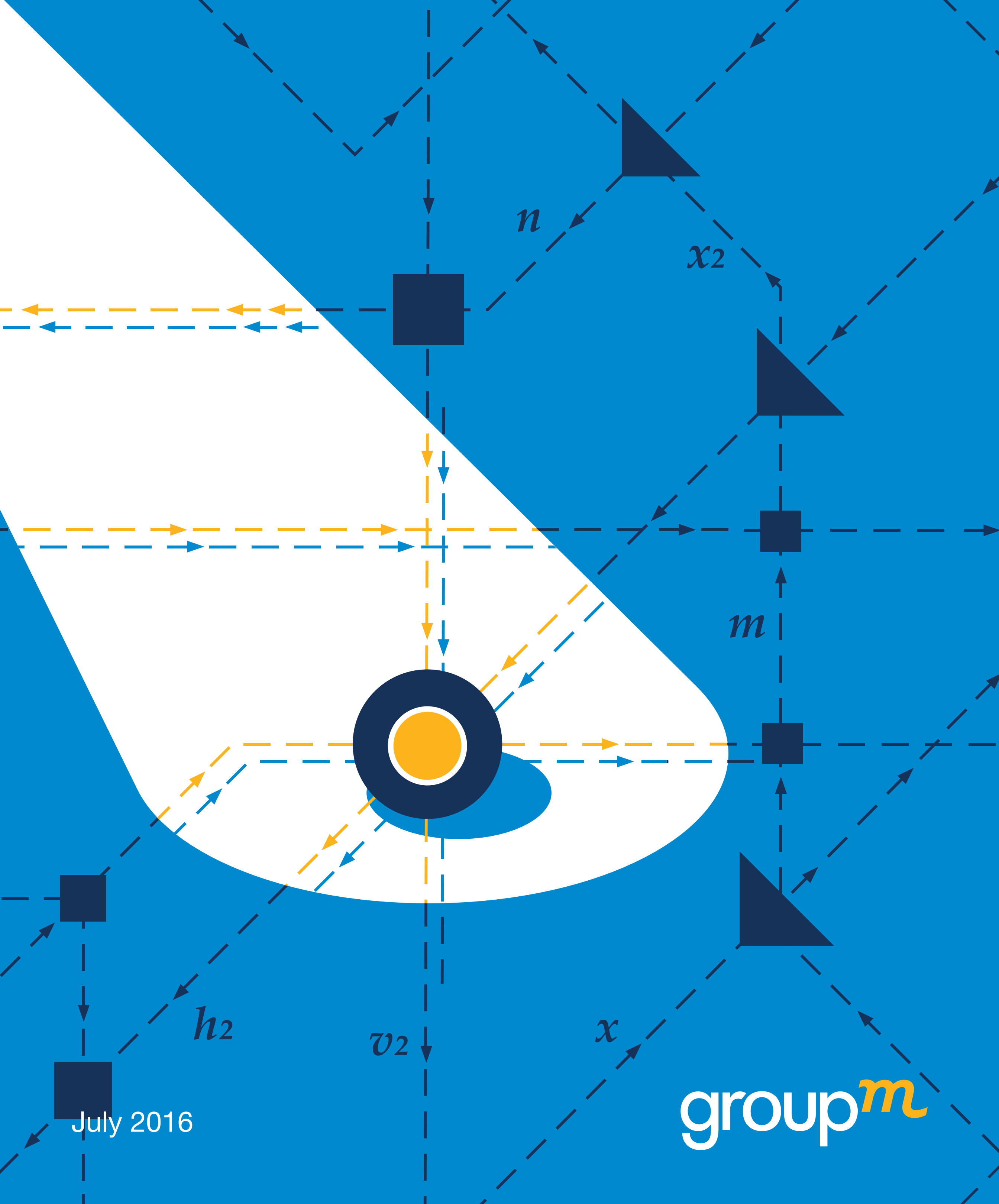
This Year Next Year

WORLDWIDE MEDIA AND MARKETING FORECASTS



July 2016

groupm

Introduction

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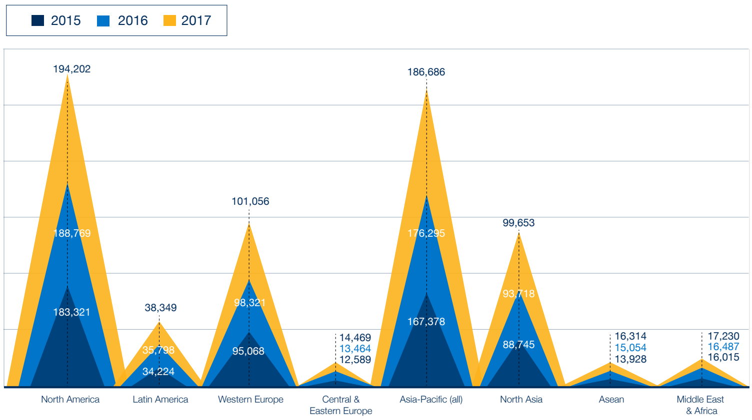

	2009	2010	2011	2012	2013	2014	2015	2016f	2017f
North America	157,834	160,037	165,098	171,391	175,092	180,167	183,321	188,769	194,202
YOY%	-7.2	1.4	3.2	3.8	2.2	2.9	1.8	3.0	2.9
Latin America	14,730	21,334	23,685	26,964	30,051	31,717	34,224	35,798	38,349
YOY%	1.7	44.8	11.0	13.8	11.4	5.5	7.9	4.6	7.1
Western Europe	88,316	92,568	93,779	90,780	89,689	92,073	95,068	98,321	101,056
YOY%	-11.2	4.8	1.3	-3.2	-1.2	2.7	3.3	3.4	2.8
Central & Eastern Europe	9,261	10,199	11,254	11,910	12,408	12,737	12,589	13,464	14,469
YOY%	-21.4	10.1	10.4	5.8	4.2	2.6	-1.2	6.9	7.5
Asia-Pacific (all)	109,360	119,911	129,700	139,646	149,235	158,072	167,378	176,295	186,686
YOY%	-2.3	9.6	8.2	7.7	6.9	5.9	5.9	5.3	5.9
North Asia	48,534	55,906	64,586	71,495	78,063	83,301	88,745	93,718	99,653
YOY%	6.5	15.2	15.5	10.7	9.2	6.7	6.5	5.6	6.3
Asean	7,477	8,665	9,576	10,616	11,695	12,488	13,928	15,054	16,314
YOY%	7.0	15.9	10.5	10.9	10.2	6.8	11.5	8.1	8.4
Middle East & Africa	12,050	13,451	14,236	15,797	16,567	15,645	16,015	16,487	17,230
YOY%	6.0	11.6	5.8	11.0	4.9	-5.6	2.4	3.0	4.5
World	391,552	417,500	437,751	456,489	473,043	490,410	508,595	529,134	551,992
YOY%	-6.5	6.6	4.9	4.3	3.6	3.7	3.7	4.0	4.3

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2015 growth turned out 3.7% compared to our prior 3.4% forecast made toward the end of the year. The main movements in our dollarized image of 2015 are currency effects rather than underlying changes.

Our new forecast for 2016 is for 4.0% growth, which is a small downgrade from 4.5% last time. The cash effect of this is to reduce predicted incremental worldwide ad investment growth from $22 bn to $20.5 bn. This does have underlying causes, principally a small upward revision to the USA, and recovery in Russia and Argentina, being slightly more than offset by downward revisions in China and Brazil. China growth is reduced from 9.1% to 6.6% as the slowdown in fixed investment and profits affects consumer demand. GroupM China describes today's level as a "new normal" and makes a first prediction of 7.0% ad growth for 2017 as advertising has ample fundamental support from persistent consumer confidence and rising expectations, and vigorous urbanization.

The Brazil downgrade from 7% to 1% follows recent political convulsions that depressed confidence and hopes of an Olympic uplift.

By our reckoning, the USA takes over from China as the leading contributor of ad growth this year. China has dominated this league since 2007, but our midterm outlook is for the US and China to contest this leadership closely from now on.

China does indeed recover the lead narrowly in our first forecast for 2017, which calls for 4.3% growth in global advertising investment. This narrowly lags prospective growth of 4.4% in nominal GDP in our 70-country group, continuing a trend of fractional underperformance that began in 2007. The likely under-recording of digital investment may however explain this. Our prediction of total ad volume for 2017 stands at $552 billion, a new real-terms record, which with other marketing services takes our total above $1 trillion for the first time.

Supported by stable finances, sustained urban demand and important reforms, India remains the fastest-growing larger ad economy at a forecast annual run-rate of 14%-15%. Its current trajectory puts it on track to become the tenth $10-billion-dollar-plus ad market in 2018.

At the time of writing in mid-July, there remained no tangible evidence of a "Brexit effect" either in macro indicators or ad budgeting decisions. We concur with the Bank of England's assessment that "early indications from surveys and from contacts of the Bank's Agents suggest that some businesses are beginning to delay investment projects and postpone investment decisions." Our present forecast for UK advertising depends mostly on structural growth in digital media. The likely range of cyclical variation in traditional media investment in 2016 now turns on what happens in the fourth quarter and is unlikely to be material to this global forecast. There is no sign yet of second-order effects in other ad markets. We will routinely revise our UK forecast toward the end of this year, when we will have more concrete information from the UK and international markets.

The rate of digital growth continues to be high but moderating, from 18% in 2015 to 14% in 2016 and 12% in our first forecast for 2017, China in particular noting the first signs of diminishing returns as the medium passes 50% of its measured media investment. As expected, digital occupied 28% of measured global ad investment in 2015, with 31% in prospect for 2016 and precisely one-third in our new 2017 prediction. The rapid rise of programmatic ad placement was the leading theme in the GroupM network sweep that produced this forecast. Digital advertising will we think furnish 99% of net ad growth in 2016, a second successive exceptional year brought about by the rapid transfer of investment in China from linear TV to address the still-expanding online audience, especially mobile, which is vigorously recruiting older and lower-income groups.

Traditional TV-to-digital share transfer is still an unusual pattern. Print media continue to lose most share to online, with newspapers and magazines likely to shed another two points to command 17% of worldwide ad appropriations in 2016 and a further 1.4 percentage points in 2017. This metronomic rhythm of decline stretches back over ten years and becomes progressively harder to arrest as reach falls, advertisers depart and those that remain become more occasional. Traditional TV's share continues to hold up well, losing about a point a year since it peaked at 43% in 2010-2014.

Introduction (cont)

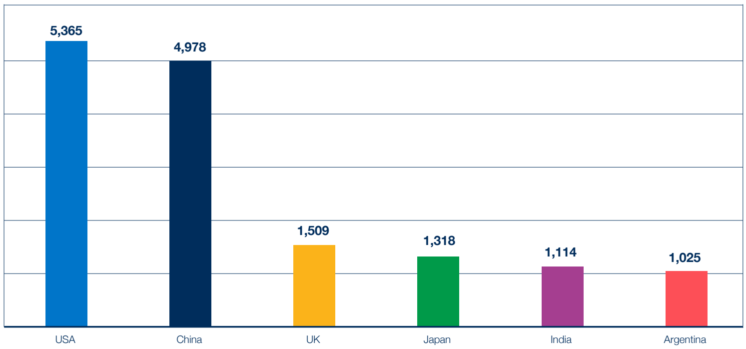
Long-term ad forecasts

	2017f	2018f	2019f	2020f	2021f
North America	194,202	202,852	211,616	220,265	229,250
YOY%	2.9	4.5	4.3	4.1	4.1
Latin America	38,349	39,505	42,417	45,413	48,486
YOY%	7.1	3.0	7.4	7.1	6.8
Western Europe	101,056	103,484	106,627	109,656	112,588
YOY%	2.8	2.4	3.0	2.8	2.7
Central & Eastern Europe	14,469	15,320	16,190	17,089	17,980
YOY%	7.5	5.9	5.7	5.6	5.2
Asia-Pacific (all)	186,686	197,113	209,314	222,021	235,236
YOY%	5.9	5.6	6.2	6.1	6.0
North Asia	99,653	108,465	116,256	124,342	132,715
YOY%	6.3	8.8	7.2	7.0	6.7
Asean	16,314	17,939	19,573	21,361	23,270
YOY%	8.4	10.0	9.1	9.1	8.9
Middle East & Africa	17,230	17,328	17,844	18,196	18,528
YOY%	4.5	0.6	3.0	2.0	1.8
World	551,992	575,602	604,008	632,641	662,068
YOY%	4.3	4.3	4.9	4.7	4.7

GroupM's forecast model has one principal independent variable: the IMF's calculation of each country's share of global GDP at PPP.

