Before the
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LIBRARY OF CONGRESS
Washington, D.C.

In the Matter of Mechanical and Digital Phonorecord Delivery Rate Adjustment Proceeding	Docket No. 2006-3 CRB DPRA

THE WRITTEN DIRECT STATEMENT, WITNESS STATEMENTS & EXHIBITS OF NATIONAL MUSIC PUBLISHERS' ASSOCIATION, INC., THE SONGWRITERS GUILD OF AMERICA, AND THE NASHVILLE SONGWRITERS ASSOCIATION INTERNATIONAL

VOLUME VI

EXHIBIT CO 0701

Claire Enders

PROFESSIONAL EXPERIENCE

1997- **Enders Analysis** (http://www.endersanalysis.com/)
Chief Executive
Presentations, reports and notes for subscribers and consultancy clients on commercial and strategic issues arising out of technology change in the media, internet and mobile and fixed-line telecommunications sectors in Europe, the US and Japan.

1992-97 **Thorn EMI plc**
Corporate Development Manager
Reporting to the Executive Chairman and the Finance Director on group strategy, the strategy of other companies in the entertainment sector in general and recorded music and music publishing in particular, potential investments and acquisitions and regulatory issues. Managed four Monopolies and Mergers Commission inquiries and two filings with the European Commission Competition Directorate. Was on secondment to the Department of Trade and Industry as the Special Adviser on broadcasting policy for 1994.

1989-92 **TVS Entertainment**
Director of Corporate Development
Responsible for group strategy, corporate development activity and related regulatory issues for the former ITV broadcaster for the South and South-East of England.

1986-89 **Superchannel**
Director of Marketing
Responsible for commercial strategy for the pan-European satellite channel then owned by the ITV companies.

1984-86 **The Virgin Group**
Head of Business Development
Responsible for development of The Virgin Group's media activities, including investments in new media.

EDUCATION

1984 London Business School, MBA
1979 Yale University, BA (Hons) History

EXHIBIT CO 0702

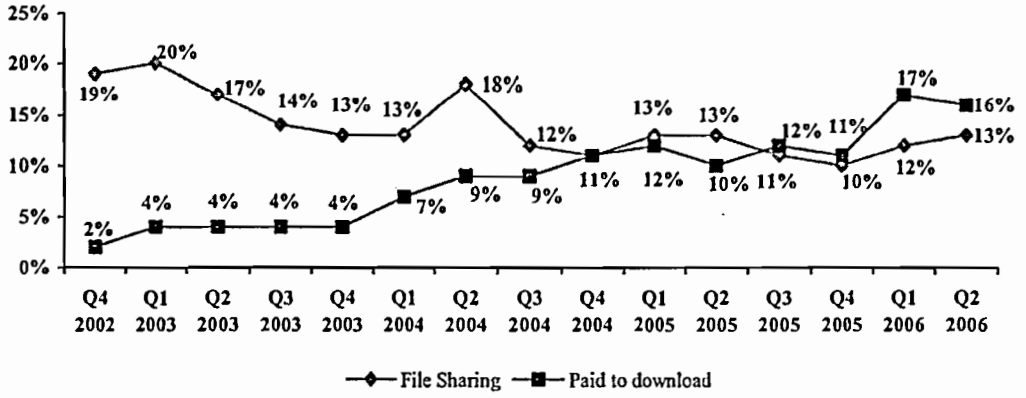
Table 1: Digital Music Timeline in the U.S., 1998-2006

Date	Event
1998 July	eMusic.com is the first commercial provider of downloads in MP3 format. Its catalogue is mainly licensed from independent record companies.
1999 June	Shawn Fanning, a college student in the U.S., launches Napster, the original P2P file-sharing service designed to enable users to swap songs for free on the Internet.
1999 December	First lawsuit filed against Napster.
2000 January	MP3.com launches its personal Jukebox software to allow PC users to upload their CD libraries in MP3 format.
2001 January	Apple launches its jukebox software for Mac users to allow CD libraries to be uploaded to Macs in Apple's proprietary format.
2001 July	Napster shut down.
2001 Summer	U.S. Department of Justice commences antitrust investigation of major record labels' online music joint ventures and failure to license third parties.
2001 October	Apple introduces iPods (to play music stored on the iTunes JukeBox, and before introducing the iTunes music store).
2001 December	Listen.com launches subscription service Rhapsody. Sony and Universal launch subscription service Pressplay. MusicNet, a distribution platform for subscription services, is launched by AOL Time Warner, Bertelsmann AG, EMI and RealNetworks.
2002 July	Listen.com's Rhapsody subscription service offers music licensed from all major record companies.
2002 November	MusicNet and Pressplay each offer music licensed from all major record companies.
2003 April	Apple launches the Mac version of iTunes, charging 99 cents per single-track download.
2003 June	RIAA announces it will take legal action against individual file-sharers.
2003 October	Apple launches the PC version of iTunes, charging 99 cents per single-track download. MusicNet and Pressplay are sold to Roxio, which changes its name to Napster.com.
2004 January	Apple introduces the iPod Mini.
2004 May	Sony launches SonyConnect.
2005 June	U.S. Supreme Court issues Grokster decision holding that illegal file-sharing networks can be found liable for inducing infringement.
2005 October	Sprint launches its mobile download service.
2005 October	Apple introduces iPod with video capability.
2006 January	Verizon launches its mobile download service.
2006 February	Apple announces sale of 1 billionth song.
2006 November	Microsoft launches the Zune portable music player and the Zune Marketplace.

[Source: Enders Analysis based on www.pro-music.org, www.usdoj.gov, www.copyright.gov, www.riaa.com, and company websites accessed November 29, 2006]

EXHIBIT CO 0703

Table 2: Share of Americans (aged 12 or above) Who Paid to Download Music or Engaged in File Sharing



[Source: Ipsos, "Tempo: Keeping Pace with Digital Music Behavior", Q2 2006, p. 37]

EXHIBIT CO 0704

Table 3: Reasons For *First* Paying for Music Downloads, Q2 2006

Reason	Share of fee-based music downloaders
I only wanted to purchase one song from the artist and not the entire album	52%
More convenient to download songs from the Internet than going to a store	41%
Wanted the song/album right away	39%
Acquired a portable music player	34%
Was curious about the services	26%
Wanted to experiment with this type of downloading	25%
Legal issues associated with file sharing	19%
A friend recommended I try it	15%
There was a special promotion	15%
The service had a music exclusive I wanted	10%
Received as a gift	1%
Other	6%

Note: Responses exceed 100 percent because respondents can provide multiple reasons.
[Source: Enders Analysis based on Ipsos Tempo, Q2 2006, pp. 74-75]

EXHIBIT CO 0705

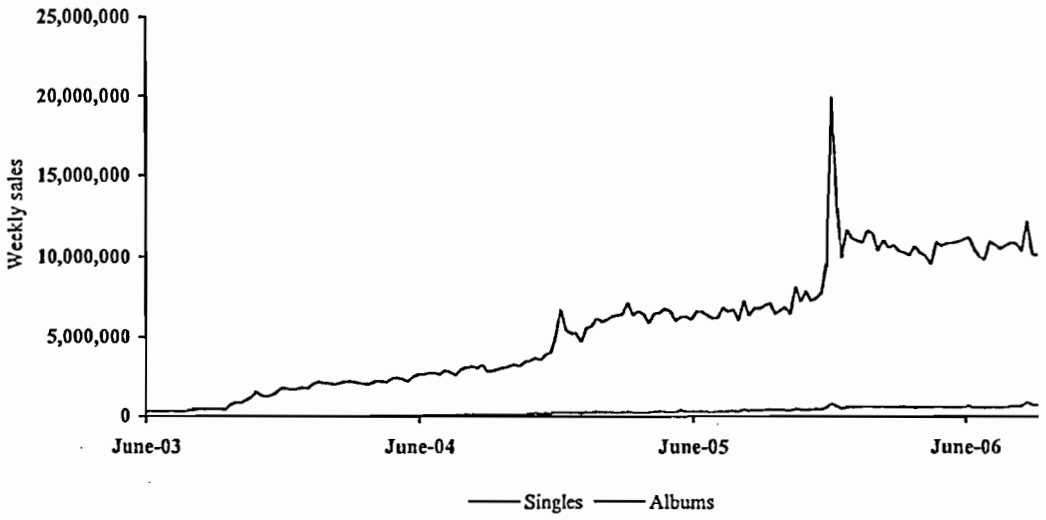
Table 4: Reasons for *Continuing* to Pay for Music Downloads, Q2 2006

Reason	Share of fee-based music downloaders
I only wanted to purchase one song from the artist and not the entire album	51%
It's less expensive for me to download songs I want than to purchase entire albums on CD	49%
More convenient to download songs from the Internet than going to a store	45%
Wanted the song/album right away	39%
Downloading is an easier way to add to my digital collection than ripping CDs	31%
I do most of my music shopping online now	24%
I prefer digital music to physical CDs	20%
Legal issues associated with file sharing	18%
I'm still experimenting with digital music	15%
The service had a music exclusive I wanted	10%
I've made the switch to all digital collection	8%
The service has special promotions	7%
Other	2%

[Source: Enders Analysis based on Ipsos Tempo, Q2 2006, pp. 74-75]
[Note: Responses exceed 100 percent because respondents could list multiple reasons.]

EXHIBIT CO 0706

Table 5: Weekly Sales of U.S. Digital Single and Album Downloads



[Source: Enders Analysis based on Nielsen SoundScan]

EXHIBIT CO 0707

Table 6: Music Providers Pricing Models, November 2006

Music format	Pricing model	Music Provider
Permanent downloads	Free	SpiralFrog[1]
	À la carte	Beatport, BuyMusic, Calabash Music, Ctrax (Cdigix), Connect (Sony), eBay, Elatinmusic, Fox Music, Graze Music, Indieburn, iTunes Store, mMode Music Store,[2] Mp3tunes.com, Mperia, Musica360, Musicmatch Music Store, Music Giants, Napster, Passalong.com, Peer Impact, Puretracks, RCN MusicLibrary,[3] RCN MusicToGo,[3] RealPlayer Music Store, Rhapsody Unlimited,[3] Rhapsody To Go,[3] Songtouch, Soundbuzz, Tower Records Digital, Univision, URGE, Virgin Digital, Voy Music, Walmart, Yahoo! Music Jukebox, Zune Marketplace
	Subscription	EMusic
Limited downloads	Free-subscription	Ctrax (Cdigix)[4], Ruckus[4]
	Subscription	AOL Music Now, AOL Music Now On Demand, Best Buy Digital Music Store To Go, Ctrax2Go (Cdigix), FYE Download Zone, Napster, Napster To Go, Musicmatch On Demand, RCN MusicLibrary, RCN MusicToGo, Rhapsody Unlimited, Rhapsody To Go, Ruckus To Go, URGE All Access, URGE All Access to Go, Yahoo! Music Unlimited, Yahoo! Music Unlimited To Go, Zune Marketplace Pass
Interactive streams	Free	Best Buy Digital Music Store, Napster, Rhapsody
	Subscription	RCN MusicLibrary, RCN MusicToGo, Rhapsody Unlimited, Rhapsody To Go, Virgin Digital

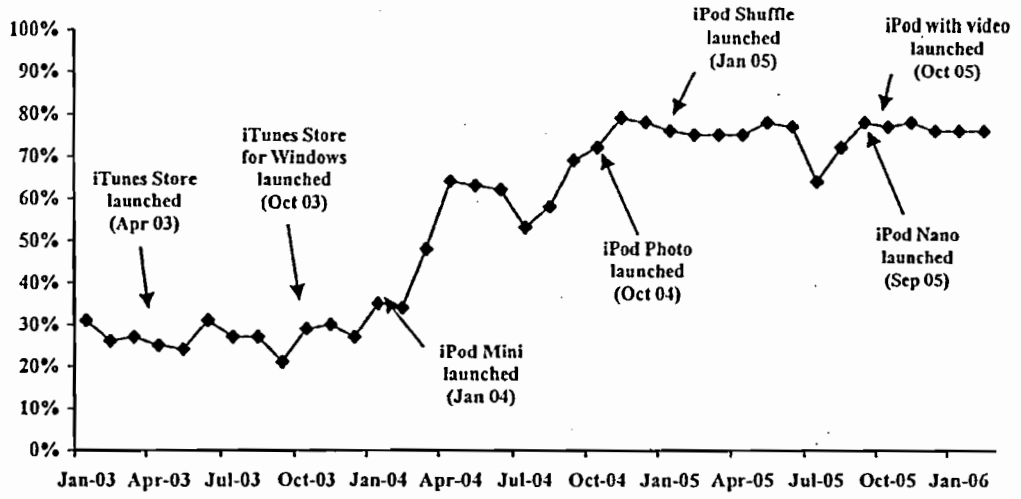
[Source: Enders Analysis based on company websites]

Notes:

1. To launch in December 2006.
2. Requires a Cingular mobile phone subscription.
3. To purchase permanent downloads, users must subscribe to the limited download service.
4. Restricted to educational institutions.

EXHIBIT CO 0708

Table 7: iPod Share of U.S. Portable Music Players, 2003-2005



[Source: Enders Analysis based on NPD data from Piper Jaffray Investment Research, "A Closer Look At Apple Computer" August 2006, and company web site]

EXHIBIT CO 0709

Table 8: Prices of *à la carte* Singles and Albums, October 2006

Music provider	Single	Album
iTunes Store	$0.99	$9.99
Napster Light	$0.99	$9.95
RCN (subscribers)	$0.99	$9.99
Rhapsody	$0.99	$9.99
Rhapsody (subscribers)	$0.89	$8.99
URGE	$0.99	$9.99
Virgin Digital Red Pass	$0.99	$8.99
Wal-Mart	$0.88	$9.44
Yahoo! Music JukeBox	$0.99	$9.27
Yahoo! Music Unlimited (subscribers)	$0.79	$7.72
Zune Marketplace	$0.99	$8.69

Note: Price for a typical album is the price of Madonna's "Confessions on a Dance Floor", released in November 2005, which is available for sale on all the listed sites.
[Source: Enders Analysis based on company websites]

EXHIBIT CO 0710

Table 9: Pricing of Subscription-based Limited Download and Interactive Streaming Services, October 2006

Music Format	Music Provider	Pricing
Limited Downloads	AOL Music Now	AOL Music Now $9.95/month AOL Music Now To Go $14.95/month
	Ctrax	Ctrax and Ctrax2Go are restricted to educational institutions
	Napster	Napster $9.95/month Napster To Go $14.95/month
	Musicmatch	Musicmatch On Demand $71.88/year
	RCN	RCN Music Library $7.95/month RCN Music To Go $13.95/month
	Rhapsody	Rhapsody Unlimited $9.99/month Rhapsody Unlimited To Go $14.95/month
	URGE	URGE All Access $9.95/month or $99/year URGE All Access To Go $14.95/month or $149/year
	Virgin Digital	Virgin Digital Red Pass $14.99/month
	Yahoo! Music	Yahoo! Music Unlimited $8.99/month or $71.88/year Yahoo! Music Unlimited To Go $14.99/month or $143.88/year
	Zune Marketplace	Zune Marketplace $14.99/month
Interactive Streams	Best Buy	Best Buy Digital Music Store 25 Free
	Napster	Napster Free
	RCN	RCN Music Library $7.95/month RCN Music To Go $13.95/month
	Rhapsody	Rhapsody 25 Free Rhapsody Unlimited $9.99/month Rhapsody Unlimited To Go $14.95/month
	Virgin Digital	Virgin Digital Red Pass $14.99/month

[Source: Enders Analysis based on company websites]

EXHIBIT CO 0711

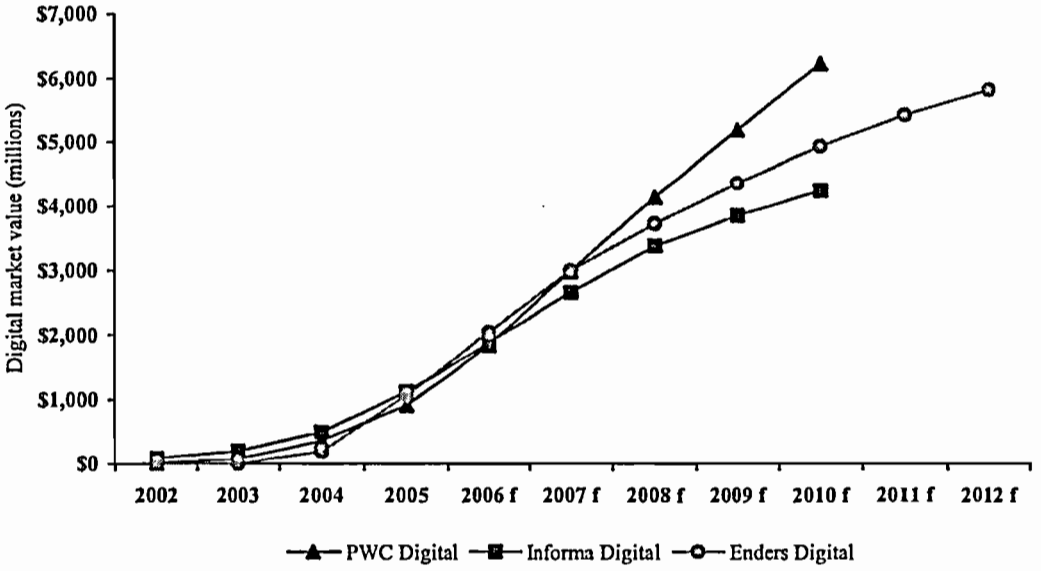
Table 10: Mobile Music Pricing, October 21, 2006

Network	Ringtune	Full track download
Verizon	$2.99 for single use on contract/$3.49 on prepay	$1.99 for dual-download
Sprint	$2.50 for 90 days use	$2.50 for dual-download
Cingular	$2.49	N/A
T-Mobile	$1.99	N/A

[Source: Enders Analysis based on company websites]

EXHIBIT CO 0712

Table 11: U.S. Digital Music Download Forecasts, 2006-2012



[Source: Enders Analysis based on data from PricewaterhouseCoopers Global Entertainment and Media Outlook and Informa Digital Home Entertainment: Future Consumer Spending Habits]

EXHIBIT CO 0713

U.S. Music Sales, 2004-2005

Format		2004	2005	Change (% 2005/2004)
Download single	Units (m)	139.4	366.9	163
	Value ($m)	138	363.3	163
Download album	Units (m)	4.6	13.6	196
	Value ($m)	45.5	135.7	198
Subscription	Units (m)	-	1.3	-
	Value ($m)	-	149.2	-
Other	Value ($m)	-	4.6	-
Total online	Value ($m)	183.5	652.8	256
Mobile	Units (m)	-	170	-
	Value ($m)	-	421.6	-
Total digital	Units (m)	143.9	554.4	285
	Value ($m)	183.4	1074.4	486

[Source: Enders Analysis based on RIAA, "2005 Year-End Statistics" www.riaa.org [accessed September 2006]

EXHIBIT CO 0714

Source: Company website

EXHIBIT CO 0715

2006 RIAA Mid-year Statistics

Phone: 202/775-0101

MANUFACTURERS' UNIT SHIPMENTS AND DOLLAR VALUE

(In millions at suggested retail list price, net after returns)

	Six Months Ended June 30											
	2006				2005				Percent Change			
Physical	Units to Retail	Dollars to Retail	Total Units*	Total Dollars	Units to Retail	Dollars to Retail	Total Units	Total Dollars	Retail Units	Retail Dollars	Total Units	Total Dollars
CD[1]	220.9	$3,559.2	264.8	$3,859.8	257.9	$4,189.3	307.7	$4,466.3	-14.3%	-15.0%	-13.9%	-14.0%
Vinyl Single	0.9	$5.1	0.9	$5.1	1.4	$7.7	1.4	$7.7	-36.2%	-33.7%	-36.2%	-33.7%
Music Video	0.3	$4.9	0.6	$6.1	4.3	$46.8	4.7	$50.0	-92.6%	-89.5%	-88.2%	-87.8%
SACD	0.1	$3.1	0.1	$3.1	0.3	$5.6	0.3	$5.6	-44.6%	-44.3%	-44.6%	-44.3%
DVD Video	9.2	$178.1	9.2	$178.1	11.6	$213.9	11.6	$213.9	-20.7%	-16.7%	-20.7%	-16.7%
DVD Audio	0.1	$1.4	0.1	$1.4	0.1	$1.7	0.1	$1.7	-35.1%	-17.0%	-35.1%	-17.0%
Other[2]	1.6	$11.6	2.0	$12.4	3.1	$19.2	3.7	$21.0	-42.4%	-39.6%	-47.2%	-41.0%
Total Albums[3]	231.2	$3,753.5	275.5	$4,056.1	275.3	$4,469.1	326.1	$4,771.1	-16.0%	-16.0%	-15.5%	-15.0%
Total Singles[4]	2.0	$9.9	2.0	$9.9	3.3	$15.1	3.3	$15.1	-38.4%	-34.5%	-38.4%	-34.5%
Total Physical	233.2	$3,763.4	277.6	$4,066.0	278.6	$4,484.2	329.4	$4,786.2	-16.3%	-16.1%	-15.7%	-15.0%
Digital												
Digital Single[5]	286.3	$283.4	286.3	$283.4	167.1	$165.4	167.1	$165.4	71.3%	71.3%	71.3%	71.3%
Digital Album	12.3	$122.7	12.3	$122.7	5.8	$57.9	5.8	$57.9	112.0%	112.0%	112.0%	112.0%
Kiosk	0.6	$0.8	0.6	$0.8	0.2	$0.3	0.2	$0.3	148.4%	155.2%	148.4%	155.2%
Digital Music Video	5.2	$10.3	5.2	$10.3	—	—	—	—	—	—	—	—
Total Digital	304.3	$417.2	304.3	$417.2	173.1	$223.6	173.1	$223.6	75.8%	86.6%	75.8%	86.6%
Mobile[6]	144.3	$356.4	144.3	$356.4	73.1	$181.1	73.1	$181.1	97.5%	96.8%	97.5%	96.8%
Subscription[7]	1.9	$98.1	1.9	$98.1	1.3	$64.8	1.3	$64.8	45.1%	48.3%	45.1%	48.3%
Total Digital & Physical[8]	681.9	$4,633.1	726.2	$4,935.7	524.8	$4,953.7	575.6	$5,255.7	29.9%	-6.5%	26.2%	-6.1%

** Total units includes shipments to retail, direct, and special markets*

[1] Includes DualDisc

[2] Includes Cassette, Vinyl LP/EP, and CD Single

[3] Includes CD, Cassette, Vinyl LP/EP, Music Video, SACD, DVD Video, and DVD Audio

[4] Includes CD Single and Vinyl Single

[5] Digital Sales Based On Estimated Current Retail Prices of $0.99 per Single And $9.99 per Album

[6] Includes Master Ringtunes, Ringbacks, Music Videos, Full Length Downloads and Other Mobile

[7] Subscription units indicates average number of subscribers

[8] Units do not include subscriptions. Note 2005 figures updated for inclusion of new formats

EXHIBIT CO 0716

2005 Year-End Statistics

1330 Connecticut Avenue, NW, Suite 300, Washington, D.C. 20036
202-775-0101

Manufacturers' Unit Shipments and Retail Dollar Value
(In Millions, net after returns)

Physical

	1995	1996	1997	1998	1999	2000	2001	% CHANGE 2000-2001	2002	% CHANGE 2001-2002	2003	% CHANGE 2002-2003	2004	% CHANGE 2003-2004	2005	% CHANGE 2004-2005
(Units Shipped) CD[1]	722.9	778.9	753.1	847.0	938.9	942.5	881.9	-6.4%	803.3	-8.9%	746.0	-7.1%	767.0	2.8%	705.4	-8.0%
(Dollar Value) CD[1]	9,377.4	9,934.7	9,915.1	11,416.0	12,818.3	13,214.5	12,909.4	-2.3%	12,044.1	-6.7%	11,232.9	-6.7%	11448.5	1.9%	10,520.2	-8.1%
CD Single	21.5	43.2	66.7	56.0	55.9	34.2	17.3	-49.4%	4.5	-74.1%	8.3	84.5%	3.1	-62.2%	2.8	-12.1%
	110.9	184.1	272.7	213.2	222.4	142.7	79.4	-44.4%	19.6	-75.4%	36.0	83.6%	14.952	-58.4%	10.9	-27.0%
Cassette	272.6	225.3	172.6	158.5	123.6	76.0	45.0	-40.8%	31.1	-30.9%	17.2	-44.7%	5.2	-69.6%	2.5	-52.6%
	2,303.6	1,905.3	1,522.7	1,419.9	1,061.6	626.0	363.4	-41.9%	209.8	-42.3%	108.1	-48.5%	23.7	-78.1%	13.1	-44.9%
Cassette Single[2]	70.7	59.9	42.2	26.4	14.2	1.3	-1.5	-215.4%	-0.5	-68.0%	N/A	N/A	N/A	N/A	N/A	N/A
	236.3	189.3	133.5	94.4	48.0	4.6	-5.3	-215.2%	-1.6	-70.3%	N/A	N/A	N/A	N/A	N/A	N/A
LP/EP	2.2	2.9	2.7	3.4	2.9	2.2	2.3	4.5%	1.7	-23.7%	1.5	-11.5%	1.36	-11.9%	1.02	-25.0%
	25.1	36.8	33.3	34.0	31.8	27.7	27.4	-1.1%	20.5	-25.2%	21.7	6.0%	19.286	-11.3%	14.2	-26.2%
Vinyl Single	10.2	10.1	7.5	5.4	5.3	4.8	5.5	14.6%	4.4	-20.8%	3.8	-14.0%	3.5	-7.3%	2.3	-35.4%
	46.7	47.5	35.6	25.7	27.9	26.3	31.4	19.4%	24.9	-20.6%	21.5	-13.8%	19.9	-7.3%	13.2	-33.4%
Music Video	12.6	16.9	18.6	27.2	19.8	18.2	17.7	-2.7%	14.7	-17.2%	19.9	35.2%	32.8	65.0%	33.8	3.2%
	220.3	236.1	323.9	508.0	376.7	281.9	329.2	16.8%	288.4	-12.4%	399.9	38.7%	607.2	51.8%	602.2	-0.8%
DVD Audio	-	-	-	-	-	-	0.3	N/A	0.4	63.8%	0.4	1.2%	0.3	-20.5%	0.5	31.8%
	-	-	-	-	-	-	6.0	N/A	8.5	41.3%	8.0	-5.5%	6.5	-19.2%	11.2	72.2%
SACD	-	-	-	-	-	-	-	-	-	-	1.3	N/A	0.8	-39.7%	0.5	-40.5%
	-	-	-	-	-	-	-	-	-	-	26.3	N/A	16.6	-36.9%	10.0	-39.9%
DVD Video[3]	-	-	-	0.5	2.5	3.3	7.9	139.4%	10.7	34.8%	17.5	63.3%	29.0	66.0%	27.8	-4.1%
	-	-	-	12.2	66.3	80.3	190.7	137.5%	236.3	23.9%	369.6	56.4%	561.0	51.8%	539.8	-3.8%
Total Units	1112.7	1137.2	1063.4	1123.9	1160.6	1079.2	968.5	-10.3%	859.7	-11.2%	798.4	-7.1%	814.1	2.0%	748.7	-8.0%
Total Value	12320.3	12533.8	12238.8	13711.2	14584.7	14323.7	13740.9	-4.1%	12614.2	-8.2%	11854.4	-6.0%	12154.7	2.5%	11195.0	-7.9%
	Total Retail Units		817.5	850.0	869.7	788.8	733.1	-7.0%	679.7	-7.8%	658.2	-2.6%	687.0	4.4%	634.8	-7.6%
	Total Retail Value		10,765.8	12,165.4	13,048.0	12,705.0	12,388.8	-2.5%	11,549.0	-6.8%	11,053.4	-4.3%	11,423.0	3.3%	10,477.5	-8.3%

Digital

Download Single	-	-	-	-	-	-	-	-	-	-	-	-	139.4	N/A	368.9	163.3%
	-	-	-	-	-	-	-	-	-	-	-	-	138.0	N/A	363.3	163.3%
Download Album	-	-	-	-	-	-	-	-	-	-	-	-	4.6	N/A	13.6	198.5%
	-	-	-	-	-	-	-	-	-	-	-	-	45.5	N/A	135.7	198.5%
Kiosk[4]	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.7	N/A
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.0	N/A
Music Video	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.9	N/A
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3.7	N/A
Total Units	-	-	-	-	-	-	-	-	-	-	-		143.9	N/A	383.1	166.2%
Total Value	-	-	-	-	-	-	-	-	-	-	-		183.4	N/A	503.6	174.5%
Mobile[5]	-	-	-	-	-	-	-	-	-	-	-	-	-	-	170.0	N/A
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	421.6	N/A
Subscription[6]	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.3	N/A
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	149.2	N/A

Total Digital & Physical

Total Units[7]	1,112.7	1,137.2	1,063.4	1,123.9	1,160.6	1,079.2	968.5	-10.3%	859.7	-11.2%	798.4	-7.1%	958.0	20.0%	1,301.8	35.9%
Total Value	12,320.3	12,533.8	12,238.8	13,711.2	14,584.7	14,323.7	13,740.9	-4.1%	12,614.2	-8.2%	11,854.4	-6.0%	12,338.1	4.1%	12,269.5	-0.6%

Retail value is value of shipments at recommended or estimated list price

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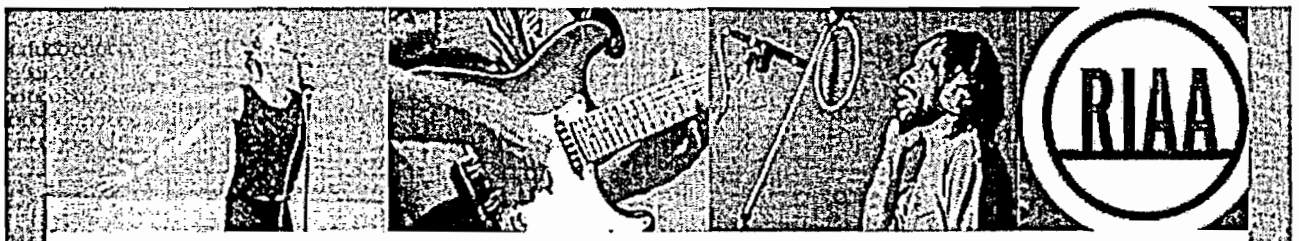
[1] Includes DualDisc
[2] RIAA's reports will no longer reflect shipments of cassette singles
[3] While broken out for this chart, DVD Video Product is included in the Music Video totals
[4] Includes Singles and Albums
[5] Includes Master Ringtones, Ringbacks, Music Videos, Full Length Downloads, and Other Mobile
[6] Weighted Annual Average
[7] Units does not include subscriptions

EXHIBIT CO 0717



October 12, 2006

RIAA Announces First Half 2006 Music Shipment Numbers II

WASHINGTON — The Recording Industry Association of America (RIAA) today announced its mid-year shipment data for the first half of 2006.

The overall estimated retail value of the industry, when shipments of physical products to various outlets are combined with the estimated value of digital revenue streams, was $4.9 billion during the first half of 2006. That represents a 6.1 percent decline when compared to the first six months of 2005.

On the digital side, revenues from various formats, including downloads, kiosks and digital videos, grew by 86.6 percent in the first half of 2006, with digital formats? share of overall industry value growing to 18 percent in the first part of 2006 ? up from 9 percent in the first half of 2005. Specifically, sales of digital singles increased 71.3 percent in the first half of 2006, with 286.3 million singles in 2006, compared to 167.1 million digital singles during the same period in 2005. Full-length digital albums increased 112.0 percent in 2006, with 12.3 million units sold in the first half of 2006, compared to 5.8 million digital albums in 2005. The number of subscription service users was 45 percent higher for the first half of 2006, with a monthly average of 1.9 million subscriptions, compared to an average of 1.3 million for the first half of 2005.

Shipments of mobile formats (mobile mastertones, ringbacks and other artist-related content) increased 97.5 percent in 2006. Record companies shipped 144.3 million mobile units in the first half of 2006, compared to 73.1 million during the same period in 2005. In fact, mobile formats continued to demonstrate such growth in 2006 that the RIAA developed the Gold and Platinum Award recognizing Mobile Mastertones in June. Partnering with Cellular Telecommunications Industry Association (CTIA) and Billboard Magazine, the RIAA announced the inaugural honorees during a ceremony at the Time Warner Center in New York City.

Overall shipments of physical units (CD, DVD videos, etc.) to retail and direct and special markets decreased 15.7 percent, compared to the first half of 2005. The suggested retail value of physical product units shipped was $4.1 billion, which is a 15.0 percent decline from 2005.

"The music community is embracing the digital age,? said Mitch Bainwol, Chairman and CEO of the RIAA. ?While we?re encouraged by several promising signs, no transition happens overnight. We have made meaningful strides against the theft of music online and on the street, labels continue to offer and experiment with a variety of digital distribution models, and fans? appetite for music remains strong. The industry is offering fans an impressive slate of new albums in the second half of 2006 that should produce positive results."

"Significant challenges remain," added Bainwol. "Online and hard goods piracy continue to hit the industry hard and no doubt had an impact on our mid-year results. Competition for spending on entertainment, especially in a tough economy, likely played a factor too."

The 2006 mid-year statistics are supplied by PricewaterhouseCoopers, LLP to the RIAA and are broken down by U.S. music shipments from record companies to retail outlets and by all U.S. music shipments from record companies (including retail shipments and direct and special markets).

Click here for a detailed breakdown of these statistics.

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The Recording Industry Association of America is the trade group that represents the U.S. recording industry. Its mission is to foster a business and legal climate that supports and promotes our members' creative and financial vitality. Its members are the record companies that comprise the most vibrant national music industry in the world. RIAA® members create, manufacture and/or distribute approximately 90% of all legitimate sound recordings produced and sold in the United States. In support of this mission, the RIAA works to protect intellectual property rights worldwide and the First Amendment rights of artists; conducts consumer, industry and technical research; and monitors and reviews state and federal laws, regulations and policies. The RIAA® also certifies Gold®, Platinum®, Multi-Platinum?, and Diamond sales awards, as well as Los Premios De Oro y Platino?, an award celebrating Latin music sales.

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Press Room - Gold & Platinum - Issues - About Us - Research and Data - En Español

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EXHIBIT CO 0718

press room

Frequently Asked Questions - Napster and Digital Music

The Napster Lawsuit | Consumers, File Trading and the Law
Record Labels and Digital Music | General Digital Music

The Napster Lawsuit

- **What is the RIAA action against Napster all about?**
- **Why is Napster's service wrong?**
- **Is it possible for Napster to deal only in authorized content?**
- **Napster's copyright protection page clearly says it revokes the ability of users to access Napster if they violate copyright law. Isn't that enough?**
- **Doesn't the AHRA allow the digital copying of music?**
- **Isn't this just like the motion picture association's battle against VCRs in the 1980s?**
- **Do you want to shut down Napster?**
- **Is this a lawsuit to stop the use of MP3 technology?**
- **Napster gives new performers the opportunity to attract national attention. What's wrong with that?**
- **What do artists think of Napster's system?**
- **Will a loss in the Napster case put your member companies out of business?**
- **Why don't you just compete with Napster instead of suing them?**

What is the RIAA action against Napster all about?

RIAA, on behalf of its members, sued Napster because it launched a service that enables and facilitates piracy of music on an unprecedented scale.

Napster has built a system that allows users who log onto Napster's servers to obtain infringing MP3 music files that are stored on the computers of other users who are connected to the Napster system at the same time. Napster provides advanced search capabilities, as well as direct hyperlinks to the MP3 files housed on its users' computers.

At any single point in time, millions of users may be logged onto Napster trading millions of pirated sound recordings.

Return to the Top

Why is Napster's service wrong?

The overwhelming majority of the MP3 files offered on Napster are infringing -- and the district court found that Napster knows this and even encourages it. Napster is thus enabling and encouraging the illegal copying and distribution of copyrighted music. Just because Napster itself may not house the infringing recordings does not mean Napster is not guilty of copyright infringement. Copyright law has long recognized that someone who materially contributes to infringing activity, with knowledge of that activity, is liable for copyright infringement as if that person did the copying him or herself.

Return to the Top

Is it possible for Napster to deal only in authorized content?

Sure. Our experts and theirs agree that it's technically possible to create a file-sharing system that only indexes or allows searches for artists or songs that have been authorized. But the burden is on Napster to figure out how to operate legally, just as it is with any new business to operate within the law. If you're opening a new restaurant, you're expected to abide by the health code before you start serving food, not only after the health inspector comes around. It's the same with constructing a building, or anything else. In this context, that means getting permission to use other people's copyrighted works before you use them.

Return to the Top

Napster's copyright protection page clearly says it revokes the ability of users to access Napster if they violate copyright law. Isn't that enough?

A few words cannot undo the harm caused by millions of Napster users unlawfully downloading tens of millions of infringing music files. In any event, Napster's actions speak louder than its words. Napster is actively encouraging and facilitating the illegal copying and distribution of copyrighted music.

While Napster now claims that it's all about creating a community for the new and unknown artist, the district court found that it was just an afterthought to try to help them in the

litigation. Before this litigation, Napster was more forthright about its true purpose. On its web site, Napster touted itself as the "world's largest MP3 music library" that "ensures the availability of every song online." Leaving little doubt about its disregard for the unknown artist, Napster boasted that "Napster virtually guarantees you'll find the music you want, when you want it ... and you can forget about wading through page after page of unknown artists."

Napster is unfair to the artists and musicians who have invested their time, effort and money to create music.

Return to the Top

Doesn't the AHRA allow the digital copying of music?

The Audio Home Recording Act (AHRA) of 1992 covers devices designed or marketed for the primary purpose of making digital musical recordings and provides these devices, and their manufacturers, with some protection from contributory copyright infringement claims. Those covered devices are required to incorporatetechnologyto prevent serial copying. The manufacturers of covered devices also pay a royalty to copyright owners. General purpose computers are not covered by the AHRA, so that statute imposes no obligations on Napster and provides no immunity for either Napster or its users. That's why the district court held that the AHRA was inapplicable. Even if computers were covered, the AHRA would not allow the widespread distribution of music that is enabled by Napster.

Return to the Top

Isn't this just like the motion picture association's battle against VCRs in the 1980s?

Not at all. A VCR can be used lawfully (time-shifting, rentals, home movies) and never infringe on a copyright. The overwhelming use of Napster, by contrast, is for infringing purposes. Indeed, the district court found that Napster did not have any non-infringing uses that were commercially significant. The magnitude of the activity is also very different. An individual making a copy of a TV program (which she was invited to watch for free) so that she can watch it later cannot be equated with an individual re-distributing a copy of a CD to millions of anonymous strangers who were not invited by the copyright owner to get it for free.

Finally, the record industry is embracing Internet technology and actively working to take advantage of the new technologies for the delivery of music online. But it's very hard for an artist or label to sell their music online when the same songs are available from Napster for free.

Return to the Top

Do you want to shut down Napster?

No. We're only asking them to stop the unauthorized distribution of music. We want Napster to play by the same rules as everyone else, including the copyright laws honored by businesses offline and legitimate sites online that are licensed to download music.

In any case, Napster's New Artist Program will remain intact because they've asked for and obtained permission from the 17,000 artists in the program to distribute their music. Ironically, they didn't extend the same courtesy of asking permission to the owners of the most valuable copyrighted music in the world.

Return to the Top

Is this a lawsuit to stop the use of MP3 technology?

No. The suit is against Napster, the company, and not MP3 technology. Any company that offers to help distribute illegally obtained music is a problem -- whether that music is transmitted on tape, CD, or on the Internet in whatever form.

No one is trying to stop technology -- all the RIAA and its members are trying to do is to put a stop to a new high-tech type of theft. Keeping someone from trying to use your ATM card, for example, doesn't mean you are trying to stop the use of ATMs.

As for MP3 technology, RIAA only has a problem with the illegal uses of the format to distribute copyrighted recordings without the permission of the artist or record company. To the extent that artists choose to use MP3 technology to distribute their work - music that they own the rights to - that's great; in fact, it's a potent example of the ways in which the Internet can connect creators and fans and produce new opportunities for the distribution of music.

Return to the Top

Napster gives new performers the opportunity to attract national attention. What's wrong with that?

Artists who choose to make their work available for free are entitled to do so. No artist's work should be taken without his or her consent. Moreover, there are lots of sites on the Internet that have built a legitimate business on promoting unknown artists – sites like MP3.com, IUMA, and MP3dom.com. Napster is not one of them. The district court agreed that the overwhelming majority of downloaded material on Napster is not from emerging young performers.

Return to the Top

What do artists think of Napster's system?

Artists have been voicing their opinions in increasing numbers. Many appreciate the promotional opportunity the Internet presents, but have passionate feelings about being able to decide where and how their music is distributed and to receive some compensation for its use.

Here are just a few examples of what artists are saying:

"I think the fact that Napster is stealing recorded music is something that we have to stop. It's taking money out of my kid's mouth. That's the way I look at it. It's wrong. It's inherently wrong. It's stealing."

- Art Alexakis, Everclear

Napster is "robbing me blind."

- Scott Stapp, lead singer/lyricist for Creed

"Many artists have spent their lives honing their craft and now some anonymous person in a little dark room with a computer somewhere is able to collate that lifetime's work and pass it around the world for free. It's just not on. Stealing is stealing regardless of what name you choose to call it."

- Matt Johnson

"As a band, we are incensed at the amount of disregard Napster has toward how musicians make a living. We only get paid from our recordings if they are bought in legal ways. By disregarding copyright laws we lose out. We are a 'baby band', struggling to stay alive financially. Every dollar we lose to 'fans' stealing our music hurts...if folks knew that the majority of the major label bands are not making any income from their recordings...and losing money by touring, they would be astounded and a bit more sympathetic to the artists. What is supposed to set the industry free is killing it."

- The Push Stars

"It pisses me off and I resent it. I spent $15,000 on my Web site. I paid a publicist for a year and a half out of my own pocket. And now some kid's going to tell me my catalog should be free? They're just entrepreneurs setting themselves up to make a ton of money off other people's work. Where's the compensation for the artists? I know people using Napster are chuckling about kicking big, bad record labels. But as evil as the record companies may be, at least they're paying for your recording budget, and at least they're promoting you, and paying for tour support. We can make a new model – yeah right. It's laughable. Those people have no idea how the music business works. Because unless you're Alanis Morissette or Dave Matthews, you're not making money on the road. It's all I can do to break even on tour. And the only reason to tour is to promote the sale of my CD."

- Jonatha Brook
Salon
March 25, 2000

"I am excited about the opportunities presented by the Internet because it allows artists to communicate directly with fans. But the bottom line must always be respect and compensation for creative work. I am against Internet piracy and it is wrong for companies like Napster and others to promote stealing from artists online."

- Elton John

"Artists, like anyone else, should be paid for their work."

- Lou Reed

"I don't have a big giant record deal or a movie deal. I don't

make money on the road; I lose money on the road. ANewsweekarticle said, 'It's the kids versus the suits.' Well, it's not really that – it's kids versus the damn musicians, the people you supposedly like, whose music you listen to."

- Aimee Mann
Yahoo! Internet Life
August 2000

"Napster presents huge problems for the artists. It raises the questions – which is positive – of where and how artists are compensated. But I don't agree with the model they've set up. The artists should be the person who's ultimately in a position to decide when, where, and how something should be shared with whomever they choose to share it with."

- Alanis Morissette
Yahoo! Internet Life
August 2000

Return to the Top

Will a loss in the Napster case put your member companies out of business?

While the Napster case is incredibly important to the recording industry, the vast majority of the industry's product is still sold in brick and mortar stores. That isn't going to change overnight.

The true issue arises when you consider that Napster and other file trading services are setting standards and expectations from consumers that labels and artists can't reasonably meet. It's not fair to create an illegitimate service and force copyright holders to participate in it as a means to ensuring their future. The value of a copyright must prevail whether in the physical or digital realm.

This is not about stopping a new technology – it's simply a question of making sure that the new technology is used legitimately.

The case will have important implications not just for online music, but foralicopyright industries that are interested in launching legitimate businesses on the Internet. If a consumer were permitted to "share" with millions of anonymous strangers copyrighted music, motion pictures, software, books, photographs, or anything else just because he or she bought a single copy of it, then copyright law as we know it would be turned upside down.

Return to the Top

Why don't you just compete with Napster instead of suing them?

It's not a level playing field. You can't compete with people who are stealing your products and giving them away. Our companies continually consider new ideas and business models, but only if they respect the intellectual property rights of artists.

Many new solutions and business models are being developed. But until they're ready, we've got to protect the copyrights of the artists whose livings rely on their art.

Up to this point Web sites, such as Emusic, MP3.com, Rioport, Listen.com and SpinRecords.com, have built or are building large and viable businesses using only authorized music.

Return to the Top

Consumers, File Trading and the Law

- **What about consumers' rights?**
- **Once I purchase a CD or movie, doesn't the "fair use" doctrine allow me to use my CD as I see fit?**
- **Isn't it OK to trade music files as long as they are only used for personal use?**
- **Don't I have a right to give away songs I own under the First Sale Doctrine?**
- **How is file trading different from recording from the radio?**
- **Isn't file trading as innocent as making mix tapes for friends?**
- **How can file trading be illegal when I'm not charging for the music?**

What about consumers' rights?

The Napster lawsuit is not about consumer rights. It's about a company building its business using the copyrighted material of others. There is no system in place for Napster to compensate the owners of the music that is being traded on their service, or even a process for getting permission from the owners.

Return to the Top

Once I purchase a CD or movie, doesn't the "fair use" doctrine allow me to use my CD as I see fit?

The "fair use doctrine" of copyright law is complicated and its application varies depending on the specific facts and circumstances. In general, the doctrine can allow someone to reproduce, distribute, adapt, display and/or perform a copyrighted work depending upon the nature of the use (commercial purposes, non-profit, educational), the length of the excerpt, how distinctive the original work is, and how the use will impact the market for the original work.

You don't have to be a copyright lawyer to know that it is not "fair" to allow an individual to make copies of copyrighted music available to millions of anonymous strangers. That's the equivalent of publishing, and few people would argue that you can publish someone else's copyrighted work without his or her permission. In fact, courts have routinely held that wholesale

copying and distribution of the entirety of creative works is not a fair use. The district court in this case came to the same conclusion.

Return to the Top

Isn't it OK to trade music files as long as they are only used for personal use?

There is a big difference between a consumer making a copy for his or her own personal use, and that same consumer making the file available on Napster where it can be freely downloaded by millions of people. Not even the staunchest proponents of consumer rights have suggested that the latter is fair or lawful.

Return to the Top

Don't I have a right to give away songs I own under the First Sale Doctrine?

The First Sale Doctrine does allow you to resell or give away the copy of the music that you bought, but it does not allow you to distributecopiesof that music by making it available on an Internet site for download, or sending digital files to friends. In other words, if you buy a CD and then choose to give that CD to your friend, that's OK. But, the First Sale Doctrine doesn't allow you to give the CD away and keep a copy for yourself, or to give away copies of your CD.

Return to the Top

How is file trading different from recording from the radio?

Taping a song from the radio for your personal use is nothing like file trading. Unlike radio, file trading allows you to search for specific songs and access them at will. Also, the quality of downloads is much better. You are able to get a copy of the whole song, without a DJ talking over it or another song being mixed in. Downloads are digital and as such don't lose sound quality in the transfer, as you do with analog tape. Most important, the harm that can be caused by file trading over the Internet is orders of magnitude greater than the impact of off-air taping.

Return to the Top

Isn't file trading as innocent as making mix tapes for friends?

No. The more appropriate analogy is if you give your mix tape to millions of anonymous strangers. That's not legal, and it's certainly not innocent.

Return to the Top

How can file trading be illegal when I'm not charging for the music?

Whether or not you are being paid is irrelevant under copyright law. If you don't hold the copyright, you can't sell or even give away unauthorized copies of the sound recording without permission. In fact, only a couple of years ago Congress amended the copyright law to impose criminal liability on

infringing activities for non-commercial purposes [under the No Electronic Theft ("NET") Act].

Return to the Top

Record Labels and Digital Music

- **Aren't record companies at fault for the proliferation of file trading because they've been so slow in offering music on the Internet?**
- **Aren't all these lawsuits a result of the labels trying to control their monopoly on record distribution?**
- **The record labels don't pay the artists anything for their music anyway, so what difference does it make that they aren't getting money from file trading?**
- **What have RIAA members been doing to harness technological advances in digital music?**

Aren't record companies at fault for the proliferation of file trading because they've been so slow in offering music on the Internet?

The Internet is revolutionizing entertainment – and the recording industry embraces it. Our reason for existence is to find, develop, and promote talented musicians. We build careers and make a contribution to our ever-evolving culture.

In order to accomplish this, we must market and distribute our catalogs in ways that are legal and that result in the creators being fairly compensated. It takes an enormous amount of effort to determine how to offer music to consumers online in a way that meets their needs and grows the business. Method of delivery, format, rights clearances, relationships with retailers, and price structure are but a few of the many issues to be worked out, as is negotiating for digital distribution rights where necessary with artists, songwriters, publishers, and their representative organizations in the US and abroad.

We are in uncharted territory, and it is far easier to disregard the rights of others and create an illegal file trading service than it is to work through the issues and create a system that is fair to all.

Having said that, all of our companies understand that the best response is a marketplace response, and that they need to offer legitimate alternatives. They are working to do that just as quickly as they can. But even if they've been slower than they'd like in getting their music online, surely that cannot justify the theft of their artists' music. Would you feel justified in stealing a 2-liter bottle of Coke because it didn't come in the six-pack of cans you preferred?

Return to the Top

Aren't all these lawsuits a result of the labels trying to control their monopoly on record distribution?

The lawsuits are a result of the labels trying to protect their copyrights, period. The wholesale theft of copyrighted music online is just as damaging to independent labels and artists as it is to major record companies.

Return to the Top

The record labels don't pay the artists anything for their music anyway, so what difference does it make that they aren't getting money from file trading?

It's not surprising that people ask questions like this because some artists love to bash the labels. But artists find it in their interest to sign with labels because record companies perform an incredibly important and valuable role, not only in nurturing the creative process but in creating the demand for the artist's music.

When a major label signs an artist, they are usually committing around $1 million or more to the first record. In other words, they are not just paying lip service to their artist's talent, they are putting their money where their mouth is. (Compare that to Napster, which doesn't invest a dime in the music on which they've built a multi-billion dollar "music site!") Costs may include the advance payment to the artist, the studio and production costs of recording, putting the band on the road for a year, co-op advertising with retailers, publicity-related expenses, radio and other forms of promotion, building a website and an Internet marketing plan, and making a video if all goes well. The bigger an artist is, the higher these costs can go. An average of 85% of the records released by the labels fail, and the 15% thatdobecome profitable go towards paying for the ones that weren't.

Beyond their advance (which they get with every new record released), the artist has to sell enough records to recoup the label's cost before they see any more money from their deal. With the high cost of marketing and promotion and the high risk of failure, the artists typically supplement their income with merchandise, touring (when profitable), paid endorsements, and publishing. Ironically, there would be no income on any of these levels if labels weren't spending all their money raising the artist's profile in the first place.

The important thing is that there is a system in place for the artist to make money. There is a negotiated royalty rate and a contract the artists enter into that is almost always negotiated between the label and an experienced entertainment lawyer. The same can't be said for file trading systems where artists have no say and no method of compensation.

Return to the Top

What have RIAA members been doing to harness technological advances in digital music?

RIAA members have embraced new technologies that enable faster, easier, and wider distribution of music, from tapes to CDs to the Internet. RIAA members have thriving e-commerce sites, are implementing cutting-edge technology, and are actively

involved in the development of new business models.

Some examples of how record companies are going digital are:

- Many record labels have been licensing personalized webcasting services, and many more are on the way;
- Three of the five major labels (EMI, Sony and Universal) have already begun offering digital downloads via the Internet. The other major labels and several independent labels (e.g., Zomba and TVT) have likewise announced plans to begin digital downloads of music and are slated to begin operations in the near future;
- Warner, BMG, EMI, Beggar's Banquet, and other labels have already licensed MP3.com, MusicBank, and other services to offer consumers the ability to store their music wherever they are and whenever they want;
- Sony, Universal and EMI have announced that they will soon be offering a subscription service to consumers for the first time;
- Sony, EMI, BMG, TVT, and other labels have also formed partnerships with companies offering consumers the ability to have customized CDs made for them. EMI sold a Beastie Boys package of 2 CDs: the first was new material from the band, and the second was a customized disc made specially for each purchaser of that buyer's favorite Beastie Boys songs; and
- Sony, EMI, and BMG have also formed partnerships with companies offering music via kiosks in record stores.

Return to the Top

General Digital Music

- **Don't technologies like Gnutella and Freenet pose the greatest risk for the recording industry? Why worry about Napster?**
- **If music wasn't so expensive, wouldn't there be less incentive to want to file-share?**
- **CD sales are up, so what's the problem?**
- **Is the recording industry concerned about the threat of compulsory licensing?**

Don't technologies like Gnutella and Freenet pose the greatest risk for the recording industry? Why worry about Napster?

