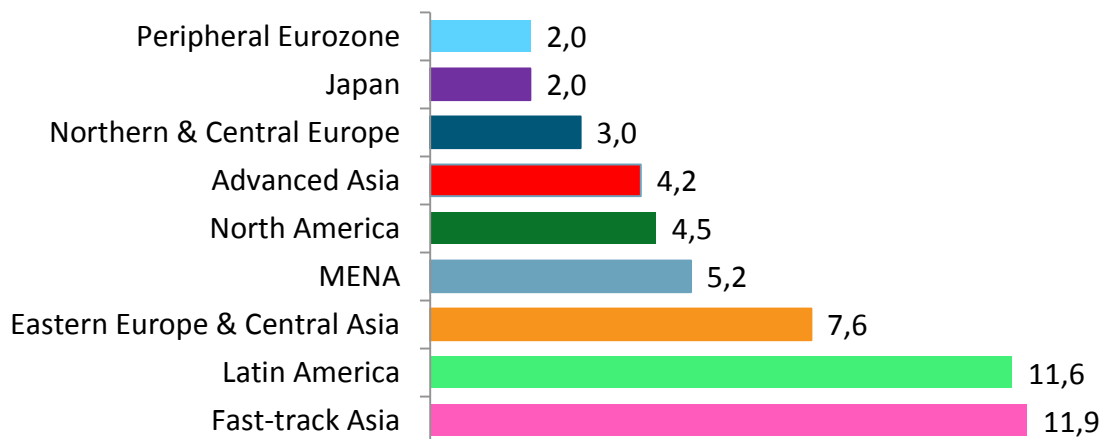
Latin America

Similar to Eastern Europe & Central Asia and Fast-track Asia, Latin America is a region with rapidly growing economic output, and its ad market is growing at a similar rate. Adspend grew an estimated 8.9% growth in 2013, and we forecast an annual growth rate of 12% a year between 2013 and 2016, boosted by the World Cup in 2014 and the Olympics in 2016, both of which will be hosted in Brazil.

MENA

After the Arab Spring began in December 2010, advertising markets in Middle East & North Africa were constrained by the region's social and political turmoil, which left many advertisers cautious about attracting negative attention. Adspend shrank 14.9% in 2011, and grew a meagre 1.4% in 2012. Confidence and activity began to recover in 2013, when adspend grew 4.7%. We forecast robust 7.1% growth in 2014, falling back to a more muted 4% to 5% annual growth in 2015 and 2016.

Average annual growth in adspend by regional bloc 2013-2016 (%)



Source: ZenithOptimedia

In the medium term we can divide our blocs into three categories: low growth, steady growth and rapid growth. The low-growth regions are the Peripheral Eurozone, Northern & Central Europe and Japan, which we forecast to grow by between 2% and 3% a year between 2013 and 2016. North America, Advanced Asia and the Middle East & North Africa are the steady-growth regions,

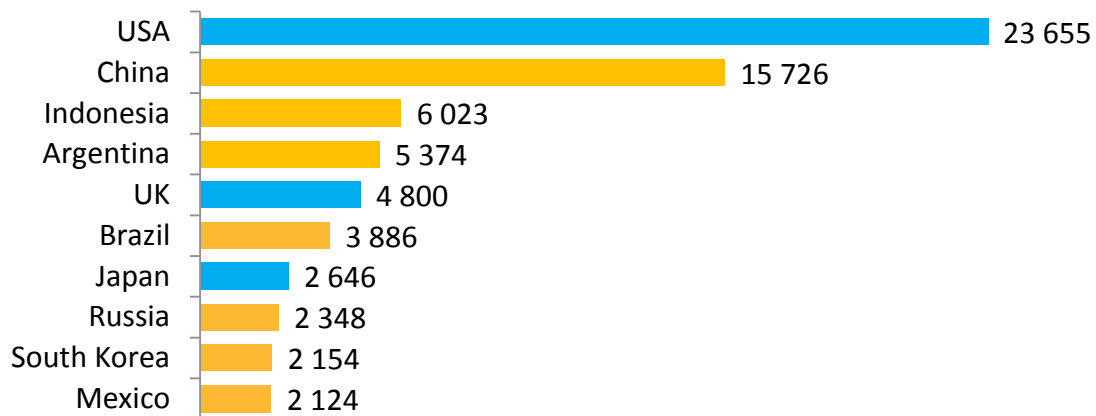
and we forecast these to grow at 4%-5% a year. Meanwhile the rapid-growth regions – Eastern Europe & Central Asia, Fast-track Asia and Latin America – are on track to grow at 8%-12% a year.

