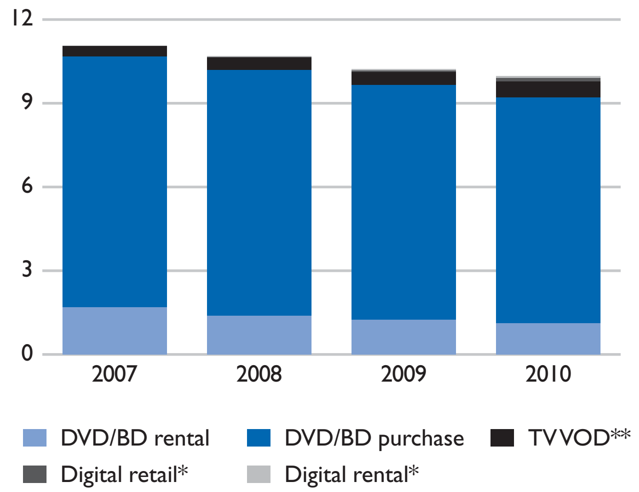
European video: the industry overview

Note: In order to compare Europe with other territories such as the US and Japan, as well as within Europe, and to provide accurate region-level trending, this analysis uses fixed exchange rates to eliminate exchange rate fluctuations that may confuse the overall picture. Unless stated otherwise, figures in text and charts are therefore based on local currencies converted at fixed 2010 average € exchange rates.

Europe's burgeoning online video and Blu-ray sectors are finally growing fast enough to stabilise the market despite falling DVD sales. However, last year's impressive growth was hampered at the finishing line by the unusually severe winter weather that affected much of northern Europe in the very last month of the year.

Europe: Total consumer spending on home entertainment



**Digital delivery over the open internet*
***TV VOD includes TV series and movies only (excludes sports and adult content)*

Overall market

Consumer spending on buying and renting video software on digital media (DVD and Blu-ray) and online closed at €9.9bn in 2010. This was in part due to the rapid growth of new methods of filmed entertainment consumption such as TV-based video-on-demand (TV VOD) and digital retail and rental via computers and internet connected television sets. Combined spending on these sectors rose 35.8 per cent in 2010 to €784.1m.

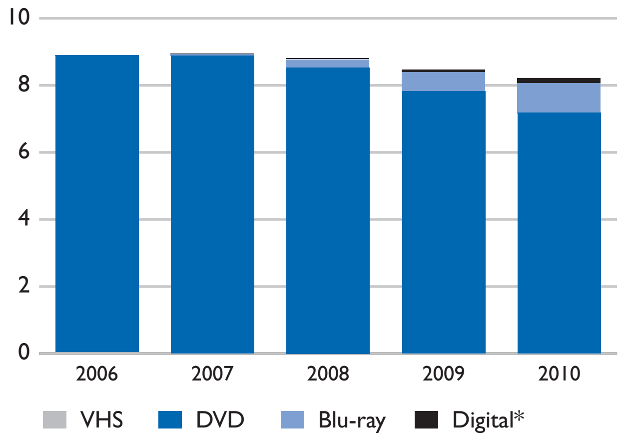
The largest of these sectors was TV VOD. Spending on TV VOD grew 20.2 per cent to €573m in 2010, but digital video retail (electronic sell-through or EST) was the fastest growing, up 132.1 per cent to €142.6m. Digital rental (internet VOD - iVOD) remained a smaller part of the video business but also showed good growth, up 74.4 per cent to €68.5m.

As regards video software on digital media (DVD and BD), spending fell 4.6 per cent in 2010, same as the two previous years which recorded declines of 4.5 per cent and 4.6 per cent respectively.

Sales of DVD and BD were bolstered by an increasing trend among European consumers in favour of Blu-ray Disc (BD). In 2010, Europeans spent €906.1m on buying BDs, up 56.7 per cent on 2009. The format accounted for 11.2 per cent of DVD and BD retail in Europe compared to 6.9 per cent in 2009.

However, the growth in the newer delivery mechanisms was insufficient to compensate for the continued decline in consumer spending on retail DVD, down by 8.3 per cent to €7.1bn, with the result that total retail spending across both digital media and online was down by 2.8 per cent compared with 3.9 per cent in 2009.

