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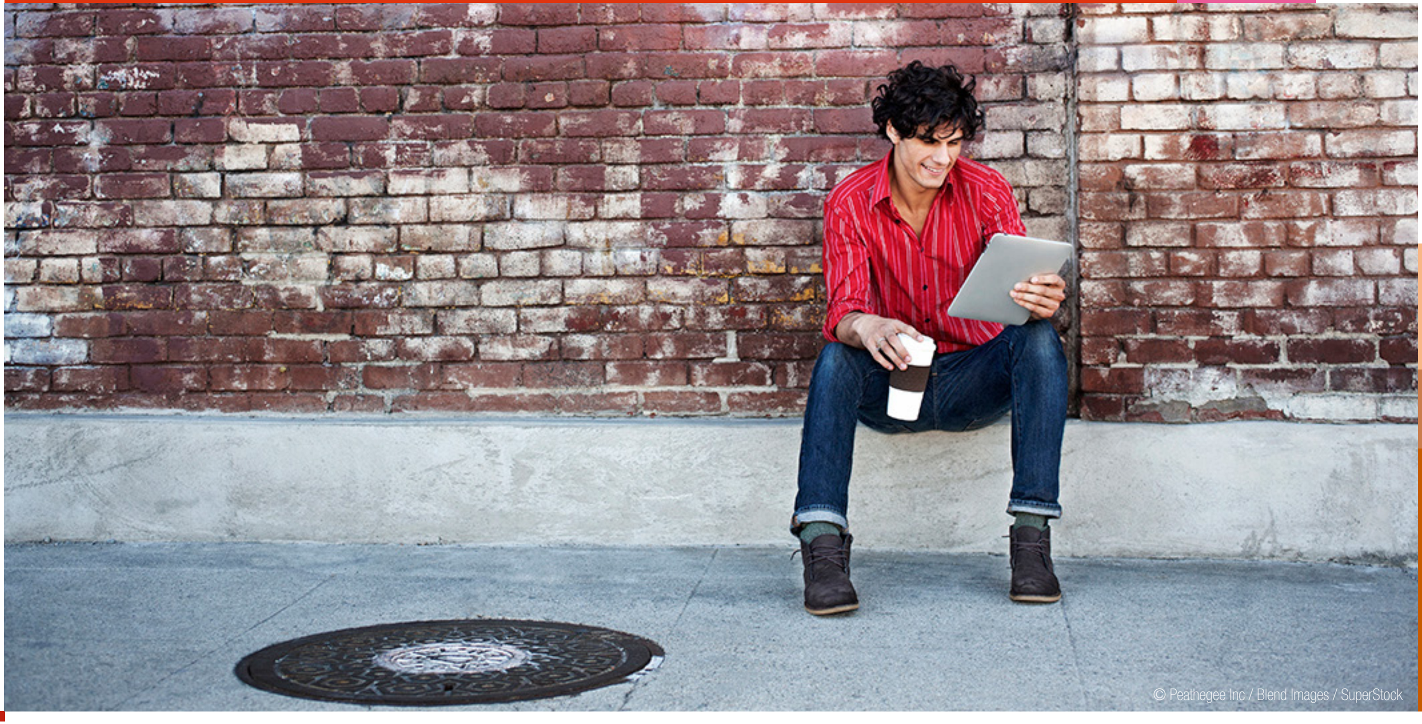
# Swiss Entertainment and Media Outlook 2013





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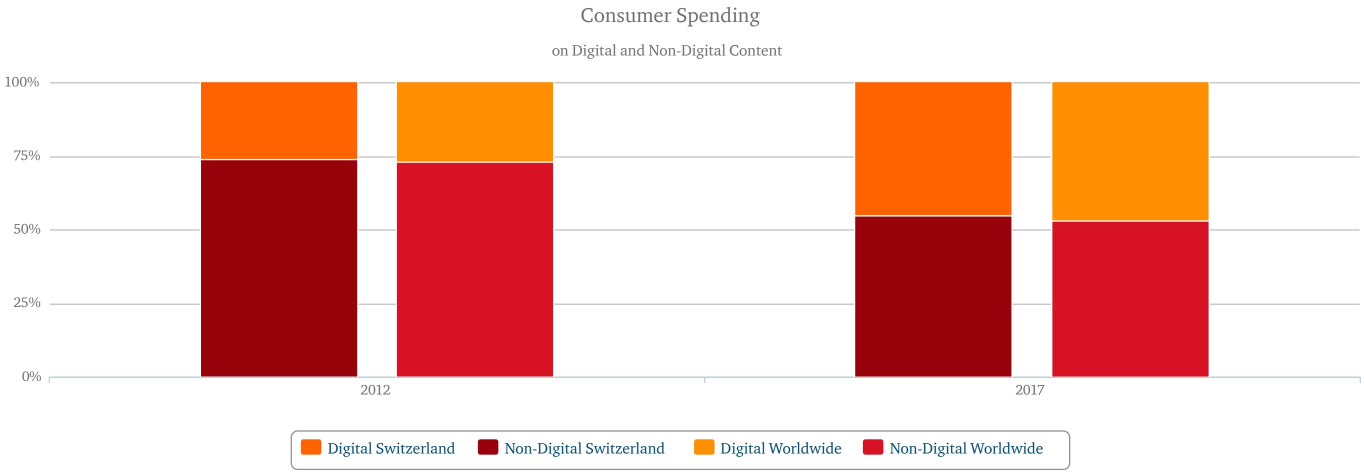
# Contents

# Executive Summary

## Advertiser and Consumer Spending in the Swiss E&M Industry



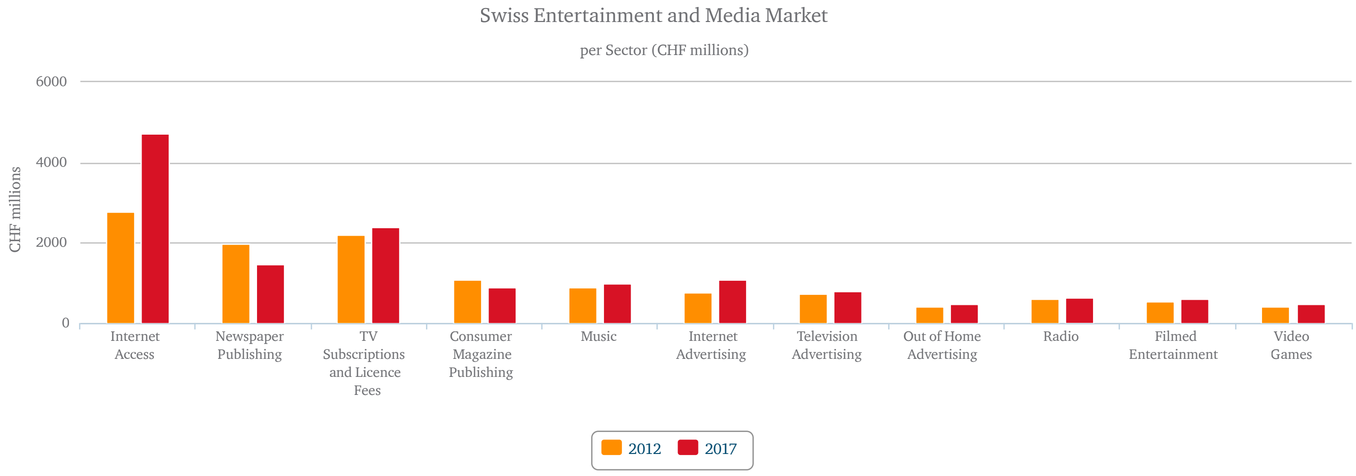

Analysis by PwC

The overall trends in the entertainment and media industry have not changed. Digital media will remain the clear driving force behind revenues in the entertainment and media industry over the coming five years and will further extend their influence and relevance across the market. The already established trend towards digital technologies is of particular note and it will continue to dominate the E&M industry worldwide. It is assumed that worldwide consumer spending on digital content will increase that component's share of the E&M market from 27 per cent in 2012 to 47 per cent in 2017. In contrast, relative spending on non-digital offerings will decrease sharply. However, companies have to keep in mind that in absolute terms, traditional non-digital content will still generate higher revenues in 2017, mainly due to lower prices for digital content. The same trend can also be observed in Switzerland, where digital media is constantly gaining in prominence. We expect spending for digital offerings to grow by a CAGR of 15.1 per cent through 2017, whereas non-digital spending in Switzerland will decrease by 2.6 per cent compounded annually over the period 2013-2017.

The Swiss economy recorded real GDP growth of 1 per cent in 2012, compared to a 1.9 per cent growth rate in 2011. Generally, advertising spending is strongly correlated with fluctuations in GDP. However, although real GDP increased in 2012, advertising spend in Switzerland decreased slightly that year. Therefore, it is not appropriate to say that future advertising spending will by definition rise if real GDP also increases. Growth in the Swiss E&M sector is fragile and cannot be predicted by GDP developments alone as economic growth is only one indicator for the trend in this industry, albeit a rather considerable one.

With regard to future economic conditions, Switzerland should develop in a highly positive way. The Swiss National Bank (SNB) has stated that GDP growth in the second quarter of 2013 exceeded its original expectations in response to strong domestic demand. Moreover, export revenues are expected to turn upward in the second half of 2013 due to the improving economic environment in foreign countries. Based on these determinations, the SNB in September 2013 boosted its prognosis and is now predicting real GDP growth of up to 2 per cent for 2013. According to several institutions (e.g. BAK Basel Economics AG, the State Secretariat for Economic Affairs, KOF and SNB), the Swiss economy will steadily grow over the forecast period to reach an expected real annualised rate of 2.9 per cent in 2017. Detailed information on the assumed development of real GDP growth can be found in the chapter "Methodology and Fair Use". As economic conditions are expected to improve over the next five years, we assume that this will probably have a positive effect on E&M spending. According to a study from Nielsen, consumers' trust in commercials and advertising has increased over the past two years and should continue to do so. Therefore, advertising spending is expected to be favourably influenced. In particular, online advertising will gain importance and further underscore the significance of digital formats. Using the development of the Swiss economy as a basis for our projection in each media segment, we expect spending in the selected Swiss E&M sectors to grow by a CAGR of 3.2 per cent from CHF 12'312 million in 2012 to CHF 14'415 million in 2017. The digital advertising components of the newspaper and consumer magazine market are both included in the respective category and also within the internet advertising segment (banner/display). These have been eliminated at the total level to avoid double counting.

We have observed that in 2013 consumers already started to change their behaviour in response to the digital age. Also, it is apparent that individual entertainment and media companies are reacting to the digitalisation of different formats by adapting their

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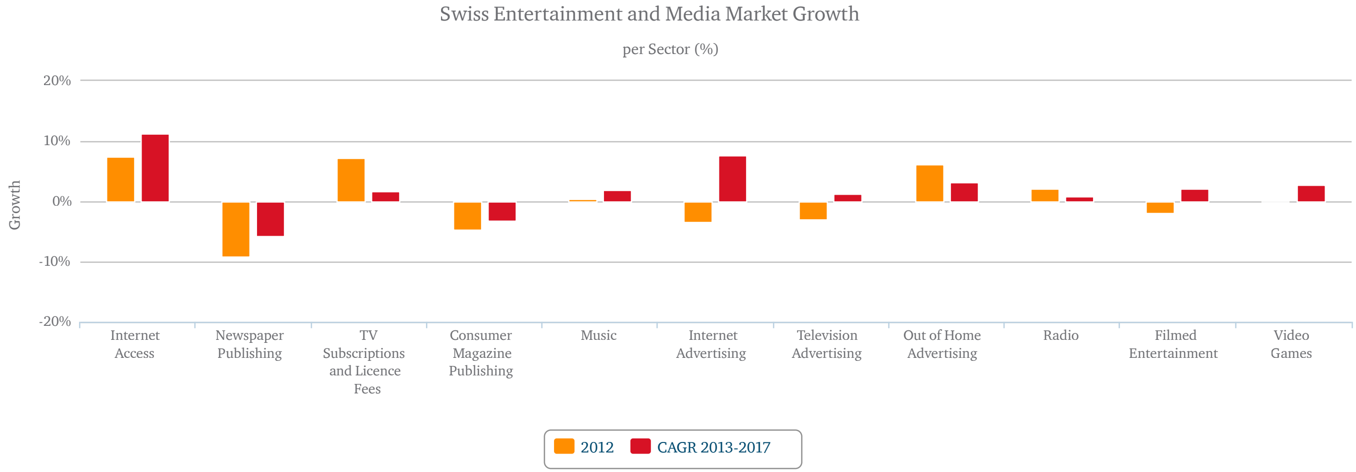


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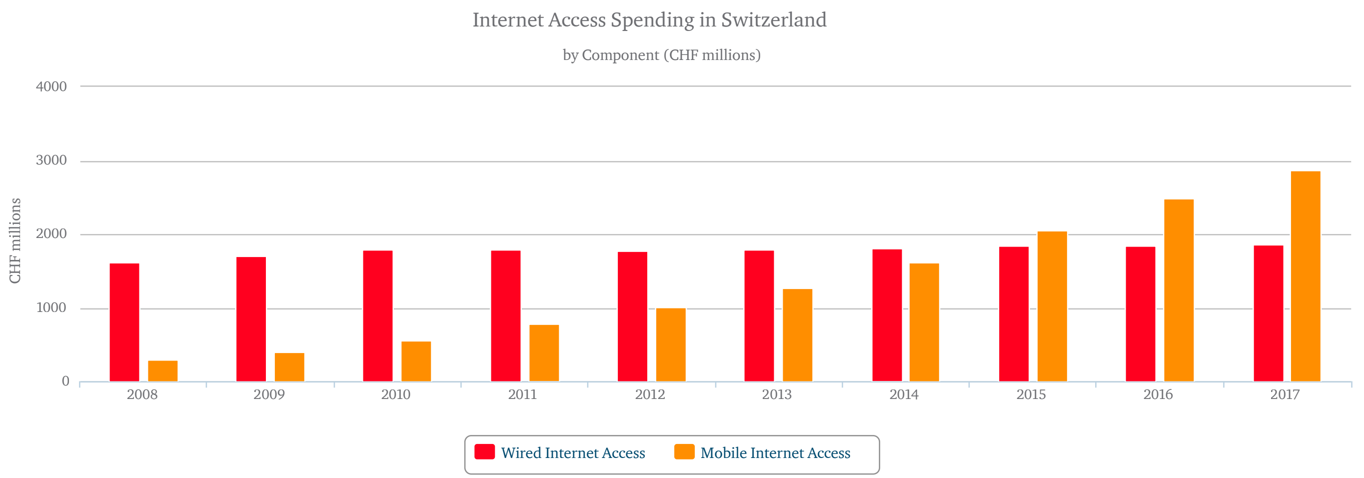
traditional business model. There are a few impending shifts in the Swiss entertainment and media industry that will continue to play a major role during the next few years:

Internet advertising spending and revenues for internet access remain the most outstanding growth factors in the E&M industry. Especially mobile internet access will represent a major force behind growth in Switzerland's entertainment and media segment. One explanation for this strong growth is the rapidly increasing penetration of smartphones and tablets, not only among young people but in all age segments. The surging use of mobile devices will lead to higher revenues in the future and also new opportunities for advertisers. We expect that in the long term, mobile internet may become equally important for consumers as wired internet access because more and more actions will be taken via a mobile device. It is expected that in 2017, more revenues will be generated by mobile internet access than by wired broadband (worldwide). In Switzerland, we assume that this will already be the case in 2015.

At the end of 2012, out of 10.03 million mobile subscribers, about 4.63 million were wireless broadband subscribers. We expect the number of wireless broadband subscribers to grow by a CAGR of 17.5 per cent, reaching 10.4 million subscribers in 2017. Those subscribers generated revenues of CHF 1'003 million for mobile internet services in 2012, and that amount should constantly increase over the forecast period by a compound annual rate of 23.4 per cent. Mobile internet access revenues of an estimated CHF 2'871 million in 2017 will then represent 61 per cent of the total internet access spend. Given these developments, we expect that technologies will also change during the forecast period and lead to a dramatic improvement in the quality of mobile internet. Providers of telecommunication services will be aggressively rolling-out new technologies, with the aim of finalising this move within the next two years. In summary, we maintain that the trend identified in last year's outlook with regard to the shift from fixed to mobile-driven internet consumption is indeed certifiable.

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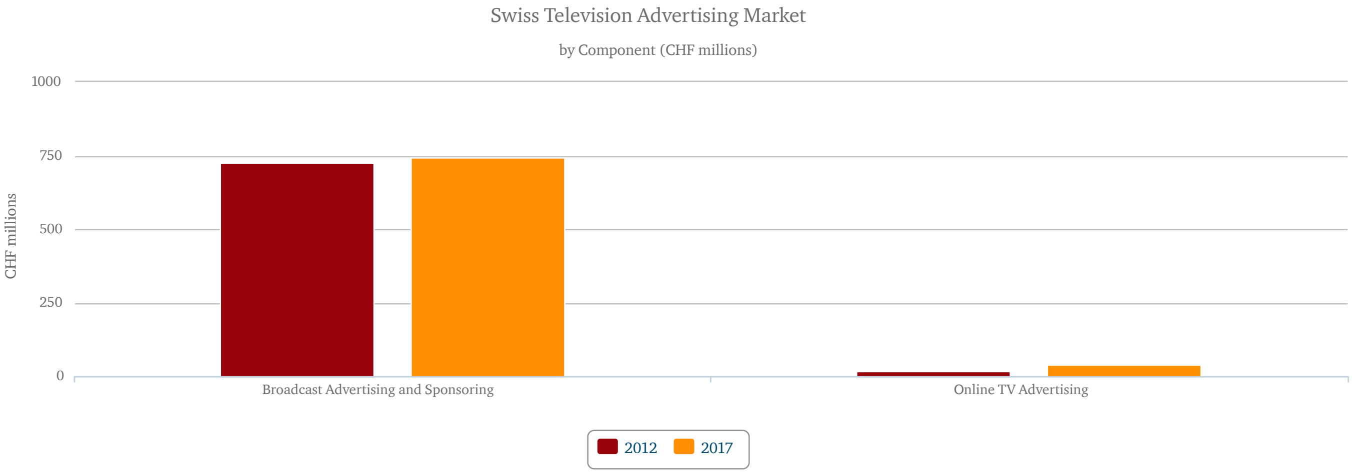
Consumer spending on entertainment and media content in Switzerland will rise in almost every segment. Purchases will clearly migrate away from traditional physical products towards digital offerings. This trend can already be observed especially in the music industry, where digital consumption of music will represent the future standard. Also in filmed entertainment, a shift from physical products to online video-on-demand offerings is becoming apparent. Consumers increasingly tend to buy movies online and not in the form of traditional DVDs. As to the recorded music industry, revenues from digital distribution amounted to CHF 138 million in 2012, exceeding those from physical distribution for the first time and representing a 54 per cent share of total recorded music sales revenues. We expect that this share will increase further so that sales of digital music should account for 75 per cent of the total music distribution in 2017. Also, in the filmed entertainment market we assume that, in the long run, the Swiss physical home video market will be worth less than the electronic video market, starting in 2016. The electronic rental and sell-through market for movies will increase at a compound annual rate of 22.5 per cent over the 2013-2017 forecast period, whereas the physical home video market is expected to decrease at a CAGR of 8.6 per cent. The trend towards consumption of non-physical products also can be seen in the video games segment, where purchases are moving away from boxed video games and migrating to mobile video games, which will be the fastest growing video games sector over the next five years – in Switzerland as well as worldwide. We assume that Swiss revenues generated by mobile video games will increase from CHF 40 million in 2012 to CHF 66 million in 2017, representing a CAGR of 10.6 per cent. Bearing this trend in mind, one highly relevant challenge poses itself for content providers: prices for digital offerings. Today, prices for electronic content are generally lower than those for physical products. A music CD costs more than an internet download of the exact same song. Additionally, free online music streaming services are also having a negative impact on revenues in the music industry. However, apart from the low prices for digital products, piracy will remain the biggest threat in the music, filmed entertainment and video games industry. Only new and innovative services, together with education, enforcement and regulation, will enable the Swiss industry to counter piracy.

The ongoing propagation of mobile devices is obviously attracting the further attention of entertainment and media companies. Be it a smartphone or a tablet, a portable laptop or a smart TV, an increasing number of people use such devices to gather information or communicate with others. At present, 70 per cent of the Swiss population own a smartphone and 31 per cent a tablet. In parallel with that trend, personalised experiences are gaining increased importance as more and more consumers want to decide which content is being viewed on any given device. The consumption as well as the importance of second-screen usage is therefore increasing steadily. These developments ultimately result in a fusion of media devices. Especially the internet and television are rapidly growing together because of the emergence of smart TVs, which are connected to the internet, and the ongoing trend towards watching television online via OTT providers like Zattoo, Wilmaa or Teleboy. Worldwide, and also in Switzerland, the proportion of television viewing via the internet on non-TV devices will increase. These new ways in which consumers watch television are also affecting advertising spending, in that they provide advertisers with new opportunities to deepen their engagement with viewers and specifically target the appropriate audience. There are several characteristics of second-screen advertising, such as sender-based, genre-based and programme-based offerings. The advertising industry is paying heed that online ads in different media devices don’t cannibalise but instead mutually support dissemination of the advertising message. On this basis, advertisers are taking advantage of the chance to bring online advertising together with offline media like television. This can also be seen when considering revenues in the Swiss TV advertising market, where online advertising revenues should grow at a high compound annual growth rate of 20.7 per cent through 2017. In contrast, traditional broadcast advertising and sponsoring revenues will only grow by an estimated 0.5 per cent over the forecast period. Although the proportion of online advertising is growing, revenues in broadcast advertising will still be significantly higher by the end of 2017 and traditional broadcast advertising continues to be highly popular.

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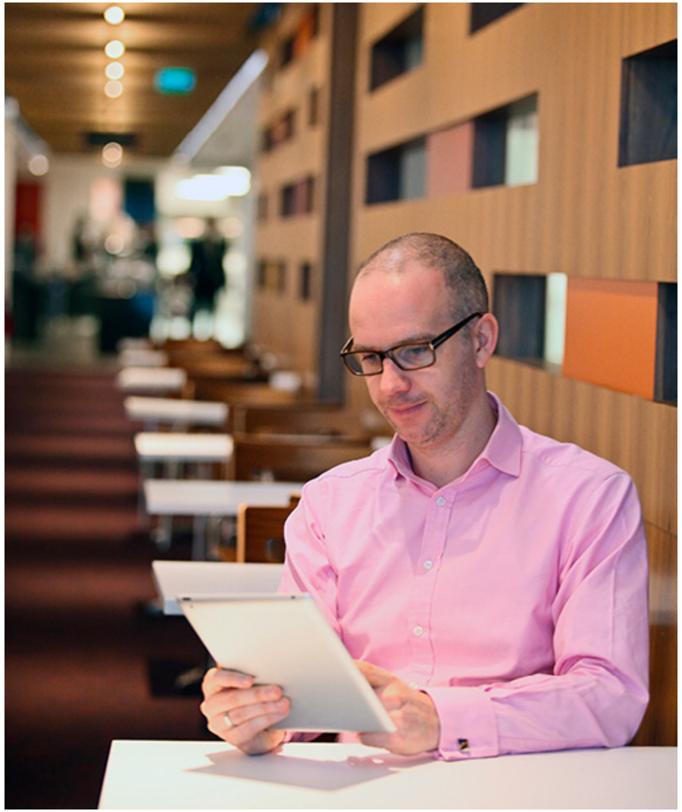
The trend in the newspaper and consumer magazine market from print to digital is continuing. The increased penetration of broadband and ownership of smart devices will result in rising consumption of digital content and thereby erode print readership and subscriptions. In Switzerland, revenues from subscriptions for printed consumer magazines should decrease from CHF 412 million in 2012 to CHF 323 million in 2017, representing a CAGR of -4.8 per cent, whereas digital circulation will increase over the same period at a CAGR of 69.5 per cent, starting from CHF 1 million in 2012 and reaching CHF 17 million by 2017. Newspaper publishers will also take the brunt of this trend. Print circulation in the Swiss newspaper market will decrease by a CAGR of -4.9 per cent over the forecast period. In 2012, the print circulation market generated revenues of CHF 748 million and that total is expected to decrease to only CHF 582 million by 2017. Considering those negative growth rates, it comes as no surprise that digital circulation in the newspaper and consumer magazine market will witness an increase in its proportion of total circulation spending from 0.4 per cent in 2012 to 6.7 per cent in 2017. Against this backdrop, the low revenue expectations for traditional non-digital content offerings also strongly imply that tough challenges lie ahead for publishers. The main problem is that the future profitability of publishing companies is not achieved by just digitising traditional print content. One reason is that digital content is generally offered free of charge or at a lower rate than physical content. Although the digital sector will be the main driver in the newspaper and consumer magazine market, it will only reduce the rate of decline in circulation revenues, but not be a mechanism for growth. In the long term, the digitalisation of traditional non-digital content cannot offset losses in print circulation revenues. The crucial thing here is that the influence of digital media is actually greater than what its share of revenues may suggest. To be profitable in the digital realm, E&M companies of all types must evaluate their competitive advantage and seize their position in the emerging digital media ecosystem.

They need to test innovative revenue sources and extraordinary business models in order to keep in step with the ongoing digital transformation. A detailed discussion about the requirements and essential characteristics of entertainment and media companies, as well as possible ways of developing innovative service offerings will be provided in our annual focus topic chapter, “Monetising Digital Offerings with Innovative Solutions”.

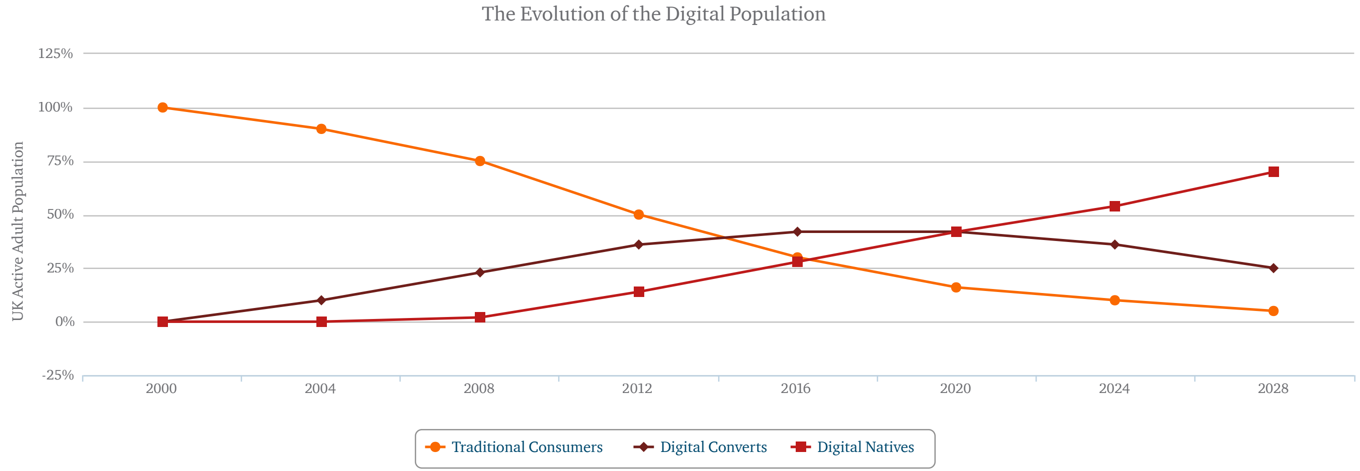


# Monetising Digital Offerings with Innovative Solutions

## 1. The changing entertainment and media industry faces tough challenges

Trends in the entertainment and media industry are directly heading towards the digital era and therefore act as key drivers for the ongoing digital transformation. The market is developing in a highly dynamic manner. Even though traditional non-digital media will continue to dominate overall spending in the entertainment and media sector, we will see digital technologies continuing to increase their influence across the industry, representing the clear driving force behind E&M industry revenues over the next five years.

In 2012, we talked about the end of the digital beginning. Worldwide consumer spending for non-digital content clearly dominated that for digital content, which represented just 27 per cent of overall spending. However, now we are definitely standing with both feet in the fast-developing digital era. It is no longer possible to ignore the pace of digital evolution. Achieving profitable growth in the current climate is associated with complex challenges that companies need to be aware of in order to make the most of the digital opportunities and in so doing create new sources of value. One important development is the fundamentally changing DNA of customers. Up to 2013, traditional consumers represented the majority of the UK's active population. However, this will change quickly. As the digital generation is growing up, we expect that digital converts will become the majority from 2013 onwards. Furthermore, digital natives will finally become the new norm, meaning that your customer base will change significantly in the coming years. For Switzerland, the same picture can be painted, but with a lag time of about 5 years due to demographic differences. Digital is becoming the new norm in both the B2B and B2C markets, as well as in your own company, and it will raise issues, threats and opportunities for all businesses. Based on that, one thing is clear: continuing your traditional business model or just actively trying to improve it is unlikely to work. Fundamental transformation is required in order to survive.

