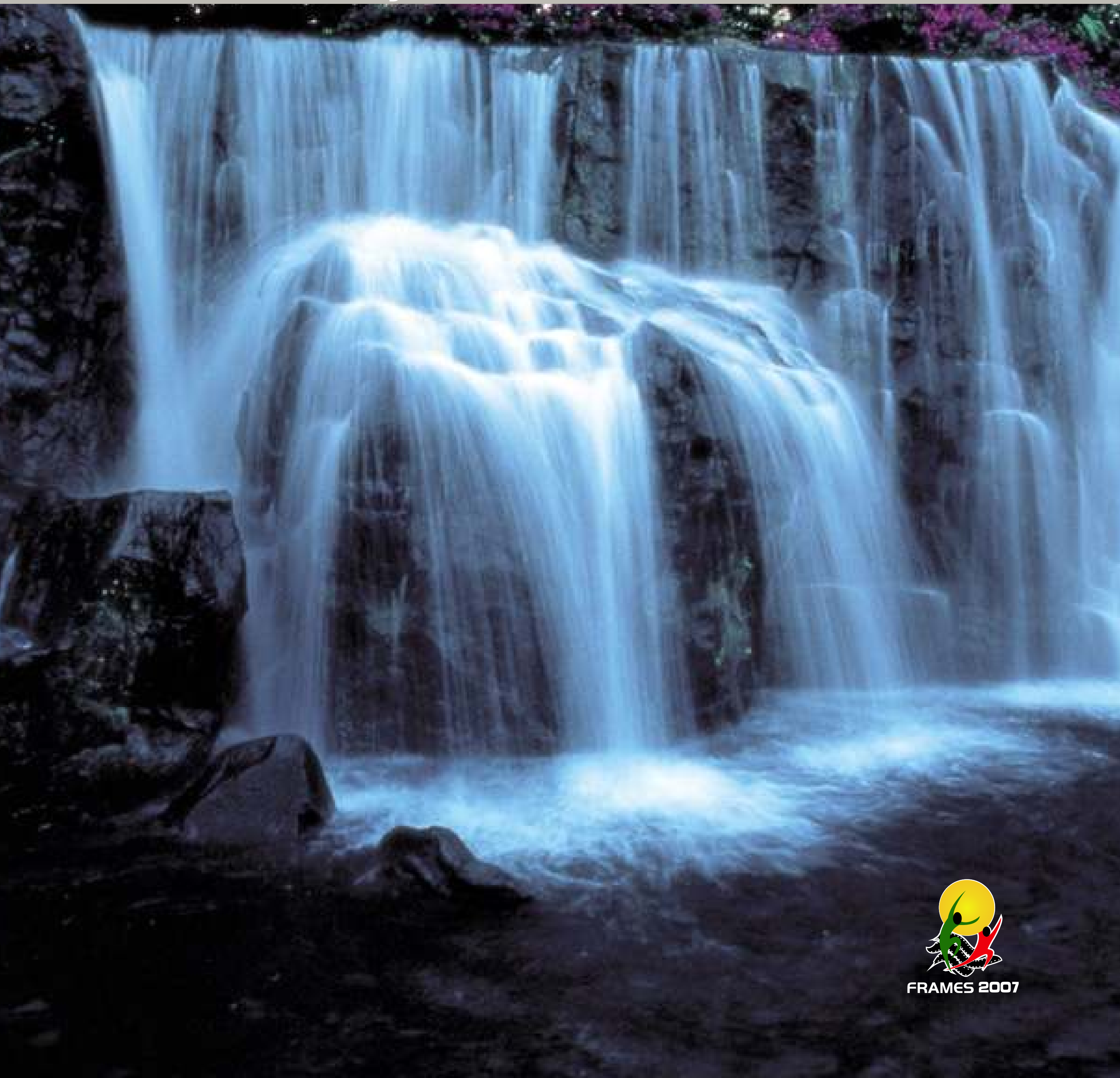
FICCI

PRICEWATERHOUSECOOPERS

The Indian Entertainment and Media Industry

A Growth Story Unfolds



FRAMES 2007

The Indian Entertainment and Media Industry

A Growth Story Unfolds

March 2007

FICCI

Foreword

Welcome to the 2006 annual edition of the Indian Entertainment and Media (E&M) Industry Report. FICCI takes this opportunity to thank PricewaterhouseCoopers, our Knowledge Partners, for having devoted precious time and resources to prepare this report at our behest.

The E&M industry is poised for strong growth across all its segments and is experiencing a trend of convergence which is expected to put the consumers in pole position and lead to a completely new social media experience termed as 'Lifestyle Media'. As the various segments of the E&M industry draw growing interest from investors, the emergence of 'media conglomerates' is being witnessed.

The film industry has continued its trend of corporatisation with more than half of the releases last year produced by corporates rather than individuals. The growth in number of multiplexes and digital cinemas is expected to drive the growth of this segment over the next five years.

The television industry is witnessing the emergence of new distribution platforms in the form of DTH and IPTV, which are expected to boost the revenues of the industry. The roll-out of CAS can be deemed as the most significant development in this industry not just in the last year but in the last three years.

The new policies implemented by the government in the radio space in 2005 too immediate effect in 2006, with 245 new channels set for release and the entry of several large players like Reliance in to the radio industry. Print media also continued to flourish, attracting the maximum FDI amongst all segments of the E&M industry.

Each chapter also has a section on key international trends in order to provide a global perspective to the various segments within the E&M industry. We thank PricewaterhouseCoopers for drawing the necessary knowledge from their global resources for this endeavour. Their effort to present the content of the report in an interesting, useful and easy-to-read manner will be appreciated not just by the industry people, but the public at large.

FICCI acknowledges the valuable inputs provided by members of the Entertainment Committee and all other associated agencies and industry players who have provided information and support to PricewaterhouseCoopers in preparation of this report.

Yash Chopra
Chairman
FICCI Entertainment Committee

Kunal Dasgupta
Co-Chairman
FICCI Entertainment Committee

Preface

We are pleased to present our third annual report - FICCI-PricewaterhouseCoopers' Indian Entertainment and Media Industry A Growth Story Unfolds. The objective of the Report is to identify key trends and developments affecting the industry and relate them to forecasts across the various segments for the 20062011 period.

Our report has been prepared on the basis of information obtained from key industry players, trade associations, government agencies, trade publications, and other industry sources. Based on the information obtained, we analyzed the trends in industry performance and identified the factors underlying those trends. We then developed models to quantify the impact of each factor on the industry segment and created a forecast scenario for each such causative factor. Our professional expertise, institutional knowledge and global resources of knowledge and excellence were then applied to review and adjust those values if required. The entire process was then examined for internal consistency and transparency vis-à-vis prevailing industry wisdom.

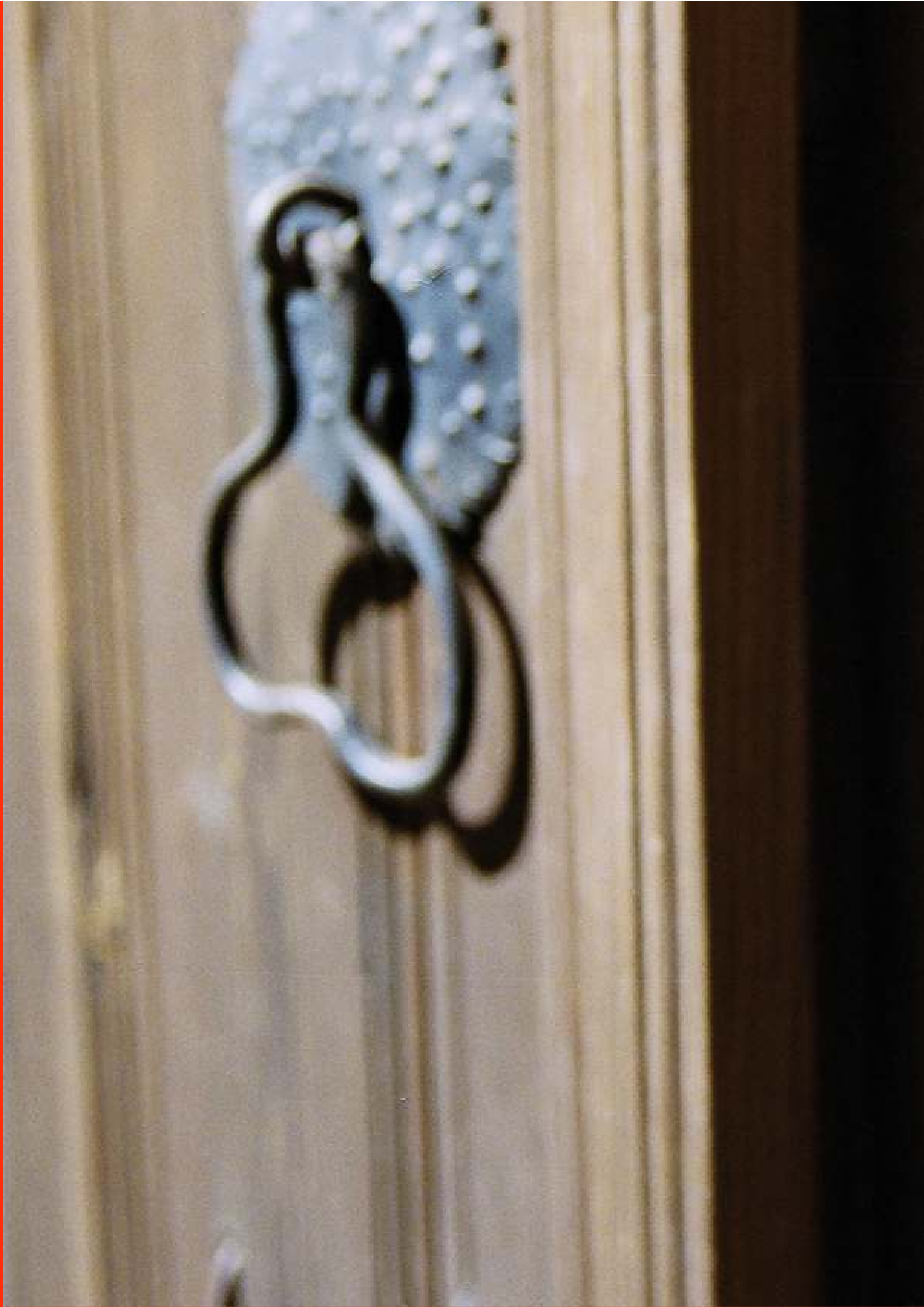
Through this year's report we have undertaken to tell the story of the Entertainment & Media (E&M) industry's tremendous growth over the last year as well as its expected growth in the future. The E&M industry is expected to outgrow the Indian economy in every year from now till 2011. An impressive cumulative annual growth rate (CAGR) of 18 percent is forecast for the industry over this five year period. This growth rate is in part due to several positive measures taken by the Government. It has also been boosted by technological advancements, entry of large corporate players in to all segments of the industry, an increase in disposable income amongst Indian consumers and several other factors.

