INDUSTRY REPORT

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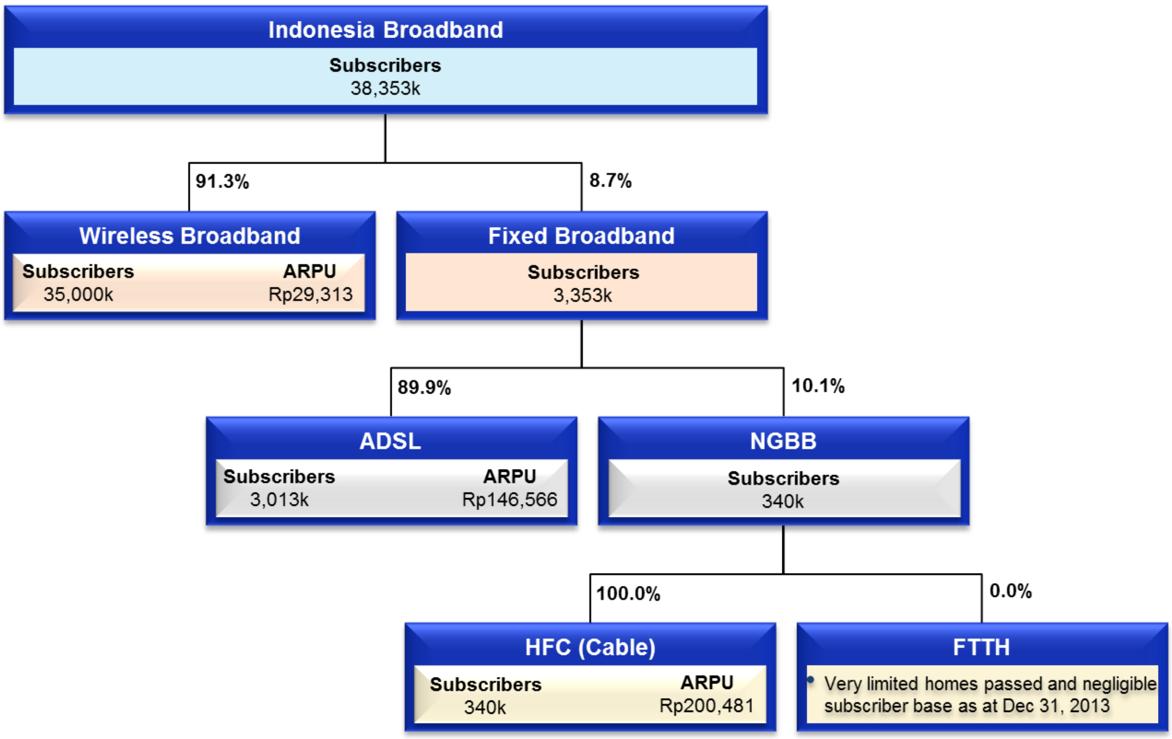
INDUSTRY REPORT PREPARED BY MEDIA PARTNERS ASIA

1. OVERVIEW

The subscriber base for the overall Indonesia broadband and pay TV markets comprise of 38.4 million and 3.2 million subscribers as at 31 December 2013, respectively.

The broadband industry is made up of the wireless broadband and fixed broadband segments. Within the fixed broadband segment, ADSL represents 89.9% of total subscribers, while the Next Generation broadband market ("**NGBB**") represents the remaining 10.1% of the fixed broadband subscriber base. NGBB is defined as fixed networks capable of providing high speed broadband such as cable broadband and FTTH. As there has been limited rollout and subscriber acquisition by operators using FTTH technology, the NGBB market in Indonesia is primarily driven by cable broadband currently.

Exhibit 1: Broadband subscriber share by technology and ARPU, 2013

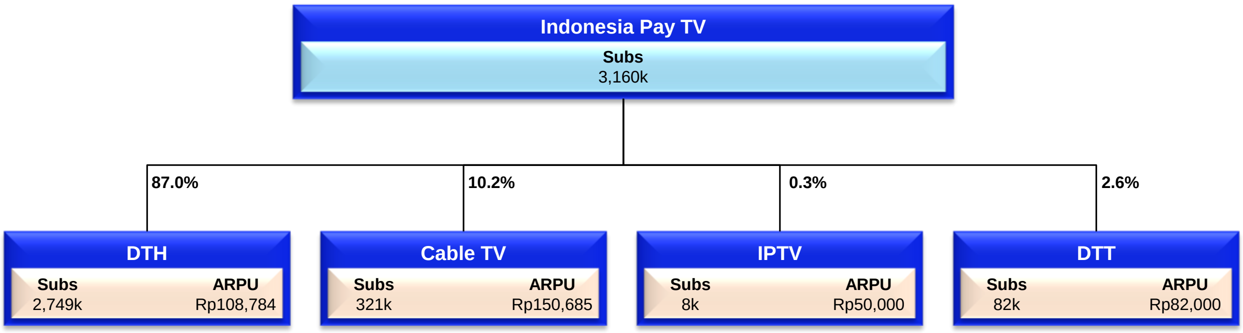


Source: MPA

The Company operates in the NGBB market, owning and operating the only next generation network of scale in Indonesia, resulting in 97.9% market share in the market for 2013 based on number of NGBB subscribers. The growth of the NGBB market since 2011 has been driven by the Company's rapid Network rollout ("**NRO**"), increasing the number of the Company's homes passed from 553,080 to 1.31 million between the end of June 2011 to the end of June 2014, with limited rollout from other players. The NGBB market is expected to continue being significantly underpenetrated and supply-driven over the next five years. Demand for high speed broadband services are mainly driven by pent-up demand for faster and more reliable services currently offered by ADSL, which has a wider network coverage currently.

The Indonesia pay TV industry had 3.2 million subscribers comprising of DTH, Cable TV and a very small and nascent IPTV / digital terrestrial television ("**DTT**") segments at the end of 2013. DTH represents 87.0% of the overall pay TV subscriber base as at 31 December 2013, with Cable TV representing 10.2%. DTT and IPTV represent 2.9% of the pay TV subscriber base combined.

Exhibit 2: pay TV subscriber share by technology and ARPU, 2013



Source: MPA

As the owner and operator of the only next generation network of scale in Indonesia, the Company is the only operator of scale in the Cable TV market and has been the driver of the overall cable market growth, offering pay TV services bundled with its next generation broadband offering.

2. KEY HIGHLIGHTS

- **Macro momentum**. Indonesia is a large and attractive market for broadband and pay television services, and has the lowest broadband and Pay TV penetration among the 20 largest economies globally. Fixed broadband penetration in India, China and US in 2013 were 5.7%, 45.6% and 81.1% respectively, compared to 5.4% in Indonesia. Pay TV penetration in 2013 for China, India and US was 51.8%, 79.9% and 85.0% respectively, compared to Indonesia's 8.6% as of 2013. According to the International Monetary Fund (the "**IMF**"), the country is the fourth largest in the world with a population of 248 million, and ranks 16th largest by nominal GDP. The Indonesian political landscape is stable and its economy is expected to grow rapidly with real GDP set to expand at 5.8% CAGR over the next five years, according to the IMF. The population is one of the youngest in the world, with 54% under 30-years of age as of end 2013, and is increasingly online savvy. This, combined with increasing urbanisation, income growth and consumption, will ensure that consumer households will increasingly adopt and spend more on broadband and pay TV services.

- **Significantly under penetrated and fastest growing broadband market**. MPA forecasts that fixed broadband subscribers will grow at 13.4% CAGR to reach 6.3 million by 2018 with household penetration increasing from 5.4% to 9.8% between 2013 and 2018. The projected penetration rate of 9.8% in 2018 is still significantly below current penetration levels of broadband markets in neighbouring countries including Thailand (22.1% for 2013). MPA also forecasts that cable broadband subscribers will grow at a CAGR of 20.4% between 2013 and 2018 to reach 860,000 by 2018, with monthly ARPU rising 7.0% CAGR to Rp280,569. The growth of fixed broadband penetration, subscribers and ARPUs is attributable to a number of key drivers including: (i) urbanisation, the growth of an affluent consumer class, and a thriving youth population; (ii) rising demand for online content including video-based entertainment, social networking and online news; and (iii) strong execution by incumbent operators (Telekom for ADSL and the Company for cable broadband representing the majority of the NGBB market).

  Complementing fixed broadband growth is the market for mobile broadband, which enables subscribers to access broadband outside of their homes and outside of current fixed broadband coverage areas, albeit at higher cost per bandwidth. MPA forecasts that the market for mobile broadband will grow at 33.2% CAGR between 2013 and 2018, reaching 146.8 million subscribers by 2018. MPA forecasts that mobile broadband per capita penetration will rise from 14.1% in 2013 to 56.0% by 2018.

- **Large and fast-growing addressable market**. The Company's core target customers are A Households and B Households, which are households comprising of four persons and having a monthly household income in excess of Rp2.0 million. The Company also targets to attract customers in the C1 Households (defined as households with monthly household income of Rp1.5 million to Rp2.0 million) through its entry level package priced at Rp169,000 per month. In the Company's current coverage area in Greater Jakarta, Greater Surabaya and Bandung, the number of core A Households and B Households has grown at a CAGR of 17.6% between 2010 and 2013, reaching 4.1 million. As at 31 December 2013, including C1 Households, there are 6.6 million addressable A Households, B Households and C1 Households in the Company's coverage area. The large addressable households should provide significant room for growth to the Company.
- **The role of the Company and HFC cable**. The Company has capitalised on its first mover advantage position in the provision of bundled broadband and digital pay TV services. The Company's state-of-the-art HFC cable Network, which passes more than 1.3 million households in three urban centres, including Greater Jakarta, has captured a significant portion of the attractive consumer demographic addressable market, and is currently the only next generation network of scale in Indonesia. The Company's churn rates are amongst the lowest in Indonesia broadband and pay TV markets primarily due to the function of the bundling of superior broadband offering and differentiated Cable TV offering with significant innovation and the widest selection of HD channels. The Company's Adjusted EBITDA margins are consistently among the highest in the industry at 54.0%, 54.1% and 57.2% in 2012, 2013 and the first six months of 2014, respectively.

  The following table summarises the current state of competitors' next generation networks as at December 31, 2013.

Exhibit 3: Comparison of competitor networks

Telkom	Announced a significant investment plan. Details have been limited with no report of any significant completed FTTH residential network rollout.
Biznet	0.17 million homes passed.
MNC Play Media	Began FTTH rollout in January 2014. Currently in a test phase with limited home passes.
MQM (Sinarmas)	Focus on FTTH rollout in properties constructed by Sinarmas, its parent group, with no available public information on rollout and very limited track record outside of Sinarmas properties

Source: MPA

HFC cable networks are one of the most suitable and cost effective delivery methods to serve the densest and most affluent regions of Indonesia. Competition in bundled services and in the broadband market itself is relatively benign, driven by technological and scale advantages that the Company has derived from its Network, allowing the Company to offer compelling and attractive bundled packages.

The Company's Network is expected to be over 60% 1 GHz compliant with the remaining 40% 870 MHz compliant by the end of the first quarter of 2015. The Network has been designed and built out with specifications that are in line with international standards set by leading operators in Asia, Europe and the United States. The Network, combined with its deployment of DOCSIS 3.0 technologies and high definition premium pay TV channels, has enabled the Company to maintain its market leadership in terms of product innovation. The Company has rapidly expanded its Network in the largest and most attractive metropolitan areas of Indonesia since June 2011 to meet latent and underserved demand for NGBB services in Indonesia, while at the same time leading innovation in the Indonesian pay TV industry through the largest HD product offering and other value-added services, such as TV Anywhere ("**TVA**"), video-on-demand ("**VoD**"), catch-up TV, add-on TV content packages and new upgraded set-top boxes. As a result, the Company offers consumers the most reliable and the fastest broadband download speeds amongst Indonesian broadband providers.