Record companies have lived with piracy forever, so new technologies for piracy on the Internet is nothing new. Certainly, there will be challenging issues to address, and perhaps technical measures will be helpful. But, the mere fact that there

are other piracy challenges on the Internet is not a reason to do nothing about commercial operations like Napster, which seek to build multi-billion dollar businesses on copyrighted works they neither own nor license.

Record companies recognize that the ultimate response to technologies like Gnutella and Freenet is a legitimate alternative that consumers will prefer. It's up to the industry to offer consumers such convenient access to music, with such ease of operation and great sound quality, that consumers will choose to use legitimate sites. They're also likely to prefer dealing with legitimate sites so as to avoid the security and privacy risks of dealing with anonymous strangers on the "Undernet."

Return to the Top

If music wasn't so expensive, wouldn't there be less incentive to want to file-share?

First, this is not file sharing. This is unauthorized, illegal file duplication – on a massive scale. Sharing is when one person gives up something for another – a half a piece of pie, for example, or the use of a car. With Napster, nobody is giving up anything because everybody gets to keep a copy. And that's just plain wrong.

Second, the price of music is not just the cost of the plastic on which it's recorded, any more than the price of a movie is based on the cost of the film. The price of a CD includes the cost of paying all the people who helped create it. Those people include songwriters, artists, background musicians, studio engineers, talent scouts, marketers and retailers, among many others. It also carries with it the enormous costs of marketing and promotion that are required to call attention to the album in our oversaturated entertainment market.

In any event, dissatisfaction with the price is not a justification for stealing. Would you steal a book on the grounds that its price is too high? Or break into a theater because the tickets cost too much?

Return to the Top

CD sales are up, so what's the problem?

In view of the healthy state of the US economy, it would be surprising if record sales didnotincrease. Common sense suggests that sales would have increased even more without Napster. And, after hearing all the evidence, the district court concluded that Napster was in fact hurting CD sales.

Moreover, as the district court stated, the CD market is not the only market at issue. Napster is also having an adverse effect on the ability of legitimate companies to deliver and market music online. Napster is interfering with the development of a legitimate music market on the Internet because it's very hard to sell music in competition with free copies of the same music on the same network. Even worse, Napster is devaluing music itself, teaching an entire generation that music is free and has no value.

Return to the Top

Is the recording industry concerned about the threat of compulsory licensing?

Compulsory licensing would force music copyright owners to make their music available on the Internet at a government-mandated price. We do not believe Congress would try to regulate the Internet that way, substituting government-set price controls for marketplace forces. Furthermore, the only proponents of compulsory licenses are the Internet companies who have been accused of or found liable for copyright infringement.

There is also no need for compulsory licensing, since the marketplace is working. In the past year, the recording industry has negotiated a record number of agreements with technology companies in connection with the distribution of music online. This is a dynamic and vibrant marketplace that is operating effectively and efficiently for those who respect intellectual property rights.

Finally, it is difficult to believe that Congress would legislate a giant giveaway to people across the globe of America's most valuable export – its intellectual property.

Return to the Top

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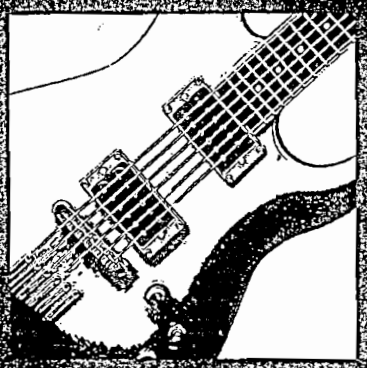
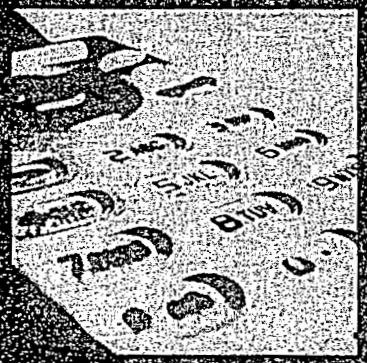
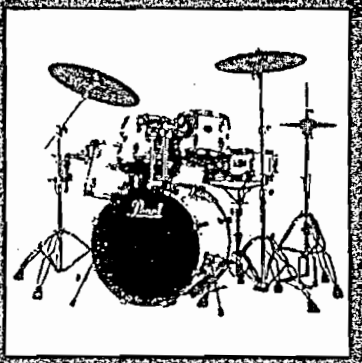
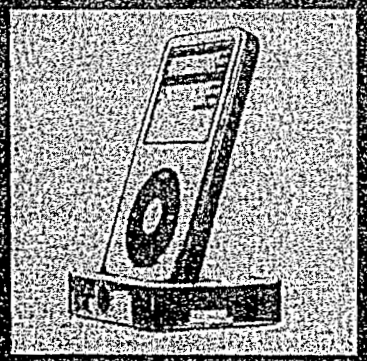
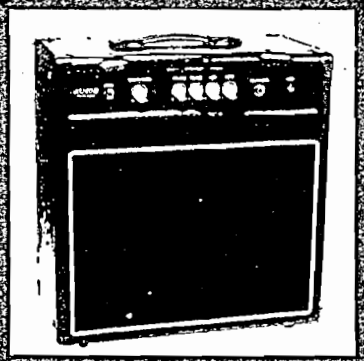
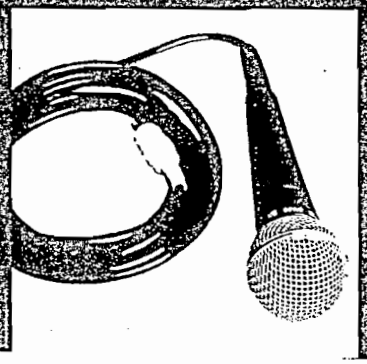
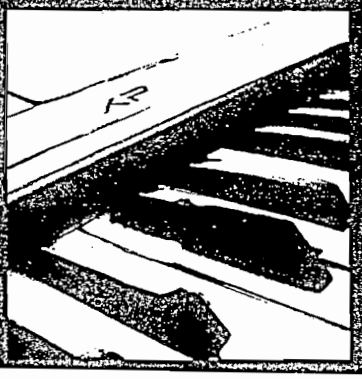
2006 GLOBAL RECORDING INDUSTRY IN NUMBERS

THE DEFINITIVE SOURCE OF GLOBAL MUSIC MARKET INFORMATION





CONTENTS

SOURCES

- Music industry sales and piracy levels: IFPI national groups/local industry associations/major record companies
- Population: World Factbook (www.cia.gov)
- GDP and exchange rates: IMF (www.imf.org)
- Broadband lines: Point Topic, Q1 2006 (www.point-topic.com)
- Internet users: Internet World Stats, March 2006 (www.internetworldstats.com)
- Mobile subscriptions: Mobile operators and IFPI national groups

NOTES

- Retail value: estimate of the final value paid by the consumer for the purchase of a music product, inclusive of relevant sales taxes
- Trade value: sales analysis and digital indicators on country pages are based on trade values
- $US (fixed): historical local currency values re-stated at the 2005 exchange rate
- $US (variable): historical local currency values stated at the exchange rate of each year
- Repertoire origin: proportion of the total market trade value accounted for by each repertoire type. Classification is based on artist country of signing, unless otherwise stated
- Multi-artist sales (compilations): excluded from repertoire origin splits
- Jazz music: generally not included in classical
- Piracy level: measured as a percentage of total (legitimate and pirate) unit sales
- Inclusion of music video sales in 2001: music video products (VHS, DVD and Video CDs) are included in the music market totals (units and value) from 2001 onwards. This results in an artificial growth being reported for 2001
- Inclusion of digital sales in 2004: digital sales are available for the top 20 markets from 2004 onwards. It includes online, mobile and subscription revenues

IFPI is the organisation representing the recording industry worldwide. Its membership comprises some 1,400 major and independent companies in more than 70 countries. It also has affiliated industry national groups in 48 countries.

IFPI's mission is to promote and protect the interests of the recording industry worldwide, through two key objectives:

- To increase the rights value of music recordings by promoting good modern copyright laws and their effective enforcement; by promoting the value of music and copyright, economically and culturally; by securing and strengthening recording industry rights for online transmission, public performance and broadcasting; and by encouraging industry consensus in advancing the interests of the music sector with governments.
- To enlarge and enable the global marketplace for music recordings by reducing music piracy; by encouraging conditions for investment and commercial expansion in developing markets; and by helping to create a successful commercial environment for digital music.

Introduction	2
World Ranking	3
Top Selling Albums In 2005	4
Top 50 Albums Of 2005	5
Key Industry Trends	6
Classical Music Sales	15
Impact Of Digital On The Singles Market	18
Global Performance Rights Collections In 2005	20
Country Pages	23
North America	24
Europe	28
Asia	69
Australasia	84
Latin America	88
South Africa	96
Appendix	97
Sales By Age Trends	98
Retail Trends	100
Sales By Genre In 2005	101
Sales By Genre Trends	102
Domestic Repertoire Trends	104
International Repertoire Trends	105
Classical Repertoire Trends	106
Compilations Market Trends	107
Certification Award Levels	108
IFPI Platinum Europe Awards	110
Recorded Music Sales History	112
Taxes On Sound Recordings	115
2005 Exchange Rates	116

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INTRODUCTION

The recording industry has seized new opportunities and faced great challenges over the past five years. Both have arisen largely as a result of new technology as the industry addresses the fight against digital and physical piracy, content protection and DRM, as well as support for new physical formats, and how best to work with hundreds of new partners in the emerging legal digital music market.

Consumer trends will create even greater opportunities and challenges over the next few years. Almost every market indicator suggests that there will be an increase in overall music consumption. In the US researchers NPD put this increase at 12% in 2005. Meanwhile there are growing revenues across the broader music industry, with many music sectors showing healthy growth.

One big challenge for all commercial music providers today is monetising this demand for music. With new digital channels having well and truly arrived in 2005 this now looks entirely possible. It is easy to see why most entertainment industry analysts are forecasting a return to growth for recorded music from 2007 onwards. At the same time consumer trends could lead to increasing competition for consumers' time and income from new forms of entertainment.

Music consumers are clearly responding differently to physical formats and digital music. The CD – still accounting for 82% of global music revenues in 2005 – offers tactile qualities highly valued by users who appreciate their collectability and cover art as well as audio quality. These are very distinct from the attributes of music downloads, which are searchability, variety of choice and immediacy. As record companies and music retailers work in partnership to market these different attributes, the industry can drive both CDs and digital downloads towards their naturally-emerging consumer segments.

The durable impact of digital technology on music is unlikely to be clear for a few more years yet. Apple's iTunes may dominate the market for à-la-carte downloads for the time being, but new online models are emerging. Many successful online music services in 2006 are designed to serve niche markets often with specialist repertoire. For example, eMusic sells MP3 downloads specialising in independent repertoire. In April 2006 Warner became the first major record label to launch a classical online music store, Warnerclassics.com. Meanwhile, services based on the core attributes of search, music sharing and discovery - like Last FM, Pandora and Musicstrands – look set to shape new music markets.

Mobile music also looks to have a positive future, with some operators announcing impressive sales figures for master ringtones, downloads and music videos. Mobile music has a number of attractive key drivers, but also some barriers to overcome (see page 11). The next year or two are likely to continue to be experimental, with growth coming from 2008 onwards when compelling music applications for mobile phones are more widely available and when 3G use is more widespread.

The key driver of digital channels – both online and mobile – is portability. More music is listened to on the move than ever before. The penetration of portable music players has reached 20% of all consumers in the USA and Europe. Both digital sales revenues and consumer research confirm that portable player owners are now taking digital downloading seriously as an alternative way to buy music. Subscription is an important model too, though so far music subscription services have been held back by the lack of a truly compelling alternative player to the iPod.

The Recording Industry in Numbers – now in its 13th edition - contains digital sales for the recording industry for the first time. This edition gives a broader strategic analysis of music industry trends than previous publications, highlighting all the key numbers and using the best market indicators available. The RIN continues to be the best single source of global music market information.

Keith Jopling
Director, Strategic Research & Analysis

WORLD RANKING

Recorded Music Sales

	Country	Trade Value $US (m)	% Total Sales
1	USA	7,011.9	34%
2	Japan	3,718.4	18%
3	UK	2,162.2	10%
4	Germany	1,457.5	7%
5	France	1,248.3	6%
6	Canada	544.3	3%
7	Australia	440.0	2%
8	Italy	428.5	2%
9	Spain	368.9	2%
10	Brazil	265.4	1%
11	Mexico	262.7	1%
12	Netherlands	246.3	1%
13	Switzerland	205.9	1%
14	Russia	193.7	1%
15	Belgium	161.8	1%
16	South Africa	158.8	1%
17	Sweden	148.2	1%
18	Austria	138.7	1%
19	Norway	133.1	1%
20	Denmark	113.1	1%
21	India	111.6	<1%
22	Turkey	105.3	<1%
23	Taiwan	99.7	<1%
24	Ireland	91.2	<1%
25	Finland	81.2	<1%
26	Portugal	81.1	<1%
27	China	79.8	<1%
28	New Zealand	77.5	<1%
29	South Korea	77.4	<1%
30	Thailand	77.2	<1%
31	Hong Kong	66.2	<1%
32	Greece	65.1	<1%
33	Poland	63.9	<1%
34	Argentina	51.4	<1%
35	Indonesia	50.2	<1%
36	Hungary	33.4	<1%
37	Singapore	33.1	<1%
38	Colombia	27.0	<1%
39	Czech Republic	24.8	<1%
40	Chile	24.1	<1%
41	Malaysia	23.1	<1%
42	Philippines	19.1	<1%

Note: Figures include digital sales for the top 20 markets

Digital Music Sales

	Country	Trade Value $US (m)	% Total Digital Sales
1	USA	636.0	56%
2	Japan	277.5	24%
3	UK	69.2	6%
4	Germany	39.1	3%
5	France	28.1	2%
6	Italy	15.7	1%
7	Canada	14.7	1%
8	South Korea	11.8	1%
9	Australia	7.5	1%
10	Netherlands	4.9	<1%

DVD Music Video Sales

	Country	Trade Value $US (m)	% Total Music Video Sales
1	Japan	404.9	26%
2	USA	273.7	18%
3	France	136.4	9%
4	Germany	132.0	9%
5	UK	115.0	7%
6	Brazil	66.5	4%
7	Canada	55.2	4%
8	Netherlands	45.4	3%
9	Australia	44.5	3%
10	Spain	32.4	2%

Single Units

	Country	Units (m)	% Total Single Sales
1	USA	371.9	59%
2	Japan	75.7	12%
3	UK	53.1	8%
4	France	33.9	5%
5	Germany	32.7	5%
6	South Korea	12.3	2%
7	Canada	10.7	2%
8	Australia	9.9	2%
9	Italy	4.1	1%
10	Belgium	4.0	1%

Note: Figures include digital sales

TOP SELLING ALBUMS IN 2005

EMI	
Artist	Title
Coldplay	X&Y
Robbie Williams	Intensive Care
Gorillaz	Demon Days
The Rolling Stones	A Bigger Bang
Various Artists	Now That's What I Call Music! 19
Keith Urban	Be Here
Various Artists	Now That's What I Call Music! 62
KT Tunstall	Eye To The Telescope
Korn	See You On The Other Side
RBD	Rebelde
Sony BMG	
Artist	Title
Kelly Clarkson	Breakaway
Il Divo	Il Divo
System Of A Down	Mezmerize
Destiny's Child	#1's
Il Divo	Ancora
Kenny Chesney	The Road And The Radio
Foo Fighters	In Your Honor
The Backstreet Boys	Never Gone
Shakira	Fijación Oral Volumen 1
Carrie Underwood	Some Hearts
Universal	
Artist	Title
Mariah Carey	The Emancipation Of Mimi
50 Cent	The Massacre
The Black Eyed Peas	Monkey Business
Eminem	Curtain Call - The Hits
Gwen Stefani	Love Angel Music Baby
Kanye West	Late Registration
Jack Johnson	In Between Dreams
The Game	The Documentary
Nickelback	All The Right Reasons
Various Artists	Now That's What I Call Music! 20
Warner	
Artist	Title
Green Day	American Idiot
Madonna	Confessions On A Dancefloor
James Blunt	Back To Bedlam
Michael Buble	It's Time
Enya	Amarantine
Faith Hill	Fireflies
Green Day	Bullet In A Bible
Rob Thomas	Something To Be
Sean Paul	The Trinity
Mike Jones	Who Is Mike Jones?

Source: Majors

Top 50 Albums of 2006

	Artist	Title	Company
1	Coldplay	X&Y	EMI
2	Mariah Carey	The Emancipation Of Mimi	Universal
3	50 Cent	The Massacre	Universal
4	The Black Eyed Peas	Monkey Business	Universal
5	Green Day	American Idiot	Warner
6	Madonna	Confessions On A Dancefloor	Warner
7	Kelly Clarkson	Breakaway	Sony BMG
8	Eminem	Curtain Call - The Hits	Universal
9	James Blunt	Back To Bedlam	Warner
10	Robbie Williams	Intensive Care	EMI
11	Gorillaz	Demon Days	EMI
12	Gwen Stefani	Love Angel Music Baby	Universal
13	Michael Bublé	It's Time	Warner
14	Kanye West	Late Registration	Universal
15	Enya	Amarantine	Warner
16	Il Divo	Il Divo	Sony BMG
17	Jack Johnson	In Between Dreams	Universal
18	The Game	The Documentary	Universal
19	System Of A Down	Mezmerize	Sony BMG
20	Destiny's Child	#1's	Sony BMG
21	Il Divo	Ancora	Sony BMG
22	Kenny Chesney	The Road And The Radio	Sony BMG
23	Foo Fighters	In Your Honor	Sony BMG
24	Nickelback	All The Right Reasons	Universal
25	The Backstreet Boys	Never Gone	Sony BMG
26	Various Artists	Now That's What I Call Music! 20	Universal
27	Shakira	Fijación Oral Volumen 1	Sony BMG
28	The Killers	Hot Fuss	Universal
29	Rascal Flatts	Feels Like Today	Lyric Street Records
30	Bon Jovi	Have A Nice Day	Universal
31	Various Artists	Get Rich Or Die Tryin' - The Original Motion Picture Soundtrack	Universal
32	The Rolling Stones	A Bigger Bang	EMI
33	Various Artists	Now That's What I Call Music! 19	EMI
34	The Pussycat Dolls	PCD	Universal
35	Ken Hirai	Ken Hirai 10th Anniversary Complete Single Collection 95-05 "Utabaka"	DefSTAR Records
36	Faith Hill	Fireflies	Warner
37	Carrie Underwood	Some Hearts	Sony BMG
38	Rod Stewart	Thanks For The Memory...The Great American Songbook Vol. IV	Sony BMG
39	Ketsumeishi	Ketsunopolis 4	Toy's Factory
40	Jennifer Lopez	Rebirth	Sony BMG
41	Maroon 5	Songs About Jane	Sony BMG
42	System Of A Down	Hypnotize	Sony BMG
43	Fallout Boy	From Under The Cork Tree	Universal
44	Akon	Trouble	Universal
45	Oasis	Don't Believe The Truth	Sony BMG
46	Green Day	Bullet In A Bible	Warner
47	Rob Thomas	Something To Be	Warner
48	John Legend	Get Lifted	Sony BMG
49	Santana	All That I Am	Sony BMG
50	Hilary Duff	Most Wanted	Hollywood Records

KEY INDUSTRY TRENDS

MUSIC SALES IN 2005

Digital formats drive growth

Digital sales reached $US 1.1 billion (record company trade revenues) in 2005, with digital accounting for 5.5% of total music sales. The CD album accounted for 82% of total music sales in 2005, down from 84% in 2004. Worldwide CD album volume fell by 3% and DVD music video volume remained flat.

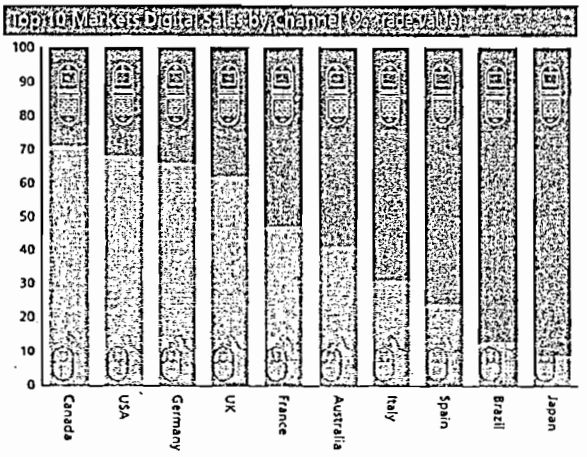
Sales by Formats ($US millions)

	Trade Value			% Sales	
	2004	2005	growth	2004	2005
CD	18,109	17,019	6%	84.4%	81.8%
DVD	1,610	1,540	4%	7.5%	7.4%
Digital sales	397	1,143	188%	1.8%	5.5%
Physical singles	821	721	12%	3.8%	3.5%
Other physical*	531	372	30%	2.5%	1.8%
Total Market	21,469	20,795	3%	100%	100%

Source: IFPI
*Includes cassettes, LPs, VHS and other

Online and mobile sales split 50:50 globally but varied widely by market

In 2005 most digital markets were dominated by either mobile or online – an indication that both digital channels are still at very early stages. Those markets with significant business in both channels saw the fastest digital growth in the first half of 2006.



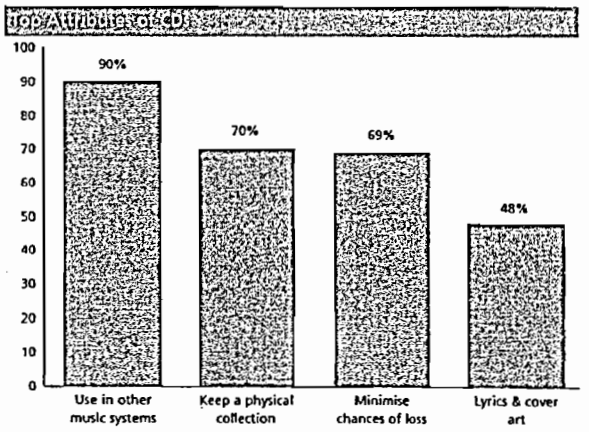
Source: IFPI

Long-term transition from CD to digital

Both sales figures and consumer research now indicate the CD has a longer lifespan than was widely predicted in recent years. In a survey by Nielsen/NetRatings* of internet users in the UK in March 2006 some 75% stated their preferred music format as the CD. Even among the 16-24 age group, 58% still preferred music on CD. IFPI's survey of European internet users in November 2005** revealed that one third of both file sharers (34%) and online music buyers (37%) still value CDs more than digital music.

Consumers see the attributes of physical formats as distinctly different from those of digital music. Nielsen/NetRatings UK survey of internet music users revealed that consumers rate the best attributes of digital music as being able to "find the music wanted" and "variety of choice" – way above other attributes.

This attachment to the CD is changing gradually as the benefits of digital consumption unfold. Adoption of digital music will take time, but consumers under 24 have already begun a more radical shift from disc to digital. In terms of mass market digital development, demographic trends would suggest that digital music will make up around a quarter of music sales by 2010.



Source: Nielsen/NetRatings Music 2006: Online vs Offline Consumption. % of respondents stating attribute as important

Sample: UK internet users

*Nielsen NetRatings Music 2006: Online vs. Offline UK Consumption
** IFPI/Jupiter survey of internet users in the UK, France, Germany, Spain and Sweden

Digital increases choice and drives long-tail

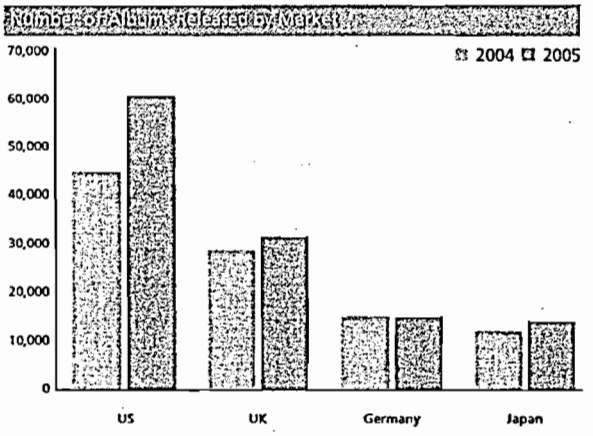
The record industry released over 120,000 albums in 2005 – including new titles, re-issues and digital only recordings. The number of albums released is actually increasing in major markets despite industry contraction – the UK industry released or re-released 31,290 album titles in 2005, a 10% increase on the previous year. The UK Chart Company data indicates that around 5,000 of these releases were purely through digital channels, suggesting digital is driving even greater availability and choice of repertoire.

In the US the increase in album releases was even higher – a 36% increase to over 60,000 albums. Again, digital drove this increase, making up just over one quarter of the albums released in the US in 2005 according to Nielsen SoundScan.

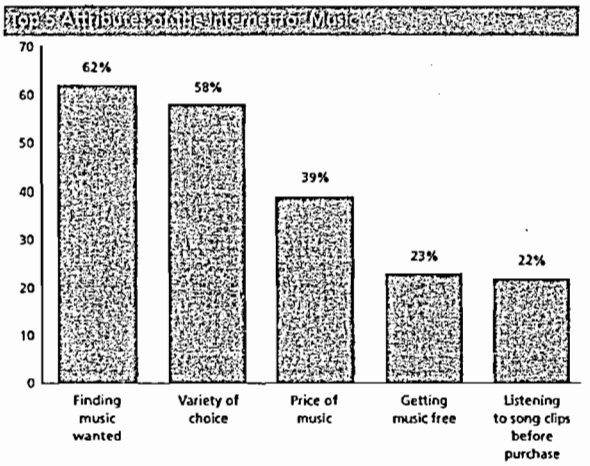
Japan released 14,140 album titles – an increase of 18% and the highest level since 1998. Album releases in Germany were 15,148 – just under the number in 2004.

Record companies are releasing large amounts of their catalogue into digital channels with online music stores offering up to three million tracks. In addition to all new releases, record companies have begun to re-issue deleted catalogue online. This has led to the so called 'long tail' in digital sales.

Universal Music announced in January 2006 the first step in its plan to make 10,000 deleted European album titles available for download, releasing the first 3,000 titles. Other record companies are expected to substantially increase digital releases. This activity will drive further increases in digital catalogues over the next few years – very significant to the long-term success of digital music services.



Source: Nielsen SoundScan, UK OCC, Music Control, RIAJ



Source: Nielsen/NetRatings Music 2006: Online vs Offline Consumption. % of respondents stating attribute as important

Sample: UK internet users

Top selling titles fall in 2005

In recent years a trend has developed of gradually falling sales for top-selling album titles, compensated for by growth in sales of emerging digital formats. The top 50 selling album titles account for one-tenth of global album sales. The top 50 titles combined sold 7% less units in 2005 than in 2004. The best-selling titles of 2005 are listed on page 5.

The top 10 selling titles sold 8% less than in 2004, even though all ten titles sold over the five million mark compared with eight in 2004. Despite the overall trend, the UK saw the highest top 10 sales since 2000 at 13.5 million album units – up 6% on 2004. The strength of UK-signed acts was one of the main reasons behind this volume growth, combined with falling retail prices.

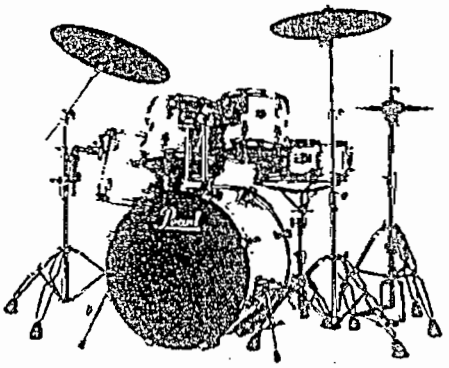
The early years of digital have seen greater demand for catalogue than for new releases. Currently in the US, the share of paid downloads is split between 36% new releases and 64% catalogue (NPD, Dec 2005). This contrasts with the physical market where 58% of total album sales are new releases and 42% catalogue (Nielsen SoundScan). However music sales have always been driven by global superstars with blockbuster hits and this will continue as music is sold in an increasing variety of formats and channels.

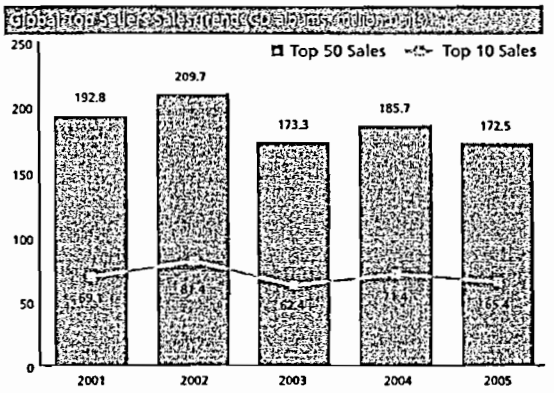
Changing CD retail

Increasing competition from internet retailers and supermarkets has seen the share of specialist retailers fall in recent years.

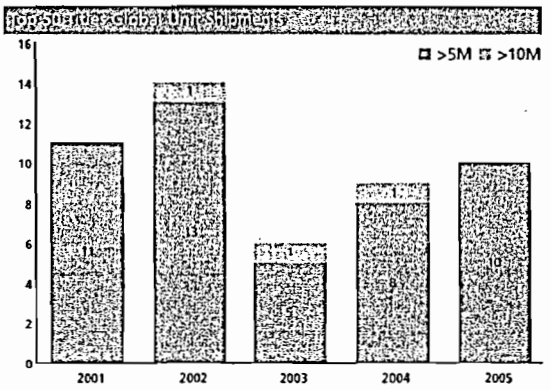
Internet retail is the fastest growing delivery channel for CD sales. CD sales via the internet reached 17% in Germany, 11% in the UK and 8% in the US.

For full trend analysis by retail channel see page 100.





Source: IFPI



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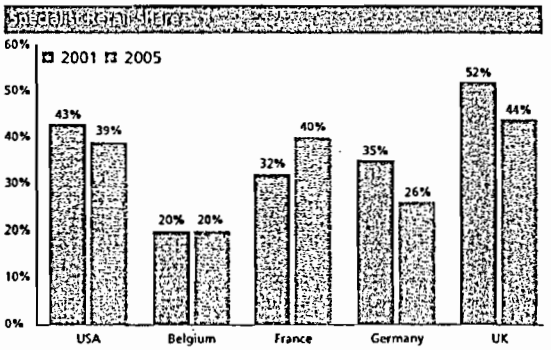


	2001	2002	2003	2004	2005
UK	4.5%	6.3%	7.5%	8.9%	11.0%
Germany	6.4%	8.9%	12.1%	14.7%	17.1%
USA	2.9%	3.4%	5.0%	5.9%	8.2%

Source: BPI, IFPI Germany and RIAA. UK and Germany based on value. US based on units

MUSIC PIRACY

Commercial piracy

Commercial physical piracy remains a very serious problem for the recording industry. The value of the pirate market remained virtually unchanged in the past three years at $US 4.5 billion, but the make-up of piracy has changed and diversified. Although industrial scale pirate CD manufacturing plants still operate in many countries, fake cassettes and pressed discs have given way to CD-Rs copied on highly efficient burner machines in small commercial labs. DVD music video piracy is also hurting legal sales of the format in a number of markets.

Legitimising internet music distribution

Many markets have been hurt by increasing internet piracy in recent years, leading to stepped up action by the recording industry against operators, uploaders and internet service providers (ISPs). Globally, IFPI estimates that nearly 20 billion songs were illegally downloaded in 2005 (based on consumer research in 10 markets and third party studies). While this is an extremely high piracy level, it also illustrates the potential market for legal downloads.

Research by NPD in the US suggests that there has been a recent stabilisation in the number of P2P users, but that the number of files illegally traded has grown. NPD reports that the number of households actively downloading music from P2P networks (on a monthly basis) has grown 15% over the past two years - from six million households in April 2004 to 6.9 million in April 2006. However, growth has slowed significantly – active P2P households represent 10.2% of the US internet population – only a small increase from 9.4% in 2004.

Recent research in Europe also shows that the industry is successfully attracting new users to legal services, but that migrating consumers from unauthorised to legal services remains a challenge.

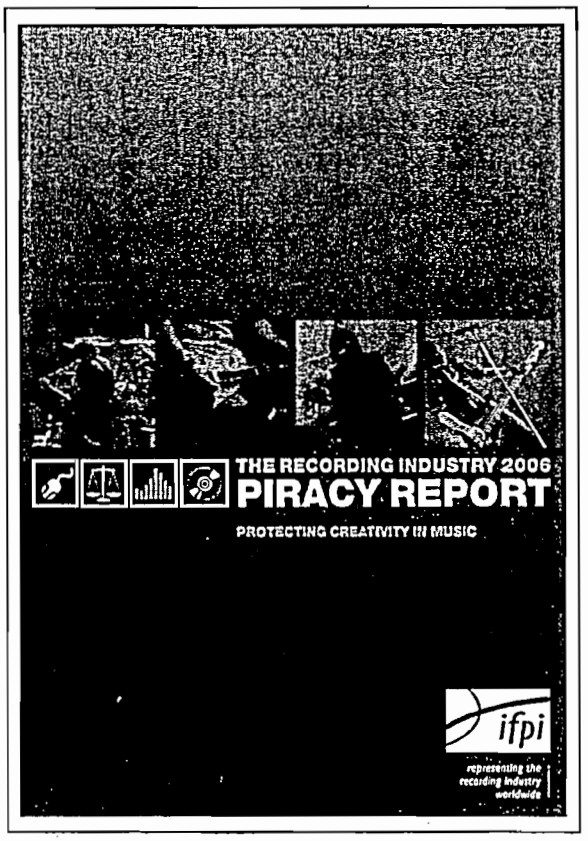
For more information on music piracy see the IFPI Piracy Report – Protecting Creativity In Music – at www.ifpi.org.

The Key Facts 2006

- IFPI estimates the value of the pirate CD market at $US 4.5 billion at pirate prices
- An estimated 1.2 billion pirate CDs were purchased
- 37% of all CD purchases are pirate copies
- Pirate CD sales outnumbered legitimate sales in 30 markets
- 20 billion songs illegally downloaded worldwide

Key Facts 2005 in the US included

- Music consumption in the US grew in 2005 driven by all forms of shared/free content
- The greatest cutback in CD spending came from P2P users
- 26% of the decline in CD units was replaced by P2P file-sharing



KEY INDUSTRY TRENDS

DIGITAL MUSIC

Portable players - a major driver

Since its launch in 2001, Apple has sold over 58 million iPods, shipping 16.6 million in the first half of 2006 alone. The iPod has encouraged a whole raft of new listening habits, with shuffle play and playlisting driving music discovery and encouraging greater listening.

In the US, 22 million MP3 players were sold in 2005 and another 27 million are expected to sell in 2006. Some 15% of digital media players shipped in the US in 2005 were video-capable and this figure is expected to double in 2006 (CEA).

However, the growth of portable player purchases is not wholly reflected in online music sales. Less than half of US online portable media device owners currently source music for their players from online stores (CEA research). Research from IPSOS Insight in the US finds that existing CD collections are the primary source of music stored on portable players. While 44% of songs on digital players are ripped from their own CDs and a further 6% ripped from borrowed CDs, purchased downloads make up a very significant 25% (IPSOS TEMPO, June 2006).

Global portable digital player sales are expected to reach $US 10.2 billion in 2006, up 11% on 2005 (IDC).

In the meantime 3G music phones offer an alternative platform for digital music. As at the end of June 2006, IFPI estimates that there are around 110 million global 3G mobile users, or 5% of global wireless subscribers.

Downloads see steady growth but market needs competition

In the US, NPD data in April 2006 shows that some 5% of internet households downloaded music on a monthly basis from legal online sources. In Europe, Jupiter Research (November 2005) also shows the percentage of internet users downloading music legally (individuals rather than households) to be 5%.

This is a significant level of uptake, although legal downloading is still far from being a mass market activity. The market will grow more quickly as new services arrive to compete with Apple's iTunes, which currently has a market share in the US and Europe of around 70% of à-la-carte downloads.

US Factory sale: All Electronic Goods ($US billion)

	2005	2006	Growth
Digital TV	17.0	23.0	35%
Wireless handset	13.5	16.0	19%
Gaming consoles	12.0	14.0	17%
MP3 players	3.5	4.5	50%

Source: Consumer Electronics Association. 2006 forecast

European MP3 Player Market Value 2005 ($US billion)

UK	1.0
Germany	0.6
France	0.5
Spain	0.3
Italy	0.3
Other	0.5
Total	3.2

Source: European IT Observatory

Top 10 Mobile Markets

Country	Subscribers (millions)
China	416.6
USA	207.9
Russia	123.6
India	100.0
Japan	93.9
Brazil	85.2
Germany	79.2
Italy	70.6
UK	67.9
France	45.1

Source: Mobile operators

Subscription services

Music subscription services are an important delivery channel, accounting for 7% of digital revenues in 2005 – an estimated $US 113 million on a retail basis. Music subscription services such as Rhapsody and Napster now reach a maximum of 3.4 million consumers worldwide, with the majority of subscribers located in the US.

Satellite radio is also an exciting new revenue stream. Revenues from satellite radio subscriptions in the US were estimated at $US 760 million (consumer prices) in 2005 according to Citygroup analysts. Satellite radio is one of the fastest growth sectors in music (growing 144% in 2005), second only to digital sales of recordings. Two major providers, XM and Sirius, are providing advertising-free services to over 11 million subscribers (July 2006).

Mobile injects pace into digital consumption

The mobile music market has great growth potential. It is driven by several factors – the massive installed base of mobile phones; increasing and improving music functionality; relatively easy and flexible payment options; a more limited piracy threat than online; and big marketing budgets.

Most mobile handsets released today have some music capability, with higher-end models rivalling the capabilities of portable digital devices like the iPod. Nokia estimates it will sell 80 million music phones in 2006, double the number in 2005.

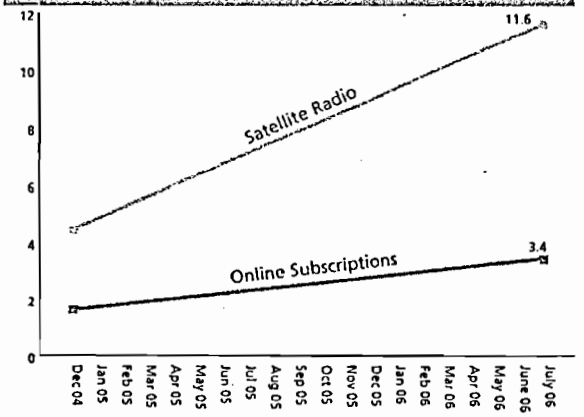
The next year or two in the mobile music sector are likely to be experimental, with true growth coming from 2008 onwards when compelling music applications for mobile phones will be more widely available, and 3G adoption reaches critical mass.

Music Habits Among 3G Users

	USA	UK	Germany	France
Purchased a ringtone	21%	12%	15%	11%
Watched a mobile video	9%	16%	12%	16%
Listened to music	13%	22%	17%	13%
Side-loaded music to mobile	1%	7%	7%	6%
Mobile subscribers on 3G	4%	10%	5%	6%

Source: M:Metrics, 3 month average ending May 2006, n = 33,952 mobile phone users

Radio and Online Subscriptions (millions)



Source: Companies' public announcements. Figures include promotional subscriptions and discounted deals

During the next year or two the mobile music sector needs to overcome several obstacles including:

- User interface and functionality – current music applications on mobile still fall some way short of those on dedicated music players, such as the iPod.
- 3G adoption rate – 3G is to mobile music what broadband is to online music. 3G adoption is steady rather than spectacular, and network prices still need to become more attractive to consumers. Recent data (June 2006) from M:Metrics has UK 3G penetration at 10% of mobile users and Germany at just 5%.
- Consumer adoption – M:Metrics data suggests that around one in five 3G users currently use their phones for music, so consumer adoption is still at the very early stages.
- Mobile DRM is more fragmented than in the online sector, with even more compatibility issues. The Open Mobile Alliance has developed two DRM standards, Microsoft and Apple both have DRMs for mobile and there are several other competing mobile DRM solutions. None of these are interoperable with each other at present.

KEY INDUSTRY TRENDS

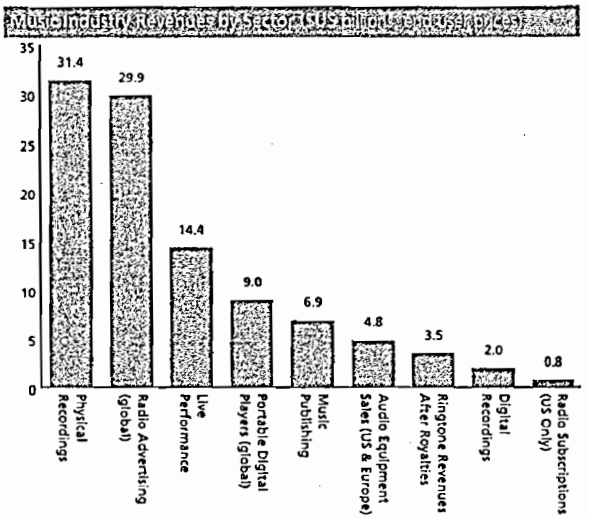
THE BROADER MUSIC SECTOR

The recorded music industry is the engine helping to drive a much broader music industry, worth more than $US 100 billion globally. This is over three times the value of the recorded music market, and shows that music has an economic importance that extends far beyond the scope of record sales.

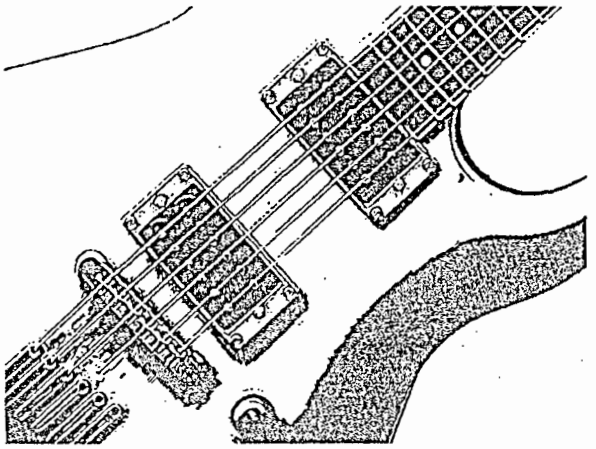
The largest sector underpinned by recorded music sales is the global commercial radio advertising market, which is worth $US 30 billion a year, according to PWC. Record companies provide the radio stations with the content they need to attract the audience that advertisers want to reach. However with around 5% of advertising revenues flowing back to record companies, radio networks currently squeeze incredible value from recorded music.

Live performance is also a fast-growing area, worth $US 14 billion in 2005, driven by large arena shows and the boom in music festivals in the US, UK and other parts of Europe.

Nothing illustrates the importance of recorded music to other sectors more than the phenomenal growth in portable digital music players. IFPI estimates the value of this sector to be $US 9 billion globally in 2005 – over four times larger than the market for digital downloads. In addition, the market for peripheral equipment such as speaker systems and docking stations is estimated to be worth $US 1 billion by industry analysts. With digital player penetration at 15% of online users in Europe and 20% in the US, along with a high replacement rate, this market has major growth potential.



Sources: IFPI, PWC Global Media & Entertainment Outlook, Pollstar/Music & Copyright, IFPI (from IDC & Apple announcements), Music & Copyright, CEA (USA) EITO (Europe), Informa Media, IFPI, Citigroup (from Sirius & XM announcements)



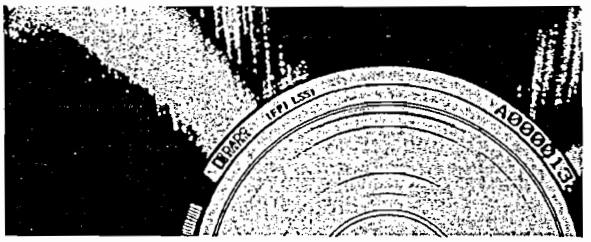
ENTERTAINMENT INDUSTRY OUTLOOK

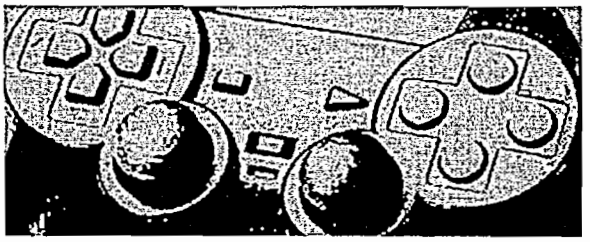
Over the past five years a significant factor in declining CD sales has been the competition for consumer spending from other entertainment sectors – chiefly DVD, games, mobile and online spending – all of which have seen rapid growth while music sales declined.

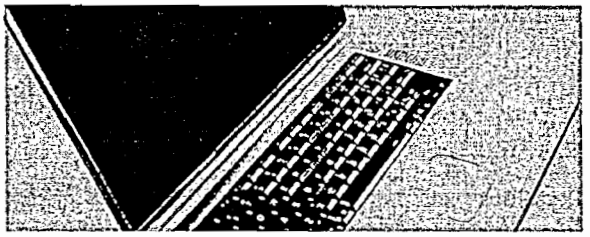
In its recently published Global Entertainment and Media Outlook 2006-2010, PWC predicts further growth for entertainment sectors, driven by:

- Economic growth – GDP growth is expected over the next three years
- Digital distribution – increases in broadband and wireless subscriptions
- Changing demographics – growth in the number of people in the prime earning years (ages 40-65), coupled with growth in the number of young people in Asia Pacific and Latin America
- Reduced impact of piracy – more aggressive enforcement of existing laws, effective actions by industry associations and promotion of legal alternatives

These drivers apply well to recorded music in both physical and digital forms. Furthermore, music should benefit as a key component of other entertainment activities – something music companies have been successfully exploiting in terms of strategic licensing.

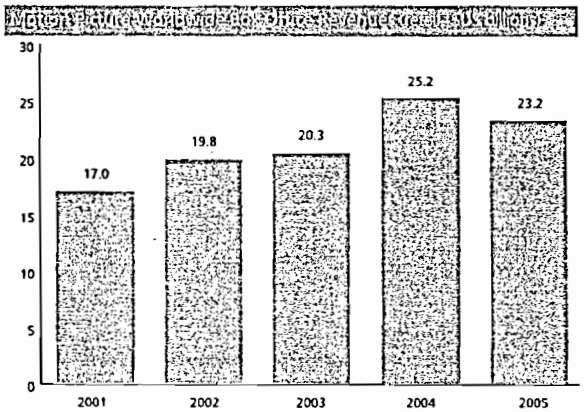






Film & DVD

Film box office sales fell by 8% in 2005, with worldwide retail revenues of $US 23 billion (down from $US 25 billion in 2004). The dip in 2005 sales is largely attributed to a less impressive slate of film releases than in 2004 – a record year in terms of box office revenues. With movie content beginning to rival music's popularity on peer-to-peer file-sharing networks, 2006 will indicate whether 2005 was merely a blip due to film releases, or whether this reflects the first major visible commercial impact of digital piracy on filmed entertainment.

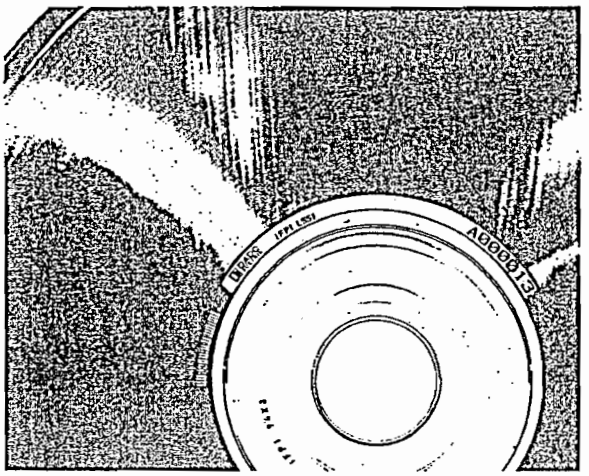


Source: MPA

Film & DVD (continued)

Screen Digest data on total DVD sales (film, television, music and other) shows a considerable slowdown in the growth of DVD in 2005. This marks the beginning of a decline in the product lifecycle for DVD video – which has been unprecedented in its rapid rise to mass market status.

The decline in the growth rate of DVD is attributable to several factors: the installed base of DVD players peaking (and therefore reduced DVD collection building); a slowdown in the rate of new releases; and continued price discounting.



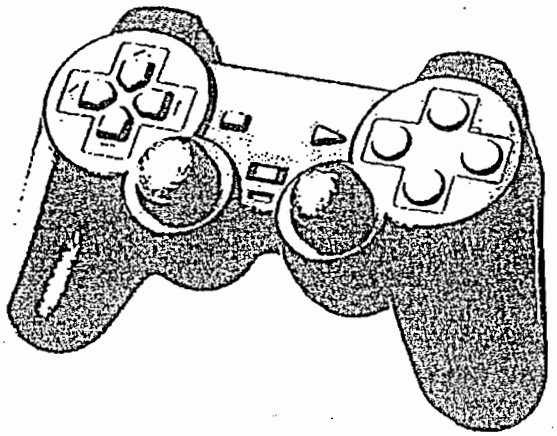
DVD Video Worldwide Sales					
	2001	2002	2003	2004	2005
DVD consumer sales (units, billions)	0.5	1.0	1.5	2.2	2.4
Growth	107%	78%	62%	41%	12%
DVD retail spending ($US, billions)	11.1	17.8	27.0	35.5	36.7
Growth	73%	60%	51%	32%	3%

Source: Screen Digest Video Intelligence, June 2006

Video games

The video games industry is another sector offering great opportunities for strategic licensing of music, but it saw a slower year in 2005. Globally, the sector was worth $US 27 billion in 2005, up 3.3% from 2004 (PWC Global Media and Entertainment Outlook). The industry had a transition year, faced with the challenges of commercialising new platforms on the internet and mobile phones while awaiting the introduction of the next generation of gaming consoles.

The release of the Xbox 360 in late 2005, and anticipated releases of the Sony PlayStation 3 and the Nintendo Wii during 2006, is expected to bring the video games sector back into double-digit growth in 2006 and 2007. With increasingly focused efforts to promote synergy between games and the music soundtracks for them, more and more opportunities are emerging from the sector for the promotion and marketing of music and artists.



CLASSICAL MUSIC SALES

Classical music is seeing renewed consumer interest and new market development opportunities on the back of digital delivery and the recent success of 'crossover artists'. This promises some revival of the genre after a difficult last five years, during which the physical market for classical recordings fell by 30% in trade value to an estimated $US 705 million in 2005, or 4% of overall music sales.

Classical sales trends

Over the past five years the value of the physical market for classical recordings has fallen by 30% – a steeper decline than in the overall market, which fell by 20% during that period.

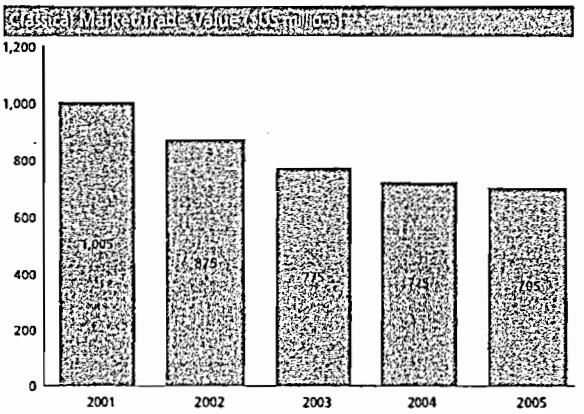
Classical sales are somewhat concentrated on the top five markets of USA, Japan, Germany, UK and France, which combined account for 70% of global sales. Other territories such as Austria, Bulgaria, Hungary, Poland, Switzerland, Hong Kong and Korea also have a strong classical niche (see page 106 for a breakdown by market).

This is a far cry from the mid-fifties when classical music accounted for a quarter of total music sales. Growth during this period came mainly from the introduction of the long-play vinyl (LP). By the eighties the music industry became largely pop and rock driven and the classical share dropped to 5%.

The introduction of the CD in the mid-eighties saw an upturn in classical sales as consumers replaced their LP collections. By 1990 the classical share rose to 8% of the recorded music market.

In the 90s the classical market grew beyond 'core classical' acts towards a broader market and 'crossover' acts. At that point major changes occurred in the way traditional classical labels operated, moving towards a more commercial culture. This included the introduction of budget price lines, pioneered by independent label Naxos.

