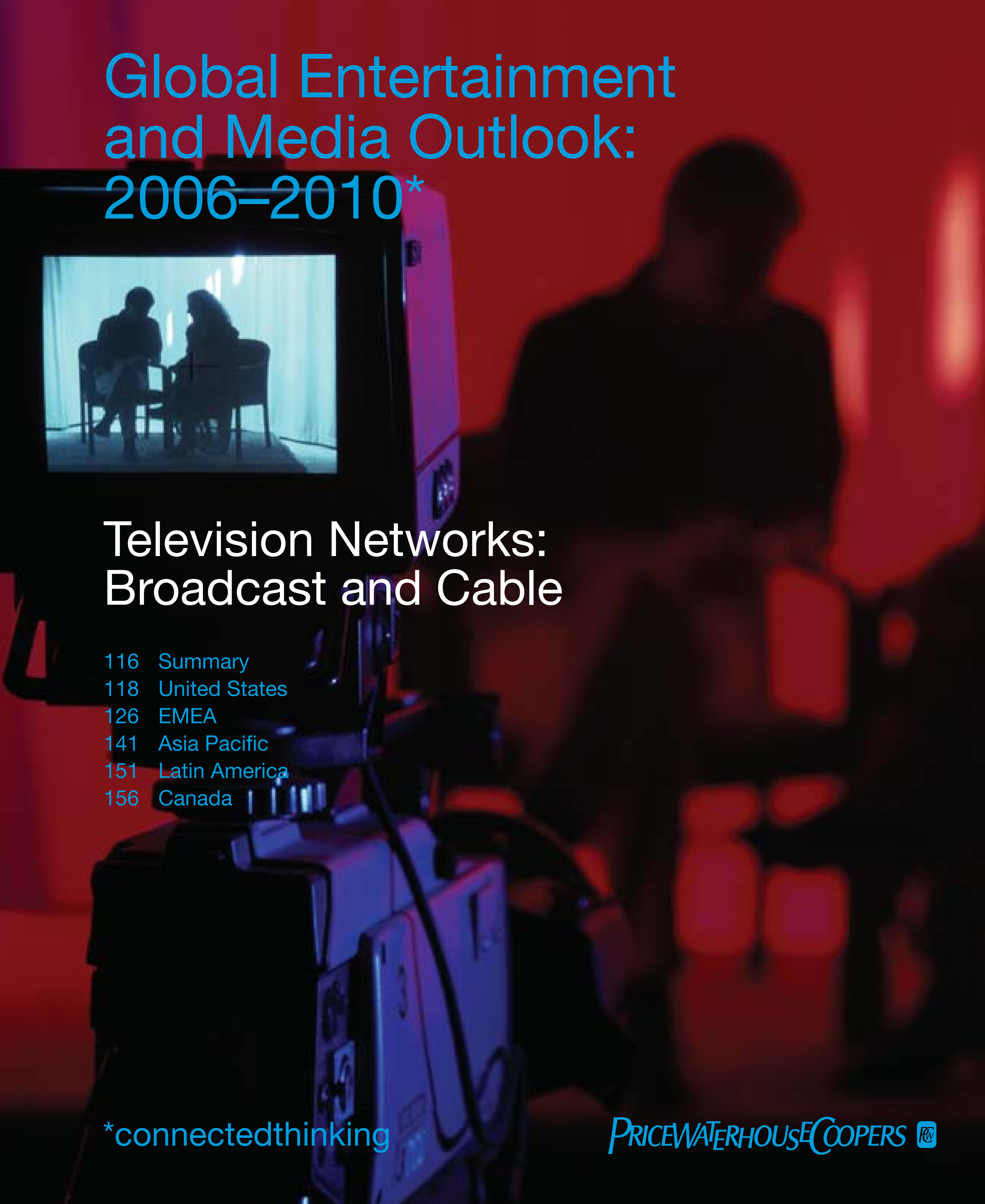


Global Entertainment and Media Outlook: 2006–2010*

Television Networks: Broadcast and Cable

*connectedthinking

PricewaterhouseCoopers

Television Networks: Broadcast and Cable

The television network market consists of advertiser spending on broadcast and cable networks, plus other sources of revenue that vary by region. In North America, the television network market includes license fees paid by cable systems and satellite providers to basic and premium cable networks. In EMEA (Europe, Middle East, Africa) and Asia Pacific it includes public TV license fees. Net advertising figures, consisting of spending less agency commissions and discounts, are tracked in EMEA, Asia Pacific, Latin America, and Canada. Advertising in the U.S. is reported with agency commissions included, as is customary. The television distribution market is covered in a separate chapter.

Multichannel advertising refers to advertising on networks that are accessed by viewers via cable (analog or digital), satellite, digital terrestrial television (DTT), or other means but that are not otherwise available without these services. *Terrestrial advertising* refers to advertising generated by free-to-air broadcast networks, even if viewers may receive such networks through a cable, satellite, or DTT service.

Market size and growth by region

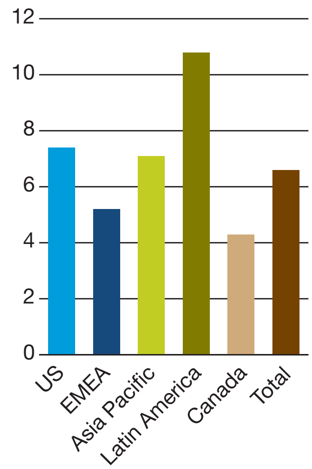
The global television network market will total $226.6 billion in 2010, growing at a compound annual rate of 6.6 percent from 2005. Latin America will be the fastest-growing market, with a compound annual increase of 10.8 percent. The United States will grow at a 7.4 percent compound annual rate and Asia Pacific by 7.1 percent compounded annually, followed by 5.2 percent growth in EMEA and 4.3 percent in Canada. The U.S. will remain the largest market in 2010, at $84.5 billion, followed by EMEA at $75.1 billion and Asia Pacific at $51.2 billion. Latin America will total $11.3 billion, with Canada at $4.5 billion.

Principal drivers

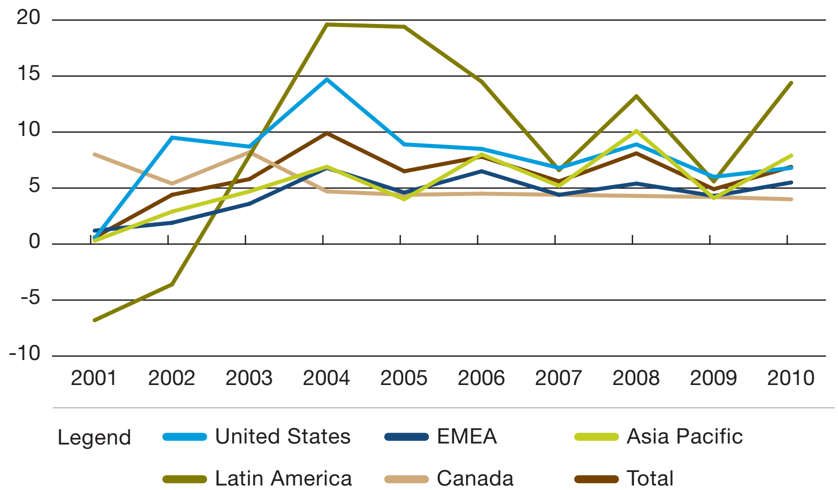
Multichannel advertising will be the fastest-growing sector in each region, buoyed by rapid growth in digital households and advertising on new channels that the digital platforms support. New analog channels, digital broadcasting, and high-definition television will also make free-to-air channels more appealing, while new distribution outlets, including distribution to mobile devices, will expand viewing and boost advertising. Public license fees, which represent a slow-growing component of the market, will hold down overall expansion in EMEA and Asia Pacific. Projected increases in advertising in those two regions will be significantly higher. A stronger and more stable economic climate will lead to large increases in Central and Eastern Europe and in Latin America. Increased funding from the Canadian Television Fund will support programming in Canada, while the lack of progress in improving the regulatory environment, including the restrictions on foreign investment in certain key markets, will impede the otherwise strong growth in Asia Pacific. In the United States, the possibility of à la carte distribution could slow license fee growth for cable networks.

Trend analysis of the outlook for broadcast and cable networks

Compound Annual Growth Rate (CAGR) (%)



Percent Change (%)



Television Network Market (US$ Millions)

Region	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
United States	39,782	43,566	47,354	54,304	59,138	64,160	68,525	74,620	79,080	84,470	
% Change	0.5	9.5	8.7	14.7	8.9	8.5	6.8	8.9	6.0	6.8	7.4
EMEA	49,387	50,325	52,125	55,652	58,224	61,995	64,730	68,254	71,156	75,061	
% Change	1.2	1.9	3.6	6.8	4.6	6.5	4.4	5.4	4.3	5.5	5.2
Asia Pacific	30,365	31,250	32,733	35,003	36,406	39,332	41,387	45,578	47,434	51,201	
% Change	0.3	2.9	4.7	6.9	4.0	8.0	5.2	10.1	4.1	7.9	7.1
Latin America	4,558	4,396	4,742	5,672	6,770	7,751	8,259	9,348	9,875	11,299	
% Change	–6.8	–3.6	7.9	19.6	19.4	14.5	6.6	13.2	5.6	14.4	10.8
Canada	2,956	3,116	3,372	3,530	3,684	3,849	4,019	4,193	4,370	4,546	
% Change	8.0	5.4	8.2	4.7	4.4	4.5	4.4	4.3	4.2	4.0	4.3
Total	127,048	132,653	140,326	154,161	164,222	177,087	186,920	201,993	211,915	226,577	
% Change	0.6	4.4	5.8	9.9	6.5	7.8	5.6	8.1	4.9	6.9	6.6

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

United States

The outlook in brief

- The disparity between cable and broadcast network advertising growth will be reduced as viewership levels stabilize.
- New nontelevision distribution outlets will stimulate interest in network programming on television.
- The dampening impact of the emergence of family tiers and à la carte service from cable and satellite basic network license fee increases should be offset by low à la carte take-up rates and new competition from telephone companies.
- With digital cable and direct broadcast satellite (DBS) subscriber growth moderating to single-digit increases, premium subscriber spending and license fees for premium services will slow.
- Digital video recorders (DVRs), digital television, and high-definition television (HDTV) will enhance the appeal of television, leading to increased viewership and advertising.

Overview

- The TV network market will expand at a 7.4 percent compound annual rate to $84.5 billion in 2010 from $59.1 billion in 2005.
- Advertising will continue to be the dominant revenue stream, totaling $52.0 billion in 2010, or 62 percent of the total, and growing at a 7.1 percent rate compounded annually.
- License fee growth will drop to single-digit gains beginning in 2006, averaging 7.9 percent compounded annually to $32.5 billion in 2010 as its growth advantage over advertising narrows.
- Cable networks will generate $61.2 billion in 2010 from both advertising and license fees—an 8.3 percent compound annual increase from 2005—while broadcast network advertising will grow at a 5.2 percent rate.

Television Network Market (US$ Millions)

United States	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Broadcast Network Advertising	15,185	15,975	16,050	17,860	18,050	19,150	19,525	21,590	21,920	23,250
Cable Network Advertising	11,777	12,071	13,954	16,424	18,888	20,700	22,800	24,850	26,850	28,700
Total Advertising	26,962	28,046	30,004	34,284	36,938	39,850	42,325	46,440	48,770	51,950
Basic Network License Fees	8,590	10,800	11,960	13,850	15,450	17,200	18,700	20,310	22,030	23,870
Premium Network License Fees	4,230	4,720	5,390	6,170	6,750	7,110	7,500	7,870	8,280	8,650
Total License Fees	12,820	15,520	17,350	20,020	22,200	24,310	26,200	28,180	30,310	32,520
Total Cable†	24,597	27,591	31,304	36,444	41,088	45,010	49,000	53,030	57,160	61,220
Total Broadcast and Cable	39,782	43,566	47,354	54,304	59,138	64,160	68,525	74,620	79,080	84,470

†Includes advertising and license fees.
Sources: PricewaterhouseCoopers LLP, Universal McCann, Wilkofsky Gruen Associates

Television Network Market Growth (%)

United States	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Broadcast Network Advertising	–8.8	5.2	0.5	11.3	1.1	6.1	2.0	10.6	1.5	6.1	5.2
Cable Network Advertising	0.1	2.5	15.6	17.7	15.0	9.6	10.1	9.0	8.0	6.9	8.7
Total Advertising	–5.1	4.0	7.0	14.3	7.7	7.9	6.2	9.7	5.0	6.5	7.1
Basic Network License Fees	19.5	25.7	10.7	15.8	11.6	11.3	8.7	8.6	8.5	8.4	9.1
Premium Network License Fees	6.3	11.6	14.2	14.5	9.4	5.3	5.5	4.9	5.2	4.5	5.1
Total License Fees	14.8	21.1	11.8	15.4	10.9	9.5	7.8	7.6	7.6	7.3	7.9
Total Cable	7.2	12.2	13.5	16.4	12.7	9.5	8.9	8.2	7.8	7.1	8.3
Total Broadcast and Cable	0.5	9.5	8.7	14.7	8.9	8.5	6.8	8.9	6.0	6.8	7.4

Sources: PricewaterhouseCoopers LLP, Universal McCann, Wilkofsky Gruen Associates

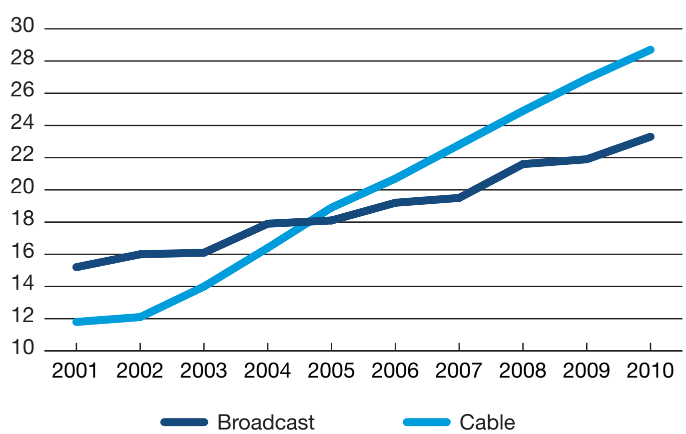
Advertising

- In 2005, for the first time, cable networks generated more advertising than the broadcast networks did. Advertising on cable networks rose 15 percent to $18.9 billion, while broadcast network advertising edged up 1.1 percent to $18.1 billion.

- Although the slow growth for the broadcast networks in 2005 was due largely to the absence of Olympic-related advertising that had enhanced the market in 2004, we expect that cable networks will continue to receive more advertising than the broadcast networks in 2006, an Olympic year, and in the subsequent Olympic years of 2008 and 2010.

- Except for 2002, when the economy was relatively weak and ad budgets were limited, cable network advertising growth has outpaced broadcast advertising in every year since 1992, reflecting the far greater advertising inventory available on cable. Additionally, aggregate cable audiences were expanding while broadcast audiences were contracting.

Broadcast and Cable Network Advertising (US$ Millions)



Sources: PricewaterhouseCoopers LLP, Universal McCann, Wilkofsky Gruen Associates

- Although we expect cable advertising to continue to grow faster than broadcast advertising, the two network categories are approaching an equilibrium with respect to viewership, which we expect will translate into smaller differences in advertising growth.

- Moreover, the 1.1 percent increase in broadcast network advertising in 2005 was the largest gain in a non-Olympic year since 1999. Thus, the underlying growth of broadcast network advertising proved to be solid in 2005.

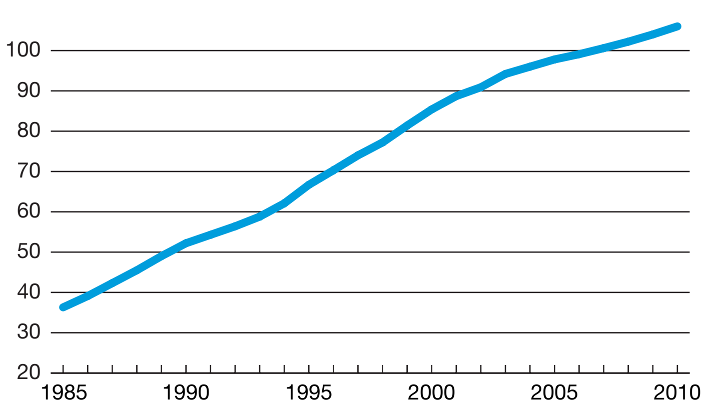
- Cable is losing one of its underlying drivers of audience growth: increased distribution. Slower audience growth will lead to slower advertising growth.

- Prime-time ratings for the broadcast networks during the 2004–05 television season rose for the first time since the 1993–94 season. A contributing factor was the fact that popular shows such as *Desperate Housewives, Lost, House, American Idol*, and *CSI* were aired on broadcast networks and not cable networks, while in prior years, shows creating the most buzz aired on cable.

- While the reality staples—*Survivor, American Idol*—continue to do well, new, scripted shows are tending to generate the most excitement. Scripted shows such as *Lost* and *Desperate Housewives* were instrumental in ABC's rebound in 2005, and the aftermarket favors scripted programs, which sell well on DVD and do better in syndication.

- The broadcast networks are available to virtually all television households, which means that although they have wider distribution than cable networks do, distribution growth is limited to TV household growth. Cable networks are available only in households that subscribe to a service that carries them. During the past two decades, the number of subscription television households has grown dramatically—from fewer than 40 million in 1985 to nearly 98 million in 2005—which in turn contributed to the large growth in audience size, and, therefore, viewership, for cable networks.

Subscription Television Households (Millions)



Sources: Federal Communications Commission, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Household penetration of subscription services is now approaching 90 percent. Consequently, the potential for further gains is limited, and we look for growth during the next five years to moderate sharply, averaging less than 2 percent annually.

- Leading cable networks are already available in virtually all subscription households. Consequently, they will see little increase in distribution and will therefore lose one of their principal audience growth drivers. Other networks that are currently not universally distributed should experience distribution gains as they become increasingly carried by systems that have expanded their capacity and added digital tiers. As these smaller networks gain distribution, their viewership and attractiveness to advertisers will increase, but some of those gains will come at the expense of the leading cable networks.

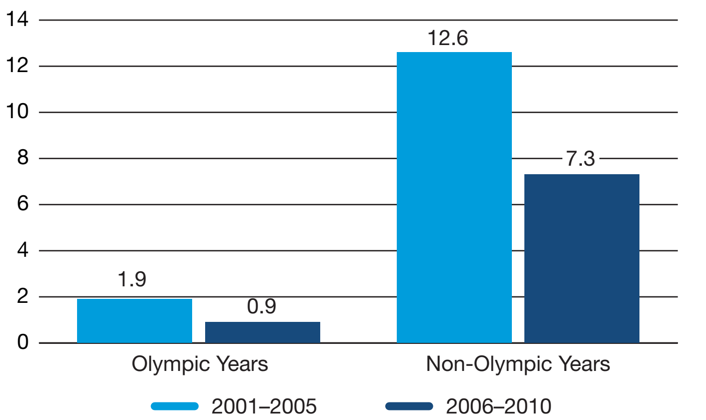
- The slowdown in distribution growth for cable networks will lead to a slowdown in viewership growth and a slowdown in advertising growth. After its growth at double-digit rates during the past three years, we expect cable network advertising to average 8.7 percent growth compounded annually during the next five years.