- **Pay TV upside**. The market for pay TV continues to grow at a significant pace, driven largely by DTH satellite which can cover the expansive Indonesian archipelago, compared to local coverage areas of Cable TV. The growth of Cable TV is driven by network expansion of key players (currently only the Company offers Cable TV services of scale), offering higher quality TV services including HD channels and 2-way capabilities and good value proposition in bundled offerings. 94.4% of total cable broadband customers subscribed to Cable TV in 2013. According to MPA forecasts, total pay TV penetration is expected to grow from 8.6% in 2013 to 16.2% by 2018 while Cable TV is expected to expand at a CAGR of 20.2% over the same period, reaching 808,000 by 2018. According to MPA forecasts, monthly Cable TV ARPU is expected to expand at a CAGR of 3.5% between 2013 and 2018 to reach Rp179,046 by 2018.

Exhibit 4: Indonesia key broadband and pay TV indicators

Broadband		**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**% CAGR 2013-18**
Wireless broadband	(thousands)	35,000	56,000	78,400	101,920	122,304	146,765	33.2
Fixed broadband	(thousands)	3,353	4,115	4,963	5,588	6,009	6,297	13.4
ADSL	(thousands)	3,013	3,703	4,423	4,923	5,224	5,437	12.5
Cable	(thousands)	340	412	540	665	785	860	20.4
Total broadband subscribers	**(thousands)**	38,353	60,115	83,363	107,508	128,313	153,062	31.9
% Penetration								
% Wireless broadband penetration per capita	(%)	14.1%	22.3%	30.8%	39.6%	47.1%	56.0%	
% Fixed broadband penetration/household	(%)	5.4%	6.6%	7.9%	8.8%	9.4%	9.8%	
ARPU								
Monthly cable broadband ARPU	**(Rp)**	200,481	216,708	235,553	251,256	268,006	280,569	7.0
Pay TV								
Pay TV subscribers	**(thousands)**	3,160	4,016	4,765	5,430	6,052	6,578	15.8
DTH	(thousands)	2,749	3,511	4,139	4,684	5,169	5,611	15.3
Cable TV	(thousands)	321	390	490	602	733	808	20.2
IPTV	(thousands)	8	10	12	14	18	25	25.6

DTT	(thousands)	82	105	125	130	132	135	10.5
% Penetration								
% Pay TV per TV household	(%)	8.6	10.7	12.5	13.9	15.2	16.2	
% Cable TV subscribers / Cable broadband subscribers	(%)	94.5	94.7	90.7	90.6	93.4	93.9	
ARPU		8.6%	10.7%	12.5%	13.9%	15.2%	16.2%	
Monthly Cable TV ARPU	**(Rp)**	150,685	163,260	170,382	173,375	176,239	179,046	3.5

Source: MPA

3. MACROECONOMIC OVERVIEW OF INDONESIA

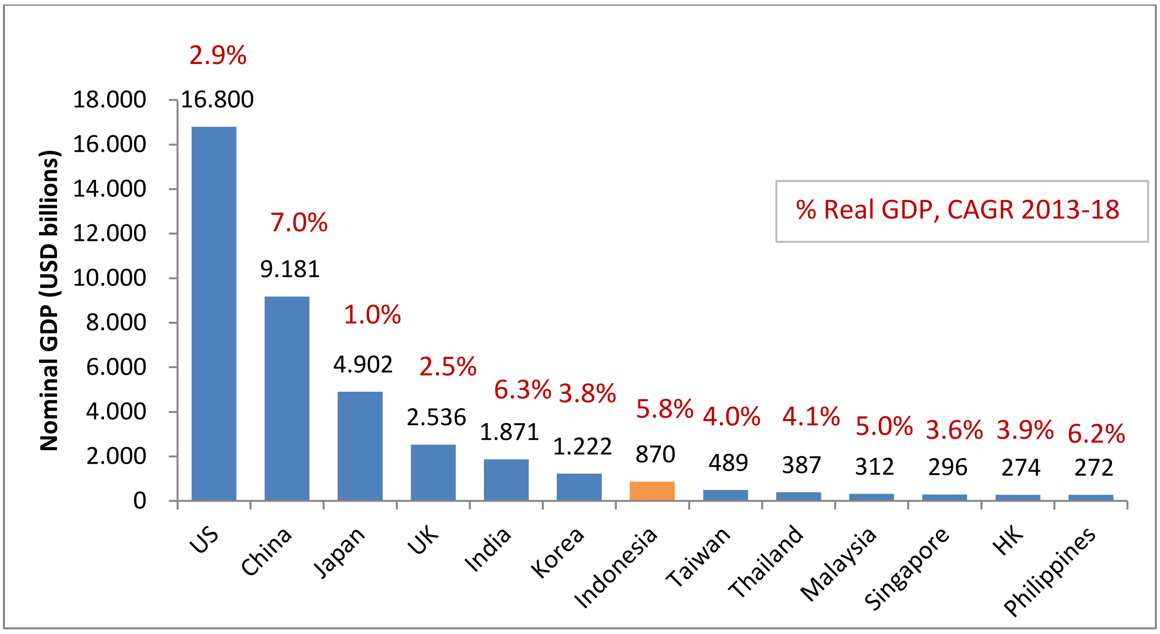
3.1 INDONESIA

Indonesia’s economy has experienced strong growth in recent years, with real GDP expanding at a CAGR of 5.8% between 2008 and 2013 driven by a combination of growing domestic consumption and robust commodity exports. Inflation has been relatively stable at an average of 6.0% during the same period according to the IMF.

Indonesia experienced some macro-economic headwinds in 2013. These included continued impact from Eurozone economies and a slow-down of the Chinese economy, which is one of Indonesia’s larger commodity importers. This has resulted in Indonesia’s GDP growth falling below the 6% mark to 5.8% in 2013 according to the IMF, driven mainly by the fall in exports. Inflation rates have also been high at 7.7% for the full year in 2013 according to the IMF, brought about by government reducing fuel subsidies in order to combat a rising current account deficit. Despite these factors, Indonesia’s GDP is forecasted by the IMF to grow at a higher CAGR (2013-2018) of 5.8%, compared to other Asian countries (Singapore: 3.6%, Korea: 3.8%, Malaysia: 5.0%, Thailand: 4.1%), as well as those seen in both the US (2.9%) and UK (2.5%). The only three Asian markets that are expected to grow at rates marginally higher than Indonesia are China (7.7%), India (6.3%) and Philippines (6.2%). Furthermore, domestic consumption (59% of 2013 GDP according to Badan Pusat Statistik) has not been significantly dampened by these factors and Indonesia ranks second most optimistic market globally according to the Nielsen's Global Consumer Confidence Index For 2Q 2014.

The political situation in Indonesia is stable and positive, following the election of new president Joko Widodo, who ran on a campaign pledging national reforms and anti-corruption. The new government is expected to initiate steps to reign in both inflation and a current account deficit, which could bolster the economy and improve future GDP growth rates. This will help bolster consumer expenditure on bundles of pay TV and broadband services.

Exhibit 5: Nominal GDP and Real GDP growth across key global markets in 2013



Source: MPA based on IMF data

Exhibit 6: Nominal and real GDP growth projections by key global markets

Nominal GDP (USD billions)	**2013**	**2018**	**Nominal GDP, % CAGR 2013-18**	**Real GDP, % CAGR 2013-18**
US	16,800	21,180	4.7	2.9
China	9,181	13,997	9.8	7.0%
Japan	4,902	5,540	2.3	1.0
UK	2,536	3,543	4.5	2.5
India	1,871	2,826	12.9	6.3
Korea	1,222	1,739	5.7	3.8
Indonesia	870	1,156	11.6%	5.8
Taiwan	489	651	4.4	4.0
Malaysia	312	491	8.5	5.0
Philippines	272	466	10.2	6.2
Thailand	387	464	6.1	4.1
HK	274	386	7.1	3.9
Singapore	296	361	4.9	3.6

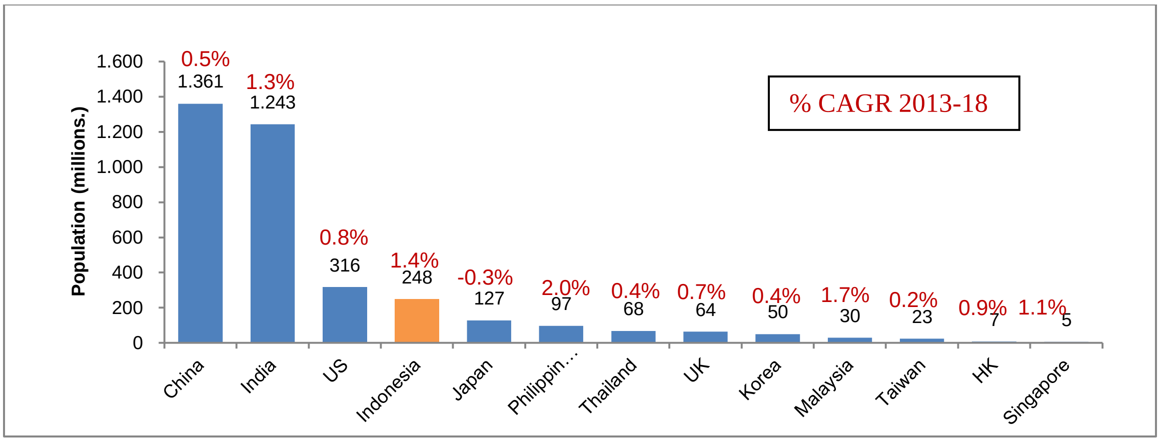
Source: MPA based on IMF data

In addition, broad macro trends support higher consumption and spend in pay TV and broadband. Key trends include:

- **Young demographics and growing population**. Indonesia's growth trajectory is anchored to its growing middle class and young working population. The IMF estimates that Indonesia's population, currently at 248 million in 2013, will grow by 1.4% CAGR over the next five years.

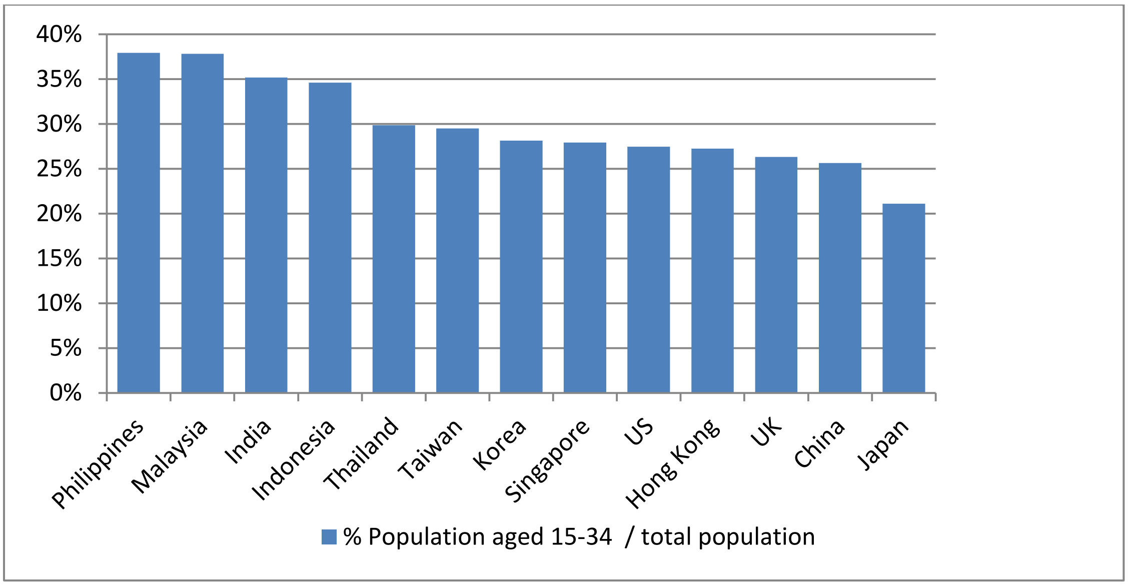
This closely mirrors trends seen in India, Philippines and Malaysia, and is significantly faster than mature markets with an ageing population including Korea, Japan and Taiwan. According to the World Bank, 66% of Indonesia's population is in the working age group of 15-65 years, while CEIC Data estimates that 34.6% fall within the 15-34 age group, indicating a healthy working population now and in the future.