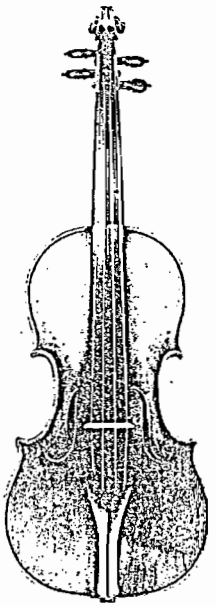
Notes: IFPI classical data is collected from record companies as a percentage of overall music sales. There is no standard definition of a classical recording, and companies apply their own classifications



Source: IFPI and national groups. Physical sales only, no digital sales. See notes below

Top 5 classical markets in 2005	Trade value $US (m)	% sales
Japan	140	4.0%
USA	110	1.7%
Germany	90	6.2%
UK	85	4.6%
France	60	5.5%

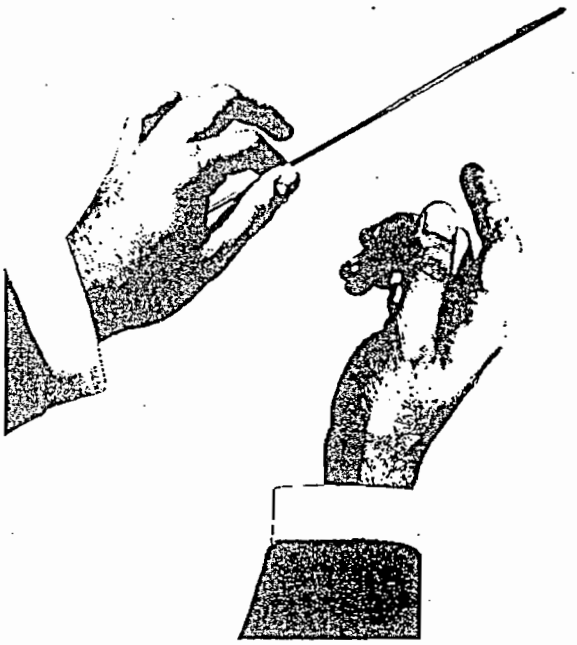
Source: IFPI, physical sales only. Rounded figures. See notes below



CLASSICAL MUSIC SALES

Digital channels breathe new life into classical genre

The success of classical in the digital music space has taken many in the industry by surprise.

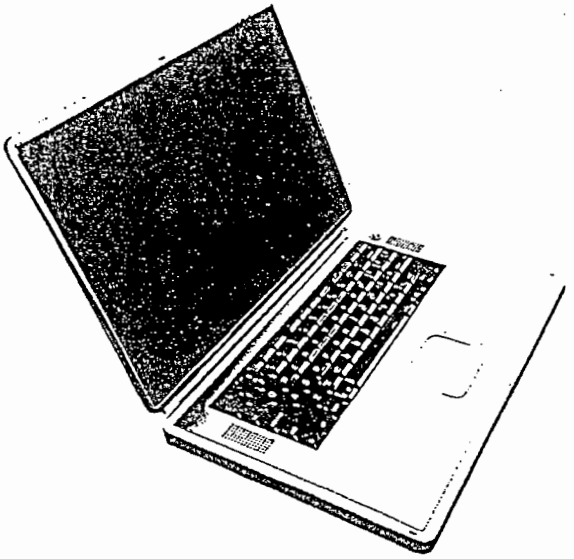


In summer 2004 in the UK the BBC offered all nine Beethoven symphonies for download – one each day. Over the nine-day period there were 1.4 million downloads. Although these were available for free, this still indicates the huge potential for classical music in the digital world.

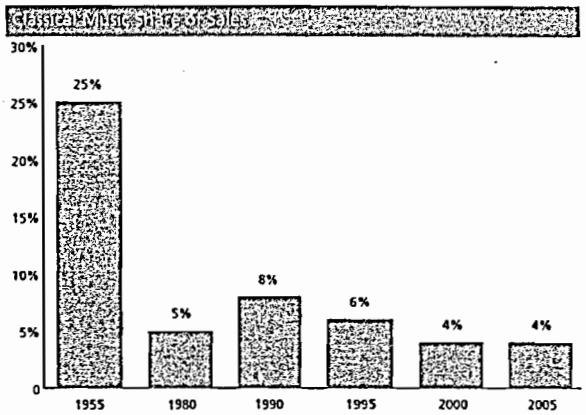
Since then there have been still more encouraging indicators. In 2005 classical labels and divisions reported between 7% and 12% of sales through digital channels – greater than the industry average of 5%.

Some particular titles have seen exceptionally strong digital sales. Universal Classics artist, violinist Janine Jansen's recording of Vivaldi's 4 Seasons received 75% of its sales through downloads. A downloadable album of the New York Philharmonic Orchestra's performance of an all Mozart concert secured a top 40 spot on iTunes in the UK and reached number 35 on the US iTunes chart.

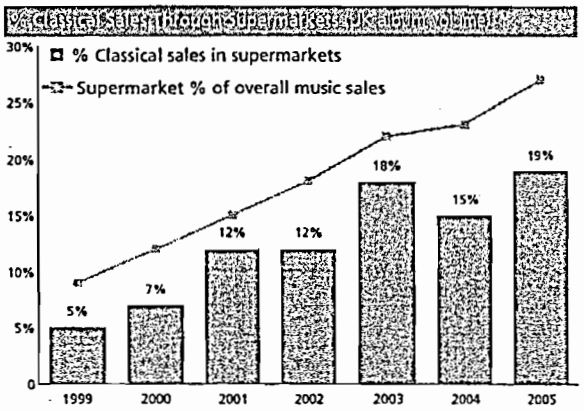
Alongside these changes in the delivery channels, the supply-side of classical music is transforming. In April 2006 Warner became the first major record label to launch a classical online music store (Warnerclassics.com), beginning with an initial 300 albums but with Warner intending to make its entire classical catalogue of 25,000 titles available on the service. The store joins established online stores Classical.com (50,000 tracks) and Chandos.net (1,200 albums). Independent label Naxos also digitised its entire catalogue, now offering an online subscription radio service with over 60 channels of streamed classical content.



Other changes are taking place in the supply-side in attempts to manage production costs of classical recordings. Independent label LSO Live delivers in-concert recordings, reducing studio costs. Rather than upfront fees, orchestra members receive a slice of the profits generated from the sales of the recording, effectively owning part of the label.



Source: IFPI/PolyGram. PolyGram Classics, Harvard Business School, November 1997

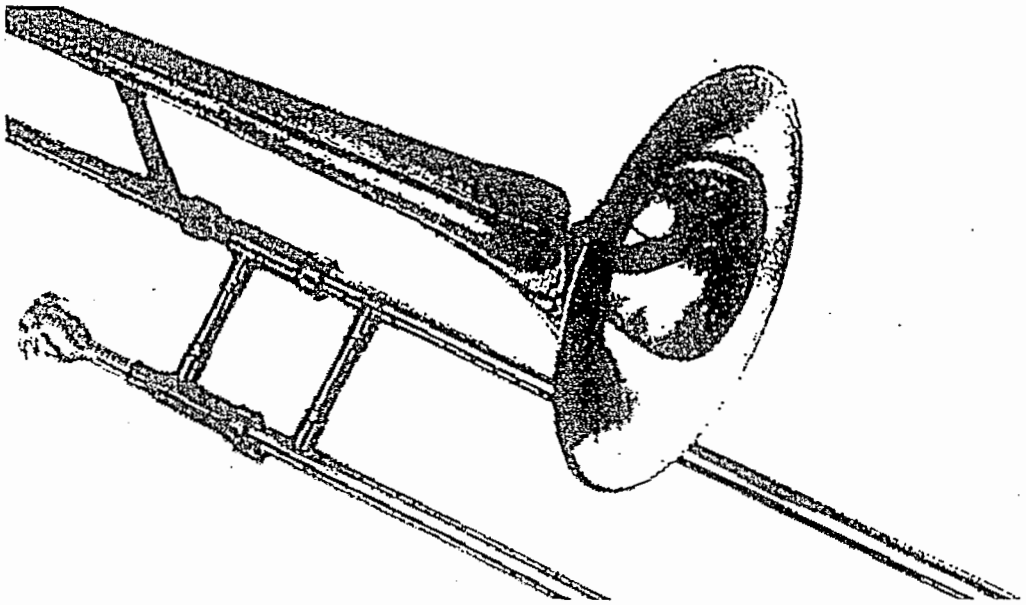


Source: BPI

With the profile of classical consumers typically aged over 40, piracy has affected classical less than other genres. This may explain the strong legal digital sales of classical music. In addition, demographic changes now favour classical, with the over 40s age group growing in both number and wealth in almost every music market over the next five years.

Although the industry's marketing of new disc formats in recent years has been based heavily on classical music, these new formats – SACD, DVD Audio and DualDisc – have not broken through beyond a small audiophile niche. Perhaps surprisingly, it is digital channels that look to hold the most potential for classical sales.

As music fans try digital services they are finding that online search capabilities, title variety and price (classical pieces tend to run longer than pop tracks while priced similarly online) make classical music buying a positive experience. As the older demographic migrates to online buying the future looks brighter for the classical genre.



IMPACT OF DIGITAL ON THE SINGLES MARKET

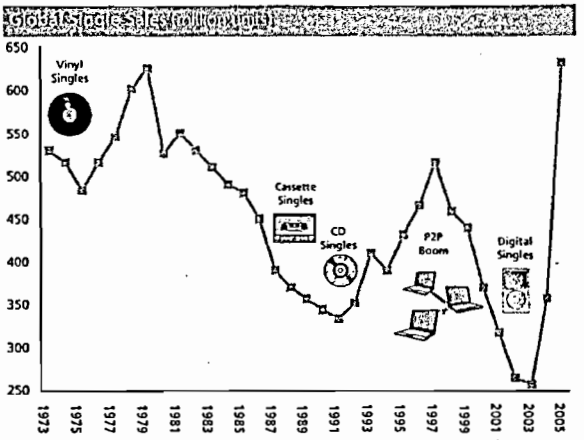
Digital drives growth in the singles market

Global unit sales of singles reached a new high in 2005 driven by the rapid increase in digital single sales. Digital singles accounted for three quarters (74%) of the 631 million global single sales in 2005. Total single sales beat the previous peak of 624 million units sold in 1979. Single sales grew by an unprecedented 76% in unit terms in 2005, making the digital single the fastest growing singles format in history.

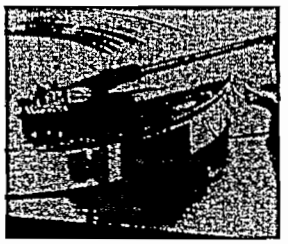
Single sales first boomed in the second half of the 70s, but in the beginning of the 80s sales began to fall as the proliferation of radio stations and heavy rotation of hit tracks dented the market. The launch of MTV in 1981 and the spread of blank cassettes also contributed to the saturation of the singles market during that period.

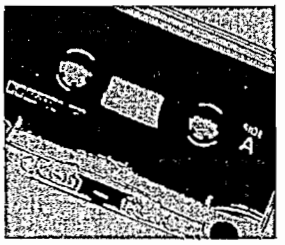
In the early 90s CD singles revived the market and sales reached a high point in 1997, totalling 516 million units. Despite the increase the market was still 17% down compared to 1979.

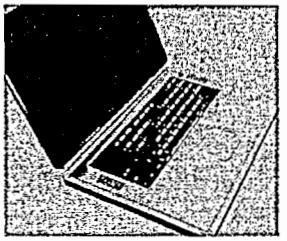
Single sales were hard hit by internet piracy from the late 1990s and with the launch of Napster in 2000. Single sales only bounced back in 2004, driven by digital sales growth in the US. By 2005 a new historic sales high was achieved.

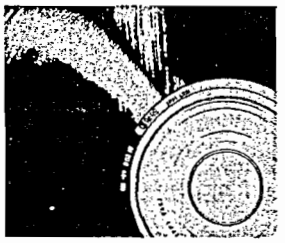


Source: IFPI





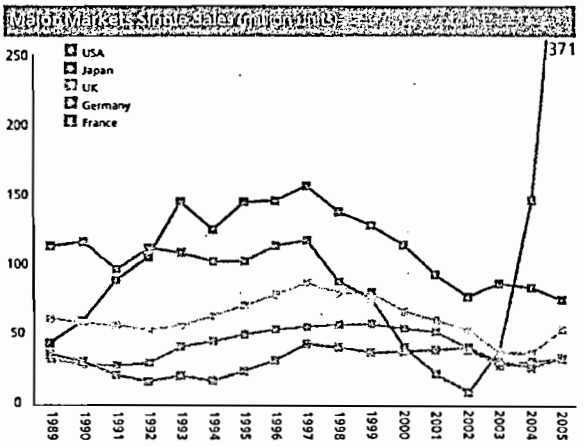




The impact of CD singles

The introduction of the CD single in the late 80s had mixed results. There was phenomenal success in many markets, but not in the US. Single sales in the US only grew by 4% in the period of 1989-1997 - the boom year of CD singles globally. This compares to 255% growth in Japan during the same period, 71% in Germany, 42% in the UK and 20% in France. Moreover, Germany and France continued to see the positive impact of CD singles until 2000.

The most pronounced drop in single sales in the late 90s took place in the US, UK and Japan. In all major markets apart from Japan (where mobile sales dominate) digital single sales have had a positive impact, driving growth.



Source: IFPI

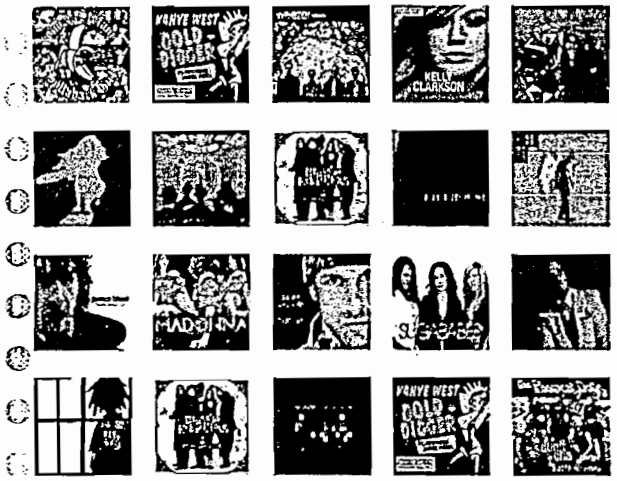
IMPACT OF DIGITAL ON THE SINGLES MARKET

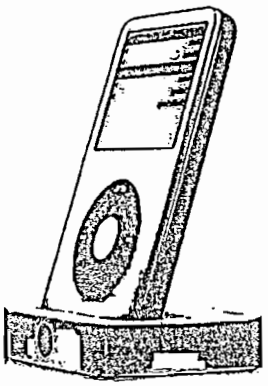
Digital singles becoming the dominant single format

The introduction of digital singles in 2003 had the most pronounced impact on the singles market, above all in the US. Today 99% of the US singles market is digital. In a number of other markets digital singles have grown to outpace physical single sales.

The surge of digital single sales has affected volume rather than value. In 2005 the singles market was worth just over $US 1 billion, down 25% compared to five years ago.

One of the key factors driving the singles format is portability and the popularity of MP3 players such as the iPod. There is however a great deal of room for further growth in legitimate sales of digital singles.





Single Sales by Market 2005 (million units)

	Total Single Units	Digital %
USA	372	99%
Japan	76	16%
UK	53	49%
France	34	25%
Germany	33	46%
South Korea	12	99%
Canada	11	97%
Australia	10	21%
Italy	4	76%
Belgium	4	32%
Global Total	631	74%

Source: IFPI

US Top 10 Digital Single in 2005

Artist	Title	Label/Company
Gwen Stefani	Hollaback Girl	Universal
Kanye West	Gold Digger	Universal
Weezer	Beverly Hills	Universal
Kelly Clarkson	Since U Been Gone	Sony BMG
The Black Eyed Peas	My Humps	Universal
The Killers	Mr. Brightside	Universal
Fall Out Boy	Sugar, We're Goin' Down	Universal
The Black Eyed Peas	Don't Phunk With My Heart	Universal
Lifehouse	You And Me	Universal
Green Day	Boulevard Of Broken Dreams	Warner

Europe Top 10 Digital Single in 2005

Artist	Title	Label/Company
James Blunt	You're Beautiful	Warner
Madonna	Hung Up	Warner
Daniel Powter	Bad Day	Warner
The Sugababes	Push The Button	Universal
Robbie Williams	Tripping	EMI
Gorillaz	Feel Good Inc	EMI
The Black Eyed Peas	Don't Phunk With My Heart	Universal
Coldplay	Speed Of Sound	EMI
Kanye West	Gold Digger	Universal
The Pussycat Dolls	Don't Cha	Universal

Source: Nielsen SoundScan International
Period: May-December 2005

GLOBAL PERFORMANCE RIGHTS COLLECTIONS IN 2005

An increasing revenue stream for record companies

Global performance rights have become an increasingly important revenue stream for record companies. Last year the industry made $US 675 million from licensing music for use in broadcasting, nightclubs, bars, shops, restaurants and hotels, as well as certain internet users.

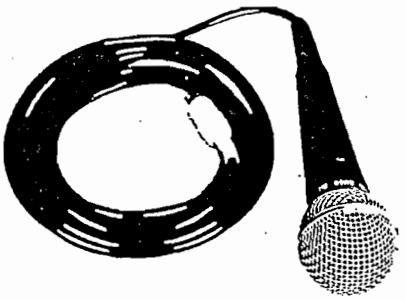
Traditional broadcasting and public performance continue to generate the most performance rights revenue for record companies, but growth in internet streaming services – notably simulcasting (simultaneous transmission of broadcast programmes on the internet) and webcasting (streaming of programmes on the internet) – have also helped boost revenues.

IFPI reports collections from the use of sound recordings and music videos (unless otherwise stated). Excluded is the performing artists' share, which if collected jointly with the companies is in most cases paid directly to the artists and performers by the collecting societies.

Collections continue to grow in 2005

Performance rights (PR) collections totalled $US 675 million in 2005, up 11% on 2004. Sound recording collections represented 86% of total income, while music video income totalled 14% of collections. Growth in public performance was 15%, while broadcasting grew at a more modest 6%.

PR collections have risen consistently in the past five years and there are no signs of slowdown. This sector now accounts for 3% of record company trade revenues from sales of music products.



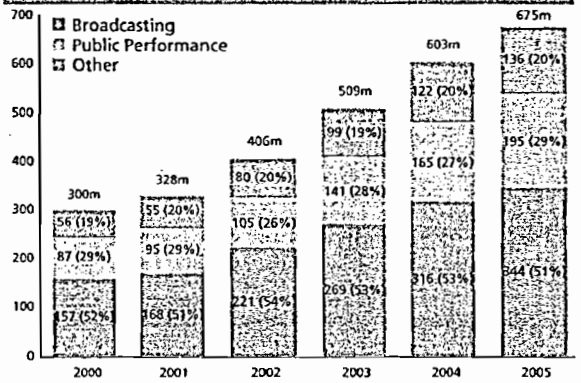
In smaller markets such as Slovakia, Malaysia, and Uruguay, PR collections already account for more than a fifth of record company trade revenues from music sales. Collections are also sizeable in some larger European markets, ranging from 10-15% of audio sales in Austria, Denmark and Netherlands.

Growth in PR collections continues to be driven by the establishment of new societies, rapidly increasing income in Latin American countries and Eastern Europe, and the improved efficiency of collections in the more established territories.

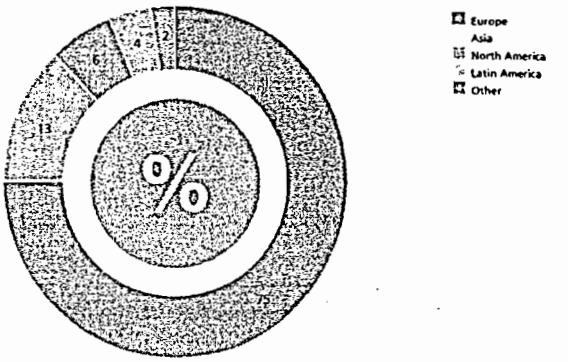
PR collections in six markets more than doubled in 2005. Most of these were in developing markets in Europe, but the US also saw steep growth. It is notable however that in the US PR income is collected from a very limited base, due to the lack of legal rights with respect to traditional broadcasting and public performance.

Acquiring such legal rights to public performance revenues in the US is one of IFPI's key priorities.

Performance Right Collections Trend ($US million)



2005 Revenues by Region



GLOBAL PERFORMANCE RIGHTS COLLECTIONS IN 2005

Top 10 Markets for Performance Rights Collections		
Country	Revenue (US$m)	Share of total
UK	131.4	20%
France	92.3	14%
Germany	80.4	12%
Japan*	69.9	11%
Netherlands	32.8	5%
Spain	25.9	4%
Italy	23.7	4%
USA*	23.4	4%
Belgium	16.1	2%
Denmark*	12.9	2%

* Sound recording collections only

Internet licensing was the fastest-growing category in 2005, up 31% on 2004. However, in value terms internet revenues still represent a small share of overall collections.

Potential for further growth

Historically, growth in PR collections has been strong and by addressing three key areas the industry should be able to sustain this strong growth for some time to come. These areas are:

- Inappropriate tariffs
  In many territories record companies are still not compensated fairly for the use of their sound recordings in broadcasting or public performance. In extreme cases (for instance in Australia, Canada and Italy) companies', and in most cases artists', ability to obtain fair market-based fees is limited by statutory provisions that amount to price regulation (such as statutory 'royalty caps').

  In other countries the industry has so far failed to obtain equitable fees. In order to obtain fair remuneration, either through negotiations or legal actions, record companies and performing artists should insist that the fees reflect at all times the fair value of the rights in the commercial context.

  Obtaining fair commercial fees worldwide for the use of sound recordings in broadcasting and other public communication should significantly increase the industry's PR income.

- Collecting societies' efficiency
  Producers' collecting societies are constantly developing their operations and increasing the efficiency of their collections. It is estimated that even in the most developed markets the societies can still increase their market penetration, in particular in the traditional public performance markets.

- Developing adequate legal frameworks
  In some countries record companies and performing artists are still discriminated against, compared to other music right holders in respect of the legal rights and protections they enjoy.

  For instance, the recent growth in PR income has taken place without adequate legal rights in the two biggest music markets, Japan and the US. In Japan record companies and performing artists enjoy rights only with respect to broadcasting but not with respect to 'public performance' of sound recordings. In the US companies and performers have rights with respect to certain digital transmissions, but not to free-to-air broadcasting or public performance of their sound recordings.

  Establishing a non-discriminatory legal framework that ensures a level playing field for all will further increase the industry's PR income. Such a framework includes securing adequate rights in all current and future key markets – in particular in Japan, US and China - and removing any statutory provisions that keep the industry from receiving fair royalties.

Methodology

The IFPI Collecting Societies' Income Survey covers responses from 55 collecting societies. Collections are based on locally set tariffs and include costs incurred by collecting societies. Collections of non-recurring amounts (retroactive payments, dispute settlements) are not included. Video collections were added to the survey in 2002. All figures refer to collecting societies' domestic activities – to avoid double counting foreign income. Distributions to other societies are not included. All figures exclude tax.

GLOBAL PERFORMANCE RIGHTS COLLECTIONS IN 2005

Revenues from Performance Rights Collections (million)			
	US$	Local Currency	
Europe			
Austria (LSG)	13.5	EUR	10.8
Belgium (SIMIM)	16.1	EUR	12.9
Bulgaria (PROPHON)	0.6	BGL	1.0
Croatia (ZAPRAF)	1.8	HRK	10.9
Czech Republic (INTERGRAM)	4.0	CSK	96.6
Denmark (GRAMEX)	12.9	DKK	77.3
Finland (GRAMEXAFPI Finland)	11.6	EUR	9.3
France (SCPP)	92.3	EUR	73.9
Germany (GVL)	80.4	EUR	64.3
Greece (GRAMMO)	2.8	EUR	2.2
Hungary (MAHASZ)	5.0	HUF	994.5
Italy (SCF)	23.7	EUR	19.0
Latvia (LAIPA)	0.3	LVL	0.2
Lithuania (AGATA)	0.4	LTL	1.2
Netherlands (NVPI/SENA)	32.8	EUR	26.2
Norway (GRAMO)	8.2	NOK	53.1
Poland (ZPAV)	3.6	PLZ	11.6
Portugal (Audiogest/AFP)	2.1	EUR	1.7
Romania (UPFR)	1.6	ROL	4.7
Russia (RPA)	0.6	RUB	17.0
Serbia & Montenegro (OFPYU)	0.1	CSD	9.2
Slovak Republic (SLOVGRAM)	1.8	SKK	54.7
Spain (PROMUSICAE)	25.9	EUR	20.7
Sweden (IFPI Sweden)	13.2	SEK	98.7
Switzerland (SwissPerform)	5.9	CHF	7.4
Turkey (MU-YAP)	3.8	YTRL	5.1
UK (PPL)	131.4	GBP	72.3
Ukraine (UMRL/UMA)	0.1	UAH	0.7
Asia			
Japan (RIAJ)	69.9	JPY	7,700.0
Malaysia (PPM)	5.0	MYR	19.1
Singapore (RIPS)	2.1	SGD	3.5
Taiwan (ARCO/AMCO)	1.0	TWD	33.0
Thailand (Phonorights)	0.5	THB	19.5

Revenues from Performance Rights Collections (million)			
	US$	Local Currency	
Australasia			
Australia (PPCA)	13.1	AUD	17.2
New Zealand (RIANZ)	2.2	NZD	3.1
Latin America			
Argentina (CAPIF)	6.2	ARP	17.9
Brazil (ABRAMUS)	11.1	BRL	26.9
Chile (IFPI Chile)	1.5	CLP	858.7
Colombia (ACINPRO)	2.4	COP	5,491.4
Costa Rica (CAPROFONO)	0.1	CRC	34.2
Ecuador (SOPROFON)	0.01	USD	0.01
Mexico (SOMEXFON)	1.3	MXP	14.0
Paraguay (SGP)	0.1	PTG	502.1
Peru (UNIMPRO)	0.5	PEN	1.6
Uruguay (CUD)	0.5	UYP	11.8
Venezuela (AVINPRO)	0.8	BOL	1,661.0
North America			
Barbados (COSCAP)	0.1	BBD	0.1
Dominican Republic (SODINPRO)	0.04	DOP	1.2
USA (SoundExchange)	23.4	USD	23.4
Africa			
South Africa (RISA)	1.6	ZAR	10.2

Note: Some countries' collections not shown separately, but included in regional and global totals

North America		Asia	
Canada	24	China	[illegible]
USA	25	Hong Kong	[illegible]
Europe	[illegible]	India	[illegible]
[illegible]	28	Indonesia	[illegible]
[illegible]	29	Japan	[illegible]
[illegible]	30	Malaysia	[illegible]
Czech Republic	31	Philippines	[illegible]
Denmark	32	Singapore	[illegible]
Finland	33	South Korea	[illegible]
France	34	Taiwan	[illegible]
Germany	35	Thailand	[illegible]
[illegible]	36	Australia	[illegible]
[illegible]	37	Australia	[illegible]
[illegible]	38	New Zealand	[illegible]
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[illegible]	41	Brazil	[illegible]
[illegible]	42	Chile	[illegible]
[illegible]	43	Colombia	[illegible]
[illegible]	44	Mexico	[illegible]
[illegible]	45	Africa	[illegible]
[illegible]	46	South Africa	[illegible]
[illegible]	47		

NORTH AMERICA
CANADA

Canadian Recording Industry Association (CRIA)
85 Mowat Avenue
Toronto, Ontario M6K 3E3
T: +1 (416) 967 7272 F: +1 (416) 967 9415
E: info@cria.ca www.cria.ca

Country Data

General Information	
Population (millions)	32.8
Per capita GDP ($US)	34,450
Currency	Canadian Dollar (CAD)
Language	English/French
Music Industry	
World ranking (value)	6th
% global value	3%
Physical piracy level	<10%
Sales Chart Compiler	
Nielsen SoundScan	
www.cria.ca	
www.soundscan.com	

Recorded Music Sales (millions)

	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	Change	$US Fixed	Local Currency
2005	544.3	658.6	2.6%	731.9	885.6
2004	599.0	676.4	6.5%	747.8	904.3
2003	562.3	680.4	-6.7%	782.1	946.4
2002	602.4	728.9	4.7%	805.7	974.8
2001	632.1	764.9	5.9%	879.3	1,064

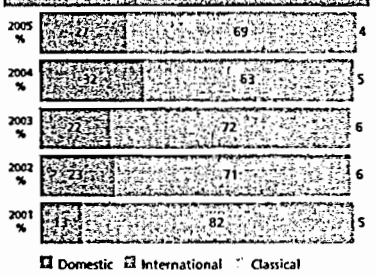
Note: Digital sales included from 2004 onwards

Physical Unit Sales by Format (millions)

	CD	DVD	Other	Total	% Change
2005	52.5	4.2	0.1	56.8	5.4%
2004	54.8	4.8	0.4	60.0	2.9%
2003	53.1	4.0	1.2	58.3	4.3%
2002	57.0	1.6	2.3	60.9	5.6%
2001	60.7	0.9	2.9	64.5	6.3%

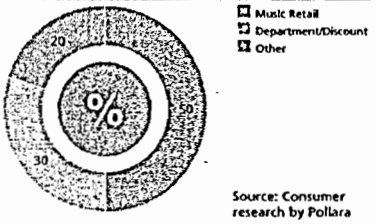
Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Repertoire Origin (value)



Note: Based on artist nationality, top 100 Nielsen SoundScan year-end chart

Retail Channels



Source: Consumer research by Pollara

Value Split (retail)

Format	
CD album	87%
DVD	10%
Digital (online, mobile)	3%
Other (physical singles, LP, MC, VHS)	<1%

Singles Units (millions)

	Physical	Digital	% Digital
2005	0.3	10.4	97%
2004	0.5	2.0	80%

Top Seller Albums

	Million Units	% Change	% of total Albums
Top 10	3.7	6%	7%
Top 50	9.2	1%	16%
Top 100	12.8	1%	23%
Top 200	17.1	1%	30%

NORTH AMERICA
CANADA

Top 10

Top 10 Digital Singles

Artist	Title	Label/Company
The Black Eyed Peas	Don't Phunk With My Heart	A&M
Gwen Stefani	Hollaback Girl	INT
Kanye West	Gold Digger	DEF
Weezer	Beverly Hills	UNIV
The Killers	Mr. Brightside	ISL
Green Day	Boulevard Of Broken Dreams	WAR
Kelly Clarkson	Since U Been Gone	RCA
The Black Eyed Peas	My Humps	A&M
James Blunt	You're Beautiful	WMG
Will Smith	Switch	INT

Top 10 Albums

Artist	Title	Label/Company
Green Day	American Idiot	WBR
The Black Eyed Peas	Monkey Business	A&M
Michael Bublé	It's Time	WBR
Coldplay	X&Y	EMI
50 Cent	Massacre	INT
Il Divo	Il Divo	BMGA
Kelly Clarkson	Breakaway	RCA
Gwen Stefani	Love.Angel.Music.Baby	INT
Jack Johnson	In Between Dreams	UNI
Madonna	Confessions On A Dancefloor	WBR

Certification Awards (Albums)

	Sales Level	2005	2004
Gold	50,000	145	147
Platinum	100,000	73	79
Multi-platinum	-	65	71
Diamond	1,000,000	0	0
Double Diamond	2,000,000	0	1

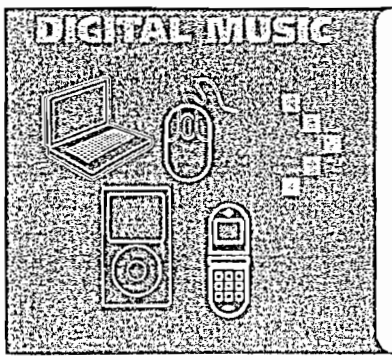
Certification Awards (Private Labels)

	Sales Level	2005	2004
Gold	5,000	21	7
Platinum	10,000	2	6
Multi-platinum	-	1	8

Certification Awards (DVD Music Videos)

	Sales Level	2005	2004
Gold	5,000	46	44
Platinum	10,000	23	27
Multi-platinum	-	36	55
Diamond	100,000	3	3
Double Diamond	200,000	0	3

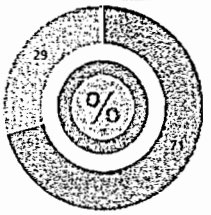
DIGITAL MUSIC



Digital Indicator

Internet Users (m)	21.9
Broadband Lines (m)	7.1
Mobile Subscriptions (m)	16.1
Digital Sales (trade, $US m)	14.7

Digital Sales by Channel (%)



Note: Online includes subscription revenues

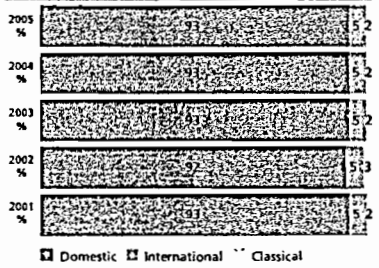
NORTH AMERICA
USA

RIAA – Recording Industry Association of America Inc.
1330 Connecticut Avenue N.W.
Suite 300, Washington, D.C. 20036
T: +1 (202) 775 0101 F: +1 (202) 775 7253
www.riaa.com

Country Data

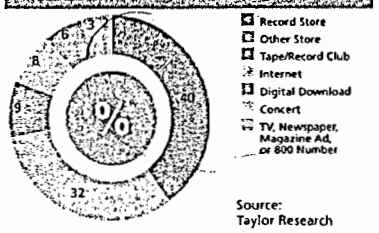
General Information	
Population (millions)	295.7
Per capita GDP ($US)	42,220
Currency	Dollar (USD)
Language	English
Music Industry	
World ranking (value)	1st
% global value	34%
Physical piracy level	<10%
Sales Chart Compiler	
Nielsen SoundScan	
www.billboard.com	
www.soundscan.com	
Top Independent Labels (alphabetical order)	
American Gramophone	
Equity Music Group	
Koch Records	
Red Ink	
TVT Records	

Repertoire Origin (value)



Note: 5% International repertoire assumption

Retail Channels



Source: Taylor Research

Recorded Music Sales (millions)

	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	% Change	$US Fixed	Local Currency
2005	7,011.9	7,011.9	-2.8%	12,269.5	12,269.5
2004	7,214.2	7,214.2	4.7%	12,506.5	12,506.5
2003	6,892.8	6,892.8	-6.2%	11,847.9	11,847.9
2002	7,347.8	7,347.8	-9.4%	12,609.4	12,609.4
2001	8,108.6	8,108.6	-2.6%	13,739.0	13,739.0

Note: Digital sales included from 2004 onwards. Retail revenues at suggested list price

Physical Units (full length formats, millions)

	CD	DVD	Other	Total	% Change
2005	705.4	27.8	10.5	743.7	-7.9%
2004	767.0	29.0	11.5	807.5	-2.8%
2003	746.0	17.5	22.0	785.5	-7.8%
2002	803.3	10.7	38.0	852.0	-10.0%
2001	881.9	7.9	57.2	947.0	-7.2%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Sales by Genre

Rock	32%
Rap/Hip Hop	13%
Country	13%
R&B/Urban	10%
Pop	8%
Religious	5%
Classical	3%
Children's	2%
Jazz	2%
Oldies	1%
Soundtracks	1%
New Age	1%
Other	9%

Source: Taylor Research

Value Split (trade) %

Format	
CD album	86%
DVD	4%
Digital (online, mobile)	9%
Other (physical singles, LP, MC, VHS)	1%

Singles Units (millions)

	Physical	Digital	% Digital
2005	5.0	366.9	99%
2004	6.6	139.1	95%

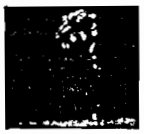
Top Sellers (albums)

	Million Units	Change	% of Top Albums
Top 10	32.0	-7.7%	4%
Top 50	87.4	-17.7%	12%
Top 100	128.1	-16.4%	17%
Top 200	179.4	-14.0%	24%

Sales by Age

10-14	9%
15-19	12%
20-24	13%
25-29	12%
30-34	11%
35-39	9%
40-44	9%
45+	26%

Source: Taylor Research



NORTH AMERICA
USA

Top 10

Top 10 Digital Singles

Artist	Title	Label/Company
Gwen Stefani	Hollaback Girl	Universal
Kanye West	Gold Digger	Universal
Weezer	Beverly Hills	Universal
Kelly Clarkson	Since U Been Gone	Sony BMG
The Black Eyed Peas	My Humps	Universal
The Killers	Mr. Brightside	Universal
Fall Out Boy	Sugar, We're Goin' Down	Universal
The Black Eyed Peas	Don't Phunk With My Heart	Universal
Lifehouse	You And Me	Universal
Green Day	Boulevard Of Broken Dreams	Warner

Top 10 Albums

Artist	Title	Label/Company
Mariah Carey	Emancipation of Mimi	Island
50 Cent	Massacre	Interscope
Kelly Clarkson	Breakaway	RCA
Green Day	American Idiot	Warner Bros
The Black Eyed Peas	Monkey Business	A&M
Coldplay	X&Y	Capitol
Rascal Flatts	Feels Like Today	Lyric Street Records
Gwen Stefani	Love.Angel.Music.Baby	Interscope
Kanye West	Late Registration	Def Jam
The Game	Documentary	Interscope

Certification Awards (Albums)

	Sales Level	2005	2004
Gold	500,000	244	261
Platinum	1,000,000	140	124
Multi-platinum	-	95	127
Diamond	10,000,000	6	2

Note: Digital sales included from October 2004

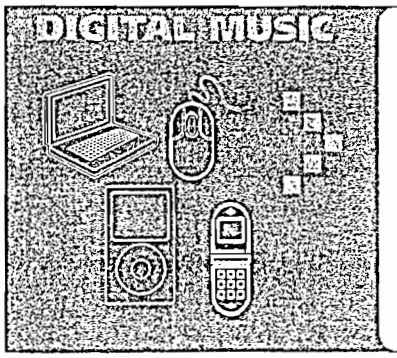
Certification Awards (Digital Downloads)

	Sales Level	2005	2004
Gold	100,000	244	60
Platinum	200,000	113	11
Multi-platinum	-	44	1

Certification Awards (Music Videos)

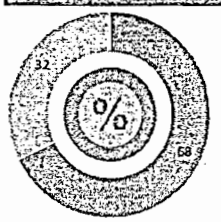
	Sales Level	2005	2004
Gold	50,000	103	
Platinum	100,000	65	
Multi-platinum	-	45	

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	205.3
Broadband Lines (m)	48.3
Mobile Subscriptions (m)	207.9
Digital Sales (trade, $US m)	636.0

Digital Sales by Channel (%)



Note: Online includes subscription revenues

EUROPE
AUSTRIA

IFPI Austria
Schreyvogelgasse 2/5
1010 Vienna
T: +43 (1) 535 6035
E: ifpi@ifpi.at
F: +43 (1) 535 5191
www.ifpi.at
www.pro-music.at

Country Data

General Information	
Population (millions)	8.2
Per capita GDP ($US)	37,509
Currency	Euro (EUR)
Language	German.
Music Industry	
World ranking (value)	18th
% global value	1%
Physical piracy level	<10%
Sales Chart Compiler	
Media Control Austria	
www.austriatop40.at	
Top Independent Labels (alphabetical order)	
Echo-Zyx Music	
Edel Musica	
Hoanzl	
Lotus Records	
Soul Seduction	

Recorded Music Sales (millions)

	Trade Revenues			Retail Revenues	
	US$	Local Currency	% Change	US$	Local Currency
2005	138.7	111.0	-4.5%	284.9	227.9
2004	145.3	116.2	-6.8%	295.3	236.3
2003	155.9	124.7	-3.7%	313.9	251.1
2002	161.9	129.5	-9.2%	333.7	267.0
2001	178.3	142.6	-14.8%	359.3	287.4

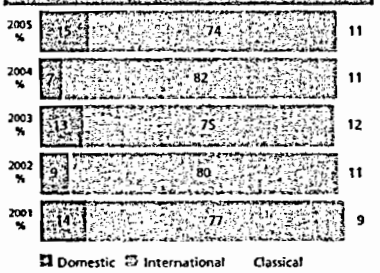
Note: Digital sales included from 2004 onwards

Physical Units by Format (millions)

	LP	DVD	Other	Total	Change
2005	10.5	0.6	0.1	11.2	6.7%
2004	9.7	0.6	0.2	10.5	-7.9%
2003	10.8	0.4	0.2	11.4	-0.9%
2002	11.1	0.2	0.2	11.5	-5.0%
2001	11.7	0.1	0.3	12.1	-19.9%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Repertoire Origin (%)



Sales by Genre

Pop	54%
Classical	11%
Rock	10%
Country/Traditional	8%
Children's	3%
Jazz/Blues	2%
Dance	2%
Soundtracks	2%
Other	8%

Sales by Age

0-19	14%
20-29	15%
30-39	24%
40-49	23%
50+	24%

Source: GfK Research

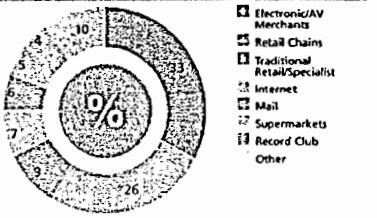
Singles Units (millions)

	Physical	Digital	% Digital
2005	1.2	0.8	40%
2004	1.6	0.1	6%

Value Split (retail %)

Format	
CD album	86%
DVD	6%
Digital (online, mobile)	3%
Other (physical singles, LP, MC, VHS)	5%

Retail Channel



EUROPE
AUSTRIA

Top 10

Top 10 Digital Singles

Artist	Title	Label/Company
Schnappi, Das Kleine Krokodil	Schnappi	Universal
Tokio Hotel	Durch Den Monsun	Universal
Akon	Lonely	Universal
Chipz	Chipz In Black	Universal
Madonna	Hung Up	Warner
The Sugababes	Push The Button	Warner
Melanie C	First Day Of My Life	Warner
Fettes Brot	Emanuela	Hoanzl
Die Firma	Die Eine 2005	Sony BMG
The Pussycat Dolls	Don't Cha	Universal

Top 10 Albums

Artist	Title	Label/Company
Kiddy Contest Kids	Kiddy Contest Vol. 11	Sony BMG
Robbie Williams	Intensive Care	EMI
Green Day	American Idiot	Warner
Madonna	Confessions On A Dancefloor	Warner
Xavier Naidoo	Telegramm Fuer X	SPV
Tokio Hotel	Schrei	Universal
Wir Sind Helden	Von Hier An Blind	Capitol
Coldplay	X&Y	Capitol
Soehne Mannheims	Noiz	Universal
Nena	Willst Du Mit Mir Gehn	Warner

Certification Awards (Albums)

	Sales Level	2005	2004
Gold	15,000	56	46
Platinum	30,000	35	16

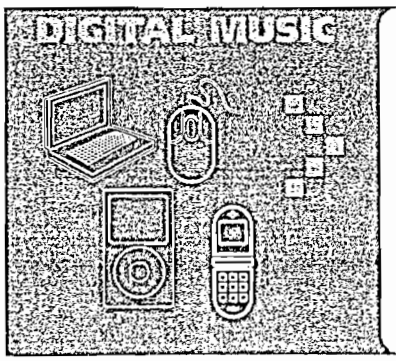
Certification Awards (Music Singles)

	Sales Level	2005	2004
Gold	15,000	12	11
Platinum	30,000	4	3

Certification Awards (DVD Music Video)

	Sales Level	2005	2004
Gold	5,000	8	9
Platinum	10,000	7	1

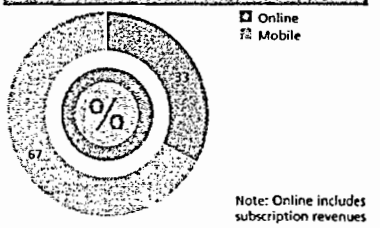
DIGITAL MUSIC



Digital Indicators

Internet Users (m)	4.7
Broadband Lines (m)	1.3
Mobile Subscriptions (m)	8.4
Digital Sales (trade, $US m)	4.3

Digital Sales by Channel (%)



Note: Online includes subscription revenues

EUROPE
BELGIUM

IFPI Belgium
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Almaplein, Brussels 1200
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Country Data

General Information	
Population (millions)	10.7
Per capita GDP ($US)	35,900
Currency	Euro (EUR)
Language	Dutch/French
Music Industry	
World ranking (value)	15th
% global value	1%
Physical piracy level	<10%
Sales Chart Compiler	
Ultratop/AC Nielsen	
www.ultratop.be	
Top Independent Labels (alphabetical order)	
ARS	
CNR	
NEWS	
PIAS	
V2	

Recorded Music Sales (millions)

	Trade Revenue			Retail Revenues	
	US $ Fixed	Local Currency	% Change	US $ Fixed	Local Currency
2005	161.8	129.4	-7.2%	429.4	263.5
2004	174.3	139.4	-1.9%	336.3	269.1
2003	177.7	142.2	-10.2%	327.7	262.2
2002	197.9	158.3	-8.7%	367.1	293.7
2001	216.7	173.4	-7.4%	396.7	317.3

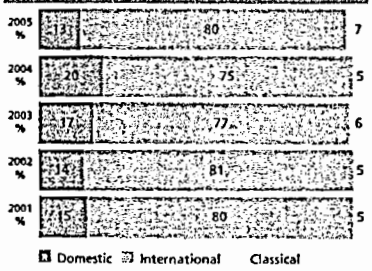
Note: Digital sales included from 2004 onwards

Physical Units (LP/Cassette/Minidisc/DVD-A/VHS) (millions)

	CD	DVD	Other	Total	% Change
2005	13.9	1.0	0.1	15.0	-13.3%
2004	15.6	1.6	0.1	17.3	23.6%
2003	13.0	0.8	0.2	14.0	-6.0%
2002	14.5	0.3	0.1	14.9	-11.3%
2001	16.4	0.2	0.2	16.8	-6.7%

Notes: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS. 2004 volume growth due to sizeable premiums market (22% total volume). 2001 volume reported on a diffferent basis to previous years - actual growth indicated

Repertoire Origin (%)



Basis: Artist nationality

Sales by Genre

Pop/MOR	40%
Rock/Metal/Alternative	32%
R&B/Soul	7%
Dance	6%
Rap/Hip Hop	4%
Classical	4%
Children's	2%
Jazz	2%
New Age	2%
Other	1%

Source: IFPI Belgium

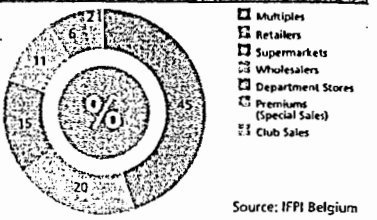
Singles Units (millions)

	Physical	Digital	% Digital
2005	2.7	1.3	33%
2004	3.5	0.2	5%

Value Split (Trade) (%)

Format	
CD album	84%
DVD	8%
Digital (online, mobile)	2%
Other (physical singles, LP, MC, VHS)	6%

Retail Channels



Source: IFPI Belgium

Top 10

Top 10 Albums

Artist	Title	
Coldplay	X&Y	EMI
Madonna	Confessions On A Dancefloor	Warner
Laura Lynn	Dromen	ARS/Universal
Robbie Williams	Intensive Care	EMI
Anouk	Hotel New York	EMI
Moby	Hotel	EMI
Enya	Amarantine	Warner
Crazy Frog	Crazy Hits	ARS/Universal
Raphael	Caravane	EMI
U2	How To Dismantle An Atomic Bomb	Universal

			2004
			20
			10
Multi-platinum		14	5

Certification Awards (International Albums)

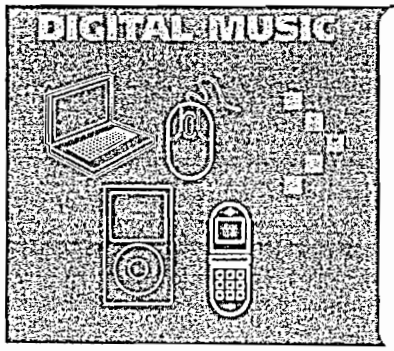
	Sales Level	2005	2004
Gold	25,000	44	38
Platinum	50,000	9	11
Multi-platinum		0	4

Certification Awards (International Singles)

	Sales Level	2005	2004
Gold	15,000	4	7
Platinum	30,000	13	0
Multi-platinum		2	0

Certification Awards (International Singles)

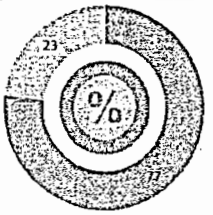
	Sales Level	2005	2004
Gold	15,000	11	23
Platinum	30,000	2	8
Multi-platinum		1	1



Digital Indicators

Internet Users (m)	5.1
Broadband Lines (m)	2.1
Mobile Subscriptions (m)	9.0
Digital Sales (trade, $US m)	3.0

Digital Sales by Channel (value)



Note: Online includes subscription revenues

EUROPE
CZECH REPUBLIC

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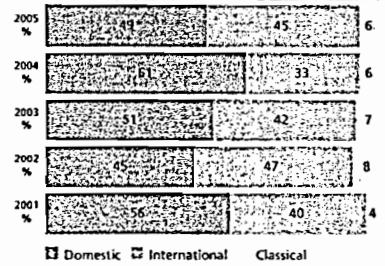
Country Data

General Information	
Population (millions)	10.2
Per capita GDP ($US)	12,070
Currency	Koruna (CSK)
Language	Czech
Music Industry	
World ranking (value)	39th
% global value	<1%
Physical piracy level	25-50%
Sales Chart Compiler	
IFPI Czech Republic	
www.ifpicr.cz	
Top Independent Labels (alphabetical order)	
6P	
Areca Multimedia	
DK World Plus	
Frantisek Rychtarik	
Indies Records	

Repertoire Origin (value)



Recorded Music Sales (millions)

	Trade Revenue			Retail Revenues	
	$US Fixed	Local Currency	Change	$US Fixed	Local Currency
2005	24.8	593.7	-21.9%	42.0	1,006.1
2004	31.7	760.6	-1.4%	47.2	1,131.5
2003	31.3	750.4	-2.5%	47.8	1,144.3
2002	32.1	769.5	-19.8%	49.0	1,173.5
2001	40.0	958.9	-7.9%	61.0	1,462.3

Physical Units (full length formats, millions)

	CD	DVD	Other	Total	% Change
2005	3.2	0.2	0.2	3.6	-18.2%
2004	3.7	0.2	0.5	4.4	4.8%
2003	3.4	0.1	0.7	4.2	-7.7%
2002	3.3	0.1	1.2	4.6	-32.1%
2001	4.7		1.9	6.7	0.0%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Sales by Genre

Pop	82%
Classical	6%
Dance	5%
Other	7%

Top Sellers (albums)

	Million Units	% Change	% of Total Albums
Top 10	0.3	-30%	11%
Top 50	0.7	-26%	26%
Top 100	1.0	-24%	38%

Value Split (trade) %

Format	
CD album	89%
DVD	9%
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	2%

EUROPE
CZECH REPUBLIC

Top 10

Top 10 Albums

Artist	Title	Label/Company
Chinaski	Music Bar	Universal Music
Langerova Aneta	Spousta Andelu	Sony BMG
Kolar Petr	Album	Universal Music
Cechomor	Co Sa Stalo Nové	Sony BMG
Crazy Frog	Crazy Hits	Warner Music
Divokej Bill	Lucerna Live	EMI
Langerova Aneta	Spousta Andelu Koncert	Sony BMG
Muller Richard	44	Sony BMG
Horvath Vlastimil	Misto Zazraku	Sony BMG
Damichi	Nejvetsi Italske Hity 3	Sony BMG

Certification Awards (Domestic Albums)

	Sales Level	2005	2004
Gold	10,000	32	26
Platinum	20,000	20	21

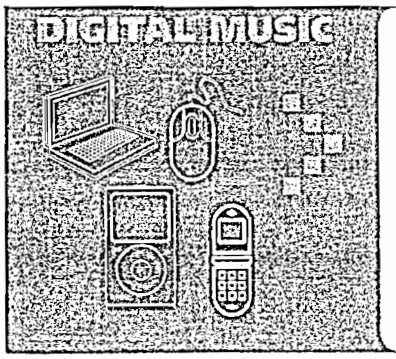
Certification Awards (International Albums)

	Sales Level	2005	2004
Gold	5,000	21	12
Platinum	10,000	17	9

Certification Awards (DVD Music Videos)

	Sales Level	2005	2004
Gold	1,500	6	3
Platinum	3,000	6	1

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	5.1
Broadband Lines (m)	0.8
Mobile Subscriptions (m)	11.5
Digital Sales (trade, $US m)	

EUROPE
DENMARK

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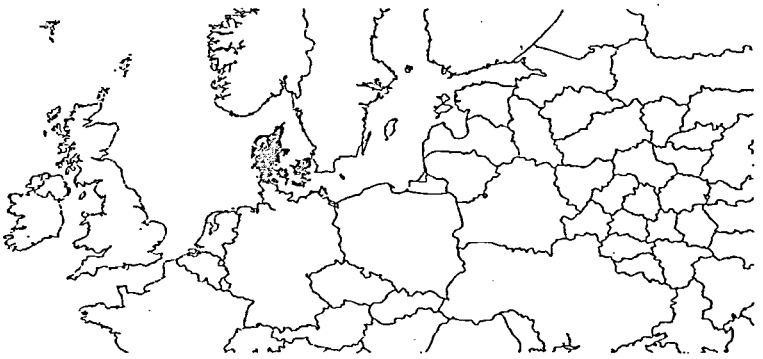


Country Data	
General Information	
Population (millions)	5.4
Per capita GDP ($US)	47,810
Currency	Danish Krone (DKK)
Language	Danish
Music Industry	
World ranking (value)	20th
% global value	1%
Physical piracy level	<10%
Sales Chart Compiler	
Nielsen Music Control	
www.hitlisten.nu	

Recorded Music Sales (millions)	Trade Revenue			Retail Revenue	
	US$	Local Currency	Change	US$ fixed	Local Currency
2005	113.1	678.6	-1.7%	180.1	1,080.4
2004	115.1	690.9	3.8%	187.1	1,122.6
2003	119.6	717.5	12.5%	194.3	1,165.8
2002	136.7	819.9	15.3%	222.1	1,332.4
2001	161.3	967.8	16.6%	262.1	1,572.6

