STRATEGIC REVIEW OF THE TELEVISION BROADCASTING SECTOR IN THE MIDDLE EAST

Dubai, United Arab Emirates
November 24, 2005
Revised in March 2006

Booz | Allen | Hamilton

This Report has been prepared by Booz Allen Hamilton at the request of Gulf DTH LDC (trading as "Showtime") and reflects the opinions of Booz Allen Hamilton. No third party may rely on this report.

Disclaimer

This published Report has been prepared by Booz Allen Hamilton Inc. (“Booz Allen”) at the request of Gulf DTH LDC (trading as “Showtime”). It is based upon information obtained from sources deemed to be reliable. Analyses and projections represent Booz Allen’s judgment, based upon data sources cited, and are subject to the validity of the assumptions noted herein. For purposes of the analyses presented in this Report, Booz Allen has relied upon, and considered accurate and complete data obtained from the sources cited, but has not independently verified the completeness or accuracy of that data. No representation or claim is made that the results projected will actually be achieved. All estimates and projections contained in this Report are based on data obtained from the sources cited and involve significant elements of subjective judgment and analysis, which may or may not be correct.

No third party may rely on this Report or any excerpt or summary thereof and any third party receiving this Report shall make its own independent investigation of the facts and risks in connection with any proposed transaction.

Booz Allen and its affiliates, officers, directors and employees expressly disclaim any and all liability to any third party based, in whole or part, on anything contained in this Report or in any excerpt or summary or on any information contained in any written or oral communications by them or Showtime relating to the subject matter of the Report.

Table of Contents

Table of Exhibits

1. Introduction

What are the five global brands with the most significant impact? Most of us would probably name well-established brands such as Coca-Cola and McDonald's. Broadchannel Readers' Choice December 2004 Interbrand Survey listed the pan-Arab news network Al Jazeera as the fifth most influential global brand, just after Apple, Google, IKEA, and Starbucks.

Al Jazeera exemplifies the growing international attention the Middle East TV industry is receiving and underscores its particularly buoyant state. With already more than 150 free-to-air-TV (FTV) channels available to most households via direct-to-the-home (DTH) technology, industry leaders such as MBC, LBC, Rotana, Al Jazeera, and Saudi TV are committing substantial investments to create a strong portfolio of channels and secure attractive programming rights.

At the same time, the Middle East pay-TV (PTV) industry has harnessed lower attention despite its vibrant growth during the past 4 years. Showtime, ART, and Orbit, the region's three PTV operators, have made considerable investments to improve the quality of their value proposition and to strengthen their marketing and sales efforts.

High-profile initial public offering (IPO) plans for Al Jazeera, Rotana, and Showtime will also continue to fuel interest and change in this dynamic industry.

From our perspective, the FTV and PTV sectors are coming to a crossroad, with potentially drastic changes ahead. The combination of massive investments, oversupply of FTV channels, greater financial transparency and objectivity imposed by shareholders and capital market authorities post-IPO, and discontinuities in technology and regulations will most likely drive fundamental changes in the industry's landscape and economics.

In this strategic review, Booz Allen Hamilton provides its perspective on the current structure and growth outlook of the FTV and PTV sectors in the Middle East — with a specific emphasis on the latter. This review is focused on the pan-Arab region, specifically on its core markets, here defined as Egypt, the Kingdom of Saudi Arabia (KSA), Kuwait, and the United Arab Emirates (UAE).

The insights from this document draw on Booz Allen's extensive consulting experience in the TV industry in the Middle East and, more generally speaking, globally. Booz Allen has also conducted a series of interviews with selected executives of the TV industry in the region. Quantitative and qualitative analyses also relied on information from a TNS PTV market sizing primary research, Arab Advisor Group research papers, PARC/MAC ratings, and advertising spending surveys, to name a few.

This report is based on fieldwork completed in August 2005.

2. Executive Summary

The Middle East audio-visual market, with over 190 million inhabitants, is particularly large and attractive for broadcasters and advertisers. Strong population increase coupled with continued economic development provides robust growth perspectives. In addition, demand for and consumption of TV broadcasting is significantly stronger than in most developed countries.

Despite attractive fundamentals, demand for audio-visual content is however increasingly challenging to address for broadcasters and advertisers. First, demand is significantly less homogeneous than a common language, culture and religion may suggest. TV consumption behaviors and preferences actually present significant differences across traditional demographic segments, countries and ethnic origins. Second, TV preferences are increasingly discerning and rapidly evolving — driven by the young and affluent now reaching adulthood.

To address this attractive yet challenging consumer TV demand, the Middle East FTV sector has been literally burgeoning. DTH households, which constitute the bulk of the population, now benefit from an overwhelming line-up of over 150 channels. Recently, FTV broadcasters have committed significant investments to reinforce and modernize the quality of TV programming. From our perspective, the FTV sector's buoyancy is however unsustainable over the longer term. Irrational ad sales practices and an evident over-supply of TV channels are resulting in most TV channels being subsidized by their owners.

In this context, PTV has attracted lower attention, despite its strong subscriber growth over the last four years — reaching an average of 40% per annum. PTV penetration however still stands at a modest 5%, but with marked differences between countries such as Egypt (3%) or the UAE (29%). Against this relatively small market of around 1,020 K subscribers, the sector is, by international standards, relatively fragmented with three operators — ART, Showtime and Orbit. Addressing specific customer segments, each of these operators has adopted distinct market positioning. ART, for example, is strong on Arabic movies and sports content, whilst Showtime is the uncontested leader in Western movies and fiction.

PTV's longer-term growth perspectives will be driven by attractive fundamentals — strong socio-economic growth coupled with a young population coming to adulthood, with increasingly discerning requirements for audio-visual content. In addition, PTV operators have strong growth potential in relatively untapped countries such as KSA or middle to low socio-economic segments (C and D) — which are typically the heart of PTV subscribers in developed markets.

Despite this strong growth potential, PTV's development presents significant uncertainties, shaped by the evolution of the FTV sector. Specifically, PTV's growth depends directly on the uncertain rationalization of the FTV sector in the short-term and on PTV operators' ability to further strengthen their premium content programming. Whilst risks of increased FTV exuberance remain, we believe that rationalization will prevail. Emerging signs, such as transfers of FTV premium content to PTV (e.g., Al Jazeera's premium sports) and a growing emphasis on economic performance by FTV broadcasters, in part driven by planned IPOs, are encouraging.

3. Attractive Yet Challenging Consumer TV Demand

The Middle East is among the most dynamic developing regions of the world. Its mostly oil and gas–fuelled economies have allowed significant progress during the past decades which, combined with rapid population growth, have created an increasingly attractive market for advertisers and broadcasters. Looking forward, the demand for entertainment in the region will remain strong and focused on TV. Nevertheless, having been shaped by the family environment for generations, consumer preferences are now rapidly evolving and fragmenting, creating in the process new challenges as well as opportunities for broadcasters.

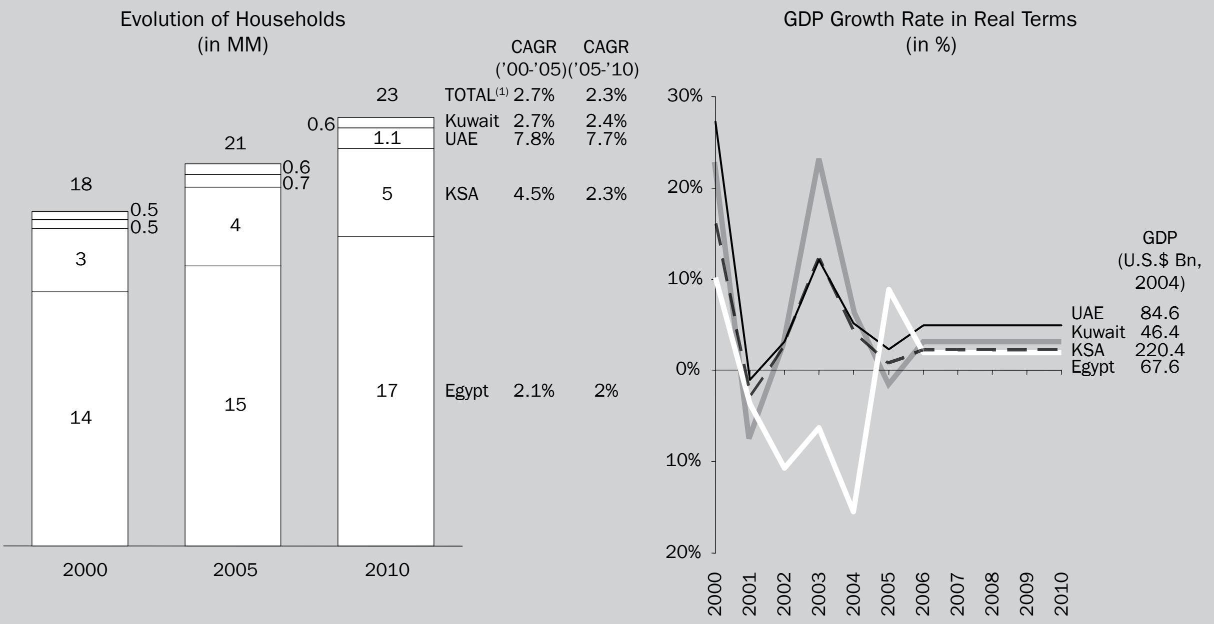
The Middle East offers a particularly large and fast-growing market

The Middle East is a particularly important market given its sheer size and growth prospects. With its 190 million inhabitants and 36 million households in 2005[(1)], the Middle East corresponds roughly to the size of Western Europe.

Looking forward, Booz Allen believes that the Middle East offers particularly attractive socioeconomic fundamentals for broadcasters and advertisers. In Egypt, the KSA, Kuwait, and the UAE, the population is growing fast by international standards, with a 2.3% household annual growth expected during the next 5 years, which provides a solid basis for further economic growth. Rising oil prices and increasing diversification of revenue sources have been fuelling real GDP growth of approximately 1.6% p.a. in the past 5 years and approximately 2.1% in the past year. Long-term real GDP growth is expected to reach 2.9% with, of course, some risks stemming from potential oil price declines or political tensions.

The Middle East is experiencing fundamental changes in the socioeconomic structure of its population. Strong economic growth is gradually favoring the advent of a larger middle class — with, however, still significant differences across countries. That will create a market of approximately 13 million households with medium to high income levels (socioeconomic segments ABC) in Egypt, the KSA, Kuwait, and the UAE by 2015. In parallel, the numbers of young adults in these populations will grow and, by 2015, the share of the population over 25

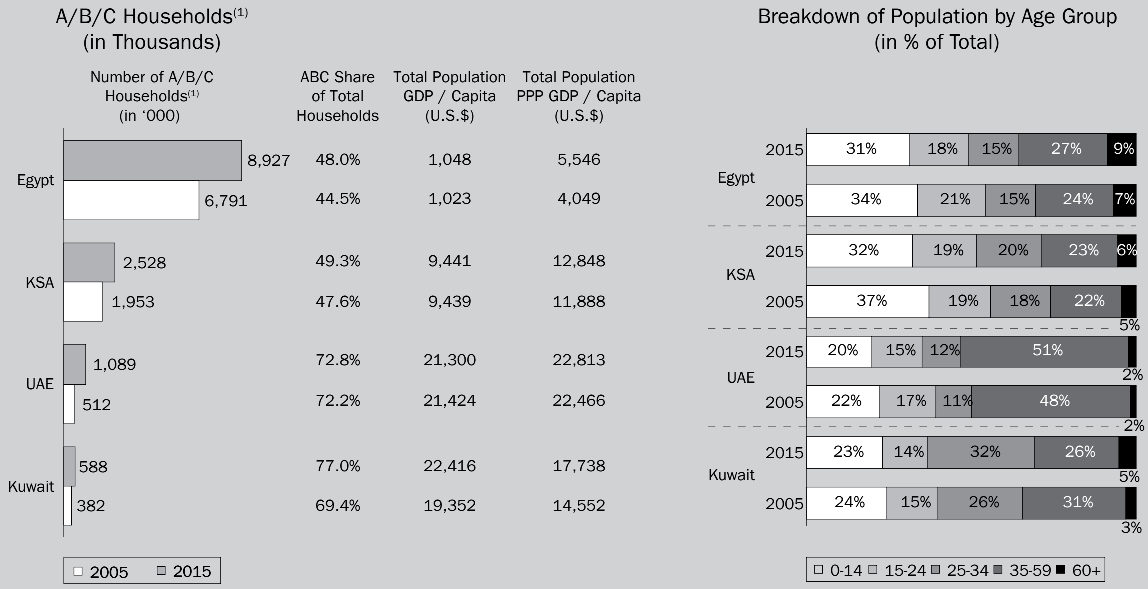
Exhibit 1: Socio-Economic Growth



Source: Arab Advisors Group, IMF, Booz Allen Hamilton Analysis

(1): Bahrain, Egypt, Jordan, KSA, Kuwait, Lebanon, Oman, Qatar, Sudan, Syria, UAE, and Yemen

Exhibit 2: Estimates of Populations Structures

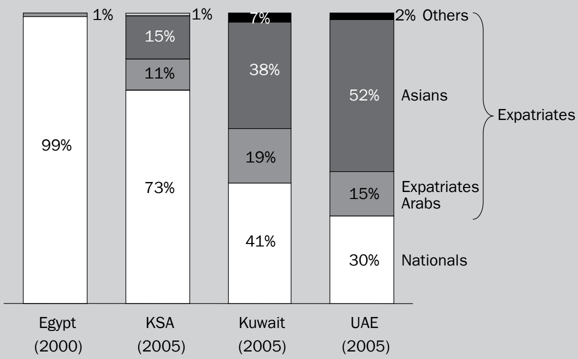


(1) A/B/C households are defined as households with monthly income over LE 1,000 in Egypt, SR 5,000 in KSA, AED 3,000 in UAE and KD 400 in Kuwait
Source: AC Nielsen, UN, Booz Allen Hamilton Analysis

could reach 65% in the UAE, 63% in Kuwait, 51% in Egypt, and 49% in the KSA, driven mainly by the transition of today's young teenagers to adulthood.

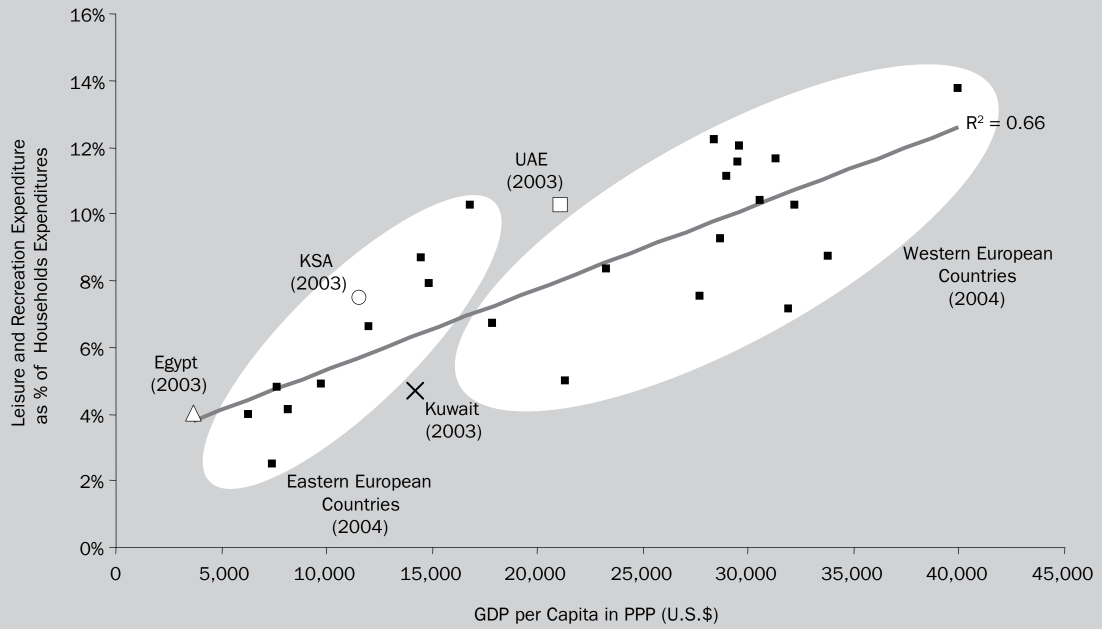
Furthermore, the region exhibits a common language and relatively compatible cultures and buying behaviors. It offers a particularly large and promising market for broadcasters and advertisers. The region presents, however, relatively heterogeneous populations in each country, particularly in Kuwait and the UAE, in which a large share of the population is composed of Arab, Asian, or Western expatriates.

