



Ofcom Public Service Broadcasting Review

**Models for Nations and Regions PSB Television:
A Focus on Scotland**

An Overview by Oliver & Ohlbaum Associates Ltd

September 2008

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EXECUTIVE SUMMARY - introduction

- This report has been produced as part of the phase 2 of Ofcom's Second Public Service Broadcasting Review. In phase 1, Ofcom proposed to explore the possibilities for new models of PSB delivery for the nations and regions post 2014, particularly affiliate models similar to those in the US. Oliver & Ohlbaum were commissioned to analyse the feasibility of this form of commercial public service delivery.
- The analysis takes into account people's demand for national content and the market that currently delivers this, makes comparative assessment of the suitability of the UK nations and regions to the US model, and then considers a range of affiliate models that could deliver public service programming.
- This report focuses on Scottish services. Phase 1 suggested that challenges to funding would likely emerge in Scotland ahead of other parts of the UK. Since Scotland is also the largest of the devolved nations new models potentially have the greatest chance of success in this market. While the analysis is focused on the Scottish market, the models for commercial public service delivery may also be applicable to the other UK nations.

EXECUTIVE SUMMARY – the Scottish market and international comparisons

- **Media consumption is very strong in Scotland.** Viewers watch more television than in any other part of the UK and also listen to a lot of local radio at the expense of mainly BBC national radio stations. Nearly twice as many Scottish consumers buy a newspaper each day than in England and Wales. Press consumption is Scottish focused, given the strength of the indigenous Scottish titles such as The Scotsman and the Daily Record. As a result the Scottish advertising market (£1.5bn) outperforms its prorated share of the UK total (10%), driven by a particularly successful commercial radio and press market.
- **A distinct regional advertising market exists** but it is relatively small in proportional and actual terms. While the Scottish market is more reliant on region-specific advertisers than other UK regions (apart from Northern Ireland) the total revenue from advertisers that predominantly target only Scotland was £169m in 2007.
- **Television advertising is less region-specific than press or radio, and is reliant on a broad base of UK-wide advertiser spending.** Television only generated £24m from specifically regional/local spend in 2007. However, it is possible that part of the reason for the low level of spend is due to limited supply of impacts given that only ITV1, of all the major broadcasters, offers regional opt-out ad sales in the UK. Television remains highly priced, compared to Scottish radio and press markets.
- **International models for regional TV do not appear to be sustainable in or suitable for the Scottish market.** US affiliates are generally highly profitable, driven by much higher levels of US advertising spend per capita and a higher share of all advertising taken by television. In addition the local affiliate US television market is underpinned by the inherently regional nature of the US market with 32% of all television advertising spend being regional compared to only 8.5% in Scotland. European models promoting the provision of regional television services rely on significant levels of public funding.

EXECUTIVE SUMMARY – the economics of PSB in Scotland and possible structures

- **Currently, broadcasting originated programmes purely for the Scottish market is barely profitable.** The market lacks the necessary economies of scale given the cost of original production. News attracts high audience share but is currently unprofitable, given the low level of ad minutes allocated to it and low volume of output. Non-news output can breakeven but it is unlikely that any non-network output will be profitable by 2012 due to macroeconomic difficulties facing television combined with audience fragmentation affecting individual channels.
- **Stv contributes to the ITV1 network programming budget and receives a share of total ITV1 NAR, and currently generates a positive from its ITV1 network channel activities.** However, ITV plc is looking to gain a considerable uplift in the value that it extracts from the Scottish market. In the longer term, ITV plc may discontinue its PSB licence, and with it the networking arrangements for ITV1. This would effectively curtail the current model for delivery.
- **There are significant risks and uncertainties associated with any plan to create a genuinely independent Scottish public service broadcaster.** Such a channel would require significant public funding, an expansion of the domestic advertising market value and the ability to attract a significant audience with low-cost programming.
- **An alternative model might be for a Scottish broadcaster to affiliate with an alternative network.** Such a network partner would need to deliver a national sales capability and high-audience programming. It is possible that an alternative network partner for an affiliate in Scotland could emerge if non-network content and associated revenue could potentially perform better in Scotland compared to its UK average.

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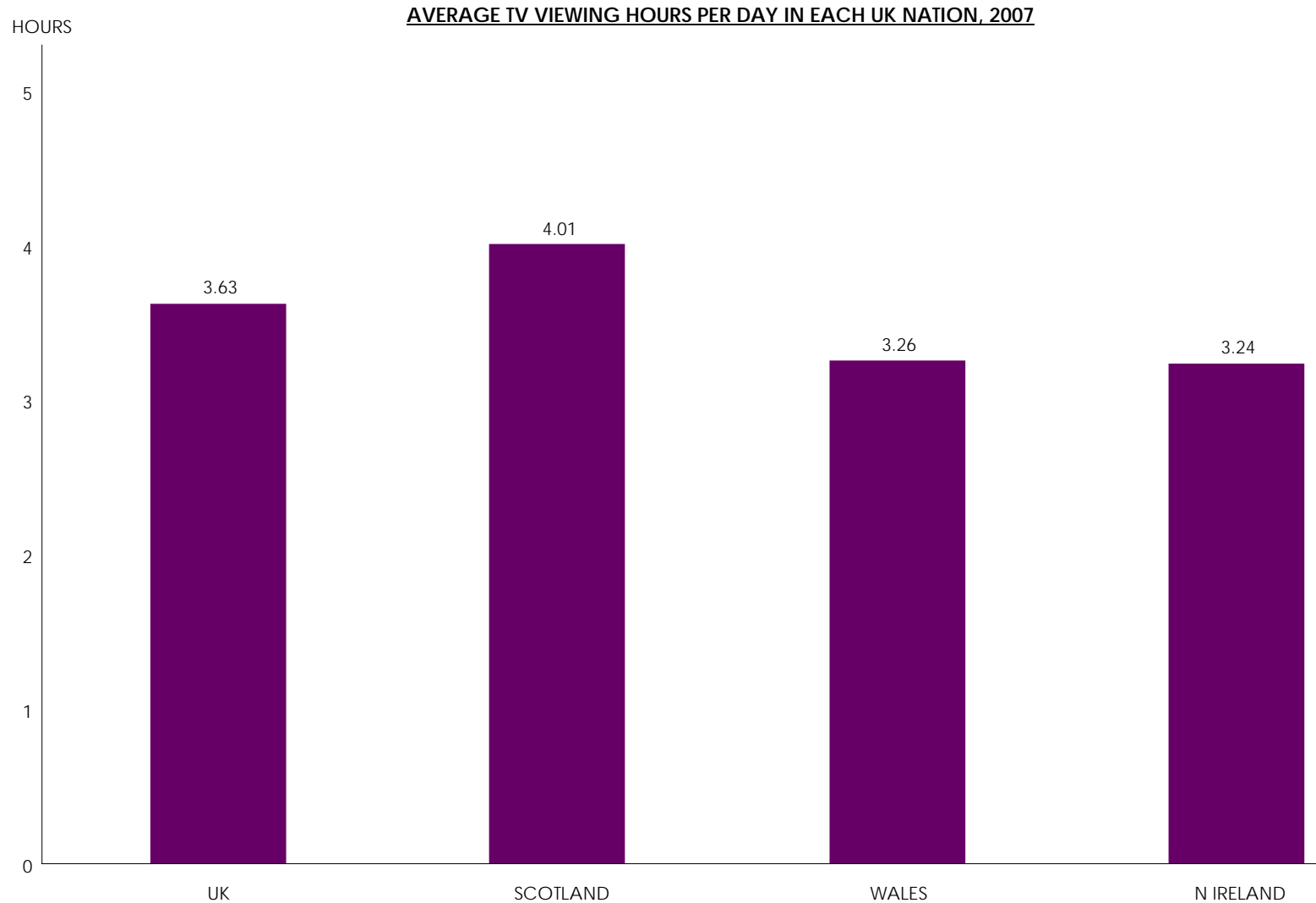
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MEDIA CONSUMPTION IN SCOTLAND – summary

- Media consumption is very strong in Scotland. Viewers watch more television than in any other part of the UK and multi-channel viewing is higher than in any other UK region. A high proportion of radio listening in Scotland is to local/regional commercial radio stations, driven in part by the large number of commercial stations operating in Scotland compared to other UK regions.
- The press sector is very strong compared to other UK regions. Nearly twice as many Scottish consumers buy a newspaper each day than in England and Wales. Regional Scottish newspaper titles, such as the Daily Record, are particularly strong in Scotland whereas the UK wide titles have a much lower readership than in England and Wales.
- The BBC performs relatively poorly in Scotland across both television and radio. The BBC's UK-wide radio networks perform particularly poorly compared to average UK listening share, although its local radio services in Scotland perform in line with the UK average for its local stations.
- Heavy commercial media consumption levels, combined with strong demand for Scottish content, has created a market with a heavy supply of commercial impacts, relative to the UK average, both within individual media and in total.

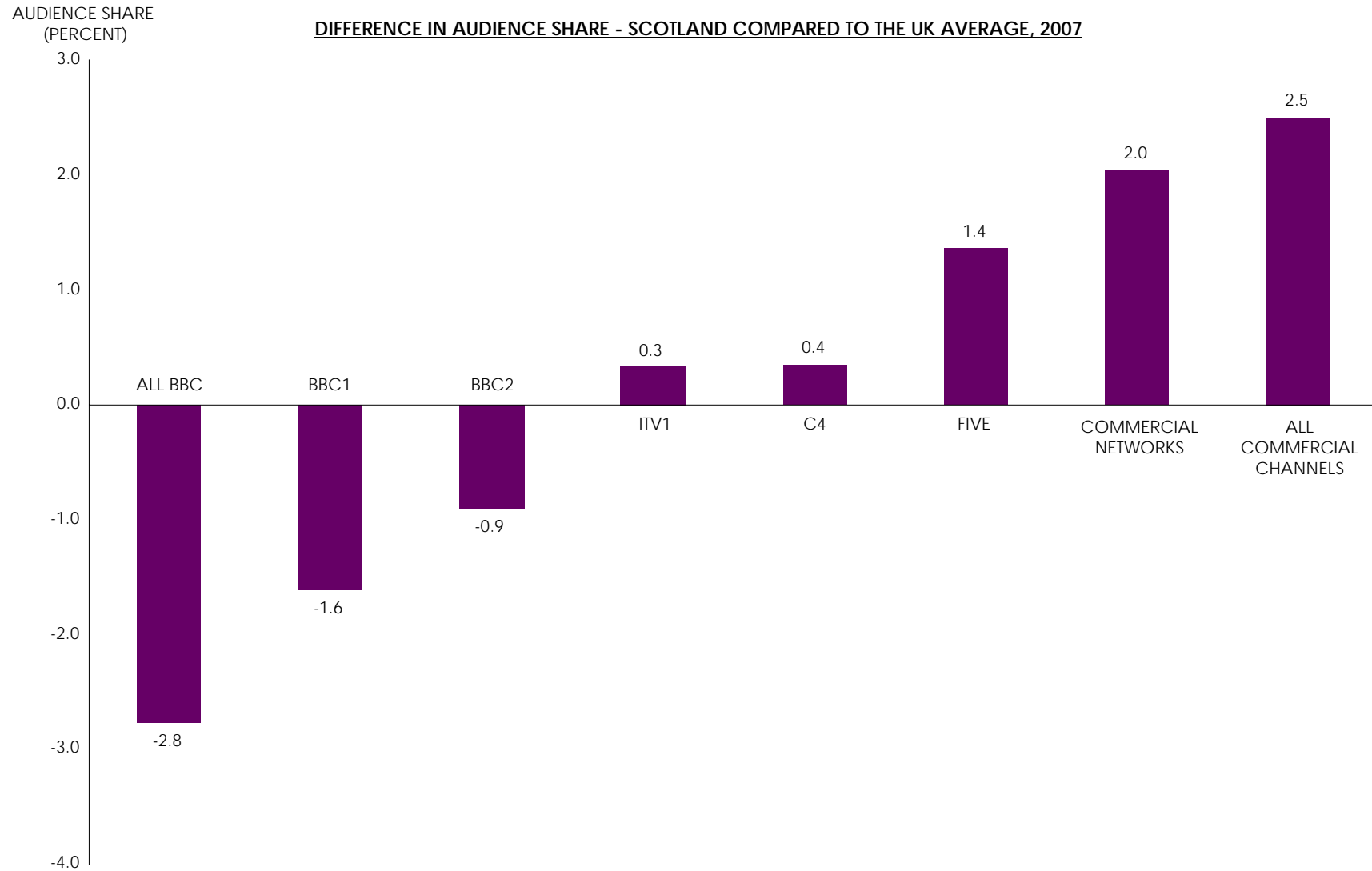
MEDIA CONSUMPTION IN SCOTLAND – television – national viewing trends

...people in Scotland on average watch 4 hours of television each day, 10% more than the UK average. In contrast, people in the nations of Wales and Northern Ireland watch 10% less television than the UK average...



MEDIA CONSUMPTION IN SCOTLAND – television – all channels

...the BBC portfolio in Scotland underperforms its UK average viewing share by nearly 3% while the main commercial networks outperform in Scotland. This leads to a considerably greater supply of commercial impacts per capita in Scotland, a trend amplified by the fact that average viewing is also 10% higher in Scotland...



SOURCE: BARB

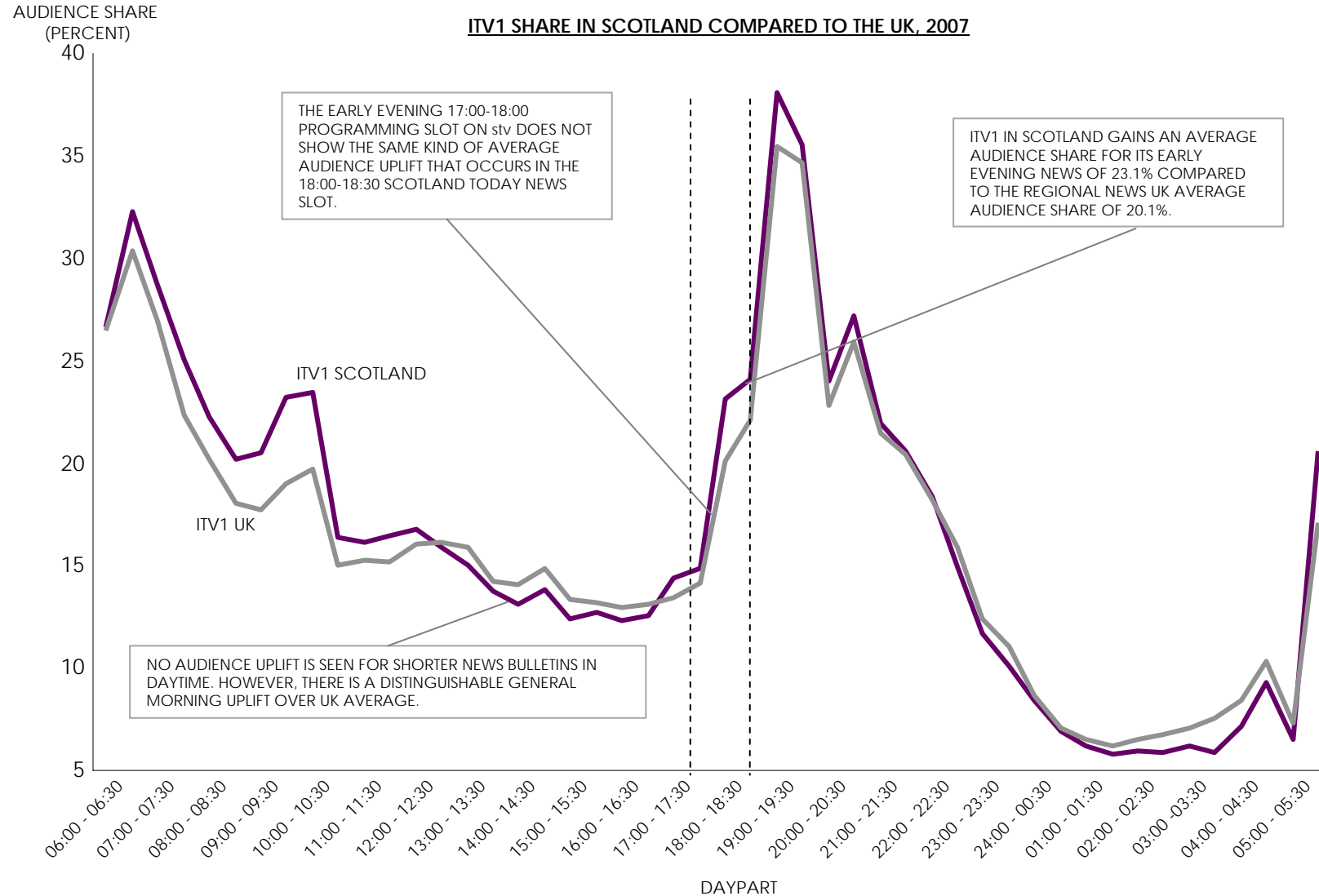
MEDIA CONSUMPTION IN SCOTLAND – television – stv output

...the stv non-network output schedule is built around a regular 17:00 – 18:30 slot, immediately before the ITV1 network primetime, and consisting of a game show, a news/current affairs strand and then followed by Scotland Today (North Tonight in North Scotland). stv also broadcast a weekly late night 30 minute drama – High Times – for some of the year and a regular late evening current affairs slot, Politics Now...

	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
06:00					
09:00					
			MID-MORNING NEWS BULLETIN		
12:00					
			LUNCHTIME NEWS BULLETIN		
15:00					
18:00	THE FIVE THIRTY SHOW (CURRENT AFFAIRS)				
	SCOTLAND TODAY / NORTH TONIGHT (GRAMPIAN)				
				WOMAN WHO ATE SCOTLAND	
	AMAZON HEARTBEAT (DOC)				WOMAN WHO ATE SCOTLAND
21:00					
			LATE EVENING NEWS BULLETIN	HIGH TIMES (DRAMA)	
				POLITICS NOW	
00:00					

MEDIA CONSUMPTION IN SCOTLAND – television – ITV1 and stv

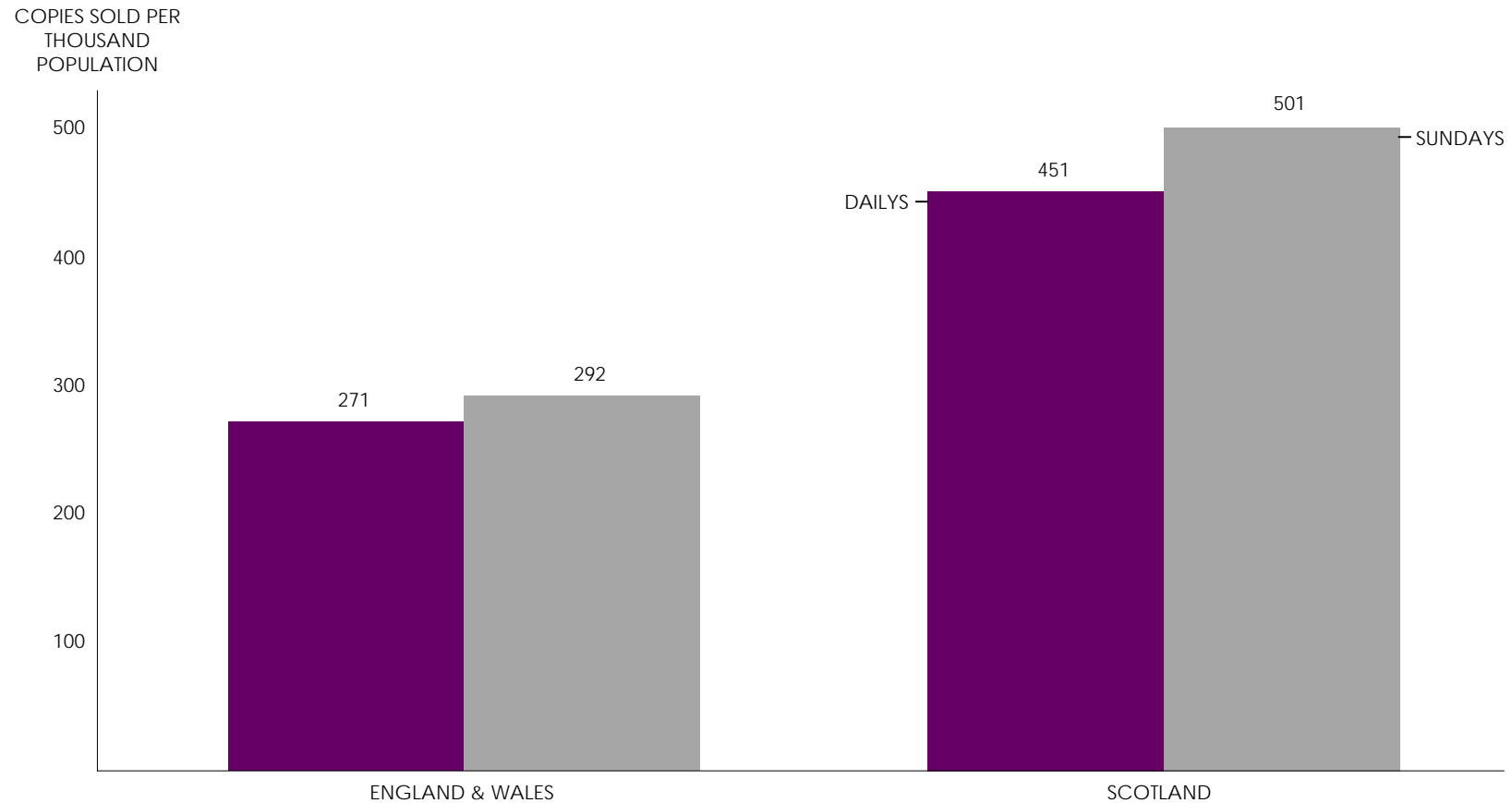
...ITV1 outperforms its UK-wide average audience share in Scotland gaining an audience share uplift of 3% for the early evening 18:00hrs news slot, compared to its UK average audience share for the same slot...



MEDIA CONSUMPTION IN SCOTLAND – press – readership

...people in Scotland consumer a far greater amount of press and the nature of that consumption is predominantly local and regional, in direct contrast to readership patterns in England and Wales which are dominated by national titles...