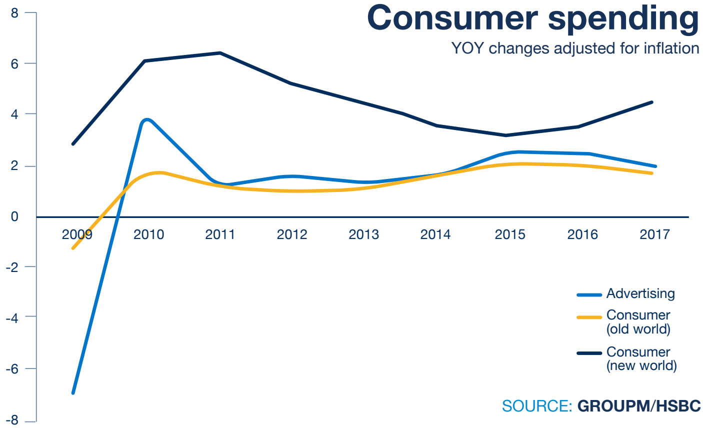
This is intended merely for scenario planning. GDP forecasts know nothing of structural changes in media advertising, so neither can this model.

Top Contributors 2016



Consumer spending

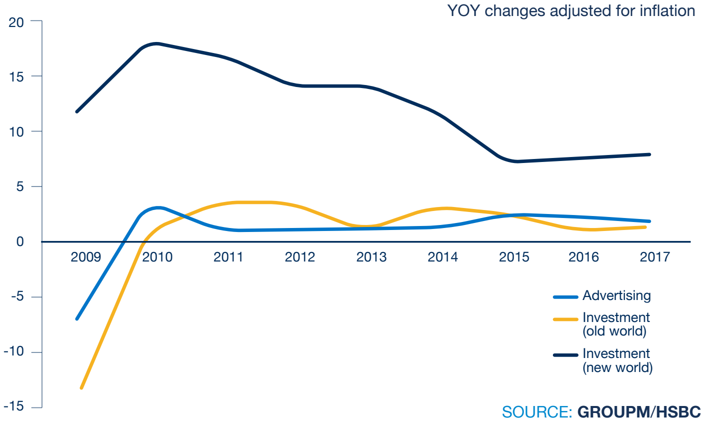
YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

Investment

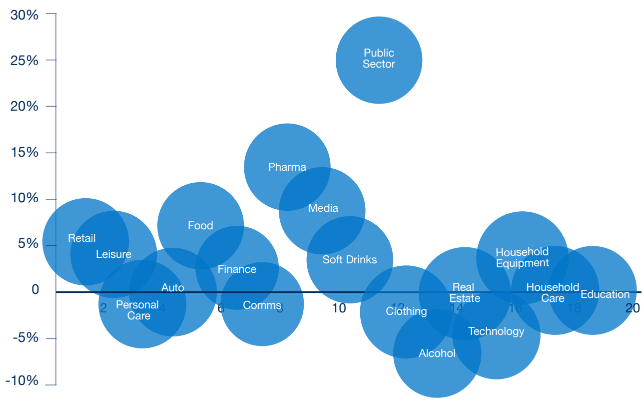
YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

Categories

2014 Results



Brazil

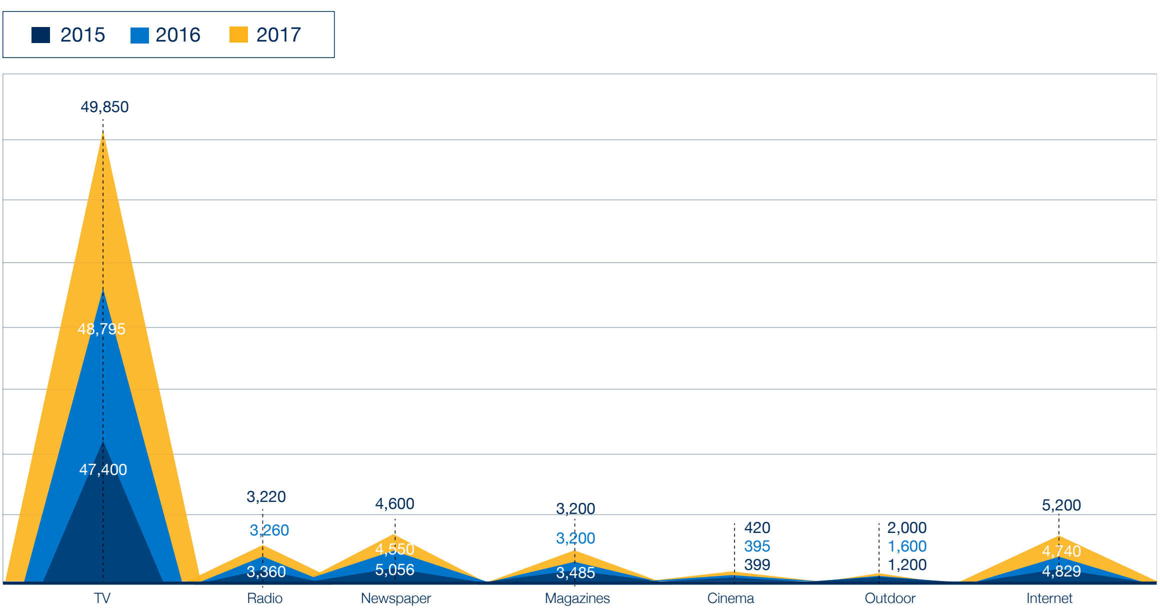
The economic recession (3.8% fall in real GDP in 2015 and similar in store for 2016), increasing unemployment rate (over 10%) and corruption investigations in government became a catalyst for inflated popular movements and political parties against sitting president Dilma Rousseff, culminating in the acceptance of an impeachment process and her temporary leave. The interim government, even if still making headlines for corruption scandals, promises a shift to the right and major structural changes. Tax adjustments, social security reform, incentives to industry and agribusiness are some of the guidelines addressed in pursuit of economic recovery. Hopes are for positive GDP growth in 2017.

After a slow growth in 2015, the comms market is feeling the effects of economic crisis in 2016. Advertisers' budget cuts have had a bigger impact on traditional media. High expectations surrounding the Olympics did not materialize and, unlike the World Cup '14, sponsor investment was lower. The events have always had a great difference of attractiveness to the population, but political moment has certainly overshadowed the Games and pushed away advertisers concerned about ratings and corporate images.

On the other hand, Digital, Pay TV and OOH continue to grow, largely due to their process of development and user growth rates, as their constant business model improves. Especially in Digital, the outlook is good: it is gaining space in advertisers' media mix (undercounting by research institutes does not properly reflect this) and the situation should improve when the market warms up again. From a digital consumption standpoint, Brazil is the world's fourth largest market, with untapped growth potential due to continuous increase of mobile access. It already represents 60% of unique visitors and 70% of total time spent online. Internet reach is still under 50% — to surpass that threshold, the market has pushed distribution of mobile data plans. At the same time, issues on net neutrality and limits on data plans have been getting more attention.

The crisis has also brought changes to advertising agencies. It sped up budget shifts and deliverable requests that had been increasing steadily. Therefore, market leaders are pushing for faster of change in their structure and service.

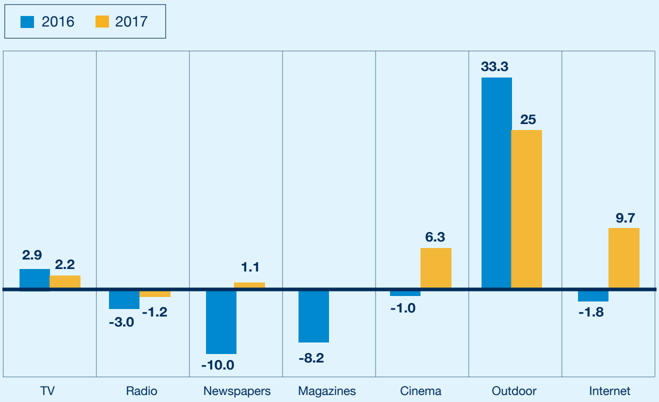
Media



Media Total	BRL MM			US MM		
	62,415MM	67,030MM	71,530MM	19,380MM	19,619MM	20,194MM

SOURCE: **GROUPM**

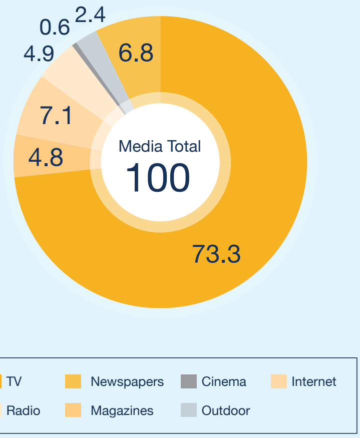
YOY% Change



Media Total YOY% change 1.2 2.9

SOURCE: **GROUPM**

% Shares of media

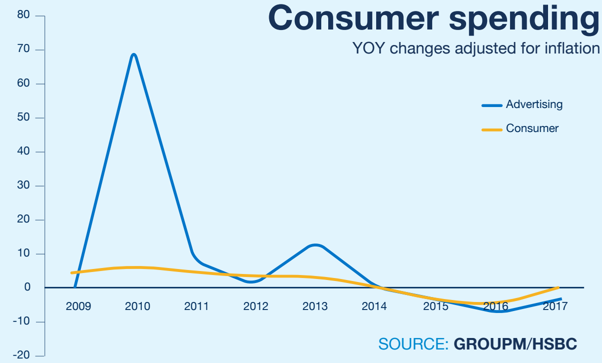


SOURCE: **GROUPM**

After the economy shrank 4% in real terms in 2015, the first quarter's almost-zero stability offered hope Brazil's worst downturn since the 1930s might be ending. May's new President Temer also quickly secured permission to flex the budget from a fractured legislature. This may provide the credibility cover to ease policy rates elevated to over 14% by mortal fear of inflation, now trending back down to mid-singles. However, unemployment has risen fast and as a "lagging indicator" casts a shadow over domestic demand for 2016 at least. Politics remains a matter of fragile coalition that 2019 elections could improve, but more urgent and necessary reform and austerity present a major challenge whatever the political spectrum.

Consumer spending

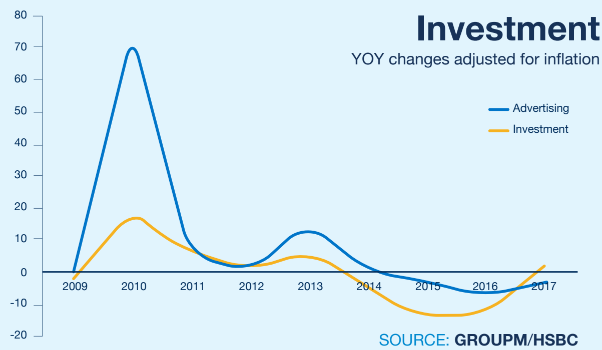
YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

Investment

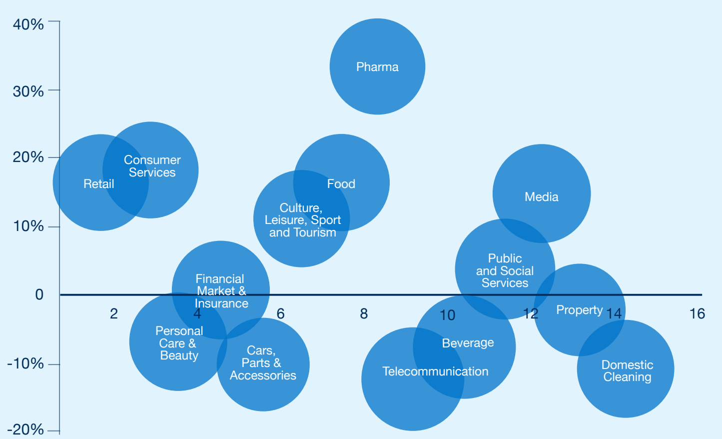
YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

2015 Results

Categories



- Categories: Ibope Monitor (after discounts)
- Historic media revenue: Ibope Monitor; internet Kantar
- Internet comprises display and search but is undercounted because it does not capture mobile on the main platforms
- Agency commission: in; typically 20%
- Discounts: after (ca. 50% from ratecard)
- Newspaper classified: in
- Internet classified: out

Canada

Broadcast media ownership consolidation continued in Canada in early 2016 with the federal regulator clearing Corus Entertainment Inc's $2.65bn acquisition of Shaw Media. This gives the new group a 32% share of age 25-54 Canada television audience, closing in on Bell Media that has 35% of total viewing. The scale of Bell and Shaw, and the competition they offer, may encourage other vendors to consolidate.