Since much of the industry does not have an organized body, lack of a centralised tracking agency that could provide us with accurate figures was the biggest challenge before us to compile figures and determine the size of each segment. This challenge was exacerbated by the fact that most companies in the industry do not have their financial information in the public domain. We thus prepared this report on the basis of information obtained from key industry players, trade associations, government agencies, trade publications and industry sources.

We would like to thank all the industry players who enthusiastically participated in providing us the inputs that helped us in putting together the contents of this report. We would also like to thank FICCI and its Entertainment Committee for giving us the opportunity to present this year's report. The FICCI-Frames report has acquired the status of an E&M industry ready-reckoner and we are proud to be an integral part of this report for the third consecutive year.

Deepak Kapoor
Managing Partner
PricewaterhouseCoopers Pvt. Ltd.

Timmy S. Kandhari
Executive Director &
Leader Entertainment & Media Practice
PricewaterhouseCoopers Pvt. Ltd.



"We predicted at the beginning of this decade that this would be a decade where the digital approach would be taken for granted. It's going even faster than we expected."

Bill Gates

Contents

People will pay more to be entertained than educated.

- Johnny Carson

1 Executive summary

Entertainment and Media Industry today

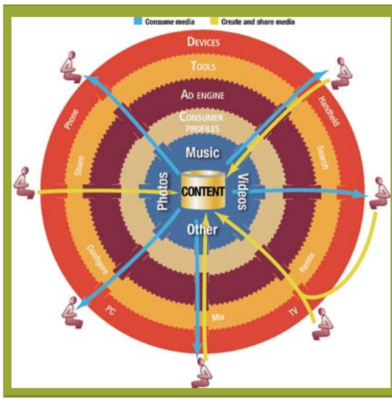
As the Entertainment and Media Industry continues to evolve due to shifting consumer preferences, evolving technology and convergence of traditional and new media, finding a concrete definition of the industry is similar to hitting a moving target. The definitions will continue to blur in the coming years. The potential impact of Convergence on the television and advertising industries has long been predicted, but in 2006, the theory is beginning to become a reality in India.

In a converged media world consumers increasingly call the shots. No longer is there a captive, mass-media audience. Today's media consumer is unique, demanding and engaged. The technology enablers have made this new breed of consumer possible. Though this phenomenon brings about several opportunities, it also poses challenges that Convergence is bringing to the content, distribution, and advertising industries.

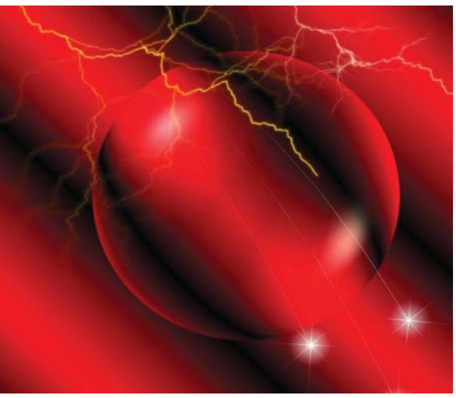
Emergence of Lifestyle Media

Consumers need a new approach that helps them maximise their limited time and attention to create a rich, personalised, and social media environment- ***Lifestyle Media***: a personalised media experience within a social context. It bridges the world of unlimited content to the world of limited consumer time and attention. It explicitly recognises that consumers increasingly access a two-way communications infrastructure, even if most content is still received in broadcast form today.

Realising this vision of Lifestyle Media requires two fundamental components: new content distribution models that put consumers in control, and more accurate and scalable data about what they are watching, doing, and creating. The combination of these two crucial elements will create a media marketplace; a platform that connects media providers and media seekers through an organisational and technical infrastructure. It will enable Lifestyle Media to flourish by allowing content owners, advertisers, and consumers to discover, select, configure, distribute, and exchange both professionally produced and user-generated video content.



A media marketplace supports a many-to-many interaction by bringing together content, tools, and consumer activity information. Tools help develop communities and support creation, sharing, mixing, and remixing of user-generated or professional content across multiple touch points.



Source: *PricewaterhouseCoopers- The Rise of Lifestyle Media- Achieving Success in the Digital Convergence Era*

Opportunities and Challenges in the emerging media marketplace

Consumer needs are expanding beyond mass media and segmented media

Convergence is making consumers more sophisticated in their video consumption habits by elevating them to the top of the value-creating hierarchy. What were previously the ends (content, channels, or devices) of media and advertising business models, are now the means for empowering consumers to organise their productive, leisure, and social time around converged media experiences. In an era of virtually unlimited content choices competing for limited consumer time and attention, an approach that allows beneficial interaction between consumers, content owners, service providers and networks will present many opportunities for the industry to create new revenue streams.

Knowledge of consumer activity rather than exclusive ownership of content or distribution assets will become the basis for competition.

With ubiquitous connectivity and lower barriers to content creation, convergence empowers consumers and begins to break down the historical control points in the content creation and distribution chain. Leading media providers will track and measure the choices consumers make when they create, find, select, and exchange content and services. Providers will use this information to create value for their advertising partners. Businesses that capture consumer activity data and use it to inform business and advertising models will be positioned to succeed.

Media marketplace provides a structure to capitalise on the opportunity.

Media consumption models, such as a media marketplace, that provide consumers with robust search, research, customisation, configuration and scheduling tools will capture the opportunity better than minor modifications to existing business practices. These models resemble those used in online retail, where product placement, dynamic pricing, and individualised service become the basis for competition. Participants in media marketplaces must collaborate in this transformation. In the near-term, the industry will experience increased complexity and economic inefficiencies before a refined and efficient structure for a media marketplace is developed.

Early movers in establishing media marketplaces will have a significant advantage over late entrants because of network effects, whereby the value of the marketplace increases as the number of participants increase.

Incumbents and new entrants have begun to compete for consumer loyalty and profile information, and this trend will continue. Incumbents possess significant content assets and a brand advantage and they have a unique opportunity to exploit this by establishing direct relationships with consumers.

Media marketplaces will be economically viable only if operational efficiencies can be realised through consumer activity measurement capabilities and supporting systems.

Crucial investments in data capture, analysis, and customer and community management systems are required to create a customer experience which resembles that of an Internet retailer. Effectively engaging audiences can be accomplished only through the automated capture and analysis of customer activity data. This information would feed into marketplace operational systems to trigger content suggestions and advertising placement. Likewise, investments in customer

experience and community management capabilities that work across multiple platforms are needed to provide a single touch point for advertising and marketing partners.

Significant advancements in audience measurement technology are needed to capture, analyse, and standardise consumer activity data across digital platforms.

To date, much of the demographic and activity data related to audience measurement is isolated on separate platforms (TV, broadband, mobile), even though consumers choose content across platforms. Both the content and advertising industries will need trusted third parties that use census and panel-based measurement approaches to capture standardised consumer activity information across platforms. Additionally, because discrete distribution channels can be complementary rather than competitive, measuring and analysing the impact of one outlet on another is also strongly needed.

Measurement standards will be crucial for advertising growth.

With the emergence of digital platforms, every programme and advertisement delivered to a set-top box should be logged; in theory, there should be accurate measurement of customer behaviour. But in reality, that accuracy will be relative, as different providers will collect and define unique audience-measurement and advertising delivery metrics, then apply them to proprietary systems and procedures. As a result, this non-standardised consumer data will be of limited value. This problem of inconsistent measurement data provides a challenge to the advertisers who without standard metrics are not able to compare their return on investment (ROI) across different channels and campaigns.

Most importantly, content providers and advertisers will be more accountable for their performance because it is now measurable.

Given the proven effectiveness of targeted advertising in other interactive media, television advertising will continue to become more targeted. This shift will also raise demands for accountability. Advertising to mass audiences will continue. But the effectiveness and better metrics of targeted environments will raise advertising spending and move it to those environments that enable a deeper engagement with the audience.

Lastly, Convergence will require increased collaboration between value chain partners to drive new products and services to consumers.

As companies look to expand their current portfolio of services and revenue streams, they will need to rely on value chain partners for many roles: technological advancement, access to new distribution outlets, protection of intellectual property, and so on. This will require new partnerships, alliances and joint ventures as great value can be gained from collaborating and sharing strengths. Since many companies will pursue these to drive incremental revenues and growth, transparency of reporting and independent verification will be critical to all parties' continued success.

Defining Convergence

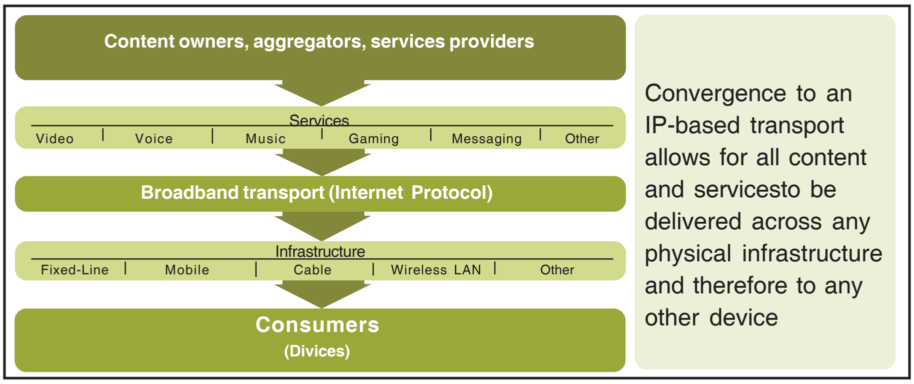
The term convergence describes two trends: the ability of different network platforms (broadcast, satellite, cable, telecommunications) to carry similar kinds of services; and the merging of consumer devices such as telephones, televisions, or PCs. From a technology perspective, the twin forces accelerating convergence are increased broadband penetration and increased standardisation of networks and devices to use the Internet Protocol (IP).

