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SRI LANKA

2013 REVIEW AND OPPORTUNITIES IN 2014

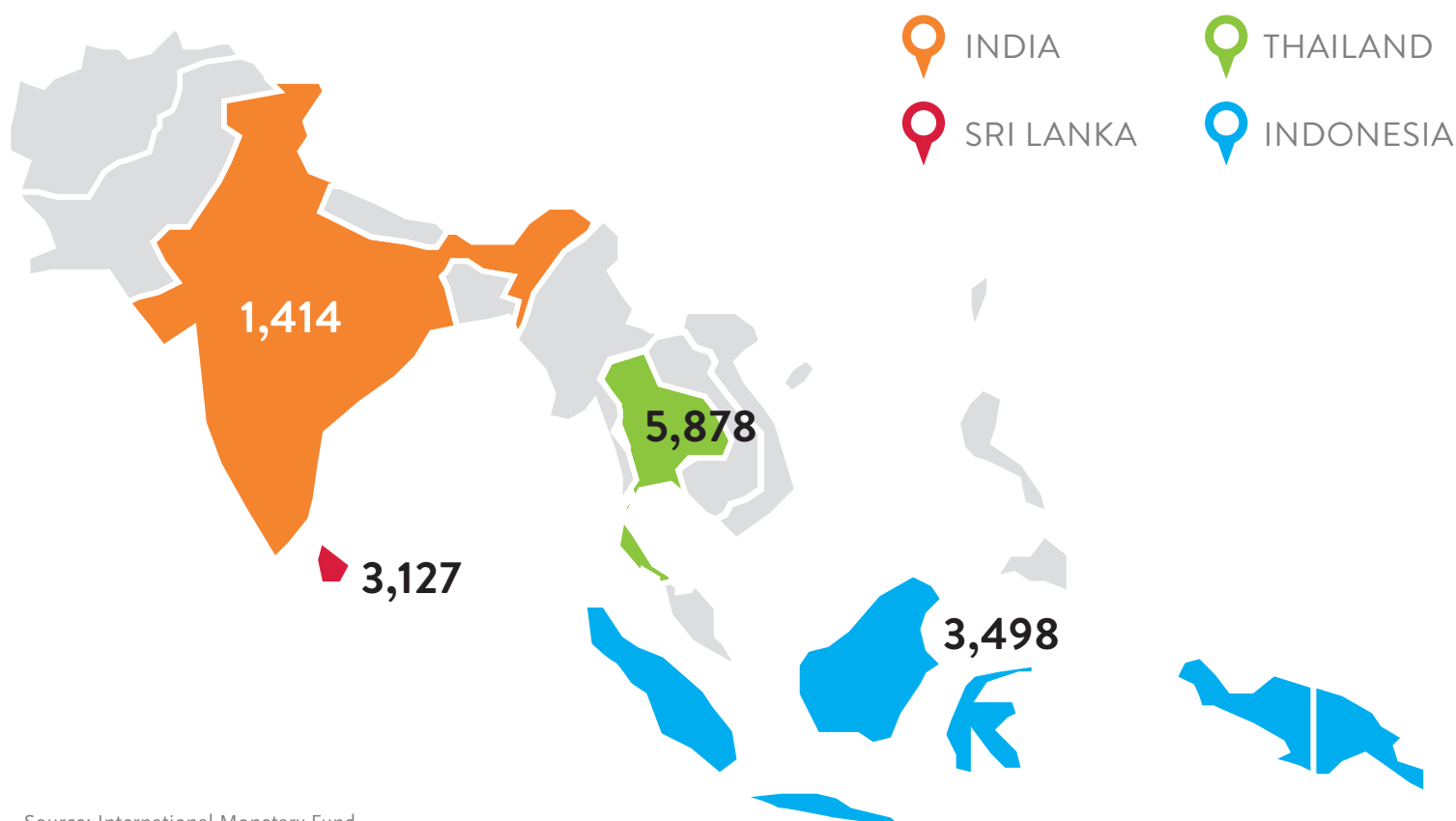
SRI LANKA

2013 REVIEW AND OPPORTUNITIES IN 2014

2013 was a period of consolidation in Sri Lanka, marked by ripples from a series of corrective measures in 2012 aimed to chill an overheated economy. The indicators are that the worst could be over. As 2013 came to a close, inflation was heading south and the Sri Lankan rupee was relatively stable, leaving consumers and businesses wondering if 2014 will be the year when confidence begins to ascend—leading to a bounce-back in consumption.

As a country, Sri Lanka boasts an impressive per-capita GDP—one that's bigger than India's and steadily approaching Indonesia's. Given the country's economic footprint, marketers and brands certainly have an opportunity to increase their engagement with consumers—engagement that hinges on understanding their needs and spending habits.