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Particularly the development in the newspaper and consumer magazine market shows that perpetuating or improving your original business model will not work over the long term. One crucial fact that companies will have to face is that it is not enough to just digitise their existing non-digital offering, for example by launching a mobile app for a consumer magazine. Consumers want more than just the ability to view well-known content online. As a matter of fact, most consumers are not willing to pay for online content that is nothing more than a digital version of a traditional media offering. This is why it is extremely important for you and your company to ask yourself: How well do I know my current customers? In what way are their needs going to change? And most important: How well am I able to serve those changing needs in the digital age? You have to keep in mind that your customers are increasingly connected and constantly changing the ways they use media when it comes to the consumption of content. Also, the growing demand from connected consumers for content delivered across multiple devices whenever and wherever they want pose major challenges to content distributors' traditional business and operating models.

Against this backdrop, what matters now is to find out how to capitalise on this change and operate profitably in the digital era. Publishing companies, advertisers and content providers all should be keen to explore the wide range of novel business solutions so that offerings can be monetised also in the digital age. The good news is that the digitalisation of the E&M industries provides enormous opportunities for innovative business models and creative thinking. There is great potential to make money in the digital world, but you have to understand that the means of achieving this goal call for significant change.

## 2. Advertisers, publishers and content providers need to invest in their digital mindset

As already mentioned, a highly important aspect regarding the development of the entertainment and media industry is that digital content offerings are often accessible free of charge or at a lower rate than traditional non-digital content. The share of revenues generated through digital offerings does not reflect their actual relevance for the industry. This inevitably raises the question of profitability in the digital age. Publishers, content providers and advertisers need to plan and fundamentally transform their strategies so that they are in step with the digital pace. Only under this condition is long-term profitability enabled.

Due to decreasing revenues in traditional non-digital media segments and the increasing consumption of online content, publishers and advertisers alike need to migrate their advertising spend to new digital platforms. Because of this shift from print to digital ads, advertisers are discovering the more urgent need to control the effectiveness and return on investment (ROI) from their advertising spend. As a result, publishers and broadcasters of digital content have to establish new tools and measurement systems that will provide advertisers with valuable information about the effectiveness of their ad spending. Advertisers will only place their ads if they have compelling evidence that migrating their spending to new platforms will be rewarded with the right audience reach, engagement and relevance. This is why the advertising revenues of digital content publishers are heavily reliant on credible and cross-platform metrics offerings for advertisers. ComScore for example provides its customers with a tool called AdEffx, which measures the return on investment of an advertising campaign. With its validation and optimisation functions, AdEffx is able to monitor the actual reach of a target audience as well as provide feedback regarding the actual success of advertising spend. In order to improve your marketing effectiveness, it is important to apply an approach that directs assessment of online advertising away from existing measurement systems, e.g. click-through rate (CTR), to more sophisticated solutions that also take brand awareness into account.

However, investing in tools that measure the effectiveness of an ad spend is only a small part of the potential that the digital age offers. New complex technologies have the capability to disrupt the business models of traditional organisations at a rate never experienced before. It is actually the case that business change in the future will most often be based on upcoming technological opportunities, and that in turn is leading to a concept of transformation.

One technical development that must be used to full capacity is the extraction and analysis of big data in order to understand your customer base as well as the dynamics of the digital ecosystem in which you are doing business. There is a broad community that surrounds your company which can be leveraged if you gain an appropriate understanding of its characteristics. Data on the changing behaviour of consumers provide an extremely valuable advantage by telling you exactly how to reach a specific target audience or the way in which your customers react to a particular impulse. You have to make it a priority to build direct relationships with your customer base and thereby gain a better sense of their needs!

Technology Innovation

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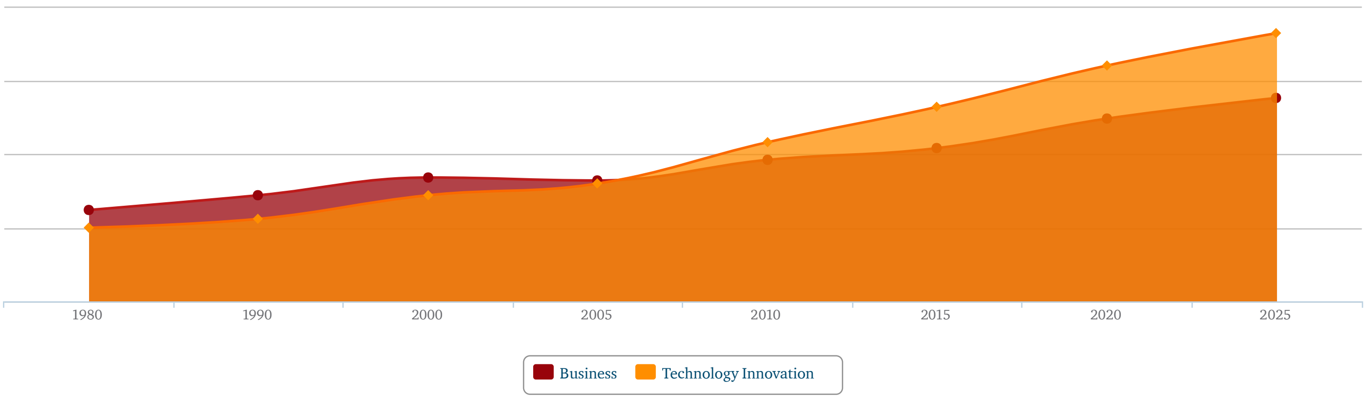


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With big data analytic tools, not only can you measure consumers' behaviour but also use data to define criteria for the segmentation of your customer base. The content on offer can then be shaped in a particular way so that a greater share of customers consumes it. Netflix, a US provider of on-demand internet streaming services, uses big data generated by existing customers to decide which TV shows they will take into their assortment. For example, Netflix did not have to market the recently launched TV show called "Orange is the New Black" because, thanks to an in-depth study of the audience's needs, the company executives knew what viewers wanted to watch and how they wanted it presented. They were sure that its users would like the show. By using comprehensive big data analytics that far exceed those of its competitors, Netflix is able to investigate what its 30 million-plus subscriber base enjoys.

Therefore, it is a business need to invest aggressively in such complex technologies to get data generated by users who access content via internet-connected platforms and devices. It is more important than ever before that you adapt your business model to the demands of connected consumers! The Swiss marketing company for mobile advertising, Adello, has demonstrated another successful way of doing so by merging with HStreaming, a US company that provides big data realtime analytics. In collaboration with technical experts from HStreaming, Adello developed a high-performance platform for realtime mobile analytics, using cutting-edge technology. The technology facilitates precise targeting and re-targeting messages across smart devices to specific individuals. Based on this, realtime reporting and interaction can bring advertising to a totally new level and the mobile advertising space will be revolutionised by breakthrough technology.

However, there are some major hurdles regarding big data analytics. Firstly, compiling data on the behaviour, habits and preferences of your customer base may conflict with their desire for privacy. Secondly, the risk of information leakage represents a big threat for companies that are collecting data on their user base. Particularly in today's digital era, with its high proliferation of mobile technology, data loss is occurring at a rate never seen before. In Switzerland, there are legal provisions and laws concerning data security, for example the Swiss Federal Data Protection Act (DPA). The law applies to electronic and manual data processing and specifies several requirements regarding data management. Therefore, it is crucial that you invest in data loss prevention solutions so that compiled data on your customers do not become public. A proactive approach is required to decrease the likelihood of reputational and monetary damages. Also, European privacy guidelines must be taken into account, especially if your company is operating internationally. Data security is a sensitive matter where PwC can lend you its support and help you to deal prudently with data management and security issues. At first glance, the problem of data leakage seems overwhelming; but with a few tools, it is possible to tame leakage and you will be viewed as a trustworthy company in the market.

Apart from the investment in solutions to prevent data leakage, actively integrating your customer base into your business strategy is another valuable way of generating profitability in the digital age. Building on this thought, PwC has developed a framework reflecting three complementary waves of opportunities for companies to generate profitable growth in this new era. The first wave (first step) centres on the digitalisation of your classic transactional business and involves the improvement of your e-commerce services. Besides being an effective channel for marketing the demand and supply chain, there are many more benefits to be had if you use e-commerce the right way. It can generate a better customer experience, smarter pricing and more effective distribution.

But another important aspect is that organisations think about the kind of total customer centricity that transcends channels – i.e. by focusing on the consumer to deliver a valued experience and helping the customer to achieve the desired outcome. For instance, you could offer your clients transaction services on their mobile phone, such as a mobile payment solution for grocery shopping or mobile wallet solutions. After the wave of digital commerce, a digital consumption wave will follow, where companies should help their customers to achieve outcomes they care about by using the data they voluntary share. Experiences show that many consumers are happy to share their information if they can see a tangible benefit. We therefore strongly advise you to develop propositions that encourage your customer base to share their consumption data.

As a result, this will increase your customers' loyalty, boost revenues and reduce operating costs even further. Some innovative organisations are already creating additional individualised added value for their customers by understanding and enabling the outcomes they seek. For example, when Nike sells athletic shoes, the company now provides its clients with an additional service that address their general health. By integrating a chip into the shoes, customers are able to record data on the status of their fitness.

Several factors such as pulse rate, blood pressure and covered distance can be monitored. The analysis can then be shared in a community. That way, while the shoes are only viewed as an enabler, Nike is actually selling their customers well-being as a service on top.

The third wave is the digital identity wave, where customers will be helped by trusted players to own and manage their full digital identity. They will declare their needs and demand for goods and services, and come together as digitally-enabled buying brands. A British company that is providing comparison services is currently acting as such a trusted player. On its webpage, users report very detailed behavioural aspects about a particular topic, such as driving style (car accidents, speeding, etc.). Based on this information, the company arranges a list of perfectly suited car insurance offers, which are totally individualised and provide users with added value. The company is seen as the single point of contact, and that results in higher customer loyalty to the comparison service provider than to the car insurer. When implementing the concept, you have to bear in mind that each wave will be a supplement to the previous one rather than a replacement, and yet the inception of each new wave will be game-changing in its own right. In the end, it is your own decision in which wave you will operate. Based on your goals and desired business model, you can merely stay within the first one, or also cross over to the second and ultimately the third wave.

## *3. Out of the misery with innovative business models and a clear purpose statement*

Returning to the challenging developments in the entertainment and media industry, it is clear that if you have not done so yet, you finally need to rethink your traditional business model in order to find new ways of monetising digital offerings in the future. However, investing in the right digital solution at the right time requires deep industry know-how and a distinctive culture of innovation. It is not sufficient to copy trends and marketing concepts from abroad. The Swiss entertainment and media industry has its own specific features in terms of customer requirements, so every innovative concept needs by all means to be harmonised with the conditions in the Swiss market.

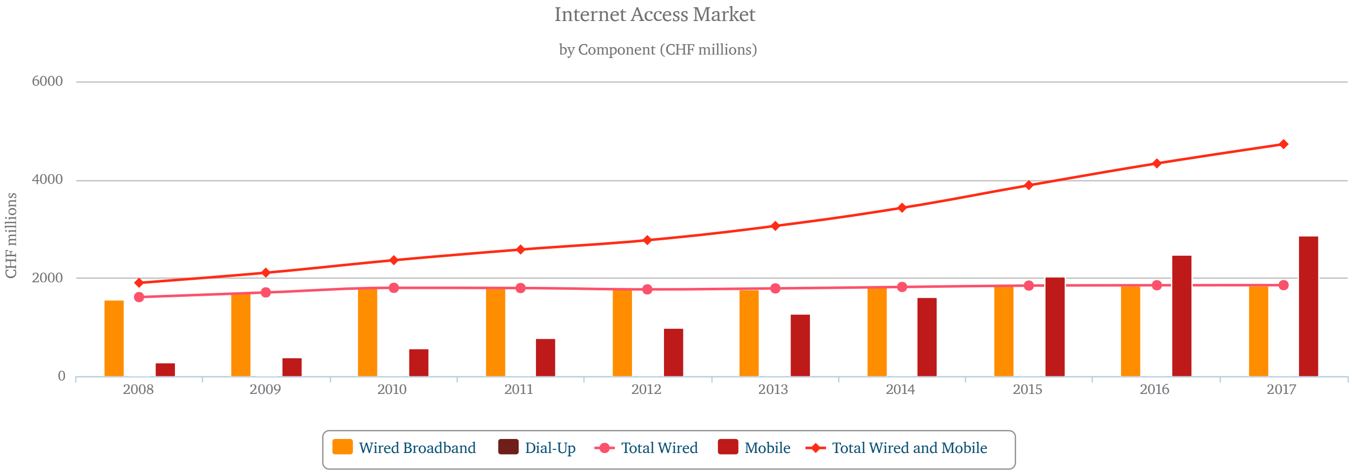
Therefore, we strongly suggest that you make use of the digital ecosystem by clearly orientating yourself on the needs of your customer base and leveraging your surrounding community by shaping offered content towards the needs of your customers in order to generate revenues. While repositioning yourself, you must bear in mind that it is not enough to only present your vision and mission statement. In the digital age, you have to state a distinctive profile and differentiation model, which means showing your customers the purpose of your existence! You need to ask yourself: What do I stand for? Why should anyone care about me? Define your role in the digital ecosystem and actively communicate it so that your customer base will reward you with entitlement to your corporate raison d'être. We believe that a consumer ultimately buys something because of "why" a company offers it, and not because of "what" it is.

By delivering personalised and innovative experiences, you will get the opportunity to use your base of connected customers to further generate revenues in the digital age. But never lose sight of the fact that the preferences and needs of your customers are shifting dramatically. This is why shaping your business is more crucial today than ever before. One way of cleverly harnessing a digital community is demonstrated by the NZZ, which has entered into an innovative cross-industrial partnership. This Swiss newspaper publisher, together with its new technology partner Crealogix, recently founded a company called Qontis AG, which aims to launch an online personal finance management (PFM) platform. It will provide customers with entirely new possibilities for managing their private finances. Moreover, as NZZ's readership has a high affinity for wine, the Swiss publisher decided to launch a digital wine portal where not only information about wine, but also the possibility to order wine online is offered. This way, NZZ has broadened its core business through additional services that combine lifestyle and economic matters.

Another innovative way to contend with the current challenges would be to expand your digital realm with offerings that cannot be provided offline. You need to make use of the internet and its enormous potential for social interaction, which will again leverage your community. One prominent example is the acquisition of the jobs.ch Holding in 2012 through a joint venture between Tamedia and Ringier. By investing in such a market-leading online format, they are responding differently than many other media companies that are still just digitising their print offerings via a webpage or mobile application. However, this represents only a first step in the digital transformation journey. In order to stay profitable over the long term, media companies need to further invest in alternative solutions. A format like jobs.ch shows its advantages by operating not just as a traditional job exchange platform, but also as a provider of an international network which could not be realised offline. The online portal provides a lot of data that can be actively used by headhunters or other users. Such a realtime social exchange cannot be provided with an offline job board.

Now it's your turn to transform! Where do these insights take you? Many opportunities are only seen if you get involved with the ongoing trends and developments in the entertainment and media industry. You will get deeper insight into alternative business models, our digital wave concept and the characteristics of a digital ecosystem in our brochure entitled "Profitable Growth in the Digital Age", which can be downloaded via PwC's Digital Transformation webpage (www.pwc.ch/digitaltransformation). Experimentation will continue, which means companies should not stop focusing on the ideal business model that masters the challenges associated with the digital era. So start taking action now and find out what opportunities await you in the multifaceted digital world!

# Internet Access Spending

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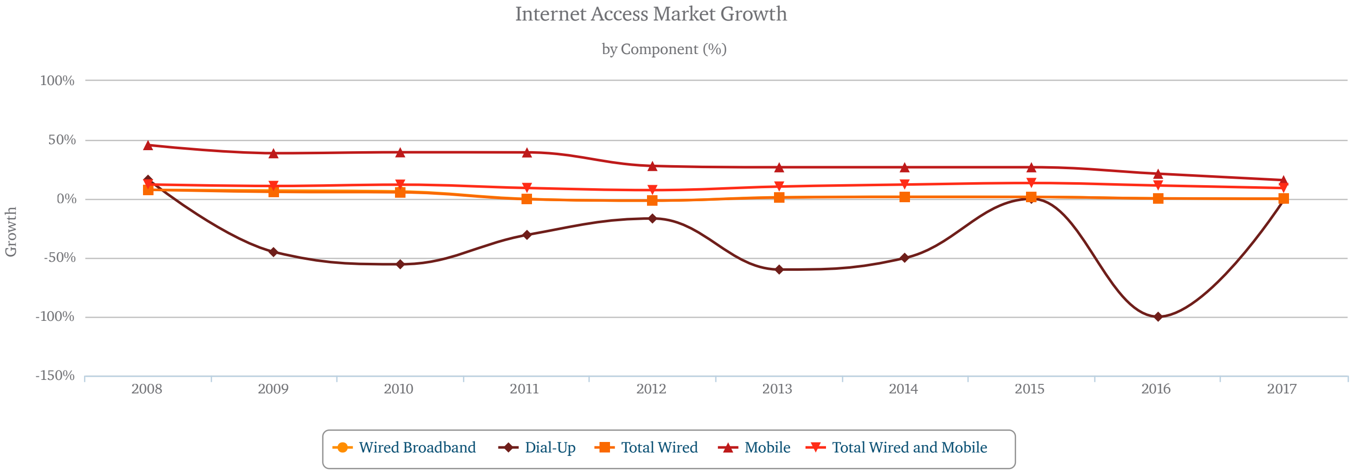



Analysis by PwC

## At A Glance

### Segment Definition

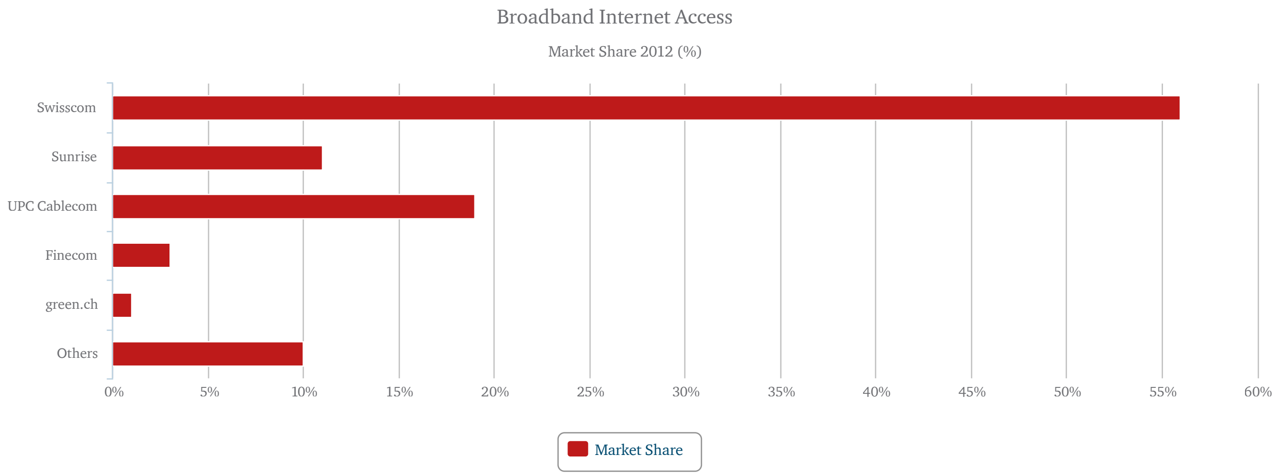
Internet access revenues consist of fees paid by consumers for wired and mobile internet access. Wired internet access revenues are paid to internet service providers (ISPs) for broadband and dial-up access. Mobile internet access revenues are received by wireless carriers for internet access via mobile devices, either provided as a stand-alone service or as part of a service bundle.

Internet access revenue figures do not include the purchase of content, such as music, or spending on entertainment content downloaded over the internet. These streams are included in the respective content chapters. Internet access fees for phones provided by corporations including access to the corporate network are also not included.

## The Swiss Internet Access Market

### Market Overview

Internet access is a key driver of entertainment and media advertising as well as content spending in most segments because nowadays it's considered a utility. The Swiss internet access market is divided into wired broadband, dial-up and mobile internet access. The market is dominated by four companies: Swisscom, Sunrise, Orange and UPC Cablecom. Whereas Swisscom and Sunrise offer both services, UPC Cablecom only offers wired internet access and Orange only mobile internet access. The main wired internet access players in the Swiss market are Swisscom and Sunrise via xDSL (including FTTx) and UPC Cablecom via its cable network.




Analysis by PwC

By the end of June 2013, 68.9 per cent of Swiss broadband households were connected through xDSL, versus 31.1 per cent via cable. Although xDSL is the dominating technology, it is already the fourth consecutive year in which cable providers were able to gain more subscribers than xDSL. One possible reason for this development might be the fact that broadband internet access via cable modem has currently the advantage of offering higher download speeds (often at cheaper bundle-prices) than xDSL.

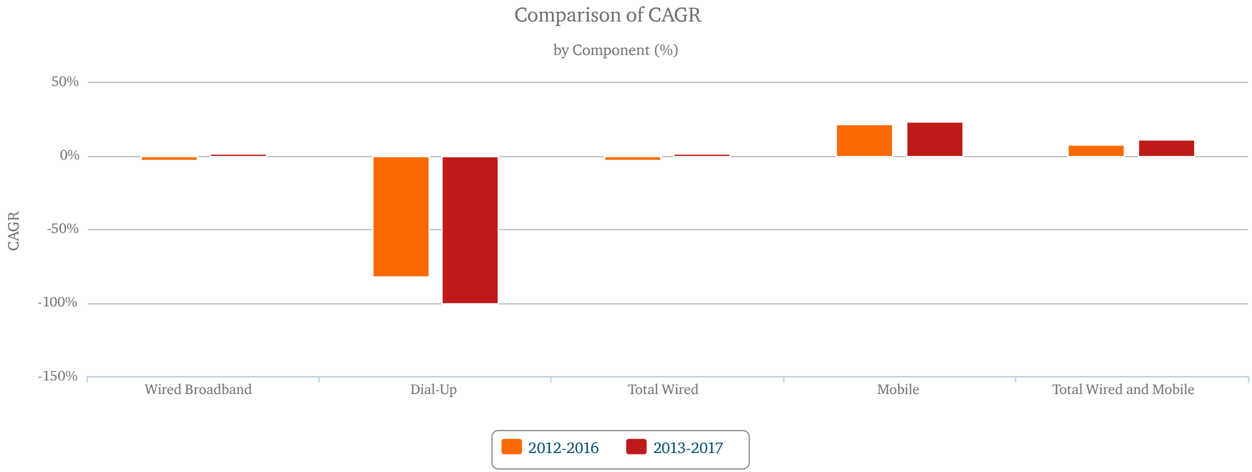
The installation of optical fibre is forging ahead, with the result that FTTx is gaining importance within the Swiss internet access market and therefore the current "USP" in terms of the speed of cable network providers will be increasingly diluted over the next 2-3 years. In June 2008, the Swiss Federal Communications Commission (ComCom) launched the Round Table on fibre networks with the aim of preventing the development of monopolies which could hinder the market access of other telecommunication providers and limit competition. On January 5, 2012 it was decided to abolish the Round Table as goals were considered achieved. The roll-out of optical fibre networks is now taking place in a coordinated manner. In about 20 regions of Switzerland, FTTH will be installed in line with collaborations between Swisscom and individual municipalities or the respective utility companies. At the end of 2012, 552'000 households and businesses were equipped with a fibre-optic link, which represents a 52 per cent increase over 2011. It is planned that by 31 December 2013 some 700'000 connections will benefit from download speeds of up to 1 Gbps. Until 2015, Swisscom aims to supply more than 2.3 million households and businesses with FTTH. As a reaction to Swisscom's roll-out, UPC Cablecom is further developing its network from EuroDOCSIS 3.0 to EuroDOCSIS 3.1 to provide clearly higher cable transmission rates in the future. As a consequence we expect that by 2020, 80 per cent of all Swiss households and businesses will have access to internet connections exceeding 100 Mbps so that internet services are accessible within seconds and high bandwidth will be a matter of course.

Wireless broadband is becoming increasingly important to providers of telecommunication services as well as cable providers in that mobile internet may be used as much as wired access in the future. Smartphone penetration increased from 39 per cent to 54 per cent in 2012, thereby reflecting the growing base of wireless broadband subscribers. By the end of 2012, out of the 10.03 million mobile subscribers in Switzerland, about 4.63 million were wireless broadband subscribers. Due to growing data traffic, we also expect the number of public WLAN locations to increase and amount to almost 3'000 hotspots by 2017. UPC Cablecom is currently testing the implementation of a nationwide WLAN network as an alternative to classic mobile data transmission. Also, the cable provider aims to launch a mobile internet offering for private customers before the end of 2013. The offering will be provided via Orange's network. Moreover, UPC Cablecom also acting as a mobile virtual network operator (MVNO) would constitute bold competition for Swisscom (and the other mobile operators). Another cornerstone in Switzerland's mobile landscape was set by Swisscom in summer 2012, when they launched new mobile flat-rate offerings that include a higher transmission speed (together with unlimited data consumption) than the existing ones. Shortly thereafter, Sunrise and Orange also adapted their mobile offerings in response to the intense competition.

The quality of mobile internet is constantly improving. Especially providers of communication services are investing heavily in new technologies such as Long Term Evolution (LTE) due to the rapid growth of data traffic. Swisscom for example will invest CHF 1.5 billion in its network infrastructure through 2016 and Sunrise spends up to CHF 200 million per year to upgrade its mobile and fixed networks. At the end of November 2012, Swisscom officially introduced its LTE network in 26 localities, whereas Sunrise launched its 4G/LTE mobile network on 19 June 2013 (also in 26 places). A prerequisite for these investments in technology upgrades was the auction procedure of mobile radio frequencies for 2013 until 2028. Swisscom, Sunrise and Orange together paid almost CHF 1 billion to secure their frequencies, thus being able to roll out the fourth generation (4G) LTE network and thereby provide its customers with more high-capacity services and increased download speeds.

Intense competition in the market has resulted in more and more triple- or even quadruple-play bundling offerings that include internet access, telephony, TV and mobile. By the end of June 2013, a total of 625,000 Swisscom customers were using triple- or quadruple-play bundles, which represents 35.3 per cent growth within one year's time. The emerging trend of bundled offerings will make it increasingly difficult to display separate revenues for mobile internet access as that income will be just one part of an integrated mobile phone subscription offering.

## *Market Growth*




Analysis by PwC

In particular, the CAGR of wired broadband internet access varies heavily compared to last year's estimate, which can be explained by a change in the ARPU for wired broadband subscriptions. Last year's assumptions regarding the development of wired broadband households remain the same. We expect the wired internet subscription base to reach 3.63 million in 2017. However, due to heavy investments that will significantly heighten the transmission speed of wired internet access, we don't expect the ARPU for wired broadband subscriptions to decline but instead remain relatively stable over the coming 4 years. In the future, providers of wired internet access will offer higher quality for the same amount of money. Plus, consumers also increasingly ask for higher internet speed and are willing to pay for it, which explains the growth in revenues for wired internet access compared to last year's decline.

## *Principal Drivers*

- In Switzerland, fast bandwidth connections are gaining importance. Many operators are focusing on upgrading their existing fixed infrastructure in order to sell more expensive products containing high-speed broadband options. Although bandwidth demand is increasing, only a slight increase in revenues for ISPs will occur. A nearly saturated Swiss market, as well as intense competition among market players leads to price and "transmission speed" pressure.