- Meanwhile, the broadcast network landscape changed in 2006 with the merger of the WB and UPN networks to form the CW network. Fox, which owns a number of UPN affiliates that will not have access to CW, responded with its own launch of My Network TV. CW will retain the best-performing programs on WB and UPN, while My Network TV will initially provide telenovelas, which is the popular soap opera format in Latin America that consists of 65 episodes aired five nights a week over a 13-week period. CW should enjoy a larger potential reach through over-the-air TV stations than either WB or UPN will because it will likely be carried in markets that have only five television stations. WB and UPN had to vie for the fifth slot in those markets, and the network that did not get a local affiliate either was not available in that market or could be accessed only on cable, which gave it much less visibility.

- Increased reach should lead to somewhat higher ratings for CW compared with either WB or UPN, while My Network TV could carve out its own niche with an alternative format if it attracts a following.

- The disparity in advertising growth between the broadcast and cable networks is reduced during Olympic years, but we expect that in both Olympic and non-Olympic years, cable will enjoy less of a growth advantage during 2006–2010 than it has during the past five years.

Average Cable Network Advertising Growth Advantage (percentage points)



Sources: PricewaterhouseCoopers LLP, Universal McCann, Wilkofsky Gruen Associates

New distribution outlets

- Successful television programs—generally those with a hundred or more episodes—have always had an afterlife in syndication beyond their network run. With the expiration of the financial interest/syndication rules that prevented the broadcast networks from owning the shows they air and from participating in syndication of those shows, the networks have become more proactive in investing in their programming and in enhancing the aftermarket revenue streams from those shows. Cable networks that develop original programs are also participating in the syndication market and in other aftermarket revenue streams.

- During the past few years, TV programs on DVD have proved to be lucrative revenue streams for broadcast and cable programmers. Spending on TV series sold on DVDs rose more than 40 percent in 2005 to $4.0 billion compared with $2.8 billion in 2004 and $1.4 billion in 2003. As scripted programs do well in this market, growth in TV DVD sales is contributing to the renewed network emphasis on scripted shows in those networks' initial programming decisions.

- During the latter part of 2005, the broadcast networks began making deals for distributing shows to mobile devices. In October 2005, ABC announced a deal with Apple to make shows available on the new video iPod platform. Shows will be available following their initial broadcast airing and can be downloaded in a commercial-free format. ABC Sports and ESPN will also create short-form programs of about 15 minutes each that show highlights of games and other programs for iTunes. NBC has a similar deal with Apple, under which NBC will make episodes available to video iPod users during the week following the episodes' initial airing on NBC. CBS has a comparable deal with Verizon Wireless to distribute programs to Verizon's new V CAST mobile phone. CBS is also creating original short-form soap operas of about five minutes in length for distribution to Amp'd Mobile subscribers.

- Current programming is also being made available for video-on-demand (VOD). NBC Universal plans to distribute shows to DIRECTV DVR subscribers, and CBS has a deal with Comcast VOD subscribers. Shows will be available for a limited amount of time following the initial broadcast airing. Fox has a deal with DIRECTV, both of them owned by News Corp., for airings of Fox network programs during the week following the initial airing on Fox. FX, also owned by News Corp., has a deal with DIRECTV for *The Shield* and *Rescue Me* to be shown prior to their airing on FX.

- In contrast to traditional syndication and with the sales of shows on DVD, which are limited to vintage programming, these new distribution deals cover current programming. An issue therefore arises as to whether these new distribution outlets will cut into the audience of the network run.

- We believe there will be no meaningful cannibalization and, in fact, expect that expanded distribution will, if anything, enhance the network audience. There is no cost to watch a program when it is aired at the normally scheduled time. Consequently, there is no incentive for viewers to skip the free scheduled airing in order to pay for a subsequent airing.

- The value of the subsequent airing is that it allows viewers to catch an episode they missed. This in itself is not a new development, as viewers can always record their favorite shows on VCRs or DVRs for free. However, for those who neglect to do so or wish to watch an episode away from home, the new distribution outlets represent a convenience, which should result in modest incremental viewing.

Basic network license fees

- In late 2005, the Federal Communications Commission (FCC) issued a report showing that an à la carte distribution model, whereby subscribers select the channels they want rather than purchase a predetermined package of channels, would save consumers money and allow viewers to reject channels that carry programs they do not want in their homes. The 2005 findings reverse a 2004 FCC report that found that à la carte pricing would cost consumers more money.

- The FCC found that the average viewer watches 17 channels on a regular basis—a much smaller number than the number contained on most expanded basic packages. If viewers had the option of limiting their subscriptions to only those channels they want—in effect converting the basic model to the premium model, offered on an à la carte basis—they would spend less money even if the cost per channel were to rise.

- There is also a political component to à la carte. Through its licensing of television stations, the FCC has greater regulatory power over programming shown on the broadcast networks than that shown on cable, where it does not have direct licensing authority. In responding to complaints, typically regarding indecency, the FCC has fined television stations but cannot similarly sanction cable systems or cable networks. An à la carte model would, in effect, give that power to viewers by allowing them to reject a channel they find objectionable on a case-by-case basis.

- As evidenced by its marketplace behavior, the cable industry sees the current model as generating more revenue. The analogy—and the terminology—revolve around the practice of restaurants' offering a full dinner for a fixed price. Cable operators offer a wide variety of basic networks—the full dinner—with the expectation that there will be enough choice to appeal to nearly everyone. Subscribers pay for the whole package, which has the effect of subsidizing less popular channels. The full-dinner approach gives cable networks wide exposure, provides a means to give new networks a chance to gain a following, and results in subscribers' buying more channels than they would buy if the channels were offered à la carte. For those reasons, cable networks generally seek to be carried on the basic tiers.

- Following the FCC announcement, cable operators in the U.S. announced the creation of family tiers, which consist of channels that show only G-rated programs on a 24-hour basis. Family tiers address FCC concerns about indecency and could forestall actual legislation regarding programming on cable while giving viewers a lower-cost option. However, family tiers are not à la carte services, since they are offered as packages that viewers can take or leave only as a group rather than having the option of subscribing on a channel-by-channel basis.

- Another issue affecting license fees is the rate charged per subscriber, which is affected by competition. In the past, competition among distributors of cable networks has been limited. Most communities were served by only a single cable operator, and DBS requires line-of-sight access to a satellite, which may not be feasible everywhere. Consequently, cable operators had negotiating power because the loss of one network would not likely result in a subscription cancellation, because viewers had no alternatives.

- This dynamic has begun to change in recent years as DBS operators have become more aggressive in marketing their services in urban areas served by cable. The entrance of telephone companies into the television distribution market will provide further competition. If subscribers have the option of switching to another service, incumbent cable operators will have more to lose if a popular channel is canceled. Consequently, cable networks will have somewhat more negotiating power, which should enable them to generate rate increases.

- Overall subscriber growth will also affect the outlook for basic network license fees. With subscriber growth slowing, volume gains will provide less of a boost, which will have a dampening impact on growth. Partially offsetting that impact is the growing proportion of subscribers who opt for digital tiers. Those households receive more channels, which provides for volume gains for low-carried networks and higher license fees.

- On balance, we expect basic network license fee growth to moderate, although increases will continue to be relatively healthy, augmented in part by new distribution sources. For cable operators, growth in license fees will decrease from double-digit and high-single-digit increases during the past five years to mid-single-digit gains during the next five years, averaging 5.0 percent compounded annually. DBS operators, which are still gaining subscribers, will see continued double-digit growth in license fees through 2009, with a 13.1 percent increase compounded annually through 2010. Telephone companies, which we expect will emerge as significant players during the latter part of the forecast period, will increase their license fee payments by 52.7 percent compounded annually from a small base. Overall growth will average 9.1 percent on a compound annual basis to $23.9 billion in 2010 from $15.5 billion in 2005.

Basic Network License Fees (US$ Millions)

United States	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Cable Operators	6,700	8,360	9,030	10,040	10,730	11,520	12,080	12,650	13,170	13,670	
% Change	17.5	24.8	8.0	11.2	6.9	7.4	4.9	4.7	4.1	3.8	5.0
DBS	1,510	2,030	2,540	3,410	4,270	5,070	5,810	6,520	7,270	7,890	
% Change	33.6	34.4	25.1	34.3	25.2	18.7	14.6	12.2	11.5	8.5	13.1
Telephone Companies	80	120	170	200	260	430	640	970	1,430	2,160	
% Change	33.3	50.0	41.7	17.6	30.0	65.4	48.8	51.6	47.4	51.0	52.7
Other†	300	290	220	200	190	180	170	170	160	150	
% Change	0.0	–3.3	–24.1	–9.1	–5.0	–5.3	–5.6	0.0	–5.9	–6.3	–4.6
Total	8,590	10,800	11,960	13,850	15,450	17,200	18,700	20,310	22,030	23,870	
% Change	19.5	25.7	10.7	15.8	11.6	11.3	8.7	8.6	8.5	8.4	9.1

†Wireless cable, satellite master antenna television, and C band.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Premium license fees

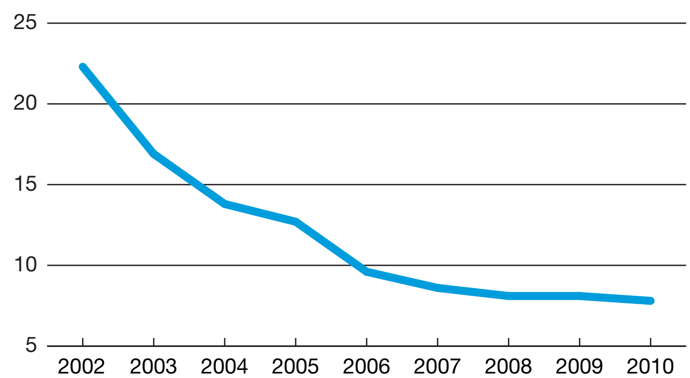
- Premium networks have traditionally been offered on an à la carte basis and cost far more per channel than basic networks do. In contrast with basic networks, whose majority of license fees are generated from cable subscribers, premium networks get most of their revenue from DBS subscribers. DBS accounted for 54 percent of premium license fees in 2005 even though it represented only 27 percent of subscribers.

- Launched as a digital service, DBS was able to offer more channels than cable operators offered—a prime motivation for cable operators to upgrade their systems to offer digital capability. Digital subscribers access a suite of premium networks, while analog subscribers get only a single channel. Digital subscribers are also likely to be more interested in choice and therefore more likely to subscribe to premium services. Even though cable operators now offer the digital option, there are still more digital subscribers on DBS than on cable, accounting for the larger premium revenue stream generated from DBS.

- Expansion of the digital subscriber universe on both DBS and cable has fueled premium license fee growth during the past five years. While growth has been moderating, the number of digital households continued to rise at double-digit rates through 2005.

- As an à la carte service, premium channels are more susceptible to economic fluctuations than are basic services, and premium fees suffered in 2001, a recession year. Except for 2001, premium network license fees have grown at double-digit and high-single-digit rates during the past five years, reflecting the expansion of the digital universe.

Digital Household Growth (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Beginning in 2006, however, digital cable and DBS subscriber growth will drop to single digits, and we look for premium license fee growth to slow as well.

- License fees generated from cable operators will be relatively flat, edging up at a 0.5 percent compound annual rate to $3 billion. Even though cable is transitioning from analog to digital, the decline in the growth of the overall number of cable subscribers will offset higher take-up rates from digital subscribers.

- The DBS market is also slowing, as it has already penetrated areas unserved by other providers, and must now compete with digital cable and telephone companies for incremental growth. Premium license fees generated from DBS subscribers rose at double-digit rates during the past five years but will drop to single-digit increases beginning in 2006 and will average 5.7 percent compound annual growth through 2010. At $4.8 billion in 2010, DBS will account for 56 percent of premium license fees.

- Telephone companies are introducing digital television services and are expanding from a small base. We expect license fees from telephone subscribers to grow at a 44.9 percent annual rate to $830 million in 2010, constituting nearly 10 percent of the total.

- The overall premium market will expand from $6.8 billion in 2005 to $8.7 billion in 2010, a compound annual increase of 5.1 percent.

Premium Network License Fees (US$ Millions)

Category	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Cable Operators	2,560	2,720	2,740	2,830	2,910	2,920	2,950	2,970	2,980	2,980	
% Change	1.2	6.3	0.7	3.3	2.8	0.3	1.0	0.7	0.3	0.0	0.5
DBS	1,500	1,820	2,480	3,170	3,650	3,940	4,230	4,460	4,690	4,810	
% Change	18.1	21.3	36.3	27.8	15.1	7.9	7.4	5.4	5.2	2.6	5.7
Telephone Companies	50	70	100	110	130	200	280	400	570	830	
% Change	25.0	40.0	42.9	10.0	18.2	53.8	40.0	42.9	42.5	45.6	44.9
Other†	120	110	70	60	60	50	40	40	40	30	
% Change	–14.3	–8.3	–36.4	–14.3	0.0	–16.7	–20.0	0.0	0.0	–25.0	–12.9
Total	4,230	4,720	5,390	6,170	6,750	7,110	7,500	7,870	8,280	8,650	
% Change	6.3	11.6	14.2	14.5	9.4	5.3	5.5	4.9	5.2	4.5	5.1

†Wireless cable, satellite master antenna television, and C band.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

New technologies

- DVRs, HDTV, and digital broadcasting are technologies gaining traction that could affect the television advertising market. The DVR universe increased to 9 million households in 2005, and the number of households capable of watching programs in high definition rose to 4 million. As recently as 2001, each technology had fewer than 1 million households.

- DVRs were viewed with concern because they enable households to skip commercials. A similar concern arose during the 1980s, when the VCR market took off. VCRs gave viewers the ability to record programs and the ability to fast-forward through commercials during playback. Even though VCRs ultimately penetrated nearly 90 percent of TV households, the threat of lost commercial viewing did not materialize.

- The broadcast networks in 2005 released a study of DVR viewership that mirrored the experience of the VCR. In the recent network study, less than 10 percent of viewing was in playback, and recall rates for commercials viewed in fast-forward modes were not materially different from recall rates in normal viewing. Moreover, a large percentage of viewers chose to view commercials in real time after initially skipping through them in fast-forward mode.

- The DVR, like the VCR, allows viewers to watch shows they otherwise would have missed. In this regard, DVR playback viewing is incremental, and commercial exposure in playback is likewise incremental. As was the case with the VCR, growing DVR penetration will contribute more to television viewing and to the viewing of commercials than it will detract. Consequently, we expect DVRs to enhance viewership and to support advertising growth.

- Technologies are being developed to create ads specifically for DVR playback. Ads can be inserted during playback and appear in real time while the program is being fast-forwarded. There are also so-called persistent ads that remain on the screen during fast-forward. In addition, the DVR provides interactive opportunities for advertisers. Viewers are given an on-screen option to find out more information by using their remote control to click to a long-form ad. The viewer can watch the ad while the DVR records the program.

- Even though the DVR has more features than the VCR and is more user-friendly, we do not expect DVR penetration to grow as fast as that of the VCR during the comparable period of its development. In contrast with the VCR, DVR usage entails a monthly fee, and the DVR does not offer the ability to buy or rent movies, a key driver of VCR growth. We project that by 2010, there will be 35 million DVR households, representing 31 percent of the TV household universe.

DVR Households†

Category	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
DVR Households (Millions)	0.5	1.7	3.2	5.5	9.0	13.0	18.0	23.0	29.0	35.0
DVR Household Penetration (%)	0.5	1.6	3.0	5.1	8.2	11.8	16.2	20.6	25.8	31.0

†Annual averages.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- One outgrowth of the perceived DVR threat was the expansion of product placement advertising on television. Because products are shown in the program itself, the "advertising" impression is not subject to skipping. Product placement is estimated to have grown by around 30 percent in 2005. These product placements provide an incremental revenue stream for networks and program producers. We would estimate product placement revenue on television to be around $750 million in 2005, growing to some $2 billion in 2010, which would constitute approximately 4 percent of broadcast and cable advertising.

- Technologies have been developed that allow the insertion of product placements after the fact. Virtual images are inserted into the program and can subsequently be changed. Thus, a different production placement could be visible when the program is rerun than when it is originally aired.

- There is a limit to the potential for product placements. If product placements become intrusive and distract from the content of the program, they will be resisted by program producers and by the networks if they lead to lower viewing levels.

- There is less controversy regarding the appeal of HDTV—it enhances the viewing experience and should boost viewership—but there is confusion about the actual size of the market.

- Most digital television sets are sold without high-definition (HD) tuners. Thus, viewers need either a set-top box to access programs in HD or must access HD channels through cable or DBS.

- As of July 2005, all TV sets sold must be digital, and all sets 36 inches or larger must have a digital tuner. As of March 2006, all sets 25 inches or larger must have a digital tuner, and by the end of 2006, all TVs sold that are larger than 13 inches must have a digital tuner.

- Even without HD, as the TV set universe migrates from analog to digital, picture quality will improve. Digital receivers provide a sharper picture for all programs, including analog programs and non-HD shows, so much so that many people believe they are watching programs in HD when they are not.

- Competition between cable operators, DBS providers, and telephone companies are leading to the allocation of more channels to HD, in some cases offering them at no additional cost and thereby enhancing the ability of households to receive HD signals even without an HD tuner. As consumers become aware of these options, they will increasingly tune to HD channels.

- The February 2009 scheduled discontinuation of analog broadcasts will hasten the conversion of television stations to digital broadcasts. Digital broadcasts will be clearer—even on analog sets—and broadcasters will have the option of launching separate digital channels.

- Total television viewership increased in 2005. The increase in the number of channels and the increased penetration of digital TV receivers likely contributed to the increase. We expect HDTV will further boost viewing, which will have a positive impact on advertising.

- We estimate that there were 4 million homes in 2005 that actually viewed shows in HD. We project that figure to increase to 25 million by 2010, representing 22 percent of TV households.

HDTV Households

Category	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
HDTV Households (Millions)	0.8	1.5	1.9	2.4	4.0	7.0	11.0	15.0	20.0	25.0
HDTV Household Penetration (%)	0.8	1.4	1.8	2.2	3.6	6.4	9.9	13.5	17.8	22.1

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Europe, Middle East, Africa (EMEA)

The outlook in brief

- The proliferation of digital platforms and the launch of new channels will drive television advertising.
- Investment in Central and Eastern Europe is boosting the economy, stimulating advertising, and making advertising the fastest-growing component of the region.
- A ramp-up in HD programming will boost viewership and shift advertising funds from other media to television.
- Public television license fee growth will slow following rate increases in a number of countries in 2005 and growing resistance to large hikes.

