



The Launch of BT Vision – a view from media analysts Screen Digest

London, 5th December 2006: The launch of BT Vision is an important step for the telco and can be seen as a defensive move from the company in an extremely competitive broadband market. Seeking to tie the consumer into BT's broadband package, BT Vision functions as a rather expensive, but potentially very effective method of reducing subscriber churn. Offering the V-box and BT Vision service for no cost apart but service activation will give BT customer acquisition costs considerably higher than those for a broadband-only proposition – especially when marketing, set-top box costs and the truck-rolls for engineer install are taken into account.

BT has provided a relatively conservative short-term estimate of user growth, expecting twenty to thirty thousand consumers in the first few months. This is roughly in line with Screen Digest predictions, which forecast BT reaching 30,000 users by the end of 2006. In a year's time, however, BT expects that it will have achieved hundreds of thousands of viewers and by 2010, as many as two to three million. This is higher than our current forecast and would mean that 40% of forecast year 2010 Freeview subscribers will be accessing digital terrestrial television services via the BT set-top. BT currently has 2.98m broadband subscribers and says it will invest £100m a year in the BT Vision service. We estimate that BT's subscriber acquisition cost will be in the region of £175 with an engineer install; this should fall to £120 with self-install kits. This means a total investment to reach 3m customers in the region of £350m-£500m in subscriber acquisition costs alone.

Launching a national IPTV proposition before its Internet Service Provider and Local Loop Unbundler competitors may give BT an early advantage. Orange is seeking to launch its own IPTV service and Tiscali plans to expand the Homechoice platform beyond the London region. BT has certainly thrown down a gauntlet with its pricing. The offering of blockbuster films for less than £3 is lower than PPV equivalents on BSkyB's Sky Box Office platform, and almost 20 per cent lower than the £3.50 price for premium movies on Homechoice and on cable.

However, the BT Vision proposition is currently rather fragmented, and less easy to convey conceptually than the dual subscription movies/sports battering ram

BSkyB originally used to encourage uptake of Sky Digital. For example, subscription is available for Setanta Sports (live) and augmented by the VoD football offering (near-live), yet movies are still only available on pay-per-view (PPV) VoD. Moreover, PPV VoD services have not traditionally been a core revenue source for pay-TV service providers, in contrast to premium subscription.

The key question will be whether BT can generate substantial revenues to justify the BT Vision venture beyond its role as a defensive move to satisfy shareholder expectation. Indeed, whether the lower prices will actually tempt the typically recalcitrant UK consumer to use a PPV service is also a question overhanging the service.

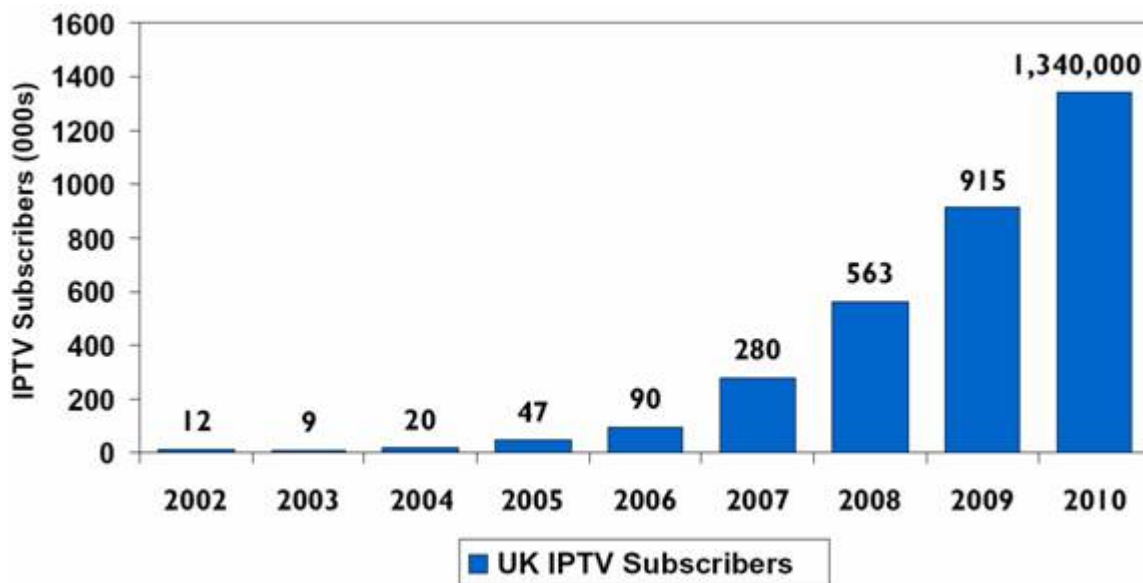
The impending launch of Setanta Sports on the platform, offering live sports, may be key to the success of BT Vision and could potentially provide the revenue earner that the service needs. Although BT stated that the service is targeted at those households without multichannel TV, a subscription sports proposition offering live Premier League football will pose a threat to BSkyB and may yet cause a reaction from the pay-TV operator; however the near-live VoD football element on BT Vision is unlikely to give BT the full thrust it needs to take on Sky on sports and can be seen as no more than a value-added service to the core Setanta Sports proposition.

More on BT Vision

- BT Vision was originally intended for an Autumn launch, but was delayed by technical issues.
- Hybrid boxes are becoming popular with IPTV providers as they reduce broadcast costs and avoid rights issues surrounding streaming the same content.
- The box features an HDMI port for the support of HDTV, although at present no HD services are offered on either IPTV or DTT. BT has not ruled out HD push-VoD services.
- UK phone lines cannot currently support the streaming of HD content which typically requires a dedicated 12Mbps per stream. HD IPTV services will have to wait until BT Wholesale rolls out its upgraded network from 2007 onwards, which the company has been trialling for several years.
- BT states that it is developing a number of interactive and targeted services including niche programming, video telephony, gaming, targeted advertising and user-generated content.

- BT expects to bring in targeted advertising in early 2007 and plans to launch user-created channel BT PodShow.

UK IPTV Subscribers (000s) 2002 to 2010



Source: Screen Digest

European IPTV Subscribers by Country – 2010

UK	1,340,000
France	3,505,000
Germany	1,680,000
Italy	1,749,500
Spain	1,795,500

Source: Screen Digest

Editors' Notes

The data, forecasts and analysis contained in this press release are taken from the Screen Digest online service – TV Intelligence.

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