Convergence collapses previously distinct media distribution channels (for example, broadcast/cable television, radio, print, online) into a single media delivery chain. A converged infrastructure supports a range of interaction modes between users and content. Moreover, the open transport and interface protocols of IP mean that access to content has become largely network and device-independent.

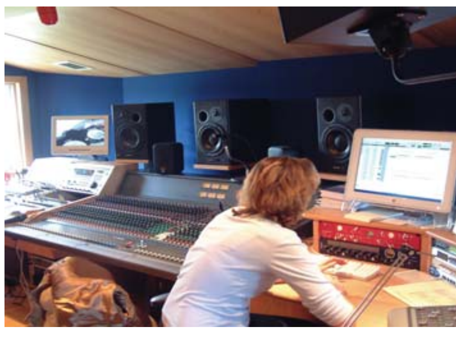
Fundamentally, convergence affects the two-step process at the heart of any media-based industry: content creation and transport. The first step entails selecting, packaging, and encoding content into a medium. The second step transports content to its destination and then decodes it for use. In most instances, it is the second step that defines a particular media market, which influences the form taken by the content in the first step.

Content owners are both facilitators and beneficiaries of convergence. They make converged media experiences possible by offering consumers their content libraries in digital format through any access device and network. They benefit from convergence by serving consumers' new media needs with the appropriate distribution and business models.

Converged Media Value Chain



Source: PricewaterhouseCoopers- The Rise of Lifestyle Media- Achieving Success in the Digital Convergence Era



Convergence Trends in India

Digital Cinema : *Combination of three phases: digital production or post-production, digital delivery and digital projection for enhanced movie-viewing experience to audiences. Approx. 10% of about 12,000 movie theatres have turned digital with digital projectors and servers to run digital prints.*

Ancillary revenues earned by film producers *estimated to increase by 20 per cent a year by selling their digital rights to mobile companies and satellite rights to TV broadcasters and distributors (cable companies and DTH players)*

Mobile Ads *are currently text-based and appear along with search results delivered to mobile devices, and they contain either a link to a mobile website or a phone number which users can click on to generate a call. E.g. Google has started testing mobile ads for advertisers in India*

Mobile for money transfer – *Indian Government has displayed positive inclination towards reviewing banking regulations that currently disallow cash for exchange of another unit such as airtime. This could alleviate the problem of low penetration of bank branches in rural areas.*

Enterprise Applications *– Operators such as Bharti, Hutch etc. have launched mobile based business applications such as Blackberry, Data access, Order management, Goods Tracking while on the move.*

Mobile VAS Industry *(excluding SMS) is thriving on Ringtones and Ringbacktones, which are the primary revenue drivers. Voice based and Text based information services are also significant. Mobile Music and Mobile Gaming market is small but is expected to grow faster than other services*

IPTV *is set to pose a significant challenge to established cable and DTH operators with its 'Triple Play' promise of high-speed Internet, television (video on demand or regular broadcasts) and telephone service over a single broadband connection. Launched by MTNL last year, other operators like Bharti and Reliance are also undergoing trials.*

Mobile TV *: It works by receiving a digital TV broadcast signal optimised for mobile devices in much the same way as televisions do at home. Operators and broadcasters have to put up towers across cities. Nokia has tied up with Doordarshan, the State Broadcaster, to conduct a pilot test using digital video broadcaster-handheld (DVB-H) technology for rollout of services. Trials are also being conducted by Mobile Operators.*

Mobile Operators and Movie hall chains *have started tying up for purchase and payment of movie tickets through mobile. E.g. AirTel tie up with PVR Cinemas for mobile ticketing services*

Equipment vendor Nokia has tied up with a Film training institute *and announced a Mobile Film Award aimed at promotion of a new mobile model that will judge entries for short movies produced using the particular handset model.*

Source: PwC Theme Paper on Communications Convergence

Key Developments

Diversification of Traditional media companies

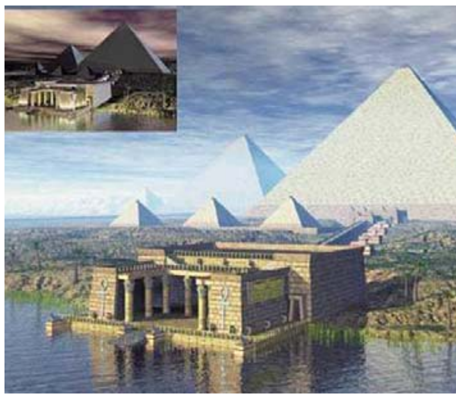
One of the most notable developments of 2006 were the several activities of diversification in the value chain of the industry- be it the news channels launching general entertainment channels, television broadcasters foraying into film segments, film companies entering the radio market, print media companies getting into radio and television and so on.

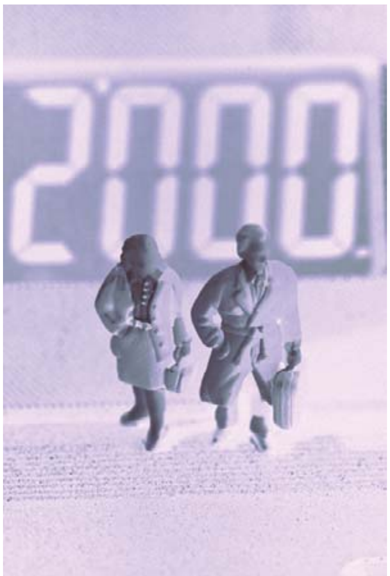
Radio was one segment which most media companies made their entry into, propelled by the opening of FM Radio licenses under the favourable Phase-II FM Radio policy initiative. Prominent amongst those were the television companies such as Sun Group, NDTV Group Asiannet Communications and Print Media Companies such as Malayalam Manorama, HT Media, Malar Publications, Rajasthan Patrika and Dainik Bhaskar.

The other notable diversifications were the entry of telecom companies into the E&M segment. In 2006, MTNL launched the first IPTV (Internet Protocol TV) service in India where TV content is being delivered on television screens through a broadband internet connection. MTNL, however, is yet to finalise its pricing for the offering and other commercial terms. Reliance Communications is planning to roll out IPTV services by initially targeting 200 cities across India and aims to reach five million IPTV customers. The Company is running trials in 20,000 homes and is also contemplating Triple Play services to its broadband subscribers. Airtel too has initiated IPTV trials two years back for its select broadband customers.

Other diversification activities in 2006 include:

- The Times of India Group, having its presence in Print, Television and Radio entered into Filmed Entertainment business with the release of its first English film in 2006. It also invested in Percept Picture Company, a Film Production Company and Pyramid Saimira, a Film Exhibition Company
- Adlabs, having its presence in Films and Radio entered into Television Production by investing in Synergy Communications
- TV18 Network, launched Studio 18, a division to enter the motion picture business involving acquisition, production, syndication and distribution of feature films. Through CNN-IBN, it forayed into Hindi News Television by acquiring *Channel 7* from the Jagran Group.
- Television news broadcaster NDTV announced its plans to launch an entertainment channel in collaboration with filmmaker Karan Johar's Dharma Productions and also invested in a Radio Company in collaboration with the Sun Group.
- Anand Bazaar Patrika, present in Print and Television, acquired a stake in a Delhi-based film production company, Kaleidoscope Entertainment in 2006.
- Sri Adhikari Brothers, having dabbled in entertainment through SAB TV, selling it off, launching Janmat in the current affairs genre in Hindi, announced its plans to start a Marathi entertainment channel.
- UTV diversified into Gaming by investing into Gaming companies Indiagames and Ignition





Investment in content

The impact of Convergence was felt greatest in 2006 by companies especially in the distribution space. With more and more distribution platforms being available, the importance of securing rights over content became paramount. As a result, significant investments were made and committed to by companies to secure their content pipeline. Some of these instances include:

- Adlabs alongwith Reliance Capital acquired a 21% stake in Prime Focus, a TV and video production facilities company. It also signed a co-production and film financing deal with Ashok Amritraj-promoted Hyde Park Entertainment Group.
- Disney acquired a 15% stake in UTV, a local kids television production company
- Several Film Production Companies signed up leading artists to lock them in of which the most notable was Adlabs which signed a contract with Hrithik Roshan with Rs. 350 million for 3 films and Akshay Kumar for Rs. 180 million for 3 films. Adlabs also signed an 8 film deal with director Vipul Shah for Rs. 2000 million. UTV has set aside Rs. 1000 million for contracts with individual directors. Sahara Motion Pictures too entered into a contract with Madhur Bhandarkar for 3 films

Increased Foreign Direct Investment (FDI) in the Industry

2006 saw the maximum flow of foreign investment in the Entertainment and Media Industry. As many as 13 proposals for FDI in media since were cleared by the Ministry of Information and Broadcasting in 2006 itself and the Ministry is further examining another 22 proposals for clearance. Among these, are 8 proposals for news and current affairs segment including Mid-Day Multimedia Ltd, Business India Publications Ltd, Deccan Chronicle Holdings Ltd, Dhara Prakashan Pvt Ltd, Writers & Publishers Ltd and DT Media & Entertainment Pvt Ltd. Over the last three years, the industry has secured foreign investment of over Rs. 4 billion.