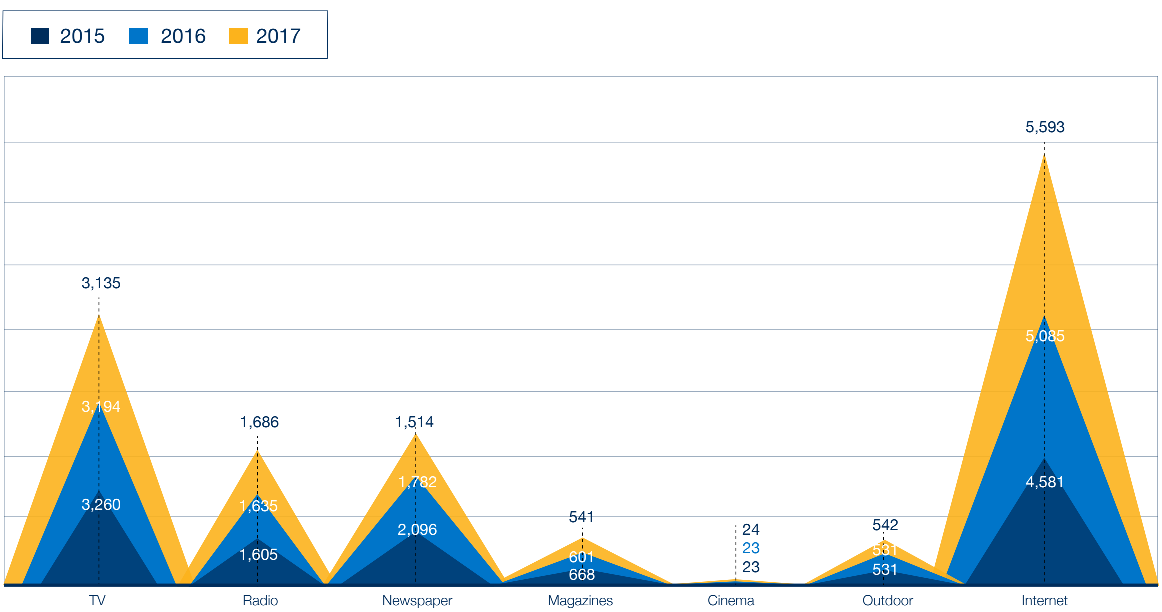
The television industry has started to take much-needed action to better future-proof the medium and lock in advertising revenues. The Television Bureau of Canada has rebranded as "ThinkTV" and there has been an immediate and noticeable change in how the industry communicates to advertisers. The TV industry is also looking to mirror advances elsewhere in the world in terms of future TV; both Bell and Rogers have signed up programmatic partnerships with Videology (Rogers also with One by AOL), and Corus has opted to go with Visible World. All three are set to offer programmatic television transaction starting in Q4 of 2016. In the short-term as much as 10% of inventory (by minutes, not audience) could be purchased this way.

Contrary to predictions, the rate of decline in print advertising is increasing rather than stabilizing. The print market has suffered a 20% year on year decline already in 2016. Paul Godfrey, President of the Postmedia Newspaper Group, said to MP's the newspaper business "is ugly and will get uglier," in an attempt to secure government funding to protect the Canadian print industry. An example he used was that government ad spend on print has halved in the past five years and in the same period, the government's spend on online advertising has doubled, most going to non-Canadian vendors.

Commercial radio continues to be a robust business in 2016 with single digit revenue growth. Out-of-home advertising is similarly resilient, reinvigorated through digital technology, sales innovation and strong links to mobile. Likewise cinema, successfully monetizing strong admissions.

Lastly, online revenues continuing to beat forecasts. There is huge growth in programmatic, online video, social media and mobile. The industry should grow its revenue by close to 20% in 2016.

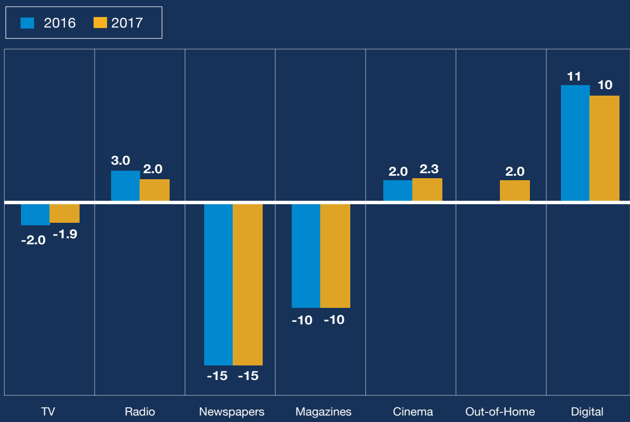
Media



Media Total	CAD MM			US MM		
	12,764MM	12,869MM	13,035MM	10,010MM	10,093MM	10,223MM

SOURCE: **GROUPM**

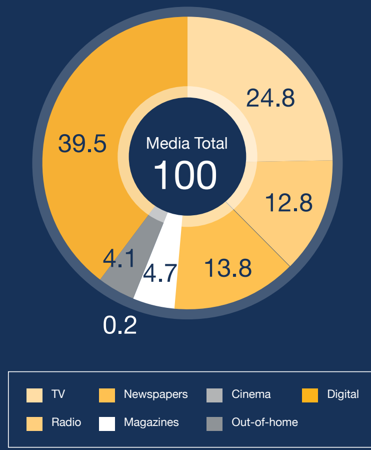
YOY% Change



Media Total YOY% change	0.8	1.3

SOURCE: **GROUPM**

% Shares of media

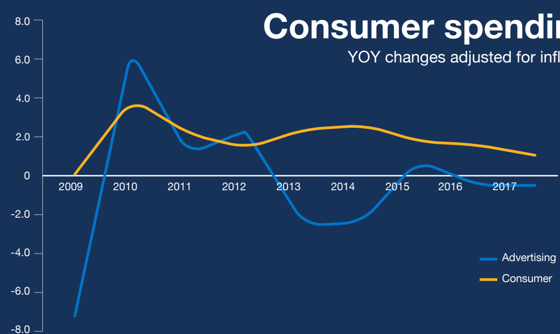


SOURCE: **GROUPM**

Cheap oil remains the chronic problem, with the tragedy of May's Horse River Fire in Alberta adding an acute twist for 2016. Growth therefore depends more heavily on other exports, on investment and on consumption. Export prospects would be buoyed by stronger US demand in particular, but a slower China and possible Brexit disruption weigh on the global picture. Business investment is presently suppressed by weak profit growth and oil-related pullbacks. Consumption growth is limited by high household debt run up in an overheated property market, and ahead of wage growth. The government response to all this was an expansionary budget for 2016-2017 to increase government demand by a point of GDP, financed by borrowing. It has some headroom to reduce interest rates too. However, the effects of this stimulus may not become apparent until 2017.

Consumer spending

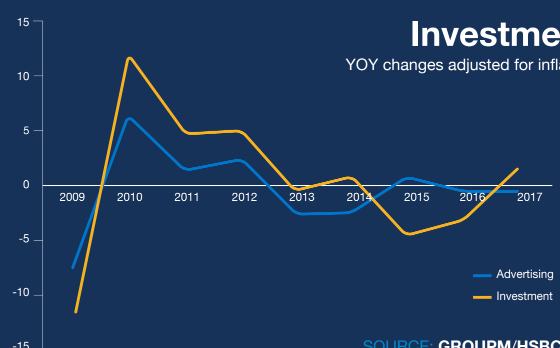
YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

Investment

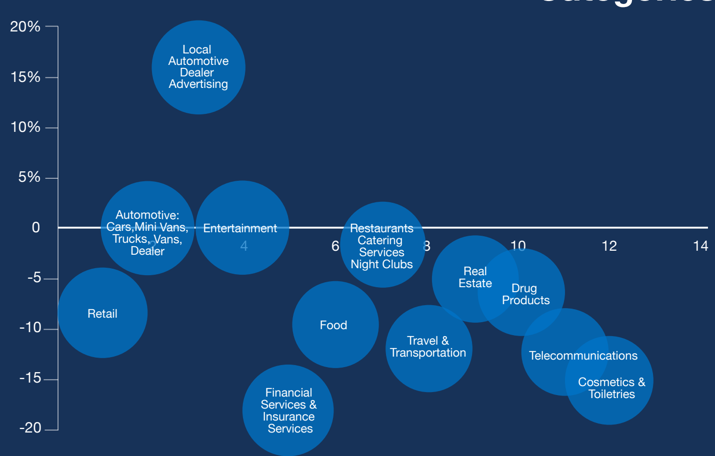
YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

2015 Results

Categories



- Categories: NMR, CAD m, gross
- Historic media revenue: TV and radio, CRTC; newspapers CAN; magazines, Magazines Canada; OOH, GroupM based on Nielsen; Digital, IAB. Others: GroupM
- Agency commission: out
- Discounts from ratecard: after
- Newspaper classified: in
- Digital comprises display, classified, search, email and mobile

China

Given weak domestic demand and more uncertain outlook of world economy, we predict this year's China media spending will grow 6.6% and next year's at 7.0% year-on-year.

China's economy is entering "new normal," which means the economy is growing at lower but we think sustainable rate. Kantar Worldpanel China, a retail audit arm of WPP, reported 2% YoY growth in 1st quarter China FMCG sales. This was much lower than the GDP growth 6.7% over the same period. Also according to CTR, WPP's research arm in China, advertisers are pessimistic about this year's economy, with a rising number saying they will "wait and see."

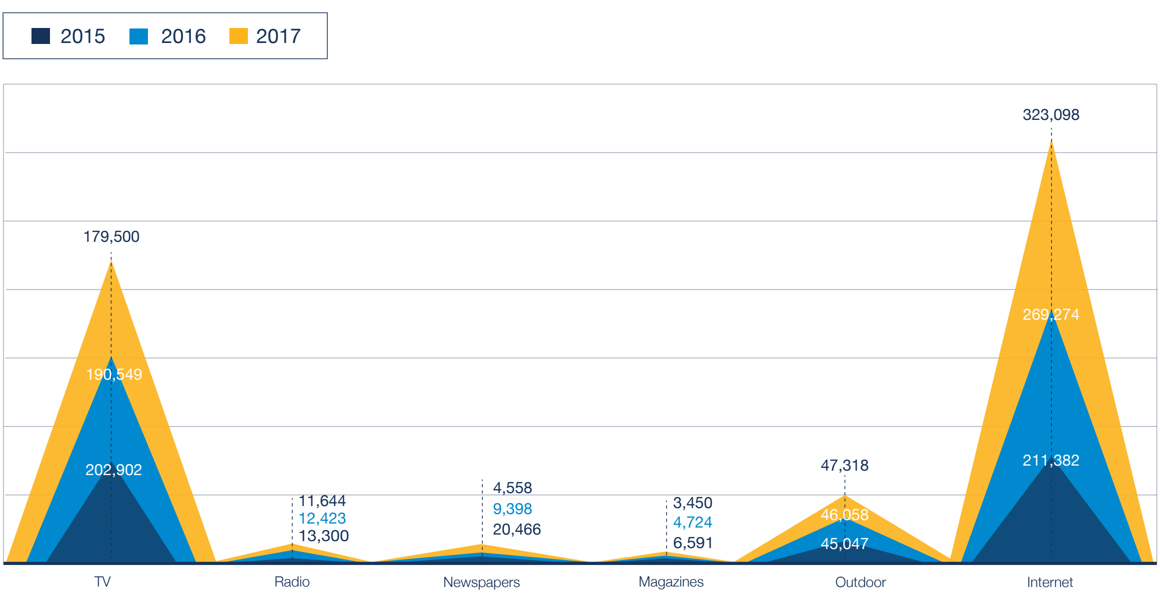
Looking at individual media, European soccer and the Olympic games are two major drivers fueling CCTV's ratings and the impact of the government restriction "One Drama, up to Two PSTVs" is diminishing. This policy took effect at the beginning of 2015, causing audience migration from TV to online video. However, recent statistics show audience loss from traditional TV has abated and viewing is stable again. Because audience changes are a leading indicator of advertising investment, we predict this year's TV ad revenue volume will fall 6.1% and 5.8% in 2017.