NEWSPAPER COPIES SOLD PER THOUSAND POPULATION IN THE UK NATIONS, 2001



DAILY REACH OF PAID FOR:

REGIONALS/LOCAL TITLES

5%

79%

UK-WIDE NATIONAL TITLES

74%

27%

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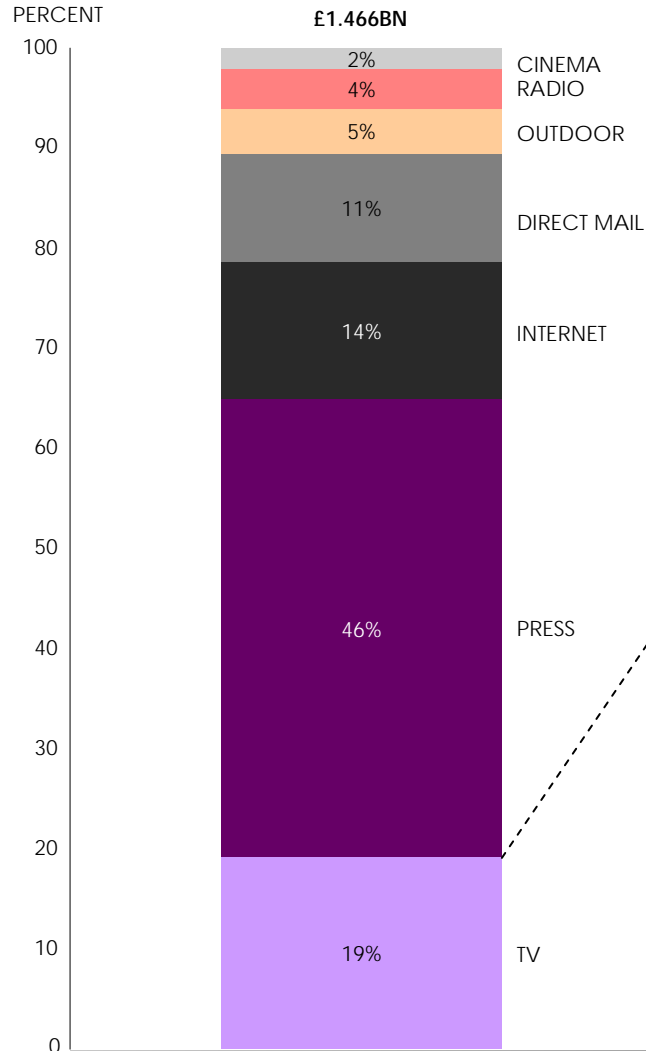
THE SCOTTISH ADVERTISING MARKET – summary

- The Scottish economy has a lower level of gross value added than the UK average. Despite this, the advertising market (£1.5bn) forms a larger proportion (10%) of the UK total than the size of population. This out performance of the Scottish advertising market is driven by particularly strong radio and press sectors underpinned by heavy national/regional commercial media consumption.
- A distinct Scottish advertising market exists but it is relatively small in proportional and actual terms. While the Scottish market is more reliant on region-specific advertisers than other UK regions (apart from Northern Ireland) the total revenues from advertisers that predominantly target Scotland only was £169m in 2007. The regionally focussed advertisers are particularly strong spenders on radio and the press, taking advantage of the relative strength of these media in Scotland.
- Television is one of the least region-specific media markets in Scotland, reliant on a broad base of UK-wide advertiser spending for over 90% of revenues. Television only generated around £24m from Scottish focused spend in 2007. Currently, 236 TV advertisers target Scotland only. However, it is possible that part of the reason for the low level of spend is due to limited supply of impacts given that only ITV1, C4 and FIVE offer regional ad sales in the UK.
- Television in general remains highly priced, compared to other media. Scottish television CPT prices are well under the UK average prices and falling, partly driven by a weak economy and partly driven by a high supply of impacts per capita and disproportionately strong Scottish press and radio sectors. Additionally, stv trades at a discount of 30%-40% below the UK-wide ITV1 average level.

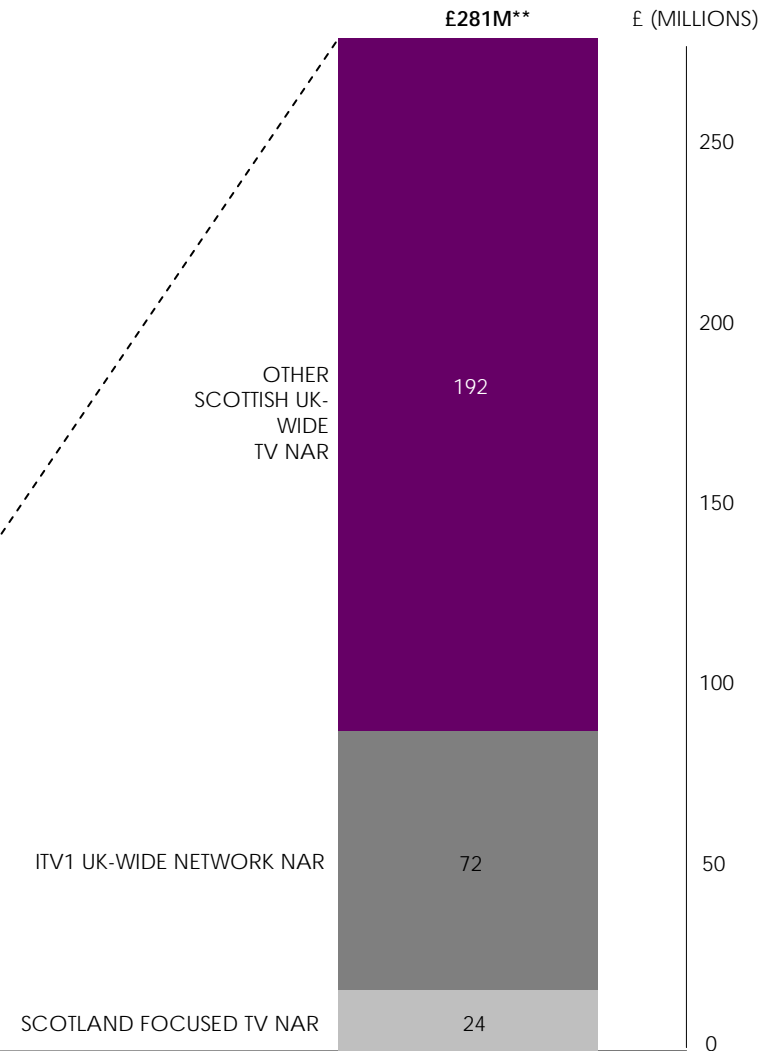
THE SCOTTISH ADVERTISING MARKET – market overview

...television accounts for only 19% of all advertising spend in Scotland, compared to 22% for the UK as a whole. Only 8.5% of all Scottish TV advertising spend is from region specific brands predominantly targeting Scotland only...

PROPORTION OF ALL ADVERTISING SPEND BY MEDIA* IN SCOTLAND, 2007



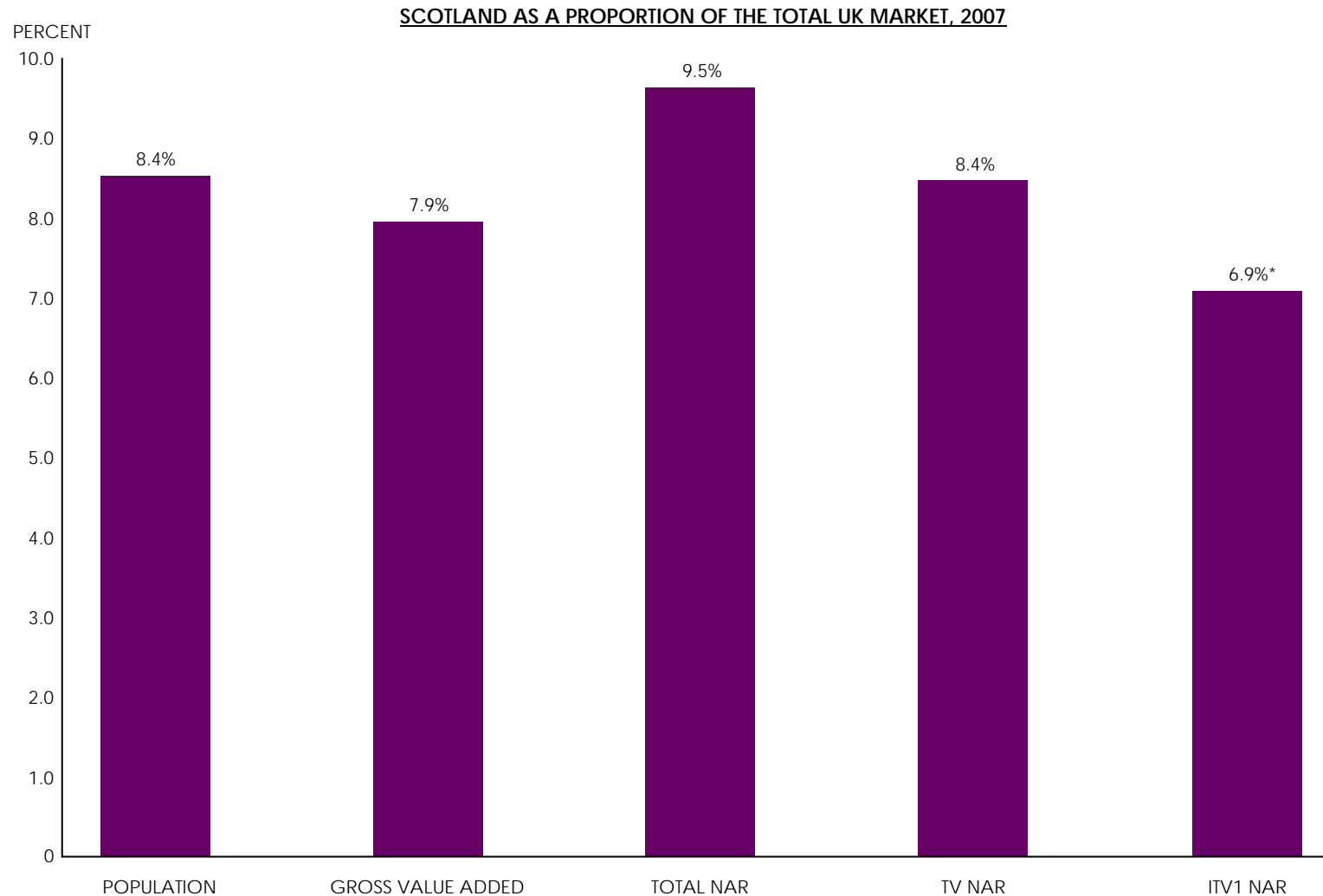
TELEVISION NAR BY TYPE* IN SCOTLAND, 2007



*INCLUDES ALL CLASSIFIED SPEND **BASED ON NIELSEN DATA
SOURCE: NIELSEN, OFCOM, O&O ANALYSIS

THE SCOTTISH ADVERTISING MARKET – overview

...as a result of the strong media consumption trends in Scotland, the advertising market outperforms on UK prorated basis, despite its overall economy being comparatively weak. Commercial television underperforms the overall ad market but is ahead of Scotland's overall contribution to the UK economy. However, ITV1 underperforms in revenue terms in Scotland despite higher average audience levels...

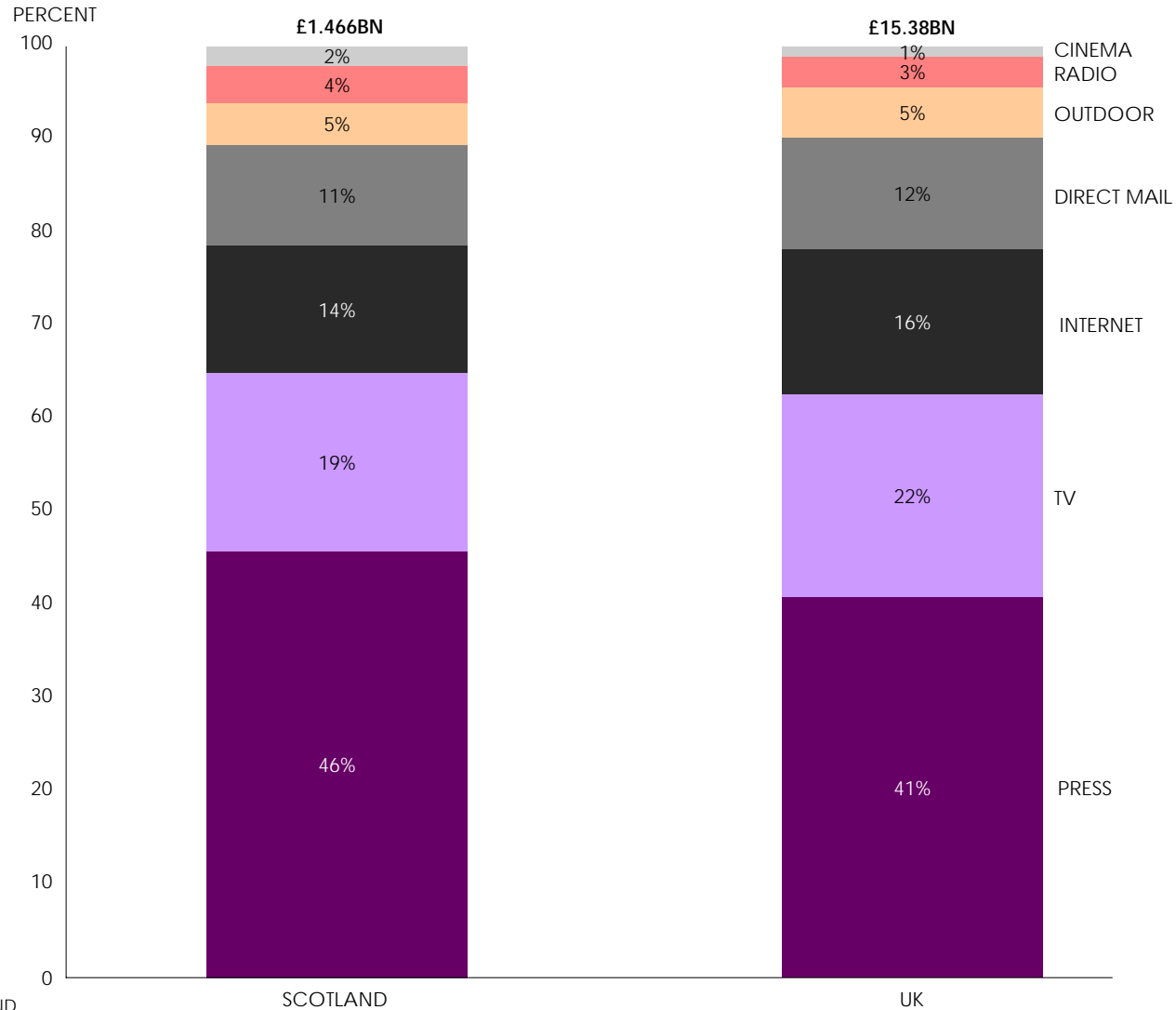


* INCLUDES 33% of BORDER REGION, AS WELL AS stv CENTRAL and stv NORTH REGIONS
SOURCE: NIELSEN, ONS, O&O ANALYSIS

THE SCOTTISH ADVERTISING MARKET – overview

...press and radio take a considerably greater share of the total advertising market in Scotland compared to the UK as a whole while television accounts for only 19% of the total advertising market compared to 22% for the UK as a whole...

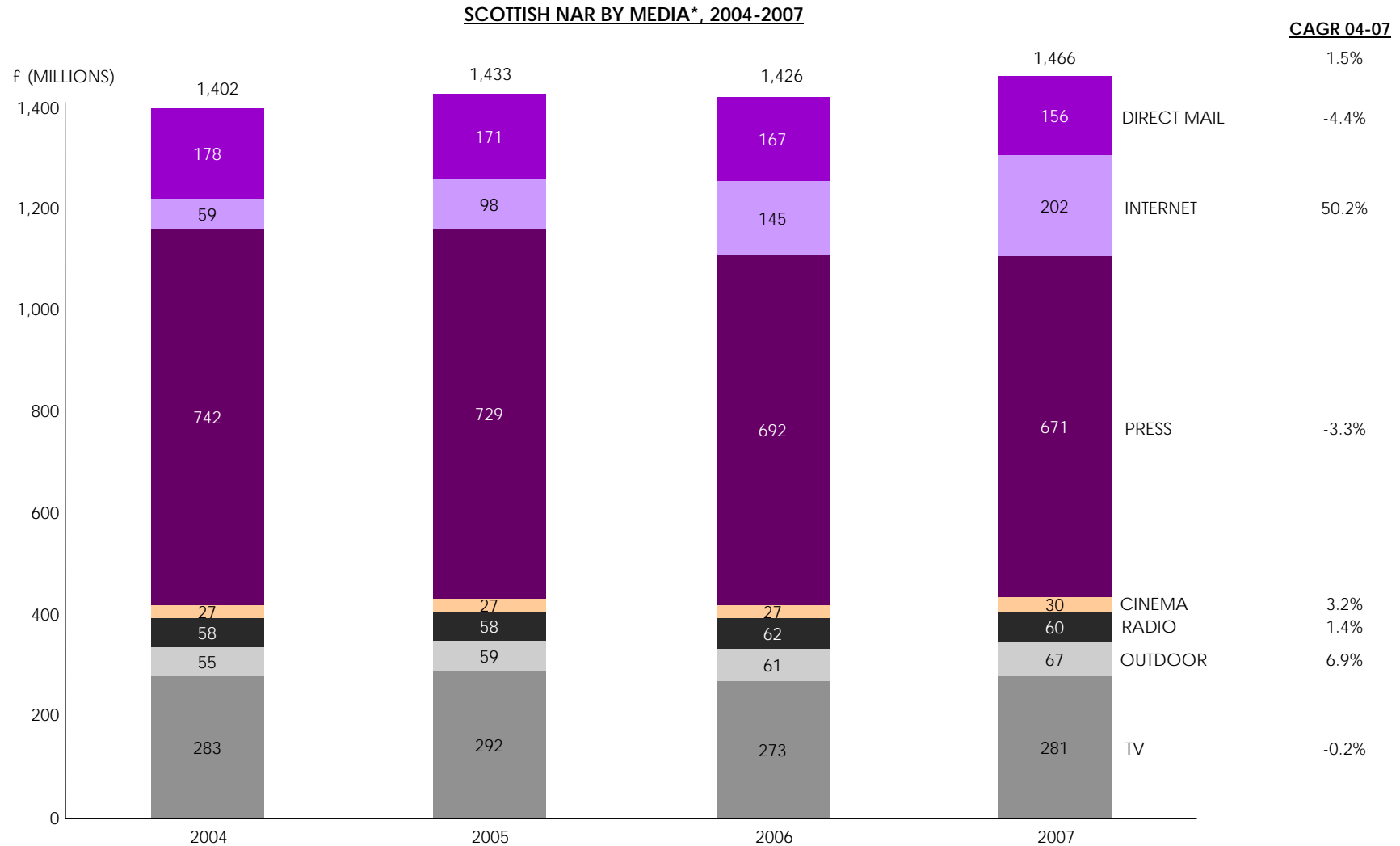
PROPORTION OF ALL ADVERTISING SPEND BY MEDIA IN SCOTLAND AND THE UK*, 2007



*INCLUDES ALL CLASSIFIED SPEND
SOURCE: NIELSEN, O&O ANALYSIS

THE SCOTTISH ADVERTISING MARKET – NAR by media

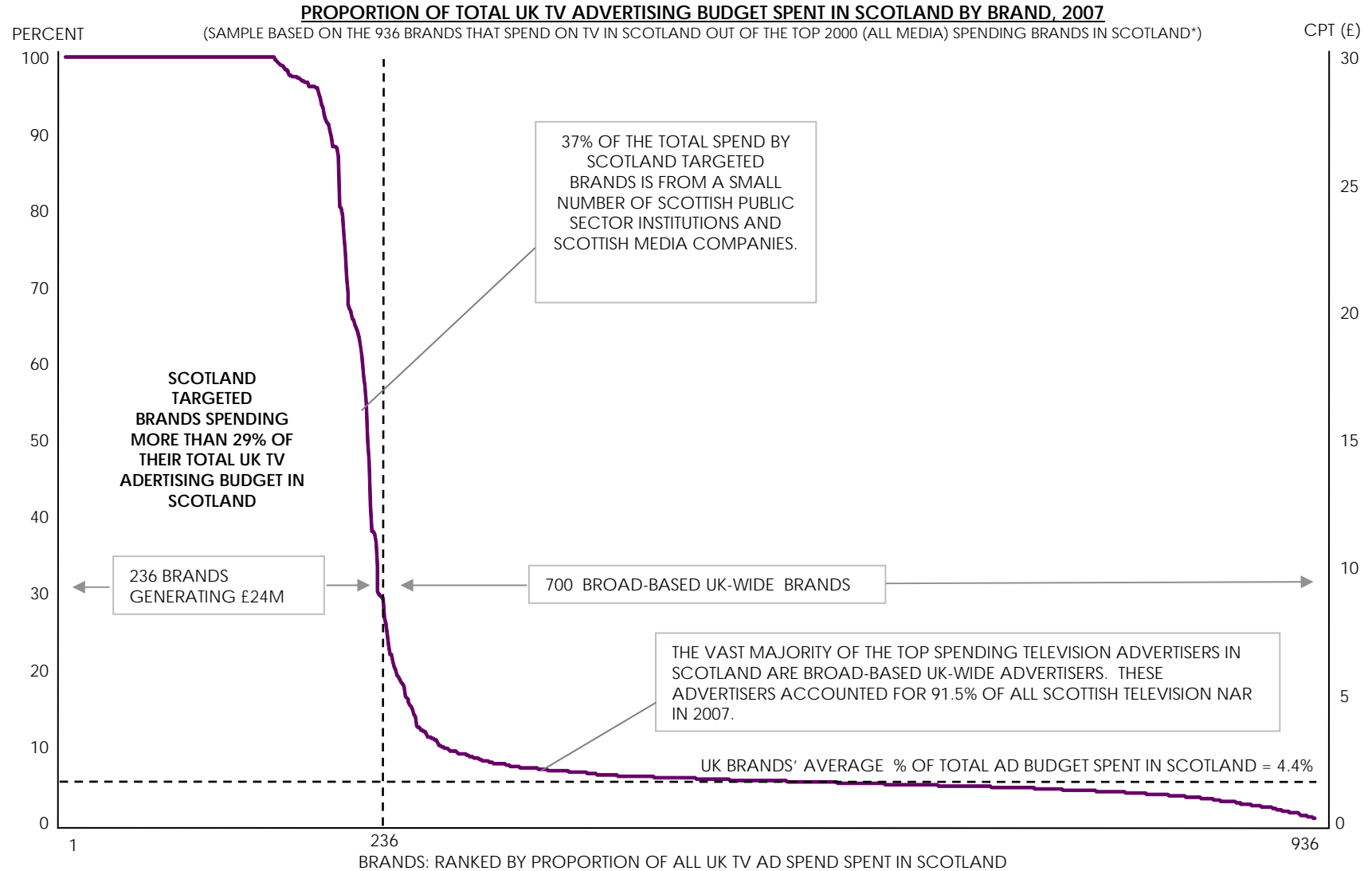
...growth in the Scottish media market has been slow and while TV advertising levels have remained broadly flat, press and direct mail are shrinking rapidly...



