
Press release

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Results of the 2010 broadcasting market competition evaluation announced.

On January 20, 2012, the Korea Communications Commission evaluated the status of competition in the domestic broadcasting markets during 2010 and announced the results.

Prior to the evaluation, the Korea Communications Commission divided the broadcasting market, including IPTV, into four general categories:

▲ the ‘**subscriber acquisition market**’ in which pay TV providers recruit viewers, ▲ the ‘**broadcasting channel market**’ in which terrestrial broadcasters and PPs provide their channels (contents) to pay TV platform operators, ▲ the ‘**broadcasting program market**’ in which outsourced productions, etc. provide programs to terrestrial broadcasters or PPs broadcast programs, and ▲ the ‘**broadcasting advertising market**’ in which broadcasters sell advertising time to advertisers.

■ Results of the ‘**subscriber acquisition market**’ competition evaluation

- (**Pay TV subscriber acquisition market**) All pay TV platform operators are competing in this market. Satellite and IPTV operators’ subscribers are continuously increasing, but still the proportion of SOs’ subscribers exceeds 50% in 66 out of 77 broadcasting service areas. As the

possibility of new operators' entry into the market is very low, this market is regarded as having limited competition.

Accordingly, it is necessary to maintain current regulations now, but regulations may need to be improved depending on market situation.

- o **(Digital pay TV subscriber acquisition market)** The remaining operators among the pay TV platform operators, except analog SOs, are competing in this market. KT (satellite+IPTV), the leading operator, accounts for 47.3% of national subscribers, but intensified market competition may be triggered by an increase in combined broadcasting and communication products, something which will most surely happen.

For this reason, related systems need to be reviewed for areas of improvement to promote market competition.

■ Results of the 'broadcasting channel market' competition evaluation

- o **(Terrestrial broadcasting channel retransmission rights market)** In this market, the programs of the three terrestrial broadcasters are provided to pay TV for retransmission as reruns. Market concentration was high from both the supply side (3 terrestrial broadcasters) and the demand side (pay TV platform operators).

As this market does not function efficiently, viewers are likely to be disappointed and feel cheated. So this market and its related systems need to be looked at carefully for areas of improvement.

- o **(Pay TV channel market)** In this market PPs provide their channels to pay TV platform operators. Market concentration from the supply side (PP) is low, whereas that from the demand side (pay TV platform

operators) is high.

Accordingly, it is necessary to continuously monitor the possibility of pay TV platform operators limiting competition from small and medium-sized PPs. Meanwhile, as some MPPs, also serving as platform operators, are likely to conduct unfair practices toward competing platform operators, they need to be closely monitored.

■ Results of the ‘**broadcasting program market**’ competition evaluation

- o **(Outsourced program market)** In this market outsourcing production companies provide programs to terrestrial broadcasters and PPs. Market concentration from the supply side (outsourcing production) is low, but from the viewpoint of the demand side (terrestrial broadcasters and PP) the market share (75%) of the three terrestrial broadcasters is still quite high. So it seems that there are some practices that are limiting competition.

However, if competitive PPs’ demand for outsourcing increases, the possibility of limited competition due to concentration from the demand side is expected to decline.

- o **(Secondary market for terrestrial broadcasting programs)** In this market terrestrial broadcasters provide their programs to PPs in the form of re-runs. As most programs are supplied by the three terrestrial broadcasters, and it is difficult for new operators to enter the market, so market concentration from the supply side is high.

Accordingly, the transfer of market power due to the exclusive contents transactions with affiliate PPs must be closely monitored.

■ Results of the ‘**broadcasting advertising market**’ competition evaluation

- **(Premium broadcasting advertising market)** The three national terrestrial broadcasters enjoy overwhelming command of the broadcasting advertising market. Though market concentration is high, since KOBACO is selling advertising as a proxy, the possibility of anti-competitive practices is low in realistic terms.

Accordingly, if KOBACO’s monopoly is broken due to a revision of the laws related to the sale of advertising, the three terrestrial broadcasters may engage in anti-competitive practices. Meanwhile, if competitive broadcasters enter the market in the future, anti-competitiveness will be alleviated.

- **(Entire broadcasting advertising market)** This market contains all broadcasters including the three terrestrial broadcasters. Constant monitoring is needed lest the three terrestrial broadcasters’ market power in the broadcasting program market does not transfer to this market.