2013 PER CAPITA GDP (US\$)



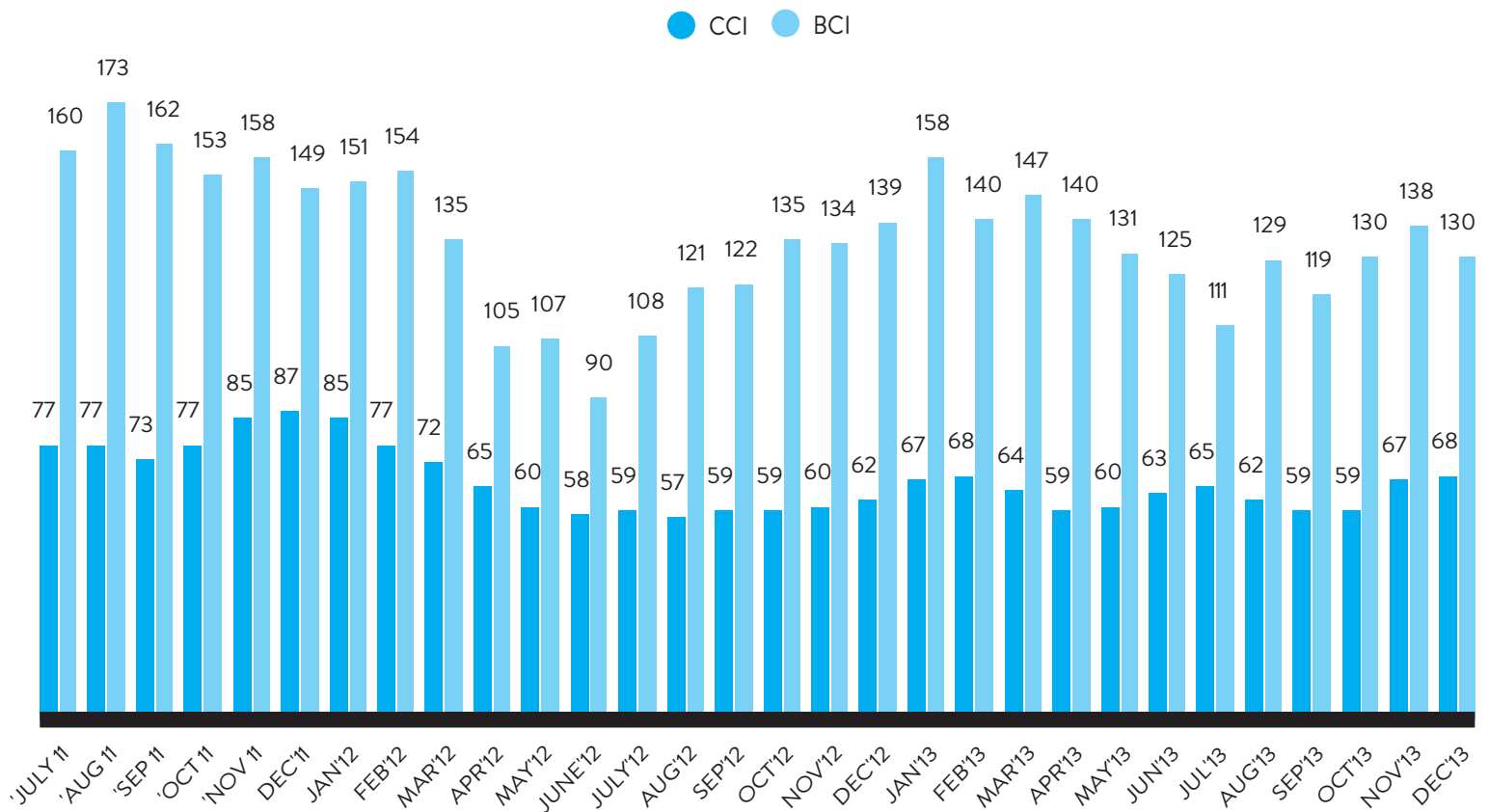
Source: International Monetary Fund.

CONFIDENCE RISING

On the heels of several landmark events over the past five years, including President Mahinda Rajapaksa winning a second, six-year term in 2010, sentiment about the future is improving among Sri Lankan consumers and businesses. Both consumer and business confidence are up significantly from their low points, even though there was some vacillation toward the end of 2013. At year-end, consumer confidence was at 68 (up from a recent low of 57 in August 2012) and business confidence was at 130 (up from a recent low of 90 in July 2012).

CONSUMER AND BUSINESS CONFIDENCE

NIELSEN CONSUMER CONFIDENCE INDEX AND
LMD-NIELSEN BUSINESS CONFIDENCE INDEX



BCI Base: 100 per month

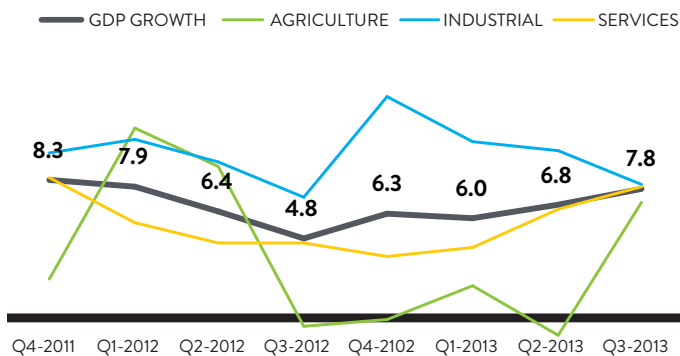
CCI Base: Rolling Sample of 300 per month Respondents per Month

THE FUTURE LOOKS BRIGHTER FOR CONSUMERS

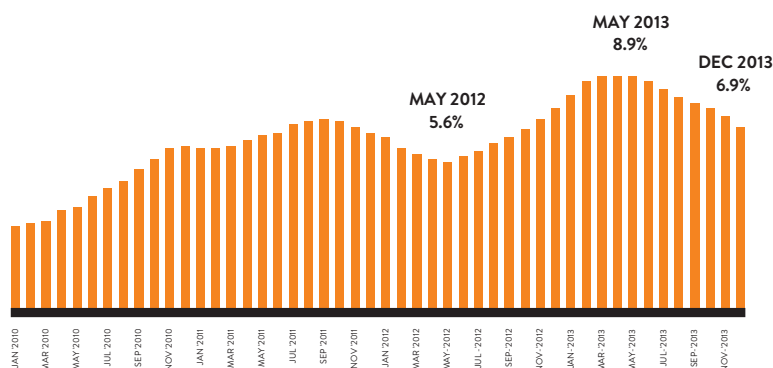
The improving consumer sentiment, business confidence and growing tourism suggests better times ahead. For consumers, stable rupee growth, lower inflation than in mid-2013 and mild interest rates for loans should be a welcome change and could be a positive for spending trends—amount and frequency—in 2014. The downside risk on the economic front includes a possible trade balance downturn. A trade balance slip could affect the value of the rupee and cause the economy to overheat.

BETTER TIMES FOR CONSUMERS IN 2014?