*INCLUDES ALL CLASSIFIED SPEND
SOURCE: NIELSEN, ONS, O&O ANALYSIS

THE SCOTTISH ADVERTISING MARKET – TV advertising in Scotland

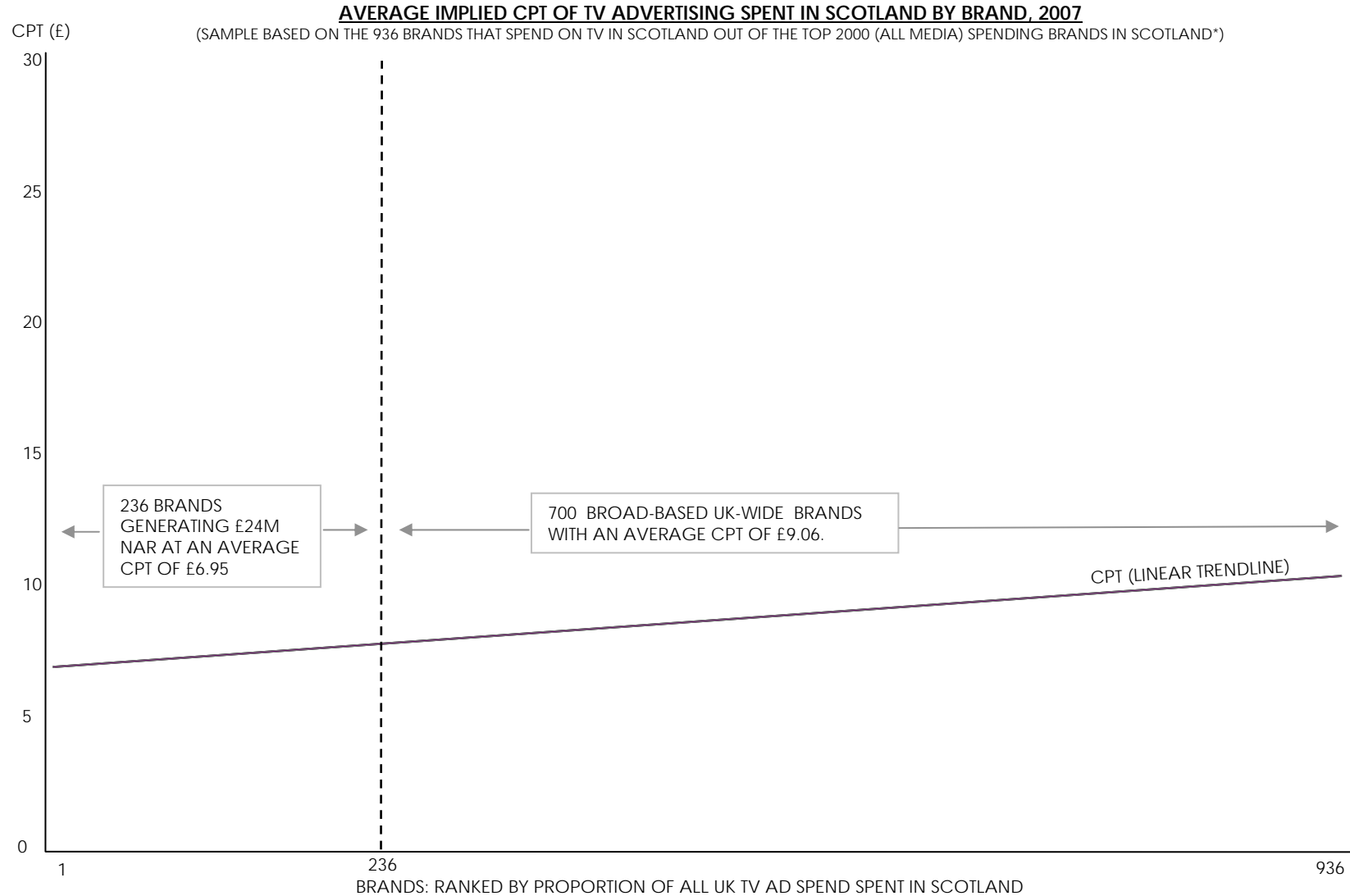
...of the top 2000 advertisers in Scotland (all media), only 236 (25%) of advertisers using TV predominantly target Scotland, spending more than 29% of their total UK TV advertising budget in Scotland...



*1306 BRANDS BOUGHT TV AIRTIME IN SCOTLAND IN 2007
SOURCE: NIELSEN, O&O ANALYSIS

THE SCOTTISH ADVERTISING MARKET – TV advertising in Scotland

...Scottish focused brands pay a lower average implied CPT than broad-based UK-wide brands...

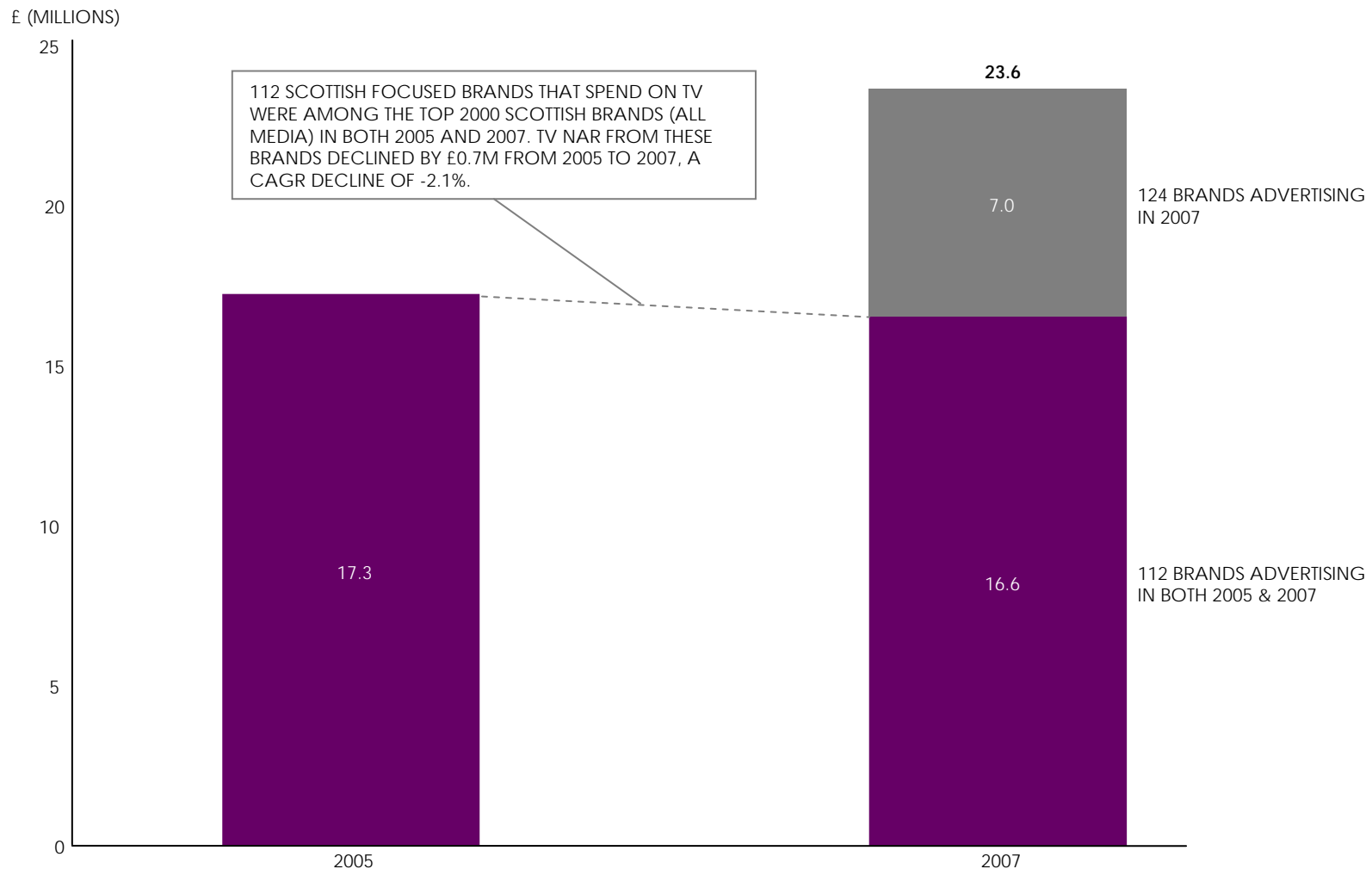


*1306 BRANDS BOUGHT TV AIRTIME IN SCOTLAND IN 2007
SOURCE: NIELSEN, O&O ANALYSIS

THE SCOTTISH ADVERTISING MARKET – TV advertising in Scotland

...of 236 Scottish focused TV advertisers in 2007, 112 advertised on TV in 2005*. Those 112 brands that advertised on TV in both years have reduced their TV advertising spend from 2005 to 2007. However, this has been offset by more brands using local/regional Scottish focused TV advertising market: in 2007 there were 124 brands advertising that did not use the medium in 2005...

SCOTTISH FOCUSED TV NAR IN SCOTLAND OUT OF TOP SPENDING 2000 BRANDS (ALL MEDIA), 2005 & 2007**



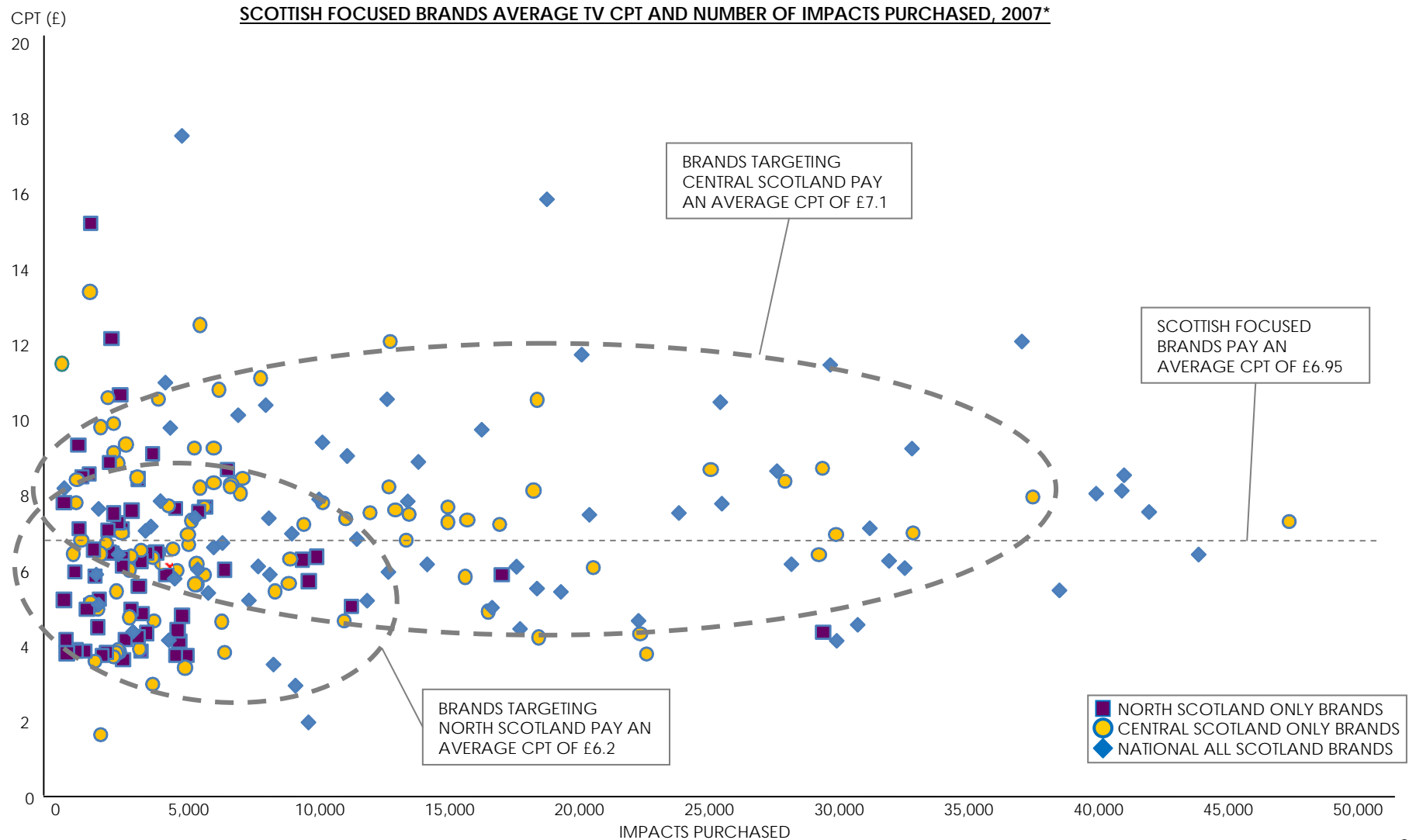
*BASED ON TOP 2000 ADVERTISING SPENDING BRANDS IN SCOTLAND (ALL MEDIA) IN 2005 AND 2007 RESPECTIVELY

**NOTE: NEWSQUEST NEWSPAPERS (HERALD & TIMES) SPENT £2.7M IN 2005 BUT ONLY £134K IN 2007 AND SO HAS BEEN OMITTED FROM THE ANALYSIS

SOURCE: NIELSEN, O&O ANALYSIS

THE SCOTTISH ADVERTISING MARKET – TV CPTs in Scotland

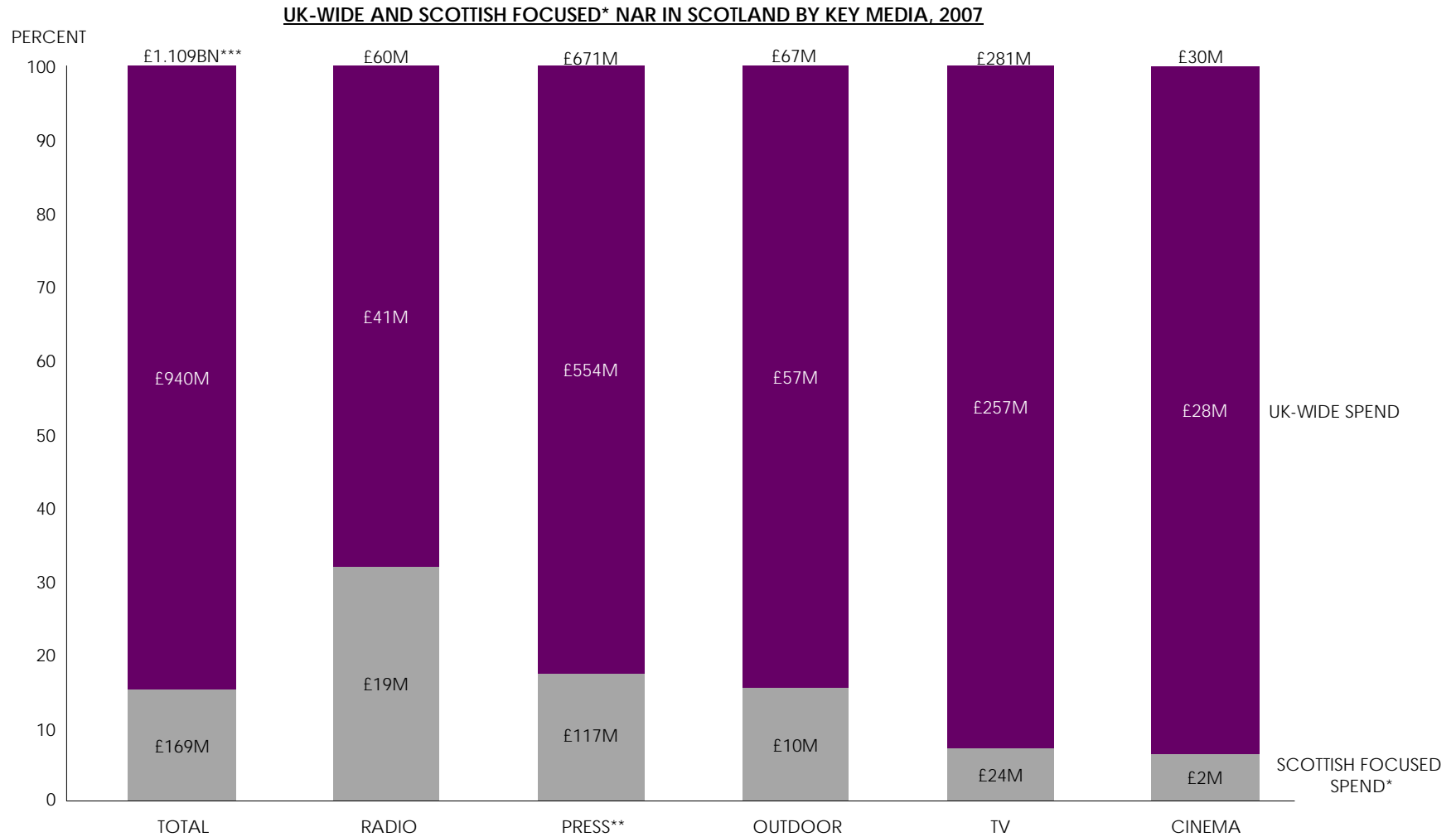
...brands targeting only the north of Scotland pay a lower average CPT than the average Scottish focused advertiser, probably due to lower demand for impacts and lower absolute marketing budgets when compared to the economic heartland of central Scotland...



*SAMPLE BASED ON 236 SCOTTISH FOCUSED BRANDS
SOURCE: NIELSEN, O&O ANALYSIS

THE SCOTTISH ADVERTISING MARKET – Scotland and UK-wide spend

...the television advertising spend by brands that predominantly target Scotland amounted to only around £24m in 2007...



* SCOTTISH FOCUSED ADVERTISING SPEND IS DEFINED AS ANY BRAND WHOSE SPEND IN SCOTLAND IS GREATER THAN 29% OF ITS TOTAL UK SPEND

**INCLUDES ALL CLASSIFIED SPEND

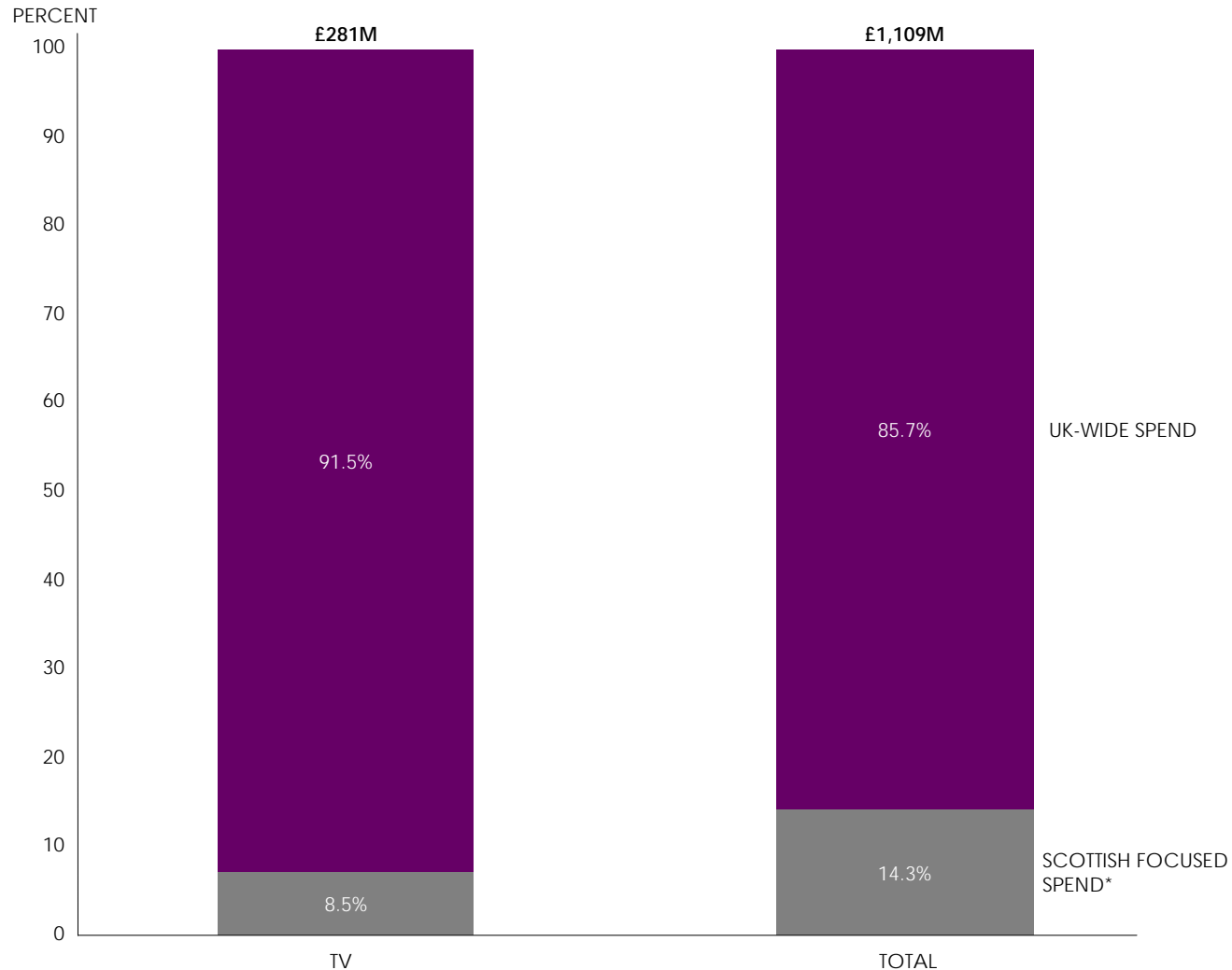
***DATA EXCLUDES ALL INTERNET AND DIRECT MAIL SPEND WHICH NIELSEN DOES NOT PROVIDE ON A FILTERED/REGIONAL BASIS

SOURCE: NIELSEN, O&O ANALYSIS

THE SCOTTISH ADVERTISING MARKET – Scottish focused and UK-wide spend

...only around 14% of the total Scottish advertising market is made up of brands that predominantly target Scotland only. Television advertising spend is even more dominated by broad-based UK-wide advertisers than the other media...