Overview

- The television network market will expand from $58.2 billion in 2005 to $75.1 billion in 2010, a 5.2 percent compound annual increase representing an improvement compared with the past five years, when growth averaged 3.6 percent compounded annually.
- Central and Eastern Europe will be the fastest-growing area, increasing at a 12.0 percent annual rate from $7.0 billion in 2005 to $12.3 billion in 2010, when it will account for 16.4 percent of the EMEA (Europe, Middle East, Africa) market.
- Western Europe, which accounted for 85 percent of the overall market in 2005 at $49.2 billion, will rise by 3.8 percent compounded annually to $59.4 billion in 2010, when it will account for 79 percent of EMEA.
- Middle East/Africa, which constituted only 3 percent of the market in 2005, will average 10.8 percent growth compounded annually, rising from $2.0 billion to $3.3 billion in 2010, when it will account for 4 percent of EMEA.
- The United Kingdom and Germany are the two largest markets in the region, at $10.7 billion and $10.1 billion, respectively, in 2005. Italy ranks third, at $7.8 billion, and we expect it will reach the $10-billion threshold in 2010.

Television Network Market† (US$ Millions)

EMEA	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Western Europe										
Austria††	949	949	959	990	1,012	1,038	1,058	1,079	1,098	1,141
Belgium††	1,320	1,383	1,458	1,489	1,464	1,520	1,564	1,607	1,657	1,718
Denmark††	754	803	872	949	1,028	1,095	1,154	1,221	1,280	1,352
Finland††	517	524	532	593	601	609	630	643	658	672
France††	5,353	5,486	5,610	5,841	5,834	6,078	6,191	6,391	6,497	6,763
Germany††	10,649	10,075	9,916	9,996	10,111	10,477	10,348	10,425	10,545	10,766
Greece††	790	840	847	903	924	981	987	1,037	1,063	1,125
Ireland††	363	368	377	432	504	545	562	603	619	660
Italy††	6,644	6,828	7,091	7,602	7,836	8,391	8,768	9,287	9,585	10,203
Netherlands††	1,494	1,548	1,498	1,520	1,525	1,559	1,588	1,653	1,701	1,786
Norway	848	855	905	956	1,006	1,074	1,123	1,180	1,220	1,287
Portugal††	597	553	578	609	634	690	715	764	795	858
Spain††	2,672	2,710	2,890	3,331	3,791	4,176	4,475	4,910	5,220	5,718
Sweden††	1,102	1,111	1,157	1,245	1,289	1,351	1,400	1,464	1,519	1,570
Switzerland	826	857	877	924	948	992	1,008	1,043	1,074	1,118
United Kingdom††	9,670	9,750	10,079	10,545	10,732	11,077	11,543	11,961	12,341	12,687
Western Europe Total	44,548	44,640	45,646	47,925	49,239	51,653	53,114	55,268	56,872	59,424
Central and Eastern Europe										
Czech Republic††	591	527	565	600	667	729	776	831	879	942
Hungary††	548	693	818	961	1,110	1,304	1,456	1,630	1,787	1,983
Poland††	1,924	2,008	2,061	2,179	2,244	2,319	2,391	2,521	2,599	2,755
Romania‡‡	122	127	152	184	212	236	257	279	297	324
Russia	426	777	1,049	1,447	1,924	2,439	3,004	3,605	4,241	4,771
Turkey‡‡	179	329	433	649	843	1,021	1,165	1,306	1,435	1,553
Central and Eastern Europe Total	3,790	4,461	5,078	6,020	7,000	8,048	9,049	10,172	11,238	12,328
Middle East/Africa										
Israel	210	202	210	223	228	238	245	257	266	280
Saudi Arabia/Pan Arab‡	320	450	550	740	940	1,150	1,350	1,500	1,650	1,801
South Africa	519	572	641	744	817	906	972	1,057	1,130	1,228
Middle East/Africa Total	1,049	1,224	1,401	1,707	1,985	2,294	2,567	2,814	3,046	3,309
EMEA Total	49,387	50,325	52,125	55,652	58,224	61,995	64,730	68,254	71,156	75,061

†At average 2005 exchange rates.
‡Comprises Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Syria, and the United Arab Emirates.
††European Union members.
‡‡European Union applicants.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Television Network Market Growth (%)

EMEA	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Western Europe											
Austria††	–0.8	0.0	1.1	3.2	2.2	2.6	1.9	2.0	1.8	3.9	2.4
Belgium††	3.3	4.8	5.4	2.1	–1.7	3.8	2.9	2.7	3.1	3.7	3.3
Denmark††	3.4	6.5	8.6	8.8	8.3	6.5	5.4	5.8	4.8	5.6	5.6
Finland††	–3.4	1.4	1.5	11.5	1.3	1.3	3.4	2.1	2.3	2.1	2.3
France††	–3.0	2.5	2.3	4.1	–0.1	4.2	1.9	3.2	1.7	4.1	3.0
Germany††	2.8	–5.4	–1.6	0.8	1.2	3.6	–1.2	0.7	1.2	2.1	1.3
Greece††	–0.8	6.3	0.8	6.6	2.3	6.2	0.6	5.1	2.5	5.8	4.0
Ireland††	–6.7	1.4	2.4	14.6	16.7	8.1	3.1	7.3	2.7	6.6	5.5
Italy††	–2.0	2.8	3.9	7.2	3.1	7.1	4.5	5.9	3.2	6.4	5.4
Netherlands††	–2.5	3.6	–3.2	1.5	0.3	2.2	1.9	4.1	2.9	5.0	3.2
Norway	–0.1	0.8	5.8	5.6	5.2	6.8	4.6	5.1	3.4	5.5	5.1
Portugal††	–7.6	–7.4	4.5	5.4	4.1	8.8	3.6	6.9	4.1	7.9	6.2
Spain††	–6.5	1.4	6.6	15.3	13.8	10.2	7.2	9.7	6.3	9.5	8.6
Sweden††	–2.5	0.8	4.1	7.6	3.5	4.8	3.6	4.6	3.8	3.4	4.0
Switzerland	–1.9	3.8	2.3	5.4	2.6	4.6	1.6	3.5	3.0	4.1	3.4
United Kingdom††	0.5	0.8	3.4	4.6	1.8	3.2	4.2	3.6	3.2	2.8	3.4
Western Europe Total	–0.6	0.2	2.3	5.0	2.7	4.9	2.8	4.1	2.9	4.5	3.8
Central and Eastern Europe											
Czech Republic††	18.9	–10.8	7.2	6.2	11.2	9.3	6.4	7.1	5.8	7.2	7.1
Hungary††	21.8	26.5	18.0	17.5	15.5	17.5	11.7	12.0	9.6	11.0	12.3
Poland††	27.3	4.4	2.6	5.7	3.0	3.3	3.1	5.4	3.1	6.0	4.2
Romania‡‡	–2.4	4.1	19.7	21.1	15.2	11.3	8.9	8.6	6.5	9.1	8.9
Russia	86.0	82.4	35.0	37.9	33.0	26.8	23.2	20.0	17.6	12.5	19.9
Turkey‡‡	0.0	83.8	31.6	49.9	29.9	21.1	14.1	12.1	9.9	8.2	13.0
Central and Eastern Europe Total	26.7	17.7	13.8	18.6	16.3	15.0	12.4	12.4	10.5	9.7	12.0
Middle East/Africa											
Israel	–10.6	–3.8	4.0	6.2	2.2	4.4	2.9	4.9	3.5	5.3	4.2
Saudi Arabia/Pan Arab†	20.8	40.6	22.2	34.5	27.0	22.3	17.4	11.1	10.0	9.2	13.9
South Africa	9.7	10.2	12.1	16.1	9.8	10.9	7.3	8.7	6.9	8.7	8.5
Middle East/Africa Total	7.8	16.7	14.5	21.8	16.3	15.6	11.9	9.6	8.2	8.6	10.8
EMEA Total	1.2	1.9	3.6	6.8	4.6	6.5	4.4	5.4	4.3	5.5	5.2

†Comprises Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Syria, and the United Arab Emirates.
††European Union members.
‡‡European Union applicants.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Digital television and new channels

- The transition from analog to digital is accelerating in EMEA, with digital launches in a number of countries and increased subscribership to existing digital platforms throughout the region. New channels have been launched—including new free-to-air channels—to take advantage of the increased capacity.

- In France, digital terrestrial television (DTT) was introduced in the spring of 2005, and by the end of the year, it was available to more than half the population. Within the first two months, more than 500,000 people purchased set-top boxes. DTT subscribers get 14 channels instead of 5, and 8 new channels offered on a paid basis became available in early 2006.

- In Spain, the government changed the structure of the television industry in 2005 by approving the Digital Terrestrial Television (DTT) plan, authorizing new analog channels, and permitting Canal Plus, owned by Sogecable in Spain, to shift from a premium service to become a free-to-air broadcaster. Under the DTT plan, digital frequencies were reallocated, freeing up spectrum for 20 free-to-air channels. In November 2005, 18 DTT channels were launched, with 2 more expected in 2006. Having become a free-to-air broadcaster, Sogecable launched Cuatro, the first national terrestrial analog channel to enter the market in years.

- La Sexta, another analog channel approved by the government in Spain, will enter the market in 2006. La Sexta's license allows it to broadcast two digital channels in addition to its analog channel. The new capacity is attracting international players.

- In Italy, Mediaset upgraded its digital offerings and is making the service available on a prepaid basis. Within the first two months, more than 1 million prepaid cards were sold. Meanwhile, subscribership to Sky Italia, the digital satellite service, rose by 25 percent in 2005.

- In Germany, the number of DTT households nearly doubled to 1.2 million in 2005 from 650,000 in 2004. DTT service in Germany offers 28 channels. There were also a number of new analog channel launches. Viacom reintroduced Nickelodeon; NBC Universal launched Das Vierte, a channel featuring series programming and movies; Sony introduced AXN, a pay channel; and Premiere, which went public in 2005, announced it will either acquire or launch a free-to-air channel.

- In August 2005, Axel Springer, the leading publishing company in Europe, agreed to acquire ProSiebenSat1. The merger was subsequently rejected by the Commission on Concentration in the Media and by the Federal Competition Authority, although Axel Springer could have consummated the merger if it divested key properties. It chose not to do so and in February 2006 withdrew its bid.

- In the Netherlands, Talpa entered the market in August 2005, broadcasting over the Dutch Nickelodeon channel in the evenings. Talpa is spending large sums to attract programming. It acquired broadcast rights to Eredivisie matches from public broadcasters and raided talent and programs from other private channels. Competition from Talpa is inducing other broadcasters to reconfigure their offerings in order to remain competitive. Meanwhile, cable operator UPC announced that it plans to upgrade all of its subscribers to digital by 2008 and to spend €300 million ($373 million) on new set-top boxes.

- Sweden is rapidly phasing out analog broadcasts, new digital channels have been launched, and others are expected. In response to competition from new outlets, STV, the public broadcaster, launched three channels. Viewership, however, is migrating to private channels, a trend that will stimulate advertising on those channels. By February 2008, analog broadcasting is scheduled to disappear.

- In Denmark, TV2, the public channel, was privatized and it launched several new channels to target niche audience segments not reached by the main channel.

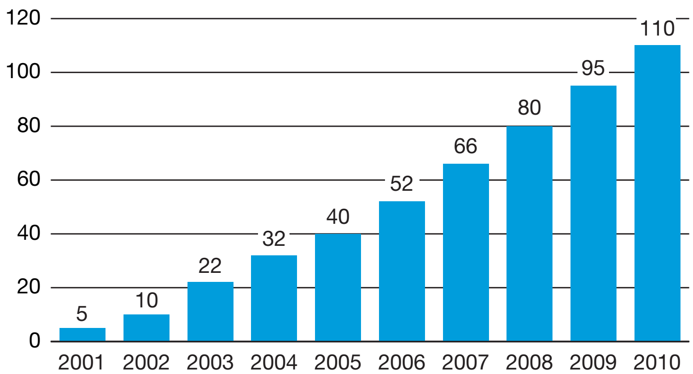
- The United Kingdom has the most advanced digital market in Europe, with two-thirds of households subscribing to a digital service. In addition to BSkyB, the digital satellite service, Freeview, a free DTT service, has attracted 6 million households. In September 2005, ITV announced it will launch a free-to-air digital satellite service in 2006 in conjunction with the BBC. Freesat, the new service, will target those households that cannot access Freeview. The service will carry ITV and BBC digital channels.

- In Ireland, the TV market is very competitive, and new services have been introduced. Channel Six began broadcasting in the first quarter of 2006, and City Channel became available on digital TV services. In addition, Setanta Sports, a channel carried on cable, is increasing its profile. The Irish TV market is set for another major shake-up in 2006 with the decision by Canadian group CanWest Global to sell its stake in TV3, Ireland's second-largest television service. The Canadian company has been involved with TV3 since 1997 and is selling its 45 percent stake to reduce its debt.

- In the Middle East, a number of new free-to-air channels were launched in 2005, and Noorsat announced that capacity on two Eutelsat satellites it operates will become available to the Middle East, which should double the number of channels reaching that market.

- The number of digital households in EMEA rose to 40 million in 2005, an increase from 32 million in 2004 and four times the 10 million total in 2002. We expect the digital universe to nearly triple during the next five years, rising to 110 million households by 2010, a penetration rate of 36 percent.

Digital Households in EMEA (Millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- TV distribution to mobile phones was also introduced in 2005. Subscribers with third-generation high-speed wireless phones in the United Kingdom, Germany, Italy, Spain, Portugal, the Netherlands, and Greece can now view video clips from television programs on their mobile phones.

- New digital platforms will expand channel capacity and increase the advertising inventory available on television. Given that the television advertising inventory in many countries is restricted to 12 minutes per hour, the opening up of additional inventory on new channels should attract new spending.

- In 2005 television advertising rose 5.7 percent, its largest increase in a non-Olympic, non–World Cup year since 1999. We expect the television advertising market to expand at a 7.0 percent compound annual rate to $53.8 billion in 2010 from $38.3 billion in 2005. Growth will be buoyed in 2006 by advertising associated with the FIFA World Cup in Germany, but growth in subsequent years will remain strong, at 6.5 percent compounded annually as the underlying market improves. Compared with the past five years, when television advertising rose at a 3.7 percent compound annual rate, the forecast anticipates a significant enhancement in growth.

- Central and Eastern Europe and Middle East/Africa will each average double-digit annual growth, continuing the trend of the past five years. Western Europe, however, will record the largest improvement, because most of the new digital households will be in that area. Its projected 5.3 percent annual increase will be more than five times the 0.9 percent compound annual increase of the past five years.

Television Advertising† (US$ Millions)

EMEA	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Western Europe										
Austria††	342	336	342	367	369	392	410	429	447	472
Belgium††	603	640	696	708	665	696	721	746	777	814
Denmark††	203	195	225	247	284	312	325	350	367	392
Finland††	205	211	218	236	242	249	261	273	286	298
France††	3,027	3,083	3,182	3,387	3,356	3,542	3,629	3,803	3,884	4,102
Germany††	5,555	4,917	4,737	4,798	4,661	4,935	4,785	4,848	4,953	5,158
Greece††	708	758	764	820	839	895	901	951	976	1,038
Ireland††	242	245	249	298	336	373	385	423	435	472
Italy††	4,947	4,997	5,239	5,718	5,929	6,463	6,712	7,209	7,483	8,079
Netherlands††	932	982	926	957	976	1,032	1,057	1,119	1,162	1,243
Norway	497	484	531	580	628	686	733	788	827	892
Portugal††	597	553	578	609	634	690	715	764	795	858
Spain††	2,672	2,710	2,890	3,331	3,791	4,176	4,475	4,910	5,220	5,718
Sweden††	476	468	478	506	529	562	581	615	639	680
Switzerland	393	417	421	450	466	502	510	538	554	590
United Kingdom††	6,154	5,721	5,894	6,329	6,454	6,781	7,145	7,545	7,909	8,236
Western Europe Total	27,553	26,717	27,370	29,341	30,159	32,286	33,345	35,311	36,714	39,042
Central and Eastern Europe										
Czech Republic††	486	421	457	491	557	617	663	717	763	825
Hungary††	518	663	788	930	1,079	1,273	1,425	1,598	1,755	1,951
Poland††	1,498	1,581	1,634	1,698	1,763	1,837	1,908	2,038	2,115	2,270
Romania‡‡	70	75	100	129	157	181	199	221	238	262
Russia	426	777	1,049	1,447	1,924	2,439	3,004	3,605	4,241	4,771
Turkey‡‡	179	329	433	649	843	1,021	1,165	1,306	1,435	1,553
Central and Eastern Europe Total	3,177	3,846	4,461	5,344	6,323	7,368	8,364	9,485	10,547	11,632
Middle East/Africa										
Israel	160	150	156	167	170	178	183	193	200	211
Saudi Arabia/Pan Arab‡	320	450	550	740	940	1,150	1,350	1,500	1,650	1,800
South Africa	371	422	490	592	663	751	815	898	970	1,066
Middle East/Africa Total	851	1,022	1,196	1,499	1,773	2,079	2,348	2,591	2,820	3,077
EMEA Total	31,581	31,585	33,027	36,184	38,255	41,733	44,057	47,387	50,081	53,751

†At average 2005 exchange rates.
‡Comprises Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Syria, and the United Arab Emirates.
††European Union members.
‡‡European Union applicants.
Sources: Ofcom, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates, ZAW

Television Advertising Growth (%)

EMEA	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Western Europe											
Austria††	–3.4	–1.8	1.8	7.3	0.5	6.2	4.6	4.6	4.2	5.6	5.0
Belgium††	4.3	6.1	8.7	1.7	–6.1	4.7	3.6	3.5	4.2	4.8	4.1
Denmark††	–4.7	–3.9	15.4	9.8	15.0	9.9	4.2	7.7	4.9	6.8	6.7
Finland††	–8.5	2.9	3.3	8.3	2.5	2.9	4.8	4.6	4.8	4.2	4.3
France††	–6.0	1.9	3.2	6.4	–0.9	5.5	2.5	4.8	2.1	5.6	4.1
Germany††	–5.1	–11.5	–3.7	1.3	–2.9	5.9	–3.0	1.3	2.2	4.1	2.0
Greece††	–1.0	7.1	0.8	7.3	2.3	6.7	0.7	5.5	2.6	6.4	4.3
Ireland††	–5.1	1.2	1.6	19.7	12.8	11.0	3.2	9.9	2.8	8.5	7.0
Italy††	–3.6	1.0	4.8	9.1	3.7	9.0	3.9	7.4	3.8	8.0	6.4
Netherlands††	–4.5	5.4	–5.7	3.3	2.0	5.7	2.4	5.9	3.8	7.0	5.0
Norway	–1.2	–2.6	9.7	9.2	8.3	9.2	6.9	7.5	4.9	7.9	7.3
Portugal††	–7.6	–7.4	4.5	5.4	4.1	8.8	3.6	6.9	4.1	7.9	6.2
Spain††	–6.5	1.4	6.6	15.3	13.8	10.2	7.2	9.7	6.3	9.5	8.6
Sweden††	–11.7	–1.7	2.1	5.9	4.5	6.2	3.4	5.9	3.9	6.4	5.2
Switzerland	–5.8	6.1	1.0	6.9	3.6	7.7	1.6	5.5	3.0	6.5	4.8
United Kingdom††	–2.5	–7.0	3.0	7.4	2.0	5.1	5.4	5.6	4.8	4.1	5.0
Western Europe Total	–4.3	–3.0	2.4	7.2	2.8	7.1	3.3	5.9	4.0	6.3	5.3
Central and Eastern Europe											
Czech Republic††	23.7	–13.4	8.6	7.4	13.4	10.8	7.5	8.1	6.4	8.1	8.2
Hungary††	23.0	28.0	18.9	18.0	16.0	18.0	11.9	12.1	9.8	11.2	12.6
Poland††	36.3	5.5	3.4	3.9	3.8	4.2	3.9	6.8	3.8	7.3	5.2
Romania‡‡	–9.1	7.1	33.3	29.0	21.7	15.3	9.9	11.1	7.7	10.1	10.8
Russia	86.0	82.4	35.0	37.9	33.0	26.8	23.2	20.0	17.6	12.5	19.9
Turkey‡‡	0.0	83.8	31.6	49.9	29.9	21.1	14.1	12.1	9.9	8.2	13.0
Central and Eastern Europe Total	32.5	21.1	16.0	19.8	18.3	16.5	13.5	13.4	11.2	10.3	13.0
Middle East/Africa											
Israel	–10.1	–6.3	4.0	7.1	1.8	4.7	2.8	5.5	3.6	5.5	4.4
Saudi Arabia/Pan Arab†	20.8	40.6	22.2	34.5	27.0	22.3	17.4	11.1	10.0	9.1	13.9
South Africa	13.8	13.7	16.1	20.8	12.0	13.3	8.5	10.2	8.0	9.9	10.0
Middle East/Africa Total	10.7	20.1	17.0	25.3	18.3	17.3	12.9	10.3	8.8	9.1	11.7
EMEA Total	–1.2	0.0	4.6	9.6	5.7	9.1	5.6	7.6	5.7	7.3	7.0

†Comprises Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Syria, and the United Arab Emirates.
††European Union members.
‡‡European Union applicants.
Sources: Ofcom, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates, ZAW

Multichannel advertising

- Most of the new channels entering the market will be available on multichannel platforms, and we expect these channels to boost multichannel advertising—advertising on channels not accessible via ordinary television antennas. Multichannel advertising rose 12.1 percent in 2005 to $5.4 billion. We look for even faster growth beginning in 2006, with increases in excess of 12 percent through 2008 and during four of the next five years. By 2010, multichannel advertising will total $9.8 billion, up 12.7 percent on a compound annual basis.
- The United Kingdom is the leading country in multichannel advertising, at $1.7 billion in 2005, constituting 32 percent of the region's total and the only country with more than $1 billion in multichannel

advertising. The large digital universe in the United Kingdom and the large number of channels available in that market—more than 400—account for the high multichannel total.

