Wireless Content & DRM - 2006

Digital Content in Russia:

How to make money from it?

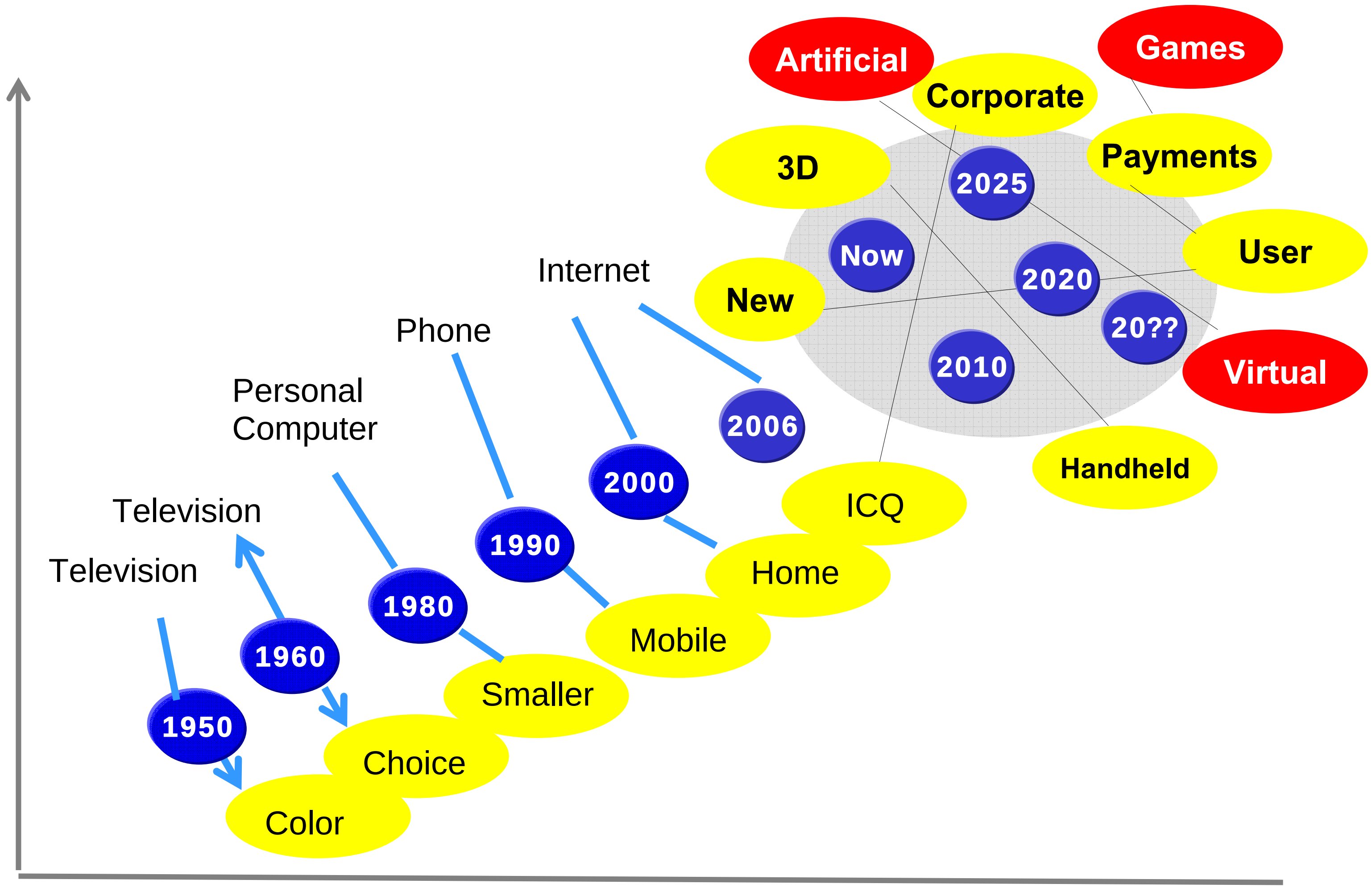
Russian Federation

8th November 2006

Agenda

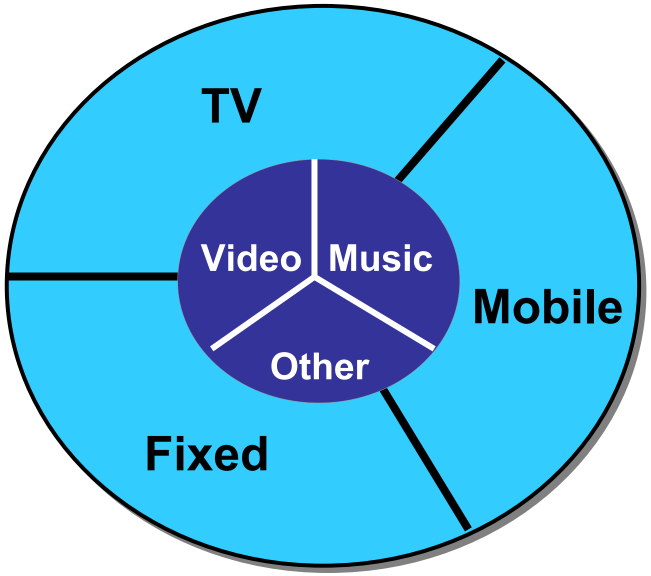
- Digital Content – Definition
- Digital Content – Philosophy
- Digital Content – Future
- How to Make Money – Blueprint