Meanwhile, a KCC official said that a ‘broadcasting market competition evaluation committee’ will be formed in the first quarter of this year by a resolution of the KCC due to the revision of the Broadcasting Act and the Internet Multimedia Broadcasting Services Act. This committee will deliberate on matters concerning promotion of fair competition in the broadcasting market, such as analysis and evaluation of competition.

Attachment: Key results of the 2010 broadcasting market competition evaluation

(Attachment)

Key results of the 2010 broadcasting market competition evaluation

Broadcasting market definition of terms

1. Subscriber acquisition market

- ① Pay TV subscriber market
- ② Digital pay TV subscriber market

2. Broadcasting channel market

- ① Terrestrial broadcasting retransmission rights market
- ② Pay TV channel market

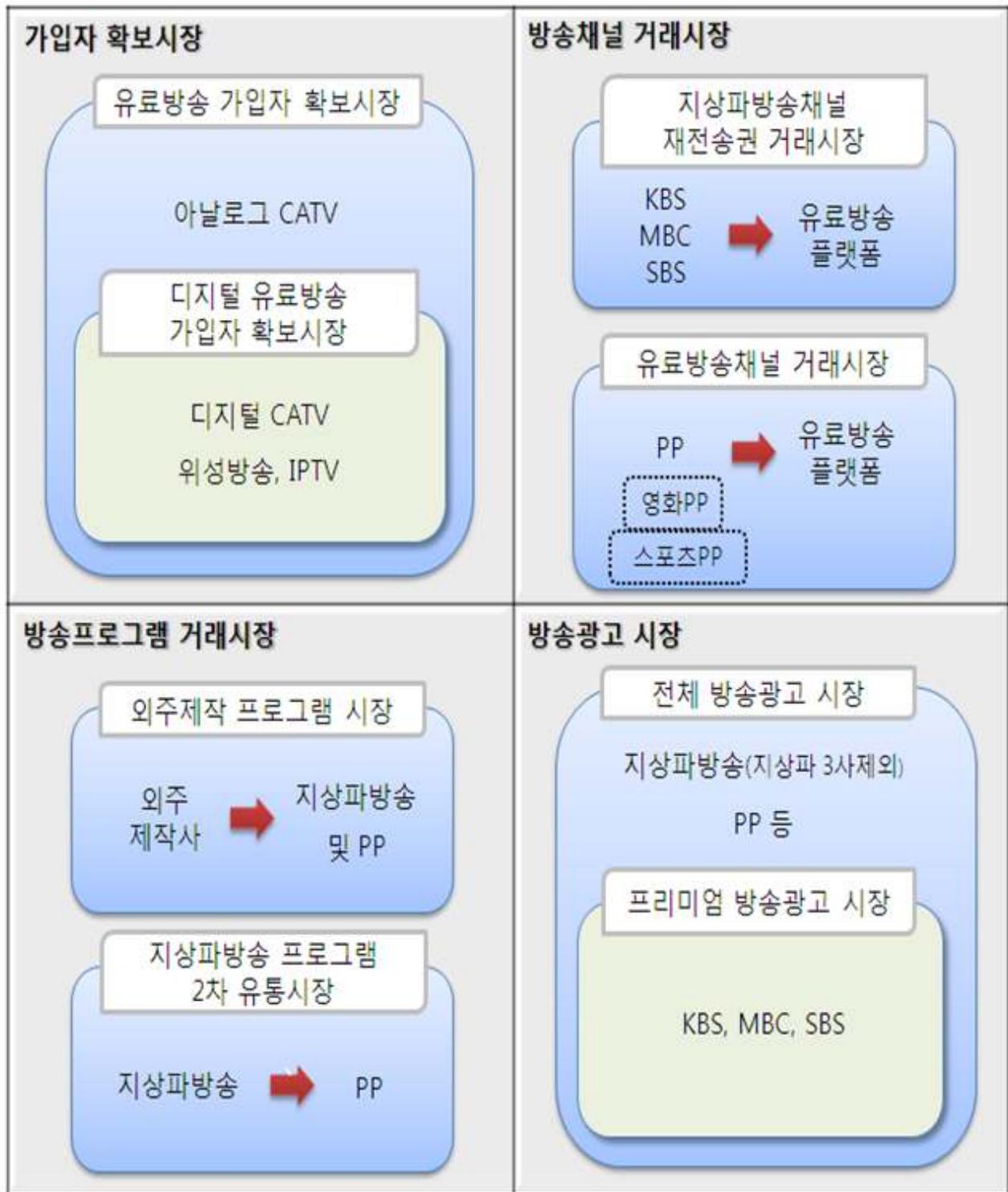
3. Broadcasting program market

- ① Outsourced broadcasting program market
- ② Secondary market for terrestrial broadcasting programs