- Even though the Netherlands and Belgium are relatively small markets—ranking 8th and 11th, respectively, in total television advertising—they are the next-largest multichannel markets. Virtually all households in those countries subscribe to a multichannel platform, and most advertising accrues to channels available only on those platforms. With the multichannel market mature in these countries, growth will be relatively modest, averaging 5.8 percent compounded annually in the Netherlands through 2010 and 4.3 percent in Belgium, making them the slowest-growing markets during the next five years.

Multichannel Advertising† (US$ Millions)

EMEA	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Western Europe										
Austria††	42	48	57	70	78	83	94	107	121	137
Belgium††	526	558	608	619	583	610	634	656	687	721
Denmark††	51	62	73	84	100	115	127	144	158	176
Finland††	5	6	7	9	12	15	21	27	35	42
France††	122	135	147	163	172	213	254	305	349	410
Germany††	336	314	343	355	373	385	406	436	471	516
Greece††	1	2	5	5	6	7	9	10	11	12
Ireland††	24	24	25	32	40	51	58	70	78	92
Italy††	73	97	131	200	297	420	571	721	897	1,131
Netherlands††	723	761	720	732	758	803	835	884	930	1,007
Norway	163	168	188	209	231	261	286	315	339	375
Portugal††	40	39	41	45	53	62	72	85	96	112
Spain††	93	124	165	230	298	343	403	516	626	772
Sweden††	202	206	215	233	249	270	285	307	326	354
Switzerland	86	92	95	104	109	120	125	135	141	153
United Kingdom††	1,502	971	1,229	1,444	1,709	2,000	2,273	2,545	2,818	3,054
Western Europe Total	3,989	3,607	4,049	4,534	5,068	5,758	6,453	7,263	8,083	9,064
Central and Eastern Europe										
Czech Republic††	7	8	9	11	15	19	27	36	46	58
Hungary††	80	106	130	157	186	223	257	304	351	410
Poland††	66	78	89	101	113	121	134	163	191	227
Romania‡‡	1	2	2	4	5	6	8	11	14	18
Russia	—	—	—	—	—	—	—	—	—	—
Turkey‡‡	—	—	—	—	—	—	—	—	—	—
Central and Eastern Europe Total	154	194	230	273	319	369	426	514	602	713
Middle East/Africa										
Israel	—	—	—	—	—	—	1	2	4	11
Saudi Arabia/Pan Arab‡	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
South Africa	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Middle East/Africa Total	0	0	0	0	0	0	1	2	4	11
EMEA Total	4,143	3,801	4,279	4,807	5,387	6,127	6,880	7,779	8,689	9,788

†At average 2005 exchange rates.
‡Comprises Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Syria, and the United Arab Emirates.
††European Union members.
‡‡European Union applicants.
Sources: Ofcom, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Italy has the fastest-growing multichannel market, posting an increase of 48.5 percent in 2005. With multichannel platforms still relatively new, we expect Italy to continue to be the fastest-growing market during the next five years, rising by 30.7 percent compounded annually to $1.1 billion and vaulting it into second place in 2010 behind the U.K.

- In Germany, DTT growth will boost multichannel advertising, which we project will expand at a 6.7 percent compound annual rate, representing an improvement compared with the performance during four of the previous five years.

- Currently, advertising on cable or satellite channels is prohibited in Israel but there is talk of legalizing it. We expect this will occur, and we look for multichannel advertising to enter the market beginning in 2007.

Multichannel Advertising Growth (%)

EMEA	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Western Europe											
Austria††	16.7	14.3	18.8	22.8	11.4	6.4	13.3	13.8	13.1	13.2	11.9
Belgium††	4.0	6.1	9.0	1.8	–5.8	4.6	3.9	3.5	4.7	4.9	4.3
Denmark††	–7.3	21.6	17.7	15.1	19.0	15.0	10.4	13.4	9.7	11.4	12.0
Finland††	25.0	20.0	16.7	28.6	33.3	25.0	40.0	28.6	29.6	20.0	28.5
France††	8.0	10.7	8.9	10.9	5.5	23.8	19.2	20.1	14.4	17.5	19.0
Germany††	–3.4	–6.5	9.2	3.5	5.1	3.2	5.5	7.4	8.0	9.6	6.7
Greece††	—	100.0	150.0	0.0	20.0	16.7	28.6	11.1	10.0	9.1	14.9
Ireland††	100.0	0.0	4.2	28.0	25.0	27.5	13.7	20.7	11.4	17.9	18.1
Italy††	30.4	32.9	35.1	52.7	48.5	41.4	36.0	26.3	24.4	26.1	30.7
Netherlands††	–4.4	5.3	–5.4	1.7	3.6	5.9	4.0	5.9	5.2	8.3	5.8
Norway	–5.2	3.1	11.9	11.2	10.5	13.0	9.6	10.1	7.6	10.6	10.2
Portugal††	17.6	–2.5	5.1	9.8	17.8	17.0	16.1	18.1	12.9	16.7	16.1
Spain††	63.2	33.3	33.1	39.4	29.6	15.1	17.5	28.0	21.3	23.3	21.0
Swedenv	–7.8	2.0	4.4	8.4	6.9	8.4	5.6	7.7	6.2	8.6	7.3
Switzerland	–4.4	7.0	3.3	9.5	4.8	10.1	4.2	8.0	4.4	8.5	7.0
United Kingdom††	40.0	–35.4	26.6	17.5	18.4	17.0	13.7	12.0	10.7	8.4	12.3
Western Europe Total	13.0	–9.6	12.3	12.0	11.8	13.6	12.1	12.6	11.3	12.1	12.3
Central and Eastern Europe											
Czech Republic††	75.0	14.3	12.5	22.2	36.4	26.7	42.1	33.3	27.8	26.1	31.1
Hungary††	23.1	32.5	22.6	20.8	18.5	19.9	15.2	18.3	15.5	16.8	17.1
Poland††	50.0	18.2	14.1	13.5	11.9	7.1	10.7	21.6	17.2	18.8	15.0
Romania‡‡	—	100.00	0.0	100.0	25.0	20.0	33.3	37.5	27.3	28.6	29.2
Russia	—	—	—	—	—	—	—	—	—	—	—
Turkey‡‡	—	—	—	—	—	—	—	—	—	—	—
Central and Eastern Europe Total	35.1	26.0	18.6	18.7	16.8	15.7	15.4	20.7	17.1	18.4	17.5
Middle East/Africa											
Israel	—	—	—	—	—	—	—	100.0	100.0	175.0	—
Saudi Arabia/Pan Arab†	—	—	—	—	—	—	—	—	—	—	—
South Africa	—	—	—	—	—	—	—	—	—	—	—
Middle East/Africa Total	—	—	—	—	—	—	—	100.0	100.0	175.0	—
EMEA Total	13.7	–8.3	12.6	12.3	12.1	13.7	12.3	13.1	11.7	12.6	12.7

†Comprises Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Syria, and the United Arab Emirates.
††European Union members.
‡‡European Union applicants.
Sources: Ofcom, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Terrestrial advertising

- Not all of the new channels will be limited to multichannel platforms. In fact, there were major terrestrial launches in Spain and Germany, and terrestrial television still constitutes the majority of viewing and advertising. In 2005, 86 percent of total advertising was terrestrial. While the terrestrial market is mature and expected to grow more slowly than multichannel advertising, because of its much larger base it will account for 72 percent of the total increase in advertising during the next five years.

Terrestrial Advertising† (US$ Millions)

EMEA	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Western Europe										
Austria††	300	287	285	297	291	308	316	322	327	336
Belgium††	77	82	88	89	82	86	87	89	89	93
Denmark††	152	133	152	163	184	196	198	207	209	215
Finland††	200	205	210	227	230	234	240	246	251	256
France††	2,905	2,947	3,035	3,224	3,184	3,330	3,376	3,499	3,535	3,692
Germany††	5,219	4,603	4,394	4,442	4,288	4,549	4,379	4,411	4,482	4,642
Greece††	707	756	759	815	833	887	892	941	965	1,025
Ireland††	219	221	224	266	296	322	327	353	357	380
Italy††	4,874	4,900	5,109	5,518	5,632	6,043	6,141	6,488	6,585	6,948
Netherlands††	209	221	206	225	218	229	221	235	232	236
Norway	333	316	343	371	397	425	447	473	488	517
Portugal††	557	515	537	564	580	628	643	680	700	746
Spain††	2,579	2,585	2,725	3,101	3,493	3,833	4,072	4,394	4,594	4,946
Sweden††	274	262	262	273	280	292	296	307	313	327
Switzerland	307	326	327	346	356	381	385	403	413	437
United Kingdom††	4,652	4,751	4,665	4,885	4,745	4,781	4,872	5,000	5,091	5,181
Western Europe Total	23,564	23,110	23,321	24,806	25,089	26,524	26,892	28,048	28,631	29,977
Central and Eastern Europe										
Czech Republic††	479	413	448	480	543	598	636	681	717	768
Hungary††	438	557	658	773	893	1,051	1,169	1,294	1,404	1,541
Poland††	1,432	1,504	1,545	1,597	1,651	1,716	1,775	1,875	1,925	2,043
Romania‡‡	69	73	98	126	152	174	191	210	224	244
Russia	426	777	1,049	1,447	1,924	2,439	3,004	3,605	4,241	4,771
Turkey‡‡	179	329	433	649	843	1,021	1,165	1,306	1,435	1,553
Central and Eastern Europe Total	3,023	3,653	4,231	5,072	6,006	6,999	7,940	8,971	9,946	10,920
Middle East/Africa										
Israel	160	150	156	167	170	178	183	191	196	201
Saudi Arabia/Pan Arab‡	320	450	550	740	940	1,150	1,350	1,500	1,650	1,800
South Africa	371	422	490	592	663	751	815	898	970	1,066
Middle East/Africa Total	851	1,022	1,196	1,499	1,773	2,079	2,348	2,589	2,816	3,067
EMEA Total	27,438	27,785	28,748	31,377	32,868	35,602	37,180	39,608	41,393	43,964

†At average 2005 exchange rates.
‡Comprises Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Syria, and the United Arab Emirates.
††European Union members.
‡‡European Union applicants.
Sources: Ofcom, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- We project a 6.0 percent increase in terrestrial advertising through 2010, which would be twice the 3.0 percent compound annual increase during the past five years. In Western Europe the turnaround is even starker, because Western Europe was more adversely affected by the economic downturn during the early years of the decade than were other areas in EMEA. Terrestrial advertising in 2005 was lower than it was in 2000, but we expect it to be 3.6 percent higher in 2010 on a compound annual basis compared with 2005.

- We anticipate above-average increases in 2006, reflecting advertising associated with the FIFA World Cup in Germany and the Winter Olympics in Italy. We also anticipate faster gains in 2008 and 2010 associated with Olympics broadcasts in those years as well as the next FIFA World Cup in 2010.

Terrestrial Advertising Growth (%)

EMEA	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Western Europe											
Austria††	–5.7	–4.3	–0.7	4.2	–2.0	5.8	2.6	1.9	1.6	2.8	2.9
Belgium††	6.9	6.5	7.3	1.1	–7.9	4.9	1.2	2.3	0.0	4.5	2.5
Denmark††	–3.8	–12.5	14.3	7.2	12.9	6.5	1.0	4.5	1.0	2.9	3.2
Finland††	–9.1	2.5	2.4	8.1	1.3	1.7	2.6	2.5	2.0	2.0	2.2
France††	–6.5	1.4	3.0	6.2	–1.2	4.6	1.4	3.6	1.0	4.4	3.0
Germany††	–5.2	–11.8	–4.5	1.1	–3.5	6.1	–3.7	0.7	1.6	3.6	1.6
Greece††	–1.1	6.9	0.4	7.4	2.2	6.5	0.6	5.5	2.6	6.2	4.2
Ireland††	–9.5	0.9	1.4	18.8	11.3	8.8	1.6	8.0	1.1	6.4	5.1
Italy††	–4.0	0.5	4.3	8.0	2.1	7.3	1.6	5.7	1.5	5.5	4.3
Netherlands††	–5.0	5.7	–6.8	9.2	–3.1	5.0	–3.5	6.3	–1.3	1.7	1.6
Norway	0.6	–5.1	8.5	8.2	7.0	7.1	5.2	5.8	3.2	5.9	5.4
Portugal††	–9.1	–7.5	4.3	5.0	2.8	8.3	2.4	5.8	2.9	6.6	5.2
Spain††	–8.0	0.2	5.4	13.8	12.6	9.7	6.2	7.9	4.6	7.7	7.2
Sweden††	–14.1	–4.4	0.0	4.2	2.6	4.3	1.4	3.7	2.0	4.5	3.2
Switzerland	–6.4	6.2	0.3	5.8	2.9	7.0	1.0	4.7	2.5	5.8	4.2
United Kingdom††	–11.2	2.1	–1.8	4.7	–2.9	0.8	1.9	2.6	1.8	1.8	1.8
Western Europe Total	–6.7	–1.9	0.9	6.4	1.1	5.7	1.4	4.3	2.1	4.7	3.6
Central and Eastern Europe											
Czech Republic††	23.1	–13.8	8.5	7.1	13.1	10.1	6.4	7.1	5.3	7.1	7.2
Hungary††	23.0	27.2	18.1	17.5	15.5	17.7	11.2	10.7	8.5	9.8	11.5
Poland††	35.6	5.0	2.7	3.4	3.4	3.9	3.4	5.6	2.7	6.1	4.4
Romania‡‡	–9.2	5.8	34.2	28.6	20.6	14.5	9.8	9.9	6.7	8.9	9.9
Russia	86.0	82.4	35.0	37.9	33.0	26.8	23.2	20.0	17.6	12.5	19.9
Turkey‡‡	0.0	83.8	31.6	49.9	29.9	21.1	14.1	12.1	9.9	8.2	13.0
Central and Eastern Europe Total	32.3	20.8	15.8	19.9	18.4	16.5	13.4	13.0	10.9	9.8	12.7
Middle East/Africa											
Israel	–10.1	–6.3	4.0	7.1	1.8	4.7	2.8	4.4	2.6	2.6	3.4
Saudi Arabia/Pan Arab†	20.8	40.6	22.2	34.5	27.0	22.3	17.4	11.1	10.0	9.1	13.9
South Africa	13.8	13.7	16.1	20.8	12.0	13.3	8.5	10.2	8.0	9.9	10.0
Middle East/Africa Total	10.7	20.1	17.0	25.3	18.3	17.3	12.9	10.3	8.8	8.9	11.6
EMEA Total	–3.1	1.3	3.5	9.1	4.8	8.3	4.4	6.5	4.5	6.2	6.0

†Comprises Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Syria, and the United Arab Emirates.
††European Union members.
‡‡European Union applicants.
Sources: Ofcom, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

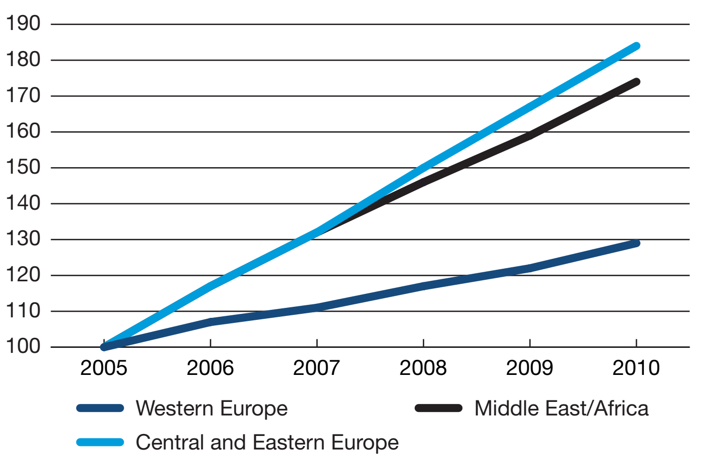
- In 2005, Italy was the largest terrestrial market, at $5.6 billion, followed by the United Kingdom at $4.7 billion, Germany at $4.3 billion, and Spain at $3.5 billion. France, Russia, and Poland were the only other countries with terrestrial advertising in excess of $1 billion. The market in Russia will grow at a 19.9 percent compound annual rate to $4.8 billion in 2010.

- Terrestrial advertising will increase from $32.9 billion in 2005 to a projected $44.0 billion in 2010.

Central and Eastern Europe

- We are projecting Central and Eastern Europe (CEE) to be the fastest-growing component of EMEA during the next five years. Advertising in CEE will increase by an estimated 84 percent from 2005 to 2010, while we are projecting increases of 74 percent in Middle East/Africa and 29 percent in Western Europe.