Europe: Consumer spending on retail home entertainment



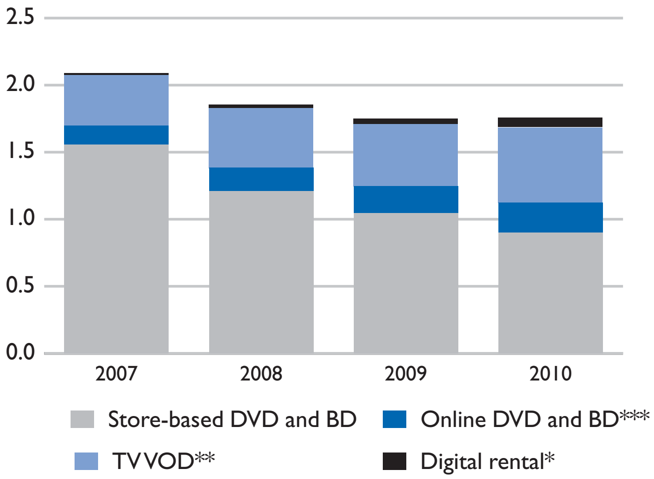
*Digital delivery over the open internet (retail/EST business model)

Perhaps counter-intuitively, the rental sector slightly improved the overall picture in 2010, with consumer spending on all forms of rental flat (+0.2 per cent) at €1.77bn. However, although spending on Blu-ray rental (both store-based and online) more than doubled, at €64.7m, it represented just 3.7 one per cent of total rental spending—almost exactly the same as iVOD (up 74.4 per cent to €68.5m). The real growth came from TV VOD, spending on which increased 20.2 per cent to €573.0m.

Disappointing Q4 due to severe weather conditions

Unfortunately, for most northern European territories, December coincided with the coldest and most severe weather in 100 years. Deep snow and freezing conditions brought transport chaos across the region and the capitals.

Europe: Consumer spending on home entertainment rental



**Digital delivery over the open internet (rental/VOD business model)*
***Movies and TV series provided by pay TV services on VOD basis via a walled garden (excludes sports and adult content)*

****Rental of physical product via online interface, eg. Lovefilm*

Not only were out-of-town shopping centres affected but the snow also adversely affected delivery times for major internet retailers such as Amazon, which operates in each of the top three European markets, making many consumers wary of buying video software (and indeed other Christmas gifts) online. As a result, many potential Christmas sales were lost, and since the UK, Germany and France between them account for two-thirds of European spending on video, the impact on total regional spending was significant.

In the UK, many consumers could still get to local high streets to do their Christmas shopping, but the closure of all bar one of the country's once numerous specialist entertainment chains combined with the out-of-town location of many supermarkets meant that many high streets no longer have a single outlet on the high street selling DVDs and BDs.

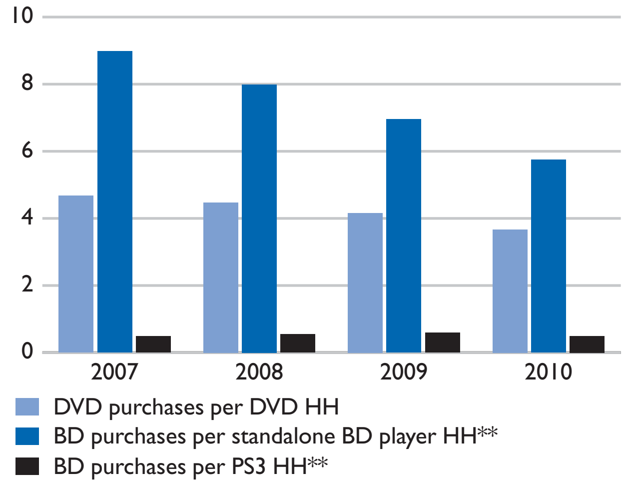
UK consumers have a strong tradition of buying video in the final quarter of the year but the chaos in December hit the year-end figures. By the end of November, consumer spending on retail BD was up by 74 per cent while DVD spending was down 4 per cent, resulting in a flat market overall. However, with the weather disrupting sales in December, the full year result on BD was only up 49.1 per cent, to €244m, while spending on the mainstream DVD format fell 7.2 per cent to €2.1bn. Overall, UK DVD and BD retail sales ended the year at €2.4bn, a decline of 3.5 per cent on 2009. Nevertheless, it remains the largest European video market, accounting for 29 per cent of European consumer spending on DVD and BD. As for BD, the format accounted for 10.1 per cent of video retail spending last year, but only 5.8 per cent of volume.