4. Broadcasting advertising market

- ① Premium broadcasting advertising market
- ② Entire broadcasting advertising market

□ Broadcasting market definition map



<p>Subscriber acquisition market Pay TV subscriber market Analog CATVs Digital pay TV subscriber acquisition rights market Digital CATVs Satellite broadcasting, IPTVs</p>	<p>Broadcasting channel market Terrestrial broadcasting channel retransmission market Pay TV platforms Pay TV channel market Pay TV platform Movie PP</p>
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	Sports PP
Broadcasting program market Outsourced program market Outsourcing production->Terrestrial broadcasting and PPs Secondary market for terrestrial broadcasting programs Terrestrial broadcasting	Broadcasting advertising market Entire broadcasting advertising market Terrestrial broadcasting (excluding the three terrestrial broadcasters, PPs, etc.) Premium broadcasting advertising market

□ **Key results of the competition evaluation in each market** (next page)

1. Subscriber acquisition market

① **Pay TV subscriber acquisition market**

Evaluation index	Evaluation results
Market structure	<ul style="list-style-type: none"> o In all 77 broadcasting service areas, SOs had the largest share of subscribers and broadcasting sales. <ul style="list-style-type: none"> - However, SOs' subscribers decreased for the first time, and their share of national subscribers dropped from 78% in 2009 to 73% in 2010. o Based on the share of subscribers by broadcasting service area, the average HHI decreased from 6,016 in 2009 to 5,359 in 2010. <ul style="list-style-type: none"> - Areas with an HHI index lower than 3,300, in which 3 operators are competing on equal terms, increased from 0 in 2009 to 3 in 2010.
Market performance	<ul style="list-style-type: none"> o The operating profit margin of all SOs in broadcasting was 21.6% (23.6% for MSO), similar to the previous year, and the operating profit margin of IPTV operators for broadcasting was negative as with the previous year, but improving.
Entry barriers	<ul style="list-style-type: none"> o The entry barriers faced by pay TV platforms are the business operator's license (annual fee), the cost of broadcasting equipment, and the contents.
Supplier behavior and consumer power	<ul style="list-style-type: none"> o Pay TV platform operators cannot freely raise rates due to regulation, but the combination of products and contract discounts offered by new platform operators like IPTVs give rise to price competition. o As satellite TV and IPTV have national networks, they are substitutes of SO, and accordingly, users do not have difficulty switching operators, but group contracts and contract discounts may make switching difficult.
<ul style="list-style-type: none"> o In 66 (70 in 2009) out of 77 broadcasting service areas, the SOs' share of subscribers by broadcasting service areas exceeded 50%, and SOs' national share was 72.8%; and due to entry barriers (license), the potential pressure for competition is low. So there is anti-competitiveness in this market. o However, as the satellite TV and IPTV operators' share of subscribers is continuously rising (13.3% in 2008→21.7% in 2009→27.2% in 2010), and competition is lively and increasing. 	

☞ **It is necessary to maintain current regulations now, but whether improvement of regulations is needed must be determined by continuously monitoring whether the market becomes more competitive.**

② Digital pay TV subscriber acquisition market

Evaluation index	Evaluation results
Market structure	<ul style="list-style-type: none"> o In 58 out of 77 broadcasting service areas the No. 1 operator's share of subscribers exceeded 50% (KT 37, CJ 8, C&M 7, etc.), down from 69 in 2009. o Based on the share of subscribers by broadcasting service area, the average HHI declined from 5,468 in 2009 to 4,574 in 2010. <ul style="list-style-type: none"> - Areas with an HHI index lower than 3,300, in which 3 operators are competing on equal terms, increased from 4 in 2009 to 11 in 2010.
Market performance	<ul style="list-style-type: none"> o The operating profit margin of MSOs in broadcasting was 23.6%, similar to the previous year, and the operating profit margin of IPTV operators in broadcasting is in the negative, but the loss decreased. <ul style="list-style-type: none"> - The profitability of SOs was better than that of KT (satellite+IPTV), the leading operator in the market.
Entry barriers	<ul style="list-style-type: none"> o The digital pay TV platform also requires a special license, but if analog TVs are converted to digital TV, SOs will not have any entry barrier, and the cost of building additional networks is low. o Satellite TV and IPTV can expand their markets to cover the entire country, but SOs face an entry barrier to expand their markets, i.e. area restrictions.
Supplier behavior and consumer power	<ul style="list-style-type: none"> o Pay TV platform operators cannot freely raise rates due to regulation, but digital combination products may trigger competition resulting in discounted rates. o As satellite TV and IPTV have national networks, they are substitutes for SO, and accordingly, users may not have difficulty switching operators, but group contracts and contract discounts may make switching difficult.
<ul style="list-style-type: none"> o In 49 (46 in 2009) out of 77 broadcasting service areas, KT (satellite+IPTV) was No. 1 with a national market share of 47.3%, and due to area restriction, market expansion through mergers between SOs is difficult. So there may be anti-competitiveness in this market. o However, as the leading operator KT's share of subscribers declined (50.3% in 2009 →47.3% in 2010), and both KT and SOs have room for price competition. Competition triggered by combination products may become livelier. <p>☞ Improvement of the system needs to be considered to further promote market competition.</p> <p>Meanwhile, as cross-subsidization may transfer the competitiveness of the</p>	