Over the last three years, spending on radio risen a little fueled by the popularization of car ownership, but at the same time, the rise of internet radio like Pandora is changing the way people consume audio. We now expect radio advertising to fall 6.6% in 2016.

Newspapers and magazines continue losing audience attention, and we expect double-digit decline in both in 2016 and 2017. Outdoor, driven by massive urbanization in lower-tier cities, is expected to grow 2.2% this year. Internet remains the fastest-growing medium, but the rate is finally slowing in sympathy with the economy and as diminishing returns begin to set in. Mobile internet is fueling digital growth with unprecedented speed, even among senior citizens and lower-income groups. As the engine of media-market investment, we expect internet ad investment will grow 27.4% in 2016 and 20.0% for next year.

Taking a macro view, there is much to support sustained growth in media investment: the huge daily consumer demand from China's 1.4 billion population; persistent consumer confidence and rising expectations; vigorous urbanization; the internet-plus-traditional media strategy; and at a micro level, this year's big sports events.

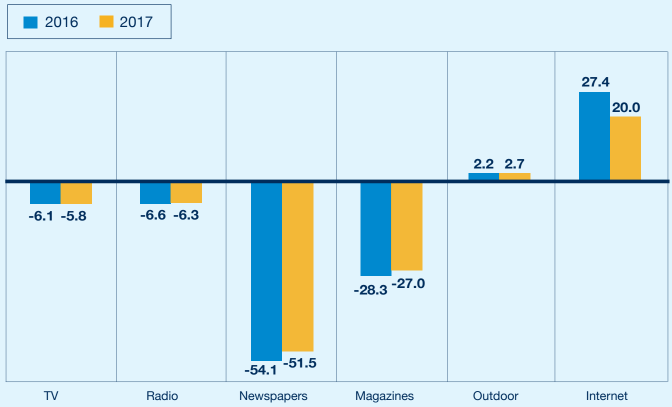
Media



Media Total	CNY MM			US MM		
	499,687MM	532,427MM	569,569MM	75,969MM	80,947MM	86,593MM

SOURCE: **GROUPM**

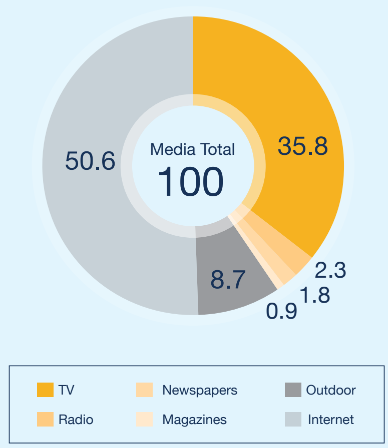
YOY% Change



Media Total YOY% change	6.6	7.0

SOURCE: **GROUPM**

% Shares of media

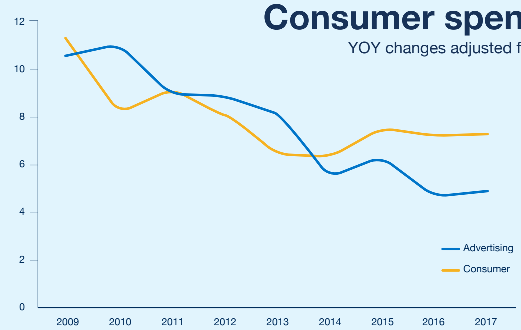


SOURCE: **GROUPM**

Consumer demand growth is forecast to remain ahead of GDP growth but as our country narrative observes, stress in certain industrial quarters is manifesting itself among the consumers most exposed. Forecast 2016 GDP growth is just within the government target range of 6.5% to 7%, but this may be hard to reconcile with prospective structural reform. The new five-year plan taking effect in 2017 continues to prioritize growth. Sustained accommodative policy will support property values and offset to a degree any drag from lower fixed investment. It does however increase the incentive for capital flight and competitive devaluation, particularly if EU events suppress trade. According to Deutsche Bank, industrial profits fell in 2015 for the first time since 2000, The risk to growth becomes acute if investment falls at the same time as consumer demand.

Consumer spending

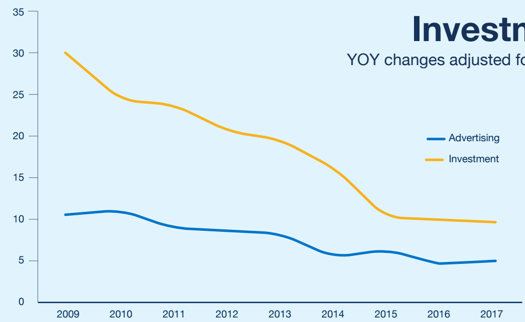
YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

Investment

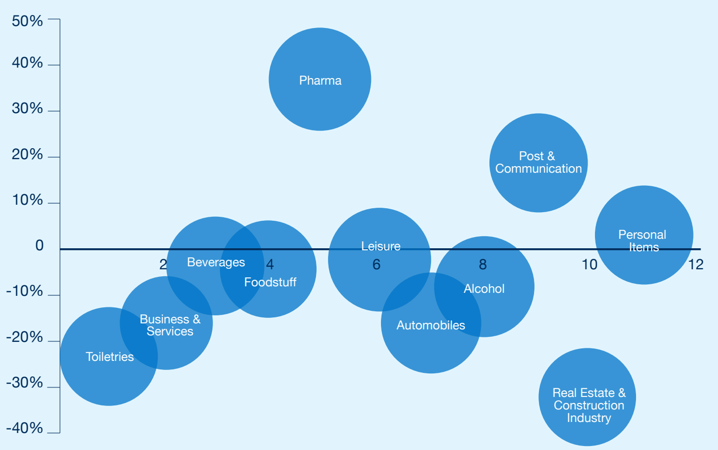
YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

2015 Results

Categories



- Categories: CTR (TV and print only)
- Historic media revenue: TV, print, radio: CTR; Internet: iResearch; OOH: Kinetic. “China” here means the People’s Republic of China and does not embrace Hong Kong or Macao
- Agency commission: out
- Discounts from ratecard: after
- Newspaper classified: in
- Internet classified: in
- Production cost: out

Germany

TV is becoming a medium of more discrete audience segments that attach to an increasing number of new special interest content programs. This leads to shifts in market shares: in 2015 the typical household had 78 channels. The leading TV brands try to hang on to their viewers by establishing stations targeting small groups and scheduled with stock material.

Another new strategy is to provide more time shifting in the free TV market (Super RTL/Toggo, Welt N 24). The Olympic summer games and the European soccer championship makes 2016 a very strong year in terms of ad investment into the public broadcasters owning these sport highlights. We expect total TV ad revenue to rise 2% - 4% net, and hours viewed to be stable.

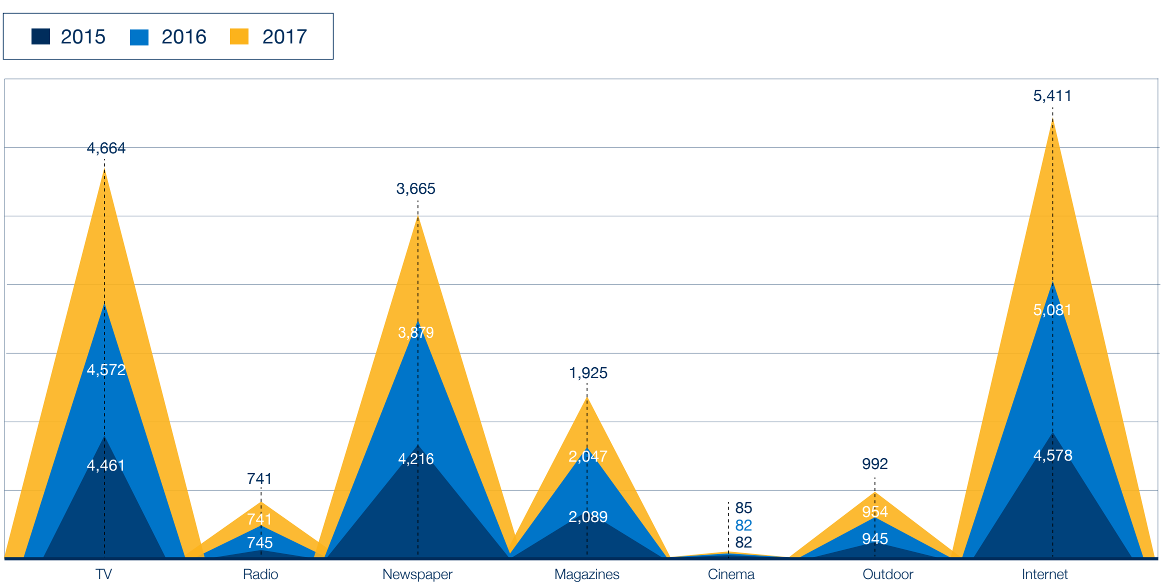
As there was a growing market for connected TV terminal equipment in 2015, smart TV and user-addressed advertising will become a more relevant topic in 2016. New standard HbbTV 2.0 will help.

Print Media follow disparate destinies in 2016. Special-interest magazines and professional journals are stable. News, TV and women's titles comprise 75% of all circulation decline. In particular, the falling sale of women's magazines is a consequence of Germany's demographics. We expect 2016 to be a repeat of 2015, except with sales houses pushing news magazines harder. In general there will be further investment in high-quality magazine launches with selected target groups.

In radio advertising, the planning data study "ma audio" was relaunched in 2016 as audio digital data were integrated into the existing analogue measurement. This is the first published convergent media study in Germany. The results prove the high reach of mainstream radio advertising and highlight the incremental reach of younger target groups that web radio achieves. The latter has enabled web radio and music streaming to extend and reinvent the medium. Big German radio broadcasters are renewing and automating their booking platforms to prepare for programmatic buying.

Pre- and mid-roll ad investment continues to rise in 2016 and will we think continue to do so in 2017. Mobile also markedly increased its ad investment and share of advertising in 2015, finally correcting the long-observed "imbalance" of consumer dwelltime and advertising. Ad Blocker software still leads to tough circumstances as almost 25% of the advertising formats have been blocked. 2016 is not going to be the breakthrough year of programmatic buying yet, which we look for in the last quarter of 2016 or in 2017. In general, just a small growth of digital ad spend is expected with a budget shift away from standard display advertising.

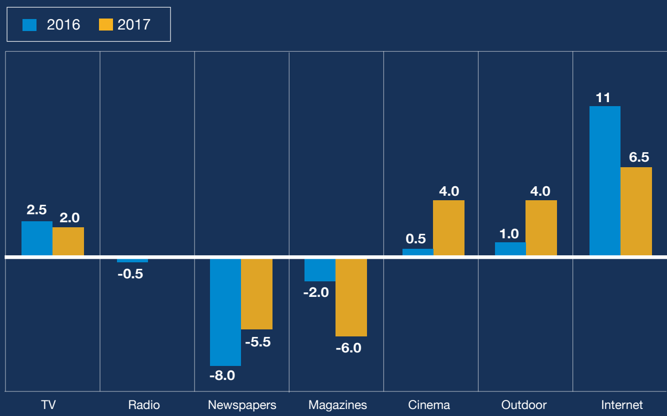
Media



Media Total	EUR MM			US MM		
	17,114MM	17,357MM	17,484MM	19,349MM	19,624MM	19,767MM

SOURCE: **GROUPM**

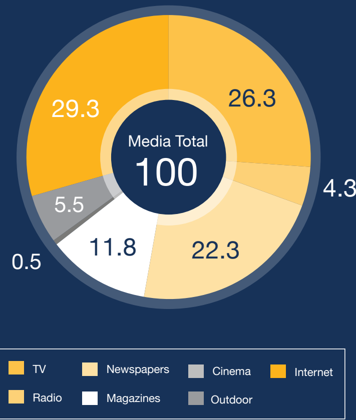
YOY% Change



Media Total YOY% change	1.4	0.7

SOURCE: **GROUPM**

% Shares of media

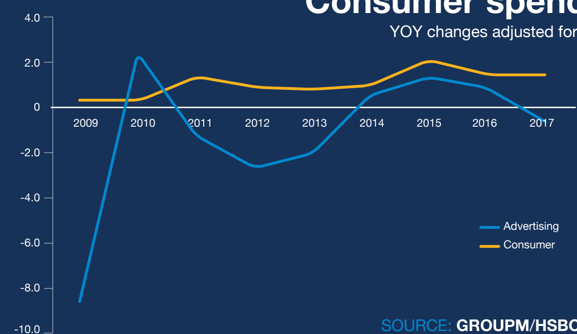


SOURCE: **GROUPM**

The UK is Germany's number-five market, absorbing 7.5% of Germany's exports in 2015. This is a strong augury for future free trade, but the Brexit vote spells short-term uncertainty for trade and investment on top of the prevailing risks to external demand. 2016 may be a slow-growth year. Consumer spending power should pick up as wage settlements and pension rises kick in later this year, but with Germany one must always remember savings power – the 9% rate of which mirrors Germany's uncomfortably large 9% trade surplus. In 2016, investment and consumption may well underperform the Eurozone average. Good tax revenues should allow the government to relax the consumer's tax burden, but this possibility awaits the 2017 election – and may simply push savings and surplus higher still.