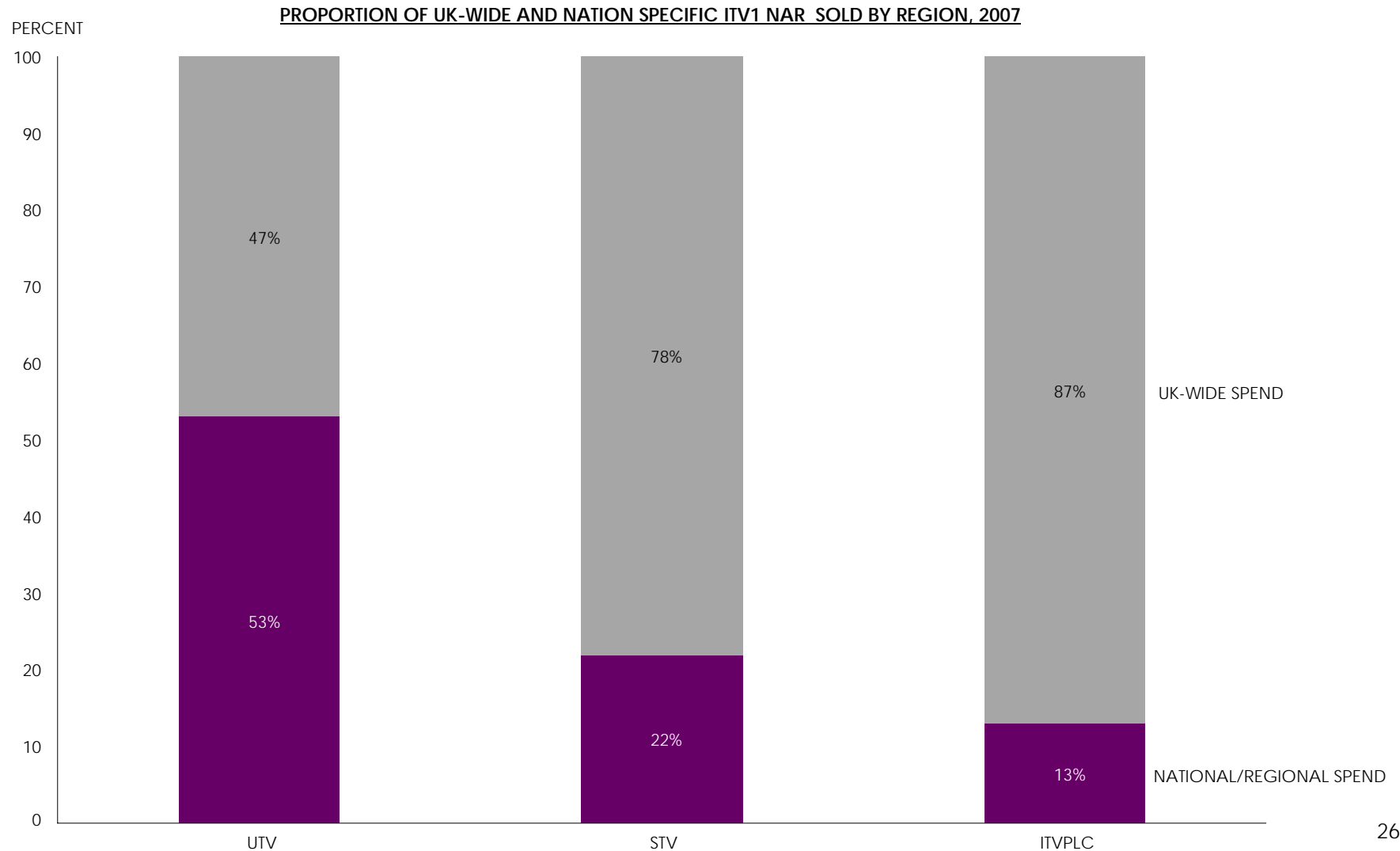
PROPORTION OF SCOTTISH FOCUSED* ADVERTISING SPEND IN SCOTLAND ON TV AND ALL KEY MEDIA, 2007
(EXCLUDES INTERNET AND DIRECT MAIL)



* SCOTTISH FOCUSED ADVERTISING SPEND IS DEFINED AS ANY BRAND WHOSE SPEND IN SCOTLAND IS GREATER THAN 29% OF THEIR UK SPEND
SOURCE: NIELSEN, O&O ANALYSIS

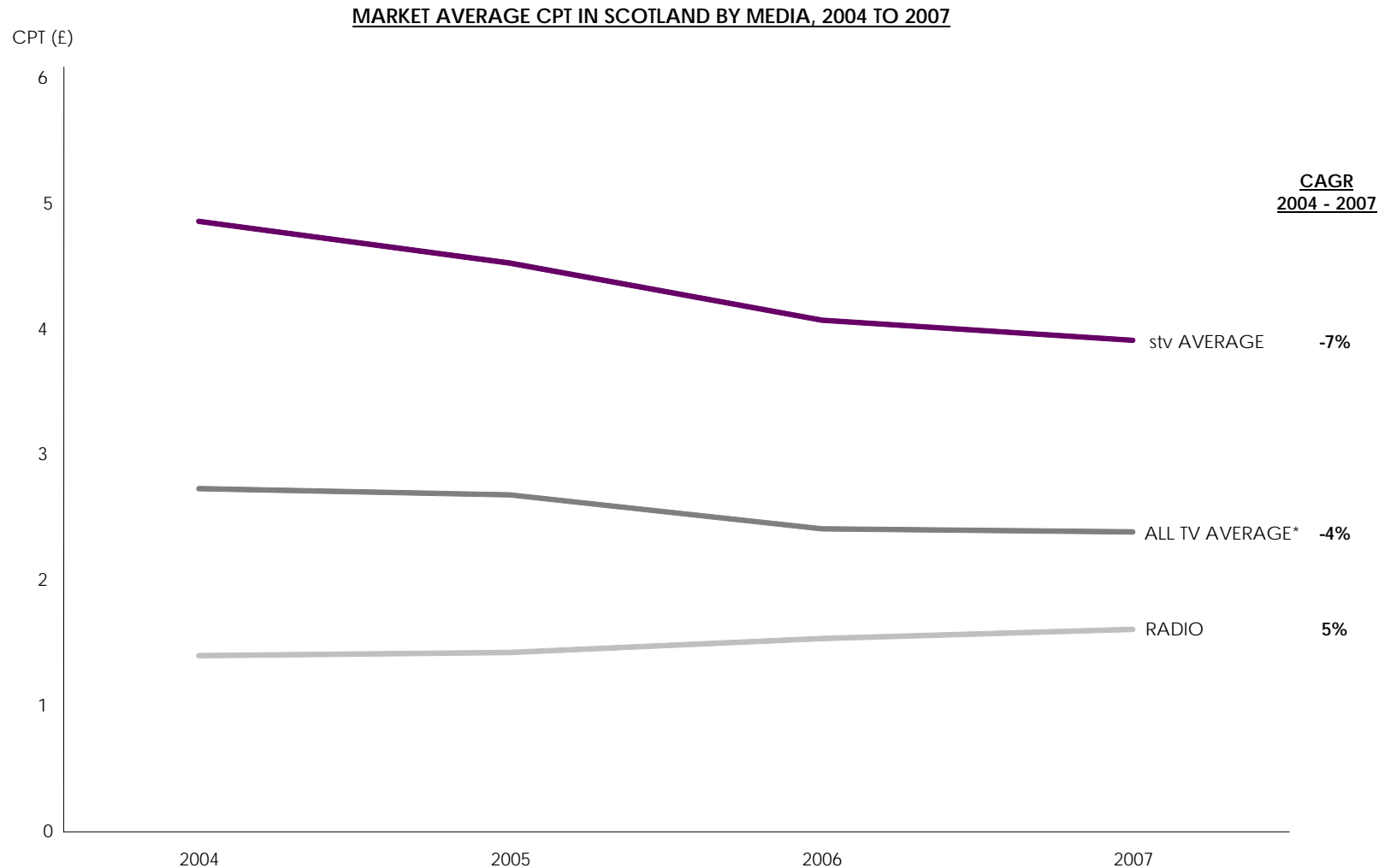
THE SCOTTISH ADVERTISING MARKET – UK nations and UK-wide spend – ITV1

...stv generates a higher proportion of national and regional advertising than ITV1's UK average, but the revenue stream remains relatively small compared to its share of UK NAR. By comparison, UTV in Northern Ireland generates more than 50% of their advertising revenues through its own sales team due to the strong flow of advertising spend from Republic of Ireland, pan-Ireland spending brands and UK-wide spend channeled through Dublin based media agencies...



THE SCOTTISH ADVERTISING MARKET – comparative pricing of media

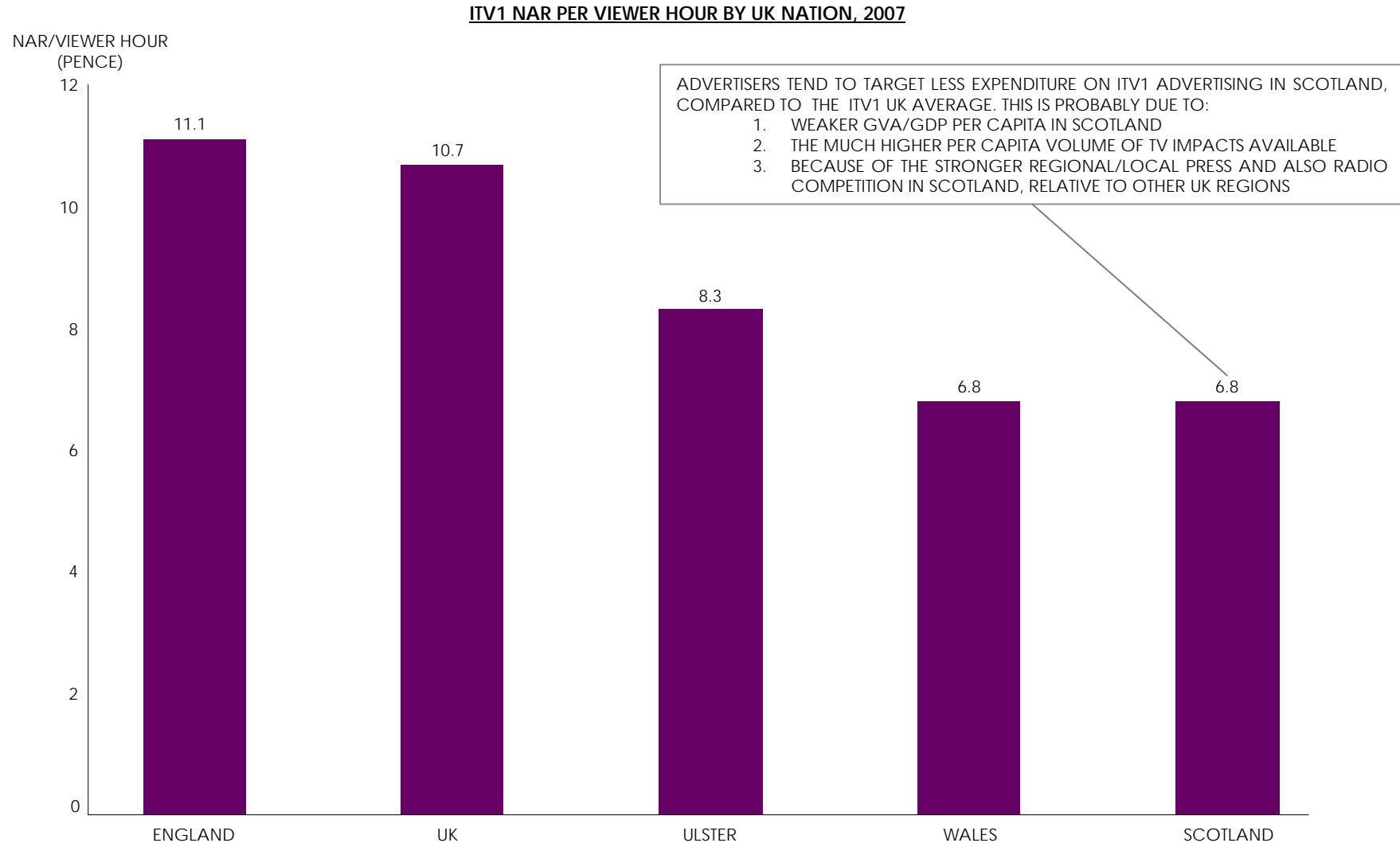
...the price difference between radio and television airtime has narrowed in recent years but TV on average still trades at a 33% premium over radio. stv continue to command a market leader premium with an average CPT that is nearly 2.5 times the CPT for radio...



*CALCULATION OF MARKET AVERAGE ACROSS UK BROADCASTERS IN SCOTLAND
SOURCE: NIELSEN, RAJAR, BARB, O&O ANALYSIS

THE SCOTTISH ADVERTISING MARKET – ITV1 revenue yield

... Although there is a greater share of viewing to commercial broadcasters, Scotland generates the lowest ITV1 revenue per viewer hour of all the UK nations. stv revenues per hour are lower compared to the ITV1 UK average and average in other regions...



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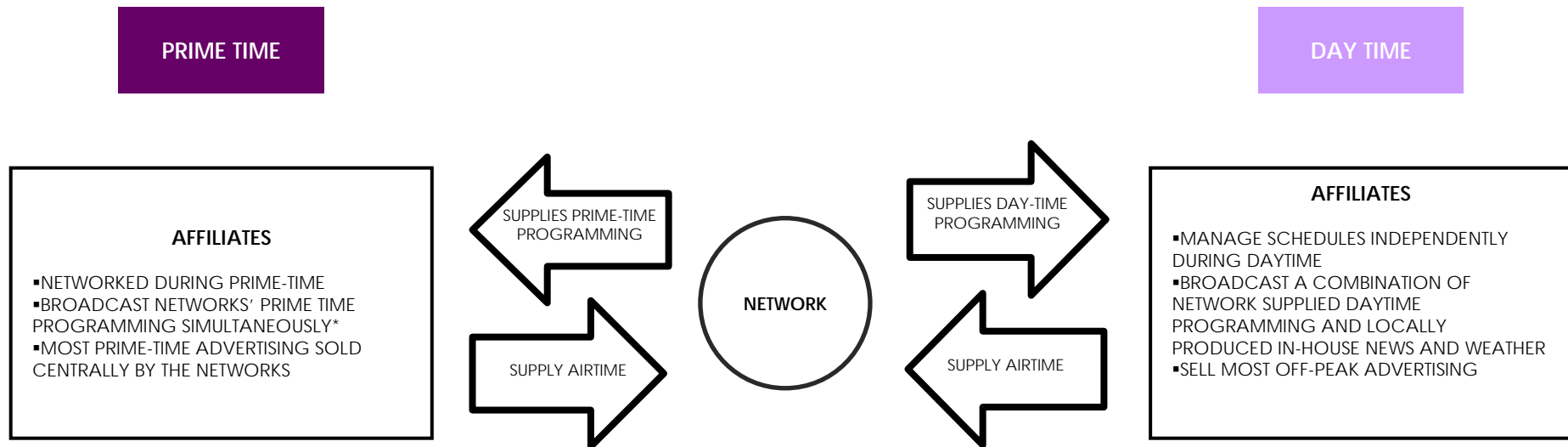
INTERNATIONAL MODELS – summary

- The US affiliate model is the result of historical development around distinctly regional advertising markets. There are also significant economies of scale, with the ten biggest markets accounting for 30% of all US households.
- Local television remains highly profitable in the US due to the larger size of the US advertising market and it being much more regional in structure, with local outlets taking a considerably larger proportion of all TV advertising. Around 38% of all TV advertising spend is regional/locally targeted, compared to just 8.5% in Scotland.
- Local affiliate broadcasters in the USA are generally profitable, due in part to the overall strength of the US advertising sector and also the highly regional nature of the US market. Profitable local affiliate station news in the US is sustained by a strong average audience share (around 16% on average for early evening news slots) and a high level of output hours. A high number of output hours (around 5-6 hours per day) allows stations to spread the fixed costs of news gathering and also generate a high number of commercial impacts to sell.
- Regional broadcasting structures in Europe are reliant on public subsidies, either via direct grants or a licence fee. In Spain, 48% of the combined income of the largest eight regional broadcasters was from direct local government subsidies.

INTERNATIONAL MODELS – the US TV market – network and affiliate relationship

...the six main US broadcast networks (ABC, CBS, NBC, FOX, The CW and My Network TV) have an affiliate station in most of the 210 regional US TV markets. Each affiliate station is networked during prime-time* but manage schedules independently during daytime...

THE US NETWORK AND AFFILIATE RELATIONSHIP



* WITHIN TIME ZONE: E.G. ABC AFFILIATES WITHIN THE EASTERN TIME AND CENTRAL TIME ZONES BROADCAST ABC'S PRIME-TIME SCHEDULE SIMULTANEOUSLY BUT DO NOT BROADCAST THE PRIME-TIME SCHEDULE AT THE SAME TIME AS THE PACIFIC ZONE AFFILIATES.
SOURCE: O&O ANALYSIS

INTERNATIONAL MODELS – the US TV market – three tiers

...airtime is sold on a national basis by networks, on a local basis by local affiliates or on a shared basis between syndicated rights owners and the local affiliate...

TIER	TYPE	BUSINESS MODEL
1	NETWORKS	<ul style="list-style-type: none"> • Networks sell national airtime around networked programming, generally at peak time
2	LOCAL AFFILIATES	<ul style="list-style-type: none"> • Local affiliates sell airtime on a local / regional basis around local programming • Sometimes large local affiliates sell a limited amount of national airtime
3	SYNDICATED PROGRAMMES	<ul style="list-style-type: none"> • Airtime divided between local affiliated barter syndication where a rights owner sells national airtime but with some minimum slot guarantees • The 7pm post-news pre-network hour can be a very high value hour based on the barter syndication model • The local affiliate is incentivised to generate and retain a strong audience going into this hour

INTERNATIONAL MODELS – the US TV market – affiliate economics

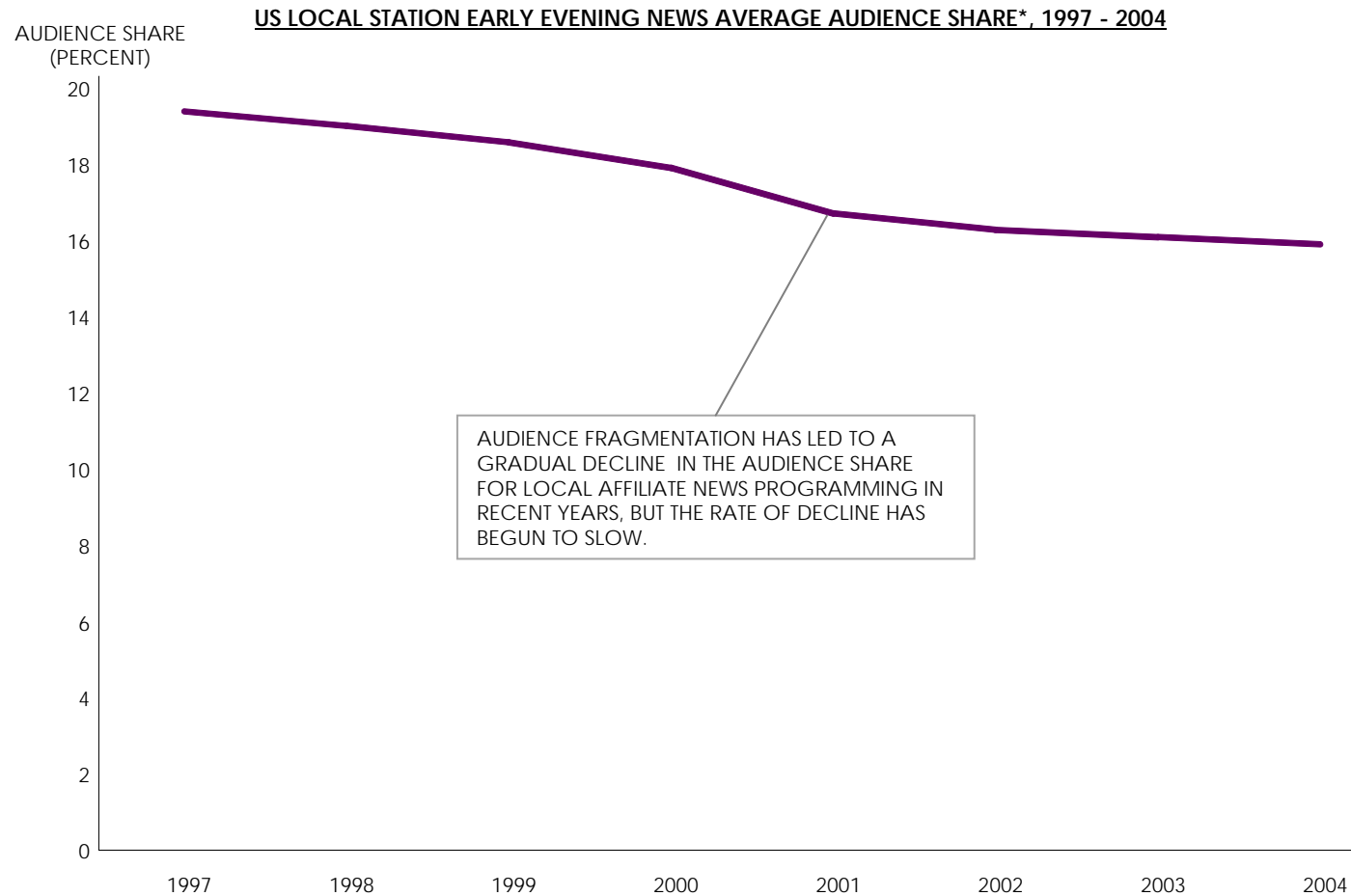
...the US advertising market and television's share of the advertising market are both considerably stronger than in the UK. Local TV advertising in the US accounts for 38% of all TV advertising, compared to only 8.5% in Scotland...

