

Consumers set to switch on to IPTV by end of the decade – 40 million IPTV households expected worldwide by 2010

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For immediate release**

- Canalys forecasts there will be 39.6 million IPTV subscribers worldwide by the end of 2010
- EMEA will remain the largest region for IPTV, although its dominance will be reduced
- Rapid growth in North America is expected – 12.1 million subscribers by the end of 2010
- The huge potential in the Asia Pacific region will be restricted by regulatory issues
- Infrastructure investment is needed to boost developing markets

New forecasts from leading analyst firm Canalys indicate the IPTV market will see rapid growth over the next three years, driven by telecom operators' desire to boost ARPU (average revenue per user) and counter the growing threat from competing triple-play providers. Worldwide IPTV subscriber levels will increase more than tenfold by the end of the decade, growing from fewer than 4 million in 2006 to almost 40 million in 2010.

EMEA accounted for two-thirds of global IPTV subscribers at the end of 2006, and will remain the largest market through to 2010, when the region will account for 38% of the worldwide total. "France is the European IPTV trailblazer, boasting 1.3 million subscribers at the end of 2006," said Canalys vice president Alessandra Fitzpatrick. "Good, early uptake has been driven by a number of factors, notably low broadband prices, the prevalence of bundling low-cost IPTV service with broadband/telephony packages and limited competition from cable operators."

But the favourable market conditions that have helped IPTV thrive in France are not evident in all markets. In most, high levels of competition from existing services will make it difficult for IPTV providers to compete unless they can differentiate their services, either by providing better quality of service or by maintaining lower subscription fees. "IPTV providers will have to compete on price in the short term. As a result, deploying TV services may not prove to be a significant revenue generation opportunity, although establishing a position in this emerging sector will be crucial for service providers seeking to protect their positions as prime providers of communication services," Fitzpatrick added.

With Verizon growing rapidly and AT&T moving beyond the infrastructure development phase, Canalys expects to see strong IPTV subscriber growth in North America. Being home to just 9% of the worldwide subscriber base at the end of 2006, the region will rise to represent 31% of all subscribers by 2010. "The Asia Pacific region also offers huge potential, but the regulatory environment is restricting development,"

Fitzpatrick commented. "The IPTV markets in China, Japan and South Korea are heavily constrained at present, although the 2008 Beijing Olympics may prompt Chinese authorities to accelerate plans."

Canalys forecasts more than 11 million subscribers across the Asia Pacific region by the end of the decade, although this figure could easily be surpassed should regulatory obstacles be overcome. In less developed regions, IPTV services will be restricted to a large degree by shortcomings in deployed infrastructure and low levels of disposable income. While network investment is high, especially in Latin America and Central and Eastern Europe, much of this investment will not bear fruit within the forecast period. There is potential for strong uptake beyond 2010, but this will be dependent on factors such as pricing, regulation and content availability.

"IPTV can be viewed primarily as a defensive strategic move by service providers at present. While telcos have aspirations of creating new, profitable revenue streams, the key short-term driver of market development is improving customer loyalty and reducing churn levels," Fitzpatrick continued. "IPTV will be a financial loss leader for many providers over the next five years when the costs involved with rolling out and evolving services are factored in, but if telecom operators are to retain their position as primary providers of consumer communication services, this may be a price they need to pay. It is difficult to see how the majority of IPTV providers will be able to generate significant profit from services in the near term, especially when the need to be price competitive is considered."

IPTV has already become a significant fourth platform for digital TV in many markets, and its importance across the broadcast sector will increase over the next three years. In Western Europe, for example, Canalys expects IPTV to account for 11% of digital TV households by the end of the decade, up from just 3% at the end of 2006. In EMEA and North America, established cable and satellite operators will offer stern competition. Convincing existing pay-TV subscribers to switch provider will not be easy, with most existing IPTV services offering little beyond what is already provided by cable and satellite. Greater differentiation will be needed if IPTV is to take a greater share of the digital TV market. Having compelling content will be crucial, and this means building exclusive partnerships with content providers and aggregators. To fully exploit the potential of IPTV, service providers will quickly have to develop and introduce advanced services that set their offerings apart from those already available. This means significant investment in intelligent network infrastructure is needed. A window of opportunity exists for IPTV service providers, but in the fast-moving broadcast market, the window will not be open for long.

Note: Canalys defines IPTV as a digital TV service delivering broadcast-quality digital TV and interactive services over xDSL, FTTH or cable networks using IP via a set-top box to the main TV in the home; this

includes hybrid IPTV solutions, such as those offered by BT in the UK, but excludes web TV services delivered to a PC.

About the IPTV Analysis Worldwide service

The market estimates and forecasts in this release come from the Canalys IPTV Analysis Worldwide continuous advisory service. Through regular reports, database releases and direct analyst contact, Canalys sizes the IPTV market and examines and advises on the issues facing service providers, hardware vendors, software, content and services companies active in the IPTV sector. It looks at the key market trends globally, service provider business models, opportunities for hardware and software vendors, and end-user behaviour. More information is available from the Canalys web site.

About Canalys

Canalys specialises in delivering high quality market data, analysis and advice to the world's leading technology vendors. It is recognised as a key provider of continuous advisory services and confidential custom projects for marketing managers and strategists within blue-chip IT, telecoms, navigation and consumer electronics companies. It has unrivalled expertise in routes to market for all kinds of high technology products and services in the consumer, SMB and large enterprise segments, and provides worldwide market data and trends analysis.

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