



INDONESIA IN VIEW

EXECUTIVE SUMMARY

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Country Overview

Indonesia is the most populated country in SE Asia, standing at 266.8 million at the end of 2018, which equates to 68 million households. Due to the geographical nature of Indonesia's far-flung archipelago, FTA TV penetration nationally is estimated at 75%; however, in urban areas FTA TV penetration is as high as 95%. In addition, there are approximately 8-12 million Freesat viewers, 8-12 million Local Cable Operator (LCO) subscribers some of which are legal while others are illegal, 3.4 million cable/IPTV subscribers (excluding LCOs) and 3 million DTH subscribers. On top of that there are 9-11 million online video active users.

FTA in Indonesia

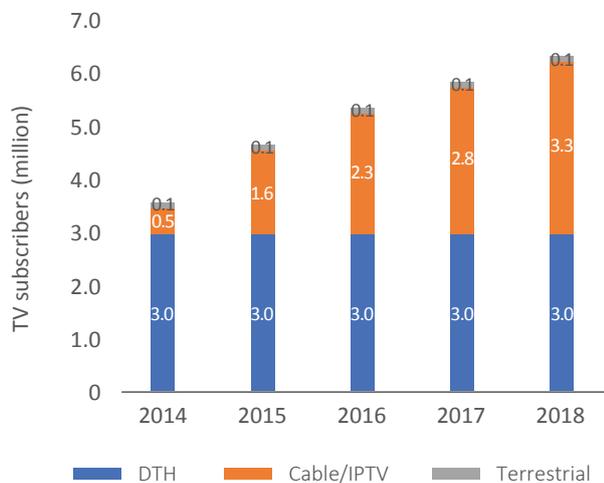
Like many Asian countries, Indonesia has a very well-developed free-to-air (FTA) TV sector with one state owned FTA station and more than 210 private FTA TV stations. Of the private stations, ten are considered large private national stations, which are rebroadcast throughout the nation via unencrypted satellite C-band transmissions; they hold a 97.2% all time audience share of the FTA households. Four large media groups own nine out of the ten large private FTA TV stations.

Traditional Pay TV

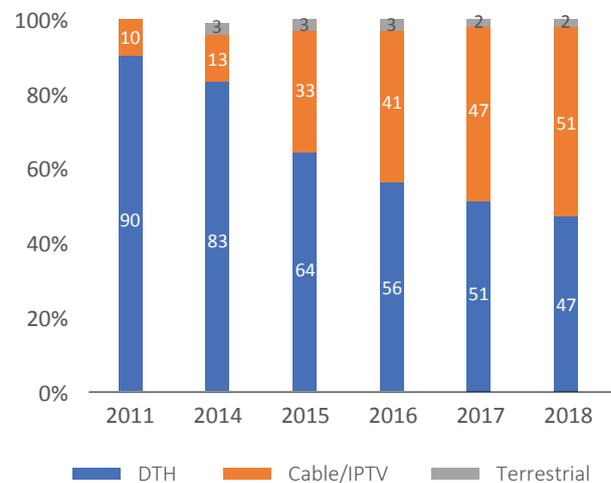
The Indonesian pay TV sector continues to be one of the most fiercely competitive in SE Asia with 385 pay TV licenses issued by the government, including 17 DTH, 366 cable TV and 2 terrestrial licenses. The total number of traditional pay TV subscribers that subscribe to a legal service is estimated to be between 8-10 million, of which 6.5 million subscribe to reputable "national" companies and the rest subscribe to licensed local cable operators (LCOs). Additionally, a further 8-12 million digital FTA satellite boxes have been sold since 2014.

In the past couple of years, the increase in traditional national pay TV subscribers has been solely driven through the growth of dual play broadband and cable TV/IPTV subscribers, while subscribers for other technologies started to decline. Indeed, the cable TV/IPTV share of paying subscribers has increased five-fold from 13% in 2014 to 51% in 2018 and over the next few years the DTH share is likely to erode further as consumers increasingly want bundles which include fast broadband internet at home.

Growth of traditional pay subscribers



Pay TV subscriber split by technology



Source: AVIA

Currently, Indonesian DTH pay TV platforms use 34 transponders on nine satellites. Over the past four years, pay TV operators have reduced the number of transponders used to reduce costs or because several small DTH platforms have ceased operation.