While the UK's retail environment was affected by the economic recession, Germany remained comparatively unaffected. In 2009, spending on DVD and BD in Germany grew 5.0 per cent to €1.63bn and a strong performance in the first half of 2010 suggested that German consumers' new enthusiasm for buying video was set to continue.

However, the bad weather also hit the German home entertainment industry. Spending on BD with extremely strong unit sales in the first nine months of the year, went up more than 125 per cent by late September. At the end of 2010, unit sales increased by 62.5 per cent at €192.8m. The format thus took a 10.4 per cent share of total video retail unit sales in 2010. Retail DVD fell 5.5 per cent to €1.1bn, but when BD is added, total German video retail ended the year stable at €1.3bn (+0.4 per cent). Unlike in the UK, however, German BD prices held up well, generating 13.9 per cent of total spending on video retail.

Due to the strength of the retail and rental market, Germany overtook France to become the second largest video market in Europe, generating 17.6 per cent of total European physical video spending (compared to France's 15.5 per cent) . It is also closing in fast on France in terms of video retail: Germany now accounts for 20.1 per cent of DVD and BD retail spending, compared to France's 17.6 per cent, while the UK is still in the lead with 33.9 per cent of European video retail spending.

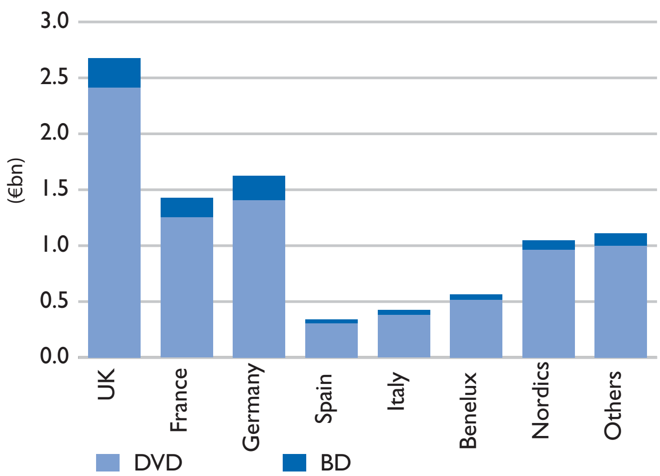
Europe: Average video buy rates* DVD/BD 2008-2010



**Average number of DVDs or BDs purchased per equipped household per year*
***BD buy rates are IHS Screen Digest estimates modelled from available data*

After reversing a long-standing negative trend in 2009, all eyes were on France in 2010 to see if growth could be sustained without the stimulus of shorter release windows. The first half of the year suggested that French consumers were indeed continuing to buy DVD and BD, and there was particularly strong growth for BD (spending already up by 99.1 per cent by half term). The snow, however, also affected the French market, which ended the year flat at €1.4bn (-0.9 per cent). DVD spending fell 5.1 per cent to €1.2bn but spending on BD retail was up 61.6 per cent to €173.4m. In line with Germany, French BD spending generated 12.5 per cent of video retail and 10.0 per cent of unit sales.

Europe: Consumer spending on DVD/BD by sector 2000-2010



Beyond the Big Three

Elsewhere, the development of the other European markets was less positive in 2010. In the Benelux countries, which account for 6.1 per cent of European spending on buying and renting DVD and BD, 2010 was characterised by waning consumer interest in DVD and BD and the closure of retail stores.

The bad weather in December further exaggerated the negative trend in the market as consumer spending on video in Benelux dropped to €564m, down 10.4 per cent. Unit sales fell further, down 11.8 per cent across Benelux in 2010, as DVD sales contracted 14.2 per cent to 41.7m units. On the bright side, BD sales were up 73 per cent to 2.3m units.

