The European independent cinema sector: the transition to digital

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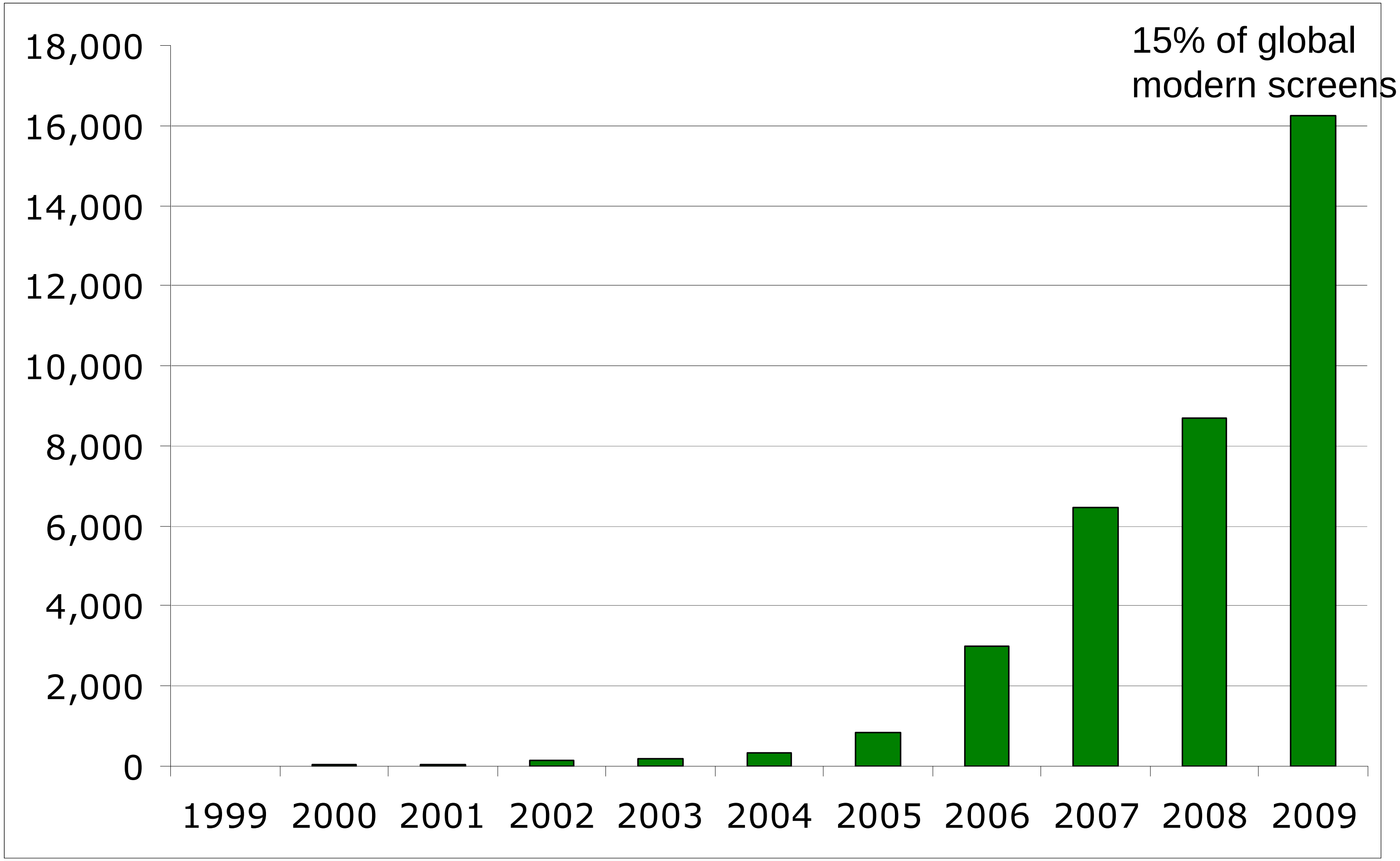
“ it is customary for new truths to begin as heresies and end up as superstitions”.