FOREIGN DIRECT INVESTMENT (FDI) INFLOWS IN THE E&M INDUSTRY- COUNTRY-WISE

(Amount in million)

SR No	Country	2004 Jan-Dec		2005 Jan-Dec		2006 Jan-Oct		Total	
		FDI in Rs	FDI in US$	FDI in Rs	FDI in US$	FDI in Rs	FDI in US$	FDI in Rs	FDI in US$
1	Australia	0.00	0.00	0.00	0.00	4.98	0.11	4.98	0.11
2	Cayman Island	0.00	0.00	13.67	0.31	0.10	0.00	13.77	0.31
3	Cyprus	0.00	0.00	1,160.64	25.47	12.92	0.28	1,173.56	25.76
4	France	0.00	0.00	2.81	0.06	75.49	1.62	78.30	1.69
5	Germany	0.00	0.00	0.10	0.00	0.67	0.01	0.77	0.02
6	Indonesia	0.00	0.00	0.00	0.00	3.10	0.07	3.10	0.07
7	Italy	0.00	0.00	0.00	0.00	0.07	0.00	0.07	0.00
8	Korea(South)	13.73	0.30	0.00	0.00	0.00	0.00	13.73	0.30
9	Luxembourg	2.28	0.05	0.00	0.00	2.18	0.05	4.45	0.10
10	Malaysia	0.00	0.00	0.00	0.00	6.73	0.15	6.73	0.15
11	Mauritius	16.47	0.36	621.67	14.10	0.00	0.00	638.14	14.46
12	NRI	0.00	0.00	178.87	4.11	1,105.64	23.88	1,284.51	27.99
13	Netherlands	0.00	0.00	1.31	0.03	0.00	0.00	1.31	0.03
14	Norway	0.00	0.00	0.00	0.00	0.06	0.00	0.06	0.00
15	Singapore	0.00	0.00	5.91	0.13	1.00	0.02	6.91	0.16
16	Sri Lanka	0.00	0.00	0.00	0.00	3.70	0.08	3.70	0.08
17	Switzerland	0.00	0.00	0.89	0.02	0.00	0.00	0.89	0.02
18	U.A.E.	4.26	0.09	54.48	1.24	0.00	0.00	58.73	1.34
19	U.K.	6.82	0.15	5.25	0.12	47.29	1.05	59.36	1.32
20	U.S.A.	39.92	0.87	497.71	11.01	2.51	0.06	540.14	11.93
21	Unindicated Country	0.00	0.00	33.83	0.77	118.00	2.60	151.83	3.37
	Grand Total	**83.47**	**1.81**	**2,577.14**	**57.39**	**1,384.44**	**29.98**	**4,045.05**	**89.18**

Source: *Department of Industrial Policy and Promotion, Government of India*

Increased investment from Private Equity Funds

Entertainment and Media industry has traditionally been dominated by strategic buyers. But now private equity is playing a major role in helping reshape many of the segments of the industry. As more companies continue to put money into growth technologies and re-evaluate traditional business that once were considered core but may have less strategic importance in the future- all these initiatives generate the strong cash flows and hence interest private equity players.

The past two years have seen a flurry of funds entering the E&M space in India, like 3i, Matrix Partners, Warburg Pincus, De Shaw, T. Rowe Price International etc. A booming stock market at highest ever earnings multiples has not deterred these firms from buying into a sizeable chunk of the Indian E&M pie, backed by the promise of a strong economic growth rate and a highly trained workforce.

Some of the deals in the private equity space in 2006 include:

Private Equity Investor (s)	Target	Segment	Estimated Deal value (Rs. million)	Investment Stage
Warburg Pincus (Cliffrose Investment Ltd)	Dainik Bhaskar (Writers & Publishers Ltd.)	Newspaper publishing	1,500	Growth
De Shaw	Crest Animation	Animation Studios	400	Growth
De Shaw	Rich Crest Holdings Inc. (subsidiary of Crest Animation Studios)	Animation	700	Early
De Shaw	Amar Ujala	Newspaper Publishing	1,170	Growth
Matrix Partners (IND)	Seventymm Services	Online Movie Rental	315	Growth
Matrix Partners India	vJive (owned by Digital Music India Pvt. Ltd.)	Out of home media-Digital Signages	200	Early
T Rowe Price International	Saregama Industries Ltd.	Music	191	Mature
Norwest Venture Partners (US)	Sulekha.com	Online/ Internet	450	Growth
Norwest Venture Partners (US), Reliance Capital (IND), TV-18 Group (IND)	Yatra.com	Online/ Internet	N.A.	Early
Norwest Venture Partners (US)	Mobile2win.com	Online/ Internet	675	Growth
Sequoia Capital India (IND), Battery Ventures (US)	Travelguru.com	Online/ Internet	675	Growth
West Bridge Capital (IND)	Travelguru.com	Online/ Internet	450	Growth
West Bridge (and Intel and Sequio Capital) (US)	Mauj	Online and VAS	450	Growth
West Bridge Capital	Shaadi.com	Online and VAS	360	Growth
IL&FS Investment Managers Ltd.	Global News Broadcasts (a group co. of TV18 India)	News channel operators	400	Early
SAIF Partners	TV 18 India	Home shopping network	N.A.	Early
Tracer Capital	Web 18 Caymans (subsidiary of TV 18 co.)	Internet Websites	450	Early
UTI Venture Funds	Laqshya Media	Out of Home Advertising	450	Growth

Source: *Industry estimates and PwC research*

Select public issues by E&M Companies in 2006

Company (Rs.	Share price) (Rs.)	Price Band (Rs.)	Issue Price	Period	IPO Size Rs. (million.)
Info Edge (India Limited)	10	290-320	320	Oct-Nov 06	1710
Prime Focus Limited	10	450-500	417	May 06	1150
SUN TV Limited	10	730-875	875	April 06	6,028
K Sera Sera Productions Limited	10	64-70	68	Feb 06	340
Jagran Prakashan Limited	10	270-324	320	Jan 06	502
GBN (owners of CNN-IBN)	10	230-250	250	Jan 07	1,050

Source: *Industry estimates and PwC research*

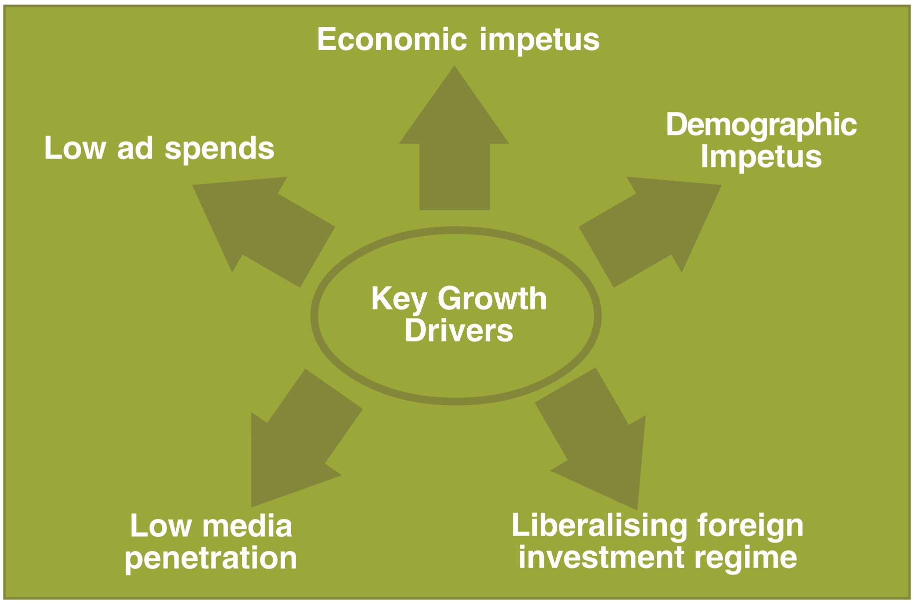
Select M&A Deals in the E&M Segment in 2006

Investor		Target		% age stake	Deal Value (Rs. million)
Name	**Segment**	**Name**	**Segment**		
Disney	Kids Television	Hungama	Television Broadcasting & Content	100%	1,373
Disney	Kids Television	UTV Software Communications	Media Conglomerate	14.9%	630
Adlabs	Films, Radio	Synergy Communications	Television Content Company	51%	N.A.
ABP	Print & Television	Kaleidoscope Entertainment	Film Production	N.A.	200
CNN -IBN	Television Broadcasting & Content	Channel 7- Jagran Group	Television Broadcasting & Television Content	50%	600
Zee	Television Broadcasting & Content	Ten Sports	Television Broadcasting & Television Content	50%	2,500
NDTV	Television Broadcasting & Content	Radio Today Broadcasting	Radio	N.A.	N.A.
E-City Digital Cinema (Essel Group)	Film Exhibition	Shree Vijay Raj Entertainment	Film Exhibition	51%	N.A.

Times of India Group	Varied including Print Media	Vijayanand Printers	Print Media	N.A.	N.A.
Inox Leisure	Film Exhibition	Calcutta Cinema	Film Exhibition	N.A.	N.A.
Color Chips	Animation	Millitoon Animations	Animation	N.A.	N.A.
Media West (Essel Group)	Varied including Print Media	United News of India (UNI)	News Agency	60%	500
Times of India Group	Varied including Print Media	Sandesh	Print Media	12%	270
Television Eighteen Group	Television and Online	Crisil Market Wire	Online	100%	N.A.
Sun TV	Television Broadcasting & Content	Gemini TV and Udaya TV	Television Broadcasting & Content	N.A.	N.A.
UTV	Films and Television	Indiagames	Gaming	51%	680
UTV	Films and Television	Ignition	Gaming	70%	600
Prime Focus	Films and Visual effects	VTR Group	European Media Service Company	55%	400
BBC	Varied including Radio	Radio Mid-Day	Radio	17.5%	318
Reuters	News Agency	Times Global Broadcasting	Television Broadcasting & Content	26%	894
United Business Media	Global Business Information	Mediworld Publications	Print Media	100%	38
Times of India Group	Varied including Television	Sahara India Mass Communications	Television Broadcasting & Content	6%	378
Times of India Group	Varied	Percept Picture Company	Films	N.A.	N.A.
Times of India Group	Varied	Pyramid Saimira	Film Exhibition	N.A.	N.A.

