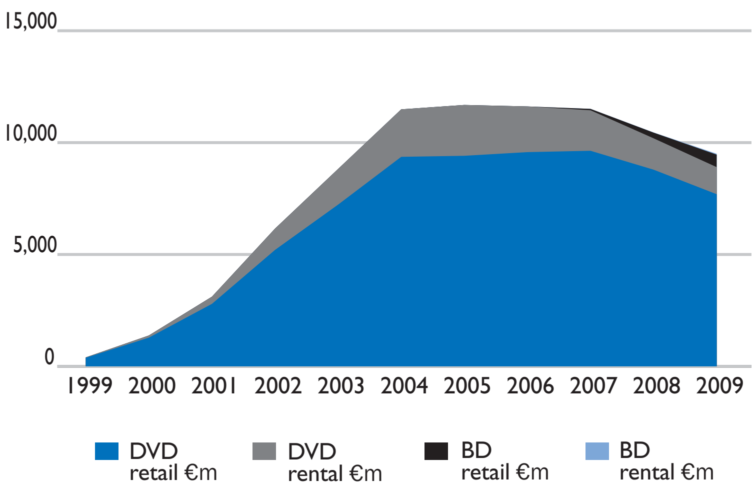
European video: the industry overview

European consumers spent EUR 9.5bn buying and renting physical video (DVD and Blu-ray Disc (BD) combined) in 2009, a decline of 9.3 per cent compared to 2008. Buying video discs accounts for the lion's share of consumer spending, with retail DVD and Blu-ray together accounting for 86.8 per cent. Total spending on retail declined by nine per cent in 2009 to EUR 8.2bn. Video rental has contracted significantly in the past decade and in 2009, the sector only accounted for 13.2 per cent of video spending and rental spending fell 11.2 per cent to EUR 1.2bn.

A holistic view of consumer spending on video that not only includes physical video purchases and rental, but also consumer spending on video content sold through online retail and rental as well as TV-based VoD give a more modest change year on year. While still only accounting for a very small proportion of total video spending, Blu-ray online video and TV VoD are experiencing rapid growth - combined spending grew by 14.6 per cent last year. Screen Digest analysis indicates that once online and on-demand spending is added to physical video, the decline in overall video spending is reduced to 8.2 per cent, with consumer spending EUR 10bn in 2009.

When converted into US dollars using annual average exchange rates, the decline in total European spending was steeper, though down 14.1 per cent to $13.2bn. However, much of this discrepancy is due to exchange rate fluctuations in 2009. If exchange rates are fixed to 2009 annualised rates, allowing the dollar value to better reflect actual 2009 trends in each local market, video spending in Europe is seen to have declined by just 4.7 per cent as expressed in US dollars.

Total consumer spending on physical video in Europe 1999-2009 (€m)

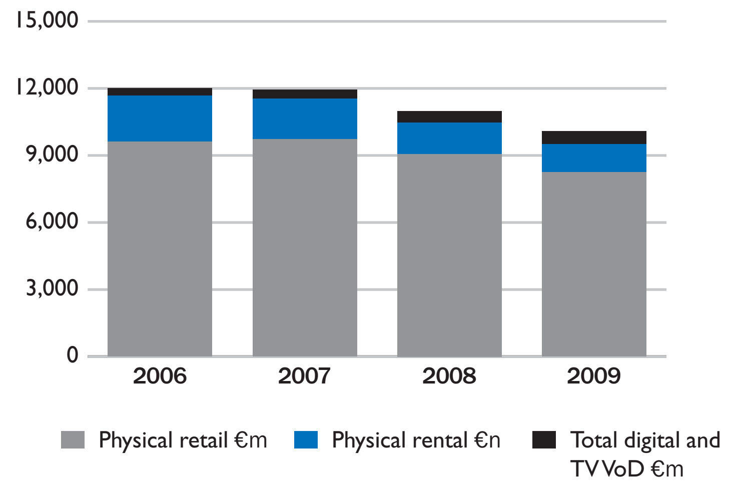


First downturn in video sales volumes

Last year was the first in which the volume of physical video units sold to consumers declined in Europe as a whole. The total number of DVD and Blu-ray Discs (BDs) purchased by Europeans fell by 1.4 per cent from 790.3m units in 2008 to 779m units. The more mature markets that make up Western Europe had already experienced marginal declines in DVD volumes in 2008 (-0.5 per cent) but the impressive double-digit annual growth for DVD in the countries of Central and Eastern Europe had made up for this. However, in 2009 DVD sales in these territories fell 3.7 per cent to 90.9m, with most of the downturn being driven by the contraction in the Russian market (down 4.7 per cent).

