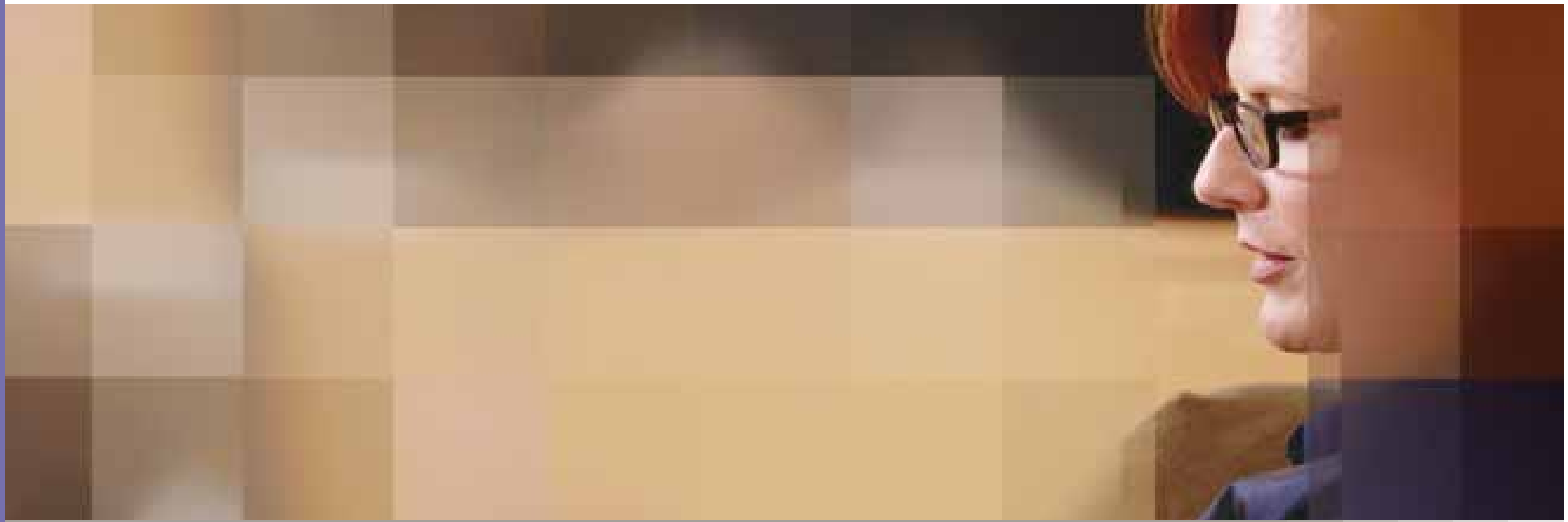

Telco media strategies & Mobile TV

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Agenda

- The state of play: market growth and the consumer perspective
- Setting the scene: changing market dynamics, consumer expectations, transformation challenges
- Do telcos have the right brand to be media players?
- Market positioning
- How can telcos create a media brand?
- Getting multimedia services right: close up on mobile TV
- Summary: best practices and future stategies for competitive advantage

The state of play: market growth and the consumer perspective

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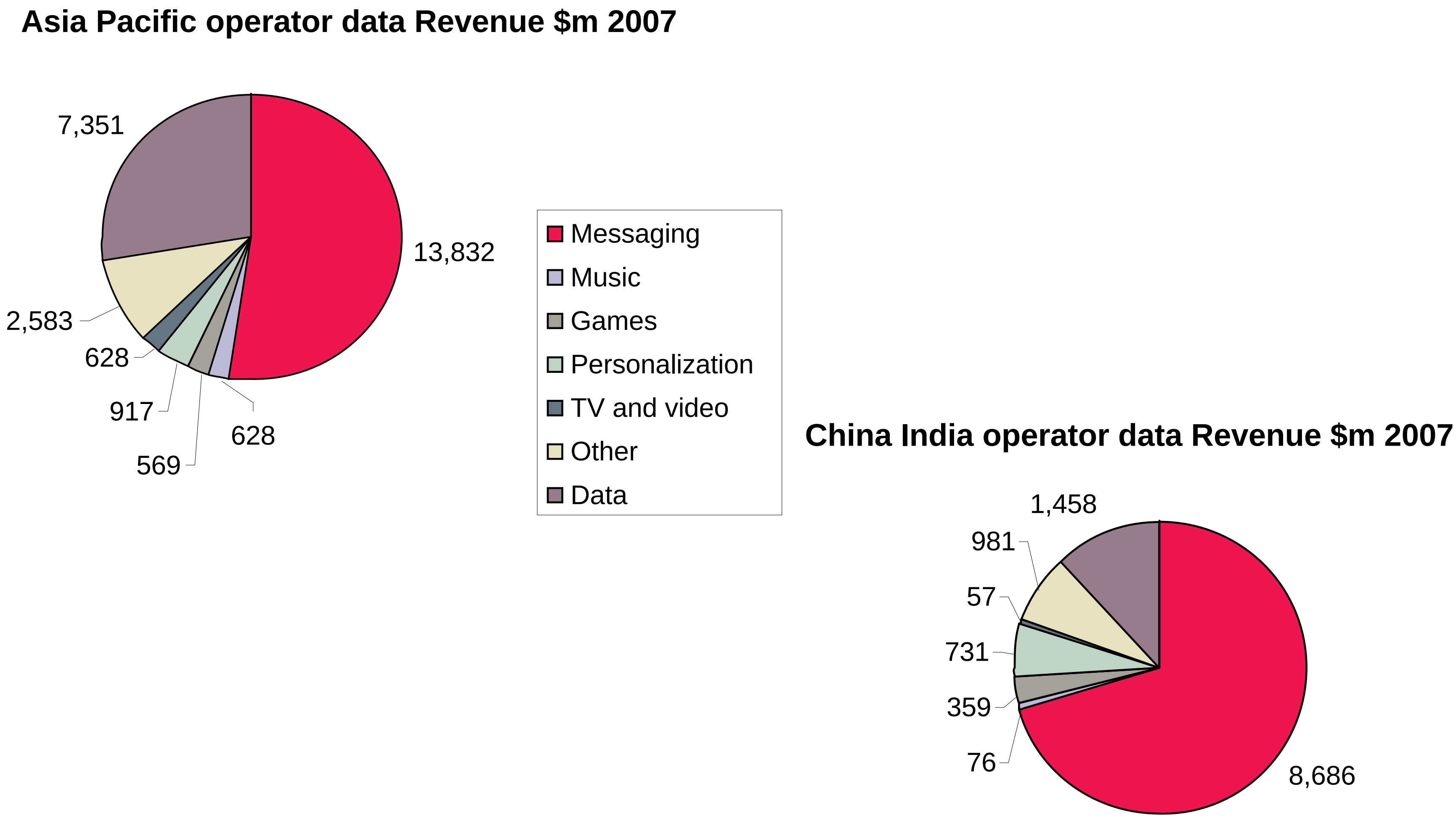
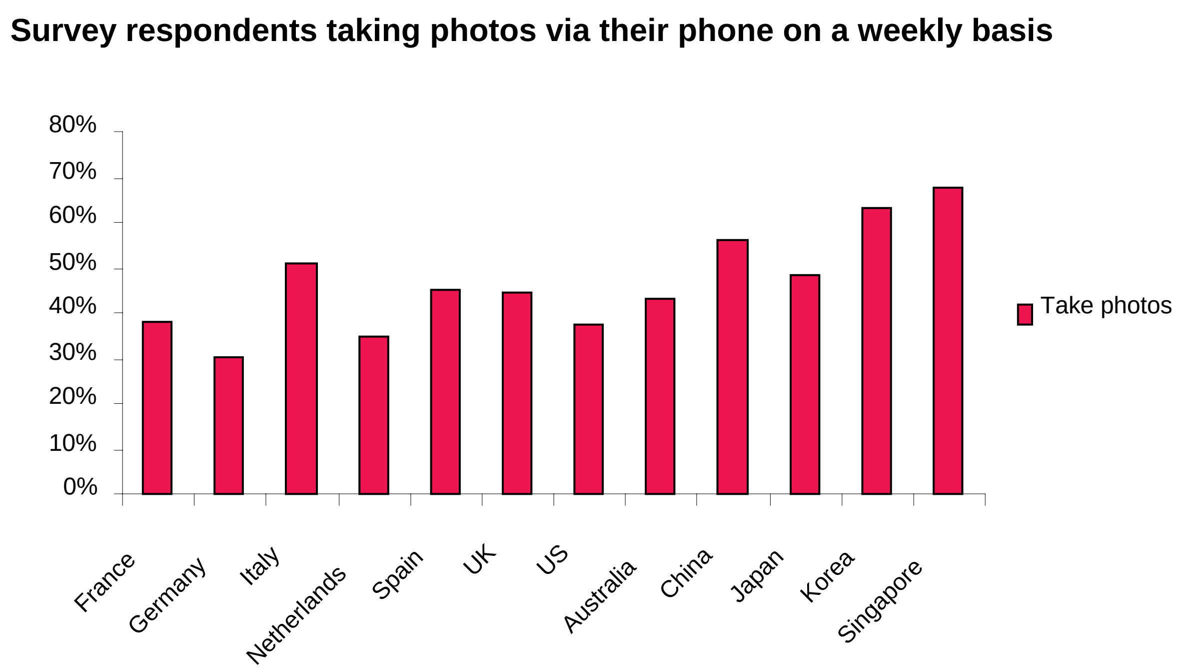
Messaging dominates operator data revenues – no surprise