USA AND UK MACROECONOMIC DATA, 2007

	USA	UK
GDP / CAPITA	\$45.8k	\$44.7k
ADVERTISING AS % OF GDP	1.36%	0.84%
AD SPEND PER CAPITA	\$623	\$326
TV SHARE OF ADVERTISING	32%	22%
% TV AD SPEND THAT IS LOCAL	37.8%	8.5%*
LOCAL TV AD SPEND PER CAPITA	\$93	\$8*
PROGRAMME SPEND PER CAPITA	\$135	\$157

INTERNATIONAL MODELS – the US TV market – economics of local news

...audience fragmentation trends have led to a steady decline in the average audience share of local affiliate early evening news but the decline has been slowing and absolute audience share remains high by US channel standards at 16%...



*AUDIENCE SHARE IS AVERAGE FOR MAY IN EACH YEAR
SOURCE: ANNUAL REPORT ON AMERICAN JOURNALISM, 2004

INTERNATIONAL MODELS - Spain

...the regional broadcasters in Spain are exclusively owned by regional governments. All of the major regional channels receive substantial direct government funding. Advertising and other commercial activities generally represent less than 50% of total funding...

REGIONAL BROADCASTERS IN THE EIGHT LARGEST AUTONOMOUS COMMUNITIES OF SPAIN

REGION	MAIN CHANNELS	SHARE IN REGION, 2006	FUNDING (2005)	COMMERCIAL FUNDING	PUBLIC FUNDING
ANDALUCIA	CST / C2A	17.5% / 4.2%	€239m	34%	€158m
CATALONIA	TV3 / K3-33	18.2% / 4.3%	€165m	82%	€30m
BASQUE COUNTRY	ETB1 / ETB2	4.4% / 15.8%	€119m	21%	€94m
GALACIA	TVG	14.4%	€31m	58%	€13M
MADRID	TVM / LA OTRA	11.6%	€75m	49%	€38M
VALENCIA	C9	14.3%	€75m	49%	€38M
CASTILLA LA MANCHA	CMT	12%	€39m	NO DATA	NO DATA
CANARY ISLANDS	TVCAN	9.2%	€39m	2%	€38M

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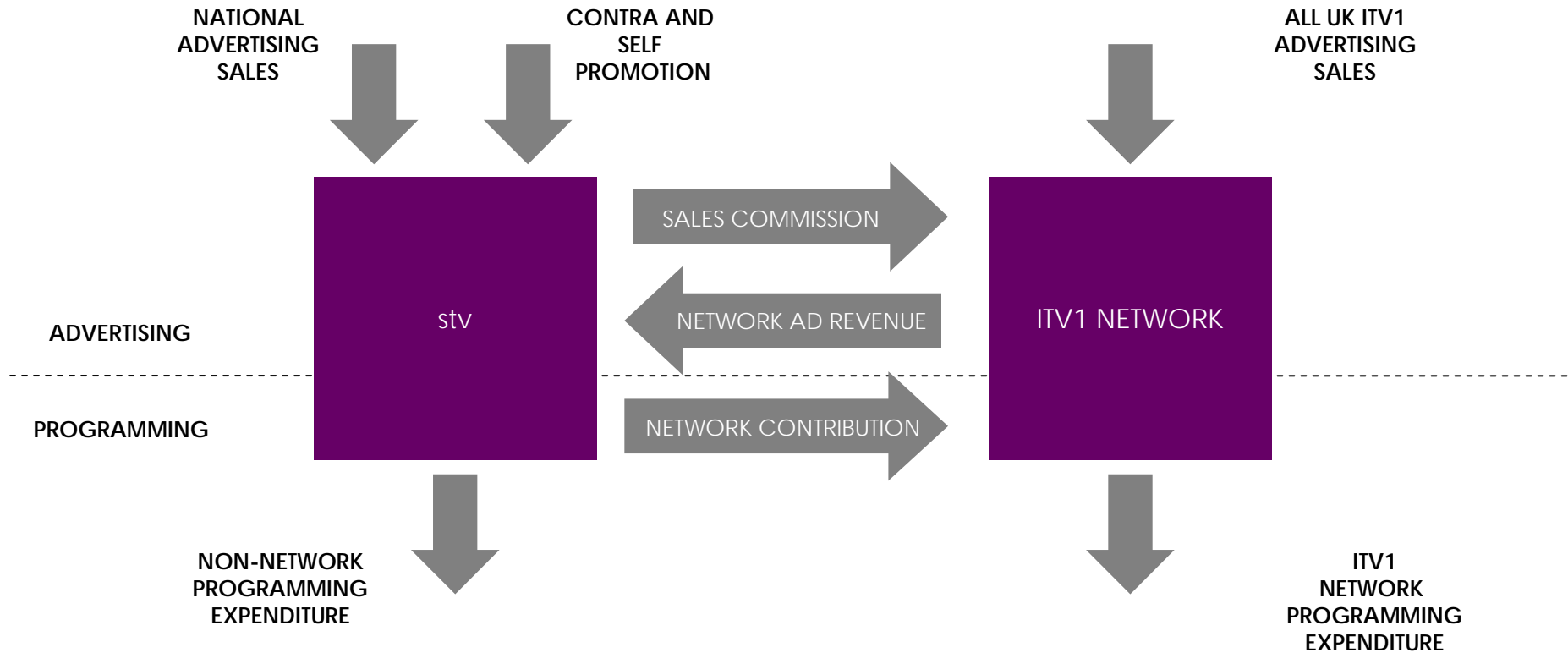
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THE CURRENT MODEL FOR SCOTLAND – summary

- stv currently sells Scottish only airtime and also receives value in contra-deals with other media companies and self promotion. It receives UK-wide network airtime sales (the selling process has been outsourced to ITV plc) and contributes to the ITV1 network budget. It produces original non-network non-news programmes in addition to Scottish news output.
- ITV plc is seeking to extract a higher value for its investment in the network schedule. It also possible that ITV plc could hand back its PSB licences and broadcast independently in Scotland, effectively ending the network arrangements.
- Currently, producing television programmes purely for the Scottish market is barely profitable. The market lacks the necessary economies of scale given the cost of original production: news production tends to have high fixed cost. The level of ad minutes available to it (around 4 minutes per hour) generates relatively low revenue.
- It is unlikely that current levels and quality of non-network output will be profitable by 2012, given the continued likely growth in production costs and the decline of NAR due to macroeconomic difficulties facing television combined with audience fragmentation affecting individual channels.

THE CURRENT MODEL FOR SCOTLAND – stv relationship with ITV Network

FLOW OF FUNDS BETWEEN stv AND ITV1 NETWORK, 2007*



*ALL ADVERTISING REVENUE DATA INCLUDES BOTH NAR AND SPONSORSHIP
SOURCE: OFCOM; stv; O&O ANALYSIS

THE CURRENT MODEL FOR SCOTLAND – stv relationship with ITV Network – advertising

THE STRUCTURE OF stv's RELATIONSHIP WITH ITV NETWORK - ADVERTISING

		ADVERTISING
UK-WIDE	STRUCTURE	<ul style="list-style-type: none"> • SOLD BY ITV NETWORK SALES • Stv's SHARE (LESS COMMISSION) FLOWS TO stv • Stv PAYS A SALES COMMISSION TO ITV PLC
	PROS	<ul style="list-style-type: none"> • AVOIDS COST OF NATIONAL SALES ORGANISATION • SIMPLE FOR UK WIDE BUYERS • BIGGEST AVAILABLE REVENUE STREAM FOR MAJOR BROADCASTER IN SCOTLAND
	CONS	<ul style="list-style-type: none"> • ITV PLC NOT INCENTIVISED TO MAXIMISE stv REVENUES • ITV PLC INCENTIVISED TO RETAIN AD REVENUES IN ITV PLC CONTROLLED REGIONS
SCOTLAND ONLY	STRUCTURE	<ul style="list-style-type: none"> • SOLD BY stv SALES TEAM • NAR AND SPONSORSHIP • CONTRA AND SELF PROMOTION REVENUES
	PROS	<ul style="list-style-type: none"> • SALES ARE CONTINUING TO GROW • EXPECTED TO GROW IN 2008 • REPRESENT A GROWING PROPORTION OF TOTAL stv REVENUES YEAR-ON-YEAR
	CONS	<ul style="list-style-type: none"> • SMALL OVERALL MARKET WITH LIMITED PROSPECTS FOR LONG-TERM EXPANSION • CPTS REMAIN WELL ABOVE OTHER MEDIA MAKING IT DIFFICULT TO SWITCH SPENDING

THE CURRENT MODEL FOR SCOTLAND – stv relationship with ITV – programming

THE STRUCTURE OF stv's RELATIONSHIP WITH ITV NETWORK - PROGRAMMING

		PROGRAMMING
UK-WIDE	STRUCTURE	<ul style="list-style-type: none"> • SOURCED BY ITV1 NETWORK CENTRALLY • Stv CONTRIBUTION SET BY NETWORKING ARRANGEMENTS • NO PLAY NO PAY CONCEPT FOR NON-NETWORK OPT OUTS • Stv PAYS SHARE OF ITV1 NETWORK BUDGET
	PROS	<ul style="list-style-type: none"> • BENEFITS FROM VITAL ECONOMIES OF SCALE • SCHEDULE OPT-OUTS PROVIDE FLEXIBILITY TO ORIGINATE / ACQUIRE PROGRAMMING SEPARATELY
	CONS	<ul style="list-style-type: none"> • SCHEDULE OPT-OUT RETURNED PAYMENTS INSUFFICIENT FOR SCALE SCOTTISH ORIGINATION
SCOTLAND ONLY	STRUCTURE	<ul style="list-style-type: none"> • COMMISSIONED BY stv <ul style="list-style-type: none"> • Stv NEWS • OTHER stv ORIGINATION
	PROS	<ul style="list-style-type: none"> • LOW COST OFF PEAK PROGRAMMES BALANCE HIGH COST NEWS IN SCHEDULE BUDGET
	CONS	<ul style="list-style-type: none"> • LACK SCALE TO INVEST IN HIGH-QUALITY PEAK TIME OUTPUT PROFITABLY

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BASE CASE PROJECTIONS – assumptions

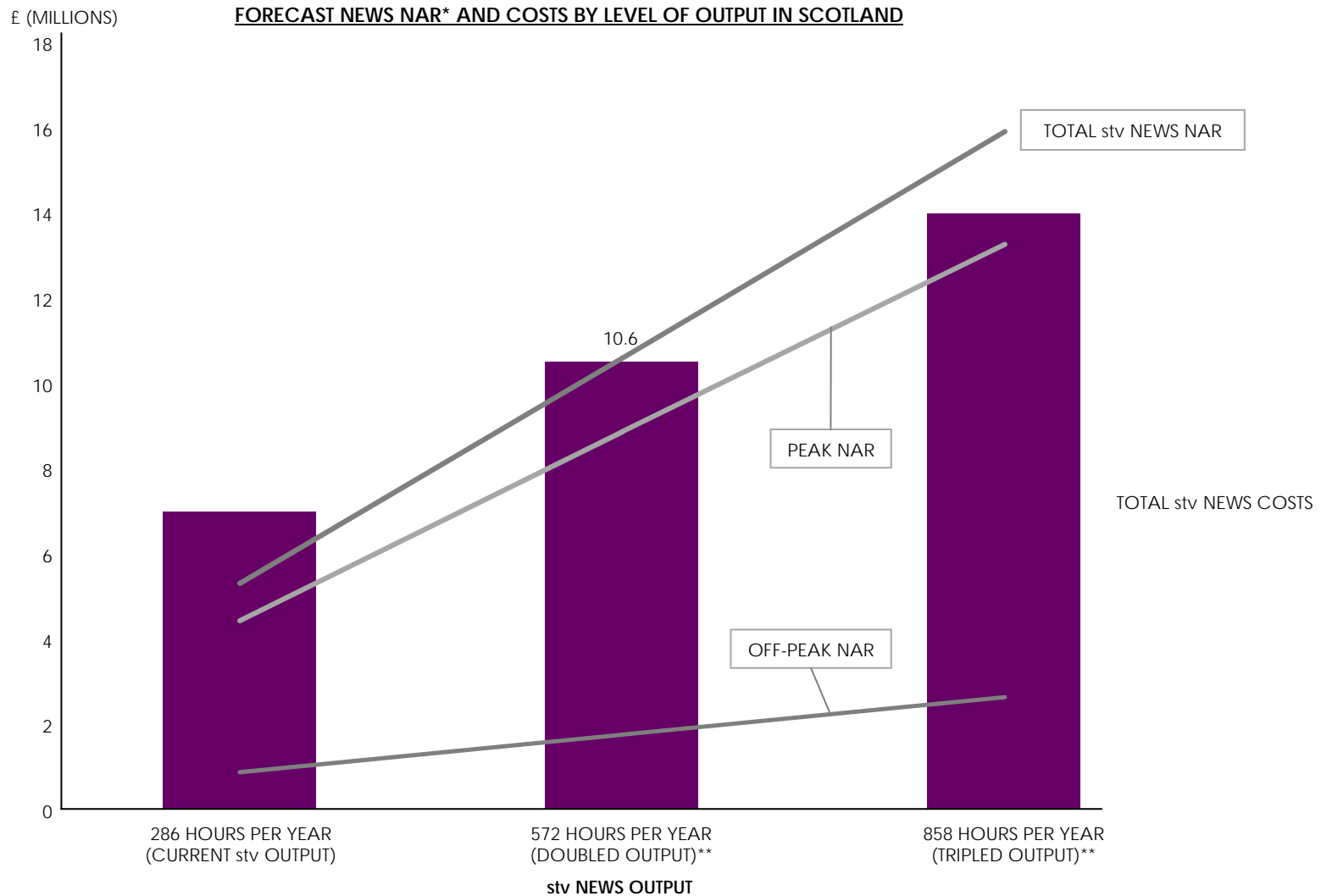
...O&O has developed a base case for ITV1 in Scotland including forecasts of Scottish news airtime revenues and costs...

	BASE CASE
CORE CHANNEL PROPOSITION	<ul style="list-style-type: none"> EXISTING ITV1 / stv ARRANGEMENT
AUDIENCE SHARE	<ul style="list-style-type: none"> 19.5% IN SCOTLAND BUT FALLING TO 16% BY 2020 DUE TO FRAGMENTATION
AVERAGE CPT/ INVENTORY	<ul style="list-style-type: none"> PEAK = 8 MINS/HOUR (4 MINS IN NEWS) PEAK CPT = £7.5 OFF-PEAK = 10 MINS/HOUR* (4 MINS IN NEWS) OFF-PEAK CPT = £3
NEW REVENUES	<ul style="list-style-type: none"> SCOTTISH FOCUSED NEW MEDIA INITIATIVES GROWING TO 10-15% LINEAR NAR BY 2020
SCHEDULE MIX	<ul style="list-style-type: none"> NEWS = 47 MINS/DAY PSB ORIGINATION = 23 MINS/DAY ITV NETWORK SCHEDULE
SCHEDULE COSTS	<ul style="list-style-type: none"> stv NEWS OTHER stv PSB OUTPUT ITV NETWORK SCHEDULE
OTHER COSTS	<ul style="list-style-type: none"> OVERHEADS TRANSMISSION NEW MEDIA SALES COMMISSION PAID TO ITV PLC

*ASSUMED OFF-PEAK ADVERTISING MINUTAGE AROUND NON-NETWORK PROGRAMMING, WHICH IS HIGHER THAN THE AVERAGE ACROSS ALL DAY PARTS.
SOURCE: O&O ANALYSIS

BASE CASE PROJECTIONS – the economics of news for Scotland

... news currently makes a loss for stv. The output hours of news would need to double with eight minutes per hour of advertising in order for news to break even at a schedule level...



*ASSUMES 8 AD MINS PER HOUR AROUND NEWS TO MAXIMISE NAR
 **BASED ON DOUBLING/TRIPLING BOTH PEAK AND OFF PEAK NEWS MINUTAGE EVENLY
 SOURCE: O&O ANALYSIS

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DIFFERENT MODELS FOR PSB IN SCOTLAND – summary

- A number of models have been examined in order to understand whether an affiliate or independent channel structure can lead to profitable and sustained PSB output in Scotland.
- Neither a simple affiliate model, where an affiliate keeps all NAR around its own non-network programming, or alternatively a model where an affiliate keeps just locally generated NAR, can be profitable.
 - All affiliate models suffer from potentially problematic incentives with regards to access to inventory and motivations to sell. Any model where an affiliate keeps all revenue around its own non-network output will disincentivise any national sales house from selling impacts around such programming.
 - It is questionable whether a model where the affiliate keeps all locally generated NAR could be operationally sustainable. While the affiliate could work well at first, given the pressure on NAR and likely rising production costs, revenues from the Network would need to grow rapidly. In addition, it may prove very difficult to manage and allocate inventory between the affiliate and network.
 - The economics for an affiliate relying on revenues from airtime around non-network content are also problematic due to the loss-making nature of news and the likelihood that even peak origination at current quality levels will become unprofitable by 2012.
- An independent Scottish PSB channel is likely to require a public subsidy of around £70m now, and rising to around £92m per year by 2020. This is based on an independent Scottish PSB channel requiring programme spend similar to that of S4C in Wales but achieving a considerably higher audience share of around 5%, given that the channel would broadcast mostly English language output.
- None of the possible alternative models for supporting Scottish commercial PSB that have been tested appear feasible without a significant form of cross-subsidy (from a major network) or public funding. Public funding for a standalone independent channel is likely to have to be significantly higher than any cross-subsidy from a network but would probably achieve much less audience share.

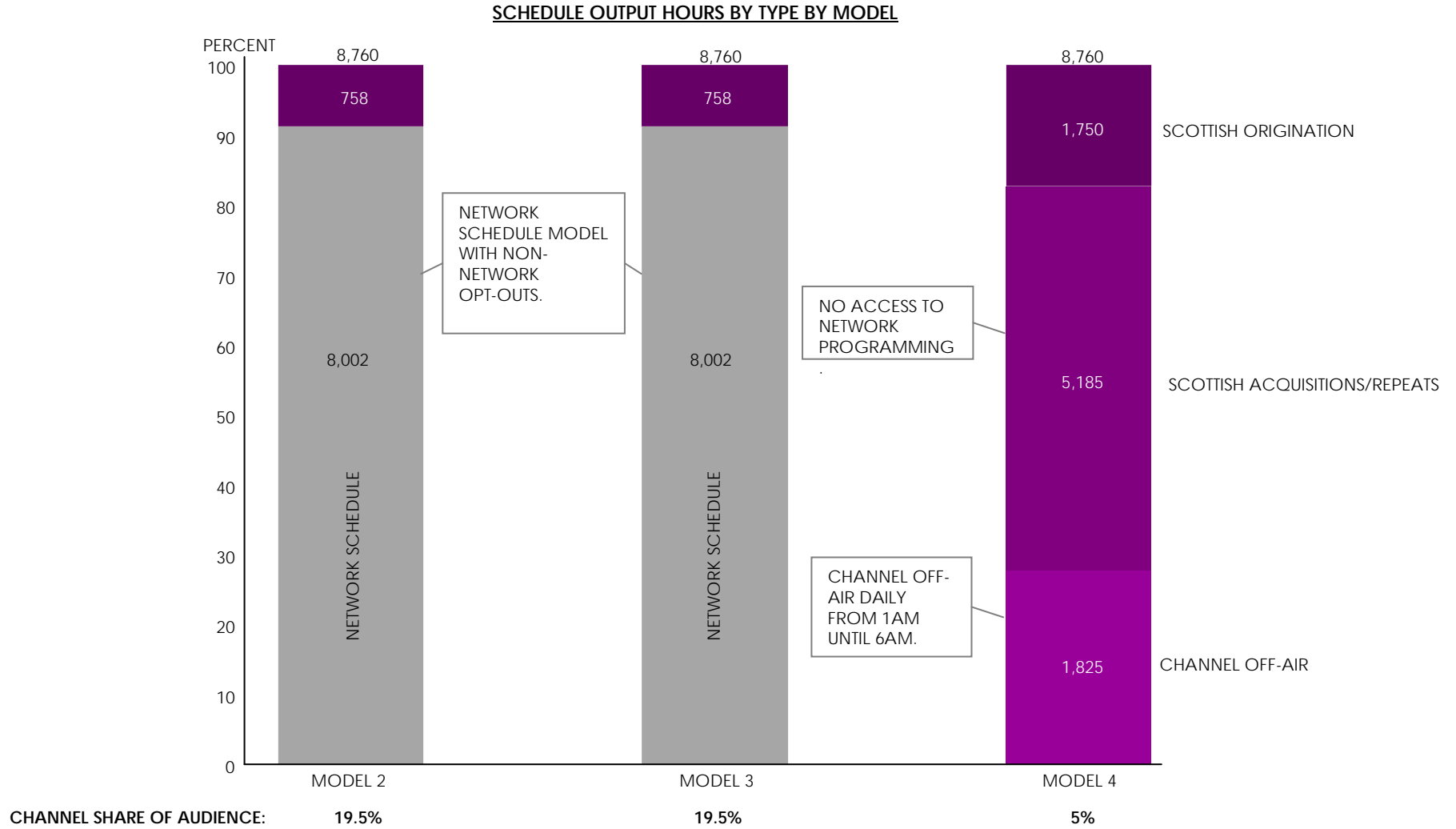
DIFFERENT MODELS FOR PSB IN SCOTLAND – models tested

...O&O has developed three models, in addition to a base case projection of the current model, to understand whether an alternative affiliate or independent structure can lead to profitable and sustained PSB output in Scotland...

	MODEL	MODEL OUTLINE	IMPACT ON SCOTTISH CHANNEL AFFILIATE	IMPACT ON NETWORK
1	BASE CASE	<ul style="list-style-type: none"> Existing ITV1 / stv arrangement 		
2	SIMPLE AFFILIATE MODEL	<ul style="list-style-type: none"> Simple affiliate model where affiliate retains all NAR generated around non-network programming Both UK-wide and Scotland only sales around both network and non-network schedule Ad mins around news raised to 8 in peak and 10 off-peak 	<ul style="list-style-type: none"> The NAR around non-network programming is unlikely to sustain the affiliate 	<ul style="list-style-type: none"> The Network would be disincentivised to sell airtime around non-network output rather than network output where it retains the revenues
3	SCOTTISH AFFILIATE MODEL	<ul style="list-style-type: none"> Affiliate retains all non-network NAR (ITV retains UK-wide airtime) and the affiliate receives a subsidy / commission from ITV plc for access to the audiences Ad mins around news raised to 8 in peak and 10 off-peak 	<ul style="list-style-type: none"> Non-network TV advertising revenues are not high enough to sustain a Scottish affiliate without further subsidy 	<ul style="list-style-type: none"> The Network retains a greater proportion of revenues The Network might have to pay a growing commission to maintain Scottish affiliate
4	INDEPENDENT PSB CHANNEL	<ul style="list-style-type: none"> Independent channel sources all programming independently Ad mins around news raised to 8 in peak and 10 off-peak 	<ul style="list-style-type: none"> Likely to require significant public subsidy 	<ul style="list-style-type: none"> Public investment presents a significant threat to Network's position in Scotland

DIFFERENT MODELS FOR PSB IN SCOTLAND – schedule mix for each model

...models 2 and 3 retain the current schedule structure, while model 4 depicts an independent channel with no access to network programming...