The European market for physical video continues to be dominated by standard definition video with DVD sales accounting for 96.6 per cent of total video sales by volume in 2009. This represents the sale of 752.3m retail DVDs to consumers that year, a decline of 3.6 per cent from 2008. The downturn in video disc sales is due to a combination of factors: a slow-down in consumer demand for DVD since

Total European spending on buying and renting video



the format's 2007 peak, the slower-than-anticipated take-off of BD and some consumer migration to non-physical forms of video distribution via TV-based VoD services and delivery over the Internet (both legal and illegal).

There are, however, significant variations between the different territories in Europe, and in particular between the largest European markets UK, Germany, France, Italy and Spain. Inevitably, the overall results were greatly affected by conditions in the UK, the largest video market in Europe. In the UK, the recession, which was longer and deeper than in many other key territories, resulted in the closure of several high-street chains that had historically driven video sales. This meant that there were over 1,000 fewer outlets selling video in 2009. These closures also more or less completed the shift away from the UK's once-strong specialist entertainment sector (now reduced to HMV, a handful of independents and key online operators) and towards a supermarket-led retailing environment. This reduced the number of retailers with a vested interest in guiding consumers towards high-definition video products. Furthermore, while average BD prices declined by 19 per cent to EUR 18.89 in 2009, aggressive DVD promotions meant the average price of a DVD fell to less than EUR 10 (the UK average per DVD was EUR 9.67 in 2009).

Perhaps as a result, Q4 sales figures suggested that most UK consumers had stuck with the 'good-enough' standard definition DVD during the all-important Christmas purchasing season. Despite this, DVD sales fell by 7.3 per cent in 2009 to 234.6m units, compared to 252.9m in 2008. Sales of BD software rose 123 per cent to 8.4m units, but overall, only 3.4 per cent of UK video sales were on BD in 2009. This compares poorly with DVD's performance in 2000, at a comparable stage in that format's development, when it accounted for 14.6 per cent of video sales. Screen Digest analysis indicates that only a handful of the most BD-friendly Christmas releases sold more than 20 per cent of their total volume on the format. As a result, total UK video sales fell 5.4 per cent in 2009, while spending dropped by 19.4 per cent when converted to Euros, but in local currency decline was smaller at 10 per cent.

By contrast, 2009 was a positive year for French video; adjustments to local mandatory release windows and a reduction of prices combined to return the market to growth for the first time since 2005. French consumers leapt at the opportunity to buy the latest movies just four months after their cinema debut; particularly the summer's blockbuster titles which until the amendment in July 2009 would not have been available until 2010. Previously the country's unique mandatory release windows ensured films could not be released on video until six months after theatrical runs thus pushing 2008 summer blockbusters into the first quarter of 2009. Another driver for DVD sales were significant DVD price cuts. 2009 was characterised by lower DVD prices than ever before; the average DVD price was down 9.1 per cent to EUR 14.21. Meanwhile, despite average BD prices remaining fairly stable at EUR 23.95 (-1.4 per cent), the format performed relatively well, accounting for 4.8 per cent of all units sold during the course of 2009.

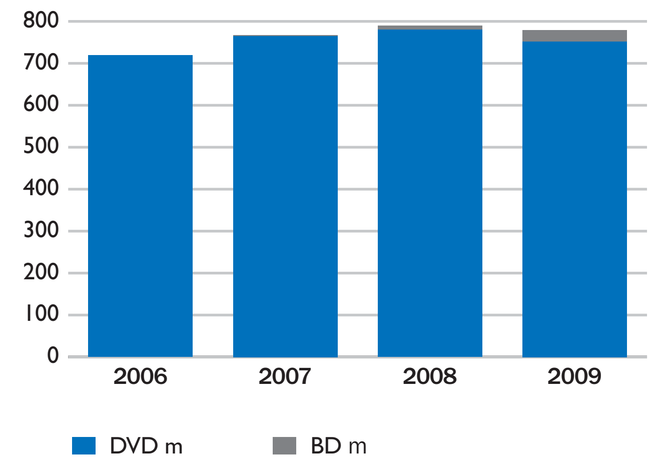
French DVD unit sales rose six per cent to 90.2m, compared to 85.1m in 2008. But because of the rapid decline in consumer prices per retail DVD, spending dropped by 3.7 per cent to EUR 1.2bn in 2009. Furthermore, despite average BD prices remaining fairly stable at EUR 24.40, the format performed relatively well, accounting for 4.8 per cent of all units sold during the course of 2009. Partly due to Blu-ray, overall video retail spending was stable year-on-year (-0.5 per cent) which in the context of a four-year decline that had almost halved the size of the French market was a welcomed success.