- Winners
- Summary – Conclusions

A Changing World



We will see even more change in the near future.

Definitions



Digital Content is defined as any content distributed through digital infrastructure as well as traditional retail channels.

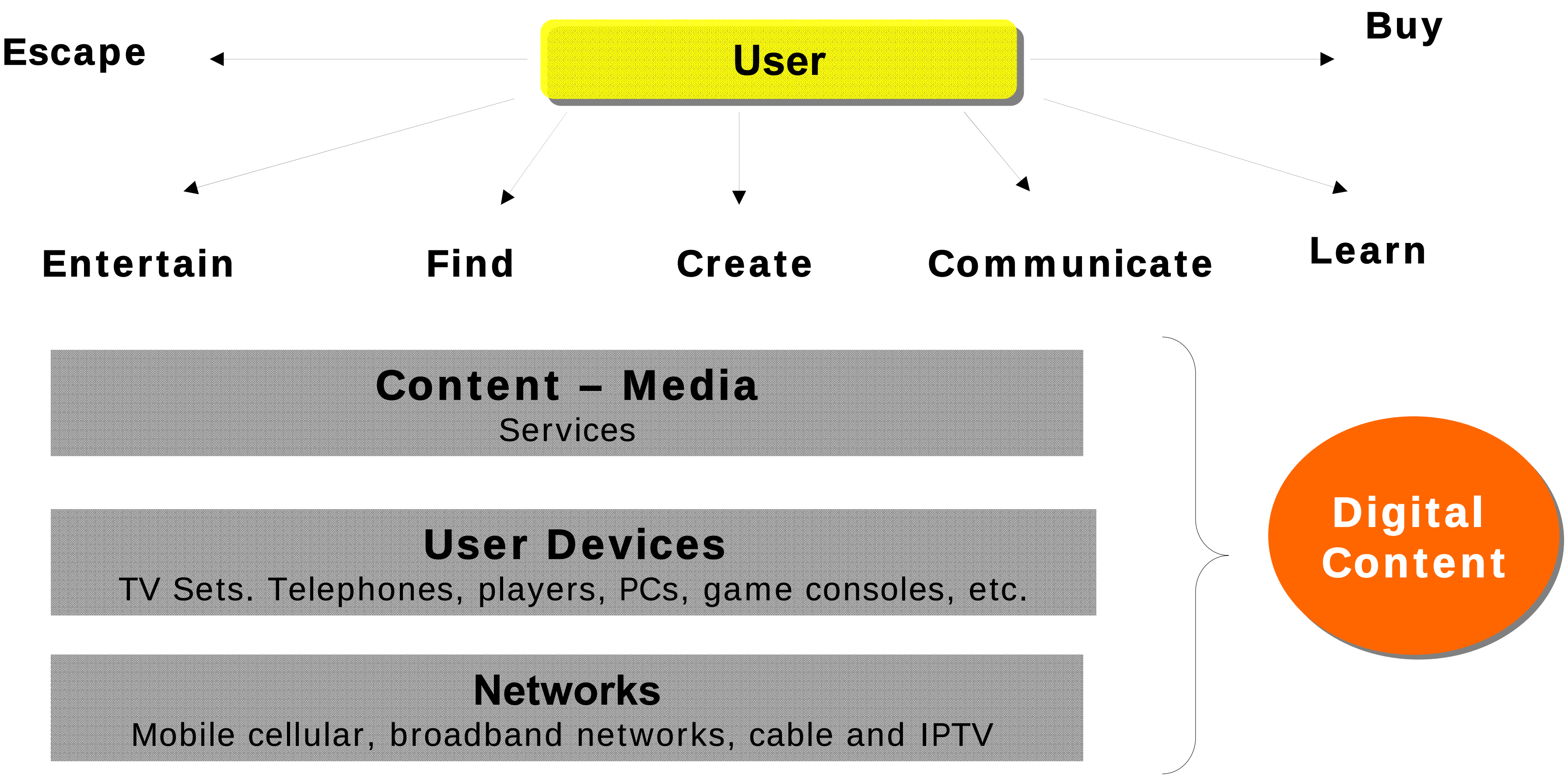
Today, we pay for accessing this content.