DIFFERENT MODELS FOR PSB IN SCOTLAND – model 2 – simple affiliate

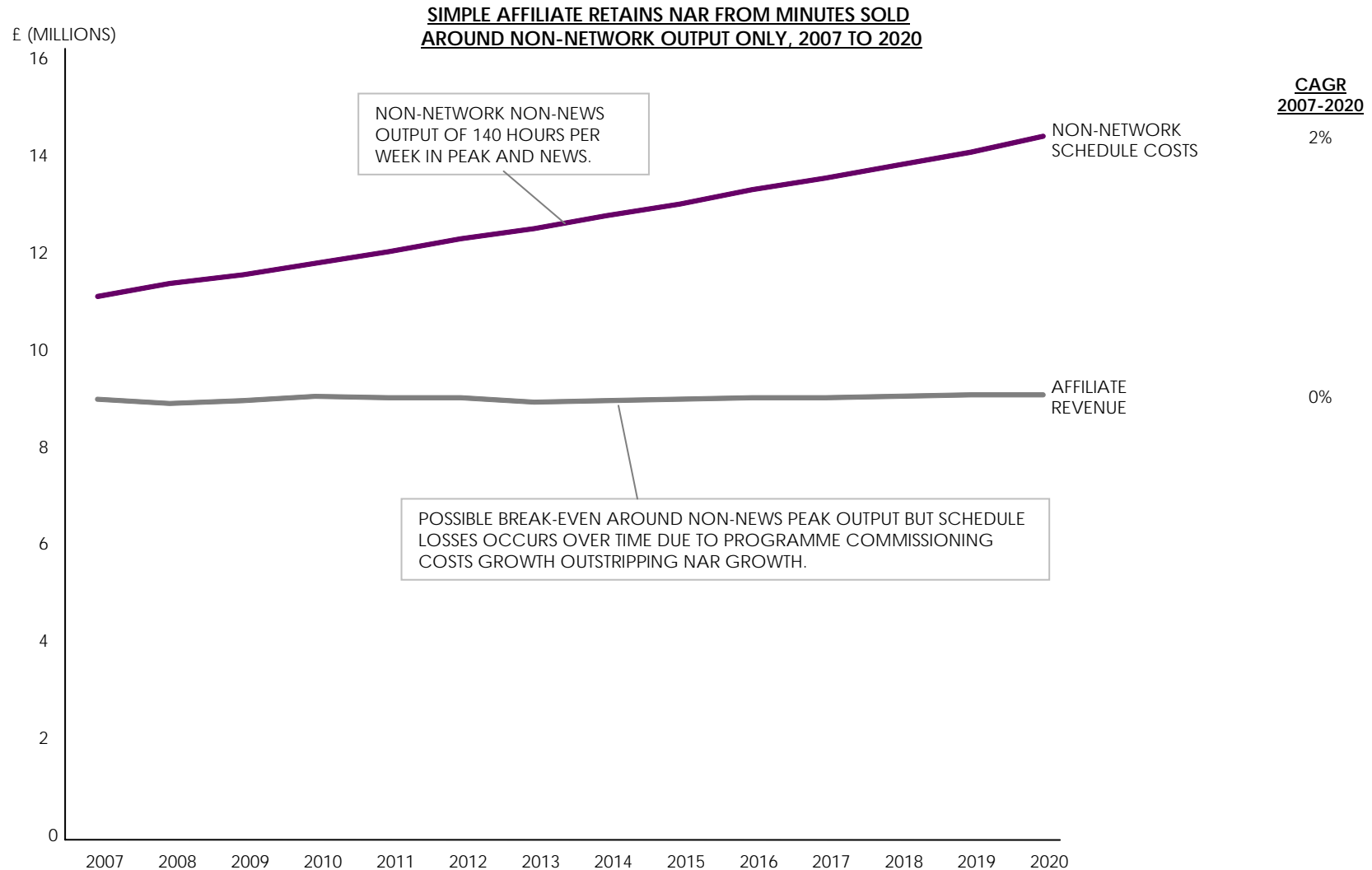
...under this model the Network is allowed to keep all revenues associated with its networked programming aired, while the affiliate retains all UK wide sold and Scotland only NAR around its own output...

	MODEL 2 – SIMPLE AFFILIATE
CORE CHANNEL PROPOSITION	<ul style="list-style-type: none"> • SCOTTISH AFFILIATE TAKES ALL REVENUES ASSOCIATED WITH NON-NETWORK PROGRAMMING • NETWORK KEEPS ALL REVENUES AROUND NETWORK SCHEDULE
AUDIENCE SHARE	<ul style="list-style-type: none"> • 19.5% IN SCOTLAND BUT FALLING TO 16% BY 2020 DUE TO FRAGMENTATION
AVERAGE CPT/ INVENTORY	<ul style="list-style-type: none"> • PEAK ADS = 8 MINS/HOUR (ALSO 8 MINS IN NEWS) • PEAK CPT = £7.5 • OFF-PEAK ADS = 10 MINS/HOUR* (ALSO 10 MINS IN NEWS) • OFF-PEAK CPT = £3
NEW REVENUES	<ul style="list-style-type: none"> • SCOTLAND FOCUSED NEW MEDIA INITIATIVES • GROWING TO 10-15% LINEAR NAR BY 2020
SCHEDULE MIX	<ul style="list-style-type: none"> • NEWS = 47 MINS/DAY • PSB ORIGINATION = 23 MINS/DAY • REST OF SCHEDULE = NETWORK SCHEDULE
SCHEDULE COSTS	<ul style="list-style-type: none"> • NEWS • OTHER PSB OUTPUT • NETWORK SCHEDULE
OTHER COSTS	<ul style="list-style-type: none"> • OVERHEADS • TRANSMISSION • NEW MEDIA

*ASSUMED OFF-PEAK ADVERTISING MINUTAGE AROUND NON-NETWORK PROGRAMMING, WHICH IS HIGHER THAN THE AVERAGE ACROSS ALL DAY PARTS.
SOURCE: O&O ANALYSIS

DIFFERENT MODELS FOR PSB IN SCOTLAND – model 2 – simple affiliate model

...if an affiliate were to keep all NAR from around 140 hours a year of peak regional output in addition to that around its Scottish news output it would not be able to make a profit...



*FOR NEWS THIS MODEL ASSUMES 8 AD MINS PER HOUR IN PEAK AND 10 AD MINS PER HOUR OFF-PEAK
SOURCE: O&O ANALYSIS

DIFFERENT MODELS FOR PSB IN SCOTLAND – model 3 – Scottish affiliate

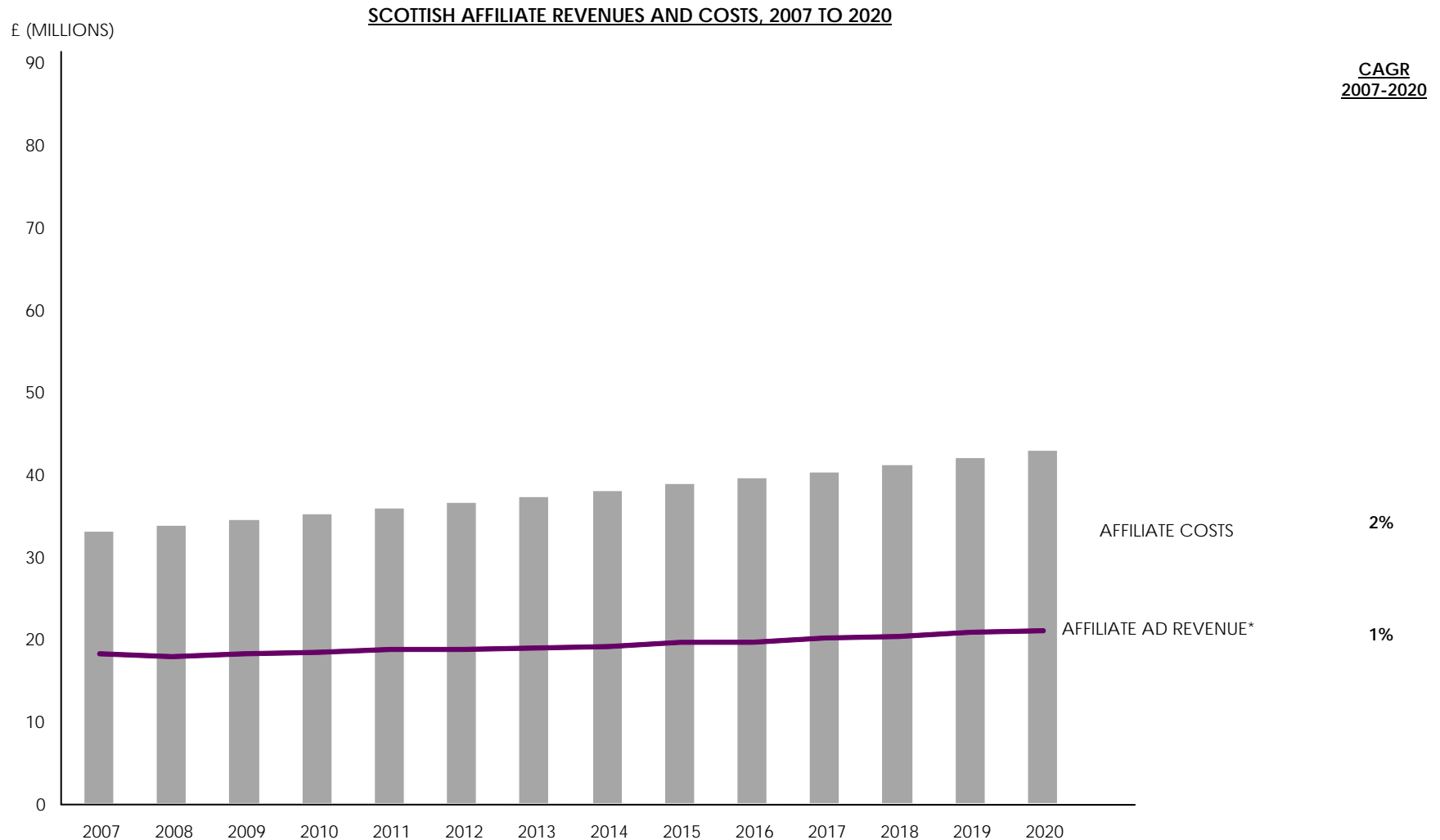
...from 2010, a Scottish affiliate keeps all Scottish national and local non-network NAR while the Network keeps all UK-wide network NAR...

	MODEL 3 – SCOTTISH AFFILIATE
CORE CHANNEL PROPOSITION – CHANGES IN 2010	<ul style="list-style-type: none"> • SCOTTISH AFFILIATE TAKES ALL NON-NETWORK AIRTIME REVENUES • NETWORK KEEPS ALL UK WIDE AIRTIME REVENUES • NETWORK PAYS COMMISSION TO AFFILIATE TO ACCESS ITS AUDIENCE
AUDIENCE SHARE	<ul style="list-style-type: none"> • 19.5% IN SCOTLAND BUT FALLING TO 16% BY 2020 DUE TO FRAGMENTATION
AVERAGE CPT/ INVENTORY	<ul style="list-style-type: none"> • PEAK ADS = 8 MINS/HOUR (ALSO 8 MINS IN NEWS) • PEAK CPT =£7.5 • OFF-PEAK ADS =10 MINS/HOUR* (ALSO 10 MINS IN NEWS) • OFF-PEAK CPT = £3
NEW REVENUES	<ul style="list-style-type: none"> • SCOTTISH FOCUSED NEW MEDIA INITIATIVES • GROWING TO 10-15% LINEAR NAR BY 2020
SCHEDULE MIX	<ul style="list-style-type: none"> • NEWS = 47MINS/DAY • PSB ORIGINATION = 23 MINS/DAY • REST OF SCHEDULE = NETWORK SCHEDULE
SCHEDULE COSTS	<ul style="list-style-type: none"> • NEWS • OTHER PSB OUTPUT • NETWORK SCHEDULE FREELY PROVIDED IN RETURN FOR AUDIENCE
OTHER COSTS	<ul style="list-style-type: none"> • OVERHEADS • TRANSMISSION • NEW MEDIA

*ASSUMED OFF-PEAK ADVERTISING MINUTAGE AROUND NON-NETWORK PROGRAMMING, WHICH IS HIGHER THAN THE AVERAGE ACROSS ALL DAY PARTS.
SOURCE: O&O ANALYSIS

DIFFERENT MODELS FOR PSB IN SCOTLAND – model 3 – Scottish affiliate

...the level of commission required from the Network in order to keep a Scottish affiliate profitable would continue to increase to 2020...



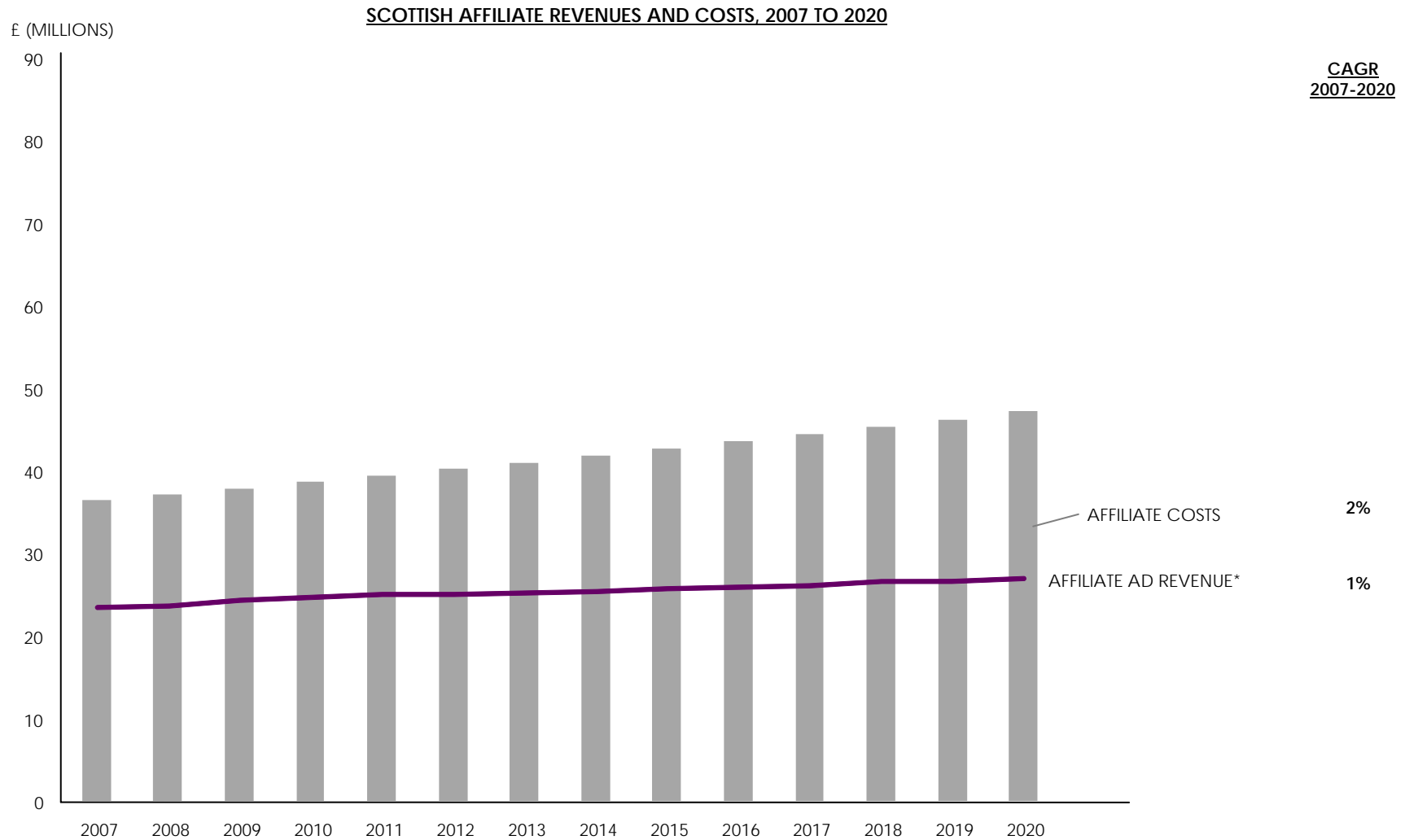
*FOR NEWS THIS MODEL ASSUMES 8 AD MINS PER HOUR IN PEAK AND 10 AD MINS PER HOUR OFF-PEAK

**CAGR 2010-2020

SOURCE: O&O ANALYSIS

DIFFERENT MODELS FOR PSB IN SCOTLAND – model 3 – news output doubled

...if news output is doubled, leading to an increase in affiliate revenues, revenues increase but the benefit is progressively lost to 2020 due to cost inflation outstripping NAR growth...



*FOR NEWS THIS MODEL ASSUMES 8 AD MINS PER HOUR IN PEAK AND 10 AD MINS PER HOUR OFF-PEAK AND A DOUBLING OF CURRENT OUTPUT LEVELS OF NEWS

**CAGR 2010-2020

SOURCE: O&O ANALYSIS

DIFFERENT MODELS FOR PSB IN SCOTLAND – model 4 – independent Scottish PSB channel

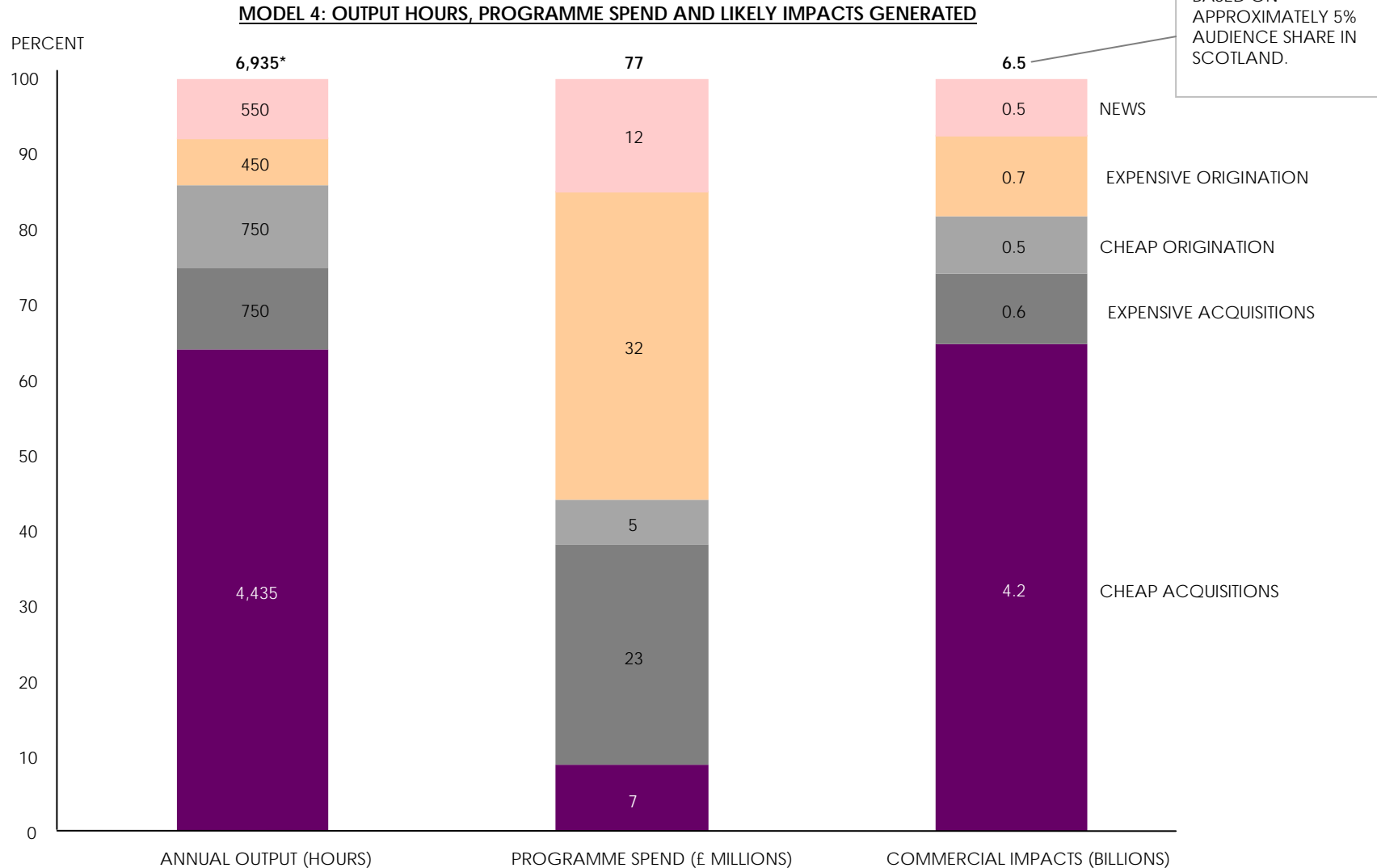
...an independent Scottish PSB channel could take around 5% audience share but requires a significant public subsidy in order to be sustainable...