The clearest European BD success story in 2009 was Germany. Consumer spending on buying BD was up by 184 per cent despite the steepest decline in average BD consumer prices in Europe: down 24.2 per cent to EUR 19.19. The trend was driven by key consumer electronics (CE) retailers such as the Media-Saturn group who invested heavily in campaigns to educate Germans about the benefits of BD. As a result, Germany boasted the highest European BD conversion rate (the format accounted for 5.5 per cent of overall volume sales) in 2009 while the average German BD-enabled household bought three BDs last year, second only to Norway in the European ranking. Furthermore, by the end of the year some key titles were reported to be achieving up to 40 per cent of their sales on the new format.

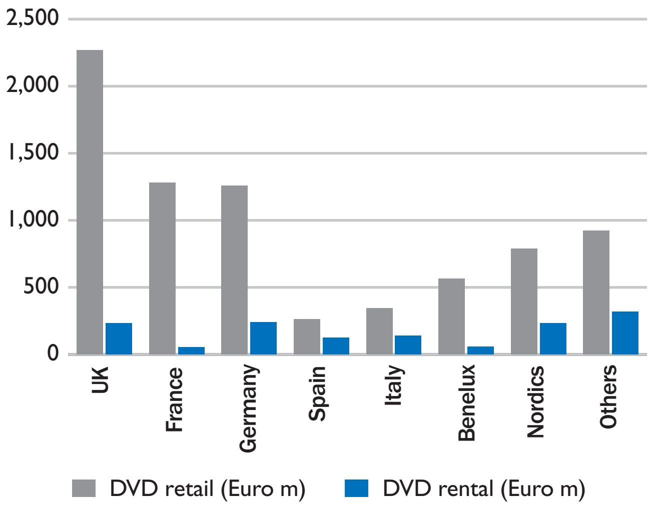
The 6.2m BDs sold in Germany in 2009 compare relatively favourably with DVD sales in 2000 of 8.2m. This confirms the trend that it is not unusual to see strong sales of new video technology among German early adopters, despite the fact that Germans have traditionally spent relatively little on home entertainment by European standards. The big question remains, therefore, whether Blu-ray can maintain this growth once the format reaches the mass market. German DVD sales also showed positive results in 2009 up 5.1 per cent to 106.5m units.

This means that total video disc sales were up 9.5 per cent at 112.6 m. However, it was a very different story in the southern European markets of Spain and Italy. Italian DVD volume sales fell for the second year in a row (-8.6 per cent to 29.5m); Italians also purchased 786,000 BDs (up 116.4 per cent) but this was not enough to compensate for the DVD decline. In Spain, the market decline was even worse with Spanish DVD volumes down for the fourth

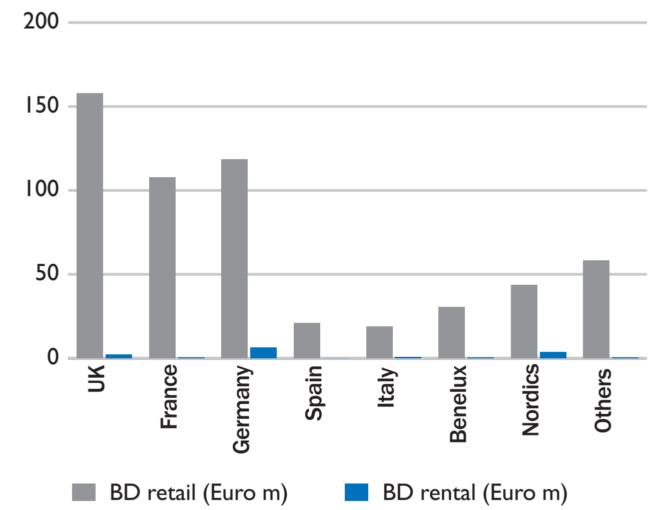
Retail discs sold to consumers in Europe 2006-2009 (m)



Spending on DVD by territory 2009 (€m)



Spending on BD by territory 2009 (€m)



consecutive year, down 11.9 per cent to just 21.7m units. BD sales more than doubled with as many as 889,000 BDs sold last year but the net result was a decline of 9.7 per cent in video disc sales.

Volumes in the Benelux and Nordic countries also declined in 2009. DVD units fell 9.8 per cent to 52.9m and 6.4 per cent to 77.4m respectively. As elsewhere BD failed to compensate for declining DVD volumes, with 1.3m and 2m BDs sold respectively. This drove a net downturn in volume sales of 8.4 per cent in Benelux and 4.8 per cent in the Nordic countries.

