

UKVOD JOINT VENTURE (PROJECT “KANGAROO”): UPDATED TRANSACTION DESCRIPTION

This note by the Parties of 28 October 2008 provides a revised summary update of the anticipated joint venture.

What is UKVOD?

- 1 BBC Worldwide Limited (“**BBCW**”), Channel 4 Television Corporation (“**C4C**”) and ITV PLC (“**ITV**”) (together, “**the Parties**”) propose to establish a jointly controlled entity in the form of a limited liability partnership (“**UKVOD**”) to provide a video on-demand (“**VOD**”) service that will enable consumers to view or purchase long form audio-visual material, including recently broadcast and archive TV material and film. The Parties have agreed the necessary contractual documentation and are working to launch the UKVOD website by mid 2009, subject to approval from the Competition Commission, the Boards of the Parties and, in the case of BBCW, the BBC Trust.
- 2 Each of the Parties will contribute VOD business activities to the joint venture. This will provide the basis for the establishment of UKVOD as a standalone business with dedicated staff and an expert management team recruited to focus specifically on the VOD market. The team’s focus on VOD, independent of shareholders’ upstream businesses, is designed to ensure that UKVOD is flexible and capable of reacting quickly to consumers’ and advertisers’ wishes, and to changes in the competitive landscape, as they relate to VOD.
- 3 UKVOD will provide a service which is easily accessible by any UK consumer with a PC, carrying a broad range of previously broadcast and other content. It is intended that the website will carry content from the Parties and third parties, so providing new opportunities to other broadcasters as well as the Parties. It is envisaged that the UKVOD service will be distributed so that it is also available on pay TV platforms.

What will UKVOD offer consumers?

- 4 VOD enables consumers to view content whenever they choose and via different platforms and devices (portable or location-specific) - for example, PC, TV, iPod. The VOD market is at an early stage of development (particularly as it relates to services available openly on the internet). Many VOD offerings are driven by functionality (reflecting what is technologically possible rather than being editorially-led) and so are not “consumer friendly”.
- 5 UKVOD will provide a consumer offering built around content drawn from all three Parties and third parties, all accessible on the same easy-to-use website. UKVOD’s focus will be on organising content in a manner that is coherent and attractive for consumers with a strong editorial dimension helping users make links between different items, for example by actor, producer or genre.
- 6 Material available on UKVOD will include “**catch-up**” (that is material broadcast on TV within the last 30 days), older broadcast material (“**archive**”) and films.
- 7 Content will be available for users to view on a temporary basis (either on an advertising-funded free to the consumer basis, or by paying a rental fee - so-called download to rent or “**DTR**”) and on a permanent basis (paid-for ownership - so-called download to own or “**DTO**”). In many instances, consumers will be able to choose between temporary use or permanent ownership of the same piece of content.

- 8 It is intended that the majority of VOD content available on a temporary use basis (including almost all catch up and much archive material) will be free and advertisement supported (as opposed to DTR).

How will consumers access audio-visual content on UKVOD?

- 9 The UKVOD website will be accessible to any UK user with a suitable broadband connection. No special technology or subscription will be required to access the website. It is hoped that the UKVOD service will also be available on pay TV platforms.
- 10 UKVOD will have a marketing budget to promote the service and, where permitted, the shareholders themselves will promote the service through their own commercial TV channels and other owned media.

How will revenue be earned and how will advertisers be affected?

- 11 Revenue will be derived through a mix of business models: the sale of advertising in and around material offered to users on a free basis; payments by users to access material on a pay per view basis (DTR); and payments by users to purchase material to own permanently (DTO). As mentioned above, the predominant business model will be advertising-funded free to the user. Distribution of the UKVOD service will generate licence fees and, for transactional content, a share of the revenue from sales.
- 12 Where a Party provides content to UKVOD it will, directly or through an agent, sell the advertising associated with, and triggered by viewing of, that content - the Parties will therefore compete with each other for VOD content advertising. General advertising on the UKVOD website (i.e. not content-related) will be sold by UKVOD itself (through an agent).
- 13 Advertisers will benefit from the widespread availability and usage of UKVOD and the enhanced opportunities for targeting individual consumers afforded by the VOD medium.
- 14 Where content is available on the UKVOD service on a pay basis (whether rental or purchase), the consumer will pay UKVOD direct.
- 15 Where UKVOD provides services to or through third party platforms, it is expected that transactional arrangements will be between the consumer and the third party, with UKVOD separately receiving financial benefit from the platform.