	MODEL 4 – INDEPENDENT PSB CHANNEL
CORE CHANNEL PROPOSITION	<ul style="list-style-type: none"> • INDEPENDENT SCOTTISH PSB CHANNEL SOURCING ALL PROGRAMMING INDEPENDENTLY • NO LINKS TO A NETWORK
AUDIENCE SHARE	<ul style="list-style-type: none"> • 5% AUDIENCE SHARE PROJECTED BASED ON SCHEDULE INVESTMENT
AVERAGE CPT/ INVENTORY	<ul style="list-style-type: none"> • PEAK ADS = 8 MINS/HOUR (ALSO 8 MINS IN NEWS) • PEAK CPT = £7.5 • OFF-PEAK ADS = 10 MINS/HOUR* (ALSO 10 MINS IN NEWS) • OFF-PEAK CPT = £3
NEW REVENUES	<ul style="list-style-type: none"> • NEW MEDIA REVENUES GROWING TO 10-15% LINEAR NAR BY 2020
SCHEDULE MIX	<ul style="list-style-type: none"> • NEWS = 47 MINS PER DAY • PSB ORIGINATION = 140 HOURS PER YEAR • REST OF SCHEDULE = INDEPENDENT SOURCING OF ORIGINATIONS, ACQUISITIONS AND REPEATS
SCHEDULE COSTS	<ul style="list-style-type: none"> • LIKELY TO NEED TO BE AROUND £80M IN 2010 TO ACHIEVE A 5% AUDIENCE SHARE
OTHER COSTS	<ul style="list-style-type: none"> • OVERHEADS • TRANSMISSION • NEW MEDIA

*ASSUMED OFF-PEAK ADVERTISING MINUTAGE AROUND NON-NETWORK PROGRAMMING, WHICH IS HIGHER THAN THE AVERAGE ACROSS ALL DAY PARTS.
SOURCE: O&O ANALYSIS

DIFFERENT MODELS FOR PSB IN SCOTLAND – model 4 – independent Scottish PSB channel

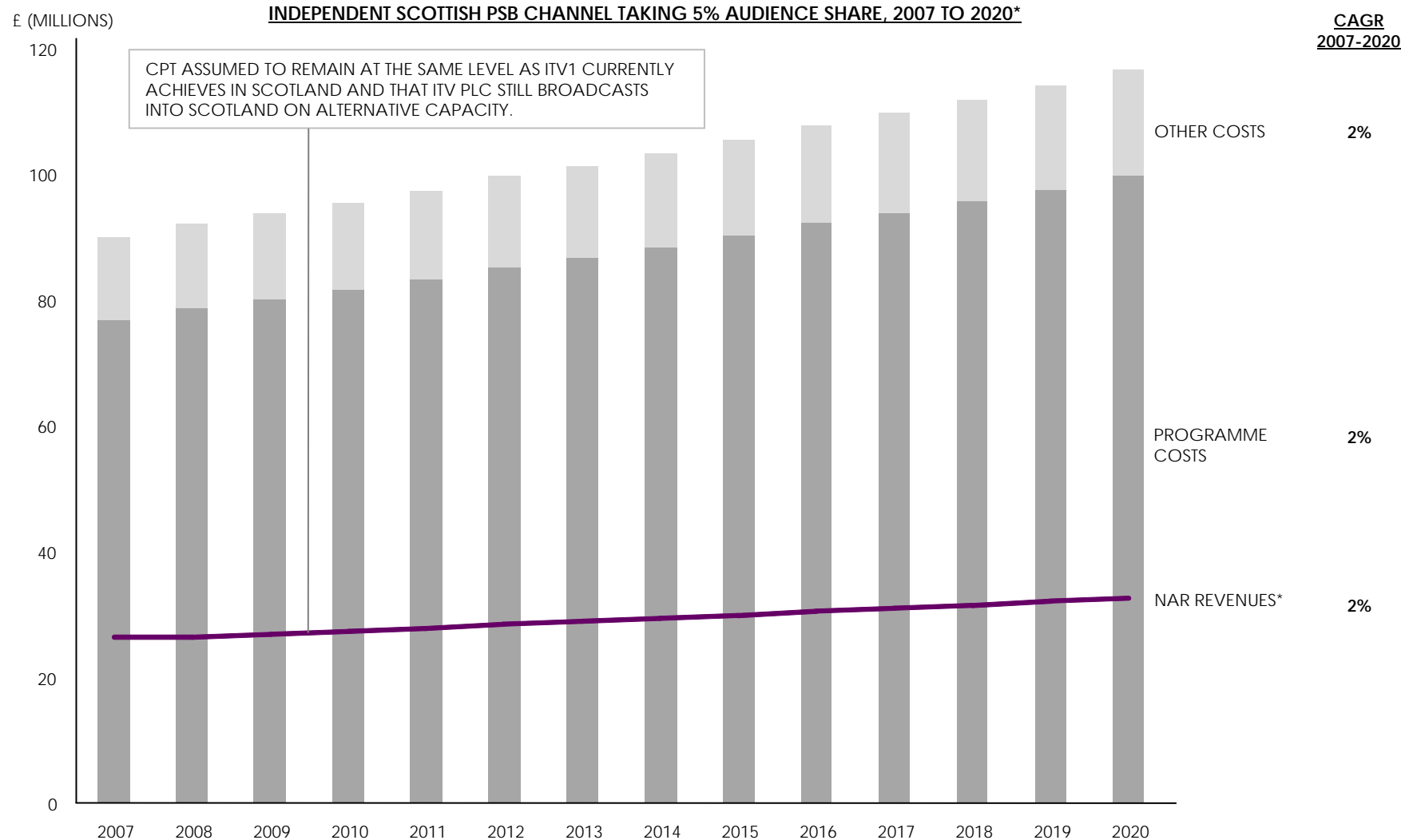
...the independent channel outlined in model 4 could generate an audience share of around 5%, based on a mix of Scottish focused news, original and acquired output which would cost around £77m a year (at 2007 prices)...



*NOTE: CHANNEL OFF-AIR FOR 5 HOURS A DAY
SOURCE: O&O ANALYSIS

DIFFERENT MODELS FOR PSB IN SCOTLAND – model 4 – independent Scottish PSB channel

...an independent channel in Scotland, taking a 5% audience share, can generate around £26m in revenues. In order to sustain reasonable PSB output levels and quality and to achieve such an audience rating, programme investment of around £77m would be required currently. Therefore, a public subsidy of £70m would be required in 2009, rising to £92m in 2020...



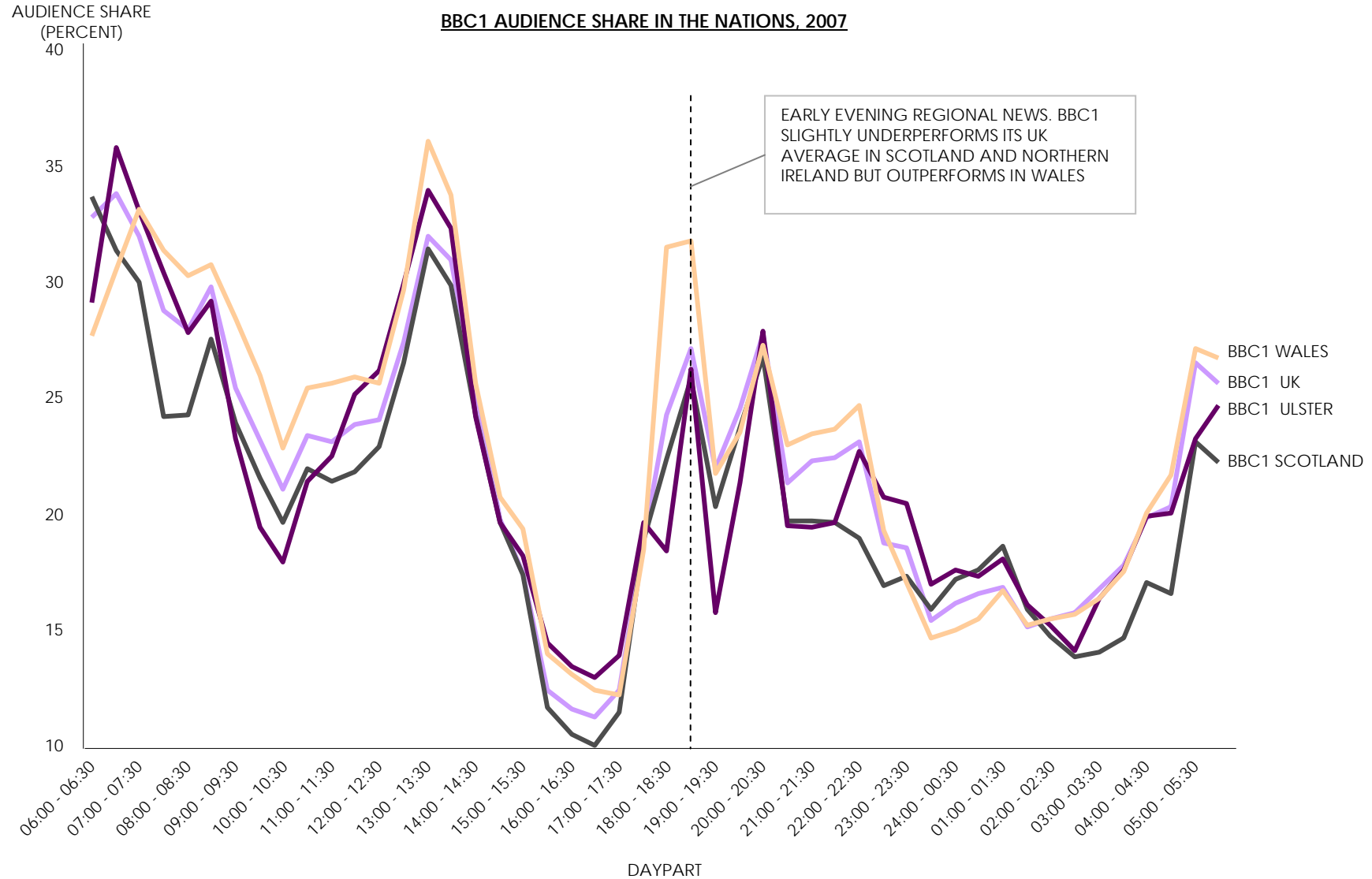
*FOR NEWS THIS MODEL ASSUMES 8 AD MINS PER HOUR IN PEAK AND 10 AD MINS PER HOUR OFF-PEAK
SOURCE: O&O ANALYSIS

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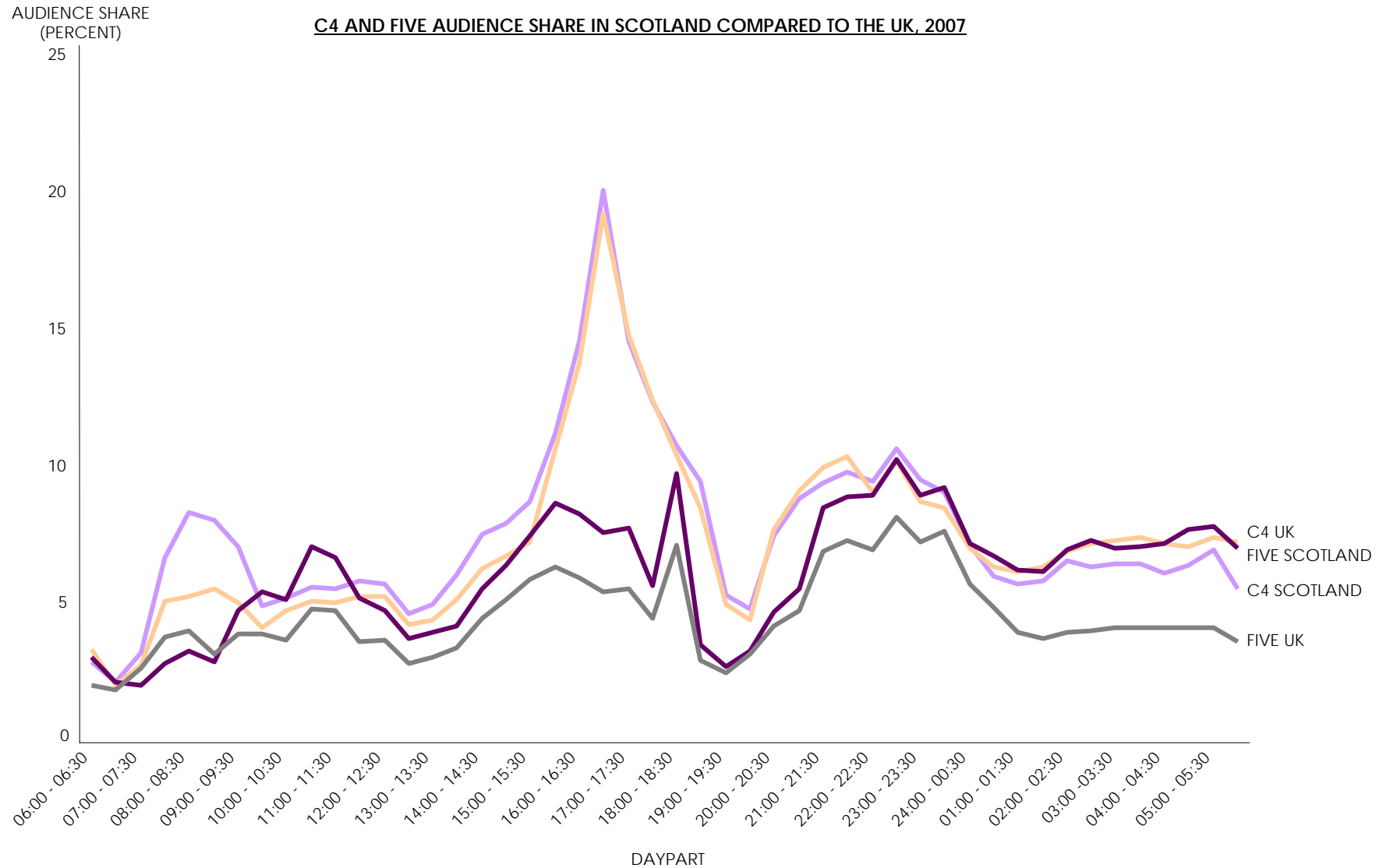
APPENDIX 1 – BBC viewing in the regions

...the BBC generally performs poorly in Scotland compared to its UK average share...



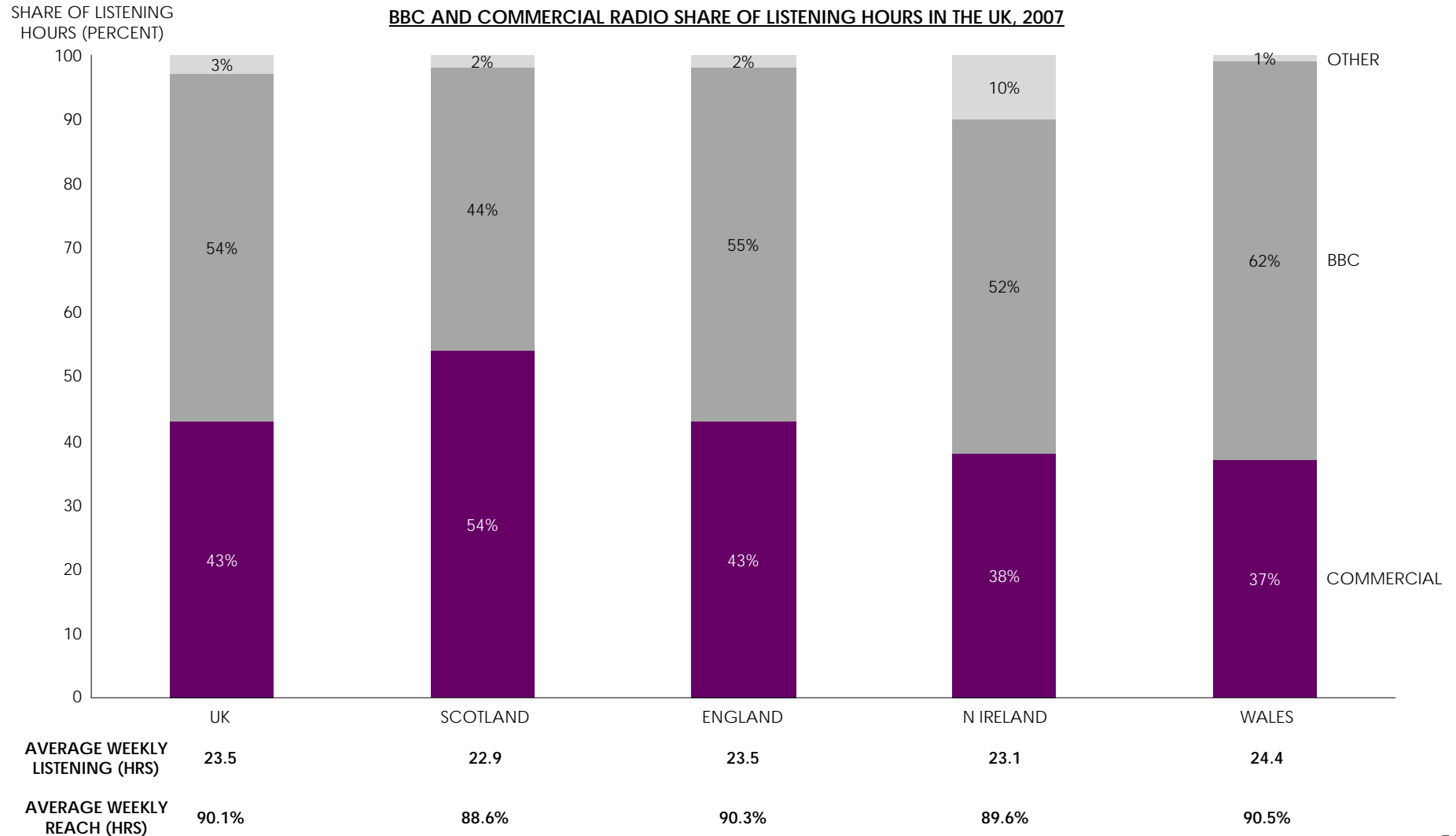
APPENDIX 1 – Channel 4 and FIVE viewing in Scotland

...both Channel 4 and FIVE perform particularly well in Scotland with an even greater average audience share compared to UK average than ITV1...



APPENDIX 1 – radio – listening patterns

...while people in Scotland listen to slightly less radio in total per person than in other regions of the UK, they listen to 26% more commercial radio, due to a strong supply of local and regional stations. The uplift in commercial listening in Scotland is almost entirely at the expense of BBC Networks given that Scottish BBC stations gain an audience broadly in line with its UK average...

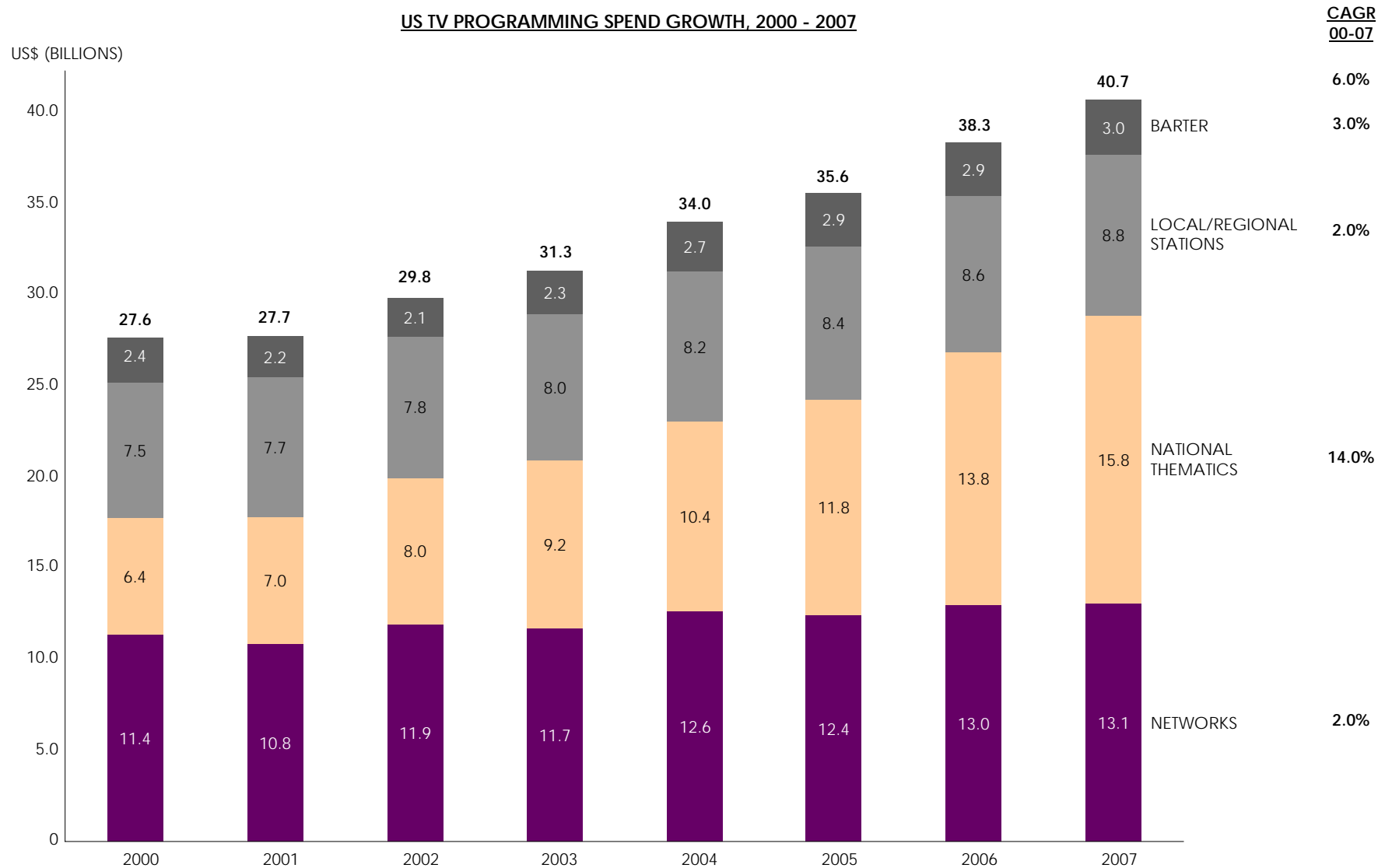


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APPENDIX 2 – US programming spend

...over the last eight years, the \$41bn US TV programming market has grown 6% pa on average with strong growth in spending by national thematic channels offset by weaker demand for network, station and barter programming...



APPENDIX 2 – US national and local broadcaster structure

...each local market is served by different combinations of TV channels. Most markets are served by a mix of local TV stations, affiliate stations, out-of-area local stations that have been rebroadcast from other areas, and thematic channels that are available nationally on cable and satellite ...