Index of Advertising Growth in EMEA (2005 = 100)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Except for Poland, each market in CEE rose at double-digit rates in 2005, led by a 33 percent increase in Russia, which propelled it past Poland to be the leading advertising market in the area. Hungary was third, at $1.1 billion. Thus, three countries in CEE topped the $1-billion threshold, while there were five countries in Western Europe above that level.

- A factor contributing to growth in CEE is foreign investment. The political climate is now viewed as stable and safe for foreign capital, consumer spending is on the rise, and the economic environment has become more attractive now that the Czech Republic, Hungary, and Poland have been accepted into the European Union, while Romania and Turkey are applying for acceptance. In Hungary, for example, government debt is being reduced and the euro is expected to become the national currency in 2010.

- As a result of these developments, the area is considered to have significant growth potential and is attracting foreign investment. Increased investment is boosting economic growth and stimulating the advertising market. In addition to general economic investment, media properties are also being viewed favorably.

- Infusions of capital are helping make television programming more attractive. In the Czech Republic, for example, more local shows are being developed and are gaining popularity. Television advertising rose 13.4 percent in 2005—its largest increase since 2000—and we anticipate an 8.2 percent annual advance during the next five years.

- The Russian market has grown dramatically during the past five years, following its collapse in the late 1990s. Russia had been subject to financial crises, but it now appears stable and the demand for TV exposure among advertisers has dramatically ramped up. New advertising restrictions that go into effect in July 2006 will limit the number of commercials that can be shown on television. Television advertising had been growing at rates in excess of 30 percent. We expect growth to moderate to 19.9 percent compounded annually during the next five years—still the fastest in CEE.

- The government is bringing inflation under control in Turkey in conjunction with its application for European Union membership. Lower inflation will reduce risk and stimulate investment. Television advertising in Turkey has grown nearly as fast as in Russia, with a 29.9 percent increase in 2005 and a 13.0 percent annual advance projected during 2006–2010, with inflation providing less of a lift than in the past.

- Romania, another EU applicant, has also seen its television market expand rapidly. The government introduced a new currency in 2005 as part of its approach to control inflation and manage debt. Television advertising rose at rates in excess of 20 percent during the past three years, and we project a 10.8 percent annual increase through 2010.

- The economy in Hungary is also stabilizing in response to falling government debt. Television advertising, which rose 16 percent in 2005, will expand at a 12.6 percent rate compounded annually.

- We project television advertising in CEE as a whole to rise to $11.6 billion in 2010 from $6.3 billion in 2005, a 13.0 percent compound annual increase.

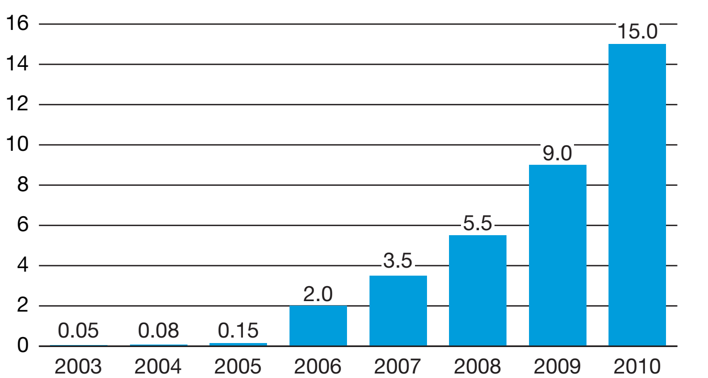
High-definition television

- The pace of HDTV launched by major players picked up noticeably in late 2005. HDTV, which provides viewers with a wider screen, a much sharper picture, and dramatically improved sound, improves the television experience and should attract viewers.

- HDTV was introduced in Germany in late 2005, and HDTV channels are expected in the United Kingdom, France, and Italy in 2006 in time for HDTV broadcasts of the FIFA World Cup. In Ireland, BSkyB plans to launch HDTV during 2006.

- The exposure of viewers to HD broadcasts during the FIFA World Cup in 2006 should generate interest in the technology. With major broadcasters beginning to offer HDTV on an ongoing basis, interest should build. We expect the number of HDTV households in EMEA to jump from 150,000 in 2005 to 2 million in 2006 and to take off from there. We estimate that by 2010, there will be 15 million HDTV households in EMEA.

HDTV Households in EMEA (Millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Even with the projected expansion of the HD universe, penetration will remain less than 10 percent through the end of the decade. Nevertheless, with millions of households capable of receiving programming in HD, there will be a critical mass to encourage shooting more programs in HD. As movies and television programs in the past shifted from black and white to color, we expect the next transition to be from standard to high definition.

- The evolution to HD should make television more attractive to viewers, which in turn should lead to increased viewership. As people spend more time watching television, advertisers will allocate more funds to the medium, thereby shifting their expenditures from print.

Public TV license fees

- Public TV license fees are levied on TV households to support public television channels.

- Revenues totaled $20.0 billion in 2005, up 2.6 percent from 2004 and the largest increase since 2002. Rate hikes in Ireland, Germany, the United Kingdom, and Austria contributed to the improved growth.

- Public broadcasters in Germany get the most revenue from license fees—$5.5 billion—with the United Kingdom next, at $4.3 billion, followed by France, at $2.5 billion. Those three countries constituted 61 percent of total license fee revenue in EMEA in 2005.

- Although public support of television has a long tradition in a number of countries, public broadcasters are facing greater resistance in applying for funds. In Germany, the country that provides the most support for public broadcasters, the request for a €1.09-per-household-per-month increase was reduced to €0.88. Public broadcasters in Germany also came under scrutiny for carrying product placements in their programming, which is illegal in Germany and in many other countries. In December 2005, the European Union introduced draft legislation to update the 1989 Television without Frontiers directive, which is now known as the Audiovisual Media Services directive. The proposed legislation legalizes product placements.

- In the United Kingdom, the BBC license was renewed and funding was approved through 2016. The BBC request, however, for an additional £5.5 billion ($10 billion) during the next seven years, which would entail an increase in the monthly license fee—levied on all TV households in the U.K.—to £200 ($363.61) annually from the current £126.50 ($229.98), is facing resistance. In addition to HDTV expected in 2007, the BBC plans to introduce MyBBCPlayer in 2006, a service that allows programs to be downloaded over the Internet during the week following their initial broadcast.

- In Ireland, license fee revenue is not fully collected, because a number of households evade paying. Nevertheless, a large rate hike in 2005 resulted in a 25.4 percent increase to $168 million in total license fees.

- In the Netherlands, although formal license fees were discontinued in 2000, the government continues to support public television. However, government contributions were cut by 2.5 percent in 2005 following a 1.6 percent rollback in 2004. The decrease in funding played a role in public television's losing rights to highlights of the Eredivisie soccer league, the first time those highlights will not be shown on public television. The government is also putting pressure on public broadcasters to generate a 40 percent audience share in return for funding. With increased competition from private broadcasters and the loss of Eredivisie rights, that target will become more difficult to achieve.

- We project license fee growth to moderate to 1.3 percent compounded annually through 2010, when it will total an estimated $21.3 billion.

Public TV License Fees† (US$ Millions)

EMEA	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Western Europe										
Austria††	607	613	617	623	643	646	648	650	651	669
Belgium††	717	743	762	781	799	824	843	861	880	904
Denmark††	551	608	647	702	744	783	829	871	913	960
Finland††	312	313	314	357	359	360	369	370	372	374
France††	2,326	2,403	2,428	2,454	2,478	2,536	2,562	2,588	2,613	2,661
Germany††	5,094	5,158	5,179	5,198	5,450	5,542	5,563	5,577	5,592	5,608
Greece††	82	82	83	83	85	86	86	86	87	87
Ireland††	121	123	128	134	168	172	177	180	184	188
Italy††	1,697	1,831	1,852	1,884	1,907	1,928	2,056	2,078	2,102	2,124
Netherlands‡††	562	566	572	563	549	527	531	534	539	543
Norway	351	371	374	376	378	388	390	392	393	395
Portugal††	0	0	0	0	0	0	0	0	0	0
Spain††	0	0	0	0	0	0	0	0	0	0
Sweden††	626	643	679	739	760	789	819	849	880	890
Switzerland	433	440	456	474	482	490	498	505	520	528
United Kingdom††	3,516	4,029	4,185	4,216	4,278	4,296	4,398	4,416	4,432	4,451
Western Europe Total	16,995	17,923	18,276	18,584	19,080	19,367	19,769	19,957	20,158	20,382
Central and Eastern Europe										
Czech Republic††	105	106	108	109	110	112	113	114	116	117
Hungary††	30	30	30	31	31	31	31	32	32	32
Poland††	426	427	427	481	481	482	483	483	484	485
Romania‡‡	52	52	52	55	55	55	58	58	59	62
Russia	0	0	0	0	0	0	0	0	0	0
Turkey‡‡	0	0	0	0	0	0	0	0	0	0
Central and Eastern Europe Total	613	615	617	676	677	680	685	687	691	696
Middle East/Africa										
Israel	50	52	54	56	58	60	62	64	66	69
Saudi Arabia/Pan Arab†††	0	0	0	0	0	0	0	0	0	1
South Africa	148	150	151	152	154	155	157	159	160	162
Middle East/Africa Total	198	202	205	208	212	215	219	223	226	232
EMEA Total	17,806	18,740	19,098	19,468	19,969	20,262	20,673	20,867	21,075	21,310

†At average 2005 exchange rates.
‡Fees were discontinued after 1999. Subsequent figures reflect government contributions from general tax revenues.
†††Comprises Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Syria, and the United Arab Emirates.
††European Union members.
‡‡European Union applicants.
Sources: Ofcom, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Public TV License Fee Growth (%)

EMEA	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Western Europe											
Austria††	0.7	1.0	0.7	1.0	3.2	0.5	0.3	0.3	0.2	2.8	0.8
Belgium††	2.4	3.6	2.6	2.5	2.3	3.1	2.3	2.1	2.2	2.7	2.5
Denmark††	6.8	10.3	6.4	8.5	6.0	5.2	5.9	5.1	4.8	5.1	5.2
Finland††	0.3	0.3	0.3	13.7	0.6	0.3	2.5	0.3	0.5	0.5	0.8
France††	1.1	3.3	1.0	1.1	1.0	2.3	1.0	1.0	1.0	1.8	1.4
Germany††	13.2	1.3	0.4	0.4	4.8	1.7	0.4	0.3	0.3	0.3	0.6
Greece††	1.2	0.0	1.2	0.0	2.4	1.2	0.0	0.0	1.2	0.0	0.5
Ireland††	–9.7	1.7	4.1	4.7	25.4	2.4	2.9	1.7	2.2	2.2	2.3
Italy††	2.9	7.9	1.1	1.7	1.2	1.1	6.6	1.1	1.2	1.0	2.2
Netherlands††	0.9	0.7	1.1	–1.6	–2.5	–4.0	0.8	0.6	0.9	0.7	–0.2
Norway	1.4	5.7	0.8	0.5	0.5	2.6	0.5	0.5	0.3	0.5	0.9
Portugal††	—	—	—	—	—	—	—	—	—	—	—
Spain††	—	—	—	—	—	—	—	—	—	—	—
Sweden††	5.9	2.7	5.6	8.8	2.8	3.8	3.8	3.7	3.7	1.1	3.2
Switzerland	1.9	1.6	3.6	3.9	1.7	1.7	1.6	1.4	3.0	1.5	1.8
United Kingdom††	6.3	14.6	3.9	0.7	1.5	0.4	2.4	0.4	0.4	0.4	0.8
Western Europe Total	6.1	5.5	2.0	1.7	2.7	1.5	2.1	1.0	1.0	1.1	1.3
Central and Eastern Europe											
Czech Republic††	1.0	1.0	1.9	0.9	0.9	1.8	0.9	0.9	1.8	0.9	1.2
Hungary††	3.4	0.0	0.0	3.3	0.0	0.0	0.0	3.2	0.0	0.0	0.6
Poland††	3.4	0.2	0.0	12.6	0.0	0.2	0.2	0.0	0.2	0.2	0.2
Romania‡‡	8.3	0.0	0.0	5.8	0.0	0.0	5.5	0.0	1.7	5.1	2.4
Russia	—	—	—	—	—	—	—	—	—	—	—
Turkey‡‡	—	—	—	—	—	—	—	—	—	—	—
Central and Eastern Europe Total	3.4	0.3	0.3	9.6	0.1	0.4	0.7	0.3	0.6	0.7	0.6
Middle East/Africa											
Israel	–12.3	4.0	3.8	3.7	3.6	3.4	3.3	3.2	3.1	4.5	3.5
Saudi Arabia/Pan Arab†	—	—	—	—	—	—	—	—	—	—	—
South Africa	0.7	1.4	0.7	0.7	1.3	0.6	1.3	1.3	0.6	1.3	1.0
Middle East/Africa Total	–2.9	2.0	1.5	1.5	1.9	1.4	1.9	1.8	1.3	2.7	1.8
EMEA Total	5.9	5.2	1.9	1.9	2.6	1.5	2.0	0.9	1.0	1.1	1.3

†Comprises Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Syria, and the United Arab Emirates.
††European Union members.
‡‡European Union applicants.
Sources: Ofcom, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Asia Pacific

The outlook in brief

- New channels, the digitization of television, and the emergence of alternative distribution outlets will expand advertising inventory and grow television advertising.
- The tightening of both government control of programming and foreign investment in certain key growth markets hampers investment in the development of new and compelling content, which will limit the ability to make television more attractive to viewers at a time of increased competition from other media, thereby limiting the growth potential for advertising.
- Continued TV household growth will sustain modest gains in TV license fees for public broadcasters.

Overview

- The television network market will expand to $51.2 billion in 2010 from $36.4 billion in 2005, a 7.1 percent compound annual increase, which will be nearly twice the 3.8 percent annual gain during the past five years.
- Japan is the dominant country in the region in terms of value, at $19.7 billion in 2005, equivalent to 54 percent of total spending. Japan is slowly emerging from its long-term economic slump, and its television network market will expand at a 3.9 percent annual rate through 2010, a significant improvement compared with the 0.2 percent growth compounded annually during the past few years.
- The People's Republic of China (PRC) has the second-largest market, at $4.5 billion, and has been the fastest growing of the major countries in the region, posting a 19.7 percent increase in 2005, and will continue to record healthy increases averaging 16.7 percent compounded annually through 2010.
- Double-digit compound annual growth is also projected for India, Indonesia, Malaysia, the Philippines, and Thailand. Excluding Japan, the region will expand at a 10.4 percent compound annual rate.
- South Korea, the third-largest country in the region, at $3 billion, has experienced declines during the past two years as a result of its slumping economy, but a turnaround is anticipated beginning in 2006 with growth projected to average 6.6 percent compounded annually through 2010.

Television Network Market† (US$ Millions)

Asia Pacific	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Australia	1,942	2,026	2,228	2,488	2,621	2,831	2,957	3,170	3,265	3,528
China	2,298	2,962	3,267	3,767	4,510	5,364	6,095	7,802	8,533	9,752
Hong Kong	548	487	491	617	694	752	791	874	913	990
India	644	721	807	943	1,065	1,201	1,315	1,496	1,632	1,813
Indonesia	199	276	384	500	589	678	780	897	1,031	1,135
Japan	19,531	18,596	18,769	19,578	19,738	20,715	21,240	22,401	22,745	23,908
Malaysia	108	112	121	154	158	190	206	246	264	309
New Zealand	338	363	417	453	482	521	546	591	616	669
Pakistan	72	80	92	100	120	129	138	150	157	171
Philippines	221	234	285	323	368	417	462	544	580	653
Singapore	175	212	218	258	255	274	289	314	332	363
South Korea	2,198	2,847	3,087	3,072	2,961	3,205	3,363	3,666	3,776	4,071
Taiwan	1,684	1,871	2,041	2,162	2,225	2,360	2,448	2,583	2,672	2,822
Thailand	407	463	526	588	620	695	757	844	918	1,017
Total	30,365	31,250	32,733	35,003	36,406	39,332	41,387	45,578	47,434	51,201

†At average 2005 exchange rates.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Television Network Market Growth (%)

Asia Pacific	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Australia	–8.9	4.3	10.0	11.7	5.3	8.0	4.5	7.2	3.0	8.1	6.1
China	6.2	28.9	10.3	15.3	19.7	18.9	13.6	28.0	9.4	14.3	16.7
Hong Kong	8.1	–11.1	0.8	25.7	12.5	8.4	5.2	10.5	4.5	8.4	7.4
India	19.0	12.0	11.9	16.9	12.9	12.8	9.5	13.8	9.1	11.1	11.2
Indonesia	22.8	38.7	39.1	30.2	17.8	15.1	15.0	15.0	14.9	10.1	14.0
Japan	–0.1	–4.8	0.9	4.3	0.8	4.9	2.5	5.5	1.5	5.1	3.9
Malaysia	–5.3	3.7	8.0	27.3	2.6	20.3	8.4	19.4	7.3	17.0	14.4
New Zealand	–4.8	7.4	14.9	8.6	6.4	8.1	4.8	8.2	4.2	8.6	6.8
Pakistan	9.1	11.1	15.0	8.7	20.0	7.5	7.0	8.7	4.7	8.9	7.3
Philippines	6.8	5.9	21.8	13.3	13.9	13.3	10.8	17.7	6.6	12.6	12.2
Singapore	7.4	21.1	2.8	18.3	–1.2	7.5	5.5	8.7	5.7	9.3	7.3
South Korea	–4.6	29.5	8.4	–0.5	–3.6	8.2	4.9	9.0	3.0	7.8	6.6
Taiwan	3.6	11.1	9.1	5.9	2.9	6.1	3.7	5.5	3.4	5.6	4.9
Thailand	7.7	13.8	13.6	11.8	5.4	12.1	8.9	11.5	8.8	10.8	10.4
Total	0.3	2.9	4.7	6.9	4.0	8.0	5.2	10.1	4.1	7.9	7.1

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

New channels

- A number of new television channels were launched in the region during 2005, and we expect that this trend will continue during the next few years. These additional channels will attract advertising and boost overall market growth.

- In India, growing interest in news has spawned a surge in news channels. Seven channels were launched in 2005, bringing the total to more than 30 compared with 11 in 2002. In early 2006, Time Warner's Turner International and

Global Broadcast, a TV18 Group Company, launched a co-branded 24-hour news channel called CNN-IBN, and other launches are expected—for example, a joint venture channel between Times of India and Reuters. There were also two lifestyle channels introduced on satellite targeting high-income households.

- The Telecom Regulatory Authority of India issued recommendations for converting cable from analog to digital in time for broadcasting the Commonwealth Games in 2010. The first phase of the plan covering 2006–2010 calls for digital services to be made available in major cities in conjunction with analog broadcasts. The first digital terrestrial television service was introduced by Doordarshan in early 2006. Doordarshan also plans to increase the number of channels on its direct-to-home (DTH) platform from 33 to 100.

- In the PRC, the State Administration of Radio, Film, and Television (SARFT) issued regulations in 2004 that significantly increased the number of channels and called for the national television network infrastructure to be upgraded in advance of the 2008 Summer Olympics in Beijing. In August 2004, digital cable was introduced, and by the end of 2005, more than a hundred digital channels had been launched. China Central Television announced the first HDTV channel in 2005, which will begin national broadcasts in 2006 by showing movies, TV series, and 3-D animated programs.