In the future, we will have a massive amount of free content and we shall pay only for premium content – and pay for these ad-hoc and on-demand.

This means that the role of sponsors and advertisers will become increasingly important.

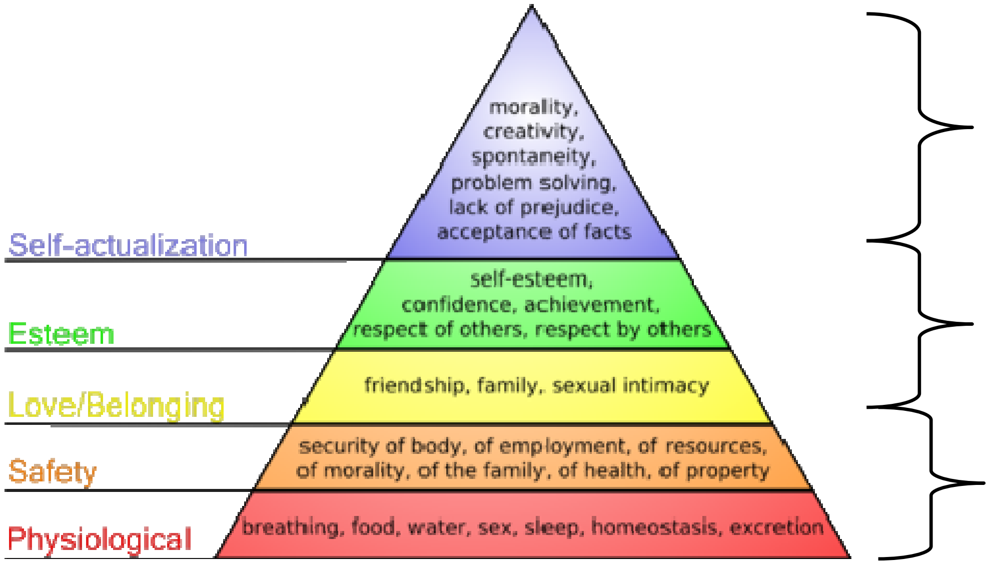
How will this affect my business – when and how much?

Digital Content Market Structure



Digital Content Industry encompasses (1) digital data and services, (2) distribution channels, (3) other digital devices

Digital Content Needs [versus Maslov]



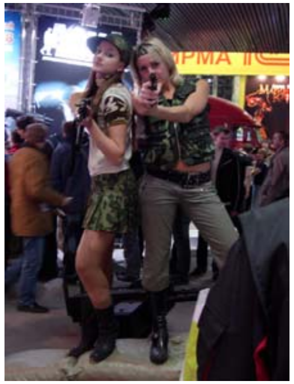
The last level is not yet commercially addressed. Will soon be a more mature digital content industry.

Digital Content Services are already offering users alternatives for esteem / love / belonging.

Still required by digital beings ☺.

Digital content offers instant and constant gratification and can even replace the basic needs of millions of [young] people. What are the consequences for society? How to make money from these new paradigms?