The situation was exacerbated by the first downturn in DVD volume sales in Central and Eastern Europe (CEE). In 2008, DVD sales in the CEE markets grew by 24.5 per cent to 94.4m units sold by the end of that year. However in 2009, this impressive growth trend was reversed with a decline of 3.7 per cent resulting in total CEE DVDs sales of just 90.9m, of which 75m units accounted for by Russia (-4.6 per cent). Not surprisingly, the CEE market is somewhat behind the rest of Europe when it comes to BD, and in 2009, Screen Digest research indicates that fewer than 1m Blu-ray Discs were sold in the region, 76.8 per cent of them in Russia.

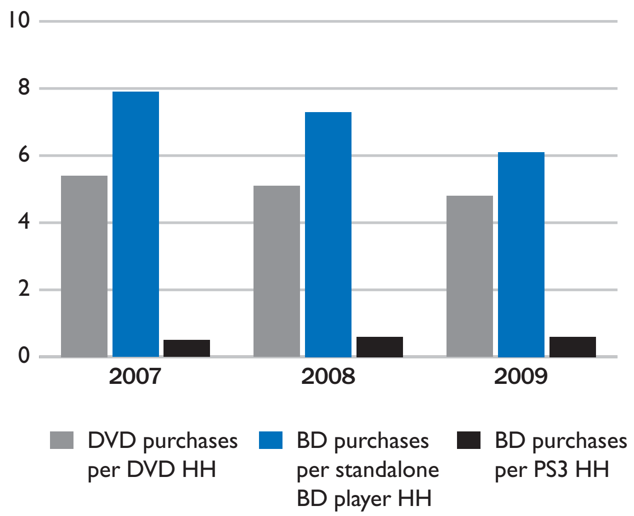
How is Blu-ray performing compared with DVD's evolution?

As a premium video product, BD is not expected to achieve the same level of mass-market acceptance as the hugely popular DVD format. BD player specifications mandate backwards compatibility and so all BD players are able to play DVDs as well as BDs. Screen Digest believes that consumers who have invested in BD home entertainment systems will therefore continue to buy DVDs. These households will cherry-pick the titles that are considered must-have on hi-def versus titles that do not warrant additional spending instead settling for the 'good enough' standard definition format.

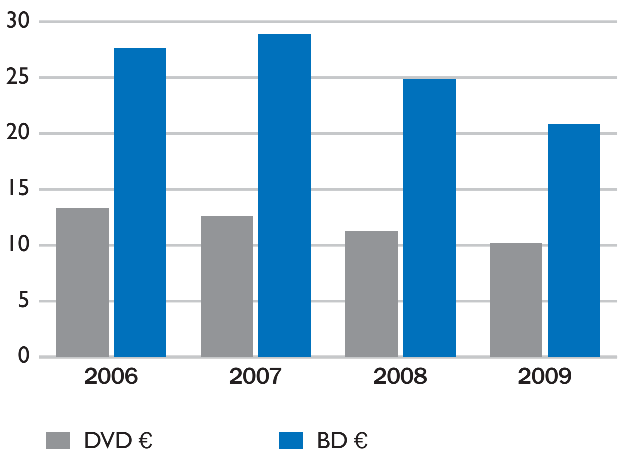
However, even bearing these considerations in mind, European BD sales are lagging behind the standards set by the DVD format a decade ago at a similar point in its history. European BD sales doubled in volume in 2009, to 26.7m units. However, by comparison, in DVD's third year of availability (2000), Europeans purchased over 53.3m units. The biggest reason for this is slower than anticipated sales of dedicated BD hardware: fewer BD households inevitably means lower BD software sales.

By the end of the year 14m Western European households had at least one device connected to their TV that was capable of BD playback. By comparison in 2000, the third year after DVD's European launch, there were 5.1m DVD player households in Western Europe. But four out of five of the European BD households owned a Sony PlayStation 3 (PS3), rather than a standalone BD player. In Europe taken as a whole (including CE Europe), there were 14.6m equipped hi-def households through BD, with either a standalone player or a hi-def enabled games console. Thus, the PS3 continues to dominate hi-definition living-rooms across Europe.

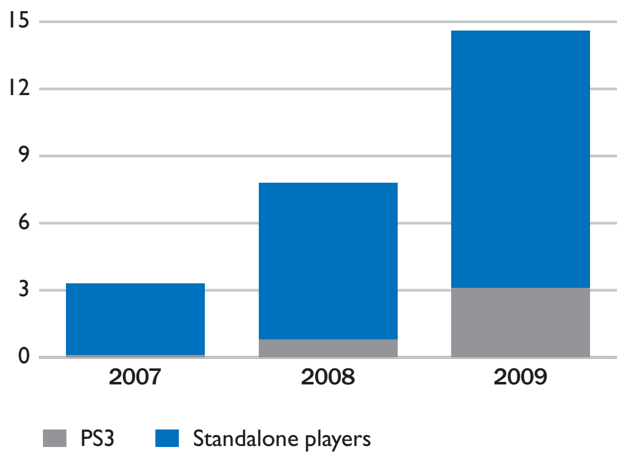
Western Europe: Average video buy rates 2007-2009 (no)



Average consumer price per DVD and BD in Europe, 2006-2009 (€)



BD-enabled households in Europe 2007-2009 (m)



No European rental revival

BD was positioned from the start—like the DVD before it—primarily as a retail format and so far it has had minimal impact on the European rental sector. In 2009, the hi-def format accounted for just 3.2 per cent of rental spending in Europe, compared with its share of 6.7 per cent of retail spending. In neither case was the format's contribution enough to reverse the downwards trend in spending.

