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THE SATELLITE INDUSTRY NEWSLETTER

Satcoms Insider

Incorporating DIGITAL TELEVISION TIMES

Tri-stage plan from SES

Global broadband scheme imminent

SES Global's executives are extra-busy on three counts. Top of the list is a billion-dollar fund raising exercise currently in its final closing stages. An official announcement is expected shortly, once SES closes on a $1.05bn private placement financial restructuring designed in part to repay existing borrowings. Earlier this year SES pulled a €500m Eurobond offering. Clearly it had greater ambitions, although it is uncertain whether this fresh $1bn means that SES has – at least for the time being – abandoned its plans to raise new equity on the New York stock exchange. Some 30 mostly US-based financial institutions are taking part in the cash-raising exercise. SES has its next financial results statement on Sept 15.

Second thrust is 'Cross Links', the name given to what SES Global plans to be a separate business unit operating aggressively in the data and video transmission areas under New Jersey-based SES Americom's Dean Olmstead. 'Cross Links' is designed to offer existing and new clients, and in particular governmental and military customers, a global route for their traffic, and will evidently offer highly competitive rates at tighter-than-normal operating margins.

The plan calls for AMC12 and AMC13 to be the centrepieces of the new outfit, along with some existing SES assets. One option under consideration is that 'Cross Links' could also exploit the now wholly-owned SES-AAP-1 craft in its 108.2 E POR location. AAP already has, for example, a fully licensed uplink station in Beijing, China. SES Americom's Dean Olmstead said 'Cross Links' would be a global initiative and a new operational entity, that would have to accept smaller profit margins than normally the case in FSS and DTH transmissions. To date, Intelsat, PanAmSat and New Skies have carved up this trans-Oceanic traffic between them, and it seems SES is now seeking a much larger slice of this pie. Olmstead says he sees 'Cross Links' promising faster growth, although at much smaller revenue margins than its Astra, Americom and AsiaSat operations are used to.

But staying in the Far East, there are also other considerations for AAP-1: the Lockheed Martin-built high-power satellite could be put into AsiaSat, still very much under SES' influence, but perhaps better placed for local marketing. Option 3 for AAP is to move it completely, placing the craft at another orbital position better able to exploit its power and functionality. AAP-1 was launched in October 2000 with an expected end of life of 2016.

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Intelsat's "beachfront properties"

By Chris Forrester

Intelsat's CEO Conny Kullman last week told analysts and investors that its $1.1bn bid for six satellites from Loral represented prime "beachfront properties" for Intelsat and that they were "surgically" selected from Loral's portfolio of assets, and would come completely unencumbered by debt, or other complications. "They are exactly the bits and pieces we needed," he said. "We can integrate the [Loral] business quickly, perfectly fitting them in with our overall timeline." Kullman made his comments at the company's half-yearly results presentation, using the occasion to urge shareholders to urgently send in their Proxy approval cards, warning them that a non-returned card would automatically be registered as a 'Negative' vote on the deal.

Kullman added that Intelsat's IPO was now very much back on track and he anticipated it taking place soon after the Loral deal closes "shortly after the Loral deal closes, in early-mid 2004. However, he admitted the FCC clock is still ticking in terms of its Orbit legislation which he was hopeful could be extended from Dec 31st this year to June 30 2004. However, the IPO had to happen by then. One of the surprises connected with the Loral acquisition

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We're all off on a summer break. Our next issue is September 2nd

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Communications Business Intelligence

Satcoms Insider

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DTT Consulting is owned by Roger Stanyard, former owner, editor and publisher of Interspace newsletter. Stanyard has almost 20 years experience as a business analyst

Nagra buy CPT

Swiss digital broadcast technology firm Kudelski has agreed to buy Canal Plus Technologies encryption unit MediaGuard from Thomson in a deal initially worth €240m ($268.2m), Kudelski said August 4. The deal, previously reported in our pages, represents a major consolidation in smart-card suppliers.

Kudelski and Thomson say they will also jointly develop and market technologies and products for satellite, cable and telecom operators, building on Thomson's strength in encoders and decoders and Kudelski's lead in conditional access systems. Kudelski stock, which has risen sharply recently on rumour that a MediaGuard deal was in the pipeline, rose more than 4.4% to 33.25 Swiss Francs in early trading on Monday Aug 4.

MediaGuard claims the world's third-largest CA provider with approximately 10m subscribers and net revenues of over €60 million in 2003. Kudelski will acquire the MediaGuard business in an asset transfer transaction. The MediaGuard assets, together with approximately 200 employees will be transferred to a French-based entity fully owned by Kudelski. Closing of the transaction should take place in Q4 2003, subject to the required regulatory approval process and other necessary procedures.

SBS "not looking back"

Luxembourg-based pan-European TV and radio group SBS Broadcasting has reported its Q2 and 1H results ended June 30, 2003. SBS saw its net revenue increase E19.0 million, or 14%, to E154.9 million for Q1. This meant an 11% increase overall on the six months to June 30. Station operating expenses increased E4.6 million, or 5% to E98.8 million. Operating income increased E13.1 million, or 125% to E23.6 million for the three months ended June 30, 2003. Chairman Harry Evans Sloan said he expected the company to reach free cash flow this year helped by record station performance which had achieved record cash flow, representing 9 consecutive quarters of positive progress during a time of great pressure for the broadcasting industry. Sloan said the company would continue to divest itself of non-core, non-consolidated assets, such as its 4000-share stake in Lions Gate Entertainment, which SBS sold for €9m.

Last month (July) SBS agreed to acquire Radio 1 Norge AS in Norway and Radio 2 A/S in Denmark from Clear Channel Communications and from Norsk Aller. The total purchase price of these acquisitions is approximately €17.5 million, payable in SBS common shares. The acquisitions, which are subject to regulatory approvals in Norway and other conditions precedent, are expected to close in August 2003. With eight radio stations, Radio 1 Norge is the second largest commercial radio operation in Norway. Radio 2 operates 10 radio stations in Denmark and is the second largest commercial radio operation in Denmark. During 2002, Radio 1 Norge and Radio 2 had revenues of approximately €12 million and €5.5 million, respectively. In July SBS also agreed to merge their Swedish radio operations with Bonnier Radio. The jointly owned company, SBS Radio, will be 51% owned and controlled by SBS and 49% owned by Bonnier. The merger, which comprises SBS' 5 stations and Bonnier's 14 stations, is subject to Swedish regulatory approvals and is expected to close by the end of August.

CEO Markus Tellenbach said: "SBS had an exceptional second quarter, recording our sixth consecutive quarterly increase in operating income performance as we posted substantial improvements despite the lacklustre advertising environment in Europe". Besides TV, SBS has concentrated on expanding its role in radio, boosting its portfolio of radio stations from 9, to 52 across Europe. Tellenbach added: "As we continue to improve our results, we prudently seek opportunities to consolidate our position in our pan-European footprint. Our television stations are increasing their viewing shares, while our radio group will strengthen its position as the leading operator across Scandinavia, following the completion of recently announced transactions in Sweden, Norway and Denmark".