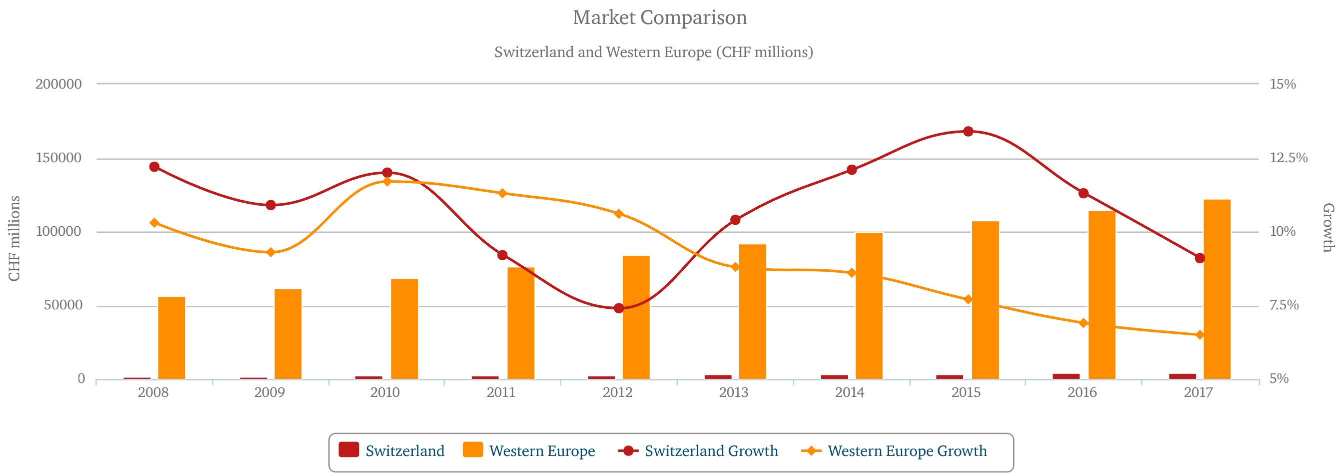
- A rapidly increasing number of subscribers demand triple- or quadruple-play services. Operators' strategies to bundle or cross-sell fixed broadband services in combination with telephony, TV and even mobile services will drive broadband internet access adoption. However, the aggregation of several services in a single package generally results in an overall discount for the customer, which also explains the small decrease in revenues from wired broadband internet access in 2012.

- Revenues from mobile broadband internet access will increase sharply over the next few years, driven by the rapidly broadening penetration of smartphones and tablets. To date, about 70 per cent of all mobile phones sold are smartphones. The smartphone boom is also driven by mobile data traffic and a growing market for mobile applications.

- The most important factor explaining the strong growth in mobile data traffic is video reckoning. The changing online behaviour of customers causes providers of telecommunication services to heavily invest in their mobile network. Infrastructure is cheaper and faster to roll out on a widespread basis compared to wired internet access, which boosts growth of the mobile internet access market. As a consequence, mobile data volume is expected to double every 12 months so that revenues from mobile internet access services will overtake those from broadband services in 2015.

- Due to expanded broadband availability and increasing penetration of mobile internet access, we assume that outdated dial-up internet access will fully disappear from the market by 2016.

## Comparison to Western Europe



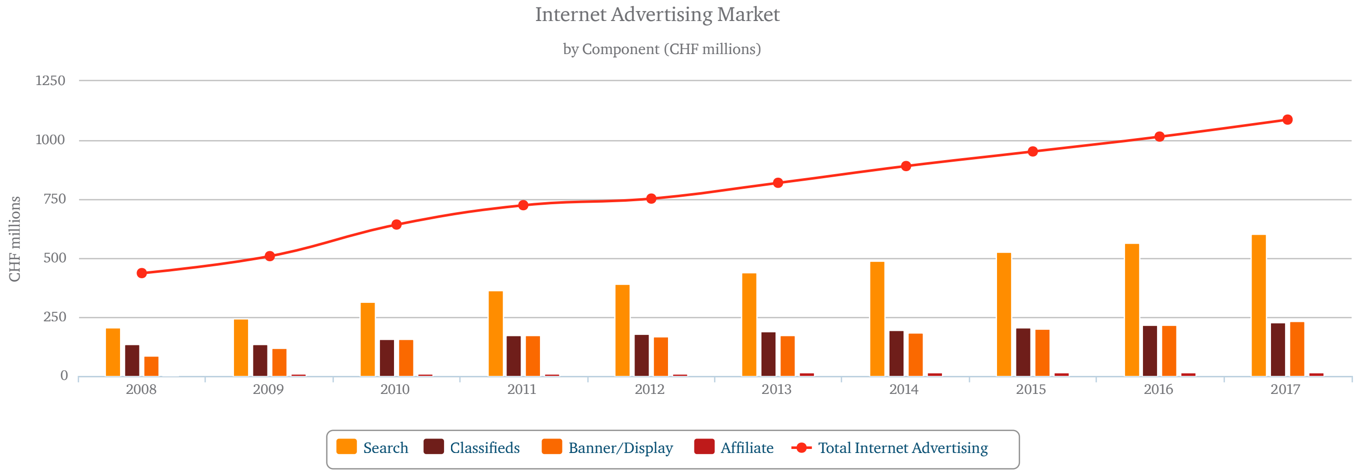

Analysis by PwC

Western Europe is home to some of the world's most developed wired broadband markets. According to the OECD, Switzerland had the highest broadband penetration per 100 inhabitants (43.4 per cent) of all Western European countries by the end of 2012. This is also reflected in revenues per capita. In 2012, Switzerland generated broadband internet access revenues of CHF 217 per capita, whereas overall Western Europe only recorded CHF 126 per capita in the broadband internet access market.

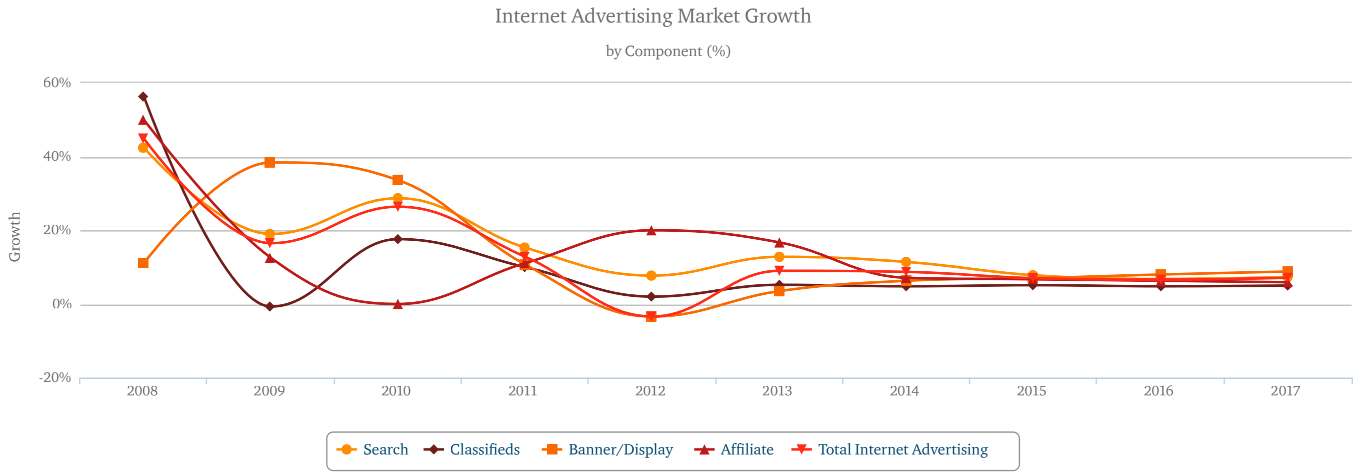
Regarding the mobile internet access market in Western Europe, every country's revenues are strongly increasing. With the exception of France, all countries are witnessing a double-digit CAGR, ranging from 10.3 per cent in Finland to 20.3 per cent in Ireland.

France's CAGR of 8.5 per cent is probably explainable by an already high saturation of the mobile internet market compared to other Western European countries. Switzerland, with a CAGR of 23.4 per cent in mobile internet access, clearly outpaces the Western European average CAGR of 14.3 per cent. Also, Switzerland's overall internet access spending CAGR of 11.4 per cent exceeds the overall Western European CAGR of 7.7 per cent, which underscores the maturity of the Swiss internet access spending market.

# *Internet Advertising*




Analysis by PwC




Analysis by PwC

## *At A Glance*

### *Segment Definition*

This segment addresses gross advertising spending by advertisers through a wired connection and via mobile devices. It consists of advertising via paid search, classified, banner/display and affiliate. Banner/display includes all rich media, sponsorship, lead generation and e-mail related advertising as well as in-stream and in-banner video advertising, whereas affiliate is a type of performance-based marketing in which a business rewards one or more affiliates for each visitor or customer brought to its website through the affiliate's own marketing efforts.

As opposed to last year, we have excluded the segment “video” which contains online television and video-on-demand advertising, as this is already shown in the television advertising segment. In-stream and in-banner advertising has therefore been included in the banner/display. Additionally, we eliminated the category mobile as all other categories include wired and mobile advertising revenues.

## *The Swiss Internet Advertising Market*

### *Market Overview*

Due to the fact that online advertising has managed to grow even where other media have flattened, digital media has become an important component of every advertiser’s marketing mix.

Compared to other countries in Western Europe, the Swiss internet advertising sector still holds only a small share of the overall advertising market. According to a study by Media Focus, in the first half of 2013 online advertising had a market share of 9 per cent (e.g. the German internet advertising sector has a 22 per cent share of the advertising market). Due to this fact, we assume that there is much untapped potential.

Search remains, arguably, the most accountable of any segments, offline or otherwise. Despite sites now having plenty of other sources for referrals – mobile applications and social media sites – users are still making more and more searches. Google and other search engines continue to innovate their products to make them more attractive to both consumers and advertisers.

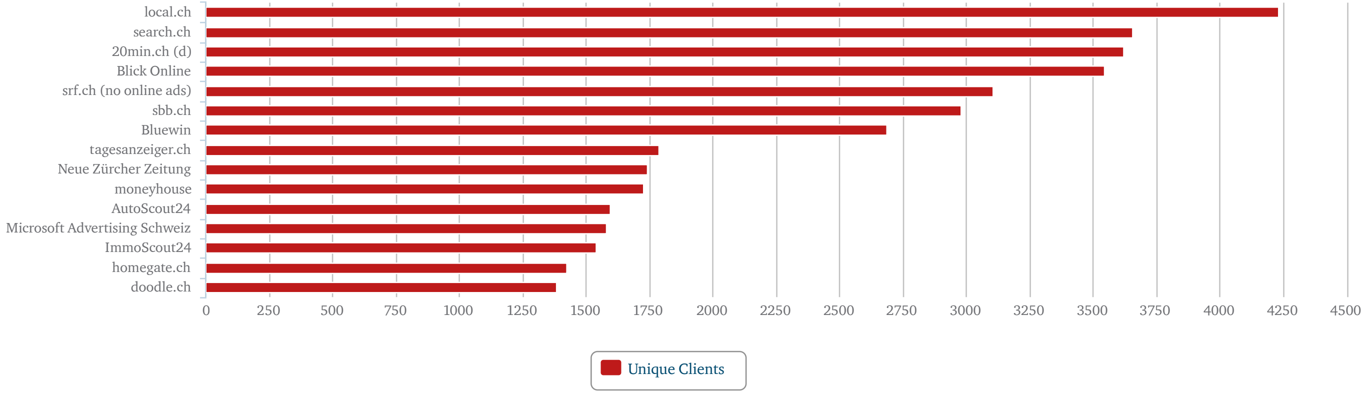
The classified component of internet advertising also has a solid base in Switzerland with sites like AutoScout24, ImmoScout24 and homegate.ch, which are all among the 15 most-visited Swiss websites in October 2013. Furthermore, the customers have a growing interest in classified advertising in other sectors such as friends and fashion.

Banner/display advertisement is a fixed part of many online advertising campaigns. The declining cost of banner/display advertising, while not necessarily healthy for the medium, has turned it into an extremely cost-efficient way to build mass advertisement and reach people quickly. Video advertising as well as in-stream and in-banner advertising will start to play a significant role in the online advertising market. Video brings to IP devices some of the branding advantages that TV has enjoyed, particularly as more and more premium content providers start to offer ad-funded content online. Also, the increasing shift from common TV to online TV boosts the growth.

Driven by continuous innovation in smartphones and tablets and the rising number of internet-capable devices, the share of mobile internet advertising included in all categories in Switzerland is expected to grow as well.

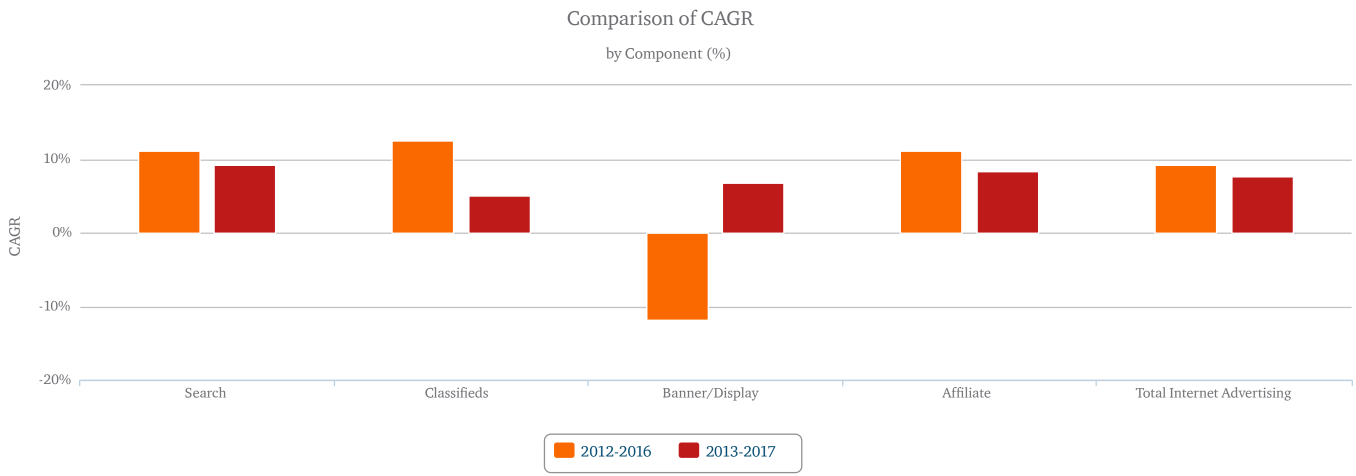

Top 15 Swiss Websites in October 2013

Measured by Unique Clients (in thousands)




Analysis by PwC

## *Market Growth*




Analysis by PwC

There is a clear upward trend in the online advertising sector. Based on the continually growing amount of internet users and time spent online, every component will increase its revenue over time, especially search as already mentioned.

According to expert views from Media Focus in 2011, display/banner advertisement was expected to shrink. Due to innovations in this sector, which enable more accurate interaction with the chosen target audience and the recovering propensity to consume, Media Focus revised its forecast and stated that there will be positive growth rates in this component as well. Plus, other formats such as moving images were integrated into that category, which also increases the attractiveness of display/banner ads. This in-stream and in-banner advertising is a clear driver of growth in the display/banner category as the price pressure in this area is not yet as high as in advertising media. However, we already note increasing price pressure in other countries, which is also expected to reach Switzerland within the next years.

The market movement in the classifieds segment has been overestimated last year. We think that there is not much inventory left in this market as the main transfer from print to digital has already taken place. This is why this year's CAGR of classifieds is lower than assumed last year.

## *Principal Drivers*

- Due to the broadening range of electronic devices that are able to access the internet, the number of people using online contents will increase further. Moreover, the time spent online is growing. As long as this trend continues, internet advertising will become more and more important to advertisers of products and services of any nature.

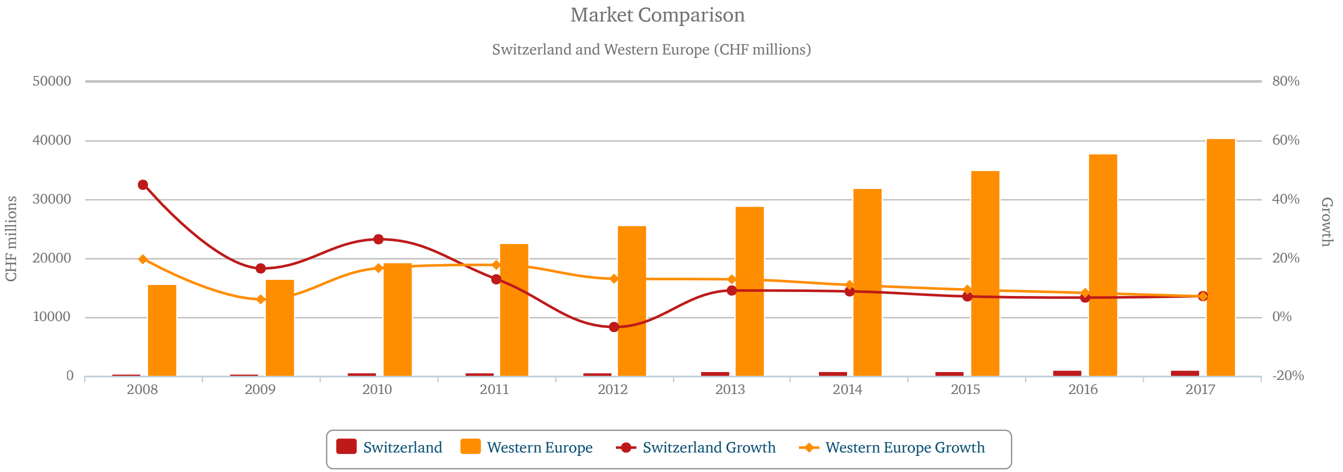
- The investments being made by cable operators and providers of telecommunication services in new technologies for wired internet access will continue. Internet service providers are aiming to constantly improve bandwidth connection. For example UPC Cablecom is further developing its network from EuroDOCSIS 3.0 to EuroDOCSIS 3.1. Therefore, we expect that this will substantially drive wired internet advertising over the forecasted period.

- The trend from print to digital strengthens online content and opens up new potential especially for newspapers. However, the internet advertising sector has to cater to the different needs of users. There are still people who find online advertising disturbing compared to print advertisements.

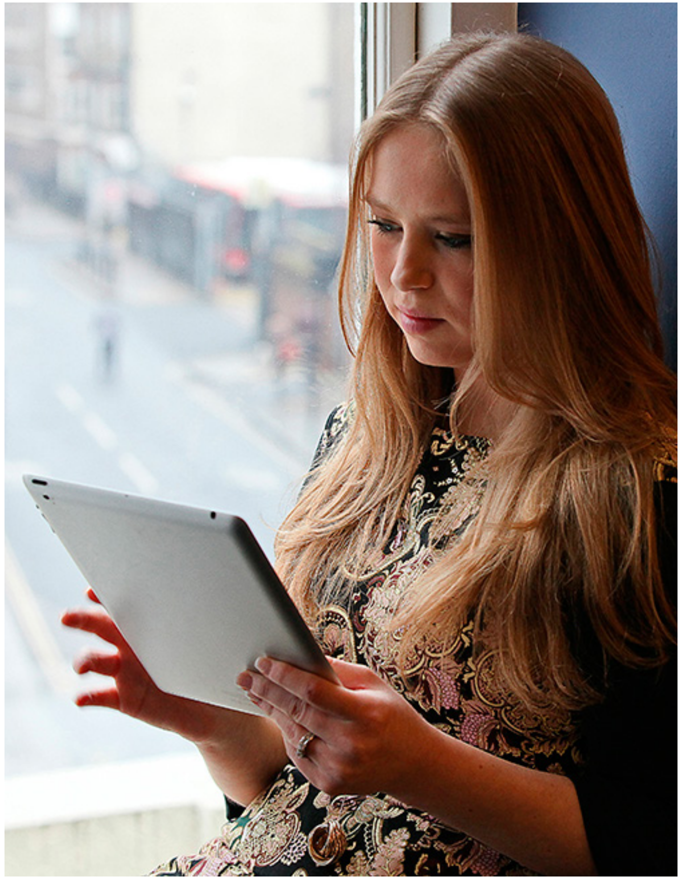
- Advertisers still need to understand and quantify the return on their investment, and effective measurement of video and other display advertising will be a key factor in persuading advertisers to migrate more of their budget to these new formats in the future. However, if that can be achieved, we think it's fair to say that online advertising is in good health.

- The Swiss online advertising market still has some potential left and offers growth opportunities that have to be fully tapped. There are new ways of examining the customer base, as well as increasing possibilities for consumer-centric advertising.

## *Comparison to Western Europe*



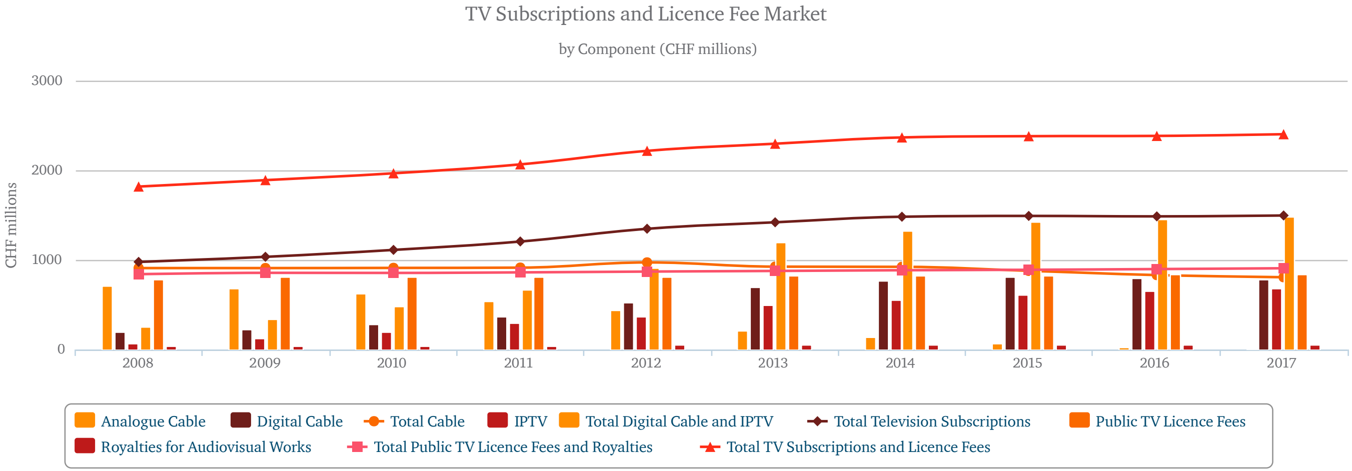

Analysis by PwC



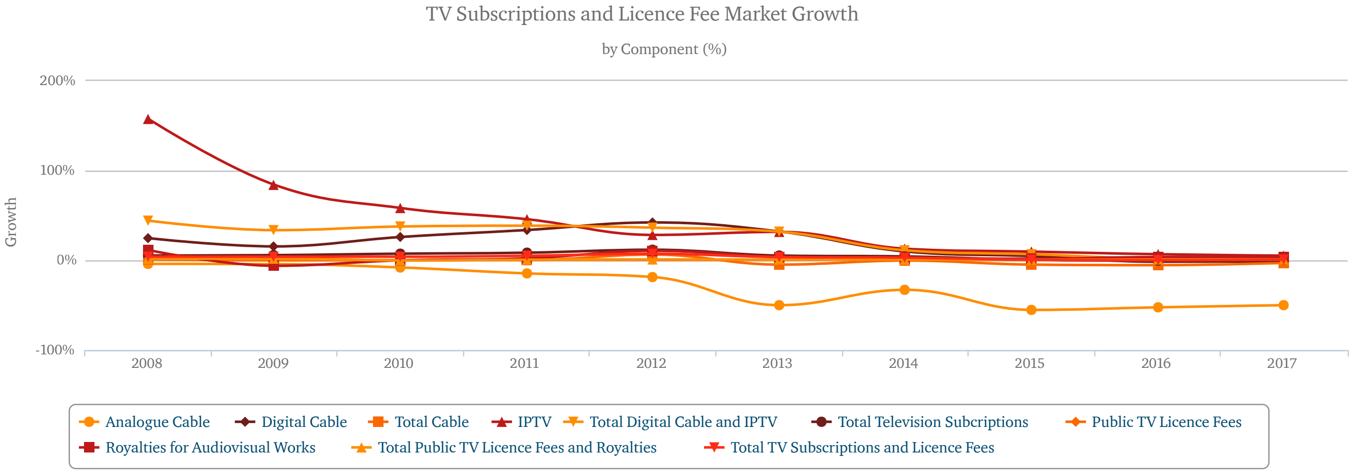
The internet advertising market in Switzerland was one of the fastest growing Western European territories in the past few years. Switzerland was less hit by the Europe-wide economic downturn than most markets, so growth has not been constrained by macroeconomic circumstances. However, this effect decreases over time and the growth rates of both Switzerland and Western Europe should converge. Therefore Switzerland's share of the overall Western European internet advertising market is expected to remain constant around 3.5 per cent from 2012 to 2017.

Switzerland also benefits from its cultural and linguistic ties with France and Germany, which can mean greater access to publishers and talents. The diverse linguistic make-up of Switzerland also means that there are a few dominant local publishers though, with international players driving most of the advertising spending.

# TV Subscriptions and Licence Fees




Analysis by PwC




Analysis by PwC

## At A Glance

### *Segment Definition*

The TV subscription and licence fee market consists of revenues generated by distributors of television programmes to viewers. It includes spending on subscriptions to basic and premium channels accessed from cable operators, telephone companies, over-the-top (OTT) providers and other distributors. Swiss public TV licence fees and royalties for audio-visual works are also included. In contrast to our Swiss Entertainment and Media Outlook 2012, public TV licence fees are now shown excluding the applicable VAT of 2.5 per cent.

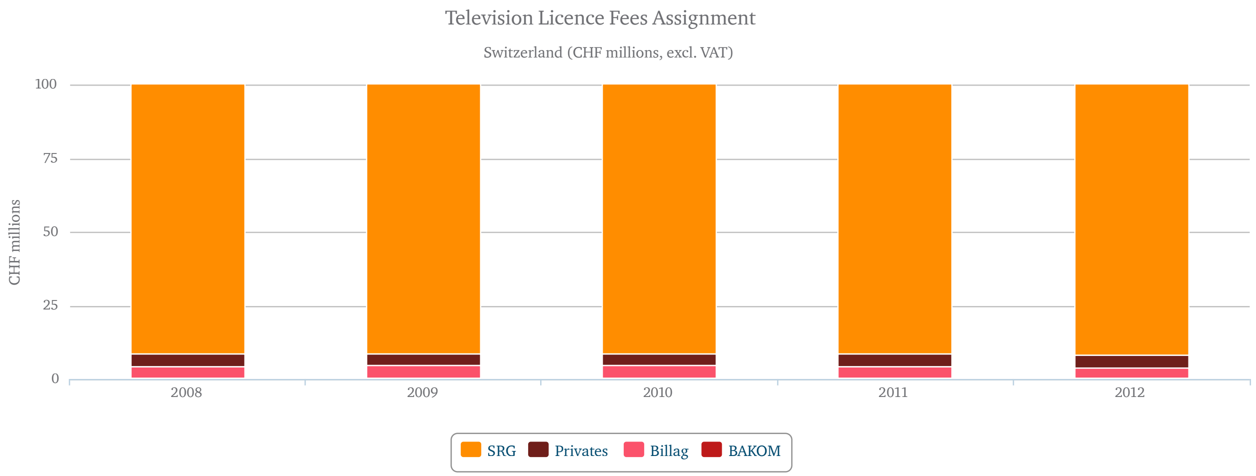
Video-on-demand (VOD), pay-per-view (PPV) and separately paid TV programmes delivered over the internet and through other TV providers are only included in Filmed Entertainment. Also, mobile TV subscription spending is no longer reported because it has been identified as increasingly irrelevant as a standalone revenue stream.

## The Swiss Television Subscriptions and Licence Fee Market

### *Market Overview*

The Swiss television subscription market consists of cable TV, IPTV and mobile TV offerings. UPC Cablecom is Switzerland's largest cable TV vendor, whereas Swisscom leads the IPTV segment. As regards Swiss licence fees, BILLAG is responsible for public TV licence fee collection and Suissimage ensures an appropriate remuneration for authors of audiovisual works. The subscription market in Switzerland competes with free services, such as free digital terrestrial television or free-to-air satellite services.

In order to foster the propagation of digital TV yet still remain competitive, UPC Cablecom decided to cancel the basic encryption for digital TV offerings as of November 2012. In reaction to that, on May 13, 2013 the Federal Office of Communications (OFCOM) announced that it is no longer mandatory for cable providers to offer certain TV programmes in analogue, which gives them the flexibility to fully change to digital TV. Most of them will probably do so within the next two years. As a consequence, analogue cable subscription now represents the basic access offering of cable providers, which not only includes exclusively analogue TV subscribers, but also people who indeed just pay for the standard cable TV offering but benefit from certain digital TV offerings due to the aforementioned cancellation of basic encryption. In 2012, of the approximate 1.4 million analogue TV subscribers, only 800'000 watch television solely on an analogue basis, which means digital cable TV and IPTV providers are trying their best to entice the remaining customers away with attractive offerings.