Exhibit 3: Population Breakdown by Origin (in %)



Source: Euromonitor, UAE Ministry of Planning, Booz Allen Hamilton Analysis

Exhibit 4: Household Leisure and Recreation Expenditures (Europe and Middle East(1))



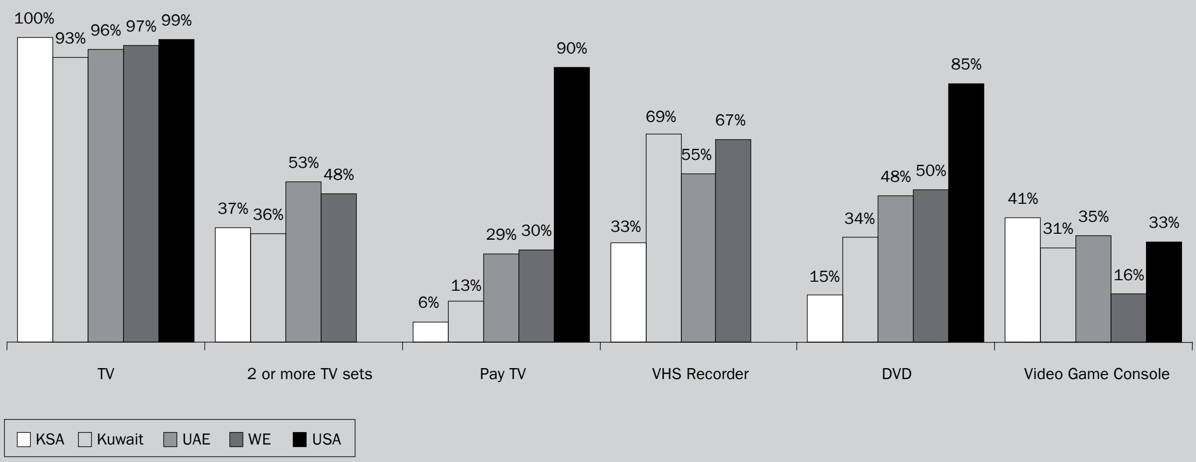
(1) Europe examples are Austria, Belgium, Bulgaria, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Netherlands, Norway, Poland, Portugal, Romania, Russia, Slovakia, Spain, Sweden, Switzerland, Turkey, Ukraine and United Kingdom
Source: IMF, CIA Fact Book, Booz Allen Hamilton Analysis

Infotainment consumption is high and skewed towards TV

Leisure and entertainment consumption in the Middle East is high; and associated expenditures account for nearly 4% of the PPP GDP per capita in Egypt, 5% in Kuwait, 7% in the KSA, and 10% in the UAE. This entertainment consumption is particularly skewed towards audiovisual content — for both cultural and structural reasons. A lifestyle favoring close family ties combined with harsh weather conditions reduces the emphasis on outdoor leisure activities. A culture of oral communication with relatively low propensity for reading also favors audiovisual entertainment.

In fact, the Middle East offers particularly strong penetration of audiovisual equipment. Multichannel FTV — mainly through satellite distribution — already reaches approximately 90% of households in the KSA, the UAE, and Kuwait and 35% in Egypt. The penetration of equipment in TV, DVD/VHS, or video games in the GCC is in line with Western Europe and U.S. levels — with a considerable share of households in the region with two or more TV sets.

Exhibit 5: Selected Electronic Equipment Penetration per Household (in %, 2005(1))



(1) All data for 2005 with the exclusion of Pay Multichannel in Western Europe and the USA (2002 data)
Source: TNS, Informa Telecoms & Media, Forester, IDC, OECD, Zenith Media, European Audiovisual Observatory, International Telecommunications Union, Euromonitor, Booz Allen Hamilton Analysis

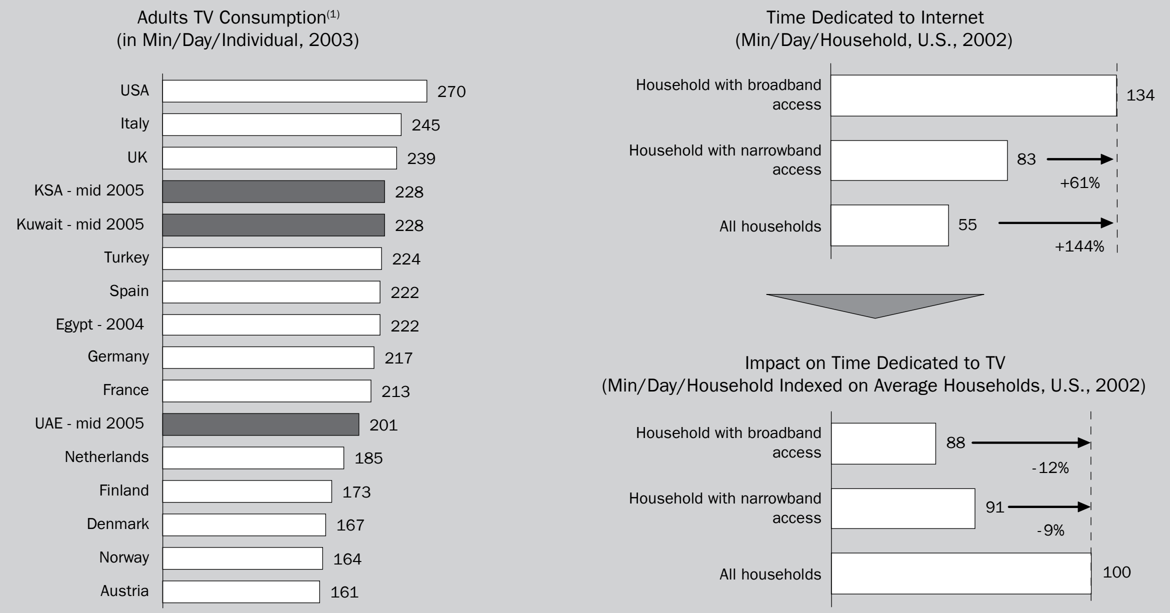
Pivotal to family life, TV consumption is traditionally strong and concentrated

As the centerpiece of family life and entertainment, TV consumption in the region is indeed substantially higher than in other parts of the world, especially in the KSA and Kuwait. With lower Internet and, more important, lower broadband penetration, TV consumption in the region has faced substantially lower cannibalization from online use than in the United States or Europe. Looking forward, TV cannibalization from broadband use is expected to be modest, given the low penetration rates expected for broadband in the Middle East in the near term.

Middle Eastern TV viewership preferences are fragmented and evolving towards more progressive content

General-interest channels have traditionally and quite successfully focused on targeting family audiences. Cases in point are pan-Arab channels such as MBC and LBC and local terrestrial channels such as Channel 1 and 2 in Egypt, whose programming combines a wide range of popular genres including movies, series, game, and variety shows in addition to news. Although local programming genres such as Arabic series and local news remain widely popular, viewers in the region are increasingly drawn to foreign programming,

Exhibit 6: TV Consumption



(1) Data are for people over 10 in Finland, 12 in Austria, Denmark and Norway, 13 in the Netherlands, 14 in Germany, 15 in France, Italy, the KSA, the UEA, Kuwait and Egypt, 16 in UK and Italy, 18 in the UAS and 20 in Turkey
Source: Stat Ipsos, IP Deutschland, Mediametrie, Booz Allen Hamilton Analysis

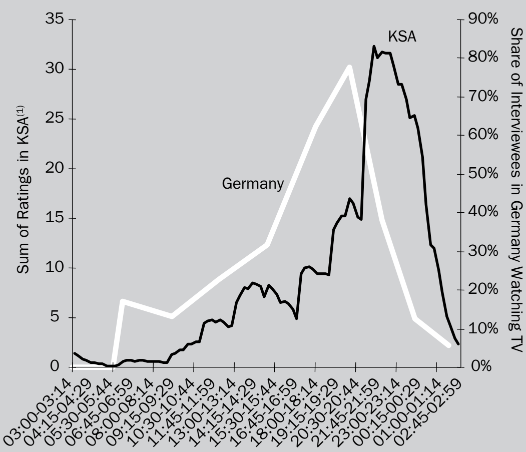
The region's high TV consumption is particularly concentrated on specific periods. Daily viewership is concentrated during an extended prime time, which lasts from 6:00 pm until midnight and is later and longer than in Europe, where typically prime time starts at 6:00 pm and ends at 10:00 pm. TV viewership also peaks during the Holy month of Ramadan, when family and social life intensifies in the evenings after the break of the fast. Families and friends gather around TV to watch a variety of highly popular Arabic series and game shows. As a result, Ramadan captures a particularly significant share of annual advertising revenues.

such as sitcoms and Western movies. Given this straddled pattern of viewership, adopted Western formats that combine Western programming styles with local content elements are immensely popular. "Who Wants to Be a Millionaire" on MBC, "Star Academy" on LBC, and "Pop Idol" on Future TV all generated record viewership across the region. Equally successful are the Western-inspired programs such as "Kalam el Nawaem" and "123 Cook"[(2)]. The scarcity of high-quality local content is further strengthening the popularity of Western and Western-inspired content and shaping the long-term viewership preferences in the region.

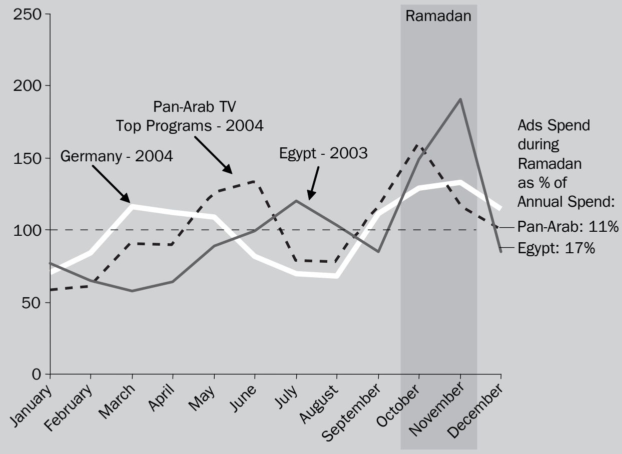
(2): Based on the U.S. talk show, "The Views" and the U.K. cooking show, "Ready Steady Cook", respectively

Exhibit 7: TV Viewership

Viewership by Time of the Day
(2004)



Gross Advertising Spend on Television
(Indexed on Monthly Average)



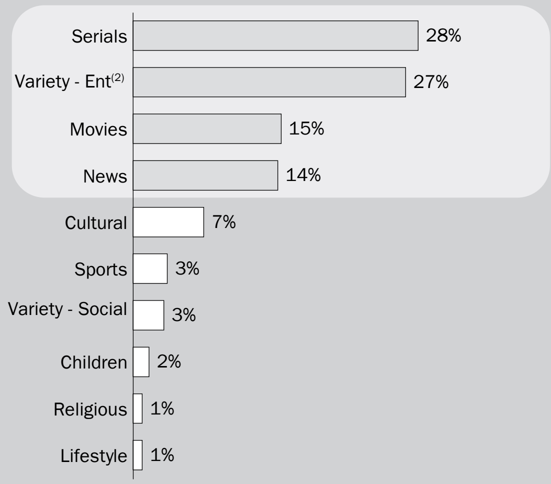
(1) Sum of ratings in KSA based on selected channels (Abu Dhabi TV, Dubai TV, ESC, Future TV, Al Jazeera, LBC, MBC, Saudi Channel 1)
Source: PARC, Nielsen Media Research, TimeBudget 10, SevenOne Media, Booz Allen Hamilton Analysis

Given these general trends, TV preferences differ significantly across traditional demographic segments (children, teenagers, housewives younger than 50, men, the elderly). Men, for example, typically are more interested in news, sports, and political talk shows, whereas women prefer fashion, social talk shows, and religious programs. Younger viewers express clear preferences for music, series, and movies.

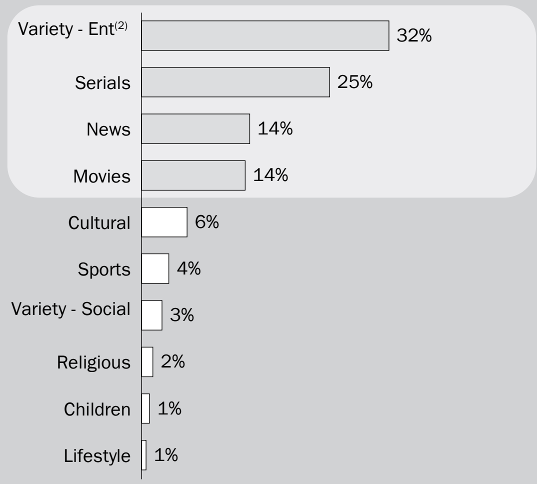
TV preferences of the affluent young audiences are also characterized by a rising affinity for progressive programming and underscore the Middle Eastern viewers' growing preference for Western-type content. Middle Eastern music video channels such as Rotana Clips and Melody Hits almost instantly generated significant ratings following their launch by offering progressive music programming. Viewers of the relatively liberal LBC in the KSA are indeed concentrated in the 20 to 35 age group, whereas interest in the more traditional Saudi Channel 1 tends to increase with age. The same trend is consistently observed across the Middle East to varying degrees.

Exhibit 8: Films, Series and News Are the Preferred Type of Programs

Share of Total Rating Points by Type of Program
(KSA and Pan-Arab, 2004)(1)

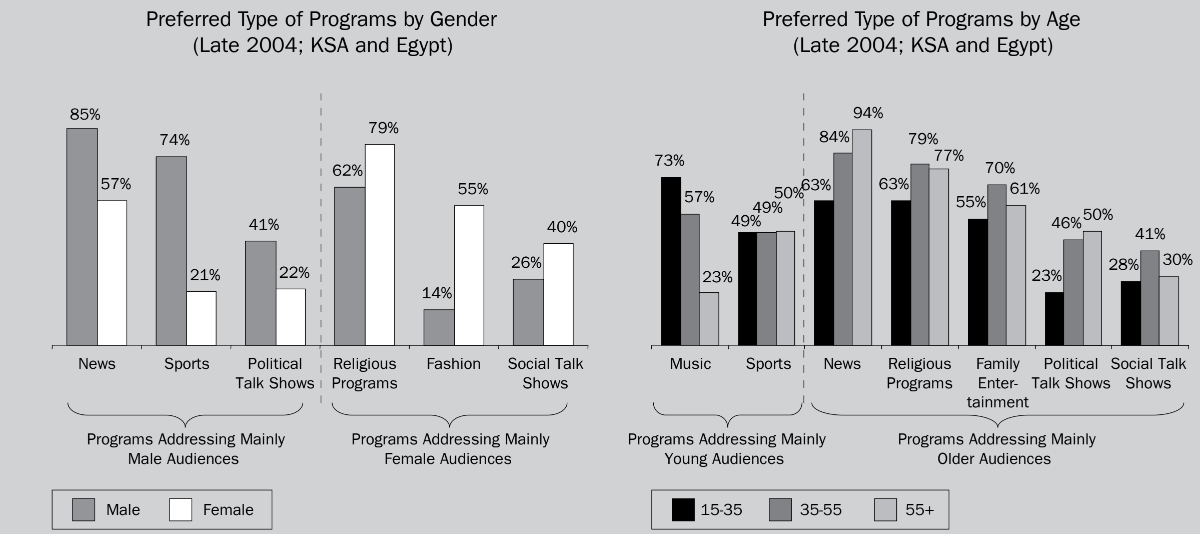


Share of Advertising Spend by Type of Program
(KSA and Pan-Arab, 2004)(1)



(1) Includes Abu Dhabi TV, Al Arabiya, Al Jazeera, Dream TV, Dream 2, Dubai TV, ESC, Future TV, LBC, Mazzika, MBC, MBC2, Mehwar, Melody Hits, Rotana, Saudi TV1 and 2, Saudi TV3 Sports, Sudan Satellite, Syria Satellite
(2) Varieties – Entertainment stands for Comedies, Local Programs and Varieties
Source: STARCOM, MAC TV Research, PARC, Booz Allen Hamilton Analysis

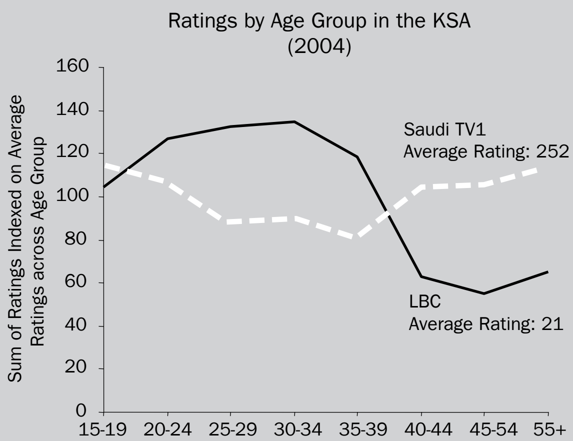
Exhibit 9: There Are Significant Differences in Preferred Type of Programs by Age and Gender



Note: Results based on a survey conducted in September 2004 in KSA and from November 2004 to January 2005 in the Greater Cairo area
Source: Arab Advisors Group, Booz Allen Hamilton Analysis

Middle East teenagers and young adults are therefore growing up with higher exposure to Western content, a wider variety of channels, and access to more progressive TV content than their parents. Consequently, their appetite for higher quality and in particular, Western modern content, is greater. Similarly to their European counterparts, this younger segment of viewers is also particularly prone to interactive services developed around TV. In fact, the 2005 Middle East market for SMS2TV chat services is estimated at about U.S.$80 million, with youth accounting for more than 60%. It is no surprise that today more than 30 different channels in the Middle East offer a constant stream of SMS2TV, interactive services, and mobile personalization downloads, and future technology progress will continue to support that.