Games [oral presentation]

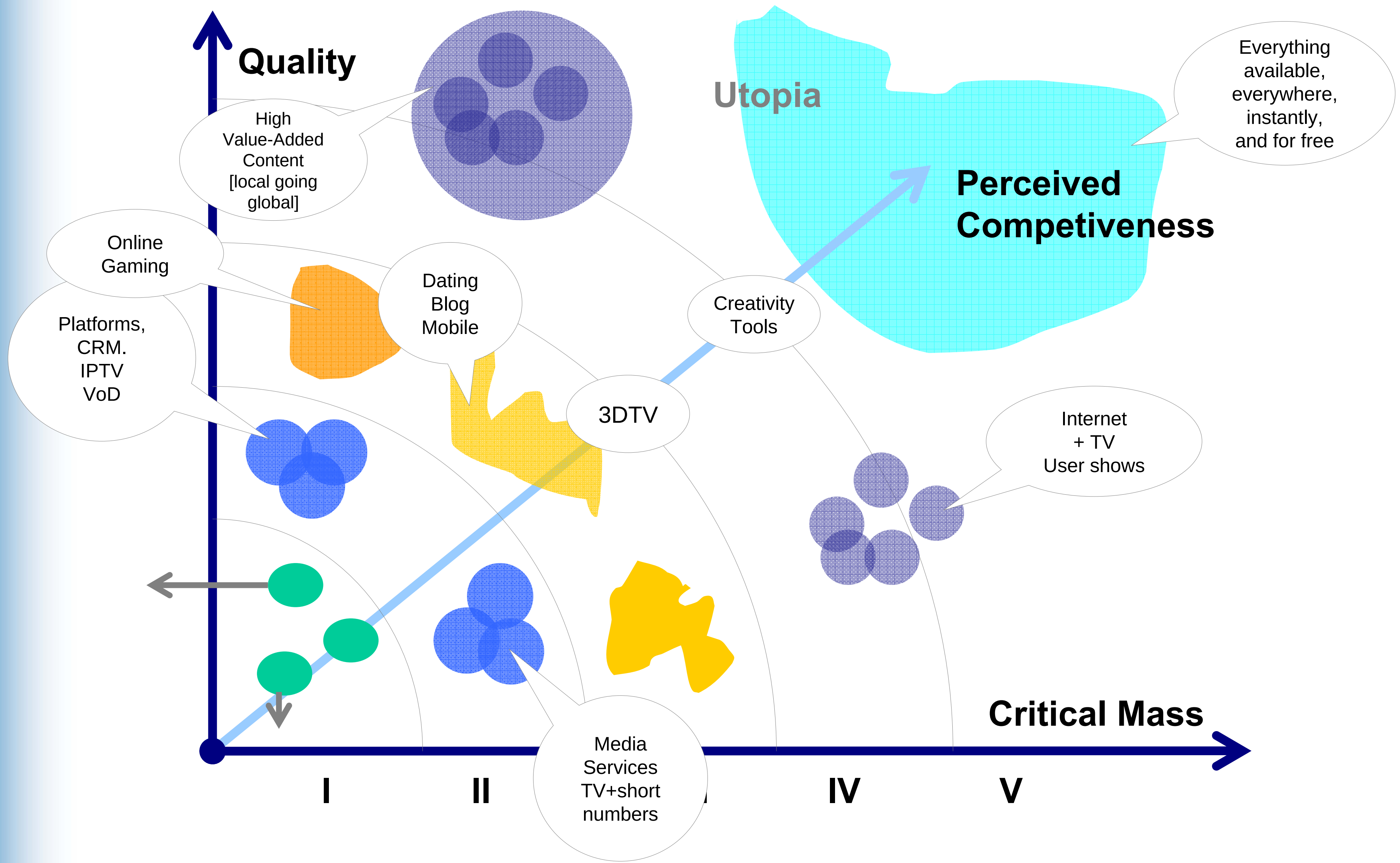


Note: Photos from expo in Moscow 4-5th November 2006.

Changing World of Digital Content (QPC factors)