Exhibit 7: Population by key global markets, 2013



Source: IMF

Exhibit 8: Population aged 15-34 by key global markets, 2013

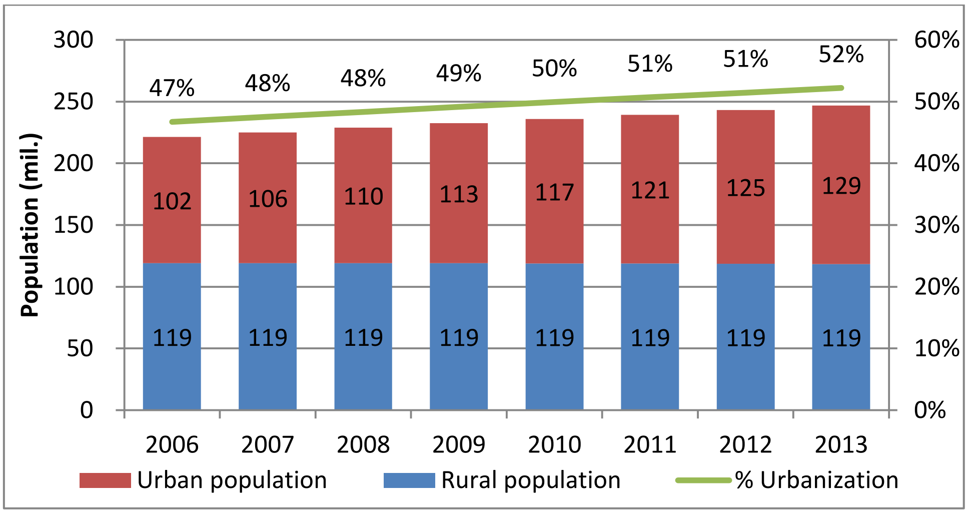


Source: CEIC Data, MPA

- **Strong domestic consumption**. Domestic consumption is stable contributing to 59.0% of GDP. Despite a slowdown in GDP growth and relatively high inflation in 2013 of 7.7%, consumer sentiment remains positive.
- **Increasing urbanisation**. In line with other developing economies in Asia, Indonesia's rural population continues to migrate towards urban areas. Between 2006 and 2013, the proportion of population living in urban areas has increased from 47% to 52% according to the World Bank. Crucially, this continuing transition to urbanisation is likely to bring with it increasing household incomes and drive gains in disposable income, as well as increase consumer spend on broadband and pay TV services. McKinsey, in its report titled "The Archipelago Economy: Unleashing Indonesia's Potential", estimates that approximately 70% of the Indonesian population will be

living in urban areas by 2030. McKinsey further estimates that the contribution to Indonesia's GDP from urban areas will increase from 74% in 2010, to 85% in 2030.

Exhibit 9: Indonesia urbanisation trends, 2006-2013



Source: World Bank, MPA

- **Fast growing middle and upper class**. Indonesia's GDP per capita has grown rapidly from 2010 to 2013 at CAGR of 5.6% according to the IMF. The middle and upper classes defined as A Households and B Households is expected to experience the fastest growth among all social economic segments. In the Company's current core coverage area, there were 4.1 million A Households and B Households in 2013, representing 53.6% of total households and growing at a CAGR of 17.6% between 2010 and 2013.

In conclusion, such macro momentum will encourage: (i) higher demand for communication and entertainment services such as pay TV and broadband; (ii) greater consumer expenditure on pay TV and broadband services as well as premium and value added services including HD channels, VoD and digital video recordings ("**DVRs**") and (iii) increased advertising expenditure across the pay TV sector.

3.2. MACROECONOMIC ADVANTAGES OF THE COMPANY

- **High per capita income and favourable demographics**. The favourable economic outlook bodes well for the Company, which operates in the most attractive metropolitan areas in Indonesia comprising Greater Jakarta (JaBoDeTaBek), Greater Surabaya (largest city in East Java) and Bandung (largest city in West Java) which comprise the most densely populated and most affluent areas of Indonesia. This is because these metropolitan areas (Greater Jakarta, Bandung and Surabaya) are situated in the top three provinces (Jakarta, East Java, West Java) that represent the top three provinces in terms of GDP contribution to Indonesia representing 37% of total GDP in 2013 according to Badan Pusat Statistik. Jakarta has a population density of 15,211 per square kilometre, Surabaya has population density of 9,425 per square kilometre and Bandung has population density of 14,386 per square kilometre.

Exhibit 10: Population density by top three metropolitan areas, Indonesia

	2013 Population (millions)	Land area (square kilometre)	2013 Population density per square kilometer
Jakarta -	10.1	664.0	15,210.6
Surabaya	3.1	330.0	9,424.8

Bandung	2.5	172.7	14,386.3

Source: Badan Pusat Statistik, www.surabaya.go.id, www.bandungkota.bps.go.id, www.regionalinvestment.bkpm.go.id

Exhibit 11: Top 12 provinces by GDP

Provinces	2013 GDP (USD millions)	% of Indonesia	% CAGR 2010-13	2013 Population (millions)
Jakarta	**117,000**	**13.4**	**7.4%**	**10.1**
East Java	**106,874**	**12.3**	**7.8%**	**38.0**
West Java	**98,641**	**11.3**	**5.3%**	**45.2**
Central Java	58,664	6.7	6.4%	32.5
Riau	50,091	5.8	9.7%	6.1
East Kalimantan	42,675	4.9	6.6%	3.9
North Sumatera	37,046	4.3	7.1%	13.3
Banten	22,301	2.6	5.8%	11.4
South Sumatera	21,994	2.5	8.4%	7.8
South Sulawesi	17,332	2.0	10.3%	8.2
Lampung	15,398	1.8	9.0%	7.8
West Sumatera	11,581	1.3	6.6%	5.0

Source: Badan Pusat Statistik

Consumer demographics are advantageous and favourable across the Company's coverage areas. According to Nielsen, in the Greater Jakarta region in 2013, 49.3% of the population falls within the top A Households and B Households (defined as households having monthly household income in excess of Rp2.0 million), which is the core target demographic of the Company. This figure has increased from 31.7% as at 31 December 2010. When including C1 Households (defined as households having household income between Rp1.5 million to Rp2.0 million), this figure reaches 75.8% in 2013 from 55.7% as at 31 31 December 2010.

In other areas such as Greater Surabaya and Bandung, where the Company has operations and plans to expand in the future, 58.8% and 69.7% of the population are in the key A Households, B Households and C1 Households as at 31 December 2013, respectively, according to Nielsen. These figures have increased from 31.2% and 59.7% as at 31 December 2010 in Greater Surabaya and Bandung, respectively, indicating the regions' current and future prospects for adopting pay TV and broadband services.

Exhibit 12: Household distribution by monthly household expenditure

Household Category By Region	2010 (thousands)	2013 (thousands)	2010-2013 % CAGR
AB	**2,496**	**4,059**	**17.6**
Greater Jakarta	2,105	3,347	16.7
Greater Surabaya	243	474	25.0
Bandung	149	238	16.9
C1	**2,153**	**2,570**	**6.1**

Greater Jakarta	1,592	1,795	4.1
Greater Surabaya	434	654	14.7
Bandung	127	121	-1.7
C2	**2,371**	**1,762**	**-9.4**
DE	**2,245**	**828**	**-28.3**
% contribution of total households	**2010**	**2013**	
A1	**2.9**	**6.4**	
A2	**6.3**	**9.1**	
B	**17.8**	**28.6**	
C1	**23.2**	**27.9**	
C2	25.6	19.1	
D	16.9	6.8	
E	7.3	2.2	

Source: Nielsen

Note: **AB Households** defined as households with monthly expenditure of over Rp2.0 million; **A1** – >Rp4.5 million, **A2** – Rp3.0-4.5 million, **B** – Rp2.0-3.0 million, **C1** – Rp1.5-2.0 million; **C2** – Rp1.0-1.5 million; **D** – Rp700,000-1.0 million; **E** –Rp700,000 and below

- **Larger inflows of Foreign Direct Investment ("FDI")**. According to Badan Pusat Statistik, Indonesia garnered approximately USD30 billion in FDI in 2013, of which 60.0% was directed towards the Java island, followed by Sumatera (11%) and Kalimantan (9%) – underlying Java island's position as the nation's economic backbone and engine.

3.3 KEY CONCERNS

Despite a positive long-term outlook for the Indonesian economy, short-term pressure exists which could impact consumption in pay TV and broadband markets. These include:

- **Increase in inflation**. A second round of fuel subsidy cuts could follow once the new president is sworn in and government takes charge. The new government's priority will be reigning in of the current account deficit – which is close to 3% of GDP. Although consumer sentiment remained strong after the first round of subsidy cuts and subsequent rise in inflation, a second round of subsidy cuts will likely prolong inflationary pressure, and may weaken consumer sentiment and may reduce discretionary household spend.
- **Increase in unemployment and slowing household formation related to commodities export.** A ban on the export of unprocessed minerals, which has impacted GDP growth, has also resulted in growing unemployment in the mining sector. Similarly, there has also been a weakening in the pricing power of commodity export due to slowdown in Chinese demand. This could further exacerbate if the Chinese economy continues to face headwinds and place further pressure on unemployment. Increasing unemployment could also place pressures on household formation, which has already been slow, growing at a CAGR of 0.6% between 2010 and 2013, and marginally faster than developed economies such as Japan. Between 2013 and 2018, household formation is expected to see a further slowdown to a CAGR of 0.3%, but faster than economies such as Japan, Taiwan and Korea according to MPA. The trend is mitigated by the Company's focus on large cities in Java which have less economic exposure to commodities exports. At the same time, slow household formation at a national level should be mitigated by urbanisation trend increasing population and households at large cities where the Company operates.

- **Further currency depreciation.** The Indonesian rupiah has remained weak against the US dollar throughout 2013, reaching the Rp11,000-11,500 mark. For the pay TV and broadband industries, including the Company, a weakening rupiah will place further pressure on margins as content deals and consumer premises equipment are pegged to the US dollar. These risks will likely be well managed by better capitalised players in the market, including the Company.

4. INDONESIA'S BROADBAND SECTOR

Availability of high-speed broadband services and its uptake – both via fixed and mobile - remain nascent in Indonesia. As of 2013, the country's lower fixed broadband penetration levels (5.4%) versus markets like Korea (99.5%), Hong Kong (96.0%), Singapore (99.6%) and Thailand (22.1%) suggest room for growth, especially in urban areas where fixed networks are being rapidly deployed, and upgraded.

Fixed network growth has been relatively fast in countries such as Singapore and Hong Kong due to small size (limited area to cover) and density of population. However, due to Indonesia's unique topography (consisting of 17,000 islands), large scale deployments of fixed networks have been uneconomical in areas outside of the main cities and towns, and subsequently, broadband access remains limited. MPA estimates that Indonesia is the most underpenetrated and fastest growing broadband market globally of the top 20 largest global economies.

Exhibit 13: Fixed broadband penetration comparison by market, 2013

% Fixed broadband penetration / household	**2013**	**2018**	**Subscriber growth, % CAGR, 2013-18**
Singapore	99.6	99.9	1.0
Korea	99.5	100.2	0.7
Hong Kong	96.0	97.3	1.5
US	81.1	91.0	4.5
UK	79.0	89.0	3.8
Japan	70.3	72.9	0.7
Taiwan	69.4	77.3	2.7
Australia	67.2	75.2	3.1
China	45.6	57.0	5.7
Malaysia	33.8	34.7	2.0
Thailand	22.1	36.3	11.1
Philippines	6.6	9.7	9.2
India	5.7	6.3	4.6
Indonesia	**5.4**	**9.8**	**13.4**

Source: MPA

The increasing presence of international players such as Google, Yahoo and Facebook in Indonesia, as well as the establishment of home grown firms such as Okezone, Liputan and Kompas signify the importance and growth potential of the Indonesian broadband and internet sectors.