- In Japan, the government announced a plan to distribute digital programming over the Internet via fiber-optic cable. Nippon Television Network and Fuji Television Network announced they will offer programming over the Internet, and a number of companies are developing production facilities for digital broadcasts. Following a recommendation by the National Association of Commercial Broadcasters and complaints by cable system operators, the government will restrict Internet broadcasts to areas where digital television is not otherwise available. Fuji Television and NTT DoCoMo plan to introduce digital broadcasts to mobile phones in 2006, further expanding the availability of digital television.

- In South Korea, a satellite digital multimedia broadcasting (S-DMB) system was launched in May 2005 by TU Media Corp., a subsidiary of SK Telecom that has been the dominant wireless service provider before terrestrial DMB (T-DMB) was launched in December 2005. S-DMB acquired 370,000 subscribers in eight months after launching the service.

- DMB technology provides for the real-time transmission of digital programs to wireless phones and other wireless devices. T-DMB was initially introduced in Seoul as a free service, with a national rollout expected in 2006. S-DMB is available on a paid basis. With so many young people using wireless devices, DMB provides a vehicle for advertisers to reach that elusive audience.

The government in December 2005 also issued a plan migration from analog to digital and HDTV. The plan requires broadcasters to provide 25 hours per week of HD programs, with all programming to be HD by 2010.

- We expect that these new services, combined with an improved economic environment, will turn the advertising market around in South Korea. After the ad market declined during 2004–05, we expect a rebound to begin in 2006, and growth to average 7.2 percent compounded annually through 2010.

- In Australia, after a federal government review, the cessation of digital/analog simulcast of free-to-air networks will likely be extended beyond the initially indicated date of 2008. Meanwhile, subscription TV platforms FOXTEL and Austar announced they will have converted all of their subscribers to digital by March 2007, and they plan to introduce HD channels by 2008.

- In July 2007 a 12-month trial of digital video broadcasting–handheld technology was launched in Sydney. The trial extends to Telstra's customer base. The major content provider for the trial will be FOXTEL along with ABC, SBS, Nine Network Australia, Turner, and SKY Channel (racing).

- The availability of more channels will open up new opportunities for advertisers. Many of these new channels will provide advertisers with opportunities to reach a targeted audience. Distribution to mobile phones will expand the reach of existing broadcasting by bringing it out of the home, while digital broadcasting and HDTV will give viewers a better picture, which should translate into increased viewership. These developments should lead to a pickup in television advertising. We project television advertising in Asia Pacific to expand at a 7.9 percent rate compounded annually to $44.9 billion in 2010 from $30.6 billion in 2005. Compared with the past five years, when growth averaged 4.1 percent on a compound annual basis, the outlook represents a significant improvement.

- Various sporting events in 2006, including the Asian Games in Doha and in particular the FIFA World Cup in Germany, will provide a boost to advertising spending, especially in Japan, South Korea, the PRC, and Southeast Asia. Double-digit growth is projected for the region as a whole in 2008 as advertising associated with the Beijing Olympics enters the market. The PRC will be the biggest beneficiary, with an estimated 28 percent increase that year.

Television Advertising† (US$ Millions)

Asia Pacific	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Australia	1,942	2,026	2,228	2,488	2,621	2,831	2,957	3,170	3,265	3,528
China	2,298	2,962	3,267	3,767	4,510	5,364	6,095	7,802	8,533	9,752
Hong Kong	548	487	491	617	694	752	791	874	913	990
India	644	721	807	943	1,065	1,201	1,315	1,496	1,632	1,813
Indonesia	199	276	384	500	589	678	780	897	1,031	1,135
Japan	15,493	14,497	14,602	15,346	15,437	16,345	16,799	17,889	18,161	19,251
Malaysia	92	96	104	136	140	172	187	227	245	290
New Zealand	338	363	417	453	482	521	546	591	616	669
Pakistan	46	52	57	63	68	75	82	92	97	109
Philippines	221	234	285	323	368	417	462	544	580	653
Singapore	132	168	174	213	210	228	243	267	285	315
South Korea	1,819	2,457	2,687	2,662	2,540	2,773	2,919	3,211	3,309	3,601
Taiwan	843	1,004	1,144	1,236	1,273	1,382	1,444	1,553	1,615	1,739
Thailand	407	463	526	588	620	695	757	844	918	1,017
Total	25,022	25,806	27,173	29,335	30,617	33,434	35,377	39,457	41,200	44,862

†At average 2005 exchange rates.
Sources: Korea Broadcasting Advertising Corp., New Zealand Television Broadcasters Council, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

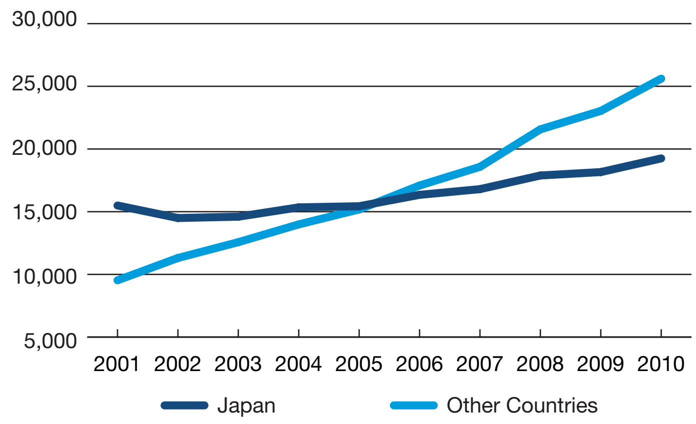
Television Advertising Growth (%)

Asia Pacific	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Australia	–8.9	4.3	10.0	11.7	5.3	8.0	4.5	7.2	3.0	8.1	6.1
China	6.2	28.9	10.3	15.3	19.7	18.9	13.6	28.0	9.4	14.3	16.7
Hong Kong	8.1	–11.1	0.8	25.7	12.5	8.4	5.2	10.5	4.5	8.4	7.4
India	19.0	12.0	11.9	16.9	12.9	12.8	9.5	13.8	9.1	11.1	11.2
Indonesia	22.8	38.7	39.1	30.2	17.8	15.1	15.0	15.0	14.9	10.1	14.0
Japan	–0.5	–6.4	0.7	5.1	0.6	5.9	2.8	6.5	1.5	6.0	4.5
Malaysia	–7.1	4.3	8.3	30.8	2.9	22.9	8.7	21.4	7.9	18.4	15.7
New Zealand	–4.8	7.4	14.9	8.6	6.4	8.1	4.8	8.2	4.2	8.6	6.8
Pakistan	12.2	13.0	9.6	10.5	7.9	10.3	9.3	12.2	5.4	12.4	9.9
Philippines	6.8	5.9	21.8	13.3	13.9	13.3	10.8	17.7	6.6	12.6	12.2
Singapore	10.0	27.3	3.6	22.4	–1.4	8.6	6.6	9.9	6.7	10.5	8.4
South Korea	–5.9	35.1	9.4	–0.9	–4.6	9.2	5.3	10.0	3.1	8.8	7.2
Taiwan	4.1	19.1	13.9	8.0	3.0	8.6	4.5	7.5	4.0	7.7	6.4
Thailand	7.7	13.8	13.6	11.8	5.4	12.1	8.9	11.5	8.8	10.8	10.4
Total	0.0	3.1	5.3	8.0	4.4	9.2	5.8	11.5	4.4	8.9	7.9

Sources: Korea Broadcasting Advertising Corp., New Zealand Television Broadcasters Council, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Japan, which accounted for half of Asia Pacific's ad market in 2005, will be the slowest-growing market, with a 4.5 percent compound annual increase, but that gain also represents a marked improvement compared with the past five years, when advertising declined. Beginning in 2006, television ad spending in the rest of the region will surpass that of Japan. By 2010, Japan's share of television advertising in Asia Pacific will drop to 43 percent. Excluding Japan, television advertising will increase at an 11.0 percent compound annual rate.

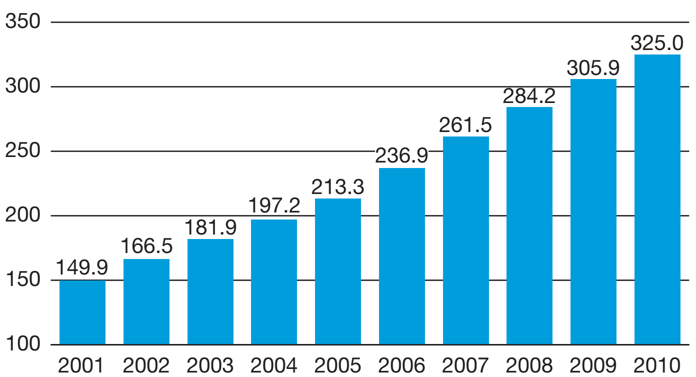
Television Advertising in Asia Pacific (US$ Millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Multichannel advertising—advertising on outlets not accessible through ordinary over-the-air antennas—will show the largest growth, as most of the new channels will be available only on multichannel outlets. Additionally, as new services are rolled out, the multichannel universe will expand, providing a larger potential audience for programs on multichannel platforms. We expect the number of multichannel households to increase by more than 100 million during the next five years, rising from 213 million in 2005 to 325 million by 2010.

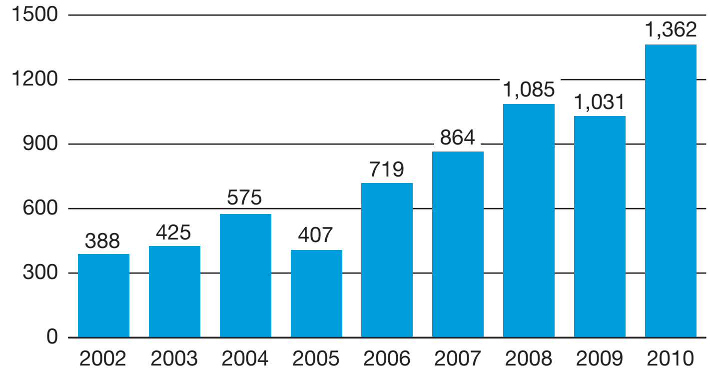
Multichannel Households (Millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- We expect multichannel advertising to surge starting in 2006, with larger incremental gains anticipated during the next five years. After multichannel advertising averaged increases of $449 million from 2001 to 2005, we project it will post increases averaging approximately $1 billion per year.

Incremental Gains in Multichannel Advertising (US$ Millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Multichannel advertising still represents a small component of television advertising in Asia Pacific, constituting 11 percent in 2005. We expect it will more than double during the next five years to $8.6 billion, when it will account for 19 percent of total television advertising. Growth will average 19.6 percent on a compound annual basis.

- In South Korea, where overall television advertising declined during the past two years, multichannel advertising surged, rising by 31.5 percent in 2004 and 20.3 percent in 2005, reflecting the strong growth of this market component in the face of a weak market.

- Currently, multichannel advertising is prohibited in Thailand. However, from October 2005 United Broadcasting Corp. (UBC) ceased to block advertising on its system embedded in pass-through channels that it receives from overseas. This action was taken on the latest understanding of the relevant authorities' most recent interpretation of the appropriate Thai laws. Most of the 500 or more provincial operators have in the past consistently failed to make any attempt to block such advertising on the channels that it has been pirating from UBC. Provincial cable operators responded by petitioning the government to eliminate the ban on cable advertising. The regulatory framework in Thailand still hinders the development of the pay TV industry, and an independent regulator is needed in order to resolve the many ambiguities and selective enforcement of rules, such as those related to advertising. In overall terms, we do not expect that cable operators will be permitted to carry advertising until 2007.

Multichannel Advertising† (US$ Millions)

Asia Pacific	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Australia	44	51	71	86	115	133	162	184	216	247
China	248	332	376	490	631	805	975	1,170	1,451	1,755
Hong Kong	16	19	21	30	38	49	63	87	110	129
India	223	262	302	358	416	481	539	628	702	798
Indonesia	0	1	1	2	2	10	15	25	35	50
Japan	766	887	1,074	1,311	1,389	1,635	2,016	2,504	2,906	3,465
Malaysia	2	2	2	3	3	4	6	9	12	17
New Zealand	4	5	7	8	8	11	16	24	31	40
Pakistan	—	—	—	—	—	—	—	—	—	—
Philippines	5	6	7	9	11	13	18	27	35	46
Singapore	10	17	22	30	32	37	41	48	54	63
South Korea	142	215	289	380	457	596	730	899	1,026	1,224
Taiwan	242	293	343	383	395	442	491	543	581	643
Thailand	—	—	—	—	—	—	8	17	37	81
Total	1,702	2,090	2,515	3,090	3,497	4,216	5,080	6,165	7,196	8,558

†At average 2005 exchange rates.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Multichannel Advertising Growth (%)

Asia Pacific	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Australia	12.8	15.9	39.2	21.1	33.7	15.7	21.8	13.6	17.4	14.4	16.5
China	11.2	33.9	13.3	30.3	28.8	27.6	21.1	20.0	24.0	21.0	22.7
Hong Kong	33.3	18.8	10.5	42.9	26.7	28.9	28.6	38.1	26.4	17.3	27.7
India	23.2	17.5	15.3	18.5	16.2	15.6	12.1	16.5	11.8	13.7	13.9
Indonesia	—	—	0.0	100.0	0.0	400.0	50.0	66.7	40.0	42.9	90.4
Japan	27.2	15.8	21.1	22.1	5.9	17.7	23.3	24.2	16.1	19.2	20.1
Malaysia	0.0	0.0	0.0	50.0	0.0	33.3	50.0	50.0	33.3	41.7	41.5
New Zealand	33.3	25.0	40.0	14.3	0.0	37.5	45.5	50.0	29.2	29.0	38.0
Pakistan	—	—	—	—	—	—	—	—	—	—	—
Philippines	25.0	20.0	16.7	28.6	22.2	18.2	38.5	50.0	29.6	31.4	33.1
Singapore	42.9	70.0	29.4	36.4	6.7	15.6	10.8	17.1	12.5	16.7	14.5
South Korea	18.3	51.4	34.4	31.5	20.3	30.4	22.5	23.2	14.1	19.3	21.8
Taiwan	7.6	21.1	17.1	11.7	3.1	11.9	11.1	10.6	7.0	10.7	10.2
Thailand	—	—	—	—	—	—	—	112.5	117.6	118.9	—
Total	20.0	22.8	20.3	22.9	13.2	20.6	20.5	21.4	16.7	18.9	19.6

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- There will also be an increase in the number of terrestrial channels, and we expect terrestrial advertising to accelerate as well. From 2000 to 2005, terrestrial advertising rose by $3.5 billion. During the next five years, we expect terrestrial advertising to increase by $9.2 billion. Although growing more slowly on a percentage basis, in absolute terms the increase in terrestrial advertising will be nearly twice as large as the projected gain in multichannel advertising.

- Terrestrial advertising will expand at a 6.0 percent compound annual rate to $36.3 billion in 2010 from $27.1 billion in 2005. Above-average gains are anticipated during the FIFA World Cup years of 2006 and 2010 as well as in 2008 in conjunction with the Beijing Olympics. Excluding Japan, growth will average 9.4 percent compounded annually.

Terrestrial Advertising† (US$ Millions)

Asia Pacific	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Australia	1,897	1,975	2,157	2,402	2,506	2,697	2,794	2,986	3,050	3,281
China	2,050	2,630	2,891	3,277	3,879	4,559	5,120	6,631	7,083	7,997
Hong Kong	531	469	470	588	656	703	727	787	803	861
India	421	458	505	585	650	721	776	868	930	1,016
Indonesia	198	275	382	499	587	668	765	872	996	1,085
Japan	14,728	13,609	13,527	14,036	14,048	14,711	14,783	15,384	15,255	15,786
Malaysia	91	94	102	133	137	168	182	218	233	273
New Zealand	334	358	410	445	474	510	529	567	585	629
Pakistan	46	52	57	63	68	75	82	92	97	109
Philippines	216	228	277	314	357	404	444	517	546	607
Singapore	122	151	152	183	178	192	202	219	231	252
South Korea	1,677	2,242	2,398	2,281	2,083	2,177	2,190	2,312	2,283	2,376
Taiwan	601	711	801	853	879	940	953	1,009	1,034	1,096
Thailand	407	463	526	588	620	695	749	827	881	936
Total	23,319	23,715	24,655	26,247	27,122	29,220	30,296	33,289	34,007	36,304

†At average 2005 exchange rates.
Sources: Commercial, Economic Advisory Service of Australia, Korea Broadcasting Advertising Corp., PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Terrestrial Advertising Growth (%)

Asia Pacific	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Australia	–9.3	4.1	9.2	11.4	4.3	7.6	3.6	6.9	2.1	7.6	5.5
China	5.6	28.3	9.9	13.4	18.4	17.5	12.3	29.5	6.8	12.9	15.6
Hong Kong	7.3	–11.7	0.2	25.1	11.6	7.2	3.4	8.3	2.0	7.2	5.6
India	16.6	8.8	10.3	15.8	11.1	10.9	7.6	11.9	7.1	9.2	9.3
Indonesia	22.2	38.9	38.9	30.6	17.6	13.8	14.5	14.0	14.2	8.9	13.1
Japan	–1.6	–7.6	–0.6	3.8	0.1	4.7	0.5	4.1	–0.8	3.5	2.4
Malaysia	–6.2	3.3	8.5	30.4	3.0	22.6	8.3	19.8	6.9	17.2	14.8
New Zealand	–5.4	7.2	14.5	8.5	6.5	7.6	3.7	7.2	3.2	7.5	5.8
Pakistan	12.2	13.0	9.6	10.5	7.9	10.3	9.3	12.2	5.4	12.4	9.9
Philippines	6.4	5.6	21.5	13.4	13.7	13.2	9.9	16.4	5.6	11.2	11.2
Singapore	8.0	23.8	0.7	20.4	–2.7	7.9	5.2	8.4	5.5	9.1	7.2
South Korea	–7.6	33.7	7.0	–4.9	–8.7	4.5	0.6	5.6	–1.3	4.1	2.7
Taiwan	2.9	18.3	12.7	6.5	3.0	6.9	1.4	5.9	2.5	6.0	4.5
Thailand	7.7	13.8	13.6	11.8	5.4	12.1	7.8	10.4	6.5	6.2	8.6
Total	–1.2	1.7	4.0	6.5	3.3	7.7	3.7	9.9	2.2	6.8	6.0

Sources: Commercial, Economic Advisory Service of Australia, Korea Broadcasting Advertising Corp., PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Government restrictions

- During the past few years, in order to further develop and strengthen the local industry, there has been a trend toward relaxed government restrictions on television and on the implementation of policies to encourage foreign investment. In 2005, however, several countries reversed course, effectively imposing greater government control and limiting the potential for foreign investment.

- In the PRC, after a period of slow progress that culminated in late 2004 with the introduction of regulations allowing television production joint ventures between foreign broadcasters and local partners, SARFT imposed a number of restrictions during 2005, which effectively reversed much of the progress that had been made. For example, domestic media companies were limited to one joint venture coproduction partnership with a foreign entity and joint operations of television stations between domestic foreign companies were banned, as were programs depicting crime or violence in prime time and the importation of foreign satellite channels and foreign cartoons in prime time.