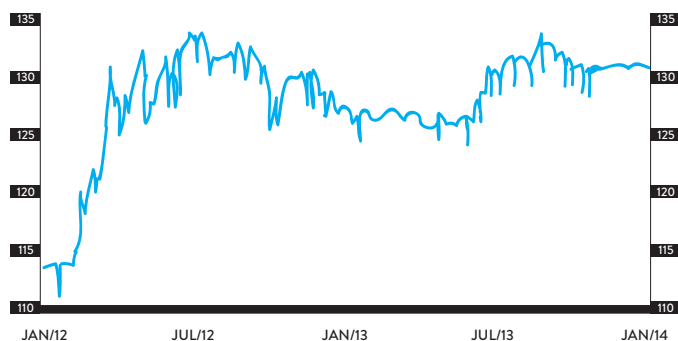
QUARTERWISE GDP GROWTH (%)



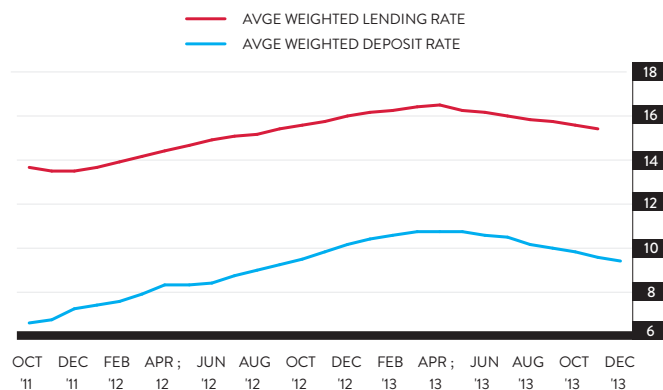
INFLATION % (12 MONTH AVERAGE)



EXCHANGE RATE (LKR:USD)



COMMERCIAL BANKS AVERAGE INTEREST RATES (%)



When we take a look at what's driving the GDP growth, we don't see any surprises. The sources behind the uptick are similar to those we saw in 2012 and last year. Agriculture is still stifled, offering very little in terms of growth, mainly due to poor weather. Consequently, agriculture contributed only marginally to overall GDP growth in the last two years. The positive, however, is that in aggregate, agriculture represents a very small part of the larger GDP picture. The larger contributors, the industrial and services sectors, is where the picture is more optimistic.

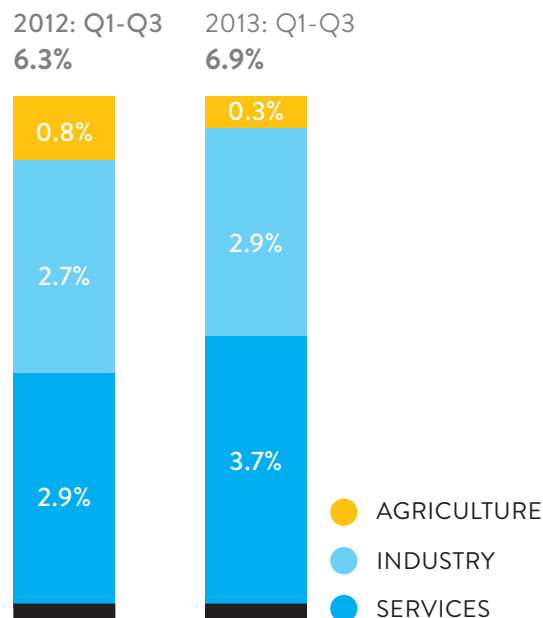
HOW ECONOMIC TRENDS COULD AFFECT CONSUMER BEHAVIOR

At a granular level, construction delivered more than half of the GDP growth in the last two years, fueled by surges in domestic trade and transport—a trend that should continue. On the flipside, import trade has contributed very little to the equation.

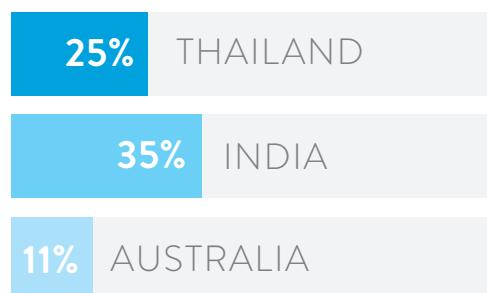
For consumers, lower borrowing costs could lead to higher spending on housing and consumer durables. Older consumers who are reliant on fixed incomes, however, will likely trim back on spending as interest rates on their savings and deposits come down. Inflation had dipped below 7 percent at the end of 2013, another level of breathing room for consumers, but fuel hikes and related increases in electricity and transport costs did cause a rise in non-food costs last year.

Non-food costs aren't the top concern for Sri Lankans, however. On average, consumers in the region spent about 40 percent of their household expenditure on food, well above the average of less than 15 percent for developed countries. Comparatively, food expenditures are 25 percent in Thailand, 35 percent in India, and 11 percent in Australia.

SOURCES OF GDP GROWTH SIMILAR IN '12 & '13



FOOD EXPENDITURES



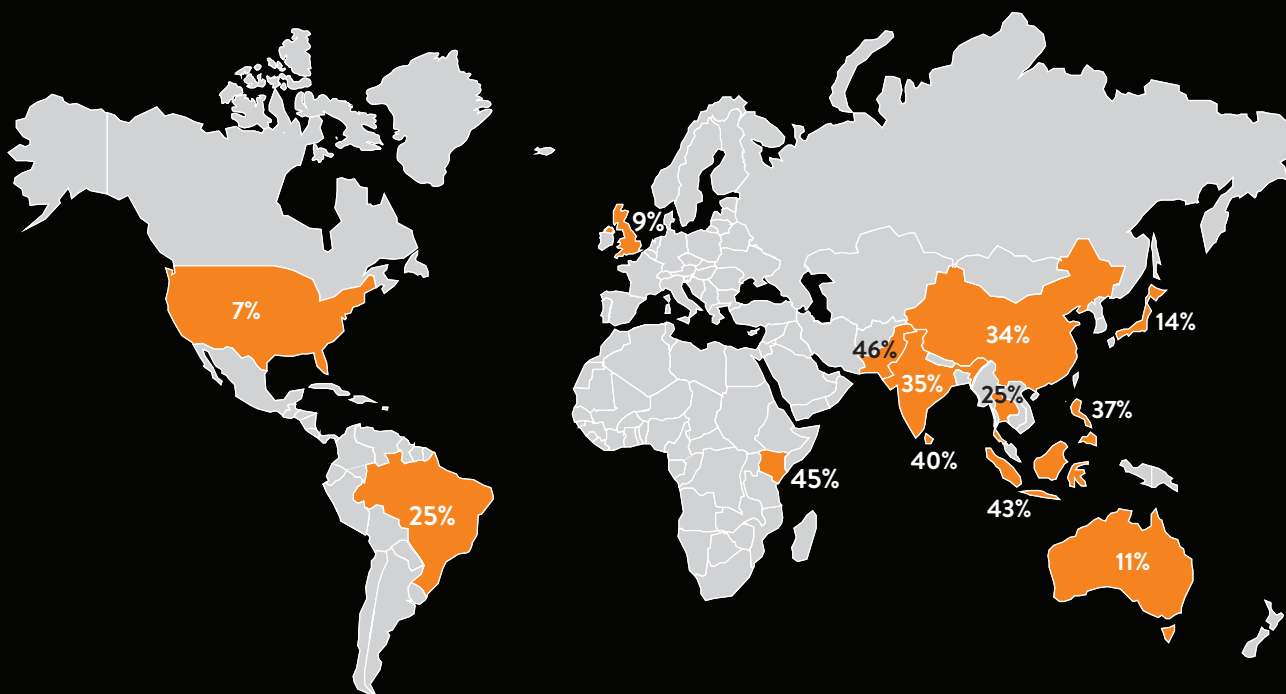
RURAL & ESTATE CONSUMERS > HIGH FOOD COSTS