Consumer spending

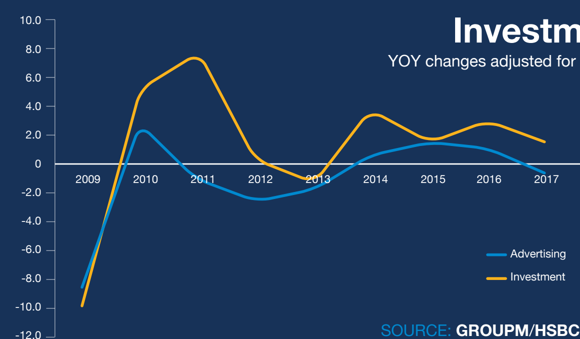
YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

Investment

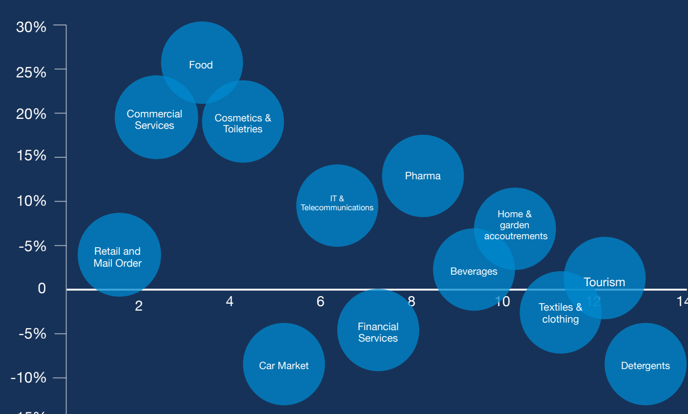
YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

2015 Results

Categories



- Categories: Nielsen, gross
- Historic media revenue: ZAW (except internet)
- Historic Internet revenue from 2004: OVK (Online Marketing Circle) (gross, but discounted by GroupM)
- Newspapers include advertising journals, weekly and Sunday newspapers, and supplements
- Magazines include B2B but exclude directories
- Agency commission: out
- Discounts from ratecard: after
- Newspaper classified: in
- Internet classified: out

India

2016

Thanks to sustained urban demand GDP is on course to grow about 7.5% in fiscal year to March 2017. Causes include the 7th Pay Commission recommendation of ~24% public-sector wage increase and a revival in rural demand now that monsoon has set in. Bank loan books are in poor shape, though, so banks' capacity to finance private investment remains a big concern

Nielsen predicts that FMCG sales will touch USD49 billion in 2016 driven by digital communication, e-commerce and premium products. Wildfire e-commerce growth will however ease as VC funds dry up, consolidation quickens and the focus moves to profitability. Last-mile logistics firms and mobile apps will still grow while pure-play analytics firms consolidate. Auto growth should remain stable between 8%-12% supported by better monsoon prospects, new product launches and the pay settlement.

Telecom continues to grow as mobile internet penetration reaches 30% (there are now over a billion mobile subscribers) and a major operator is to launch 4G services in calendar Q4 2016, which will trigger competitive spending. Banking growth is mainly supported by retail loans and financial services as they struggle with their balance sheets and with capital-adequacy requirements.

2017

GDP should continue growing near 8%, with expectations of low interest rates, sustained urban demand and important reforms. The budget deficit and consumer inflation should remain under control.

FMCG competition (food start-ups, Patanjali consumer products), higher rural penetration and bigger premium product portfolios are all fueling media investment. We expect e-commerce's exceptional advertising growth to slow in the wake of 2016 consolidation. Auto growth should remain in the 8-12% range aided by low penetration (still only 18 vehicles per thousand), cheap finance and growing real incomes. We could see 20-30 new PV launches in 2017, and India is on track to be the number-three personal vehicle market by 2018.

Telecom growth will remain good as 4G smartphones touch 180 million and 4G subscribers 90 million by 2018. Tough competition among handsets and service providers will continue.

Banking should recover as public banks clean up their balance sheets and recapitalize. This will allow private investment to pick up. Retail lending (auto and home loans) and financial services are expected to grow well.

MEDIUM-WISE

Improved TV audience measurement (rural, HD), events (ICC T20 World Cup cricket in India in 2016) and ad-versioning should all support TV advertising. Cable digitization will be complete by the end of 2016. HD and niche content will benefit from growing HD penetration.

Print remains under pressure, especially English dailies; Hindi and regional dailies are however growing.

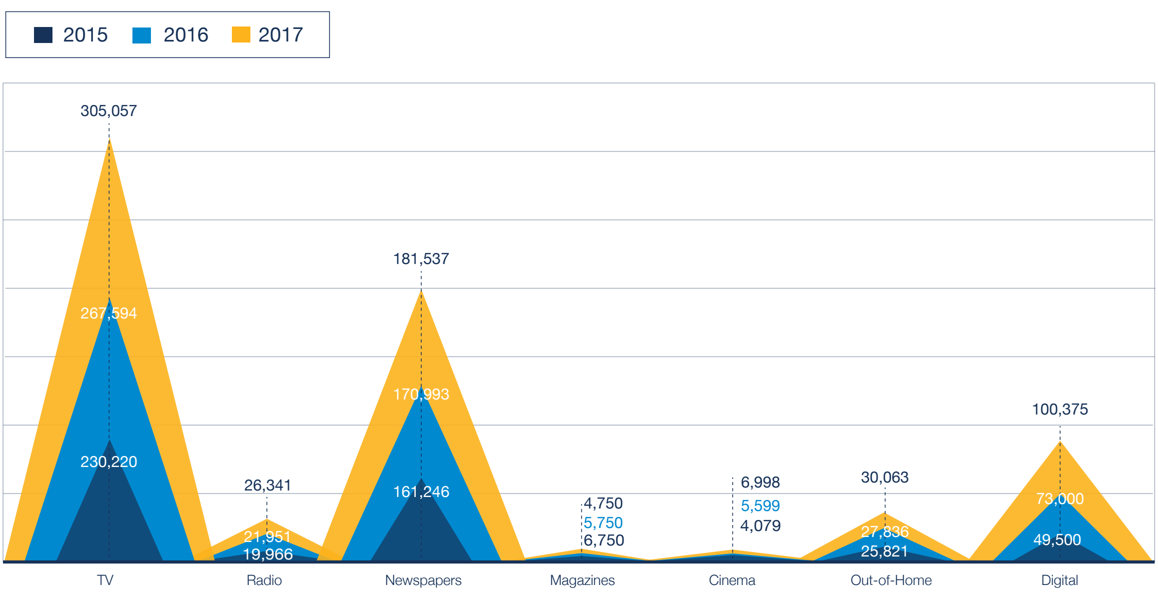
In the digital domain, mobile and video ads are the key drivers; OTT players Hotstar, Spuul, Hooq and Eros Now will scale up; Amazon Prime and Netflix are expected; and native advertising is gaining traction. Online audience and content consumption will witness humungous growth as 4G gets implemented.

In Radio, the second round of new FM stations are launching, and internet radio and other new revenue models are emerging such as Mad Genius (personalized online audio).

The OOH audience is to be measured for the first time. Digital properties (transit, metro, malls, airports) will grow as advertisers innovate around the product-user experience. OOH stands to gain from rural penetration and its reach of premium audiences.

Cinema ownership continues to consolidate, especially in tier two- and three towns, bringing infrastructure investment and more organized advertising. Growing acceptance of premium Indian and Hollywood content by advertisers augurs well for the medium.

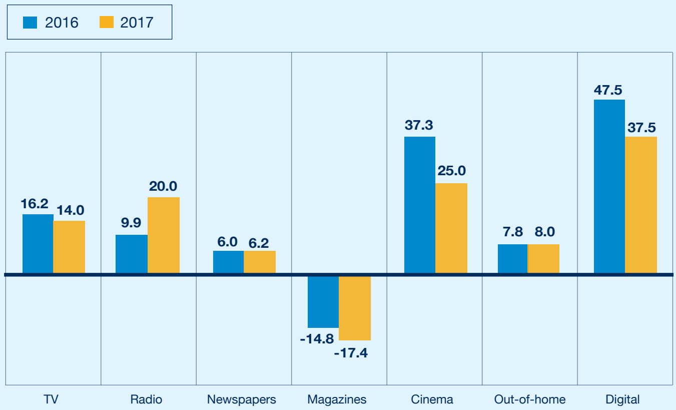
Media



Media Total	INR MM			US MM		
	497,582MM	572,723MM	655,122MM	7,374MM	8,487MM	9,708MM

SOURCE: **GROUPM**

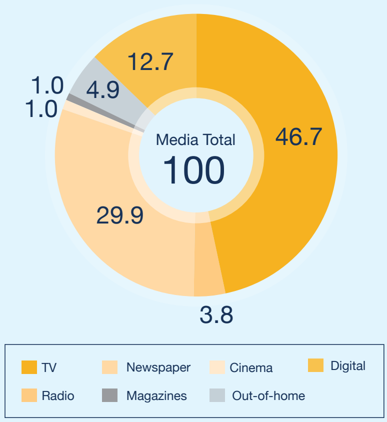
YOY% Change



Media Total YOY% change	15.1	14.4

SOURCE: **GROUPM**

% Shares of media

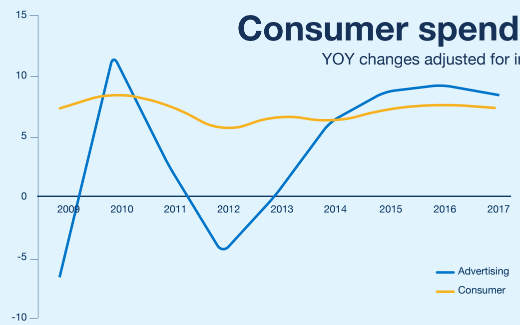


SOURCE: **GROUPM**

India is keeping its macros under control, with inflation around 5%, public debt stable at 68% of GDP and the trade deficit around 1% of GDP. This gives ample headroom to support India's sustained consumption-led growth even as the cheap-oil dividend passes out of the numbers and private investment is crowded out by consumers and constrained by a still-fragile banking sector. The reform program is going well (welfare, insolvency, monetary policy and taxation), which will yield sustained medium-term improvements. There is a big public-sector wage increase in the pipeline this year, and the late monsoon has now revived rural demand.