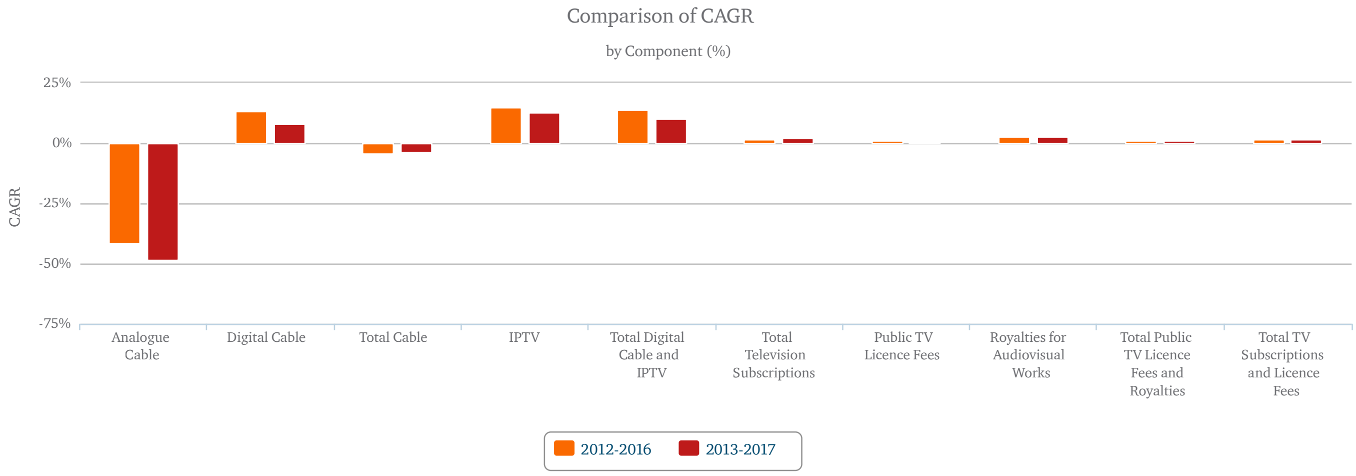

Analysis by PwC

fair in Berlin. However, there are still some years to go until the first TV shows and movies will be produced and broadcast in the corresponding UHD quality. Nonetheless, it is possible to rescale programmes in HD quality, so that a highly impressive result can be achieved.

Swisscom TV clearly dominates the Swiss IPTV market. Nonetheless, Sunrise entered the market in 2012 with its own IPTV offering called Sunrise TV. At present, 45 stations in HD quality are available and used by more than 50'000 subscribers. As the rivalry in this segment is highly intense, some companies have started to build new business models in effort to differentiate themselves from their competitors. For example, Zattoo is now heavily investing in B2B relationships with its Zattoo Solutions business. Their goal is to provide TV solutions to cable TV operators, internet service providers and mobile telephony companies. Digital cable TV providers also need to react. Therefore, UPC Cablecom in January 2013 launched its own TV set-top box called Horizon, which offers multiple functionalities such as parallel streaming of TV shows on different devices or the possibility to record up to 4 programmes at the same time.

Public TV licence fees are the second largest component in the market, whereof the vast majority is distributed to SRG SSR. In May 2012, the Swiss government decided to revise the Radio and Television Act (RTVA) due to the ongoing evolution of technology. Based on that, the Swiss Federal Council announced in May 2013 that the current licence fee would be replaced by a universal radio and TV fee for every household, which reflects a device-independent royalty system as television and radio reception is nowadays available on every multifunctional device. This does not mean that the different stations are receiving a higher amount of money. Due to the propagation among more households and companies, each individual will presumably pay a lower fee. The matter is now being discussed in parliament, but the law will most likely not be enacted before 2015.

## *Market Growth*




Analysis by PwC

The propagation of digital TV is spreading at a faster pace than previously assumed. Developments such as the cancellation of basic encryption for digital TV offerings, as well as the increasing number of bundled offerings which include digital TV in the package boost digital TV subscriptions. However, revenues from digital TV subscriptions are experiencing a slightly lower CAGR than last year due to the increasing effect of bundles on the price. In contrast, analogue television subscriptions will decrease at a higher rate than originally expected. We assume that analogue TV will be a niche offering by the end of 2013 as there will only a few households left that watch television solely on an analogue basis.

## *Principal Drivers*

- During economic downturns, consumers tend to cut back on other household spending before cutting back on TV subscriptions, which makes the TV subscription market a rather crisis-resistant segment.

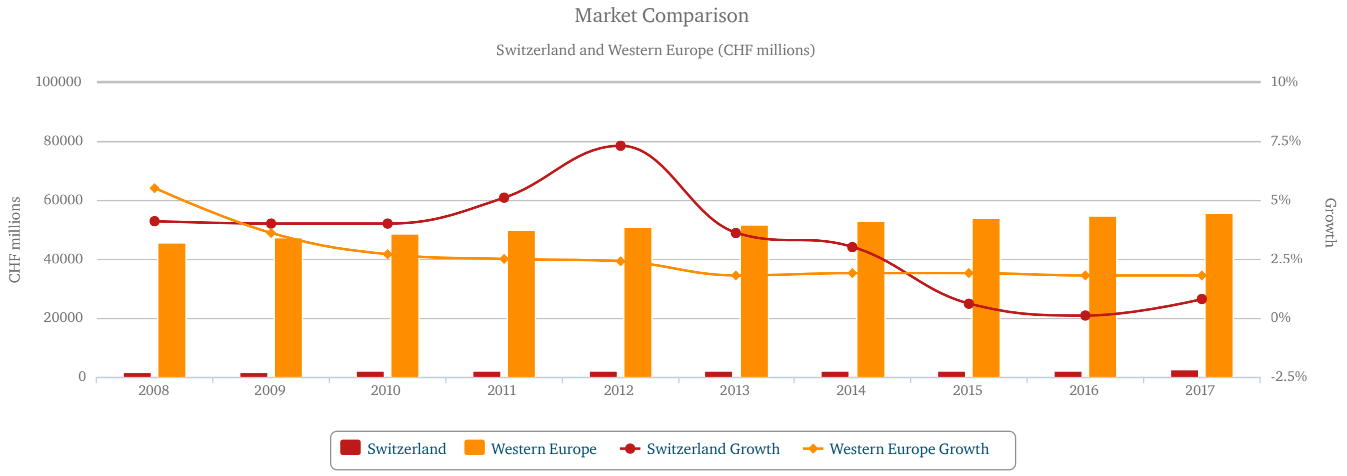
- Cable TV will continue to be the market leader in terms of subscription revenues, but there will be a radical shift from analogue to digital TV, thereby making digital television the standard format within a short amount of time. The digital programme offering is a lot broader than the analogue one.

- Moreover, the viewing and audio quality is remarkably better with the increasing number of HD channels. Digital TV also offers an array of additional functions like catch-up TV and simple recording possibilities.

- Although the total number of cable TV subscriptions is decreasing due to intense competition with IPTV offerings, there were still more cable TV subscription households than IPTV in 2012, and that status quo will remain unchanged until 2017. Nonetheless, as IPTV is the fastest growing technology in Switzerland, there will be a clear shift from cable TV to IPTV within the next five years. One of the main reasons are double-, triple- and even quadruple-play packages which make IPTV even more attractive when combined with broadband internet or fixed line telephone as consumers can claim a discount for each component. To date, there are about twice as many IPTV subscriptions that are offered as a bundle than as a stand-alone product.

- In the Swiss TV subscription market, there is a strong trend towards subscription-free mobile TV offerings. Consumers are no longer willing to pay a subscription fee for mobile TV, inasmuch as digital cable TV and IPTV providers often include a free mobile TV app for mobile devices in their package. Also, several providers (e.g. Swisscom, Zattoo, Wilmaa) fund their mobile TV offering with advertising slots. In future, mobile TV subscription revenues will only come from additional premium offerings for sports or other specialised programming. However, due to the negligible amount of those revenues, mobile TV subscriptions are not shown separately anymore, but instead included in the IPTV segment.

# *Comparison to Western Europe*

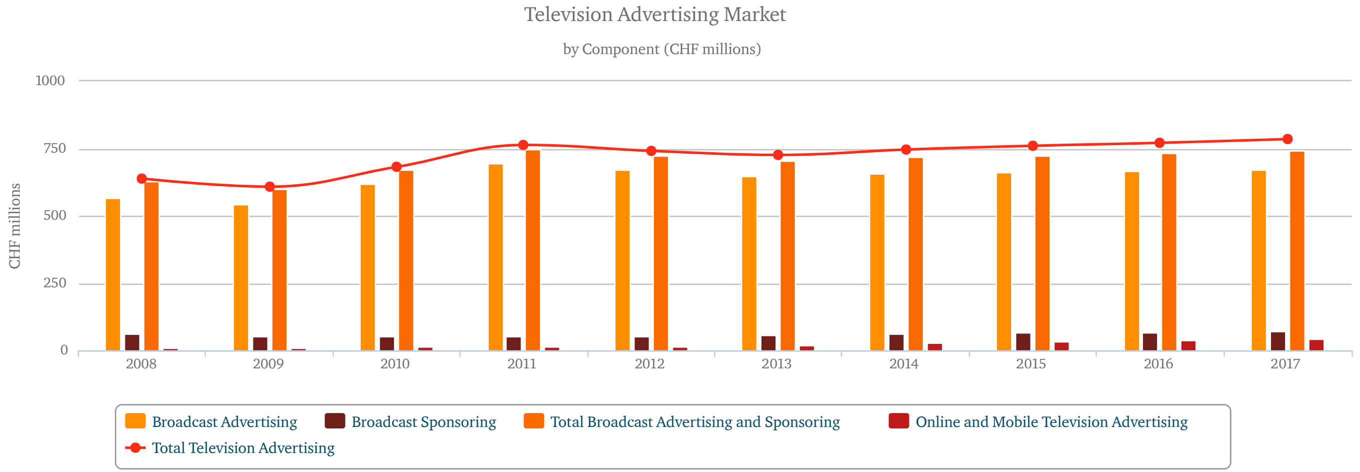



Analysis by PwC

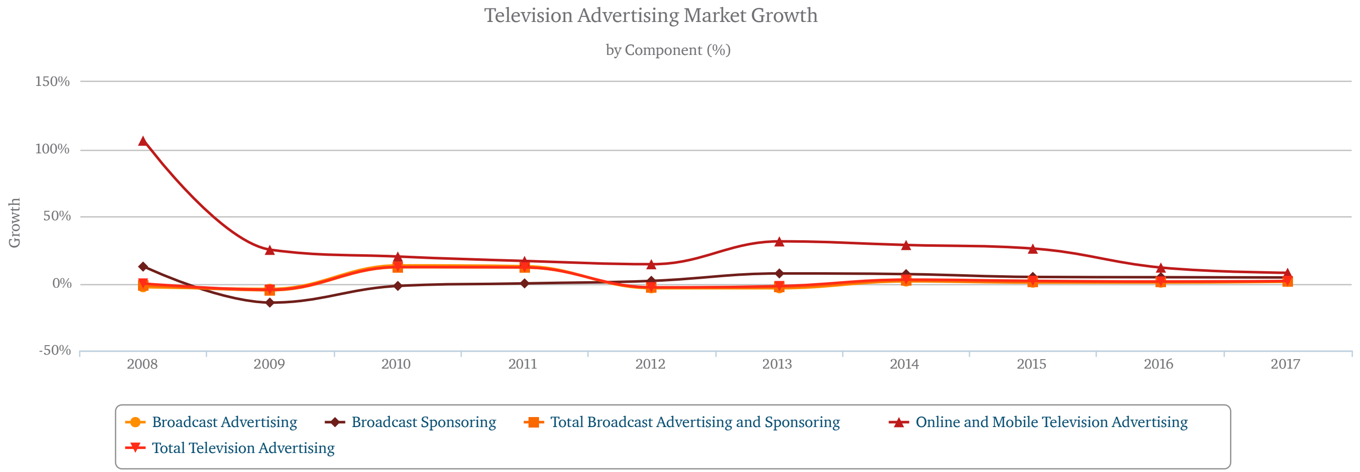
In Western Europe, the CAGRs of public TV licence fees don't vary greatly among the various countries. Growth rates range from -3.2 per cent in the Netherlands to 3.6 per cent in Norway, which suggests that the market will remain relatively stable over the next five years. Switzerland, with a CAGR of 0.8 per cent, pretty much represents the overall CAGR of all Western European Countries. As to absolute numbers, Germany was by far the largest contributor in 2012. It generated one-third of the total TV licence fee revenues in Western Europe.

Also in the TV subscription market of Western European countries, CAGRs don't differ from each other very much. Greece and Ireland, which earn very low subscription revenues compared to other countries, should show the highest growth rates over the next five years (3.9 per cent). Switzerland has a rather low number of TV subscriptions, as well as a moderate CAGR of 2.1 per cent which lies below the average for Western Europe.

# Television Advertising




Analysis by PwC




Analysis by PwC

## At A Glance

### Segment Definition

The television advertising market includes all advertising spending within, before and after TV programmes, either via broadcast or online television. Broadcast advertising consists of revenues generated by free-to-air networks (terrestrial), cable, satellite, Internet Protocol TV (IPTV) or some other distribution service. Online TV advertising consists of display and video ads on TV websites within, before and after programmes that can be streamed over the internet, as well as ads within, before and after mobile TV broadcasts via mobile TV services. All TV advertising figures are shown as net revenues excluding agency commissions and discounts.

Broadcast advertising revenues have been adapted in this year's Outlook due to a change in the corresponding data source. Also, online TV advertising revenues have been scaled down because we think that there is a significantly higher difference between gross and net revenues than assumed last year.

## The Swiss Television Advertising Market

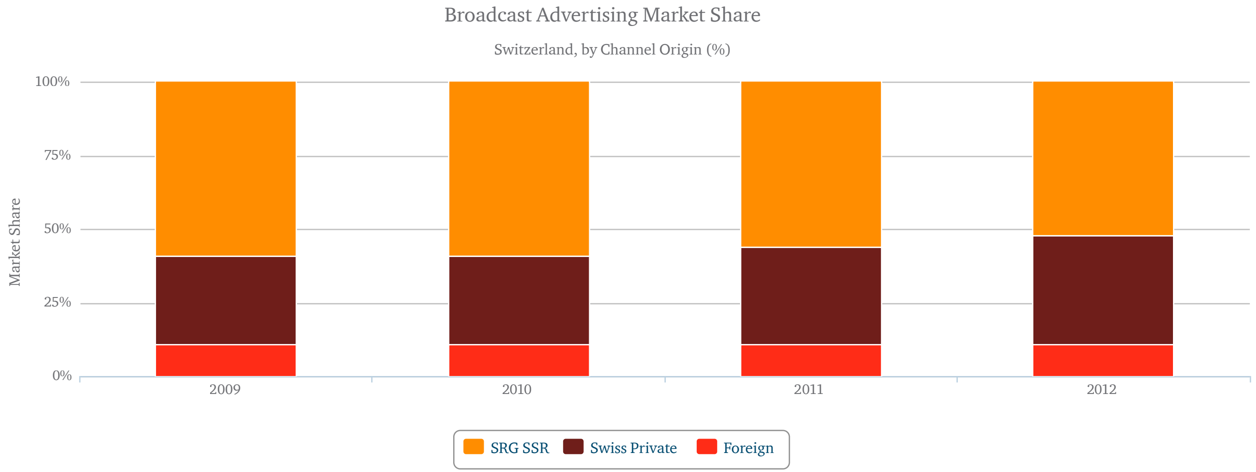
### Market Overview

There are two sectors within the Swiss television advertising market: broadcast and online / mobile TV. In broadcast, the television companies sell the advertising slots and collect the resulting income. The sector encompasses the Swiss TV channels in all regions, as well as the TV companies from abroad with dedicated Swiss advertising windows. In online and mobile TV, there are certain online or "over-the-top" (OTT) providers such as Zattoo, Wilmaa and Teleboy as well as traditional broadcast channels that feed video content to a laptop or other mobile devices using open, unmanaged internet networks. They sell advertisement spots to finance their business.

37 channels reported their broadcast TV advertising revenues for 2012. Again, more than half of the revenues came from TV channels under public law (SRG SSR). Given that also the private foreign channels hold a strong position, they will continue to limit the potential of private Swiss-wide channels.

In Switzerland, mainly Goldbach Media and Publisuisse market the TV Advertising windows. Whereas the former focuses solely on Swiss private TV stations, the latter handles the advertising space for SRG SSR. In 2013, VIVA, sixx and N24 started their own Swiss TV advertising window which will be marketed by Goldbach Media. Furthermore, Ringier managed again to build out and strengthen the Swiss TV advertising window of France's TF1.

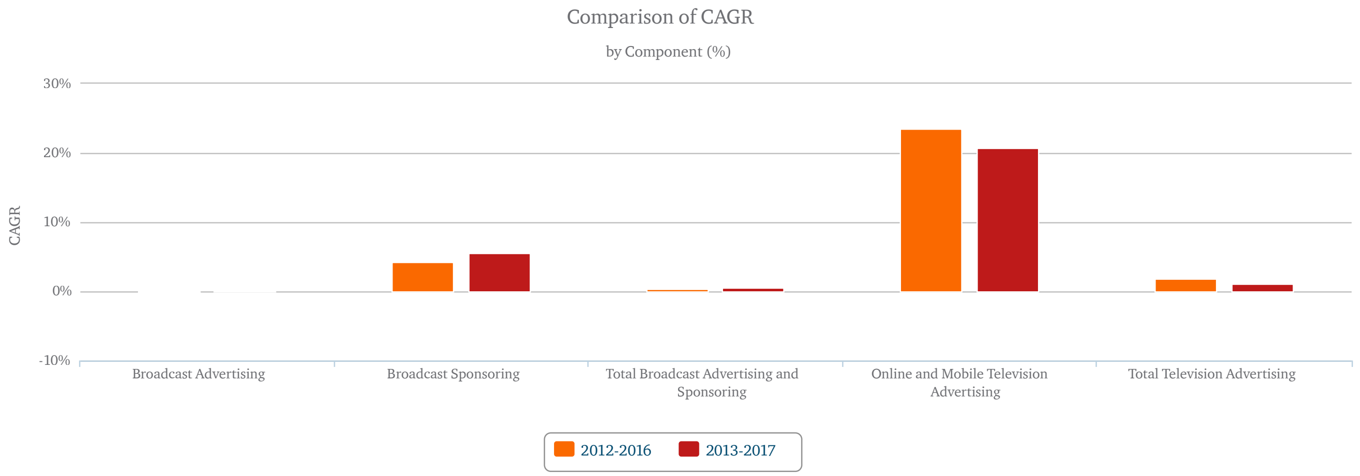
New technology is both a major opportunity and a threat to TV advertisers. The global propagation of digital video recorders (DVR), as well as an increasing number of IPTV offerings which allow users to pause, fast-forward and skip advertising, has led to scepticism among advertisers. For this reason, the traditional TV advertising business model is shifting. More and more, advertisers are taking advantage of the upward trend in online TV and the fragmentation of audiences across an increasing number of channels. Notably, through the use of second-screen devices, advertisers have the possibility to offer more personalised, targeted and interactive advertising formats. When doing so, it is absolutely essential for advertisers that data analytics are available so they can understand consumer behaviour and specific needs.




Analysis by PwC

An important trend of relevance to the TV advertising market is the progressive fusion of internet and television. With the new smart TVs, it is possible for users to connect with the internet by using several of the on-board applications. It is also conceivable that further digital TV offerings will be introduced to the market. UPC Cablecom launched their new multimedia platform called Horizon in January 2013, which combines internet, TV and telephone service in one device. Not only cable network providers, but also online TV providers, have shown interest in this development. Wilmaa GmbH, a subsidiary of Goldbach Group, intends to launch a TV set-top box during the final quarter of 2013. In response to this ongoing process, Mediapulse replaced the Telecontrol television audience software by Media Reporter TV in January 2013 with the InfoSys+ platform of Kantar Media, which will become the new point of reference for data on TV programme utilisation. A new aspect is that time-shifted television viewing, as well as the usage of TV content on laptops and mobile phones, will be reported. In connection with the new TV panel, the need to replace the current TV evaluation tool was also in the cards. Therefore, MediaWizard was introduced to the market as the new benchmark TV advertising tool.

## *Market Growth*




Analysis by PwC

In that the dynamism of the television advertising market is extremely high, arriving at a forecast for the next 4 years is difficult. The table shows that, compared to our estimated growth rates last year, the actual outlook for compound annual growth rates is more positive in terms of broadcast advertising revenues. Although online TV advertising will grow at an extremely high rate due to the increase in television viewing on smart devices, broadcast advertising revenues will not decline, mainly due to the growing popularity of IPTV offerings such as Swisscom TV.

The decrease in the CAGR of the total television advertising market can be explained by lower revenue numbers in the online TV segment. This is because the difference between gross and net revenues is actually higher than previously assumed (and we present net values). As we expect the difference to increase further in the future, net revenues of online TV advertising will grow at a slightly lower rate than assumed in 2012.

## *Principal Drivers*

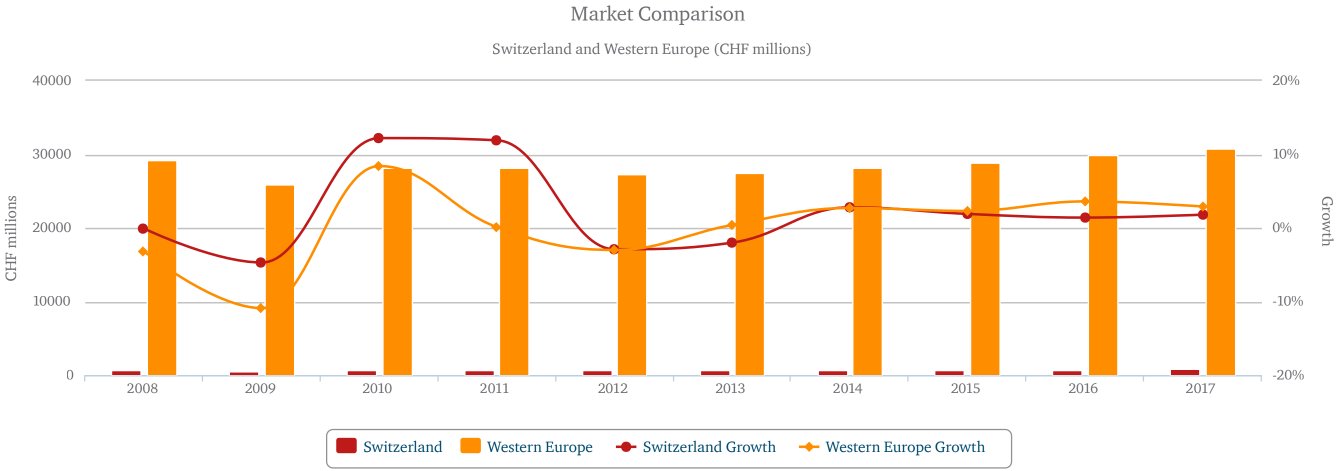
- Television continues to be a highly popular medium for advertising due to its credibility and strong bond with the audience. The TV-watching experience will be preserved over the next five years, not least of all due to HD quality and the increased ownership of smart TVs. Going forward, broadcast will therefore maintain its acceptance and great attractiveness.

- Advantages relating to brand building, image advertising and the wide range of potential customers can be exploited to the fullest. Also, in the case of uncertain market conditions, TV advertising seems to be a sure bet in the advertising mix.

- Although traditional TV is still considered to be the first choice when it comes to advertising, a strong move towards online TV advertising can be observed as more and more online TV offerings become available in the TV market. Zattoo, Wilmaa and Teleboy are just a few examples of providers that offer access to TV content on mobile devices. TV advertisers benefit from this trend by combining online TV advertising with offline media such as television. The use of second-screen pave the way to new forms of online advertising, meaning that TV advertisers are able to enhance traditional TV advertisement with individualised ads or links to socials media to encourage interactive activities. That puts the consumer at the centre of attention.

- Broadcast sponsoring revenues will grow markedly over the next 4 years. Firstly, sponsoring is well suited for cultivating a new brand or image as well as fostering awareness. Secondly, due to growing problems associated with ad-skipping as a result of IPTV offerings and DVR, sponsoring seems to be an attractive alternative to the traditional advertising model to make sure advertising spend is not in vain.

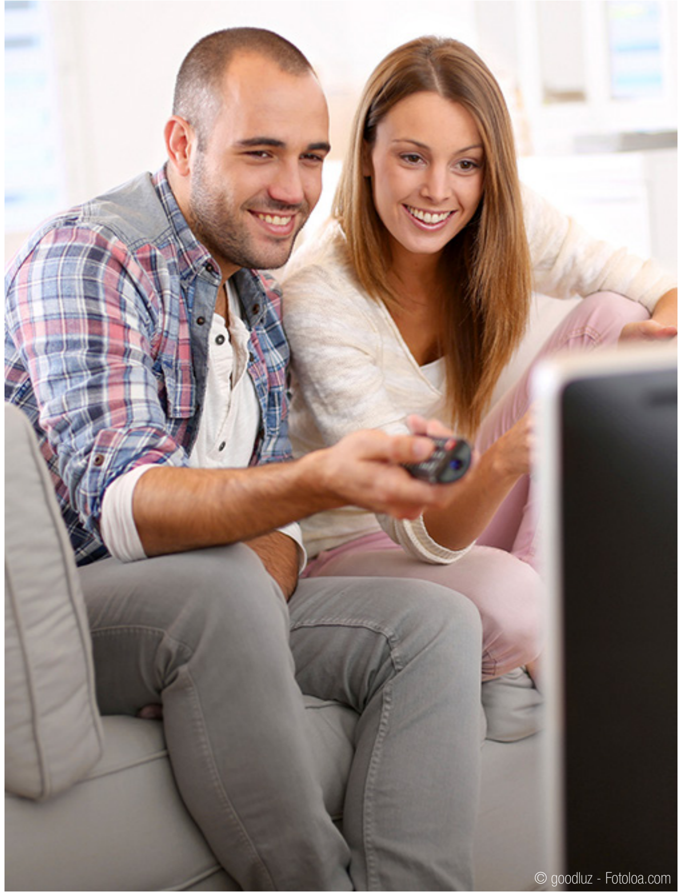
## *Comparison to Western Europe*



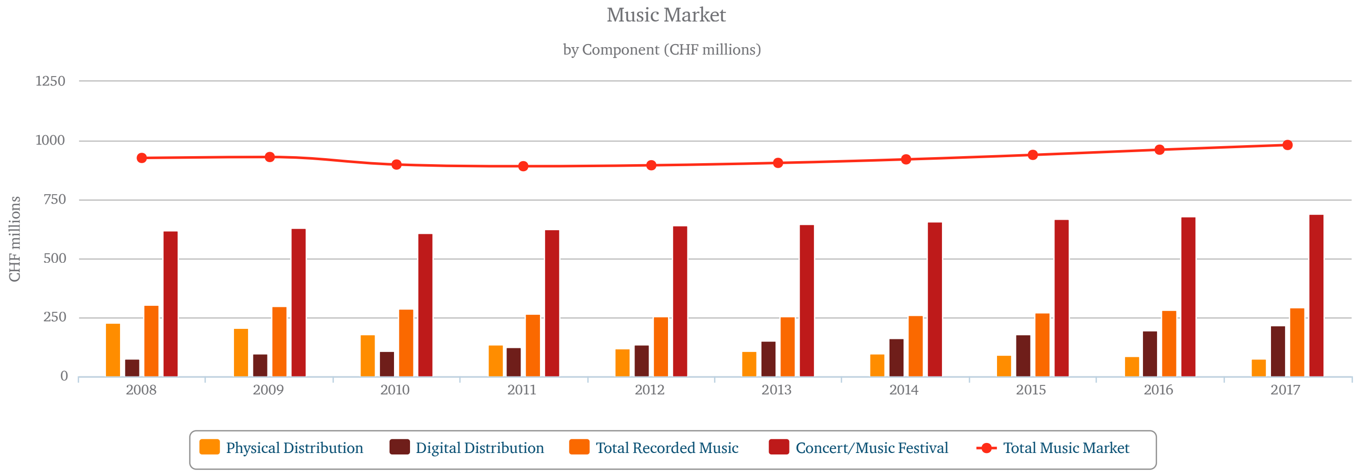

Analysis by PwC

The growth rates in the TV advertising sector vary greatly among European countries. This is because the given economic situation represents one of the key influences on the European advertising market. So it comes as no surprise that in Germany or the Nordic countries, broadcast advertising increased in 2012 whereas in economically distressed countries like Portugal, Spain or Greece the numbers are decreasing sharply, ranging from a 3.6 per cent drop in Portugal to a dramatic 17.3 per cent decline in Spain. In Switzerland, the decrease of 3.6 per cent in broadcast TV advertising in 2012 pretty much mirrors the overall decline of 3.3 per cent in Western Europe.