As a result of the decline in Benelux, the combined Nordic market—Sweden, Norway, Denmark and Finland—increased in importance in Europe. Nordic spending on DVD and BD contracted 1.9 per cent year-on-year to €1.0bn or 11.4 per cent of the total European market.

The Italian video retail market has declined by almost one quarter in value since 2007 but last year it performed better than in the previous two years. Spending on video retail was down 2.5 per cent to €335.0m, helped by the growth in BD of 72.0 per cent to €39.7m.

However, the Spanish video market, which is characterised by rampant piracy, continued its freefall in 2010. Spending on DVD and BD was down by 14.0 per cent to €339.2m.

Video rental contracting

Although Europe's video rental sector continued contracting, it is worth noting that the 7.6 per cent fall in rental spending to €1.1bn was the lowest annual rate of decline since 2004 when it fell 1.2 per cent.

BD has so far made less of an impact as a rental format than on the retail business. In terms of transactions, BD accounted for 5.6 per cent of the European total in 2010, but, with most rental providers' operating price parity between the two formats, it contributed 5.7 per cent of spending on video rental in Europe.

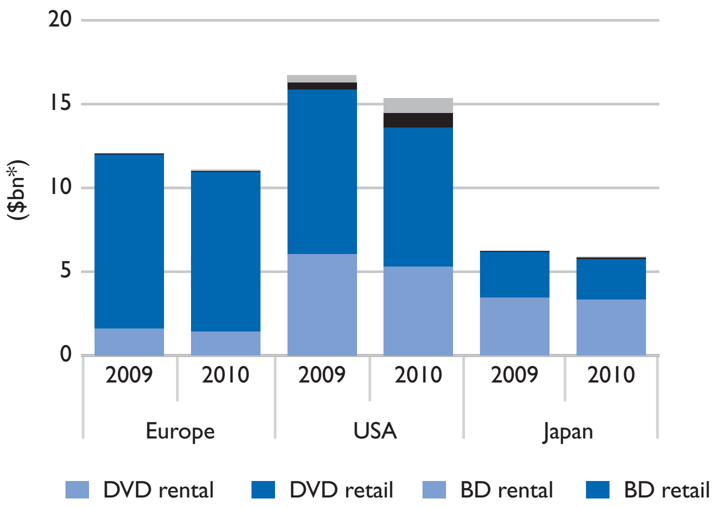
Germany is now the largest video rental market in Europe, generating €243.0m in spending in 2010, bigger than either the UK at €241.7m or Sweden at €128.3m.

Europe on the world stage

European consumers spent €9.2bn ($12.2bn) on buying and renting DVD and BD in 2010, giving the region a 30.1 per cent share of worldwide video spending according to IHS Screen Digest analysis (a slight increase from 29.8 per cent in 2009).

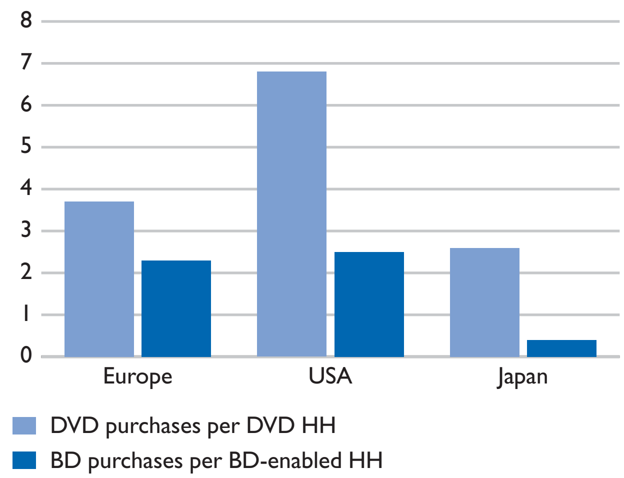
By comparison, total US consumer spending on DVD and BD fell by 6.5 per cent to $16.2bn. This reflects declines in both rental and retail spending (down 4.5 per cent to $6.2bn and 7.8 per cent to $10.0bn respectively). Unlike Europe, in the US, BD retail sales did compensate for the

International spending on DVD/BD 2009-2010



Local currencies converted at fixed 2010 exchange rates

Average video buy rates* DVD/BD in 2010



*Average number of DVDs or BDs purchased per equipped household per year

decline in DVD: US consumers spent $1.7bn buying BDs in 2010, more than the gap in spending on DVD retail at $1.5bn (DVD retail spending was down 16 per cent to $8.2bn). In 2010, the US accounted for 40 per cent of total video spending worldwide.

