

WORLDWIDE STUDY OF LOSSES TO THE FILM INDUSTRY & INTERNATIONAL ECONOMIES DUE TO PIRACY; PIRATE PROFILES

“The film industry is a thriving economic engine that generates jobs and exports in countries all over the world. We are calling on governments internationally to continue to work with us in limiting the impact of piracy on local economies and the film industry. Movies are a valuable product and intellectual property must be respected. This study will help us better analyze and focus our efforts to fight movie theft.”

Dan Glickman, Chairman and CEO of the Motion Picture Association, Inc. (MPAA)

In 2004, the major motion picture studios commissioned the MPAA to do a study to get a more accurate and detailed snapshot of the film industry’s losses to piracy worldwide. The intent was to provide the industry with a tool for government advocacy and also a more complete picture of where to attack film copyright theft in anti-piracy efforts. The MPAA has already begun using this data to work with governments on strengthening copyright laws and illustrating local losses to their economies and their own film industries.

This study is the first comprehensive study examining a more complete picture of piracy including specifics about which countries have the biggest problems with piracy; the impact on the economy; losses to industries in various countries as well as losses to the major studios and a profile of the typical pirate. It also for the first time assesses losses due to Internet piracy.

Previous MPAA surveys were based on losses due to hard goods piracy (bootlegging) only and contained no assessment of losses due to Internet piracy. The MPAA estimated that the film industry lost \$3.5 billion to hard goods piracy while a Smith Barney study conducted in 2003 stated that the industry lost \$5.4 billion to piracy including Internet piracy.

The study was conducted over 18 months in 22 countries. It is based on consumer demand as opposed to previous assessments which were calculated by calculating losses based on DVD seizures.

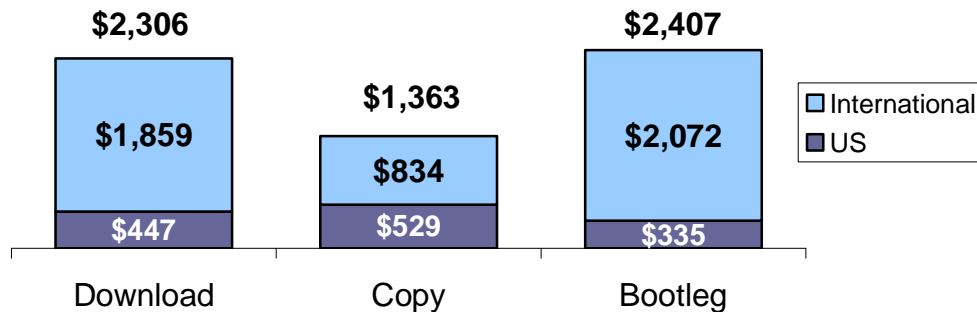
SUMMARY OF LEK DATA

“The findings in this study reinforce the need for a multi-pronged approach to fighting piracy,” Glickman said. “As an industry, we have to continue to educate people about copyright laws and the consequences of breaking those laws. At the same time, we have to provide legitimate, hassle-free ways for consumers to obtain movies at a reasonable cost. In the meantime we will continue to work with governments and law enforcement around the world to ensure copyright law is prevalent and enforced.”

According to the study, MPAA studios lost \$6.1 billion to piracy in 2005, which is consistent with a piracy study conducted by Smith Barney in 2003 that predicted the motion picture industry would lose \$5.4 billion to piracy in 2005.

Of the \$6.1 billion in lost revenue to the studios, \$1.3 billion came from piracy in the United States and \$4.8 billion internationally, with nearly half of that loss occurring in Europe. About \$2.4 billion was lost to bootlegging*, \$1.4 to illegal copying* and \$2.3 billion to Internet piracy.

**MPA Member Company Revenue Loss
United States vs. International (USD\$M)**



- **Bootlegging:* Obtaining movies by either purchasing an illegally copied HS/DVD/VCD or acquiring hard copies of bootleg movies.
- **Illegal copying:* Making illegal copies for self or receiving illegal copies from friends of a legitimate VHS/DVD/VCD
- **Internet piracy:* Obtaining movies by either downloading them from the Internet without paying or acquiring hard copies of illegally downloaded movies from friends or family.