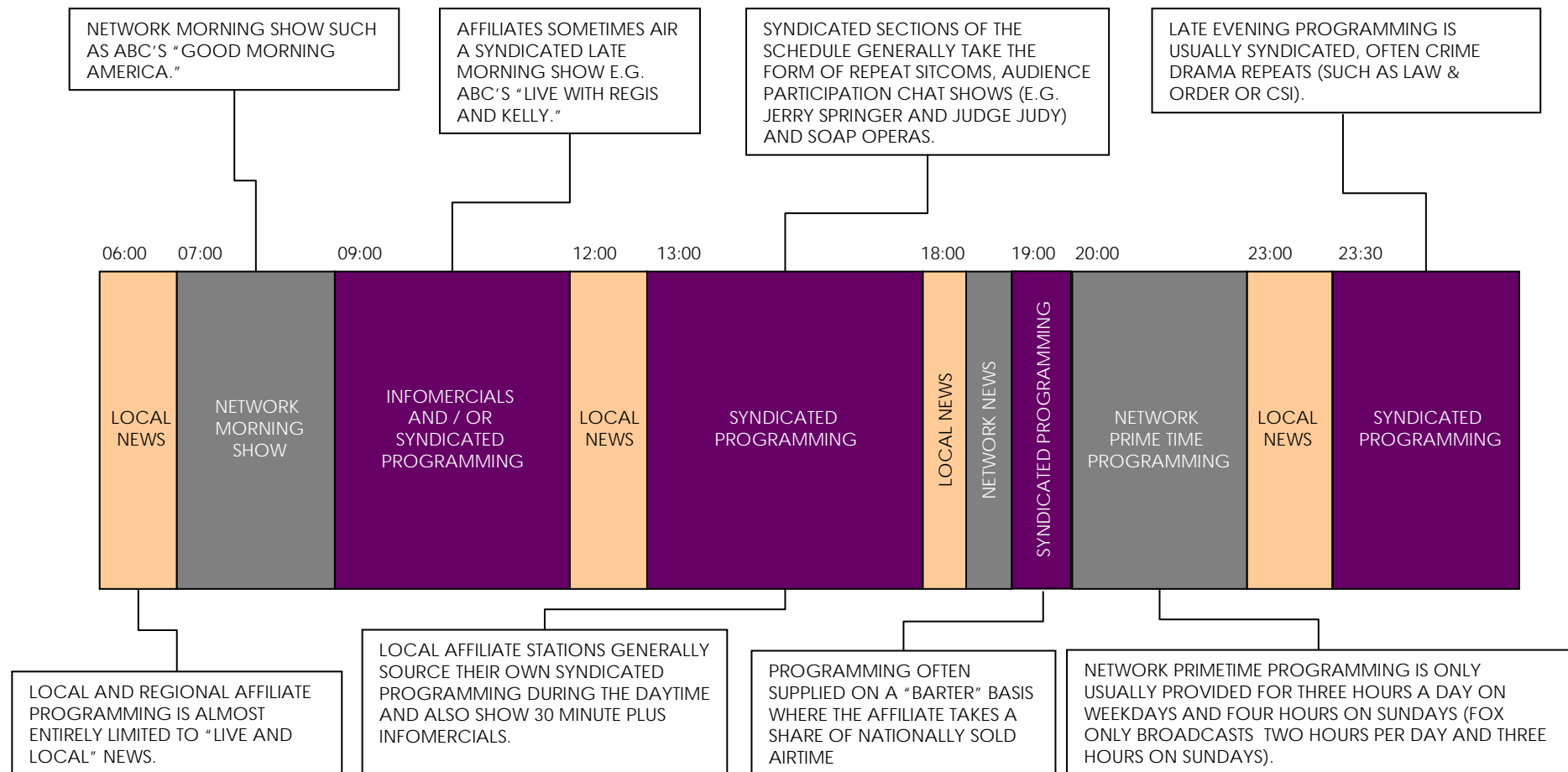
TYPES OF LOCAL TV STATION AND NATIONAL TV CHANNEL AVAILABLE IN THE US

	LOCAL TV STATIONS		AFFILIATE TV STATIONS		OUT-OF-AREA LOCAL STATIONS	NATIONAL THEMATIC CHANNELS
	INDEPENDENT STATIONS	LOCAL THEMATIC STATIONS	COMMERCIAL NETWORK AFFILIATES	PUBLIC BROADCAST SERVICE AFFILIATES		
SIZE OF AUDIENCES	SMALL	SMALL	LARGE	SMALL	SMALL	MEDIUM TO SMALL
EXAMPLES	<ul style="list-style-type: none"> WGN (IND) CHICAGO 	<ul style="list-style-type: none"> WHTN IND (RELIGIOUS STATION IN NASHVILLE) WJFB IND (SHOPPING CHANNEL IN NASHVILLE) 	<ul style="list-style-type: none"> WKRN ABC NASHVILLE (AFFILIATE OF ABC NETWORK IN NASHVILLE) WCBS2 (NEW YORK AFFILIATE OF CBS) 	<ul style="list-style-type: none"> WNPT PBS NASHVILLE (AFFILIATE OF PBS NETWORK IN NASHVILLE) 	<ul style="list-style-type: none"> WGN (IND) CHICAGO BEING BROADCAST IN NASHVILLE 	<ul style="list-style-type: none"> ESPN (SPORT) MTV (MUSIC) SHOWTIME (MOVIES) CNN (NEWS)
DESCRIPTION	<ul style="list-style-type: none"> VERY RARE INDEPENDENCE DENOTED BY IND SUFFIX NOT AFFILIATED WITH A NETWORK, SO SOURCE THEIR GENERIC DAYTIME AND PEAK-TIME PROGRAMMING ON THE OPEN MARKET PRODUCE NEWS AND WEATHER IN-HOUSE 	<ul style="list-style-type: none"> LOCAL LOW BUDGET STATIONS THAT ARE BROADCAST TERRESTRIALLY AND ARE RE-BROADCAST LOCALLY ON SATELLITE AND CABLE WHICH FOCUS OUTPUT ON A PARTICULAR THEME (E.G. RELIGION, SHOPPING) 	<ul style="list-style-type: none"> CARRY THEIR NETWORK'S OUTPUT DURING PRIME TIME (I.E. FROM ABC, CBS, NBC, FOX ETC) AFFILIATION DENOTED BY SUFFIX DAYTIME OUTPUT IS MAINLY PROVIDED BY THEIR NETWORK'S IN-HOUSE STUDIO IN-HOUSE PRODUCTION LIMITED TO OWN NEWS & WEATHER 	<ul style="list-style-type: none"> CARRY PBS'S SCHEDULED NATIONAL OUTPUT DURING PRIME TIME ACQUIRE DAYTIME OUTPUT FROM PBS WHICH THEY SCHEDULE THEMSELVES IN-HOUSE PRODUCTION LIMITED TO OWN NEWS & WEATHER 	<ul style="list-style-type: none"> STATIONS FROM OTHER REGIONS BEING REBROADCAST LOCALLY 	<ul style="list-style-type: none"> NATIONALLY AVAILABLE CABLE AND SATELLITE CHANNELS WITH OUTPUT THAT FOCUS UPON A SPECIFIC THEME

APPENDIX 2 – typical US affiliate schedule

...with little direct regulation, local and regional US content is limited to local news which can air for up to 50 hours a week. Outside of network primetime the local affiliate stations air mostly syndicated programming consisting of repeats of sitcoms and dramas and daytime chat-shows and soap operas. The off-peak schedule programming is generally sourced independently although the networks do offer daytime syndicated programmes covering the same limited genre set...

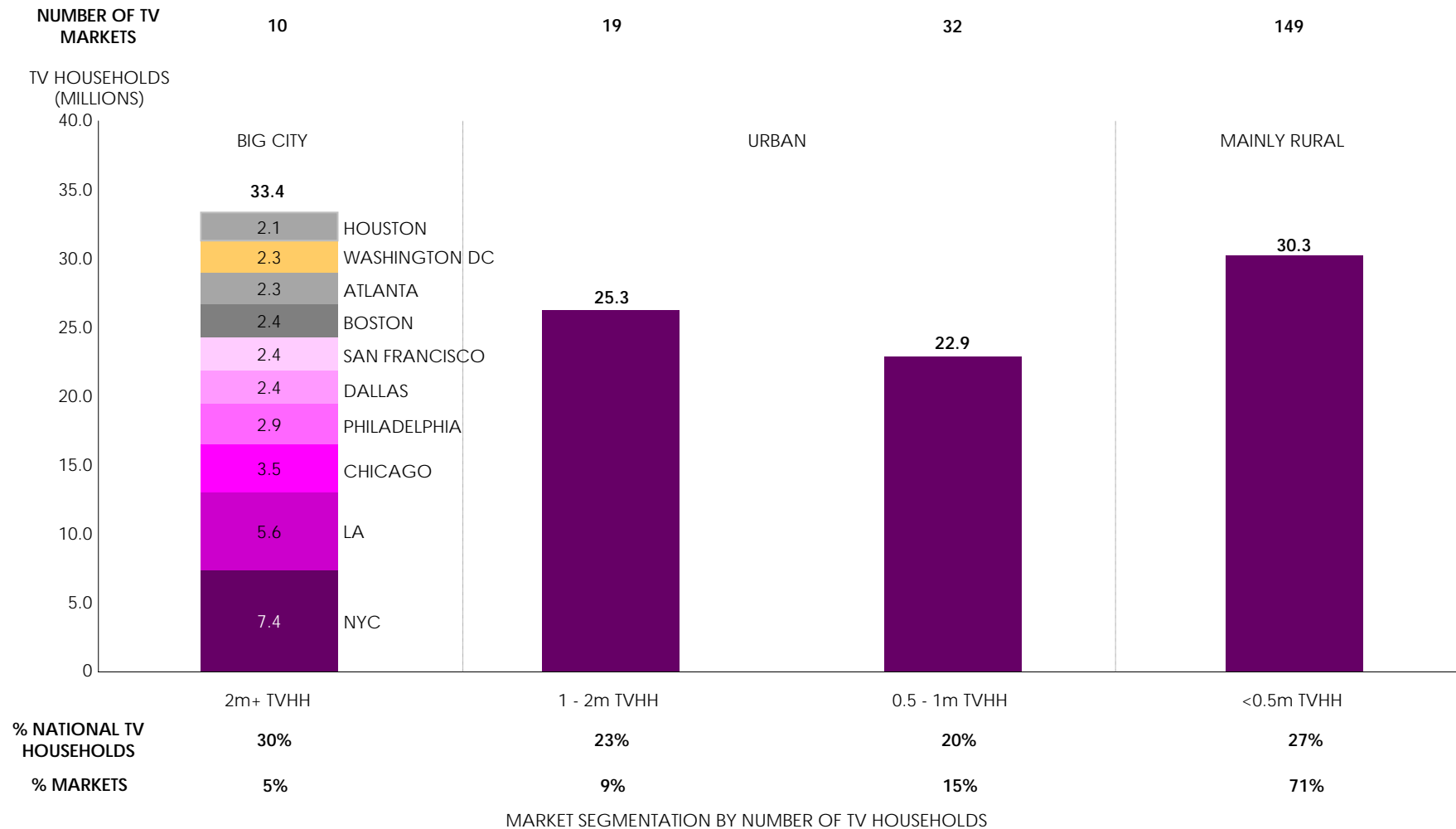
A TYPICAL US COMMERCIAL AFFILIATE SCHEDULE



APPENDIX 2 – US local television market sizes

...210 regions are made up of 10 big city markets that account for 30% of national TV households, 51 urban markets that account for 43% of national TV households and 149 mainly rural markets that account for just 27% of national TV households...

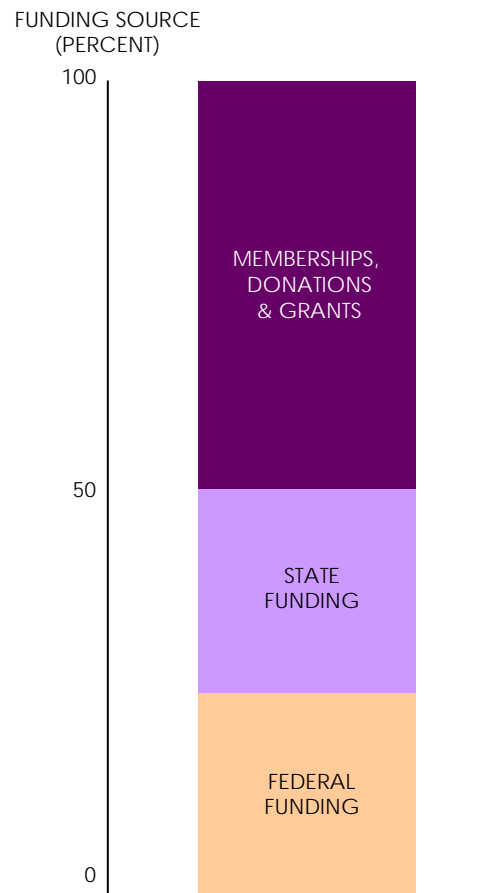
THE STRUCTURE OF THE US TV MARKET (SEGMENTED BY SIZE OF REGIONAL MARKET)



APPENDIX 2 – the public broadcasting service (PBS) in the US

...the public broadcasting service (PBS) provides genuinely distinctive and diverse public service content, ranging from drama to both international and US current affairs. The network is also traditionally strong in its provision of children's programming such as Sesame Street. However, due in part to a complex and highly fragmented geographical funding and ownership structure, which leads to a degree of diversity in output, the system fails to provide much in the way of local or regional characteristic output...

TYPICAL FUNDING STRUCTURE OF A LOCAL PBS AFFILIATE



- Given the commercial affiliates reliance on high levels of local news output, there is little news or other local content aired on PBS affiliates. However, PBS does currently air BBC World News during the early peak schedule.
- PBS does not carry spot advertising but does generate a small amount of revenue from programme sponsorship.
- Key programme strands are often replaced with fundraising slots, given the need to attract new donations and members, a structure which is often seen labelled as paradoxical by US commentators critical of PBS.
- PBS strives to make sure that the national prime-time shows are scheduled simultaneously but there is more local flexibility for day-time scheduling.
- PBS programming is directly purchased by the local affiliates, in the absence of the provision of airtime for spot advertising.
- Pluralism in output is generally a function of pluralism of provider, given the local station structure of the market.

APPENDIX 2 – other markets summary

...aside from the USA, markets generally rely on public funding to deliver regional television services...

	SPAIN	BELGIUM
MODEL	<ul style="list-style-type: none"> • PRIVATE STATIONS OWNED AND OPERATED BY AUTONOMOUS REGIONS OF SPAIN 	<ul style="list-style-type: none"> • TWO MAJOR PUBLIC SERVICE BROADCASTERS CATERING FOR TWO KEY REGIONS
FUNDING	<ul style="list-style-type: none"> • MAJORITY FUNDED BY LOCAL GOVERNMENT GRANT • SOME ADVERTISING 	<ul style="list-style-type: none"> • LICENCE FEE AND ADVERTISING
OUTPUT	<ul style="list-style-type: none"> • STRONG FOCUS ON REGIONAL NEWS OUTPUT • BETWEEN 45 AND 90 MINS OF NEWS PER DAY 	<ul style="list-style-type: none"> • HIGH QUALITY PSB OUTPUT WITH AROUND 65% OF OUTPUT BEING FICTION, INFORMATION OR EDUCATION
PERFORMANCE	<ul style="list-style-type: none"> • MAJOR REGIONAL CHANNELS TAKE AUDIENCE SHARE OF BETWEEN 9% AND 20% WITHIN REGION 	<ul style="list-style-type: none"> • MOST POPULAR CHANNEL IN FLANDERS AND SECOND MOST VIEWED CHANNEL IN WALLONIA

APPENDIX 2 – broadcast regions in Belgium

...Belgian broadcasting markets are split along the lines of the two major regional ethnic groups that make up Belgium. Funded and operated separately, RTBF in the French speaking territories and VRT in the Flemish territories compete against separate commercial rivals...

MAJOR BELGIAN REGIONS

VRT IS THE FLEMISH/FLANDERS REGION PSB OPERATING THE MARKET LEADING "ÉEN" CHANNEL AS WELL AS SECONDARY CHANNELS KETNET AND CANVAS. IN 2006 THE 3 MAIN VRT CHANNELS ACCOUNTED FOR 38% OF ALL VIEWING IN FLANDERS.



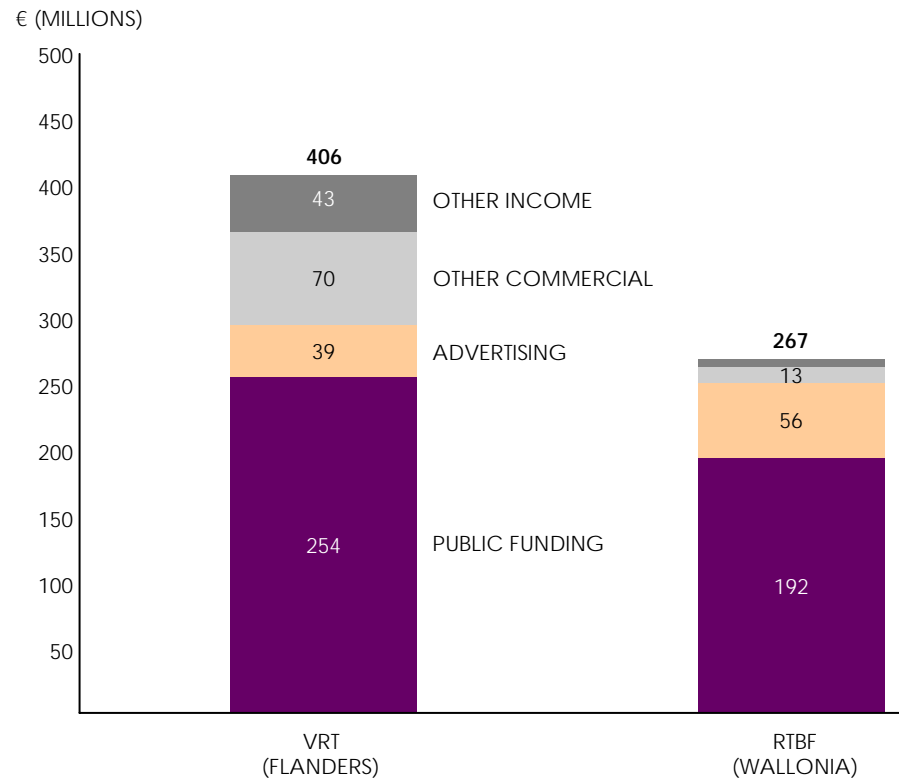
GERMAN LANGUAGE PSB, BRFB, IS VERY SMALL, CATERING FOR A GERMAN SPEAKING REGIONAL POPULATION OF JUST 70,000 INHABITANTS.

RTBF IS THE PSB IN WALLONIA OPERATING 2 MAIN CHANNELS, "LA UNE" AND "LA DEUX" WHICH TOGETHER ACCOUNTED FOR 19.6% OF ALL VIEWING IN THE REGION IN 2006.

APPENDIX 2 – Belgium

...in the Wallonia region French channels (France TV and TF1) take more than 25% of the viewing share. RTBF retains a viewing share only marginally above that of TF1 in the region. By contrast, in Flanders VRT retains a stronger position and has suffered less audience erosion as a result of the rapid growth of SBS channels than traditional Flemish commercial rival VTM whose share has declined in recent years...

VRT AND RTBF* REVENUE BY SOURCE IN BELGIUM, 2005

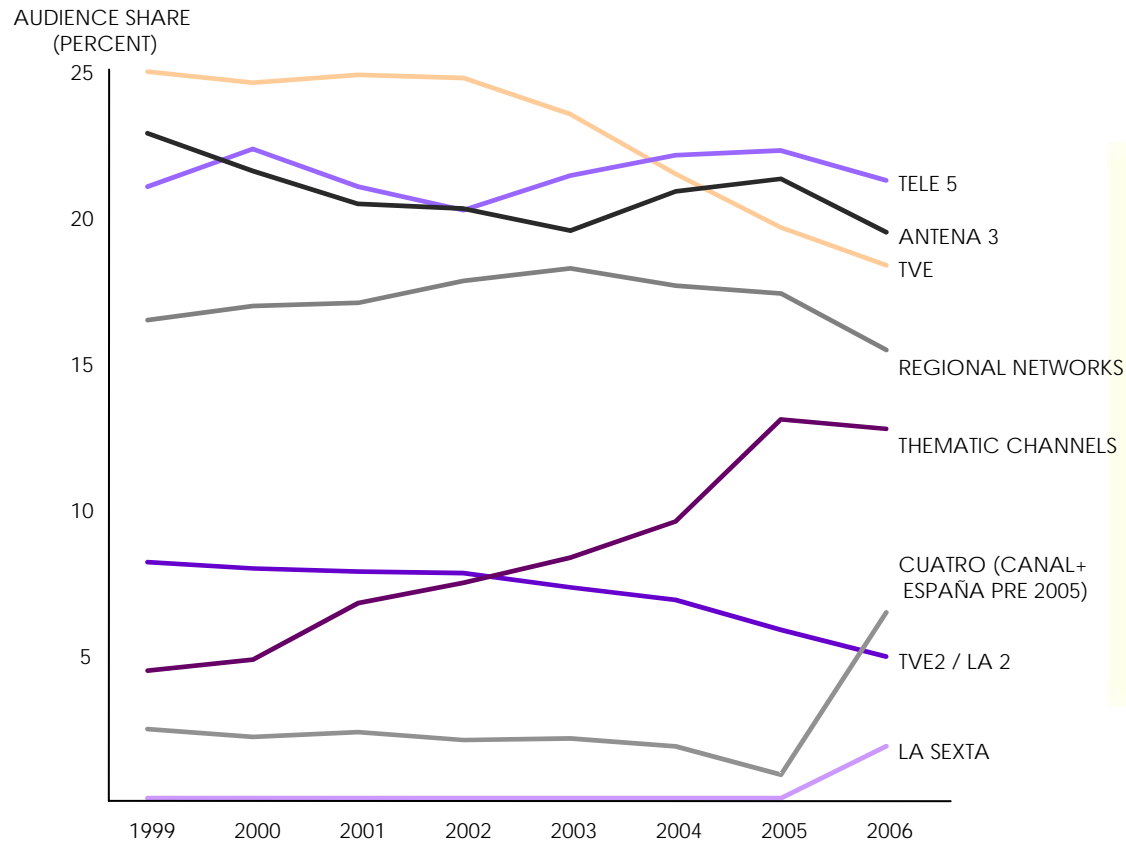


*NOTE: IN 2007 THE WALLONIAN REGIONAL PARLIAMENT DECREED THAT RTBF CAN INCREASE ITS PROPORTION OF TOTAL INCOME DERIVED FROM ADVERTISING UP TO 30% (OVER FIVE YEARS).
SOURCE: OBS

APPENDIX 2 – regional channel audience share in Spain

...the regional broadcasters in Spain are losing audience share as multichannel penetration rises rapidly and as a result of the launch of two new free to air national networks, La Sexta and Cuatro...

SPAIN: DAILY CHANNEL AUDIENCE SHARE, 1999 - 2006



THE SEVENTEEN AUTONOMOUS COMMUNITIES OF SPAIN