Exhibit 10: Traditional Versus Liberal Viewership Preferences



Note: Ratings are indexed on their average ratings across age groups
Source: PARC, Booz Allen Hamilton Analysis

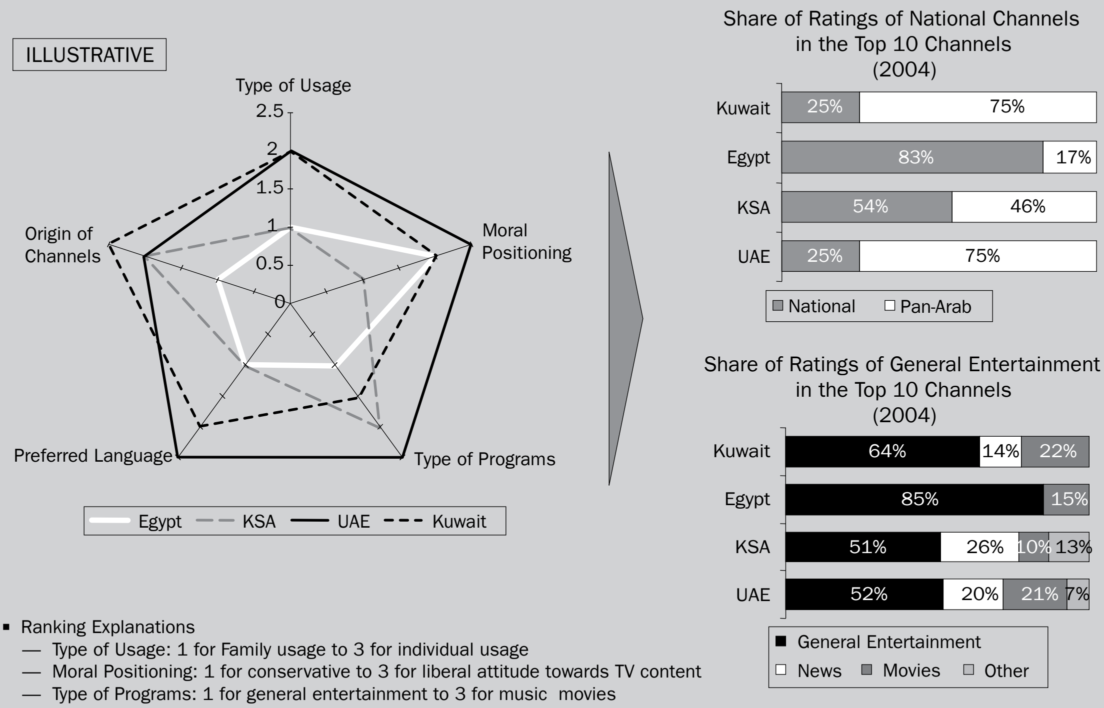
This young generation of viewers is also driving a more individual consumption of TV, particularly in higher socioeconomic classes in which multi-TV equipment is extensive. With today's younger generation of viewers accounting for a growing share of the population and progressively forming the nucleus of future households, its TV preferences are shaping future consumer demand.

Consumer TV expectations and use patterns are heterogeneous across countries

Beyond the typical TV viewership differences across demographics, the Middle East is relatively heterogeneous in TV use preferences across countries — with nuances that are particularly important for broadcasters and advertisers to acknowledge. A segmentation of TV viewers from recent primary market research conducted by TNS and presented herafter can be drawn to highlight national specificities.

In the KSA, TV is still the centerpiece of family entertainment with consequently higher preferences for general-entertainment Arabic programs and general-interest channels. In fact, the KSA market is composed mostly of 'usual TV users' and

Exhibit 11: Differences in TV Preferences by Country

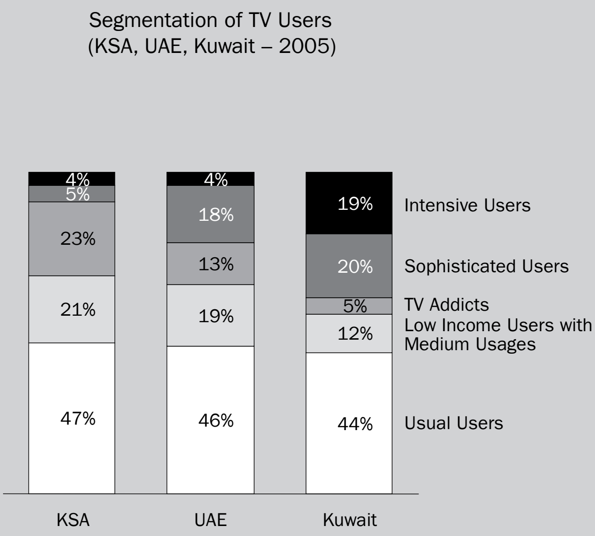


- Ranking Explanations
  - Type of Usage: 1 for Family usage to 3 for individual usage
  - Moral Positioning: 1 for conservative to 3 for liberal attitude towards TV content
  - Type of Programs: 1 for general entertainment to 3 for music movies
  - Preferred Language: 1 for Arabic to 3 for English / other
  - Origin of Channels: 1 for nationals, 2 for Pan Arab, 3 for other

Source: PARC, Booz Allen Hamilton Analysis

'TV addicts' whose preferences are skewed towards these formats, with a strong interest also for movies and music for the latter. Given that bias towards general-entertainment content and the size of the KSA market, the vast majority of general-interest pan-Arab FTV channels are targeted at it. The terrestrial TV offering in the KSA still has a strong following among older and more traditional segments, but has lost significant share of young viewers to general-interest pan-Arab FTV competitors.

Exhibit 12: Segmentation of TV Users



Definition of Segments

Intensive Users	▪ High social classes (AED 15,000/month and above) with higher level of audio visual electronic equipments ▪ Higher than average TV viewership and interest in TV ▪ Watch movies but complement their viewership with an increased share of general entertainment content
Sophisticated Users	▪ Affluent viewers (AED 10,000/month and above) with high level of electronic appliances equipment ▪ TV usage less than average but more sophisticated and targeted towards high quality and fun content and movies (e.g., action movies, extreme sports)
TV Addicts	▪ Medium income (< AED 7,000/month) ▪ High TV consumption - TV is their main entertainment ▪ Preferences include some general entertainment but is largely focused on movies and music (MBC 2, Al Jazeera, Al Riyadiah, Rotana, Melody, Nojoom)
Low Income Users with Medium Usages	▪ Lower social class (SEC C2 households) ▪ Medium to limited usages and low PTV penetration ▪ Viewership split between generalist channels (MBC, LBC, Dubai TV and Abu Dhabi TV) with no emphasis on a particular format
Usual Users	▪ No major TV usages specificities ▪ Mainly low to medium income with moderate to low TV usages

Source: TNS, Booz Allen Hamilton Analysis

In the UAE, TV preferences are more fragmented and liberal because of its more heterogeneous population — with sizable segments of high-income Western, Asian, and subcontinent expatriates. Fragmentation of demand is further accentuated by the more individual TV use patterns of the expatriate segments. Compared with the KSA, a higher share of the population expresses sophisticated TV use patterns in the UAE. 'TV addicts' are less numerous and viewers are more interested in selected high-quality content — for example, action movies and extreme sports. In Kuwait, the same phenomenon is observed, but across a wider span of income segments, increasing the propensity to subscribe to PTV.

Egypt presents a more homogeneous population and stands apart from the higher-income Gulf countries from both economic development and cultural perspectives. Lower satellite penetration combined with an extensive government-owned terrestrial TV offering, which enjoys a captive supply of the latest Arabic series from the government-controlled studios, contributes to a fairly homogenous demand landscape. TV preferences are naturally focused on the locally produced and terrestrially distributed Arabic general family entertainment, for example, series or varieties. However, Egyptian TV viewers are relatively more liberal and prefer more music and movie genres compared with the KSA and nonexpatriates in the UAE and Kuwait. That suggests significant latent demand for more progressive TV content in Egypt, currently suppressed by the unaffordability of multichannel FTV and PTV and the scarcity of targeted progressive content.

Overall, the Middle East offers a large and growing market for media players and advertisers. But, beyond the language and relative cultural homogeneity, regional TV demand is far more fragmented across segments and countries than initially meets the eye. Additionally, TV preferences are changing rapidly — with increasing sophistication due to the new consumption habits of the younger generations.

4. Free-To-Air TV Sector Prospects and Vulnerabilities

In response to the growing yet fragmented demand for audiovisual content, the Middle East TV industry has invested aggressively to develop an extensive programming lineup. Oversupply, nontransparent commercial practices, and until now limited economic rationality are, however, casting dark clouds over the financial sustainability of most FTV networks. Booz Allen believes that the TV industry is now at a crossroads — with substantial discontinuities ahead.

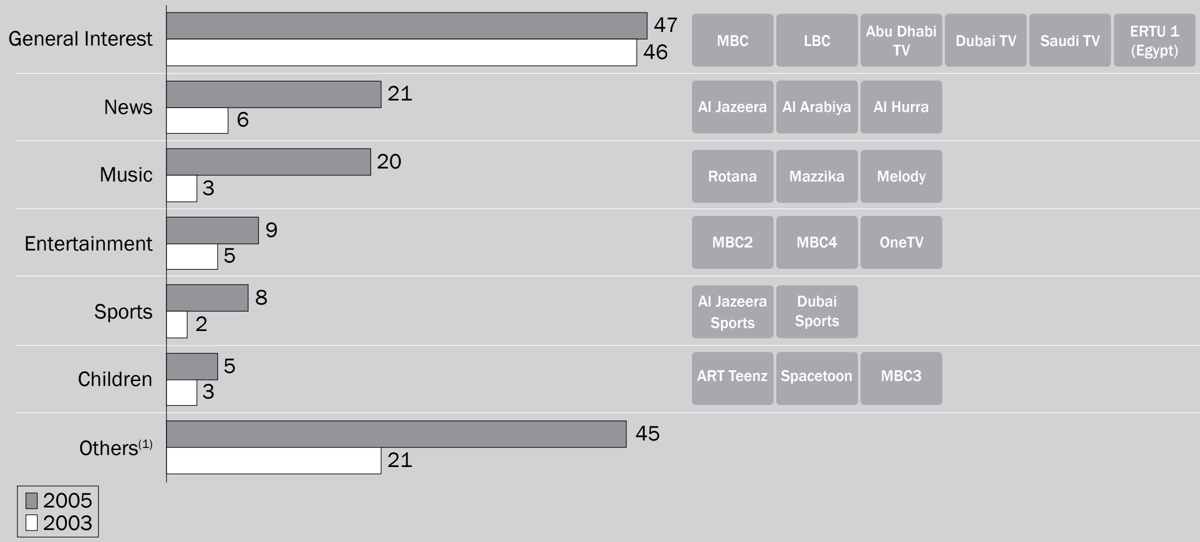
FTV programming is burgeoning — both in quantity and quality

During the past decade, the number of TV channels in the Middle East has exploded — from 18 channels in 1993 to more than 150 at present. Most TV households today, with the exception of Egypt to some extent, can access a particularly comprehensive lineup of both generalist and thematic channels at no running cost, through the simple acquisition of a satellite dish.

Beyond the quantitative growth in TV offerings, FTV broadcasters have committed significant investments to improve programming quality and innovation. The first major salvo in the quest for consumer eyeballs probably started with news and other formats covering sociopolitical topics. Following the path of Al Jazeera, other prominent players such as Al Arabiya and Abu Dhabi TV created a credible and attractive newscast. For example, Abu Dhabi TV's ratings peaked as viewers felt that its newscast excelled in covering the Iraq war. Following the introduction of news channels, three strategic plays have emerged among FTV players.

On one front, leading FTV networks such as MBC or Al Jazeera are developing an extensive lineup of thematic channels to capitalize on the transition from family to individual TV viewership. For example, MBC, an emerging leader in the Middle East FTV industry, traditionally relied on its flagship generalist channel to provide entertainment programs for the entire Arab family. The channel is particularly strong in the KSA, where its progressive programming and cultural fit appeals to the general public. During the past 2 years, MBC complemented its general entertainment channel with a Western movie channel (MBC2), a kids' channel (MBC3), a news channel (Al Arabiya), and a series/fiction channel (MBC4). With significant investments to secure attractive catalog movies, MBC2 has gained strong ratings of nearly 10% in less than 2 years.

Exhibit 13: Evolution of the Number of FTV Channels in the Middle East (2003-2005)



(1) Others include Education, Religious, Science, Shopping, Tourism, Women and Financial/Business Channels
Source: Corporate websites, Arab Advisors Group, Booz Allen Hamilton Analysis

Exhibit 14: Channel Portfolio Extensions for Selected FTV Networks

Group	Generalist	News	Entertainment	Sport	Children	Other
MBC	MBC	Al Arabiya	MBC2, MBC4		MBC3	
Abu Dhabi TV	Emirates, Abu Dhabi TV			Abu Dhabi Sports		
DMI	Dubai TV		OneTV	Dubai Sports		Dubai Business
Al Jazeera		Al Jazeera		Al Jazeera Sports	Al Jazeera Kids	Al Jazeera Documentary, Al Jazeera English
Saudi TV	Saudi TV, Saudi TV 2	Al Akhbariya		Al Riyadiyah		
Nile	Nile TV	Nile News	Nile Culture, Nile Drama	Nile Sports	Nile Family & Kids	Nile Educational
Rotana			Rotana Cinema			Rotana, Rotana Music, Rotana Tarab

Created more than 2 years ago / Created less than 2 years ago / Planned / No channel

Source: Corporate Websites, Booz Allen Hamilton Analysis

Another illustrative case is Al Jazeera, which has succeeded in becoming the global Arabic-speaking leader in the news format. Its noncensored viewpoints and provocative broadcasts have made the channel largely popular among audiences who have grown tired of TV censorship in the Middle East and what is perceived as biased Western media. However, the popularity among audiences has yielded uneven appreciation amongst governments and advertisers regionally and globally. This has hindered its potential to attract significant advertising revenues. Al Jazeera is diversifying its revenue base by introducing a sports, an English news, and a kids' channel as well as launching a subscription SMS news alert service and an online bilingual Web site. More recently, Al Jazeera announced it would introduce two sports channels on PTV.

On another front, players such as Rotana and LBC are following a content-play to secure exclusive must-see content for younger audiences whether it is locally produced movies and music as in the case of Rotana or adapted foreign reality show formats as in the case of LBC.

A third and more recent strategic play has been for thematic channels to diversify their revenue streams by tapping into the large regional market for mobile ring tones and logos, SMS2TV chat, and interactive TV voting.

Overall, FTV networks' initiatives have been largely to the benefit of viewers. Middle East viewers now enjoy an FTV lineup that at least matches if not considerably surpasses those in Western countries.

Exhibit 15: Illustrative Comparison of FTV Programming, Middle East vs. Selected Western European Countries

Format	Middle East	France[1]	United Kingdom[1]	Comments
Movies	▪ Arabic and Westerners hit movies[2]	▪ Mainly French movies and made-for-TV movies	▪ Westerners hit movies[2]	▪ FTV in the Middle East and UK show Western hit movies[2] – though second window
Music	▪ Shows latest and greatest of Western and local music	▪ Shows music clips late at night to fill program grid	▪ Major private FTV show events like "Top of the Pops" for young viewers	▪ The Middle East has the better Music offering with dedicated channels that play latest Western and Arabic Music videos ▪ Latest Music clips are played on PTV platform in France and UK
Variety	▪ Fear Factor ▪ Star Academy ▪ Star Search	▪ Star Academy ▪ Survivor	▪ Big Brother ▪ Pop Idol	▪ France, UK and the Middle East have attractive and comparable offerings
Series	▪ Bernie Mac ▪ Friends ▪ Frasier ▪ All Arabic hit series	▪ 24 ▪ Friends ▪ NYPD Blue	▪ Coronation Street ▪ Eastenders ▪ Casuality ▪ Heartbeat	▪ Middle East has strongest volume but lower recency
Sports	▪ All local broadcasters show football matches from National teams ▪ All local football leagues	▪ Football matches from French National Team ▪ FTV operators show highlights from French Football League	▪ Football Premiere League are played on PTV (Sky Sports) ▪ FTV operators show highlights from UK Football League ▪ FTV channels show some matches from the European Champion's League ▪ Rugby, Cricket and Wimbledon are played on FTV	▪ France and the Middle East have a low value proposition in Sports content
Total Number of Channels	155	5 (19 including DTT)	5 (27 including DTT)	

Relative Content Quality: Weak Strong

(1) Excluding DTT Channels; also excluding TV DSL and FTV satellite television which offer approximately 100-150 additional FTV channels
(2) Hit Movies are movies in the Top 100 of the USA Box Office
Source: Corporate websites, Booz Allen Hamilton Analysis

FTV networks are fragmented regionally — but somewhat concentrated at the country level

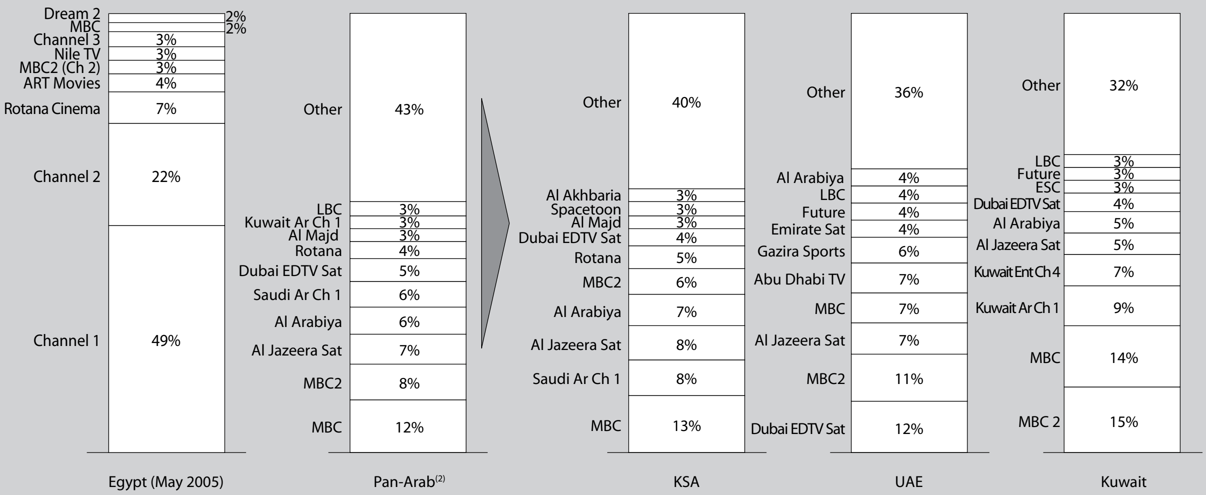
Viewership by channel is unsurprisingly fragmented overall, but especially so in the bottom third of the market in which tens of FTV channels battle for fewer rating points. Compared with the UK and French markets, which count a total of five FTV channels each, the Middle East FTV market is massively fragmented.