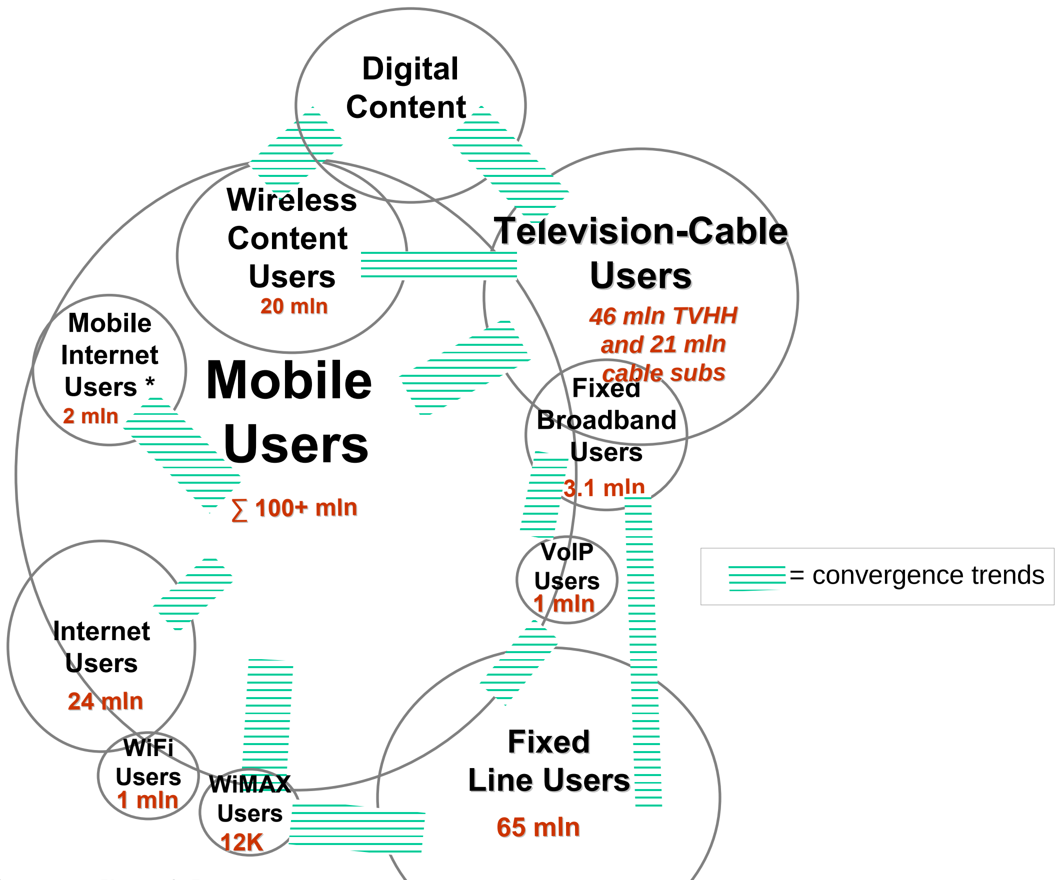
	Description	Winners	Timing
Stage 1	Short term provider approach "Simple" Content	● Infrastructure ● ISPs ● Mobile CPs	2004-2005
Stage 2	Quality increase Targeted Promotion	● Promotional Channels ● Mobile Operators ● Media Companies	2005-2006
Stage 3	Interaction Innovation Virtuality starts Triple Play	● Interactive Media ● Community based services ● Interactive and Niche	2007-2008
Stage 4	Hybrid Provider Models User Generated	● Advertising Agencies ● Convergence communities	2008-2010
Stage 5	Free Content High-end Content Microtransactions	● Users ● "Glolocs" ● Adpays	2010-??

Changing World of Digital Content (QPC factors)



Convergence of Services, Technologies & User Needs

Converging Markets in Russia



Source: J'son & Partners

There is room for new players and innovative providers, copyright holders and new investors and players on the Russian convergence market which is predicted to reach $100 billion by 2012.

Convergence: Relevance for Industry

1. Clear Strategy for **New Media, Digital content and Fixed mobile convergence**
2. Clear market **Strategy and pricing concept**
3. Select **partners-alliances-** investments driven by this strategy
4. Make **new and smart concepts, Business models** with key partners driving usage of digital content
5. Conceptualize and implement **new and innovative services** generating cash

Digital Content Market in Russia, 2005-2010E

J'son & Partners
Management Consultancy

2005: $ 1.9 Billion

2010 E: $ 5.8 Billion

Source: J'son & Partners

Forecast: J'son & Partners

Multimedia content [games and video] will surge as Internet / broadband penetration increases 3 times in Russia

Digital Content Growth by Segment - 2010

Segment	2005-2010 E (Change, %)
Digital Cable TV	+ 72% CAGR
Satellite TV	+ 7% CAGR
IPTV	+ 147% CAGR
Mobile TV and Video-Based Mobile Projects	+ 69% CAGR
Internet V-Based Content	+ 204% CAGR

Source: J’son and Partners

Why Triple Play?

Consumers

- One Bill
- Lower Pricing (per Service)
- Integration of Services (Internet+Telephony, TV+Broadband, etc.)