While the video rental market has returned to growth in the US, for Europe 2009 represented a seventh consecutive year of double-digit declines in rental spending (-11.2 per cent). US rental growth is being driven by a combination of online subscription services and budget self-service rental kiosks. The former channel also continues to expand in the UK, German and Nordic markets, although a general lack of interest in physical rental propositions and problems with the necessary postal infrastructure mean it has proved less successful elsewhere in Europe. Meanwhile, although rental kiosks have long been part of the rental market in Southern Europe, the low-price model popularised by Redbox in the US is only just starting to cross the Atlantic and has so far been limited to small-scale trials. Although we expect to see more of these in the short term, Screen Digest does not believe that there is enough residual interest in the rental concept in Europe for them to revitalise the market in the same way that they have in the US. It is worth noting that even before the latest upturn in rental transactions, the average US DVD household was renting more than 22.9 times a year; in 2009, the equivalent figure in West Europe was 2.27.

European spending on video physical rental declined by 11.2 per cent to EUR 1.25bn in 2009. Consequently, physical video rental now accounts for only 13.2 per cent of total video spending in Europe, while a decade ago it accounted for over 35 per cent of European video.

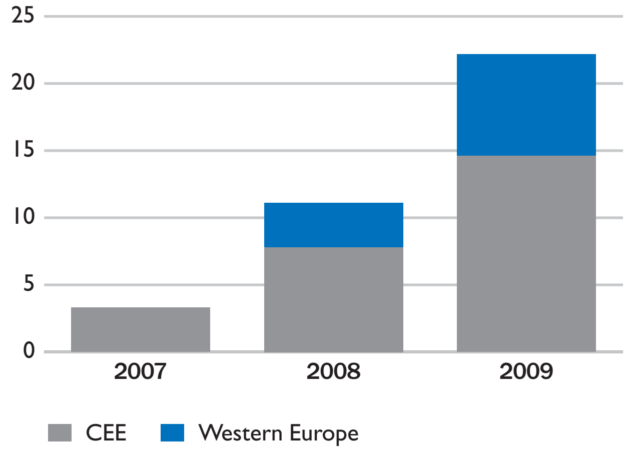
Europe on the world stage

European consumers spent EUR 9.5bn ($13.2bn) on buying and renting video software (all formats) in 2009, giving the region a 30.5 per cent share of worldwide video spending according to Screen Digest analysis (a slight increase from 29.2 per cent in 2008).

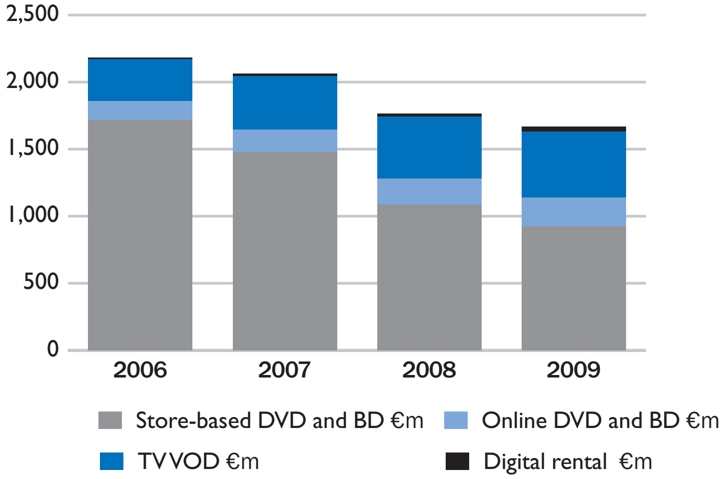
By comparison, total US consumer spending on video retail and rental (all formats) fell by 10 per cent to $17.4bn. Spending on rental was down 5.4 per cent at $6.5bn. Spending on retail was down 12 per cent at $10.8bn. As in Europe, US BD sales did not compensate for the decline in DVD: US consumers spent $1.5bn on BD in 2009, but the gap in spending on DVD was greater at $2.5bn (-13.9 per cent). In 2009, the US accounted for 40 per cent of total video spending worldwide.