The difference in ratings data across different countries reflects the heterogeneous demand canvas for TV in each market driven by sociodemographic structures and diverging attitudes towards TV outlined in the previous section.

The KSA family TV viewing habits and conservative attitudes towards TV are clearly manifested in the dominant ratings performance of general-interest channels such as MBC and Dubai TV. The improved ratings performance of movie channels such as Rotana and MBC 2 reflects the gradual trend towards more thematic viewing habits in the KSA. In addition, the equally strong ratings performance of LBC and Rotana Clips signals the growth of more progressive TV viewer segments. Notwithstanding those factors, the featuring of Saudi TV and Al Majd TV in the top 10 channels in the KSA confirms the persistence of conservative viewing preference among Saudi families. Overall, mainstream Saudi viewers appear to prefer moderate FTV channels with smaller yet sizable segments preferring more progressive programming.

Viewership in both the UAE and Kuwait is more fragmented, which confirms the occurrence of larger segments of more

Exhibit 16: FTV Market Shares by Channel (2004; in % of TRP)[1]



(1) TRP is the Total Rating Points
(2) Pan-Arab defined as the KSA, the UAE and Kuwait
Source: PARC, Booz Allen Hamilton Analysis

sophisticated TV viewers in both countries. With the exception of Dubai TV and Abu Dhabi TV, which are somewhat focused on the UAE, local terrestrial channels are notably absent from the top 10 channels most watched by audiences in these markets.

In contrast, ratings performance in Egypt is highly concentrated and dominated by the local Egyptian Radio and Television Union (ERTU) terrestrial channels. That can be explained partly by the relatively low satellite penetration in Egypt and partly by the local terrestrial channels' access to captive production of new Arabic series and variety programs from the government-controlled studios. The dominance of local terrestrial channels in Egypt is periodically reasserted when leading FTV channels such as MBC regularly choose to co-broadcast some of their hit programs, such as "Who Wants To Be A Millionaire", on ERTU 1.

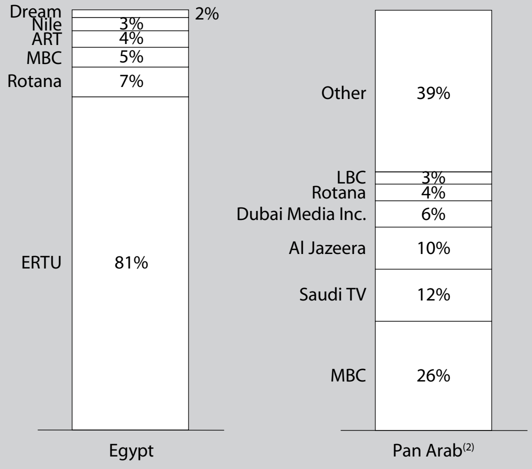
Despite the flurry of players operating in the Middle East and the fragmentation of audiences, leading TV groups, such as MBC, Al Jazeera, LBC, and Abu Dhabi TV, have attracted increasingly concentrated ratings and advertising revenues into their respective channel portfolios.

Exhibit 17: Market Positioning of Selected Middle East FTV Channels

	Conservative	Moderate	Liberal
General Interest	Saudi TV, MBC, ERTU 1 (Egypt), Abu Dhabi TV, Dubai TV	Future TV	LBC
News / Political	Al Arabiya	Al Hurra	Al Jazeera
Thematic / Entertainment	Al Jazeera Sports, Spacetoons, MBC3	Rotana, OneTV, MBC2, MBC4	Melody

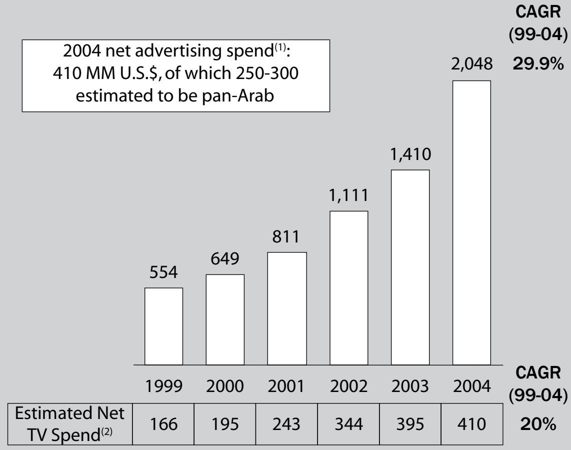
Source: Booz Allen Hamilton Analysis

Exhibit 18: Market Shares by Media Group (2004; in % of TRP)[1]



(1) TRP is the Total Rating Points
(2) Pan-Arab defined as the KSA, the UAE and Kuwait
Source: PARC, Booz Allen Hamilton Analysis

Exhibit 19: Middle East TV Advertising Spend[1] (in U.S.$ Millions)



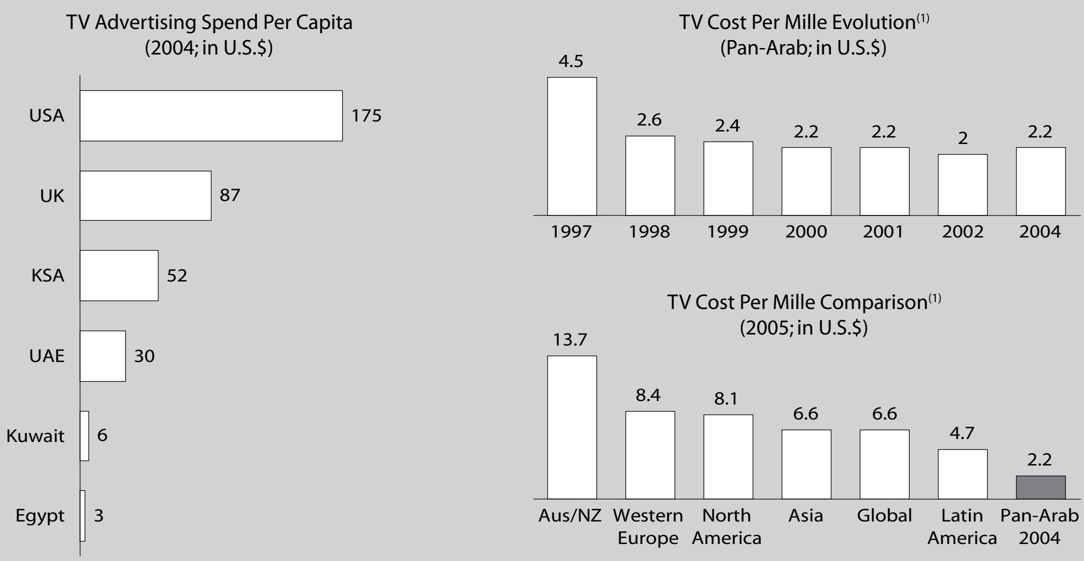
(1) Including GCC, Egypt, Lebanon and Levant
(2) Discount rates estimated between 70% in 1999-2002 and up to 85% in 2004
Source: Initiative Media, Ameinfo, Communications Development Corporation, PARC, Booz Allen Hamilton Analysis

Intense competition amongst FTV networks has, however, mitigated the development of the market

During the past 5 years, the FTV sector has grown rapidly and attracted increasing attention from advertisers. Ad revenues have grown by an estimated annual average of 20% on a net basis between 1999 and 2004. This impressive growth was driven largely by economic deregulation in key sectors in the Middle East, most notably in telecommunications, financial services, insurance, real estate, tourism, and entertainment, creating new categories of advertisers in the process.

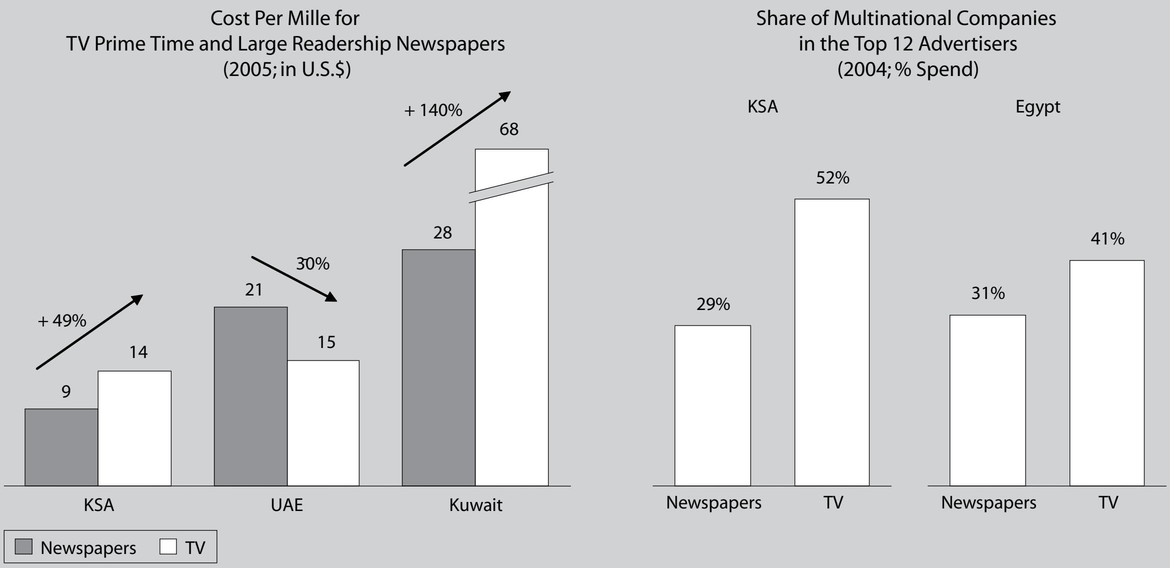
The Middle East advertising market remains, however, largely underdeveloped by international standards. FTV networks still fail to capture a significant share of total advertising spending and their relatively low cost per mille illustrates their inability to exercise significant pricing yield over advertisers.

Exhibit 20: TV Advertising Market Development Level



Note: (1) Based on rate cards, Gulf countries' CPM remain low even after adjustments for GDP/Capita, CPM are averaged cost per thousand across the day
Source: Initiative Media, Ameinfo, Communications Development Corporation, Interviews with media buyers, European Media Guide 1999, PARC, Zenith Optimedia, Innovative Future, Booz Allen Hamilton Analysis

Exhibit 21: TV Versus Newspaper Advertising Comparison

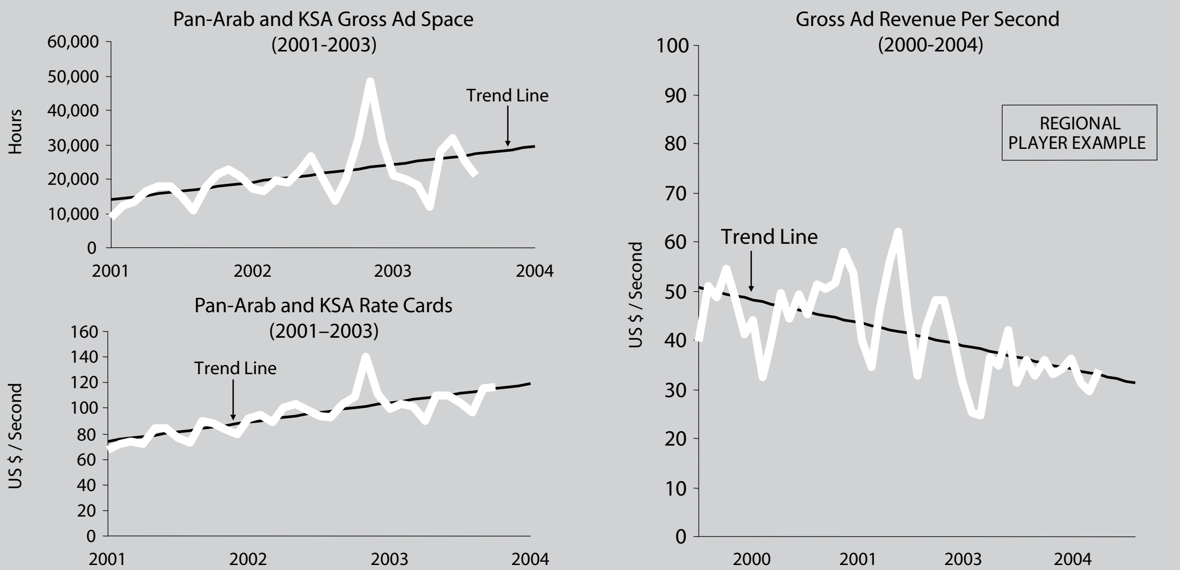


Note: Based on rate cards
Source: Zenith Optimedia, PARC, Booz Allen Hamilton Analysis

The constrained development of TV advertising spending results from, among other things, strong competition from print media. Indeed, TV advertising remains largely skewed towards multinationals targeting the entire Middle East. Conversely, local advertisers have limited presence on TV. Print is indeed a more competitive medium for local advertisers — with more focused reach, lower resulting cost per mille, and cheaper advertising material production costs.

In addition, intense competition amongst FTV networks for advertising revenues has led to irrational and nontransparent commercial practices. In the absence of a common and reliable rating measurement methodology, advertisers lack the critical tool to make efficient media buying decisions. Inflationary rate cards and growing advertising inventory have led to increasing price discounts and, more generally speaking, diluted the attractiveness of TV as a medium of choice for advertisers.

Exhibit 22: TV Advertising Inventory and Rate Cards



Note: Excludes the new channels in 2003 MBC 2, Al Arabiya, IQRAA, Dream 1 and Dream 2
Source: ISPOS, Booz Allen Hamilton Analysis

In its current state, the Middle East FTV industry structure may not be viable in the medium to long term

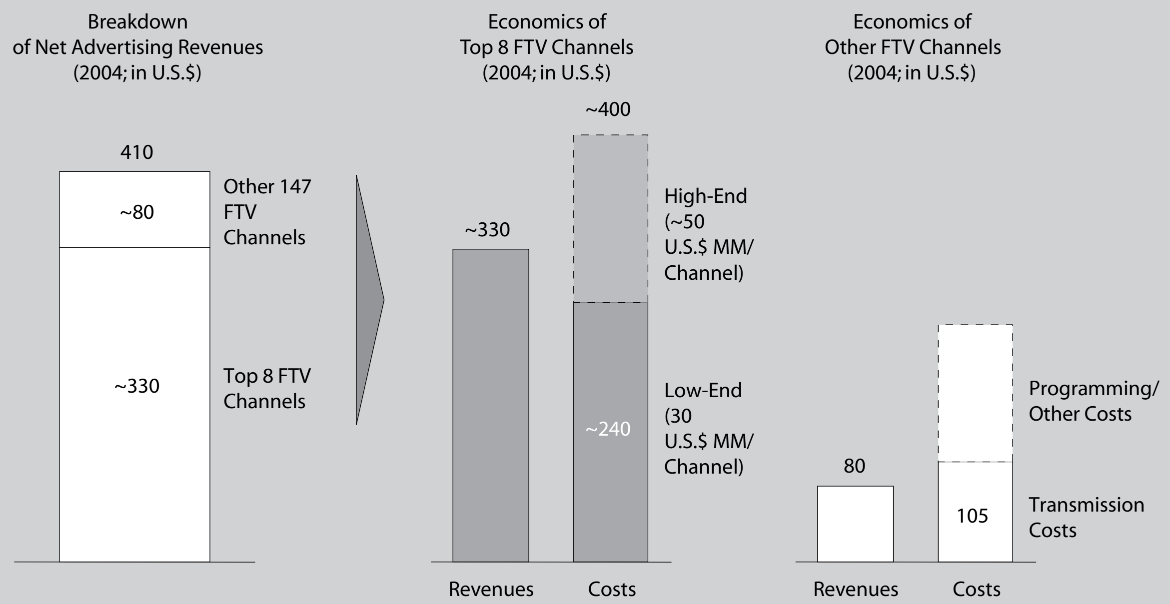
Oversupply and sometimes irrational commercial practices, most notably in advertising sales and programming costs, are negatively affecting the economics of the Middle East TV broadcasting industry. The probable scenario is that only a handful of leading FTV broadcasters are marginally profitable at present, whilst thematic channels are loss making for the most part.

FTV broadcasters face uncertain perspectives of profitable growth looking forward

From our perspective, FTV broadcasters benefit from particularly strong top-line growth potential looking forward. Continued economic development, an increasing base of pan-Arab advertisers, and continued deregulation should spur 6% net advertising market growth p.a. during the next 5 years.