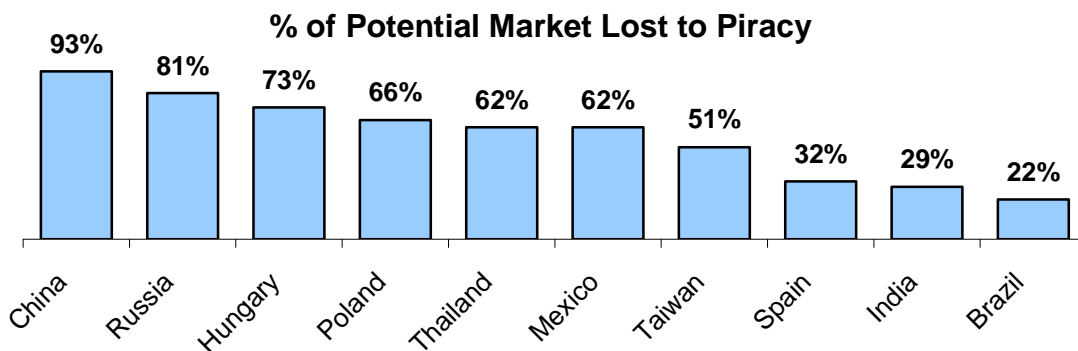
INTERNATIONAL FILM INDUSTRY LOSSES

The chart below reflects losses to local film industries specifically in those countries as well as MPAA member company losses in each respective country.

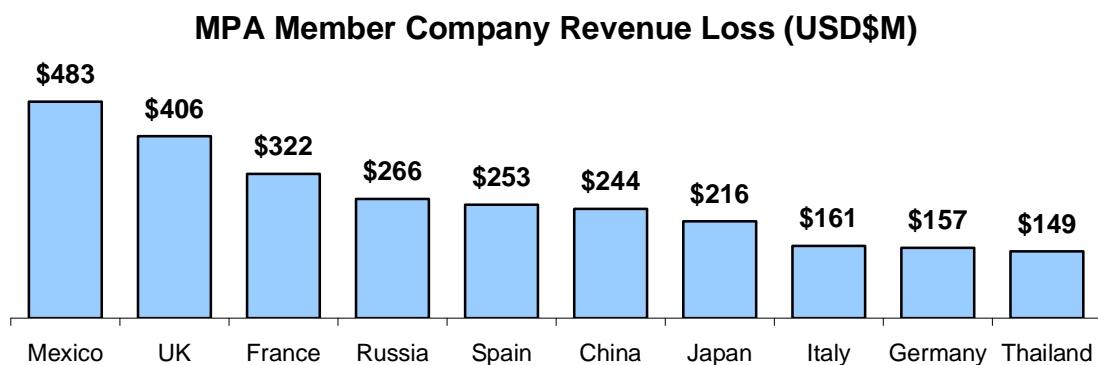
	(USD\$M)	
	MPAA	Non-MPAA Memco
China	565	2,124
France	604	943
Japan	375	367
Russia	622	278
UK	787	220
Thailand	271	194
Spain	478	192
India	12	174
US	2,561	163
Mexico	954	161
Germany	353	137
Italy	316	126
Poland	200	72
Netherlands	84	45
Sweden	66	42
Korea	28	36
Taiwan	220	35
Brazil	172	26
Hong Kong	8	16
Hungary	184	15
Canada	211	14
Australia	171	8

WORST OFFENDERS

The countries where piracy is most prevalent as a percentage of the marketplace are China, Russia and Hungary. Below is an assessment of the percentage of potential market lost due to piracy.



The countries where member companies suffered the greatest losses are Mexico, UK and France. That does not necessarily mean that is where piracy is most prevalent. Various markets were surveyed in different ways because some markets can be assessed for losses due to legitimate markets, others can only be assessed by lost opportunity. Below is an assessment of the MPA member company revenue lost due to piracy.