SBS' net debt now stands at some E137m, which is itself compensated for by the value of SBS' non-core assets, and Sloan said he valued the company now at being worth $950m-$1bn. Sloan said the company did have an issue with its joint-venture Polish partner over its local Warsaw station TVN. "It is now time for us to value our stake, and improve our cash position by possibly selling [the station]." SBS' cash in hand stands at some E50m, and Sloan said the next step was to repay debt, and convert all of its high-yield notes to conventional bank debt. He said he expected the company's debt position to be significantly improved.

Inmarsat's Iraqi war contribution

By Chris Forrester

Inmarsat's contribution in media terms to the recent Iraq war was described by the BBC as "making a substantial difference". Mark Tyrell, Manager of Resources and Development in the Newsgathering department of the BBC, says: "The results were clear for all to see in terms of the extent to which [Inmarsat's Global Area Network system] featured in our coverage of the Second Gulf War. For the first time, satellite technology could be deployed on a massive scale. And although the video quality is poorer than terrestrial broadcasts, news editors and viewers alike are happy with it in difficult situations because of the immediacy it brings to breaking events. On BBC News 24 they were conducting up to 30 videoconferences a day at the peak. Currently we now have well over one hundred units deployed around the world, up from a dozen or so of the older models."

"It is the ease with which correspondents can broadcast live by satellite which is so key. Hence the latest mini-revolution in news reporting which we have witnessed [in Iraq]. Journalists can pack all they need into a rucksack and be ready to report from anywhere on the planet. Already it is hard to imagine newsgathering without that facility, and it simply would not have been possible without the Inmarsat services." Mark Tyrell, BBC.

Tyrell is one fan, but there are plenty of others. CNN International's EMEA managing director is Tony Maddox. He says that there is one major difference to newsgathering today, compared to the last Gulf War. "What we are seeing is a lot of impressive technology changes. Laptop editing, File Transfer Protocol ways of easily feeding material into the studio, handheld camerawork and sat-phone usage. Just think how much it used to cost to set up a 24-hour news operation, and yet today much of that cost can be circumvented and some broadcasters are looking to use this low-cost approach to achieve a 3-4 year move into break-even."

Maddox says broadcasters have learned valuable lessons from the Iraqi campaign. "It is a significant difference. We could today walk into any High Street retail electronics centre and in 15 minutes equip a news bureau, buying all the kit over the counter. These are fundamental changes. Our 800 affiliates are still our front-line troops for breaking news, but I think these affiliates are already improving their own on-the-ground coverage by investing in this sort of equipment." Maddox explains that the falling cost of broadcast hardware is also beginning to impact CNN's own thinking in how it expands and opens new operations internationally. "We have Jeff Koinange, based in Lagos, Nigeria, which is a huge country, but he carries his bureau almost in a gadget bag. If he flies out to Monrovia, a country not rich in broadcast facilities, his bureau goes with him!"

Low-cost satellite communications have made this difference. Richard Hradsky-Fisher of 7E Communications is a well-known industry figure, and 7E has been selling and renting Inmarsat kit since 1988. "Most of our customers are in the newsgathering and broadcasting sector, including newspapers. We know that our equipment tends to go into tough environments and we like to think we can come up with solutions for the likes of CNN and others to maximise efficiency. For example, we designed the S0DA-splitter/combiner which links two 64 kbps streams into one 128 kbps stream. Then there's our 'Talking Head' videophone unit, which is something of a market leader, and again CNN and the BBC were involved in the specifying what they wanted. Today we have a few variations including a mini-Talking Head, and for IBC we will be presenting an IP-based unit. The technology we all use is standard video conferencing compression, nothing to do with the MPEG compression family. It is a well-developed industry standard and with the obvious challenges of using video telephony it delivers – to the eye – a highly acceptable image. Inmarsat's Regional BGAN is an IP product, and you need an IP product to tap into Regional BGAN."

Hradsky-Fisher takes pains to point out the transmission facts of life. "Regional BGAN offers a data-rate of 144 kbps. This, however, does not take into account Forward Error Correction which eats into the bandwidth available and might limit image quality. But the new technology is still spectacular. At APTN I remember us screening a tape of the death of Pol Pot that the cameraman had lugged for 5 days through the jungle to deliver. Those days are gone. The freelance stringer cameraman, who has always been the backbone of newsgathering, is buying this kit. They bought store and forward equipment, and they are now buying our Talking Head kit. They now have two opportunities. They offer a few minutes of their footage for immediate use, and then can suggest a full tape later perhaps for archive or documentary use." 7E's Talking Head 2 product (good for 128 kbps) costs about $10,500.

Tristran Wood, MD at Livewire Digital says the recent Iraq action made "an incredible difference to demand for equipment." Livewire's 'Voyager Lite' is their third-generation store/forward unit and uses software compression techniques to generate fully compliant MPEG-1 or MPEG-2 streams in the range 128kbps to 15Mbps. "This is the first time where Inmarsat has been used to such a great extent." Livewire has been selling its kit for some 10 years, and now Inmarsat's B-GAN service has meant the total weight of equipment going into the field has been reduced from around 60-70 kilogram's to 6 or 7 kg. "Price has also plunged dramatically," says Wood. "From around $100,000 a few years back to a twin-terminal model today for about

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Intelsat's "beachfront properties"

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was Intelsat's commitment to an all-new satellite from Space Systems/Loral, complete with a promised $100m down-payment. "This was no surprise," said Intelsat, given that the satellite was already in the company's procurement and build manifest anyway.

The next hurdle for Intelsat to sweat over is the Court-organised auction for Loral's key assets. This is currently slated to begin later this month, and Kullman admitted that he was aware that Loral had been in discussion with other strategic players and there's always a chance that these players will again look at their numbers and re-enter the process with higher bids.

Assuming this does NOT happen, and Intelsat's bid stands, Kullman is already on record with his strategy for the North American market, and building upon the $550m-worth of booked orders already in place, none of which are at risk with an ownership change: "The focus for the next 12 to 24 months is to develop the video strength and the media and entertainment business that these satellites come with, as well as the potential for future business. We have been limited to bringing content to the boundaries of the U.S., but have not been able to distribute it over this country. [In the past Intelsat] has handed it off to players like Loral and to both PanAmSat and SES. Now, we can provide end-to-end solutions for those programmers and get them all the way from the source to their destination. Whatever packages the content providers have here in the U.S., they can use our network to transmit it to the whole world. We definitely see an opportunity to build a video business, both taking market share in North America as well as developing the video business around the world with these assets. In addition, there is the government and military market segment. With these assets, we can now provide a very strong total global solution for government requirements. There is a third area, corporate networks, where we can target players in the oil and gas industry, for example. So, for the corporate network market, we can now offer end-to-end solutions, and we do that not only with the satellites, but with the terrestrial infrastructure we have put in place."