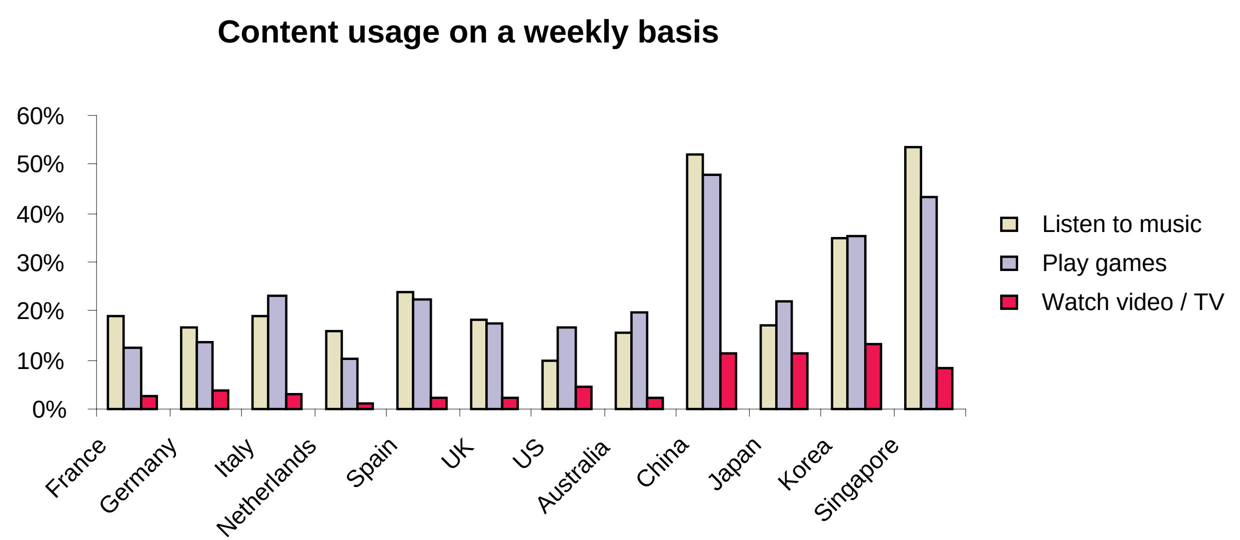


The mobile phone replaces the camera…



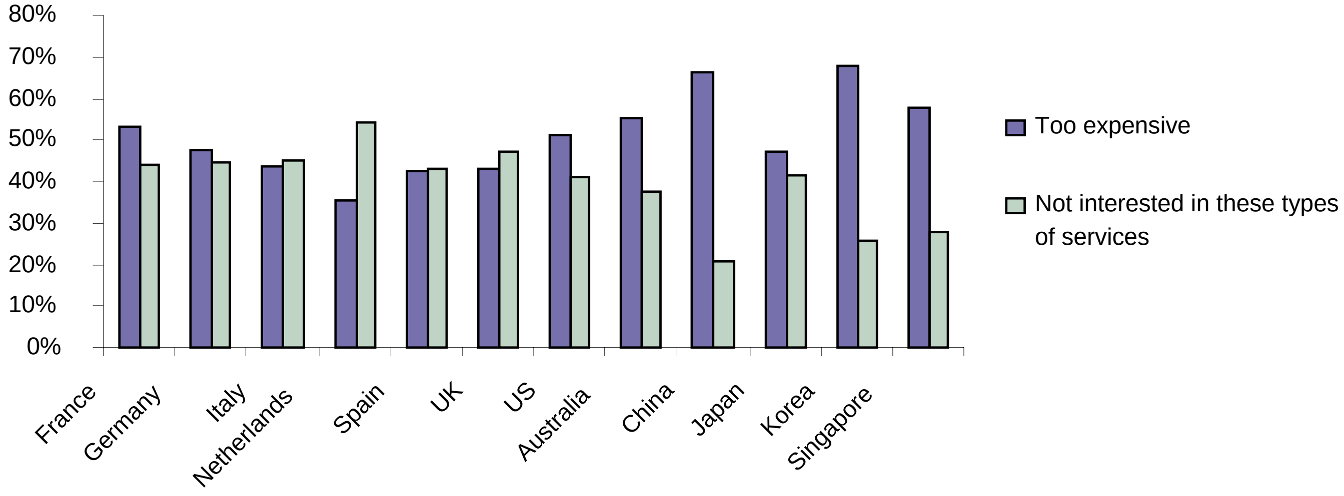
BUT MMS revenues have not grown as expected

Content application usage



- Listening to music is a dominant category but more so in Asian markets
- Gaming is popular, again more significantly in Asian markets
- Video and TV is small, even in Asia
- Ovum did not ask on this occasion how much of this content is bought over the network.

Perceived expense is the show stopper

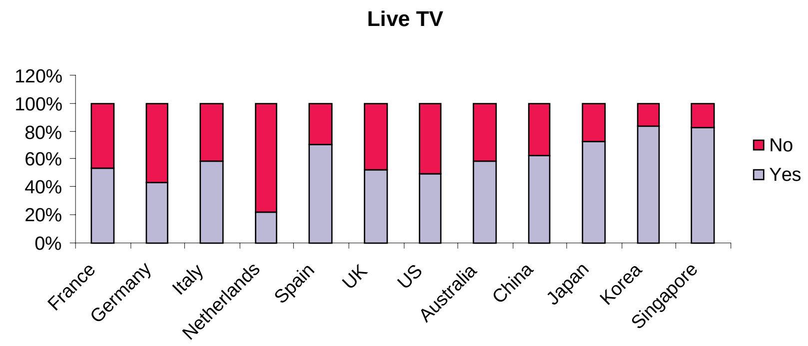


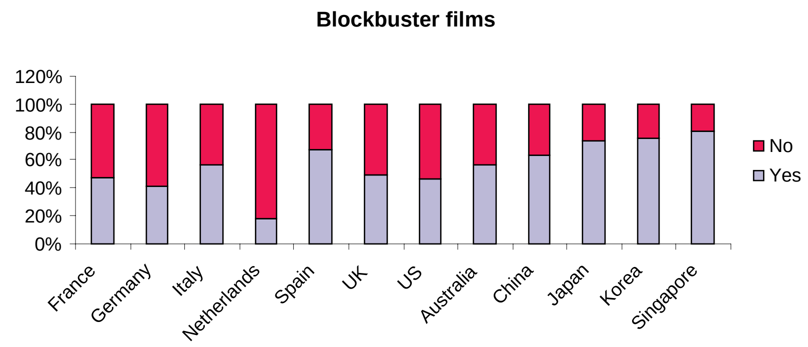
- This issue can be addressed to some extent, for example through wider adoption of flat rate tariffs
- In Europe and some western markets, “not interested in these types of services” is almost on a par with expense and in some markets such as the Netherlands, greater than expense
  - This is more worrying for operators and other players in the value chain as end users do not perceive a need or desire for these types of services.