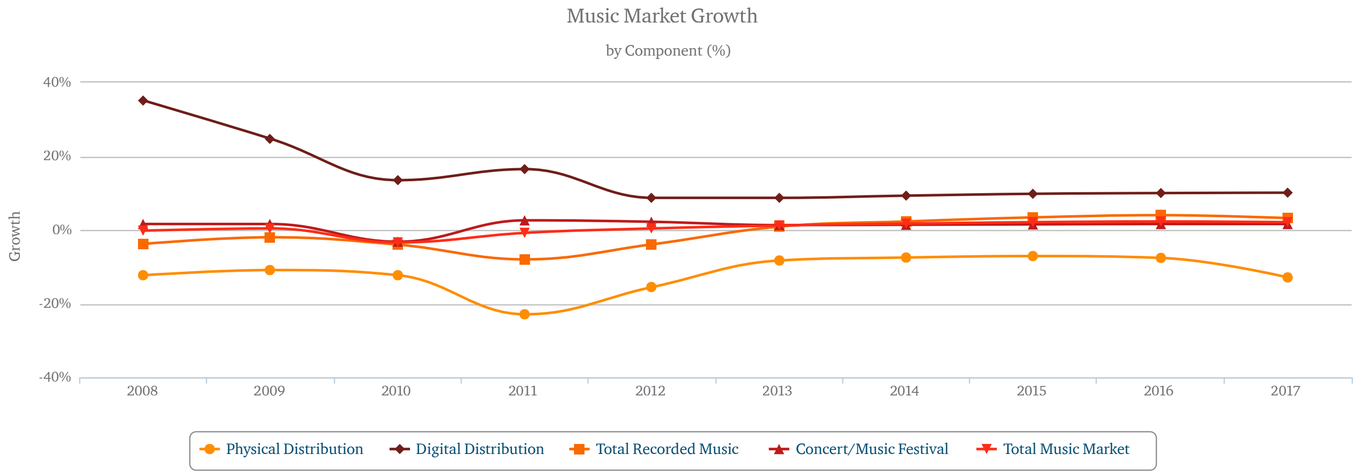
Europe-wide, online TV advertising will become an important medium in the future. In 2017, revenues generated by online TV ads will represent 4.3 per cent of the total TV advertising spend in Europe, whereas in 2012 the share was only 1.7 per cent. As to the absolute numbers, Switzerland is still at a low level compared to countries like Germany. However, considered in relative terms, Switzerland stands out for its compound annual growth rate of 20.7 per cent, just shy of the average Western European CAGR of 24.1 per cent for online TV advertising.



# Music




Analysis by PwC




Analysis by PwC

## At A Glance

### *Segment Definition*

The music market consists of recorded music and live music.

The recorded music component is split into physical and digital elements. Physical covers any retail or online purchase of singles, CDs and music videos. Any music distributed digitally to mobile devices and computers, as well as any download or revenue from subscriptions for streaming services, is part of the digital component.

Live music consists of concerts and music festivals, including spending on tickets and sponsorships.

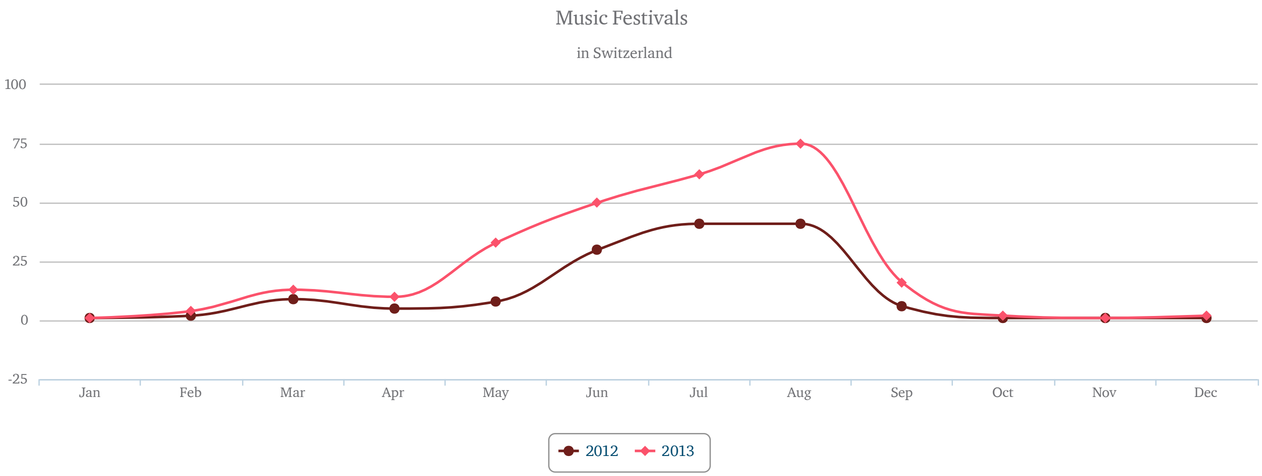
Recorded music does not include any subscription fees or advertising generated by internet radio services. It also does not cover revenues from music publishing. For live music, merchandise is not included. All consumer spend is measured at retail, which can be substantially higher than the wholesale or trade value revenues that are often reported.

# The Swiss Music Market

## Market Overview

The music market in Switzerland is dominated by two trends. First of all, the global trend that physical formats are being replaced by digital formats finally reached the Swiss music market. This shift started in the first half of 2012 and culminated at the end of the year when – for the first time – digital formats had higher revenues than physically distributed music formats. Nevertheless, the growth was not yet strong enough to offset the ongoing impact of declining CD sales. Switzerland – unlike Germany or the United States – finds itself in the position of needing the next wave of Swiss music buyers to switch from physical to digital rather than allowing the former to disappear from the market entirely and still drag music retail revenues further down.

Also, performing live music is becoming more and more important for the Swiss music market. Switzerland is home to a large number of music festivals, such as the Montreux Jazz Festival, which is probably one of the most prominent ones. The Zurich Street Parade techno festival ranks globally amongst the largest of its kind, and the Openair Frauenfeld is the biggest rap festival in Europe. Over the past few years, the festival market was hit by the recession and has now rebounded. By the end of 2013, nearly 270 festivals – more than ever before – will have taken place all over Switzerland, most of them in June (50 festivals), July (62 festivals) and August (75 festivals).

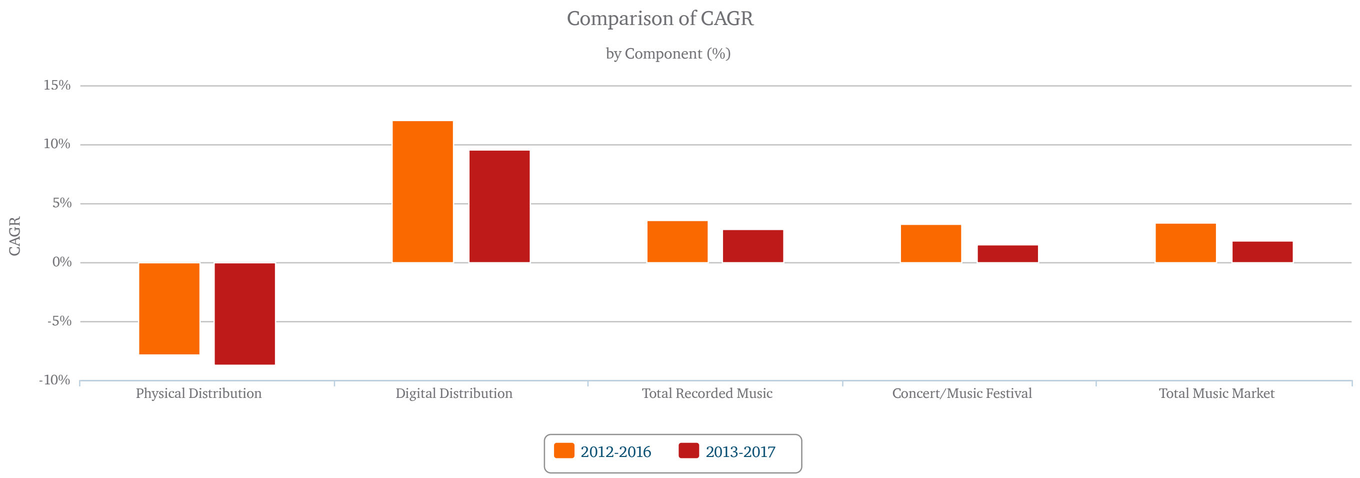



Analysis by PwC

Possible boosts for digital music distribution are the upcoming streaming services such as Spotify or Deezer. For a monthly fee, the subscribers gain access to a digitally provided, cloud-based music library. This playlist can be used everywhere – as long as an internet connection is available. In Switzerland these services have started to grow, with the share of streaming services in the digital music component increasing from just 3 per cent in 2012 to nearly 10 per cent in the first half of 2013.This trend is likely to continue. In Sweden – the home country of Spotify – the market share in the digital music market has nearly reached 50 per cent. In addition, more and more streaming services are being introduced in Switzerland, such as Google Play Music or Ampya, which has been launched by ProSiebenSat.1 Media.

With regard to online downloads, the Swiss legal framework is not as strict as in other European countries. In Switzerland it is not illegal in general to download copyrighted content for personal use, whereas France and the UK have enacted new regulations to fight piracy. This practice is criticised by the Swiss chapter of the International Federation of the Phonographic Industry (IFPI Switzerland), which lodged a petition with the Swiss federal council. IFPI Switzerland is also a member of the “Stop Piracy” association, which champions the need for a change in Swiss law regarding copyrights.

## *Market Growth*




Analysis by PwC

The dynamic in the music market is clearly evident: the growth in revenues from selling digital formats is offsetting the decline in physical distribution. Due to the implementation of music streaming services, which continues to drive digital distribution, the recorded music market will grow again through the end of 2013.

Revenues from live concerts and music festivals are also likely to rise but at a slower pace, since Switzerland has a solid number of well-visited and internationally established events, and that has led to a competitive market.

## *Principal Drivers*

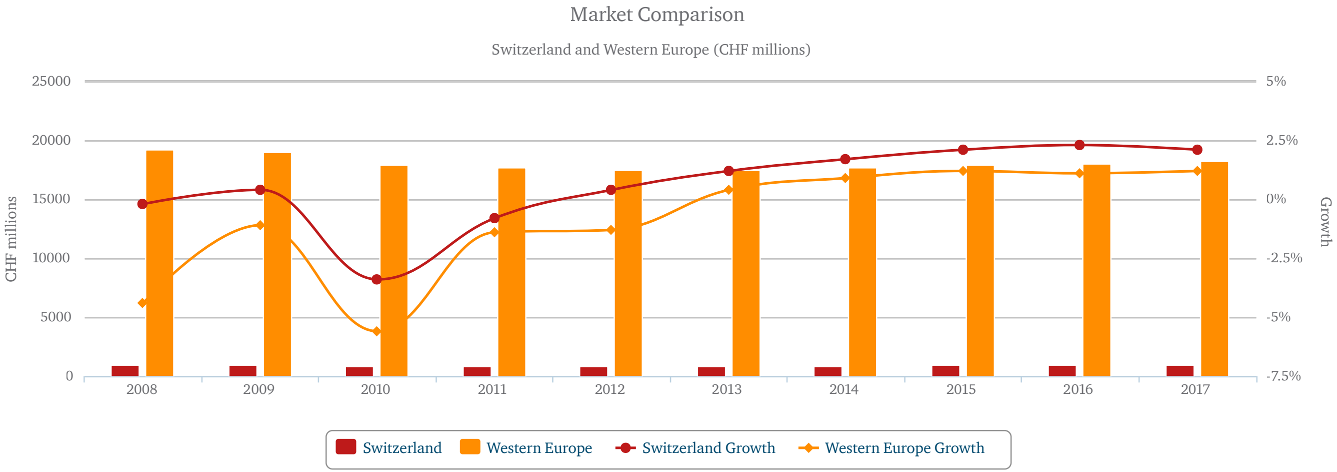
- Digital distribution is becoming more and more important. The increase in this segment is essential for the global and Swiss music market in terms of spurring growth and generating revenue. As a result, the decline in physical distribution can be offset. The music streaming services in particular have the potential to play a crucial role. Spotify is gaining market share throughout the world. Companies such as Google have recognised this growth potential and developed cloud-based music libraries for their customers.

- As the Swiss law for illegal downloading is not very strict compared to other European countries such as France and the UK, piracy remains an issue in the Swiss music market. Due to the Swiss chapter of the IFPI, which is actively developing plans to strengthen the copyright protection for music and other audio formats, tendencies towards changing the legislation are becoming evident.

- As a result of the decline in physical unit sales, music companies are shifting their attention to live acts, where there is intensified focus on the entire value chain which spans for example artist management, ticketing, concert organisation and radio promotion rather than just isolated elements (360 degree model). Although this new model has globally resulted in only a small number of joint ventures between record companies and live music services, the live music market is the driving force for Switzerland's music market.

- The availability of affordable consumer electronics for an array of digital music formats is driving the continuing digitalisation and consumption of music (e.g. portable docking sound stations for MP3 players and iPod/iPhone/iPad).

# *Comparison to Western Europe*



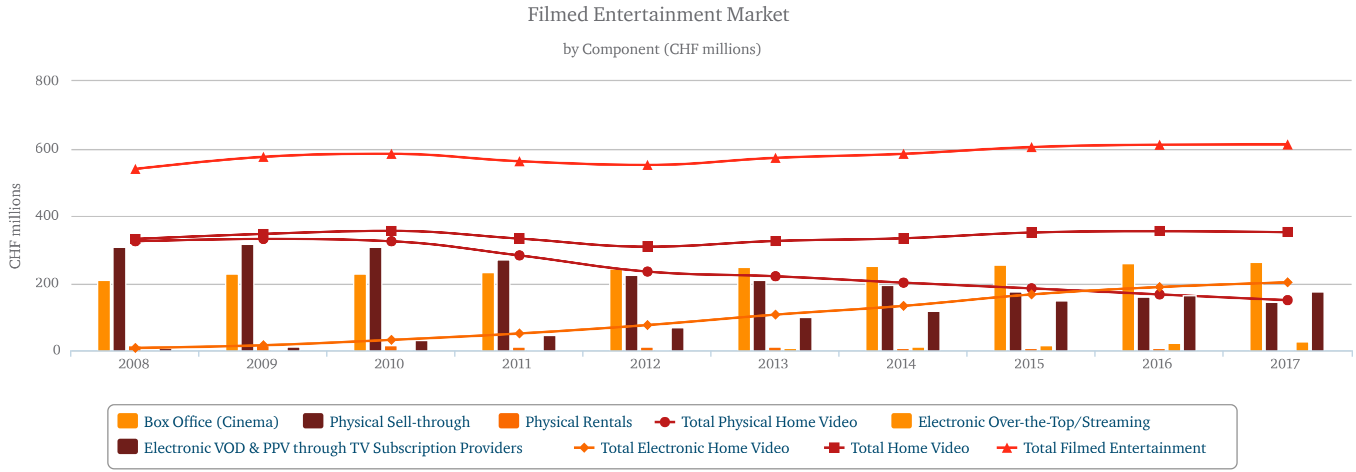

Analysis by PwC

The music market in Switzerland is at odds with the relatively small size of the country. In 2012, Switzerland represented 5.1 per cent of the overall Western European music market. This share is expected to increase very slightly to 5.4 per cent by 2017. The high share is a result of the relatively large size of the Swiss concert and music festival market, which ranks among the top 6 along with the UK, Germany, France, Italy and the Netherlands. To maintain this importance, Swiss music festivals are up-to-date with the newest innovations such as radio-frequency identification technologies (RFID). RFID wristbands contain personalised microchips that facilitate cashless payment as well as access control. The Openair St. Gallen and the Gurtenfestival successfully introduced these new technologies in 2013.

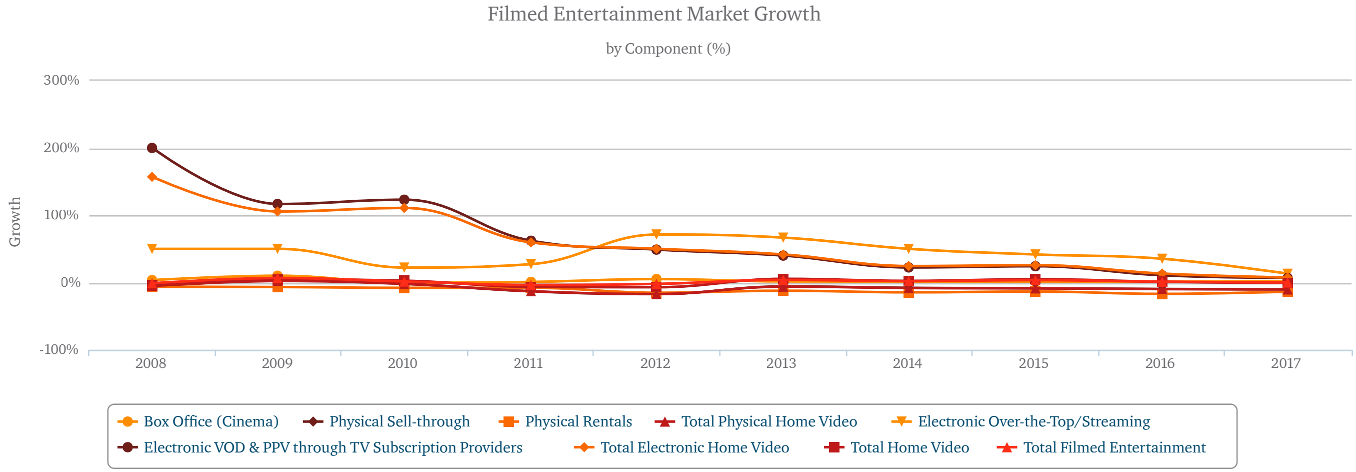
Between 2010 and 2011, the European music market grew faster compared to Switzerland. Due to the distribution of digital music formats – which started earlier in Western Europe than in Switzerland – the Swiss music market lagged the growth rates in Western Europe. In 2012, digital sales in Switzerland began to grow as well and the Swiss music market managed to close the gap, which actually led to a positive growth rate for the entire market.

Switzerland is a net importer of music, with few Swiss artists breaking through to international success despite the best efforts of the trade association Swiss Music Export. Part of the reason for this is the cultural and linguistic diversity of Switzerland, which effectively splits the Swiss music market into small German-, French- and Italian-speaking sub-markets with too limited scales to enable many Swiss artists to forge a commercial career.

# Filmed Entertainment




Analysis by PwC




Analysis by PwC

## At A Glance

### Segment Definition

The filmed entertainment market consists of out-of-home and in-home components. Out-of-home covers consumer spending at the box office for theatrical motion pictures. In-home comprises both physical and electronic home viewing of films.

Physical includes spending on rentals of videos at video stores and other retail outlets along with DVD-by-mail services and the purchase of physical home video products.

The electronic home video market consists of spending on video on demand (VOD) and pay-per-view (PPV) through TV subscription providers. It also includes over-the-top/streaming services, the filmed entertainment content of which is accessed via a broadband or wireless internet connection and can be viewed on a PC, TV, tablet or any other device and which bypasses TV subscription providers.

The figures do not include music videos. They also do not reflect ancillary revenues earned by cinemas, such as cinema advertising and sales of snacks and beverages or accessory sales (such as 3D glasses).

# *The Swiss Filmed Entertainment Market*

## *Market Overview*

The physical sell-through and box office market still generate the largest revenues for the Swiss filmed entertainment industry despite ongoing digitalisation and growing digital consumption. The physical sell-through accounts for 72 per cent of the overall home video market, whereas 50 per cent of that total was attributable to impulse purchases.

The bright spot in physical sell-through is high-definition Blu-ray; the sales volume of Blu-ray discs increased by 7.6 per cent (2012: CHF 52.2 million) compared to the previous year (2011: CHF 48.5 million). Thus the Blu-ray platform will counteract declines in physical home video during the forecast period. Nevertheless it will not compensate for the drop in DVD sales, leading us to project ongoing decreases for physical sell-through.

Within the overall Swiss filmed entertainment market, the shift from DVD to high definition Blue-ray discs and digital consumption is continuing.

Electronic video consumption is gaining importance and shows significant growth potential due to the increasing number of digital and internet-connected TVs as well as the steadily increasing penetration of broadband in Switzerland. Emerging OTT services (e.g. Apple TV, Swiss TV, HollyStar) and growth in digital cable and telephone company TV subscription services (e.g. Swisscom TV, Cablecom Horizon) that enable video-on-demand or pay-per-view will boost electronic distribution over the forecast horizon. Swisscom managed to increase its user base for Swisscom TV by 30.1 per cent in 2012.

The following represent significant developments in the Swiss OTT market: Acetrax, a Swiss start-up OTT service provider wound up its business in June 2013, whereas DVD fly rebranded its company name to HollyStar and launched its HollyStar App, which enables users to rent movies via their smartphones and tablets. Also, it has been announced that Netflix, an internationally formidable OTT provider, is not planning to enter the Swiss market in the near term.

The range of videos obtained via VOD services is still not as large as in physical rental stores. However, there is still significant growth potential in the VOD segment due to the ongoing expansion of the digital TV household universe. Only about 0.7 million households in Switzerland were still analogue TV users in 2013. With more content on offer, increased usability and films in all national languages, the electronic home video segment may become the market-leading service.

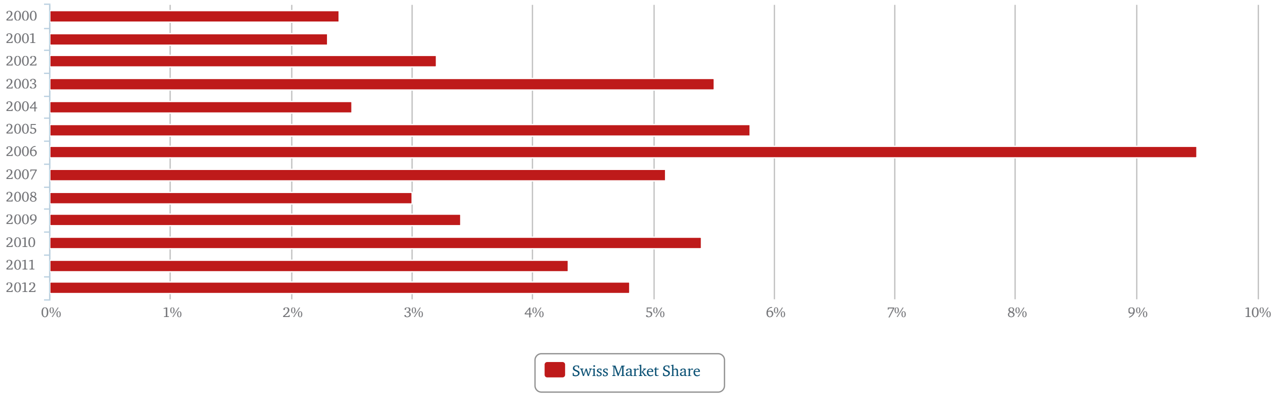
Box office spending rose by 5.1 per cent compared to the previous year, driven by an increased number of admissions (+18%) and slightly higher admission prices in 2012. At the same time the number of cinemas, screens and seats decreased in 2012. But the number of digital screens continued to increase by 57 per cent, whereby 50 per cent of those screens are additionally equipped with 3-D technology.

The market share of Swiss films – measured by admissions – increased to 4.8 per cent, whereas the most successful Swiss film in 2012, “More than honey”, recorded 157’543 admissions (which accounts for 31% of all admissions to Swiss movies in 2012).

The Swiss federal council has appointed a task force to address the issue of piracy. The group agreed that internet providers (such as Swisscom) should send red flags to consumers or suppliers of illegal content and that Swiss portals should, upon notification, be obligated to remove illegal content. Moreover, incidents of recurrence should be prosecuted.

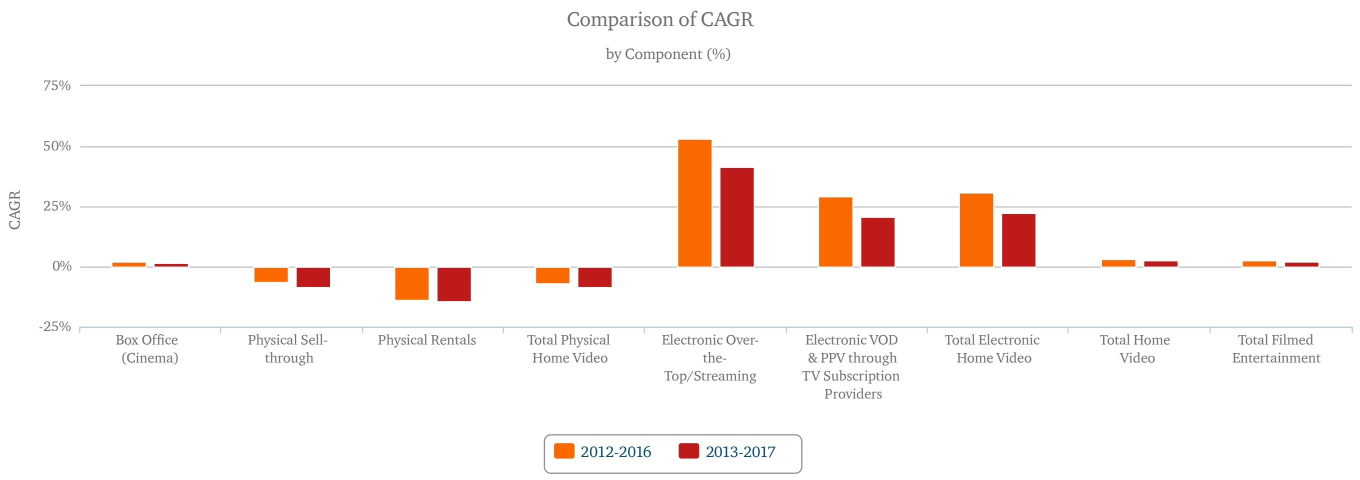
Market Share

of Swiss Films (%)




Analysis by PwC

## *Market Growth*




Analysis by PwC

There is still a clear uptrend in the electronic home video market. As was the case last year, over-the-top (OTT) services accommodating the trilingual population will show the strongest growth. The growth in VOD services via TV subscription providers will also be robust over the forecast period. Absolute revenues of electronic home video sales are on the increase, which is why the compound annual growth rates show lower values compared to last year's outlook.

Physical home video will continue to experience the steepest decline, with revenues dropping by a CAGR of 8.6 per cent, even as box office sales increase slightly over the coming 5 years.

## *Principal Drivers*

- The main driver of the Swiss entertainment and media industry in 2012 was again the digital business. The latest developments show that an increasing number of consumers are willing to pay for watching high-quality movies via legal internet platforms, but piracy will continue to limit spending; it is still the online video service's biggest competitor.

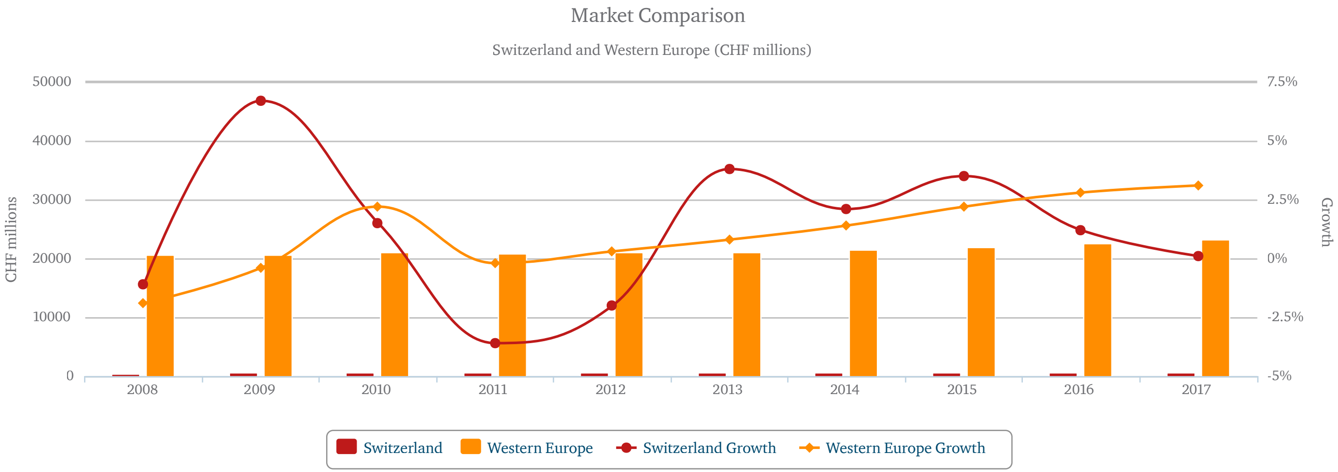
- The availability of films on television either for free or on a video-on-demand basis has taken cannibalised business from the physical rental market; consumers are tending to break away from the notion that movies are associated with a physical disc. Moreover, the fact that the number of selling points for physical films decreased in 2012 contributed to declines in the physical home video market.