Note: Digital sales included from 2004 onwards

Physical Units (Retail Units millions)					
	CD	DVD	Other	Total	% Change
2005	9.6	0.3		9.9	-2.0%
2004	9.7	0.4		10.1	-1.0%
2003	9.8	0.2	0.2	10.2	-13.6%
2002	11.8			11.8	-17.5%
2001	14.2		0.1	14.3	-24.3%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Repertoire Origin Value			
2005 %	46	51	3
2004 %	41	55	4
2003 %	42	55	3
2002 %	34	62	4
2001 %	32	63	5

Domestic International Classical

Value Split Trade	
Format	
CD album	92%
DVD	4%
Digital (online, mobile)	1%
Other (physical singles, LP, MC, VHS)	3%

Single Units (million)			
	Physical	Digital	% Digital
2005	0.2	0.8	80%
2004	0.2		0%

EUROPE
DENMARK

Top Sales

Top Selling Albums

Artist	Title	Label/Company
TV2	De Første Kærester På Månen	EMI Danmark
Robbie Williams	Intensive Care	EMI Danmark
Simone	Vindens Farver	CMC/MBO
Diverse	M:G:P 2005	Universal
Katie Melua	Call Off The Search	Bonnier Music A/S
Katie Melua	Piece By Piece	Bonnier Music A/S
Bamse	Be My Guest	CMC/MBO
James Blunt	Back To Bedlam	Warner

Certification Awards: Albums

	Sales Level	2005	2004
Gold	20,000	75	72
Platinum	40,000	48	47

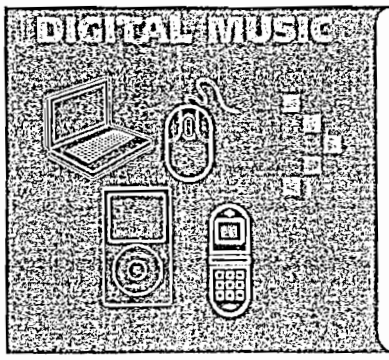
Certification Awards: Physical Singles

	Sales Level	2005	2004
Gold	4,000	4	6
Platinum	8,000	3	8

Certification Awards: DVD Music Videos

	Sales Level	2005	2004
Gold	4,000	3	7
Platinum	8,000	4	4

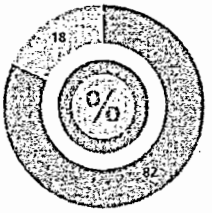
DIGITAL MUSIC



Digital Indicators

Internet Users (m)	3.8
Broadband Lines (m)	1.4
Mobile Subscriptions (m)	5.2
Digital Sales (trade, $US m)	1.6

Digital Sales by Channel (%)



Online
Mobile

Note: Online includes subscription revenues

EUROPE
FINLAND

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E: ifpi@ifpi.fi www.ifpi.fi
www.fimic.fi

Country Data

General Information	
Population (millions)	5.2
Per capita GDP ($US)	37,045
Currency	Euro (EUR)
Language	Finnish/Swedish
Music Industry	
World ranking (value)	25th
% global value	<1%
Physical piracy level	10-24%
Sales Chart Compiler	
Finnish National Broadcasting Company	
www.yle.fi/top40	
Top Independent Labels (alphabetical order)	
Bonnier Amigo Music Finland	
Edel Records Finland	
Johanna Kustannus Oy	
Ondine Oy	
Oy FG-Naxos Ab	

Recorded Music Sales (millions)

	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	Change	$US Fixed	Local Currency
2005	82.2	65.8	2.3%	132.0	105.9
2004	84.1	67.3	-13.5%	135.4	108.7
2003	97.2	77.8	2.8%	156.5	125.2
2002	94.5	75.6	6.4%	152.2	121.8
2001	101.0	80.8	3.5%	162.6	130.1

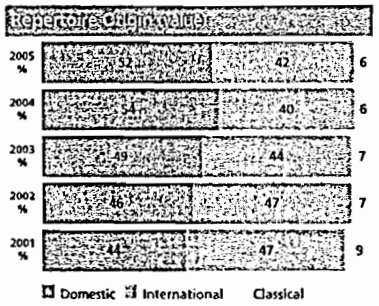
Digital sales included in 2005

Physical Units Retail Revenue ($US/millions)

	CD	DVD	Other	Total	Change
2005	7.4	0.4		7.8	0.0%
2004	7.4	0.3	0.1	7.8	-12.9%
2003	10.4	0.3	0.1	10.8	8.0%
2002	9.8	0.1	0.2	10.0	-9.9%
2001	10.7		0.4	11.1	0.9%

Notes: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS. 2004 figures reported on a different basis to previous years - actual growth indicated

Repertoire Origin (value)



Value Split (trade)

Format	
CD album	90%
DVD	7%
Digital (online, mobile)	1%
Other (physical singles, LP, MC, VHS)	2%

Single Units (millions)

	Physical	Digital	% Digital
2005	0.3	0.6	65%
2004	0.4		0%

Note: 2004 digital figures not available

EUROPE
FINLAND

Top 10

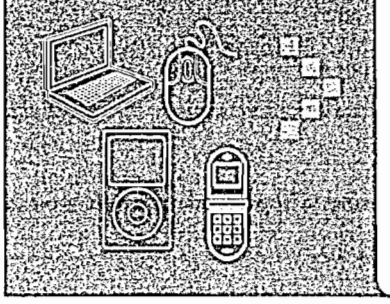
Top 10 Albums

Artist	Title	Label/Company
Nightwish	Highest Hopes	Spinefarm/Universal
Robbie Williams	Intensive Care	EMI
Yö	Kuolematon	Poko/EMI
Il Divo	Il Divo	Sony BMG
Il Divo	Ancora	Sony BMG
Maija Vilkkumaa	Se Ei Olekaan Niin	Warner
PMMP	Kovemmat Kädet	Sony BMG
Eri Esittäjiä	Tilkkutäkki	Warner
Crazy Frog	Crazy Hits	BonnierAmigo
Ella Ja Aleksi	Lenni Lokinpoikanen	Warner

Certification Awards (Albums)

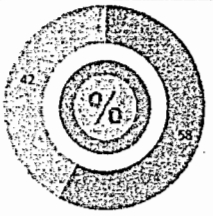
	Sales Level	2005	2004
Gold	15,000	63	73
Platinum	30,000	23	25
Multi-platinum		3	3

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	3.3
Broadband Lines (m)	1.3
Mobile Subscriptions (m)	5.4
Digital Sales (trade, $US m)	1.0

Digital Sales by Channel (Value)



Online
Mobile

Note: Online includes subscription revenues

EUROPE
FRANCE

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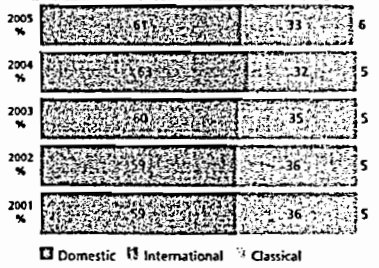
75008 Paris
T: +33 (1) 4413 6666 F: +33 (1) 5376 0733
www.disqueenfrance.com
www.promusicfrance.com

Country Data

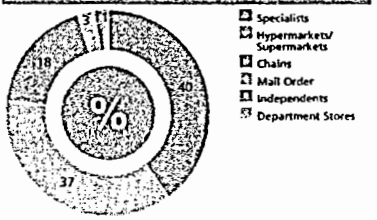
General Information	
Population (millions)	60.7
Per capita GDP ($US)	34,720
Currency	Euro (EUR)
Language	French
Music Industry	
World ranking (value)	5th
% global value	6%
Physical piracy level	<10%
Sales Chart Compiler	
IFOP/TITE LIVE	
www.disqueenfrance.com	
Top Independent Labels (alphabetical order)	
Harmonia Mundi	
Naïve	
Pschent	
V2	
Wagram	

Repertoire Origin (value)



Basis: Language

Retail Channels



Recorded Music Sales (millions)

	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	% Change	$US Fixed	Local Currency
2005	1,248.3	998.6	1.7%	1,990.0	1,592.0
2004	1,269.3	1,015.5	13.6%	2,041.9	1,633.5
2003	1,469.5	1,175.6	14.4%	2,352.6	1,882.1
2002	1,716.5	1,373.2	4.1%	2,749.5	2,199.6
2001	1,648.3	1,318.7	14.1%	2,642.5	2,114.0

Note: Digital sales included from 2004 onwards

Physical Units (full length formats, millions)

	CD	DVD	Other	Total	Change
2005	96.2	14.7	1.3	112.2	5.2%
2004	106.4	9.0	3.0	118.4	7.9%
2003	117.9	6.9	3.8	128.6	8.0%
2002	130.4	3.1	6.3	139.8	3.1%
2001	125.2	2.2	8.2	135.6	11.4%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Sales by Genre

French songs	33%
International songs	26%
Compilations	22%
Classical	5%
Jazz	3%
World	3%
Soundtracks	2%
Other	6%

Singles Units (millions)

	Physical	Digital	% Digital
2005	25.4	8.5	25%
2004	24.3	2.1	8%

Top Sellers (albums)

	Million Units	Change	% of total Albums
Top 10	4.5	-21%	19%
Top 20	7.1	-16%	31%
Top 200	23.2	-16%	30%

Value Split (trade %)

Format	
CD album	80%
DVD	11%
Digital (online, mobile)	2%
Other (physical singles, LP, MC, VHS)	7%

EUROPE
FRANCE

Top 10

Top 10 Digital Singles

Artist	Title	Label/Company
Madonna	Hung Up	Warner Bros/Maverick
James Blunt	Goodbye My Lover	Atlantic
Juanes	La Camisa Negra	AZ
Robbie Williams	Tripping	Chrysalis UK
Nolwenn Leroy	Nolwenn Ohwo	Mercury
Marc Lavoine	Toi Mon Amour	Mercury
Raphael	Caravane	EMI France
James Blunt	You're Beautiful	Atlantic
Green Day	Wake Me Up When September Ends	Warner Bros
Shakira	La Tortura	Jive/Epic

Top 10 Albums

Artist	Title	Label/Company
Raphael	Caravane	Capitol
Johnny Hallyday	Ma Vérité	Mercury
Les Enfoires	Le Train Des Enfoires	Resto Du Coeur
Madonna	Confessions On A Dancefloor	WEA
Multi-Interprètes	Le Roi Soleil	Warner
Chimene Badi	Dis-Moi Que Tu M'aimes	AZ
Calogero	3	Rapas/Mercury
Mylene Farmer	Avant Que L'ombre	Polydor
Alain Souchon	La Vie Theodore	Virgin
James Blunt	Back To Bedlam	WEA

Certification Awards (Albums)

	Sales Level	2005	2004
Silver	50,000	10	9
Gold	100,000	82	82
Platinum	300,000	27	15
Double Platinum	600,000	8	9
Triple Platinum	900,000	0	1
Diamond	1,000,000	4	6

Note: Sales levels reduced in July 2006 to 35,000, 75,000, 200,000 and 750,000

Certification Awards (Single Sales)

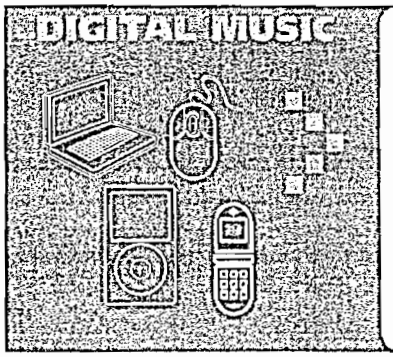
	Sales Level	2005	2004
Silver	100,000	31	24
Gold	200,000	10	14
Platinum	300,000	4	3
Diamond	500,000	8	1

Note: Sales levels reduced in 2005 from 125,000, 250,000, 500,000 and 1,000,000

Certification Awards (DVD Music Video Sales)

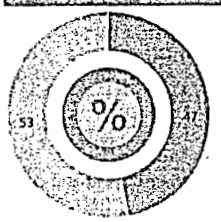
	Sales Level	2005	2004
Gold	10,000	31	20
Platinum	20,000	41	27
Double Platinum	40,000	15	11
Triple Platinum	60,000	11	10
Diamond	100,000	4	6

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	26.2
Broadband Lines (m)	10.8
Mobile Subscriptions (m)	45.1
Digital Sales (trade: $US.m)	28.1

Digital Sales by Channel (%)



Note: Online includes subscription revenues

EUROPE
GERMANY

IFPI Germany
Oranienburger Strasse 67/68
D-10117 Berlin
T: +49 (30) 590 0380 F: +49 (30) 590 03838
E: verbaende@phono.de www.ifpi.de
www.pro-musicorg.de

Country Data

General Information	
Population (millions)	82.4
Per capita GDP ($US)	33,935
Currency	Euro (EUR)
Language	German
Music Industry	
World ranking (value)	4th
% global value	7%
Physical piracy level	<10%
Sales Chart Compiler	
Media Control	
www.musicline.de	
Top Independent Labels (alphabetical order)	
Delta Music	
Deutsche Austrophon	
Edel Music	
SPV	
ZYX Music	

Recorded Music Sales (millions)

	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	Change	$US Fixed	Local Currency
2005	1,457.5	1,166.0	0.4%	2,210.6	1,768.5
2004	1,451.6	1,161.3	3.3%	2,201.0	1,760.8
2003	1,500.6	1,200.5	17.8%	2,270.3	1,816.0
2002	1,825.8	1,460.7	7.0%	2,764.8	2,211.8
2001	1,963.8	1,571.0	9.6%	3,001.9	2,401.5

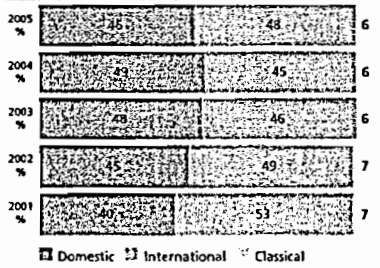
Note: Digital sales included from 2004 onwards

Physical Units (of both formats) (millions)

	CD	DVD	Other	Total	Change
2005	114.7	9.6	9.4	133.7	3.6%
2004	116.1	8.3	14.3	138.7	1.4%
2003	146.8	9.0	19.1	174.9	13.5%
2002	179.4	3.8	18.9	202.1	3.1%
2001	182.9	1.5	24.2	208.6	7.9%

Notes: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS. 2004 figures reported on a different basis to previous years - actual growth indicated

Repertoire Origin (Value)



Sales by Genre

Pop	37%
Rock	19%
Classical	8%
Schlager	7%
Children's	6%
Dance	5%
Volksmusic	2%
Jazz	2%
Soundtracks	2%
Country	2%
Instrumental	1%
Other	9%

Source: GfK

Sales by Age

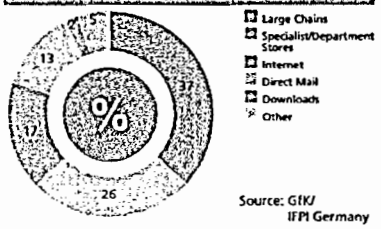
10-19	12%
20-29	20%
30-39	25%
40-49	21%
50+	22%

Source: Media Control GfK International GmbH

Single Units (millions)

	Physical	Digital	% Digital
2005	17.8	14.9	46%
2004	23.4	7.0	23%

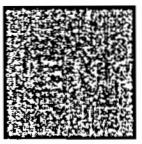
Retail Channels



Source: GfK/ IFPI Germany

Value Split (Trade)

Format	
CD album	80%
DVD	9%
Digital (online, mobile)	3%
Other (physical singles, LP, MC, VHS)	8%



EUROPE
GERMANY

Top 10

Top 10 Digital Singles

Artist	Title	Label/Company
Schnappi, Das Kleine Krokodil	Schnappi	UDD
Melanie C	First Day Of My Life	WMG
Madonna	Hung Up	WMG
Robbie Williams	Tripping	CAP
Fettes Brot	Emanuela	ZEB
Juanes	La Camisa Negra	UID
Soehne Mannheims	Und Wenn Ein Lied	ZEB
James Blunt	You're Beautiful	WMG
The Sugababes	Push The Button	UID
The Pussycat Dolls	Don't Cha	UID

Source: Media Control GfK International GmbH

Top 10 Albums

Artist	Title	Label/Company
Söhne Mannheims	Noiz	Söhne Mannheims
Wir Sind Helden	Von Hier An Blind	EMI
Green Day	American Idiot	Warner
Juli	Es Ist Juli	Island/Universal
Robbie Williams	Greatest Hits	EMI
Coldplay	X&Y	EMI
Robbie Williams	Intensive Care	EMI
50 Cent	The Massacre	Universal
Nena	Willst Du Mit Mir Gehn	WSM/Warner
Peter Maffay	Laut & Leise	Ariola/Sony BMG

Certification Awards (Albums)

	Sales Level	2005	2004
Gold	100,000	214	155
Platinum	200,000	90	83
Multi-platinum		16	0

Note: Digital sales included in 2005

Certification Awards (Singles)

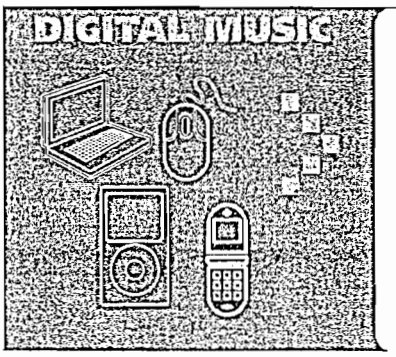
	Sales Level	2005	2004
Gold	150,000	28	24
Platinum	300,000	4	6
Multi-platinum		2	0

Note: Digital sales included in 2005

Certification Awards (DVD Music Video)

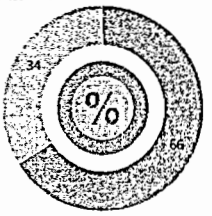
	Sales Level	2005	2004
Gold	25,000	30	41
Platinum	50,000	11	18
Multi-platinum		3	5

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	48.7
Broadband Lines (m)	11.5
Mobile Subscriptions (m)	79.2
Digital Sales (trade, $US m)	39.1

Digital Sales by Channel (%)



Note: Online includes subscription revenues

EUROPE
GREECE

Association of Greek Producers of Phonograms
65 Aristotelous Street
Halandri 15232
T: +30 (2) 10 685 1739 F: +30 (2) 10 680 1660
E: info@ifpi.gr www.ifpi.gr

Country Data	
General Information	
Population (millions)	10.7
Per capita GDP ($US)	20,895
Currency	Euro (EUR)
Language	Greek
Music Industry	
World ranking (value)	32nd
% global value	<1%
Physical piracy level	25-50%
Sales Chart Compiler	
IFPI Greece/Deloitte	
www.ifpi.gr	
Top Independent Labels (alphabetical order)	
Alpha Records	
Heaven Music	
Legend	
Lyra	
MBI	

Recorded Music Sales (millions)	Wholesale Revenues			Retail Revenues	
	US$	Local Currency	% Change	US$ Fixed	Local Currency
2005	65.1	52.1	-6.4%	143.0	114.4
2004	69.6	55.7	-5.7%	147.5	118.0
2003	73.8	59.0	-10.0%	95.9	76.7
2002	82.0	65.6	-10.4%	106.6	85.3
2001	74.3	59.4	-9.4%	100.3	80.3

Note: 2004 and 2005 retail values are reported on a different basis to previous years

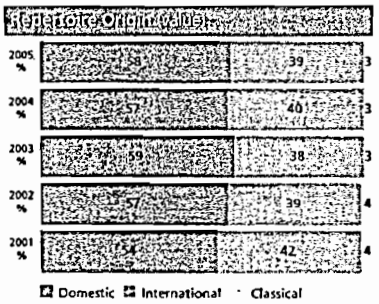
Physical Units (all formats) (millions)	CD	DVD	Other	Total	% Change
2005	7.0	0.3	0.1	7.4	-1.4%
2004	6.9	0.3	0.1	7.3	-4.3%
2003	6.5	0.2	0.3	7.0	-2.8%
2002	7.0		0.2	7.2	-4.3%
2001	6.5		0.4	6.9	-12.7%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Value Split (retail)	
Format	
CD album	94%
DVD	4%
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	2%

Singles Units (millions)	Physical	% Change	Digital
2005	0.3		
2004	0.6		

Top Sellers (albums)	Million Units	% Change	% Of Total Albums
Top 10	0.4	-15%	12%
Top 50	1.0	-10%	31%
Top 100	1.4	-9%	42%



EUROPE
GREECE

Top 10

Top 10 Albums

Artist	Title	Label/Company
Giannis Ploutarhos	Ola Se Sena Ta Vrika	Minos-EMI
Helena Paparizou	Protereotita Euro Edition + Mambo!	Sony BMG
Alkistis Protopsalti	Na Se Vlepo Na Gelas	Heaven
Anna Vissi	Nylon Euro Edition	Sony BMG
Notis Sfakianakis	Anagennisis	Universal
Sakis Rouvas	S'ekho Erotefthi	Minos-EMI
Antonis Remos	San Anemos	Sony BMG
Giannis Parios	De Girizo Piso	Minos-EMI
Thanos Petrelis	Thimizis Kati Apo Ellada	Heaven
Madonna	Confessions On A Dancefloor	Warner

Certification Awards (Domestic Albums)

	Sales Level	2005	2004
Gold	20,000	21	23
Platinum	40,000	12	12
Multi-platinum		4	5

Certification Awards (International Albums)

	Sales Level	2005	2004
Gold	10,000	22	20
Platinum	20,000	5	3
Multi-platinum		0	1

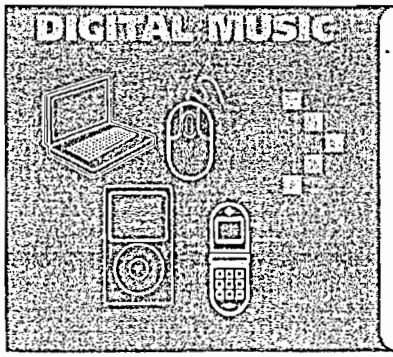
Certification Awards (Physical Singles)

	Sales Level	2005	2004
Gold	10,000	7	10
Platinum	20,000	1	5
Multi-platinum		0	1

Certification Awards (DVD Music Videos)

	Sales Level	2005	2004
Gold	5,000	2	1
Platinum	10,000	0	0

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	3.8
Broadband Lines (m)	0.2
Mobile Subscriptions (m)	12.5
Digital Sales (trade, $US m)	

EUROPE
HUNGARY

MAHASZ - Magyar Hanglemezkiadók Szövetsége
Harcos tér 5
Budapest 1113
T: +36 (1) 391 4200 F: +36 (1) 200 2679
E: info@mahasz.hu www.mahasz.hu

Country Data	
General Information	
Population (millions)	10.0
Per capita GDP ($US)	10,945
Currency	Forint (HUF)
Language	Hungarian
Music Industry	
World ranking (value)	36th
% global value	<1%
Physical piracy level	25-50%
Sales Chart Compiler	
MAHASZ/Ipsos-Zonda	
www.mahasz.hu	
Top Independent Labels (alphabetical order)	
CLS	
Fekete Szemek	
Hungaroton	
Private Moon	
Record Express	

Recorded Music Sales (millions)

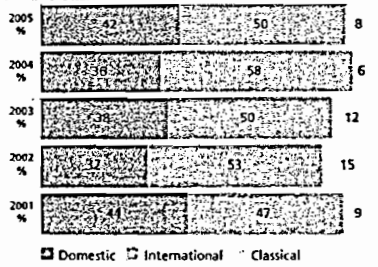
	Trade Revenues			Retail Revenues	
	US$ Fixed	Local Currency	% Change	$US Fixed	Local Currency
2005	33.4	6,666.0	15.1%	53.4	10,665.6
2004	39.4	7,855.6	4.4%	61.4	12,254.7
2003	41.2	8,216.7	6.0%	73.5	14,672.6
2002	38.8	7,748.3	15.1%	69.3	13,838.5
2001	45.7	9,128.1	8.1%	74.3	14,833.2

Physical Units (Units/Singles/Albums millions)

	CD	DVD	Other	Total	% Change
2005	4.2	0.2	0.9	5.3	30.3%
2004	5.4	0.2	0.2	7.6	52.0%
2003	3.3	0.1	1.6	5.0	5.3%
2002	2.9	0.1	1.8	4.8	22.1%
2001	3.3		2.7	6.1	18.7%

Notes: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS. 2004 volume growth due to inclusion of record club sales and premiums. These sales account for an estimated 15% of the value of the market and was only included in 2004

Repertoire Origin (Value)



Basis: Artist nationality

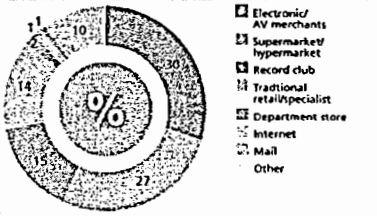
Sales by Genre

Pop/MOR	37%
Rock/Metal/Alternative	14%
Jazz/Blues	5%
Dance	4%
Classical	4%
Children's	4%
World	3%
Rap/Hip Hop	2%
Soundtracks	2%
R&B/Urban	1%
Other	24%

Value Split (Trade)

Format	
CD album	79%
DVD	7%
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	14%

Retail Channels



EUROPE
HUNGARY

Top 10

Top 10 Albums

Artist	Title	Label/Company
Nox	Ragyogás	Universal
Caramel	Nyugalomterápia	Tom-Tom Records
Caramel	Dalok	Universal
Megasztár	Megasztár 2005	Universal
Various Artists	Dancissimo 2005	Sony BMG
Oláh Ibolyà	Édes Méreg	Sony BMG
Various Artists	Nagy Mulatós Lemez	Sony BMG
Zsédenyi Adrienn	Zséda-Vue	Magneoton
Halász Judit	Hívd A Nagymamát	EMI
Various Artists	Nagy Hazai Házibuli Lemez	Sony BMG

Certification Awards (Domestic Albums)

	Sales Level	2005	2004
Gold	10,000	47	27
Platinum	20,000	20	8

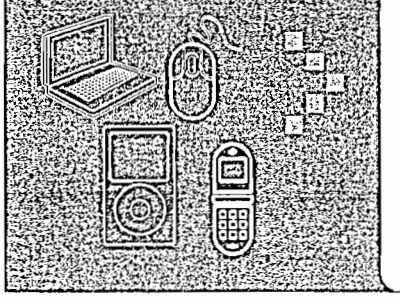
Note: Sales levels changed in 2005 from 15,000 (Gold) and 30,000 (Platinum)

Certification Awards (International Albums)

	Sales Level	2005	2004
Gold	5,000	16	14
Platinum	10,000	5	2

Note: Sales levels changed in 2005 from 10,000 (Gold) and 20,000 (Platinum)

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	3.1
Broadband Lines (m)	
Mobile Subscriptions (m)	9.1
Digital Sales (trade, $US m)	

EUROPE
IRELAND

IRMA (Irish Recorded Music Association)
1 Corrig Avenue
Dun Laoghaire, Co. Dublin
T: +353 (1) 280 5977 F: +353 (1) 280 6579
E: info@irma.ie www.irma.ie

Country Data

General Information	
Population (millions)	4.0
Per capita GDP ($US)	49,730
Currency	Euro (EUR)
Language	English
Music Industry	
World ranking (value)	24th
% global value	<1%
Physical piracy level	<10%
Sales Chart Compiler	
IRMA/Chart Track	
www.irma.ie	

Top Independent Labels (alphabetical order)

- Beggars Banquet
- Celtic Collections
- Dolphin
- Domino
- Drm
- Dynamic Entertainment
- Naxos
- Plateau
- Prism Leisure
- Rmg Chart Entertainment
- Rubyworks
- Sanctuary Group
- V2

Recorded Music Sales (million)

	Trade Revenues			Retail Revenues	
	US Fixed	Local Currency	Change	US Fixed	Local Currency
2005	91.2	73.0	0.9%	149.0	119.2
2004	90.3	72.3	2.7%	147.6	118.1
2003	88.0	70.4	-15.4%	143.7	115.0
2002	104.0	83.2	-7.5%	169.9	135.9
2001	112.4	89.9	-11.8%	182.1	145.7

Note: Digital sales not available

Physical Units (Millions of units)

	CD	DVD	Other	Total	Change
2005	7.7	0.6		8.3	0.0%
2004	7.8	0.5		8.3	-9.2%
2003	7.2	0.1	0.3	7.6	-10.6%
2002	8.0		0.5	8.5	-5.6%
2001	8.4		0.6	9.0	-2.3%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Repertoire Origin (%)

	Domestic	International
2005 %	22	78
2004 %	25	75
2003 %	19	81
2002 %	19	81
2001 %	22	78

Single Units (Millions)

	Physical	Digital	Total
2005	1.2		
2004	0.8		

Note: Digital sales not available

Sales by Genre

Pop/MOR	35%
Rock/Metal	31%
Country/Traditional	12%
Rap/Hip Hop	10%
Dance	7%
Soundtracks	1%
Classical	1%
Other	3%

Value Split (%)

Format	
CD album	88%
DVD	8%
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	4%

Note: Digital sales not available

EUROPE
IRELAND

Top 10

Top 10 Albums

Artist	Title	Label/Company
James Blunt	Back To Bedlam	Atlantic
Mario Rosenstock	Gift Grub 6 The Special One	EMI
Westlife	Face To Face	RCA
Coldplay	X&Y	Parlophone
Kelly Clarkson	Breakaway	RCA
Eminem	Curtain Call -The Hits	Interscope
The Killers	Hot Fuss	Lizard King
Green Day	American Idiot	Reprise
Il Divo	Ancora	RCA
Robbie Williams	Intensive Care	Chrysalis

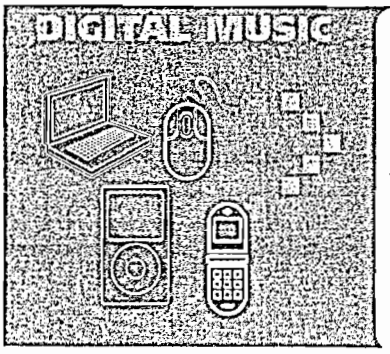
Certification Awards (Albums)

	Sale Level	2005	2004
Gold	7,500	56	
Platinum	15,000	61	
Multi-platinum		0	

Certification Awards (Pan-European)

	Sale Level	2005	2004
Gold	7,500	41	
Platinum	15,000	15	
Multi-platinum		6	

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	2:1
Broadband Lines (m)	
Mobile Subscriptions (m)	4:1
Digital Sales (trade, $US m)	

EUROPE
ITALY

FIMI - Federazione Industria Musicale Italiana
Galleria del Corso 4
20122 Milano
T: +390 (2) 795 879 F: +390 (2) 799 673
E: info@fimi.it www.fimi.it
www.pro-music.it

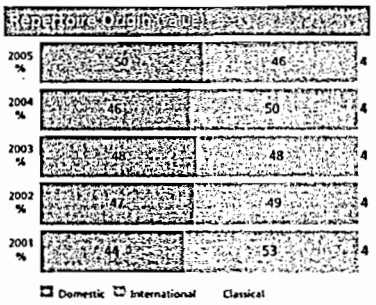
Country Data	
General Information	
Population (millions)	58.4
Per capita GDP ($US)	30,400
Currency	Euro (EUR)
Language	Italian
Music Industry	
World ranking (value)	8th
% global value	2%
Physical piracy level	25-50%
Sales Chart Compiler	
FIMI/AC Nielsen	
www.fimi.it	
www.nielsenmusiccontrol.com	
www.ACNielsen.com	
Top Independent Labels (alphabetical order)	
Edel	
Sugar	
Time	

Recorded Music Sales (millions)	Trade Revenue			Retail Revenues	
	US$	Local Currency	% change	US$	Local Currency
2005	428.5	342.8	-0.3%	669.3	535.4
2004	429.8	343.9	-7.1%	668.7	535.0
2003	462.7	370.1	-4.4%	717.1	573.7
2002	484.1	387.3	1.1%	750.3	600.3
2001	478.8	383.0	-7.5%	742.1	593.7

Note: Digital sales included from 2004 onwards

Physical Unit Volume (units millions)	CD	DVD	Other	Total	% change
2005	31.6	1.8		33.4	-4.8%
2004	33.1	2.0		35.1	-9.8%
2003	36.2	1.3	1.4	38.9	-4.7%
2002	36.8	0.4	3.6	40.8	-9.3%
2001	38.0		6.4	44.4	-9.4%

Notes: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS. 2002 figures reported on a different basis to previous years - actual growth indicated



Note: Jazz included in classical

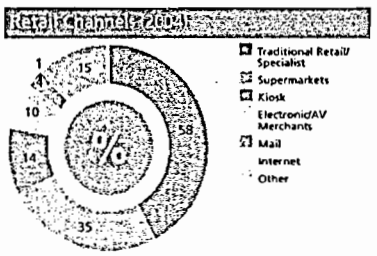
Sales by Genre (2004)	
Italian Pop	55%
International Pop	43%
Rock	21%
Classical	11%
Alternative	10%
Jazz/Blues	9%

Note: Multi answer question.
Source: CRA Nielsen Research May 04

Sales by Age (2004)	
0-17	9%
18-24	17%
25-34	30%
35-44	20%
45-54	10%
55+	14%

Single Units (million)	Physical	Digital	% Digital
2005	1.0	3.1	76%
2004	1.4	0.5	26%

Value Split (2004)	
Format	
CD album	87%
DVD	7%
Digital (online, mobile)	4%
Other (physical singles, LP, MC, VHS)	2%



Note: Multi answer question
Source: CRA Nielsen Research May 04

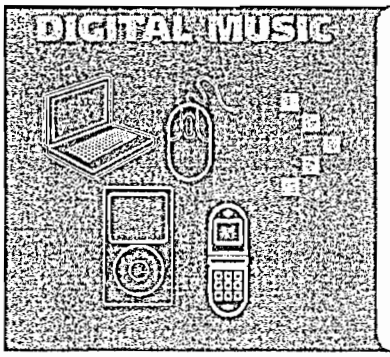
EUROPE
ITALY

Top 10

Top 10 Albums

Artist	Title	Label/Company
Biagio Antonacci	Convivendo - Parte 2	Iris (Mercury) - Universal
Michael Bublé	It's Time	Warner Bros - WMI
Eros Ramazzotti	Calma Apparente	Ariola - Sony BMG
Renato Zero	Il Dono	Tattica -Sony BMG
Ligabue	Nome E Cognome	Warner Bros - WMI
Robbie Williams	Intensive Care	Capitol - EMI
Fabrizio De Andrè	In Direzione Ostinata E Contraria	Ricordi - Sony BMG
Claudio Baglioni	Tutti Qui	Columbia - Sony BMG
Max Pezzali	Tutto Max	Atlantic - WMI
Madonna	Confessions On A Dancefloor	Warner Bros - WMI

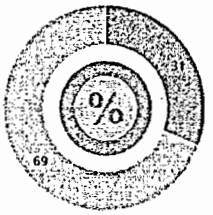
DIGITAL MUSIC



Digital Indicators

Internet Users (m)	28.9
Broadband Lines (m)	7.4
Mobile Subscriptions (m)	70.6
Digital Sales (trade, $US m)	15.7

Digital Sales by channel (value)



Note: Online includes subscription revenues

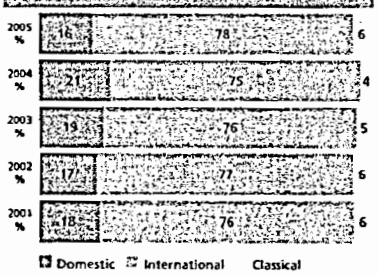
EUROPE
NETHERLANDS

NVPI
Albertus Perkstraat 36
1217 NT Hilversum
T: +31 (35) 625 4411 F: +31 (35) 625 4410
E: info@nvpi.nl www.nvpi.nl

Country Data

General Information	
Population (millions)	16.4
Per capita GDP ($US)	38,110
Currency	Euro (EUR)
Language	Dutch
Music Industry	
World ranking (value)	12th
% global value	1%
Physical piracy level	10-24%
Sales Chart Compiler	
GfK Megacharts BV	
www.megacharts.nl	
Top Independent Labels (alphabetical order)	
Challenge Record Services	
CNR Records	
Disky	
Play It Again Sam	
V2 Music	

Repertoire Origin (value)



Recorded Music Sales (millions)

	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	% Change	$US Fixed	Local Currency
2005	246.3	197.0	-14.3%	430.6	344.5
2004	287.4	229.9	-9.3%	516.1	412.9
2003	316.8	253.5	-4.8%	555.0	444.0
2002	332.8	266.3	-7.0%	584.8	467.8
2001	358.0	286.4	-1.6%	623.2	498.6

Note: Digital sales included from 2004 onwards

Physical Units (full length formats, millions)

	CD	DVD	Other	Total	% Change
2005	20.4	4.6	0.2	25.2	-13.1%
2004	23.2	5.3	0.5	29.0	-4.0%
2003	24.6	4.8	0.8	30.2	-0.7%
2002	27.9	2.0	0.5	30.4	-6.2%
2001	31.5	0.5	0.4	32.4	-6.1%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Sales by Genre

Pop/MOR	50%
Rock/Metal	18%
Dance	7%
R&B/Urban	7%
Classical	5%
Jazz/Blues	5%
Country/Traditional	3%
New Age	1%
Soundtracks	1%
Other	3%

Source: GfK

Singles Units (millions)

	Physical	Digital	% Digital
2005	2.0	1.7	46%
2004	2.7	0.7	21%

Value Split (trade) %

Format	
CD album	76%
DVD	18%
Digital (online, mobile)	2%
Other (physical singles, LP, MC, VHS)	4%

Sales by Age

12-19	10%
20-29	27%
30-39	26%
40-49	18%
50-59	10%
60+	9%

Source: GfK consumer panel

EUROPE
NETHERLANDS

Top 10

Top 10 Albums

Artist	Title	Label/Company
Katie Melua	Piece By Piece	Dramatico
Anouk	Hotel New York	EMI
Robbie Williams	Intensive Care	EMI
Il Divo	Il Divo	Sony BMG
Coldplay	X&Y	EMI
Jan Smit	Jansmit.com	Artist & Company
Guus Meeuwis	Levensecht	EMI
Robbie Williams	Greatest Hits	EMI
Madonna	Confessions On A Dancefloor	Warner
Il Divo	Ancora	Sony BMG

Source: GfK Megacharts

Certification Awards (Album)

	Sales Level	2005	2004
Gold	40,000	59	47
Platinum	80,000	17	10
Multi-platinum		6	2

Note: Sales levels reduced in January 2006 to 35,000 (Gold) and 70,000 (Platinum)

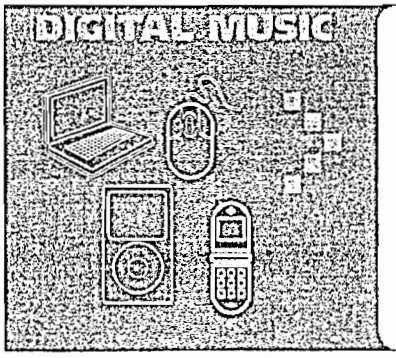
Certification Awards (Physical Single)

	Sales Level	2005	2004
Gold	40,000	0	5
Platinum	60,000	3	6
Multi-platinum		0	0

Certification Awards (Music Video)

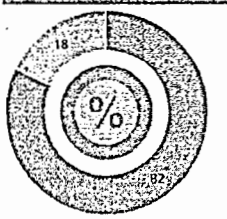
	Sales Level	2005	2004
Gold	40,000	9	6
Platinum	80,000	1	1
Multi-platinum		0	1

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	10.8
Broadband Lines (m)	4.3
Mobile Subscriptions (m)	16.7
Digital Sales (trade, $US m)	4.9

Digital Sales by Channel (Value)



Online
Mobile

Note: Online includes subscription revenues

EUROPE
NORWAY

IFPI Norway
Sandakerveien 52
0477 Oslo 4
T: +47 (22) 221 788 F: +47 (22) 221 768
E: ifpi.sekretariat@ifpi.no www.ifpi.no

Country Data

General Information	
Population (millions)	4.6
Per capita GDP ($US)	64,445
Currency	Norwegian Krone (NOK)
Language	Norwegian
Music Industry	
World ranking (value)	19th
% global value	1%
Physical piracy level	<10%
Sales Chart Compiler	
VS Newspaper/IFPI Norway	
www.ifpi.no	
Top Independent Labels (alphabetical order)	
BonnierAmigo Music Norway	
Playground Music	
Tuba Records	
Tylden (Bare Bra Musikk)	
Voices Music & Entertainment	

Recorded Music Sales (millions)

	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	Change	$US Fixed	Local Currency
2005	133.1	857.5	-11.7%	252.6	1,626.6
2004	150.8	971.2	1.9%	286.5	1,845.2
2003	148.0	952.9	-9.7%	281.1	1,810.5
2002	163.9	1,055.3	-2.2%	311.3	2,005.1
2001	160.4	1,032.7	-4.0%	304.7	1,962.1

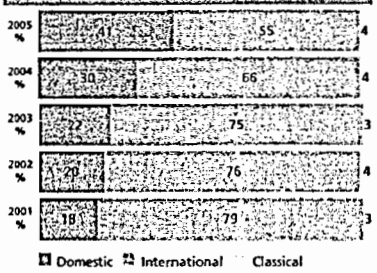
Note: Digital sales included from 2004 onwards

Physical Units Released (millions)

	CD	DVD	Other	Total	Change
2005	11.0	0.3	0.1	11.4	10.6%
2004	12.4	0.3	0.1	12.8	6.7%
2003	11.6	0.3	0.1	12.0	11.2%
2002	13.2	0.2	0.1	13.5	10.3%
2001	12.1	0.1	0.1	12.2	10.3%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Repertoire Ownership



Value Sales Mix %

Format	
CD album	93%
DVD	3%
Digital (online, mobile)	1%
Other (physical singles, LP, MC, VHS)	2%

Single Units (millions)

	Physical	Digital	% Digital
2005	0.5	0.6	55%
2004	0.9		

EUROPE
NORWAY

Top 10

Top 10 Albums

Artist	Title	Label/Company
Katie Melua	Piece By Piece	Bonnier Amigo
Madrugada	The Deep End	EMI
Coldplay	X&Y	EMI
Madonna	Confessions On A Dancefloor	Warner
Ravi & Dj Løv	Den Nye Arbeidsdagen	Sony BMG
James Blunt	Back To Bedlam	Warner
Madrugada	Live At Tralfamadore	EMI
Vamp	Siste Atikk	Majorstudio
Robbie Williams	Intensive Care	EMI
A-Ha	Analogue	Universal

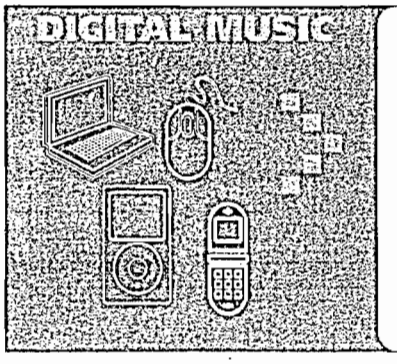
Certification Awards (Albums)

	Sales Level	2005	2004
Gold	20,000	110	47
Platinum	40,000	4	19
Multi-platinum		0	7

Certification Awards (DVD Music Videos)

	Sales Level	2005	2004
Gold	5,000	1	2
Platinum	10,000	0	1
Multi-platinum		0	0

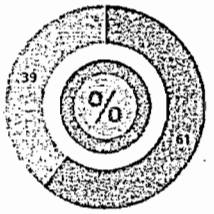
DIGITAL MUSIC



Digital Indicators

Internet Users (m)	3.1
Broadband Lines (m)	1.0
Mobile Subscriptions (m)	4.8
Digital Sales (trade, $US m)	1.8

Digital Sales by Channel Share



Note: Online includes subscription revenues

EUROPE
POLAND

Zwiazek Producentow Audio-Video (ZPAV)
12/2 Kruczkowskiego Street
00-380 Warsaw
T: +48 (22) 625 69 66 F: +48 (22) 625 16 61
E: biuro@zpav.pl www.zpav.pl

Country Data

General Information	
Population (millions)	38.6
Per capita GDP ($US)	7,790
Currency	Zloty (PLZ)
Language	Polish
Music Industry	
World ranking (value)	33rd
% global value	<1%
Physical piracy level	25-50%
Sales Chart Compiler	
ZPAV/Pentor Research Institute	
www.zpav.pl	
www.olis.onyx.pl	

Top Independent Labels (alphabetical order)

- Dux
- GM Music
- Metal Mind Production
- Reader's Digest
- Sonic

Recorded Music Sales (millions)

	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	Change	$US Fixed	Local Currency
2005	63.9	207.0	7.5%	[illegible]	[illegible]
2004	69.1	223.9	4.8%	103.6	[illegible]
2003	72.6	235.2	1.5%	[illegible]	[illegible]
2002	73.7	238.7	26.6%	110.5	[illegible]
2001	100.4	325.3	15.5%	150.6	488.0

Physical Units (all length formats, million)

	CD	DVD	Other	Total	% Change
2005	9.0	0.4	0.4	9.8	-20.3%
2004	10.5	0.6	1.2	12.3	-0.8%
2003	10.1	0.3	2.0	12.4	-10.8%
2002	9.5	0.2	4.2	13.9	-44.4%
2001	14.4	0.1	10.5	25.0	-17.5%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Sales by Genre

Dance	22%
Pop/MOR	22%
Jazz/Blues	11%
Classical	10%
Rap/Hip Hop	10%
Rock/Metal	9%
Soundtracks	4%
R&B/Urban	3%
Oldies	3%
Children's	2%
World	2%
Religious	2%

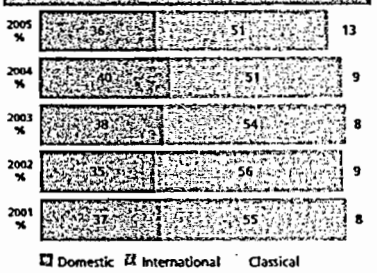
Top Sellers (Albums)

	Million Units	% Change	% of Total Albums
Top 10	1.0	0%	11%
Top 50	2.0	13%	22%
Top 100	3.0	0%	33%

Value Split (Trade)

Format	
CD album	89%
DVD	7%
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	4%

Repertoire Origin (value)



EUROPE
POLAND

Top 10

Top 10 Albums

Artist	Title	Label/Company
Various Artists	The Best Smooth Jazz...Ever! Vol.2	EMI
Various Artists	The Best Smooth Jazz...Ever!	EMI
Various Artists	Bravo Hits Zima 2006	Magic Records
Various Artists	Radio Zet - Tylko Wielkie Przeboje Na Lato	Magic Records
Kombi	C.D.	Izabelin
Various Artists	Rap Eskadra 3	UMC Records
Various Artists	Bravo Lato 2005	Magic Records
Krzysztof Kiljanski	In The Room	Kayax
Various Artists	Radio Zet - Przeboje 2005/2006	Magic Records
Crazy Frog	Platinum Collection	Magic Records

Certification Award (Domestic Albums)

	Sales Level	2005	2004
Gold	35,000	22	17
Platinum	70,000	9	10
Multi-platinum		0	0
Diamond	350,000	0	0

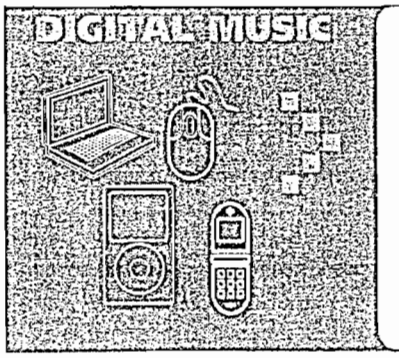
Certification Award (International Albums)

	Sales Level	2005	2004
Gold	20,000	18	12
Platinum	40,000	3	13
Multi-platinum		2	0
Diamond	200,000	0	0

Certification Awards (Music Video)

	Sales Level	2005	2004
Gold	5,000	5	9
Platinum	10,000	2	0

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	19.6
Broadband Lines (m)	1.9
Mobile Subscriptions (m)	31.0
Digital Sales (trade-$US m)	

EUROPE
PORTUGAL

Associacao Fonografica Portugesa (AFP)
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1050-028 Lisbon
T: +351 (21) 352 9189/9359 F: +351 (21) 314 7325
E: afpgeral@mail.telepac.pt

Country Data

General Information	
Population (millions)	10.6
Per capita GDP ($US)	17,360
Currency	Euro (EUR)
Language	Portuguese
Music Industry	
World ranking (value)	26th
% global value	<1%
Physical piracy level	10-24%
Sales Chart Compiler	
AC Nielsen	
Top Independent Labels (alphabetical order)	
Espacial	
Farol	
MVM	
Vidisco	
Zona Musica	

Repertoire Origin (value)

	Domestic	International	Classical
2005 %	31	66	3
2004 %	29	67	4
2003 %	29	67	4
2002 %	13	84	3
2001 %	17	78	5

Recorded Music Sales (millions)

	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	% Change	$US Fixed	Local Currency
2005	81.1	64.9	-8.9%	113.9	91.1
2004	89.0	71.2	-25.6%	123.4	98.7
2003	119.6	95.7	-16.6%	165.5	132.4
2002	143.4	114.7	-5.5%	195.9	156.7
2001	136.0	108.8	-5.5%	181.8	145.5

Physical Units (full length formats, millions)

	CD	DVD	Other	Total	% Change
2005	7.0	0.8	0.5	8.3	-25.2%
2004	9.1	0.8	1.2	11.1	-20.1%
2003	11.0	0.8	2.1	13.9	-7.9%
2002	12.5	0.4	2.2	15.1	0.0%
2001	11.6	0.1	3.4	15.1	-5.6%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Value Split (trade)

Format	
CD album	87%
DVD	12%
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	2%

Singles Units (millions)

	Physical	Digital	% Digital
2005	0.2		
2004	1.7		

EUROPE
PORTUGAL

Top 10

Top 10 Albums

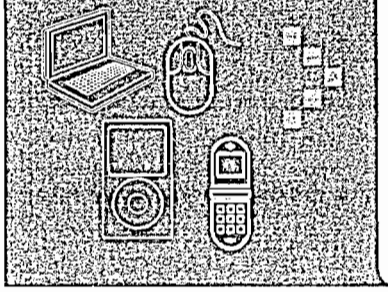
Artist	Title	Label/Company
D'zrt	D'zrt	Farol Musica
Banda Sonora Original	Morangos Com Açucar 2	Farol Musica
Humanos	Humanos	EMI Music
Escolinha De Musica	Escolinha De Musica	Farol Musica
Varios Artistas	Morangice	Farol Musica
Adriana Calcanhotto	Adriana Partimpim	Sony BMG
Keane	Hopes And Fears	Universal
Coldplay	X&Y	EMI Music
Banda Sonora Original	Morangos De Verão Serie 2	Farol Musica
Il Divo	Il Divo	Sony BMG

Certification Award (Albums)

	Sales Level	2005	2004
Gold	10,000	101	67
Platinum	20,000	51	25
Multi-platinum		32	22

Note: Sales levels changed in 2005 from 20,000 (Gold) and 40,000 (Platinum)

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	6.1
Broadband Lines (m)	1.3
Mobile Subscriptions (m)	11.6
Digital Sales (trade, $US m)	

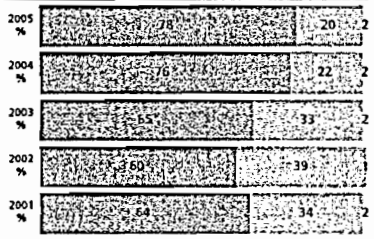
EUROPE
RUSSIA

IFPI Regional Office for Russia and CIS
23, 1st Tverskaya-Yamskaya Str.
125047 Moscow
T: +7 (503) 725 6573
F: +7 (503) 956 2609
E: moscow@ifpi.ru

Country Data

General Information	
Population (millions)	143.4
Per capita GDP ($US)	5,340
Currency	Rouble (RUB)
Language	Russian/Local languages
Music Industry	
World ranking (value)	14*
% global value	1%
Physical piracy level	>50%

Repertoire Origin (%)



Recorded Music Sales (millions)

	Trade Revenue			Retail Revenues	
	US$ mil	Local Currency	Growth	US$ mil	Local Currency
2005	193.7	5,477.4	37.5%	387.6	10,960.1
2004	309.9	8,762.8	44.3%	500.0	14,141.2
2003	214.7	6,070.6	21.1%	354.0	10,010.0
2002	177.3	5,012.8	14.2%	286.1	8,090.1
2001	155.2	4,388.8	17.6%	230.8	6,527.5

Note: Digital sales included from 2004 onwards. Figures are estimates based on holograms

Physical Units (by Product Format) (millions)

	CD	DVD	Other	Total	% Change
2005	68.5	0.3	27.7	96.5	18.8%
2004	58.0	0.2	60.7	118.9	3.0%
2003	30.3	0.1	85.1	115.5	1.7%
2002	18.2		95.2	113.5	1.5%
2001	11.4		100.4	111.8	1.5%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Sales by Genre

Pop	40%
Russian Chanson	15%
Dance	13%
Rock	10%
Rap	8%
Children's	6%
Authors Songs	4%
Classical	2%
Jazz	2%
Other	4%