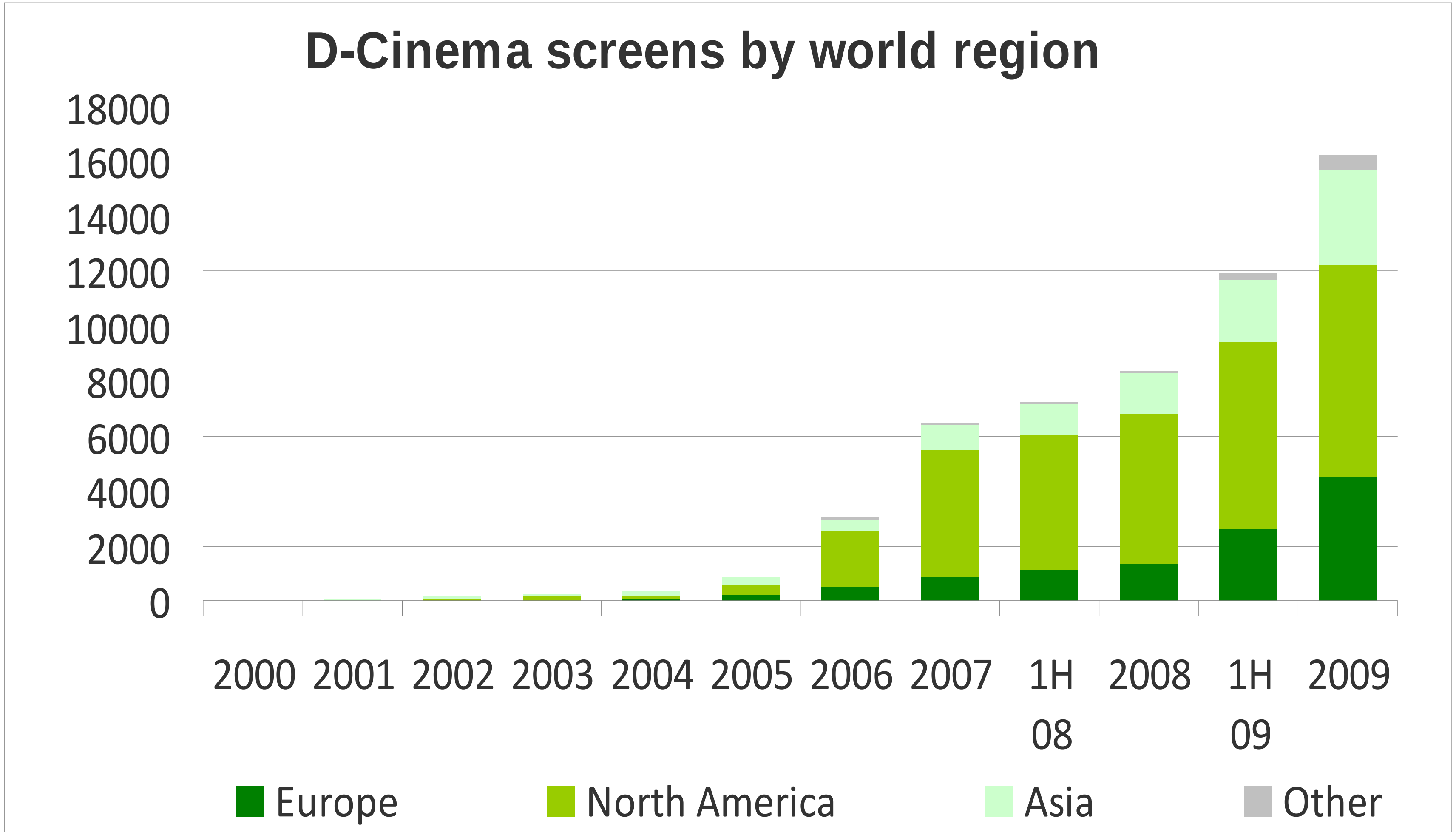
Henry Huxley, Biologist

Global d-screen growth: 87 % in 2009



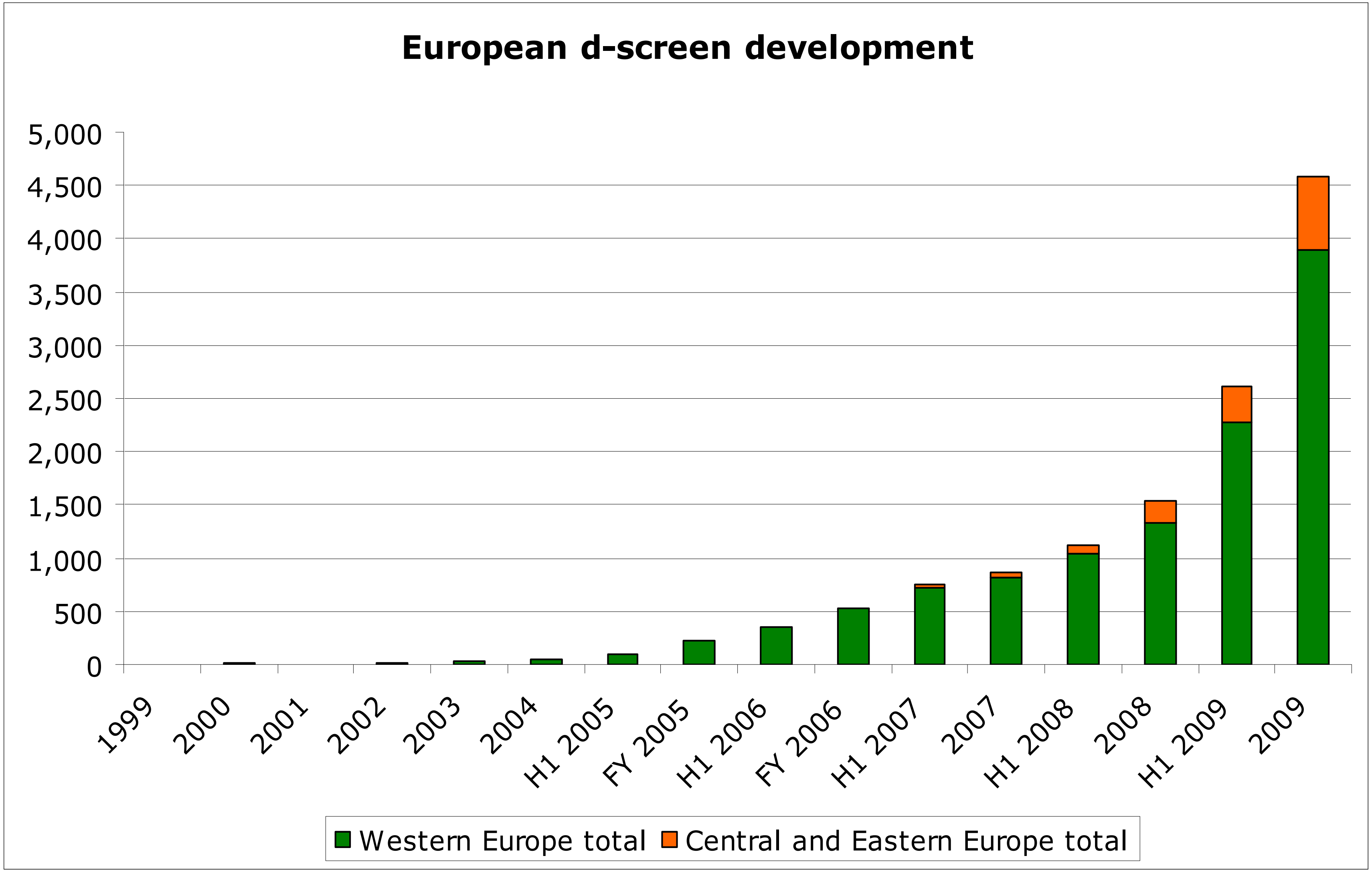
All data sourced to Screen Digest

USA, Europe and Asia
Asia and Europe saw higher growth in 09

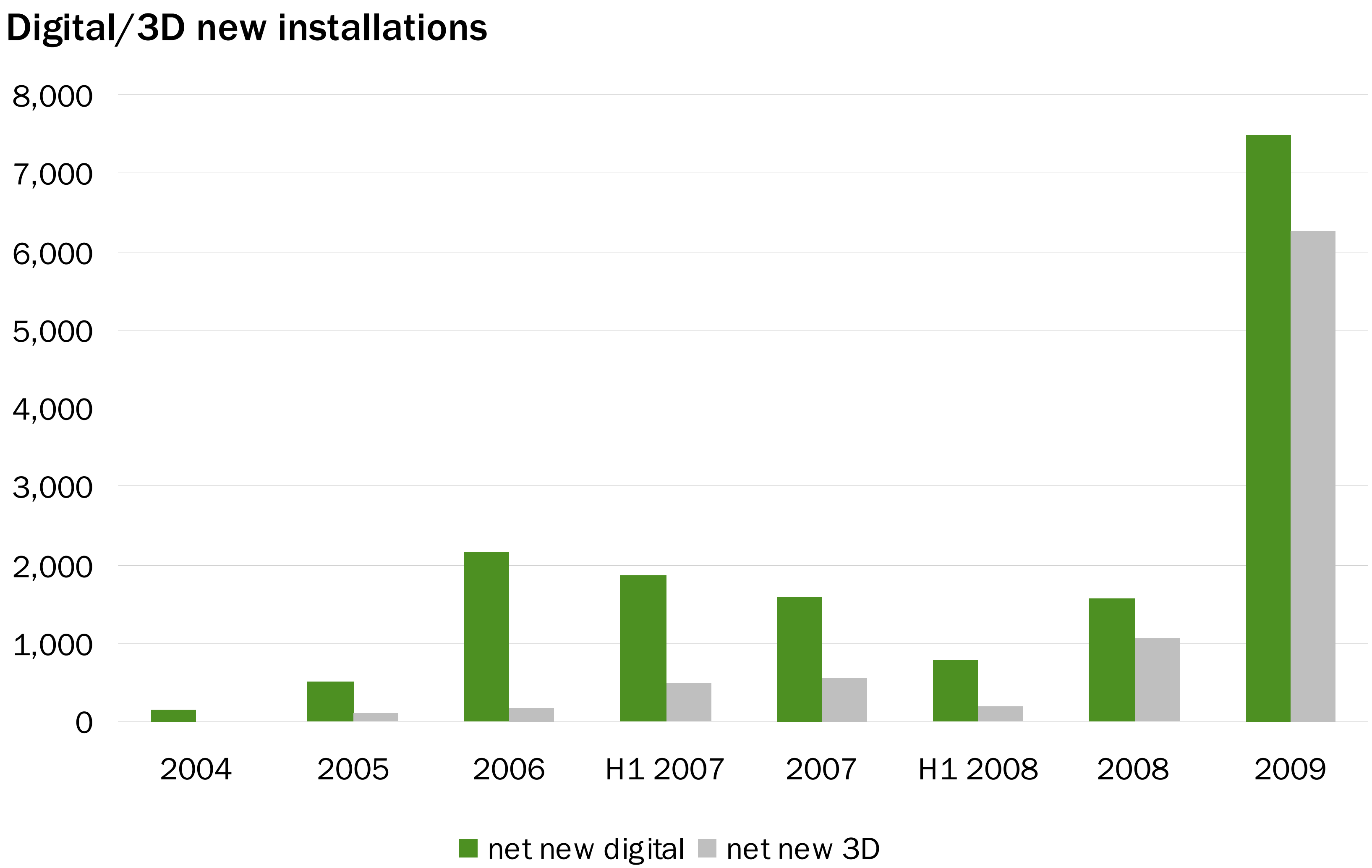


Note: 2007 2K only installations or higher

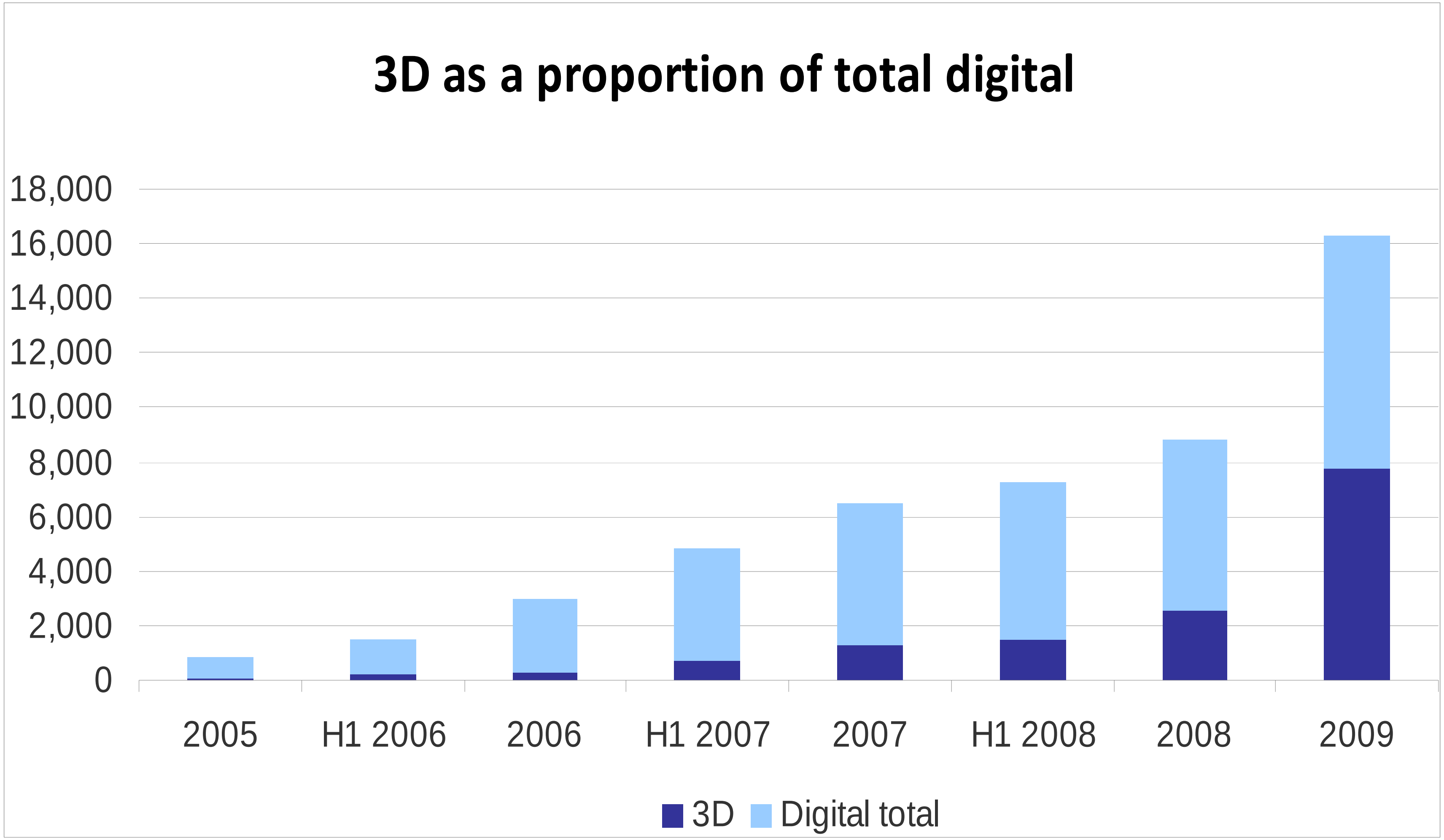
European progress



Net new installations of digital and 3D