On Intelsat's trading position, Kullman presented a picture that was spot on guidance but couldn't disguise the tough trading conditions. The number of clients had grown by "more than 75" since January. Intelsat 906, the company's African satellite (at 64 deg E) was bringing in extra business for them in what was turning out to be a "hot niche for us". However, Telecommunications revenues for Intelsat fell 1%, or $2.2m to $244.5m for Q2, compared with the same period in 2002. Intelsat's net income fell 44%, or $32.9m to $42.6m for the quarter. For the first half of 2003, Intelsat's reported revenues were $483.4m and net income of $106.7m. EBITDA, as adjusted, for the six-month period was $356.2 million. However, the net result of globally depressed trading, plus Intelsat's higher expenses put a squeeze on net income, which fell $52.5m, compared to the half-year period last year.

Tom Watts, senior analyst at SG Cowan, said Intelsat's Q2 modest upturn in revenues as a positive sign, particularly with similar news coming from PanAmSat recently. The slight revenue gain for both outfits suggested that the FSS sector "has bottomed," he said.

Intelsat trading: 1H to June 30 (000),

	2002	2003
Telecommunications revenue	$ 505,222	$ 483,420
Operating expenses:		
Direct costs of revenue (excl dep'n and amortiz)	56,700	69,471
Selling, general and administrative	71,797	57,756
Depreciation and amortization	177,213	199,199
Total operating expenses	305,710	326,426
Income from operations	199,512	156,994
Interest expense	(18,336)	(44,048)
Other income, net	3,052	10,727
Income before income taxes	184,228	123,673
Provision for income taxes	23,950	16,985
Net income	$ 160,278	$ 106,688

Data: Intelsat, July 30

Intelsat's Loral timetable

Aug 1	Voting proxy statements in shareholders hands
Aug 15	Votes must be in by Aug 15
Aug 15	Special General Meeting, in Amsterdam
August-late	Court-established Auction process commences
4th Qtr/03	Asset auction for Loral satellites occurs*
1H/2004	Regulatory approvals obtained, transaction closes

*And Court awards assets to Intelsat if winning bid
Data: Intelsat, July 30

Tough prospects for Galaxy Hong Kong?

In February this year Intelsat took a 51% stake in Galaxy Satellite Broadcasting (Hong Kong's TVB owns 49%), designed to create a new pay-TV operation (and teleport) for Hong Kong. But concern is now growing in the region that with at least three new pay TV platforms set to begin operations over this next few months, in addition to the two already operating as well as widespread existing access to DTH satellite transmissions, that casualties are bound to follow.

Local market leader is i-Cable Communications with around 620,000 subscribers after some 10 years activity. By Christmas I-Cable could well be competing with a 12-channel package from City Telecom as well as the Intelsat/TVB Galaxy venture. In addition, fixed line telephone content-provider PCCW wants to link its entertainment arm with the hardwire distribution network it took on when it bought Hongkong Telecom from Cable & Wireless in 2000. Finally, the UK's struggling Yes TV DSL platform will add another five channels to its existing four-channel bundle later this year.

Hong Kong's 7m population (and around 1.7m homes) suggests it is unlikely that all of the rival pay TV platforms can survive. Intelsat's plan calls for at least 24 channels, and when the deal was announced last February the partners talked about achieving break-even within three years of launch, with 300,000 customers.

But Loral's creditors close in

Loral's recent Chapter 11 restructuring has left more than a few unsecured creditors waiting in the wings. While Intelsat want Telstar 4, Telstar 5, Telstar 6 and Telstar 7 and two unlaunched satellites (Telstar 8 and Telstar 13), Loral's financial crisis still has unfinished business with the likes of Finmeccanica-owned Alenia Spazio, and Mitsubishi Electric as well as with assorted lenders. Assuming Intelsat's $1.05bn bid stands, the bulk of which will go to Loral's secured lenders, this will still leave Loral with unsecured debts of 1.4bn. $700m is down to Loral's Orion operation, another $350m in unsecured loans, and a further $350 in conventional supplier-based obligations.

PVR's: "A long-term opportunity"

To date, sales of Personal Video Recorders (PVRs) and set-top boxes with built-in PVR technology have been modest. Two weeks ago Tivo's share price plunged almost 9% when DirecTV said its adoption of Tivo technology wasn't taking off quite as well as they had hoped. Roxanne Austin, DirecTV's COO, said the company's earlier targets for DVRs were "quite aggressive." She also said that considering the rate of customer adoption in the first half of the year the initial projections are "very challenging."

Tivo itself, during its quarterly conference call in May, said it expected to gain a total of 65,000 to 80,000 subscribers in the second quarter and 450,000 to 600,000 subscriptions by the end of the fiscal year, ending Jan. 31, 2004. The company said about half of the new customers would come from DirecTV. One US-based analyst cut back his forecasts for Tivo subscribers, suggesting only 638,000 new subs for this year, in place of 765,000. Hughes say they estimate that 300,000 new customers would take up Tivo in addition to 250,000-300,000 of its existing customers. Hughes gained 181,000 net new customers in the second quarter, of which less than 10% subscribed to the PVR box. Tivo, as a stand alone option, can be bought for $249 plus a monthly $12.95 fee.

This is a market, but it's modest, and by any measure a softer adoption than once predicted. Tivo holds its AGM on Aug 6 and releases its next set of numbers on Aug 26. It's Q1 numbers (to April 30) showed 703,000 total subs, including 79,000 net new additions during the quarter. Tivo launched back in 1999 and has seen off more than a few rivals in the meantime.

Tivo's only other market was the UK, and it pulled out of Britain back in February (although its few existing subscribers continue to be maintained by BSkyB). Sales in the UK of BSkyB's own Sky+ box are also modest, at about 100,000 units. Last week Charlie Ergen in his on-screen dealer chat told viewers that Echostar would shortly begin charging a monthly subscription fee for its PVRs (see box).

Meanwhile BSkyB is currently in the middle of some heavy on-screen promotional activity for Sky+ and in July investment bankers Morgan Stanley took a closer look at what they think could be alternative marketing/support scenarios for PVR's generally. The question senior analyst Sarah Simon asks is whether Sky (or any other sat-platform) will have to make significant set-top investments in the future? One factor in her equation is whether Sky's competition

The Echostar PVR fee plan*

DiSH 'Everything Package' ($74.99/mo.) = no monthly fee for PVR
DiSH 'AT 150'/'AT 100' channel bundles = $4.98 monthly fee for PVR
DiSH 'AT 50' = $9.99 monthly charge for PVR
*For DiSH model 510 PVR (100 hrs of programming)

Data: Bear Stearns

PVR economics for Sky+*

Cost of box/LNB	£235	(company guidance)
Cost of installation	£75	(company guidance)
Current customer fee	£250	as of July 1 2003
Net subsidy	£60	

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Monthly fee	51	102	102	102	102	102	102	102	102	102
Software costs	-18	-36	-36	-36	-36	-36	-36	-36	-36	-36
Box Subsidy	-60	0	0	0	0	0	0	0	0	0
Net Contrib'n, pre marketing	-27	66	66	66	66	66	66	66	66	66

*Source: Morgan Stanley, July 9

(cable or DSL) roll out a widespread VOD deployment. Should this happen, says Morgan Stanley, "then we do believe the pressure on Sky to more aggressively roll out PVRs would increase." She suggests this timetable is unlikely much before 2005-2006.