- Growth in the electronic home video market is on one hand driven by digital cable and telephone company TV subscription services that promote video-on-demand or pay-per-view sales. The growing subscription base for IPTV services such as Swisscom TV and the increasing popularity of VOD services requiring set-top-boxes such as "Horizon" boost electronic home video distribution. Furthermore, TV subscriptions as service bundles including VOD services will also reinforce electronic video distribution.

- On the other hand, the availability of video content on tablets and other devices as well as internet-connected TVs (smart TVs) will foster growth in the OTT market. We predict a continuing uptrend in consumers' desire to access and view content on-demand, at their convenience, whenever, wherever and on whatever device they choose.

- Moderate price growth and growth in 3-D screens will continue to stimulate the box office market, although the incremental impact of 3-D is diminishing. Cinema-going is seen as a communal activity, with consumers prepared to pay a premium to watch the latest movies in state-of-the-art surroundings equipped for the most part with digital 3D. However, growth is limited because of the booming electronic home market.

# *Comparison to Western Europe*



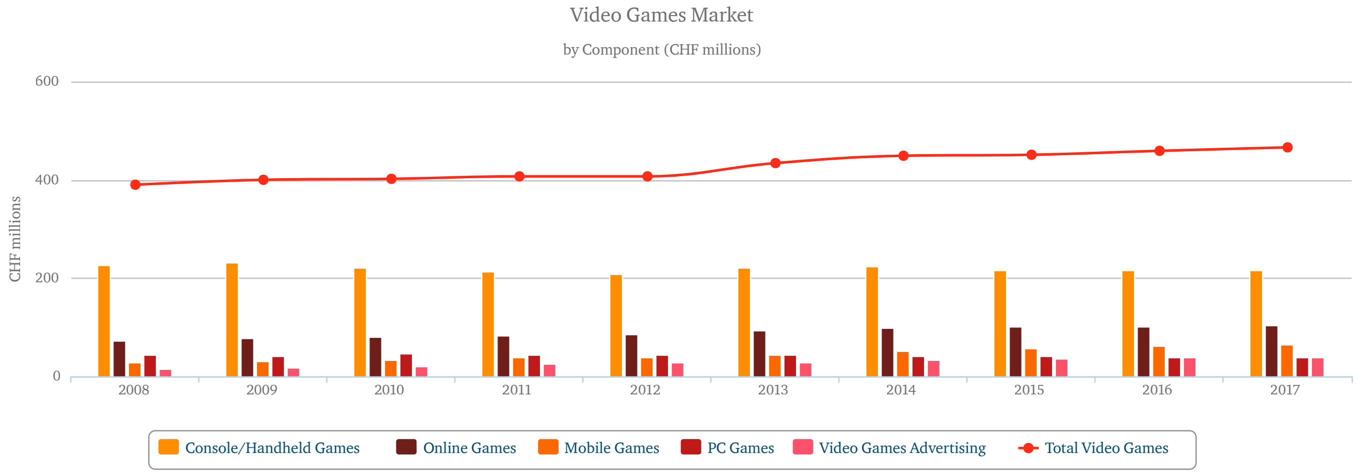

Analysis by PwC



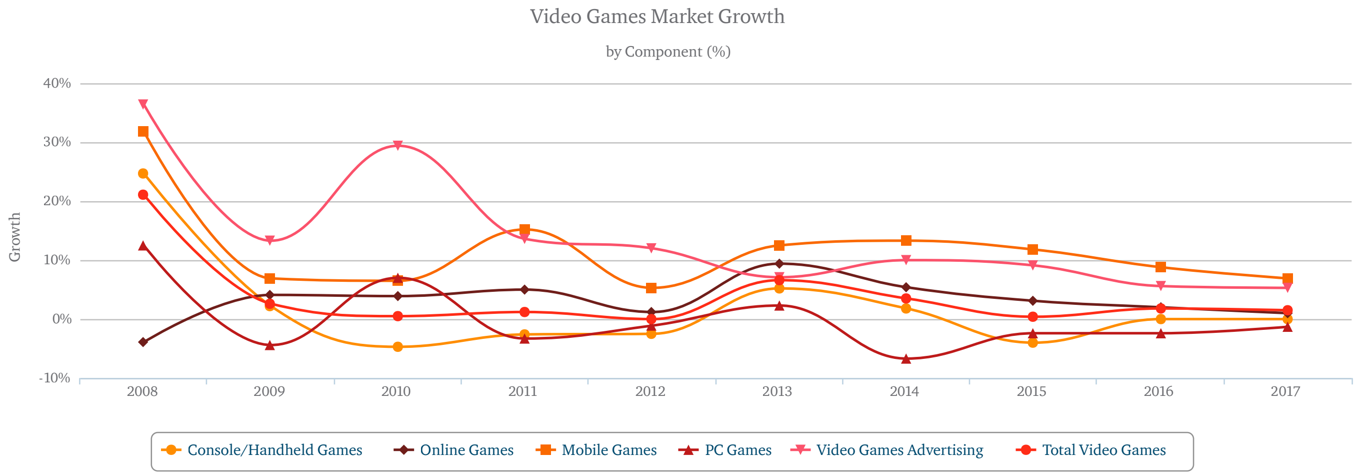
Europe is a mature market, where the biggest growth will come from over-the-top (OTT) streaming services. Switzerland represented 2.5 per cent of the overall Western Europe market for filmed entertainment in 2012. That share is expected to remain stable until 2017. At 2.1 per cent annual growth, Switzerland shows the same annual average growth rate as Western Europe.

The size of the Swiss filmed entertainment market is approximately the same as the markets in Nordic countries such as Sweden and Norway. The United Kingdom is the largest market in the region, at CHF 5.3 billion in 2012, and will continue to be the leading entertainment market in Europe, with revenues reaching CHF 6.1 billion in 2017. The top five territories – the UK, followed by France, Germany, Italy and Spain – collectively generated approximately 76 per cent of the filmed entertainment spending in Western Europe in 2012.

# Video Games




Analysis by PwC




Analysis by PwC

## At a Glance

### *Segment Definition*

The video games market comprises consumer spending on console games (including hand held games), PC games, online games, mobile games and video game advertising revenues. It excludes spending on the hardware and accessories used to play the games.

Sales revenues from retail, digital-download stores, additional downloadable content and subscription services are included either in the PC or console (both in home and handheld) game categories. As opposed to last year's outlook, revenues from console and PC games are now split into physical and digital.

Mobile gaming covers all revenues from game-playing on a mobile device (tablet or mobile phone), including digital games sales, subscription services and associated virtual items.

Online gaming includes games played on a PC that require an internet connection. It covers subscription online games, free-to-play games, casual games and social games.

Video games advertising covers all revenues generated from advertising on any game platform and access type, including in-game and console-dashboard.

# The Swiss Video Games Market

## Market Overview

The Swiss video games market continues to be a dynamic segment in the entertainment and media industry. The market is in a state of flux, with the online and mobile sectors growing strongly and taking larger shares of consumer spend.

Console ownership will continue to grow, driven by the introduction of the next generation of internet-capable gaming consoles. Nintendo, Microsoft and Sony are the dominant market players for consoles in the Swiss gaming market. The Xbox 360 and PlayStation 3 have come to the end of their life cycles and accordingly sales declined in 2012. New Xbox and PlayStation generations (Xbox One & PlayStation 4) are expected to be released in late 2013 and should re-energise the flagging console games market in Switzerland. Moreover, declining prices for consoles and the associated games, which will occur after the release of the new generation, will boost sales within the next two years.

However, new market players as Google, Amazon, Ouya, and Valve are planning to enter the console market, which in turn will intensify competition and cause additional downward price pressure. Another feared market player, Valve, is planning to enter the market and has a considerable potential to revolutionise the console market by launching their SteamOS box in 2014. It will enable users to beam their PC games — both Windows and Mac — to their SteamOS box that is connected to a TV.

The market for dedicated handheld games is facing growing competition from the rapidly increasing capabilities of smartphones and tablets. We expect considerably fewer people will be willing to pay the relatively high prices for these games when they can purchase much cheaper games for their smartphones. In the long run, the console gaming experience is likely to be enhanced by auxiliary equipment in order to compete with mobile and online games. For example, Sony launched the handheld PS Vita equipped with second-screen technology. PS Vita enables users to project games on other devices than TV, such as tablets. Moreover, a new market player, NVidia, announced its entrance into the handheld console market with an Android-based console that can stream from PCs.

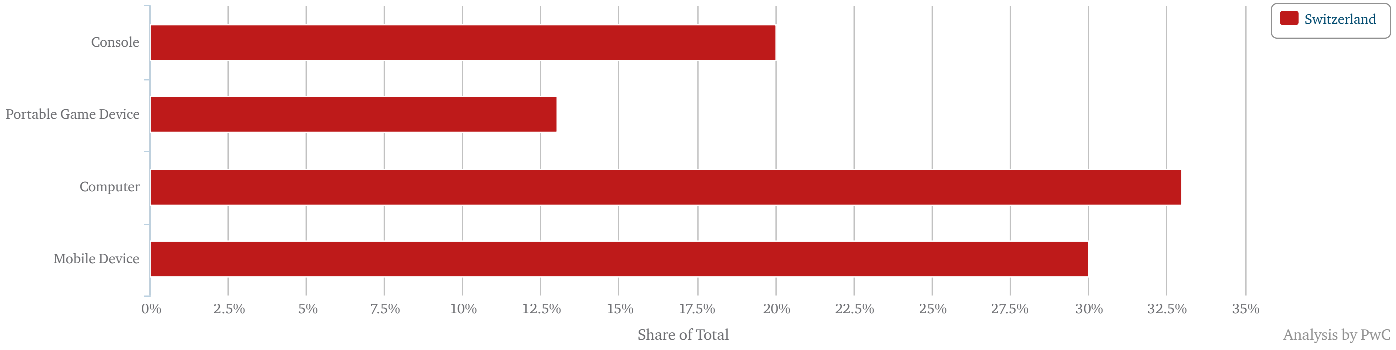
The most popular console games in 2013 have been Grand Theft Auto 5 and FIFA 14. GTA5 is expected to break sales records worldwide.

The online games market is consistently in motion; the shift to free-to-play business models of online games is increasing the number of players thanks to low entry barriers. They use a business model known as “freemium”, whereby games are provided free and developers gain revenues through micro-transactions as well as advertising as a means of combatting piracy. A PwC study indicates, however, that online gamers’ enthusiasm declined after a few minutes, customer bonding was low and sales of virtual goods were below expectations in 2012. The vast majority play online games without purchasing virtual goods. So a hot topic is currently how publishers are able to monetise the games in order to offset the costs and make a profit. However, online video games will be driven by open game platforms such as Steam, which offer a wide array of PC, Mac, and Linux games as well as enables gamers to share content and connect with each other.

The mobile market has severely damaged the handheld gaming console market. The availability of low-cost, free or “freemium” games on a device that is almost always with the user is a considerably better value proposition than purchasing much more expensive games for a separate device. According to the ISFE Consumer Study, mobile devices, especially smartphones, stand out as one of the most frequently used devices for gaming in Switzerland. In September 2013, “Angry Birds Star Wars II”, a successor of an undeniably successful mobile game, was launched.

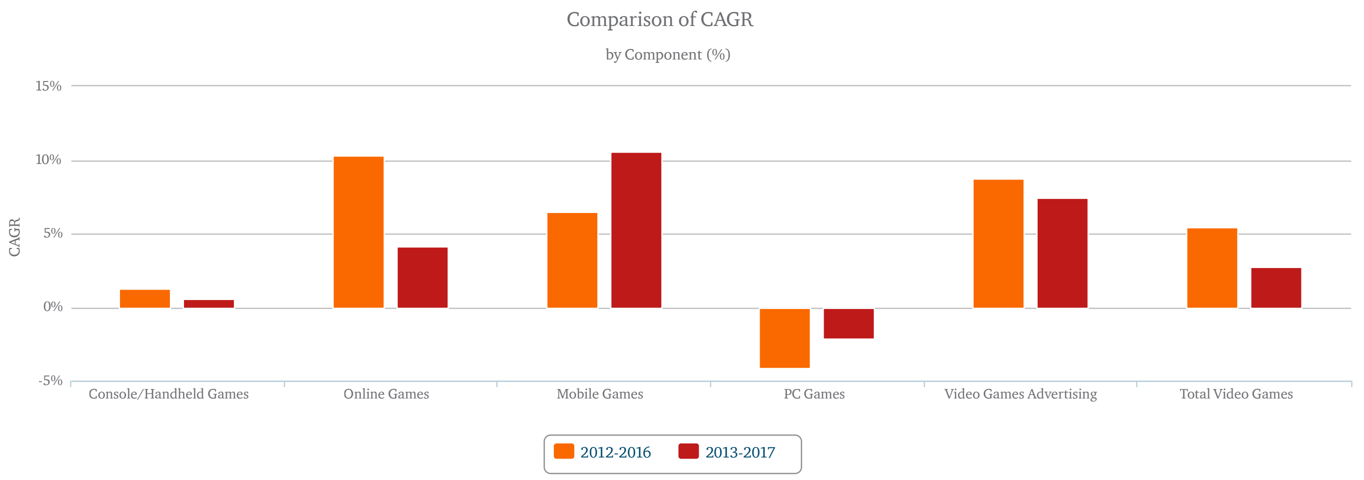
The renewed interest in console games will also lead to a slight decline in revenues from PC games as gamers switch platforms to try out the new consoles. Plus, online gaming continues to cannibalise PC revenues. However computers are still one of the most-used devices for gaming.

Devices Used to Play Games




Analysis by PwC

## *Market Growth*




Analysis by PwC

There is still a clear uptrend in the digital distribution of video games. Compared to last year, we expect the Swiss mobile games market to show higher GAGR than the online game market over the forecast period. This is due to the fact that sales of virtual goods were behind expectations and did not generate a boom in online games revenue as expected last year. So over the long term, it will be a challenge for game publishers to monetise the games and sophisticate the free-to-play business model to make it profitable. Moreover, the huge variety of mobile games available for download via mobile app stores, which appeals to an ever-broader spectrum of the Swiss population, leads us to expect high growth rates in the mobile games market over the coming five years.

Due to changes in the definition, total online games revenue is not directly comparable to last year's forecast. Revenues from console and PC are newly split into physical and digital, so sales revenues from digital-download stores, additional downloadable content as well as subscription services for console games are now included either in the digital PC or console game categories, not in the online games category.

The Swiss console/handheld market is expected to remain fairly stable over the forecast period, driven by next-generation consoles and, with them, new games that take advantage of advanced technologies. PC games will continue to show the steepest decline, with revenue dropping by a CAGR of 2.1 per cent.

## *Principal Drivers*

- Digital distribution of content is further emerging in the games market. Over the long term, the shift to online and wireless games will have a negative impact on the physical console/handheld and PC games markets. SIEA announced that retail sales of physical video games declined by 22 per cent in 2012. Nevertheless, the interest in video games is growing due to the rapidly expanding use of online, mobile and digitally downloaded games.

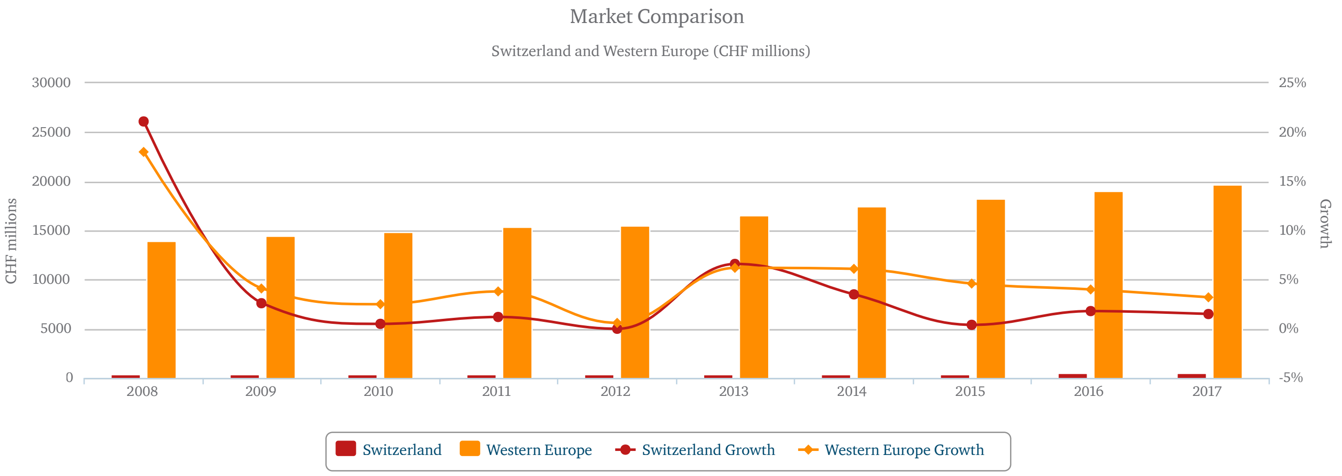
- In the near term, growth in the console market will be driven by renewed interest in consoles due to the release of the new internet-capable PlayStation and Xbox generations that take advantage of the latest technologies. As a result, the opportunity to sell gamers digital assets through Wii U, Xbox One, and PS4 online storefronts will grow substantially during the next several years. Growth will also be boosted by declining prices for the consoles, associated games and services.

- Online video games will be driven by the increasing sophistication of the free-to-play model with micro-transactions as the main revenue driver. Social network games are losing their popularity. Game designers will return their focus to designing mobile games. However the main driver of online video games will be open game platforms.

- Mobile gaming has many of the benefits of the online platform and will also grow substantially, ultimately showing the highest CAGR in the Swiss video games market over the forecast period. Rather than broadband penetration, mobile and especially smartphone penetration will be a major driver for this sector; it already reached 54 per cent in 2012. Moreover, the vast range of mobile games offered by mobile app stores appeals to an expanding spectrum of the Swiss population. Mobile gaming will also be a major driver for spending on video games advertising as mobile gamers are significantly more tolerant of advertising, particularly in free games.

- An increase in video games advertising will be mainly driven by the rising consumption of online and mobile video games. Applying online measurement tools which enable specialised targeting increases advertising effectiveness by keying on specific demographics.

# *Comparison to Western Europe*

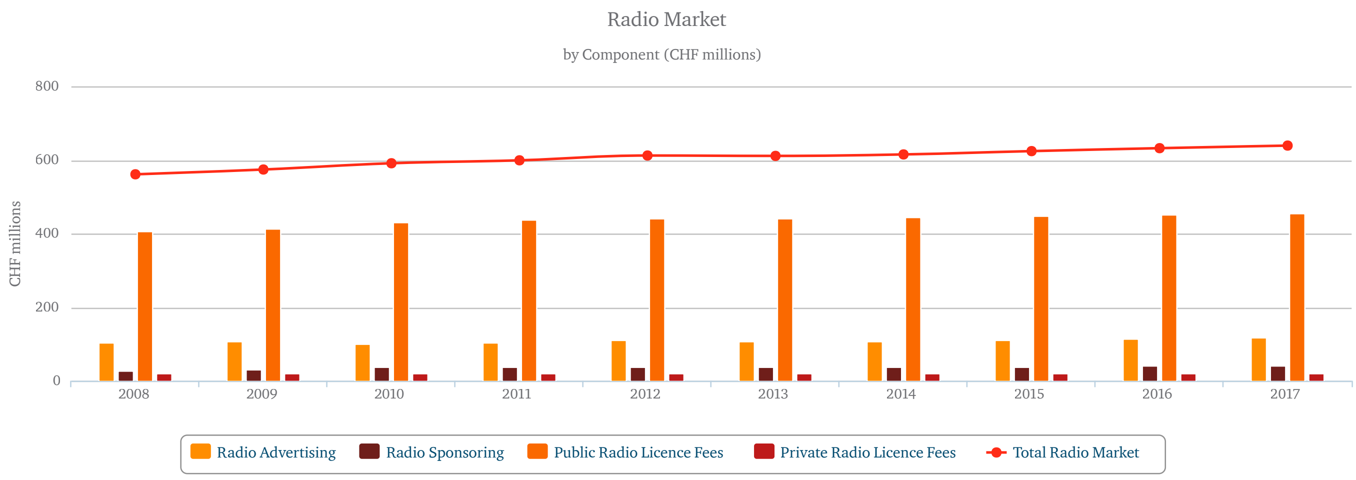



Analysis by PwC

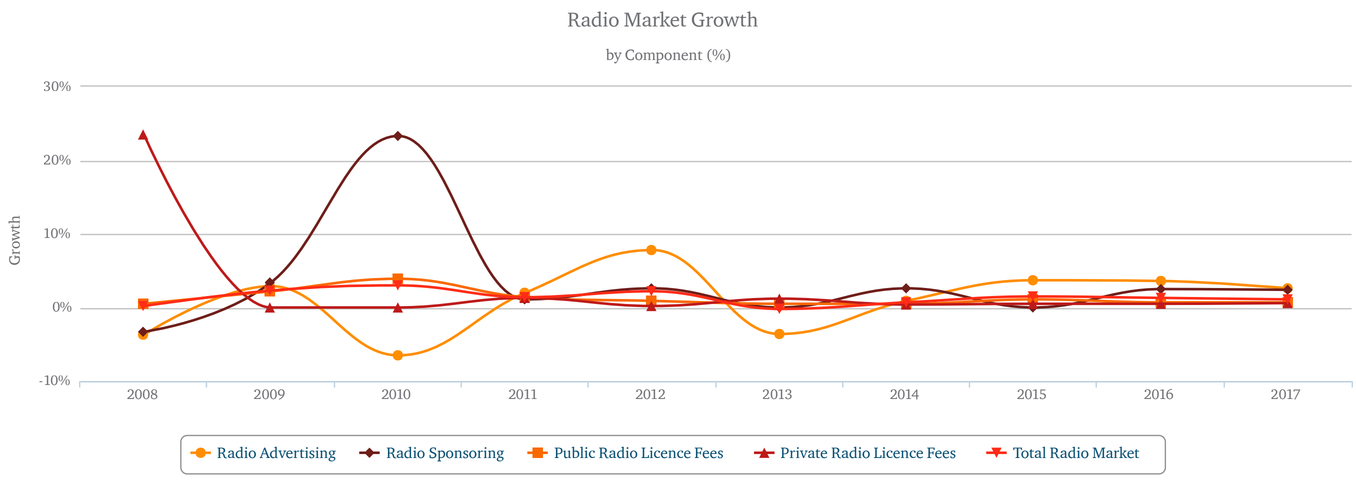
Switzerland accounted for approximately 2.6 per cent of the overall Western Europe video games market in 2012. This share is expected to remain rather stable through 2017. The Swiss market will grow at a slower pace (2.7 per cent CAGR) compared to the Western European market's average growth rate of 4.8 per cent during that time frame.

The expansion of the Western European video games market will be driven in large part by increased spending on console games. Compared to other countries within Western Europe, the console market in Switzerland is still near market saturation and should remain stable over the forecast period.

# Radio




Analysis by PwC




Analysis by PwC

## At A Glance

### Segment Definition

The radio market consists of advertiser spending and sponsoring on radio stations as well as radio networks. Public and private radio licence fees are also included in the category. All radio advertising figures are shown as net revenues, excluding agency commissions and discounts.

## The Swiss Radio Market

### Market Overview

The Swiss radio market is mainly governed by the Swiss Federal Act on Radio and Television (RTVA), which means that all radio stations in Switzerland have to be registered with the Federal Office of Communications (OFCOM) or hold a licence in order to broadcast their programmes. The Swiss market consists of a dual broadcasting system including the public service broadcasting institution SRG SSR and private stations. By covering the four language regions in Switzerland, the SRG SSR radio stations hold a remarkably high market share. In 2012, SRG SSR accounted for some 66 per cent of all radio listeners compared to 34 per cent for private stations as gauged by the electronic measurement system of Mediapulse AG.

Lately, there have been some considerable changes at SRG SSR. Due to the ongoing consolidation of television, radio and internet, the programme services were renamed in December 2012 to achieve extensive consistency within the brand. Furthermore, one of their radio stations called World Radio Switzerland (WRS) was sold to the private operator Anglo Media SA, which distributes WRS via DAB+, cable and internet since September 1, 2013, but only in the Geneva vicinity and not Swiss-wide.

Goldbach Media is the main Swiss radio advertising marketer. Radio advertising revenues can only be generated by private radio stations, so SRG SSR is limited to airing sponsoring articles. In the first half of 2013, Goldbach Media recorded a dramatic 10.4 per cent drop in advertising revenues. As a reaction, it now bundles its radio expertise in a recently founded marketing company named Swiss Radioworld, which has launched its own Swiss web radio platform. It represents a common internet radio platform for private radio stations and will be technically provided by Swiss Radioworld. The aim is to generate further radio advertising revenues for Goldbach Media.

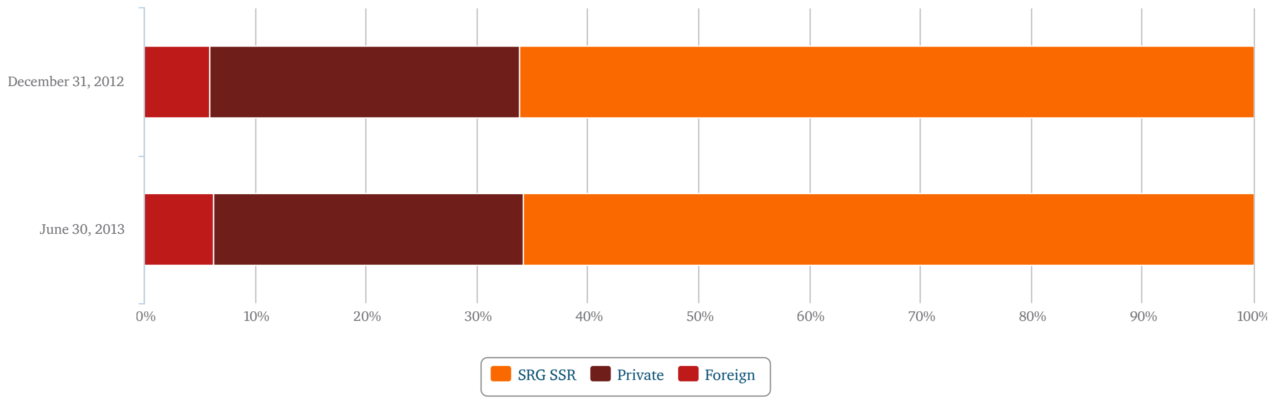
Digital radio is expanding further in Switzerland. As the number of digital radio devices in Switzerland has increased to 1.2 million, more and more radio stations have switched to DAB+ (digital audio broadcasting), which represents the most recent broadcasting technology for radio reception via air. Since October 2012, SRG SSR has been distributing all of its programmes via DAB+ and, on 1 December 2012, the third layer in the German-speaking part of Switzerland started to transmit in DAB+ as well. OFCOM's aim is that, by the end of 2015, all regional radio stations in Switzerland are receivable via DAB+. To that end, they issued a radio communications licence to Digris AG as a means of establishing DAB+ islands all across Switzerland. Nonetheless, the parallel operation of DAB and DAB+ will be enabled until 2015 to ensure a smooth transition.