How will content be acquired and how will production companies be affected?

- 16 UKVOD will provide a new VOD outlet for content offering wider exposure and significant revenue opportunities for production companies and distributors of content.
- 17 The Parties will continue independently to buy and compete for the acquisition of VOD as well as other content rights, as they do now. Where applicable, the Parties' acquisition of VOD rights will continue to be subject to their Terms of Trade.
- 18 UKVOD itself is also likely to seek to acquire rights from third parties.
- 19 The formation of UKVOD will therefore not reduce the number of direct buying points in the market for VOD rights, but will offer an additional platform for the exploitation of those rights.

What are the limits on UKVOD's activities and where else will the content on UKVOD's website be available?

- 20 UKVOD will be the Parties' principal outlet into the market for their VOD content. However, much of the content originally broadcast by the Parties will be available through other outlets. Most importantly:
- (a) BBC iPlayer (the BBC catch-up service) will continue to be distributed to other platforms by the BBC under public service rules.
 - (b) ITV and C4C will control syndication of their catch-up content (with the exception of the very limited number of titles where DTO catch-up rights are available), as catch up is closely aligned with the Parties' linear broadcasting activities.
 - (c) Catch-up content will continue to be available through the Parties' own website services and on BBC iPlayer.
 - (d) There is a significant range of content in which the Parties will not hold VOD rights (or may not hold them exclusively); the availability of such content will be determined by the relevant third party rights holder. This includes a proportion of the content produced by UK independent producers (including most DTO rights) and US content.
 - (e) The UKVOD business plan assumes that it will actively seek syndication agreements. It is envisaged that UKVOD will be able to syndicate its whole service (or a substantial representative sample) to closed platforms and, after a period of 12 months to allow for the establishment of the website, to open services.
 - (f) A Party may syndicate DTO content to an on-line retailer alongside DVD sales.
 - (g) To avoid 'warehousing' of content: where UKVOD does not (or does not intend to) use content made available by the Parties, the ability to exploit the content will revert to the relevant Party.
 - (h) VOD rights in content related to sales by the Parties into the secondary linear television market will be able to be included in those deals (subject to negotiation of terms with the third party), in order that a TV platform can be offered VOD as an add-on to its linear offering.
 - (i) The joint venture will be focussed on long form content on the internet platform. It will not include clips or user generated content (in contrast for example to sites such as YouTube) and it will not target the mobile sector (in relation to which the Parties will continue to operate independently).
- 21 The joint venture arrangements therefore allow for a significant amount of the content that will be available on the UKVOD website also to be available elsewhere on an on-demand basis – on the Parties' existing websites, on DVD retailers' websites, on TV platforms' on demand services (such as Virgin, Sky, or BT Vision), and on other VOD services accessible via the open Internet.

What will happen to the Parties' existing VOD websites?

- 22 The BBC's iPlayer is separate from BBCW and is unaffected by UKVOD. It will continue to offer BBC catch up as a standalone proposition, as part of the BBC's public service remit.

- 23 C4C's and ITV's home websites (channel4.com and itv.com) will continue to operate separately, and will carry catch-up content concurrently with UKVOD. UKVOD will focus on providing additional choice with a wider and deeper range of content.
- 24 On launch of UKVOD, C4C's 4oD service will close - the content and other assets (e.g. technology and IP) having been transferred to the new UKVOD service. The majority of the archive content currently available on itv.com will also transfer to the new service.

Who else supplies VOD content?

- 25 The leading UK VOD suppliers include global companies (such as AOL, Amazon, Apple, Google, Microsoft, Sky and Sony) and major UK businesses (such as Virgin Media and BT).
- 26 Other VOD platforms will be able to acquire content from producers as they do now and will have access to a wide range of content some of which will be distinct and some of which will also be available on UKVOD.