Industry size and Growth Potential

The Indian Entertainment and Media industry, yet again, continues to out-perform the Indian economy and, yet again, is one of the fastest growing sectors in India. Entertainment and Media industry generally tends to grow faster when the economy is expanding. The Indian economy has been growing at a fast clip over the last few years, and the income levels too have been experiencing a high growth rate. Above that, consumer spending is also on the rise, due to a sustained increase in disposable incomes, brought about by reduction in personal income tax over the last decade. All these factors have given an impetus to the E&M industry and are likely to contribute to the growth of this industry in the future. Besides these economic and personal income-linked factors, there are other factors that are contributing to this high growth rate. Some of these are enumerated below:



The Economic Impetus

Over the past 10 years, India has registered the fastest growth among major democracies, having grown at over seven per cent in four years in the 1990s. It represents the fourth largest economy in terms of "purchasing power parity". The Indian Entertainment and Media industry is expected to significantly benefit from this fast economic growth, as this industry is a cyclically sensitive industry that grows faster when the economy is expanding. It also grows faster than the nominal gross domestic product growth (GDP) dur-ing all phases of economic activity due to income elasticity wherein when incomes rise, pro-portionately more resources get spent on leisure and entertainment and less on necessities.

The Demographic Impetus

Over the years, spending power has steadily increased in India. The consumption expenditure is rising due to rising disposable incomes on account of sustained growth in income levels and reduction in personal income tax over the last decade. Lifestyle changes brought about by changes in economic activity is also spurring the growth of the Indian Entertainment and Media industry. In urban areas of India, the consumer mindset is changing due to increased exposure to global influences via media and other interactions leading to higher aspirations which have provided a further fillip to leisure related spending. The Indian rural market with its vast size of nearly three times of urban India, also offers a huge opportunity that has remained largely untapped due to reasons of accessibility and affordability. However, as a result of the growing affluence, fuelled by good mon-soons and the increase in agricultural output, rural India has a large consuming class with over 40 per cent of India's middle-class and over 50 per cent of the total disposable income.

Liberalising foreign investment regime

Today, India has probably one of the most liberal investment regimes amongst the emerging economies with a conducive foreign direct investment (FDI) environment. The E&M industry has significantly benefited from this liberal regime and most segments of the E&M industry today allow foreign investment. In 2005, FDI was permitted in the two important sectors – print media and radio. Films, television and other segments are already open to foreign investment.

In the print media segment, 100 percent FDI is now allowed for non-news publications and 26 percent FDI is allowed for news publications. Printing of facsimile editions of foreign journals are now also allowed in India. This policy is helping foreign journals save on the cost of distribution while servicing the Indian market audiences more effectively. The FM radio sector too was opened for foreign investment recently with 20 percent FDI being allowed.

Low media penetration in lower socio-economic classes (SEC)

Media penetration varies across socio-economic classes. Though media penetration is poor in lower socio-economic classes, the absolute numbers are much higher for these classes. Hence, efforts to increase the penetration even slightly in these lower socio-economic classes are likely to deliver much higher results, simply due to the higher base.

Low ad spends

Indian advertising spends as a percentage of gross domestic product (GDP) – at 0.34 percent – is abysmally low, as opposed to other developed and developing countries. Advertising revenues are vital for the growth of this industry. While today the low ad spends may seem like a challenge before the E&M industry, it also throws open immense potential for growth. This potential can be estimated by the fact that even if India was to reach the global average, the advertising revenues would at least double the current advertising revenues, estimated at about Rs. 163 billion, for 2006.

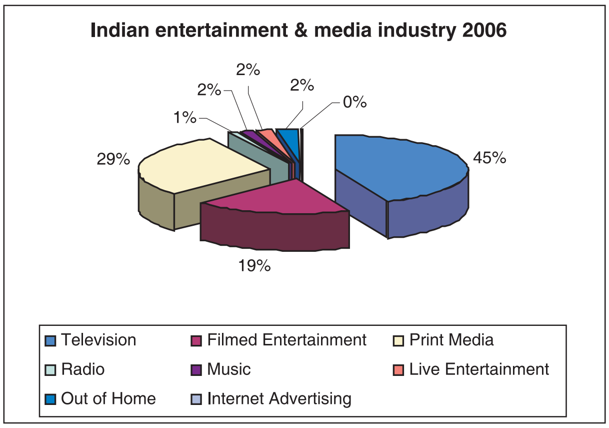
The size of E&M in India is currently estimated at Rs. 437 billion and is expected to grow at a compounded annual growth rate of 18 percent over the next five years. In the last year, the Industry has grown by 20 percent.

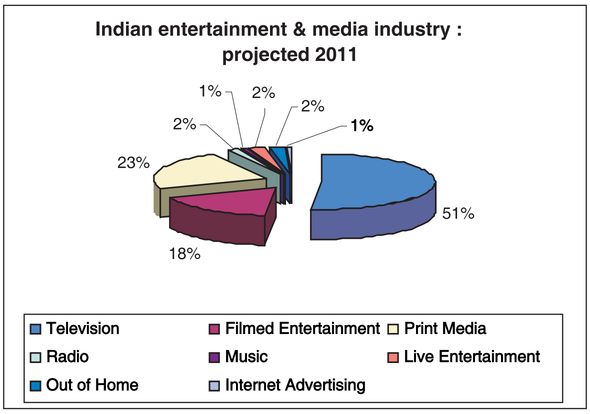
	2004	2005	2006E	2007F	2008F	2009F	2010F	2011F	CAGR
Television	128,700	158,500	191,200	219,900	266,000	331,300	431,000	519,000	22%
Print Media	87,800	109,500	127,900	144,000	162,200	182,300	206,500	232,000	13%
Filmed Entertainment	59,900	68,100	84,500	96,800	112,000	126,450	146,000	175,000	16%
Radio	2,400	3,200	5,000	6,500	8,500	11,000	14,000	17,000	28%
Music	6,700	7,000	7,200	7,400	7,500	7,600	8,000	8,700	4%
OOH advertising	8,500	9,000	10,000	12,500	14,500	16,500	19,000	21,500	17%
Live Entertainment	7,000	8,000	9,000	11,000	13,000	16,000	18,000	19,000	16%
Internet advertising	600	1,000	1,600	2,700	4,200	6,000	8,200	9,500	43%
Total*	**311,600**	**364,300**	**436,500**	**500,800**	**588,300**	**697,150**	**850,700**	**1,001,700**	18%

Sources: *Industry estimates & PwC analysis*

** **Note:** The figures taken above include only the legitimate revenues in each segment. Revenues from the Animation and Gaming segments have not been included in the industry size as these are traditionally included in the Indian IT and Software Revenues.*

The Indian Entertainment and Media industry is projected to grow from an estimated Rs. 437 billion to Rs. 1 trillion in 2011, translating into a cumulative growth of 18 percent over the next five years. One of the key reasons for this high projected growth is the fact that the Entertainment and Media industry is a cyclical industry that grows faster when the economy is expanding. The Indian economy continues to perform strongly and one of the key sectors that benefits from this fast economic growth is the E&M industry. It also grows faster than the nominal GDP during all phases of economic activity due to its income elasticity wherein when incomes rise, more resources get spent on leisure and entertainment and less on necessities. Further, consumption spending itself is increasing due to rising disposable incomes on account of sustained growth in income levels, and this also builds the case for a strong bullish growth in the sector.

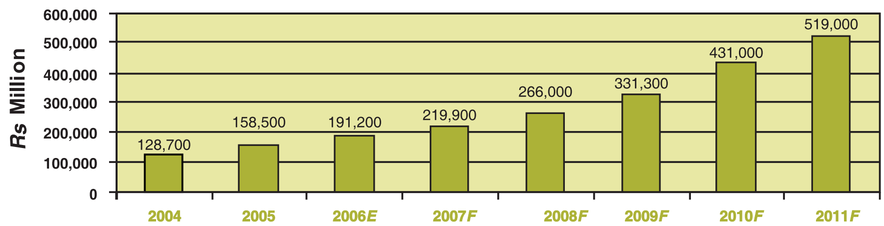




Television Industry

Amongst the segments of the industry, the television industry segment will continue to contribute the largest share as in the last three years. The television industry revenues are expected to grow from the present size of Rs.191 billion to Rs.519 billion by 2011, implying a 22 percent cumulative annual growth over the next five years. Subscription revenues are projected to be the key growth driver for the Indian television industry over the next five years. Subscription revenues will increase both from the number of pay TV homes as well as increased subscription rates. The buoyancy of the Indian economy will drive the homes, both in rural and urban (second TV set homes) areas to buy televisions and subscribe for the pay services. New distribution platforms like DTH and IPTV will only increase the subscriber base and push up the subscription revenues.

Projected Growth of Indian Television Industry

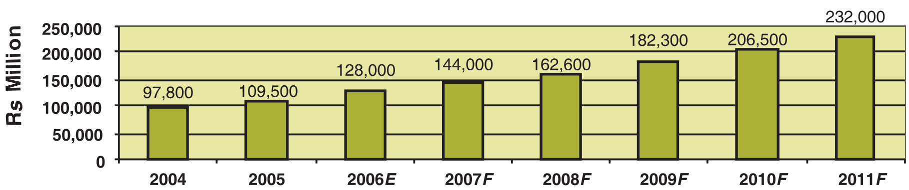


Source: *Industry estimates & PwC Analysis*

Print Media Industry

The Print Media industry, comprising of Newspaper and Magazine publishing, is projected to grow from the present size of Rs. 128 billion to Rs. 232 billion by 2011, implying a 13 percent cumulative annual growth over the next five years. A booming Indian economy, growing need for content and government initiatives that have opened up the sector to foreign investment are driving growth in the print media. With the literate population on the rise, more people in rural and urban areas are reading newspapers and magazines today. Also, there is more interest in India amongst the global investor community. This leads to demand for more Indian content from India. Foreign media too is evincing interest in investing in Indian publications. And the internet today offers a new avenue to generate more advertising revenues.