Operators

- Realize Potential of Multiservice Network Equipment
- Expand Service Offering
- Increase ARPU (Increased Revenues with Lower Additional Cost)
- Increase Subscriber Base and Its Loyalty (Lower Churn Rate)
- New advantage for wireline [in competition with cellular]

Vendors

- Increase NGN Equipment Sales by Upgrading Provider Networks
- Test and Introduce New Disruptive Technologies
- Enter New Markets (Through M&A or Generic R&D Breakthroughs)

International Service Pricing Comparison

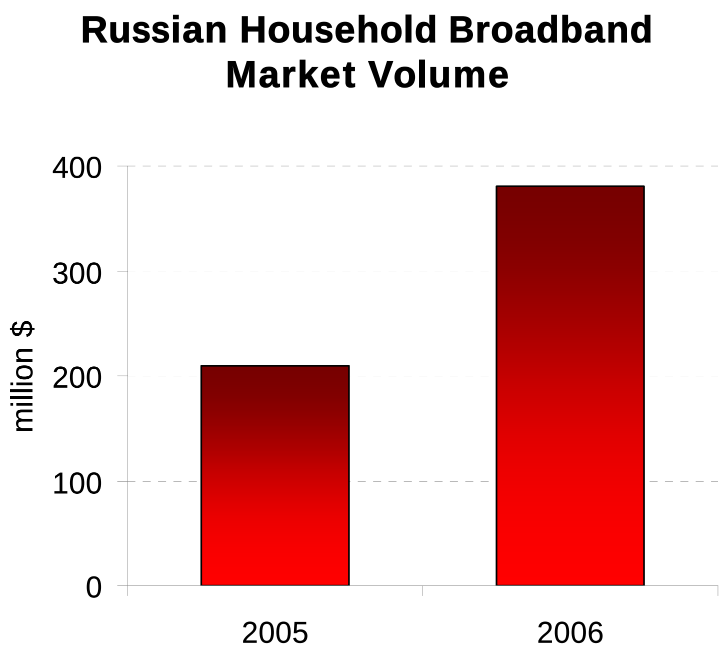
	Global 2006	Russia 2006	Russia Future 2010-12
Broadband	Luxemburg – $20 France – $32 US – $30	$16-$20	$10-$20
Double Play	Luxemburg – $81 France – $50 US - $ 60	$22-$30	$15-$30
Triple Play	Luxemburg – $67 France – $50 US - $70	None	$25 - $40

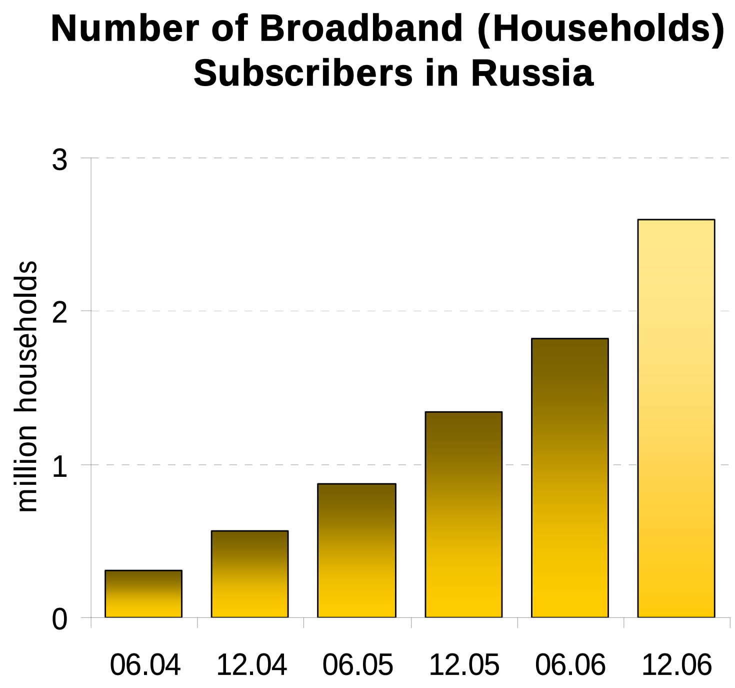
Russian consumers are ready to pay 40-60% less for new telecom services

Household Broadband Market Volume

Number of Subscribers

- At the end of 2Q 2006, the total number of broadband subscribers in Russia reached 1.82 million households
- At the end of 2006, it is forecasted to reach 2.6 million households