Consumers are receptive to advertising supported content

- Similar patterns of acceptance for both genres of content in any given geography
- Netherlands rates very low in terms of acceptance
- In Europe the Spanish followed by the Italians have the highest rates of acceptance
- In Japan, Korea and Singapore acceptance is high

Consumers willing to receive advertising messages in return for subsidized TV & video





Setting the scene: why are telcos embracing media services

Everything is changing

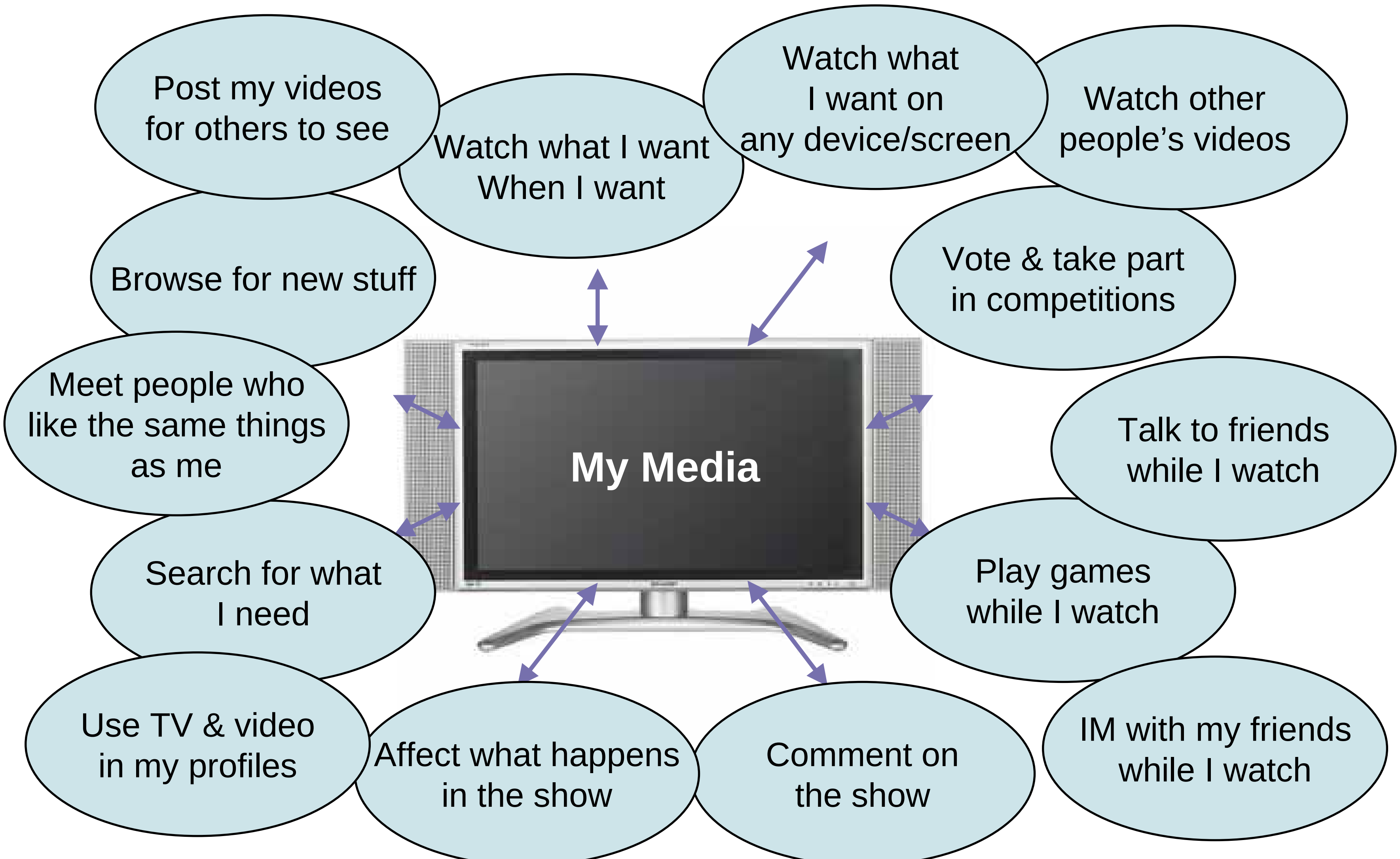
New market dynamics

- Player positioning & branding
- The value chain
- Services
  - Shift to content, bundled entertainment/communications offerings
- Partnerships
- Access and devices
- Monetisation

The TV space is evolving

- Fragmentation of traditional TV
  - IPTV & mobile present new experience/usage scenarios
- Interactivity
- The Web 2.0 influence
- Multi-access, multi-screens
- End-users' consumption patterns and expectations

What consumers want it all



Entertainment and personal media convergence

Old world

- Large audiences
- Scheduled by distributors
- Hits have the monopoly
- No shelf space for niche, old
- Tendency buy separate services
- All about the collective

New world

- Fragmented/segmented audiences
- Scheduled by users
- Hits still here, but monopoly lost
- Space galore: “Long Tail” content
- Bundled offering for convenience
- Can be about the individual

So what is a media/entertainment company now?

- Entertainment industry: usually refers to companies that control the distribution and manufacture of mass media entertainment *(Wikipedia).* So traditionally it's been TV broadcasters, production studios, film distributors/cinemas
- But the changes we have outlined in terms of consumer demand, fragmentation of traditional media and growth in new media, means the definition is shifting and new players are entering the market. And it's not just telcos:
  - DVD retailers enter online VOD business (eg Glowria)
  - ISPs/portals (AOL, Google, Yahoo, MSN)
  - Consumer electronics/mobile device vendors (think Apple TV, Nokia and its new Ovi portal)
  - In the Web 2.0 world individual consumers are also media players
  - And of course content owners/aggregators (broadcasters, studios etc) are also seeking new distribution channels like the Internet, redefining what a media company means to them

We often get the question as to whether France Telecom-Orange has suddenly become a media company… forgive me but this is passe! All that you have to do is look around – at social networks, blogs, wikis – to understand that everyone has become a media company!

Didier Lomard, France Telecom-Orange

BT is going to be doing all these services - voice, access, video telephony, TV, music..

…. There's not a name for this kind of company yet.

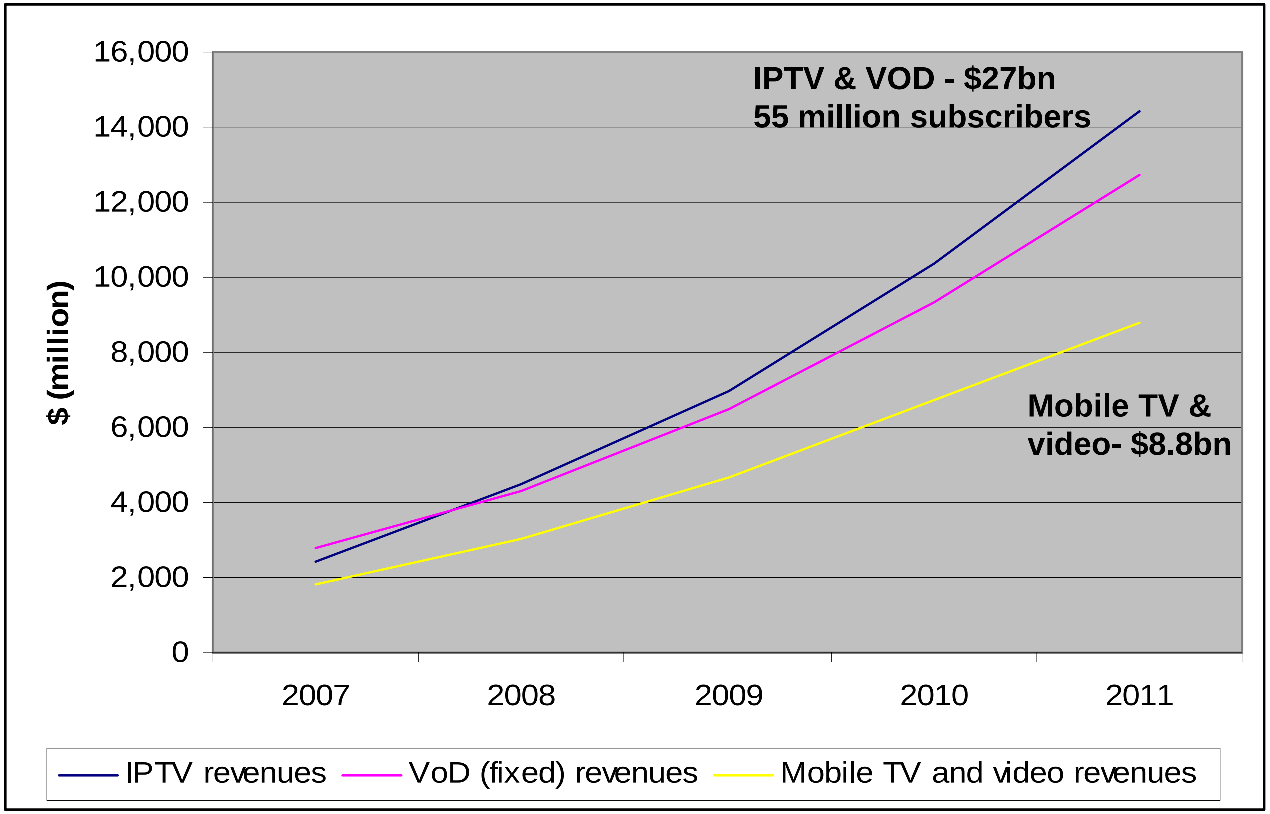
Dan Marks, CEO, BT Vision

Five core challenges of transformation

- Understanding and accessing content
  - It has been hard for telcos to cut good deals with content providers, but this is improving as telcos gain credibility as media distribution platforms
  - They are also getting better at understanding and negotiating content rights. France Telecom-Orange and Belgacom stand out here
- Platform and infrastructure investments required
  - DRM, advertising platforms, support for cross-platform services/integration, next generation infrastructure upgrades (HSPA) and possibly new network infrastructure altogether in the mobile broadcast TV (eg DVBH in Europe)
- Brand and credibility as an media player. Most consumers don't associate telco brands with entertainment
  - Although telcos brands are relatively strong & positive
- Finding profitable business models
- Cultural and organisational challenges

What is motivating operators?

