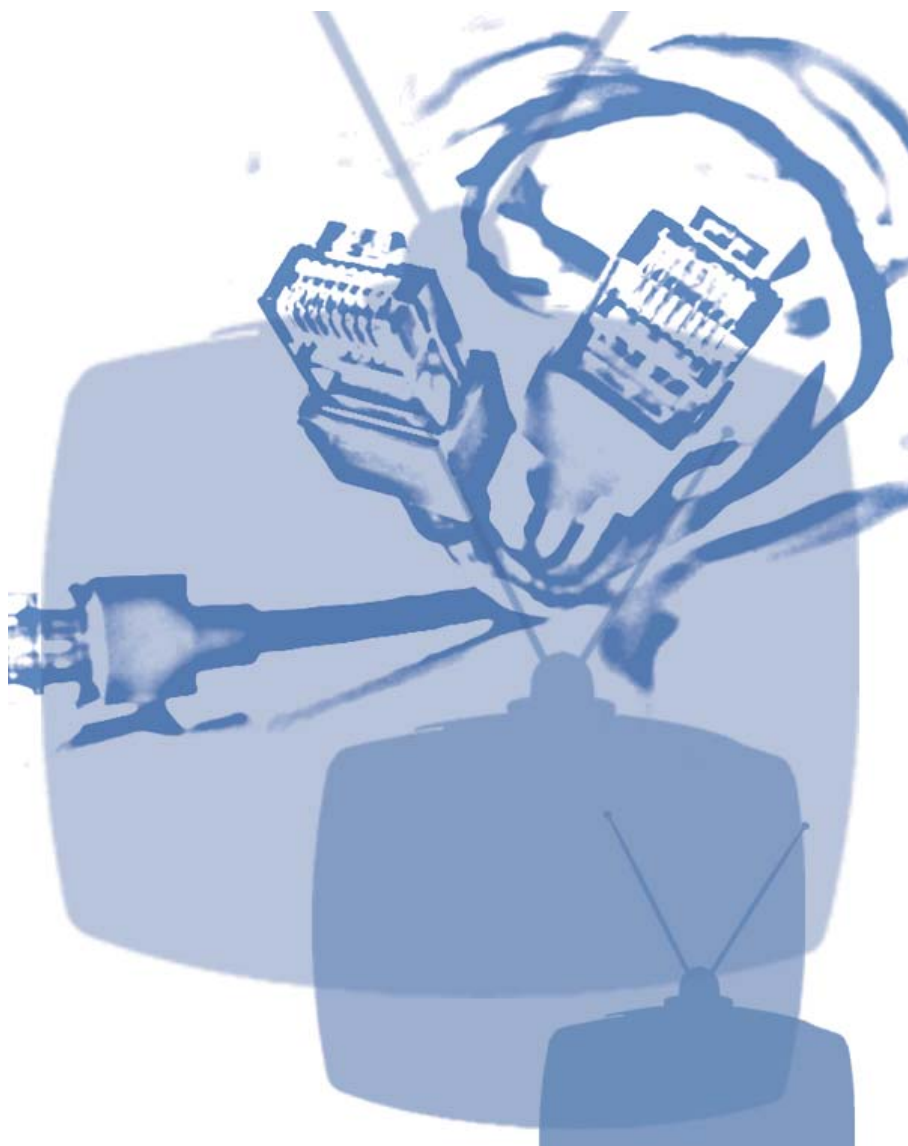


European IPTV: Market assessment and forecast



screen Digest

**European IPTV: Market assessment and
forecast**

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Estonia

Overview

In terms of their telecommunications and television markets, Estonia is the most advanced of the Baltic countries. In May 2005, the national incumbent Elion launched a digital television service, which uses common radio frequency (RF) transmission over passive optical networks. In 2006, Elion will extend its television service to its ADSL network using IP technology. The company entered a market that is dominated by cable companies. A relatively low overall pay TV

penetration should still leave some space for IPTV operators to gain some market share, however.

Free-to-air

Apart from four national terrestrial channels, Estonians have a wide choice of international channels on free satellite. Unlike pay TV, free satellite penetration has been declining over the last years. At the end of 2004, it stood at about 11 per cent of television households.

Satellite

Estonia is served by Modern Times Group's direct-to-home (DTH) satellite platform Viasat. Available in all Baltic countries, the platform had a combined subscriber base of 15,000 in these markets. Amongst other channels, Modern Times Group distributes the pay services TV1000 East, Viasat Explorer, Viasat History, Viasat Sport 2 and Viasat Sport 3 on its DTH platform and on cable.