International web analytics firm Alexa estimated that Facebook was the second most accessed website in Indonesia in 2013, while Facebook itself claims to have a user base of 65 million active users in Indonesia. This equates to approximately 90% of all internet users in the country, and accounts for nearly

16% of Facebook's user base in the Asia Pacific region. Similarly, Google's YouTube is estimated by Alexa as being the fourth most popular website in the country, up from seventh place in 2011, indicating the increasing popularity and growing consumption of online video in Indonesia, and consequently increasing demand for higher speeds and bandwidth.

Providing an added impetus to the growth of the Internet sector is the improvement in online advertising measurement systems and metrics. Media buyers and planners in Indonesia are now placing an increasingly large portion of their advertising budgets on online, improving monetisation opportunities for online players, and encouraging new players to enter the market.

MPA estimates that the online advertising market generated Rp1 trillion in net revenues in 2013, up 50% year-on-year, and growing at a CAGR of 58%. Of this, it is estimated that the top three players – Facebook, Yahoo and Google (including YouTube) accounted for approximately 71% or, Rp$715.7 billion. Between 2013 and 2018, MPA estimates that the sector will grow at a CAGR of 31% to reach Rp2.6 trillion.

Exhibit 14: Top 10 websites in Indonesia (2011 vs. 2014)

Website	Ranking (End 2011)	Ranking (July 2014)
Google.co.id	2	1
Facebook	1	2
Google.com	3	3
Youtube	7	4
Blogspot	-	5
Yahoo	4	6
Kaskus	8	7
Detik	9	8
Kompas	12	9
Wordpress	6	10

Source: Alexa

4.1. KEY BROADBAND TECHNOLOGIES

Broadband internet services in Indonesia are available through fixed/wired broadband services such as copper/telephone lines (for ADSL), fibre (for fibre-to-the-x) and HFC cable (for cable broadband); and wireless via mobile devices like smartphones and dongles.

As at 31 December 2013, there were 38.4 million broadband subscribers across Indonesia, comprising both wireless and fixed broadband. Indonesia's broadband market continues to grow at a rapid pace, adding 15.7 million net new subscribers in 2013. MPA forecasts that the market will continue to grow at a CAGR of 31.9% between 2013 and 2018, to reach 153.1 million subscribers.

The two main technologies through which broadband is available are:

1. **Mobile broadband.** With 35 million subscribers and 14.1% penetration of population at the end of 2013, mobile broadband was driven primarily by the deployment of 3G networks and the availability of low cost smartphones in the market. Given fixed broadband rollout's limited reach outside of the big cities/towns, relatively high pricing (on an absolute basis, not in terms of per megabyte of bandwidth) as well as on-the-go internet connectivity, wireless broadband has become the platform of choice for the households/population in the lower socio economic categories and households outside of fixed broadband's coverage areas. Operators such as Lippo and Telkom have also begun to deploy 4G networks, though their availability is limited to

Jakarta, in the case of Lippo, and still in planning/construction phase in the case of Telkom. With the current technology and equipment costs, 4G mobile broadband is still significantly more expensive on a per megabyte of bandwidth basis, and is expected to remain a complementary service to fixed broadband. Furthermore, reliability of mobile broadband connections in Indonesia remains low on account of the low number of 3G base stations, and unavailability of fibre backhaul to support high levels of data usage. While telecom operators are upgrading their networks to allow greater data usage, networks will continue to remain inferior to the speeds and reliability offered by fixed networks.

2. **Fixed broadband.** With approximately 3.4 million subscribers at end 2013, it is estimated that fixed broadband penetration of households was just 5.4%. Fixed broadband in Indonesia is delivered largely through copper-based ADSL services (from incumbent telecommunications company Telkom Indonesia), and via HFC cable (from the Company). On account of its legacy copper infrastructure, Telkom offers fixed line services nationwide, while the Company has a more focused service area in Greater Jakarta, Greater Surabaya, Bandung and Bali (predominantly for hotels and enterprise clients). In addition, in areas in which the Company's cable broadband services are currently not available, consumers are often restricted in their choice of broadband platform/technology, mostly with ADSL as their only option, with a maximum advertised speed of 3Mbps. Fixed broadband, which accounts for 8.7% of total broadband subscribers, added 717,000 net new subscribers in 2013 to grow at approximately 27.2% year on year.

The increasing demand for data and bandwidth, illustrated by the growth in e-commerce websites, news portals, social media services and online video delivery platforms, highlight the market potential for fixed broadband operators, especially in the NGBB market, such as the Company. The Company is in a good position to capture such a market potential providing stable and reliable high-speed broadband connectivity. Similarly, despite the faster growth in wireless broadband services, the lack of reliable & stable wireless broadband connectivity and limited coverage area for 3G services all point to the fact that wireless broadband will continue to remain as a complimentary service to fixed broadband networks, rather than emerging as a substitute technology.

Exhibit 15: Broadband subscribers and market share by technology, 2011-13

Fixed broadband subscribers	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**CAGR 2013-18**
	(thousands)								**(%)**
Total	1,982	2,636	3,353	4,115	4,963	5,588	6,009	6,297	13.4
Cable	193	295	340	412	540	665	785	860	20.4
ADSL	1,789	2,341	3,013	3,703	4,423	4,923	5,224	5,437	12.5
Market share	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	
	(%)								
Cable	9.7	11.2	10.1	10.0	10.9	11.9	13.1	13.7	
ADSL	90.3	88.8	89.9	90.0	89.1	88.1	86.9	86.3	

Source: MPA

The two key players that deliver fixed broadband services in Indonesia are:

1. Telkom Indonesia. Indonesia's incumbent state-owned telecommunications company, which provides copper-based ADSL services under the 'Speedy' brand. Speedy had 3 million subscribers, or 90% market share of fixed broadband at the end of 2013. Telkom has announced an ambitious nationwide upgrade plans in recent years. The upgrade plans have faced some execution issues and delays. So far, Telkom has publicly stated that as of first half of 2014, 8.5 million home passed have been upgraded to a combination of FTTH, fibre to the kerb ("**FTTK**") and ADSL in the last mile. The breakdown of FTTH, FTTK and ADSL are not disclosed, but the vast majority of its 3 million customers are on an ADSL platform and there has been no announcement or indication of any residential FTTH network of scale to date.

2. The Company. Cable broadband services provided by the Company had 10% market share of fixed broadband, but has 98% of the NGBB market, with 332,886 broadband subscribers as of 31 December 2013. The Company provides the fastest broadband speeds in the residential segment of up to 100Mbps, compared to Telkom's highest offering of 3Mbps via ADSL, based on information available from its website, or Biznet's highest speeds of 50Mbps. The Company's fast and reliable NGBB service offers a highly attractive option to households in its coverage areas, who in the vast majority of cases have as the only alternative ADSL with maximum advertised speed of 3 Mbps. In addition, unlike Telkom, the Company does not have a nationwide mandate and goals for broad access to broadband nationwide, and therefore mainly focuses on its core customer demographic, expanding its HFC Network in Greater Jakarta, Greater Surabaya and Bandung.

MPA believes that HFC technology adopted by the Company has an advantage over ADSL and FTTH in the Indonesia broadband context in several key aspects:

- **Current capacity vs. ADSL.** The Company's Network is upgraded to support 870MHz capacity, and is capable of offering residential speeds of up to 100Mbps. Furthermore, in other global markets where DOCSIS 3.0 technology has been used by cable operators, it has been proven to be able to offer download speeds of up to 250Mbps through network upgrades, providing the Company with additional capacity in the future. However, the majority of the residential broadband market are still subscribing to substantially lower broadband speeds. Incumbent Telkom, despite having a significant lead in both home passed and subscribers, is currently unable to provide such speeds on account of its legacy copper infrastructure. While copper networks in other markets have been upgraded to ADSL2+ and VDSL to offer speeds of up to 50 and 100Mbps, this is entirely dependent on the age and quality of the copper network and distance of the home from the cabinet.
- **Technologically Resilient:** The Company's Network is advanced in comparison to global standards for broadband networks and is virtually fully DOCSIS 3.0 compliant. The Network is designed to have a low homes-to-nodes ratio of approximately 360 homes per node on average as at June 2014, among the lowest globally. The Company has a clear path towards speeds up to 860 Mbps with reasonable capital expenditure requirements, allowing the Company to further increase its current industry leading NGBB speeds. However, the majority of the residential broadband market are still subscribing to substantially lower broadband speeds today. HFC technology is also capable of offering a large number of HD channels and value added services which means that there is no real advantage in product offering for FTTH technology.
- **Consumer Premises Equipment ("CPE") costs lower for HFC vs. FTTH:** CPE costs are significantly higher for a FTTH delivered broadband service than HFC. Deploying FTTH broadband requires not only a modem/router, as is the case with cable broadband, but also additional in-home wiring given that few buildings in Indonesia are constructed with fibre built in. Additionally, it also requires the installation of an optical network terminal) – a device that converts the signals carried by the optic fibre into electronic signals that a router/modem can

read. With HFC networks, CPE is limited to the deployment of a cable modem and signal splitter. Subsequently, CPE-related capital expenditure for FTTH services is significantly higher than HFC.

- **Higher technical requirement for workforce servicing FTTH Networks:** A key advantage of HFC over fibre is the availability of qualified technicians for network expansion and in-home installation. HFC network, due to its maturity as a platform and sturdiness, is relatively easy to install and maintain within households. On the other hand, fibre network installation requires highly trained experts as fibre strands are more prone to breakages/damages when compared to HFC. Even in advanced markets like Singapore, the availability of installation crews trained to deploy fibre remains limited, resulting in delays in network expansion and in-home installations.

Exhibit 16: Comparison of key fixed broadband technologies

Platform	**Operator**	**Network technology**	**Maximum advertised speeds (D/L)**	**Possibility of capacity expansion**	**Cost per home passed**	**Pros And Cons**
Digital Subscriber Line (“**DSL**”)	Telkom	Copper telephone lines	10Mbps(ADSL) 20Mbps(ADSL2+) 100Mbps(very-high-bit-rate digital subscriber line (“**VDSL**”)) Maximum speed offered by Telkom in most areas as at August 2014 is 3Mbps	Low – depending on quality of copper wiring, upgrades to ADSL/VDSL	**NA**	Pros: Legacy network, widely deployed in most markets, cost effective deployment when copper network exists Cons: Outdated technology, high up-front capital expenditure for fibre upgrades, bandwidth lower than HFC/FTTH and depends on distance from local exchange
HFC	the Company, Biznet	Mix of fibre to the node, and coaxial cable in the last mile	250Mbps (DOCSIS 3.0) Maximum speed offered by the Company as at August 2014 is 100Mbps	Capacity increases significantly via upgrading to DOCSIS 3, 3.1	**- USD150-200** for new HP of existing HFC network in Asia. Figures possibly exclude	Pros: Can compete with FTTH in the near-medium term (cheaper to upgrade for faster speeds,

					need for new headend, fibre backhaul etc. - **USD70-120** if upgrading existing network from DOCSIS 1 to 2 or 3.0. Company already upgraded to DOCSIS 3.0.	compared to fibre), high bandwidth capacity, most suitable for delivery in technically dense urban areas, flexibility to upgrade to FTTH Cons: -Some speed limitations compared to FTTH, large upfront capital expenditure, higher maintenance cost relative to ADSL
FTTH	MNC Play Media, Telkom, MQM	Fibre throughout network	1Gpbs+	Very high – either via splitting nodes in last mile, or adding new fibre strands	**USD180-250** – figures vary by country for a greenfield layout, and for urban and rural areas. Cost of labour is ~70-80% in developed nations, but is ~20-25% in developing nations	Pros: FTTH has maximum bandwidth and expansion capability, limited signal degradation Cons: Greenfield deployments are highly capital intensive, rollout cost higher than HFC and ADSL

Source: MPA

4.2 BROADBAND INDUSTRY ECONOMICS

Average monthly fixed broadband ARPUs reached Rp152,005 at the end of 2013, declining from Rp201,523 in 2011, representing a CAGR of -13.2%. Much of this decline is attributable to heavy discounting of ADSL services by incumbent Telkom. Telkom experienced a 14.2% decline in its Speedy fixed broadband ARPUs between 2011 and 2013 on account of introducing a new prepaid broadband service, targeting the lower socio-economic demographics.