- India, which recently relaxed foreign ownership limitations on domestic media companies, is in a position to attract more foreign capital now that the PRC has become more restricted, but it too has imposed new restrictions. Foreign news and sports channels that target Indian audiences were banned. All foreign channels that beam programming into India must register with the government, and sports channels that carry events involving Indian teams must share their broadcasts with Prasar Bharti, the state-owned broadcaster. Cable operators were also prohibited from broadcasting films with sex and violent content and scenes depicting cigarette smoking. These latest ranges of regulations are being actively lobbied against by the industry.

- In Indonesia, the government is proposing three main changes from the previous regulation: explicitly limiting foreign ownership, both direct and indirect, to a maximum 20 percent; defining more clearly the cross-ownership limitations; and granting to the central government the full responsibility for issuing all broadcasting licenses.

- In other restrictions, Japan limited indirect foreign ownership of domestic broadcasters through local subsidiaries, and New Zealand pushed for a voluntary moratorium on direct-to-consumer pharmaceutical advertising on television and is looking to formally ban such advertising in 2006.

- One exception to the trend toward increased regulation is Australia, whose government is considering relaxing foreign and cross-media ownership restrictions. Current law restricts foreign ownership of free-to-air networks to a 15 percent single holding (20 percent aggregated holdings) and prohibits a single company from controlling more than one commercial TV station in the same market or a TV station in the same market as a newspaper and/or a commercial radio station. If these ownership restrictions become relaxed, companies will be able to expand their holdings, undertake more cross promotion and cross selling, and potentially benefit from economies of scale.

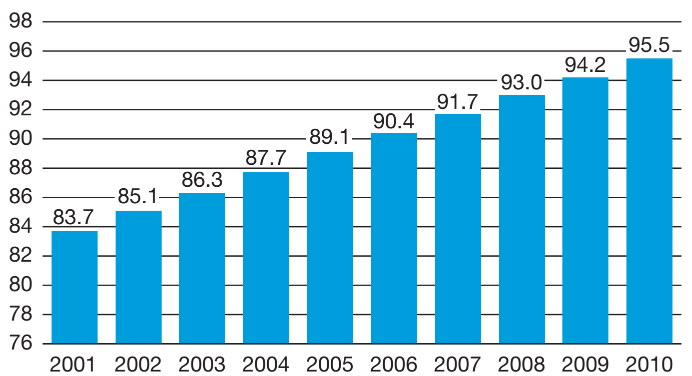
- On balance, governments are imposing more restrictions on television ownership and operations. These new restrictions will limit foreign capital, which will cut into production budgets for TV shows and will dampen the appeal of programming to viewers and which will then have an adverse impact on viewership and advertising. While we do not expect these limitations to offset the otherwise positive developments in the television marketplace, they will dampen advertising growth to the extent that they adversely affect programming.

Public TV license fees

- Within the region, only Japan, Taiwan, South Korea, Singapore, Pakistan, and Malaysia levy license fees on TV households to support their public broadcasters. Indonesia has a license fee program in place but does not require households to pay it. Consequently, collection is sporadic and the actual fees collected are not significant.

- TV household growth is the principal driver of license fee growth. In 2005 there were 89.1 million TV households in the countries with public TV license fees. That total will rise to a projected 95.5 million by 2010, a 7.2 percent increase.

TV Households in Countries with Public TV License Fees (Millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Rate increases will also contribute to growth, but large hikes are not anticipated.

- Public TV license fees totaled $5.8 billion in 2005, with Japan at $4.3 billion and generating 74 percent of the total. Taiwan was next largest, at $952 million, with the remaining countries totaling $536 million.

- License fees in Pakistan jumped 40.5 percent in 2005 because of a change in the way fees were imposed. Instead of being levied on TV households, license fees in 2005 were levied on households with electricity. TV household penetration in Pakistan is lowest in the region, at only 49.3 percent, well below the penetration of households with electricity.

- Of the other countries in the region that have public TV license fees, virtually all households are television households. Consequently, significant penetration growth is essentially foreclosed and increases will be the result of overall household growth.

TV Household Penetration (%)

Asia Pacific	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Australia	95.2	95.9	96.3	96.6	96.9	97.2	97.5	97.8	98.0	98.3
China	95.3	95.7	96.5	97.0	97.3	97.6	97.7	98.0	98.0	98.0
Hong Kong	97.6	97.7	98.6	98.7	98.7	99.1	99.6	99.6	99.6	99.6
India	65.5	66.9	67.0	68.3	69.2	70.0	70.8	71.5	72.2	72.9
Indonesia	43.6	45.2	46.9	48.5	50.0	51.6	53.2	54.6	56.0	57.4
Japan	97.7	97.7	97.7	97.8	97.8	97.8	97.8	97.8	97.9	97.9
Malaysia	96.0	96.8	97.0	98.3	98.9	99.1	99.1	99.1	99.1	99.1
New Zealand	98.6	98.6	98.6	98.6	98.6	98.6	98.6	98.6	98.6	98.6
Pakistan	43.1	44.8	46.2	47.7	49.3	50.9	52.0	53.0	54.1	55.1
Philippines	91.8	92.1	92.4	92.8	93.1	93.4	93.7	94.0	94.4	94.7
Singapore	97.2	97.9	98.7	99.0	99.0	99.0	99.0	99.0	99.0	99.0
South Korea	98.8	98.8	98.8	98.8	98.8	98.8	98.8	98.8	98.8	98.8
Taiwan	97.7	98.5	99.0	99.3	99.3	99.3	99.4	99.4	99.4	99.4
Thailand	90.4	93.8	94.9	95.3	96.2	97.0	97.6	97.8	97.9	98.0
Total	82.7	83.5	84.3	85.1	85.7	86.2	86.6	87.1	87.5	87.8

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Overall license fees will expand modestly at a projected 1.8 percent annual rate to $6.3 billion in 2010.

Public TV License Fees† (US$ Millions)

Asia Pacific	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Australia	—	—	—	—	—	—	—	—	—	—
China	—	—	—	—	—	—	—	—	—	—
Hong Kong	—	—	—	—	—	—	—	—	—	—
India	—	—	—	—	—	—	—	—	—	—
Indonesia‡	—	—	—	—	—	—	—	—	—	—
Japan	4,038	4,099	4,167	4,232	4,301	4,370	4,441	4,512	4,584	4,657
Malaysia	16	16	17	18	18	18	19	19	19	19
New Zealand	—	—	—	—	—	—	—	—	—	—
Pakistan	26	28	35	37	52	54	56	58	60	62
Philippines	—	—	—	—	—	—	—	—	—	—
Singapore	43	44	44	45	45	46	46	47	47	48
South Korea	379	390	400	410	421	432	444	455	467	470
Taiwan	841	867	897	926	952	978	1,004	1,030	1,057	1,083
Thailand	—	—	—	—	—	—	—	—	—	—
Total	5,343	5,444	5,560	5,668	5,789	5,898	6,010	6,121	6,234	6,339

†At average 2005 exchange rates.
‡There is a license fee system in place, but there is no law requiring households to pay.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Public TV License Fee Growth (%)

Asia Pacific	2001	2002	2003	2004p	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Australia	—	—	—	—	—	—	—	—	—	—	—
China	—	—	—	—	—	—	—	—	—	—	—
Hong Kong	—	—	—	—	—	—	—	—	—	—	—
India	—	—	—	—	—	—	—	—	—	—	—
Indonesia	—	—	—	—	—	—	—	—	—	—	—
Japan	1.7	1.5	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Malaysia	6.7	0.0	6.3	5.9	0.0	0.0	5.6	0.0	0.0	0.0	1.1
New Zealand	—	—	—	—	—	—	—	—	—	—	—
Pakistan	4.0	7.7	25.0	5.7	40.5	3.8	3.7	3.6	3.4	3.3	3.6
Philippines	—	—	—	—	—	—	—	—	—	—	—
Singapore	0.0	2.3	0.0	2.3	0.0	2.2	0.0	2.2	0.0	2.1	1.3
South Korea	2.7	2.9	2.6	2.5	2.7	2.6	2.8	2.5	2.6	0.6	2.2
Taiwan	3.2	3.1	3.5	3.2	2.8	2.7	2.7	2.6	2.6	2.5	2.6
Thailand	—	—	—	—	—	—	—	—	—	—	—
Total	2.0	1.9	2.1	1.9	2.1	1.9	1.9	1.8	1.8	1.7	1.8

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Latin America

The outlook in brief

- Robust economic growth and stable currency values will propel TV advertising.
- The fledgling multichannel market will be bolstered by the renewed health of the subscription distribution market.
- New programming and advertising associated with major regional and international sporting events will fuel the terrestrial market in 2006, 2008, and 2010.

Overview

- Television advertising will expand at a 10.8 percent compound annual rate through 2010, rising to $11.3 billion from $6.8 billion in 2005.
- Mexico is the largest market, at $2.6 billion, but in 2009 it will be surpassed by Brazil. Brazil's market is surging following the downturn of 2001–02. Both countries will expand at double-digit compound annual rates.
- Venezuela will be the fastest-growing market, at 14 percent compounded annually, but growth will be artificially augmented by continued high inflation, a factor no longer present to a significant degree in the rest of the region.
- Argentina also recovered from its 2001–02 economic issues, with spending more than doubling from 2002 to 2005 and with high-single-digit increases projected during the forecast period.
- Colombia was the only country to record a decrease in 2005, but a recovery is expected in 2006 with mid-single-digit growth anticipated through 2010.
- Chile, one of the few countries with relatively stable growth during the past five years, will also average mid-single-digit increases going forward.

Television Advertising† (US$ Millions)

Latin America	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Argentina	304	188	300	372	457	512	529	583	611	676
Brazil	1,388	1,191	1,325	1,741	2,505	2,875	3,162	3,614	3,902	4,518
Chile	245	259	302	322	345	367	383	413	427	461
Colombia	706	662	612	628	598	622	643	686	712	759
Mexico	1,797	1,926	2,017	2,384	2,614	3,072	3,210	3,668	3,806	4,402
Venezuela	118	170	186	225	251	303	332	384	417	483
Total	4,558	4,396	4,742	5,672	6,770	7,751	8,259	9,348	9,875	11,299

†At average 2005 exchange rates.
Note: Historical trends do not incorporate the impact of 2002's steep currency devaluations.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Television Advertising Growth (%)

Latin America	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Argentina	–10.9	–38.2	59.6	24.0	22.8	12.0	3.3	10.2	4.8	10.6	8.1
Brazil	–25.1	–14.2	11.3	31.4	43.9	14.8	10.0	14.3	8.0	15.8	12.5
Chile	8.4	5.7	16.6	6.6	7.1	6.4	4.4	7.8	3.4	8.0	6.0
Colombia	11.0	–6.2	–7.6	2.6	–4.8	4.0	3.4	6.7	3.8	6.6	4.9
Mexico	4.8	7.2	4.7	18.2	9.6	17.5	4.5	14.3	3.8	15.7	11.0
Venezuela	–0.8	44.1	9.4	21.0	11.6	20.7	9.6	15.7	8.6	15.8	14.0
Total	–6.8	–3.6	7.9	19.6	19.4	14.5	6.6	13.2	5.6	14.4	10.8

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Economic climate

- The economies of most countries in Latin America are now expanding at healthy rates, buttressed in most cases by declining inflation and appreciating currency values. The current economic climate encourages investment—including investment in advertising—and television has been a beneficiary.

- The record of sustained growth during the past three years stands in sharp contrast with the past decade, when periodic financial crises—most notably in Mexico, Argentina, and Brazil—adversely affected the region. High inflation led to rapidly rising interest rates that ultimately resulted in steep currency devaluations and sharp declines in gross domestic product (GDP). Decreased economic activity in one country curtailed imports for other Latin American countries and adversely affected their economies as well, with the result that the region as a whole suffered from financial crises in key countries.

- That cycle now appears to have been reversed. Governments have brought inflation under control, currency values have stabilized, and interest rates have come down. Meanwhile, rising oil prices have helped oil-exporting countries such as Mexico and Venezuela.

- The region's economic turnaround is perhaps best reflected in currency values, which had been catalysts for economic problems in recent prior years. The buying power of the currencies of Argentina, Brazil, Chile, and Colombia each rose relative to the U.S. dollar during the past two years. The currencies of Brazil, Chile, and Colombia each appreciated by more than 25 percent compared with 2003, and Argentina's increased 2.1 percent. Mexico's peso depreciated in 2004 but rebounded in 2005. Of the six currencies, Venezuela's was the only one that continued to depreciate against the U.S. dollar during the past two years.

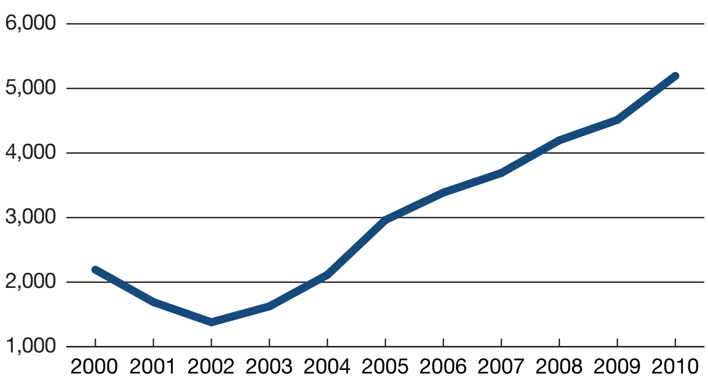
US$ per Unit of Local Currency

Latin America	2003	2004	2005	2003–05 Percent Change (%)
Argentina	0.334	0.338	0.341	2.1
Brazil	0.321	0.342	0.411	28.0
Chile	0.0014	0.0016	0.0018	28.6
Colombia	0.00034	0.00037	0.00043	26.5
Mexico	0.093	0.088	0.092	–1.1
Venezuela	0.00062	0.00053	0.00047	–24.2

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Argentina and Brazil have had the most volatile television advertising markets in the region. Combined television advertising in the two countries fell by 37 percent from 2000 to 2002. Moreover, that decline is measured by means of a constant exchange rate. When changes are incorporated in exchange rates, the decline was far steeper. The turnaround has been equally dramatic: during the past three years, advertising in these two countries more than doubled. It was not until 2005, however, before advertising surpassed the 2000 level. We expect an additional $2.2 billion during the next five years, bringing the total for the two countries to $5.2 billion in 2010.

Combined TV Advertising in Argentina and Brazil (US$ Millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- A stable economic environment is more attractive to investors, and foreign capital is entering the region in greater volumes. Exports are up, GDP is growing faster, tax revenue is increasing, government debt is falling, and interest rates are lower. These developments are leading to rising employment and higher incomes, which in turn are stimulating advertising. Moreover, it does not appear that growth is proceeding at an unsustainable rate. In the past, overly rapid growth led to a surge in inflation that set the stage for a subsequent economic decline. Currently, inflation remains under control, while increased investment is allowing greater productive capacity and the ability to grow faster without straining resources.

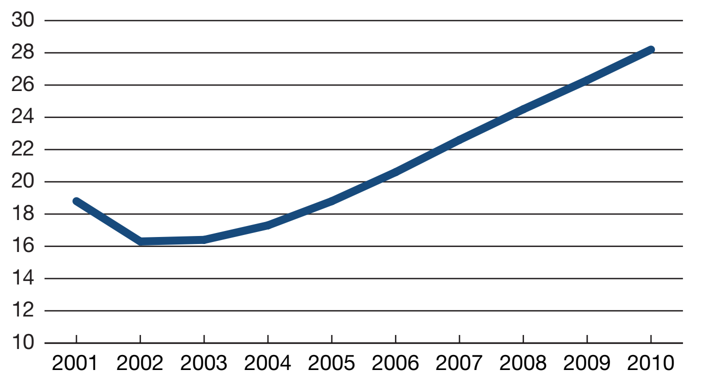
- Accordingly—except for surges in 2006, 2008, and 2010 related to sports advertising—we expect the region as a whole to sustain steady growth through 2010.

- As evidence of the improved economic climate, a new international news channel, Telesur, was launched in Latin America in 2005, financed by Venezuela, Argentina, Uruguay, and Cuba. Venezuela advanced the initial budget of $10 million and owns 51 percent of the channel. Argentina has a 20 percent share, with Cuba at 19 percent and Uruguay at 10 percent.

Multichannel advertising

- The economic downturn during the early part of the decade also affected subscription television, which is a discretionary service that households dispensed with when unemployment rose and GDP fell. The number of subscription households fell in 2002, and although the number of subscription households stabilized in 2003 and expanded during the past two years, it was not until 2005 that that number returned to the 2001 level.

Subscription Households in Latin America (Millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- With incomes rising, we look for continued growth through 2007, with the market surging in 2008 through 2010 as new services become established. In Brazil, for example, digital television will be introduced in 2006 in Rio de Janeiro, São Paulo, Brasilia, and Belo Horizonte. Television stations will be required to invest in digital facilities. The Brazilian government is also commissioning three satellites, the first of which will be launched in 2009. Among other functions, the new satellites will expand television capacity.

- In Mexico, the law prohibiting telephone companies from offering television was relaxed, leading to the planned entrance of Telmex, the incumbent telephone carrier, into the television market. Similarly, cable operators will be allowed to provide telephone service, making them more competitive. Stepped-up competition should result in lower prices and increased subscribership.

- Growth in the multichannel universe will lead to growth in multichannel advertising. We project multichannel advertising to increase at a 22.5 percent rate compounded annually to $1.2 billion from $431 million in 2005.

Multichannel Advertising† (US$ Millions)

Latin America	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Argentina	67	44	75	89	114	126	135	146	159	172
Brazil	30	30	37	54	88	115	143	181	215	271
Chile	16	18	23	26	29	33	36	41	45	51
Colombia	48	48	46	50	50	55	64	75	89	106
Mexico	75	82	92	116	129	154	225	293	419	528
Venezuela	7	11	14	18	21	27	33	40	50	60
Total	243	233	287	353	431	510	636	776	977	1,188

†At average 2005 exchange rates.
Note: Historical trends do not incorporate the impact of 2002's steep currency devaluations.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Multichannel Advertising Growth (%)

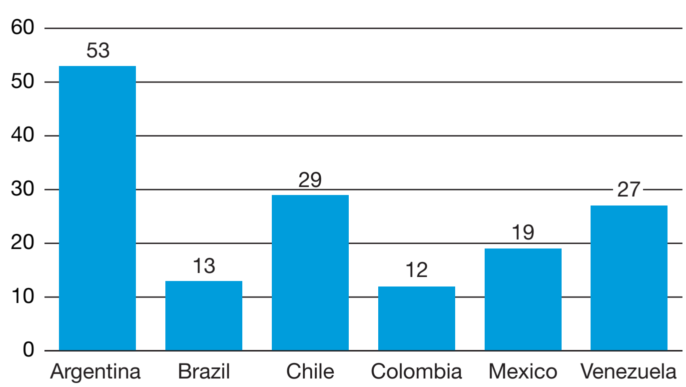
Latin America	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Argentina	4.7	–34.3	70.5	18.7	28.1	10.5	7.1	8.1	8.9	8.2	8.6
Brazil	–18.9	0.0	23.3	45.9	63.0	30.7	24.3	26.6	18.8	26.0	25.2
Chile	23.1	12.5	27.8	13.0	11.5	13.8	9.1	13.9	9.8	13.3	12.0
Colombia	17.1	0.0	–4.2	8.7	0.0	10.0	16.4	17.2	18.7	19.1	16.2
Mexico	11.9	9.3	12.2	26.1	11.2	19.4	46.1	30.2	43.0	26.0	32.6
Venezuela	16.7	57.1	27.3	28.6	16.7	28.6	22.2	21.2	25.0	20.0	23.4
Total	6.6	–4.1	23.2	23.0	22.1	18.3	24.7	22.0	25.9	21.6	22.5

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Double-digit increases are anticipated in each country except Argentina. A new ruling in Argentina will limit the amount of advertising time on channels that have 49 percent or more of foreign programming. That limitation will slow the growth of multichannel advertising. Argentina has a disproportionately large multichannel market. Although it constitutes only 7 percent of total television advertising in Latin America, it generates 26 percent of the region's multichannel advertising. Its large multichannel total reflects its high multichannel penetration. In 2005, 53 percent of TV households in Argentina subscribed to a multichannel service. This reflects the fact that, despite its recent economic problems, Argentina historically has been a relatively well-off country in Latin America.

