

ASIA PACIFIC PAY-TV & BROADBAND MARKETS 2010

APAC Pay-TV and Broadband Markets Poised For Profitable Growth

Hong Kong, April 22, 2010 – Broad industry trends remain favorable in Asia's pay-TV and broadband markets, according to a new report published by Media Partners Asia (MPA). The report, entitled *Asia Pacific Pay-TV & Broadband Markets 2010*, says industry fundamentals are strong. This is due to rising penetration of pay-TV and broadband; digitization; the growth of next generation services; increasing consumer spend and the emergence of large markets for pay-TV advertising. Competition and capital intensity will grow, limiting margins in the near-term but profits will grow significantly over the long-term, driven by consolidation in the largest markets, India and China.

MPA executive director Vivek Couto said: "There is scope for cash generation amongst leading pay-TV operators in India, China and Indonesia as consolidation grows and capitalization improves. Consolidation and M&A will also help boost profits in Japan, Korea and Taiwan. Profits will remain sizable in Australia and Malaysia but earnings are likely to be volatile in Singapore and Thailand. Amongst broadcasters, media groups with strong brands continue to make money. Exposure to large advertising and subscription markets is vital along with investment in local markets."

The consumption of pay-TV and broadband is strong. During 2009, a recessionary year for most segments of Asia media, the pay-TV sector added 26.6 million new subscribers. Total pay-TV subscribers reached 340 million, up 9% year-on-year and representing 46% penetration of TV homes. During 2009, pay-TV industry sales increased by 8.6% to US\$32 billion, a sharp deceleration from 15% growth in 2008 with 10% subscription revenue growth offset by a modest 3% advertising increase amidst the economic downturn.

India and China contributed more than 75% of net new subscribers during 2009. The cost of pay-TV remains attractive in these low ARPU markets while the availability of popular pay-TV content continues to grow in India along with the digitization of distribution platforms, driven by direct-to-home (DTH) satellite. Southeast Asian markets are also growing in scale, spurred by competition and the growth of satellite platforms with growing investment budgets. A weak economy dampened pay-TV demand in Australia during 2009 along with competition from digital terrestrial and online services but the market remains a leader in ARPUs and in the deployment of next generation services. IPTV growth is giving saturated markets a new impetus for growth, particularly in Korea and Japan. In Taiwan, a renewed push on broadband and digital pay-TV has helped leading cable operators achieve higher profits.

The market for digital pay-TV reached a critical mass in 2009 as technology costs fell with scale driven deployments. Total digital pay-TV subscribers reached 116 million, 16% of total TV homes and 34% of total pay-TV homes. The pace of digital growth was driven by the cable operators in China and Japan; DTH satellite pay-TV in India and Southeast Asia; and IPTV in North Asia. High definition television (HDTV) is growing, reaching 7 million pay-TV homes in 2009 while personal video recorders (PVRs) were installed in 2.4 million pay-TV homes.

For more information please contact

Reagan Chan

Media Partners Asia Limited

Suite 205, 2/F, The Centre Mark

287-299 Queen's Road Central,

Hong Kong

Tel: 852 2815 8710

Fax: 852 2815 8730

reagan@media-partners-asia.com

www.media-partners-asia.com

www.mediaresearchasia.com

www.asiamediajournal.com

INDUSTRY PROSPECTS

Since Q4 2009, the macro environment in Asia has firmed up, boosting consumer demand. Investor sentiment has also improved. This is helping pay-TV operators as well as content providers raise capital to fund future growth. Pay-TV subscriber growth will be robust but will decelerate after 2013. The focus is on digital transition, and the growth of next-generation services, including HDTV and PVR in the near term and 3DTV and home gateways in the long term.

By 2014, 446 million homes in Asia Pacific will be receiving pay-TV, according to MPA. This number will grow to 513 million by 2020. Pay-TV penetration will reach 55% by 2014 and 58% by 2020. More than 70% of Asia Pacific pay-TV subscribers will have at least one digital set-top box in the home by 2014, growing to 82% by 2020. MPA forecasts indicate that HD pay-TV adoption will grow to 37 million homes by 2014 and 75 million by 2020 while PVR users will reach 10 million and 19 million over the same period.