Online Video

Indonesia’s online video industry has developed rapidly over the past couple of years, with increasing availability of reliable and fast broadband combined with falling data prices. The sector is still very much in its infancy; the largest players each attract two to five million active monthly users per month. To date the largest global online video players have been unable to penetrate the market for a number of reasons including tough entry barriers (Telkom, the largest telco, has blocked Netflix across its entire network); reluctance to set up a local presence in Indonesia and high monthly subscription costs.

As a result, four to five Asian and Indonesian players have started to emerge as market leaders that have a strong focus on Indonesian and Asian content, live sports, as well as Bollywood and Hollywood films.

Advertising Overview

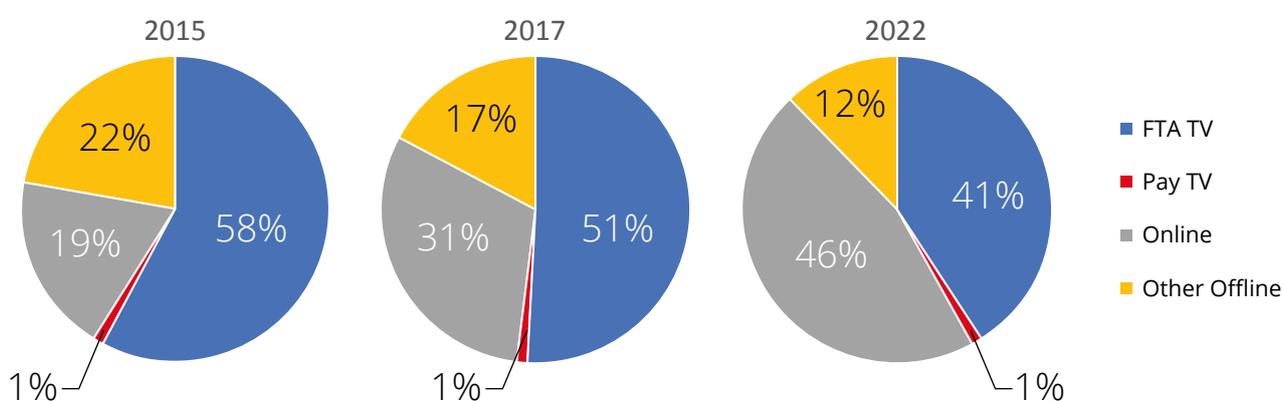
Indonesia is the largest advertising market in SE Asia, valued at US\$2.6 billion in 2017. As a whole the advertising industry has performed well, growing 12% p.a over the past couple of years and is expected to continue growing at 8% p.a to reach US\$3.9 billion by 2022.

Historically, FTA TV has been the key destination for ad spend and although Indonesia has more than 200 TV stations, the 10 largest private “national” TV stations still attract more than 97.9% all time audience share of the FTA households and in turn absorb 90% of ad spend. However, within the ad market, revenues have

started to transition across from FTA TV to online. FTA TV is expected to lose 17% ad share between 2015 and 2022 as FTA TV ad revenues grow by slow single digits while online advertising will

grow by 24% CARG¹ over the same period. Online advertising is also expected to eat into other offline advertising segments which will see their ad share drop 10% over the same period.

Advertising market share by media (2015-2022E)



Source: AVIA

Internet Overview

In 2017, Indonesia was the fifth largest internet country with 143 million users, equivalent to a 55% penetration rate, with more than 84% connecting via mobile devices. Growth in new internet users started to slow down in 2017, as most Indonesians that want to be internet connected are already connected, while many non-users are either outside coverage area or have no current desire to connect to the internet.

Fixed Broadband Industry Overview

Globally, Indonesia is the 25th largest broadband market with just over eight million subscriptions, equivalent to a 12.5% household penetration rate. There are nine main broadband providers, although the largest player – Telkom Indonesia – holds around an 84% market share. All the major fixed broadband providers offer cable TV as a bundled product, although some of the new fixed broadband players provide only the network and allow subscribers to join OTT subscriptions thereby reducing exposure to content costs.

1 CARG estimated by AVIA based on multinational internet players actual growth for SE Asia and Indonesia between 2015 and 2018 as well as projected growth for 2019-2022.