During 2011 - 2013, the Company's broadband ARPUs contracted at a CAGR of -6.2%, as it introduced a low-priced special promotion (the "**Selected Promotional Package**") to attract customers outside of the A Households, B Households andC1 Households at select nodes in 2012, which were subsequently discontinued by February 2013 through a mandatory price increase back to the entry package levels. Following the discontinuation, the Company's ARPU have increased substantially to Rp219,944 achieved in the six months ended 30 June 2014.

Going forward, MPA estimates that fixed broadband ARPUs will stay flat between 2013 and 2018. MPA estimates that ADSL is expected to remain under pressure on account of retail level discounting, declining at a CAGR of -1.4%. Between 2013 and 2018, MPA forecasts cable broadband ARPUs to increase by a 7.0% CAGR, driven by:

1. Steady upselling and repackaging by the Company (the leader in cable broadband / NGBB), as it continues to target the A Households, B Households and C1 Households, and differentiates itself based on quality and perceived value proposition, rather than one price.

2. Targeted upselling of customers to higher speed tiers, as consumer demand for bandwidth/download speeds increase on account of growing consumption of data-intensive applications and services such as online video.

Exhibit 17: Fixed broadband ARPUs by technology 2011-2018

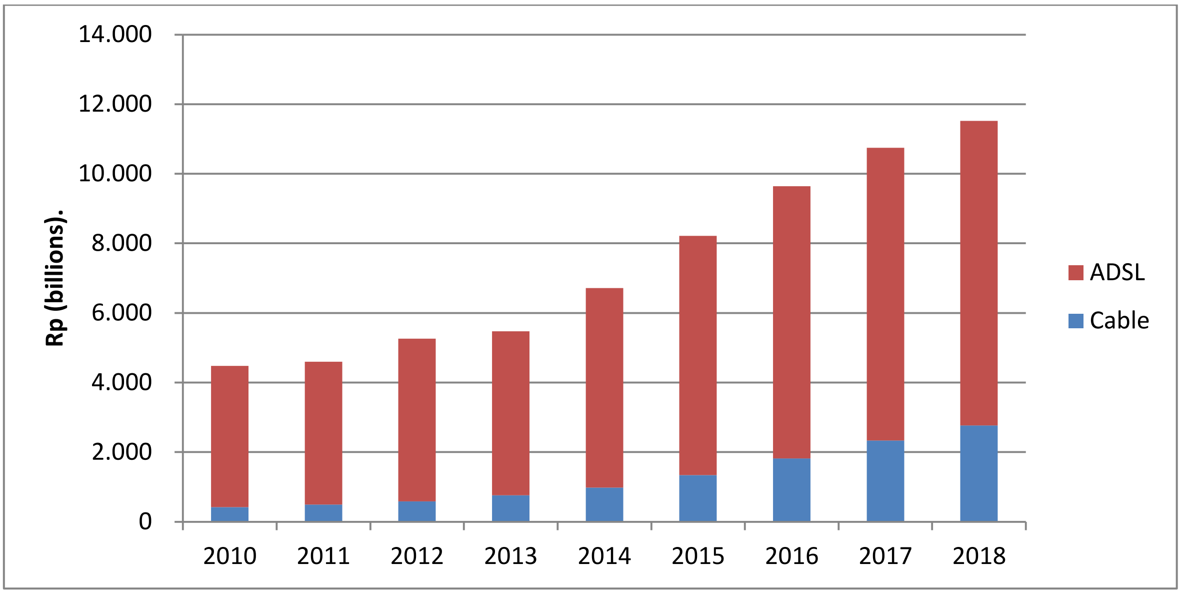
Rp	2011	2012	2013	2014	2015	2016	2017	2018
Cable	226,130	201,005	200,481	216,708	235,553	251,256	268,006	280,569
ADSL	198,911	188,442	146,566	142,378	140,955	139,545	138,150	136,768

Source: MPA

Broadband industry revenues remain robust, generating Rp15.2 trillion at the end of 2013. Fixed broadband contributed Rp5.5 trillion, while the remaining was generated from wireless broadband. ADSL networks generated approximately Rp4.7 trillion in subscription revenues, while cable generated Rp763.8 billion, approximately 14% of total fixed network revenues, despite having only 10.1% market share of fixed broadband subscribers. Cable revenues also grew faster from 2011 to 2013 when compared to ADSL, growing at a CAGR of 24.2%, compared to ADSL's 7%, indicating its ability to secure higher paying subscribers via the provision of faster, more reliable networks.

MPA estimates that by 2018, broadband revenues are forecast to grow by a CAGR of 28.0% to Rp52.1 trillion, of which Rp11.5 trillion will come from fixed networks. MPA estimates that Cable's contribution during the same period is expected to grow from Rp763.8 billion (2013) to Rp2.8 trillion (2018), a CAGR of 29.4%.

Exhibit 18: Fixed broadband revenues by technology 2010-2018



Source: MPA

4.3 KEY BROADBAND OPERATORS IN INDONESIA

1. **The Company (homes passed: 1.3 million; subscribers December 2013: approximately 333,000).** Indonesia's largest NGBB player and second largest fixed broadband provider by home passed, with 1.3 million homes passed and approximately 7,000 kilometres of fibre backbone network. Management targets expansion of homes passed to reach approximately 1.8 million by 2016. Management expects the Company's Network to be over 60% 1 GHz compliant with the remaining 40% 870 MHz compliant by the end of the first quarter of 2015. Management targets to upgrade this remaining portion of the Network to 870MHz by the end of the first quarter of 2015.

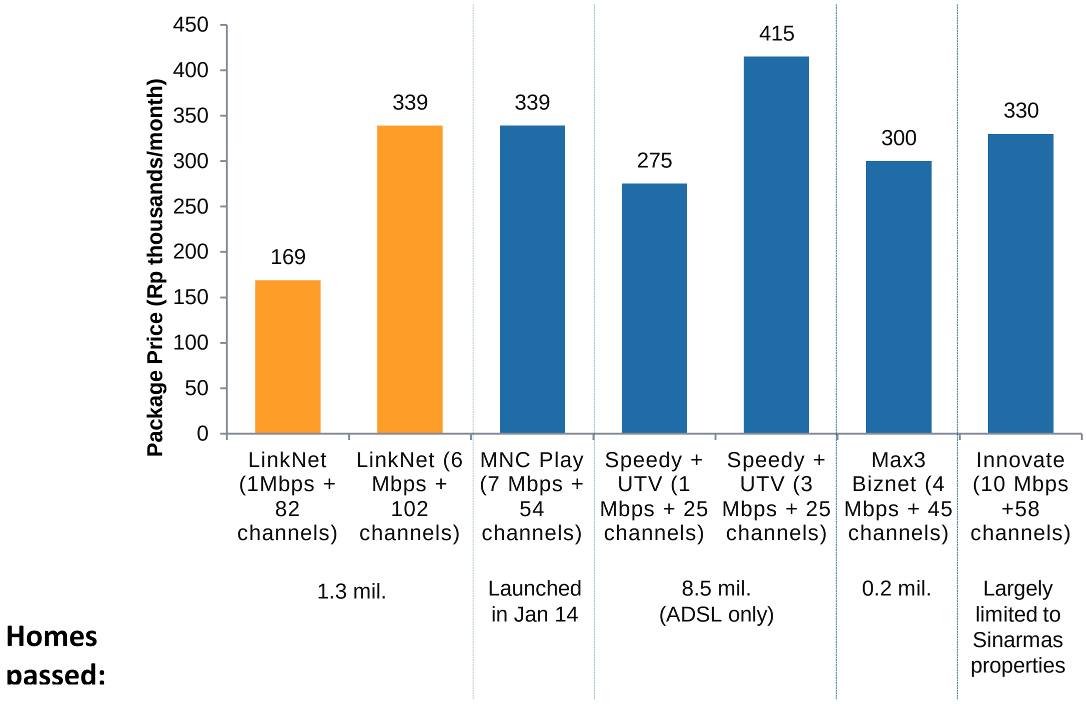
   The Company currently remains the only player in Indonesia that commercially offers speeds of up to 100 Mbps to residential subscribers. Enterprise subscribers are served via Metro Ethernet, an alternate fixed broadband technology to HFC. Enterprise customers are largely located in the Greater Jakarta area. The Company has ramped up its presence in the enterprise segment, growing from approximately 500 clients in 2011, to approximately 1,300 at 30 June 2014.

   As at June 2014, the Company had approximately 357,000 residential broadband customers – adding approximately 24,000 net new customers over six months. Between 2011 and first half of 2014, the Company's customer growth registered a CAGR of 22.8%.

   The Company currently offers five different bundled propositions, which combine pay TV and broadband. With speeds ranging from 1 to 32 Mbps, a vast majority of customers currently take packages that offer between 1 to3 Mbps – indicating the room for ARPU growth as subscribers move from lower speed tiers to higher speeds over time. The Company's residential broadband bundles have also experienced a speed upgrade in recent months, with entry level subscribers now having access to 6Mbps download speeds (up from 1Mbps earlier, at Rp 279,000). These remain substantially faster than the speeds offered by rivals Biznet (4Mbps, Rp 300,000 per month) and Telkom's (512Kbps, Rp 99,000 per month). The following diagram summarises the packages offered by the Company compared to packages offered by its competitors as first half of 2014.

Availability of MNC Play and Biznet's packages are limited due to the current small scale of their networks and coverage areas.

Exhibit 19: Comparison of broadband/bundled offering by operator



Source: Corporate websites of service providers and as of Aug 2014, Company data, MPA

2. **Telkom Indonesia (estimated ADSL homes passed: 8.5 million; subscribers December 2013: 3 million).** Indonesia's incumbent telecom operator has a broadband network with 8.5 million homes passed as at the end of 2013. These 8.5 million home passes have been upgraded to a combination of FTTH, FTTK and ADSL in the last mile. The breakdown of FTTH, FTTK and ADSL are not disclosed, but the vast majority of its 3 million customers are on an ADSL platform and there has been no announcement or indication of any residential FTTH network of scale to date. Telkom's 'Speedy' ADSL service had 3 million broadband subscribers at end 2013, adding 672,000 net new customers during the year. However, subscriber growth has been slowing down to 100,000 to 150,000 net additions per quarter on account of increasing competition as well as the inability of Telekom's legacy network to provide broadband services to all homes on its fixed line network. Management is targeting acceleration in fixed broadband growth to 5 million subscribers by the end of 2014, and 15 million by the end of 2015. However, these targets are unlikely and unrealistic given the difficulties Telekom faces in obtaining last mile permits for upgrading its copper network, as well as lack of availability of skilled labour for carrying out fibre upgrades. In addition, Telkom will need to balance financial returns of any new FTTH network rollout versus cannibalisation of existing ADSL business.

Budgeted capital expenditure for Telkom will reach Rp20.5 trillion in 2014, of which 40% will be devoted to network infrastructure enhancement, including switching copper wire to fibre optics and building a national backbone. The Indonesian government's 'Master Plan for Acceleration and Expansion of Economic Development' has stated that it is targeting 30% household coverage by a national broadband network, a project largely driven by incumbent Telkom Indonesia. However, previous attempts at this project, such as the Palapa Ring project – a consortium formed to build and operate a national fibre backbone network - had faced significant delays on account of execution issues. The large and broad nationwide project and mandate as a state-owned enterprise differentiates Telkom's focus from that of the Company's, which mainly targets the A Households, B Households and C1 Households in Greater Jakarta, Greater Surabaya and Bandung.