Consumer spending

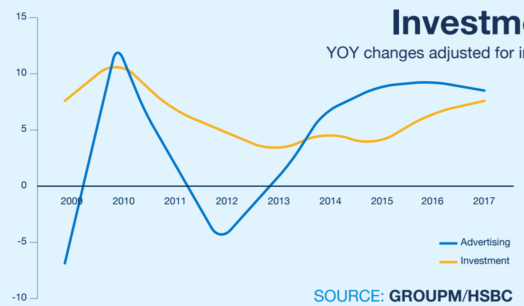
YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

Investment

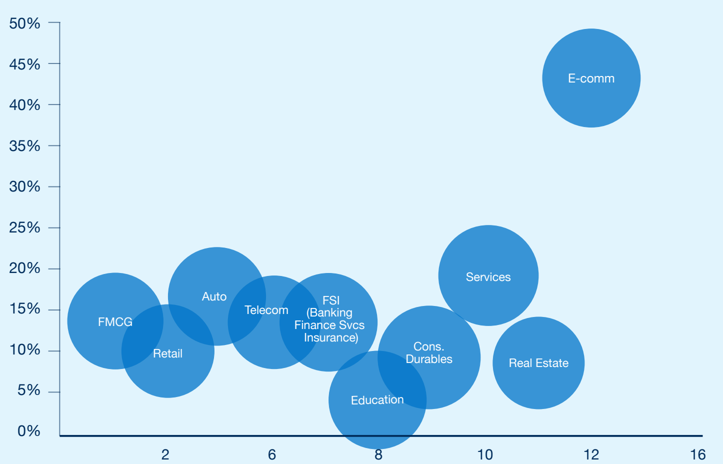
YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

2015 Results

Categories



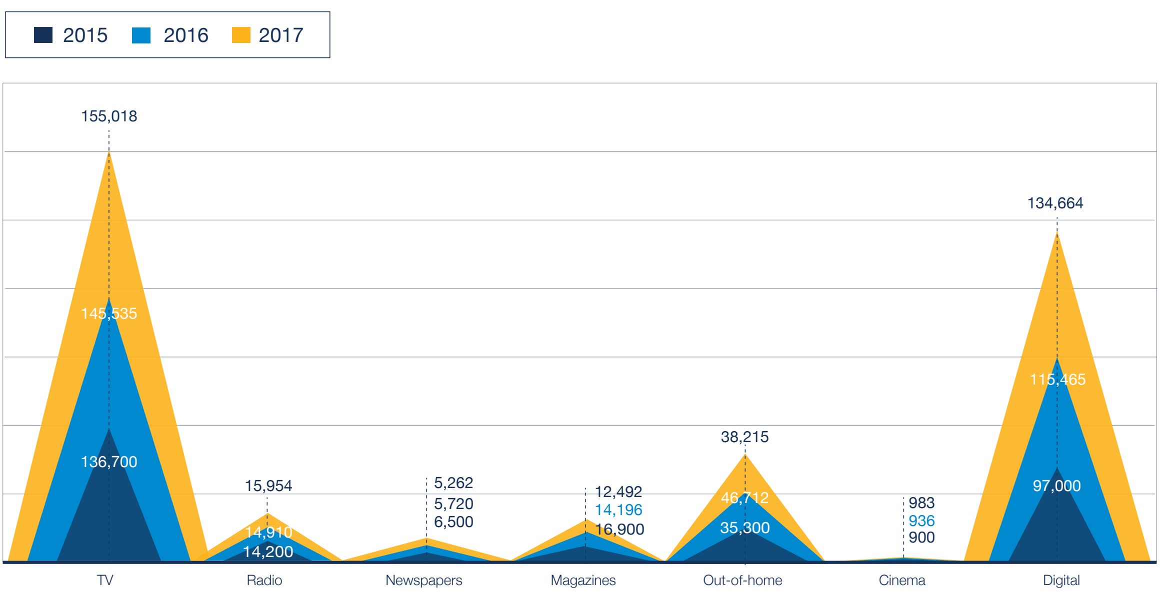
- Categories: TAM Adex and GroupM
- Historic media revenue: ORG-MAP
- Print is display only (classified is not measured)
- Excludes 15% agency commission

Russia

In 2015 Russia's economy shrank 3.7% in real terms. If you add back general inflation, it grew 3.2% in nominal terms. Media investment fell 10% in nominal terms, which was actually better than our late-2015 forecast of -13%. From quarter four of 2015 the media market started to show rapid recovery that continued into the first quarter of 2016 (which was up 18%). We think this trend is unstable, with high chances for slowdown in the second half of 2016 mostly because there is still no clear evidence that either GDP or consumer income is improving. The IMF predicts GDP will shrink 1.8% in 2016 in real terms and then grow 1% in 2017. The oil price recovery in the first half of 2016 caused the ruble to appreciate and helped rein inflation back to an annualized 7% from 16% in 2015. The Central Bank targets 4% for 2017. These trends are helpful for improving consumer confidence and the media market.

According to official statistics, the fastest-growing media in the first quarter of 2016 were TV (+19%) and Digital (+31%). Reconsolidation of TV cable assets in favor of Russian companies reopened this segment to advertisers, reflected in 110% ad investment growth. Before 2015 no advertising was allowed on satellite channels that had no local broadcasting frequency. National TV is showing high sell-out ratios mostly because of stable demand from the Medicine category and Food & Household advertisers, which have increased the number of active brands. We also observe additional support from the Finance segment and local food producers promoting new products and ideas for consumers struggling to balance the family budget. Digital media revenue is still mostly driven by mobile, which grew 70% in 2015 and could register more than Rub 35 bn in 2016. Video and Programmatic are also showing high growth rates (+15% /+40% respectively) from a small base of Rub 10bn. In general most media are still regrouping. Publishers are revising portfolios after acquisitions. New OOH suppliers are facing the risk of bankruptcy because of high tax payments and weak demand. TV is on the brink of monopoly as owners representing more than 90% of the market have announced an as-yet unnamed single sales point that could be operational in the second half of 2016. We forecast Digital and TV will remain the clear leaders into 2017 while demand in other media will rise only with more substantial economic recovery.

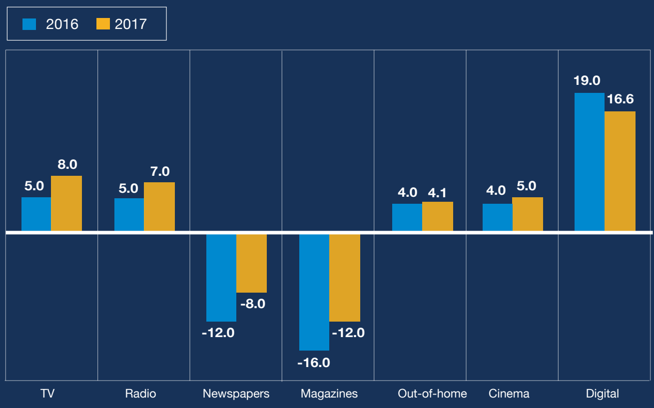
Media



	RUB MM			US MM		
Media Total	307,500MM	331,474MM	362,588MM	4,806MM	5,180MM	5,667MM

SOURCE: **GROUPM**

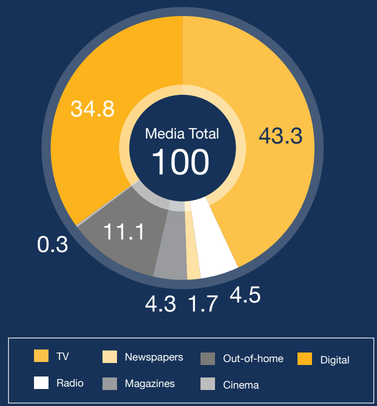
YOY% Change



Media Total YOY% change	7.8	9.4

SOURCE: **GROUPM**

% Shares of media

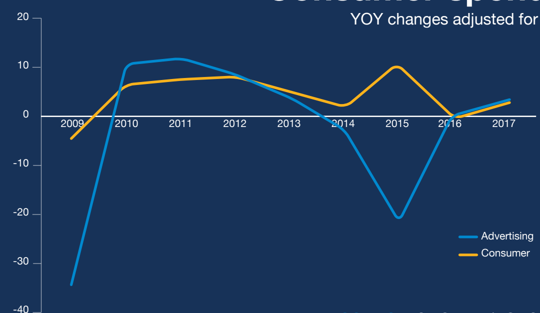


SOURCE: **GROUPM**

2016 should bring an end or something like it to Russia's longest downturn in 20 years. It did not "waste a good crisis," with international sanctions and weak oil precipitating the start of reforms needed to diversify the economy and rein in the state's overbearing presence in the economy. As in Brazil, plenty more is needed, but the political calendar is not favorable (Duma elections September, presidential 2018). Corporate profits have ticked up, as has the labor market, and after a real 10% fall in 2015, consumer spending power will probably improve now ruble depreciation has washed through. HSBC and Citi both expect this and corporate investment to turn positive in 2017.

Consumer spending

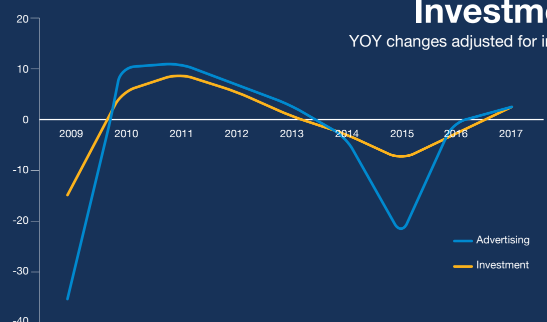
YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

Investment

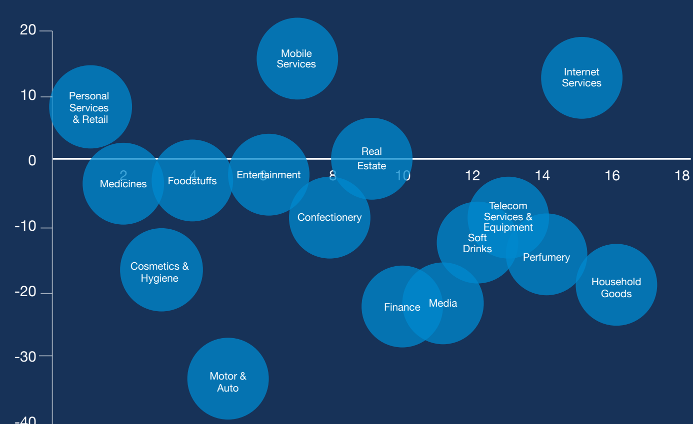
YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

Categories

2015 Results



- Top categories: estimated net of discounts and tax, based on Gallup TNS gross
- Historic media revenue: AKAR/RARA
- Agency commission: out
- Discounts from ratecard: after
- Newspaper classified: out
- VAT 18%: in

United Kingdom

2016 started with an unusually depressed first quarter in print, where late approvals have become the norm, followed by a loss of momentum in TV, in which it is relatively painless to defer investment, but six-week advance booking delays the effect. This was still a surprise, given TV's exceptionally strong growth in 2015.

The market turned noticeably softer around February 20, when David Cameron announced the Euro referendum would be in 2016 and not 2017 as assumed. This created a first period of new uncertainty in the run-up to the vote itself, which fell on June 23. In May, commentators started blaming softness on fears of Brexit, but in truth other forces were at work as well. Wage growth was already slowing, demand for exports was still weakening, tax was still rising faster than government spending, and near-ZIRP was pushing household debt to new highs and savings rates to new lows. Aggregate risk was already rising even before the government gave notice of a big rise in the minimum wage, which loads costs onto business with no certainty these will all recycle into consumer demand.

This was the economic background to ill-tempered, often sensational and sometimes irresponsible political campaigning that undermined confidence at every opportunity.

These forecasts predate the vote to leave the EU, which initiated a second new period of uncertainty. This is principally administrative and political, but will of course affect the economy. How is hard to assess, and with feelings running high, exaggeration and hyperbole abound.

But the UK faces no new economic catastrophe. Neither demand nor the financial system has collapsed. There is no new market failure overwhelming us. The stock market is not the economy. We print our own currency and run our own monetary policy.

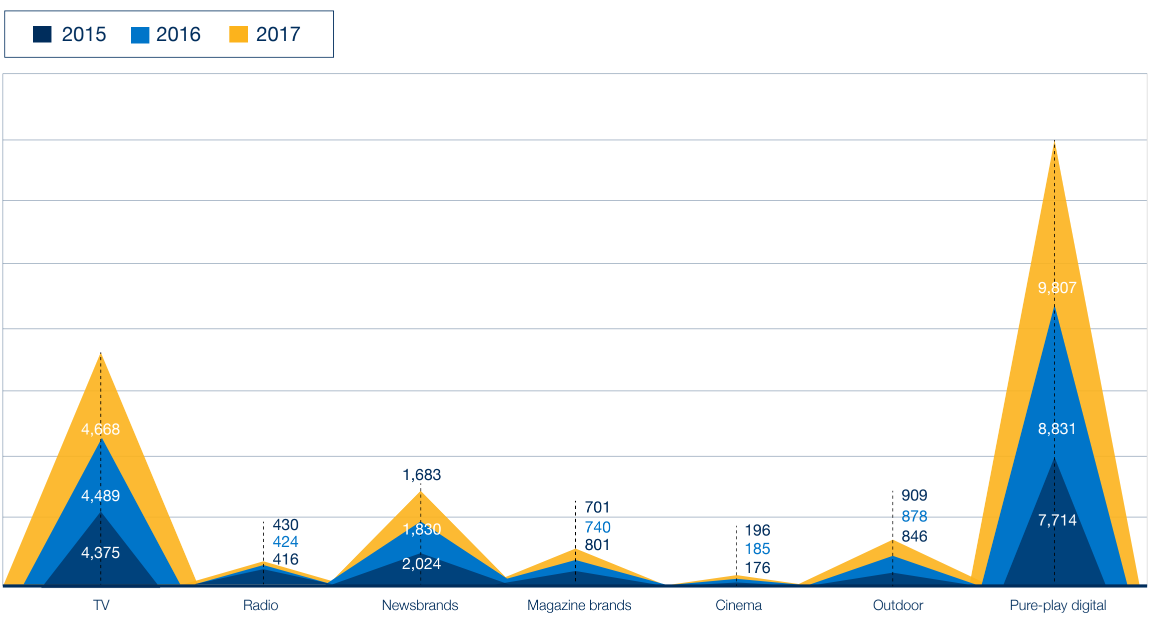
In the short run – say the next six months to a year – it is likely companies will invest less than if we had voted to remain. Job creation, wage growth and productivity will be lower than they would otherwise have been. This is a difference of degree, not magnitude.

