



VIDEO COMPETITION AND MARKET DYNAMICS

In 2002, Comcast has responded to competition by delivering new cable and broadband products, improved customer service, and expanded investment in advanced technologies. As a result of the merger that closed on November 18, 2002, Comcast will now accelerate the upgrading of the systems that previously belonged to AT&T Broadband, bringing advanced broadband services to millions more Americans.

Comcast Corporation:

- Now the nation's largest cable operator, serving more than 21 million customers in 41 states with systems passing more than 38 million homes.
- Comcast's content includes QVC, E! Entertainment Television, style., Comcast SportsNet, The Golf Channel, G4, and Outdoor Life.
- Consolidated revenues for past year of \$20.87 billion (counting QVC).

Comcast Cable key facts:

- 6.3 million digital cable customers; 3.3 million high-speed cable Internet customers; 1.3 million cable telephony customers.
- 79% of customers are served by systems with more than 250,000 customers. Comcast has a substantial presence in 17 of the top 20 DMAs.
- Consolidated cable revenues for 12 months ending 9/30/02: \$15.86 billion.

Satellite competition from two nationwide DBS providers is vigorous and accelerating in all markets:

- Over 20% of multi-channel households subscribe to Direct Broadcast Satellite services as of 6/30/2002. As of YE02, DBS now has approximately 20 million customers, an increase of over 10% in the past year. Half of these are former cable subscribers, and roughly three-fourths of them are in areas served by cable.
- Satellite Home Viewer Improvement Act, passed in 1999, allows DBS to retransmit local TV stations. Together, EchoStar and DirecTV offer local TV signals to 61 million television households.
- DBS is increasingly aggressive in its promotional pricing.
 - DirecTV offers a 110-channel basic package for \$31.99 per month.
 - EchoStar is aggressively marketing a 50-channel package for as little as \$22.99 per month.
 - Both companies offer free equipment and installation with one-year contracts.
- Competition drives DBS to form strategic alliances with partners such as Verizon, SBC, and AOL to deliver bundled packages of communications, entertainment and Internet services.
- DirecTV has just renewed its deal with the National Football League, which gives the company *exclusive* access to a complete package of 14 NFL games each weekend throughout the 17-week NFL season.
- DBS is also offering personal video recorder capability as part of its set-top boxes.

Comcast also faces increasing terrestrial competition:

- In many markets, consumers have a 4th facilities-based competitor to choose from (WideOpenWest, Starpower, Knology, etc.).
- RCN is providing service in DC, MD, and VA (under the Starpower name) and also in PA, NJ, and other states.
- Knology in Charleston, SC; Panama City, FL; [Huntsville, AL](#); and [Knoxville, TN](#).
- WideOpenWest in dozens of MI and IN communities, continuing cable operations begun by Ameritech.
- Plus, other overbuilders and OVS providers (e.g Millennium in Anne Arundel County, MD).

Competitive pressure for the cable industry:

- Competing MVPDs capture a large majority of new customers, and their subscriber growth is increasing.
- Cable subscribership remains flat (in fact, AT&T Broadband *lost* 520,000 customers over the past year). Cable's market share has declined appreciably in each of the past five years; and this year is no exception.
- DBS has grown from 40,000 customers in 1994 to 20 million today.

COMCAST'S COMPETITIVE RESPONSE

New Product Digital Cable Service:

- Comcast Digital Cable offers more than 170 digital channels of programming with CD quality.
- Digital service offers 35 premium movie, 38 pay-per-view, and 45 commercial-free digital music channels.
- Digital Plus Tier offers over 280 analog and digital channels, including up to 45 premium channels.
- Interactive screen guide allows customers to search for programs by title, time, channel, or category.
- Currently 6.3 million digital cable subscribers.

New Product Comcast High-Speed Internet Services:

- Successful transition from Excite At Home to Comcast's self-provided network in late 2001/early 2002.
- 3.3 million high-speed Internet subscribers. Despite widespread availability of DSL and other alternatives, demand remains strong because of quality and value.

New Product Cable Telephony:

- 1.3 million cable telephone customers, most in former AT&T Broadband territory. Service is available to over 8 million homes.
- Comcast will offer competitive, facilities-based telephone services to one million additional homes in former Comcast territory. Initial deployment of VoIP in Philadelphia is scheduled for second quarter of 2003.

New Product Video-On-Demand ("VOD"):

- Customers can select from a broad and growing array of movies and other program content using their digital cable box. VOD has complete VCR-type functionality, so customers can rewind, fast-forward, and pause programs, and can "store" selections for up to 24 hours from the time of ordering.
- VOD is not currently offered as a separate "product" but rather as a feature of digital service that helps to drive demand, increase customer satisfaction, and reduce churn.

New Product High-Definition Television ("HDTV"):

- Comcast was one of the first cable companies to launch HDTV, now available to nine million homes.
- Comcast supported Powell DTV plan, committing to offer up to five HDTV channels in its communities in top 100 markets.
- Comcast SportsNet will offer Philadelphia and Washington, D.C./Baltimore markets more than 200 professional sporting events in HDTV annually starting in 2003.

Clustering:

- Enables more efficient use of resources to provide high quality video programming, improved customer service, and competitive and reasonable prices.
- Clustering yields economic benefits: fewer headends, more effective marketing and branding capability, and increasing network reliability while lowering maintenance expenses.
- Regional programming like CN8 – made possible by clustering – reaches over 4 million customers in Mid-Atlantic area, providing the quality local programming that broadcast stations are less willing to provide.
- Merger with AT&T Broadband did not materially increase clustering.

Comcast has spent \$5 billion for fiber optics and system upgrades over the past five years, with more to come:

- 96% of customers in pre-merger Comcast systems are served by systems of 550 MHz or greater, and 85% of customers are served by systems of 750 MHz or greater.
- Rebuilding the AT&T Broadband systems is a top 2003-2004 priority, requiring \$2-2.5 billion in capital spending during that period. Comcast is budgeting \$4.2-4.5B for consolidated capital expenditures in 2003.

Competitive Pricing:

- Although programming costs continue to rise at a double-digit rate, and substantial capital expenditures remain necessary, annual price increases on basic services continue to be held (on average) to less than 6%.
- The availability of competitive alternatives is stimulating intensified efforts to retain and regain customers.
- Dish buy-backs and other promotional offers benefit consumers, and mirror the kinds of legitimate and desirable offers that have emerged in the long distance and wireless industries.