communication division to the broadcasting division, combination products must be continuously monitored.

2. Broadcasting channel market

① Terrestrial broadcasting channel retransmission rights market

Evaluation index	Evaluation results
Market structure	<ul style="list-style-type: none"> o As the broadcasting channels of the three terrestrial broadcasters are perceived by pay TV platform operators as essential elements, each broadcasting channel forms a market. - Accordingly, the three terrestrial broadcasters have 100% market share in their respective broadcasting channel retransmission rights market (HHI 10,000).
Market performance	<ul style="list-style-type: none"> o As the market is still being formed, and the cost of trading the retransmission rights is not differentiated from other costs, it is difficult to measure market performance such as operating profit margin from the terrestrial broadcasting channel retransmission business.
Entry barrier	<ul style="list-style-type: none"> o Supplying broadcast channels with content of quality equal to that of the three terrestrial broadcasters will require capital, the ability to produce viable programs, and, - a structure capable of continuously generating revenues like a national terrestrial broadcasting network that can justify the expenditure of a considerable amount of production costs. So entry barriers are high.
Supplier behavior and consumer power	<ul style="list-style-type: none"> o The possibility of users switching between terrestrial broadcasting channels or substituting terrestrial broadcasting channels with other pay TV channels is very low. o Meanwhile, some platforms (SO) with a large subscriber base may use subscribers' access rights to leverage a high level of consumer power. - However, as subscribers to new platforms are increasing, the consumer power of SOs is decreasing, and accordingly the bargaining power of terrestrial broadcasters (supplier) may increase.
<ul style="list-style-type: none"> o Market concentration from the supply side (terrestrial broadcasting) is very high (HHI 10,000), and new channels that can be as competitive as terrestrial broadcasting channels have difficulty entering the market. o From the viewpoint of demand (pay TV platform), based on the share of subscribers, HHI dropped from 6,016 in 2009 to 5,359 in 2010, but demand concentration is still high. <p>⇒ From the viewpoint of both supply and demand, there is anti-competitiveness.</p>	

☞ As anti-competitive behavior is possible from both the supply and demand sides, the market may not function properly, and ultimately viewers may be hurt. So the system needs to be improved.

② Pay TV channel market

Evaluation index	Evaluation results
Market structure	<ul style="list-style-type: none"> o The market share of the top 3 MPPs (CJ, MBC affiliates and SBS affiliates) in terms of license fee revenues was 44.1%, slightly down from 46.8% in 2009. o A considerable number of MPPs, including CJ, are vertically integrated with pay TV platforms to form MSPs. o CJ, the No. 1 movie channel, enjoyed an 83.2% share of the movie audience, while the combined share of the sports audience of the top 3 sports channels (SBS, MBC and KBS affiliates) was 94.1%.
Market performance	<ul style="list-style-type: none"> o The operating profit margin of the top 3 MPPs, based on total business, was 7.5% for CJ (excluding home shopping), 8.4% for MBC affiliates, and 3.6% for SBS affiliates; and that of all general PPs improved from 1.8% in 2009 to 3.8% in 2010.
Entry barrier	<ul style="list-style-type: none"> o Entry barriers are not high except for general programming and news PPs, but companies are growing mostly through M&As so the vertical integration between platform PPs is adding a burden to new operators' effort to enter the market.
Supplier behavior and consumer power	<ul style="list-style-type: none"> o Competition in this market centers around quality, not rates, and as a result the production costs of general PPs in 2010 was KRW714.5 billion, up by 41% over 2009. o Some platforms with a large subscriber base may use subscribers' access rights to exercise a high level of consumer power.
<ul style="list-style-type: none"> o Based on the PPs' license fee revenues from the supply side (PP), HHI was low at 1,109, and entry barriers are not high. So anti-competitiveness is low. <ul style="list-style-type: none"> - However, as a considerable number of MPPs are MSPs, there are economic incentives to conduct business unfairly like refusing to do business with competitors. - Meanwhile, there is a possibility of anti-competitiveness from the supply side in the movie and sports channel market. o From the viewpoint of demand (pay TV platform), the pay TV platform's concentration in the subscriber acquisition market was high (HHI 5,359 based on the share of subscribers), so the possibility of anti-competitiveness is high. <ul style="list-style-type: none"> ☞ From the viewpoint of demand, it is necessary to continuously monitor the anti-competitiveness against small and medium-sized PPs on the pay TV platform with a large subscriber base, and the possibility of unfair practices against the competitive platform of MPPs, which are MSPs from the viewpoint of supply. Also, it is necessary to monitor the possibility of higher-level PPs in the movie and sports channel market. 	