Sales by Age

10-14	5%
15-19	23%
20-24	22%
25-29	20%
30-39	15%
40-49	10%
50-59	3%
60+	2%

Top Sellers (Units)

	Units	Single	Multiple Albums
Top 10	>500,000		
Top 50	>300,000		
Top 100	>100,000		
Top 200	>50,000		

Value Split (retail %)

Format	
CD album	88%
DVD	1%
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	12%

TOP 5

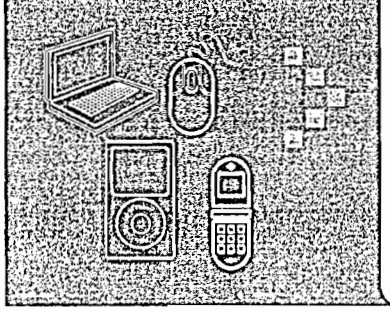
Top 5 Albums Local Repertoire

Artist	Title	Label/Company
Zemphira	Vendetta	Real Records
Uma2rmah	Maybe It's A Dream?	Velvet Music
Factor-2	In Our Style	Studio Monolit
Factor-2	We Are False MC	Studio Monolit
Katya Chehova	I Am The Robot	Uplifto

Top 5 Albums International Repertoire

Artist	Title	Label/Company
Crazy Frog	Crazy Hits	Megaliner
Benassi Bros.	Phobia	RMG Records
The Black Eyed Peas	Monkey Business	Universal Music
Depeche Mode	Playing The Angel	S.B.A./GALA Records/EMI
Arash	Arash	Dancing Paradize

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	23.7
Broadband Lines (m)	2.0
Mobile Subscriptions (m)	123.6
Digital Sales (trade, $US m)	

EUROPE
SPAIN

PROMUSICAE - Productores de Musica de España
Edificio Iberia Mart II
Calle Orense, 34-8a, 28020 Madrid
T: +34 (91) 417 0470 F: +34 (91) 556 9272
E: promusicae@promusicae.es www.promusicae.es

Country Data	
General Information	
Population (millions)	40.4
Per capita GDP ($US)	27,865
Currency	Euro (EUR)
Language	Spanish
Music Industry	
World ranking (value)	9th
% global value	2%
Physical piracy level	10-24%
Sales Chart Compiler	
PROMUSICAE/Media Control	
www.promusicae.es	
Top Independent Labels (alphabetical order)	
Blanco Y Negro Music	
Discmedi	
Divucsa Music	
Gran Via Musical de Ediciones	
Vale Music Spain	

Recorded Music Sales (millions)

	Trade Revenues			Retail Revenues	
	US Dollars	Local Currency	Change	US Dollars	Local Currency
2005	368.9	295.1	5.1%	555.1	444.1
2004	388.6	310.9	12.1%	584.7	467.8
2003	441.9	353.5	10.0%	662.9	530.3
2002	491.0	392.8	15.3%	731.8	585.4
2001	579.7	463.8	2.5%	866.6	693.3

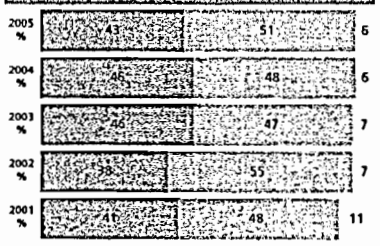
Note: Digital sales included from 2004 onwards

Physical Units (millions)

	CD	DVD	Other	Total	Change
2005	31.1	3.2	0.3	34.6	8.7%
2004	34.0	3.5	0.4	37.9	-15.6%
2003	42.4	1.5	1.0	44.9	-11.4%
2002	61.7	0.5	2.4	64.6	-17.8%
2001	71.1	0.4	7.1	78.6	-1.9%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS. 2003 volumes were reported on a different basis to previous years. Growth indicated is actual % change

Repertoire Origin (value)



Value Split by Format

Format	
CD album	88%
DVD	9%
Digital (online, mobile)	1%
Other (physical singles, LP, MC, VHS)	2%

Single Unit (million)

	Physical	Digital	% Digital
2005	1.7	0.5	23%
2004	1.3	0.1	4%

Top Selling Albums

	Million Units	% Change	% of Total Album
Top 10	2.3		7%
Top 50	5.0		15%
Top 100	6.6		20%

Source: Media Control

EUROPE
SPAIN

Top 10

Top 10 Albums

Artist	Title	Label/Company
Amaral	Pajaros En La Cabeza	Virgin
El Canto Del Loco	Zapatillas	Sony BMG
Il Divo	Il Divo	Sony BMG
Shakira	Fijación Oral Volumen 1	Sony BMG
Estopa	Voces De Ultrarumba	Sony BMG
Juanes	Mi Sangre	Universal
Batuka	Batuka Latin	Vale Music
Joaquin Sabina	Alivio De Luto	Sony BMG
Melendi	Que El Cielo Espere Sentao	Carlito Records-El Diablo
Il Divo	Ancora	Sony BMG

Certification Awards (Albums)

	Sales Level	2005	2004
Gold	40,000	135	81
Platinum	80,000	91	81

Note: Album sales levels changed in November 2005 from 50,000 (Gold) and 100,000 (Platinum)

Certification Awards (Singles)

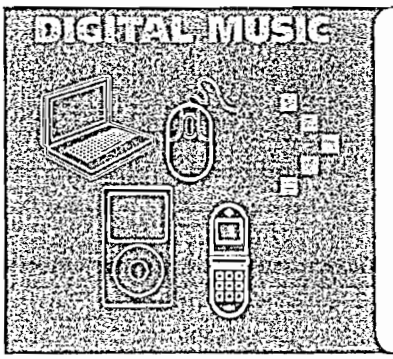
	Sales Level	2005	2004
Gold	10,000	0	1
Platinum	20,000	0	1

Note: Single sales levels changed in November 2005 from 25,000 (Gold) and 50,000 (Platinum)

Certification Awards (DVD Music Video)

	Sales Level	2005	2004
Gold	10,000	18	32
Platinum	25,000	21	1

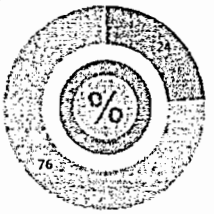
DIGITAL MUSIC



Digital Indicators

Internet Users (m)	17.1
Broadband Lines (m)	5.3
Mobile Subscriptions (m)	43.1
Digital Sales (trade, $US m)	4.1

Digital Sales by Channel (value)



Note: Online includes subscription revenues

EUROPE
SWEDEN

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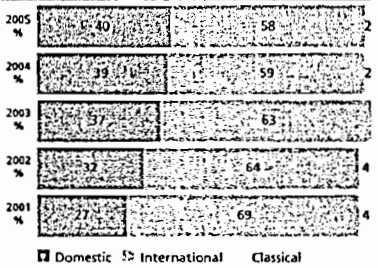
P.O. Box 1429
111 84 Stockholm
T: +46 (8) 735 9750 F: +46 (8) 273 745
E: info@ifpi.se www.ifpi.se

Country Data	
General Information	
Population (millions)	9.0
Per capita GDP ($US)	39,860
Currency	Swedish Krona (SEK)
Language	Swedish
Music Industry	
World ranking (value)	17th
% global value	1%
Physical piracy level	<10%
Sales Chart Compiler	
GLF/IFPI Sweden	
www.hitlistan.se	
Top Independent Labels (alphabetical order)	
Bonnier Amigo Music Group	
Diesel Music AB	
Mariann Grammofon Skara	
NEG Network Ent. Group AB	
Playground Music Scandinavia AB	

Repertoire Origin (%)



Recorded Music Sales (Units)

	Wholesale			Retail Revenue	
	$US fixed	Local Currency	Change	$US fixed	Local Currency
2005	148.2	1,106.9	-9.0%	240.4	1,795.5
2004	162.9	1,216.9	-17.4%	264.0	1,972.4
2003	197.2	1,473.4	-14.7%	319.5	2,386.9
2002	231.2	1,726.7	-5.7%	374.5	2,797.4
2001	245.2	1,831.7	-0.1%	397.2	2,967.3

Note: Digital sales included from 2004 onwards

Physical Units (Units, millions)

	CD	DVD	Other	Total	Change
2005	15.4	0.6	0.1	16.1	-8.5%
2004	16.6	0.8	0.2	17.6	-13.3%
2003	19.1	0.9	0.3	20.3	-11.7%
2002	22.4	0.2	0.4	23.0	-0.8%
2001	22.8	0.1	0.3	23.2	-3.4%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Value Split (%)	
Format	
CD album	91%
DVD	4%
Digital (online, mobile)	2%
Other (physical singles, LP, MC, VHS)	3%

Single Units (millions)

	Physical	Digital	Digital %
2005	1.3	0.5	28%
2004	1.4	0.1	7%

EUROPE SWEDEN

Top 10s

Top 10 Albums

Artist	Title	Label/Company
Kent	Du & Jag Döden	RCA
Various	Melodifestivalen 2005	M&L Records
Madonna	Confessions On A Dancefloor	Warner Bros
Son Of A Plumber	Son Of A Plumber	Capitol
James Blunt	Back To Bedlam	Atlantic
Il Divo	Il Divo	RCA
Laleh	Laleh	Warner Sweden
Bodies Without Organs	Prototype	Capitol
Green Day	American Idiot	Warner Bros
Amy Diamond	This Is Me Now	Bonnier Music

Certification Awards (Albums)

	Sales Level	2005	2004
Gold	30,000	99	101
Platinum	60,000	27	26
Multi-platinum		9	10

Certification Awards (Singles)

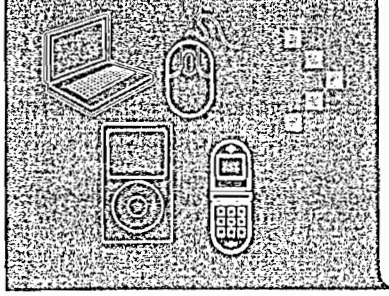
	Sales Level	2005	2004
Silver	10,000	26	35
Gold	20,000	9	8
Platinum		1	0

Note: Digital sales included in 2005

Certification Awards (DVD Music Videos)

	Sales Level	2005	2004
Gold	10,000	3	10
Platinum	20,000	2	2
Multi-platinum		0	1

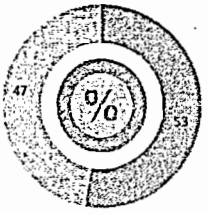
DIGITAL MUSIC



Digital Indicators

Internet Users (m)	6.8
Broadband Lines (m)	2.2
Mobile Subscriptions (m)	10.0
Digital Sales (trade, $US m)	3.1

Digital Sales by Channel (value)



Note: Online includes subscription revenues

EUROPE
SWITZERLAND

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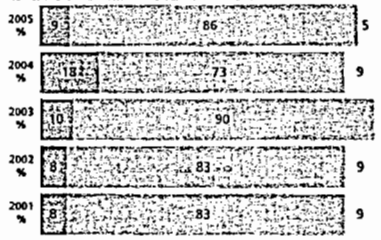
Toblerstrasse 76A
CH 8044 Zurich
T: +41 (44) 252 5866 F: +41 (44) 252 6167
E: info@ifpi.ch www.ifpi.ch

Country Data

General Information	
Population (millions)	7.5
Per capita GDP ($US)	49,070
Currency	Swiss Franc (CHF)
Language	German/Italian/French/Romansch
Music Industry	
World ranking (value)	13th
% global value	1%
Physical piracy level	<10%
Sales Chart Compiler	
Media Control	
www.hitparade.ch	
Top Independent Labels (alphabetical order)	
K-Tel International AG	
Musikvertrieb AG	
Phonag Records AG	
TBA AG	
Tudor Recording AG	

Repertoire Origin (value)



Basis: Artist nationality

Recorded Music Sales (millions)

	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	% Change	$US Fixed	Local Currency
2005	205.9	257.4	-3.5%	267.3	334.1
2004	213.4	266.7	-7.2%	256.7	320.9
2003	229.9	287.4	-12.5%	276.8	346.0
2002	262.6	328.2	-2.5%	315.7	394.8
2001	269.4	336.7	-2.4%	323.9	404.9

Note: Digital sales included from 2004 onwards

Physical Units (full length formats, millions)

	CD	DVD	Other	Total	% Change
2005	15.1	0.4	0.9	16.4	-16.8%
2004	18.2	0.7	0.8	19.7	-0.5%
2003	18.6	0.5	0.7	19.8	-11.6%
2002	21.3		1.1	22.4	-2.3%
2001	21.2		0.7	21.9	-3.1%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Value Split (trade)

Format	
CD album	91%
DVD	3%
Digital (online, mobile)	1%
Other (physical singles, LP, MC, VHS)	5%

Singles Units (millions)

	Physical	Digital	% Digital
2005	1.4	1.3	49%
2004	1.8		

EUROPE
SWITZERLAND

Top 10

Top 10 Albums

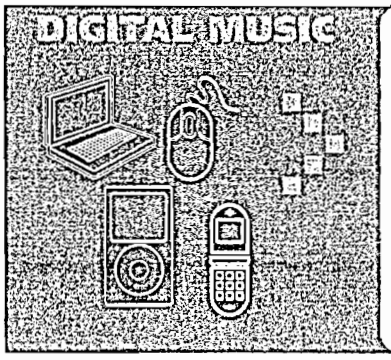
Artist	Title	Label/Company
Robbie Williams	Escapology	EMI
Robbie Williams	Greatest Hits	EMI
Avril Lavigne	Let Go	Sony BMG
Coldplay	X&Y	EMI
Eros Ramazzotti	Calma Apparente	Sony BMG
Green Day	American Idiot	Warner
Laura Pausini	Resta In Ascolto	Warner
Madonna	Confessions On A Dancefloor	Warner
Metallica	Metallica	Universal
50 Cent	The Massacre	Universal

Certification Awards (Albums)

	Sales level	2005	2004
Gold	20,000	85	75
Platinum	40,000	55	30
Multi-platinum		11	14

Note: Sales levels reduced in July 2006 to 15,000 (Gold) and 30,000 (Platinum)

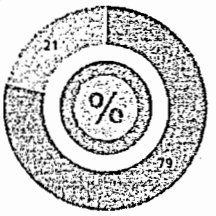
DIGITAL MUSIC



Digital Indicators

Internet Users (m)	4.9
Broadband Lines (m)	1.8
Mobile Subscriptions (m)	6.7
Digital Sales (trade, $US m)	3.0

Digital Sales by Channel (%)



Note: Online includes subscription revenues

EUROPE
TURKEY

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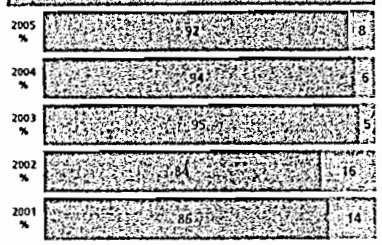
Turnasibasi Sokak, Kuloglu Mah
No. 16 - 80070
Beyoglu, Istanbul
T: +90 (212) 292 46 13 F: +90 (212) 292 46 17
E: disiliskiler@mu-yap.org www.mu-yap.org

Country Data

General Information	
Population (millions)	71.0
Per capita GDP ($US)	5,205
Currency	New Turkish Lira (YTRL)
Language	Turkish
Music Industry	
World ranking (value)	22nd
% global value	<1%
Physical piracy level	>50%

Repertoire origin (value)



Value split by format

Format	
CD album	59%
DVD	-
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	41%

Recorded Music – Retail (millions)

	Trade Revenues			Retail Revenues	
	US $	Local Currency	Change	US $	Local Currency
2005	105.3	141.1	7.6%	147.5	197.6
2004	113.9	152.6	17.8%	179.7	240.7
2003	96.7	129.6	17.8%	162.6	217.9
2002	82.1	110.0	17.8%	136.3	182.7
2001	69.7	93.3	Not comparable	126.2	169.1

Note: Figures are estimates based on banderols

Physical Units (millions of units sold)

	CD	DVD	Other	Total	% Change
2005	12.5		14.7	27.2	37.5%
2004	14.6		28.9	43.5	21.8%
2003	10.6		25.1	35.7	28.0%
2002	4.5		23.4	27.9	7.3%
2001	3.9		26.2	30.1	22.2%

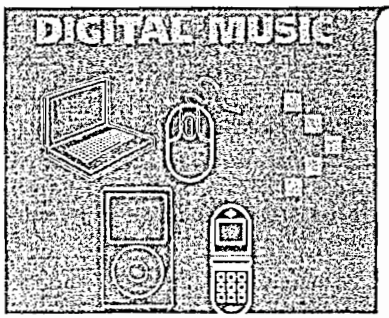
Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

top 10

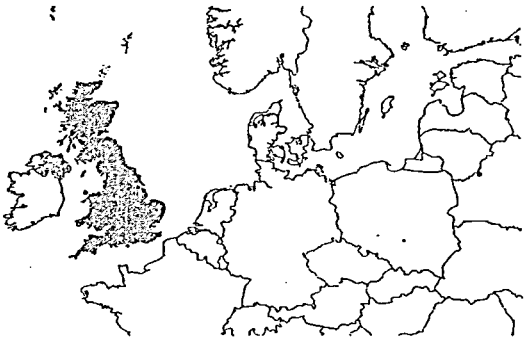
Top 10 Albums

Artist	Title	Label/Company
Serdar Ortac	Cakra	Emre Grafson
Yildiz Tilbe	Yildizdan Turkuler	Avrupa Muzik
Mahsun Kirmizigul	Sari Sari Basroldeyim	A1 Muzik Yapim
Ismail Yurtseven	Sapir Supur	Avrupa Muzik
Gulben Ergen	Ucacaksin	Seyhan Muzik
Mustafa Sandal	Iste	Komedi Ses
Rafet El Roman	Surgun	Emre Grafson
Kirac	Kayip Sehir	Tmc Film Muzik
Huseyin Yalin	Huseyin Yalin	Universal
Ibrahim Tatlises	Aramam	Komedi Ses

DIGITAL MUSIC



Digital indicators	
Internet Users (m)	10.2
Broadband Lines (m)	1.9
Mobile Subscriptions (m)	42.7
Digital Sales (trade, $US m)	



EUROPE
UNITED KINGDOM

BPI - The British Phonographic Industry
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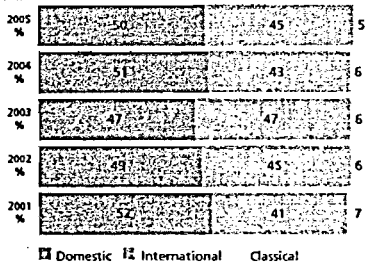
T: +44 (0) 20 7803 1300 F: +44 (0) 20 7803 1310
E: general@bpi.co.uk www.bpi.co.uk
www.brits.co.uk

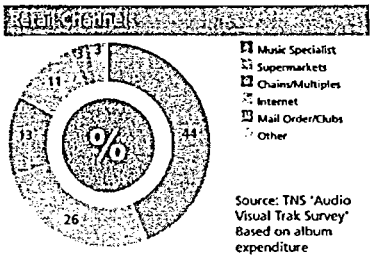
Country Data

General Information	
Population (millions)	60.4
Per capita GDP ($US)	36,425
Currency	Pound (GBP)
Language	English
Music Industry	
World ranking (value)	3rd
% global value	10%
Physical piracy level	<10%
Sales Chart Compiler	
OCC/Millward Brown	
www.theofficialchart.com	
Top Independent Labels (alphabetical order)	
Beggars Group	
Demon	
Dramatico	
Ministry of Sound	
Sanctuary	
V2	

Repertoire Origin Value



Retail Channels



Source: TNS 'Audio Visual Trak Survey' Based on album expenditure

Recorded Music Sales (millions)

	Trade Revenue			Retail Revenue	
	$US Fixed	Local Currency	% Change	$US Fixed	Local Currency
2005	2,162.2	1,189.2	2.9%	3,446.0	1,895.3
2004	2,226.1	1,224.4	0.4%	3,540.1	1,947.1
2003	2,235.5	1,229.6	0.8%	3,566.6	1,961.6
2002	2,217.5	1,219.6	3.4%	3,561.8	1,959.0
2001	2,295.5	1,262.5	7.9%	3,641.8	2,003.0

Note: Digital sales included from 2004 onwards

Physical Units (millions)

	CD	DVD	Other	Total	% Change
2005	172.6	8.3	1.1	182.0	0.8%
2004	174.6	7.7	1.2	183.5	4.0%
2003	167.2	6.4	2.8	176.4	2.6%
2002	164.3	3.6	4.1	172.0	2.0%
2001	166.0	1.8	7.7	175.5	5.6%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Sales by Genre

Rock	36%
Pop	26%
MOR	9%
Dance	8%
R&B	8%
Hip.Hop/Rap	6%
Classical	3%
Country	1%
Jazz	1%
Other	2%

Note: Based on Top 10,000 albums (OCC/BPI)

Sales by Age

12-19	14%
20-29	17%
30-39	23%
40-49	20%
50-59	15%
60+	11%

Source: TNS 'Audio Visual Trak Survey' Based on album expenditure

Singles Units (millions)

	Physical	Digital	% Digital
2005	26.8	26.3	49%
2004	31.4	5.8	16%

Top Sellers (albums)

	Million Units	% Change	% of Total Albums
Top 10	13.5	6.3%	8.5
Top 50	37.8	1.9%	23.8
Top 100	52.5	2.3%	33.0
Top 200	68.1	1.3%	42.8

Value Split (trade)

Format	
CD album	87%
DVD	5%
Digital (online, mobile)	3%
Other (physical singles, LP, MC, VHS)	5%

EUROPE
UNITED KINGDOM

Top 10s

Top 10 Digital Singles

Artist	Title	Label/Company
James Blunt	You're Beautiful	Atlantic
Madonna	Hung Up	Warner Bros
Daniel Powter	Bad Day	Warner Bros
The Sugababes	Push The Button	Universal Island
The Pussycat Dolls	Don't Cha	Polydor
Gorillaz	Feel Good Inc	Parlophone
Shayne Ward	That's My Goal	Sony BMG
Kayne West	Gold Digger	Mercury
Bodyrockers	I Like The Way	Mercury
Coldplay	Speed of Sound	Parlophone

Top 10 Albums

Artist	Title	Label/Company
James Blunt	Back To Bedlam	Atlantic
Coldplay	X&Y	Parlophone
Robbie Williams	Intensive Care	Chrysalis
Kaiser Chiefs	Employment	B Unique/Polydor
Gorillaz	Demon Days	Parlophone
Westlife	Face To Face	S
KT Tunstall	Eye To The Telescope	Relentless
Various	Now That's What I Call Music! 62	EMI Virgin/UMTV
Kelly Clarkson	Breakaway	RCA
Eminem	Curtain Call - The Hits	Interscope

Certification Awards (Albums)

	Sales Level	2005	2004
Silver	60,000	258	286
Gold	100,000	193	208
Platinum	300,000	72	82
Multi-platinum		92	99

Note: Digital sales included in 2005

Certification Awards (Singles)

	Sales Level	2005	2004
Silver	200,000	6	14
Gold	400,000	2	5
Platinum	600,000	1	2
Multi-platinum		0	1

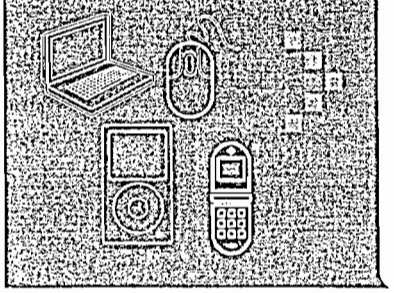
Note: Digital sales included in 2005

Certification Awards (DVD Music Video)

	Sales Level	2005	2004
Gold	25,000	32	
Platinum	50,000	18	
Multi-platinum		21	

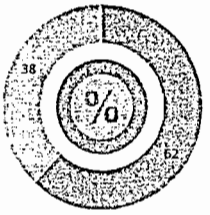
Note: DVD music videos certifications in operation from 2005

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	37.8
Broadband Lines (m)	11.1
Mobile Subscriptions (m)	67.9
Digital Sales (trade, $US m)	69.2

Digital Sales by Channel (%)



Note: Online includes subscription revenues

ASIA
CHINA

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E: hongkong@ifpi.org

Country Data

General Information	
Population (millions)	1,306.3
Per capita GDP ($US)	1,705
Currency	Yuan (CNY)
Language	Chinese (Mandarin)
Music Industry	
World ranking (value)	27*
% global value	<1%
Physical piracy level	>50%
Top Independent Labels (alphabetical order)	
China International Corp.	
China Record Corp. (CRC)	
China Record Shanghai Corp. (CRSC)	
Shanghai Audio & Video Company	
Pacific Audio & Video Co.	

Recorded Music Sales (millions)

	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	% Change	$US Fixed	Local Currency
2005	79.8	653.7	10.3%	119.7	[illegible]
2004	89.0	729.1	Not comparable	[illegible]	[illegible]
2003	148.7	1,218.1	16.2%	[illegible]	[illegible]
2002	128.0	1,048.2	12.1%	[illegible]	[illegible]
2001	114.2	934.9	Not comparable	131.5	1,076.6

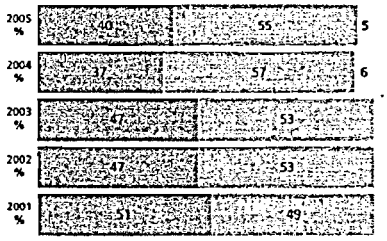
Note: Figures are estimates. 2004 figures are reported on a different basis to previous years. Drop in the market reflects a re-alignment of the Chinese market statistics

Physical Units (All Formats) (millions)

	CD	DVD	Other	Total	% Change
2005	34.1	11.3	12.5	57.9	7.2%
2004	33.1	10.3	19.0	62.4	Not comparable
2003	34.3	39.5	41.9	115.7	36.3%
2002	22.7	30.4	31.8	84.9	25.8%
2001	11.8	21.2	34.5	67.5	Not comparable

Notes: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS. DVD includes VCD. Figures are estimates. 2004 figures are reported on a different basis to previous years. Drop in the market reflects a re-alignment of the Chinese market statistics

Repertoire Origin (Value)

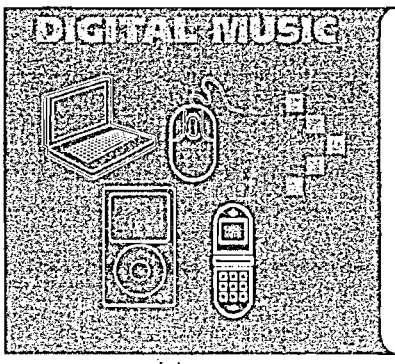


Note: International repertoire accounts for 10% of sales

Value Split (Trade)

Format	
CD album	68%
DVD	15%
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	17%

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	111.0
Broadband Lines (m)	41.2
Mobile Subscriptions (m)	416.6
Digital Sales (trade, $US m)	[illegible]

ASIA
HONG KONG

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Country Data	
General Information	
Population (millions)	6.9
Per capita GDP ($US)	25,760
Currency	Hong Kong Dollar (HKD)
Language	Chinese (Cantonese)/English
Music Industry	
World ranking (value)	31*
% global value	<1%
Physical piracy level	10-24%

Recorded Music Sales (millions)

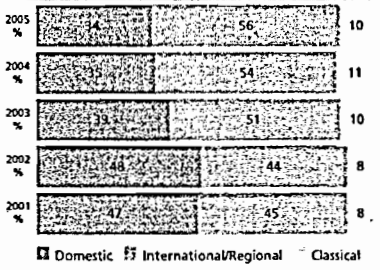
	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	% Change	$US Fixed	Local Currency
2005	66.2	514.8	-1.5%	79.4	617.7
2004	67.2	522.7	-12.6%	81.2	631.6
2003	76.8	597.8	-6.6%	92.8	721.7
2002	82.3	640.2	-9.2%	99.5	773.8
2001	90.6	705.0	0.8%	109.2	849.5

Physical Units (full length formats, millions)

	CD	DVD	Other	Total	% Change
2005	5.8	0.9	0.1	6.8	1.5%
2004	6.1	0.6		6.7	-16.3%
2003	7.2	0.7	0.1	8.0	-7.0%
2002	7.7	0.8	0.1	8.6	-8.5%
2001	8.1	1.2	0.1	9.4	4.4%

Notes: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS. DVD includes VCD (20%)

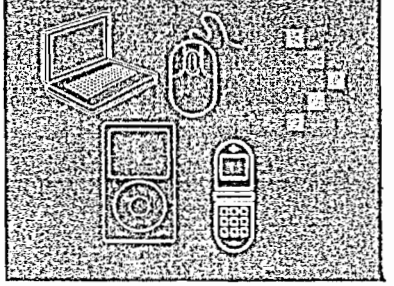
Repertoire Origin (value)



Value Split (trade)

Format	
CD album	85%
DVD	14%
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	1%

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	4.9
Broadband Lines (m)	1.7
Mobile Subscriptions (m)	8.4
Digital Sales (trade, $US m)	

ASIA
INDIA

IMI - The Indian Music Industry
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E: infoimi@indianmi.org www.indianmi.org

Country Data	
General Information	
Population (millions)	1,080.3
Per capita GDP ($US)	720
Currency	Indian Rupee (INR)
Language	Hindi
Music Industry	
World ranking (value)	21st
% global value	<1%
Physical piracy level	>50%
Top Independent Labels (alphabetical order)	
Aditya Music (India)	
Saregame India	
Super Cassettes Industries	
Tips Industries Ltd.	
Venus Records & Tapes Ltd.	

Recorded Music Sales (millions)

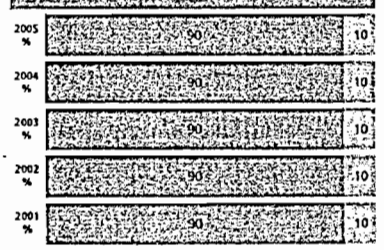
	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	Change	$US Fixed	Local Currency
2005	111.6	4,921.0	-0.3%	156.2	6,889.4
2004	112.0	4,938.0	-2.7%	156.8	6,911.1
2003	109.0	4,806.1	-19.7%	152.6	6,728.5
2002	135.6	5,982.0	-22.6%	189.9	8,375.0
2001	175.2	7,727.0	-15.0%	245.3	10,818.0

Physical Units (all length formats, millions)

	CD	DVD	Other	Total	% Change
2005	36.3		67.3	103.6	20.4%
2004	26.2		104.0	130.2	14.9%
2003	15.3		137.7	153.0	10.6%
2002	8.6		162.5	171.1	14.5%
2001	10.0		190.0	200.0	16.6%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

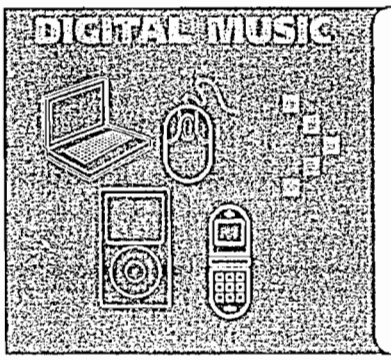
Repertoire Origin (value)



Value Split (trade) %

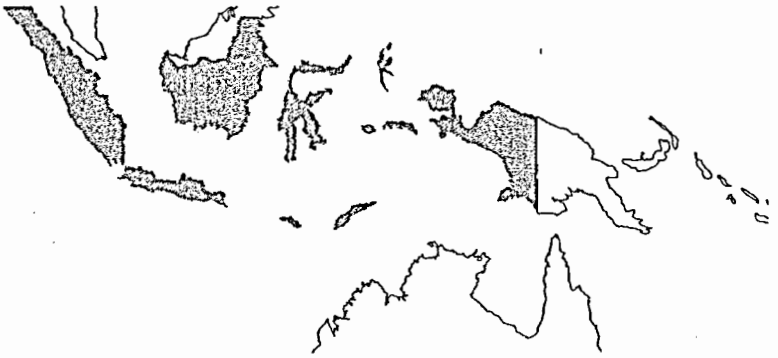
Format	
CD album	66%
DVD	-
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	34%

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	50.6
Broadband Lines (m)	1.3
Mobile Subscriptions (m)	100.0
Digital Sales (trade, $US m)	

ASIA
INDONESIA



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Country Data	
General Information	
Population (millions)	242.0
Per capita GDP ($US)	1,140
Currency	Rupiah (IDR)
Language	Bahasa Indonesia
Music Industry	
World ranking (value)	35th
% global value	<1%
Physical piracy level	>50%
Top Independent Labels (alphabetical order)	
Aquarius Musikindo	
Arga Swara	
Indosemar Sakti	
Musica Studios	
Virgo Ramayana	

Recorded Music Sales (millions)

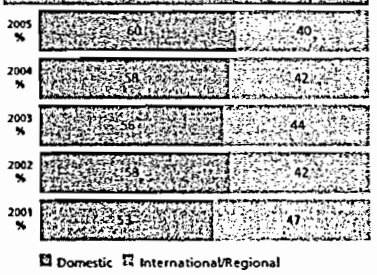
	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	% Change	$US Fixed	Local Currency
2005	50.2	486,851.5	-15.2%	66.7	647,512.5
2004	59.2	574,164.7	14.8%	78.7	763,639.1
2003	51.6	500,317.9	-7.9%	68.6	663,422.9
2002	47.8	463,678.4	-18.8%	63.7	618,237.8
2001	58.8	570,854.9	-4.7%	78.4	761,140.0

Physical Units (full length formats, millions)

	CD	VCD	Other	Total	% Change
2005	4.4	0.7	25.0	30.1	-24.4%
2004	4.6	1.2	34.0	39.8	-6.7%
2003	2.6	1.1	33.6	37.3	-8.7%
2002	1.8	0.5	32.0	34.3	-32.7%
2001	2.0	0.7	48.3	51.0	-6.9%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

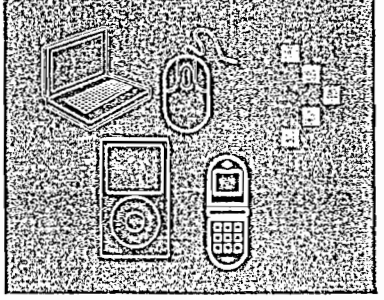
Repertoire Origin (value)



Value Split (trade)

Format	
CD album	34%
VCD	2%
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	64%

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	18.0
Broadband Lines (m)	
Mobile Subscriptions (m)	30.0
Digital Sales (trade, $US m)	

ASIA
JAPAN

Recording Industry Association of Japan (RIAJ)
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Minato-ku, Tokyo 107-0061
T: +81 (3) 6406 0510 F: +81(3) 6406 0520
E: info@riaj.or.jp www.riaj.or.jp

Country Data

General Information	
Population (millions)	127.4
Per capita GDP ($US)	35,880
Currency	Yen (JPY)
Language	Japanese
Music Industry	
World ranking (value)	2nd
% global value	18%
Physical piracy level	<10%
Sales Chart Compiler	
RIAJ	
www.riaj.or.jp	

Top Independent Labels (alphabetical order)

- Avex Marketing Communications Inc.
- Columbia Music Entertainment Inc.
- Geneon Entertainment Inc.
- King Record Co. Ltd.
- Nippon Crown Co. Ltd.
- Pony Canyon Inc.
- Pryaid Records Inc.
- Sony Music Entertainment (Japan) Inc.
- Teichiku Entertainment Inc.
- Tokuma Japan Communications Co. Ltd.
- Vap Inc.
- Victor Entertainment Inc.

Recorded Music Sales (millions)

	Trade Revenue			Retail Revenues	
	US Fixed	Local Currency	Change	$US Fixed	Local Currency
2005	3,718.4	409,845.3	0.6%	5,448.2	600,497.[illegible]
2004	3,697.2	407,502.9	1.5%	5,[illegible]	[illegible]
2003	3,642.7	401,494.5	7.5%	5,164.1	56,[illegible]
2002	3,938.5	434,101.0	9.3%	5,6[illegible]	62,[illegible]
2001	4,341.4	478,504.5	0.2%	6,272.[illegible]	69,[illegible]

Note: Digital sales included from 2004 onwards

Physical Units (all formats) (millions)

	CD	DVD	Other	Total	% Change
2005	211.8	20.1	3.6	235.5	3.0%
2004	201.3	20.3	7.0	228.6	1.1%
2003	205.8	18.2	7.2	231.2	7.1%
2002	228.9	11.0	8.9	248.8	9.1%
2001	250.0	8.6	15.0	273.6	5.7%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Repertoire Origins (value)

	Domestic	International
2005 %	74	26
2004 %	72	28
2003 %	72	28
2002 %	74	26
2001 %	76	24

Domestic International

Note: Classical included in domestic/international - split on page 106

Sales by Age

Students	16%
20-29	23%
30-39	22%
40-49	20%
50-59	12%
60-69	7%

Note: Student category also includes students over 20 years old

Single Units (millions)

	Physical	Digital	% Digital
2005	63.3	12.4	16%
2004	81.3	2.4	3%

Value Split (%)

Format	
CD album	70%
DVD	11%
Digital (online, mobile)	7%
Other (physical singles, LP, MC, VHS)	12%

ASIA
JAPAN

1995-05

Top 10 Albums

Artist	Title	Label/Company
Ken Hirai	Ken Hirai 10th Anniversary Complete Single Collection '95-'05	DefSTAR Records
Ketsumeishi	Ketsunopolis 4	Toy's Factory
Exile	Perfect Best	Avex Entertainment
BoA	Best Of Soul	Avex Entertainment
Mr. Children	Four Dimensions	Toy's Factory
Mr. Children	I Love U	Toy's Factory
Kumi Koda	Best First Things	Avex Entertainment
Southern All Stars	Killer Street	Victor Entertainment
Orange Range	Natural	Sony Music
B'z	B'z The Best "Pleasure II"	Vermillion Records
Mika Nakashima	Best	Sony Music Associated Records

Note: Based on Platinum certifications

Certification Awards (Albums)

	Sales Level	2005	2004
Gold	100,000	95	114
Platinum	250,000	35	40
Multi-platinum		30	26

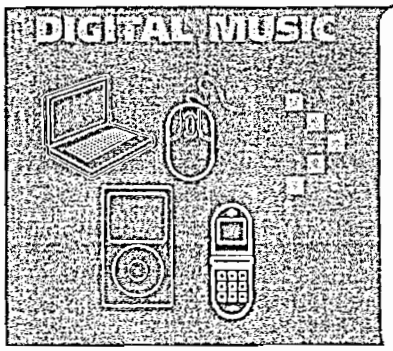
Certification Awards (Physical Singles)

	Sales Level	2005	2004
Gold	100,000	89	92
Platinum	250,000	37	32
Multi-platinum		11	8

Certification Awards (DVD Music Video)

	Sales Level	2005	2004
Gold	100,000	11	11
Platinum	250,000	2	1

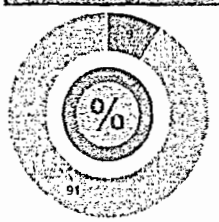
DIGITAL MUSIC



Digital Indicators

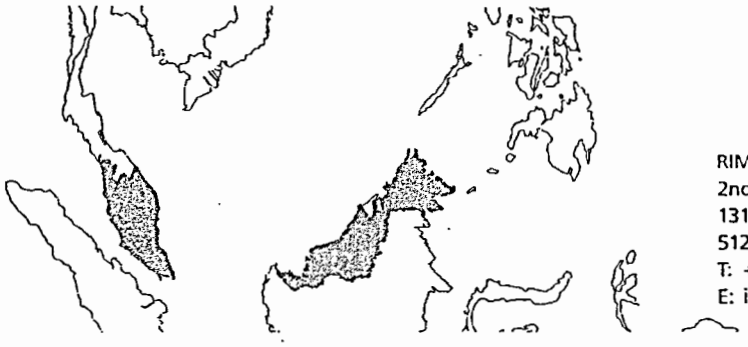
Internet Users (m)	86.1
Broadband Lines (m)	23.5
Mobile Subscriptions (m)	93.9
Digital Sales (trade, $US m)	277.5

Digital Sales by Channel (%)



Online
Mobile

Note: Online includes subscription revenues



ASIA
MALAYSIA

RIM - Recording Industry Association of Malaysia
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131-2 & 133-2, Jalan Segambut
51200 Kuala Lumpur
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E: info@rim.org.my www.rim.org.my

Country Data

General Information	
Population (millions)	24.0
Per capita GDP ($US)	5,460
Currency	Ringgit (MYR)
Language	Bahasa Melayu
Music Industry	
World ranking (value)	41*
% global value	<1%
Physical piracy level	25-50%
Top Independent Labels (alphabetical order)	
Hup Hup Sdn. Bhd.	
Interglobal Music (Malaysia) Sdn. Bhd.	
New Southern Records Sdn. Bhd.	
Rock Rocords (M) Sdn. Bhd.	
Suwah Enterprise (M) Sdn. Bhd.	

Recorded Music Sales (millions)

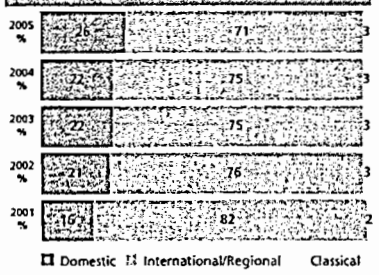
	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	% Change	$US Fixed	Local Currency
2005	23.1	87.4	-9.9%	28.4	107.8
2004	25.6	97.0	0.8%	32.4	122.6
2003	25.4	96.2	4.9%	32.7	123.9
2002	24.2	91.7	Not comparable	30.3	114.7
2001	34.5	130.9	18.1%	43.2	163.6

Physical Units (full length formats, millions)

	CD	DVD	Other	Total	% Change
2005	2.2	0.7	1.4	4.3	-17.3%
2004	2.3	0.7	2.2	5.2	-3.7%
2003	2.2	0.4	2.8	5.4	1.9%
2002	1.9	0.3	3.1	5.3	Not comparable
2001	2.8	0.3	4.8	7.9	-16.8%

Notes: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS. DVD includes VCD. 2002 figures not comparable to previous year. 2004 figures are reported on a different basis to previous years

Repertoire Origin (value)



Basis: Artist nationality

Sales by Genre

Pop/MOR	50%
Rock/Metal	23%
R&B/Urban	10%
Classical	5%
Rap/Hip Hop	5%
Jazz/Blues	2%
World	1%
Oldies	1%
Soundtracks	1%
Country/Traditional	1%
Religious	1%

Top Sellers (albums)

	Million Units	% Change	% of Total Albums
Top 10	0.7	-15%	19%
Top 50	1.5	-20%	42%

Value Split (trade %)

Format	
CD album	71%
DVD	11%
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	18%

Note: DVD includes VCD (98%)

Sales by Age

0-9	1%
10-14	8%
15-19	28%
20-24	20%
25-29	22%
30-39	16%
40-49	4%
50-59	1%

Source: RIM

ASIA
MALAYSIA

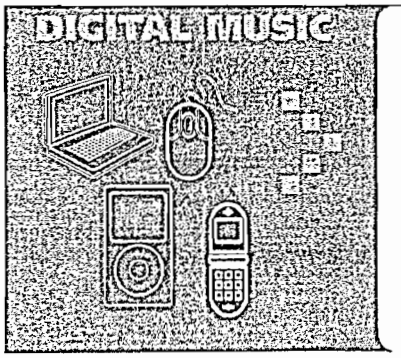
Top 10 Albums

Artist	Title	Label/Company
Coldplay	X&Y	EMI
Destiny's Child	#1's	Sony Urban
Jamal Abdillah	Aku Penghibur	Warner Music Malaysia
Various	Rock Dulu-Dulu	Sony BMG Music
Various	The Greatest Love Of All	Warner Strategic
Crazy Frog	Crazy Hits	Warner Music Int'l
The Offspring	Greatest Hits	Columbia
Robbie Williams	Intensive Care	EMI
Various	The Original Crazy Frog Dance Hits	Warner Strategic
Spider	Nazraku	Luncai Emas

Certification Awards (Albums)

	Sales Level	2005	2004
Gold	15,000	1	4
Platinum	25,000	3	5
Multi-platinum		2	2

DIGITAL MUSIC



Digital Indicator	
Internet Users (m)	10.0
Broadband Lines (m)	
Mobile Subscriptions (m)	17.6
Digital Sales (trade, $US m)	

ASIA
PHILIPPINES

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Country Data

General Information	
Population (millions)	87.9
Per capita GDP ($US)	1,110
Currency	Philippine Peso (PHP)
Language	Filipino/English
Music Industry	
World ranking (value)	42nd
% global value	<1%
Physical piracy level	25-50%
Top Independent Labels (alphabetical order)	
Alpha Music Corporation	
Star Recording Inc.	
Universal Records	
Victor Music Corporation	
Viva Records	

Recorded Music Sales (millions)

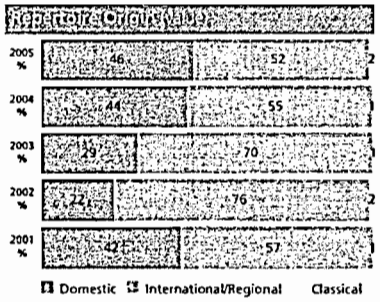
	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	% Change	$US Fixed	Local Currency
2005	19.1	1,050.9	3.2%	24.8	1,368.0
2004	18.5	1,018.0	11.3%	24.0	1,320.0
2003	20.8	1,147.5	10.7%	27.5	1,515.8
2002	18.8	1,036.4	15.0%	26.3	1,446.3
2001	22.1	1,219.0	Not comparable	30.9	1,702.0

Physical Units (full length formats, millions)

	CD	DVD/VCD	Other	Total	% Change
2005	3.6	0.6	0.5	4.7	-20.3%
2004	3.7	0.7	1.5	5.9	-14.5%
2003	3.2	1.3	2.4	6.9	-21.1%
2002	2.8	0.1	2.8	5.7	-24.6%
2001	1.8	0.1	5.7	7.6	Not comparable

Notes: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS. 2005 figures are reported on a different basis compared to previous years

Repertoire Origin (value)



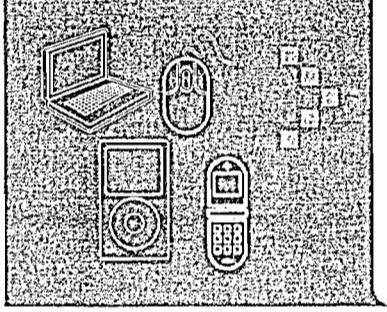
Value Split (trade) %

Format	
CD album	82%
DVD/VCD	8%
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	10%

Certification Awards (Albums)

	Sales Level	2005	2004
Gold	15,000	43	31
Platinum	30,000	30	28

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	7.8
Broadband Lines (m)	
Mobile Subscriptions (m)	34.8
Digital Sales (trade, $US m)	

ASIA
SINGAPORE

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Country Data	
General Information	
Population (millions)	4.4
Per capita GDP ($US)	26,640
Currency	Singapore Dollar (SGD)
Language	English/Chinese/Malay/Tamil
Music Industry	
World ranking (value)	37th
% global value	<1%
Physical piracy level	<10%
Top Independent Labels (alphabetical order)	
EQ Music Pte. Ltd.	
HIM International Music Pte Ltd.	
Life Records Industries Pte. Ltd.	
Ocean Butterfly	
Rock Records (S) Ltd.	

Recorded Music Sales (millions)

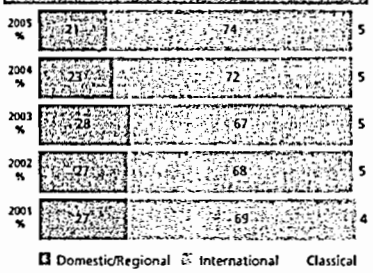
	Trade Revenues			Retail Revenues	
	US$ Real	Local Currency	% Change	US$ Real	Local Currency
2005	33.1	54.9	13.5%	38.3	63.6
2004	38.2	63.4	8.9%	46.4	77.1
2003	42.0	69.7	3.8%	51.4	85.3
2002	43.6	72.4	2.9%	53.3	88.5
2001	42.4	70.3	5.9%	51.6	85.7

Physical Units (Millions of units, millions)

	CD	DVD	Other	Total	% Change
2005	4.6	0.2		4.8	14.3%
2004	4.0	0.2		4.2	-8.7%
2003	4.4	0.2		4.6	-8.0%
2002	4.8	0.2		5.0	-8.7%
2001	4.3	0.3		4.6	4.5%

Notes: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS. DVD includes VCD (30%)

Repertoire Origin (Value)



Value Split (Trade)

Format	
CD album	92%
DVD	7%
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	1%

Note: DVD includes VCD

Top Sellers (International Albums)

	Million Units	% Change	% of Total Albums
Top 10	0.3	-15%	6%
Top 50	0.6	25%	14%

Top Sellers (Local Albums)

	Million Units	% Change	% of Total Albums
Top 10	0.2	27%	4%
Top 50	0.5	27%	10%

TOP 10

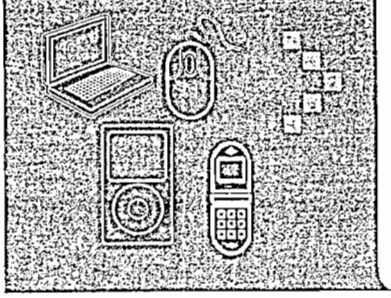
Top 10 International Albums

Artist	Title	Label/Company
Coldplay	X&Y	EMI
Gorillaz	Demon Days	EMI
Michael Bublé	It's Time	Warner
Robbie Williams	Intensive Care	EMI
Taufik	Blessings	Sony BMG
Various Artists	Greatest Love Of All	Warner
James Blunt	Back To Bedlam	Warner
Madonna	Confessions On A Dancefloor	Warner
Il Divo	Ancora	Sony BMG
Jennifer Lopez	Rebirth	Sony BMG

Top 10 Regional Albums

Artist	Title	Label/Company
Jay Chou	November's Chopin	Sony BMG
Jay Chou	Incomparable Live 2004	Warner
Various Artists	K Ge Shu Bu Qing	Music Street
Ocean	Zai Jian Liu Se Cai Hong	Music Street
David Tao	The Great Leap 2005	EMI
Jolin Tsai	J-Game	Sony BMG
Sylvester Sim	Take Flight	Sony BMG
Joi Cai Chun Jia	You Yi Tian Wo Hui	Music Street
Various Artists	City Harvest's Cross	Universal
Various Artists	Super 2004-2005	Rock

DIGITAL MUSIC



Digital Indicator	
Internet Users (m)	2.4
Broadband Lines (m)	1
Mobile Subscriptions (m)	4.3
Digital Sales (trade, $US m)	

ASIA
SOUTH KOREA

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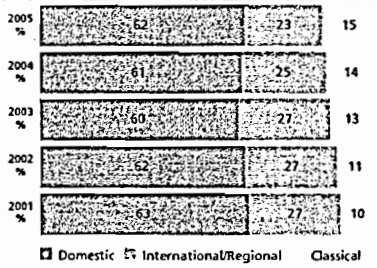
Country Data

General Information	
Population (millions)	48.4
Per capita GDP ($US)	16,380
Currency	South Korean Won (KRW)
Language	Korean
Music Industry	
World ranking (value)	29th
% global value	<1%
Physical piracy level	10-24%
Sales Chart Compiler	
RIAK	
Top Independent Labels (alphabetical order)	
Doremi Media	
SM Entertainment	
YBM Seoul Records	
Yedang Entertainment	
YeJeon Entertainment	

Repertoire Origin (value)



Basis: Artist nationality

Recorded Music Sales (millions)

	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	Change	$US Fixed	Local Currency
2005	89.2	91,314.6	-7.4%	132.4	135,593.5
2004	96.3	98,585.4	-22.0%	139.6	142,948.8
2003	123.4	126,338.5	-33.9%	178.9	183,190.9
2002	186.7	191,209.6	-19.2%	270.7	277,254.0
2001	231.1	236,635.6	-1.2%	335.0	343,121.6

Note: Digital sales included in 2005

Physical Units (full length formats, millions)

	CD	DVD	Other	Total	% Change
2005	9.4	0.2	1.0	10.6	-20.3%
2004	10.9	0.1	2.3	13.3	-29.3%
2003	14.9	0.2	3.7	18.8	-34.9%
2002	21.4	0.4	7.1	28.9	-30.4%
2001	25.4		16.1	41.5	-7.6%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Sales by Genre

Pop/MOR	28%
R&B/Urban	15%
Classical	10%
Soundtracks	10%
New Age	7%
Oldies	7%
Jazz/Blues	5%
Dance	4%
Rock/Metal	4%
Rap/Hip Hop	4%
Country/Traditional	2%
Religious	2%
Children's	1%
World	1%

Singles Units (millions)

	Physical	Digital	% Digital
2005	0.1	12.2	99%
2004	0.1		

Note: Digital sales included in 2005

Sales by Age

10-14	10%
15-19	14%
20-24	10%
25-29	23%
30-39	25%
40-49	10%
50-59	5%
60+	3%

Source: IFPI Asia Regional Office

Value Split (trade)

Format	
CD album	79%
DVD	2%
Digital (online, mobile)	13%
Other (physical singles, LP, MC, VHS)	5%

ASIA
SOUTH KOREA

Top 10

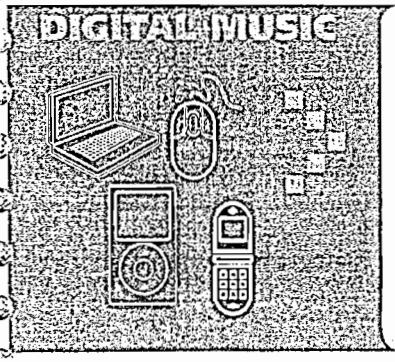
Top 10 International Albums

Artist	Title	Label/Company
Lim Hyung-Ju	The Lotus	Synnara Music
Sweetbox	Best Of 1995 - 2005	Sony BMG
The Phantom of the Opera	The Phantom Of The Opera	Sony BMG
Britney Spears	My Prerogative: The Greatest Hits	Sony BMG
BoA	Best Of Soul	SM Entertainment
Lim Hyung-Ju	Misty Moon	Sony BMG
Kenny G	At Last...The Duets Album	Sony BMG
TVXQ!	Stay With Me Tonight	SM Entertainment
Abba	The Best Of Abba	Universal
TVXQ!	Somebody To Love	SM Entertainment

Top 10 Regional Albums

Artist	Title	Label/Company
SG Wannabe	Crime And Punishment	Doremi Media
Kim Jong-Kook	Marking Time	EMI
Buzz	Coward	YeJeon Media
TVXQ!	Rising Sun	SM Entertainment
Shin Hye-Sung	Don't Go Away	EMI
Big Mama	Woman	EMI
Jo Sung-Mo	Tears	T Entertainment
Wheesung	Good-Bye Luv...	Yedang Entertainment
SG Wannabe	Jewel Box In My Heart	Doremi Media
Yoon Do-Hyun	It Must Have Been Love	YBM Seoul Records

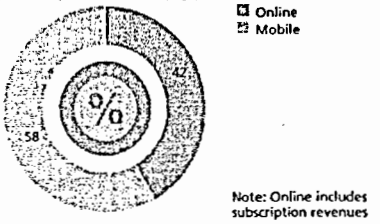
DIGITAL MUSIC



Digital Indicators

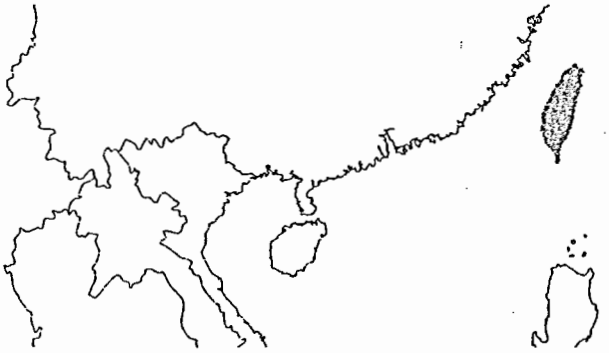
Internet Users (m)	33.9
Broadband Lines (m)	12.5
Mobile Subscriptions (m)	38.2
Digital Sales (trade, $US m)	11.8

Digital Sales by Channel (Value)



Note: Online includes subscription revenues

ASIA
TAIWAN



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E: info@ifpi.org.tw www.ifpi.org.tw

Country Data	
General Information	
Population (millions)	22.9
Per capita GDP ($US)	15,120
Currency	New Taiwan Dollar (TWD)
Language	Chinese (Mandarin)
Music Industry	
World ranking (value)	23rd
% global value	<1%
Physical piracy level	25-50%

Recorded Music Sales (millions)

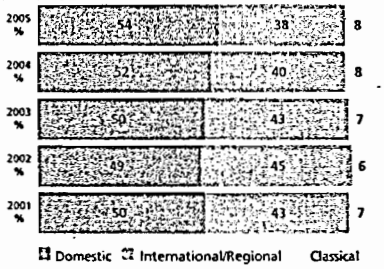
	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	% Change	$US Fixed	Local Currency
2005	99.7	3,210.5	25.9%	109.1	3,513.7
2004	134.6	4,334.6	-1.1%	148.1	4,768.1
2003	136.1	4,382.7	-13.8%	149.7	4,821.0
2002	157.9	5,083.1	-9.7%	173.6	5,591.4
2001	174.9	5,630.8	-17.3%	192.4	6,193.9

Physical Units (full length formats, millions)

	CD	DVD	Other	Total	% Change
2005	9.4	0.5	0.1	10.0	Not comparable
2004	14.9	0.7	0.1	15.7	1.9%
2003	15.1	0.7	0.2	16.0	-16.2%
2002	16.6	1.3	1.2	19.1	6.1%
2001	17.5		0.5	18.0	32.1%

Notes: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS. DVD includes VCD (32%). 2005 volume figures not comparable to previous year due to a change in reporting basis

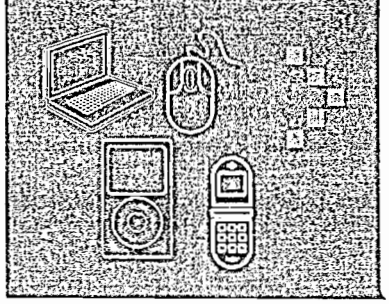
Repertoire Origin (value)



Value Split (trade)

Format	
CD album	90%
DVD	7%
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	3%

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	13.8
Broadband Lines (m)	4.4
Mobile Subscriptions (m)	21.8
Digital Sales (trade, $US m)	

ASIA
THAILAND

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Bangkok 10320
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E: ifpithai@truemail.co.th

Country Data

General Information	
Population (millions)	65.4
Per capita GDP ($US)	2,580
Currency	Baht (THB)
Language	Thai
Music Industry	
World ranking (value)	30th
% global value	<1%
Physical piracy level	25-50%
Top Independent Labels (alphabetical order)	
GMM Grammy Public Co. Ltd	
Mangpong Public Co. Ltd.	
RS. Promotion Public Co. Ltd.	
Submarine Record Co. Ltd.	
Sureaudio Co. Ltd.	