3D major driver of digital: almost half of screens 3D



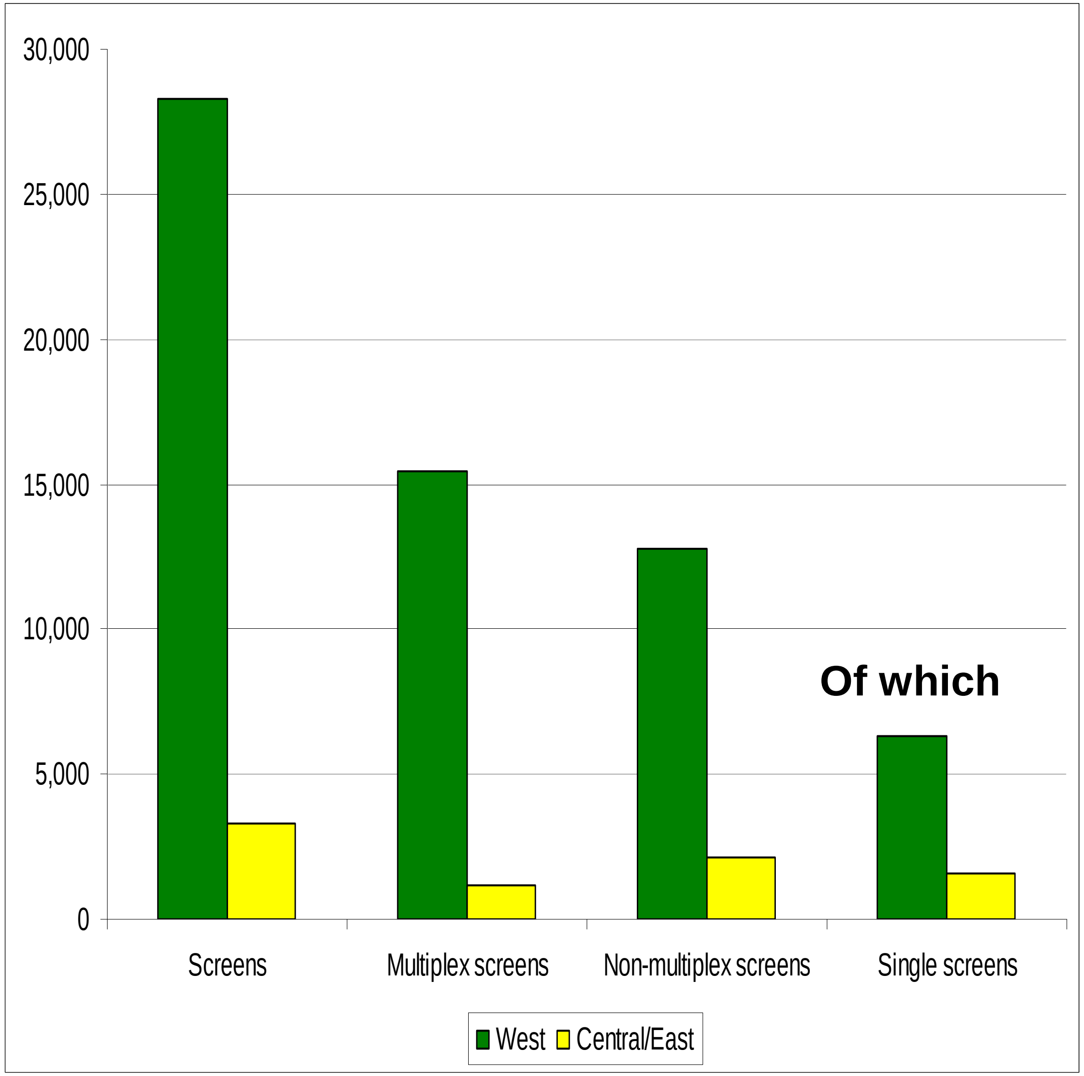
Some recent European progress

- USA: DCIP closes finance raising process
  - 2 members go with Sony 4K. Third with Barco 4K
- UK
  - CEA Funding Group advancing
  - Odeon signs VPFs, inc Warner, and has secured finance
- France
  - CNC plan rejected by Competition Authority, and going to plan B
  - Europalaces moving ahead with digitisation