Because of the rising penetration of smart devices, we expect IP-based radio to be the future standard for radio listening as more people listen to radio on their computers, tablets or mobile phones. One advantage of web radio is that radio stations can easily send programme services without having to invest in broadcasting infrastructure. Also, with upcoming technological options, it will be possible for consumers to create their individual radio agenda on an internet-based platform, for example by combining the content of several web radio stations with previously downloaded content and podcasts. Based on that, we assume that the trend towards a centric consumer will also be emerging in the Swiss radio market. Furthermore, because of the emerging popularity of web radio, Mediapulse AG has modified its methodology for gathering data on radio usage. Since 1 January 2013, the web radio usage through online streaming is being included in the measurements. Despite this action, no noticeable changes regarding the market shares of individual radio stations could be monitored in the first half of 2013.

Public radio licence fees are collected by BILLAG and clearly represent the larger part of the total radio market in Switzerland. In May 2012, the Swiss Federal Government decided to revise the Radio and Television Act (RTVA) due to ongoing technological developments. The introduction of a device-independent royalty system would cause more households to pay a fee. Nonetheless, the Swiss federal government emphasises that such a change will not lead to a higher total of captured fees, inasmuch as the fee charged per household will most probably be lower than the current one.

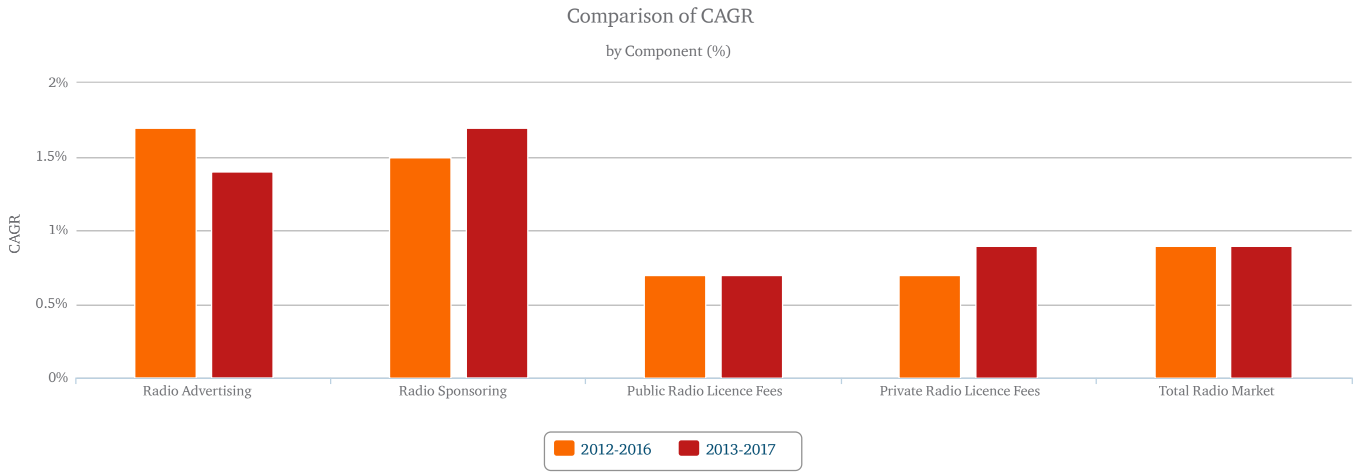
Market Share of Radio Listening

combining the four different language regions of Switzerland (%)




Analysis by PwC

## *Market Growth*



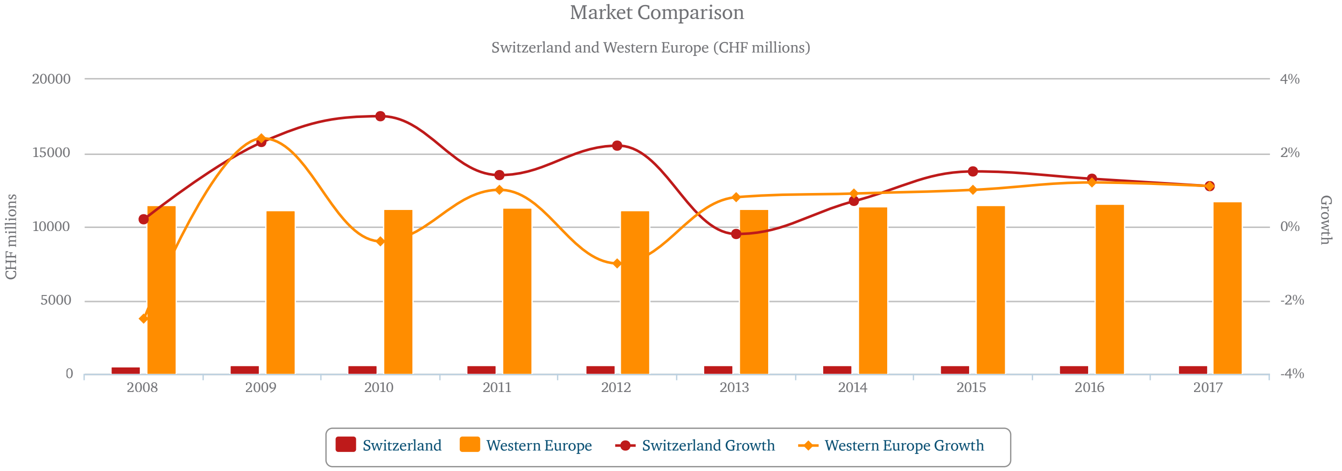

Analysis by PwC

The CAGR of the overall Swiss radio market did not change versus last year, which means that the radio market is relatively stable. Generally, our assumptions about the development of the Swiss radio market also have not changed noticeably. The drop in this year's CAGR of radio advertising can be attributed to distinctly higher radio advertising revenues in 2012, which should gravitate to the mean over the next 4 years.

## *Principal Drivers*

- In Switzerland, no other communication medium has a broader range of users than that of radio. Radio remains the most popular information and entertainment platform and therefore keeps its attractiveness in the advertising business. Although economic circumstances often affect advertising spending, the radio market in Switzerland seems to be relatively stable.
- On the basis of a radio station's mix of music, information and presentations, it is possible for advertisers to address a specific target audience. Radio ads can be placed at a specific time, which in turn boosts the effectiveness of the advertising spend and decreases wastage. Moreover, radio ads are produced faster and more inexpensively than any other form of advertisement, an aspect that is especially valuable when it comes to short-term offerings or event announcements.
- DAB+ is becoming the standard technology in the radio market. The increasing use of digital radio in homes will further boost the propagation of HD radio, which offers superior audio quality and undisturbed reception throughout Switzerland. Furthermore, there is great potential for DAB+ in the Swiss automobile market as only 10'000 people listen to digital radio in the car, even though about 70 per cent of the Swiss population listens to the radio while driving. DAB+ car radio will therefore be promoted so that it ultimately becomes fully established in the car radio market within the next 2-3 years.
- Even though the current impact of internet radio on the market as a whole is low and online radio advertising is still negligible in monetary terms, we assume that this will change. There are an increasing number of radio stations that offer an integrated web radio on their web page, as well as a catch-up function for previously aired content. Due to the increasing use of smart devices, web radio listening will increase, but only gradually. Advertisers will then seek opportunities to depict ad banners on radio web pages, which will lead to more online radio advertising spend in the years ahead.
- Although the revised Radio and Television Act (RTVA) is scheduled to be enacted in the near future, it will not lead to a significant increase in public and private licence fee collection as the fee per household will most probably be lower than before. The slight increase in licence fee revenues can be attributed to general growth in the number of households.

# Comparison to Western Europe

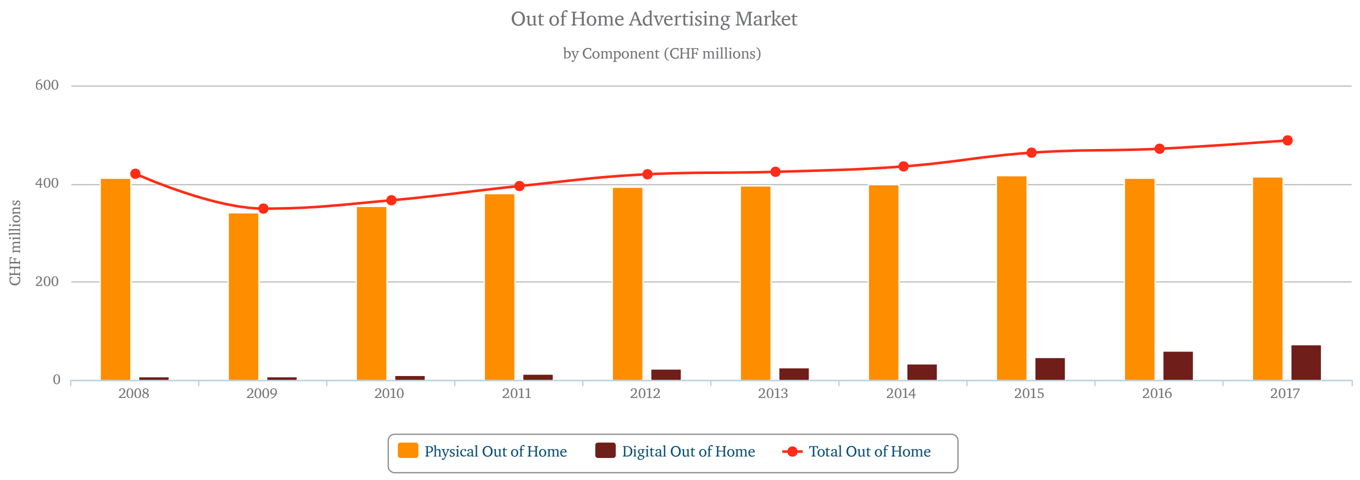



Analysis by PwC

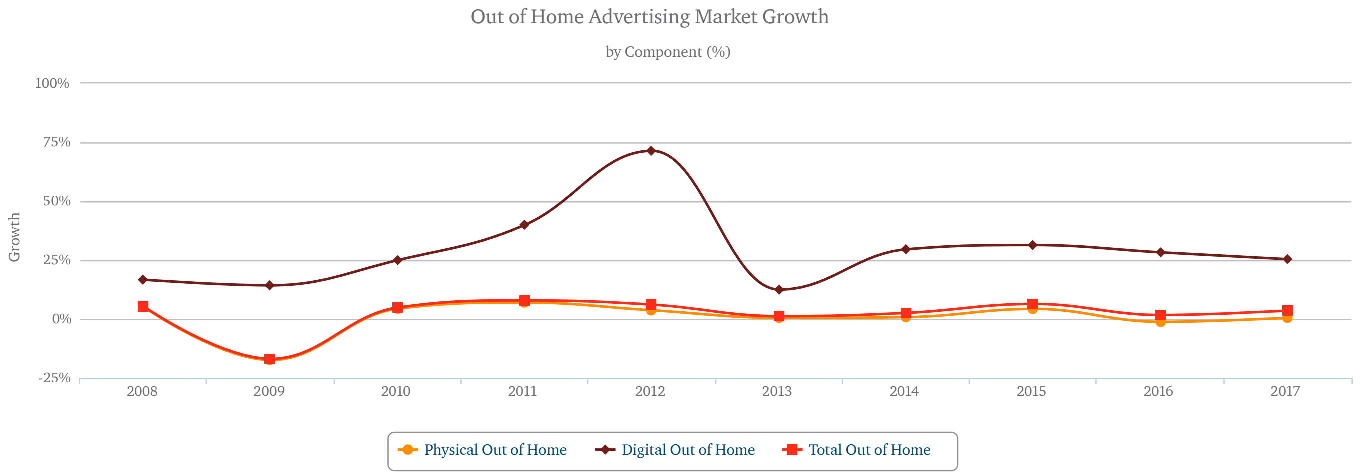
In Western Europe, Switzerland represents one of the leading countries in terms of DAB+ digital radio coverage, which underscores the maturity of the Swiss radio market. In 2012, the Swiss radio advertising market accounted for only 2.8 per cent of the total radio advertising revenues in Western Europe. However, when it comes to radio advertising spending per capita, Switzerland stands at CHF 19 per inhabitant versus Western Europe's average of CHF 13, a significant difference indeed. In absolute numbers, France and Germany were the biggest contributors in 2012, representing 18 and 16 per cent of the total advertising spend in Western Europe.

The Western European radio licence fee market is expected to grow at an average rate of 0.7 per cent through 2017, which pretty much represents the growth of radio licence fees in Switzerland. Germany collects by far the lion's share of such fees, i.e. some 57 per cent of the total for Western Europe.

# Out of Home Advertising




Analysis by PwC




Analysis by PwC

## At A Glance

### Segment Definition

The Out of Home (OOH) advertising market comprises the net advertising spend (excluding agency costs) for OOH media, such as poster advertising (billboards, paper placards of various formats), advertising on public transport (leaflet holders, lettering and painting of rolling stock, banners, etc.), sports and stadium advertising, as well as digital OOH ad screens and large electronic advertising billboards (DOOH).

The definition of the segment has been changed versus last year. Going forward, neon installations will no longer be reported as part of the segment. All comparative figures have been adapted accordingly.

## The Swiss Out of Home Advertising Market

### Market Overview

After a significant decline of 16.9 per cent in 2009, the Swiss OOH market has been recovering since 2010 due to national elections, the general economic environment as well as a marked increase in the digital OOH area. The market showed solid growth of 6.1 per cent in 2012.

The great advantage of DOOH, or digital signage, is that it allows for individual solutions per screen and time of day, whilst ensuring real-time display flexibility. This is especially appealing to advertisers who want to attract distinct groups of consumers at different times of the day at, for example, airports and train stations.

The ability to make use of streaming video increases DOOH's attractiveness as an advertising medium, in addition to television, online and cinema advertising formats. The only constraint is that DOOH usually cannot make use of sound, a disadvantage compared to the other formats. However, the transition from statistic posters to digital displays offers the potential to have immediate interaction with the consumers, e.g. the use of a smartphone as a remote entertainment devise for engaging with a brand that is being advertised on a digital screen.

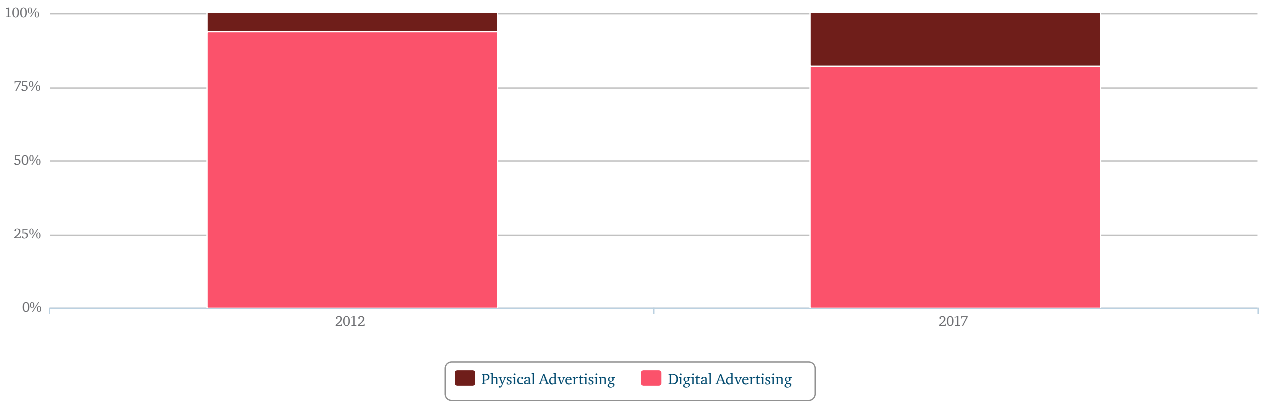
Improved measurement of the OOH audience provides advertisers with information that helps them to evaluate the impact of purchases by making comparisons with other media and facilitating the incorporation of OOH as a part of advertising and marketing campaigns. Improved audience measurement is generally associated with increased spending, both in total and to justify price premiums.

Switzerland's OOH market continues to be mainly dominated by two companies, APG | SGA AG and Clear Channel Outdoor. There are also a number of smaller players, especially in the DOOH segment, of which Neo Advertising, Goldbach Group and Livesystems are among the largest.

In Switzerland and around the world, the OOH market is undergoing significant transformation from conventional poster advertising, also referred to as "sneakernet", to large-surface digital billboards and a higher investment allocation to digital networks (such as narrowcasting). As an intermediate solution, many conventional billboards will be replaced by backlit displays and, later on, by full digital screens as the cost of such screens comes down. However, due to regulatory restrictions, the conversion process will take time.

Spending on Digital and Physical Advertising

by Component (%)



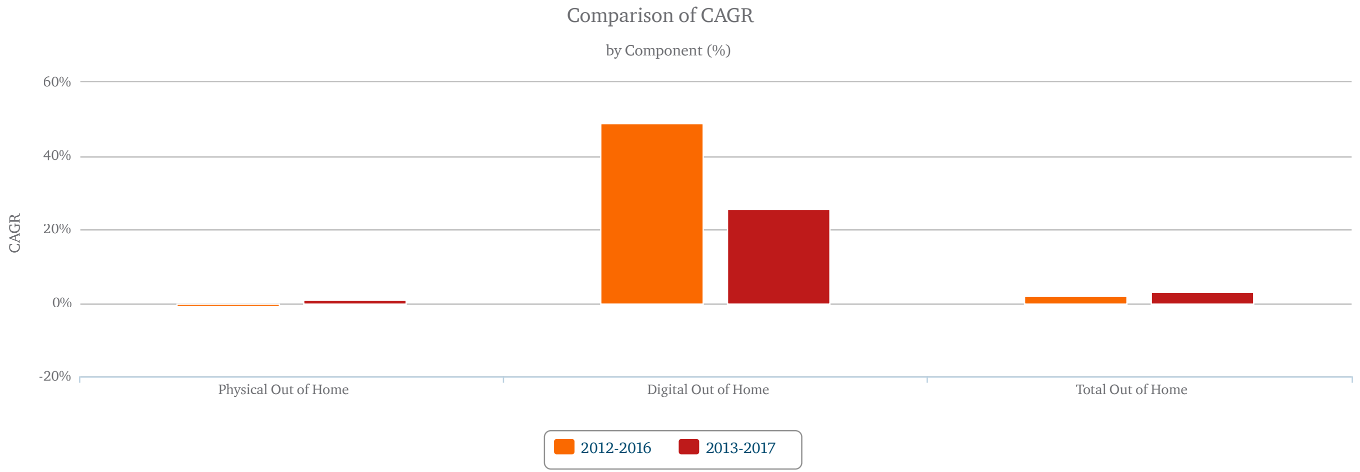

Analysis by PwC

## *Market Growth*

Overall, Switzerland's non-digital OOH market is considered saturated. Outdoor advertising carriers (poster panels, poster stands, advertising towers, mega posters on buildings or other suitable public surfaces) are a fully exploited opportunity and are governed by regulations. OOH advertising companies are therefore very keen to acquire further inventory space from private individuals or investors (e.g. on buildings, malls, business centres, privately-owned car parks and public transportation). We expect low growth rates in the non-digital OOH market of 1.0 per cent. However, certain positive effects are coming from national elections, such as 2015, and the transportation area. As the non-digital OOH is to a certain extent a very local business, it is less vulnerable to volatility.

We expect DOOH advertising to show a strong annual growth rate of 25.4 per cent in the digital advertising and digital signage market segments. Up from 6.1 per cent in 2012, it should attain a relative share of the OOH market of 17.9 per cent by 2017, provided the government approves digital billboards. However, the estimated CAGR of 25.4 per cent is significantly lower than indicated last year. This is due to regulations by individual municipalities in Switzerland that limit growth as the approval of digital advertising boards is progressing more slowly than originally assumed.

In the total OOH market we expect an average annual growth rate of 3.1 per cent, an assumption that is strongly supported by the anticipated DOOH contribution and increasing market share.




Analysis by PwC

- The worldwide tendency towards increased urbanisation, which leads to the formation of megacities or large agglomerations, also stimulates increased spending on OOH as a larger audience can be reached, thereby increasing the return on investment for advertisers.The pace of growth in rail and street traffic for commuting and leisure-time activities has exceeded the annual GDP growth rates of various countries in the past and will continue to do so in the future. These higher frequencies open additional opportunities in terms of the effectiveness of OOH ads at the street level as well as within public transportation. Moreover, digital billboards can play an important community role in the display of alerts and safety messages.

### *Principal Drivers*

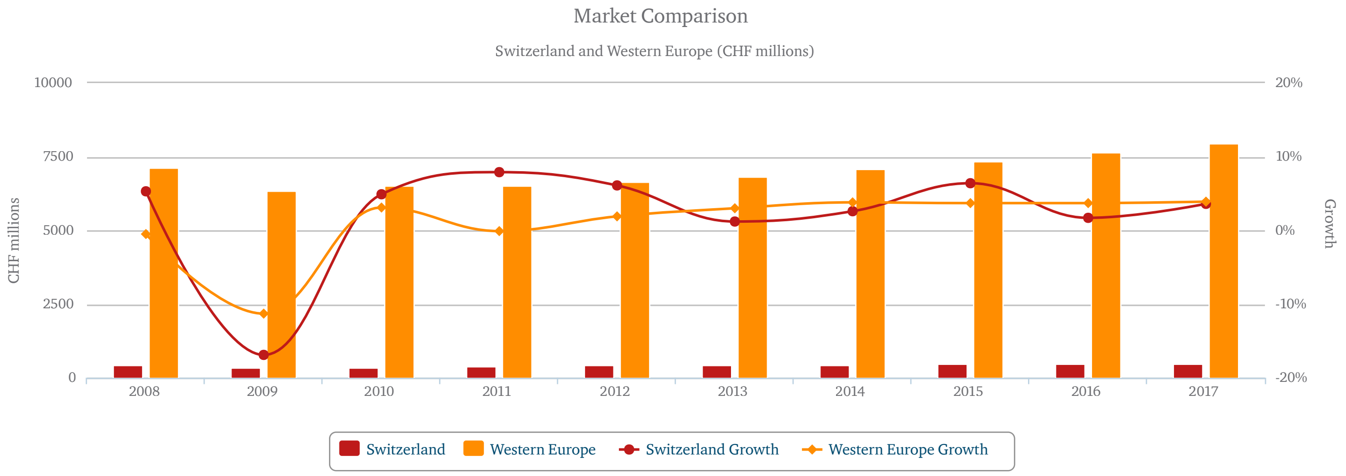
- The OOH market is being transformed by the deployment of digital billboards, other forms of digital screens, as well as the expansion of captive video networks. Through these captive video networks, advertisers seek to target specific audiences and reach consumers in locations that are not yet accessible to other forms of media. Although digital technologies still account for a relatively small proportion of the OOH market, they are generating a large proportion of the growth.

- The cost of installing DOOH infrastructure continues to decline. This is one of the reasons why the DOOH segment should show strong grow. Furthermore, digital signage solutions of optimised quality, combined with greater flexibility in displaying sequential ads, part-day bookings, pricing schemes based on effective audience, interactivity and the enhanced measurability of advertising impact are spurring investments in digital OOH.

- Advertisers are becoming increasingly aware of the value of OOH advertising as improved measurement techniques provide reach and frequency data comparable to those of other media. Consequently, advertisers can more easily measure the cost effectiveness of OOH versus other media and integrate it into their media plans.

- The combination of mobile and digital OOH is already leading to instant interaction, digital coupons, branded content, games and apps as well as search, all of which will ultimately result in more engagement and more effectively stimulate people to purchase products. Typical interactions are calls to action via votes, polls, sweepstakes, competitions and promotions, call-back requests and text-for-info, as well as mobile coupons, rich content such as ringtones, mobile internet sites and social interaction via mobile.

## *Comparison to Western Europe*



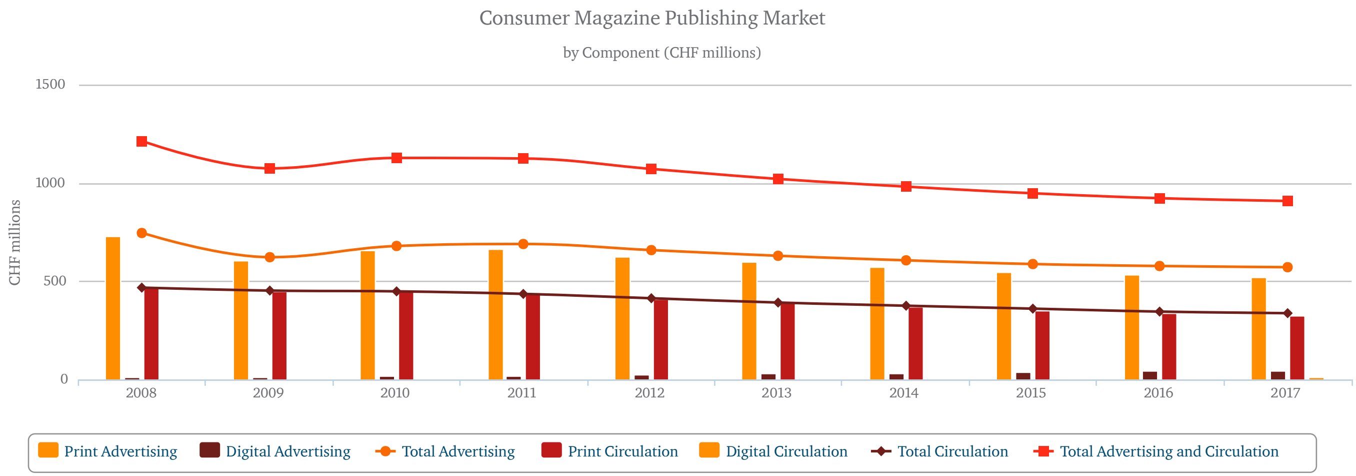

Analysis by PwC

The Swiss OOH market is highly developed and the fourth largest market in Western Europe. Today, OOH advertising boasts a relative market share of 13 per cent of the total advertising mix. This clearly exceeds European averages that generally range from 5-10 per cent. It is expected that Switzerland will show an average annual growth rate of 3.1 per cent versus 3.6 per cent for Western Europe.

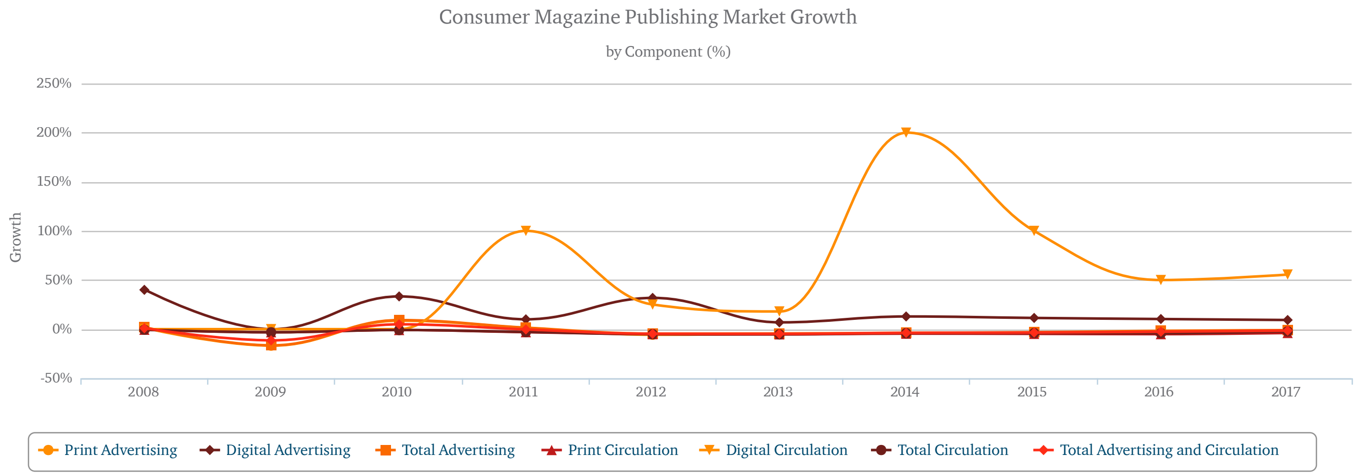
France is the largest market in Western Europe, with OOH revenues of CHF 1.5 billion, followed by the UK with CHF 1.4 billion. The UK is the leading market for DOOH advertising in Western Europe and is expected to continue its expansion of digital signage, which will boost growth and should make the country the largest market in Western Europe by 2015.

Germany, the third-largest market in Western Europe, is expected to increase at a 3.3 per cent compound annual rate to CHF 1.2 billion by 2017. Ströer, the market leader, is continuing to install a network of screens in its OOH Channel network in railway stations across the country.