In Japan, video spending declined by 8.6 per cent in local currency in 2009, but due to exchange rate fluctuations, the market was effectively stable in dollar terms (up 0.9 per cent year-on-year) at $7.1bn. The average Japanese DVD household bought 2.5 video units in 2009, compared to 2.6 in 2008. Rental remains particularly important for the Japanese market, with rental generating 60.5 per cent

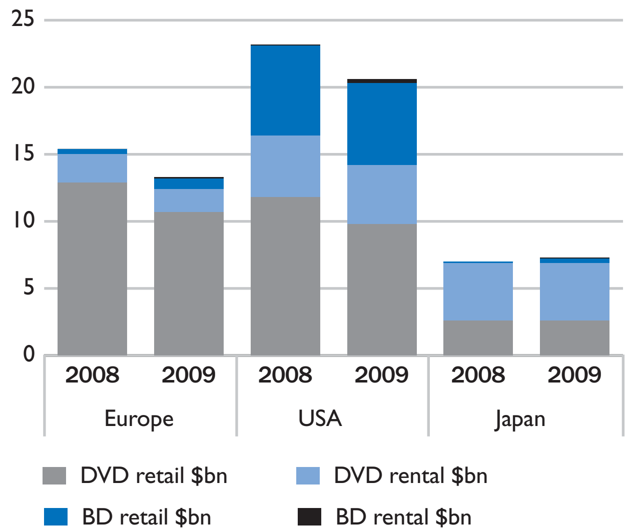
BD-enabled base in Europe 2007-2009 (m)



European spending on home entertainment rental 2006-2009 (€m)



International consumer spending on physical video software 2008-2009 ($bn)



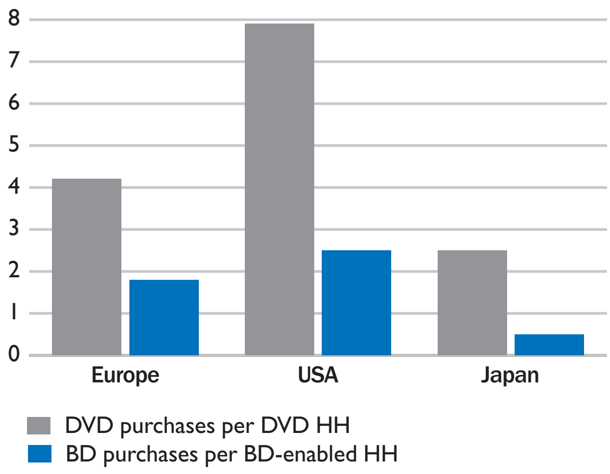
of total spending on video. However, in 2009 Japan's rental market was brought in line with the trend seen in most other International markets with a year-on-year fall of 10.4 per cent in rental spending, accompanied by a substantial drop in the number of rental stores in the country. The average number of discs rented by each DVD household dropped from 46 to 44 units but these are very high figures by European standards. European DVD households rented just 2.3 DVDs on average in 2009 compared to 2.6 in 2008.

Adoption of BD in both the US and Japan has been swifter than in Europe as a result of earlier hardware launches in the two markets and preferential hardware supply in 2008. Penetration of BD enabled machines (standalone players and games consoles) reached 15.4 per cent and 17.4 per cent of HDTV households in the US and Japan respectively in 2009 compared with 8.4 per cent in Western Europe. A key difference between the BD markets of Japan and those of Europe and USA is the prevalence of BD recorders in the former, where they accounted for 64.7 per cent of the installed base of standalone BD players in 2009.

Retail DVD units sold

	2009 (m)	2008 (m)	% change
Belgium	22.0	24.0	-8.3
Denmark	19.3	19.1	0.9
France	90.2	85.1	6.0
Germany	106.5	101.3	5.1
Ireland	13.6	13.5	0.4
Italy	29.5	32.3	-8.6
Netherlands	31.0	34.8	-10.9
Norway	21.1	22.7	-7.1
Portugal	7.6	7.3	4.5
Spain	21.7	24.6	-11.9
Sweden	27.0	27.4	-1.8
Switzerland	13.5	13.1	2.7
UK	234.6	252.9	-7.3
All Western Europe	**661.4**	**685.7**	**-3.5**
Croatia	0.5	0.5	9.4
Hungary	3.6	3.5	1.7
Poland	8.5	8.5	0.0
All Europe	**752.3**	**780.1**	**-3.6**

DVD and BD retail tie ratios in Europe, US and Japan in 2009 (no)