  - UGC signs up with Ymagis
- Italy: tax credit for digital cinema
- Netherlands
  - Market digitisation plan advancing
  - Arts Alliance signs ABC; XDC signs Jogchem and Euroscoop
- Norway: Rollout tender granted
- Denmark: Arts Alliance signs up a group of Danish ‘indies’
- European Commission: developing DC plan (2010)

Independent sector: definition is the key

- Initial definition revolves around multiplex/non-multiplex screens, in particular single-screen cinema
- However, it is not correct to say that all single-screen cinemas are at risk.
- Some groupings of ‘indies’ have already been digitised
- Needs further study in each country:
  - Business model of screen/site
  - Rural/urban
  - Municipal/private

Wide definition of 'At Risk' screens



- 31,500 screens in Europe (not inc Russia and Ukraine)
- 22 per cent single screens in W Europe
- 49 per cent single screens in C/E Europe
- 7,884 single screens
- Europa Cinemas counts 1,700 screens in its network

European 3rd party integrators
- slow progress but progress nonetheless

	Target screens	Committed/inst -alled screens	Studio backing
Arts Alliance	8,000	1,100	5
DCL (IRL)	500	101	4
Sony DCSS	9,000	150 (Europe)	4
XDC	7,000	1,300	6
DDA-Odeon (UK)	1,600	1,600	4
Ymagis	5,500	1,100	4