However - and this is the key portion of her study – she suggests that PVRs could be a value-generating opportunity for BSkyB, adding "as was the switch from analogue to digital". While recognising that currently the product is too expensive and would need subsidising if Sky were to reach a meaningful penetration, the bankers say this would result in Sky staying more than capable of addressing any future competition from a pure VOD offering. Besides, she says: "mass penetration of PVRs would also lead to an increase in ARPU, and would ultimately add value."

Morgan Stanley say they believe Sky is currently making "a small loss" in Year 1 when they sell a PVR, before taking into account marketing costs. They base their calculations on a typical first year model of 6 months 'ownership' by the subscriber and based on Sky's monthly gross sub of £10, which represents a 65% gross margin (on a selling price of £249 and token £1 for installation). "We estimate," says the bank, "that Sky loses £27 per PVR sold, excluding marketing." But thereafter, they say, the service should be "highly profitable".

Moreover, every PVR rolled out has a implied value to Sky of at least £238. "But," asks Morgan Stanley, "if the economics of PVR's are so good, then why doesn't Sky push the product more heavily?" In fairness, we may be seeing this very push now. But the bank provides the probable answer, saying "In order to achieve mass penetration we think Sky would either have to subsidise more heavily the box+install, and/or reduce the monthly charge." The bank argues that if Sky were to drop the cost of box+install, to – say - £100, then this would represent an additional subsidy of £150 and an aggregate subsidy of £210, and pushing Sky's loss per customer for the first year to an unpalatable £237. The bank, however, suggests that even with this degree of subsidy there would still be tangible value to Sky.

Sky has made similar investments in the past, notably over the introduction of Sky Digital. When it launched Sky Digital the cost of the box to each consumer, without a subsidy in place, would have been around £400 per box. Sky took an after tax provision of £315m on the free box launch in order to implement this strategy. But Morgan Stanley

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remind readers that this was done when Sky's overall revenue was much smaller than today. A similar subsidy today, say of 700,000 customers or 10% of the subscriber base, at £100 per sub, would cost a negative hit to pre-tax earnings of some £166m. Sky migrated 1.5m analogue subs to digital in a single year, and the bank report says it might be worth thinking of this methodology as a means of moving from a luxury, low-penetration model, to a mass-market product.

Morgan Stanley say they don't think Sky will adopt this strategy just yet, preferring to concentrate on "milking short-term cash-flow rather than investing in new products that will hit short-term earnings." Sky is currently experimenting with varied pricing strategies for Sky+. Nevertheless, when one includes rental/leasing models being used by some manufacturers (notably Canalsatellite's Pilotime PVR model) the market should no longer look at PVRs as a single sales model.

News

Alcatel Space wins HB7A

As widely expected, Eutelsat has awarded Alcatel Space the construction contract for Hot Bird 7A, Eutelsat's replacement for the HB7 satellite lost last December. Eutelsat have taken the opportunity to modify HB7's specification somewhat, adding both primary capacity and additional back-up functionality. HB7A will use Alcatel Space's Spacebus 3000 platform, with 38 Ku-band transponders (end of life) each of 33 MHz minimum each. HB7 is Alcatel Space's 16th satellite built for Eutelsat.

HB7A's first mission is to replace HB1 at 13 deg East, launched in March 1995 and built by Alcatel originally as the last of the Eutelsat II series (F6) craft with 16 transponders. Some might fairly argue that this initial satellite made Eutelsat's fortune, helped by a snazzy new 'hot bird' name for the orbital position. The remaining transponders on HB7A will be available for potential back-up and replacement capacity for the HB2, HB3 and HB4 satellites. HB7A has a design life of 15 years, and is slated for launch two years from now in Autumn 2005.

• Eutelsat's e-Bird is scheduled for launch August 28 by Ariane (along with India's Insat-3E, and ESA's SMART 1 craft).

Iran "cancels" Zohreh

Iran has cancelled its previous decision on purchasing a Zohreh satellite [intended for establishing digital television and mobile phone systems in Iran] from Russia. Russia's state-run Aviaeksport, which was initially recommended to the Iranian side by the Russian Foreign Ministry, had no definite plans for designing and manufacturing of the satellite and delayed signing the contract for more than three years, according to Iranian reports. Then the Russian foreign minister [Igor Ivanov] proposed the Iranian leadership to commission the task to Intersputnik, "which had neither relevant experience, nor recommendations from the Russian Aerospace Agency," say local reports, which add that the Iranian Economic Council has now cancelled the deal.

Murdoch targets 10m in Italy

Sky Italia launched on July 31st adding another platform to Rupert Murdoch's string of global assets. Tom Mockridge, the pay-TV network's managing director, has set Sky Italia a long-term target of 10m subscribers. Sky Italia is starting transmissions from a slim base, not helped by massive past piracy and a wide portfolio of rival free-to-air sat-channels. Sky Italia has been created from the fusion of Telepiu with Stream, in which News Corp had an 80% stake and which had been on air since 1993.

Because existing viewers have to re-contract with Sky Italia (though without having to change either decoder cards or boxes) and many Italians are currently on holiday, it is reckoned that only about one in six official subscribers will be signed up by launch day. It could be as low as 400,000 viewing homes. First target is to hit 3.5m subs by the end of 2004. Sky Italia says it will shortly have about 120 channels including Italy's first all-news channel, Tg24, and a range of sports channels that have signed deals with all of the country's leading football clubs - Juventus, Roma, Lazio, Inter, and Silvio Berlusconi's AC Milan.

China boost for pay-TV

China Central Television will test the pay-TV market by launching four or five new channels this September. Local reports suggest that further channel launches can be expected, and could reach 30 within two years. Sources suggest the roll-out would probably include channels carrying films, sport, Chinese opera and situation comedies. Foreign programmes are not be included. Broadcast professionals said the launch was part of media reforms designed to encourage better programme production and to generate revenue from rerunning archived films. Since the separation of programme production and transmission, CCTV has tried to get a step ahead of competitors by launching pay channels. Proponents of the scheme say pay-TV is necessary to reduce the reliance on advertisements, which could have a "dumbing down" effect as well as giving advertisers too much power over programming. A local observer said the cost and the technical requirements of the set-top boxes could be initial hurdles that would need to be overcome.