Whilst the broadband operators' network extends to nearly 24 million home passes, a number of homes have multiple broadband connections; as such it is estimated that just over a quarter of homes have access to high speed broadband. In terms of broadband speed, Indonesia has one of the slowest fixed broadband speeds ranked 93rd globally and within SE Asia is the 3rd slowest at 15.4 Mbps

Mobile Industry Overview

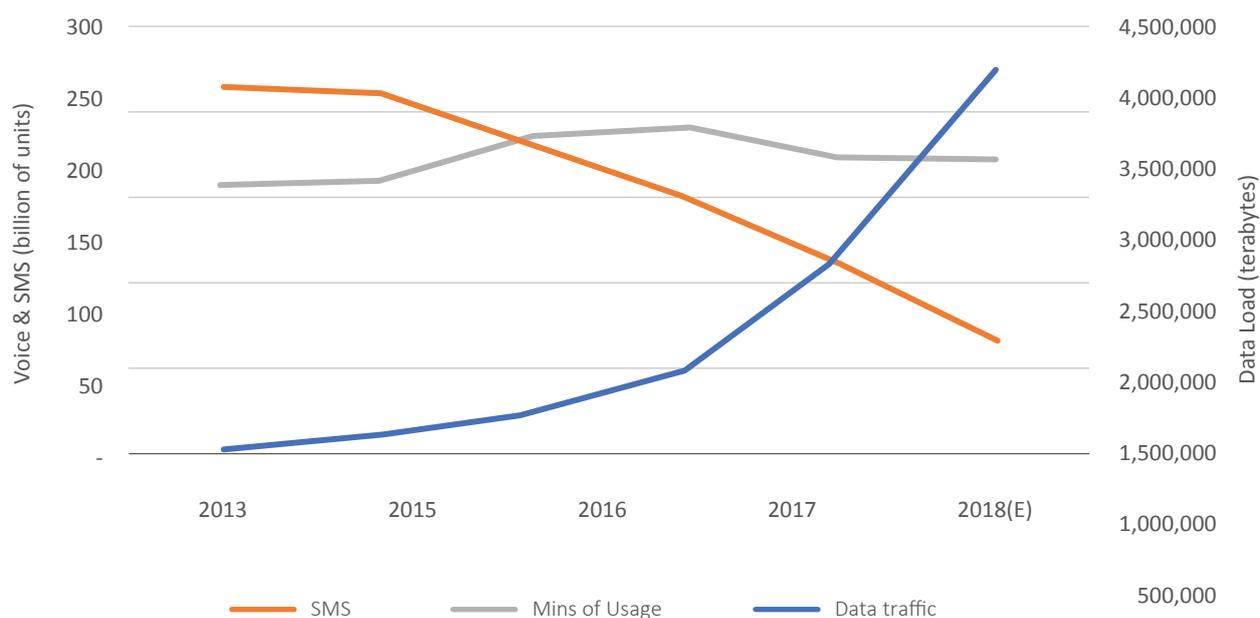
Indonesia is the fourth largest mobile market in the world with an estimated 347 million SIM cards in use. Indonesia's mobile sector is saturated with more than 90% of adults using mobiles; as such the overall mobile penetration rate has remained fairly stable at 70-72% of the population over the past five years. Due to

aggressive competition and price undercutting, Indonesia has one of the lowest ARPUs in SE Asia at US\$2.3 per month and US\$0.71 per GB.

Indonesians have an increasing appetite for data, with smartphones accounting for 74% of all mobile connections. Monthly data usage has been doubling every year since 2016 to 3.5GB a month in 2018 and is expected to reach 15.5GB per month in 2022.

In 2017, mobiles generated nearly half of all internet traffic volumes but this is expected to leap to 69% in 2022. In 2018, the mobile sector generated an estimated USD10.4 billion of revenue with data being the main revenue driver; its contribution to revenue more than doubled in the past four years to an estimated 57% in 2018.

Shift in mobile usage patterns (2013-2018E)



Source: Telkomsel

Content

As in many countries, football rights are highly competitive in Indonesia as they are considered essential viewing to boost subscribers and/or advertising. Most popular football leagues have some games broadcast on FTA whilst the full package of games is broadcast on pay TV platforms and some games are live streamed on OTT platforms.

Recently a number of new players to the market have come on the scene and acquired key rights, including PT Mola TV, a new local sports rights company made up of a consortium of Indonesia, US and Bahrain backers. That company won the rights to English Premier League matches (2019-2021), while PT Futbol Momentum Asia won the exclusive rights to a number of prestigious football events including the World Cup 2018, UEFA Champions League and European League (2018-2021). Outside of football, Fox Sports holds the exclusive rights to a wide range of other sporting events in Indonesia.

Other than sport, all of the major OTT players are heavily investing in developing local content to appeal to a wider audience and differentiate themselves. As most OTT platforms are not affiliated with Indonesian media groups/production studios, OTT platforms have come up with innovative strategies to develop local content including original series and films as well as acquiring the exclusive rights to Indonesian blockbuster films.