% OF HOUSEHOLD
SPEND ON **FOOD**

	2013	2010
TOTAL SRI LANKA	37	40
URBAN	31	34
RURAL	39	41
ESTATE	50	50

2010: **GLOBAL COMPARISONS** ON % OF EXPENDITURE ON FOOD



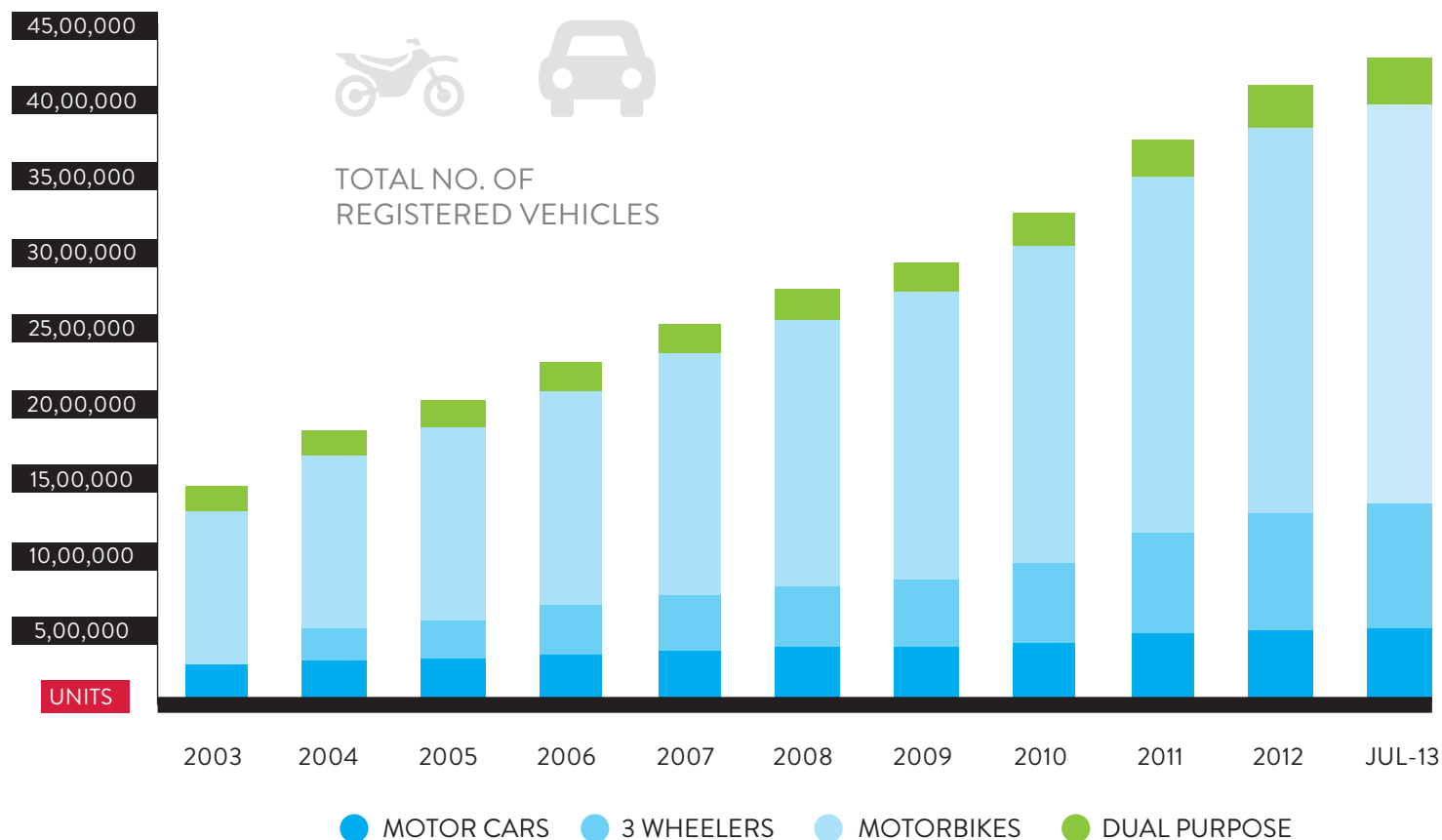
Sources: Sri Lanka; DC&S, Housing Income & Expenditure Survey 2013

Other Countries: Economic Research Service, US Department of Agriculture / Euromonitor (2010)

WHEELS, RICE COOKERS AND TECHNOLOGY

Against a backdrop of relative optimism, there are a few areas where consumers in Sri Lanka could direct their disposable income as futures brighten. The first is transportation. Sri Lanka is home to 5 million households that have 4 million vehicles—and climbing. While sales of car, three-wheeler and dual-purpose vehicles (vans) have tapered off in recent years, motorcycles are becoming the transportation of choice. At year-end 2013, there were 2.7 million motorbikes in the region—steadily making them the family vehicle of choice.