Fertig wants "40 channels"

Constellation Media is a new London-based outfit run by Len Fertig, formerly CEO at Central European Media Enterprises. With the help of former Chrysalis TV's Mick Pilsworth, Constellation is looking to acquire at least 25 and up to 40 already established TV channels in Britain, with the idea of saving each of them around $165,000 p/a in running costs and uplink fees. Fertig says he is looking to buy single channels and groups of channels that are already near operating profit, boosting revenues and cutting costs. The operation is part-backed by funding from West Private Equity's $400m media fund.

Indian TV in a mess

First it was the 'will they, won't they' legislation to permit DTH operators to beam signals into India. Then it was the notorious Conditional Access System (CAS) rules which required India's 30,000 so-called "cable-wallahs" to install set-top boxes in every household by July 14. Both sets of legislation have stumbled. India's media rules now allow limited foreign participation (to 26% of equity) for news channels that emanate from India, like Rupert Murdoch's Star News, part of his Star India portfolio of channels. Last week, India's influential GoM (Group of Ministers, drawn from media, law and finance ministries) announced it would hold a "final review" of Star TV's general DTH plans. Under the complex Direct-to-Home rules, foreign equity participation is limited to 49% with a further cap of 20% on direct investment. In addition, there is an important 20% sectoral cap for foreign equity participation from broadcasting companies.

These equity participation regulations have created problems. Doubts have arisen because there are concerns over Star's DTH applicant, Space TV, which has been formed by Star employees (as promoters and CEO). Questions have arisen as to the source of the venture's funding. If it is concluded that Space TV serves as a corporate veil, then the government which has now ploughed through reams of paper on the shell companies floated by Star for uplinking purposes, will be doubly-wary of similar arrangements for other DTH operations.

Zee TV, backed by Subhash Chandra, received its government licence to operate a DTH service on July 29. Zee says it will launch a DTH bouquet on September 1. "We will offer the DTH service in non-cable areas and in stand-alone houses," Zee TV/Siticable's Jawahar Goel said.

The overall prize, for Murdoch as well as rivals like former local partner Subhash Chandra, is India's fast-growing cable penetration, claimed by Star to be topping 55m homes, and probably significantly more. Under-reporting of actual numbers is normal amongst the cable operators, and some broadcasters suggest that up to 80% of cable's numbers are understated. The cable operators say they have "about" 6 million homes paying for TV signals. Fees are low, around 50 Rupees a month ($1) in rural communities, for around 20 channels. City-dwellers (and better paid) get charged between 250-400 Rupees for a larger portfolio of 60-odd channels that contain a mix of local and international programming.

The Indian government ruled that viewers in the country's four main cities: Mumbai, Chennai, Kolkata (Calcutta) and New Delhi, cable operators had to install cable set-top boxes, thereby allowing programmers to earn a few extra rupees by establishing a premier tier of higher-value channels. The boxes had to be installed by June 15, then when this was clearly impossible a fresh date was given, July 14. This has also been abandoned, with media authorities now saying operators have until the autumn to start box installation. Normally, set-top boxes also attract a punitive 51% tax on their installation. This has been cut to 5% until July 31, although as this is written it is uncertain whether this tax holiday will be extended to a suggested date of September 30.

A ministerial proposal is that this two-month extension of the duty reduction on imported set-top boxes be allowed. The former structure was due to come back into force on August 1 of 25% basic customs duty, 16% countervailing duty and 5% Special Additional Duty. With an intention to provide a level-playing field to indigenous manufacturers, the finance ministry also abolished excise duty on STBs and reduced customs duty from 25% to 5% on key components of STBs, namely tuners, remote control units and RF-modulators.

The government's view is that CAS "empowers" viewers. "CAS is designed to empower the consumer... We will make sure that it is consumer-friendly," Information and Broadcasting Minister Ravi Shankar Prasad said. Prasad said cable TV rates had gone up by 11 per cent in the last six years and CAS would give the consumer the right to choose pay channels and pay only for those they wanted to view. Data supplied by the Customs and Central Excise authorities showed that just 50,000 set-top boxes had been imported by various MSOs by July 16.

Having last year passed the DTH rules, and this year attempted to introduce the CAS rules on the cable sector, now the Indian government is planning to think again. The government on July 24 accepted that there is "clearly a need for [further] institutional mechanism for regulation of broadcasting." A statement by Ravi Shankar Prasad, minister for information and broadcasting, says that a wider consultation with stakeholders is necessary to decide a new appropriate framework. The comment suggests the I&B ministry's recent experience with the industry in the context of CAS, uplinking, FM radio and other issues, is prodding the leadership to explore tougher options

While there's this government confusion, there seems little incentive for cable operators to get behind the new rules. Indeed, last weekend a meeting of cable-wallahs in Kolkata generally postponed their threat for a black-out of all TV, as a protest against the CAS concept. But some did interfere with feeds. General secretary and spokesperson of Cable Operators Sangram Committee Tarak Saha said in some pockets of the city cable operators had already begun blacking out cable channels. "It is already happening. Operators are not happy at the way in which CAS is being introduced," he said. Saha said the Sangram Committee and all its members were "in favour CAS being introduced" but not as announced by government. More importantly the 72 Rupees fee for all channels that the government has offered during a transition 'honeymoon period' seems to be "all wrong". "Many channels have already told us that they will not agree to this honeymoon period offer," he added. "And we will have to pay them the old rates even then. This is impossible. Most [urban] cable operators earn Rs 250 to Rs 300 per month at present. If a bulk of this is reduced to Rs 72 and yet we have to pay up the old rates, all cable operators will run out of business."

There's other criticism. India's Consumer Guidance Council asked: 'Why should any cable operator bother with boxes. There is no policing of the rules.' This is correct, and

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Inmarsat's Iraqi war contribution

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$25,000. But portability is main benefit. It can be hand-carried. As far as Iraq was concerned we saw huge numbers of terminals go out, including units to the Ministry of Defence. Land, sea and airborne branches of the military took ten or more units each. We saw a split in usage as far as satellite news gathering was concerned. Broadcasters themselves, and agencies like APTN and Reuters. As far as I am aware Reuters didn't use live feed material, because they first ingest and then sell it on to broadcasters. But Reuters use store and forward a lot more because they are a global news agency, covering events that may be of interest to local stations. For example, there are a dozen conflicts going on in Africa, and while [internationally] we see some of this material most is going to local stations."

Livewire will have another interesting development on show at IBC in its 'IP-Reporter' product. Best described as an inexpensive software only product, Wood says it is a news gathering package ideally suited for broadcasting companies wishing to expand their base of video contributors. Using IP-Reporter, large numbers of roving reporters and field photographers can file video footage and stills from remote locations via satellite and the Internet.