How big will TV and video market be for telcos?

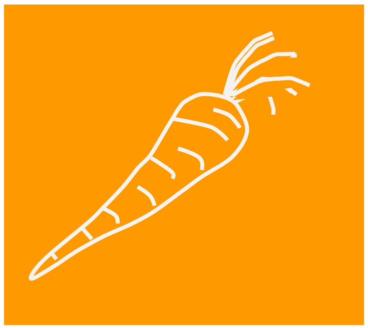


Sky UK for year ending June 2007 had:

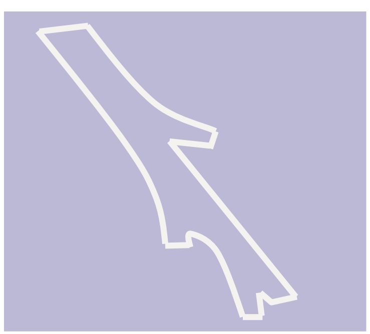
- Total revenues $9,165 million of which retail subscriptions are $6,859 million
- 8.5 million UK customers

Revenues are significant over time, but not huge

Clearly revenues are not the sole motivation – the case for IPTV

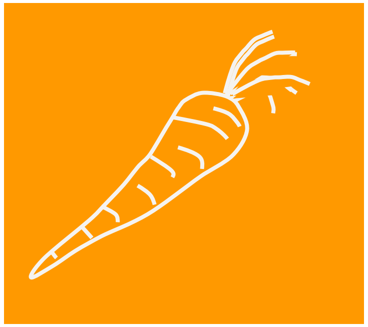


- Opportunity: taking the business forward
  - Drive value from new investments
  - Follow consumer buying trends
  - Stake place in connected home
  - IPTV not just as good as cable TV, but better than cable TV
  - Potential leverage of multi-access platforms = convenience
  - Existing and often large retail (and wholesale) customer base
  - Some telcos have content experience e.g. portals, even ownership
  - Familiar and trusted brand (albeit not for entertainment)

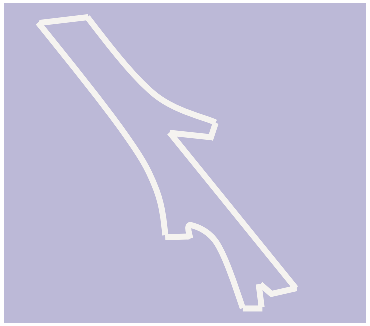


- Threat: about competition first and foremost
  - Voice margins eroding
  - Internet access becoming a commodity
  - Others add voice to their offerings…
  - .. So need IPTV to build loyalty, defend against churn, increase ARPU (which is also an opportunity)

The motivation for mobile TV



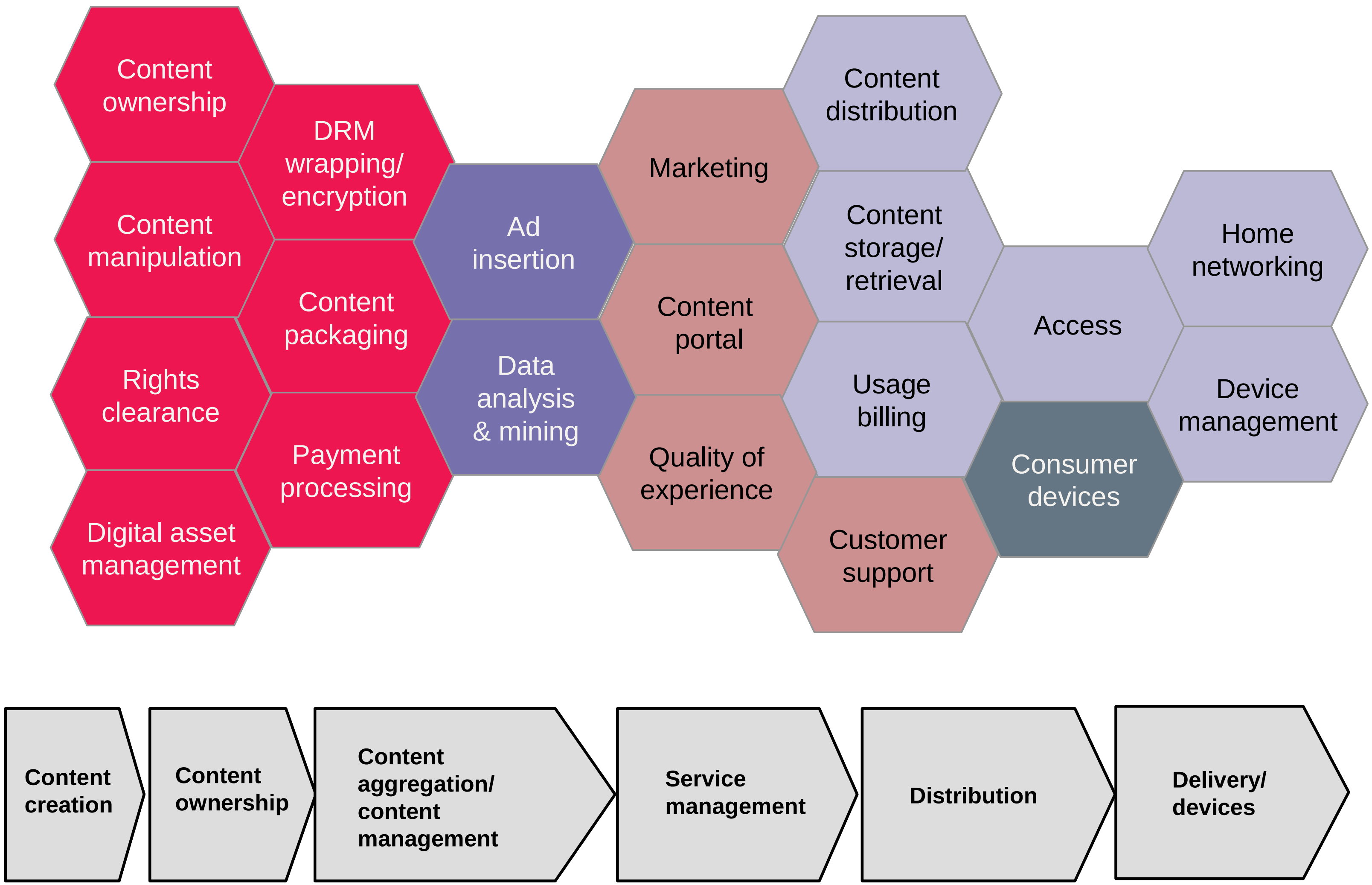
- Opportunity
  - People seem to like the concept at least
  - Wide appeal across the customer base
  - Some promising usage figures reported – but tend to be exceptions to the rule (Orange France 637,000 subscribers, 3 Italy 600,000)
  - The biggest content service in Europe by 2011 ($2.85bn)
  - It can be used to differentiate going forward: interactivity, personalisation etc



- Threat
  - The mobile market is shifting to content services and people will come to expect mobile TV and video as a matter of course
    - So strategically important. Mobile TV is a service mobile operators cannot afford *not* to offer it , even if revenues are modest to start with
  - Sideways competition & alternative distribution models
    - Other players will increasingly offer mobile TV on a D2C basis: Nokia's Ovi portal, ROK Mobile TV, Jamba and going forward Google
    - And mobile phones are not the only portable device on which to consume mobile TV…