Digital cable deployment will pick up in India going forward as financing grows and technology costs fall. Large-scale cable markets Japan, China and Korea will complete digital conversion over the next decade. The growth of DTH satellite will also prove important, especially in India, followed by Australasia, China, Indonesia, Malaysia, the Philippines and Vietnam. IPTV will be driven by Japan, Korea, China, Hong Kong and Singapore.

Broadband users will top 395 million by 2014 and 506 million by 2020 with per capita penetration scaling up to 11% by 2014 and 14% by 2020. Household penetration will climb to 44% by 2014 and 48% by 2020. Wireless will become an important driver of broadband going forward. Broadband remains highly competitive in North Asia with next generation deployments getting commoditized in markets such as Korea.

MPA projections suggest that total pay-TV industry sales will climb at an average annual rate of 13% between 2009 – 14 to reach US\$54 billion by 2014 and at 8% over the next decade to reach US\$75 billion by 2020. Digital pay-TV services will remain a key driver of revenue growth along with next generation technologies. Digital pay-TV subscription revenues will grow to US\$35 billion by 2014 and US\$53 billion by 2020. HDTV and PVR will remain the most profitable services for pay-TV operators, while VOD will remain churn limiting defensive proposition.

Advertising will remain especially important in India, Greater China and Korea, and will grow from a low base in Southeast Asia. Total pay-TV advertising revenues are expected to grow at an average annual rate of 10% over the next five years to reach US\$11 billion in net terms by 2014 and thereafter expand to reach US\$15 billion by 2015.

PROFIT PROSPECTS

MPA analysis indicates that the top 60 pay-TV and broadband operators in Asia-Pacific generated ~US\$19 billion in sales in 2009 with EBITDA close to US\$6 billion, a 30% profit margin. Sales were up 11% year-on-year, while EBITDA profits grew 14%. Pay-TV platforms in Australasia, North Asia (Japan, Korea and Taiwan) and Malaysia continue to lead in revenues, profits and margins. Emerging Indian platforms have begun to make money at the EBITDA level but are still in the midst of a competitive and capital-intensive cycle, albeit one with prospective growth. Chinese cable operators are generating a higher volume of EBITDA but face a similar cycle.

Growth prospects, especially in terms of cash generation, are fairly strong for leading pay-TV operators in India, China and Indonesia over the long term. DTH platforms in India are likely to start making money after 2013, while cable operators will see last mile broadband digital networks driving profits in the future. Earnings visibility will remain clouded in highly competitive or regulated markets such as Singapore, followed by Thailand and, to an extent, Korea. Profits will remain sizable in Australasia, Malaysia, and Taiwan, which continues to lead in margins.

Cable remains the primary platform for pay-TV in Asia Pacific. But competition is intensifying with the growth of DTH and IPTV in key markets. Cable broadband is also facing significant challenges, especially in Korea and Japan. Competition is also coming from online media services, which is starting to have an impact in Australia, China and Japan in particular. Cable operators are responding with the introduction of personalized set top boxes with Internet functionality, next generation ramp-up and plans to deploy home gateways in the future.

Among content providers, MPA analysis indicates that the top 20 pay-TV broadcasters saw total revenues grow by 7% in 2009 to reach US\$5.3 billion, while EBITDA profits expanded by more than 13% to reach US\$1.24 bil., a 24% margin. In terms of

margins, Sun TV, Discovery Networks Asia, TVB and Fox International Channels lead the way. News Corp., including Star India and Fox International Channels, leads in profit volume, followed by: Indian market heavyweights Sun and Zee; regional majors Disney and Discovery; Australia's Fox Sports and Korea's On*Media, which is likely to grow in scale after its merger with CJ Media gains approval, likely by June, 2010.

Pay-TV advertising sales growth decelerated sharply in 2009, but was still fairly robust. Gains from subscription fees and other revenue streams, including program licensing and syndication, were strong, boosting both revenues and profits during 2009. MPA analysis indicates that the pay-TV channel market grew revenues by 7% to US\$12.7 bil. in 2009 with subscription fees expanding by 12%, offsetting the impact of only 3% ad growth (versus 17% in 2008). Advertising sales reached US\$6.6 billion in 2009, while channel subscription fees reached US\$6.1 billion.

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