ITN's head of operational engineering is Malcolm Smith: "We've been using Inmarsat for some years for those stories when we've been unable to get a satellite dish into the region. We've been using TOKO's store and forward system for a while and then in early 2003 we looked again at what was available and settled on Livewire. I particularly liked the idea that we could easily change the coding on the system, and we are already talking to them about Windows Media 9 and H26 codecs. The other appealing element was its ability to run a pair of circuits giving us 128 kbps, and if a line was lost it would re-dial. We also liked the way the server handled incoming feeds. For example, on the ingest the operator could interrupt the incoming feed so that you could take what video had been captured for a headline grab, and then the sending end would recommence sending for the full package later. We also liked Livewire's architecture, and frankly, it was also cost-effective."

"The guys in field found the system easy to use, even though there simply wasn't enough time to fully train everyone," added Smith. "Our field editors are tape editors, so training them to non-linear isn't a trivial matter. But, from the point of view of store/forward they seemed to get on with it fairly well. We started with 5 systems, one of which is not used for store/forward at all but for features on [Channel 5 News]. The others were all bought for store/forward and with the Iraqi war we went from these 5 to 14 units. One didn't come back [ITN veteran war correspondent Terry Lloyd, along with two team members, died in a 'friendly fire' incident near Basra in March]. Operationally, and other than the usual battery problems, the main challenge was getting capacity on what was a very busy satellite."

The BBC's Tyrell added: "The point is that with this kind of technology, editors for the first time have a complete connectivity tool box that can handle any scenario they face. [Our] radio cars, which although they may use alternatives are equipped with Inmarsat to ensure global coverage and provide studio quality audio. At the 64kbit/s rate there is no real alternative to Inmarsat if you want mobile global reach," adds Tyrell. "Video telephones run at the same rate, or use devices in parallel, for live, if jerky television broadcasts. And store and forward means that high quality video can also be got back to the studio in the absence of a traditional DSNG (Digital Satellite Newsgathering uplink)."

"All the kit needed for the most rapid deployment is Voyager Lite – a GSM or satellite phone, a satellite terminal and DV camera. All this equipment will now fit into a shoulder-bag weighing in at just a few kilos." Tristan Wood, Livewire

Tri-stage plan from SES

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SES Global's Third Thrust is perhaps the most exciting, and involves a global broadband initiative, involving its own wholly-owned as well as its 'partner' operators (NSAB, AsiaSat, Star One and Nahuelsat) and possibly going much further. The broadband initiative is fresh thinking from SES and takes broadband much further than the current crop of SES-backed products including SatLynx, SatMode and the other existing SES 'return channel by satellite' products. SES staffers are tight-lipped on these new plans although it is understood that there's a willingness from SES to work together internationally with other non-SES linked satellite operators. The broadband plan is seeking to attract customers across all business categories, including DTH consumers although on past performance SES has firmly steered away from the retail sector preferring to deal only through wholesale suppliers.

News

UK DTT winning over cable

The number of UK homes connected to digital terrestrial TV service Freeview has almost doubled since October 2002. Some 1.51 million homes received DTT siganls at the start of July, compared with 763,000 nine months earlier, according to figures from the Institute of Practitioners in Advertising. Digital viewers are forsaking cable TV - only 2.16 million homes were connected at the start of July, down from a high of 2.52 million at the start of the year.

Will Wi-Fi hotspots put 3G in the shade?

Benjamin Ellis and Christopher Komatas of Juniper Networks believe there is room in the market for both and, with a new approach to Wi-Fi hotspots, the technologies will complement rather than compete with each other.

Across Europe, a communications revolution is quietly underway. Retailers, hotel chains, property owners, airports, service stations and this month, UK rail operator Virgin, have joined the march towards meeting the demand from business travellers for high speed connectivity to their corporate networks. Partnering with network providers, these wireless entrepreneurs are looking to meet, and profit from, the growing demand for Wi-Fi based 'hotspots' or the Public Wireless LAN (PWLAN).

The case for wireless connectivity is open. Many network operators believe PWLAN is just another bubble, so full of hot air it is on the verge of bursting. Others see it as the platform that will displace 3G, making the billions of Euros invested in spectrum licences (some of which have already been written off) worthless. The questions the market is waiting to be answered are: Who is right? and Which platform will triumph?

Those doubting the case for 3G in comparison to PWLAN tend to look at data speed and not consider the coverage, complete mobility, roaming, security and quality of service. Additionally, 3G offers improvements in the efficiency and quality of voice services allowing growth in voice revenues. At the same time, PWLAN connectivity is growing steadily. It is being stimulated by two factors: increased deployment and marketing of public access points and the move by manufacturers to build wireless Ethernet adapters into laptops and PDAs as standard. Recent research from Allied Business Intelligence suggests that globally, 58m users will be Wi-Fi enabled by 2008. This is not exclusive to the corporate world, wireless Ethernet is increasingly being used by consumers to enable access to broadband within the home.

Just as the debate rages around the 3G business case, the PWLAN business model is under scrutiny. Early entrants have embarked upon a 'land grab' strategy to secure lucrative hotspot sites and establish their brand. In their haste, most operators have 're-purposed' existing technologies and the limitations of this approach are becoming evident.

This current approach is expensive to operate, does not scale well and only provides commodity Internet access. Additionally, while Wi-Fi bandwidth capacity is capable of 11Mbps users end up fighting for the bandwidth of an ISDN or DSL line from the hotspot to the backbone network. Free community-based hotspots and current PWLAN services may satisfy casual Wi-Fi users, but not the larger addressable user populations that are looking for high speed wireless services at a competitive price. With this in mind, the current 3G strategy comes closer to meeting subscriber demands because of the good coverage, range of service and device options and layered voice and data capabilities.

For PWLAN to even be considered a substitute for 3G it must become a sustainable service. To do this a new "transformed" approach to PWLAN is required to:

- Optimise the overall cost structure so that large numbers of users can be accommodated
- Increase revenues with the addition of valued added services beyond basic Internet access
- Reduce the risk and time-to-market of these services by deployment over a single service independent network

Optimising

The most significant capital expenditure in the PWLAN is the equipment at the hotspot site. The current approach requires complex "gateway" equipment at each access point to enable subscriber management and service functions that control users' network access. The cost of the gateway increases total capital investment. This complexity increases operational and maintenance costs. For network operators to take the plunge, this access equipment must be simple, inexpensive and be deployable across a single, purpose-built service platform in the backbone. This transformed approach avoids using gateways at each hotspot by consolidating the subscriber management and services functions in the service provider's backbone network, simplifying the maintenance and reducing the capital cost of the wireless network.

It is the gateway cost and complexity that has prohibited service providers from rolling out hotspots that offer any more than Internet connectivity. The transformed PWLAN comes closer to meeting subscribers' wireless data needs (and therefore revenues for the operators) by allowing packet processing capabilities such as rate limiting, prioritisation, filtering, encryption and per byte billing to be combined.