Average consumer price of retail DVD

	2009 (€)	2008 (€)	% change
Belgium	10.98	10.70	2.6
Denmark	9.62	9.84	-2.2
France	14.21	15.63	-9.1
Germany	11.81	12.26	-3.7
Ireland	10.89	14.00	-22.2
Italy	11.67	12.21	-4.4
Netherlands	10.45	10.41	0.4
Norway	12.61	13.47	-6.4
Portugal	9.73	11.65	-16.5
Spain	12.18	12.48	-2.4
Sweden	8.82	9.22	-4.4
Switzerland	14.43	14.50	-0.4
UK	9.67	11.58	-16.5
All Western Europe	**11.09**	**12.15**	**-8.7**
Croatia	10.33	10.64	-2.9
Hungary	8.49	9.58	-11.4
Poland	6.68	8.70	-23.2
All Europe	**10.23**	**11.27**	**-9.3**

Average annual DVD sales per DVD household

	2009	2008	% change
Belgium	6.4	7.4	-13.7
Denmark	8.3	8.5	-1.4
France	4.7	4.4	5.2
Germany	3.6	3.6	1.8
Ireland	10.3	11.1	-7.2
Italy	1.3	1.5	-9.2
Netherlands	4.8	5.6	-14.4
Norway	11.4	12.4	-7.7
Portugal	2.4	2.3	1.7
Spain	1.7	2.0	-12.8
Sweden	7.2	7.3	-2.2
Switzerland	4.5	4.6	-2.3
UK	9.8	11.0	-10.3
All Western Europe	**4.8**	**5.1**	**-5.9**
Croatia	0.7	0.7	-6.3
Hungary	1.8	1.8	-1.7
Poland	1.5	1.6	-7.8
All Europe	**4.3**	**4.3**	**0.1**

Retail Blu-ray Disc units sold

	2009 (m)	2008 (m)	% change
Belgium	0.5	0.2	140.0
Denmark	0.4	0.2	120.0
France	4.5	2.0	120.3
Germany	6.2	1.7	274.5
Ireland	0.2	0.1	98.9
Italy	0.8	0.4	116.4
Netherlands	0.9	0.4	132.4
Norway	0.8	0.3	200.0
Portugal	0.2	0.1	136.0
Spain	0.9	0.4	133.0
Sweden	0.6	0.2	191.4
Switzerland	0.6	0.2	242.7
UK	8.4	3.7	123.0
All Western Europe	**25.7**	**10.0**	**157.6**
Croatia	0.0	0.0	
Hungary	0.0	0.0	1535.3
Poland	0.2	0.0	
All Europe	**26.7**	**10.2**	**161.6**

Average annual BD sales per BD household

	2009	2008	% change
Belgium	1.4	1.1	26.4
Denmark	1.7	1.6	8.6
France	1.8	1.5	24.6
Germany	3.0	1.6	84.2
Ireland	0.8	0.6	24.6
Italy	0.7	0.6	18.2
Netherlands	1.5	1.2	19.0
Norway	3.8	2.2	69.0
Portugal	0.9	0.7	31.9
Spain	0.6	0.5	34.7
Sweden	1.5	1.0	51.2
Switzerland	1.8	1.3	39.3
UK	2.1	1.7	22.6
All Western Europe	**1.8**	**1.3**	**38.8**
Croatia	0.7	0.7	-6.3
Hungary	1.8	1.8	-1.7
Poland	1.5	1.6	-7.8
All Europe	**0.1**	**0.2**	**-63.1**

Average consumer price of retail BD

	2009 (€)	2008 (€)	% change
Belgium	23.96	26.70	-10.3
Denmark	28.05	26.82	4.6
France	23.95	24.29	-1.4
Germany	19.19	25.30	-24.2
Ireland	22.84	28.59	-20.1
Italy	24.17	26.78	-9.8
Netherlands	22.10	26.00	-15.0
Norway	21.45	24.28	-11.7
Portugal	23.52	25.99	-9.5
Spain	23.63	29.13	-18.9
Sweden	18.05	24.60	-26.6
Switzerland	22.18	26.02	-14.8
UK	18.89	23.32	-19.0
All Western Europe	**20.78**	**24.67**	**-15.8**
Croatia	24.17	0.00	
Hungary	19.18	25.24	-24.0
Poland	19.18	0.00	
All Europe	**287.91**	**860.67**	**-66.5**

DVD rental transactions

	2009 (m)	2008 (m)	% change
Belgium	7.0	9.2	-24.2
Denmark	9.5	10.2	-6.5
France	20.0	25.3	-21.0
Germany	97.4	106.1	-8.2
Ireland	13.2	14.2	-6.6
Italy	47.6	55.3	-14.0
Netherlands	11.2	13.0	-13.6
Norway	8.1	9.0	-10.0
Portugal	9.2	11.9	-22.3
Spain	53.4	69.1	-22.8
Sweden	32.3	29.0	11.2
Switzerland	2.1	2.1	-1.3
UK	73.9	78.8	-6.2
All Western Europe	**400.5**	**451.3**	**-11.3**
Croatia	2.1	2.3	-9.1
Hungary	1.1	1.2	-9.1
Poland	2.0	2.3	-14.6
All Europe	**406.8**	**465.3**	**-12.6**