Market positioning

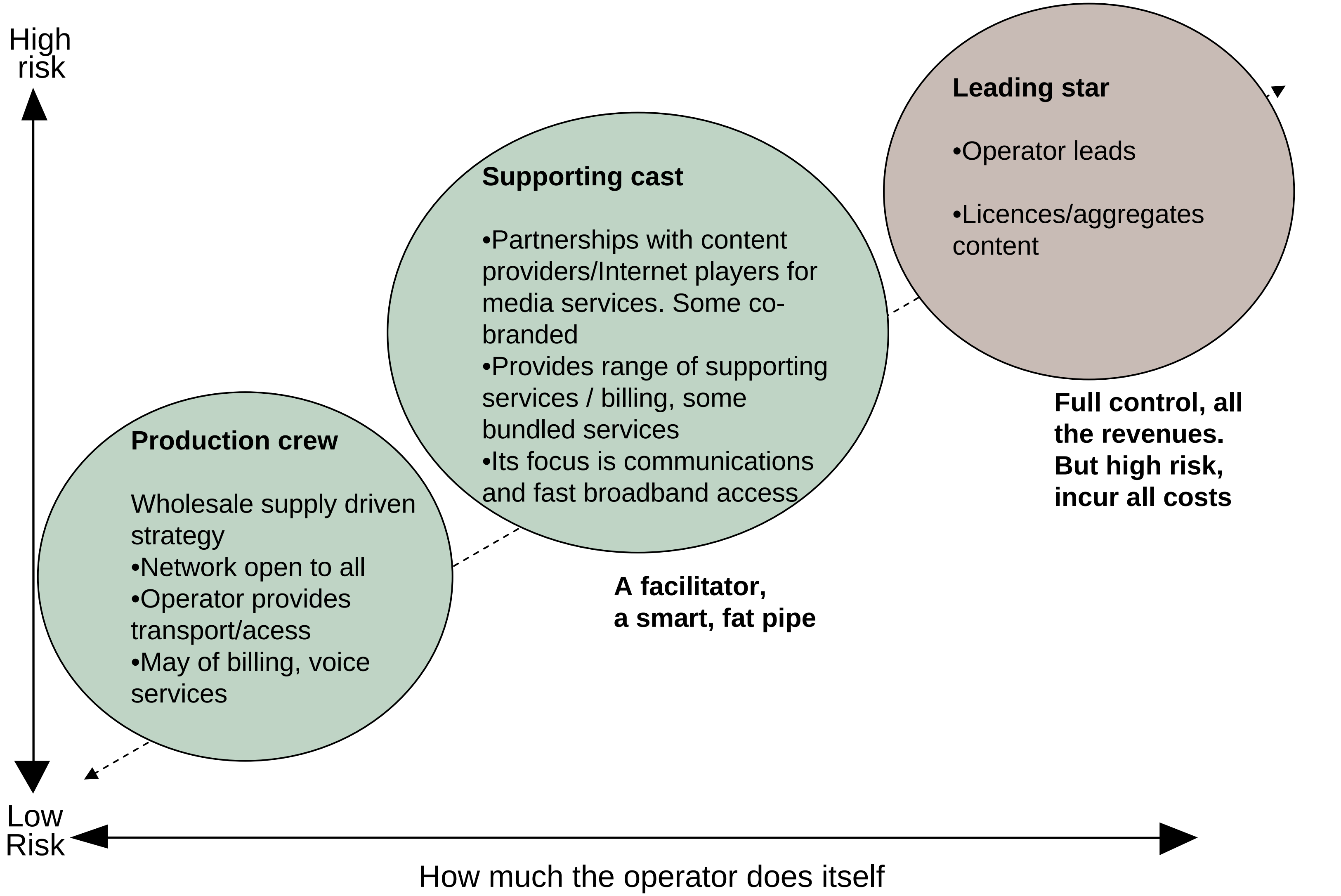
Entertainment services presents a new value chain for operators



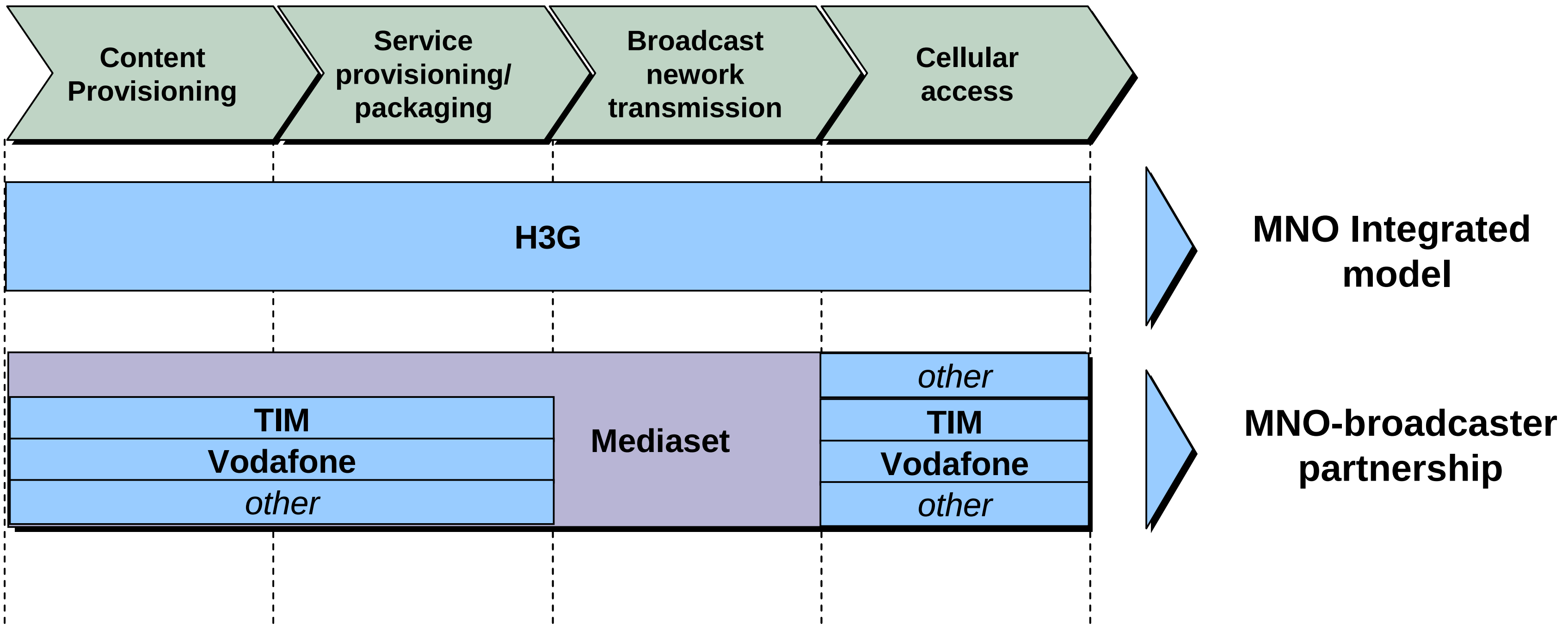
A difficult choice for operators

- They need to implement media strategies to grow revenues and avoid becoming it pipes
- But revenues from media services are very small and much content of this type is free or available at low cost from other sources
- Plus there are a growing number of competitors in this space with new ones on the horizon
- What should telcos do in this situation?

Positioning: leading star or a supporting role?



Positioning and partnerships in the Italian mobile broadcast TV market



While H3G operates along the entire value chain, TIM and Vodafone partner with Mediaset around network operation

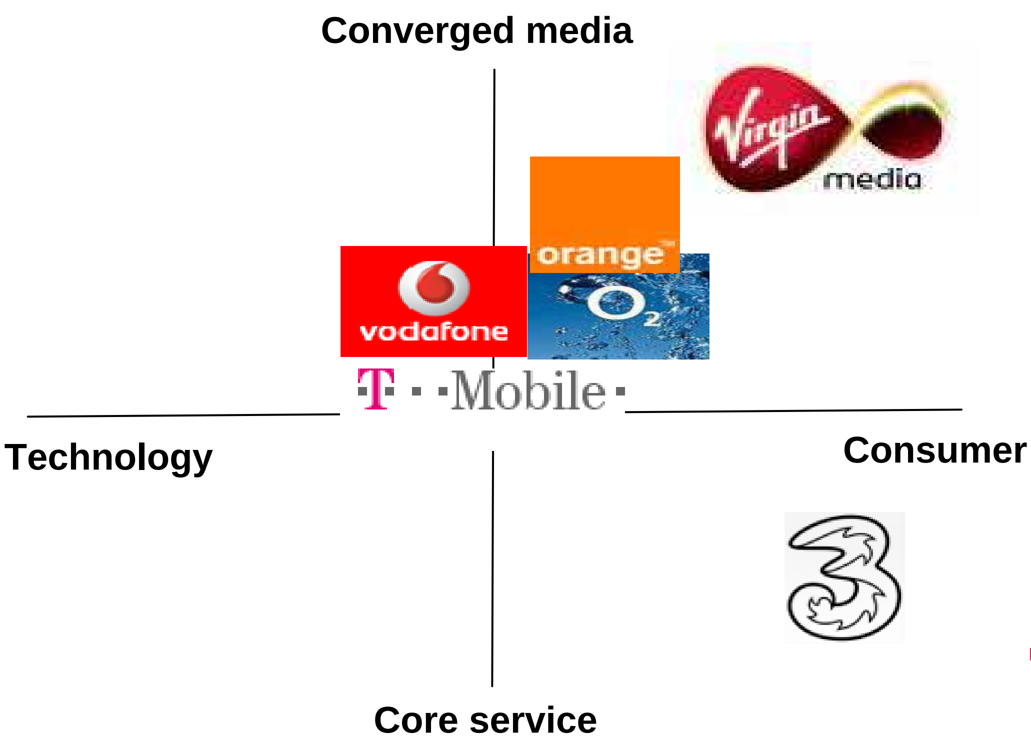
	MNO Integrated Model (H3G)	MNO-Broadcaster partnership (TIM/Vodafone - Mediaset)
Spectrum	**H3G has acquired a national free-to-air TV channel in order to obtain spectrum and launch DVB-H**	**Controlled by the broadcaster who resells part of frequency capacity to MNOs**
Content	**H3G has agreements with different packagers to create its bouquet of channels** - Two proprietary channels with Info/Sports - Main channels from Mediaset, Sky, Rai	**Every MNO is free to define their content on their 25% share of the Mux capacity**
Network	**Controlled by H3G that will operate 2 networks (UMTS and DVB-H)** - DVB-H network needs more gap fillers (e.g. 1000 in Italy) with respect to DTT network to guarantee indoor coverage - DVB-H gap fillers will be hosted on UMTS/GSM towers to generate synergies	**Controlled by Mediaset** - DVB-H network property of and operated by Mediaset - Gap fillers for better coverage and in-door reception will be hosted on TIM/Vodafone network sites
Acc.	**Access controlled by mobile operator**	**Access controlled by mobile operators**

Do telcos have the right brand to be media players?