Source: Screen Digest

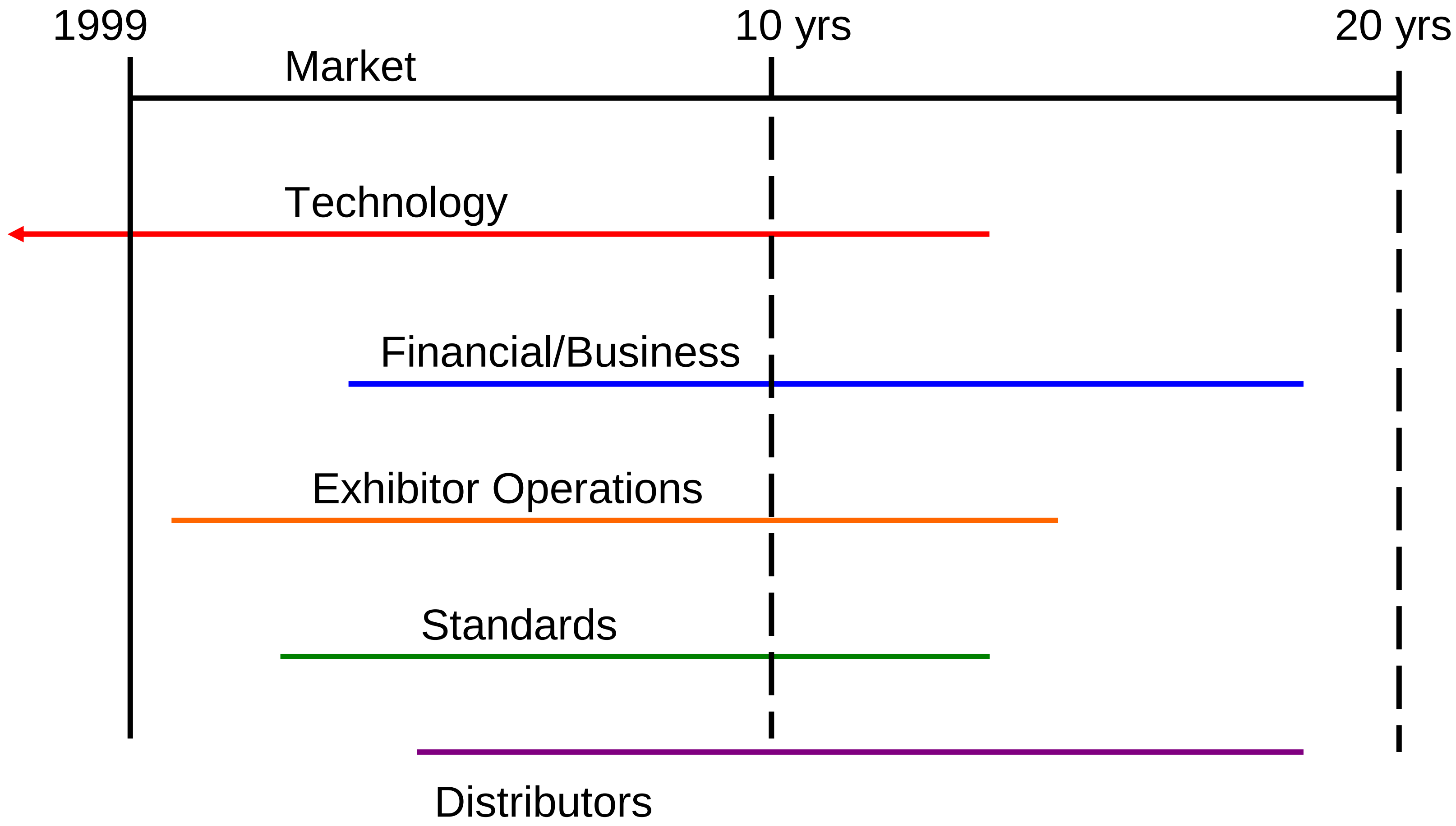
Total screens	Total covered by VPF	Total VPF agreed	Total VPF installed
Approx. 32,000	22,600 (excl Sony)	5,000 approx	Approx 1,100

The Transition Period

- The period between beginning to digitise and ending
- Disruptive because it involves dual formats and logistical complexity
  - 35mm and digital

- The key is to minimise this period
- Public policy can prioritise this objective