Projected Growth of Indian Print Media Industry

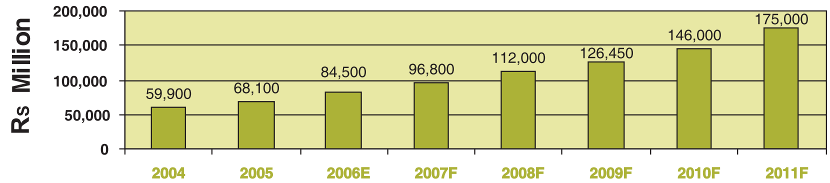


Source: Industry estimates & PwC Analysis

Filmed entertainment

The Indian Filmed Entertainment industry is projected to grow from the present size of Rs. 84 billion to Rs. 175 billion by 2011, implying a 16 percent cumulative annual growth over the next five years. Indians love to watch movies. Advancements in technology are helping the Indian film industry in all the spheres – film production, film exhibition and marketing. The industry is getting increasingly corporatised. Several film production, distribution and exhibition companies are coming out with initiatives to set up more digital cinema halls in the country are already underway. This will not only improve the quality of prints and thereby make film viewing a more pleasurable experience, but also reduce piracy of prints. More theatres across the country are getting upgraded to multiplexes.

Projected Growth of Indian Filmed Entertainment Industry

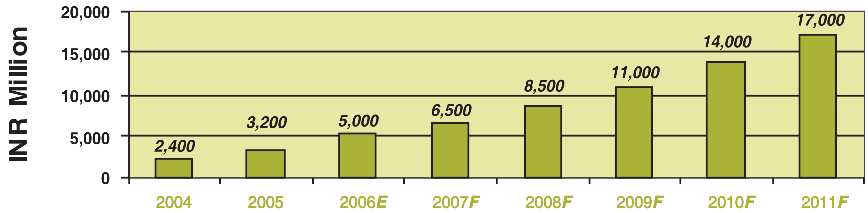


Source: Industry estimates & PwC Analysis

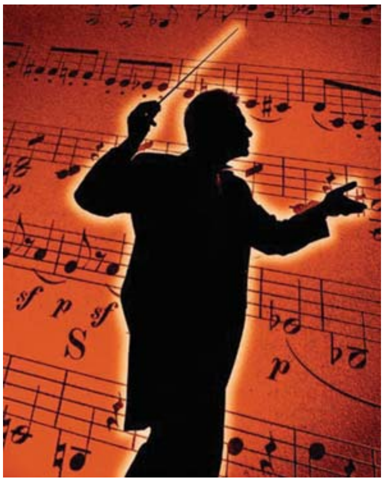
Radio

The Radio industry, fuelled by the positive FM-II Radio Policy is projected to grow from the present size of Rs. 5 billion to Rs. 17 billion by 2011, implying a 28 percent cumulative annual growth over the next five years. The cheapest and oldest form of entertainment in the country, which was hitherto dominated by the AIR, is going to witness a sea-change very shortly. In 2005, the Government opened up the sector to foreign investment along with migration to a revenue-share scheme. These factors along with privatisation of a large number of frequencies as part of the FM II Radio Policy will drive growth in this sector. As many as 338 licences were given out by the Indian government for FM radio channels in 91 big and small towns and cities. This deluge of radio stations results in opportunities for content and trained talent. New concepts like satellite radio, visual radio and community radio have also begun to hit the market. Increasingly, radio is making a comeback in the lifestyles of Indians.

Projected Growth of Indian Radio Industry



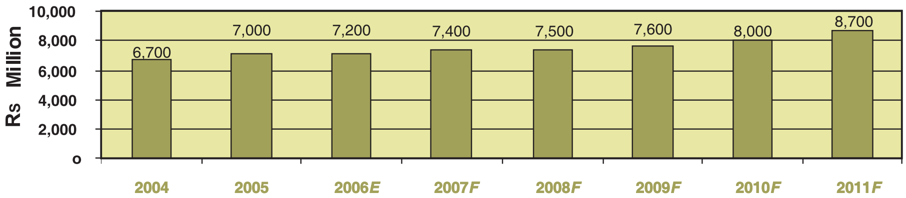
Source: Industry estimates & PwC Analysis



Music

While physical sales in the music industry continue to be hampered by piracy and falling prices, digital music has witnessed a surge that will propel this industry in the next five years. The total music industry is currently estimated to be worth around Rs. 7.2 billion and is expected to grow at a CAGR of 4% in the next 5 years propelling it to Rs. 8.7 billion by 2011 on an overall basis. The growth in Digital Music is expected to grow by 25 percent to Rs. 1.8 billion by 2011.

Projected growth of Indian Music Industry



Source: Industry estimates & PwC Analysis

Others

Amongst the other segments, the Animation and Gaming industry is expected to show the maximum growth albeit from a small base. The Animation and Gaming industry is projected to grow from the present size of Rs. 11 billion to Rs. 29 billion by 2011, implying an 22 percent cumulative annual growth over the next five years. Other growth segments include Online Advertising, fuelled by the increased uptake of internet and broadband services, Out-of-home advertising, Music and Live Entertainment.

	2006E	CAGR	2011F
Animation	Rs. 11 billion	22%	Rs. 29 billion
Mobile Gaming	Rs. 2 billion	68%	Rs. 28.5 billion
Internet Advertising	Rs. 9 billion	16%	Rs.19 billion
OOH Advertising	Rs. 1.5 billion	43%	Rs.9.5 billion
Live Entertainment	**Rs.** 10 billion	17%	Rs. 21.5 billion

Key Challenges

Though the Entertainment and Media industry is growing in leaps and bounds, the full potential is yet to be tapped. One of the ways of realising the potential is not only the removal of certain obstacles in the industry but also the provision of certain incentives to key segments of the industry in order to fuel the industry growth drivers further and thereby realise its full potential. Some of the recommendations as provided by FICCI are as below:

Review of Industry Norms To Usher In Convergence

Convergence of technologies, services and markets is the emerging paradigm around which the entertainment and communication industry is centered. Advancement of technology has blurred the line between the telecom, broadcasting services and networks e.g. IPTV, broadband, spectrum allocation for both broadcasting and telecom services.

Any Regulation must change to recognize these factors and accept that change is inevitable. Further, given the increasing convergence of Telecom, Internet, and Cable & Satellite industries, there is an urgent need to review the policies governing the sector.

It should be the aim of regulation to facilitate fair competition between players, competing platforms and multiple technologies in the carriage segment and let the markets decide the technology and platforms of choice.This has also been recommended by the TRAI in its consultative note.

Digitalisation of Television Networks

India, today, does not have a national digital policy or plan. Though the regulator TRAI came out with recommendations for digitalisation of cable networks, there are several more measures that are required to be taken in order for the industry to truly benefit from Digitalisation:

- Conversion to digitalization should be mandatory and not left on a completely voluntary basis
- A clear time frame needs to be defined for transition to digital including a launch date and a sunset date
- Licensing process for allocation of spectrum should be made stringent to filter out non-serious players e.g. net worth, proper declaration of subscriber base, area of operation etc.
- Fiscal incentives such as waiver of service and entertainment tax, income tax holiday, etc. to be provided to operators for transition to digital.

Uniform Entertainment Tax across all states

Since levy of entertainment tax and regulation of cinemas is a State subject, the Centre presently has a limited role to play. The long-standing demand of the film industry is to shift ‘Entertainment and Media’ from the State List to the Concurrent List through a constitutional ammendment. This will enable uniform policies for Cinema Construction Bye-laws and Entertainment tax. There is a need to implement uniform tax policies across the country, to enable standardised growth. The recommendation is to have a uniform Entertainment tax so as to stop reportage of short box office collections resulting in a loss to the ex-chequer.

Customs Duty

Customs duty is levied on import of equipment and other hardware used in the production and post production of filmed entertainment programmes. At a time when India is trying to position itself as a hub for production of entertainment and competing in the International market on an equal footing, the necessary infrastructure and equipment is of vital importance. To provide impetus to the technological upgradation of facilities and infrastructure, the necessary equipment and hardware must be allowed to be imported without the additional burden of customs duty.

Multiplexes

An Income Tax Concession under Sec. 80 –1B of the income tax act was introduced, with effect from 1st April 2002, allowing Multiplexes commissioning before 31st March 2005, an income tax rebate to the extent of 50% on book profits. It is requested that this concession be reintroduced so as to enable growth of exhibition sector in the country.

Piracy

As India moves into knowledge based economy, a strong Intellectual Property regime which provides adequate safeguards to the holder of copyright becomes increasingly important. The menace of piracy is rapidly eating away into the foundations of the entertainment industry. The piracy issue should be handled at three levels; Policy, Enforcement and Prosecution. The Industry recommends allocation of specific funds to fight piracy of entertainment content. This fund should be utilised in Advocacy and awareness of the piracy issue and also enforcement & legal matters.

Export Promotion

To promote Brand India, it is important that Indian companies and producers participate in global festivals and markets such as the Cannes & Berlin Film Festivals, MIPCOM, MIDEM, MIPTV, IBC, NATPE, NAB, Interbee, AFM and CASBAA under a common India umbrella. The Ministry of Information and Broadcasting has taken initiative by deciding to set up the task force with the specific aim of export promotion. This council supported by adequate funding will act as a catalyst for exponential growth in exports of Indian Entertainment and Media Industry.

Co- Production Treaties

Signing of Co-production Treaty with Canada, UK is already being looked at by the Information and Broadcasting Ministry. The Industry recommends that the Government takes on further initiatives to enter into more such treaties with many more countries so as to provide a further boost to the Indian Film industry.

Education & Training

The Entertainment and Media industry today faces an acute shortage of professionals. It is recommended that suitable incentives should be provided by the Government for setting up polytechnics, institutes and film schools. It is recommended that existing universities should include Film, Broadcast, Event Management and Digital technology in their curriculum. Similarly, institutes of Higher Learning like the IITs and the IIMs should be encouraged to offer specialization in Media & Entertainment

Single window clearance for shooting in India

Today, India lacks a single-window clearance system not only for the Entertainment and Media Industry but for other industries as well. Setting-up of such a system could prove to be a great revenue earner for the country as a hub for production of entertainment content.