Why operators need to revisit their brand positioning

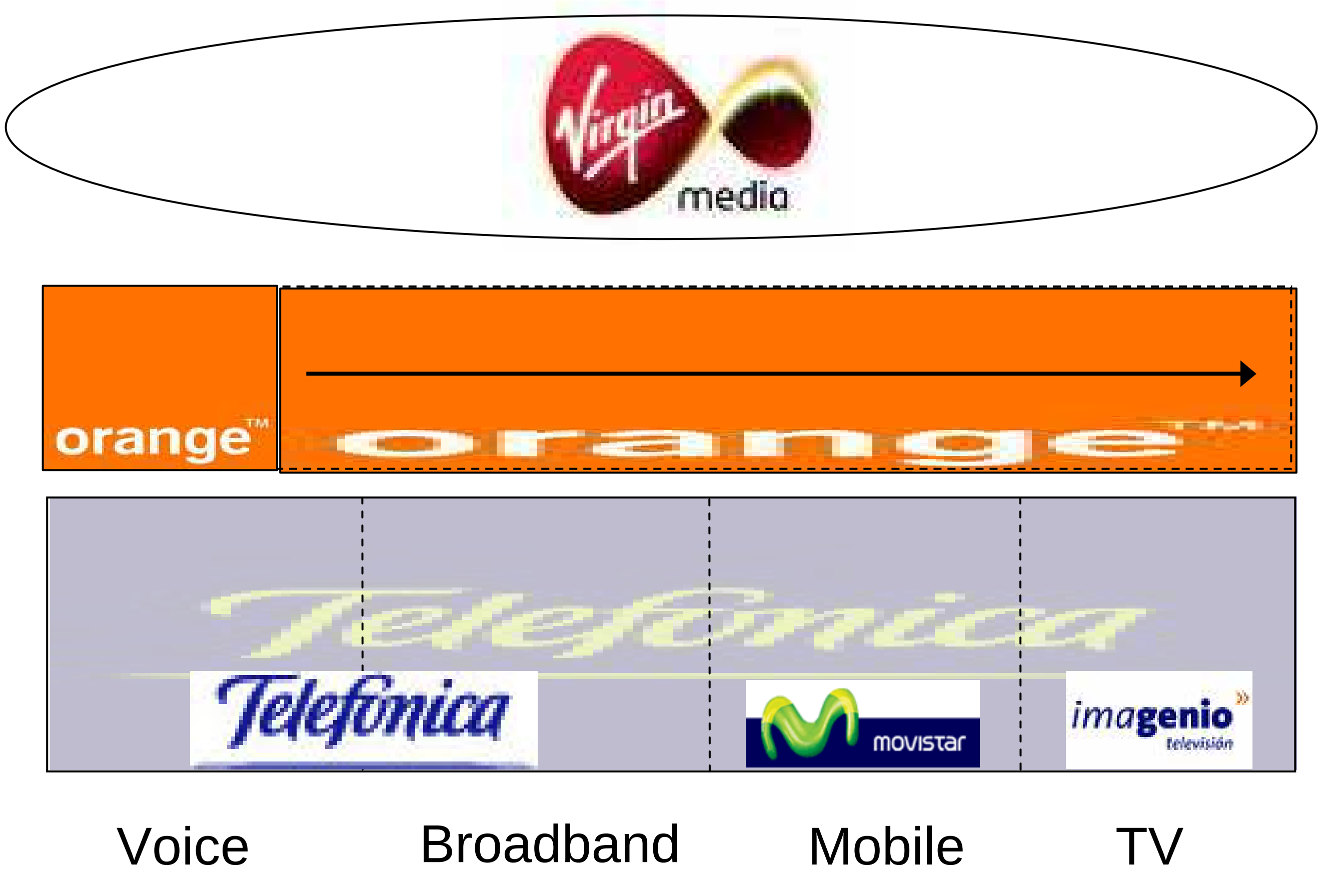
- There is and accelerating trend for converged services in the form of triple and even quadruple play offerings in the case of Virgin. And at the same time, telcos are also moving from being utility, voice providers to multimedia, entertainment oriented companies.
- This clearly marks a fundamental change in a telco’s service mix and business model. It also requires an accompanying change in brand strategy
- This is because any quantum change in service mix and business model can only succeed if the operator is able to maintain customers' relationships, and this is where branding plays a critical role.

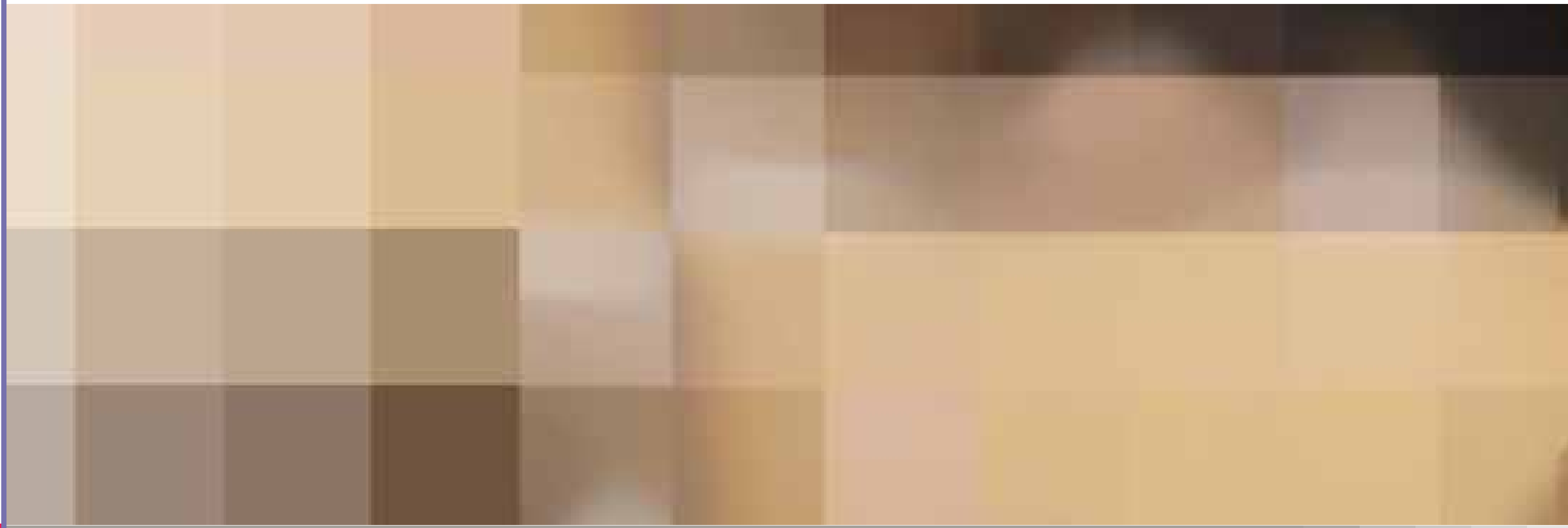
Operator brand positioning in the UK market



- We've positioned operators against a spectrum of values that assess the degree to which their brands have adjusted to a converged service, consumer focused market. So on the vertical axis, operators are positioned based on the extent to which they have moved from a core service provider to a converged multimedia brand. On the horizontal axis, operators are positioned according to the extent to which their brands are consumer-orientated.
- As a converged, consumer media brand Virgin has made a strong start and is ahead of the game. But others are rushing to catch up. They will end up with very similar service propositions – branding will play a strong part in differentiation.