The transformed PWLAN offers include:

- Tiered bandwidth on demand, a prerequisite for VoIP
- Secure Internet connectivity and access via VPN to corporate Intranets
- Customised, location-based content and premium subscription services
- Flexible billing options: per event, megabyte, minute, bandwidth or roaming location

Many mobile operators are now moving to the transformed PWLAN model and layering Wi-Fi services alongside 2.5G and 3G offerings using a single service independent IP/MPLS mobile backbone. Supported by a broadband services platform such as the E-series from Juniper Networks and a service deployment system such as the SDX-300, the service provider can rapidly scale the network in line with subscriber growth while developing and deploying new and sophisticated revenue generating services such as pay-as-you-go broadband and content-based subscription packages.

Even with the transformed PWLAN many 3G services will be difficult to replicate in the unlicensed spectrum and limited coverage of hotspots. Rather than leaving 3G in the shade both offerings can co-exist in the market. Many 3G operators are adding PWLAN options to their services to provide subscribers with a complete wireless experience, indeed the 3GPP standards organisation is rushing to standardise the interworking. DSL and cable operators are also layering PWLAN to add flexibility to their SME and home

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broadband subscription services. It is expected that smart phones will emerge allowing connectivity to the best network at any given moment to ensure the seamless user experience is maintained.

The current approach to PWLAN uses repurposed technologies. These initial networks have a high cost base, offer limited services and cannot compete with expected 3G services. A new transformed approach to PWLAN can be deployed to reduce the cost base, while increasing service scalability and reduce risk. In the short term at least, 3G and the transformed PWLAN can co-exist, even complement each other. The likelihood is that users will select the appropriate access device and network for the task in hand. Moving forward, the device may automatically select this for you. Perhaps the toughest challenge will be the extraction of Euros from the wallets of subscribers and IT managers. To do this the proposition must be more compelling than just another way to log on to the Internet.

Indian TV in a mess

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there's no planned policing of the regulations although the government has expressed hope that the broadcasters would behave "rationally". Another public watchdog has argued that the government is foolish to legislate nationally for local tastes. Anil Patwardhan of the Consumer Corordination Council asked: "Who is to decide which channel a person in Mumbai is to watch. Can some official in New Delhi [India's state capital] decide which channels someone in a remote corner of India should watch?"

Meanwhile, Star News is operating its all-Hindi service on a temporary weekly licence issued by the Ministry of Information. There's talk locally of 'dirty tricks' behind the company, which lost its main backer (Kumar Mangalam Birla) in mid-July, and allegations that Star's licence-holder (Media Content & Communications Services) is just a front, a shell company in effect, made up of a handful of friendly locals to Mr Murdoch. Local telecoms giant VSNL, which handles Star's uplink services (and in which the Indian government holds a small stake) has reportedly threatened to drop Star's feeds.

Then, there's the increasingly acrimonious relationship between one-time pals Murdoch and Zee TV's owner, local mogul Subhash Chandra. Murdoch and Chandra ended their relationship some 3 years ago and have since been seen as fierce rivals for India's viewing loyalty. Currently, Murdoch's Star operation is well ahead, helped by the switch from English to Hindi on Star News, taking its market share soaring from 7% to 30%. Star Plus has 45 out of the top 50 programmes, and has allegedly led Chandra to use his many parliamentary links with the ruling VJP political party to lobby against Murdoch and Star. Star's next move is to establish regional versions of its services, in local languages, and for this extra capacity will be needed. If nothing else this is good news for the DTH and distribution sector.

News

Ariane links with Boeing, Mitsubishi

Boeing Launch Services has signed a co-operation agreement with Arianespace and Japan's Mitsubishi Heavy Industries designed to offer clients the flexibility of choosing either of the partners in case of launch problems or delays with another partner member. The service is similar to that offered by ILS which uses Atlas in the US and Proton in Russia for launch services. "We are providing unparalleled access to space in order to meet our customers' rapidly changing needs," said Jean-Yves Le Gall, Chief Executive Officer of Arianespace. "Together we are reinventing and redefining launch services for the 21st Century."

Although unsaid at the press conference, the plan could help Boeing bail themselves out of a serious shortage of launch opportunities for their Delta rockets. This past year has been near-catastrophic for Boeing and Ariane. Boeing lost around $1bn in US Air Force launch contracts following admitted "unethical behaviour" by Boeing. An Air Force investigation concluded that Boeing had unfairly used documents belonging to Lockheed Martin. The alleged problems are still under investigation by the US Department of Justice, and there's a civil lawsuit pending. Besides losing a 10-launch contract, Boeing also took an $835m charge, announced in July, against Q2 earnings.

Ariane's poor year came about as a result of grounded launch vehicles. Had Ariane had in place this sort of agreement at the time then it could have switched some of its booked clients onto either Delta or Mitsubishi launchers.

Saudi 'dissident' Al-Islah TV on Hotbird

Backed by Saudi Arabian opposition interests, Al-Islah Television Channel began transmission on Eutelsat's Hotbird 6 on July 31st There will be afew days of test transmissions, with transmission details: Frequency: 12520, Polarization: Vertical, Symbol Rate: 27500, FEC 4/3.

BBC: No plans for Arabic TV

Director of BBC World Service Mark Byford said last week that the BBC currently had no clear plans to launch an Arabic television channel, but that it would in future be defining a strategy for reaching its Middle East audience. Asked by Arabic-language newspaper Al-Sharq al-Awsat on 25 July, if the BBC was planning to launch an Arabic television channel Byford said "We have BBC World, which is an English-language channel. Therefore, we are present in the three media [radio, television and Internet]. However, we will think in the future of a strategy for the Middle East, about the best way to get to the biggest number of recipients, listeners and viewers whom we would like to reach. Naturally, we have to admit that the importance of television is on the increase, as it has become an essential medium for conveying information in all parts of the Arab world. But we do not have any clear plan for the time being. Naturally, the situation depends on the means available."

Russian "CNN" proposed

A 24-hour Russian-language television news channel will start operating later this year, according to Moscow sources. VGTRK [All-Russia State Television and Radio Company] will be one of the participants in the project. Evidently, the decision has already been made that Grigoriy Krichevskiy, the former first deputy general director of TVS, will be head the new news channel. VGTRK chairman Oleg Dobrodeyev hatched out the idea of creating a Russian counterpart to CNN back when he was working at NTV [Independent Television], in the mid-1990s. Local reports suggest that some programming will be taken from the EuroNews channel (the rights to distribute the EuroNews Russian version belong to VGTRK).

• Kyrgyzstan's Prime Minister Nikolay Tanayev says a Gazprom-backed investment project, Satellite Digital Television would be established. The project calls for 100% of the nation's population to be able to receive the national television channel by satellite. According to a preliminary cost estimate, Gazprom's investment will enable the project to commence immediately so that television and radio broadcasts reach the entire population in 2004. The project to set up a satellite television and radio network in the country is expected to be carried out in two stages. The first stage includes building a terrestrial satellite broadcast station and installing satellite receivers in stations which currently exist.