In Japan, video spending declined by just 1.7 per cent to $6.4bn. According to IHS Screen Digest analysis, the average Japanese DVD household bought 2.4 DVDs in 2010, while BD-enabled households bought 0.5 units each. Rental remains particularly important for the Japanese market, generating 52.8 per cent of total spending on DVD and BD in 2010. But as in other international markets, rental is in decline in Japan and spending fell for the second consecutive year in 2010. Nonetheless, the 3 per cent dip recorded last year was an improvement on the 12 per cent decline in 2009.

Adoption of BD has been swifter in both the US and Japan than in Europe as a result of earlier hardware launches in the two largest markets and preferential hardware supply in 2008. Penetration of BD enabled machines (standalone players and PS3 games consoles) reached 24.3 per cent and 30.1 per cent of HDTV households in the US and Japan respectively in 2010, compared with 7.7 per cent in Europe.

Outlook for 2011

We believe that the European video results in 2010 would have been more positive had it not been for the uncharacteristically severe weather in the very last month of the year. Before December 2010, home entertainment in the big three markets was tracking well on 2009 results. Thus, 2010's results should not be seen simply as a stalling of consumer interest in DVD and BD but rather as negatively affected by extreme weather. IHS Screen Digest analysis of the UK, the largest market in Europe, indicates that the difference could have been as much as three to four per cent in video retail unit sales, amply illustrating the importance of the weeks running up to Christmas to the retail sector.

Retail DVD units sold

	2010 (m)	2009 (m)	% change
Belgium	15.5	17.6	-11.7
Denmark	13.3	19.3	-31.1
France	86.8	89.3	-2.8
Germany	103.2	106.5	-3.1
Ireland	10.9	13.6	-19.9
Italy	25.2	27.3	-7.6
Netherlands	26.2	31.0	-15.6
Norway	19.4	21.7	-10.6
Portugal	6.3	7.6	-17.5
Spain	16.0	19.9	-19.9
Sweden	21.4	26.1	-18.0
Switzerland	12.8	13.1	-2.1
UK	210.1	234.6	-10.4
All Western Europe	**592.1**	**651.4**	**-9.1**
Croatia	0.6	0.6	-8.1
Hungary	6.1	6.4	-5.6
Poland	7.7	8.5	-9.3
All Europe	**678.2**	**745.2**	**-9.0**

Average annual DVD sales per DVD HH

	2010	2009	% change
Belgium	4.3	5.0	-13.5
Denmark	5.6	8.4	-32.8
France	4.5	4.6	-3.5
Germany	3.6	3.7	-4.1
Ireland	8.1	10.4	-22.0
Italy	1.1	1.2	-8.0
Netherlands	4.2	5.0	-15.7
Norway	10.1	11.8	-14.0
Portugal	1.9	2.4	-19.4
Spain	1.3	1.7	-20.5
Sweden	5.2	6.5	-20.0
Switzerland	4.3	4.4	-2.2
UK	8.8	9.9	-11.0
All Western Europe	**4.3**	**4.8**	**-10.1**
Croatia	0.6	0.8	-16.7
Hungary	2.5	2.6	-6.2
Poland	1.1	1.4	-18.0
All Europe	**4.0**	**3.8**	**6.4**

