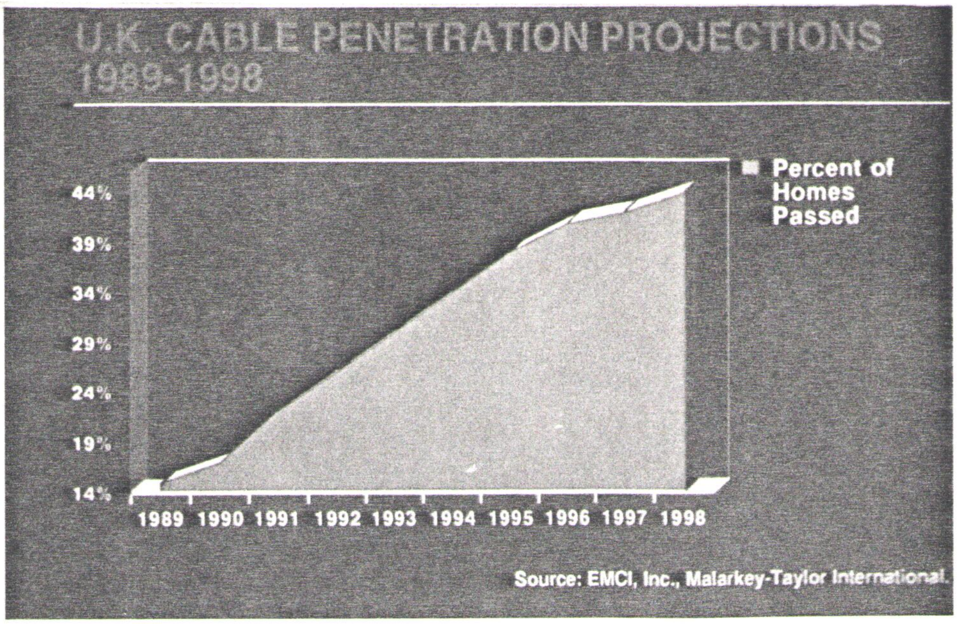

"For those cable TV operators willing to make the proper investments... the United Kingdom will prove to be an exciting market over the next 10 years."

The U.K. market positioned for growth

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In order for cable TV services to prosper overseas, three key elements—technology, programming and political/regulatory issues—must be balanced to properly serve consumers within each country. Though it took many years to achieve the proper balance in the United States, many countries now are creating platforms to deal quickly with this delicate mix. For example, you can have the best technology, but without proper programming cable may not achieve profitable penetration levels. Alternatively, a country may have good local programming deliverable on current technology but not have the political/regulatory or financial incentives in place that will allow operators to invest and run profitable cable systems.

In the United Kingdom favorable conditions exist to balance technological, political/regulatory and financial issues. These incentives have set the groundwork for recent franchising and construction activities in that market.

Financing

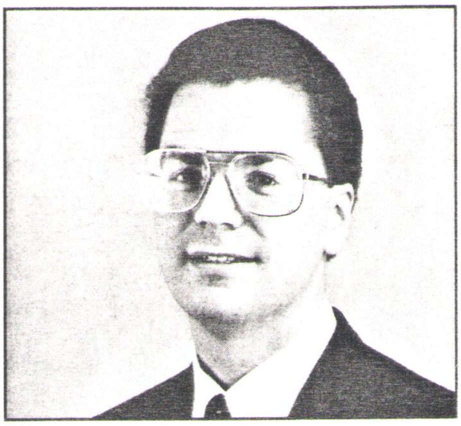
By opening up the U.K. cable TV market to foreign investment, the British have facilitated rapid expansion for their industry. Current investors in the U.K. broadband cable franchises are approximately 54 percent U.S.-based, 16 percent Canadian, 10 percent U.K./foreign joint ventures, 9 percent other foreign and 11 percent U.K. investors. Many cable operators, telephone companies and other unrelated investors have taken advantage of this opportunity, with over 90 of the 135 applied for franchises having been awarded.

Political/regulatory

The British Cable Authority (CA) has taken steps to accelerate the building process and encourage competition to the British Telecom (BT) and Mercury duopoly. In addition to offering traditional franchises, the government decided to allow operators the option of providing competitive telephony services in their franchise areas. By opening this lucrative market, many of the Regional Bell Operating Companies (RBOCs)—NYNEX, Southwest Bell, US West, PacTel—have become financially and/or actively involved in securing franchises throughout the United Kingdom.

The CA grants standard franchises of 15 years with an attractive eight-year extension if telephony services are adequately provided. Additionally, the CA requires operators to begin construction within one year of receiving a franchise. These franchise extensions and construction restrictions have set the stage for rapid franchising activities and aggressive construction plans.