OVER 4 MILLION VEHICLES FOR 5 MILLION HOUSEHOLDS



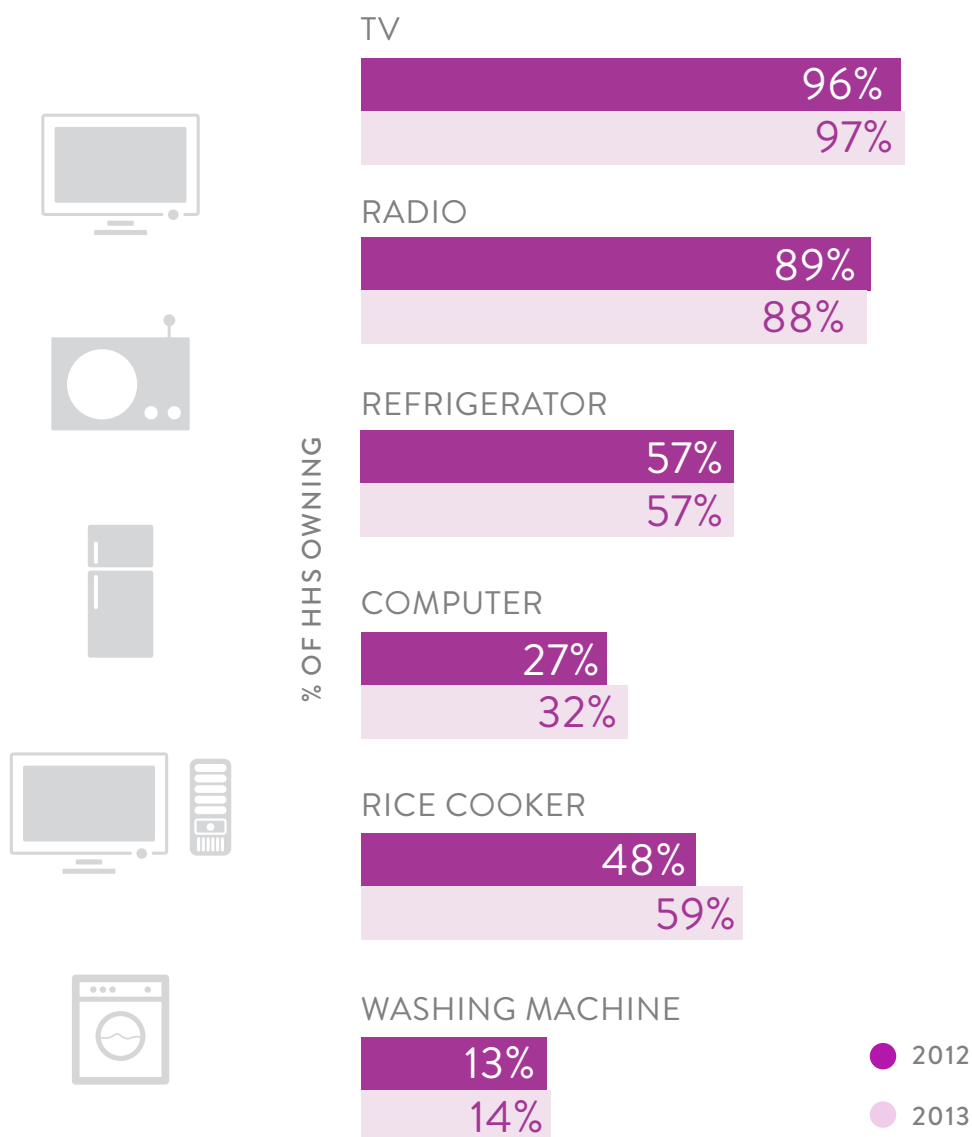
Source: Registration of Motor Vehicles

Consumers are also spending more on durables and technology. Sri Lankans are no longer content with outdated items, as many are opting to replace their old televisions and refrigerators with new, efficient models.

Technology is also playing a bigger role for consumers these days. In 2013, Sri Lankan households purchased 250,000 new computers and 550,000 new rice cookers.

TV & REFRIGERATORS > UPGRADING TO NEW MODELS COMPUTERS, RICE COOKERS > INCREASING PENETRATION

PERCENT OF HOUSEHOLDS OWNING SPECIFIED DURABLES



Source: Nielsen Consumer Surveys, 2012, 2013 in 9 Provinces, 23 (out of 24 districts)

The other area where technology is affecting consumer spending is in the digital space. While fixed and mobile voice connectivity is declining or flat, mobile broadband connectivity is growing. As of September 2013, there were 1.2 million mobile broadband connections in Sri Lanka, and the number of accounts is steadily increasing.

And where there's digital growth, there's increasing Internet penetration. In Sri Lanka, the availability of technology is having a huge impact on Internet use. Between 2012 and 2013, the country's population of Internet users, aged 15 to 60 years, grew from 2.5 million to 2.8 million, and 2.4 million of them are connecting either daily or weekly.

2.8 M INTERNET USERS (2.4 M DAILY/WEEKLY USERS)

FREQUENCY OF INTERNET USAGE (AMONG ALL 15-60 YEAR OLDS)

2012

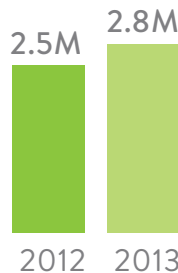
2.5M

INTERNET USERS

(22% of 15-60 yr olds)

17% Daily / Weekly users;

5% occasional users



2013

2.8M

INTERNET USERS

(24% of 15-60 yr olds)

21% Daily / Weekly users;

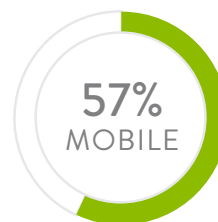
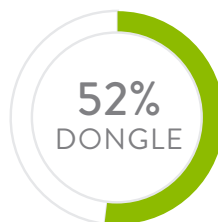
3% occasional users

FREQUENCY OF INTERNET USAGE 2013 (% BY AGE GROUP)

AGE	ALL	15-25	26-35	36-45	46-60
DAILY/WEEKLY/LESS OFTEN	24	47	18	15	7

HOW INTERNET USUALLY ACCESSED

SOME USE MULTIPLE
MEANS OF ACCESS



Source: Nielsen Consumer Surveys, 2012, 2013 in 9 Provinces, 23 (out of 24 districts)