In addition, emerging signs of increased transparency and economic rationality

Exhibit 23: Simulated Economics for the FTV Industry in the Middle East



Source: Booz Allen Hamilton Analysis

In the absence of commercial media regulators, the FTV industry in the Middle East has recently resorted to pooling advertising sales through common agents in an attempt to reverse the trend of declining advertising yields, with some successes. Nevertheless, with more than 155 FTV channels in the Middle East against 5 to a maximum of 30 in Western countries, the clear oversupply in the region can hardly be compensated by efforts to stimulate advertising growth. Whether commercial networks will rationalize their investments behind loss-making channels remains highly uncertain in the short term.

provide room for renewed optimism. For instance, IPO plans by Al Jazeera or Rotana underscore the industry's stronger emphasis on sustainable economics. In fact, most large FTV networks have recently conducted extensive cost reduction efforts. Abu Dhabi TV, for example, has recently conducted an intensive rationalization of its in-house production resources. Egypt TV, as another illustrative case, has discontinued operations of one of the satellite channels. Overall, in 2005, irrational ad sales inventory management and pricing discounts practices have been reported to come under increasing control. Looking forward, the announced launch of a pan-Arab TV ratings measurement system will further contribute to creating greater market transparency.

Despite these positive growth perspectives, significant risks and discontinuities remain. The encouraging signs of industry rationalization are still in flux — with irrational moves for leadership, potentially driven by political agendas. Furthermore, increasing regulation, in an attempt to control the content of FTV better, or government-driven introduction of digital terrestrial television (DTT) could significantly reshape the current structure of the FTV industry.

As a result, we believe that the Middle East FTV sector is now truly at a crossroads — articulated along three alternative scenarios.

1. **Gradual consolidation and rationalization of the FTV industry**. Increased emphasis on financial profitability will reduce the level of irrational competition amongst broadcasters for content acquisition and challenge the current lineup of TV channels. The number of FTV channels in this scenario is expected to diminish significantly, particularly in the smaller thematic channels. These channels would therefore need to consider transferring to PTV or discontinue operations altogether. Premium content, which by international experience cannot usually be financed by advertising alone, could gradually migrate to PTV platforms

2. **Intensifying competition for eyeballs and advertising revenues**. The pendulum between economic rationality and an irrational war for eyeballs is still swinging wildly. Whilst emerging signs suggest greater economic rationality, recent battles for programming rights and continued investments in new TV formats create significant risks that intensive competitive behaviors would continue to prevail in the near term. Under this scenario, the top eight or so FTV channels will continue to record marginal returns, while the rest of the market will remain practically subsidized by the owners

3. **'Nationalization' of FTV broadcasting**. Given the strong installed base of satellite receivers, the introduction of new broadcasting technologies such as DTT will be challenging. However, strong government-backed introduction of DTT in an attempt to gain greater control over content could lead to a reduction in the number of FTV channels available — provided DTT replaces DTH to a significant extent.

5. Emerging Pay-TV Sector

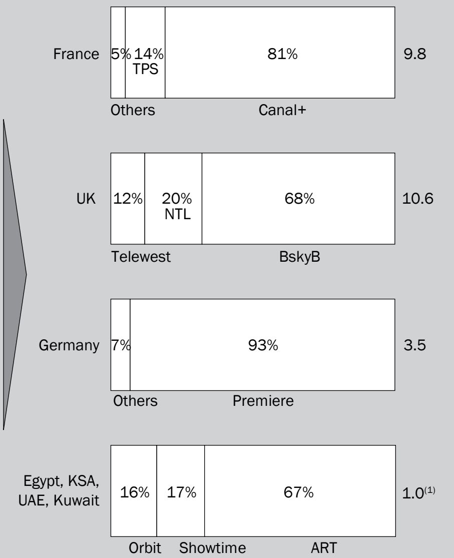
The Middle East PTV industry is fragmented — hosting three operators with distinct positioning

Exhibit 24: PTV Industry Structure

Overview of Pay TV Operators in the Middle East

Market Players	Ownership	Headquarters	Reach/Satellite	Service/ Content Offering	Subscribers/ ARPU/ Revenues[2]
ART	▪ Dallah Albaraka Group	▪ Headquarters in Saudi Arabia ▪ Technical offices are in the Media City in Jordan	▪ Middle-East ▪ North Africa ▪ Europe[1] ▪ Broadcasts through Arabsat and Nilesat ▪ Broadcasts through Cable in the UAE and Qatar	▪ Operates multiple bouquets ▪ 37 TV channels, 23 radio channels, no PPV ▪ Strong Arabic movie and local/ international sports content	▪ 686 K subscribers ▪ ARPU: US$ 9 ▪ Revenues: ~US$ 75 MM
Showtime	▪ Viacom (21%) ▪ KipCo (79%)	▪ Moved from London to Dubai Media City	▪ Middle-East ▪ North Africa ▪ Broadcasts through Nilesat only ▪ Broadcasts through Cable in the UAE and Qatar	▪ 33 TV channels, 10 radio channels, PPV ▪ Strong Western content ▪ Sports content	▪ 175 K subscribers ▪ ARPU: US$ 50 ▪ Revenues: ~US$ 105 MM
Orbit	▪ Saudi Mawared Group	▪ Bahrain	▪ Middle-East ▪ North Africa ▪ Europe[1] ▪ Broadcasts through Arabsat and Nilesat ▪ Broadcasts through Cable in the UAE and Qatar	▪ 32 TV channels, 20 radio channels, PPV ▪ Mix of Arabic and Western content ▪ Sports content	▪ 159 K subscribers ▪ ARPU: US$ 19 ▪ Revenues: ~US$ 35 MM

PTV Number of Subscribers and Operators Market Shares for Selected Countries (2004, in Millions and %)



(1) Separate bouquet / content offering
(2) Indicative 2005 Estimates; ARPU excluding advertising and VAS, only for UAE, KSA, Kuwait and Egypt
Source: Corporate websites, press releases, TNS, Informa, Booz Allen Hamilton Analysis

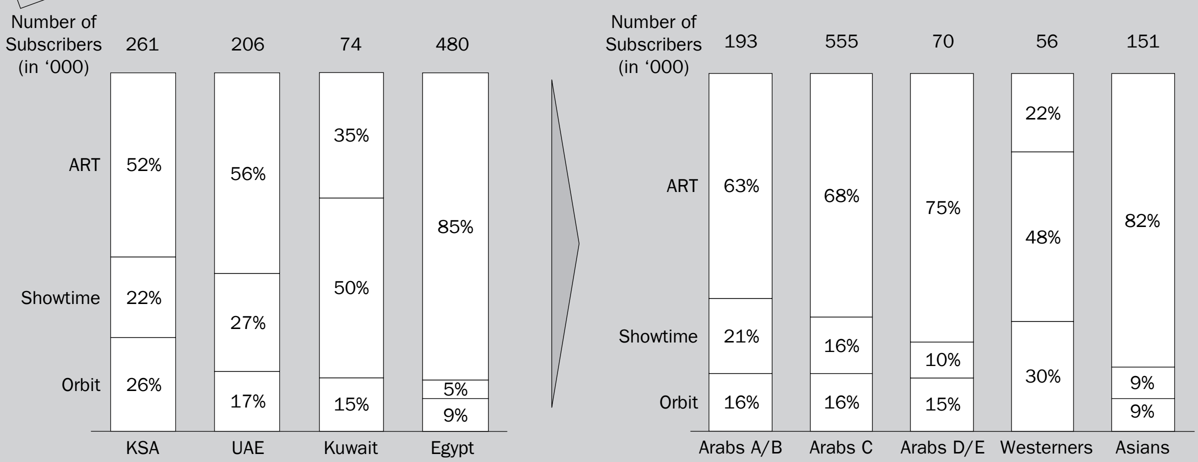
(1) H1 2005 estimates based on TNS primary market research
Source: TNS, Corporate websites, Press releases, Booz Allen Hamilton Analysis

Exhibit 25: PTV Operator Market Shares by Country and Segment

Indicative Estimates Based on Primary Market Research

Market Share by Country (2005)

Market Share by SES (2005)

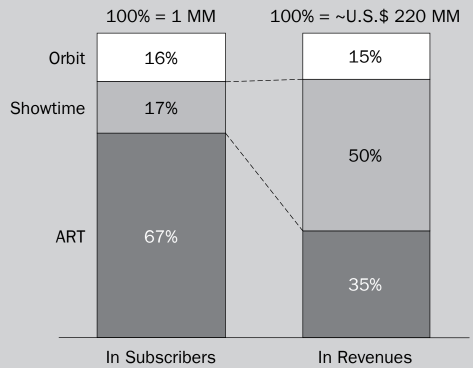


Source: TNS, Market expert interviews, Booz Allen Analysis

Since the mid-1990s, three PTV operators have been present in the Middle East. Orbit and Showtime introduced the first PTV bouquets in the region, before ART switched from broadcasting on FTV to become a PTV operator. The regional PTV market is still at an early stage of development compared with the typically more mature and concentrated European markets.

In regard to revenue, Showtime is estimated to be the overall market leader as it yields significantly higher ARPU (Average Revenue per User) levels, according to primary market research conducted by TNS. Each of the three PTV operators in the region has adopted a distinctive market positioning, resulting in substantial variance in their market shares across countries and/or viewer segments. For example, ART is particularly strong in the KSA and Egypt and among Asian expatriates, whereas Showtime is the uncontested leader in Kuwait and more generally speaking with higher income households.

Exhibit 26: PTV Operator Market Shares in Revenues vs. Subscribers[1]



(1) Egypt, KSA, UAE and Kuwait
Source: TNS, Booz Allen Hamilton Analysis

Significant differences in market positions by country or segment are driven essentially by the distinct and focused value propositions pursued by each PTV operator. More specifically:

- **Showtime** defines its positioning as "See it first, see it all!". Showtime's bouquet consists of mostly English channels and is particularly strong in Western movies, kids' channels, and fiction. To deliver the best Western content, Showtime has secured exclusive deals with Sony, Paramount, DreamWorks, Disney and Universal Studios for the first pay-TV movie window. Showtime's lineup of sports or Arabic movie/fiction channels is relatively weak in comparison with ART and Orbit. Overall, Showtime has gained the greatest market traction amongst Western viewers and Arab upper classes open to Western culture, particularly in Kuwait and the UAE.

- **ART** positions itself as an Arabic bouquet with particularly strong positions in Arabic movies and sports programming. In sports, ART has secured a leading position by acquiring the rights of the prominent international and regional soccer championships — for example, the European Football Champions' League, the World Cup, and the Arab Champions' League. ART offers separate bouquets that target Westerners, Arabs, and Asians, with differentiated pricing. Although the Arabic bouquet "Al Awael" has relatively low package prices, the Asian bouquet "Pehla" is offered at a high premium. ART has also been able to penetrate lower-income viewer segments by offering introductory prices that are as low as U.S.$5 per month.

- **Orbit**'s position is perhaps less clear than its competitors and aims at "providing a vast selection of entertainment and information in English and Arabic, to an audience that looks for greater programming diversity"[3]. Orbit offers a balanced lineup of English and Arabic movies and entertainment channels but has overall less attractive content than its competitors. Orbit is now believed to be investing in improving the quality of its programming by securing rights for recent Arabic movies and Western movies and airing country-specific talk shows such as "Cairo Today", "Beirut Eyes", and "Live from Riyadh". In addition, Orbit developed the "Pinoy" package for the Asian expatriate community.

(3): Source: Orbit's Corporate Web site

Exhibit 27: Comparison of PTV Operators' Value Proposition for Selected Formats (Illustrative Examples)

Channel Format	ART	Orbit	Showtime	Comments
Western Movies	4 channels Star Movies	5 channels Super Movies	6 channels The Movie Channel	▪ Showtime brings the freshest and most popular movies ▪ ART shows movies that are popular but that were released on average 3 years ago ▪ Orbit's movie line-up tends to be older than competition
Sports	10 channels Al Riyadiya Al Riyadiya 2	3 channels Orbit Sports ESPN	3 channels Extreme Sports Showtime Sports	▪ ART is the channel of choice to tune in for sports – particularly for local sports ▪ FTV channels broadcast Local Football events ▪ Orbit and Showtime have limited premium content in this category
Western Series	1 channel Star World	1 channel Super Comedy	4 channels TV Land Paramount Comedy Channel Style UK	▪ All three channels show western series ▪ The same popular series such as "Friends" are shown on all three channels ▪ Viewers favor worldwide popular shows such as Seinfeld and Friends ▪ Freshness of programs is not yet a major factor
Children	2 channels Cartoon Network Jetix	3 channels Cartoon Network Disney Channel Fun Channel	3 channels Cartoon Network Disney Channel Nickelodeon	▪ All three operators offer Cartoon Networks ▪ Showtime offers The Disney Channel a la carte ▪ Orbit carries Disney as part of its basic package ▪ Each operator also carries specific channels: Jetix for ART, Nickelodeon for Showtime and Fun Channel for Orbit
Arabic Movies	4 channels Al Alam Cinema Al Aflam 2	2 channels Cinema 1 Cinema 2	1 channel Al Shasha	▪ ART has the highest number of Arabic movie channels ▪ Most movies are catalog films
Arabic Series	Al Hikayat	1 channel Al Musalsalat	0 channel	▪ ART and to a lower extent Orbit have extensive Arabic series programming
Arabic Varieties	1 channel Al Tarab	2 channels Al Safwa Al Youm	0 channel	▪ Orbit developed over the years successful talk shows on "Al Youwm" Channel

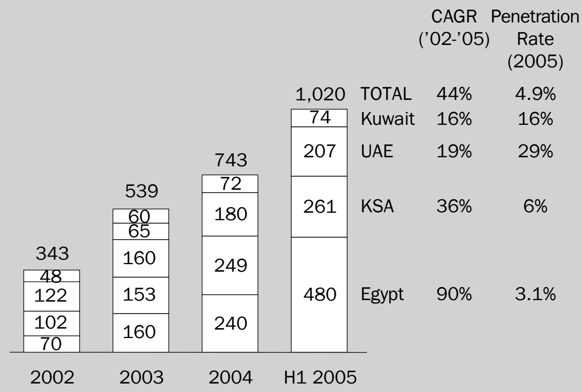
Source: Corporate websites, Booz Allen Hamilton Analysis

Relative Content Quality: ○ Weak ● Strong

The pay-TV market has grown vibrantly during the past 4 years as a result of considerable improvements to programming and marketing

PTV in the Middle East has until now drawn limited attention despite its recent strong market performance. Following the marked improvements in PTV value propositions, the subscriber base has grown substantially during the past 4 years in the core markets of the KSA, Kuwait, the UAE, and Egypt. PTV subscribers in these four countries grew from an estimated 340,000 to an estimated 1,020,000 subscribers between 2002 and 2005 — an impressive compounded annual growth rate superior to 44%. The 1,020,000 estimated subscriber mark reached in 2005 was the result of sustained efforts by the three PTV operators to enhance their value proposition and bring new viewers into the

Exhibit 28: Estimated PTV Subscriber Base Growth (UAE, Kuwait, KSA, Egypt)



Source: TNS, Booz Allen Hamilton Analysis

category. To appeal to a broader audience, PTV operators have invested aggressively in their content, implemented a better segmentation of their packages, increased their efforts in customer acquisition, and offered better pricing to potential subscribers.

The main growth driver has been the push to acquire more differentiated content. Showtime, Orbit, and ART have invested considerably in securing exclusive rights for premium content. In movies, Showtime has signed exclusive first PTV window with most U.S. majors — providing the operator an uncontested leadership in this format. In sports, ART was one of the creators of the Arab Football Champions' League in an attempt to create local premium sports content — though it was forced to air it on FTV. With an improved lineup of programming, PTV operators have also improved the segmentation of their bouquets to address a larger array of customer segments. For example, Orbit and ART have recently introduced bouquets specifically targeting the Asian community. To address the fragmentation of rights across PTV operators, ART and Showtime have increasingly cooperated to bundle their bouquets — leveraging their respective strengths in Arabic movies and sports on the one hand and Western premium movies on the other.