# Consumer Magazine Publishing




Analysis by PwC




Analysis by PwC

## At a Glance

### Segment Definition

The consumer magazine publishing market comprises spending by advertisers on consumer print magazines, magazine websites and magazine mobile sites, including smart devices. Consumer magazine publishing also reflects spending by readers on the purchase of magazines via subscriptions or at retail outlets and kiosks, as well as paid online and mobile subscriptions for portable devices. Magazines published under contract, known as customer magazines or custom publishing, are also included in the print advertising component.

Figures do not include licencing or other ancillary revenues. Trade magazines are not included.

## The Swiss Consumer Magazine Publishing Market

### Market Overview

There are two revenue streams within the consumer magazine publishing market: advertising and circulation spending. Both can be further split into print and digital. In 2012, the ratio of advertising to circulation was about 61:39. In terms of overall print and digital spending, digital holds a 3 per cent share of the market, which shows that although digital content is emerging, print still represents the major factor in the consumer magazine market.

Just a few publishers dominate the consumer magazine market in Switzerland. The main publishers are Ringier (Schweizer Illustrierte, SI Style, Schweizer LandLiebe, etc.), Tamedia (Schweizer Familie, Annabelle, 20 Minuten Friday, etc.) and Axel Springer Schweiz (Beobachter, Bilanz, etc.). Despite the current economic circumstances, Ringier has made some progress in the traditional print magazine area For example, "LandLiebe", which was launched in April 2011, already prints 110'000 runs after only a short amount of time. Also, Ringier's "SI Style" magazine for women as well as its "GlücksPost" managed to gain readership in 2012. Tamedia as well expanded its traditional print business by launching the nationwide lifestyle magazine "Encore", which features a theme-specific insert called "Auto". However, not all print magazines reported good results. Tamedia's complimentary magazine "Natura" was first published in May 2013, but due to a lack of advertising revenues, the magazine was cancelled after just one issue.

At present, 70 per cent of the Swiss population own a smartphone; 31 per cent own a tablet. The rising penetration of smart devices has a strong impact on consumer magazine publishers. They have to rethink their traditional business model so that profitability can be ensured in the emerging digital era. For this reason, both Ringier and Tamedia invested in the digitalisation of print magazines. Ringier for example revised the webpage for "SI Style" to make it more user-friendly. Also, since mid-2012 all of Ringier's consumer magazines are accessible online via a tablet or smartphone. In addition, Tamedia revamped its mobile page for "Annabelle" due to a declining print audience as well as launched a digital offering for the magazine "Finanz und Wirtschaft" in the summer of 2012, which triggered a positive response. However, as many consumers are not willing to pay for online magazine content, publishers are seeking other opportunities in the digital sector to generate further revenues.

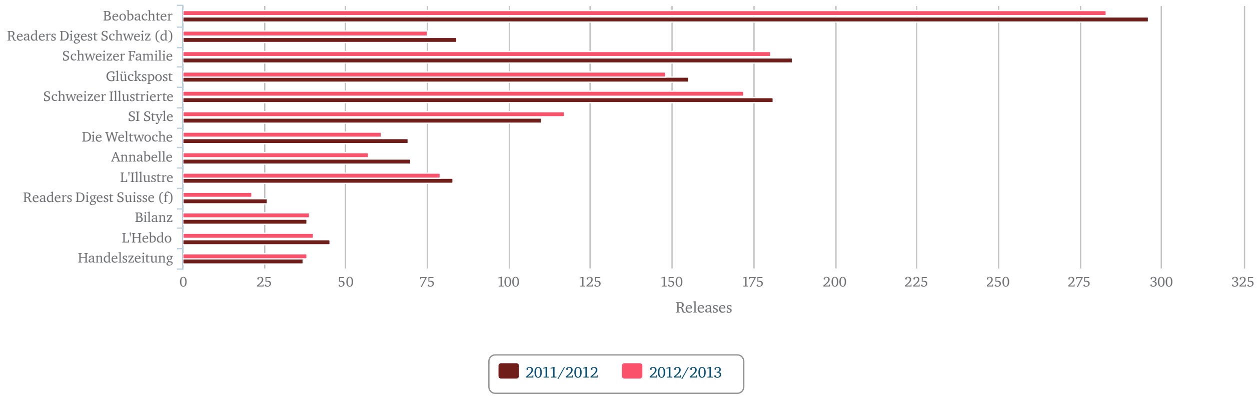
In 2013, circulation figures for the top two titles of the popular, financial and economic press were the "Beobachter", with a paid circulation of 283'284 in 2012/2013 (-4.52 per cent compared to 2011/2012) and "NZZ Folio", with a paid circulation of 180'829. The latter has now overtaken the previous number two, "Schweizer Familie".

Regarding the scope of consumer magazines, there has been a change in the system for nationwide readership research. In the 2013 MACH-3-Basic study, not only the registered telephone numbers are taken into account, but also random numbers. Moreover, the survey is also conducted online because the use of digital media channels on the rise. Now that more people with a greater affinity to mobile devices are included in the survey, measured print consumer magazine readership has decreased significantly compared to last year. As a consequence, the method for collecting data will be further adjusted to ensure realistic results.

Advertising revenues of consumer magazines and newspapers account for about 50 per cent of the total advertising revenues in Switzerland and therefore represent the main source for advertising. Again in 2012, the major contributors to "consumer magazine print" gross advertising revenues were the nutrition sector with 12.9 per cent, the cosmetics area with 11.3 per cent and retail business with 10.4 per cent. Collectively, these top three sectors hold a market share of 34.6 per cent, roughly similar to 2011.

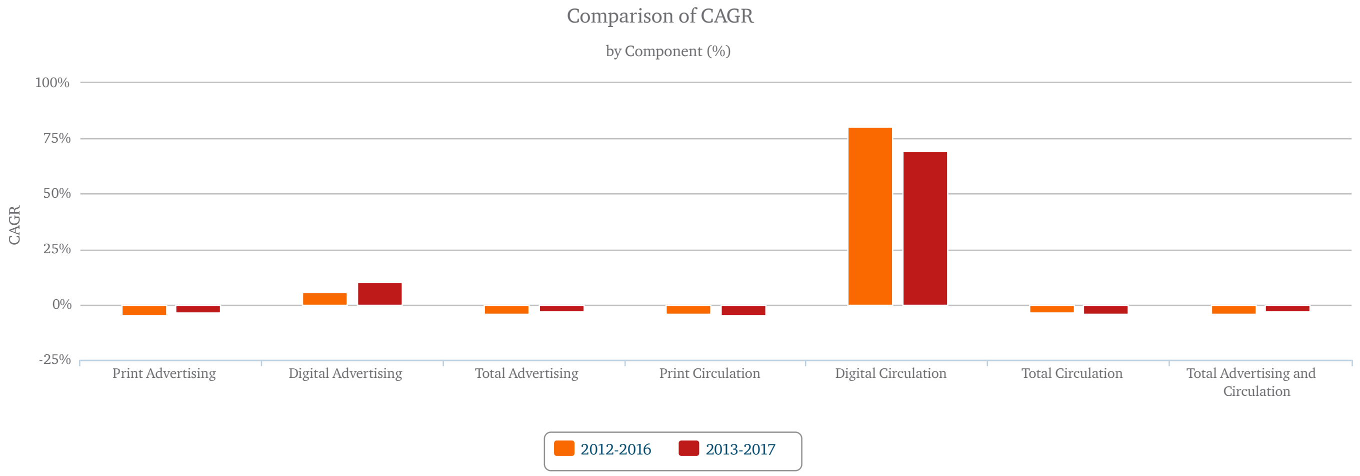
Consumer Magazine Paid Circulation (Selection)

in thousands




Analysis by PwC

## *Market Growth*




Analysis by PwC

We assume that the overall decline in the consumer magazine publishing market will be slightly smaller over the 2013-2017 forecast period compared to last year's assumptions. As the economy is expected to grow at reasonably strong rates through 2017, print circulation as well as print advertising will be affected positively and thereby counteract the decline. Furthermore, the increasing use of smart devices and upcoming possibilities for advertisers in the digital segment should give an additional boost to digital advertising spending in the Swiss consumer magazine market.

### *Principal Drivers*

- We assume that the crisis will still have an after-effect on the consumer publishing market in 2013; however in 2014 we expect that the improving economic conditions will have a favourable impact on both advertising and circulation spending.

The net result should be a rather moderate decrease in revenues over the forecast period. Again, the digital sector will be the main driver in the market, but it will only reduce the rate of decline and not contribute as a mechanism for growth.

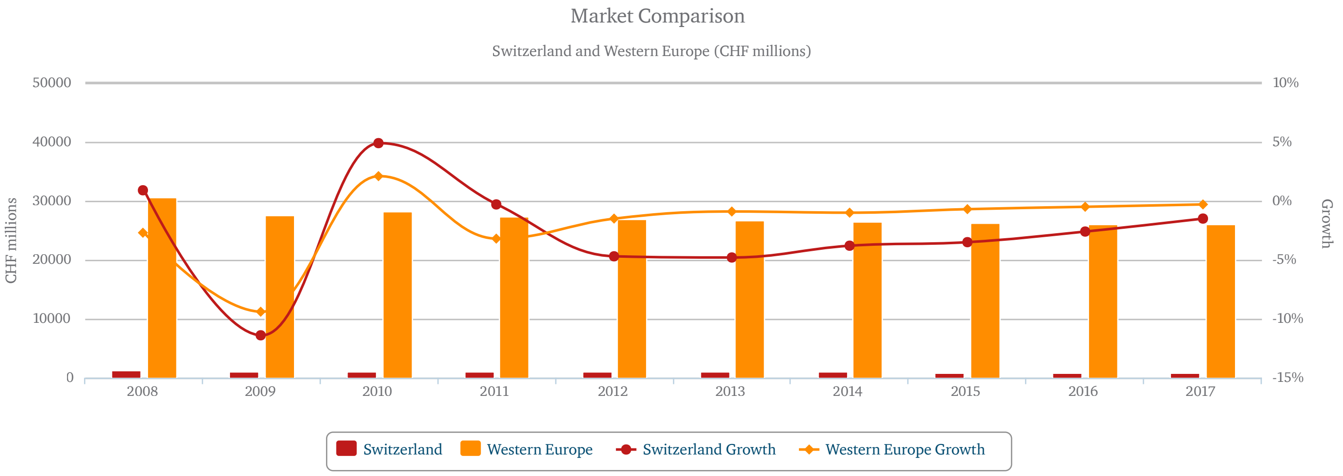
- Increasing broadband penetration and the ownership of smart devices will result in rising consumption of digital content. Print readership and subscriptions will be progressively supplanted by digital. With mobile apps and web pages, people can access digital content whenever and wherever they like, which in turn boosts the readership of digital consumer magazine offerings. The bad news is that revenues from digital circulation will not fully offset the losses in print circulation because digital content is often provided for free.

- Making online content accessible free of charge will change. More and more magazine publishers like Tamedia are introducing a subscription fee for digital offerings. Specialised titles in particular often provide photography and content that cannot be found on the internet at no cost, so that should spur the introduction of subscription fees.

- Generally, the ageing of the Swiss population is considered beneficial to the printed consumer magazine market. But to the contrary, recent studies show that tablet ownership by the 55-69 age group has grown by 44 per cent within the last year and now accounts for about one quarter of the total tablet ownership in Switzerland. Consequently, overall print circulation is declining as consumers increasingly look to smart devices for gathering news and information.

- There are several reasons why digital advertising is on the increase. Firstly, as digital content is attracting a large readership, it is possible to reach a wide range of potential customers. Secondly, advertisers have the opportunity to enhance traditional ads with links to social networks or online shops that encourage interactive activities. And thirdly, it is possible to place video ads which have a stronger impact on people than display ads. Despite this trend, we believe that print advertising will remain the main source of revenues for consumer magazine publishers through 2017.

## *Comparison to Western Europe*




Analysis by PwC

The Swiss consumer magazine advertising market accounted for 8.4 per cent of the Western European market in 2012, whereas in the consumer magazine circulation market, Switzerland only held a 3 per cent share of the total revenues. Overall, this results in a total share of 5 per cent in the consumer magazine publishing market, which represents an increase compared to the previous year. Interesting here is the difference between Switzerland and Western Europe in consumer magazine advertising spending per capita. Switzerland generates revenues of CHF 84 per inhabitant, which is more than three times as much as in Western Europe, where consumer advertising spending is CHF 24 per capita.

In terms of the consumer magazine advertising market, France and Germany were by far the biggest contributors in 2012, representing 20 and 18 per cent, respectively, of the total advertising spend in Western Europe. In the circulation market, France and Italy earn the most revenues, with a share of 24 and 18 per cent of the total.

The Western European consumer magazine market is expected to shrink at an average rate of 0.7 per cent through 2017, but that is still more positive than Switzerland's projected CAGR of -1.0 per cent.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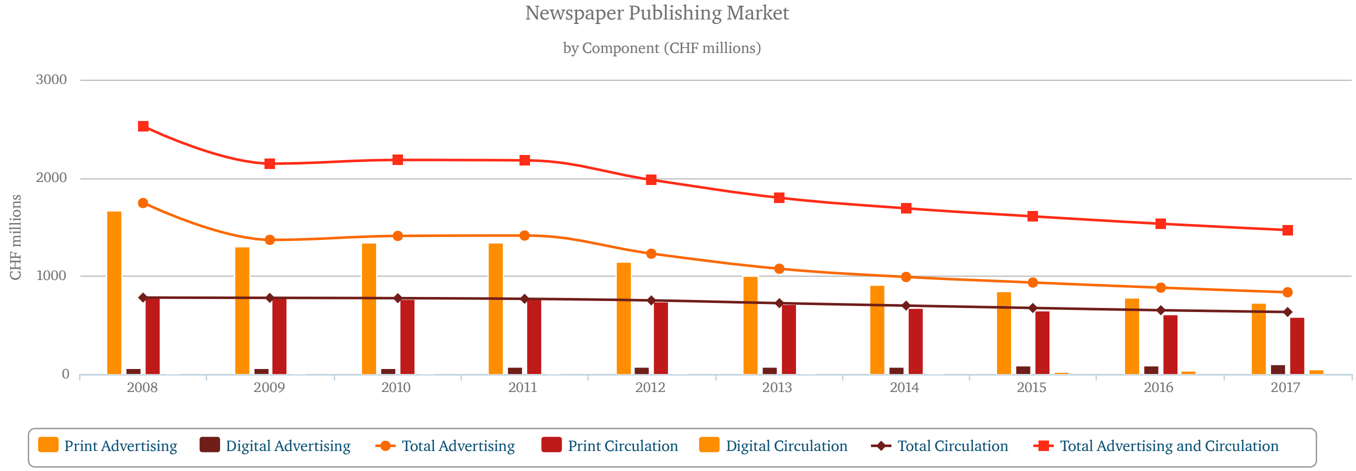
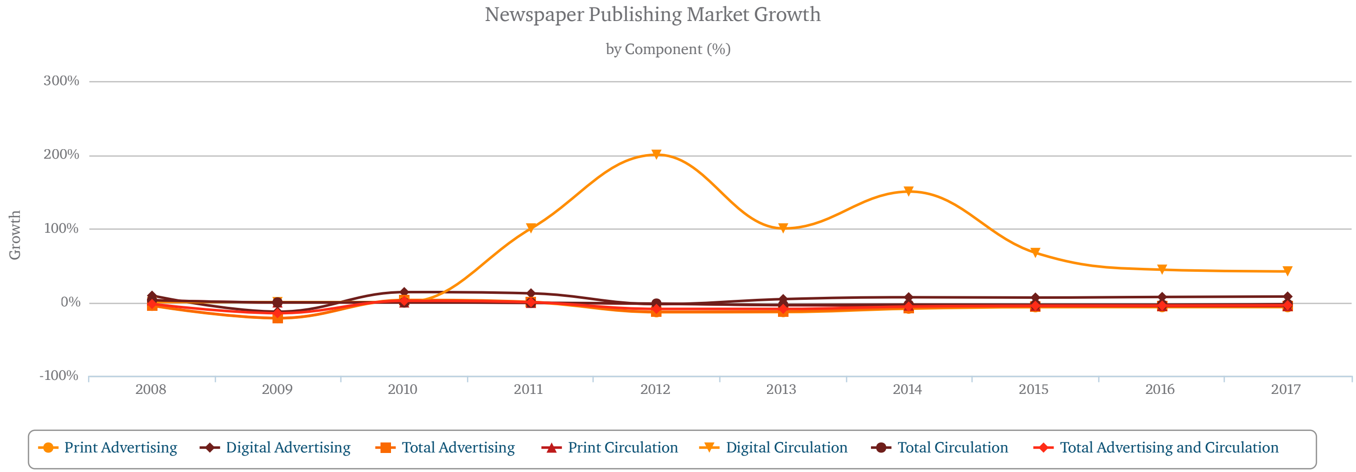
# Newspaper Publishing




Analysis by PwC




Analysis by PwC

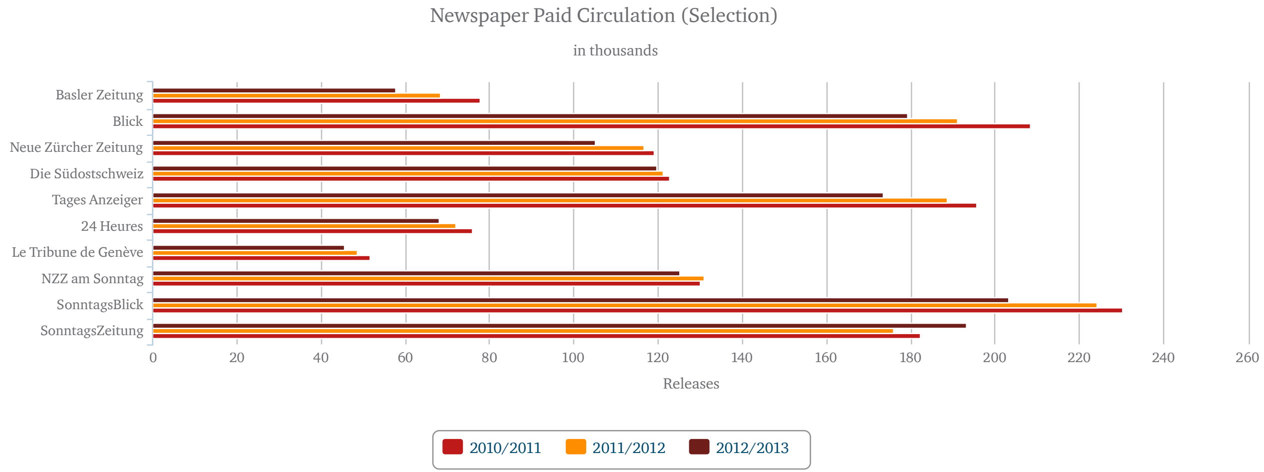
## At A Glance

### Segment Definition

The newspaper publishing market comprises spending on daily print newspapers by advertisers and readers and advertising on newspaper websites and mobile device sites. Spending by readers includes newsstand and kiosk purchases, subscriptions, payments for newspapers delivered to mobile devices and fees to access online content.

Circulation numbers exclude free daily newspapers and weekend editions, unless otherwise stated.

# *The Swiss Newspaper Publishing Market*




Analysis by PwC

## *Market Overview*

The Swiss newspaper publishing market is small compared to neighbouring markets in Germany, France and Italy. The newspaper publishing market is not only characterised by its size, but also by its geographical and linguistic boundaries and the political system of direct democracy, with most decisions being taken at local and regional levels. Therefore, local and regional news has a specific function and importance.

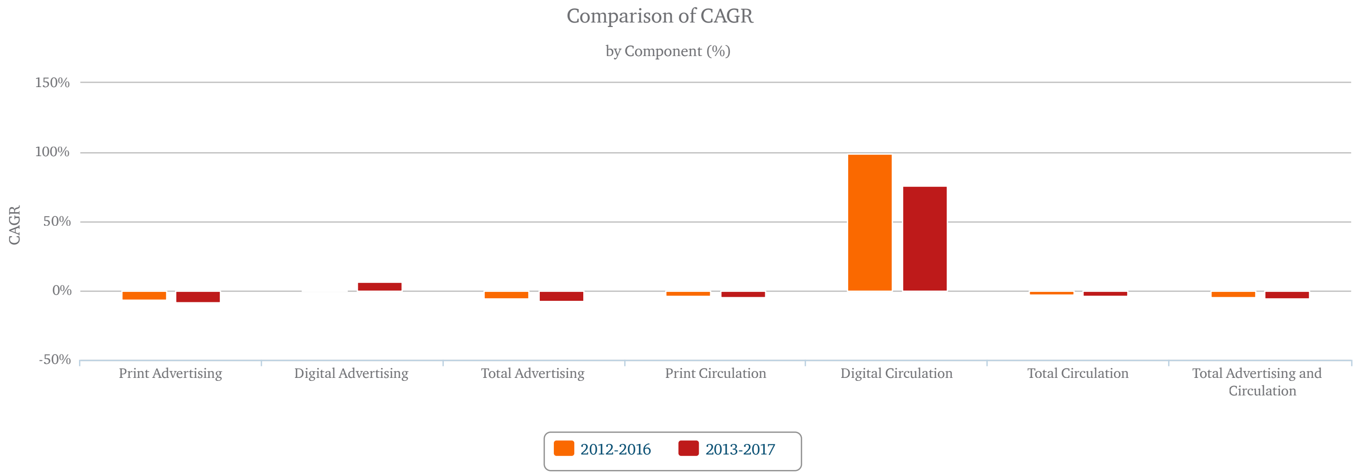
Nevertheless, due to continuous consolidation activity, the titles of only a handful of publishers comprise the vast majority of market circulation. In Switzerland today, a few publishers dominate, namely Tamedia, Ringier, NZZ-Mediengruppe, Südostschweiz Medien, and AZ Medien AG.

The Swiss newspaper publishing market is under considerable strain. The print advertising market declined more than expected in 2012, with the daily press being most affected by the drop. Despite an increasing number of job openings in 2012, employment ads in the print market declined rapidly. The importance of employment ads is waning for the daily newspapers. The loss of sales in the print advertising market is less significant for the free papers than for the paid print titles.

Some publishers were able to compensate the structural decline in the print advertising market with increasing digital advertising gains or through acquisitions of businesses outside of the publishing market. Tamedia, for example, acquired 75% of ticket advertiser Starticket in 2013. Furthermore, Tamedia is planning a cooperative venture with a Norwegian publisher for the classified and car advertising market. The NZZ group managed to earn stable income in the digital advertising market in 2013 as a result of its minority interest in online digital advertiser Adwebster AG.

The expansion of digital services continues. Most of the Swiss publishers have created digital editions for tablets and smartphones and are also acquiring stakes in digital platforms. The main challenge for the Swiss publishers that invested in digital services is still how to generate income from those services. It is extremely crucial for the publishers to build up viable IT infrastructure that allows them to measure the digital circulation and set a paywall. This year's WEMF circulation numbers show that a lot of the Swiss publishers are not able to measure their digital circulation. So despite having digital circulation, some of the publishers were not able to publish any numbers for replicas. There was also no publisher that presented the numbers for non-replicas.

## *Market Growth*




Analysis by PwC

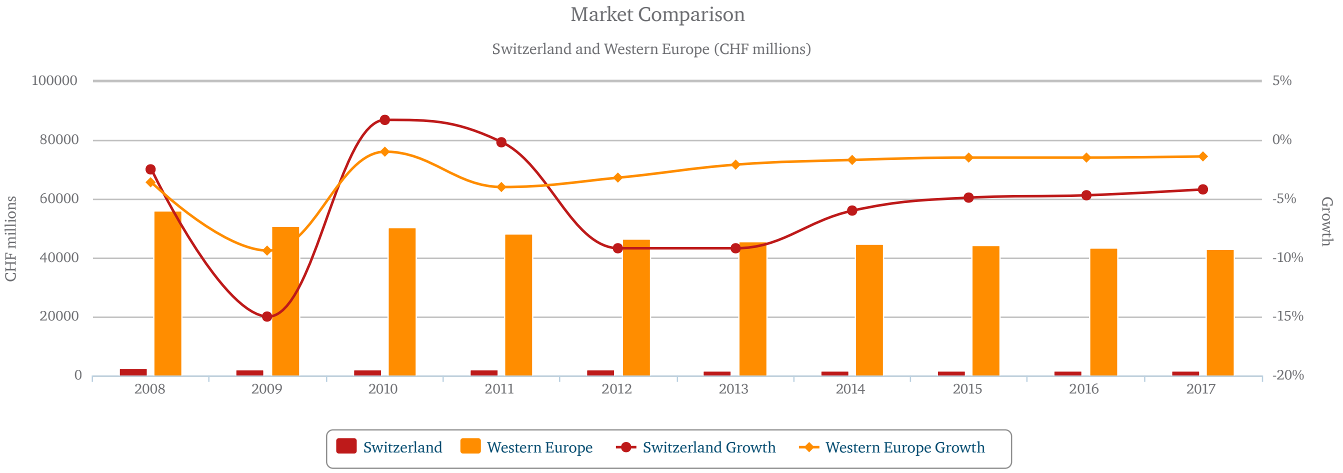
Given that the dynamic of structural change in the Swiss newspaper publishing market is high, arriving at a forecast for the next 4 years is extremely difficult. The table shows that, compared to estimated numbers last year, this year's prognosis for compound annual growth rate is less positive.

The Swiss newspaper publishing market declined further in 2012 despite the modest economic upturn. This trend shows that the development of the newspaper publishing market depends not only on economic conditions but also on other relevant factors. It is important for Swiss publishers to meet the increasing demands of their readership and advertisers and to promptly react to changing market needs. We expect the digital advertising market to grow during the next few years, but it will not be sufficient to offset the decrease in print advertising. The Swiss Media Association is planning an array of initiatives in order to make the print advertising market more attractive again. The print circulation market is still struggling as digital circulation has not developed as expected. The free daily newspaper market in Switzerland is still increasing or at least staying constant, so Swiss publishers are faced with difficulties in making favourable offers for paid news content.

### *Principal Drivers*

- We assume that improved economic conditions in 2014 will have a positive impact on both advertising and circulation spending, even though we recognised in 2013 that a more upbeat economy is not the principal driver in the newspaper publishing market. Despite the GDP increase recorded in 2013, the newspaper market declined rapidly. We assume that the favourable market conditions will result in only a moderate decrease in the newspaper publishing market in 2014 and thereafter.
- We expect that the print circulation and print advertising market spend will still continue to decrease. The migration of readers to the internet, as well as changing consumer behaviour, is taking a significant toll. The digital circulation and digital advertising market will increase in the coming years, but it is unrealistic to assume that this growth will offset the decline in the print market.
- Price increases compensate in the short term for declines in circulation but cannot be counted on going forward. Therefore, we expect that print circulation revenue will decrease further and only be partially offset by digital circulation.
- Mobile devices, such as tablets and smartphones, represent an important outlet for circulation and the generation of related advertising revenues. The increase in digital circulation depends on how the publishers will handle the adapted IT infrastructure (paywall, WEMF-run measurement) and how they find the optimal utility and attractiveness of such applications for their readership.
- Swiss publishers will think about new income channels outside the publishing market in order to compensate the decline in the newspaper publishing market. Furthermore, they will have to think about what the readership really wants (i.e. concentration more on local news instead of national and international news, publishing the latest headlines in the morning, reducing the news content and focusing instead on specific topics with more background information).

# Comparison to Western Europe




Analysis by PwC

The size of Switzerland's newspaper market is similar to those in Austria, Belgium, Holland and Sweden. Switzerland counted almost 8.0 million inhabitants in 2012, versus 8.4 million for Austria, 11.1 million for Belgium, 16.7 million for the Netherlands and 9.5 million for Sweden. The print advertising market is declining in most of the Western European countries except in Austria and Greece. We expect the Switzerland print advertising market to decline more than the other comparable markets in the next few years. Even with Switzerland's more positive GDP in 2013, the newspaper market declined rapidly. The digital market (advertising and circulation) coverage and usability in the newspaper business in Switzerland are still sub-par. The tools are in some ways not user-friendly and do not reflect the needs of the readership. The online possibilities are used in a limited way, whereas in other Western Europe countries the online coverage is higher.

The newspaper circulation market is declining in most Western European countries. In Finland, the UK, Austria and Greece, the newspaper circulation market is still growing, with the UK at the forefront (+ 1%). The UK market is characterised by its high density of quality online newspapers. The Swiss circulation market is declining as the digital offerings are unable to offset losses in the print circulation market. The Swiss publishers are trying to optimise their IT infrastructure and promote favourable subscription offers in order to attract readership. But the challenge they face is a high density of free regional and national news (i.e. "20 minuten" print and online), which makes it quite difficult for them to set a paywall.