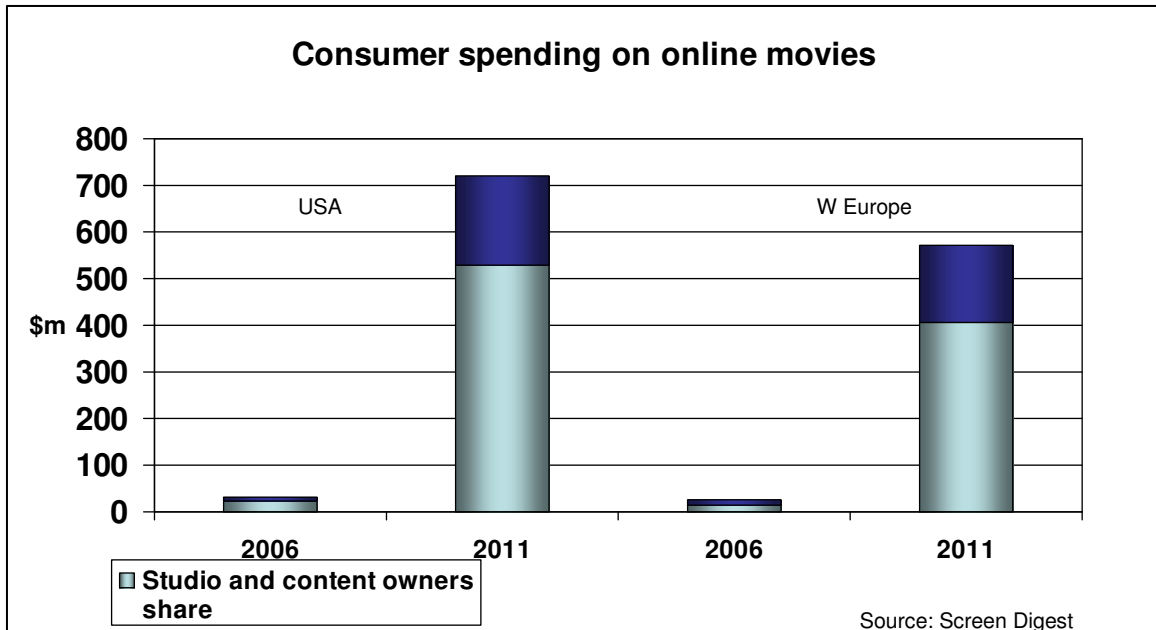




Movie downloads: Digital will generate valuable incremental revenue for the movie business, but fragmented Studio strategies will hamper market potential

London 4th September 2007: The latest report from Screen Digest (www.screendigest.com) released today examines how the individual Hollywood Studios are adapting their businesses to online movie distribution. Notably, the report finds that a viable business will emerge in the US and W Europe for movie downloading, but warns that the Studios are following a fragmented path to digital distribution, with each major following a different strategy. This is likely to hamper the development of movie downloads and ultimately confuse and fragment the consumer market. The research provides detailed analysis and forecasts of the movie distribution business in the US and W Europe, and reveals that the overall winners in this market will not only be the Studios who own the content, but major device manufacturers such as Microsoft, Apple and Sony.

Unique to the report entitled 'Online Movie Strategies: Competitive Review and Market Outlook' are trade level revenues and forecasts of the market for movie downloads, both rental and retail. Screen Digest predicts the market will be worth \$1.3bn in 2011 in the US and W Europe combined. Of this, \$720m will be generated in the US and \$572m in W Europe. The majority of the revenue in 2011 will be taken by the Studios and content owners, at \$530m in the US and \$405m in W Europe, leaving service and solutions providers to scramble for the remaining share.



For some hardware manufacturers, selling digital movies will be used as a marketing tool to sell devices. In this highly competitive climate, the Studios are able to cash in and command high margins: Screen Digest’s analysis reveals that the Studio wholesale price on movie downloads to service providers ranges from 70% to 105% of consumer price on the latest new film releases. As such, for service providers, movie downloads will become a low-margin and potentially loss-making endeavour, and only those service providers who have a strong hardware proposition and are able to absorb the cost, such as Apple, Microsoft or Sony, are likely to succeed.

According to Screen Digest, the online digital movies segment will constitute 3 per cent of all movie home entertainment revenues in the US and W Europe by 2011. This may be smaller than some observers were expecting, but is still a significant market and will bring much needed incremental revenue to the movie business as DVD growth falls away.

Arash Amel, Senior Analyst and author of the report says “At Screen Digest we have re-evaluated our 2006 forecasts of the digital movie market value in response to consumer reaction to existing services. It is becoming increasingly apparent that people want to watch films they’ve downloaded on their large

screen TVs and home entertainment systems. To do that, they need a new device, such as an Apple TV, an Xbox, a PS3 or a plain old media extender, which can link their broadband connection to the TV set. At present, there simply isn't adequate penetration of these devices – and the idea that people will *en masse* watch a two or three-hour movie on the PC just isn't realistic. It will take time to reach a wider market penetration with these new devices, and we believe that this will start to become more main stream beyond 2011.

In the competitive analysis section of the report, the different strategies and tactics employed by the Studios for exploiting digital movie content are compared. Unlike the introduction of the DVD, where the Studios agreed a single format and approximate business model, digital is being handled very differently. Every Studio has its own view and approach to this new era, resulting in the development of a fragmented market, which will undoubtedly hinder the future development of digital.

For example, some Studios are likely to adopt a 'day and date' strategy for film release, making content available across all platforms on the same day, from the physical DVD to online downloads. Others will continue with different release dates depending on the delivery medium. As Amel concludes "How the Studios react is crucial. It's a delicate balancing act between maintaining their relationships with their highly important DVD customer base – the powerful retailers like Walmart and Tesco – whilst meeting growing consumer demand for immediate online downloads."

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About this research

The data in this press release is taken from Screen Digest's latest report 'Online Movie Strategies: Competitive Review and Market Outlook'. The report focuses on the online distribution of digital movies in W Europe and the US, and contains detailed analysis of the strategies of the major Hollywood Studios. Comprehensive data includes consumer spending on movie downloading, as well as trade level revenues generated by content owners, together with the value of the total movie home entertainment market. The report also details the penetration of technology: including broadband connectivity, portable video device data and in-home broadband-enabled entertainment device forecast. The company profiles section of the report presents key details on eight Hollywood Studios, including the size of libraries prepared for digital distribution and a comprehensive benchmarking of service deals struck in the US and W Europe.

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