Additionally, PTV operators have considerably intensified their customer acquisition efforts using multiple strategies, for example:

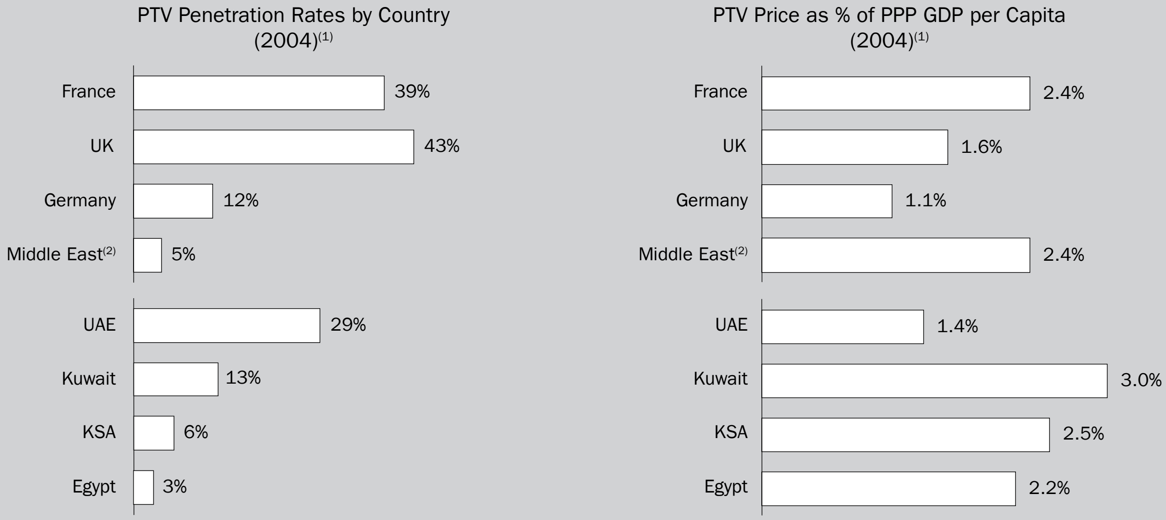
- Investing in brand-building and value proposition communication to underscore the differentiation versus FTV service offerings
- Leveraging emerging cable-based distribution platforms owned by the incumbent telecommunications operators in the UAE and Qatar
- Introducing set-top box and satellite dish subsidies to reduce barriers to entry for new customers
- Extending the reach and capabilities of retail distribution networks

PTV market development remains uneven — with high penetration levels in the UAE and Kuwait, whilst the Saudi and Egyptian markets remain relatively untapped

With an estimated 1,020 K subscribers in the KSA, Kuwait, the UAE, and Egypt, and an overall penetration of 4.9%, the PTV market is still underpenetrated on the aggregate. The low penetration of PTV in the highly populated countries of Egypt and the KSA overshadows the relatively high penetration rates in the UAE and Kuwait. The variances in PTV penetration rates across countries reflect the underlying differences in the socioeconomic construct and TV preferences of each market.

Penetration rates in Kuwait and the UAE are significant with 13% to nearly 30% respectively, driven mostly by the relatively high contribution of middle- and upper-class expatriates to the demographic construct. Typically, Westerners and Asians are the most captive subscribers for PTV because they view the medium as a conduit for entertainment as well as a means to stay connected with their cultural affinities. That is particularly relevant with Westerners, who have both the income and the affinity for Western premium movies and international sports available on most PTV platforms.

Exhibit 29: Comparison of PTV Penetration and Cost by Country



(1) All data are 2004 data with the exclusion on the KSA, the UAE, Kuwait and Egypt (2005 data)
(2) Middle East defined here as the KSA, the UAE, Kuwait and Egypt
Source: Arab Advisors Group, IMF, UN, TNS, Informa, Company Information, Booz Allen Hamilton Analysis

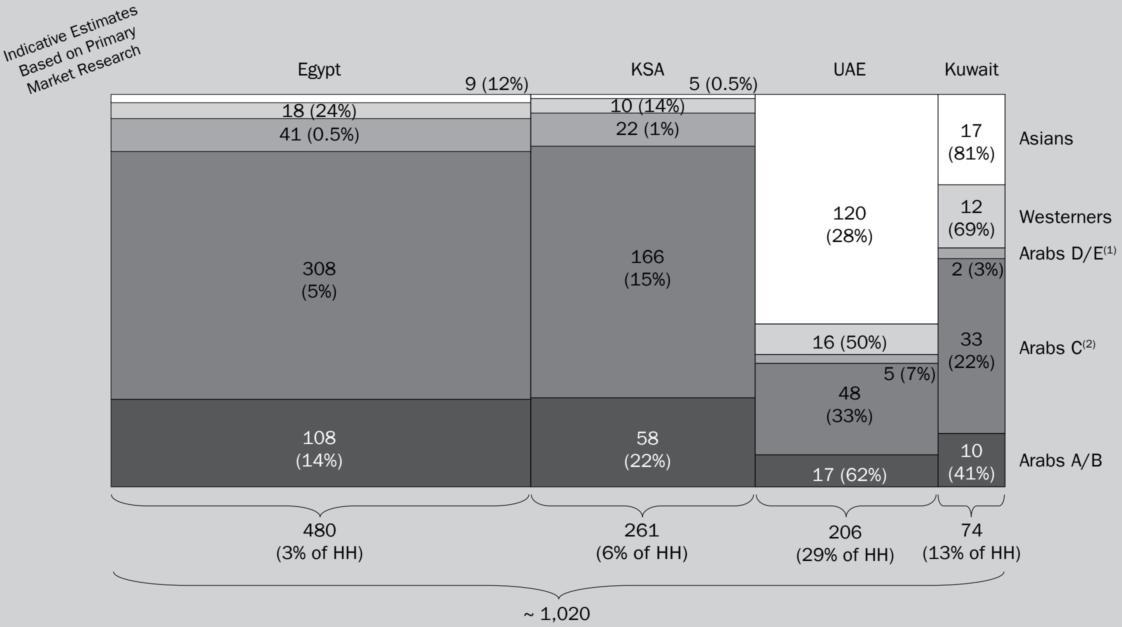
Both Kuwait and the UAE countries benefit from lower piracy rates and higher disposable income levels than other countries in the region. However, and more fundamentally, the limited offering of local terrestrial channels and the lack of FTV channels targeted at Kuwait and the UAE have created an opportunity for PTV providers to capture these relatively underserved markets. In doing so, PTV operators have reshaped TV viewers' preferences and increased their addressable market by nurturing the "high-revenue intensive TV users" and "sophisticated TV users" segments as previously illustrated in Chapter 3 of the report. In addition to the natural growth rates for the expatriate and Class A/B segments, there are good growth prospects for PTV among the C/D/E classes in the UAE and Kuwait. Typically, lower income classes in Western countries are more likely to subscribe to PTV to compensate for the unavailability or unaffordability of higher ticket entertainment options, such as travel, arts, and fine cuisine.

KSA's substantially lower penetration rate of 6% results from a lower share of upper and middle-class households and, more significantly, greater concerns over the liberal nature of PTV content. Such concerns, together with the abundance of good quality TV content targeted at the Saudi viewer by pan-Arab FTV channels and terrestrial Saudi TV, are diminishing the perceived value of the PTV offering. Although PTV subscriptions are priced at nearly constant prices across the UAE, Kuwait, and the KSA, PTV is less affordable in Saudi given lower income levels across all classes. Overall, the KSA appears to have a strong potential for future PTV penetration across all classes if the issues with PTV perception, differential value proposition versus FTV, and affordability are addressed.

Egypt exhibits a markedly low penetration rate of 3.1%, driven mostly by unfavorable socioeconomic factors and a lack of adequate PTV offer customization to date to attract nonsubscribers. Somewhat similar to the KSA, in Egypt the propensity to subscribe to PTV is low due to the strong terrestrial TV offering in the key content areas of Arabic series and variety shows. In addition, systematic piracy in Egypt is undermining penetration of paid-for PTV, while propagating a culture of reluctance to pay for TV content in an already price sensitive market.

For Egypt and the KSA, the natural resistance to the more liberal and to some extent Western content would ease off, especially among the A/B classes, as it was the case for new FTV channels through DTH technology in the late 1990s — which have now become mainstream communication media for most families in the region.

Exhibit 30: Estimated PTV Subscriber Base (2005; in Thousands and as % of Households)



Note: percentages within bars relate to PTV penetration within socio-economic segment
(1) D/E households are defined as households with monthly income under LE 1,000 in Egypt, SR 5,000 in KSA, AED 3,000 in UAE and KD 400 in Kuwait
(2) C households are defined as households with monthly income between LE 1,000 and LE 5,000 in Egypt, SR 5,000 and SR 15,000 in KSA, AED 3,000 and AED 12,000 in UAE and between KD 400 and KD 1,000 in Kuwait
Source: TNS, Booz Allen Hamilton Analysis

PTV faces a handful of surmountable challenges — paramount is to widen the value gap between PTV and FTV

Beyond socioeconomic factors and country specifics, the future development of PTV hinges on addressing a handful of key, but surmountable challenges.

As observed in the earlier chapters, FTV channels have engaged in a marked and sometimes irrational investment spree to enhance the quality and diversity of their programs, which has partly impaired the development of the PTV market. In fact, lessons learned from international markets suggest that the development of PTV platforms tends to be slower when the FTV segment is well developed and represents a potent content competitor.

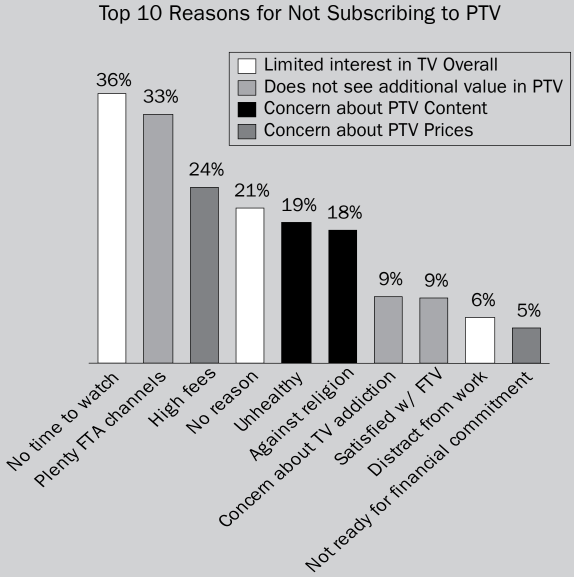
As the examples of Canal+ and BskyB suggest, strong PTV penetration relies mainly on the availability and exclusive ownership of strong premium formats — mainly in sports, movies, fiction/series, and adult entertainment. Except in Western movies and to a limited extent sports, the Middle East lacks truly premium content, specifically:

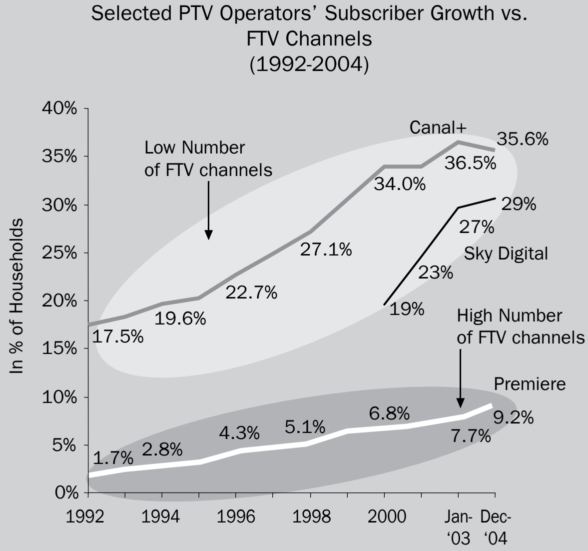
- Beyond premium international sports, local sports such as football remains a limited driver for PTV growth. Although local sports leagues, most notably in football, are gaining increasing popularity, political and social barriers are preventing exclusive airing of major events on PTV platforms.
- Fresh blockbuster Arabic movies are very popular but come in at low yearly outputs, estimated at five to eight films per annum[(4)].
- Typically, local fiction/series are one-offs and sold to multiple channels simultaneously to cover the large production costs.
- Broadcast of adult entertainment is unacceptable in the Middle East.

In Western movies specifically, PTV in the region has a clear edge over FTV. To illustrate, Showtime's Movie Channel shows the latest blockbuster movies, whereas MBC2 offers hit movies that were released in theaters at least 3 to 4 years ago. This edge is, again, relative to the importance that subscribers attach to the 'freshness' effect of these programs.

(4): Total Arabic movie yearly output ranges from 20 to 40 movies per annum

Exhibit 31: PTV Market Development Inhibitors





Source: Company Information; DKWR; Merrill Lynch, TNS, Booz Allen Hamilton Analysis

In sports, PTV has a definite edge over FTV for international football events, but comparable content for local high-profile sports events. ART in particular broadcasts games from the European and Arab Champion's League as well as the English Premier League. Although Al Jazeera has increased FTV competition for PTV, its premium sports broadcasting would soon emblematically transfer to PTV.

The differentiation of PTV versus FTV offerings is equally dependant on PTV's ability to create comprehensive yet differentiated bouquets by country and segment. Although some progress has been made on this front, gaps still persist. ART has established itself as the leader in sports and Arabic entertainment; however, its Western content is weak. Showtime, on the other hand, offers the best in Western programming but is not prominently present in Arabic movies

Exhibit 32: PTV SWOT Analysis

Strengths	Weaknesses
▪ Strong brand awareness across different countries and segments ▪ Exclusive and first-window rights for key content genres, e.g., sports and Western movies ▪ Captive demand from expatriates in GCC ▪ Comprehensive distribution across the region ▪ Skewed Middle Eastern entertainment preferences towards TV	▪ Fragmentation of rights for must-see content among the three PTV players ▪ Consumer perception of low value differential between FTV and PTV ▪ Low ARPUs to fund more exclusive content and aggressive customer acquisition programs ▪ High subscription prices in proportion to regional income levels
Opportunities	**Threats**
▪ Large addressable market ▪ Favorable socioeconomic environment ▪ Strong growth potential in underdeveloped countries (e.g., Egypt, the KSA), and segments (e.g., SES D/E) ▪ Shifting TV preferences to more progressive content especially among young Arab viewers ▪ Growing opportunities for differentiation vis-à-vis FTV ▪ Strengthening market facing approach (packaging, pricing, distribution, promotion) ▪ Underleveraged ancillary revenues such as advertising, VAS, and PPV	▪ Aggressive noncommercial investments in content from FTV networks ▪ Price wars from other PTV platforms ▪ Lingering piracy, through wiring mechanisms

Source: Booz Allen Hamilton Analysis

Exhibit 33: Movie Channels Programming Grid Comparison (Week of August 13th, 2005)

Movie Channel	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
ART - Star Movies	Movie: Kung Phooey (2003) Actors: Michael Chow Man-Kin	Movie: The Game of Death (1978) Actors: Bruce Lee	Movie: Madonna: Truth Or Dare (1991) Actors: Madonna	Movie: Daredevil (2003) Actors: Ben Affleck Jennifer Garner Collin Farell	Movie: Down with Love (2003) Actors: Renne Zellweger Ewan McGregor	Movie: Species (1995) Actors: Ben Kingsley	Movie: Baadaasssss! (2004) Actors: Mario Van Peebles
Orbit - Super Movies	Movie: What a Girl Wants (2003) Actors: Amanda Bynes Colin Firth	Movie: Back by Midnight (2002) Actors: Rodney Dangerfield Randy Quaid	Movie: Man of Faith Actors: Damian Chapa	Movie: Perfect Opposites (2004) Actors: Martin Henderson	Movie: Rain Makers (2005) Actors: Jake Busey Ray Wise	Movie: Recipe for Disaster (2003) Actors: John Larroquette	Movie: Juwanna Man (2001) Actors: Vivia A. Fox
Showtime - The Movie Channel	Movie: Aliens (1986) Actors: Sigourney Weaver	Movie: Shoreditch (2003) Actors: Shane Richie	Movie: The Missing (2003) Actors: Tommy Lee Jones Cate Blanchett	Movie: School of Rock (2003) Actors: Jack Black	Movie: Kill Bill Vol.1 (2003) Actors: Unna Thurman	Movie: The Texas Chainsaw Massacre (2003)	Movie: Shattered Glass (2003)
MBC - MBC2	Movie: Crimson Tide (1995)	Movie: The Rock (1996) Actors: Sean Connery Nicolas Cage	Movie: Minority Report (2002) Actors: Tom Cruise	Movie: Here on Earth (2000) Actors: Chris Klein	Movie: All the Pretty Horses (2000) Actors: Matt Damon Penelope Cruz	Movie: Diamonds are Forever (1971) Actors: Sean Connery	Movie: Metro (1997)
Dubai TV - One TV	Movie: Breaking Away (1979) Actors: Dennis Quaid	Movie: Jackie Brown (1997) Actors: Quantin Tarantino Samuel L. Jackson	Movie: Mrs. Brown (1997) Actors: Judi Dench	Movie: Blade II (2002) Actors: Wesley Snipes	Movie: Sound Of Music (1965) Actors: Julie Andrews	Movie: Marvin's Room (1996) Actors: Leonardo Di Caprio	Movie: Ocean's Eleven (2002) Actors: George Clooney Brad Pitt Julia Roberts

■ Recent Hit ☐ Old Hit ☐ Non hit

Source: Corporate websites, Booz Allen Hamilton Analysis

and sports content. In short, subscribers cannot at this stage benefit from a truly holistic premium offering across all key content genres. That is why it is estimated that as much as 10% of PTV viewers in the region have subscribed to multiple bouquets from different PTV operators. That is high compared with international benchmarks and results from Showtime and ART's shared platform technology to enable multi-subscriptions.

Furthermore, PTV operators have so far kept their programs, content, and prices similar across the four different countries. A better segmentation per target country could become a differentiation factor when compared with FTV. For example, PTV operators could provide packages that appeal to more liberal audiences such as in the UAE and Kuwait and could at the same time offer bouquets that are more attractive to more conservative audiences such as in the KSA.