3. Broadcasting program market

① Outsourced broadcasting program market

Evaluation index	Evaluation results
Market structure	<ul style="list-style-type: none"> o Among all the production companies that supply programming content to broadcasters, the market share of the No. 1 operator based on sales was 5.3%, and the HHI of the entire market was 151, so market concentration from the viewpoint of supply was very low. o Meanwhile, in terms of outsourced production costs, the share of demand of the three terrestrial broadcasters (KBS, MBC and SBS) was 81.7% (75% if affiliate PPs are excluded), and in terms of the share of demand in the entire market (terrestrial+PP), HHI was 2,448.
Market performance	<ul style="list-style-type: none"> o The average operating profit margin of production companies listed on the KOSDAQ was -14.75% in 2010, slightly better than in 2009, but still in the negative. - According to a survey of production companies (n=91), 33% recorded a deficit in terms of operating profit of their broadcasting business.
Entry barriers	<ul style="list-style-type: none"> o As the broadcasting program production equipment and facility rental market is well organized, and no license is needed to enter the production market, entry barriers are very low.
Supplier behavior and consumer power	<ul style="list-style-type: none"> o As market concentration from the viewpoint of demand is high, consumer power is strong, and the issue of unfair practices related to production costs and distribution of copyrights is constantly raised from the supply side. - According to a survey of production companies (n=101), 92% said terrestrial broadcasters have the upper hand in production costs and copyright negotiations. 75% said the PPs have the advantage.
<ul style="list-style-type: none"> o As the market share of the top 3 production companies in terms of sales is 13.6%, and entry barriers are low, the possibility of anti-competitiveness from the viewpoint of supply (outsourced production) is very low. o Meanwhile, the general PPs' demand for outsourced production greatly increased (total production costs was KRW106.1 billion in 2010, up by 96% over 2009), but the share of demand of the three terrestrial broadcasters was still very high (75%). The possibility of anti-competitiveness from the viewpoint of demand is very high. <p>☞ If influential PPs' demand for outsourced production increases in the future, the possibility of anti-competitiveness due to concentration from the viewpoint of</p>	

demand is expected to be alleviated.

However, until market changes become a reality, the possibility of anti-competitiveness against small and medium-sized production companies from the viewpoint of demand needs to be closely monitored.

② Secondary market for terrestrial broadcast programs

Evaluation index	Evaluation results
Market structure	<ul style="list-style-type: none"> o The market share of the three terrestrial broadcasters (KBS, MBC and SBS) and their affiliates in terms of sales decreased to 85.9% (67.4% if the sales of terrestrial affiliate PPs are excluded, and 90.5% in 2009), but is still high, and HHI based on sales was 3,161.
Market performance	<ul style="list-style-type: none"> o Market performance is difficult to measure because terrestrial broadcasters do not distinguish the production costs of first-run programs and those of reruns, etc.
Entry barrier	<ul style="list-style-type: none"> o In general, as terrestrial broadcasters hold most of the copyrights in the secondary television right market, new operators, excluding terrestrial broadcasters, find it difficult to enter the market. So entry barriers here are rather high.
Supplier behavior and consumer power	<ul style="list-style-type: none"> o Terrestrial broadcasters are supplying recently aired programs preferentially to affiliated PPs (premiere airing of programs accounted for 90.4%. In contrast, premiere airing of programs of non-terrestrial affiliated PPs accounted for 31%.) o Meanwhile, the share of demand of the top 3 non-terrestrial affiliated PPs including the purchase of reruns from terrestrial affiliated PPs was 20.9%. (51.2% if the purchase of the programs of terrestrial affiliated PPs is excluded.)
<ul style="list-style-type: none"> o Considering that most reruns are supplied by the three terrestrial broadcasters, and new operators have difficulty entering the market, there is a possibility of anti-competitiveness from the viewpoint of supply. o Meanwhile, in the secondary market for terrestrial broadcasting programs, the share of demand of the top 3 non-terrestrial affiliated PPs was 20.9%. <p>☞ It is necessary to continuously monitor the transfer of the three terrestrial broadcasters' market power due to exclusive contents trading with affiliated PPs.</p>	