Recorded Music Sales (millions)

	Trade Revenues			Retail Revenues	
	US$	Local Currency	% change	US$	Local Currency
2005	77.2	3,103.1	19.7%	106.3	4,275.9
2004	96.1	3,865.9	0.0%	140.7	5,657.4
2003	96.1	3,867.2	-2.0%	134.2	5,397.3
2002	98.1	3,947.0	18.5%	139.0	5,592.0
2001	82.8	3,330.5	Not comparable	123.3	4,958.2

Physical Units (all formats, millions)

	LP	CD	Other	Total	% change
2005	11.8	10.9	5.3	28.0	-20.5%
2004	11.8	15.6	7.8	35.2	-9.3%
2003	9.1	15.6	14.1	38.8	-12.2%
2002	9.7	15.2	19.3	44.2	-10.2%
2001	7.7	4.4	28.0	40.1	-3.8%

Notes: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS. DVD includes VCD

Repertoire Origin (value)

Value Split (trade)

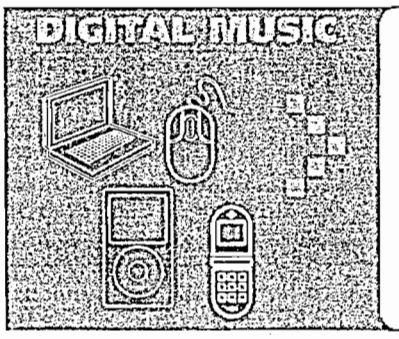
Format	
CD album	48%
DVD	41%
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	11%

Top 10

Top 10 Albums

Artist	Title	Label/Company
Madonna	Confessions On A Dancefloor	Warner
Eminem	Curtain Call - The Hits	UMG
The Black Eyed Peas	Monkey Business	UMG
Jennifer Lopez	Rebirth	Sony BMG
Tata Young	I Believe/Thank You Edition	Sony BMG
The Backstreet Boys	Never Gone	Sony BMG
CCR	Best Of CCR	EMI
Keith Urban	Days Go By	EMI
Robbie Williams	Intensive Care	EMI
Coldplay	X&Y	EMI

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	8.4
Broadband Lines (m)	
Mobile Subscriptions (m)	32.4
Digital Sales (trade, $US m)	

AUSTRALASIA
AUSTRALIA

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E: aria.mail@aria.com.au www.aria.com.au

Country Data

General Information	
Population (millions)	20.1
Per capita GDP ($US)	35,240
Currency	Australian Dollar (AUD)
Language	English
Music Industry	
World ranking (value)	7th
% global value	2%
Physical piracy level	<10%
Sales Chart Compiler	
ARIA	
www.aria.com.au	

Recorded Music Sales (Million)

	Trade Revenues			US Retail Revenues	
	US Fixed	Local Currency	Change	US Fixed	Local Currency
2005	444.0	576.4	9.9%	574.4	833.3
2004	488.1	639.5	5.9%	746.3	2,977.3
2003	518.5	679.2	5.9%	797.1	1,037.6
2002	489.4	641.1	5.9%	747.7	979.5
2001	520.0	681.3	11.1%	794.5	1,040.8

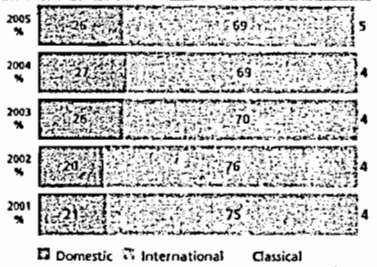
Note: Digital sales included from 2004 onwards

Physical Units (Full Length Units - Million)

	CD	DVD	Other	Total	% Change
2005	37.8	3.8	0.2	41.8	-5.9%
2004	39.5	4.5	0.4	44.4	-6.1%
2003	41.6	5.1	0.6	47.3	11.8%
2002	39.0	2.4	0.9	42.3	-2.1%
2001	41.4	0.8	1.0	43.2	12.5%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Repertoire Origin (%)



Sale by Genre

Pop/Rock	82%
Classical	5%
Dance	4%
Country/Folk	3%
Easy Listening/Nostalgic	3%
Jazz/Big Band/Swing	1%
Soul/R&B	1%
Other	1%

Single Units (Million)

	Physical	Digital	% Digital
2005	7.8	2.1	21%
2004	9.6	0.5	5%

Top Sellers (Album)

	Million Units	% Change	% of Total Album
Top 10	2.6	-9%	6%
Top 50	7.0	-7%	16%
Top 100	9.3	6%	21%
Top 200	11.2		25%

Variaspil Sales (%)

Format	
CD album	83%
DVD	10%
Digital (online, mobile)	2%
Other (physical singles, LP, MC, VHS)	5%

AUSTRALASIA
AUSTRALIA

Top 10 Albums

Top 10 Albums

Artist	Title	Label/Company
Missy Higgins	The Sound Of White	ELEV/EMI
Kelly Clarkson	Breakaway	SBMG
Michael Bublé	It's Time	Warner
Gwen Stefani	Love.Angel.Music.Baby	INR/UMA
The Black Eyed Peas	Monkey Business	UMA
Green Day	American Idiot	Warner
Jack Johnson	In Between Dreams	UMA
Coldplay	X&Y	CAP/EMI
James Blunt	Back To Bedlam	EW/WAR
Foo Fighters	In Your Honor	SBMG

Certification Awards (Albums)

	Sales Level	2005	2004
Gold	35,000	97	98
Platinum	70,000	52	66
Multi-platinum		60	58

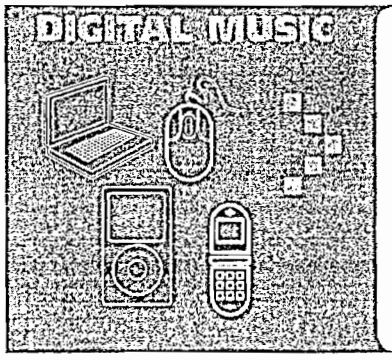
Certification Awards (Physical Singles)

	Sales Level	2005	2004
Gold	35,000	43	55
Platinum	70,000	34	43
Multi-platinum		5	7

Certification Awards (DVD Music Video)

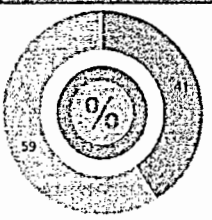
	Sales Level	2005	2004
Gold	7,500	43	49
Platinum	15,000	25	50
Multi-platinum		31	44

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	14.2
Broadband Lines (m)	3.1
Mobile Subscriptions (m)	18.1
Digital Sales (trade, $US m)	7.5

Digital Sales by Channel (%)



Note: Online includes subscription revenues

AUSTRALASIA
NEW ZEALAND

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E: music@rianz.org.nz www.rianz.org.nz
www.nzmusic.org.nz

Country Data	
General Information	
Population (millions)	4.0
Per capita GDP ($US)	26,890
Currency	New Zealand Dollar (NZD)
Language	English
Music Industry	
World ranking (value)	28*
% global value	<1%
Physical piracy level	<10%
Sales Chart Compiler	
Media Sauce/RIANZ	
www.rianz.org.nz	
www.nztop40.com	
Top Independent Labels (alphabetical order)	
Border Music Ltd	
Dawn Raid Entertainment	
Dirty Records	
Global Routes 2000 Ltd	
King Music	
Loop Recordings	
Mai Music Ltd	
Rhythmethod Ltd	
Shock Records	
Siren records	

Recorded Music Sales (millions)

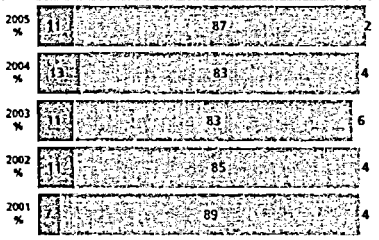
	Trade Revenues			Retail Revenues	
	US Fixed	Local Currency	% Change	US Fixed	Local Currency
2005	77.5	111.0	1.7%	122.0	174.3
2004	78.8	111.9	7.4%	124.1	176.3
2003	85.1	120.8	3.6%	144.0	204.3
2002	88.2	125.3	2.1%	159.0	219.3
2001	90.1	128.0	4.9%	141.9	201.6

Physical Unit Volume Formats (millions)

	CD	DVD	Other	Total	% Change
2005	6.7	0.5		7.2	-1.4%
2004	6.7	0.5	0.1	7.3	-3.9%
2003	6.9	0.6	0.1	7.6	-5.0%
2002	7.6	0.2	0.2	8.0	-1.2%
2001	7.6	0.1	0.4	8.1	-2.5%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Repertoire Origin (Value)



Top Selling Albums

	Million Units	% Change	% Sales of Albums
Top 10	0.6		9%
Top 50	1.6		24%
Top 100	2.1		31%

Value Split (%)

Format	
CD album	90%
DVD	9%
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	1%

AUSTRALASIA
NEW ZEALAND

Top 10

Top 10 Albums

Artist	Title	Label/Company
James Blunt	Back To Bedlam	Warner
Fat Freddy's Drop	Based On A True Story	Thedrop/Rhythmethod
Coldplay	X&Y	Capitol/EMI
Jack Johnson	In Between Dreams	Universal
The Black Eyed Peas	Monkey Business	Universal
Foo Fighters	In Your Honor	Sony BMG
Eminem	Curtain Call - The Hits	Universal
Hayley Westenra	Odyssey	Universal
Kelly Clarkson	Breakaway	Sony BMG
Crazy Frog	Crazy Hits	Warner

Certification Awards (Albums)

	Sales Level	2005	2004
Gold	7,500	100	105
Platinum	15,000	205	137

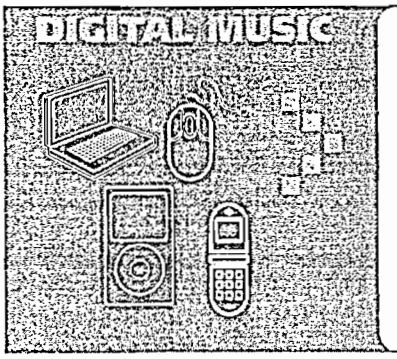
Certification Awards (Physical Singles)

	Sales Level	2005	2004
Gold	5,000	35	33
Platinum	10,000	10	18

Certification Awards (DVD Music Video)

	Sales Level	2005	2004
Gold	7,500	22	21
Platinum	15,000	31	31

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	3.2
Broadband Lines (m)	
Mobile Subscriptions (m)	3.4
Digital Sales (trade, $US m)	

LATIN AMERICA
ARGENTINA

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Country Data	
General Information	
Population (millions)	39.5
Per capita GDP ($US)	4,595
Currency	Peso (ARP)
Language	Spanish
Music Industry	
World ranking (value)	34th
% global value	<1%
Physical piracy level	>50%
Top Independent Labels (alphabetical order)	
EPSA Music	
Distribuidora Belgrano Norte	
Leader Music	
Music Brokers	
Pelo Music	

Recorded Music Sales (millions)

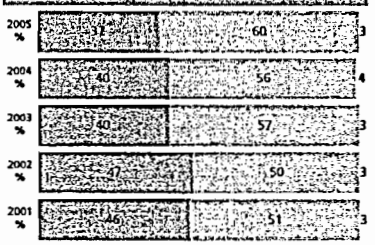
	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	% Change	$US Fixed	Local Currency
2005	51.4	149.1	28.2%	108.7	313.9
2004	40.1	116.3	24.3%	84.4	244.9
2003	32.3	93.6	77.7%	63.3	183.5
2002	18.2	52.7	21.6%	35.6	103.3
2001	23.2	67.2	36.4%	45.4	131.7

Physical Units (millions, formats, millions)

	CD	DVD	Other	Total	% Change
2005	13.8	0.6	0.5	14.9	21.1%
2004	11.4	0.3	0.6	12.3	8.8%
2003	10.4	0.1	0.8	11.3	83.4%
2002	5.5	0.1	0.6	6.2	44.5%
2001	9.4		1.7	11.1	30.6%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS. Volume figures are reported on a different basis from 2004 onwards

Repertoire Origin (%)



Top Selling Albums

	Million Units	% Change	% Total Albums
Top 10	0.8	20%	5%
Top 50	2.2	5%	15%
Top 100	3.0	3%	20%

Value Split (%)

Format	
CD album	90%
DVD	9%
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	1%

LATIN AMERICA
ARGENTINA

Top 10

Top 10 Albums

Artist	Title	Label/Company
Floricienta Y Su Banda	Floricienta	EMI
Shakira	Fijación Oral Volumen 1	Sony BMG
Ricardo Arjona	Adentro	Sony BMG
Coldplay	X&Y	EMI
Joaquin Sabina	Alivio De Luto	Sony BMG
Il Divo	Il Divo	Sony BMG
Bersuit Vergarabat	Testosterona	Universal
Green Day	American Idiot	Warner
Jorge Rojas	La Vida	EMI
Floricienta Y Su Banda	Floricienta Y Su Banda	Sony BMG - Cris Morena Group

Certification Awards Albums

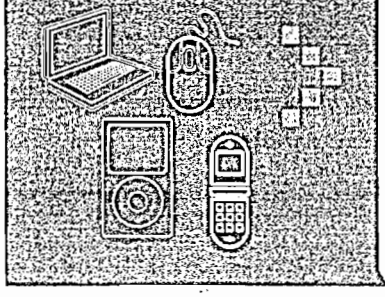
	Sale Level	2005	2004
Gold	20,000	45	30
Platinum	40,000	25	9
Multi-platinum		22	17

Note: Album sales levels changed in 2005 from 30,000 (Gold) and 60,000 (Platinum)

Certification Awards DVD Music Videos

	Sale Level	2005	2004
Gold	2,000	4	
Platinum	4,000	3	
Multi-platinum		2	

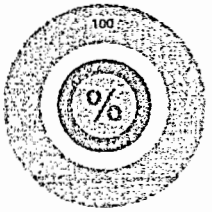
DIGITAL MUSIC



Digital Indicators

Internet Users (m)	10.0
Broadband Lines (m)	0.9
Mobile Subscriptions (m)	20.4
Digital Sales (trade, $US m)	0.2

Digital sales by channel value



LATIN AMERICA
BRAZIL

ABPD - Associacao Brasileira dos Produtores de Discos
Rua Marquês de São Vicente, 99 - 1 andar
Gávea - Rio de Janeiro
RJ CEP 22451-041
T: +55 (21) 2512 9908 F: +55 (21) 2259 4145
E: abpd@abpd.org.br www.abpd.org.br

Country Data	
General Information	
Population (millions)	186.1
Per capita GDP ($US)	4,260
Currency	Real (BRL)
Language	Portuguese
Music Industry	
World ranking (value)	10th
% global value	1%
Physical piracy level	25-50%
Sales Chart Compiler	
ABPD	

Recorded Music Sales (millions)

	Trade Revenue			Retail Revenues	
	$US Fixed	Local Currency	% Change	$US Fixed	Local Currency
2005	265.4	645.0	12.3%	394.2	957.8
2004	302.8	735.7	17.5%	451.2	1,096.3
2003	257.6	626.0	17.4%	386.4	939.0
2002	311.7	757.4	7.4%	467.2	1,136.1
2001	290.2	705.1	-20.2%	435.2	1,057.6

Note: Digital sales included from 2004 onwards

Physical Units (full length formats, millions)

	CD	DVD	Other	Total	% Change
2005	42.3	6.5	4.5	53.3	-19.2%
2004	51.5	7.6	6.9	66.0	18.3%
2003	54.2	3.3	0.1	55.8	-25.0%
2002	79.5	2.8	0.4	82.7	3.4%
2001	78.2	1.7	0.1	80.0	-23.2%

Notes: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS. 2003 volume figures are reported on a different basis to previous years. Actual growth indicated

Sales by Genre	
Pop/Rock	34%
Country	13%
Gospel	13%
Pagode/Samba	11%
Regional Music/Forró	10%
MPB (Brazilian Popular Music)	8%
Axé Music	4%
Children's	2%
Classical	2%
Other	3%

Top Sellers (albums)

	Million Units	% Change	% of Total Albums
Top 10	5.2	58%	10%

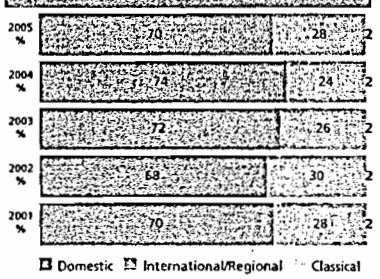
Value Split (trade) %

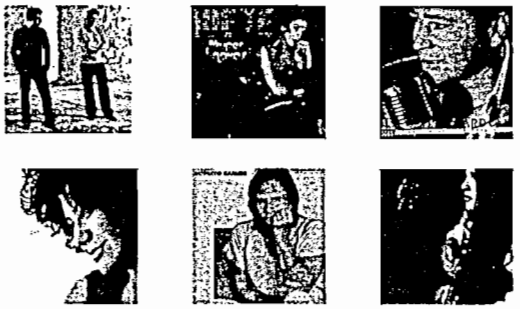
Format	
CD album	73%
DVD	25%
Digital (online, mobile)	1%
Other (physical singles, LP, MC, VHS)	1%

Sales by Age	
12-17	10%
18-25	22%
26-35	31%
36-45	17%
46-55	10%
56+	10%

Source: ABPD

Repertoire Origin (value)





LATIN AMERICA
BRAZIL

Top 10

Top 10 Albums

Artist	Title	Label/Company
Ana Carolina	Perfil - Ana Carolina	Sony BMG/Globo
Ivete Sangalo	As Super Novas	Universal Music
Bruno e Marrone	Meu Presente É Você	Sony BMG
Zezé Di Camargo & Luciano	Zezé Di Camargo & Luciano 2005	Sony BMG
Maria Rita	Segundo	Warner Music
Vários	América	SomLivre
Xuxa	Xuxa Festa	SomLivre
Roberto Carlos	Roberto Carlos 2005	Sony BMG
Vários	Summer Eletrohits	SomLivre
Leonardo	Leonardo Canta Grandes Sucessos	Sony BMG

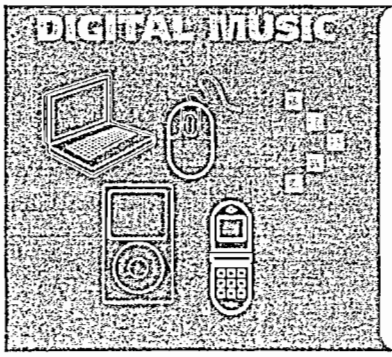
Certification Award (Albums)

	Sales Level	2005	2004
Gold	50,000	86	102
Platinum	125,000	31	27
Multi-platinum	-	10	18
Diamond	500,000	5	1

Certification Award (DVD Music Videos)

	Sales Level	2005	2004
Gold	25,000	48	62
Platinum	50,000	24	27
Diamond	100,000	8	10

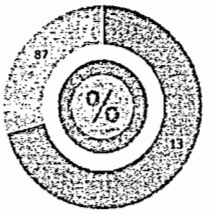
DIGITAL MUSIC



Digital Indicators

Internet Users (m)	25.9
Broadband Lines (m)	3.5
Mobile Subscriptions (m)	85.2
Digital Sales (trade, $US m)	17.1

Digital Sales by Channel (%)



Note: Online includes subscription revenues

LATIN AMERICA
CHILE

IFPI Chile, AG
Av Antonio Varas No. 2043
Providencia, Santiago
T: +56 (2) 379 3890 F: +56 (2) 434 0015
E: fonograficos@ifpichile.cl www.ifpichile.cl

Country Data

General Information	
Population (millions)	16.0
Per capita GDP ($US)	7,135
Currency	Chilean Peso (CLP)
Language	Spanish
Music Industry	
World ranking (value)	40th
% global value	<1%
Physical piracy level	>50%
Top Independent Labels (alphabetical order)	
Alrece	
ChileFilms	
Mazapan	
Producciones Star Sound	
Sur Multimedia	

Recorded Music Sales (million)

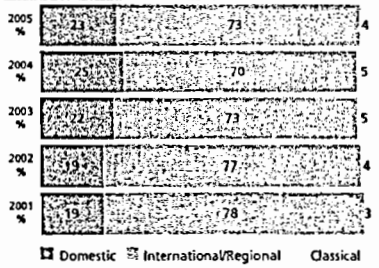
	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	Change	$US Fixed	Local Currency
2005	24.1	13,514.0	4.5%	38.8	21,710.3
2004	25.3	14,153.5	16.9%	40.6	22,737.7
2003	30.4	17,027.0	12.0%	44.9	25,131.9
2002	34.6	19,357.2	14.0%	55.1	30,836.0
2001	30.3	16,974.2	23.3%	48.3	27,039.8

Physical Units (all formats, million)

	CD	DVD	Other	Total	Change
2005	4.1	0.9	0.4	5.4	-12.5%
2004	4.0	0.5	0.3	4.8	-15.8%
2003	4.7	0.4	0.6	5.7	-20.8%
2002	5.9	0.2	1.1	7.2	-26.3%
2001	4.0		1.7	5.7	-18.6%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Repertoire Origin (%)



Basis: Artist nationality

Top 10

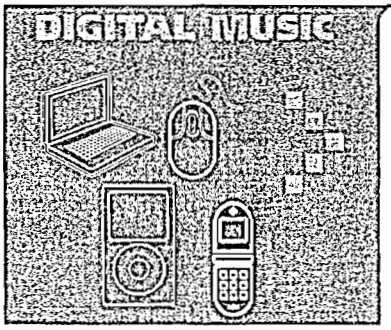
Top 10 Albums

Artist	Title	Label/Company
Marco Antonio Solis	La Historia Continúa	Universal Music
Kudai	Vuelo	EMI Music
Reggeton Boys	Nos Fuimos A Fuegote, Perreando Y Sandungueando	Warner
Oreja de van Gohg	Lo Que Te Conté Mientras Dormías	Sony BMG
Mario Guerrero	Mario Guerrero	Warner
Juanes	Mi Sangre	Universal Music
Shakira	Fijación Oral Volumen 1	Sony BMG
Mazapán	Mundo Mazapán	EMI Music
Montserrat	La Chica De Rojo	Warner
Daniela Castillo	Daniela Castillo	Warner

Value Split (trade)

Format	
CD album	73%
DVD	25%
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	2%

DIGITAL MUSIC



Digital Indicators

Internet Users (m)	5.6
Broadband Lines (m)	
Mobile Subscriptions (m)	10.9
Digital Sales (trade, $US m)	

LATIN AMERICA
COLOMBIA

ANDI/APDIF
Calle 73 No. 8-13, Piso 7
Bogota, D.C.

Country Data	
General Information	
Population (millions)	43.0
Per capita GDP ($US)	2,845
Currency	Colombian Peso (COP)
Language	Spanish
Music Industry	
World ranking (value)	38*
% global value	<1%
Physical piracy level	>50%

Recorded Music Sales (millions)

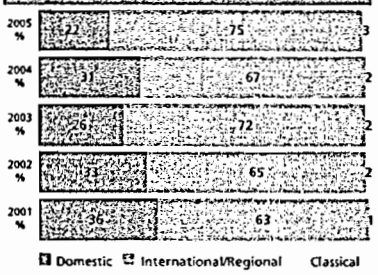
	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	Change	$US Fixed	Local Currency
2005	27.0	62,636.3	5.7%	58.0	134,664.6
2004	25.5	59,284.9	-7.6%	54.9	127,459.2
2003	27.6	64,142.0	-17.3%	59.4	137,901.8
2002	33.4	77,589.9	-27.1%	71.9	166,814.0
2001	45.9	106,489.8	Not comparable	98.7	228,953.2

Physical Units (full-length formats, millions)

	CD	DVD	Other	Total	% Change
2005	6.7	0.3	0.2	7.2	22.0%
2004	5.6	0.3		5.9	15.6%
2003	6.7	0.1	0.2	7.0	9.2%
2002	6.2		0.2	6.4	38.8%
2001	10.1		0.4	10.5	24.5%

Notes: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS. 2002 volume figures reported on a different basis to previous years. Actual % change indicated

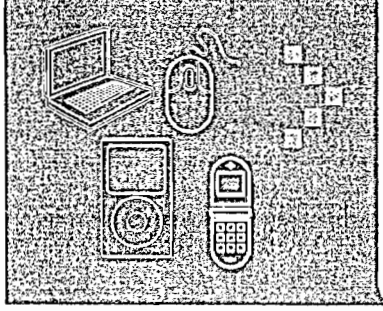
Repertoire Origin (value)



Value Split (trade)

Format	
CD album	87%
DVD	10%
Digital (online, mobile)	-
Other (physical singles, LP, MC, VHS)	3%

DIGITAL MUSIC



Digital Indicators	
Internet Users (m)	3.6
Broadband Lines (m)	
Mobile Subscriptions (m)	25.0
Digital Sales (trade, $US m)	

LATIN AMERICA
MEXICO

AMPROFON - Asociacion Mexicana de Productores de Fonogramas A.C.
Tennyson No. 96
Colonia Chapultepec Polanco
11560 Mexico D.F.
T: +52 (5) 55281 6035 F: +52 (5) 55280 9079
E: servicios@amprofon.com.mx www.amprofon.com.mx

Country Data	
General Information	
Population (millions)	106.2
Per capita GDP ($US)	7,235
Currency	Mexican Peso (MXP)
Language	Spanish
Music Industry	
World ranking (value)	11th
% global value	1%
Physical piracy level	>50%
Sales Chart Compiler	
IPSOS/BIMSA	

Recorded Music Sales (millions)

	Trade Revenues			Retail Revenues	
	US Fixed	Local Currency	Change	$US Fixed	Local Currency
2005	262.7	2,863.0	10.2%	411.6	4,486.7
2004	238.4	2,598.8	9.4%	372.8	4,063.7
2003	218.0	2,376.5	16.2%	341.0	3,738.7
2002	260.2	2,836.3	16.4%	409.4	4,462.1
2001	311.3	3,393.0	15.2%	489.7	5,337.8

Note: Digital sales included from 2004 onwards

Physical Units (full length formats, millions)

	CD	DVD	Other	Total	% Change
2005	64.8	1.8	0.8	67.4	19.9%
2004	53.2	1.6	1.4	56.2	0.9%
2003	53.5		3.2	56.7	3.3%
2002	51.1		3.8	54.9	3.3%
2001	50.0		6.8	56.8	15.2%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

Sales by Age

12-17	16%
18-25	34%
26-35	24%
36-45	14%
46-55	9%
56+	3%

Source: IPSOS/BIMSA

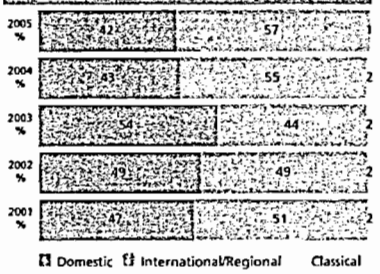
Singles Units (millions)

	Physical	Digital	% Digital
2005	0.1	0.1	35%
2004	0.3	0.04	11%

Top Sellers (albums)

	Million Units	% Change	% of Total Album
Top 10	3.0	36%	4%
Top 50	6.5	8%	10%

Repertoire Origin (value)



Value Split (trade) %

Format	
CD album	93%
DVD	6%
Digital (online, mobile)	<1%
Other (physical singles, LP, MC, VHS)	<1%

LATIN AMERICA
MEXICO

Top 10

Top 10 Albums

Artist	Title	Label/Company
Yuridia	La Voz De Un Angel	Sony BMG
Rbd	Rebelde	EMI
Luis Miguel	Grandes Exitos	Warner
Shakira	Fijación Oral Volumen 1	Sony BMG
Alejandro Fernandez	Mexico Madrid En Directo Y Sin Escalas	Sony BMG
Rbd	Nuestro Amor	EMI
Intocable	X	EMI
Yahir	No Te Apartes De Mi	Warner
Luis Miguel	Mexico En La Piel	Warner
A.B. Quintanilla Iii Y Los Kumbia Kings	Fuego	EMI

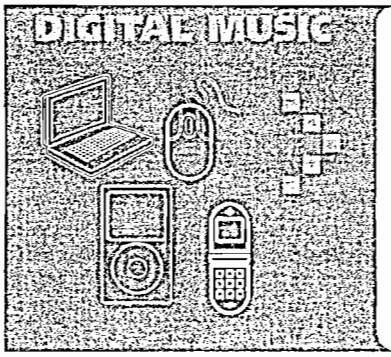
Certification Awards Albums

	Sales Level	2005	2006
Gold	50,000	87	54
Platinum	100,000	69	40
Diamond	500,000	2	2

Certification Awards DVD Music Video

	Sales Level	2005	2006
Gold	10,000	31	28
Platinum	20,000	13	6

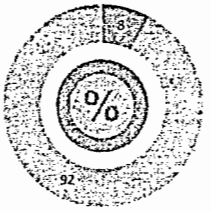
DIGITAL MUSIC



Digital Indicators

Internet Users (m)	17.0
Broadband Lines (m)	2.6
Mobile Subscriptions (m)	43.1
Digital Sales (trade, $US m)	0.6

Digital Sales by Channel (%)



Note: Online includes subscription revenues

AFRICA
SOUTH AFRICA

Recording Industry of South Africa (RISA)
PO Box 367
Randburg 2194
T: +27 (11) 886 1342 F: +27 (11) 886 4169
www.risa.org.za

Country Data	
General Information	
Population (millions)	44.3
Per capita GDP ($US)	5,390
Currency	Rand (ZAR)
Language	English & other indigenous languages
Music Industry	
World ranking (value)	16th
% global value	1%
Physical piracy level	25-50%
Top Independent Labels (alphabetical order)	
Bula Music	
Gallo Record Company	
Sarepta Music	
Select Music	
Sheer Sound/Music/Iris	

Recorded Music Sales (millions)

	Trade Revenues			Retail Revenues	
	$US Fixed	Local Currency	% Change	$US Fixed	Local Currency
2005	158.8	1,010.2	10.3%	254.4	1,618.2
2004	144.0	915.5	20.8%	230.3	1,464.7
2003	119.2	758.1	0.1%	190.7	1,212.9
2002	119.1	757.3	13.7%	190.5	1,211.7
2001	104.8	666.3	2.2%	167.6	1,066.1

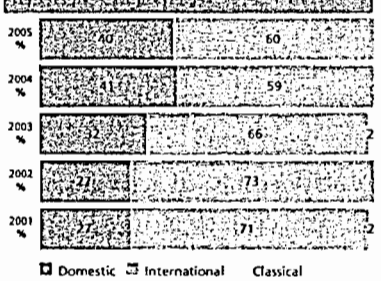
Note: Digital sales included from 2004 onwards

Physical Units (to Length formats, millions)

	CD	DVD	Other	Total	% Change
2005	17.6	1.6	4.0	23.2	9.4%
2004	14.8	0.8	5.6	21.2	17.1%
2003	11.5	0.4	6.2	18.1	1.7%
2002	11.6	0.3	5.9	17.8	5.3%
2001	10.7	0.1	6.1	16.9	-4.5%

Note: Other includes LP, Cassette, Minidisc, SACD, DVD-A and VHS

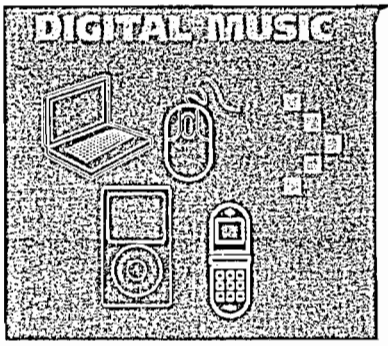
Repertoire Origin (value)



Value Split (trade)

Format	
CD album	80%
DVD	13%
Digital (online, mobile)	<1%
Other (physical singles, LP, MC, VHS)	7%

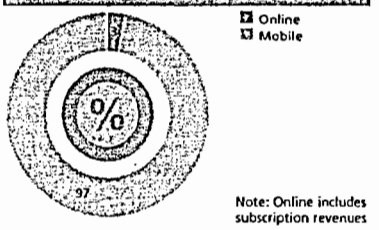
DIGITAL MUSIC



Digital Indicators

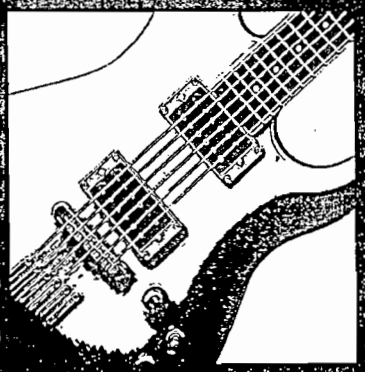
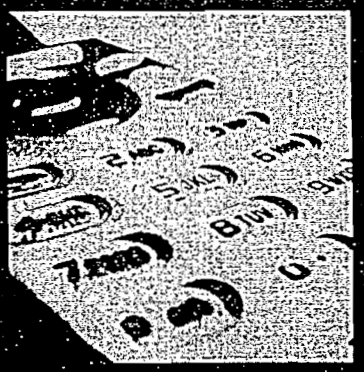
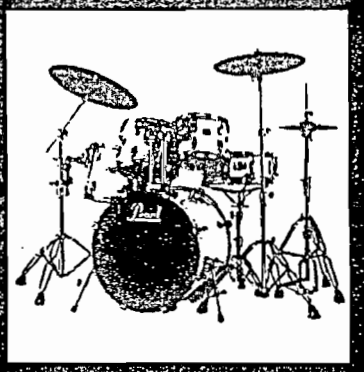
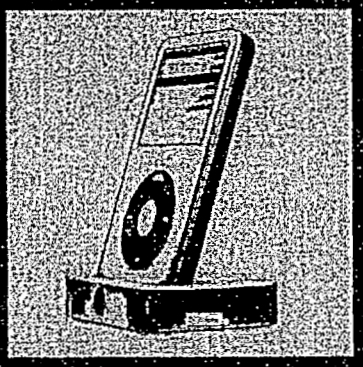
Internet Users (m)	3.6
Broadband Lines (m)	
Mobile Subscriptions (m)	27.4
Digital Sales (trade, $US m)	0.6

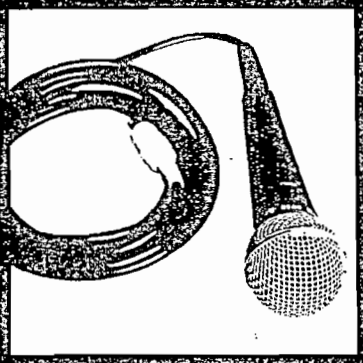
Digital Sales by Channel (value)



Note: Online includes subscription revenues

APPENDIX



Sales By Age Trends	98
Retail Trends	100
Sales By Genre In 2005	101
Sales By Genre Trends	102
Domestic Repertoire Trends	104
International Repertoire Trends	105
Classical Repertoire Trends	106
Compilations Market Trends	107
Certification Award Levels	108
IFPI Platinum Europe Awards	110
Recorded Music Sales History	112
Taxes On Sound Recordings	115
2005 Exchange Rates	116

SALES BY AGE TRENDS

USA	2001	2002	2003	2004	2005
10-14	9%	9%	9%	9%	9%
15-19	13%	13%	11%	12%	12%
20-24	12%	12%	10%	9%	13%
25-29	11%	9%	11%	10%	12%
30-34	10%	11%	10%	10%	11%
35-39	10%	10%	11%	11%	9%
40-44	10%	10%	10%	11%	9%
45+	24%	26%	27%	26%	26%

Source: RIAA/Hart Research/Taylor

Austria	2001	2002	2003	2004	2005
0-19	17%	15%	14%	13%	14%
20-29	19%	18%	16%	16%	15%
30-39	27%	26%	25%	24%	24%
40-49	19%	19%	21%	22%	23%
50+	19%	22%	24%	25%	24%

Source: GfK

Germany	2001	2002	2003	2004	2005
0-15	7%	6%	5%	6%	12%
16-19	7%	6%	7%	6%	
20-29	24%	22%	22%	19%	20%
30-39	29%	28%	27%	26%	25%
40-49	17%	20%	21%	22%	21%
50+	16%	18%	19%	21%	22%

Source: GfK

Netherlands	2001	2002	2003	2004	2005
12-19	9%	11%	10%	9%	10%
20-29	27%	26%	28%	18%	27%
30-39	28%	27%	24%	27%	26%
40-49	18%	20%	21%	22%	18%
50-59	11%	10%	11%	15%	10%
60+	7%	6%	7%	9%	9%

Source: GfK

UK (Home Expenditure)	2001	2002	2003	2004	2005
12-19	22%	16%	15%	16%	14%
20-29	19%	20%	19%	18%	17%
30-39	22%	21%	23%	22%	23%
40-49	18%	19%	19%	20%	20%
50-59	12%	14%	14%	14%	15%
60+	7%	9%	10%	10%	11%

Source: TNS 'Audio Visual Trak Survey'

Japan	2001	2002	2003	2004	2005
<30	63%	58%	54%	43%	39%
>30	22%	26%	29%	31%	61%

Source: RIAJ

Malaysia	2003	2004	2005
0-14	11%	10%	9%
15-19	25%	25%	28%
20-24	25%	25%	20%
25-29	20%	21%	22%
30-39	12%	15%	16%
40-49	3%	2%	4%
50-59	2%	1%	1%
60+	2%	1%	0%

Source: RIM

South Korea	2001	2002	2003	2004	2005
10-14	5%	5%	5%	7%	10%
15-19	15%	15%	13%	13%	14%
20-24	19%	19%	19%	14%	10%
25-29	19%	23%	25%	24%	23%
30-39	25%	21%	21%	25%	25%
40-49	11%	11%	11%	11%	10%
50-59	5%	5%	5%	5%	5%
60+	1%	1%	1%	1%	3%

Source: IFPI Asia Regional Office

Brazil	2001	2002	2003	2004	2005
12-17	12%	12%	13%	11%	10%
18-25	23%	23%	25%	26%	22%
26-35	25%	25%	27%	26%	31%
36-45	18%	18%	19%	19%	17%
46-55	13%	13%	10%	10%	10%
56+	9%	9%	6%	8%	10%

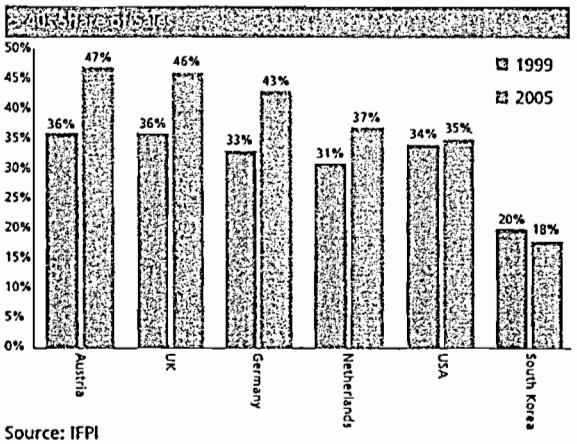
Source: ABPD

Mexico	2001	2002	2003	2004	2005
12-17	16%	23%	19%	23%	16%
18-25	40%	21%	23%	26%	34%
26-35	26%	28%	25%	25%	24%
36-45	13%	17%	18%	16%	14%
46-55	5%	11%	15%	10%	9%
56+					3%

Source: AMPROFON until 2004, 2005 figures from IPSOS/Bimsa

Note: Figures are subject to rounding

SALES BY AGE TRENDS



Source: IFPI

50+ Sales					
	2001	2002	2003	2004	2005
Austria	64%	67%	70%	71%	71%
UK	59%	63%	66%	66%	69%
Germany	62%	66%	67%	69%	68%
Netherlands	64%	63%	62%	73%	63%
Japan	22%	26%	29%	31%	61%
USA	55%	56%	58%	58%	55%
South Korea	42%	38%	38%	42%	43%

40+ Sales					
	2001	2002	2003	2004	2005
Austria	38%	41%	45%	47%	47%
UK	37%	42%	43%	44%	46%
Germany	33%	38%	40%	43%	43%
Netherlands	36%	37%	39%	46%	37%
USA	34%	35%	37%	37%	35%
South Korea	17%	17%	17%	17%	18%

Note: Figures are subject to rounding

RETAIL TRENDS

USA

	2001	2002	2003	2004	2005
Record Store	43%	37%	33%	32%	39%
Other Store	46%	54%	56%	54%	32%
Tape/Record Club	6%	4%	4%	4%	9%
Internet	3%	3%	5%	6%	8%
TV, Newspaper, Magazine, 800 number	3%	2%	2%	2%	2%
Concerts				2%	3%

Source: Peter Hart Research and Taylor Research. 2005 data based on purchases made, 2004 and earlier data based on only the first purchase made each month. Internet does not include record club purchases over the internet. Other stores include department stores, bookstores, AV stores

Austria

	2004	2005
Electronic/AV Merchants	34%	33%
Retail Chains	26%	26%
Traditional Retail/Specialist	10%	9%
Internet	6%	7%
Mail	6%	6%
Supermarkets	5%	5%
Record Club	5%	4%
Others	8%	10%

Source: GfK Market Research

Belgium (% market value)

	2001	2002	2003	2004	2005
Multiples	24%	44%	45%	45%	45%
Retailers	20%	18%	17%	18%	20%
Supermarkets	30%	15%	16%	14%	15%
Wholesale/Independents	16%	15%	15%	13%	11%
Department Stores	7%	6%	6%	7%	6%
Others	2%	2%	2%	3%	3%

Source: IFPI Belgium

France (% units sales)

	2001	2002	2003	2004	2005
Specialists	32%	36%	38%	39%	40%
Hypermarkets/Supermarkets	42%	38%	39%	37%	37%
Chains	16%	18%	17%	17%	18%
Mail Order/Internet	5%	4%	3%	4%	4%
Independents	3%	2%	2%	2%	1%
Department Stores	1%	1%	1%	1%	1%

Source: SNEP

Germany (% market value)

	2001	2002	2003	2004	2005
Large Chains	40%	39%	37%	39%	37%
Specialist/Department Stores	35%	33%	32%	28%	26%
Internet	6%	9%	12%	15%	17%
Direct Mail	14%	14%	14%	14%	13%
Others	5%	5%	5%	4%	7%

Source: GfK/IFPI Germany

Hungary

	2004	2005
Electronic/AV Merchants	30%	30%
Supermarkets/Hypermarkets	35%	27%
Record Club	10%	15%
Traditional Retail/Specialist	15%	14%
Department Stores	2%	2%
Internet	1%	1%
Mail	1%	1%
Others	6%	10%

UK (% value)

	2001	2002	2003	2004	2005
Music Specialist	52%	49%	47%	45%	44%
Supermarkets	15%	18%	22%	23%	26%
Chains/Multiples	19%	18%	16%	17%	13%
Internet	5%	6%	8%	9%	11%
Mail Order/Clubs	6%	6%	4%	3%	3%
Others	3%	3%	4%	3%	3%

Source: TNS 'Audio Visual Trak Survey', based on album expenditure

SALES BY GENRE IN 2005

Sales by Genre	Europe										
	Austria	Belgium	Czech R	France	Germany	Hungary	Ireland	Italy	Netherlands	Poland	UK
Pop/MOR	54%	40%	82%		37%	37%	35%	66%	50%	22%	35%
Rock/Metal/Alternative	10%	32%			19%	14%	31%	21%	18%	9%	36%
Country/Traditional	8%				4%		12%		3%		1%
R&B/Urban		7%				1%			7%	3%	8%
Rap/Hip Hop		4%				2%	10%			10%	6%
Soundtracks	2%			2%	2%	2%	1%		1%	4%	
Dance	2%	6%	5%		5%	4%	7%		7%	22%	8%
Children's	3%	2%			6%	4%				2%	
Religious										2%	
Jazz/Blues	2%	2%		3%	2%	5%		6%	5%	11%	1%
Classical	11%	4%	6%	5%	8%	4%	1%	7%	5%	10%	3%
Oldies										3%	
New Age		2%							1%		
World				3%		3%				2%	
Other	8%	1%	7%	87%	17%	24%	3%		3%		2%

Notes: Figures subject to rounding. Genre definitions vary across territories and are decided by the record companies. Italy - 2004 figures, based on multi-answer question. Source: CRA Nielsen Research (May 2004). France - Other includes French songs (33%), International songs (26%), Compilations (22%) and Other (6%). UK - based on top 10,000 albums, OCC/BPI

Sales by Genre	North America	Asia		Latin America	Australasia
	USA	Malaysia	South Korea	Brazil	Australia
Pop/MOR	8%	50%	28%	42%	85%
Rock/Metal/Alternative	32%	23%	4%		
Country/Traditional	13%	1%	2%	38%	3%
R&B/Urban	10%	10%	15%		1%
Rap/Hip Hop	13%	5%	4%		
Soundtracks	1%	1%	10%		
Dance			4%		4%
Children's	2%		1%	2%	
Religious	5%	1%	2%	13%	
Jazz/Blues	2%	2%	5%		1%
Classical	3%	5%	10%	2%	5%
Oldies	1%	1%	7%		
New Age	1%		7%		
World		1%	1%		
Other	9%			3%	1%

Notes: Figures subject to rounding. Genre definitions vary across territories and are decided by the record companies. In Brazil Pop/Rock includes MPB (8%) and Country/Traditional includes Pagode/Samba (11%), Regional/Forró (10%), Axé (4%)

SALES BY GENRE TRENDS

USA	2001	2002	2003	2004	2005
Rock	24%	25%	25%	24%	32%
Country	11%	11%	10%	13%	13%
Rap/Hip-Hop	11%	14%	13%	12%	13%
R&B/Urban	11%	11%	11%	11%	10%
Pop	12%	9%	9%	10%	8%
Religious	7%	7%	6%	6%	5%
Classical	3%	3%	3%	2%	3%
Jazz	3%	3%	3%	3%	2%
Children's	1%		1%	3%	2%
Soundtracks	1%	1%	1%	1%	1%
Oldies	1%	1%	1%	1%	1%
New Age	1%	1%	1%	1%	1%
Other	8%	8%	8%	9%	9%

Source: Hart Research/Taylor Research

Australia	2001	2002	2003	2004	2005
Rock/Pop	81%	76%	76%	80%	82%
Classical	4%	4%	3%	4%	5%
Dance	4%	6%	4%	3%	4%
Easy Listening/Nostalgic		3%	4%	4%	3%
Country/Traditional/Folk	3%	5%	4%	3%	3%
Jazz/Big Band/Swing	2%	2%	3%	2%	1%
Soul/R&B	3%	2%	2%	1%	1%
World	1%	1%	3%	1%	
Other	3%	1%	1%	2%	1%

Source: ARIA

Brazil	2001	2002	2003	2004	2005
Pop/Rock	55%	55%	40%	29%	34%
Pagode/Samba/Axé/Forro	15%	15%	24%	22%	25%
MPB				9%	8%
Religious	1%	1%	12%	20%	13%
Country	21%	21%	18%	11%	13%
Children's	6%	6%	2%	3%	2%
Classical			2%	2%	2%
Jazz/Blues	1%	1%	2%		
Other	1%	1%		4%	3%

Source: ABPD

Czech Republic	2004	2005
Pop	77%	82%
Classical	6%	6%
Dance	9%	5%
Other	8%	7%

Austria	2004	2005
Pop	50%	54%
Classical	12%	11%
Rock	11%	10%
Country/Traditional	9%	8%
Children's	3%	3%
Jazz/Blues	3%	2%
Soundtracks	2%	2%
Dance	2%	2%
Other	8%	8%

Belgium	2001	2002	2003	2004	2005
Pop/MOR	43%	54%	46%	45%	40%
Rock/Metal/Alternative	22%	26%	29%	28%	32%
R&B/Urban/Soul	9%	6%	4%	9%	7%
Dance	13%	3%	4%	3%	6%
Rap/Hip Hop		5%	4%	3%	4%
Classical	3%	2%	5%	1%	4%
Children's	2%	1%	2%	3%	2%
Other	8%	3%	6%	8%	5%