Average consumer price of retail DVD disc

	2010 (€)	2009 (€)	% change
Belgium	12.22	12.35	-1.1
Denmark	11.33	9.62	17.8
France	13.97	14.30	-2.3
Germany	11.52	11.81	-2.4
Ireland	10.40	10.89	-4.5
Italy	11.71	11.76	-0.4
Netherlands	10.74	10.45	2.8
Norway	12.65	12.28	3.0
Portugal	9.68	9.73	-0.5
Spain	12.82	12.51	2.4
Sweden	10.62	9.16	15.9
Switzerland	15.33	14.43	6.2
UK	10.41	9.67	7.6
All Western Europe	**11.50**	**11.15**	**3.1**
Croatia	7.53	8.16	-7.7
Hungary	5.40	5.64	-4.3
Poland	6.98	6.71	3.9
All Europe	**10.58**	**10.25**	**3.2**

Retail Blu-Ray Disc units sold

	2010 (m)	2009 (m)	% change
Belgium	0.8	0.5	67.3
Denmark	0.7	0.4	86.2
France	9.7	5.3	83.0
Germany	12.0	6.2	94.6
Ireland	0.3	0.2	45.2
Italy	2.0	1.0	108.9
Netherlands	1.5	0.9	76.7
Norway	1.4	1.1	32.3
Portugal	0.3	0.2	51.0
Spain	1.6	0.9	76.5
Sweden	1.1	0.6	88.9
Switzerland	1.3	0.6	103.2
UK	13.0	8.4	55.2
All Western Europe	**47.4**	**26.9**	**76.1**
Croatia	0.0	0.0	342.0
Hungary	0.1	0.0	353.7
Poland	0.3	0.2	65.0
All Europe	**49.5**	**27.9**	**77.3**

Average annual BD sales per BD HH

	2010	2009	% change
Belgium	1.7	1.6	3.2
Denmark	2.2	1.9	11.8
France	2.5	2.3	8.3
Germany	3.6	3.4	8.1
Ireland	1.0	0.9	10.8
Italy	1.4	1.1	30.8
Netherlands	1.8	1.6	10.9
Norway	3.1	4.3	-27.6
Portugal	0.8	0.9	-10.1
Spain	0.9	0.7	27.4
Sweden	1.9	1.8	5.6
Switzerland	2.8	2.8	1.9
UK	2.4	2.4	1.2
All Western Europe	**2.3**	**2.2**	**7.3**
Croatia	1.7	15.1	-88.7
Hungary	1.4	2.0	-28.6
Poland	0.7	2.1	-66.7
All Europe	**2.3**	**2.2**	**6.0**

Average consumer price of retail BD disc

	2010 (€)	2009 (€)	% change
Belgium	20.05	23.96	-16.3
Denmark	21.48	28.05	-23.4
France	17.95	20.33	-11.7
Germany	16.03	19.19	-16.5
Ireland	22.18	22.84	-2.9
Italy	19.82	24.06	-17.6
Netherlands	18.86	22.10	-14.7
Norway	21.38	20.85	2.5
Portugal	21.02	23.52	-10.7
Spain	20.60	23.63	-12.8
Sweden	17.43	18.05	-3.4
Switzerland	21.11	22.18	-4.8
UK	18.84	18.89	-0.2
All Western Europe	**18.24**	**20.19**	**-9.6**
Croatia	23.30	24.54	-5.0
Hungary	23.75	19.18	23.8
Poland	23.28	22.71	2.5
All Europe	**18.32**	**20.28**	**-9.7**

DVD rental transactions

	2010 (m)	2009 (m)	% change
Belgium	6.0	7.0	-14.1
Denmark	9.0	9.5	-5.7
France	14.7	20.0	-26.4
Germany	92.0	99.6	-7.6
Ireland	11.4	13.2	-13.8
Italy	31.9	42.8	-25.5
Netherlands	8.4	11.2	-24.9
Norway	7.6	8.1	-5.9
Portugal	8.1	9.2	-12.5
Spain	42.8	53.4	-19.9
Sweden	27.5	28.9	-4.7
Switzerland	1.5	2.1	-25.8
UK	67.6	76.2	-11.4
All Western Europe	**345.7**	**399.5**	**-13.5**
Croatia	1.9	2.5	-24.0
Hungary	1.0	1.1	-15.4
Poland	1.8	2.0	-10.0
All Europe	**351.4**	**406.3**	**-13.5**