Telkom has changed its pay TV strategies over the last few years, and sold its DTH platform Telkom Vision to CT Corp in 2013. Following the sale, Telkom has instead focused on expanding its IPTV services under the Useetv brand, and offers a bundled proposition along with its fixed broadband services. Useetv has approximately 700,000 registered users but the paying base is estimated to be small at less than 40,000 to 50,000 in 2013. Useetv offers a limited selection of up to 50 channels only.

3. **Biznet (estimated HFC homes passed: 170,000; subscribers December 2013: 7,000):** Biznet, part of the MidPlaza group, is an enterprise broadband-focused player which launched residential cable TV and broadband services in 2012. Biznet's core focus remains on its sale of wholesale capacity via its own intercity fibre backbone network, enterprise broadband services via metro ethernet and provision of datacenter and webhosting services to enterprises, especially banks.

   At the end of 2013, Biznet had approximately 9,000 kilometres of fibre backbone network, and is targeting an expansion to 11,000 kilometres by the end of 2014 – expanding the network to 65 cities nationwide, including Bali. Its residential network, delivered via HFC, has 170,000 homes passed, though the residential broadband subscriber base remains low at approximately 7,000 due to limited TV channel offerings as compared to the competition, as well as issues in obtaining last mile permits for network build out. Biznet's residential cable network is currently supplying speeds of up to 50Mbps.

4. **Sinarmas (estimated homes passed: not available but largely limited to properties of Sinarmas Group):** A leading multi-sector conglomerate in Indonesia, the Sinarmas group's subsidiary Mora Quatro Multimedia, under the brand – "Innovate", has been deploying FTTH broadband services within its own real estate developments in Jakarta. The group is targeting a homes passed network of 500,000 by end 2014 and will look to launch a quadruple play service consisting of high speed broadband, TV, over the top ("**OTT**") video and IP telephony. There is no public information in relation to the current size of the network, but the network area is likely to be limited and restricted to Sinarmas's properties. The target 500,000 expansion is high given that Sinarmas has limited track record in rollout of next-generation broadband network and the Company, which has a longer track record of network expansion, has never expanded its network by more than 300,000 in any given year. Subsequently, there could be delays in Sinarmas' network rollout.

5. **MNC Play (estimated homes passed: not available):** Leveraging the MNC Group's strong media and pay TV experience, MNC play is an effort launched by the MNC Group in January 2014 to rollout FTTH network and offer bundled product offering. MPA's understanding is that the rollout is still in its test phase and MNC Group has limited track record in rollout of next-generation broadband network. Subsequently, there could be potential delays in MNC Play Media's network rollout. There could also be potential cannibalisation of MNC Sky Vision's DTH pay TV business.

4.4. KEY DRIVERS OF THE COMPANY IN THE BROADBAND SECTOR

There are significant opportunities for the Company to both bolster its presence in the market, and continue to gain market share. These include:

1. **Network rollout.** The Company currently owns the only next generation network of scale in Indonesia with 1.3 million homes passed. The Network has added over 250,000 new homes passed per year in each of 2012 and 2013, and this is unmatched by any other operator seeking to expand a next generation network in Indonesia. Its strength and ability to rollout network expansion is a key factor in maintaining its market leadership and first mover advantages. There are also significant natural hurdles for other NGBB operators to expand into the Company's existing coverage areas at the community level and customer level, which could lead to lower penetration, profitability and returns on investment for the new entrants.

2. **Increasing penetration at existing homes passed.** The Company's customer penetration is 27.2% as at June 2014. Approximately a half of its homes passed are less than 2.5 years old, which should mean significant upside in existing homes passed. The overall penetration is relatively low compared to other best-in-class NGBB and Cable TV operators globally, whose penetration ranges between approximately 35% and 72% as of 31 December 2013. Furthermore, the Company has an active re-marketing program allowing further penetration of more mature homes passed.

   Exhibit 20: % Subscribers per home passed by key global players, 2013

Operator	Market	% subscribers/homes passed
Telenet	Belgium	72.3
Cablevision	US	63.3
Ziggo	Netherlands	62.7
Time Warner Cable	US	50.2
Shaw Communications	Canada	49.9
Comcast	US	49.6
StarHub	Singapore	41.1
Virgin Media	UK	39.2
Charter	US	37.2
Numericable	France	34.8

   Source: Public corporate filings of global cable players, MPA

3. **Upselling broadband services to TV-only homes.** The Company currently has one of the highest proportions of double play bundle subscribers amongst Asian NGBB operators. Approximately 92% of the Company's subscribers take both Cable TV and broadband services. However, MPA believes there remains further opportunity for broadband growth, especially to homes that take only take a single service, i.e. pay TV, from competitors either due to the unavailability of reliable fixed broadband networks in their area, or due to lack of education about Next Generation broadband networks and its benefits. The Company's expansion of its products/services portfolio to include set-top boxes with built-in cable modems will enable it to not only sell TV services to competitor subscribers, but also to introduce cable broadband

services to the same customer at a later stage, but without the added costs/logistics of CPE deployment.

4. **Upgrading subscribers to higher speeds.** As availability and consumption of online video services increase, subscribers are increasingly moving to higher speed and greater bandwidth plans in order to support browsing habits. The Company's DOCSIS 3.0 Network is currently one of the only networks in Indonesia capable of offering speeds of up to 100Mbps, providing customers with access to reliable broadband connections. This enables the Company to provide customers with higher broadband speeds than the competitors, but at comparable price levels, enabling: (i) customers to get accustomed to higher speeds and reliable networks; and (ii) allowing the Company to remain competitive without having to resort to price cuts and weakening ARPUs.

5. **Introduction of broadband-delivered Value Added Services ("VAS").** Operators in advanced markets have often resorted to bundling broadband with value-added services (i.e. Multiscreen/OTT). These strategies have had some success in boosting ARPUs in highly competitive broadband markets, where they have enabled operators to upsell subscribers to higher-speed tiers in exchange for providing free/discounted access to OTT and multiscreen services. In addition, high-speed broadband customers and double play subscribers who take both TV and broadband services are less likely to churn away, providing operators with an additional tool to combat churn. However, the deployment of these strategies and services continue to be nascent in Indonesia, indicating the room for growth for the Company to further differentiate itself from Telkom and cement its position as the leading operator for high-speed broadband access.

6. **Benign competitive environment.** The competitive environment for broadband in Indonesia remains benign at this stage, with limited number of players offering high-speed services on account of high barriers to entry. These include: (i) high capital expenditure required for network build-out; and (ii) difficulty in obtaining approvals and permits from local governments and communities for deploying last mile networks. Although Telkom Indonesia has launched FTTH services, actual fibre homes passed is estimated to be low, reducing the availability of speeds beyond 3 Mbps. Additionally, following its sale of TelkomVision to CT Corp, Telkom does not possess a strong pay TV service which it can leverage to deliver a double play offering comprising of pay TV and broadband. It does offer content via the Useetv IPTV service, though content availability via this service is limited when compared to other pay TV operators. Subsequently, Telkom's ability to compete with the Company on double play services remains limited.

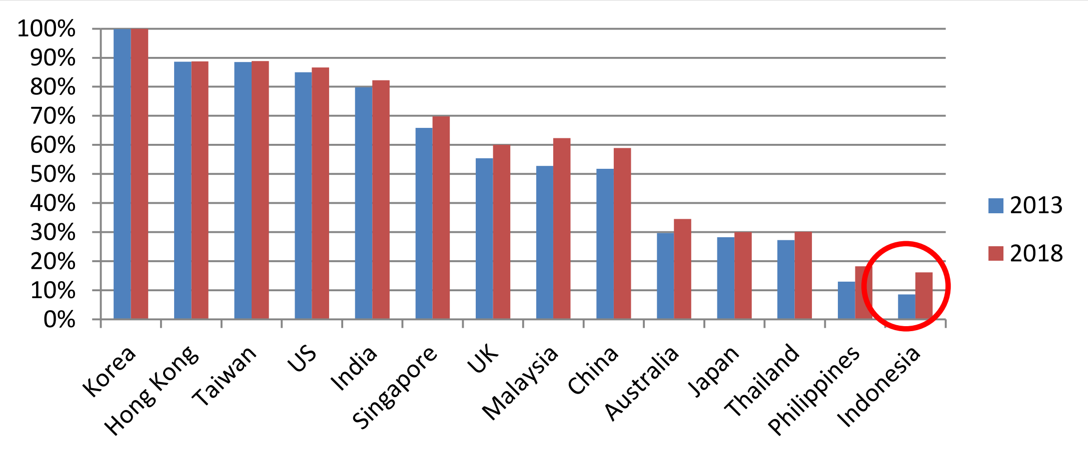
   Similarly, although Biznet offers high speed broadband bundled with pay TV, its lack of a compelling pay TV channel offering and limited homes passed (140,000 as opposed to the Company's 1.3 million) ensure that the current competitive situation is skewed in favour of the Company.

5. OVERVIEW OF THE INDONESIA PAY-TV SECTOR

The market for pay TV in Indonesia continues to grow from a low base, reaching subscriber base of approximately 3.2 million in 2013, which represents 8.6% penetration of total TV homes. Total pay TV industry turnover reached approximately Rp4.2 trillion at the end of 2013. Pay TV operators added a combined 712,000 net new subscribers in 2013, compared to 824,000 in 2012. Between 2014 and 2018, MPA forecasts indicate that pay TV operators will further add a combined 3.4 million subscribers, taking the overall base to 6.6 million subscribers and 16.2% penetration of TV homes. By the end of 2018, the pay TV industry is expected to generate annual revenues of Rp10 trillion according to MPA forecasts.

Pay TV penetration in Indonesia is relatively low when compared to other markets in Asia, including South East Asia. Unlike other markets in Southeast Asia, sports content is not a key driver of pay TV in Indonesia. pay TV penetration in Indonesia, which is expected to increase by 7%, is driven by the increasing availability of local content, both basic and premium, on pay TV, in particular on DTH platforms, and the greater affordability of services as household incomes increase.

Exhibit 21: Pay TV penetration by key Asian markets, 2013 against 2018



Source: MPA

The two main modes of pay TV distribution in the country are DTH satellite and cable. Given Indonesia's unique topography (comprising of 17,000 islands, of which approximately 6000 are inhabited), DTH satellite is the more popular platform because of national reach. DTH had 87.0% of total pay TV subscribers at the end of 2013.

However, in the larger cities such as Greater Jakarta, Cable TV services offered by the Company continue to gain significant traction given its double play bundles offering pay TV and broadband via DOCSIS 3.0 and extensive HD channel lineup. Cable TV had 10.2% share of the pay TV market at the end of 2013. IPTV services are currently offered only by incumbent telecommunications company Telkom, and have faced significant headwinds in ramping up coverage and subscriber numbers due to low number of home passed that are capable of receiving TV services over ADSL networks.