CONSUMPTION OUTLOOK—A REVERSAL OF RECENT TRENDS

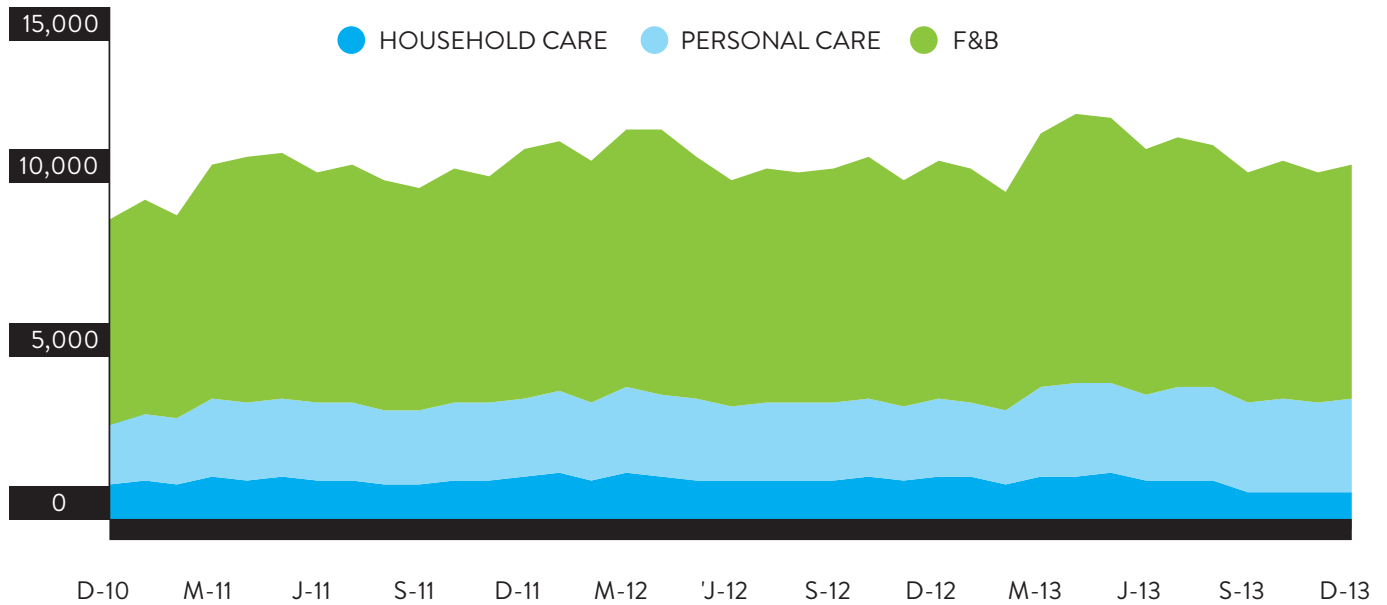
Given the various factors affecting businesses and consumers in Sri Lanka over the past couple of years, it's not surprising that fast-moving consumer goods (FMCG) volume was down in 2012. That was a year ago, however, and that downtrend reversed its course in the last two quarters of 2013.

So where are the biggest areas of opportunity? The personal care and emerging lifestyle sectors.

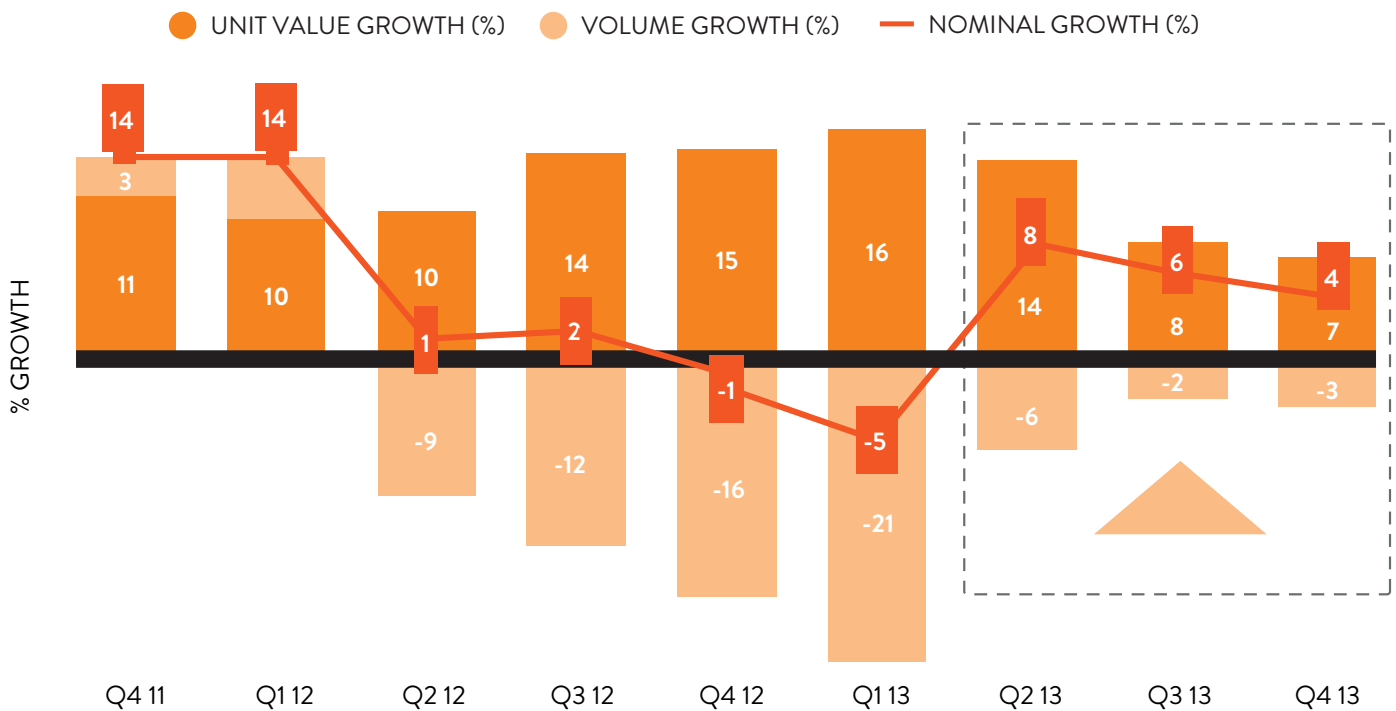
Despite negative growth in the household care (cleaning products and detergents) area, double-digit growth in personal care item sales has been an offsetting positive.