Advertising is a volatile form of investment precisely because it can be switched off and on at will, with little or no immediate penalty. Some has already been deferred this year, perhaps indefinitely.

Only digital media carry the forward momentum of "structural" growth, meaning a strong prospect of above-average ad growth and thus market share gains independent of the economic cycle.

If we assume hypothetically print display falls 20% in 2016, and the other traditional media are all flat, leaving growth entirely dependent on digital growing 15%, the total market would still rise 4.5% on our reckoning. In the absence of actual recession, for which there is no evidence at the time of writing, we do not feel the need to stretch this speculation any further.

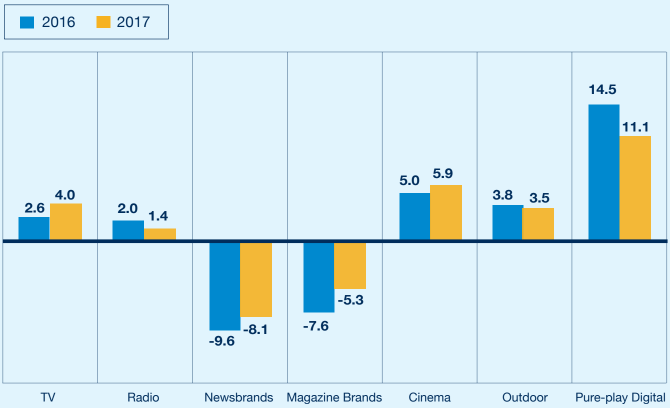
Media



Media Total	GBP MM			US MM		
	16,352MM	17,377MM	18,394MM	24,076MM	25,585MM	27,081MM

SOURCE: **GROUPM**

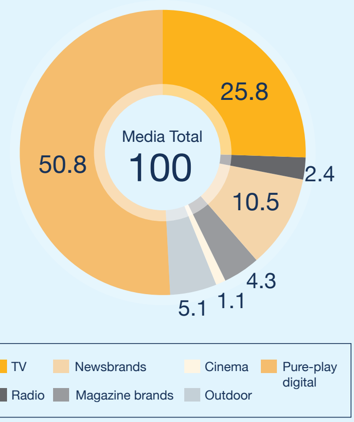
YOY% Change



Media Total YOY% change 6.3 5.8

SOURCE: **GROUPM**

% Shares of media

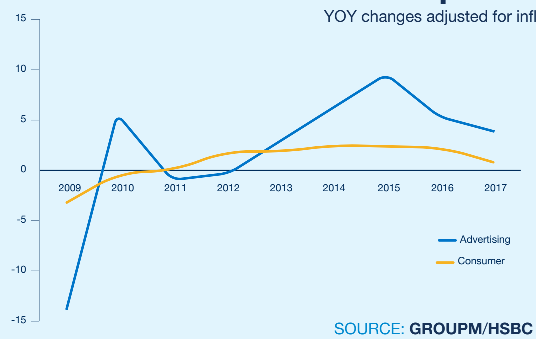


SOURCE: **GROUPM**

Even before the EU referendum was announced, risk was building up in the form of an unsustainable trade deficit and rising household debt – both indicating the UK's excessive reliance on private consumption to make up for weak demand in investment, the public sector and from other countries. These are on top of chronic worries about productivity and lack of slack in employment and skills. The market had expected the EU vote in 2017, so the announcement in February that it would be in June 2016 was a surprise, as was the outcome. Whether this derails UK growth depends on how consumers react to any deterioration in wealth (property, shares, inflation expectations) and on how much fear of the unknown affects business investment. As you can see from this graph, HSBC fears investment will take a tumble, with an echo in consumer demand in 2017. Fortunately, the UK government seems to be getting a grip, though the largely pro-Remain commentariat is still floating in what a letter to *The Economist* described as the "grieving London bubble."

Consumer spending

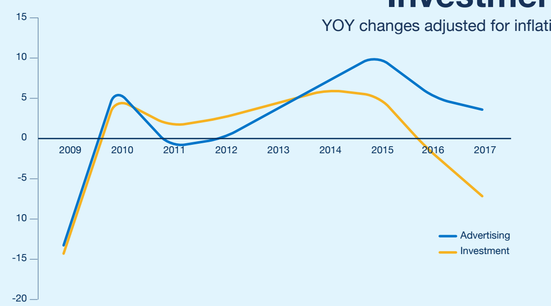
YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

Investment

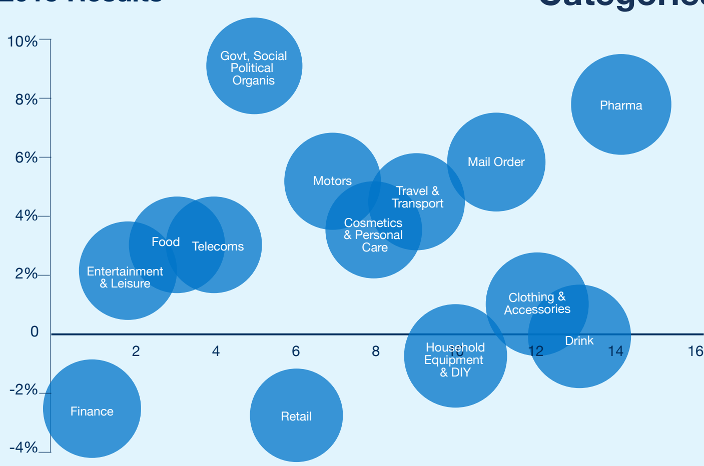
YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

2015 Results

Categories

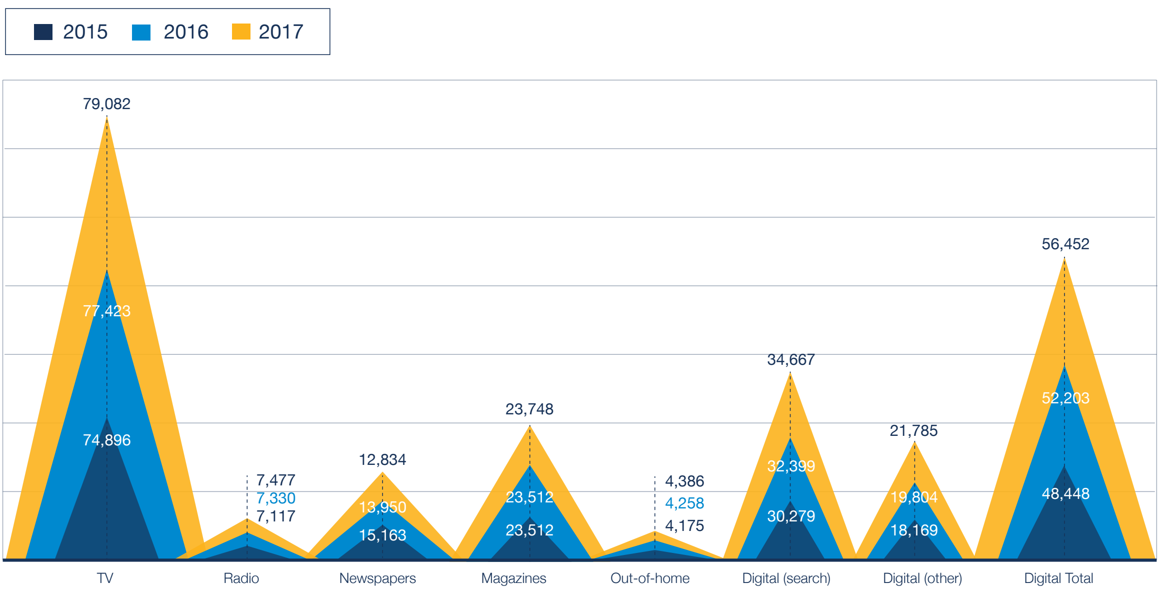


- Historic media: AA, IAB/PwC, GroupM
- Production costs: out, except for cinema
- Agency commission: out
- Discounts from ratecard: after
- Newspaper classified: in
- Internet classified: in
- Categories: Nielsen

United States

We are revising our 2016 forecast upward slightly by 400 basis points to 3.1% growth driven primarily by a healthier TV marketplace. We expect TV to show 3.4% growth from our earlier estimate of 2.3%. This is driven by more aggressive political local TV spending as well as a return of low single-digit growth in national TV. Spending improvement in national TV is coming from some shifting spend from digital in the CPG category as well as continued spending growth from the heavy TV-centric pharmaceutical sector. For 2017 we are estimating a slight decline in growth to 3% as political spending abates and expected real GDP growth remains in 2.5-3% range in the U.S. We expect TV growth to decline to 2.1% driven primarily by local TV. Digital investment will continue at 3x the rate of overall advertising spend but considerably lower than historical levels of double-digit growth. The combination of global economic headwinds coupled with moderate domestic growth as well continued procurement pressure to extract media efficiencies and cost savings will confine ad market potential to its current low single digit growth levels.

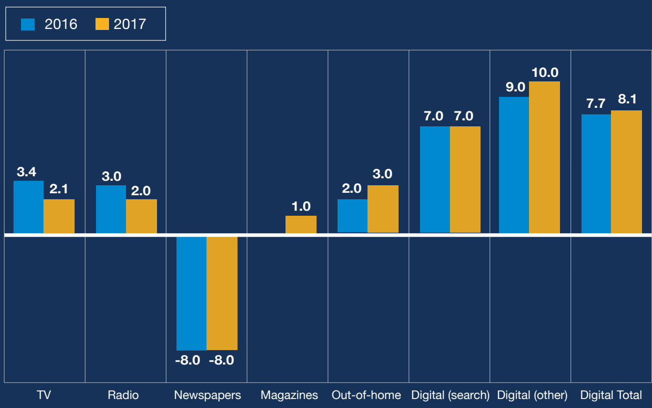
Media



Media Total	Digital Total MM			US MM		
	48,448MM	52,203MM	56,452MM	173,311MM	178,676MM	183,979MM

SOURCE: **GROUPM**

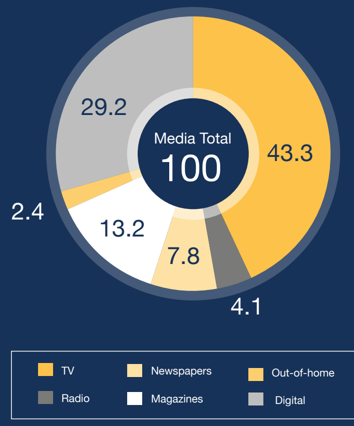
YOY% Change



Media Total YOY% change	3.1	3.0

SOURCE: **GROUPM**

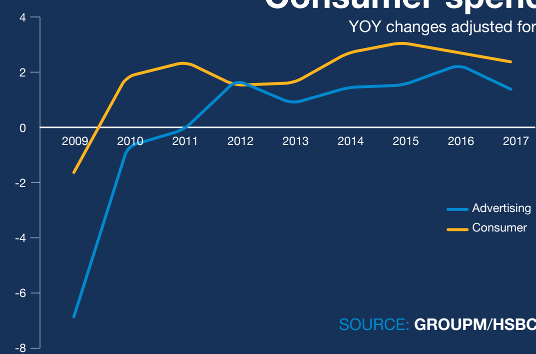
% Shares of media



SOURCE: **GROUPM**

Consumer spending

YOY changes adjusted for inflation

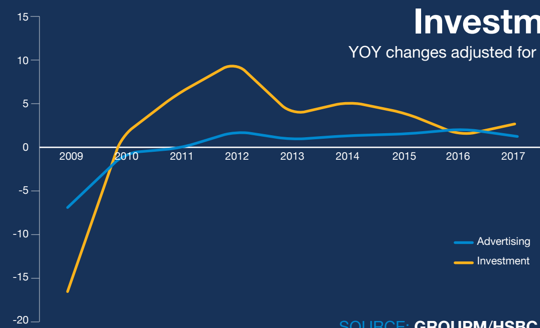


SOURCE: **GROUPM/HSBC**

Fed by cheap energy and easy money, consumer demand growth hit a recent peak in 2015 alongside a robust housing market, but these sources of demand were offset by softer business investment (a flip side of oil's big fall) and exports (a consequence of the dollar's big rise). Both the consumer and commercial halves of the economy now face the uncertainty of the election and perhaps fallout from Europe's convulsions – one result of which could be to push the dollar higher still. Despite high employment, monetary policy is expected to remain accommodative for longer, and movement either way on tax will await the new administration in 2017.