Source: IFPI Belgium

France	2001	2002	2003	2004	2005
French songs	30%	34%	38%	35%	33%
International songs	18%	22%	26%	25%	26%
Compilations	22%	26%	19%	18%	22%
Classical	4%	4%	4%	5%	5%
Jazz	3%	3%	3%	4%	3%
World/Reggae	3%	2%	3%	3%	3%
Soundtracks	2%	2%	2%	3%	2%
Other	18%	7%	5%	7%	6%

Source: SNEP

Hungary	2003	2004	2005
Pop	35%	35%	37%
Rock	14%	15%	14%
Jazz/Blues	2%	2%	5%
Dance	6%	6%	4%
Children's	4%	3%	4%
Classical	4%	4%	4%
World	1%	2%	3%
Rap/Hip Hop	3%	3%	2%
Soundtracks	3%	3%	2%
Other	28%	27%	25%

SALES BY GENRE TRENDS

Germany	2001	2002	2003	2004	2005
Pop	43%	44%	40%	38%	37%
Rock	16%	16%	15%	19%	19%
Classical	8%	7%	7%	8%	8%
Schlager	7%	7%	9%	8%	7%
Children's	6%	6%	7%	6%	6%
Dance	8%	6%	7%	6%	5%
Soundtracks	2%	3%	2%	2%	2%
Jazz	1%	2%	2%	2%	2%
Volksmusik	3%	2%	2%	2%	2%
Country	1%	1%	2%	1%	2%
Instrumental	1%	1%	1%	1%	1%
Other	4%	5%	6%	7%	9%

Source: GfK

UK	2001	2002	2003	2004	2005
Rock	28%	31%	29%	30%	36%
Pop	32%	30%	31%	30%	26%
MOR	6%	6%	6%	8%	9%
R&B	9%	7%	8%	9%	8%
Dance	11%	10%	7%	7%	8%
Rap/Hip Hop	4%	5%	6%	7%	6%
Classical	4%	4%	4%	3%	3%
Jazz	1%	2%	3%	3%	1%
Country	2%	2%	2%	2%	1%
Other	4%	4%	4%	1%	2%

Source: The Official Chart Company

Netherlands	2001	2002	2003	2004	2005
Pop/MOR	54%	55%	54%	49%	50%
Rock/Metal	11%	14%	16%	16%	18%
R&B/Urban	2%	3%	4%	4%	7%
Dance	3%	1%	5%	3%	7%
Classical	13%	9%	8%	6%	5%
Jazz/Blues	2%	1%	1%	5%	5%
Country/Traditional	1%	1%	4%	1%	3%
Soundtracks	3%	4%	2%	3%	1%
New Age	2%	2%	1%		1%
Rap/Hip Hop	2%	4%		3%	
World		1%	2%	1%	
Other	7%	6%	3%	9%	3%

Source: GfK

South Korea	2001	2002	2003	2004	2005
Pop/MOR	30%	30%	30%	30%	28%
R&B/Urban	5%	5%	8%	12%	15%
Classical	10%	9%	10%	10%	10%
Soundtracks	4%	4%	4%	7%	10%
Oldies	3%	4%	4%	7%	7%
New Age	1%	1%	1%		7%
Jazz/Blues	9%	8%	8%	8%	5%
Rock	19%	20%	18%	9%	4%
Rap/Hip Hop	5%	6%	6%	6%	4%
Dance	5%	5%	4%	4%	4%
Country/Traditional	2%	2%	2%	2%	2%
Religious	2%	2%	2%	2%	2%
Children's	1%	1%	1%	1%	1%
World	4%	3%	2%	2%	1%

Source: IFPI Asia Regional Office

Poland	2003	2004	2005
Pop/MOR	28%	25%	22%
Dance	5%	8%	22%
Jazz/Blues	5%	8%	11%
Classical	9%	9%	10%
Rap/Hip Hop	20%	17%	10%
Rock/Metal	15%	15%	9%
Soundtracks	5%		4%
R&B/Urban	5%	5%	3%
Children's	2%	1%	2%
World		2%	2%
Religious	1%	1%	2%
Other	5%	9%	3%

Source: IFPI Poland

Malaysia	2003	2004	2005
Pop/MOR	30%	30%	50%
Rock	15%	20%	23%
R&B/Urban	15%	12%	10%
Classical	8%	5%	5%
Rap/Hip Hop	12%	15%	5%
Jazz/Blues	5%	5%	2%
Soundtracks	2%	2%	1%
Country/Traditional	1%	2%	1%
Religious	5%	5%	1%
World	1%	1%	1%
Dance	1%	1%	
Other	5%	2%	1%

Source: IFPI Asia Regional Office

DOMESTIC REPERTOIRE TRENDS

Domestic Repertoire Trends 2001-2005 (Value)	2001	2002	2003	2004	2005
North America					
Canada	13%	23%	22%	32%	27%
USA	93%	92%	93%	93%	93%
Europe					
Austria	14%	9%	13%	7%	15%
Belgium	15%	14%	17%	20%	13%
Czech Republic	56%	45%	51%	61%	49%
Denmark	32%	34%	42%	41%	46%
Finland	44%	46%	49%	54%	52%
France	59%	59%	60%	63%	61%
Germany	40%	45%	48%	49%	46%
Greece	54%	57%	59%	57%	58%
Hungary	44%	32%	38%	36%	42%
Ireland	22%	19%	19%	25%	22%
Italy	44%	47%	48%	46%	50%
Netherlands	18%	17%	19%	21%	16%
Norway	18%	20%	22%	30%	41%
Poland	37%	35%	38%	40%	36%
Portugal	17%	13%	29%	29%	31%
Russia	64%	60%	65%	76%	78%
Spain	41%	38%	46%	46%	43%
Sweden	27%	32%	37%	39%	40%
Switzerland	8%	8%	10%	18%	9%
Turkey	86%	84%	95%	94%	92%
UK	52%	49%	47%	51%	50%

Notes: Canada - basis: artist nationality, top 100 Nielsen SoundScan year-end chart. Belgium, Switzerland - basis: artist nationality. France - basis: language

Domestic Repertoire Trends 2001-2005 (Value)	2001	2002	2003	2004	2005
Asia					
China	51%	47%	47%	37%	40%
Hong Kong	47%	48%	39%	35%	34%
India	90%	90%	90%	90%	90%
Indonesia	53%	58%	56%	58%	60%
Japan	76%	74%	72%	72%	74%
Malaysia	16%	21%	22%	22%	26%
Philippines	42%	22%	29%	44%	46%
Singapore	27%	27%	28%	23%	21%
South Korea	63%	62%	60%	61%	62%
Taiwan	50%	49%	50%	52%	54%
Thailand	73%	70%	61%	61%	62%
Australasia					
Australia	21%	20%	26%	27%	26%
New Zealand	7%	11%	11%	13%	11%
Latin America					
Argentina	46%	47%	40%	40%	37%
Brazil	70%	68%	72%	74%	70%
Chile	19%	19%	22%	25%	23%
Colombia	36%	33%	26%	31%	22%
Mexico	47%	49%	54%	43%	42%
Africa					
South Africa	27%	27%	32%	41%	40%

Notes: Chile - basis: artist nationality. Singapore – domestic includes regional

Countries with notable domestic repertoire growth as a % of sales:

- Canada
- Denmark
- Finland
- Germany
- Italy
- Norway
- Portugal
- Russia
- Sweden
- Turkey
- UK
- Indonesia
- Malaysia
- Australia
- South Africa

Countries with a notable drop in domestic repertoire as a % of sales:

- Czech Republic
- China
- Hong Kong
- Singapore
- Thailand
- Argentina
- Colombia
- Mexico

INTERNATIONAL REPERTOIRE TRENDS

International Repertoire Trends 2001-2005 (Value)					
	2001	2002	2003	2004	2005
North America					
Canada	82%	71%	72%	63%	69%
USA	5%	5%	5%	5%	5%
Europe					
Austria	77%	80%	75%	82%	74%
Belgium	80%	81%	77%	75%	80%
Czech Republic	40%	47%	42%	33%	45%
Denmark	63%	62%	55%	55%	51%
Finland	47%	47%	44%	40%	42%
France	36%	36%	35%	32%	33%
Germany	53%	49%	46%	45%	48%
Greece	42%	39%	38%	40%	39%
Hungary	47%	53%	50%	58%	50%
Ireland	78%	81%	81%	75%	78%
Italy	53%	49%	48%	50%	46%
Netherlands	76%	77%	76%	75%	78%
Norway	79%	76%	75%	66%	55%
Poland	55%	56%	54%	51%	51%
Portugal	78%	84%	67%	67%	66%
Russia	34%	39%	33%	22%	20%
Spain	48%	55%	47%	48%	51%
Sweden	69%	64%	63%	59%	58%
Switzerland	83%	83%	90%	73%	86%
Turkey	14%	16%	5%	6%	8%
UK	41%	45%	47%	43%	45%

Notes: Canada - basis: artist nationality, top 100 Nielsen SoundScan year-end chart. USA - 5% international repertoire assumption. Belgium, Switzerland - basis: artist nationality. France - basis: language

International Repertoire Trends 2001-2005 (Value)					
	2001	2002	2003	2004	2005
Asia					
China	49%	53%	53%	57%	55%
Hong Kong	45%	44%	51%	54%	56%
India	10%	10%	10%	10%	10%
Indonesia	47%	42%	44%	42%	40%
Japan	24%	26%	28%	28%	26%
Malaysia	82%	76%	75%	75%	71%
Philippines	57%	76%	70%	55%	52%
Singapore	69%	68%	67%	72%	74%
South Korea	27%	27%	27%	25%	23%
Taiwan	43%	45%	43%	40%	38%
Thailand	27%	30%	39%	39%	38%
Australasia					
Australia	75%	76%	70%	69%	69%
New Zealand	89%	85%	83%	83%	87%
Latin America					
Argentina	51%	50%	57%	56%	60%
Brazil	28%	30%	26%	24%	28%
Chile	78%	77%	73%	70%	73%
Colombia	63%	65%	72%	67%	75%
Mexico	51%	49%	44%	55%	57%
Africa					
South Africa	71%	73%	66%	59%	60%

Notes: Chile - basis: artist nationality. China – international includes regional; international repertoire accounts for 10% of sales

CLASSICAL REPERTOIRE TRENDS

Classical Repertoire Trends 2001-2005 value					
	2001	2002	2003	2004	2005
North America					
Canada	5%	6%	6%	5%	4%
USA	2%	2%	2%	2%	2%
Europe					
Austria	9%	11%	12%	11%	11%
Belgium	5%	5%	6%	5%	7%
Czech Republic	4%	8%	7%	6%	6%
Denmark	5%	4%	3%	4%	3%
Finland	9%	7%	7%	6%	6%
France	4%	4%	4%	5%	5%
Germany	7%	6%	6%	6%	6%
Greece	4%	4%	3%	3%	3%
Hungary	9%	15%	12%	6%	8%
Italy	4%	4%	4%	4%	4%
Netherlands	6%	6%	5%	4%	6%
Norway	3%	4%	3%	4%	4%
Poland	8%	9%	8%	9%	13%
Portugal	5%	3%	4%	4%	3%
Russia	2%	1%	2%	2%	2%
Spain	11%	7%	7%	6%	6%
Sweden	4%	4%		2%	2%
Switzerland	9%	9%		9%	5%
Turkey	14%	16%	5%	6%	8%
UK	7%	6%	6%	6%	5%

Notes: Canada top 100 Nielsen SoundScan year-end chart.
Italy - jazz included in classical

Classical Repertoire Trends 2001-2005 volume					
	2001	2002	2003	2004	2005
Asia					
China				6%	5%
Hong Kong	8%	8%	10%	11%	10%
Japan	3%	4%	4%	3%	4%
Malaysia	2%	3%	3%	3%	3%
Philippines	1%	2%	1%	1%	2%
Singapore	4%	5%	5%	5%	5%
South Korea	10%	11%	13%	14%	15%
Taiwan	7%	6%	7%	8%	8%
Australasia					
Australia	4%	4%	4%	4%	5%
New Zealand	4%	4%	6%	4%	2%
Latin America					
Argentina	3%	3%	3%	4%	3%
Brazil	2%	2%	2%	2%	2%
Chile	3%	4%	5%	5%	4%
Colombia	1%	2%	2%	2%	3%
Mexico	2%	2%	2%	2%	1%
Africa					
South Africa	2%		2%		

COMPILATIONS MARKET TRENDS

Compilations % of Album Sales						
	2003		2004		2005	
	Units	Value	Units	Value	Units	Value
North America						
Canada	12%		11%		8%	
Europe						
Austria	25%	26%	21%	27%	18%	25%
Belgium	13%	19%	35%	16%	21%	16%
Czech Republic	9%	7%			7%	6%
Denmark	6%	7%	7%	9%	6%	7%
Finland	14%	14%	16%	16%	16%	15%
France		19%		18%		22%
Germany	9%	11%	9%	11%	6%	11%
Hungary	9%	5%				
Italy	10%	14%	7%	8%	6%	7%
Netherlands	16%	16%	13%	15%	13%	14%
Norway	13%	14%	10%	13%	12%	15%
Poland	26%	19%	33%	25%	30%	30%
Portugal	29%	28%	29%	30%	35%	28%
Spain	26%	24%	11%	22%	12%	19%
Sweden	22%	19%	17%	16%	19%	16%
Turkey			5%	5%		
UK	24%		24%		21%	
Asia						
Hong Kong	22%	22%	11%	10%	13%	11%
Malaysia	29%	23%	28%	22%	24%	19%
Philippines	34%	30%	29%	27%	36%	33%
Singapore	27%	20%	23%	16%	12%	13%
South Korea	5%	5%	5%	5%	6%	5%
Taiwan	6%	4%	6%	4%	11%	8%
Latin America						
Argentina	7%	3%	1%	0%	1%	0%
Chile	4%	2%	0%	0%	0%	3%
Colombia	9%	7%	9%	8%	5%	6%
Mexico	12%	13%	14%	14%	11%	11%
Australasia						
Australia	16%	19%	14%	17%	15%	17%
New Zealand	11%	14%	10%	13%	13%	16%

Notes: Canada - based on SoundScan top 200 chart, units only. France - % of total market. Germany - % of TV compilations only

CERTIFICATION AWARD LEVELS

Albums (unit sales required)	Domestic Repertoire				International Repertoire			
	Silver	Gold	Platinum	Diamond	Silver	Gold	Platinum	Diamond
North America								
Canada	-	50,000	100,000	1,000,000	-	s	s	s
USA	-	500,000	1,000,000	10,000,000	-	s	s	s
Europe								
Austria	-	15,000	30,000	-	-	s	s	-
Belgium	-	15,000	30,000	-	-	25,000	50,000	-
Czech Republic	-	10,000	20,000	-	-	5,000	10,000	-
Denmark	-	20,000	40,000	-	-	s	s	-
Finland	-	15,000	30,000	-	-	s	s	-
France	35,000	75,000	200,000	750,000	s	s	s	s
Germany	-	100,000	200,000	-	-	s	s	-
Greece	-	20,000	40,000	-	-	10,000	20,000	-
Hungary	-	10,000	20,000	-	-	5,000	10,000	-
Ireland	-	7,500	15,000	-	-	s	s	-
Italy	20,000	40,000	80,000	400,000	s	s	s	s
Netherlands	-	35,000	70,000	-	-	s	s	-
Norway	-	20,000	40,000	-	-	s	s	-
Poland	-	35,000	70,000	350,000	-	20,000	40,000	200,000
Portugal	-	10,000	20,000	-	-	s	s	-
Russia	-	100,000	300,000	-	-	25,000	75,000	-
Spain	-	40,000	80,000	-	-	s	s	-
Sweden	-	30,000	60,000	-	-	s	s	-
Switzerland	-	15,000	30,000	-	-	s	s	-
UK	60,000	100,000	300,000	-	s	s	s	-
Asia								
Hong Kong	-	20,000	40,000	-	-	10,000	20,000	-
India	-	100,000	200,000	-	-	10,000	20,000	-
Indonesia	-	75,000	150,000	-	-	25,000	50,000	-
Japan	-	100,000	250,000	-	-	s	s	-
Malaysia	-	15,000	25,000	-	-	s	s	-
Philippines	-	15,000	30,000	-	-	s	s	-
Singapore	-	7,500	15,000	-	-	s	s	-
South Korea	-	15,000	30,000	-	-	s	s	-
Taiwan	-	35,000	70,000	-	-	10,000	20,000	-
Thailand	-	50,000	100,000	-	-	20,000	40,000	-
Australasia								
Australia	-	35,000	70,000	-	-	s	s	-
New Zealand	-	7,500	15,000	-	-	s	s	-
Latin America								
Argentina	-	20,000	40,000	-	-	s	s	-
Brazil	-	50,000	125,000	500,000	-	50,000	125,000	500,000
Chile	-	10,000	20,000	-	-	s	s	s
Colombia	-	25,000	50,000	-	-	s	s	-
Mexico	-	50,000	100,000	500,000	-	s	s	s
Africa								
South Africa	-	25,000	50,000	-	-	s	s	-

Notes: 's' indicates same levels for both domestic and international repertoire. France - levels reduced in July 2006 from 50,000, 100,000, 300,000 & 1,000,000. Switzerland - levels reduced in July 2006 from 20,000 & 40,000. Netherlands - levels reduced in January 2006 from 40,000 & 80,000

CERTIFICATION AWARD LEVELS

Physical Singles (unit sales)	Silver	Gold	Platinum	Diamond
North America				
Canada		5,000	10,000	100,000
USA		500,000	1,000,000	
Europe				
Austria		15,000	30,000	
Belgium		15,000	30,000	
Czech Republic		1,000	2,000	
Denmark		4,000	8,000	
Finland		5,000	10,000	
France	100,000	200,000	300,000	500,000
Germany		150,000	300,000	
Greece		10,000	20,000	
Hungary		2,500	5,000	
Ireland		7,500	15,000	
Italy		10,000	20,000	
Netherlands		40,000	60,000	
Norway		5,000	10,000	
Portugal	10,000	20,000	40,000	
Spain		10,000	20,000	
Sweden		10,000	20,000	
Switzerland		15,000	30,000	
UK	200,000	400,000	600,000	
Asia				
Japan		100,000	250,000	
Singapore		5,000	10,000	
Taiwan		10,000	20,000	
Thailand		50,000	100,000	
Australasia				
Australia		35,000	70,000	
New Zealand		5,000	10,000	
Africa				
South Africa		10,000	25,000	

Note: Thailand - figures in table indicate domestic repertoire singles. Levels for international repertoire are Gold 20,000 and Platinum 40,000. Switzerland - certification levels reduced in July 2006 from 20,000 and 40,000

Music Videos (unit sales)	Gold	Platinum	Diamond
North America			
Canada	5,000	10,000	100,000
USA	50,000	100,000	
Europe			
Austria	5,000	10,000	
Belgium	25,000	50,000	
Czech Republic	1,500	3,000	
Denmark	4,000	8,000	
Finland	5,000	10,000	
France	10,000	20,000	100,000
Germany	25,000	50,000	
Greece	5,000	10,000	
Hungary	3,000	6,000	
Ireland	2,000	4,000	
Italy	15,000	30,000	
Netherlands	40,000	80,000	
Norway	5,000	10,000	
Poland	5,000	10,000	
Portugal	4,000	8,000	
Spain	10,000	25,000	
Sweden	10,000	20,000	
UK	25,000	50,000	
Asia			
Japan	100,000	250,000	
Australasia			
Australia	7,500	15,000	
New Zealand	2,500	5,000	
Latin America			
Argentina	2,000	4,000	
Brazil	25,000	50,000	100,000
Mexico	10,000	20,000	

Digital Downloads - Ringtones (unit sales)	Gold	Platinum	Diamond
Canada	10,000	20,000	200,000
USA	100,000	200,000	
Sweden	10,000	20,000	

Note: Canada - awards launched in March 2006

Digital Downloads - Album (unit sales)	Gold	Platinum
Sweden	30,000	60,000

Master Ringtones (unit sales)	Gold	Platinum
USA	500,000	1,000,000

Note: Awards launched in June 2006

IFPI PLATINUM EUROPE AWARDS

IFPI Platinum Europe Awards honour the elite community of artists who have achieved album sales of one million and subsequent levels of a million in Europe. The Awards were launched in 1996 and they are now recognised as the established hallmark of success for artists in Europe.

2005 Platinum Europe Awards			
Artist	Title	Company	Award Level
A/B/C			
50 Cent	The Massacre	Universal Music	1
The Black Eyed Peas	Elephunk	Universal Music	3
The Black Eyed Peas	Monkey Business	Universal Music	1
Calogero	3	Universal Music	1
Coldplay	A Rush Of Blood To The Head	EMI Music	4
Coldplay	X&Y	EMI Music	3
D/E/F			
Damien Rice	O	Warner Music	1
Depeche Mode	Playing The Angel	EMI Music	1
Dr. Dre	2001	Universal Music	2
Eminem	Curtain Call - The Hits	Universal Music	2
Enya	Amarantine	Warner Music	1
Eros Ramazzotti	Calma Apparente	Sony BMG	1
Franz Ferdinand	Franz Ferdinand	Domino Recording Co	1
G/H/I			
Gabrielle	Dreams Can Come True - Greatest Hits Vol. 1	Universal Music	2
George Michael	Older	EMI Music	5
Gorillaz	Demon Days	EMI Music	1
Gorillaz	Gorillaz	EMI Music	2
Green Day	American Idiot	Warner Music	3
Guns N' Roses	Greatest Hits	Universal Music	2
Gwen Stefani	Love Angel Music Baby	Universal Music	1
Il Divo	Ancora	Sony BMG	2
Il Divo	Il Divo	Sony BMG	2
J/K/L			
James Blunt	Back To Bedlam	Warner Music	4
Johnny Hallyday	Sang Pour Sang	Universal Music	2
Kaiser Chiefs	Employment	Universal Music	1
Katie Melua	Call Off The Search	Dramatico Entertainment	2
Katie Melua	Piece By Piece	Dramatico Entertainment	1
Keane	Hopes And Fears	Universal Music	3
Kelly Clarkson	Breakaway	Sony BMG	1
KT Tunstall	Eye To The Telescope	EMI Music	1
Lenny Kravitz	5	EMI Music	2
Lorie	Tendrement	Sony BMG	1
M/N/O			
Madonna	Confessions On A Dancefloor	Warner Music	3
Mariah Carey	The Emancipation Of Mimi	Universal Music	1
Michael Bublé	It's Time	Warner Music	1
Michel Sardou	Du Plaisir	Universal Music	1
Muse	Absolution	Taste Media Ltd	1
Natasha Bedingfield	Unwritten	Sony BMG	1

IFPI PLATINUM EUROPE AWARDS

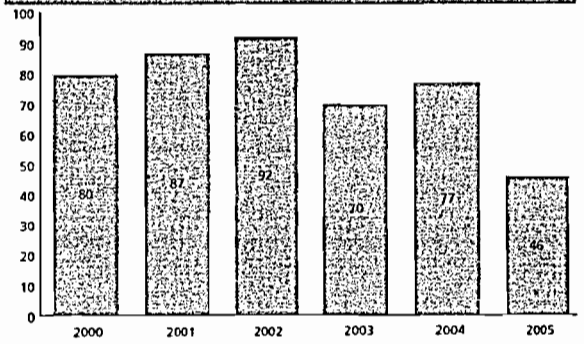
2005 Platinum Europe Awards			
Artist	Title	Company	Award Level
P/O/B			
Queen	The Platinum Collection	EMI Music	3
Rammstein	Herzeleid	Universal Music	1
Rammstein	Reise, Reise	Universal Music	1
Robbie Williams	Intensive Care	EMI Music	4
S/T/U/V/W			
Seal	Best: 1991 - 2004	Warner Music	1
Texas	The Greatest Hits	Universal Music	4
Usher	Confessions	Sony BMG	2
Westlife	Face To Face	Sony BMG	1

IFPI Platinum Europe Awards Summary 2000 - 2005						
Year	Total Albums Receiving Awards	New Release Receiving Awards	Awards To Europe In Acts	Non English Language Awards	No Artists Receiving Awards	No Countries Receiving Awards
2005	46	16	30	9	40	8
2004	77	25	34	13	63	8
2003	70	21	33	14	57	11
2002	92	32	57	19	77	13
2001	87	30	52	16	69	14
2000	80	35	53	15	73	15

Number of Platinum Awards by Level 2000 - 2005						
Award Level	2000	2001	2002	2003	2004	2005
1	49	45	54	41	46	24
2	17	19	17	13	14	11
3	9	11	10	8	9	6
4	1	5	6	4	2	4
5	2	1	2	2	2	1
6	1	4	0	0	3	0
7*	1	2	2	0	1	0
8**	0	0	1	1	0	0
9***	0	0	0	1	0	0
Total	80	87	92	70	77	46

Notes: * U2 "The Best Of 1980-1990" (2004), Alanis Morissette "Jagged Little Pill" (2002), Madonna "Ray Of Light" (2002), Bon Jovi "Crossroad" (2001), Shania Twain "Come On Over" (2001), The Beatles "1" (2000)
** Celine Dion "D'eux" (2003), The Beatles "1" (2002)
*** Celine Dion "Falling Into You" (2003)

Total Number of Albums Receiving Awards



RECORDED MUSIC SALES HISTORY

Recorded Music Sales 1973-2005 (units in millions)						
Full Length Physical Format Units						
	LPs	MCs	CDs	Music video	Other	Total Units
2005	3	176	1,954	150	9	2,293
2004	7	295	2,020	150	12	2,485
2003	6	406	2,012	153	5	2,583
2002	7	465	2,164	110	1	2,747
2001	10	590	2,283	78	1	2,962
2000	12	648	2,427		1	3,088
1999	14	754	2,385		1	3,154
1998	22	820	2,348			3,190
1997	17	943	2,208			3,168
1996	21	1,188	2,162			3,372
1995	33	1,200	1,983			3,216
1994	49	1,354	1,784			3,188
1993	109	1,382	1,419			2,909
1992	175	1,476	1,185			2,836
1991	292	1,493	998			2,782
1990	339	1,447	777			2,564
1989	450	1,540	600			2,590
1988	510	1,390	400			2,300
1987	590	1,150	260			2,000
1986	690	970	140			1,800
1985	730	950	61			1,741
1984	800	800	20			1,620
1983	850	660	6			1,516
1982	900	570				1,470
1981	1,140	510				1,650
1980	878	474				1,352
1979	896	470				1,365
1978	942	428				1,370
1977	898	374				1,272
1976	743	289				1,032
1975	674	236				910
1974	655	209				864
1973	617	185				802

Note: Other includes Minidisc, SACD and DVD-A. Music video includes DVD, VHS and VCD

RECORDED MUSIC SALES HISTORY

Single Units (000's millions)	
	Singles
2005	631
2004	357
2003	233
2002	265
2001	318
2000	370
1999	440
1998	459
1997	516
1996	466
1995	432
1994	390
1993	410
1992	352
1991	334
1990	344
1989	357
1988	370
1987	390
1986	490
1985	650
1984	750
1983	800
1982	680
1981	550
1980	526
1979	624
1978	600
1977	545
1976	516
1975	483
1974	515
1973	530

Note: Digital singles included from 2004

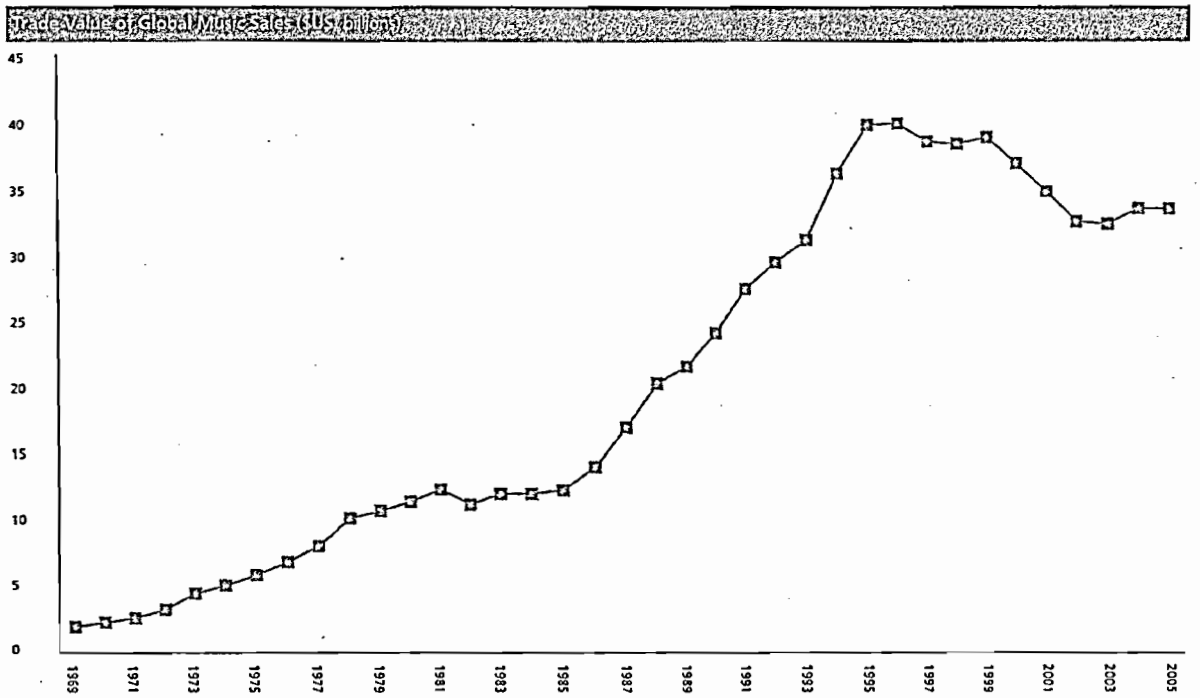
	Trade Value (000's million)		Retail Value (000's million)
	US$ (fixed)	% Change	US$ (fixed)
2005	20,795	3%	33,456
2004	21,469	-1%	34,285
2003	21,700	-7%	34,786
2002	23,415	-7%	37,017
2001	25,151	-1%	39,575
2000	25,457	-1%	39,973
1999	25,822	1%	40,607
1998	25,637	5%	39,849
1997	24,389		38,525

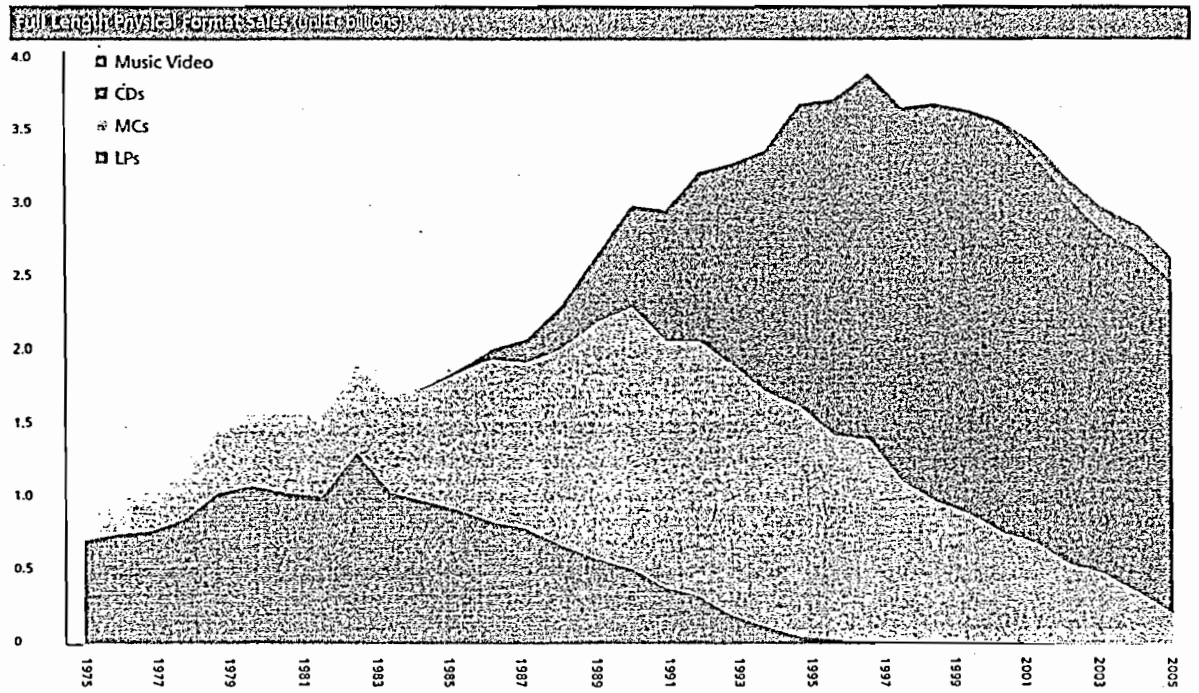
Note: Digital singles included from 2004

Retail Value (000's millions)	
	US$ (Fixed)
2005	33,456
2004	33,507
2003	32,340
2002	32,538
2001	34,787
2000	36,858
1999	38,802
1998	38,298
1997	38,473
1996	39,812
1995	39,717
1994	36,124
1993	31,158
1992	29,464
1991	27,476
1990	24,104
1989	21,600
1988	20,300
1987	17,000
1986	14,000
1985	12,250
1984	12,000
1983	12,000
1982	11,200
1981	12,300
1980	11,433
1979	10,748
1978	10,192
1977	8,083
1976	6,882
1975	5,891
1974	5,142
1973	4,521
1972	3,315
1971	2,670
1970	2,328
1969	2,016

Note: Digital singles included from 2004

RECORDED MUSIC SALES HISTORY





TAXES ON SOUND RECORDINGS

Sound Recording Tax		
Country	Sale Tax	Import Tax
North America		
Canada	7%	Up to 12%
Jamaica	15%	45%
USA	2% - 9%	
Europe		
Austria	20%	20%
Belgium	21%	
Bulgaria	20%	15%
Croatia	22%	
Cyprus	8%	
Czech Republic	22%	
Denmark	25%	
Estonia	18%	3.5%
Finland	22%	22%
France	19.6%	
Germany	16%	
Greece	18%	
Hungary	25%	25%
Iceland	24.5%	10%
Ireland	21%	
Italy	20%	20%
Latvia	18%	
Lithuania	18%	
Netherlands	19%	
Norway	25%	
Poland	22%	22%
Portugal	21%	
Romania	9%	9%
Russia	18%	5%
Slovakia	20%	
Slovenia	8%	2%
Spain	16%	16%
Sweden	25%	4%
Switzerland	7.6%	27%
Turkey	18%	
UK	17.5%	
Ukraine	20%	Variable

Notes: Canada - 7% federal tax, provincial tax varies
USA - sales tax varies by state
Austria, Finland, Ireland, Italy, Slovenia, Spain and Switzerland - import tax for non-EU territories
Slovakia - sales tax reduced from 23%

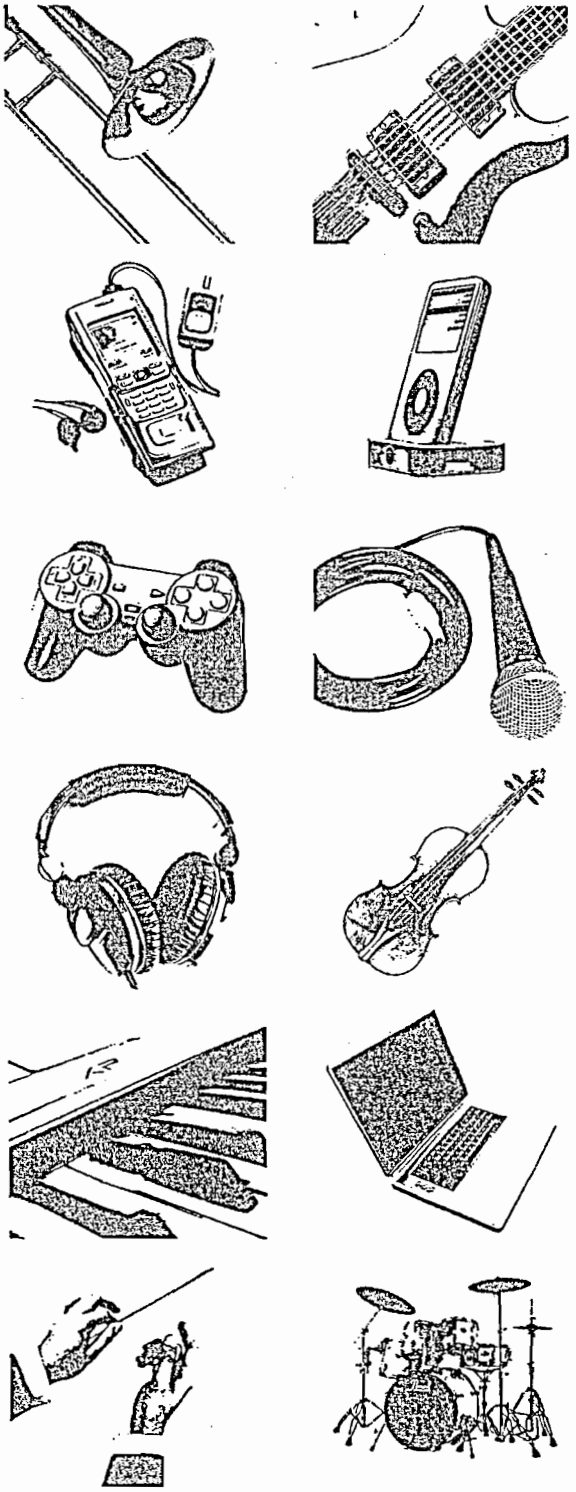
Sound Recording Tax		
Country	Sale Tax	Import Tax
Asia		
China	17%	17%
Hong Kong		
India	4% - 13.8%	20%
Indonesia	10%	20%
Japan	5%	
Malaysia	10%	30%
Pakistan	16%	
Philippines	10%	10%
Singapore	5%	
South Korea	10%	8%
Taiwan	5%	
Thailand	7%	30%
Latin America		
Argentina	21%	28.5%
Brazil	15% - 18%	16%
Chile	18%	10%
Colombia	16%	15%
Ecuador	10%	15.6%
Mexico	15%	
Paraguay	10%	9%
Peru	18%	12%
Uruguay	23%	15%
Venezuela	14.5%	
Australasia		
Australia	10%	
New Zealand	12.5%	
Middle East		
Bahrain		10%
Egypt	10%	70%
Israel	17%	2.5% - 5%
Kuwait		4%
Lebanon	10%	5%
Qatar		4%
Saudi Arabia		5%
UAE		4%
Africa		
South Africa	14%	
Zimbabwe	15%	

Notes: India - import tax for CDs
Chile - import tax not applicable to Mexico, 5% to Mercosur
Uruguay - import tax applicable to non-Mercosur territories
Egypt - 55% customs duty not included in import tax
Israel - 2.5% for MCs and 5% for CDs applicable to non-EU territories and US
Lebanon - no import tax on CDs and DVDs

EXCHANGE RATES

2005 US Exchange Rates	
Country	2005 Exchange Rate
Argentina	2.90
Australia	1.31
Austria	0.80
Belgium	0.80
Brazil	2.43
Canada	1.21
Chile	560.09
China	8.19
Colombia	2,320.75
Czech Republic	23.96
Denmark	6.00
Finland	0.80
France	0.80
Germany	0.80
Greece	0.80
Hong Kong	7.78
Hungary	199.58
India	44.10
Indonesia	9,704.74
Ireland	0.80
Italy	0.80
Japan	110.22
Malaysia	3.79
Mexico	10.90
Netherlands	0.80
New Zealand	1.42
Norway	6.44
Philippines	55.09
Poland	3.24
Portugal	0.80
Russia	28.28
Singapore	1.66
South Africa	6.36
South Korea	1,024.12
Spain	0.80
Sweden	7.47
Switzerland	1.25
Taiwan	32.20
Thailand	40.22
Turkey	1.34
United Kingdom	0.55
United States	1.00

Source: IMF



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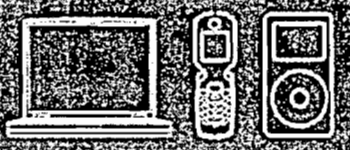
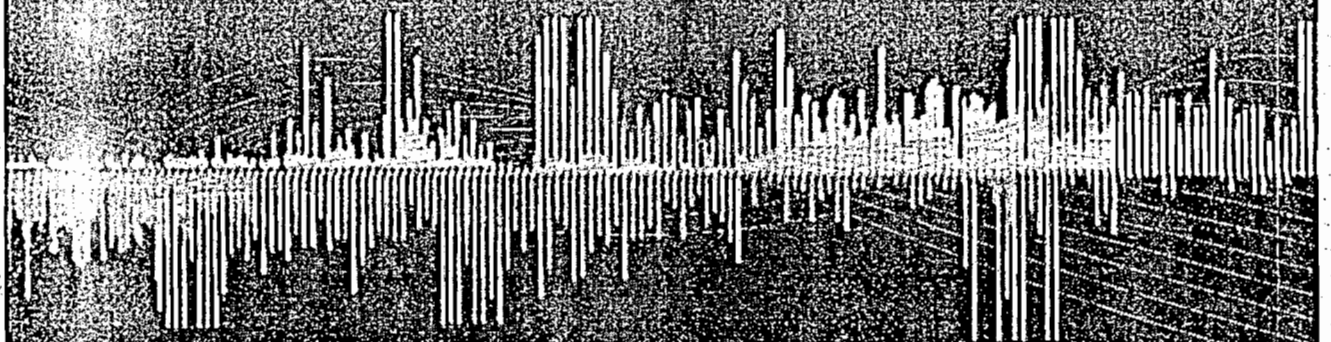
DIGITAL MUSIC REPORT





ifpi

representing the recording industry worldwide

CONTENTS

●	03	INTRODUCTION
●	04	THE LEGITIMATE DIGITAL MARKET TAKES OFF
o	04	Global brands emerge
o	06	Sales and subscriptions
o	06	Building catalogue
o	07	The business models
o	07	Growth outside Europe and the US
●	08	THE MOBILE MUSIC MARKET
o	08	Asia leads the way
o	08	3G launched in Europe
o	09	US mobile market emerging
o	09	The future of mobile music
●	10	WHAT DRIVES DIGITAL MUSIC?
o	10	Record company initiatives
o	12	The broadband and mobile stimulus
o	12	Multi-territory licences for online streaming services
o	13	Portable music boosts demand
o	14	Consumer awareness and uptake improves
o	15	Flexible listening
o	16	Key online service profiles
●	18	THE INDUSTRY TAKES ON DIGITAL PIRACY
o	18	What is internet piracy?
o	18	Illegal file-sharing and its impact
o	19	The industry's response
o	22	Why fight the battle?

"The biggest challenge for the digital music business has always been to make music easier to buy than to steal. That ambition is turning into reality."

INTRODUCTION

John Kennedy, Chairman & CEO, IFPI

Digital music is moving into the mainstream of consumer life

The biggest challenge for the digital music business has always been to make music easier to buy than to steal. At the start of 2005, as the legitimate digital music business moves from a niche market into the mainstream of consumer life, that ambition is turning into reality.

As this report testifies, 2004 has seen an amazing change in the digital music landscape. And the market will grow apace in 2005. Here are some key highlights from this report:

- **Record companies have digitised and licensed over a million songs.** In 2004 the available catalogue on the biggest online services doubled from around 500,000 to around one million tracks
- **The number of online services where consumers can buy music has increased** four-fold to more than 230 worldwide – and over 150 of those are in Europe
- **Services like iTunes and Napster have become household names internationally** – but local repertoire services in many countries are also developing fast
- **The digital download market is growing geometrically** – in 2004 downloaded tracks rose more than ten-fold to over 200 million in the US, UK and Germany combined
- **Record companies have seen their first year of significant revenues from digital sales** – from practically zero to several hundred million dollars. Jupiter thinks this will double in 2005
- **Digital sales could rise to as much as 25% of total sales in five years**, according to some record companies and third party analysts
- **Consumer attitudes are changing** – the latest IFPI European survey shows increasing awareness of, use of, and intentions to use, legal download services

Legitimate online music services have done what some thought only a year ago was unthinkable: they have proved that they can take on the unauthorised free alternatives. Online music today offers unbelievable value for the consumer: for 99 cents in Europe – the price of a loaf of bread, a bus fare, a can of Coke – you can download a piece of music that will stay with you for life. For those who claim they took music for free because there was no digital legal alternative, there is no longer any excuse.

However, making the catalogue available is only one side of the story. We can't just promote online music, we have to protect it as well. Today's legitimate digital music market is evolving in such an extraordinarily adverse climate that it is almost a miracle that it has been able to grow at all. What other business has had to break into a 100% pirate market?

Anti-piracy enforcement is a critical part of the recording industry's digital strategy. And it has proved an effective one too. By sending the simple message that unauthorised file-sharing is illegal and could lead to significant financial or even criminal penalties, we are helping to create the breathing space the legitimate services need. In 2004 the industry launched over 7,000 legal actions in North America and Europe. There will be a lot more cases in more countries in 2005.

As an industry we are embracing technology on one hand while fighting the abuse of technology on the other. The start of 2005 sees record companies discussing with technology firms the best way to harness peer-to-peer for commercial use. If a legitimate and viable commercial business results, based on the payment and permission of right holders, this could be a very exciting development for the online music business in 2005.

Another major development will be the wider consumption of music on mobile phones. Some estimate that 50% of mobile content revenues will be from music.

One important problem that hinders growth of the online music business is the lack of interoperability between services and devices. The danger is of wide-scale consumer confusion and wasted opportunities in a market which has extraordinary growth potential. There is no easy solution, but all players in the online market need to work harder to solve this problem in 2005.

If 2004 was the year record companies digitised and made available their repertoire in bulk, then in 2005 our industry priority is simply this: we must market, promote and sell music, for download, hire, subscription, wherever and whenever we can. Record companies want to license the music – to as many services, for as many consumers, on as many formats and devices for use in as many places and countries as they can. There are straightforward conditions: the business must be legitimate; the music must be correctly licensed by its rightholders, and record companies and other right holders must get properly paid.

I am confident that in twelve months' time the digital music market will have grown very significantly around the world. A sector that currently accounts for a very small percentage of the industry's revenues is poised for take-off in the next few years. At long last the threat has become the opportunity.

IFPI's role in this is clear: promoting legal services; educating governments and consumers about this new market; and aggressively tackling internet piracy. These will be our big challenges in 2005.

The emergence of a successful digital business has been the single most important development in the music industry in 2004.

THE LEGITIMATE DIGITAL MARKET TAKES OFF

The emergence of a successful digital business has been the single most important development in the music industry in 2004.

Services around the world proliferated. By the end of 2004, IFPI's global tracking on the www.pro-music.org website counted over 230 services that offer online music legally, up four-fold from 50 a year earlier and 20 in January 2003. More than ten services operate in at least three markets. In Europe alone, there are over 150 online music services available in 20 countries.

The mobile market for music is also expanding rapidly, as 3G and mobile music services enter the market.

GLOBAL BRANDS EMERGE

Brands like Apple's iTunes, Napster, Sony Connect and MSN Music, have spread internationally to multiple territories during 2004. The global leader, iTunes, unveiled its service in the UK, Germany and France in June 2004, and then in a further nine markets in Europe during October. Apple reported sales of five million songs in the first ten weeks of operation in Europe. Globally, iTunes reached sales of 230 million tracks since launch. iTunes reached Canada in December and is expected to launch in Japan in 2005.

Napster, one of the world's most recognised digital music brands came to the UK and Canada in May 2004 and has focused on local repertoire. Sony Connect launched in the US in April and in key European markets in July, while Rhapsody is expected to do so in 2005.

Microsoft's MSN Music – which first launched in 2002 through the OD2 platform in the UK, France, Germany, Italy and Australia – expanded to eight more European markets in November. Microsoft is marketing the 'Plays For Sure' message emphasising the wide compatibility of the Windows Media Audio format with online music services and portable digital players.

A number of local services joined the market across continental Europe in 2004. These range from charity download sites to services that specialise in local repertoire such as T-Online's Musicload service in Germany, Rosso Alice in Italy and Archambaultzik.ca in Canada, which are gaining in popularity and rivalling global services. Musicload is the current market leader in Germany, reaching the one million monthly downloads mark in December 2004 (a level 80 times higher than at launch in October 2003). Other online stores are bundled with local broadband providers or linked to local music retailers.

The most advanced digital markets in Europe are the UK, with over 30 services, followed by Germany and France with more than 20 and 10 services respectively. Some of the main services in each market are shown opposite.

MUSIC SERVICE LAUNCHES IN 2004

JANUARY	MARCH	APRIL	MAY	JUNE
MyCokeMusic: UK	**Wal-Mart:** US	**Sony Connect:** US **MSN Music:** Australia	**Napster 2.0:** UK, Canada **MyCokeMusic:** Austria	**iTunes:** UK, Germany, France

JULY	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
Sony Connect: UK, Germany, France	**Virgin Digital:** US	**iTunes:** Austria, Belgium, Finland, Greece, Italy, Luxemburg, Netherlands, Portugal, Spain **MSN Music:** UK, France, Germany, Italy, Netherlands, US, Japan	**MSN Music:** Belgium, Spain, Norway, Denmark, Sweden, Finland, Austria, Switzerland **MyCokeMusic:** Switzerland **Tesco:** UK	**iTunes:** Canada

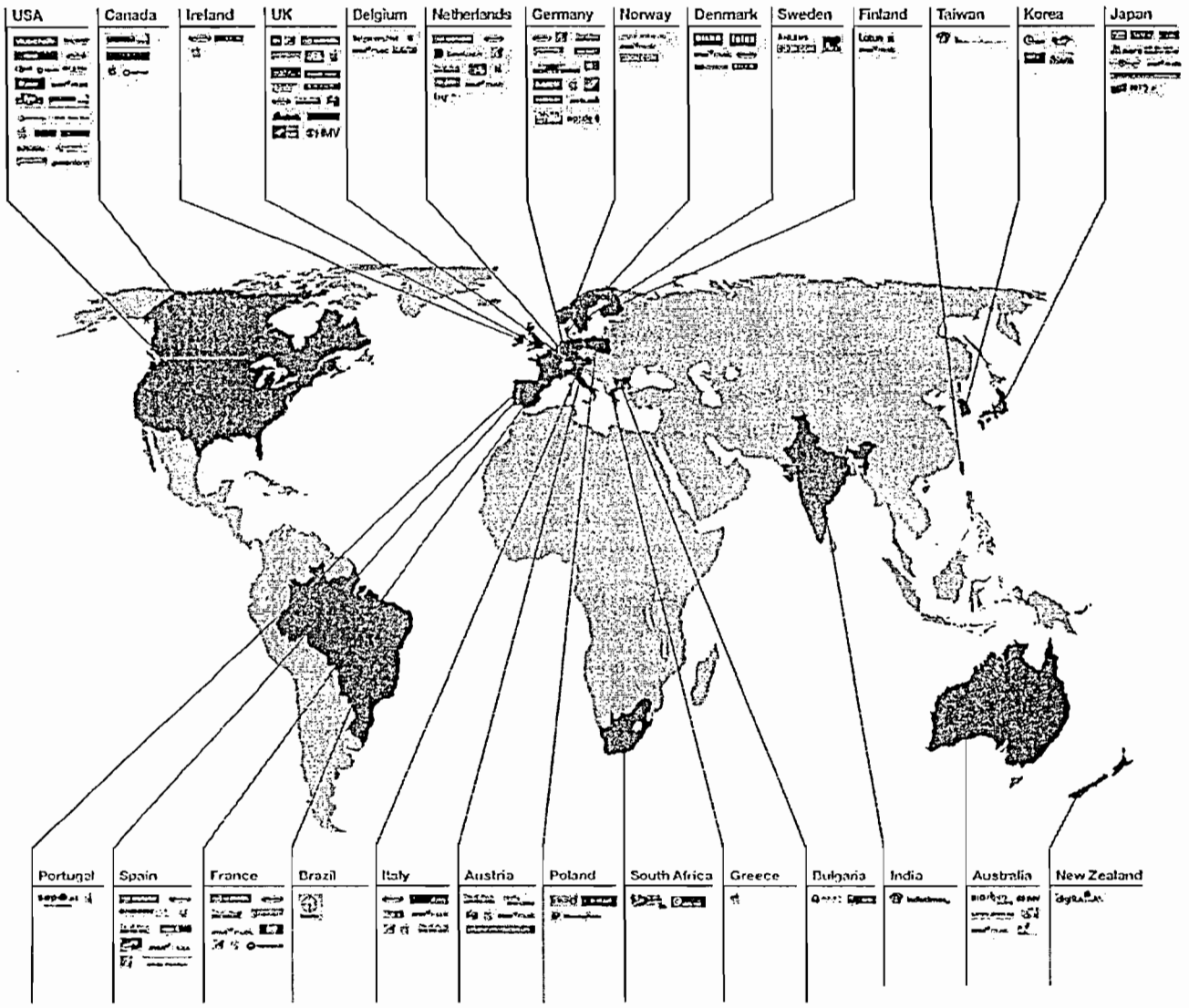
KEY FACTS OF 2004:

AVAILABLE REPERTOIRE DOUBLES TO AROUND ONE MILLION TRACKS

NUMBER OF SITES UP FOUR-FOLD TO 230 WORLDWIDE

DOWNLOADS UP MORE THAN TEN-FOLD TO OVER 200 MILLION IN THE US, UK AND GERMANY COMBINED

DIGITAL MUSIC SERVICES EXPAND INTERNATIONALLY



"ITUNES REALLY COMPETES WITH PIRACY, NOT WITH THE OTHER SERVICES. PIRACY IS THE BIG ENEMY. BUYING MUSIC ONLINE LEGALLY IS GOOD KARMA."
STEVE JOBS, CEO OF APPLE

SALES AND SUBSCRIPTIONS

The US remains the global leader in online music sales and subscriptions, but Europe is making headway.