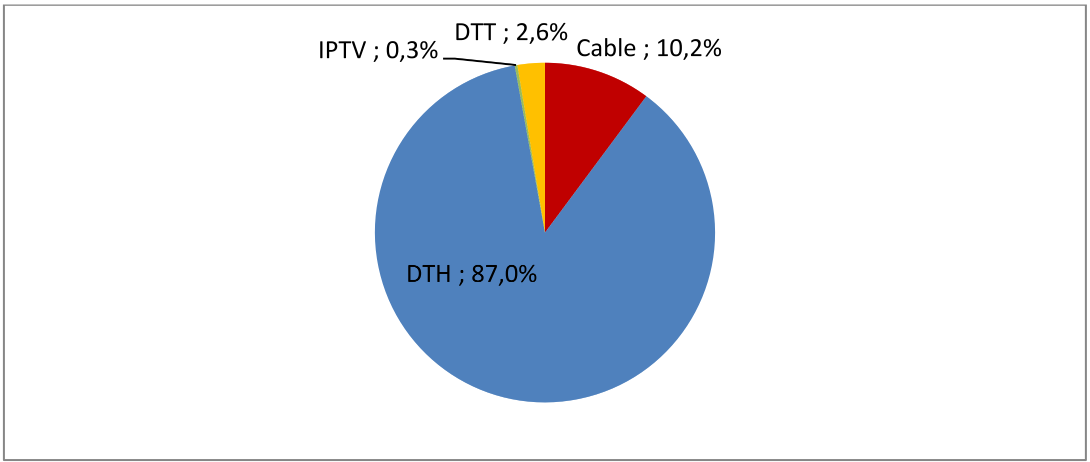
Exhibit 22: Pros and cons of various pay TV technologies

Platform	Pros	Cons
DTH	National reach Low costs for expanding reach/homes passed	Not a two way network Inconsistent signal quality affected by weather Channel capacity constraints
Cable TV	Full two way network	
	HFC network is not impacted by rain fade	Expansion of reach/homes passed is expensive compared to DTH
	Easy to install last mile – availability of qualified install teams	Maintenance of network more expensive, and possibility of last mile disruptions higher, than DTH
	Low CPE costs compared to FTTH-delivered IPTV Ability to provide bundled packages	

	of broadband and pay TV on the same network infrastructure	
IPTV	Full two way network Significantly higher symmetrical bandwidth available via FTTH deployment	High costs for expanding of last mile reach Limited availability of work force/technicians skilled in fibre deployments
DTT	Low capital expenditure due to ability to launch using existing terrestrial network, free for customers	Low channel carrying capacity, limited by spectrum availability, not a two way network, inconsistent signal quality affected by weather

Source: MPA

Exhibit 23: Pay TV market share by platform, 2013



Source: MPA

MPA forecasts cable to steadily increase market share of pay TV subscribers from 10.2% at the end of 2013, to 12.3% by the end of 2018, largely driven by the increase in the Company's share of subscribers. This is attributable to its bundling proposition (i.e. pay TV and broadband), strong tiering capabilities in terms of pricing and package bundling, and the highest number of HD channels available in the market. The second widest HD offering is through Biznet's Max3 with 29 HD channels, followed by MNC Sky Vision with only 5 HD channels, limited by DTH technology.

In addition, there is likely to be a consolidation in the DTH space as weaker players either cease their operations, or merge with competitors due to strong competition with low natural barriers to entry. Despite this, cable's presence and performance in the market is unlikely to be affected given its focus on the higher socio economic demographics, and ability to provide these households with a double play bundle comprising of TV and broadband, decreasing reliance on pricing and costly content to attract subscribers, higher video quality with greater range of HD channels, two-way communication and services.

Exhibit 24: Pay TV market share by platform comparison, 2013-2018

	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**CAGR 2013-18**
Cable TV subscribers (millions)	0.32	0.39	0.49	0.60	0.73	0.81	20.2%
Cable TV market share	10.2%	9.7%	10.3%	11.1%	12.1%	12.3%	
DTH subscribers (millions)	2.75	3.51	4.14	4.68	5.17	5.61	15.3%
DTH market share	87.0%	87.4%	86.8%	86.3%	85.4%	85.3%	

IPTV subscribers (millions)	0.01	0.01	0.01	0.01	0.02	0.03	25.6%
IPTV market share	0.3%	0.2%	0.3%	0.3%	0.3%	0.4%	
DTT subscribers (millions)	0.08	0.11	0.13	0.13	0.13	0.14	10.5%
DTT market share	2.6%	2.6%	2.6%	2.4%	2.2%	2.1%	

Source: MPA

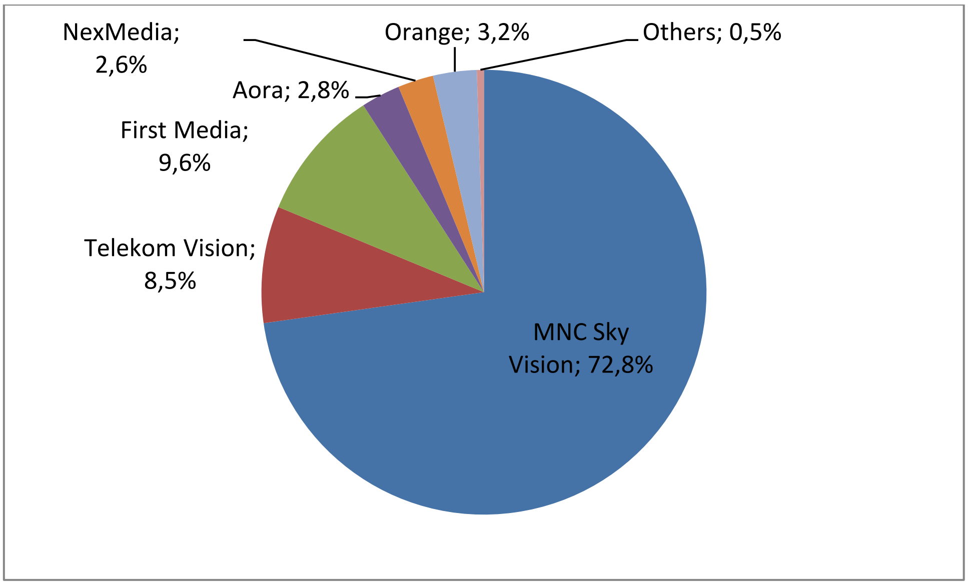
Key drivers of growth in the pay TV marketplace include:

- **Macro factors.** An improving economy, income growth and ex-Jakarta consumption, backed by a new pro-reform government.
- **Competition and execution.** MPA forecasts assume competition will ease and execution will improve across the market as the industry consolidates and pricing rationalises. The most meaningful platforms with strong execution capabilities will include: (i) MNC Sky Vision ("**MNCSV**"), which operates three DTH brands that had a combined 72.8% market share in 2013; (ii) the Company, which operates a compelling bundle of pay TV and broadband services; (iii) the Lippo-owned Big TV, a DTH service; (iv) Trans Vision, a DTH platform owned by CT Corp; and (v) K Vision, linked to the Kompas group.
- **Content dynamics.** The significance of local content and exclusive content will increase, especially in the DTH segment where content and price are key drivers. This is already occurring as operators increase their exclusive agreements with turnaround channels and enter into exclusive licensing agreements for local offerings. MPA believes that local content to a certain extent plays a smaller role in the overall Cable TV industry as the Company in particular provides a compelling broadband bundled offering, higher video quality / HD and other value added services. The market for local pay TV will also grow as operators increase their in-house channel offerings, while global channel begin to offer local programming across selected genres.

5.1 INDONESIA PAY-TV LANDSCAPE

While there are 13 operators in the market, the landscape is consolidating with only a handful of players delivering sustainable subscriber growth to fund future capital expenditure and content costs. At the end of 2013, the top players, –MNCSV, the Company and Trans Vision, had more than 90% share of subscribers with MNCSV firmly established as the market leader with 72.8% market share.

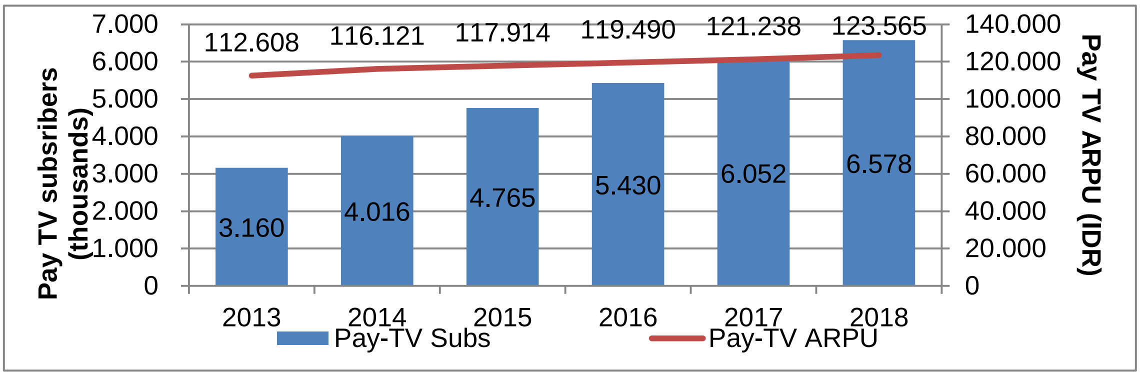
Exhibit 25: Pay TV market share by operator, 2013



Source: MPA

Pay TV ARPU fell by a CAGR of -3.8% between 2011 and 2013, from a monthly Rp121,734 to Rp112,608. This was due to competition for subscribers and market share, resulting in price-based competition. In 2013 and in the three month period ending 31 March 2014, key operators have started to rationalise pricing and packaging and implement rate increases. The Lippo group-owned IMTV, which launched Big TV services on a DTH satellite platform in the three month period ending 31 December 2013 and is focused on non-metro areas, was disruptive to this trend, with aggressive discounts. Big TV has started to reduce the discounts towards the end of the three month period ending 31 March 2014. Cable TV and the Company were relatively less impacted due to its broadband-led bundling strategy with less dependence on price and content compared to DTH operators.

Exhibit 26: Indonesia pay TV and ARPU trends, 2013-18



Source: MPA

Exhibit 27: pay TV ARPU by platform, 2011-2018

Rp	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**% CAGR 2013-18**
pay TV ARPU/Month	121,734	118,408	112,608	116,121	117,914	119,490	121,238	123,565	1.9
Cable	133,271	147,148	150,685	163,260	170,382	173,090	176,002	179,046	3.5
DTH	114,716	115,141	108,500	113,541	115,715	117,157	118,401	119,589	2.0
IPTV	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	-
DTT	99,000	85,000	82,000	80,000	81,600	83,232	84,897	86,595	1.1

Source: MPA

The main pay TV operators in Indonesia are:

1. **MNCSV – DTH; December 2013 subscribers: 2.3 million):** MNCSV ended 2013 with 2.3 million subscribers. MNCSV is the leading pay TV operator in Indonesia, benefiting from parent Global Mediacom, which owns leading FTA TV stations and content group, MNC. During 2013, MNCSV added 579,000 net new subscribers via its three brands, Indovision, Top TV and Oke Vision, compared to 538,000 in 2012.

MNCSV is targeting approximately 2.9 million subscribers at the end of 2014, nationwide. MNCSV is expanding its sales operations in 2014, in order to capitalise on growth outside Jakarta, and to tap into the growing affluence outside of the capital.

MNCSV's key focus areas going forward include: (i) developing and acquiring more exclusive content; and (ii) developing TVE Everywhere ("**TVE**") and OTT video services to increase customer retention. In June 2014, TVE services were launched. MNCSV will also likely to leverage sister concern MNC Play Media's plans to build a fibre network in Jakarta and launch a bundle of broadband and IPTV services.

As at June 2014, MNCSV offered its customers 118 pay TV channels with 31 exclusive channels. Transition to MPEG-4 is targeted for the end of 2014, giving it additional capacity to add more than 30 new channels. MNCSV leverages the content capabilities of MNC Group (its parent) to program more than 20 in-house channels, a number of which perform well in ratings across its pay TV platforms.

MNCSV provides DTH services via both the Protostar and SES-7 satellites. It offers DTH services on S-band frequencies, which are more resilient to rain fade, on the Protostar, while Ku band capacity on SES 7 has been acquired for providing Chinese language channels and DTH package. On account of capacity limitations on the Protostar satellite, MNCSV has chosen to limit the number of HD channels it carries to five, and has been transitioning to an MPEG4 system to accommodate more SD channels.

2. **The Company (Cable TV; December 2013 subscribers: approximately 304,000):** The Company is Indonesia's leading provider of bundled broadband and digital Cable TV services. As at June 2014, the Company had approximately 328,000 Cable TV customers. More than 90% of customers subscribe to bundled packages, which include broadband services. Bundled service offering are the Company's unique selling proposition with no other pay TV and broadband operator offering such a wide range of bundled services. More than 90% of the Company's customers in the core Jakarta region are derived from single home households. This underlines its ability to acquire subscribers from the affluent demographics (A Households, B Households and C1 Households) because of its premium service offerings, which includes a bundled offering of pay TV and next generation broadband.