Estonia: TV market overview

		2004
population	000s	1,382
households	000s	573
TV households	000s	556
digital cable penetration	%	3.96
analogue cable penetration	%	34.35
total cable penetration	%	38.31
total DTH penetration (pay)	%	0.67
total DTH penetration (free)	%	10.79
IPTV penetration	%	0.00
total pay TV penetration	%	38.99

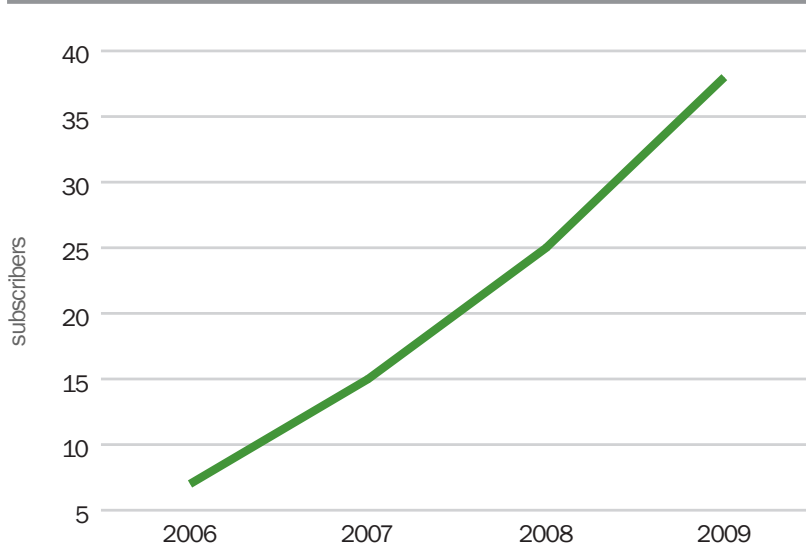
Source: Screen Digest

Estonia: IPTV subscribers and penetration

		2006	2007	2008	2009
IPTV subscribers	000s	7	15	25	38
IPTV penetration of TV HH	%	1.2	2.6	4.2	6.3
IPTV penetration of pay TV HH	%	2.7	5.3	8.2	11.4
IPTV penetration of broadband HH (excl. cable Internet)	%	4.8	7.7	9.7	11.7

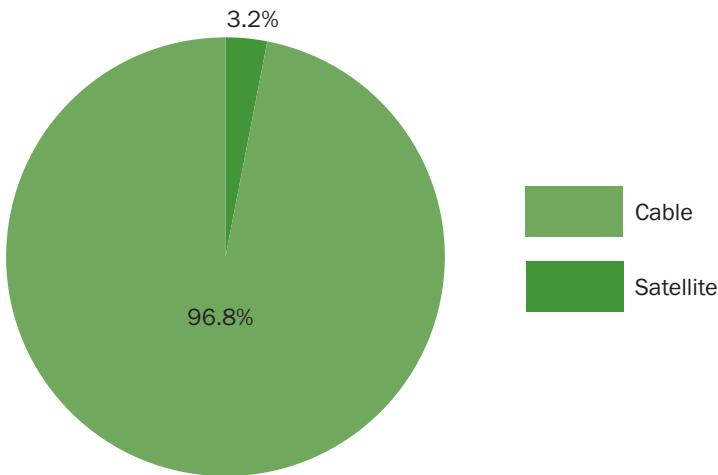
Source: Screen Digest

IPTV Subscribers (000s)



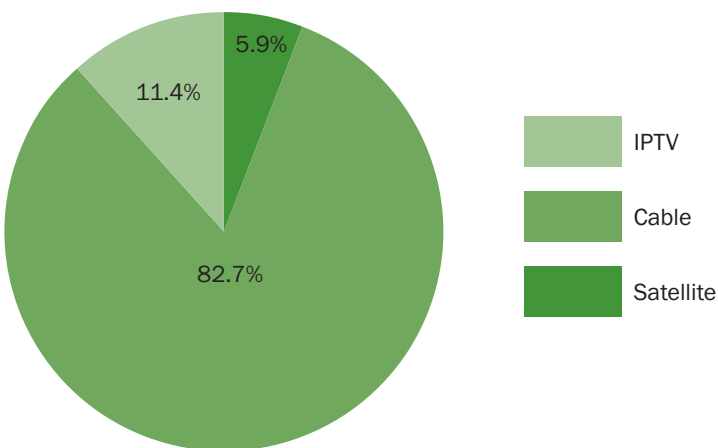
Source: Screen Digest

Pay TV market shares (2005)



Source: Screen Digest

Pay TV market shares (2009)



Source: Screen Digest

Cable

Almost 40 per cent of Estonian households were getting television via cable at the end of 2004. Viewers are served with up to 60 channels, including services by pay TV operator Viasat, but currently neither pay-per-view (PPV) nor video-on-demand (VoD) is offered by any of the country's operators. Only one company, STV, has launched digital cable, and up-take has been slow.

Cable Internet, on the other hand, has proved successful. In addition to television and broadband Internet, the leading cable operators have also started offering VoIP services. Estonia can thus be called a triple-play market.