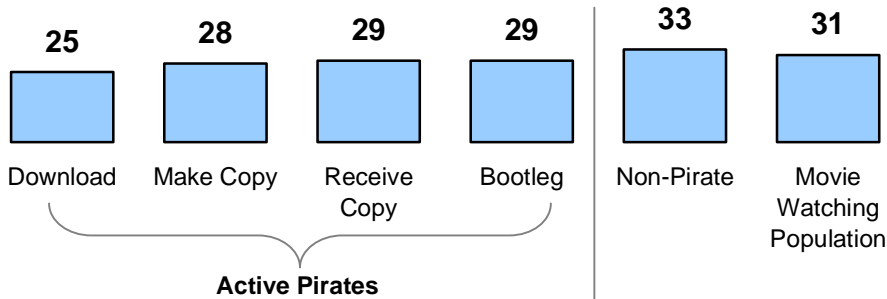
The chart below shows that China, France, UK, and Russia lose significant tax revenues due to piracy.

	Tax Loss Estimates (USD\$M)				
	Theatrical	Rental	Sell-Through	PPV/VOD	Total
China	--	--	228	--	228
France	31	36	154	4	225
UK	43	33	90	10	176
Russia	76	18	68		162
Spain	19	27	34	1	81
Italy	13	17	41	2	73
Germany	23	15	11	1	50
Hungary	3	6	37	--	47
Poland	7	12	25	--	44
Japan	8	6	22	1	37
Canada	9	5	17	3	34
Thailand	5	3	24	--	33
Brazil	6	6	17	--	30
Sweden	2	11	7	--	20
India	--	--	18	--	18
Australia	5	5	8	--	18
Netherlands	3	9	5	--	17
Taiwan	5	4	4	--	13
Korea	6	--	1	--	6

PROFILE OF A PIRATE

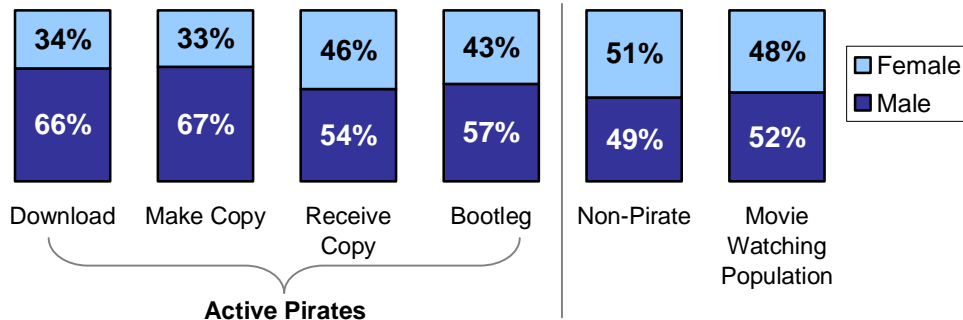
The average film copyright thief is male, between the ages of 16-24 and lives in an urban area. College students in the U.S., Korea and Hungary contribute the most to each country's individual loss. The 16-24 age range represents a disproportionately high percentage of pirates, especially downloaders, across the 22 directly researched countries. It is even higher in the U.S., where the same age range represents 71% of downloaders.

Average Age - 22 Directly Researched Countries



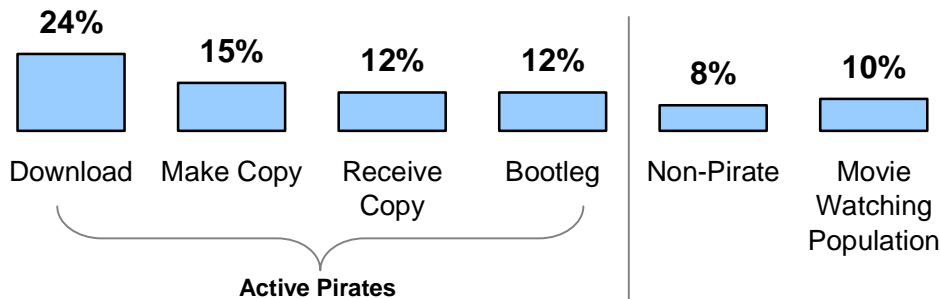
On average, those who are actively pirating tend to be in their mid to late 20s, while non-pirates and the general movie watching population are in their 30s.