Challenges facing the industry

Piracy remains without a doubt one of the main challenges to both traditional pay TV and the nascent OTT industry. It is difficult to accurately determine the extent of piracy in Indonesia

but it is estimated that 6-12 million watch unauthorized content on cable TV and as many as 15 million watch illegal content online. Indonesian consumers are developing an unhealthy appetite for viewing pirated content via illicit streaming devices (ISDs). A recent YouGov consumer survey for Indonesia, commissioned by AVIA's Coalition Against Piracy (CAP), found that 29% of Indonesian online consumers use an ISD to stream pirated television and video content. Of the 29% of Indonesian online consumers who purchased an ISD for free streaming, nearly one in five (17%) stated that they cancelled all or some of their subscription to legal pay TV services.

Whilst online piracy has grown exponentially as Indonesia's broadband infrastructure has rapidly improved both in terms of download speed as well as coverage and affordability, cable piracy continues to be the biggest threat to DTH operators that are operating in rural areas which are not served by good broadband. In rural regions, consumers are often not aware that they are subscribing to an illegal operator or that the content may be illegal; they are simply concerned about paying the lowest price possible for their entertainment.

The government has taken some measures to try and tackle piracy. In a bid to stamp out cable piracy, Kominfo has encouraged LCOs to legalise and obtain a cable pay TV license. However, there is no enforcement mechanism in place to ensure the LCOs continue to operate legally after they have received their license. For online piracy, a start was made when an inter-agency anti-piracy taskforce was established in 2015. This taskforce

has taken down 392 illegal film websites that distributed or streamed pirated content in the last three years. However, online piracy remains a significant problem, as the takedown/blocking mechanism is slow and not responsive to rapid market changes.

Traditional pay TV platforms face a number of other challenges including rising costs for acquiring content and deploying networks. At the same time revenues are struggling to grow due to falling ARPU as many DTH platforms are starting to see their subscriber numbers decline. For their part, OTT platforms face the difficult challenge of monetizing their products as Indonesians are very hesitant to pay for content (abetted by free availability on pirate networks) and advertising revenues are slow to materialize.

Regulations

Traditional pay TV is heavily regulated, especially in terms of content, whilst OTT is not legally recognized and therefore not regulated at all. The Broadcasting Law only recognizes pay TV offered through satellite (DTH), cable and terrestrial; thus content aired through OTT and other non-traditional pay TV means are not subject to any pay TV regulations.

Indonesia has two governmental bodies that oversee the broadcasting and telecommunication sector. The Ministry of Communication and Information Technology (Kominfo) is responsible for setting policies and overall supervision of the broadcasting and telecommunication sectors; while the independent Indonesian Broadcasting Commission (KPI) is solely responsible for

supervising content. Jointly, Kominfo and KPI are responsible for granting broadcast licenses, including pay TV licenses.

KPI's content regulations are primarily focused on ensuring content meets Indonesia's moral standards; in that respect KPI has a slightly more tolerant standard for pay TV compared to FTA TV.

Other regulations focus on classification, parental controls, dubbing/subtitling film related content into Bahasa Indonesia, 10% quota for Indonesian FTA as well as local content and advertising. On the latter there has been a substantial change in position on foreign adverts inserted into pay TV channels over the past few years. Extant legislation contains restrictions on foreign ads, but KPI is responsible for monitoring adverts and the current Commission does not consider adverts a priority area and thus are not actively monitoring adverts. They have not given any formal admonitions about insertion of foreign adverts, a position which is a 180 degree reversal on the previous KPI Commission's stance on foreign adverts that requested all foreign adverts be replaced with Indonesian adverts in March 2015.

The Government has been trying to revise the current Broadcasting Law to broaden its coverage to include IPTV and OTT, digitization of FTA and a number of other relevant issues. However the draft Broadcasting Law has stalled in the House of Representatives (DPR) and is unlikely to be passed before the end of the current Government in October 2019, in which case it will start the process anew under the next Government and optimistically not be passed until 2021 at the earliest.



About the Asia Video Industry Association

The Asia Video Industry Association (AVIA) is the trade association for the video industry and ecosystem in Asia Pacific. It serves to make the video industry stronger and healthier through promoting the common interests of its members. AVIA is the interlocutor for the industry with governments across the region, leads the fight against video piracy and provides insight into the video industry through reports and conferences aimed to support a vibrant video industry. AVIA evolved from Casbaa in 2018.

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