There are two pending legislative issues that will determine the viability of telephony services for U.K. operators: The Broadcasting Bill, which may change the 15/eight-year franchise options, and the outcome of the current



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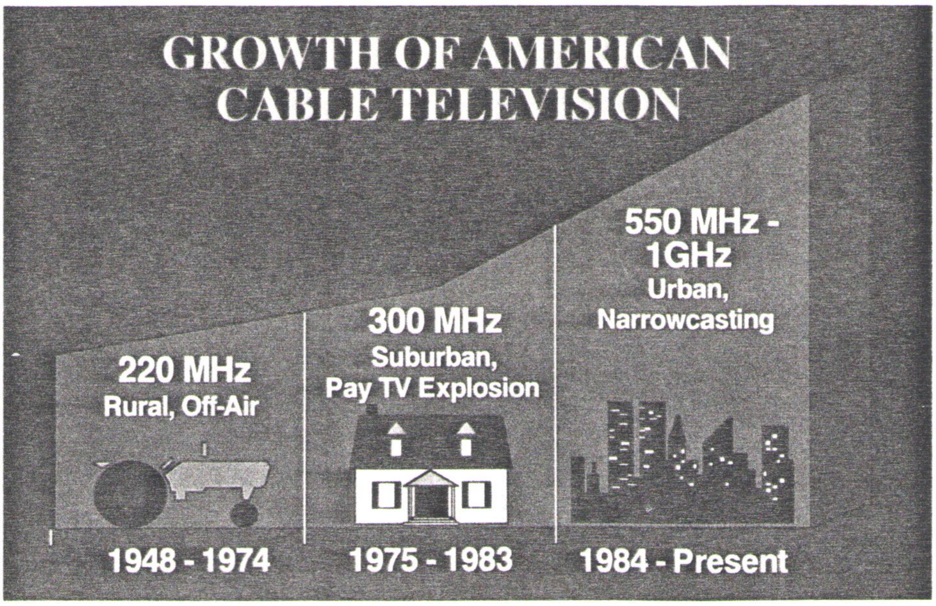
Duopoly Review, which will affect the attractiveness of providing telephony services in the U.K. market in conjunction with BT and Mercury. Though some operators are awaiting decisions on these issues, many are quickly moving ahead with cable networks optimized for video delivery services.

Interestingly, a recent study commissioned by the CA found that over half of consumers interested in cable may subscribe if operators provided cheaper, alternative telephony services. As well, 25 percent of a consumer group not interested in cable now would be likely to subscribe if telephony was available.

Technology

Though current technology for RF and fiber products is ready for the United Kingdom, there are two debated architectures and numerous construction



challenges facing operators.

Many prefer traditional tree-and-branch (or tree-and-bush) architecture, while others feel switched star networks are more technologically and operationally suited for their franchise's video needs. With cable TV and telephony engineers jointly building cable TV systems in the United Kingdom, these network preferences will continue to vary from system to system in the future.

But whether deploying traditional tree-and-branch, switched star or both video and telephony services, fiber optics is the common denominator. Since the majority of U.K. cable construction is underground, and construction is very costly, most operators are planning their networks for current and future needs by deploying fiber. By laying fiber, cable operators are ensuring that their technology foundation today will handle future needs and accommodate expansion opportunities. Additionally, both coax and twisted pair are being used in the designs based on operators' video and telephone business plans.

Programming/marketing

One key ingredient that will ensure cable as a marketing success is properly targeted programming. Two of the most popular American channels on U.K. and European cable systems are MTV and CNN. Though these and other American-based programming sources are attractive to many subscribers, programmers must begin to develop specific channels that target the news, entertainment and sports needs of the very diverse U.K. audiences. Without this concerted effort in delivering quality programming, cable operators may not secure the highly selective British consumer.

Fortunately for the astute CATV business planner, no other medium delivers programming like cable, with the unique ability to combine satellite and off-air programming, global and regional events, local news, sports and other informational sources and combine them on a single drop to the home. Though some doubt the U.K. market will quickly warm up to cable, with proper program packaging it could grow faster than it did in the United States.

Unlike the United States, the United Kingdom charges a licence fee of approximately $100 per household per year for the privilege of viewing off-air TV now. Additionally, the DBS providers (Sky and BSB) have been creating an appetite for alternative programming, targeting a group of consumers that operators may find easier to convert to cable programming. According to the CA survey, over one-third of dish owners would prefer cable if it was available because of the choice and convenience of cable and lack of unsightly dishes.

It will take years for penetration rates to exceed 50 percent in the United Kingdom, but that level was not exceeded in the United States until only recently. One issue operators are gearing up for now is promoting the consumer benefits of cable, while increasing public awareness.

Currently 600,000 U.K. homes have access to cable, and by 1996 expectations are for two-thirds of Britain to have access to the service.

The challenge is there

The U.K. market statistics look very attractive to many investors and cable/ telephony operators. With a population of 57 million, and 25 million households that have an average viewing time of 22 hours per week, it holds a potential market of consumers ready for expanded viewing options. With over 25 million phone lines and approximately 75 million phone calls per day, the telephony and cellular service markets look very attractive to operators that can provide cost-effective quality services.

The U.K. market is very unique, providing various options for the operators planning their aggressive expansion plans. In contrast to U.S. operators who started building rural video systems expanding into suburban and urban areas as technology grew, U.K. franchises present an interesting network challenge of building integrated systems in highly populated areas with the option of providing video, voice and data services.

For those cable TV operators willing to make the proper investments, build solid systems and balance the various political, technological and programming issues, the United Kingdom will prove to be an exciting market over the next 10 years. ■