MONTHLY AVERAGE GROWTH

FMCG MARKET VALUE (RS. MN.) - MONTHLY TRENDS IN TRADITIONAL TRADE



QUARTERLY FMCG VALUE GROWTH & SOURCE OF GROWTH
(COMPARED TO SAME QUARTER A YEAR AGO)



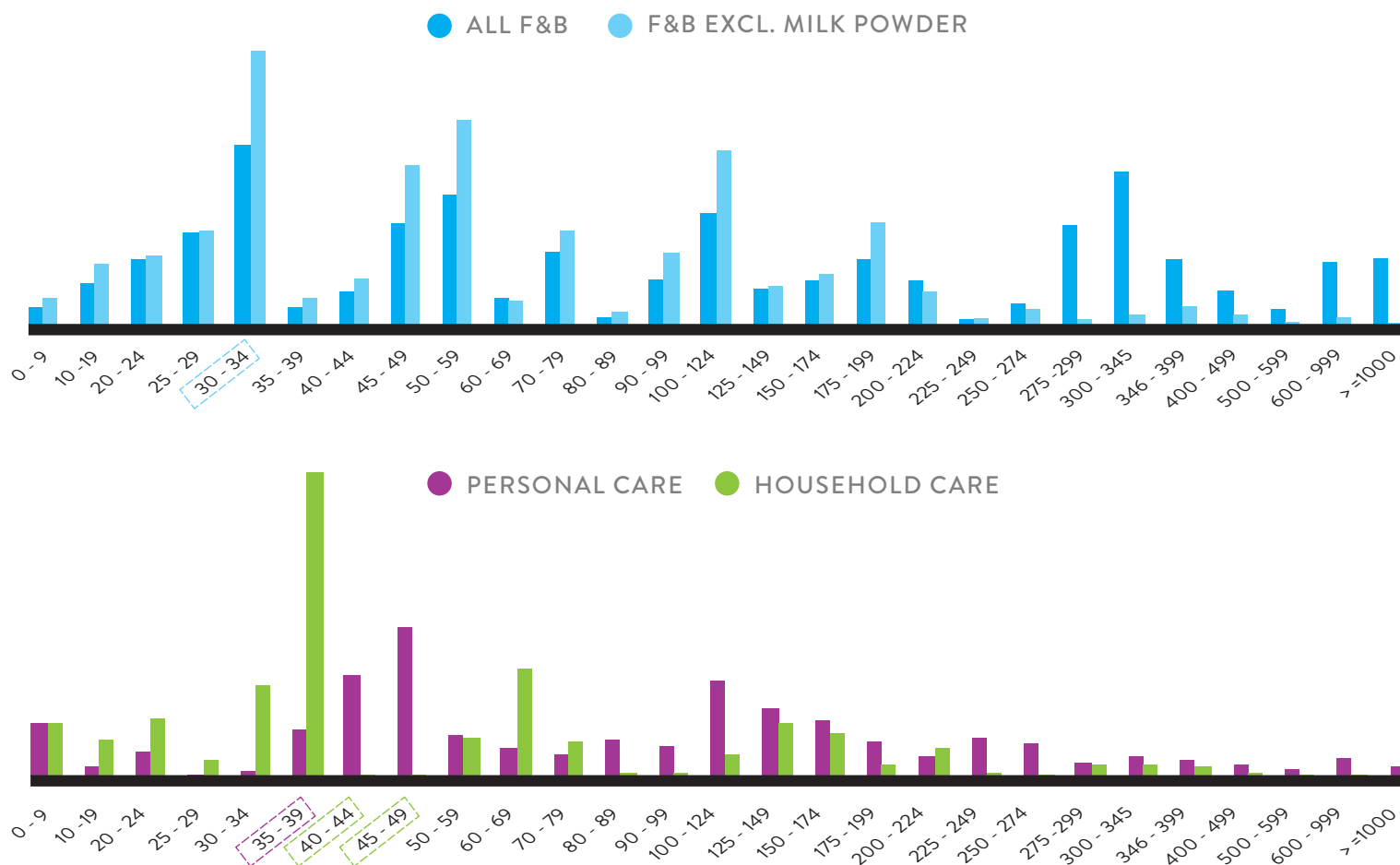
Source: Nielsen Retail Audit (excl. N&E)

From a retail perspective, package size is once again a primary consideration. When times were tougher, retailers and companies began offering products in medium-sized packs to provide a price-conscious option when consumers didn't have the economic bandwidth to spend for larger, higher-cost packages. Over the past year, however, consumers are noticing these options less. From a trend perspective, more and more consumers are gradually shifting to either larger or smaller sizes—even when prices for smaller packs are going up.

The fastest-growing categories, even in general trade, are those in the emerging lifestyle and personal care arena, albeit from a very small base. The products and services that have seen the highest growth are those that appeal to younger consumers.

And when it comes to pricing, consumers are very value conscious: the magic numbers in these categories fall between Rs30 (food and beverage) and Rs45 (personal care).