Brand strategies





Getting multimedia services right: close u on mobile TV

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Channels and packaging

- Entertainment, music, sports and news are the staples
- A large choice is needed
  - No common view in terms of the optimum number of channels but we think around 25 is right
  - Anything between 10-60 in Europe – Orange France tops at 60
  - Mix of on demand and live content

- Lots of channels is not enough. Other ways to add value:
  - Personalisation
  - User generated
  - Interactivity
  - Easy navigation and channel switching
  - Strong names, exclusives
  - Frequently updated news, new video clips

- Pricing models – experimentation
  - Flat-rate subscription
  - Pay-per-use
  - Pay-per-view or pay-per-content
  - Diversified all-you-can-eat bundles
  - Advertising-supported

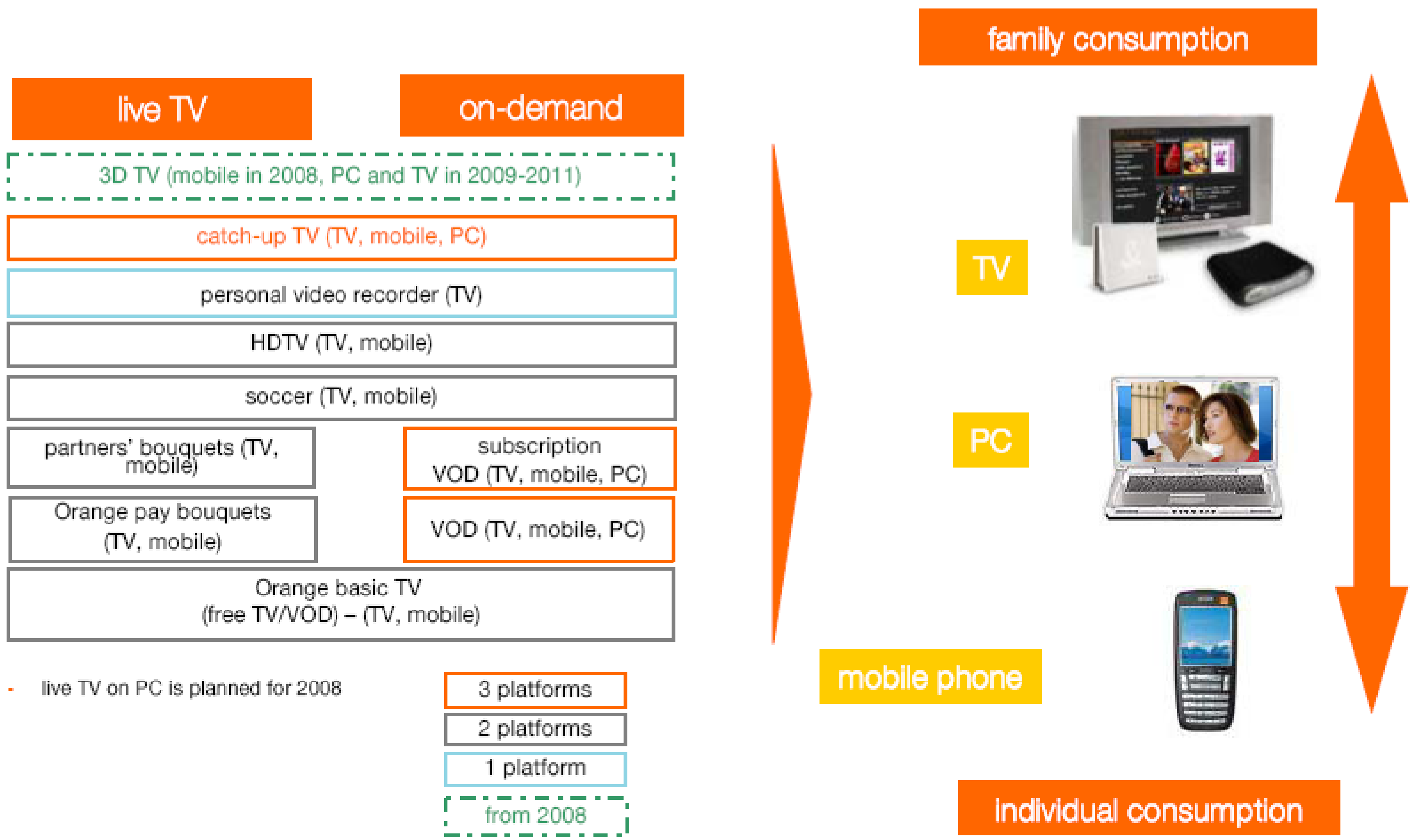
Content formats

	Drivers	Challenges	Examples
Existing TV content	Cheap & easy to do Familiar content for consumers	Limited differentiation Not adapted for the mobile	Most operators broadcast existing TV channels
Extensions and extras	Reasonable costs Leverage popular content	Potential issues with rights	Series '24: Conspiracy' LCI Mobile (France) 3 Italy's Rai channel
Unique made-for-mobile content	Differentiation Need for adapted mobile content	High costs Need to advertise the content	SFR TV Live TIM Serie A and 3 Italy's 93° minuto (football)
User-generated TV	Low costs Success of mobile communities	Encourage users to share videos	3 UK SeeMeTV, 02 Look at Me TV, Orange Frank TV

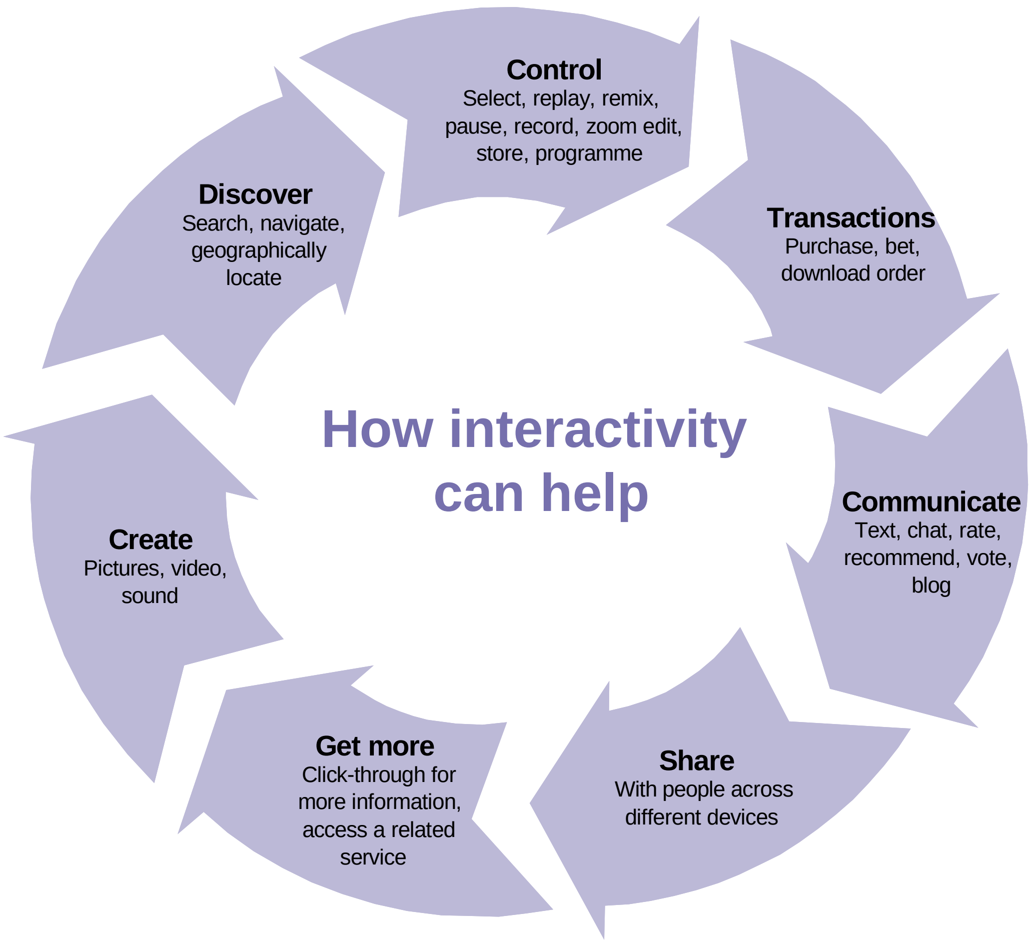
Orange France ticks the boxes

- **Large range of 60 live TV channels**
  - Provides all live channels available through analogue and digital TV in France
  - One ‘made for mobile’ news channel: LCI Mobile, adapted from the LCI news channel
  - A large choice of channels from the satellite/cable,
  - Orange is currently developing its own sport news channel
- **A large choice of video on demand**
  - 3,000 short video clips, with 500 new each week
  - 9 categories: news, sport, cinema, music, humour, TV/series, cartoon, videos from the Web and erotic
  - Partnership with Canal+ (pay-TV leading company in France) to offer short videos from the channels of the group
  - Orange is currently developing on-demand TV programs, first with France Television (the public TV group)
- **Flexible mobile TV and video pricing options**
  - ‘option TV’ at €6/month for unlimited access to around 20 live channels + all short videos
  - ‘option totale TV’ at €10/month for unlimited access to all 60 live channels + all short videos
  - ‘option totale TV HD’ at€12/month includes the same content as ‘option totale TV’ but with higher definition. It requires a compatible 3G or HSDPA handset
- Unlimited thematic options, which give unlimited access to some TV content but also some other related content types
  - ‘Musique’ at €6/month
  - ‘TV-Musique-Surf’ at €12/month
  - ‘Sport’ at €9/month
- Or customers can still pay depending on usage
  - €0.90 per 20 min. session to watch mobile TV channels or videos

Orange France – moving towards a converged TV proposition



But for most operators usage and revenues are still low: how can we improve things?