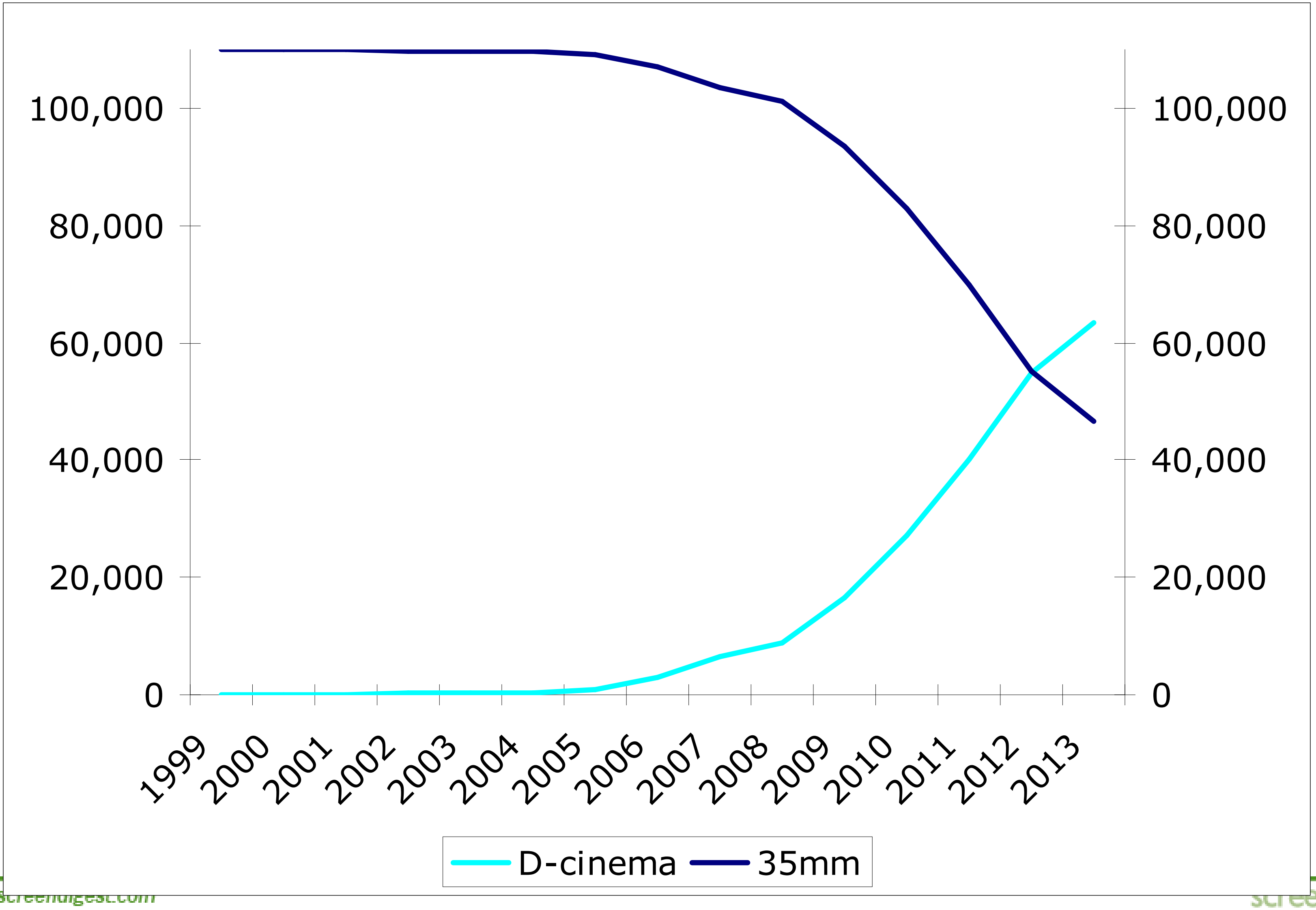
The market transition in context



Minimising the transition period

- Organise a single market transition
  - Norway: not analagous to most countries as publicly owned cinema sector
  - Germany: attempts for three years to bring together competitive interests
  - France: CNC market plan for 60 % of screens was judged anti-competitive: Guide to European attitude?
- Multiplex penetration is important
  - One signature will digitise a circuit; relatively rapid
    - Spain 80%; UK 75%; France/Germany 50%; Italy 40%
- By contrast, high number of single screens complicates the conversion

Tipping point: beginning of the end for 35mm



Digital state of play

- Credit freeze put wider digital rollout on hold in 2008/2009
- However, partial conversions, driven mainly by 3D, have maintained and even sped up the pace of rollout in 2009 and 2010 looks more promising
- Now that mainstream market is looking set to digitise, issue of ‘at risk’ screens coming to the fore
- Supra-national, national and regional authorities now see this a a policy issue and are taking an interest
- VPF or leasing still the only functioning models in the market, and momentum behind digital 3D and digital in general seems too strong to derail d-cinema in long term

Thank you

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