Cinematograph Act & Other Rules

The Cinematograph Act of 1952 has become archaic and needs to be revamped to take cognizance of emerging technology.For instance, earlier film prints were highly combustible in nature and required many stringent guidelines. However, with the advent of digital technology, the print process has been eliminated and hence the rules need amendment.Similarly, the censor certificates issued by CBFC mentions 35mm as the gauge, which creates confusion whether this is also valid for digital cinema.

Making India The Uplinking Hub

The Government should also look at establishing India as an uplinking (of satellite channels) hub by easing the existing policies/regulations for uplinking of channels and setting up teleports/hubs. India can be made the regional hub for channels being beamed in the region. Some of the changes, which may make India an attractive destination to set up uplinking centres in India, include a liberal Foreign Investment regime and a tax friendly jurisdiction, which allows certain tax and fiscal incentives for licensees to set up such hubs.

Tax Holiday for the Animation Industry

The Animation Industry is covered under the Software Technology Parks of India (STPI) society, set up by the Ministry of Communications and Information Technology with the objective of encouraging, promoting and boosting the Software Exports from India. However, STPI predominantly holds good for an ‘outsourcing’ nature of work where outsourcing is the main module and most animation studios that are getting benefited from STPI have to ensure an export commitment of more than 85%. As a result many Indian animation studios wanting to produce original content based intellectual property and use art and talent from India to produce animation stories for India do not get any such benefits. Further, the classification is unviable since the Indian government through this STPI route is actually subsidizing the production cost of the foreign shows instead of content creation for Indian companies. This is leading to more and more studios working on foreign content and is leading to a severe lack of animated Indian stories in the domestic television schedules and hence a tax holiday is recommended for the production houses doing Animation, Gaming & VFX work for a period of 10 (ten) years.

Removal of Service Tax for Animation Industry

The provision for Service Tax is also financially hitting the Indian Animation Studios extremely hard; most of these studios are those that are developing a large amount of original content. Those studios that are export oriented and are thus under STPI are not exposed to the Service Tax at all, whereas the ones that are making or planning on making any Intellectual Property (original Indian content) in India for any client or broadcaster have to pay a service tax @ 12.2%. Accordingly, removal of the service tax from the Animation, Gaming & VFXIndustry is recommended.

Rationalisation of Customs Tariffs for Gaming Industry

Though the Global Gaming industry has been growing in leaps and bounds across the world, advanced gaming consoles are yet to penetrate the Indian market. One of the primary reasons for the slow adoption is the high rate of customs tariff applicable on the gaming consoles. The customs tariff of approximately 36.74% translates to high prices for such consoles, which affect affordability and therefore access. These high tariffs are also leading to the growth of a grey market in such products. Rationalization of the tariff structures will therefore mean a more affordable pricing structure that will enable greater market access for such consoles.

Localization of Animation Content

Presently most of the animated content shown in the networks are sourced from outside of India and generally from the existing library at a discounted price. This is one of the serious impediments on the growth of Indian Animation Industry. Many countries like Canada, China, Korea, France, UK etc have made varying levels of mandatory localization of content. Hence, FICCI has proposed 10% mandatory local content on the networks to begin with and to reach 30% over next three years as more indigenous animation content gets prepared and available for domestic / export markets.

Tax Benefits for Digital Cinema

In view of the several advantages that Digital Cinema offers, FICCI has proposed several tax incentives for the Digital Cinema companies that includes the following:

- Income Tax holidayunder Section 80 IB of the Income Tax Act
- 100% Depreciation benefit- similar to the pollution control equipments and energy saving devices are entitled to 100% depreciation benefit as these are part of the capital equipment used in the Digital Cinema infrastructure.
- Exemption from MAT and DDT- Akin to similar benefits given to certain other infrastructure providers the Digital Cinema Infrastructure provider should be entitled to exemption from MAT and DDT.
- Customs Duty Benefits- Digital Cinema Infrastructure equipment particularly the Digital Projector and digital movie compressor attract the peak rate of custom duty.Since these items are not manufactured in India and are a very heavy cost burden to the provider these should be treated at par with hi-tech and information technology sector items with customs duty being reduced to nil.
- Service Tax and Lease Tax Exemption- Digital Cinema operators provide services to distributors for converting the movie prints received from the film producers in analogue form into a digital format and delivering the same to the exhibitors. The exhibitors pay the service providers rentals for the equipment and software, and a fee for software decryption and digital screening services. The service providers also receive advertisement revenue generated by bundling advertisements with the content of the digital cinema. All the services described in the business model above attract a levy of service tax at 12.24%, albeit under different service categories, which is proposed to be waived off. Similarly, Lease Tax Exemption is also recommended.

Key International Trends

1995 was a landmark year for media convergence. WebTV and Yahoo were founded, and the second version of Netscape Navigator was released. Microsoft released Windows 95 to great fanfare because it included the company's first version of the Internet Explorer Web browser, which had a link to a fledgling online network appropriately called the Microsoft Network.

The telecommunications companies flexed their muscles at the International Telecommunications Union (ITU) Telecom 1995 trade show in Geneva. A host of joint-venture announcements left little doubt that telecommunications companies were positioning to capture the huge pent-up demand for Internet services. Average bandwidth speeds had achieved a blistering 14,400 kilobits per second and promised to double in 1996.

Looking 10 years back in order to look 10 years forward is not particularly useful for predicting how convergence technology and deal structures will play out. But it can be very instructive for understanding change. Like today's executives in media, networks, advertising, and audience measurement, the leaders of incumbent companies and the founders of new companies in 1995 perceived and articulated the opportunities, risks, and competitive advantages at their disposal according to the time and circumstance in which they found themselves. One must remember, bandwidth rates of 14,400 Kbps were considered fast in 1995.

Table 6: Reprentative convergence-defining events of 2005

2005 event of note	Disruptive Impact	Convergent Impact
Social network MySpace acquired by News Corp.	Introduces the power of social networks in content value creation; defined communitites to provide social comfort and security to online audiences.	Social network defined by common interests, personal referrals, and controlled exposure of identity will increasingly become the new targeted audiences for media and advertisers.
In2TV announced by Time Warner, Which will distribute older TV shows directly over the Internet. BBC Open Archive announced	Bypassing traditional distribution channels, Time Warner captures more advertising revenue.	Time Warner and other media companies will learn to aggregate shows around defined micro communities, which are dynamic components of media marketplaces.
Video iPod and Singbox come to market	Device and service enables users to separate video content from traditional access device or distribution channel.	Media companies learn that the most important commodity is consumer attention to their properties- at any time and on any device; they begin to develop business models to monetise that attention.
AT&T, France Telecom and Deutsche Telecom each announce plans to roll out bundles of voice, broadband, and video services.	Traditional contracts and business relationships between content owners, distributors, and technology suppliers are strained by the telco entry into the video market.	Innovation in video content and delivery flourishes as commodity services no longer deliver expected profit margins.
Yahoo buys social networking site del. icio.us	Del.icio.us helps consumers store and share information about their favourite places on and off the Web.	Automation of references for products and services becomes embedded in media consumption, making direct advertising inefficient.

Source: *PricewaterhouseCoopers- The Rise of Lifestyle Media- Achieving Success in the Digital Convergence Era*

Looking back, looking forward

It is arguably more instructive to examine some significant events from 1995 and compare the short-term, or disruptive impact, and the long-term, or convergent, impact.In every case, the disruptive, short-term impact of these events hardly foreshadowed the long-term, convergent impact. Convergence takes time, and even as the events of 1995 were already being labelled “convergence” by some a decade ago, those that sought to capitalise at that time had to wait to for their rewards, if indeed they ever received them.

Future Outlook

In the next 5 to 10 years, it is probable that today’s leading media, distribution, and advertising companies will continue to be significant purveyors of branded content, services, and commercial messages. It is certain, however, that their business models, revenue streams, competitive dynamics, and core partnerships will evolve in radically new ways. The path ahead is fraught with risk as well as rewards. On the supply side, media providers, network operators, advertisers, and measurement companies must contend with the challenges and opportunities that stem from new ways of working with one another. The demand side faces a similar set of challenges and opportunities for consumer interaction.

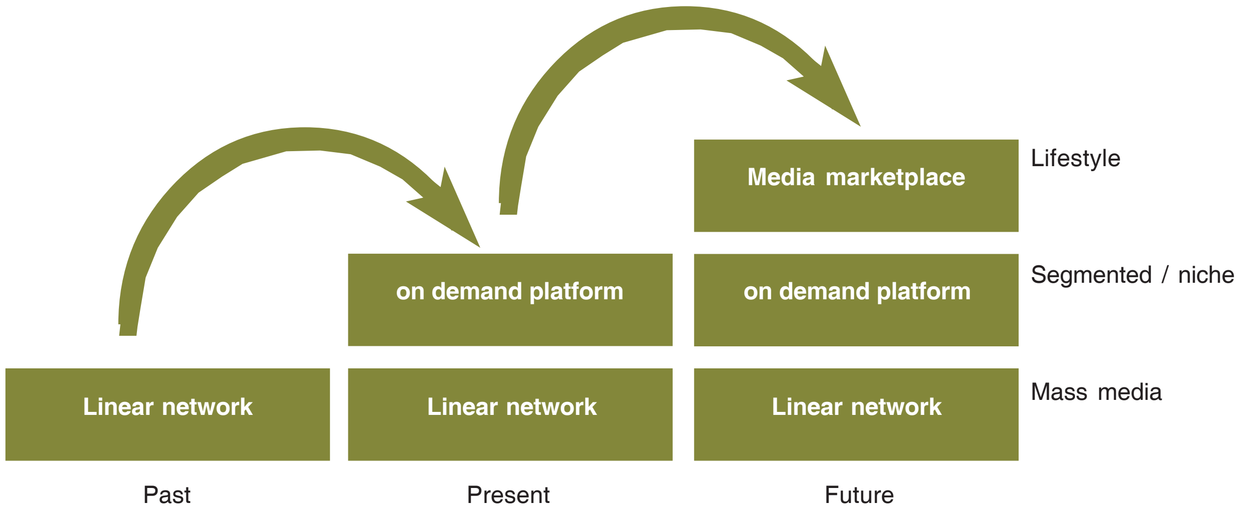
In both cases, video content and delivery companies must fully grasp that theirs is not a production challenge of porting media content onto various devices, but rather an orchestration challenge for delivering a quality media experience that has lifestyle-enhancing qualities.