Gender - 22 Directly Researched Countries



While non-pirates and general movie watchers are split almost evenly between males and females, active pirates are more likely to be male.

College Students - 22 Directly Researched Countries



Active pirates are more likely to be in college than non-pirates and general movie watchers, especially download pirates.

WORKING TO FIGHT PIRACY AROUND THE WORLD **MPAA ACCOMPLISHMENTS**

At home and abroad, online and in the streets, the Motion Picture Association of America has been successfully attacking the problem of piracy through a multi-pronged approach of education, litigation, and enforcement.

ENFORCEMENT

The MPAA and MPA have been working with law enforcement agencies worldwide in cracking down on copyright theft.

October 2005: MPAA officials in California and Texas assist with largest recovery of counterfeit DVDs and CDs in U.S. history (operation netted \$120 million in counterfeit material).

February 2006: Belgian and Swiss authorities shut down Razorback2, the number-one eDonkey peer-to-peer server facilitating the illegal file swapping of approximately 1.3 million users simultaneously.

February 2006: Crackdown on highly trafficked Torrent, eDonkey and News Group sites responsible for illegal swapping by millions of users around the world. They provide a massive directory of illegal content to users and encourage people to traffic in copyrighted motion pictures, television shows, music, software and games.

March 2006: MPAA collaborates with the National Association of Theater Owners and Canadian associations to launch online training program *www.FightFilmTheft.org* in U.S. and Canada to combat illegal camcording in movie theaters.

EDUCATION

The MPAA is working to curb piracy through several influential education initiatives, collaborating with Weekly Reader and a leading Internet safety educator Wired Safety, among others.

November 2005: MPAA launches a public service announcement contest for college students in partnership with Students in Free Enterprise.

April 2006: MPAA and Weekly Reader launch a new education program to inform parents, educators and students about Internet safety.

April 2006: MPAA and RIAA launch systematic program to identify and curtail campus Local Area Network ("LAN") piracy at universities across the country by alerting 40 university presidents in 25 states of LAN System abuse.

LITIGATION & LEGISLATION

The MPAA continues to see important legislative and legal successes that are vital to the health of the motion picture industry moving forward.

April 2005: President signs Family Entertainment and Copyright Act of 2005, making camcording in theaters a federal felony.

June 2005: Supreme Court in MGM vs. Grokster unanimously rules against online networks that encourage illegal distribution of copyrighted files.

January 2006: International motion picture pirate leader Randolph Hobson Guthrie III pleads guilty in a Mississippi federal court to conspiracy to traffic in counterfeit goods, forfeiting \$800,000 to U.S. government.

May 2006: Bill introduced in Senate Commerce Committee to protect broadcast content from piracy.

TECHNOLOGY

The MPAA's Office of Technology is working to ensure that film copyrights are protected and that consumers can enjoy movies when and how they want.

New advanced technology for high definition TV is now available that allows consumers to attain managed copies of pre-recorded discs.

Progress is also being made toward establishing technical standards that will allow consumers to move film content amongst home entertainment network devices.

The major studios have invested in Movielabs which will explore new technologies to protect content.

Studios are also experimenting with new business models and harness new technologies to deliver content:

- Warner Brothers partners with Free Record Shop using P2P distribution
- Universal partners with LoveFilm in UK, offering downloads
- CBS and Verizon FiOS TV partner to carry select programs
- Disney offers feature length film on I-tunes for \$9.99
- CBS delivers college basketball "March Madness" online
- ABC offers free downloads at ABC.com
- Disney re-launches MovieBeam – online delivery of VOD
- NBC Universal launches Aeon Digital set top box
- CBS offers select programs at \$1.99 on demand
- Warner Bros. launches P2P service In2Movies in Germany
- Fox announces VOD and DVD windows collapsed
- NBC Universal announces Peer Impact deal
- Disney announces deal with iTunes
- Google Video beta launched – essentially is going with a wholesale reseller model – creating an iTunes like store.