Investment

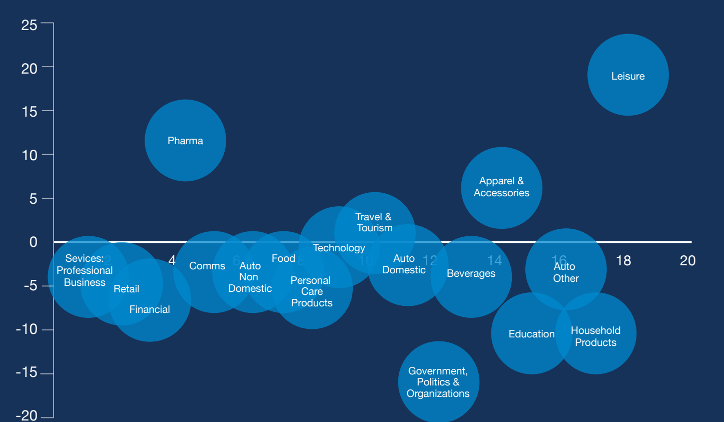
YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

2015 Results

Categories



- Categories: Kantar
- Historic media revenue: Kantar, GroupM
- Agency commission: out
- Discounts from ratecard: before
- Newspaper classified: out
- Internet classified: out

Marketing Services

	2015	2016f	2017
North America			
PR	4,194	4,300	4,500
Data Investment Management	19,100	19,300	19,600
Direct	103,500	108,000	112,000
Sponsorship	21,400	22,400	23,200
Total	**148,194**	**154,000**	**159,300**
Marketing % of marketing and media	44.7	44.9	45.1
YOY% Change			
PR	2	3	5
Data Investment Management	0	1	2
Direct	5	4	4
Sponsorship	4	5	4
Total	**4**	**4**	**3**
Latin America			
PR	461	480	500
Data Investment Management	1,925	2,000	2,100
Direct	35,400	37,500	39,200
Sponsorship	4,300	4,500	4,600
Total	**42,086**	**44,480**	**46,400**
Marketing % of marketing and media	55.2	55.4	54.8
YOY% Change			
PR	7	4	4
Data Investment Management	4	4	5
Direct	7	6	5
Sponsorship	2	5	2
Total	**7**	**6**	**4**
Europe			
PR	2,616	2,700	2,750
Data Investment Management	16,200	16,400	16,600
Direct	109,474	113,000	115,000
Sponsorship	15,300	15,900	15,900
Total	**143,590**	**148,000**	**150,250**
Marketing % of marketing and media	57.2	57.0	56.5
YOY% Change			
PR	3	3	2
Data Investment Management	0	1	1
Direct	3	3	2
Sponsorship	3	4	0
Total	**2**	**3**	**2**

	2015	2016f	2017
Asia Pacific			
PR	4,704	4,950	5,200
Data Investment Management	6,100	6,200	6,300
Direct	57,348	60,500	63,000
Sponsorship	14,000	14,800	15,600
Total	**82,152**	**86,450**	**90,100**
Marketing % of marketing and media	32.9	32.9	32.6
YOY% Change			
PR	6	5	5
Data Investment Management	0	2	2
Direct	6	5	4
Sponsorship	5	6	5
Total	**6**	**5**	**4**
Middle East & Africa			
PR	154	158	164
Data Investment Management	747	760	781
Direct	2,067	2,170	2,300
Sponsorship	2,500	2,600	2,700
Total	**5,468**	**5,688**	**5,945**
Marketing % of marketing and media	25.5	25.7	25.7
YOY% Change			
PR	6	3	4
Data Investment Management	2	2	3
Direct	6	5	6
Sponsorship	4	4	4
Total	**5**	**4**	**5**
World			
PR	12,129	12,588	13,114
Data Investment Management	44,072	44,660	45,381
Direct	307,789	321,170	331,500
Healthcare	4,882	5,100	5,300
Sponsorship	57,500	60,200	62,000
Total	**426,372**	**443,718**	**457,295**
Marketing % of marketing and media	45.6	45.6	45.3
YOY% Change			
PR	4	4	4
Data Investment Management	0	1	2
Direct	5	4	3
Healthcare	3	4	4
Sponsorship	4	5	3
Total	**4.0**	**4.1**	**3.1**
Media and Marketing Total USD m	**934,967**	**972,852**	**1,009,287**

Questions to the GroupM Network

HOW DO YOU MEASURE THE SUCCESS OF ONLINE VIDEO ADVERTISING?

This was widely but mistakenly taken to mean simply "how do you measure online video advertising." A typical answer was "ideally by tracking brand KPIs, but in practice it is mainly completion rates and reach."

"Success" also proved ambiguous, taken to mean either good execution ("We apply three principles: consistency, independence and viewability") or less commonly, achieving the advertisers' desired objectives – which was what the question was intended to illuminate.

Basic campaign measures come from the likes of Sizmek, DoubleClıck and AppNexus: impressions; reach (of the target audience, of course) and clicks, from which follow "cost-per" computations. Viewing persistence is a common measure, known variously as "view-through rate" or "completion rate". These will also be reported as cost-per, sometimes in gradations of for example 25, 50, 75, and 100% viewed. Germany defines "success" in most cases as achieving at least 75% persistence, or where click-through is important, a rate above 1%. A few countries mentioned "savings relative to TV."

Second-order measures from such as QMP and Google Analytics include customer journey, bounce rates and conversion. Quality dimensions include the premium vs long-tail mix; rolls vs in-read/streaming ads; prominence; and quality of environment. Argentina noted the "quantity of likes, shares ('virality'), comments and organic ('earned') views."

Italy cited "viewability" as becoming one of the most important indicators of success, mentioning publishers' efforts to increase the player size and do away with "below-the-fold" placements "but there are still technical challenges of determining whether a video ad is in view." GroupM India mentioned an important enhancement: "mute rate is another parameter that's being closely tracked as a measure."

GroupM Australia defines viewability as "seen and heard" and uses Moat to certify an ad is viewed by a human (not a bot); the ad is totally in view for at least two seconds; and if the sound was on. From this it derives a "cost per impacted reach" to quantify success.

A problem as old as advertising is how to report deduplicated reach in multimedia campaigns. The problem only gets worse as more channels crowd the schedule and "walled gardens" impede a holistic view. This is a big subject, but comes closest to online video as the question "complement or substitute for linear TV?"

Once hurdles of quality and brand safety are cleared, the most common approach is to treat online video as a TV complement to provide incremental reach. Proving it is not easy, and usually involves modelling. Examples include South Africa's Mscreen tool to identify where online video can add cost-effective reach to a TV plan. Finland fuses various third-party data to demonstrate incremental reach. Ireland does the same using WebKarma. Beyond this lies a likely future of total a/v integration. Italy remarks on the rising "synergy" of online and TV content. Brazil articulated a popular view that more advertisers now consider a/v as a whole (broadcast, cable, digital, video etc.) and believe the "direction of travel is towards a consolidated GRP." Turkey adds "today the cross-media planning tool is being developed. This will measure the online video's effect on GRP."

Scale is an important constraint. Subscale media may not be worth researching independently, particularly if demand already exceeds supply, as we often find with broadcast-quality on-demand content.

We conclude this section with two responses that addressed the bigger picture of "success":

JAPAN: Qualifying the success of online video from an advertising perspective is nearly as elusive as finding a fully unifying, cross-device reach equivalency of GRP currency: it's not an easy task. Advertisers are inclined to see pure views as the standard to measure success by, but we try to educate clients on deeper success metrics by focusing on the specific KPIs each campaign is expected to realize. If an advertiser seeks to maximize reach as a means of improving awareness, we would consider a bucket of reach-oriented KPIs such as Awareness Lift and UUs as success indicators. If an advertiser aims to increase consideration/intent, then brand lift/ consideration lift or completion rates are more accurate proxies. For lower-funnel goals such as convert/purchase, we would emphasize action-oriented KPIs such as purchase intent lift and CPAs. In essence, there is no overriding, single metric to show the effect of OTV campaigns; success must be viewed in the context of specific campaign brand and marketing goals, and measured accordingly with goal-indicative KPIs.

SWEDEN: Cross-channel optimization is becoming more and more important, and measuring online video is central. Within GroupM we can measure online video through cross-panel combinations. There are efforts to create a single-source panel from MMS (the official TV panel data provider). In the market there is a lot of discussion about consolidated TV/online GRPs. One key factor in online video is to measure how it builds reach, and measuring offline and online video together is a big step in that direction. Tools such as Turbine mean we can add data and be more efficient with targeting, which leads to less waste and more successful campaigns.

WHAT IS HAPPENING TO ONLINE AD NETWORKS (INVENTORY AGGREGATORS/ SELLERS)?

We posed this question in the light of the rapid rise of cheaper and easier DSP/SSP trading and consolidation in the food chain of peripheral digital services.

The short answer is that ad networks must adapt to survive.

This means raising standards relating to viewability and fraud, which India cites as a big problem with networks. GroupM Canada speaks for many countries when it says it is culling substandard network partners.

One defense is to offer exclusive access to quality inventory, but the buyer should beware. Mexico: "The majority source from private marketplaces or even the open market. A daisy chain phenomenon."

Another defense is to add value "in the form of data or know-how" as Austria puts it. Latvia points to the potential of creating new ad formats or creative versatility such as HTML5 for mobile. GroupM Turkey favors "aggregators which command scale in deterministic and probabilistic data to provide cross-device persistent IDs."

China gives the widespread example of networks that have upgraded from "simple inventory selling to selling inventory with programmatic technology, called DSPAN (DSP + Ad network)." Russia echoes the common observation that networks simply must be DSP-compatible to qualify for consideration. Vietnam notes that technology is expensive for small networks, which then lose share to larger rivals or those with premium inventory. In Hungary, old networks still have time "as small and medium publishers lack their own programmatic competence."

Several countries observe a tiering effect. GroupM France describes how automation pushes CPTs down for banner-ad networks, thus incentivizing supplier-publishers to withdraw and "premiumize" this inventory with their own first-party data. Belgium adds that ad networks are used increasingly just for performance retargeting. Japan notes rapid bifurcation of “premium programmatic” and very cheap “standard display.” This mirrors the tiers of advertisers: global blue-chips like Shiseido and Toyota with sophisticated digital strategies, and simpler, conservative domestic businesses happy with “long-tail display that allows ad networks to not only survive in Japan, but in some cases still thrive.” It adds “Self-serve programmatic offerings like Google Display Network and Yahoo Display Network have taken some share of this domestic business, but have yet to displace prominent domestic ad networks as a primary insertion-order style vehicle to drive upper-funnel metrics.”

Denmark similarly notes a place remains for networks to handle the long tail of small and local publishers, and in The Netherlands networks have become virtual publishers themselves by aggregating content. Brazil describes something similar, with dominant global Goliaths kept in check by a host of local Davids working with local content developers. The latter are responsive and innovative, which is important amid Brazil’s recession.

Sweden notes another way networks adapt, which is to reinvent themselves as “SSPs.” This tends to reduce market transparency and push costs up as the networks pass on (and mark up) their technology costs incurred in becoming programmatic. This is not sustainable and Sweden expects consolidation in the future. Germany gives its networks two years as “agencies will increasingly aggregate inventory themselves, providing advertisers with better prices, and better and brand-safe inventory.” Ireland notes its agencies are at the beginning of this process and predicts “tighter or reduced trading with networks” from 2017.

GroupM is the leading global media investment management company serving as the parent to WPP media agencies including Mindshare, MEC, MediaCom, Maxus, and Essence, as well as the programmatic digital media platform, Xaxis, each global operations in their own right with leading market positions. GroupM's primary purpose is to maximize performance of WPP's media agencies by operating as leader and collaborator in trading, content creation, sports, digital, finance, proprietary tool development and other business-critical capabilities. GroupM's focus is to deliver unrivaled marketplace advantage to its clients, stakeholders and people. Discover more about GroupM at www. groupm.com.

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