Exhibit 34: Comparison of Sports Content PTV vs. FTV (Non-Exhaustive)

Events	ART	Orbit	Showtime	Al Jazeera Sports
Local Events	▪ Arab Champion's League	▪ King's Cup (Saudi Arabia)		▪ GCC Soccer World Cup Qualifiers ▪ GCC Local Sports Events
International Events	▪ UEFA Champion's League ▪ UEFA Cup ▪ Confederation Cup ▪ English Premier League ▪ Bundesligua (German) ▪ Soccer World Cup	▪ Brazil Soccer League ▪ Major League Soccer (U.S) ▪ French League ▪ NBA	▪ European Cup Rugby ▪ IAAF Tennis ▪ Euro Tour Golf	▪ Italian Serie A ▪ European Soccer Championship (Euro)
Other	▪ F1 ▪ Cricket ▪ U.S College Basketball ▪ NBA ▪ Rugby 6-nations	▪ Indy Car ▪ WNBA ▪ UK Horse Racing ▪ Boxing ▪ NCAA Sports ▪ NFL	▪ Indy Car ▪ WNBA ▪ UK Horse Racing ▪ Nascar ▪ NFL	▪ Athletic World Championships
Quantity/Quality of Programming	●	◔	◑	◕

Relative Content Quality: ○ Weak ● Strong

Source: Corporate websites, Booz Allen Hamilton Analysis

From our perspective, pricing remains a significant subscription barrier for PTV in the region. Prices have been reduced significantly during the past 4 years for ART and Orbit. For instance, Orbit is reported to have reduced its prices by more than 50% since 2001, and ART has introduced low-price introductory packages at U.S.$5. Also, PTV operators have started to exercise price discrimination as was seen in Egypt, where Showtime introduced a 25% reduction on its packages. However, PTV prices as a percentage of average income remain high, especially in countries such as Egypt and the KSA.

Addressing the ensuing challenges would yield sizable benefits to the PTV sector

With an overall market size of roughly U.S.$220 million and given the challenges outlined in the previous section, the Middle East market remains underdeveloped and somewhat subscale. Addressing the ensuing challenges would pay dividends on two fronts.

First, it would allow PTV operators to raise their monthly average ARPUs from the current modest level of U.S.$18-20 towards the U.S.$40-60 level for leading platforms such as BSkyB and Canal+. These PTV operators command such a high ARPU because their content relative to their respective FTV competitors is much higher than in the Middle East.

Second, it would allow PTV to penetrate the sizable untapped segments of the market identified earlier in this section. Driving higher penetration rates in populous countries such as the KSA and Egypt would enable the PTV industry in the region to reach the minimum required scale to diversify its revenue base beyond subscription fees. The three PTV operators in the region still rely mostly on subscription fees, which account for more than 95% of revenues. In contrast, BSkyB, Canal+, or HBO generate on average 15% of their revenues from ancillary revenues such as advertising, VAS, and PPV.

Driving further profitable growth will require the creation of a virtuous cycle, in which sustained efforts to improve the relative value proposition to FTV and more segmented offer bundling initiatives drive increased penetration and ARPU. The generated funds would allow PTV to finance more differentiated bouquets and intensive subscriber acquisition programs that would ultimately drive more penetration and ARPU.

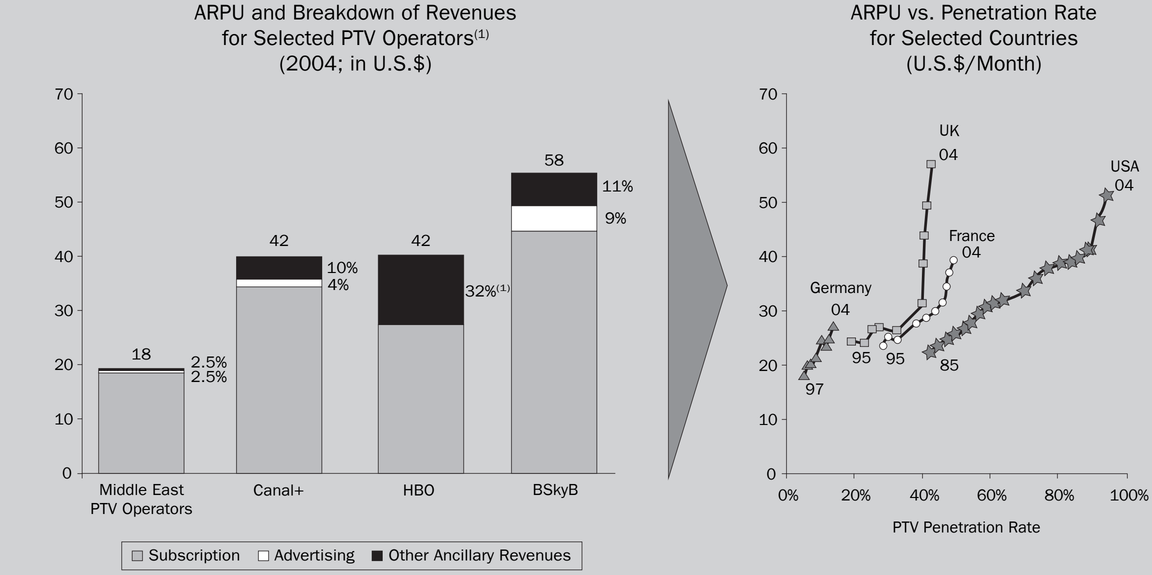
Exhibit 35: Comparison of PTV Operators' Bouquets

Bouquet	Price per Bouquet(1) (in U.S.$)	Comments
ART – Al Awael	Mini 5 Basic 8 ACL 8 Movies 23 World 65	▪ Bouquet Al Awael is geared towards the Arabic speaking audience ▪ ART offers a 2 channel packages which are dedicated to the Arab Football Champion's League
ART Firstnet	Basic 19 Sports 35 Gold 46	▪ Firstnet Bouquet targets the audience interested in western content
ART Pehla	Ratnamala 13 Basic 19 Silver 38 Gold 57	▪ The Pehla Bouquet is dedicated to Asian viewers ▪ The Ratnamala package focuses on Asian channels only and aims to provide a cheaper entry package for Asian speakers ▪ The Basic, Silver and Gold packages offer Asian as well as English channels
Orbit	Kids 16 Alpha 16 Pinoy 20 Prime 35 Mega 41	▪ Orbit's segments its viewers by language: — Prime contains Western channels only — Alfa contains Arabic channels only — Mega contains both Western and Arabic channels ▪ In its quest to capture additional niche viewers, Orbit has created a new bouquet: Pinoy — Pinoy is geared towards the Philippino audience — The current package offers 2 Phillippino channels
Showtime	Family 35 Sports 35 Movies 53 Total 60	▪ Showtime segments its audience by lifestyle: — Movies Plus Package is geared towards movie lovers — Sports Plus package targets Sports fans — Family Plus package is best suited for families

(1) Excluding Egypt

Source: Corporate websites, Arab Advisor Group, Booz Allen Hamilton Analysis

Exhibit 36: Benchmarks of ARPU Breakdown and Growth



(1) Most of HBO non-subscription revenues are revenues from licensing of original programming
Source: Informa Media Group ; Merrill Lynch ; Media Merchant Bank ; EIU ; WEFA ; Arab Advisor Group; Zenith Media, Booz Allen Hamilton Analysis

6. Pay-TV Sector Growth Perspectives and Scenarios

The growth perspectives of the PTV sector will be driven largely by the evolution of FTV — which remains largely in flux. We have developed three sets of dynamics to explore the prospects of FTV and its implications for PTV in the Middle East.

Dynamics 1: Intensive FTV/PTV competition

FTV networks aggressively accelerate current efforts to develop comprehensive lineups of channels and gain access to content of increasing quality. Although FTV networks would only deepen their losses in that situation, PTV operators would also be negatively affected.

Dynamics 2: Rationalization of the FTV sector

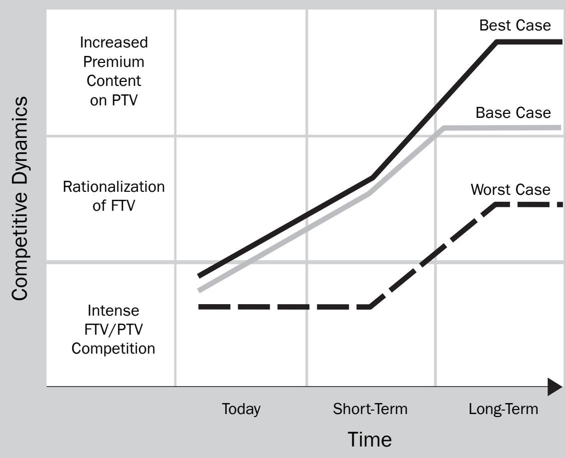
With a stronger emphasis on financial profitability, FTV networks display greater commercial rationality. In this situation, FTV networks would rationalize their lineup of TV channels, discontinue underperforming ones, and curb investments for premium content. PTV would naturally benefit from reduced FTV competition, but not from availability of additional premium content.

Dynamics 3: Increased premium content availability on PTV platforms

Building on a rationalized FTV sector, PTV operators extend the scope of premium content available on their platforms. The improvement in premium content could stem equally from near-premium FTV channels transferring to PTV distribution or aggressive PTV investments to create or acquire premium content.

The Middle East PTV industry could evolve along one or a combination of the aforementioned dynamics over time — which we have articulated into three scenarios. The base case scenario assumes that the FTV industry quickly rationalizes and that PTV operators extend the breadth of premium content. The best case scenario assumes that PTV operators invest more massively

Exhibit 37: PTV Market Evolution Scenarios



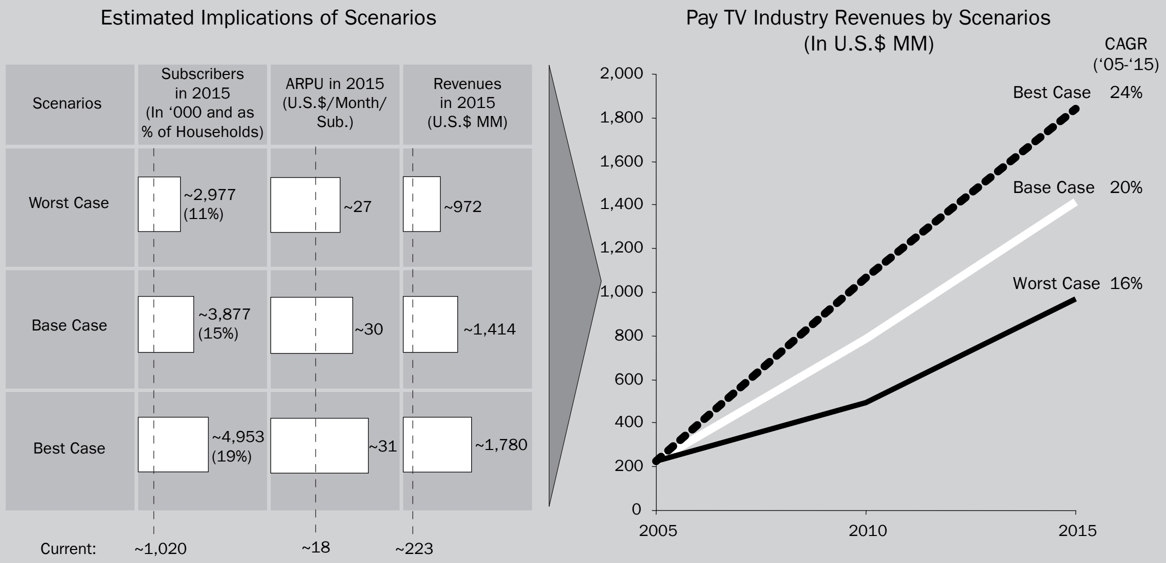
into developing premium local content on their platforms. This is coupled with a greater acceptance from traditional viewers of PTV's more liberal content. In the worst case scenario, irrational competitive behaviors drive continued confrontation between FTV and PTV players. Destroying significant value for all broadcasters, this initial confrontation would gradually need to be rationalized.

Naturally, these scenarios have marked differences for the growth perspectives of the PTV industry. In the following pages, we further elaborate on each scenario's triggers, quantitative and qualitative impact on the audiovisual industry, and overall likelihood.

Base Case Scenario — Rationalization of FTV creates improved growth prospects for PTV

In this scenario, stronger emphasis on financial profitability leads FTV networks to rationalize their channel lineups and control programming costs in the short term. Increasing availability of premium content on PTV platforms would enable breakthrough market development for PTV. This competitive situation would be triggered by the deliberate transfer of FTV channels with premium content to PTV bouquets — as illustrated recently by Al Jazeera's premium sports channels — and, conversely, transfer of non premium content to FTV.
Building on an improved content value

Exhibit 38: Growth Scenarios Results



Note: For Egypt, the KSA, UAE and Kuwait only; all data in nominal terms
Source: Booz Allen Hamilton Analysis

proposition relative to FTV, PTV operators benefit in this scenario from additional and important growth stimulants:

- Growing interest and willingness / ability to pay for premium and Western content — driven by the ongoing socio-economic changes in Middle East societies
- Increasing share of multi-dwelling units where PTV is included de facto in the standard monthly rent
- Growing multi-subscriptions across PTV operators

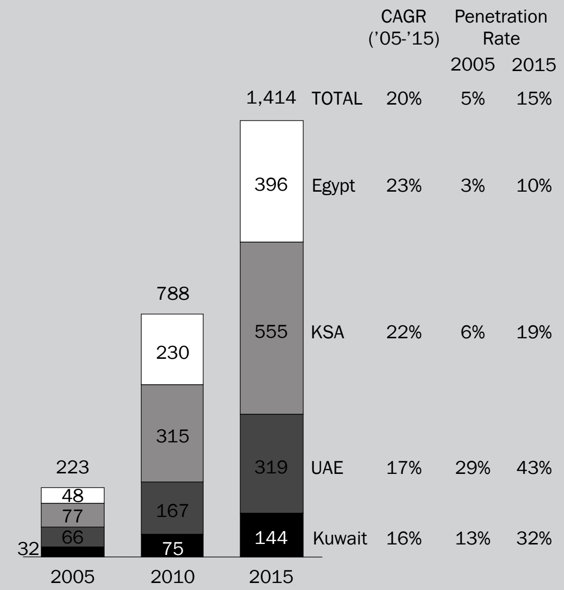
Specifically, PTV operators' most significant growth opportunities reside in developing underpenetrated markets such as the KSA or Egypt and, across countries, socioeconomic classes C/D. Achieving growth in these segments would, however, require continuous efforts to educate the market about PTV and developing more targeted and adapted offers in terms of pricing and content.

Additionally, PTV will benefit from increasing ARPU despite penetration of lower SES segments — driven by:

- Growing share of value-added services — from nearly 0% to 15%
- Greater purchasing power and inflation
- Stronger pricing power resulting from increased differentiation to FTV

In this scenario, the PTV sector revenues would sustain strong growth rates of 20% p.a. to reach U.S.$1.4 billion in 2015. Beyond the mechanical growth driven by socioeconomic development (+6%), increased penetration of underdeveloped markets offers PTV operators

Exhibit 39: PTV Revenues – Base Case Scenario (UAE, Kuwait, KSA, Egypt)



Note: All data in real terms
Source: TNS, Booz Allen Hamilton Analysis

additional avenues of growth. Mitigated by relatively significant programming and SACs (Subscriber Acquisition Costs) cost inflation, revenue growth would contribute to significantly improve the profitability of the industry as a whole.

PTV operators, however, face lingering challenges under this scenario. First, continued industry fragmentation reduces each PTV operator's ability to develop a holistic value proposition covering all existing premium formats. Second, the relative scarcity of local premium formats available and enduring piracy partly mitigate growth prospects in Egypt and the KSA.

Best Case Scenario — Strong revenue growth potential for PTV, but with significant financial risks

The best case scenario assumes incremental growth perspectives from a combination of stronger investments into producing local premium content and stronger penetration in the KSA and Egypt. In an attempt to better address local needs, PTV operators invest to create and secure new premium local formats, for example:

- Secure exclusive broadcasting rights for high-profile local sports events through negotiations with sports leagues, such as the Arab Football Champions' League, or investments in specific teams, such as Al Ahli in Egypt or Al Itihad in the KSA
- Invest in co-productions to raise the output of premium Arabic movies to levels significant enough to justify airing premium Arabic movie channels with sufficient amounts of fresh content
- Produce or commission Arabic high-profile fiction/variety programs with a substantial buzz factor — for example, HBO's original programming such as 'Sex and the City' or 'The Sopranos' and Canal+'s 'Nulle Part Ailleurs' talk show

As a result of stronger local premium content, PTV operators can drive additional market penetration in Middle East markets where interest for Western content is more moderate — namely the KSA and Egypt.

If successfully executed, this strategy could generate accelerated growth for the PTV industry. Achieving this market potential would, however, require significant lead times, given the inherent inertia from incumbent long-term broadcasting contracts or from the cultural barriers for FTV networks to transfer premium content on PTV.

The obvious challenge in the economic success of such a breakthrough strategy resides in ultimately reaching profitability. In short, such an initiative is risky, and its success rests on tight assumptions — namely, revenue growth is significant enough, broadcasting rights inflation remains moderate with limited battles between PTV operators and FTV networks for exclusivity. From our perspective, such a breakthrough strategy could be profitable if the PTV industry further consolidates.

Beyond the economic risks, this strategy could potentially face regulatory and political impediments. Exclusive airing of high-profile local sports events on PTV could in particular face a number of hurdles.

This scenario is best illustrated by the examples of players such as BSkyB or Canal+ — which have all achieved breakthrough growth, driving PTV penetration over 40%, by aggressively investing in content, reinforcing the segmentation of their packages, and strengthening their subscriber acquisition efforts. BSkyB, for example, secured exclusive rights for the English Premiere Football league and movies as a starting point. With its improved value proposition, it completely revamped the packaging and pricing of its bouquets to better cater to different segments and also encourage customers to gradually migrate from lower- to higher-value packages.

In summary, massive investment in content is particularly risky for PTV operators in the Middle East, but if successfully implemented, that would enable the industry to achieve additional growth. The likelihood of this scenario depends on the financial ability and strategic ambition of a single PTV operator to grow and consolidate the market.