4. Broadcasting advertising market

① Premium broadcasting advertising market

Evaluation index	Evaluation results
Market structure	<ul style="list-style-type: none"> o In terms of advertising sales in this market, market share was 40.2% for MBC (including regional MBC stations), 31.6% for SBS (including regional commercial broadcasters), and 28.2% for KBS, and the market HHI was 3,410.
Market performance	<ul style="list-style-type: none"> o The operating profit margin of the three terrestrial broadcasters declined from 2005 to 2008, but began to pick up from 2009. In 2010 it was 7.93% for MBC (including regional MBC stations), 2.62% for SBS (including regional commercial broadcasters), and 1.03% for KBS.
Entry barriers	<ul style="list-style-type: none"> o Entry barriers faced by a budding terrestrial broadcaster is mostly the business operators license, but the competitiveness of content is gradually becoming more important in the premium broadcasting advertising market. - Accordingly, it is expected that capital strength is expected to become a more important entry barrier than the license.
Supplier behavior and consumer power	<ul style="list-style-type: none"> o Though market concentration is high, since KOBACO is selling advertising as a proxy, suppliers' power against advertisers (users) is weak. o Also, as suppliers are limited, and KOBACO sells broadcasting advertising exclusively, users have difficulty selecting other channels in the premium advertising market. So consumer power is relatively weak.
<ul style="list-style-type: none"> o In terms of share of advertising sales, HHI was 3,410. Market concentration was high, and capital strength for producing contents besides the network was an important entry barrier. So market concentration is highly likely to be maintained. - However, as KOBACO sells advertising exclusively, the possibility of anti-competitiveness is low from both the supply side (the three terrestrial broadcasters) and the demand side (advertisers). <p>☞ If KOBACO's monopoly is broken due to revision of the law regarding the sale of broadcasting advertising, the possibility of the three terrestrial broadcasters' anti-competitiveness can be anticipated.</p> <p>Meanwhile, if competitive PPs enter the premium broadcasting advertising market, competition in the market may become livelier.</p>	

② Entire broadcasting advertising market

Evaluation index	Evaluation results
Market structure	<ul style="list-style-type: none"> o In terms of advertising sales, the market share was 29.6% for MBC affiliates, 24.2% for SBS affiliates, 20.9% for KBS affiliates, and 9.5% for CJ affiliates. - The HHI of the market continuously declined from 2,331 in 2005 to 1,953 in 2010.
Market performance	<ul style="list-style-type: none"> o The operating profit margin of the entire business was 8.0% for MBC affiliates, 2.8% for SBS affiliates, 2.1% for KBS affiliates, and 12.2% for CJ affiliates.
Entry barriers	<ul style="list-style-type: none"> o Entry barriers are not high for PPs, but the three terrestrial broadcasters and CJ affiliated PPs' ability to invest in contents, or the vertical integration of CJ affiliates' platform contents may serve as an entry barrier for new operators.
Supplier behavior and consumer power	<ul style="list-style-type: none"> o As the three terrestrial broadcasters and their affiliates are concentrated, market concentration is high, and as PPs sell advertising on their own, they can exercise market power from the supply side. o From the viewpoint of users (advertisers), the barrier is not high for switching between broadcasting advertising operators, but considering the monopoly of terrestrial broadcasting sales, consumer power is not strong.
<p>o The three terrestrial broadcasters' market power in the broadcasting program market may transfer to the entire broadcasting advertising market, and there is a possibility of anti-competitiveness from the viewpoint of supply.</p> <p>☞ The entry of competitive PPs into the market may engender pressure for competition, but for the moment, it is necessary to closely monitor the market so that the market power of the three terrestrial broadcasters is not transferred to the entire broadcasting advertising market.</p>	