The Company owns and operates a state of the art HFC Network which runs on the latest DOCSIS 3.0 standard. Over 70% of the HFC Network has been upgraded to 870 MHz or higher, and is scheduled to be fully upgraded to at least 870 MHz by the end of the first quarter of 2015.

Significantly, given that a vast majority of the Company cable Network is already upgraded up to the CMTS level, provisioning advanced cable TV and broadband services require minimal upgrade. The Network's high capacity allows the Company to provide up to 350 HD channels or 800 SD channels. The Company provides 120 SD channels, 60 HD channels and 1 3D channel as at 31 July 2014. The Company has also developed 10 in-house channels, leveraging parent First Media's in house production capability.

As at June 2014, the Company's Network passed approximately 1.3 million homes, predominantly in Jakarta (approximately 1.1 million), as well as in Surabaya and Bandung. Plans are in place to expand its Network to Medan, Semarang and Jogjakarta in the future, and the Company is expected to expand its Network to approximately 1.8 million homes passed by 2016.

The Company debuted TVA and OTT Services with subscription VoD packs in February 2014, which include access to over 50 live streaming channels, giving subscribers access to content both within and outside the home. The Company aims to increase this offering to 100 live streaming channels over the course of the second half of 2014.

A new HD box developed in tandem with Samsung was introduced in the market in April 2014. Further developments include the launch of a new Android based set-top box in the third quarter of 2014, which will support DVR via an external hard disk and other interactive services.

3. **TransVision (DTH; December 2013 subscribers: 268,000):** Previously owned by Telkom and branded as TelkomVision, the DTH platform was sold to CT Corp (80% stake) in 2013, and rebranded to TransVision in May 2014. CT Corp is a major conglomerate in Indonesia with ownership of key media and lifestyle assets, including two of the top five free TV stations (Trans and Trans TV) in the market. The operator ended 2013 with 268,000 pay TV customers, and the company is looking to accelerate an MPEG-4 upgrade in order to increase its channel carrying capacity. The company is offering customers 116 TV channels, including 12 pay channels produced by Trans. TransVision is targeting customers in the ABC categories, with entry level monthly pricing of Rp169,000 – in line with that offered by Indovision.

Smaller operators adding up to 8.2% of market

4. **Big TV (DTH; December 2013 subscribers: 50,000):** IMTV, a company majority-owned by the Lippo group launched DTH services under the Big TV brand in Q4 2013. The company launched with aggressive discounts, bundling its services with Bolt, a 4G mobile service owned by Lippo. By the end of 2013, Big TV had installed approximately 100,000 boxes installed, with 50,000 paying subscribers. Its service offered 177 channels and the core focus is on the non-metro areas, and specifically areas where the Company currently does not have a footprint. The pricing of the service has been designed to target the BCD segment of the market, with entry-level package priced at Rp89,000 per month.

5. **K Vision (DTH; December 2013 subscribers: Not available):** Owned by the print focused Kompas group, K Vision launched DTH services on C and Ku-band in 2014. By the end of May 2014, the company had installed 200,000 set-top boxes on C-band with 80,000 paying subscribers. Kompas' diversification into pay TV is part of its strategy to move into TV and multimedia industries. The company launched a regional free-to-air ("**FTA**") offering in September 2011 called Kompas TV, which now covers the top 10 cities in Indonesia covered by Nielsen for its FTA TV ratings. The company has 40 channels on C-band, including a pay TV sports channel called Bola Channel Indonesia.

6. **Other players (DTH, DTT):** Orange continues to grow its service but subscriber acquisition and ARPU is not trending at a level comfortable for its shareholders, despite its sport-focused strategy starting with Barclays Premier League football rights. Aora has lost customers over 2013 and 2014. NexMedia, a pay TV operator using DTT technology in Jakarta, is funded by the well-capitalised media group Emtek, which owns FTA networks SCTV and Indosiar. NexMedia had 100,000 subscribers at the end of 2013 but there is no long-term strategic vision on its future.

Exhibit 28: Top three operator comparison, 2013

	MNCSV	Company	TransVision
Pay TV subscribers (2013)	2,300,000	304,190	268,000
Pay TV ARPU (Rp- 2013)	132,000	151,095	90,000
Target demographic	ABCD	ABC1	BCD
SD channels	99	120	110
HD channels	5	60	6
Total number of channels	104	181[(a)]	116
DVR	Yes	Yes	No
TVE	Yes	Yes	No
Two-way boxes	Yes	Yes	Yes

Source: MPA

Note:

(a) As at 31 July 2014; includes 1 3D channel

5.2 DRIVERS OF THE COMPANY'S PERFORMANCE IN THE PAY-TV SEGMENT

Despite the low penetration of pay TV in Indonesia, MPA remains confident that the market holds significant potential for growth, provided that operators are able to effectively execute. In particular, MPA identifies the following key drivers of the Company's growth in the pay TV sector:

1. **Growing A Households, B Households and C1 Households:** Indonesian pay TV's growth story is strongly anchored to that of its growing population, and their movement across socio economic categories. Based on Nielsen's data, MPA estimates that the addressable household base for the Company's services, defined as A Households and B Households, in Greater Jakarta alone reached 3.3 million at the end of 2013, a CAGR of 16.7% since 2010. When combined to add Greater Surabaya and Bandung, the addressable household base increased to 4.1 million, growing at a CAGR of 17.6% between 2010-2013. The Company also targets to attract customers in the C1 Households through its entry level package priced at Rp169,000 per month. As at 31 December 2013, including C1 Households, there are 6.6 million addressable A Households, B Households and C1 Households in Greater Jakarta, Greater Surabaya and Bandung, which grew at 12.6% CAGR between 2010-2013. The large addressable households should provide significant room for growth to the Company.

2. **Bundled proposition:** The Company has significant competitive advantage in that its return path capability allows the Company to offer bundled digital pay TV and broadband services. Globally, operators in the US, UK, Japan, Korea, Taiwan, Thailand, Singapore and Hong Kong, have built a stronger consumer proposition from multiple services. These services provide stickiness and reduce churn while also helping to drive yields or ARPUs. In Indonesia, the Company is the only major pay TV operator in Indonesia that has both a strong pay TV and next generation broadband product bundled into one package.

3. **Larger selection of HD channels and VAS:** Despite the increase in flat screen HD-capable television sets, the availability of HD channels remains low in Indonesia. HD channels are non-existent on FTA terrestrial, and Indonesia's largest pay TV operator MNC Sky Vision offers a very limited selection of HD channels on account of bandwidth constraints. With 60 HD channels

in its lineup as of July 31, 2014, the Company possesses a clear lead in this space, and has established itself as a clear choice for premium customers seeking access to HD channels. HD further serves as a key differentiator in the market, especially amongst quality conscious customers in the AB demographic.

The Company is also the first operator in the market to provide return-path enabled VAS such as TVA and VoD, features that have been adopted by leading operators in other advanced markets to drive incremental ARPU and reduce churn. The Company will also be launching a new Android-based set top box in the second half of 2014, which will enable it to provide customers access to both pay TV and online content, in addition to deploying features like recommendation engines.

4. **Increase in local premium content:** A future driver of the pay TV sector is the development of premium local language content. Local content is currently available only via FTA terrestrial, although most of these channels are also distributed via pay TV platforms. However, the creation and programming of local language premium channels with content unavailable on terrestrial FTA, MPA believes, will be a key future driver for increasing pay TV penetration. Currently, a number of top pay TV operators such as MNCSV and TransVision are expanding their channel lineup with locally produced premium channels, in a bid to differentiate themselves from the competition, especially in the DTH segment.

   MPA believes that local content to a certain extent could play a smaller role in the overall cable TV industry and the Company in particular given its next generation broadband network and wide offering of double play bundles that include TV and broadband.

6. OVERVIEW OF THE INDONESIA TV SECTOR

Indonesia’s media sector continues to grow at a robust pace, with the media sector generating total advertising revenues of approximately USD2.3 billion (net of discounts), according to MPA. This represented 15% year-on-year growth in 2013 and TV retained its dominance with more than 69% of the total advertising revenue.

In line with a number of South East Asian countries, the Indonesian media sector is dominated by the FTA terrestrial television industry, which accounted for 68% of the media advertising pie in 2013. The FTA terrestrial market has ten national broadcasters, of which three (MNCTV, RCTI, Global TV) belong to the MNC group, and two each to the Emtek group (SCTV, Indosiar), Viva (Antv, TVOne) and CT Corp (Trans, Trans7). As pay TV penetration is growing from a low base, its share of the advertising market is small but growing at a significant rate in terms of volume, driven by two players, the Company and national DTH satellite platforms offered by MNCSV.

Exhibit 29: Indonesia net advertising, 2010-2013

Net advertising market (Rp trillions)	2011	2012	2013
TV	14.5	16.6	19.1
FTA	14.3	16.3	18.6
Pay	0.2	0.3	0.5
Print	5.2	5.8	6.5
Others	1.2	1.5	1.9
Total net advertising	**20.9**	**23.9**	**27.5**
% year on year growth	*17.6*	*14.8*	*14.7*

Source: MPA

Exhibit 30: Indonesia net advertising market share, 2010-13

% Market share	2011	2012	2013
TV	69.5	69.3	69.2
FTA	68.4	68.0	67.6
Pay	1.2	1.4	1.6
Print	24.8	24.2	23.6
Others	5.7	6.5	7.2
Total	100.0	100.0	100.0

Source: MPA

7. KEY RISKS FOR THE COMPANY IN THE PAY-TV AND BROADBAND SECTORS

Despite the existence of significant upside for the pay TV and broadband sectors in general, and the Company in particular, MPA acknowledges the existence of threats, which include:

1. **Increased competition in pay TV segment.** In the pay TV segment, TransVision (previously Telkom Vision - 8.5% market share) has recently completed its transition to MPEG-4, and is expected to commercially launch services in the six month period ending 31 December 2014. TransVision also has plans to ramp up its HD and in-house channel count, and could dilute some of the Company's current advantages. A second threat comes from the MNC group, whose parent Global Mediacom plans to build out a fibre network in Jakarta and elsewhere to launch bundled broadband and IPTV services (branded MNC Play Media) by the end of 2014, capitalising on content, packaging and sales at pay TV operator MNCSV. However, as at the date of the current report, MNC Play Media is still in its test phase.

2. **Digitalisation of analogue FTA terrestrial systems.** The Indonesian government has already put in place plans for digitizing the nation's analogue terrestrial networks and launching DTT. The first two phases of licence allocations to run the multiplex antenna networks have already concluded, with each of the major FTA players (MNC, Lippo, Emtek, Viva) winning at least one licence. Per the plan, each MUX will be capable of supporting up to 12 SD channels, or a combination of SD and HD channels, with a total of 5 MUX in each region.

   Although the DTT plans have faced regulatory headwinds, with Indonesia's Supreme Court asking the ministry to review and revise the regulations governing the licence auction and allotment, the launch of the network is expected to be approved and see commercial activation in 2016-2017. For pay TV operators, the key threat would be via the increased availability of additional FTA channels – in both SD and HD – which could result in: (i) reduced viewership/audience share for pay TV channels; and (ii) subsequent decline in advertising revenue for pay TV.

3. **Increased competition from Telkom in the broadband segment.** Telkom's management has put in place a target of 15 million fibre homes passed by 2015, and have stated that they have already reached 8.5 million homes passed via a mixture of FTTH, FTTK and ADSL. The breakdown of FTTH, FTTK and ADSL are not disclosed, but the vast majority of its 3 million customers are on an ADSL platform and there has been no announcement or indication of any residential FTTH network of scale to date. We note that ADSL ARPUs have been in decline at Telkom, and fibre build out remains slow and unproven in scale.

Telkom's focus on large and broad nationwide broadband rollout mandate as a state-owned enterprise differentiates Telkom's focus from that of the Company's, which mainly targets the ABC1 SES segments in Greater Jakarta, Greater Surabaya and Bandung. This further mitigates potential increase in competition from Telkom.