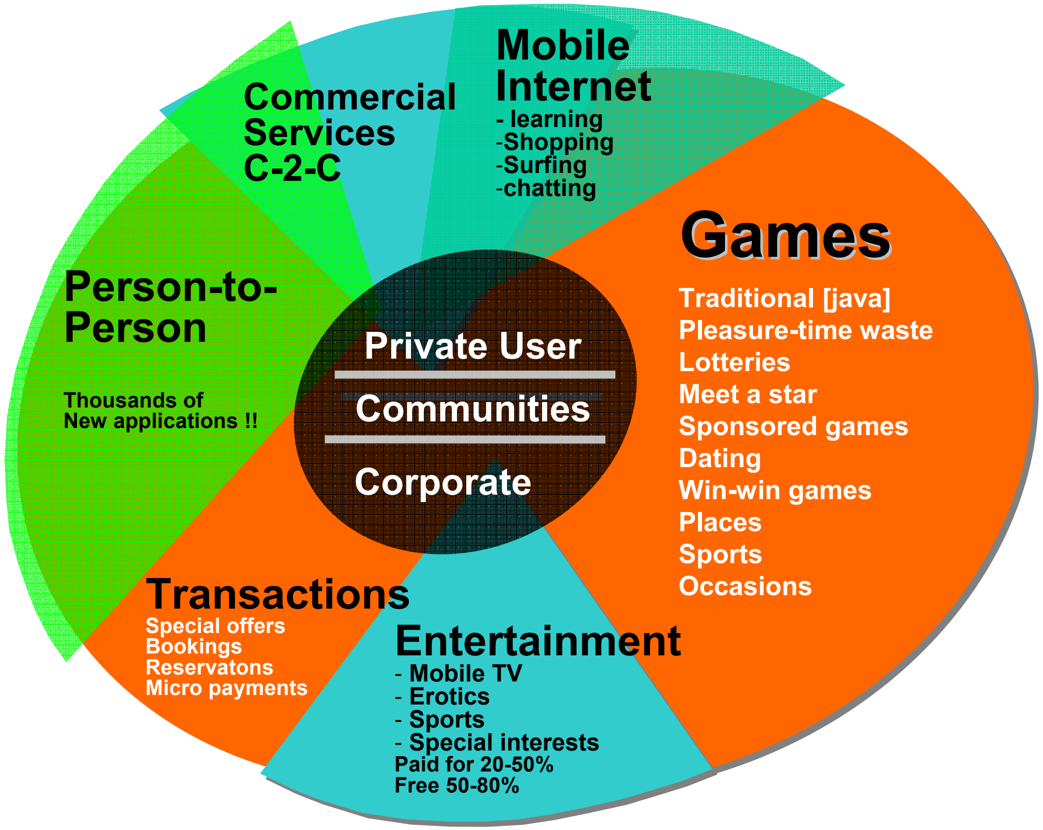
Winners in the Content Race – Macro Picture

Category	Why Winners ?	Value Estimate
Mobile Operators	● Large customer base ● Direct access to clients ● Bundle services (WiFi, FMC) ● ARPU decline challenge	~ ∑ 5-8 billion
Telcos	● Access to broadband hungry clients ● Control access to clients ● Large customer base ● Head start in content	~ ∑ 15 billion
Content – Service Providers, Existing and New	● Stay ahead of the curve ● Capitalize on management and global reach ● Ready to pay high BRIC-entry price for Russia	~ ∑ 3-5 billion
Copyright Holders	● Will make then now ● Ready to be flexible	~ ∑ 1-1.5 billion
Banks/Investment Boutiques/Consultants	● Investors ● Market players	IPOs Fees

Winners in the Content Race – Micro Picture

Category	Win Factors
Fixed and Mobile Operators Vendors	Large Critical - Incremental Revenue increase CAPEX will pay off as demand increases Optical networks-IP and Cellular networks
Internet Search New Internet Models Television	Targeted demand Context adverts Pent-up demand
Content Creators Content Aggregators Content Providers	Richer and Interactive Content Slicing content-packaging and distribution New creative processes Hybrid business models [incl. handsets]
Copyright Holders	Partnerships-business models Recycling content Advertising [bundled]
Investors	Look out for cash cows Digital Managers Competitive advantage Barriers – competitive Local base Global upside

Wheel of Fortune ☺



Source: J'son & Partners Global Outlook

J&P estimates that the Russian Digital Content Industry will take a leap forward. The next 3 years will see the emergence of 5-10 new key players. And at least one more "Yandex" [e.g. success story]

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