Forecast by leading advertising markets

Despite the rapid growth of the Rising Markets*, the US is still the biggest contributor of new ad dollars to the global market. Between 2013 and 2016 we expect the US to contribute 26% of the US\$90bn that will be added to global adspend. After the US, however, the biggest contributors are much younger and more dynamic. China comes second, accounting for 17% of additional ad dollars over this period, followed by Indonesia and Argentina, accounting for 7% and 6% respectively.

Seven of the ten largest contributors will be Rising Markets, contributing 42% of new adspend over the next three years. Overall, we forecast Rising Markets to contribute 59% of additional ad expenditure between 2013 and 2016, and to increase their share of the global market from 34% to 38%.

Top ten contributors to adspend growth 2013-2016 (US\$m)



Source: ZenithOptimedia

In 2013 China was the third-largest ad market in the world, behind the USA and Japan. China has been narrowing the gap with Japan rapidly over the last few years, and this year we expect it to overtake Japan to become the world's second-largest ad market.

The UK, currently the fifth-largest ad market, is growing much faster than Germany, the fourth largest. In 2013 the UK expanded by US\$1,006m, while Germany expanded by just US\$53m. By 2016 we expect the UK to overtake Germany to become the world's fourth-largest ad market.

Indonesia was the thirteenth-largest ad market in 2013 but is rising steadily up the ranking. By 2016 we predict it will take tenth place, pushing out Canada, which will fall to twelfth.

Top ten ad markets

US\$m, current prices. Currency conversion at 2013 average rates.

| 2013 | | Adspend | 2016 | | Adspend |
|------|-------------|---------|------|-------------|---------|
| 1 | USA | 167,299 | 1 | USA | 190,954 |
| 2 | Japan | 43,323 | 2 | China | 57,140 |
| 3 | China | 41,414 | 3 | Japan | 45,968 |
| 4 | Germany | 24,242 | 4 | UK | 25,650 |
| 5 | UK | 20,850 | 5 | Germany | 25,337 |
| 6 | Brazil | 14,839 | 6 | Brazil | 18,726 |
| 7 | France | 13,250 | 7 | France | 13,427 |
| 8 | Australia | 12,262 | 8 | Australia | 13,283 |
| 9 | South Korea | 11,115 | 9 | South Korea | 13,268 |
| 10 | Canada | 10,835 | 10 | Indonesia | 12,770 |

Source: ZenithOptimedia

Global advertising expenditure by medium

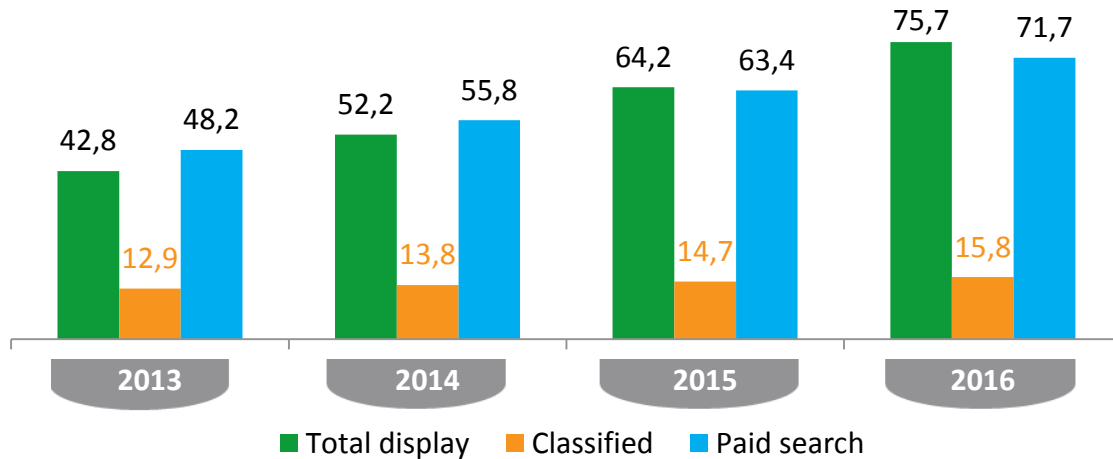
The internet is still the fastest growing medium by some distance. It grew 17.0% in 2013, and we forecast an average of 16% annual growth for 2014 to 2016.