Average annual DVD rentals per DVD household

	2009	2008	% change
Belgium	2.0	2.8	-28.7
Denmark	4.1	4.5	-8.5
France	1.0	1.3	-21.6
Germany	3.3	3.7	-11.1
Ireland	10.0	11.6	-13.7
Italy	2.1	2.5	-14.6
Netherlands	1.7	2.1	-17.0
Norway	4.4	4.9	-10.6
Portugal	2.9	3.8	-24.4
Spain	4.3	5.6	-23.6
Sweden	8.6	7.8	10.7
Switzerland	0.7	0.7	-6.2
UK	3.1	3.4	-9.3
All Western Europe	**2.9**	**3.3**	**-13.4**
Croatia	2.7	3.4	-22.2
Hungary	0.6	0.6	-12.1
Poland	0.3	0.4	-21.2
All Europe	**32.5**	**35.5**	**-8.4**

Average consumer DVD rental price

	2009 (€)	2008 (€)	% change
Belgium	3.15	3.10	1.6
Denmark	4.70	4.69	0.1
France	2.72	2.70	0.6
Germany	2.48	2.45	1.6
Ireland	4.67	4.65	0.5
Italy	2.96	2.90	2.2
Netherlands	3.32	3.26	1.7
Norway	6.18	6.62	-6.5
Portugal	2.71	2.70	0.5
Spain	2.32	2.32	0.0
Sweden	3.62	4.07	-11.2
Switzerland	4.23	4.06	4.1
UK	3.13	3.49	-10.1
All Western Europe	**3.00**	**3.05**	**-1.8**
Croatia	1.63	1.66	-1.6
Hungary	2.24	2.51	-10.6
Poland	1.20	1.48	-18.8
All Europe	**2.98**	**3.01**	**-1.2**

BD rental transactions

	2009 (m)	2008 (m)	% change
Belgium	0.1	0.0	180.4
Denmark	0.4	0.0	731.2
France	0.1	0.0	5729.5
Germany	5.6	1.9	201.1
Ireland	0.1	0.0	
Italy	0.3	0.0	538.9
Netherlands	0.2	0.0	1350.9
Norway	0.3	0.0	792.9
Portugal	0.0	0.0	
Spain	0.0	0.0	
Sweden	0.7	0.0	2017.8
Switzerland	0.1	0.0	316.5
UK	5.3	0.4	1265.1
All Western Europe	**13.4**	**2.5**	**435.4**
Croatia	0.0	0.0	
Hungary	0.0	0.0	
Poland	0.0	0.0	
All Europe	**13.4**	**2.5**	**435.4**

Average annual BD rentals per BD HH

	2009	2008	% change
Belgium	0.2	0.1	47.6
Denmark	1.7	0.4	310.3
France	0.0	0.0	3195.6
Germany	2.7	1.8	48.1
Ireland	0.5	0.0	
Italy	0.2	0.1	249.1
Netherlands	0.3	0.0	642.6
Norway	1.2	0.2	402.9
Portugal	0.3	0.0	
Spain	0.0	0.0	
Sweden	1.7	0.2	999.0
Switzerland	0.2	0.1	69.3
UK	1.3	0.2	650.3
All Western Europe	**1.0**	**0.3**	**188.4**
Croatia	2.7	3.4	-22.2
Hungary	0.6	0.6	-12.1
Poland	0.3	0.4	-21.2
All Europe	**1.1**	**0.2**	**461.0**

Average consumer BD rental price

	2009 (€)	2008 (€)	% change
Belgium	3.18	3.10	2.5
Denmark	4.70	4.69	0.1
France	2.72	2.70	0.6
Germany	2.61	2.74	-4.8
Ireland	4.67	0.00	
Italy	2.91	2.90	0.5
Netherlands	3.24	3.26	-0.6
Norway	6.18	6.62	-6.5
Portugal	2.71	2.70	0.5
Spain	2.32	0.00	
Sweden	4.05	4.47	-9.4
Switzerland	4.23	4.06	4.1
UK	3.06	3.49	-12.3
All Western Europe	**3.04**	**3.01**	**1.0**
Croatia	0.00	0.00	
Hungary	0.00	0.00	
Poland	0.00	0.00	
All Europe	**90.65**	**561.79**	**-83.9**

Note: Excluding Ireland, Poland, Croatia, Portugal and Switzerland the countries listed above are IVF members. Regional totals include some countries not listed.