Average annual DVD rentals per DVD HH

	2010	2009	% change
Belgium	1.7	2.0	-15.9
Denmark	3.8	4.1	-8.0
France	0.8	1.0	-26.9
Germany	3.2	3.5	-8.6
Ireland	8.5	10.2	-16.0
Italy	1.4	1.9	-25.8
Netherlands	1.4	1.8	-25.0
Norway	4.0	4.4	-9.5
Portugal	2.5	2.9	-14.6
Spain	3.6	4.5	-20.4
Sweden	6.7	7.2	-7.1
Switzerland	0.5	0.7	-25.9
UK	2.8	3.2	-11.9
All Western Europe	**2.5**	**2.9**	**-14.4**
Croatia	2.2	3.1	-31.2
Hungary	0.4	0.5	-16.0
Poland	0.3	0.3	-18.6
All Europe	**1.9**	**2.3**	**-16.3**

Average consumer DVD rental price

	2010 (€)	2009 (€)	% change
Belgium	3.10	3.10	0.0
Denmark	4.67	4.70	-0.7
France	2.72	2.72	0.2
Germany	2.38	2.43	-2.0
Ireland	4.67	4.67	0.0
Italy	2.67	2.67	0.1
Netherlands	3.33	3.24	2.8
Norway	4.99	4.73	5.5
Portugal	2.70	2.71	-0.5
Spain	2.39	2.32	3.0
Sweden	4.50	4.05	11.2
Switzerland	4.62	4.23	9.2
UK	3.35	3.15	6.5
All Western Europe	**3.05**	**2.95**	**3.4**
Croatia	1.57	1.56	0.7
Hungary	1.63	1.60	1.9
Poland	1.30	1.20	8.4
All Europe	**3.02**	**2.92**	**3.4**

BD rental transactions

	2010 (m)	2009 (m)	% change
Belgium	0.3	0.1	492.8
Denmark	1.1	0.4	189.5
France	0.4	0.1	634.6
Germany	9.7	5.6	73.2
Ireland	0.2	0.1	69.1
Italy	1.3	0.1	828.6
Netherlands	0.4	0.2	136.6
Norway	0.2	0.1	100.0
Portugal	0.2	0.0	235.0
Spain	0.0	0.0	-50.1
Sweden	1.0	0.7	56.4
Switzerland	0.2	0.1	138.8
UK	4.6	2.7	68.3
All Western Europe	**21.0**	**10.7**	**96.9**
Croatia			
Hungary			
Poland			
All Europe	**21.0**	**10.7**	**96.9**

Average annual BD rentals per BD HH

	2010	2009	% change
Belgium	0.7	0.2	265.5
Denmark	3.3	1.9	73.8
France	0.1	0.0	334.9
Germany	2.9	3.0	-3.8
Ireland	0.8	0.6	28.9
Italy	0.9	0.2	481.5
Netherlands	0.5	0.3	48.5
Norway	0.4	0.4	9.4
Portugal	0.5	0.2	99.5
Spain	0.0	0.0	-64.0
Sweden	1.8	2.1	-12.6
Switzerland	0.4	0.4	19.7
UK	0.8	0.8	9.7
All Western Europe	**1.0**	**0.9**	**20.0**
Croatia			
Hungary			
Poland			
All Europe	**1.0**	**0.9**	**20.0**

Average consumer BD rental price

	2010 (€)	2009 (€)	% change
Belgium	3.10	3.10	0.0
Denmark	4.70	4.70	0.0
France	2.67	2.72	-1.6
Germany	2.47	2.61	-5.0
Ireland	4.67	4.67	0.0
Italy	3.65	3.65	0.1
Netherlands	3.32	3.24	2.5
Norway	4.99	4.73	5.5
Portugal	2.70	2.71	-0.5
Spain	2.32	2.32	0.0
Sweden	4.50	4.05	11.2
Switzerland	4.62	4.23	9.2
UK	3.35	3.15	6.5
All Western Europe	**3.08**	**3.01**	**2.4**
Croatia			
Hungary			
Poland			
All Europe	**3.08**	**3.01**	**2.4**

Source: IHS Screen Digest/IVF
Note: Excluding Ireland and Switzerland the countries listed above are IVF members. Regional totals include some countries not listed.