- Deeper engagement through ease of use and increased personalisation, by enabling interactive features that match the users' interests
- Facilitate the discovery of content on mobile phones, leverage cross selling
- Interactive TV services developing around:
  - Video/TV content related
  - Electronic service guide (ESG)
  - Mobile TV advertising
  - Datacasting
  - Remote control

Mobile TV evolution

	Mobile TV phase 1 3G "hero" service	**Mobile TV phase 2** Going mass market
Quality	▪ Low (stream@ 100 kbps) ▪ 2" QCIF display	▪ Fair (stream@ 200-300 kbps) ▪ 2.5-3" QVGA display
Content & services	▪ Access through portal ▪ Existing TV content + some 'adapted-for mobile'	▪ On-device TV application with EPG and easy channel switching ▪ More Web/UGC content
Pricing	▪ Pay-per-use ▪ Some subscriptions	▪ Various 'all you can eat' channel bundles ▪ Some free content
Business model	▪ Driven by end-users' revenues ▪ Revenue sharing	▪ Getting more diversified: end-user revenues, advertising, interactive services
Service penetration	▪ A few % of mobile subscribers ▪ 10s minutes usage / month	▪ 10-20% of mobile subscribers ▪ Hours usage / month
Networks	▪ Unicast over cellular	▪ Multicast transmission via broadcast solutions, over cellular or dedicated broadcast network

How strong is the need for a dedicated mobile broadcast TV network?

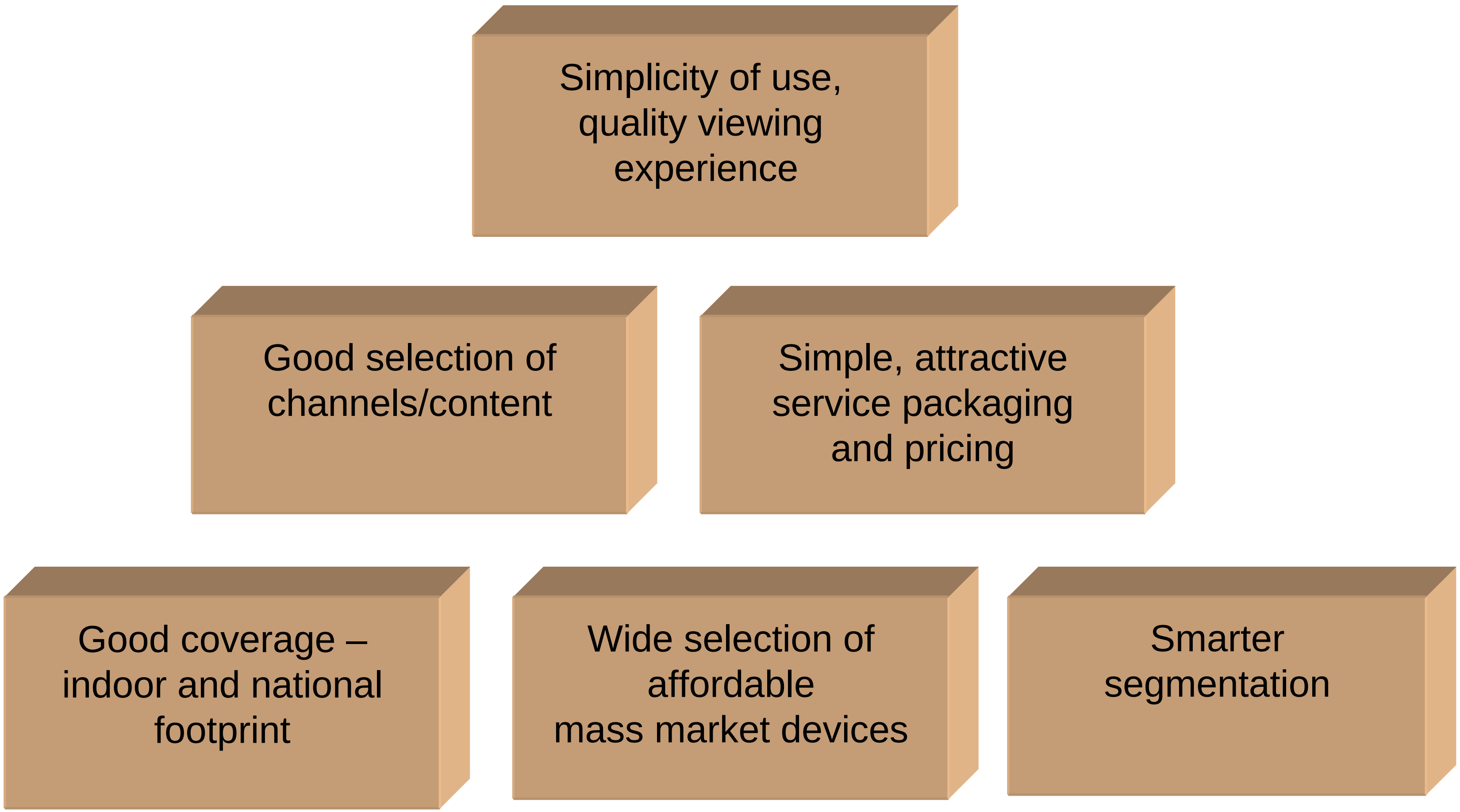
- The case for mobile broadcast solutions is that they can decrease the distribution costs of mobile TV broadcasts to large audiences
  - Which is fine if you think there will be large audiences…
- There is and will continue to be a strong role for 3G in the delivery of mobile TV services
  - Interactivity, personalisation - the value add for mobile TV
  - On-demand video content
  - Niche TV channels
  - 3.5G (HSPA) enables to get close to the video quality enabled by mobile broadcast technologies
- But many challenges ahead for mobile broadcast
  - DVBH looks set to become the standard in Europe, but spectrum availability is still an issue in many markets

Revenue streams – close up on mobile TV

- One of the biggest issues for mobile TV is how much consumers are willing to pay for services
  - Consumer spending for mobile services will not increase every time a new service is introduced, which means they will not want to pay for all TV content
  - This in turn means we need to determine what they will and will not pay for, and the role that mobile advertising will play
- We predict the following scenarios will evolve and accelerate from 2008 onwards, and that they are not mutually exclusive (Orange France is looking at all 3 options):
  - Premium content fees for a small number of services such as big ticket films and major sporting events. The penetration of these types of mobile TV service will be low but the ARPU high
  - Mobile TV as part of a wider bundle of multimedia services. The multimedia bundles will be low cost or even flat rate
  - Free services supported by advertising revenues. We think this will become a core component of the business model for mass market mobile broadcast TV services.

Summary: best practices and future strategies for competitive advantage

Building blocks for a successful service



Longer term strategies for competitive advantage

Multi-access TV	TV & video across: •Mobile network/phone •Internet/PC/PMP •IPTV/set top box	Multi-access TV is about decoupling end-user processes from the access channels and devices

Interactive TV	Interactive electronic service guide Interactive features: overlays, camera angles	Integrated communications features Interactive advertising

Building up the channel offering	Basic channel line-up •Existing free-to-air channels •Re-distribution of satellite channels	Premium channels •Paid for packages •A la carte, eg individual foreign language channels, high profile niche channels	Differentiated VOD •Eg local content, especially sports •Near VoD pushed to the set-top

How it will look for mobile TV

- We predict the following scenarios will evolve and accelerate from 2008 onwards, and that they are not mutually exclusive:
  - Premium content fees for a small selection of mobile TV content such as big ticket films and major sporting events
    - The penetration of these types of mobile TV service will be low but the ARPU high, so this is probably not a service/segment that you want to subsidize through advertising
  - Linear TV, for example popular TV shows shown at scheduled times, will have mass market appeal but users will not want ot pay much if anything it for it. This type of TV content will be 100% funded by advertising revenues and free to consumers
  - Alongside this, mobile TV ill be part of a wider bundle of multimedia services. The multimedia bundles will be low cost or even flat rate

감 사 합 니 다!

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