As content owners, network operators, advertisers, and measurement companies begin to deliver their goods and services through broadband, they become more reliant on relatively immature technologies and on partnerships and business relationships considered unthinkable just a few years ago. These are early days for IP-based video services, and marketplace participants must understand how convergence affects current business processes. During this evolutionary period, many different paths towards a converged media environment will be tried. There is likely to be increased complexity, as well as economic inefficiencies, early on. However, as the different industry participants collaborate on changing consumer activity and business models, the refinement of the media marketplace approach will become possible.

After the buzz of convergence deal-making and new product launches has subsided, general business principles rather than novel features will start to differentiate companies. The payment process for on-demand video content provides an example. From an operational point of view, this payment for a single piece of content could include one or more of the following: direct payment to the content originator from a consumer; a portion of revenue to the content originator, passed back by a distribution partner such as a network provider; or payment by an advertiser for placing a commercial message.

Given such complexity, licensing and royalty collection becomes crucial. Content owners and distributors must consider a number of issues- Licensing compliance and royalty management in a media marketplace throw into sharp relief how convergence will dramatically accelerate the pace of mergers and acquisitions, alliances, joint ventures, and partnerships across industry sectors.

Media Marketplace Evolution



Source: PricewaterhouseCoopers- The Rise of Lifestyle Media- Achieving Success in the Digital Convergence Era

There has never been a more opportune time for content providers and media distributors to deliver to thoroughly engaged consumers who are ready and able to buy. As a result, digitally converged companies, enabled by new technologies, are completely altering their payment models in ways that better reflect the aims of Lifestyle Advertising. We are seeing advertisers start to offer content and communications providers greater financial incentives to deliver higher levels of engagement with target audiences, at every purchasing stage. While media was traditionally rewarded for delivering large viewership and broad brand awareness, advertisers must now reward those providers who encourage individual consumers to engage with their ads, give up personal information, or engage other consumers in their networks against the backdrop of the brand's offering.

Acknowledgements

FICCI and PwC acknowledges the invaluable inputs provided by -

S. K. Arora*, Secretary, Ministry of Information & Broadcasting*
Kapil Agarwal, *Chief Operating Officer, Apollo International Limited*
Subhash Chandra, *Chairman, Essel Group*
Haresh Chawla, *CEO, CNBC-Television 18 India*
Yash Chopra, *Yash Raj Films*
R. N. Choubey, *Advisor, Telecom Regulatory Authority of India*
Kunal Dasgupta, *Chief Executive Officer, SET India Private Limited*
Jyoti Deshpande, *Eros International*
Anuj Gandhi, *CEO, Set-Discovery*
Biren Ghose, *Chief Executive Officer,Kahani World*
Atul Gorel, *Chief Executive Officer, E-City Ventures*
Jawahar Goel, *Addl. Vice Chairman, Essel Group of Industries*
Pradeep Gupta, *Director, Cybermedia*
Rajat Jain, *Managing Director, The Walt Disney Company (India) Pvt. Ltd.*
Rakesh Kacker, *Advisor, Telecom Regulatory Authority of India*
Tarun Katial, *Chief Operating Officer, FM Radio Initiative, Adlabs Films Ltd.*
Sunil Lulla, *Chief Executive Officer, Times Global Broadcasting Co. Ltd.*
Raman Madan, *Regional Manager,South East Asia & India, Autodesk Media and Entertainment*
Namit Malhotra, *Managing Director, Prime Focus Limited*
Ashok Mansukhani, *Executive Vice President, Corporate Services, Hinduja TMT*
Rajiv Mishra, *Chief Operating Officer, B.A.G. Infotainment Pvt. Ltd.*
A. P. Parigi, *Managing Director & Chief Operating Officer, Entertainment Network (India) Limited*
Anuj Poddar, *Director-Strategy, MTV Networks India Private Limited*
Munish Purii, *Chief Operating Officer, Mirchi Movies*
Mahesh Ramanathan, *Chief Operating Officer, Percept Picture Company*
Abhijit Saxena, *CEO, Digital Media Convergence Limited*
Indrajit Sen, *COO & Business Head, Jagran Engage*
Supran Sen, *Secretary General, Film and Television Producers Guild of India Ltd.*
Sanjay Sharma, *CEO, Nimbus Communications Ltd.*
Ashish Shukla, *CEO, PVR Talkies*
Manmohan Shetty, *Chairman, Adlabs Films Ltd*
Uday Singh*, Managing Director, Sony Pictures Releasing of India Ltd.*

Our special thanks to Mr. Amit Khanna, *Chairman, FICCI-Convergence Committee for his Valuable time and inputs each year in reviewing our report.*

FICCI

Amita Sarkar
FICCI Federation House
Tansen Marg
New Delhi 110 001
India

Tel: [91] (11) 2331 6527
Fax: [91] (11) 2332 0714
E-mail: frames@ficci.com

About FICCI

Federation of Indian Chambers of Commerce and Industry (FICCI) was set up in 1927 to further the interests of the Indian business community. Today, with a membership of over 500 chambers of commerce, trade associations and industry bodies, FICCI is a spokesperson for over 250,000 business units - small, medium and large - employing around 20 million people. FICCI also has direct memberships of about 2,000 companies from private, public and multinational sectors.

FICCI's expert committees and task forces, headed by leading industrialists, regularly meet to discuss the current issues like entertainment, agriculture, banking and finance, consumer durables, ecology and environment, education, energy, foreign trade, industry, information technology, internal trade, taxation and corporate laws. These interactions facilitate flow of investment into the country, help promote international trade and provide inputs for evolving and shaping government policies in different areas to make them conducive to rapid growth of the economy.

The FICCI Entertainment Committee has made significant progress in giving a shape and vision to the Indian entertainment industry . It has been able to bring in its fold all segments of the industry and project a united face of the industry. The committee has successfully lobbied for several concessions for the entertainment sector since its inception and has become the most important voice of the entire entertainment industry.

Design & Printed by **: OPSIPL - 9820086963**

PRICEWATERHOUSECOOPERS

About PricewaterhouseCoopers Pvt Ltd.
PricewaterhouseCoopers Pvt. Ltd., India (PwC) is one of the largest and most-reputed professional services network in the country, providing industry-focused services to public and private clients. PwC specialists connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders.

PricewaterhouseCoopers' Entertainment and Media (E&M) practice is comprised of a network of practitioners providing advisory and tax services to help clients manage risk, maximise shareholder value and support M&A activities. It addresses business challenges for its clients, including developing strategies to leverage digital technology; marketplace positioning in industries characterised by consolidation and convergence; and identifying new sources of financing. Known as an industry thought leader, the PwC E&M practice publishes the annual Global Entertainment and Media Outlook and other surveys and white papers highlighting current and future trends in the industry. Experienced professionals work globally to provide solutions to the critical issues facing E&M companies.

PwC in India has offices in Bangalore, Kolkata, Chennai, Hyderabad, Mumbai, New Delhi, Bhubaneshwar and Pune.

Timmy S. Kandhari
PricewaterhouseCoopers Pvt. Ltd.
252, Veer Savarkar Marg
Shivaji Park
Dadar
Mumbai 400 028

Tel: [91] (22) 6669 1579
Fax: [91] (22) 6654 7807/8
E-mail: timmy.s.kandhari@in.pwc.com

Smita Jha
PricewaterhouseCoopers Pvt. Ltd.
Building 8, 8th Floor, Tower-B
DLF Cyber City
Gurgaon
122 002 Haryana

Tel: [91] (124) 4620 111
Fax: [91] (124) 4620 620
E-mail: smita.jha@in.pwc.com

Offices in India

Bangalore
PricewaterhouseCoopers Pvt. Ltd.
14th Floor "C" Wing
Mittal Tower
47/6 MG Road
Bangalore 560001
Telephone [91] (80) 2559 0790 /1
Fax [91] (80) 2559 3792

Bhubaneshwar
PricewaterhouseCoopers Pvt. Ltd.
IDCOL House
Sardar Patel BhawanBlock III
Ground Floor, Unit 2
Bhubaneswar 751009
Telephone: [91] (674) 2532 459, 2530 370
Fax: [91] (674) 2531 674

Chennai
PricewaterhouseCoopers Pvt. Ltd.
Rutland Gate, 2nd Street
32, Khader Nawaz Khan Road
Nungambakkam
Chennai 600 006
Telephone [91] (44) 5228 5000
Fax [91] (44) 5228 5100

Hyderabad
PricewaterhouseCoopers Pvt. Ltd.
6-3-550, IIIrd Floor, L. B. Bhavan
Somajiguda
Hyderabad 500 082
Telephone: [91] (40) 5551 1011/ 1012/1013
Fax: [91] (40) 2332 6117

Kolkata
PricewaterhouseCoopers Pvt. Ltd.
Plot No Y, 14 - Block EP Sec- V
Salt Lake
Kolkata 700 091
Telephone [91] (33) 2357 7200/ 9100
Fax: [91] (33) 2357- 3394/3395

Mumbai
PricewaterhouseCoopers Pvt. Ltd.
252 Veer Savarkar Marg
Shivaji Park, Dadar
Mumbai 400 028
Telephone [91] (022) 5669 1500
Fax [91] (022) 5654 7807

New Delhi
PricewaterhouseCoopers Pvt. Ltd.
Building 8, Floor 8 Tower B
DLF Cyber City,
Gurgaon 122 002
Telephone [91] (124) 4620 000
Fax [91] (124) 4620 620

Pune
PricewaterhouseCoopers Pvt. Ltd.
305-311, Century Arcade
243-244, B/2 Narangi Baug Road
Off Boat Club Road
Pune 411 001
Telephone: [91] (20) 2612 3271, 3787
Fax: [91] (20) 2612 1131
www.pwc.com/india

www.pwc.com/india