Bloomberg in Spain

Bloomberg Television has reached an agreement with Digital+, the new Spanish TV platform from Canal Satelite and Via Digital merger, which will extend its reach in the two countries to over six million households.

DITG buys GOiNTERACTtv

Fast-growing UK-based Digital Interactive Television Group (DITG) last week acquired GOiNTERACTtv, an interactive television technology and services company. DITG says it will consolidate the technical expertise of both companies to create the largest independent player in the UK's interactive television industry. The deal provides a highly-credible alternate supplier to BSkyB, which leads the sector. GOiNTERACT will shortly move to DITG's studios in London's docklands (once home to the Money Channel). There had previously been speculation that BBC Technology was a potential buyer of GOiNTERACT.

GOiNTERACTtv was established by Sony Pictures Entertainment and Sony Venture Capital early in 2001. In February 2002 Doughty Hanson Technology Ventures put in some £5.5m in additional funding. Specialising in return path technology and services that allow viewers to interact with games, adverts and voting applications, its portfolio of customers include Sony (GoPlayTV), the BBC, Channel 4 and ITV. Neil MacDonald, managing director of DITG, said: "The interactive television market is currently still showing the typical fragmentation of a new industry. It's now time for a strong leader to emerge – the acquisition of GOiNTERACTtv will ensure that DITG is forging ahead, particularly in the technology stakes."

DITG is backed by internet millionaire Peter Wilkinson, and besides MacDonald its board includes former BT and BSkyB director John Swingewood. DITG owns the 'Avago' bingo channel. Acquisition terms were not revealed. However, Swingewood says this first deal is "just the beginning" of further consolidation of the European interactive television industry. Swingewood also suggested that the new operation would be better placed to compete with BSkyB in the provision of interactive services for new and existing digital channels.

Japan commits to earlier DTT

Japan's NHK said July 29 it would advance by two years its plans for a full digital terrestrial service in the key regions of Tokyo, Osaka and Nagoya, to December this year (it had originally been during 2006). In districts other than those three areas, the broadcasters and ministry agreed to start, in fiscal 2004 in principle, the process of adjusting the antenna mechanisms of existing TV sets in households to avert interference of broadcast signals, which would otherwise occur after the start of digital broadcasts. The changed plans were announced following agreement at a plenary session in Tokyo on July 29 between private sector TV broadcasters, NHK and the telecommunications ministry. The agreements are designed to expedite early dissemination of terrestrial digital broadcast services in Japan, they said.

Iran sat-channel

Satellite broadcasting of the West Azerbaijan centre's provincial network began July 29. Announcing this, the director-general in charge of the Voice and Vision's West Azarbayjan centre said: "By using the centre's satellite broadcasting system, the programmes of the provincial networks of the Voice and Vision's West Azarbayjan centre will be broadcast via the Intelsat 902 satellite." Some 250,000 residents of the Bukan and Takab regions will benefit from sat-signals.

• The adjacent country of Azerbaijan has also been active, with 8 licence applications lodged in Baku to run new TV channels, probably to start broadcasting next year.

OPINION

UK cable is still a joke

This is not the first time that we've had a word about the appalling state of UK cable, but this past few day's news emanating from Britain's two cable MSOs should make salutary reading for anyone wondering where their money has gone. Let's first take a look at Telewest, which last week proclaimed itself the "market leader" in UK broadband. Last Thursday (July 31st) Telewest issued its latest numbers, and told journalists and analysts that it was close to completing its long-awaited financial restructuring, of which more in a moment. CEO Charles Burdick also said Telewest's plan to attract high-spending broadband customers was starting to pay off. "Thank goodness," Burdick must have thought to himself. "There's another big bonus on its way."

Telewest, of course, is near-bankrupt. In almost any other business the bailiffs would have been sent in years ago. Even after the restructuring the heavily indebted company will wipe £3.5bn from its £5.3bn debt burden and at the same time elbow out shareholders who will be left with just 1.5% of the company. Telewest announced reduced losses of £208m for the first half of this year. The total number of customers fell by 24,000 during the first half of 2003 to a total of 1.7m but the closely watched churn figure was cut to a record low, for Telewest, of 16.1% (from 17.6%). This news, bad enough in itself, is in fact all the good news for the company.

Read the small print and there's acres of bad news. Take its so-called leadership in broadband. As a long-standing broadband customer I can confirm to all the appalling quality of their service – and why I continue I cannot image – except to say that their CEO's office so totally agrees with me that I am currently enjoying 3 months of free connection as compensation for their bad service. But I am not alone. At the end of 2001 its 'broadband' churn stood at an already worrying 7.5%. It is now up to 13.1%. That's hardly a vote of confidence, but Telewest seems delighted, proclaiming the rate as "our product with the lowest churn levels…."

Indeed, Telewest's revenues this half-year, compared to the same period in 2002, are absolutely matching (at £674m). EBITDA was up (from £184m to £220m) which is a good sign, and EBITDA margin was up from 27% to 33%, and Capex was down 57% (from £241m to £104m). But then look at the small print, and you see that Telewest made an impressive £69m of foreign exchange gains during the half-year "mostly on dollar denominated debt." As for its actual trading, its consumer division revenues fell 2%, despite ARPU being up 2% to £43.61 a month. Telewest must just have had a look at its subscriber lists, and tell us that it closed 7,000 "zero pay" CATV customers following "a cleaning up exercise". One has to ask what's been going on? Who were these zero payers? Why do they bother with CATV at all. Revenues were down a huge £158m "largely as a reduction on subscribers", which were down 23,000 during Q2. CATV churn is 20.5%, down from 20.7% a year ago.

Then there's telephony. Res-tel revenues were down a worrying 6% to £237m. Telephony connections were down 13,000. Telephony ARPU was up 3% to £24.68 a month, and churn stood at 15.7%. This, in fact, is a huge increase over the state of play a few years ago when churn was touching 30%.

As to Telewest's restructuring, it seem this is now close. Various bondholders, led by William Huff, and including Liberty Media, have reportedly come to agreement that will swap out £3.5m of debt into equity, dumping existing shareholders in the process (they'll get just 1.5% of the 'new' company).

Then, it is widely expected that Telewest will merge with NTL, which once held the record for corporate insolvency and went through its own restructuring last year. Mr Huff already occupies a Board seat at NTL. One of NTL's founder-shareholders is CEO Barclay Knapp, who notified investors last Friday that he intends selling his entire holding of shares now that their price has recovered somewhat (up 153%, valuing the group overall at $2.1bn). Knapp, besides these shares also has interests in other stock options, so he is not exactly walking away from the business. He also enjoys a $700,000 salary, and should his services be dispensed with this side of December 31st he will receive compensation of $1.4m. If he loses his job after Jan 1 2004 then the compensation triples to $2.1m at current rates. Just another day in UK cable.