IPTV operators in Estonia will have to come up with an offer that is more than just triple-play in order to be successful. The lack of digital cable, PPV and VoD however presents an opportunity, as all these services can easily be offered on IP networks.

DTT

An experimental digital terrestrial television service is in operation since May 2004 in the Tallin region, and can be received by about a third of the country's households. No decision has been made whether the service will go commercial.

IPTV operators

Elion

Overview

Operator	Elion
Service name	Elion Digital TV
Ownership	Elion (AS Eesti Telekom (100% owned by Republic of Estonia (27,23%), Baltic Tele AB (24,45%), Public investors (23,86%), Telia AB (11,73%), Sonera Holding B.V. (11,73%))
Launch Date	planned 2006
Network technology	ADSL2+
Homes passed	n.a.
Subscribers	n.a.
TV Services (planned)	pay TV, VoD

Source: Screen Digest

Elion, formerly Eesti Telefon, is the national incumbent telco. The largest provider of telecommunications services, Elion launched its DigiTV digital television service in May 2005 in greenfield areas. For this service, common radio frequency transmission is used, but the service will be extended to Elion's ADSL network in 2006 using IPTV technology. Elion is also operating an on-demand television service to the PC called ITV. Launched in 2003, ITV had nearly 5,000 registered users at the end of 2004.

Offering

Although not an IPTV service yet, Elion DigiTV gives an indication of how the company's IPTV service will look once it is launched. For a monthly subscription fee of EEK75 (€4.80), DigiTV currently offers 40 television channels including the national Estonian channels, and 15 radio stations. In addition, a basic package of 14 analogue channels is available for EEK35 (€2.20).

When it is launched as an IPTV service in 2006, Elion DigiTV will be offered independently from Internet access. Customers will not have to subscribe to Elion's ADSL service in order to access IPTV. A video-on-demand (VoD) service is planned, but it is not clear yet whether such a service will be available from the start. The VoD service will not be a replication of Elion's VoD to the PC service, ITV, and will be operated independently from it.

ITV currently offers some 6,000 hours of television content to registered users. Most of the content available has been produced by and for local broadcasters. Each week an average 20 hours of additional content is added to the service.

There are currently no plans to offer a network personal video recorder (NPVR) as part of the IPTV offering.

Network and technology choices

Elion DigiTV is available in new housing developments only. On greenfield sites, Elion uses fibre-to-the-home (FTTH) technology, new apartment blocks are connected with hybrid fibre-coax (HFC) cable. As of June 2005, 800 households were passed by the service, of which 450 had signed up to it.

When IPTV is launched in 2006, it will be facilitated by ADSL2+ technology in the access network. Elion starts testing the delivery of its DigiTV service over ADSL2+ in November 2005. ADSL2+, which will allow downstream speeds of up to 20Mbit/s depending on the customer's distance from Elion's local exchanges, is currently being rolled-out by the telco. Elion aims to reach 50 per cent of Estonian households by 2010 with its IPTV DigiTV service, most of which will be able to access it via ADSL2+.

It is likely that for the IPTV service largely the same technology vendors will be involved. Elion has, however, decided that IP set-top-boxes will be supplied by Kreatel and Pace. The ADSL2+ network equipment will be provided by Ericsson, Nokia and Siemens.

Elion: IPTV technology suppliers

Head-end/encoding	Tandberg
Server	:
Middleware	none
Content protection	Conax
Set top box	Humax
Compression	MPEG-2

Source: Screen Digest

Performance and outlook

At the end of June 2005, 450 of the 800 households that were passed by DigiTV had signed up to it, a take-up rate of 56 per cent. The service is currently rolled out to new housing developments only. In most of these cases, there is no competition from cable companies in these developments. Elion DigiTV's current take-up rate is therefore only of limited use when it comes to predicting how the service will perform once it is rolled out across the country as an IPTV service.

When the service launches on IP networks in 2006, it will compete mainly with cable companies. As long as cable companies do not roll-out digital cable and services like pay-per-view (PPV) and video-on-demand (VoD), Elion should find it easy to market its service. Many of the company's existing ADSL customers---there were some 84,000 at the end of June 2005---can be targeted.

Triple-play, especially when the services are bundled at attractive prices, will also appeal to a lot of potential customers. On the other hand, the largest cable operators have already launched triple-play, and more companies will follow suit. Triple-play alone will therefore not be enough to differentiate from competitors.

Should competition hot up, the availability of attractive content will be a way of differentiating from cable. This might however be difficult, as key content rights are already owned by Modern Times Group. Another issue is the country's coverage with ADSL2+. Elion is just about to roll-out ADSL2+ technology, and its target of reaching 50 per cent of the country's households by 2010 does not seem very ambitious for an incumbent. This lack of coverage will limit overall take-up.