Display is the fastest-growing sub-category, with 21% annual growth, thanks partly to the rapid rise of social media advertising, which is growing at 30% a year. Here we include traditional display (such as banners), online video and social media. Measurement agencies are investing in research that should measure consumers' exposure to traditional display ads more accurately, and track their exposure to video ads across desktop computers, tablets and television screens. Some broadcasters are starting to trade packages that include both online video and television spots; online video is also starting to be sold by programmatic buying, providing advertisers with more control and better value. We forecast online video to grow at 24% a year for the rest of our forecast period.

We expect paid search to grow at an average rate of 14% a year to 2016, driven by continued innovation from the search engines, including the display of richer product information and images within ads, better localisation of search results, and mobile ad enhancements like click-to-call and geo-targeting.

Online classified has been subdued since the downturn in 2009; after the initial shift from print to digital, classified publishers have had to compete with new paid-for and free alternatives for matching buyers and sellers. We forecast average annual growth of just 7% for the rest of our forecast period.

Internet adspend by type 2013-2016 (US\$bn)



Source: ZenithOptimedia

Mobile advertising (by which we mean all internet ads delivered to smartphones and tablets, whether display, classified or search, and including in-app ads) has now truly taken off and is growing 5.5 times faster than desktop internet. We forecast mobile advertising to grow by an average of 49% a year between 2013 and 2016, driven by the rapid adoption of smartphones and tablets. By contrast we forecast desktop internet advertising to grow at an average of 9% a year.

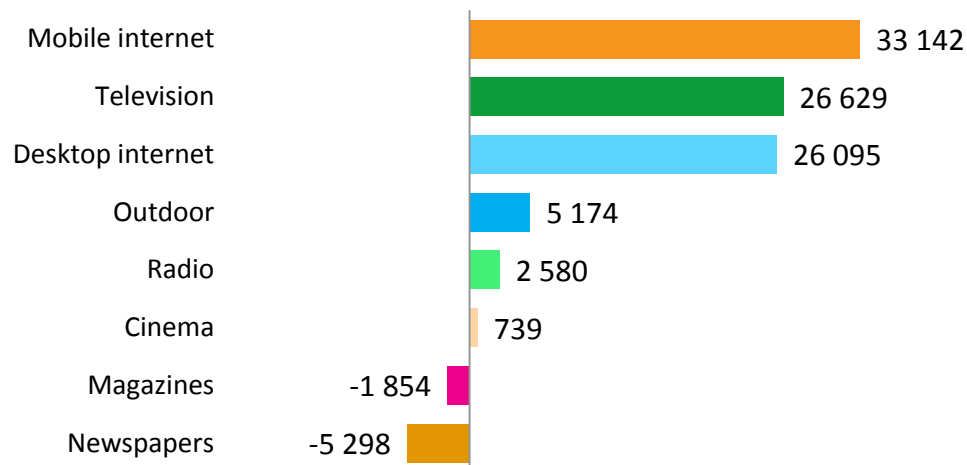
We estimate global expenditure on mobile advertising at US\$14.3bn in 2013, representing 13.8% of internet expenditure and 2.9% of total advertising expenditure (this total excludes a few markets where we don't have a breakdown by medium). By 2016 we forecast this total to rise to US\$47.5bn, which will be 29.1% of internet expenditure and 8.2% of all expenditure. This means mobile will leapfrog radio, magazines and outdoor to become the world's fourth-largest medium by the end of our forecast period.

Since it began in the mid-1990s, internet advertising has principally risen at the expense of print. Between 2003 and 2013 the internet's share of global advertising rose by 18 percentage points, while newspapers' share fell 14 points and magazines' share fell by 5 points. We predict internet advertising will increase its share of the ad market from 21.2% in 2013 to 28.2% in 2016, while newspapers and magazines will continue to shrink at an average of 2% a year. Internet advertising overtook newspaper advertising for the first time in 2012, and we forecast it to exceed the combined total of newspaper and magazine advertising in 2014.

Note that our figures for newspapers and magazines include only advertising in printed editions of these publications, not on their websites, or in tablet editions or mobile apps, all of which are picked up in our internet category.

Mobile is now the main driver of global adspend growth. We forecast mobile to contribute 38% of all the extra adspend between 2013 and 2016 (again excluding markets where we don't have a breakdown by medium). Television is the second largest contributor (accounting for 31% of new ad expenditure), followed by desktop internet (30%).