Worst Case Scenario — Intense FTV/PTV competition drives unsustainable value destruction for all

In this scenario, PTV operators face increased and more aggressive competition from FTV networks. FTV networks, in an attempt to secure market leadership, aggressively increase investment to broaden their lineup of channels and reinforce the overall quality of their content offering. For example:

- Continued investments in premium sports
- Launches of additional movie channels with recent Arabic and Western blockbusters(5)
- Acquisition of high-profile fiction or variety formats.

Under this scenario, we expect some PTV operators to restructure their bouquets and resort in part or in total to FTV broadcasting, in an attempt to capture greater revenues through advertising. This will exercise additional pressure on the remaining PTV operators.

In the short term, aggressive competition from FTV would negatively affect the performance of PTV operators. The content value proposition of PTV operators versus FTV is expected to weaken, thus accelerating subscriber churn and eroding prices. With relatively fixed programming costs, PTV operators are expected to face increasing financial difficulties, potentially forcing some players to withdraw from the market.

This scenario would also accentuate the heavy losses of the FTV industry. In the long run, this situation cannot be sustainable. We expect a rationalization of the FTV sector similar to our base-case scenario to occur — but over a longer time horizon.

In summary, this scenario would adversely affect PTV operators in the short term but only moderately curb their long-term growth potential as the FTV industry naturally refocuses on economic fundamentals.

From our perspective, this scenario is relatively unlikely because it would adversely affect the whole audiovisual broadcasting industry.

Conclusion

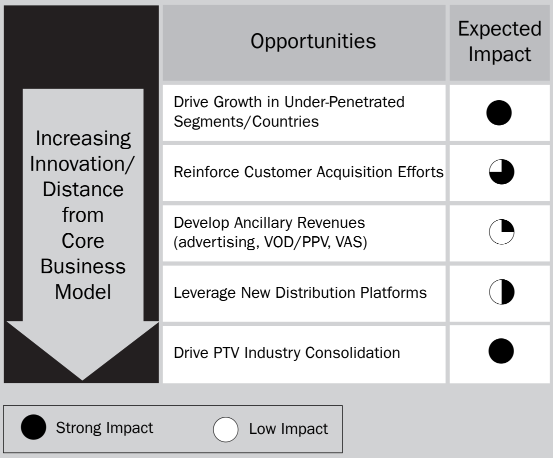
Booz Allen Hamilton's overall view on the future of PTV in the Middle East is positive. Strong socioeconomic development coupled with continued efforts by PTV operators to improve their value proposition, particularly in underdeveloped markets, should fuel healthy growth. In addition, the expected rationalization of the FTV industry will gradually improve the attractiveness of PTV packages. Achieving step-change PTV penetration levels would, however, require considerable investments in premium content — but with significant risks of economic failure. From our perspective, the industry's exposure to downside risks such as aggressive investments in content from FTV is real but remains overall limited.

(5): Acquisition of PTV-grade movie rights not feasible short-term

7. Implications for the Pay-TV Sector

Booz Allen believes that Middle East PTV operators continue to entertain sizable growth opportunities and can surpass the market's growth potential illustrated in our base case. Notwithstanding a breakthrough strategy focusing on intensive content investment, PTV operators would, from our perspective, need to deploy a comprehensive set of initiatives that we detail further in this section.

Exhibit 40: Opportunities to Drive Profitable PTV Growth



Drive growth in underpenetrated segments and countries

Beyond investments in content, Booz Allen believes that PTV operators can achieve significant growth by improving their value proposition — particularly to drive growth in underpenetrated countries and customer segments.

Although PTV penetration is relatively high in the UAE and Kuwait, it still has significant growth potential in the lower socioeconomic segments of the population (C and D in particular). PTV also has considerable growth potential in underdeveloped countries such the KSA and Egypt. Low PTV development in these countries presents common root causes, such as lower income levels and massive piracy in Egypt. Penetration rates are low across all socioeconomic segments — even in Segments A/B.

Achieving growth in these segments and countries will require adopting differentiated pricing strategies, curbing piracy and, critically, recognizing the fundamentally different needs in regard to content across segments and countries.

PTV operators have started to offer lower price levels in Egypt in recognition of the country's significantly lower purchasing power. Beyond that effort, PTV operators could also consider providing significantly cheaper and scaled down bouquets for these geographies and for socioeconomic segments C/D/E customers in more developed markets, such as Kuwait and the UAE. Introducing innovative pricing models such as prepaid cards could also address customers' unwillingness to commit to a recurring subscription.

Efforts to lower barriers to entry for customers would only partially pay off unless the PTV industry is able to curb piracy — particularly in Egypt and the broader Levant region. Mitigating piracy is a particularly challenging and long effort, requiring significant investments to upgrade set-top boxes and access cards across all customers.

Beyond prices and piracy, we believe that PTV's low development in these segments and countries also stems from insufficient customization of bouquets to cater to specific local needs. In the KSA, for example, concerns over the liberal nature of PTV content would call for creating "safe" bouquets with content in line with more traditional customers' expectations. In Egypt, extensive preference for Arabic language and local content would require more targeted bouquets.

Reinforce customer acquisition efforts

During the 2001–2003 period, PTV operators considerably reinforced customer acquisition efforts by extending the reach of retail channels, introducing set-top box subsidies, and increasing advertising and promotion spending. In the past 2 years, customer acquisition efforts appear to have diminished, probably in an attempt to control costs better.

From our experience of other markets, continuous promotional efforts are crucial to drive subscriber acquisitions. PTV operators would therefore need to re-energize their advertising and promotion efforts, particularly in underdeveloped countries. PTV operators have substantially increased the reach of their retail distribution channels — particularly in the largest urban areas of the KSA, the UAE, and Kuwait. Selectively advancing the reach of distribution in undercovered geographies — for example, in Egypt and small/mid-sized cities in the UAE and the KSA — could be instrumental in further driving growth.

Develop ancillary revenues

Middle East PTV operators' revenue base stems almost exclusively from subscription fees. Contribution from ancillary sources of revenue such as advertising, pay per view, or other value-added services is still largely negligible at this stage. Although achieving more than 20% of revenues from ancillary services (like BSkyB or HBO) seems very challenging in the near term, driving growth of ancillary services could still yield incremental revenues of 5% to 10% in the medium term.

PTV operators' strongest growth opportunity resides in further stimulating ad sales, particularly by reaching beyond spot ad sales. More innovative advertising models, such as marketing partnerships and program sponsorships, are probably more adapted to PTV's type of audience and programming. PPV, which typically accounts for 5% of total revenues for leading PTV platforms globally, could also stimulate ARPU growth.

Leverage new distribution platforms

PTV development rests essentially on DTH at present — with limited penetration of alternative technologies such as CATV, DSL, FTTH, or DTT[6]. With an increasing share of the population housed in large multidwelling units in the UAE, Qatar, and Kuwait, in particular, alternative distribution platforms such as CATV offer a cost competitive solution to DTH with enhanced functionalities such as interactivity and Internet access.

CATV is gaining increasing importance for PTV operators — in particular in the UAE and Qatar where incumbent telecom operators, Etisalat and Qtel, respectively, have adopted CATV deployment plans. Other countries such as Kuwait and the KSA are also likely to invest in new transmission technologies such as CATV or even xDSL and FTTH.

Exhibit 41: Ancillary Revenues Potential and Priorities

Ancillary Revenue	Description/Examples	Potential in the Middle East	Rationale
Advertising	▪ Spot advertising sales ▪ Marketing partnerships/program sponsorship	●	▪ Strong development potential due to the particularly attractive demographics of PTV subscribers
Value-Added/ Interactive Services	▪ PPV ▪ Gambling ▪ SMS/audiotel interactivity with programs	◑	▪ Limited potential in gambling which is unacceptable in most Middle East markets ▪ SMS/audiotel interactivity is more likely given the emerging interest in variety/reality TV programming. However, their potential on PTV is more modest given programming and audience characteristics ▪ Relatively strong potential in PPV — which has only recently been introduced
Licensing	▪ Licensing of radio or TV broadcasting rights	○	▪ Limited amount of original programming
Merchandising/Other	▪ Music records (e.g., from shows such as Star Academy) ▪ Videos of high profile programs ▪ Memorabilia/merchandised products	◔	▪ Limited amount of original programming

● Strong Potential ○ Low Potential

(6): CATV = Cable TV, FTTH = Fiber-to-the-Home, DTT = Digital Terrestrial Television

These technologies are not merely a substitute for DTH but also offer PTV operators further distribution leverage to stimulate additional market growth. Leveraging telecom operators' deep customer relationships and extensive distribution channel reach adds a powerful customer acquisition engine to the market. In addition, CATV enables a new distribution and sales model in driving customer acquisitions through MDU landlords as opposed to individual households.

More fundamentally, advanced technologies such as CATV, xDSL, or FTTH, with far broader functionalities than DTH broadcasting, have the potential to reshape the PTV business model. These technologies enable the introduction of video on demand (VOD), which offers far greater functionalities to PPV services and a good complement to premium movie channels. Namely, VOD could offer the most recent movies, a broader catalog of movies, and advanced movie search/selection functionalities. With the combination of Internet access, these technologies also enable innovative pricing models, for example, a-la-carte channel subscription, daily or monthly subscriptions to packages, or even customer-defined bundles.

Drive PTV Industry Consolidation

With three PTV operators, the Middle East PTV industry is still fragmented. That outlook is, from our perspective, not sustainable and is actually one of the root causes for the underperformance of the industry — both from a market development and a cost perspective.

Fragmented premium rights across three PTV bouquets reduce the compelling nature of a given platform's value proposition. For example, the absence of a bouquet combining ART's premium sports and Showtime's premium Western movies could be a major deterrent to creating a truly "mouth-watering" offer. However, ART and Showtime's common technology platform mitigates this issue.

On the cost side, the coexistence of three PTV operators also reduces scale effects and, more important, significantly drives programming cost inflation as a result of competition for exclusivity.

Conclusion

In summary, a combination of favorable socioeconomic development, a likely rationalization of FTV, and ongoing improvements to the PTV value proposition and customer acquisition efforts provides the PTV industry with a particularly strong platform to achieve further growth profitably.

8. About Booz Allen and the Authors

About Booz Allen Hamilton

Founded in 1914, Booz Allen Hamilton has been at the forefront of management consulting for businesses and governments for more than 90 years. Booz Allen Hamilton combines strategy with technology, insights with action to deliver results today that endure tomorrow. It combines deep industry insights with strong functional capabilities to best serve its clients across all industries. With revenues amounting to U.S.$3.3 billion, Booz Allen Hamilton employs 16,000 professionals across more than 40 countries.

Serving the Middle East since the 1970s, Booz Allen Hamilton is the leading strategy and management consultancy of the region – with offices in Beirut, Riyadh, Abu Dhabi, and Dubai. In media, specifically, Booz Allen Hamilton has served several of the leading TV networks and print publishers of the region.

Globally, Booz Allen has helped CEOs and senior executives across every major segment of the media and entertainment industry with their most critical strategic and operational decisions, employing a global perspective supported by a worldwide team. Booz Allen's experience and know-how are unmatched and allow the company to move with speed and focus, and with the in-depth understanding of media players' economics that our clients typically require.

About the Authors

Adam Bird
Senior Vice President based in Munich, Adam is the Firm's Global Leader of the Media and Entertainment practice. He has served major media and entertainment companies in Europe and in the United States for 16 years, focusing on the development of growth and performance improvement strategies.
Bird_Adam@bah.com

Karim Sabbagh
Vice President based in Dubai and Riyadh, Karim leads the Firm's Media and Telecoms practices in the Middle East. He has 19 years of strategy and operation experience acquired through various projects in the Middle East, Europe, and North America, with an emphasis on telecoms and media operations.
Sabbagh_Karim@bah.com

Patrick Behar
Vice President based in Paris, Patrick is one of the leaders of the Firm's European Media and Entertainment practice and serves some of the leading audiovisual and publishing players across Europe.
Behar_Patrick@bah.com

Gabriel Chahine
Principal based in Dubai, Gabriel is a member of the Firm's Media and Telecoms practices in the Middle East. He has 13 years of consulting experience in restructuring and growth strategies in telecoms and media in the Middle East, Europe and the U.S.
Chahine_Gabriel@bah.com

Laurent Viviez
Principal based in Paris, Laurent has 8 years of consulting experience in Europe and the Middle East. He is a member of the Firm's Media and Telecoms practices and serves some of the leading pay-TV and telecoms operators globally.
Viviez_Laurent@bah.com

Ahmed Galal Ismail
Senior Associate based in Abu Dhabi, Ahmed has extensive experience of the media and advertising markets in the Middle East and has served some of the most prominent players in the region.
Ismail_Ahmed@bah.com

Pierre Favennec and ***Amine Sebti,*** consultants based in Paris and Dubai, respectively, also provided crucial support in preparing this Report.

9. Sources of Information

Worldwide Organizations:

- UN: World Population Prospects, Arab Human Development Report 2004
- IMF: Countries Statistical Appendixes (countries economics and GDP forecasts)
- UAE Ministry of Planning
- KSA Central Department of Statistics – Ministry of Economy and Planning

Market Research Companies:

- TNS: PTV Penetration and Development Potential in the Middle East 2005 quantitative primary market research (proprietary research)
- PARC: TV ratings measurement campaigns including Project Shasha in 2004 in the KSA, UAE TV & Radio Study in July 2004, Kuwait National TV Survey in 2004 (proprietary research)
- MAC: TV ratings measurements campaigns including Project Al Najah in 2004 in the KSA (proprietary research)
- AC Nielsen: population SEC distributions

Industry Analysts and Experts:

- Arab Advisors Group: reports and research notes on countries economics and media uses including Saudi Sat TV and Radio Survey – September 2004, Cairo Households Media Survey 2005, Satellite TV in the Arab World 2005, TV Advertising Rates in the Arab World – May 2004
- Informa: Middle East & North Africa TV (2nd Edition) – May 2005
- Euromonitor: Consumer Lifestyles in KSA – March 2003, Consumer Lifestyles in Egypt – March 2003, Consumer Lifestyles in the Middle East – 2005
- Zenith Optimedia: Advertising Expenditure Forecasts – December 2004
- EFG Hermes

Booz Allen Hamilton Worldwide Offices

Abu Dhabi
Richard Shediac
971-2-6-270882

Amsterdam
Marco Kesteloo
31-20-504-1900

Atlanta
Lee Falkenstrom
404-659-3600

Bangkok
Tim Jackson
66-2-653-2255

Beijing
Edward Tse
8610-8520-0036

Beirut
Joe Saddi
961-1-336433

Berlin
Rene Perillieux
49-30-88705-0

Bogotá
Jaime Maldonado
57-1-628-5050

Boston
John Harris
617-428-4400

Brisbane
Tim Jackson
61-7-3230-6400

Buenos Aires
Ivan De Souza
54-1-14-131-0400

Caracas
José Gregorio Baquero
58-212-285-3522

Chicago
Vinay Couto
312-346-1900

Cleveland
Mark Moran
216-696-1900

Colorado Springs
Glen Bruels
719-597-8005

Copenhagen
Torsten Moe
45-33-18-70-00

Dallas
Mitch Rosenbleeth
214-746-6500

Dubai
Richard Shediac
971-4-3900260

Düsseldorf
Thomas Kuenstner
49-211-38900

Frankfurt
Rainer Bernnat
49-69-97167-0

Helsinki
Timo Leino
358-9-61-54-600

Hong Kong
Edward Tse
852-2251-8892

Houston
Matt McKenna
713-650-4100

Jakarta
Tim Jackson
6221-577-0077

Lexington Park
Cynthia Broyles
301-862-3110

London
Shumeet Banerji
44-20-7393-3333

Los Angeles
Tom Hansson
310-297-2100

Madrid
Mercedes Mostajo
34-91-411-8450

McLean, VA
Eric Spiegel
703-902-5000

Melbourne
Tim Jackson
61-3-9221-1900

Mexico City
Jaime Maldonado
52-55-9178-4200

Milan
Enrico Strada
390-2-72-50-91

Munich
Jörg Krings
49-89-54525-0

New York
David Knott
212-697-1900

Oslo
Karl Høie
47-23-11-39-00

Paris
Bertrand Kleinmann
33-1-44-34-3131

Philadelphia
Molly Finn
267-330-7900

Riyadh
Karim Sabbagh
966-1-2110300

Rio de Janeiro
Paolo Pigorini
55-21-2237-8400

Rome
Fernando Napolitano
39-06-69-20-73-1

San Diego
Dave Karp
619-725-6500

San Francisco
Paul Kocourek
415-391-1900

Santiago
Leticia Costa
562-445-5100

São Paulo
Letícia Costa
55-11-5501-6200

Seoul
Jong Chang
82-2-2170-7500

Shanghai
Edward Tse
86-21-6340-6633

Stockholm
Jan-Olof Dahlén
46-8-506-190-00

Sydney
Tim Jackson
61-2-9321-1900

Tampa
Joe Garner
813-281-4900

Tokyo
Steve Wheeler
81-3-3436-8631

Vienna
Helmut Meier
43-1-518-22-900

Warsaw
Adrian Foster
48-22-630-6301

Washington, DC
Eric Spiegel
703-902-5000

Wellington
Tim Jackson
64-4-915-7777

Zurich
Jens Schädler
41-1-20-64-05-0

Booz | Allen | Hamilton