SALES VALUE CONTRIBUTION % - NOV '13



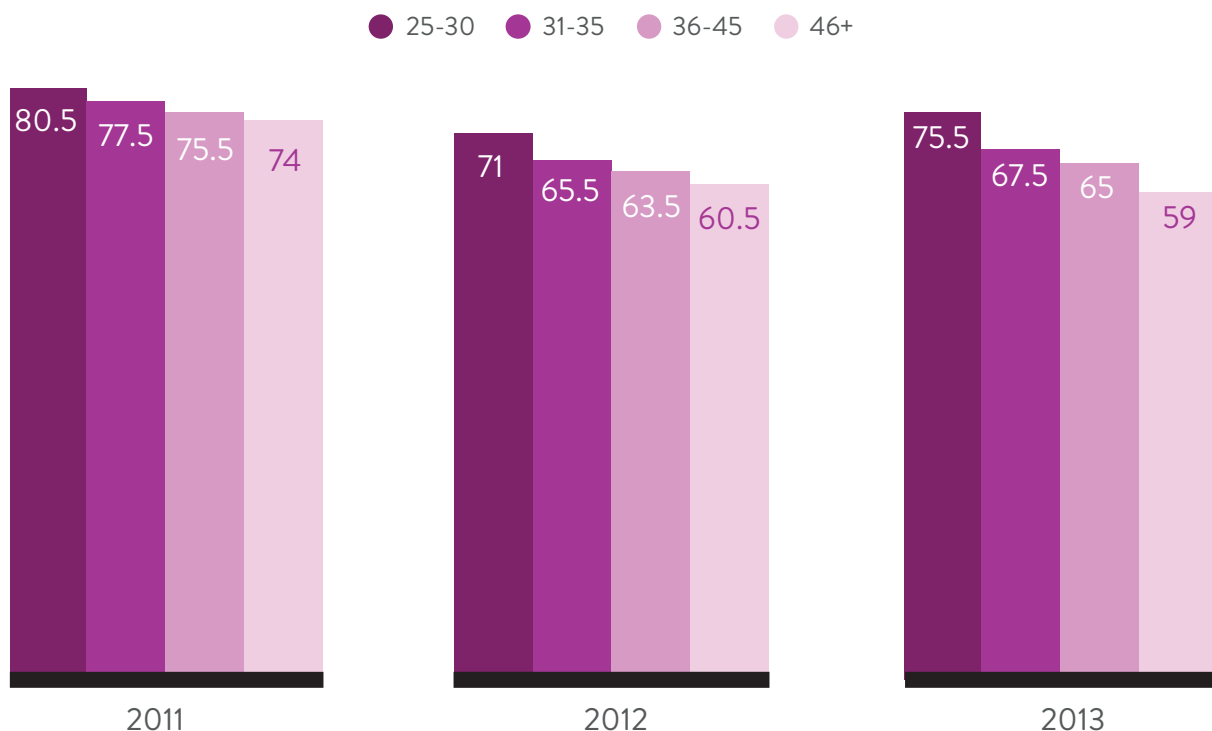
THE MILLENNIAL OPPORTUNITY

When we look at demographics across Sri Lanka, as well as other regions of the world, consumers born in the 1980s and 1990s are becoming a steadily important group to engage with. These young adults, born in the reality TV show era, are 3.5 million strong and represent a portion of the consumer base that will become increasingly more influential as they grow older.








In addition to being a group with growing spending power, Millennials tend to be more optimistic than the average consumer. In fact, consumer confidence in Sri Lanka is highest in this group. They're also more likely to spend on themselves when it comes to discretionary purchases.

GEN Y MORE OPTIMISTIC AND MORE LIKELY TO SPEND ON THEMSELVES

CONSUMER CONFIDENCE INDEX, BY AGE GROUP



SO WHERE ARE THEY SPENDING?

	% RESPONSE JAN 2013 – DEC 2013	25-30	31-35	36-45	46+
	PUT IT INTO SAVINGS	60	53	42	34
	BUY NEW CLOTHES/SHOES	13	7	2	1
	RESTAURANTS AND DINING OUT	10	2	1	1
	PAYING OFF DEBTS/CREDIT CARDS/LOANS	6	6	4	3
	LATEST TECHNOLOGY PRODUCTS	4	2	0	0
	GROOMING	1	2	1	0
	HAVE NO SPARE CASH	18	39	35	26

Engaging with Millennials requires different tactics than other demographics. They are fun-loving, adventurous and usually want to be want step ahead of their peers. So in that regard they're always on the lookout for the brands that are considered the most modern and trendy. They also love to tell their peers, friends and families about their latest purchases—whether they be clothing or the latest tech gadgets.

For Millennials, it's all about lifestyle and convenience, so engaging with them needs to keep these two prime motivators at the forefront.

A BRIGHTER HORIZON AHEAD?

2013 was a year of consolidation. The impact of the corrective measures taken by the government in 2012 to calm the economic environment weighed on consumer spending and prevented any meaningful forward momentum. Now, however, consumers and businesses are cautiously optimistic, particularly as inflation declines and interest rates for loans recede. If these trends persist, barring any significant deterioration of the Sri Lankan rupee, 2014 could open the door to a notable bounce-back in consumption.

Mobility is a fast-evolving trend for consumers—both on wheels and in the digital space. Motorbike ownership is on the rise, enhancing consumer experiences in leisure and shopping, while mobile broadband expansion is broadening the way consumers interact on the go.

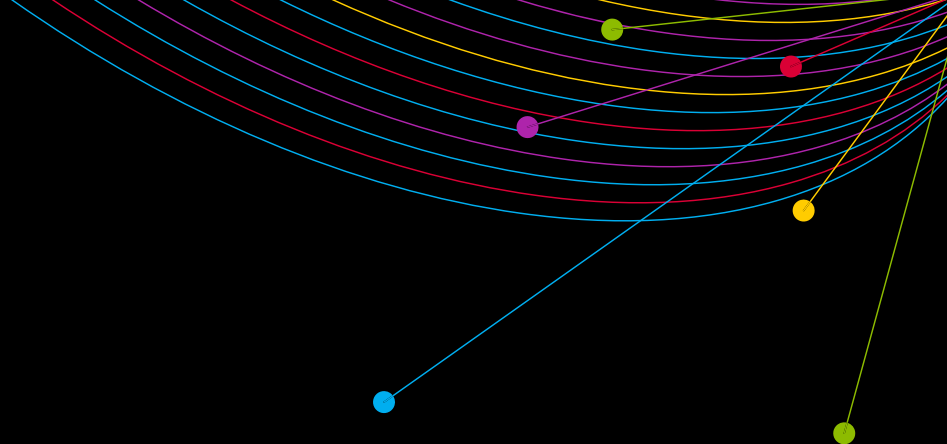
And the robust growth of the branded FMCG market toward the latter half of 2013 stands to continue improving against a backdrop of consumer and business optimism. And much of the growth in FMCG has come from Millennials, a sizable portion of the population that holds the key to future growth across a number of key sectors that will need to pace themselves in order to keep up with and engage this vibrant, young audience.

ABOUT NIELSEN

Nielsen Holdings N.V. (NYSE: NLSN) is a global information and measurement company with leading market positions in marketing and consumer information, television and other media measurement, online intelligence and mobile measurement. Nielsen has a presence in approximately 100 countries, with headquarters in New York, USA and Diemen, the Netherlands.

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