Contribution to global growth in adspend by medium 2013-2016 (US\$m)

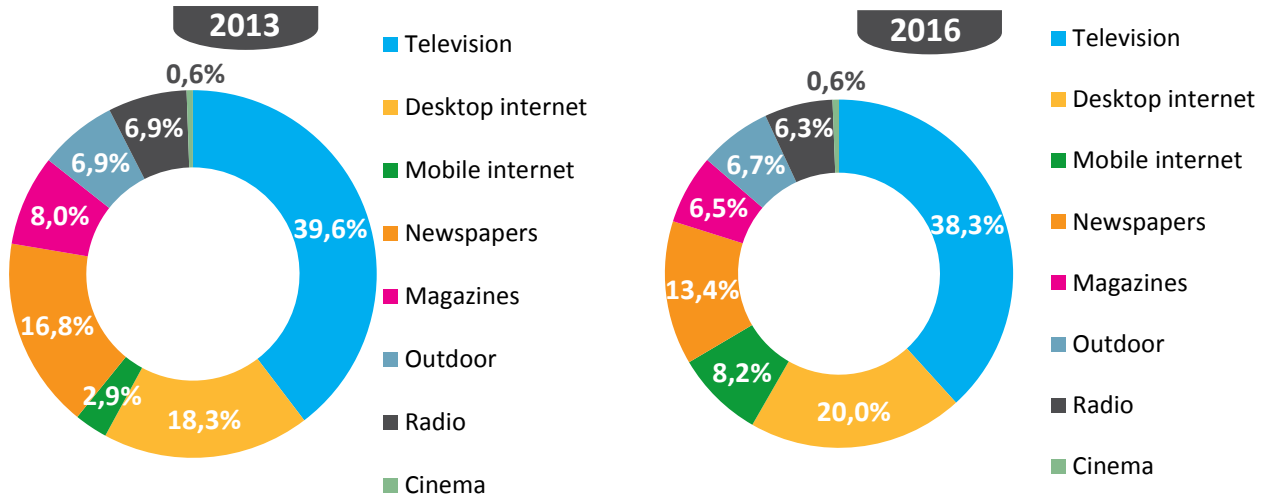


Source: ZenithOptimedia

Television is still by some distance the dominant advertising medium, attracting 40% of spend in 2013, nearly twice that taken by desktop and mobile together (21%). Television offers unparalleled capacity to build reach, and establish brand awareness and associations. We forecast television adspend to grow 4.6% in 2014, up from 4.0% in 2013, as it gains the most of the benefits of the Winter Olympics, the football World Cup and the mid-term US elections. We then expect growth to fall back to 3.7% in 2015 before rising to 4.8% in the quadrennial year of 2016 (with the Summer Olympics, European football and US presidential election).

Despite this healthy growth, television's share of global adspend is likely to fall back slightly over the next few years as desktop and mobile internet grow much faster. Television's market share has grown steadily over the last three and a half decades, from 29.9% of spend in 1980 to 39.6% in 2013. We think it has now peaked, however, and forecast it to fall back marginally to 38.3% in 2016.

Share of global adspend by medium (%)



Source: ZenithOptimedia

Appendix

List of countries included in the regional blocs

North America: Canada, USA

Peripheral Eurozone: Ireland, Italy, Portugal, Spain, Greece

Northern & Central Europe: Austria, Belgium, Bosnia & Herzegovina, Croatia, Czech Republic, Denmark, Finland, France, Germany, Hungary, Netherlands, Norway, Poland, Romania, Serbia, Slovakia, Slovenia, Sweden, Switzerland, UK

Eastern Europe & Central Asia: Armenia, Azerbaijan, Belarus, Bulgaria, Estonia, Georgia, Kazakhstan, Latvia, Lithuania, Moldova, Russia, Turkey, Ukraine, Uzbekistan

Japan

Advanced Asia: Australia, Hong Kong, New Zealand, Singapore, South Korea

Fast-track Asia: China, India, Indonesia, Malaysia, Pakistan, Philippines, Taiwan, Thailand, Vietnam

Latin America: Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Mexico, Panama, Peru, Puerto Rico, Uruguay, Venezuela

Middle East & North Africa: Bahrain, Egypt, Israel, Kuwait, Oman, Qatar, Saudi Arabia, UAE

*We define Mature Markets as North America, Western Europe and Japan, and Rising Markets as everywhere else

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