- Mexico has the largest multichannel advertising market in the region, at $129 million. Brazil, which has a relatively low multichannel penetration rate of 13 percent, had a lower multichannel total than Argentina, even though its total television advertising was more than five times larger.

2005 Multichannel Penetration (%)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Terrestrial advertising

- Even with multichannel advertising growing rapidly, the market is still dominated by terrestrial advertising, which represented 94 percent of total television advertising in 2005 and which will generate 89 percent of the total in 2010.

- Except for Argentina, most people in Latin America get their television programming from free-to-air channels. Free-to-air offers a wide variety of channels and broadcasts the major sporting events. The 2006 FIFA World Cup, for example, will be shown on Grupo Televisa and TV Azteca in Mexico (although some matches will be carried on Televisa's satellite platform), on TV Globo in Brazil, and on three free-to-air networks in Argentina.

- In addition to sports, soap operas (telenovelas) are very popular on free-to-air television. In Chile, new soap operas (known as *culebrones* in Chile) are being launched by private broadcasters to compete with Television Nacional de Chile, the state-run broadcaster.

- In Argentina, new rulings that limit advertising inventory on foreign-dominated cable channels will free up funds for free-to-air channels. Terrestrial advertising in Argentina will grow nearly as fast as multichannel advertising, and Argentina will be the only country where that will be the case.

- Football (soccer) is enormously popular in Latin America, and the 2006 and 2010 FIFA World Cup matches will attract advertisers to free-to-air television. Even-year regional football tournaments and the Summer Olympics in 2008 will provide an additional boost that year. In alternate years, sports-related advertising will leave the market, and growth rates will moderate.

- In addition to sports, new programming on free-to-air television and the improved economic climate will support continued growth in terrestrial advertising. For the forecast period as a whole, terrestrial advertising will expand at a 9.8 percent compound annual rate to $10.1 billion.

Terrestrial Advertising† (US$ Millions)

Latin America	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Argentina	236	144	225	283	343	386	394	437	452	503
Brazil	1,358	1,161	1,288	1,688	2,417	2,760	3,020	3,434	3,687	4,247
Chile	230	241	280	296	315	334	346	372	382	410
Colombia	658	614	566	579	548	567	579	611	623	653
Mexico	1,723	1,843	1,925	2,268	2,484	2,918	2,985	3,375	3,387	3,874
Venezuela	111	159	173	207	230	276	298	343	367	423
Total	4,316	4,162	4,457	5,321	6,337	7,241	7,622	8,572	8,898	10,110

†At average 2005 exchange rates.
Note: Historical trends do not incorporate the impact of 2002's steep currency devaluations.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Terrestrial Advertising Growth (%)

Latin America	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Argentina	–14.8	–39.0	56.3	25.8	21.2	12.5	2.1	10.9	3.4	11.3	8.0
Brazil	–25.2	–14.5	10.9	31.1	43.2	14.2	9.4	13.7	7.4	15.2	11.9
Chile	8.0	4.8	16.2	5.7	6.4	6.0	3.6	7.5	2.7	7.3	5.4
Colombia	10.4	–6.7	–7.8	2.3	–5.4	3.5	2.1	5.5	2.0	4.8	3.6
Mexico	4.6	7.0	4.4	17.8	9.5	17.5	2.3	13.1	0.4	14.4	9.3
Venezuela	–1.8	43.2	8.8	19.7	11.1	20.0	8.0	15.1	7.0	15.3	13.0
Total	–7.4	–3.6	7.1	19.4	19.1	14.3	5.3	12.5	3.8	13.6	9.8

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Canada

The outlook in brief

- New channels and continued growth in digital households will continue to boost advertising on specialty channels, but increases will drop to single-digits in 2007–10 as the market matures.
- Increased funding of Canadian programs and increased inventory on those programs will sustain broadcast advertising.
- Continued growth in subscription households will maintain license fee expansion.

Overview

- The television network market will expand at a relatively steady 4.3 percent compound annual rate to $4.5 billion in 2010 from $3.7 billion in 2005.
- Conventional broadcast advertising will be the slowest-growing sector, at 1.9 percent compounded annually, but will remain the largest component of the market, at $2.1 billion in 2010, up from $1.9 billion in 2005.
- Specialty channel advertising will be the fastest-growing sector, with a projected 8.4 percent compound annual increase to $990 million from $660 million in 2005.
- Total advertising will rise from $2.5 billion in 2005 to $3.1 billion in 2010, a 3.8 percent compound annual gain.
- Specialty channel license fees at $825 million in 2005 will total $1.1 billion in 2010, growing at a 5.7 percent annual rate.
- Pay TV license fees will grow at a 4.6 percent rate to $404 million from $322 million in 2005.
- License fees as a whole will increase by 5.4 percent compounded annually from $1.1 billion in 2005 to $1.5 billion in 2010.

Television Network Market† (US$ Millions)

Canada	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Broadcast Advertising	1,751	1,735	1,842	1,857	1,877	1,906	1,939	1,981	2,022	2,063
Specialty Channel Advertising	361	420	500	583	660	734	805	867	928	990
Total Advertising	2,112	2,155	2,342	2,440	2,537	2,640	2,744	2,848	2,950	3,053
Specialty Channel License Fees	608	687	744	783	825	871	920	974	1,032	1,089
Pay TV License Fees	236	274	286	307	322	338	355	371	388	404
Total License Fees	844	961	1,030	1,090	1,147	1,209	1,275	1,345	1,420	1,493
Total Specialty and Pay TV‡	1,205	1,381	1,530	1,673	1,807	1,943	2,080	2,212	2,348	2,483
Total Conventional Broadcast and Cable	2,956	3,116	3,372	3,530	3,684	3,849	4,019	4,193	4,370	4,546

†At average 2005 exchange rates.
‡Includes advertising and license fees.
Sources: Canadian Radio-television and Telecommunications Commission, PricewaterhouseCoopers LLP, Statistics Canada, Wilkofsky Gruen Associates

Television Network Market Growth (%)

Canada	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Broadcast Advertising	2.3	–0.9	6.2	0.8	1.1	1.5	1.7	2.2	2.1	2.0	1.9
Specialty Channel Advertising	15.0	16.3	19.0	16.6	13.2	11.2	9.7	7.7	7.0	6.7	8.4
Total Advertising	4.2	2.0	8.7	4.2	4.0	4.1	3.9	3.8	3.6	3.5	3.8
Specialty Channel License Fees	14.1	13.0	8.3	5.2	5.4	5.6	5.6	5.9	6.0	5.5	5.7
Pay TV License Fees	33.3	16.1	4.4	7.3	4.9	5.0	5.0	4.5	4.6	4.1	4.6
Total License Fees	18.9	13.9	7.2	5.8	5.2	5.4	5.5	5.5	5.6	5.1	5.4
Total Specialty and Pay TV	17.7	14.6	10.8	9.3	8.0	7.5	7.1	6.3	6.1	5.7	6.6
Total Conventional Broadcast and Cable	8.0	5.4	8.2	4.7	4.4	4.5	4.4	4.3	4.2	4.0	4.3

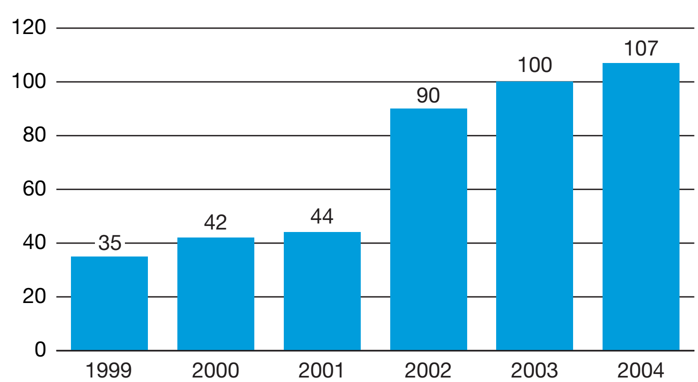
Sources: Canadian Radio-television and Telecommunications Commission, PricewaterhouseCoopers LLP, Statistics Canada, Wilkofsky Gruen Associates

Digital household growth

- The Canadian television marketplace is evolving from analog to digital. That transformation was accelerated when the Canadian Radio-television and Telecommunications Commission (CRTC) in 2000 granted approximately 300 licenses for new digital channels. In 2002, more than 40 commercial specialty channels entered the market, bringing the total to 90 from 44 in 2001. By 2004, there were 107 commercial specialty channels in operation.

- More new specialty channels will be entering the market during the next few years. In November 2005, the CRTC authorized six new third-language (programming in languages other than English or French) services. Two Portuguese channels, two Chinese channels, a Russian channel, and an Urdu channel will enter the market. Other third-language channels already in operation are ALL TV (Korean), RTVi (Russian), RAI International (Italian), and SET Asia (Hindi), as well as premium digital TV channels such as Sky TG 24, Video Italia, and Leonard World.

Number of Commercial Specialty Channels



Source: Canadian Radio-television and Telecommunications Commission

- The CRTC currently prohibits cable operators from selling paid commercial advertising on the local commercial inventory contained in imported U.S. programs. Those spots must be allocated to public service announcements and similar promotions. The Canadian Cable Telecommunications Association (CCTA) recommended that the CRTC permit the sale of commercial advertising and recommended that 25 percent of the revenue generated by that advertising be distributed to the Canadian Television Fund (CTF) to support local programs. If local spots on U.S. shows can be sold to commercial advertisers, specialty channel advertising will be enhanced.

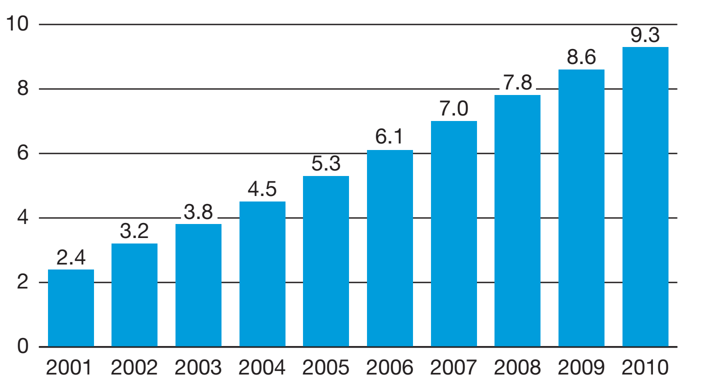
- Meanwhile, the launch of digital DTH satellite services (of the type referred to as *DBS* in the U.S.) provided access to people beyond the reach of cable and offered more channels and a sharper picture. Cable operators responded by introducing their own digital services.

- Cable operators also began bundling their digital cable offerings with broadband Internet access, and in 2005 they added telephone service in a triple play that gave subscribers television, broadband, and telephone in a single package for a discounted price compared with subscribing to each service separately. The triple play contributed to a surge in digital cable subscribership in 2005, enabling cable operators to surpass DTH providers in the number of digital subscribers.

- Cable and DTH operators also introduced HDTV services for their digital subscribers, making the digital option even more attractive.

- By 2005, there were 5.3 million digital subscribers—more than twice the level of 2001—and 44 percent of TV households subscribed to a digital service. We expect that the lure of HDTV, more programming, and the convenience and lower cost of bundled services will lead to more households trading up to digital. We estimate that by 2010 there will be 9.3 million digital households, representing nearly three-quarters of all TV households in Canada.

Digital Households (Millions)



Sources: Canadian Cable Television Association, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Growth in the digital universe will translate into growth in the audience for specialty channels as more people will have access to those channels. Increased audiences and more channels, in turn, attract advertisers. During the past five years, advertising on specialty channels rose at double-digit annual rates, including a 13.2 percent advance in 2005.

- Although growth in the digital universe will continue, with half of all households expected to subscribe to a digital service in 2006, percentage gains in digital subscribership thereafter will moderate, and we expect specialty channel advertising growth to moderate as well.

- Following an additional year of double-digit growth, we expect specialty advertising growth to drop to high single digits during 2007–08 and to mid single digits in 2009–10, averaging 8.4 percent growth compounded annually during the forecast period as a whole.

Conventional broadcast advertising

- The shift in viewership to specialty channels and the associated growth of specialty channel advertising cut into funds available for over-the-air broadcasters. Although over-the-air broadcast networks continue to command the majority of television advertising—at 74 percent in 2005—growth has dropped sharply, to only 0.8 percent in 2004 and 1.1 percent in 2005.

- Increased funding in support of local programming will help broadcasters limit audience erosion as the multichannel universe expands. Two local shows—*Corner Gas* and *Canadian Idol*—are among the most popular programs in Canada, giving credence to the view that local programming can attract viewers. This is in part because the licensing requirements for domestic channels require a minimum level of Canadian content expenditure and broadcast.

- In 2004, federal spending on Canada's television and movie industry declined, a factor that may have contributed to the slow growth in broadcast advertising that year. The Canadian Film and Television Production Association recommended that contributions to the Canadian Television Fund be increased by C$95 million (US$78 million). The CTF accepted the recommendation and used the added funds to support 36 programs. If the CRTC accepts the proposal of the CCTA to permit the sale of local spots on U.S. shows to advertisers and directs a quarter of the funds to the CTF, local programming will receive an incremental benefit. CTF support is considered vital because it allows broadcasters to air more-expensive programming, which has the potential to attract more viewers. Without that support, less-expensive shows will likely be aired, which could have an adverse impact on viewership.

- The CRTC in 2004 introduced an incentive for broadcasters to carry Canadian programming by allowing them to sell more advertising. If broadcasters take advantage of this incentive, they will be able to sell more commercial units, which should boost broadcast advertising.

- Distribution of television to mobile devices is also coming to Canada. The CBC broadcast video clips of the 2006 Winter Olympics to mobile phone subscribers. Bell Canada has also begun distribution clips of TV shows to its wireless telephone subscribers.

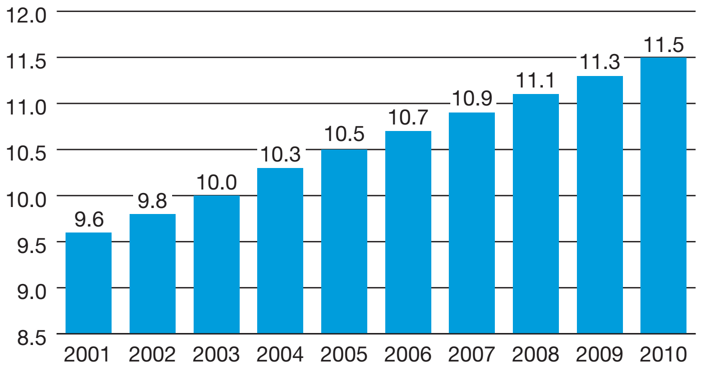
- While increased funding of Canadian programs should have a positive impact on broadcast audiences and advertising, it will not offset the ongoing shift in viewership from broadcast to specialty channels. Accordingly, although we project a modest improvement in broadcast advertising growth, we expect increases to remain at low-single-digit levels, averaging 1.9 percent on a compound annual basis. By 2010, the conventional broadcast share of television advertising will drop to 68 percent.

License fees

- For specialty channels, license fees are based in part on overall multichannel subscriber counts; for pay TV channels the fees are based on the number of subscribers to pay services. The number of services offered in both categories and the rate per subscriber also affect license fees.

- The principal driver of license fees, which is the size of the subscription household universe, will continue to expand. There were 10.5 million subscription TV households in 2005, up from 9.6 million in 2001. We expect the size of the subscription TV market to increase to 11.5 million households by 2010, providing a source of growth for specialty and pay TV license fees.

Number of Subscription TV Households in Canada (Millions)

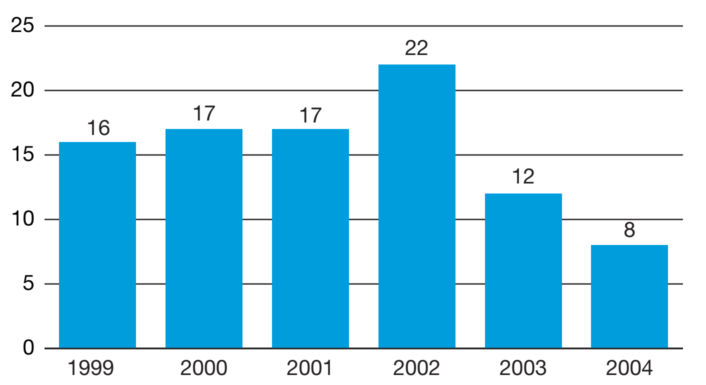


Sources: Canadian Cable Telecommunications Association, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- The rising subscriber base, although at a slower rate, and the launch of new channels, will sustain growth in specialty channel license fees, which rose by 5.4 percent in 2005 following a 5.2 percent gain in 2004. We expect somewhat faster growth during the next five years: 5.7 percent compounded annually, spurred by new channels. Specialty channel license fees will total $1.1 billion in 2010.

- In contrast with the specialty channel market, the number of pay TV channels has declined, falling from a peak of 22 in 2002 to 12 in 2003 and only 8 in 2004, a total that was approximately half the levels during 1999–2001.

Number of Pay Channels



Source: Canadian Radio-television and Telecommunications Commission

- With so many specialty channels now available to digital subscribers, the demand for pay channels has been reduced, and a number of pay services were discontinued.

- Offsetting the drop in the number of pay services was the improved economic climate. Pay TV is the most discretionary of the television channels because subscribers can add or drop one channel at a time without having to discontinue an entire service. In 2004, reflecting the improved economic climate, pay TV license fees grew faster than specialty channel fees—7.3 percent compared with 5.2 percent—even though the number of pay services declined. In 2005, however, growth moderated to 4.9 percent.

- With the number of pay channels now below 10, we do not expect further declines, and the rising multichannel universe will likely lead to an increase in pay TV subscriptions. Accordingly, we expect pay TV license fees to continue to grow at mid-single-digit rates, rising to $404 million in 2010 from $322 million in 2005, a 4.6 percent compound annual increase.