Sales of single track downloads (excluding downloads sold as albums and song streams) in the US for 2004 rose to 142.6 million, up from 19.2 million in the second half of 2003 (when Nielsen SoundScan began tracking downloads in the US). Album downloads totalled 5.5 million.

In the UK, the largest European download market, total downloads rose from practically zero to 5.7 million (UK Official Chart Company/BPI).

Subscription services are growing steadily in the US. Paying subscribers for the major services – Rhapsody, Napster, MusicNet, MusicMatch and eMusic – more than doubled in a year to some 1.5 million (December figures). Virgin Digital launched in the US in September 2004 – another big brand expected to boost the subscription-based sector.

Subscription services outside the US are also growing; Napster (UK), Wippit (UK), Vitaminic (Europe) and E-compil (France) are examples.

BUILDING CATALOGUE

The music consumer can today shop or browse in online services that offer a bigger catalogue than all but the very largest physical megastores.

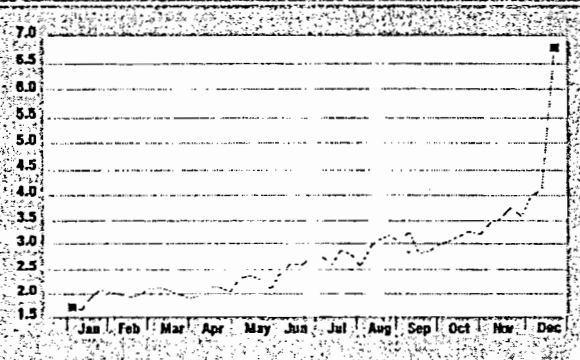
Music catalogues available through online services have grown steadily. In the US, iTunes, Napster and Rhapsody expanded their catalogues from 500,000 tracks to over one million during 2004. In Europe, services powered by OD2 (including MyCokeMusic and Tiscali Music Club) expanded their catalogues from 300,000 to 600,000 tracks, with MSN reaching one million tracks. In Europe Napster reached one million songs, available for streaming through a subscription, after agreements with independent labels.

This is a dramatic increase in available repertoire. A catalogue of one million tracks is equivalent to around 80,000 albums – larger, for example, than most megastores.

"2004 HAS BEEN A LANDMARK YEAR FOR THE MUSIC INDUSTRY. THE DIGITAL SERVICES HAVE GIVEN THE INDUSTRY THE SHOT IN THE ARM IT NEEDED – STIMULATING THE PUBLIC'S APPETITE FOR CONSUMING MUSIC WHILE GIVING THEM A SUPERIOR, LEGAL ALTERNATIVE TO THE P2P SITES. AS BROADBAND PENETRATION BECOMES MORE WIDESPREAD, THE DIGITAL SERVICES WILL TAKE EVEN GREATER HOLD AND CONTINUE THEIR EXPANSION INTO BOTH ESTABLISHED AND EMERGING MUSIC MARKETS. THROUGH 2005 AND BEYOND WE WILL CONTINUE ROLLING OUT NAPSTER AND OUR NEW PORTABLE SUBSCRIPTION SERVICE 'NAPSTER TO GO' INTERNATIONALLY WITH CAREFULLY TAILORED SERVICES THAT CATER FOR AND RESPECT LOCAL DIFFERENCES AND REPERTOIRE."

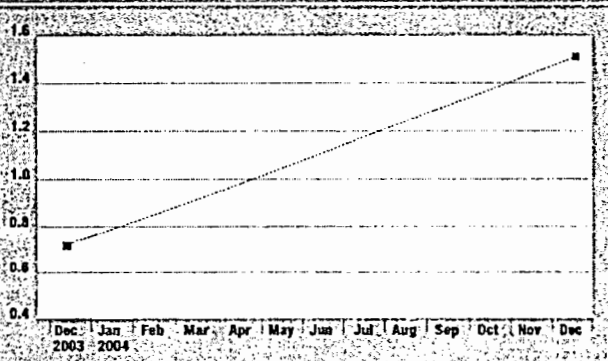
CHRIS GOROG, CHAIRMAN & CEO OF NAPSTER

US DIGITAL WEEKLY SALES 2004 (MILLIONS)



Source: Nielsen SoundScan, single track downloads only (excluding album downloads and streams)

GROWTH IN US SUBSCRIBERS TO MUSIC SERVICES (MILLIONS)



Source: Rhapsody, Napster, MusicNet, MusicMatch, eMusic (public announcements)

THE BUSINESS MODELS

Among the major brand names, two distinct business models have emerged in digital music: pay-per-download and subscription services.

Pay-per-download services meet consumer demand to 'own' music, but with greater flexibility than CDs as tracks can be selected and downloaded on the spot. Services such as iTunes, MSN Music, Wal-Mart (US) and Tesco (UK) sell downloads from US$0.80 per track. Tracks are transferable to portable devices and can be burned onto disk.

Subscription services offer a very wide choice of music for a monthly fee, allowing users to access all the music they want with the option to purchase selected tracks. Services like Napster, Rhapsody and Virgin Digital offer streaming and radio-play access for a monthly fee – typically from US$9.99. Downloads and burns are available for an extra per-track fee from US$0.79. Some subscription services such as Napster now allows 'tethered downloads' which are transferable to portable players for as long as the consumer remains a subscriber.

GROWTH OUTSIDE EUROPE AND THE US

Online services have expanded outside Europe and the US, with over 40 online music services now available. Notably, the Asia-Pacific region has seen a big increase in online services.

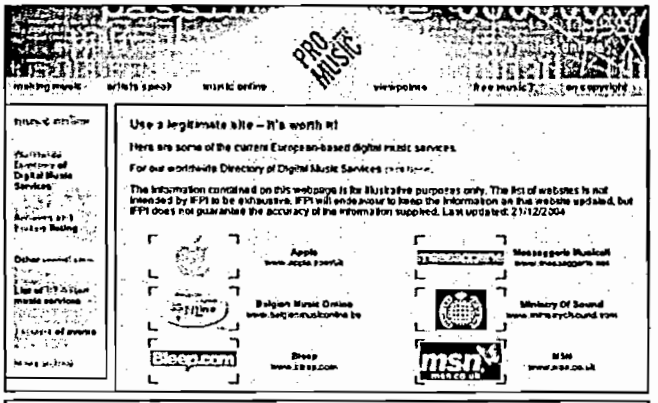
In Australia, NineMSN became the first OD2-powered service to launch outside Europe. In October 2004 the service launched a co-branded store with HMV offering both digital and physical music products. Meanwhile digital service provider Destra, which powers JB Hi-Fi, Sanity and ChaosMusic among others, increased its catalogue from 100,000 to 500,000 tracks during 2004.

Soundbuzz has also expanded its operations in Asia-Pacific by partnering with Singapore's Creative Technology. The partnership allows users of Creative's portable digital music players access to Soundbuzz's Digital Music Store. The Soundbuzz/Creative package has been available in Singapore since July and was rolled out in Australia, India and South East Asia at the end of 2004.

In Canada, a number of online retailers have joined existing service Puretracks by launching their own music services during 2004. These include Archambaultzik, Sympatico Music Store, Bonfire@Future Shop, Napster and iTunes.

Musica is South Africa's first online service, launched in December 2004. The service debuts with 400,000 tracks and is powered by OD2.

In Latin America, the digital music market is developing despite low broadband and portable player penetration. Brazil's iMusica is the only service provider in the region, powering MSN Brazil and iget. US-based services specialising in Latin repertoire have developed in 2004, including emepe3.com and emusiclatino.com. Other services are due to launch in 2005, indicating growing demand for digital Latin music.



For a comprehensive directory of services visit www.pro-music.org

WHAT SETS US APART FROM THE REST? WE WANT TO HAVE RELEVANT CONTENT AVAILABLE FOR CONSUMERS IN ALL OUR TERRITORIES. INCREASINGLY, PEOPLE WILL WANT TO BUY A REAL MUSIC PRODUCT AND WILL WANT TO GET CONTENT THAT'S RELEVANT. IN FRANCE, FOR EXAMPLE, OVER HALF OF THE ALBUM CHART IS MADE UP OF LOCAL ACTS. YOU CAN'T BUILD AN ONLINE SERVICE FROM JUST INTERNATIONAL CONTENT, OR YOU WON'T SURVIVE IN THE MARKET.
(GREGOR ERKEL, DIRECTOR OF SONY NETWORK SERVICES EUROPE (SONY CONNECT))

Music on mobile phones is set to become a significant source of revenue for record companies.

THE MOBILE MUSIC MARKET

Music on mobile phones is set to become a significant source of revenue for record companies. Music via mobiles has quickly evolved from ringtones, to the use of full audio recordings in ringtunes, ringback tunes, full-track downloads and other multimedia applications. With the advent of 3G technology, consumers can get a range of interactive content, including music tracks and video, at higher speed and better quality.

Mobile phone handsets have quickly evolved from talking devices into fully-fledged entertainment gadgets, and consumers are increasingly familiar with the concept of buying music through their handsets.

ASIA LEADS THE WAY

The mobile music market is already big business in Asia, particularly in Japan and South Korea, where 3G is advanced and handset penetration is high. There is also a wide range of products and services available in those markets, from ringtunes (launched as far back as in 2002) to dedications, ringback tunes, video and TV streaming services. In both markets, mobile music sales have easily outsold online downloads.

Japan has a ringtune market worth an estimated US$100 million in 2004. Label Mobile is the largest distributor in Japan, with a catalogue of 80,000 tracks from 19 record companies. By November 2004 Label Mobile was selling a monthly average of 12 million ringtunes. Operator KDDI began offering full-track downloads to mobiles in November 2004 and was expected that the one million sales mark would be reached by the end of 2004.

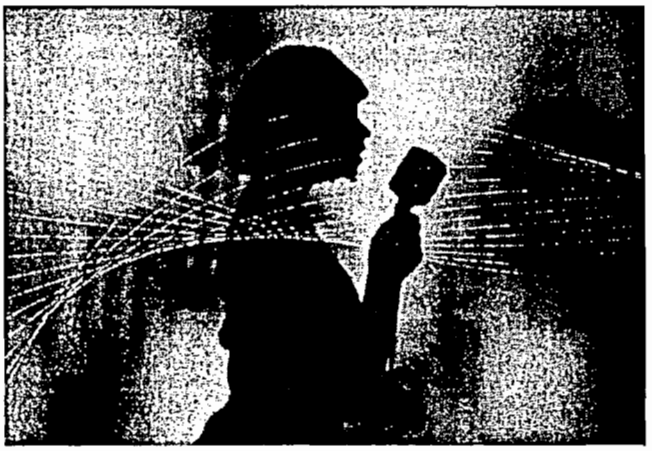
In South Korea, where the market has expanded beyond ringtunes into full-track downloads, the mobile music market (including ringtones, ringtunes and full-track downloads) was worth an estimated US$158 million in 2003. China is also a growing mobile music market with mobile subscribers reaching 290 million (around 20% of the population).

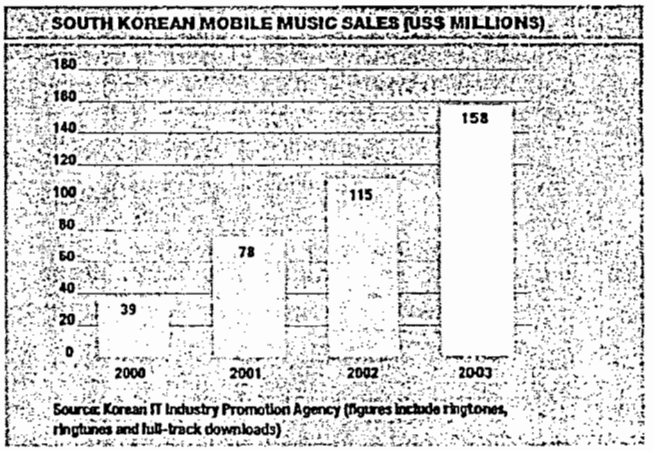
3G LAUNCHED IN EUROPE

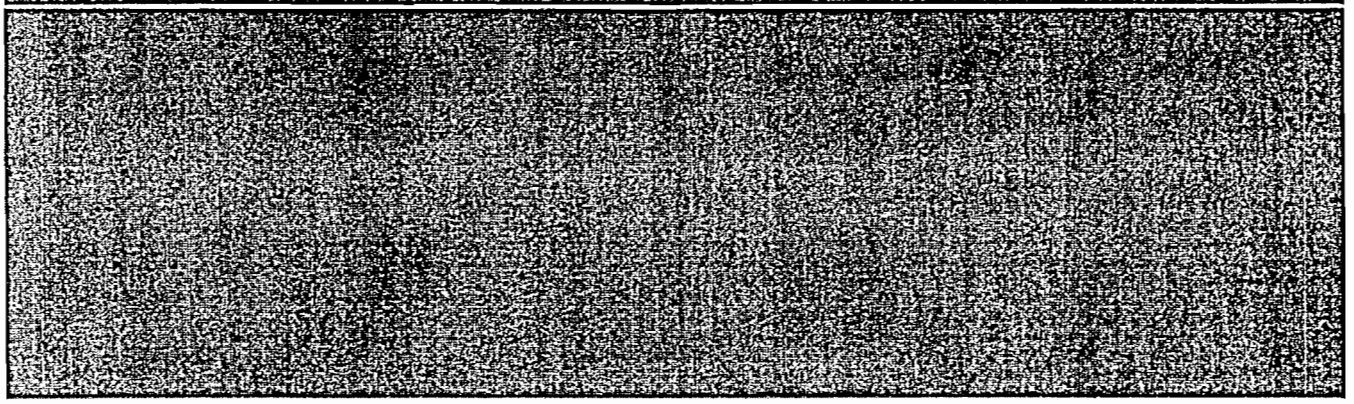
In Europe, 2004 was a breakthrough year with a number of key service launches and the roll-out of 3G networks. Vodafone launched a 3G music download service in November 2004 under its 'Vodafone live!' brand in 13 markets. Licensed by record companies, full-track and video downloads as well as audio and video streams are available on the service. Orange also launched 3G services in December offering full-track downloads. UK operator '3' concentrates on 3G video services, offering music video, sports clips and news since March 2003.

Record companies have launched various initiatives in the mobile sector in Europe during 2004. EMI, for example, offered previews of Robbie Williams' music video 'Misunderstood' in partnership with '3'. The artist's latest album was also sold in memory cards compatible with handsets and handheld computers in the UK. '3' also featured streamed live concert footage of the Sony BMG act Rooster.

Also available in Europe are: O2's download service, with its own compatible portable device (Siemens SX1 Music) allowing consumers to transfer downloaded tracks from the mobile to the device; T-Mobile's 'Mobile Jukebox', available in the UK, Germany and Austria offering 90-120 second music clips; and Spanish operator Telefonica Mobile's 'Melodeo', offering some 30,000 tracks for download. Warner Music licensed its entire catalogue to Telefonica late in 2004.







US MOBILE MARKET EMERGING

In the US, the mobile music market is in its infancy, but growing rapidly, with an estimated 128 million mobile users. Ringtones are the main form of mobile music consumption, marked by the launch of the Billboard ringtone chart in November.

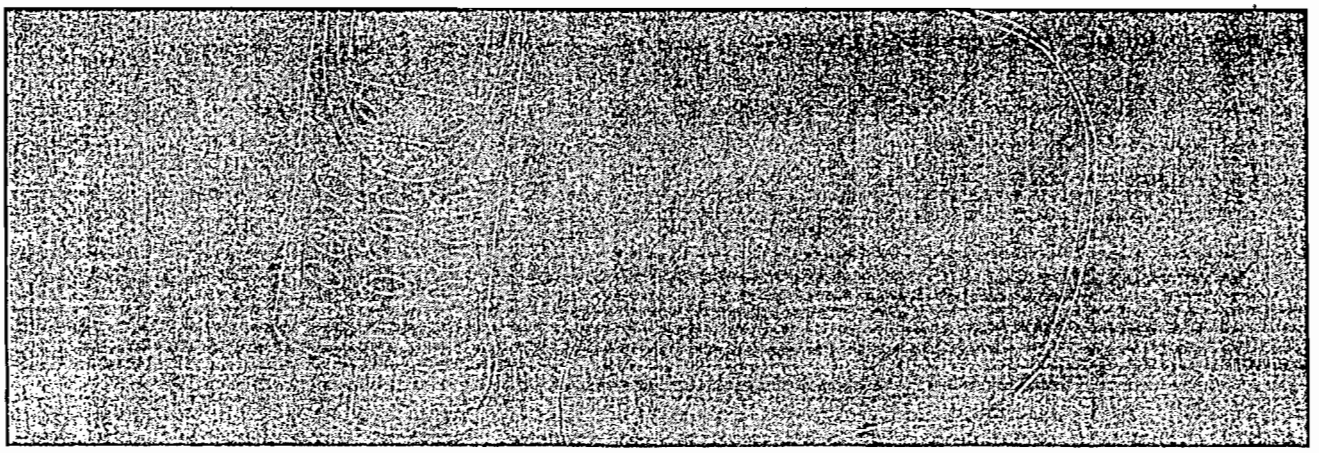
In an effort to increase sales of real recording ringtunes, various operators entered into agreements with major and independent record companies. Services launched include Sprint's 'Music Tones'; AT&T's 'MmMode Music Store' whereby consumers can stream songs from a catalogue of 750,000 tracks via mobile or buy single tracks which are downloaded onto PCs; and Verizon's 'Get It Now' offer of short audio clips. In early 2005 Verizon introduced mobile video and audio services with a range of phones capable of high-speed Web surfing.

THE FUTURE OF MOBILE MUSIC

In 2005 and beyond, more advanced music applications for mobiles will emerge as a result of the continued roll-out of 3G networks and replacement of handsets. As more content and more services are made available, consumers will become much more familiar with the concept of buying music through their handsets.

Mobile phones are also beginning to see much bigger storage capacity, longer battery life and increased functionality. While current memory capacity on handsets might be small compared to portable players such as the iPod, many expect that 3G mobiles could rival these devices in the future.

> MSN MUSIC, WHICH IS AVAILABLE IN 20 MARKETS, IS A KEY ELEMENT IN MICROSOFT'S VISION OF DELIVERING DIGITAL ENTERTAINMENT TO CONSUMERS AND GIVING THEM THE ABILITY TO EASILY CUSTOMIZE THEIR ENTERTAINMENT EXPERIENCES. MORE THAN ANYTHING ELSE, WE'VE FOUND THAT CONSUMERS WANT TWO THINGS: CHOICE AND SIMPLICITY. THROUGH PARTNERSHIPS WITH MORE THAN 3,000 RECORD LABELS AND MORE THAN 70 DEVICE MAKERS, WE'RE WORKING TO MEET THESE DESIRES BY MAKING IT FUN AND EASY FOR PEOPLE TO FIND THEIR FAVOURITE SONGS AND LISTEN TO THEM ON DEVICES THAT FIT EVERY BUDGET AND LIFESTYLE.
>
> ROB BENNETT, SENIOR DIRECTOR OF MSN ENTERTAINMENT, MICROSOFT



Digitisation and licensing of music content is a key priority for record companies and essential for the development of the digital music market.

WHAT DRIVES DIGITAL MUSIC?

Several key factors drive the growth of digital music, including partnerships between record companies and online/mobile music services; growing broadband and mobile penetration; sales of portable players and handsets; rising consumer awareness of legitimate services; the increased flexibility that is offered to the consumer; and the fight against online piracy.

RECORD COMPANY INITIATIVES

Digitisation and licensing of music content is a key priority for record companies and essential for the development of the digital music market. Many record companies have created dedicated digital business units to distribute and market music internationally.

Majors and independent record companies have licensed their music to the big online music brands, including Apple, Napster, Microsoft, OD2, RealNetworks and AOL, as well as to a selection of smaller or niche services. There has also been a big push in licensing music to mobile operators such as Sprint, Verizon, Vodafone, Orange, T-Mobile and SKT Telecom.

Digitisation has also been a priority. Universal Music, for example, has completed a two-year project to digitise its entire active European music catalogue – some 300,000 tracks drawn from more than 25,000 albums. The company now digitises around 2,500 newly released tracks each week. Universal also launched a digital label in November 2004 – UMe Digital, which will both sign exclusive digital deals with new artists and handle digital distribution deals for independent labels.

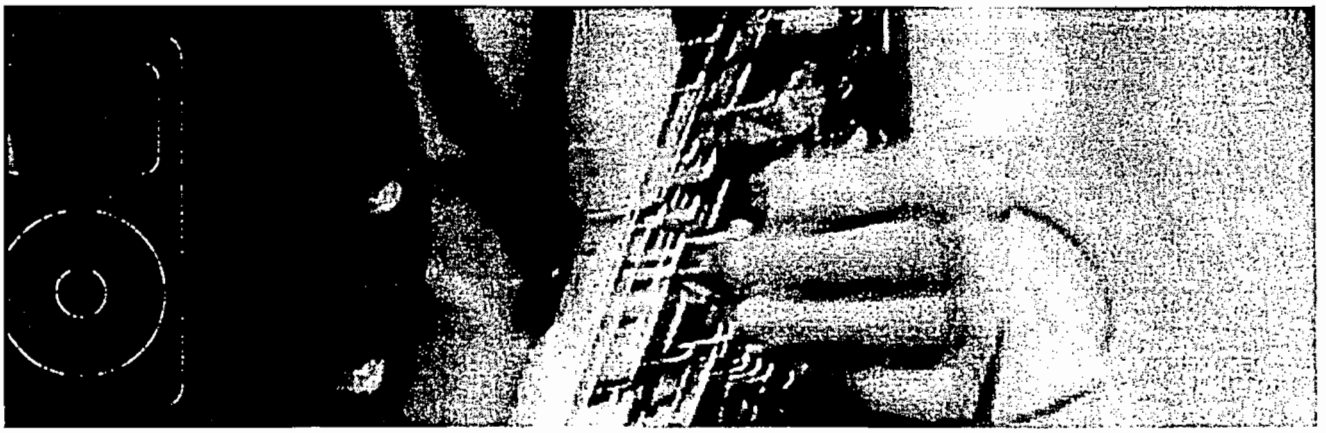
Sony BMG has created a dedicated global digital business unit to focus on global digital business development for mobile and online music. The unit also looks at anti-piracy measures, new industry technologies such as CD rights-management software, and new format launches. Sony BMG has also digitised its entire active catalogue, enabling it to focus on previously unreleased titles. Over 1,600 music videos have already been digitised for electronic distribution.

EMI has signed hundreds of licensing agreements and spent the past few years building its global digital supply chain for both online and mobile services. Digital products can reach world markets day-and-date with its physical releases. EMI has also significantly expanded resources dedicated to digital sales and marketing in key territories. It has offered innovations such as Robbie Williams' memory-card release of the artist's album.

Warner Music has digitised and licensed the majority of its catalogue, signing licensing agreements with a number of online distributors for example, and with Verizon in the mobile sector in the US.

Other specialised digital marketing ventures have launched in 2004. Vital PIAS Digital, for example, incorporates dedicated digital production services, specialised sales and marketing expertise, data management and access to global digital music services for over 50 independent labels.

Record companies are also expanding into new digital channels such as 'music kiosks'. Warner Music and Sanctuary for example, both partnered Mediaport Entertainment Inc. to offer their catalogues in free-standing kiosk units at which people can create compilations and then either burn them to CD or transfer to portable players. EMI partnered with Starbucks in the US to offer the chain's customers the ability to burn custom-made CDs instore.



2004 MARKETING INITIATIVES

- Digital only releases
- Exclusive artist content available online and via mobile
- Release of digital tracks prior to or simultaneously with the release of the single to radio, ahead of physical release
- Artist websites offering track downloads and exclusive materials
- More information about recordings, such as composers, producers, collaborating performers etc.
- Niche download sites, such as Warchildmusic.com and Bignoisemusic.com (UK), where a proportion of the price of downloads goes to charity
- New digital channels, including 'kiosk services' where consumers can compile their own custom CDs
- Specialised campaigns by companies like 7 Digital Media or Recordstore.co.uk who used direct marketing to appeal to a band's fanbase
- The launch of digital downloads and ringtone charts in a number of territories
- Deals between broadband providers and online music services to offer 'packages' including both services for a single fee (AOL, Tiscali, T-Online)

HARNESSING PEER-TO-PEER (P2P)

The recording industry is working with a range of technologies that create legitimate ways of doing business in online music. It is however, totally opposed to the abuse of technology, and in particular that of certain P2P networks that facilitate large-scale copyright theft. Record companies are now examining the possibilities for using P2P in a legitimate and commercial way that pays rightholders for their works.

There are a number of publicly-disclosed projects underway. Snocap for example, a new venture by original Napster founder Shawn Fanning, provides technology that recognises songs requiring licences on P2P networks and automatically presents users with options to purchase authorised songs instead of allowing unauthorised copies to be traded illegally. A new service called Mashboxx is reported as being developed with Snocap to offer legitimate, licensed and paid access to content in a P2P environment.

Qtrax and Peer Impact (Wurld Media) are further examples where P2P technology is being designed to facilitate licensed file-sharing with various payment options for users. Companies such as Audible Magic and Overpeer have also developed song-identification systems similar to Snocap. Some of these services plan to launch in early 2005.

Other innovative services include the 'Open Royalty Gateway' developed by Blueprint and supported by BT (UK), launched in November 2004. The system allows for a paid-for 'word of mouth' distribution. Consumers recommend tracks to friends, and are rewarded with credits for future purchases if the tracks are bought.

"SNOCAP IS PLEASED AND PROUD TO HAVE COME UP WITH A TECHNOLOGY PLATFORM THAT WILL BRING THE BREADTH OF MUSIC THAT IS CURRENTLY AVAILABLE ON UNAUTHORISED SERVICES TO THE PAID MARKET PLACE. WE WILL ENABLE P2P SERVICES TO BRING REWARDS FOR EVERYONE CONCERNED – ESPECIALLY FOR THE MUSIC FANS, BUT ALSO FOR ARTISTS, SONGWRITERS AND MAJOR AND INDERENDENT LABELS ALIKE"

SHAWN FANNING, FOUNDER OF SNOCAP

THE BROADBAND AND MOBILE STIMULUS

Many music markets are seeing rapid growth in broadband penetration rates. Broadband stimulates online music by improving download times and file quality, prompting users to download and burn more regularly. Over 90% of Rhapsody users in the US, for example, have a broadband connection. Forecasts indicate that broadband household connections worldwide will increase by 169% by 2008 (PWC). Latin America will experience the biggest increase (430%).

In most countries broadband penetration is still low at under 20% of households, but rates are on the increase.

Without adequate intellectual property protection, broadband can also have an extremely negative potential – the best example being South Korea, a music market which is dominated by online piracy.

Mobile penetration is also rising at a very fast pace around the world, often surpassing broadband rates, especially in Asia. In Europe mobile penetration exceeds 80% in countries such as Finland, Greece, Italy, Norway, Sweden and the UK, and is growing rapidly in other markets. The US currently lags behind, but penetration is expected to rise in the coming years.

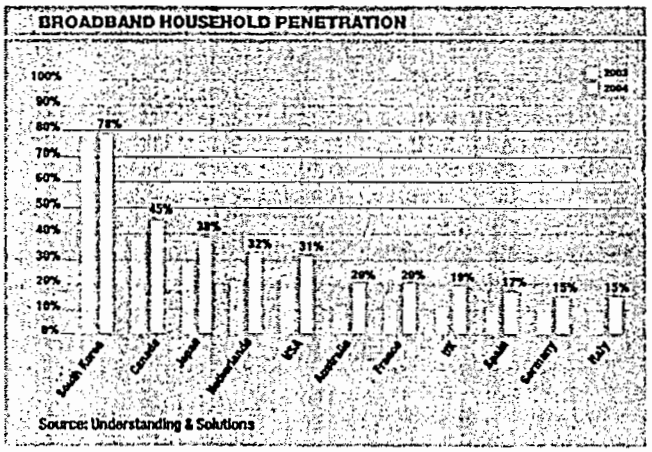
MULTI-TERRITORY LICENCES FOR ONLINE STREAMING SERVICES

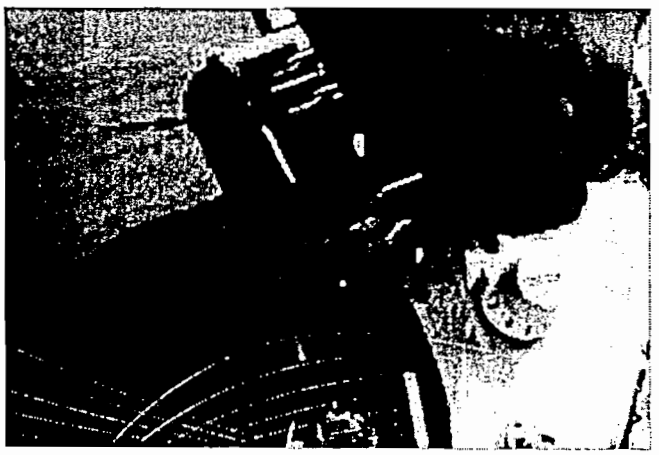
Streaming of music programmes via the internet is just one of the many new forms of digital music distribution. Webcasting is already well-established in the US, where there are currently 1,250 licensed services. International cross-border licensing for internet streaming has been a priority for the recording industry.

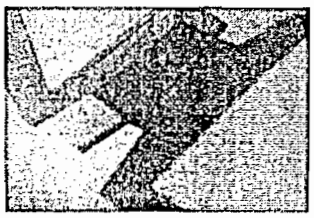
IFPI has set up a system that allows internet webcasters and simulcasters to clear the necessary rights in a multitude of countries by entering into a licence in one participating country. Such 'one-stop' licensing facilitates the entire process of setting up legitimate streaming services, eliminating the need for rights to be cleared in each individual country.

In 2004 the IFPI webcasting agreement was extended to include 17 countries, including SoundExchange in the US. Simulcasting of traditional

"WE BELIEVE THAT THE GLOBAL ONLINE MUSIC MARKET IS POISED FOR EVEN GREATER GROWTH IN 2005 AND 2006, AS BROADBAND BECOMES UBIQUITOUS AND CONSUMERS AROUND THE WORLD GROW COMFORTABLE WITH ONLINE SERVICES. REALNETWORKS WILL CONTINUE TO WORK CLOSELY WITH THE GLOBAL MUSIC INDUSTRY TO DELIVER LOCALISED ONLINE SERVICES THAT MAKE IT EASY FOR MUSIC FANS TO EXPLORE AND ENJOY THE MUSIC THEY LOVE."
ROB GLASER, CHAIRMAN & CEO OF REALNETWORKS (RHAPSODY)







broadcasters' programming onto the internet is now facilitated by a similar cross-border agreement among producers' rights societies in 35 countries.

PORTABLE MUSIC BOOSTS DEMAND

The trend towards portable technology is phenomenal. Portable players like Apple's iPod have given consumers greater control and portability of their music collections. The growing popularity of digital players, which themselves have intrinsic consumer appeal, is driving the uptake of legal music services.

The global portable digital player market was estimated to be worth US$4.4 billion in 2003 and is estimated to rise to US$7 billion in 2004 (IDC).

The portable player market already presents consumers with an array of choices. Apple now has a wide range of competitors including Creative (Zen product range), Rio (Karma, Carbon), Sony (Network Walkman) and others. To date the iPod, with over 50% share of the global market (including both flash media and hard-drive based players, IDC), has been the most successful portable digital player, reaching sales of 10 million units since launch in 2001. In October 2004 Apple launched the first artist-branded digital player, the U2 iPod, which included a discount on the option to purchase U2's entire catalogue through iTunes.

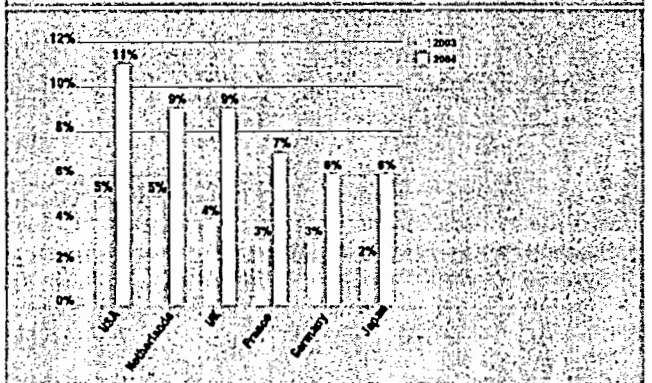
The market is beginning to see a convergence of portable music devices and mobile handsets, although small memory capacity and limited battery life place limits on this convergence for the time being. Many consumer technology companies, including Apple and Microsoft, are partnering mobile handset makers to offer compatible services for download or streaming to phones.

The rapid rise of different portable player systems has exposed one key problem, namely the lack of interoperability between different devices and services.

The major consumer technology companies behind the development of the major online services – namely Apple, Microsoft, Sony and RealNetworks – have developed their hardware and software using preferred or proprietary technologies. The Apple iTunes service, for example, is only currently compatible with the Apple iPod. Microsoft technologies have been used by a number of leading online services and a number of different manufacturers produce players compatible with those services, although they are still incompatible with, for example, technologies by Apple, RealNetworks and Sony. Sony Connect offers songs in Sony's ATRAC3 format, compatible only with Sony players.

Interoperability barriers between the various suppliers' products and services are confusing to consumers and ultimately could place limits on the growth of the sector. Achieving interoperability between different music services and devices is therefore a top priority both for the consumer and for the recording industry.

GROWTH OF PORTABLE DIGITAL PLAYER PENETRATION



Source: Understanding & Solutions. Figures exclude CD and MiniDisc players

PORTABLE PLAYER EXPLOSION – SOME KEY STATISTICS

75% of portable player owners said that they listened to music they most likely would not have done otherwise – Harris Interactive (for Guardian Unlimited), UK

16% of consumers who had paid for downloads owned iPods – Entertainment Media Research (May 2004, sample of 540 internet users), UK

Nearly 50% of Rhapsody customers in the US own portable digital players – RealNetworks

Sales of iPod have reached 10 million units since launch in 2001 – Apple

CONSUMER AWARENESS AND UPTAKE IMPROVES

A growing number of consumers are paying for music downloads, more intend to do so in the future and awareness of legal services is rising sharply, according to research by IFPI as well as by third parties.

In the US, internet music users paying for downloads more than doubled to 35% in the year to July 2004, according to IPSOS. In the UK, 23% of downloaders said they had paid to do so at some stage (Entertainment Media Research 2004).

IFPI research indicates that the number of people buying music online legitimately appears to be rising fast – even though fewer than one person in ten in Europe regularly downloads music. A survey conducted in six European countries (Austria, Denmark, France, Germany, Italy and the UK) by GfK for IFPI in December 2004 shows that while some 44% of music downloaders used a P2P service during November 2004, a further 44% actually downloaded from either a legal service (22%) or an artist/band website (also 22%). Although legal download volumes are still low compared with P2P, the survey indicates that the number of people using legal sources is fast approaching those using P2P.

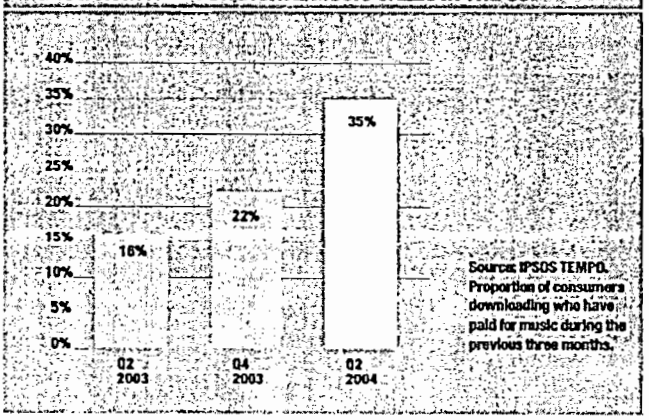
The same survey also indicates that use of legal services is likely to increase significantly in 2005. Of those who intend to download music in the next few months, almost one third (31%) stated that they are likely to download from a legal service (compared to the current level of 22%). Meanwhile, P2P use is not expected to grow, with some 38% of those intending to download saying that they are most likely to use a P2P service, compared to the current level of 44%.

Awareness of the existence of legal online music services has grown, with 29% of Europeans aware of legal online services in December 2004 (49% of 16–29 year olds), up from only 23% of Europeans (38% of 16–29 year olds) in December 2003.

A key element of the record industry strategy is to move illegal file-sharers over to the legitimate paid-for services. For existing online music users, there appears to be a clear divide between users of legal services and people downloading illegally using a file-sharing service. In the US, NPD Group research, which monitors household downloads, shows that just 9% of households regularly use both legal services and file-sharing networks – it tends to be one or the other.

Younger consumers (under 25s) seem more reluctant to try legal alternatives. However this is changing rapidly, thanks in part to increased ease of payment. Napster has introduced pre-pay cards in the US and in the UK, available widely from retail stores, and iTunes has introduced the use of PayPal to allow users to pay for downloads without using a credit card. The vast majority of legal online services now offer gift certificates or alternative payment schemes to credit cards.

GROWTH IN PAID-FOR DIGITAL MUSIC SALES IN THE US



WHY LEGAL SHOPS ARE BETTER THAN ILLEGAL FILE-SHARING

- They ensure payment to the creative community and guarantee future investment in music
- They are virus and spyware free
- They offer a better interface with portable music players for seamless management of music collections
- They offer exclusive tracks often weeks before general release, or exclusive to the services that offer them
- File quality is guaranteed
- They offer quality editorial including reviews, recommendations and personalised radio stations
- They are wholeheartedly supported by artists

FLEXIBLE LISTENING

The combination of searching, browsing, downloading and portability is transforming the experience of consuming music. Notably, it is driving demand for single tracks.

In the physical audio market, singles make up roughly 10% of unit sales compared to 90% for albums. So far, online music consumption shows an almost inverse pattern to this, with iTunes, for example, reporting that roughly only one in ten transactions are a full album purchase.

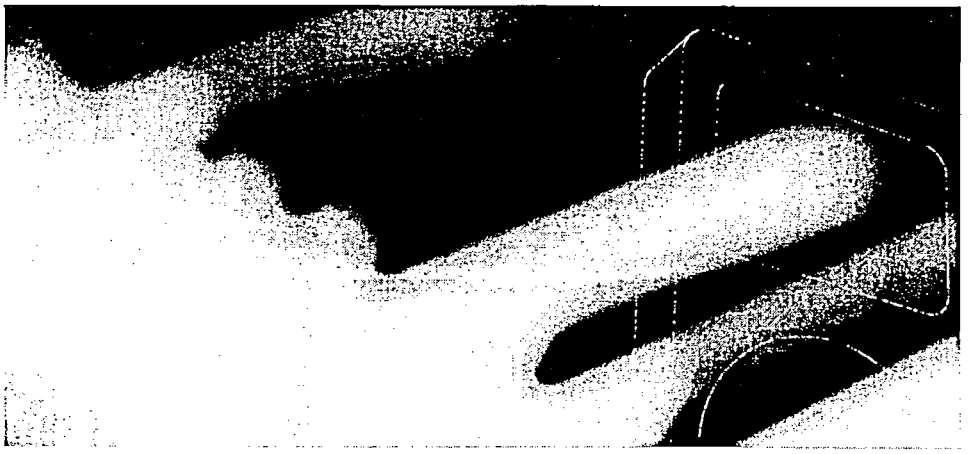
While this suggests a long-term shift in music consumption from albums to singles as digital sales increase share of consumption, the increase in digital single tracks could easily compensate for this shift. Already in the US, download sales outnumber physical singles by just under 20 to 1.

Digital download sales are likely to stimulate singles sales overall. In the UK the industry estimated that downloads alone would have turned a fall in singles sales of 14% in 2004, into an increase of 4%.

Record companies have responded proactively to these changes, presenting digital music in many different forms. By offering high quality audio, video, graphics and data specifically tailored to individual requirements, digital music stores can offer a much wider variety of music-related media than record stores in the physical world.

At the same time, record companies have also been enhancing the physical CD – offering special edition releases and value-added content helping sustain demand for CDs in the future.

In the longer term, digital consumption is expected to replace CD buying to some extent, since many younger music fans see their 'record collections' as digital files. Moreover, the convenience of digital is attracting new music consumers. However many people, including online music consumers, still prefer CDs for their packaging and artwork.



THE COMPLEXITIES OF SETTING UP A LEGITIMATE SERVICE

- Digitising content
- Rights-clearance and artist negotiations
- Robust technologies
- Consumer-friendly DRM and 'usage rules'
- Virus free services
- Secure payment systems

"GERA SUPPORTS THE STEPS THE MUSIC INDUSTRY IS TAKING TO ENCOURAGE THE FAST-DEVELOPING LEGITIMATE ONLINE MUSIC BUSINESS – THE EDUCATIONAL PROGRAMMES IN WHICH WE HAVE BEEN INVOLVED, THE PUBLIC PROMOTION OF ALL THE NEW ONLINE SERVICES AND THE DECISIVE ENFORCEMENT OF THE INDUSTRY'S RIGHTS AGAINST ILLEGAL UPLOADERS"
SIMON WRIGHT (PRESIDENT OF GERA (GLOBAL ENTERTAINMENT RETAIL ASSOCIATION) AND CHIEF EXECUTIVE OF VIRGIN ENTERTAINMENT GROUP INTERNATIONAL)

KEY ONLINE SERVICE PROFILES

	COMPANY PROFILE	LAUNCH	REACH
www.apple.com	Apple released the first iPod in October 2001. The iTunes Music Store followed in April 2003 and both have been a phenomenal success, helping to increase the company's revenues by 33% year-to-September 2004. The iPod, which accounted for 23% of the company's sales in Q3 2004, has strengthened the Apple brand and created a 'halo-effect' on consumers, encouraging a whole economy of peripheral products	First launched in the US in April 2003 and expanded into three key European markets – UK, France, Germany – in June 2004. Further launches in Europe were announced in October, followed by the Canadian launch in December. The service is expected to reach Japan in 2005	15 countries
www.msn.com	Microsoft's MSN Music is driven by 002 technology in the main European markets and by cdon.com in Scandinavia. In the US, the service was fully developed by Microsoft	Reached the US, UK, France, Germany, Netherlands, Japan and Italy in October 2004. Further European launches took place in November	20 countries
www.napster.com	Created by Shawn Fanning in 1999, Napster became world-famous for being the pioneering file-sharing network. The service was closed down in July 2001 and acquired by Roxio in November 2002. Napster 2.0 emerged in October 2003 in the US as a legitimate online service	Napster 2.0 launched in the US in October 2003, and in UK and Canada in May 2004	US, Canada, UK
www.connect.com	Launched by Sony	The service was first launched in the US in April 2004 and expanded into Europe in July. Plans further European expansion during 2005	US, UK, Germany and France
www.rhapsody.com	Listen.com was the first independent service to offer content from all five majors, launching Rhapsody just before MusicNet and Pressplay. In April 2003 RealNetworks bought Listen.com and consequently Rhapsody, which started using RealNetworks technology as its primary platform. A month after Real's acquisition, RealOne Rhapsody Music Subscription was launched	Originally launched in December 2001. Re-launched in May 2003	US only. Launching in the UK and Europe in 2005
www.virgindigital.com	Service launched by the Virgin Group following the partnership between Virgin Digital and MusicNet	September 2004	US only

BUSINESS MODEL	MAIN PARTNERSHIP DEALS	CATALOGUE	SALES TO DATE	PORTABILITY	UNIQUE FEATURES
A la carte downloads	Partnerships announced with Motorola and Hewlett-Packard	Between one million and 700,000 songs depending on the territory	230 million by January 2005	iPods	Over 150 exclusive tracks, share playlists (iMix), stream music wirelessly to remote stereos (iPort Express), weekly free single (New Music Tuesdays), 9,000 audio books, email alerts on favourite artists (Artist Alerts)
A la carte downloads	Deal with GarageBand.com offers highlights of music and content from the community's top-rated Independent artists (GarageBand.com Hub Page). MSN also has a promotional tie-in with American Express	Over one million songs	Not available	Multiple Windows Media Audio-enabled devices, including Creative Zen, Rio and iRiver	Exclusive tracks, search on which cities produced the most influential artists by decade (Map of Music), streams music videos, concert tickets
Subscription (unlimited streaming) and a la carte	AT&T Wireless will allow Napster subscribers to transfer songs to a mobile phone (Audiovox SMT 5600 smart phone). The mobile phone will be sold by Orange in the UK (Napster To Go). Tie-in with Blockbuster launched the Digital Duo card in the US for sale for US$ 20 for one month's subscription and Blockbuster Online DVD rental	Over one million songs	270,000 paying subscribers as at December 2004	Multiple Windows Media Audio-enabled devices, including the Samsung Napster Player, Creative Zen, Rio and iRiver	View other subscribers' music library (Napster Community), recommend songs to other subscribers, portability with subscription plan (Napster To Go), access to service on up to three computers, email track suggestions to friends (Napster Inbox)
A la carte downloads	Promotional tie-ins with United Airlines and Intel	650,000 songs	Not available	Sony portable devices	Exclusive performances (Connect Sets), mood-specific playlists (Mood Mix)
Subscription (unlimited streaming) and a la carte	Rhapsody has partnerships with Comcast (broadband provider) and BestBuy	850,000 songs available for streaming and over 750,000 available for purchase. More than 90% of the available tracks are streamed at least once each month	625,000 paying subscribers at the end of Q3 2004 (Rhapsody & RealOne RadioPass) representing a growth of 145% on Q3 2003. The average paying subscriber streams more than 250 songs each month, the equivalent of more than 25 CDs	N/A	Radio customisation, access to service on multiple computers, send playlists to other subscribers via email, add playlist links to personal 'blogs'
Subscription (Virgin Digital Music Club) and a la carte (Virtual Virgin Megastore)	Foot Locker promotional deal	Over one million songs for streaming and purchase	Not available	Multiple Windows Media Audio-enabled devices, including Creative Zen, Rio and iRiver	Service is available via the internet, in retail stores, on mobile phones and consumer electronic devices, music discovery function (Ask The Expert), detailed artist/album information (3-D Browsing)

2004 was the year the music industry stepped up its fight-back against online piracy around the world. These activities are having an impact.

THE INDUSTRY TAKES ON DIGITAL PIRACY

2004 was the year the music industry stepped up its fight-back against online piracy around the world. Seven countries joined the US in taking legal action against individuals illegally uploading files on peer-to-peer (P2P) networks. Information and awareness campaigns were stepped up, as were instant messaging to P2P users and deals with universities.

These activities are having an impact. Consumer awareness of the illegality of unauthorised file-sharing across Europe has improved. Trends in illegal file-sharing show the problem is being contained, helped by the growing availability of legal music downloads.

WHAT IS INTERNET PIRACY?

Internet piracy is the act of making available, transmitting or copying someone else's work over the internet without permission. Copyright laws in virtually every country in the world make this illegal, protecting the rights of those involved in creating and those investing in creative works – writers, publishers, artists, musicians, record companies, film makers, producers, and many others. These laws acknowledge their right to choose how their work is distributed and the terms of distribution.

Authorisation by the rights owner is the fundamental principle underlying copyright laws, and the key to the distinction between legitimate and illegal online music distribution. Legitimate online services have permission from record labels, publishers and artists whose music they distribute. They pay these people for the use of their works in commercial activities. Online piracy involves people or services who distribute music without authorisation.

ILLEGAL FILE-SHARING AND ITS IMPACT

Numerous research studies show that online piracy has a negative impact on legitimate sales of music. While other factors also affect music sales, including competition from other consumer products and general economic conditions, online piracy has contributed substantially to sales drops in recent years.

Global music industry sales declined by some 22% over five years to 2003, a reduction of over US$6 billion, with some of the biggest drops in album and singles sales in countries with large or growing broadband penetration. The latest study by Forrester Research in August 2004, found that while 10% of regular downloaders claimed to buy more music, 36% admitted

SERVICE TYPE	DESCRIPTION	WHAT IS WRONG WITH IT?
WEB, FILE TRANSFER PROTOCOL (FTP) AND LINK SITES	This 'traditional' form of online piracy remains popular in many countries. Typically the first place where unauthorised copies of a new recording appear.	These services do not attempt to obtain licences for the use of copyrighted music. Although they may not profit directly from the distribution of music, they often generate advertising revenues and user traffic – effectively profiteering out of those who created and invested in music.
UNAUTHORISED SERVICES	These are blatantly commercial services, generating substantial revenues from unauthorised use of music and other copyrighted content. Some services sell music directly, others receive indirect revenues from advertising, spyware and licensing. In many cases such services operate with large databases of music tracks.	Because these services do not reward those who created and invested in music, operating costs are low and financial gains can be substantial. P2P networks encourage and assist the distribution of a large number of music files between individual users ('peers') without the rightholders' permission.
ILLEGAL UPLOADERS	Most users of P2P networks not only download files, but make the music stored in their computer available to others to download, thus acting as 'uploaders'. This turns individual users into large-scale distributors of unauthorised files.	P2P uploaders do not have permission to distribute music files, hence engaging in an illegal activity.

"WE MUST FIGHT PIRACY IN ANY FORM. FOR THE PROTECTION OF INTELLECTUAL PROPERTY IS IN ALL OUR INTERESTS. IT GIVES ECONOMIC VALUE TO THE MOST PRECIOUS THING, CREATIVITY, WHICH IS THE GROUNDS OF OUR FREE SOCIETY."
CARLO AZEGLIO CIAMPI, PRESIDENT OF ITALY

to buying less. This result has been confirmed repeatedly in the bulk of all respectable third-party research.

THE INDUSTRY'S RESPONSE

The recording industry is developing legitimate online music services that will displace illegal sites over time, using education, and, if necessary, law enforcement to protect its repertoire.

1. PUBLIC AWARENESS AND INFORMATION CAMPAIGNS

Public awareness plays a critical part in introducing legal alternatives and educating consumers on risks attached to online piracy. In 2004 the music industry stepped up its educational activities to point people away from illegal file-sharing and towards legal download sites.

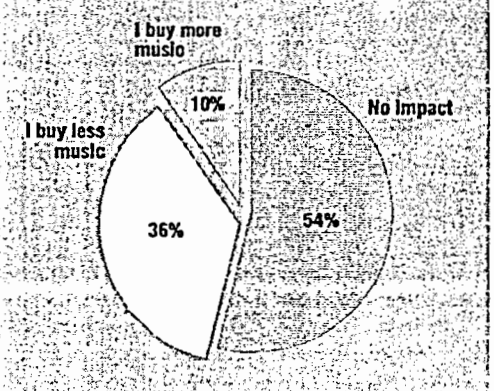
Schools
In Italy, a government-backed music, film and software copyright education programme has been launched to explain copyright to 14 to 18 year-olds in 3,000 schools. In France, a two-page copyright and anti-piracy message has been sent to one million students. In Germany, a music industry and 'Value of Creativity' campaign provides educational materials to 10,000 teachers of 10 to 15 year-olds. In the UK, a 'Respect the Value of Music' school curriculum for 11 to14 year-olds, developed by British Music Rights, directs students to www.pro-music.org for legal downloads. A new campaign was launched in Japan in December 2004, with public statements by four major artists.

Parents and children
The Danish music industry launched a free software programme that people can use to identify and, if necessary, remove unauthorised P2P programmes and files from their computers.

Universities
In the US, cooperation between legal online services and record companies led to legitimate services being made available at discount to students in 24 colleges and universities. The scheme was pioneered at Pennsylvania State University in a deal with Napster, and was followed by further deals with Rhapsody at other universities. US universities have also been using anti-piracy technical countermeasures against illegal P2P file-sharing (www.educause.ed).

Companies
IFPI and its affiliates have conducted an information campaign on the copyright and security risks involved in illegal P2P file-sharing, among thousands of companies

IMPACT OF ILLEGAL DOWNLOADING ON MUSIC PURCHASING



Source: Forrester Research, August 2004. Base: European online consumers who downloaded music monthly

THE IMPACT OF ILLEGAL FILESHARING

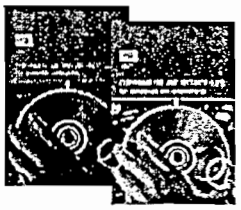
28% of those spending less on music said downloading, file-sharing and burning were the main reasons – Pollara Canada, July 2004

For 2004, the potential losses to the music industry through file-sharing could be as high as US$2.1 billion – Informa Media Group

36 million of the 40 million people downloading (nine in ten) in Europe are still not paying for music they download – Forrester, August 2004

PIRACY IS THEFT – PURE AND SIMPLE. THE GOVERNMENT SUPPORTS THE PRINCIPLE OF PROPORTIONATE LEGAL ACTION AGAINST THE WORST OFFENDING UPLOADERS.
ESTELLE MORRIS, ARTS MINISTER, UK

and government institutions in 21 countries. Brochures explain that these institutions are at risk of legal action if music is used illegally on their computers and that unauthorised file-sharing raises a host of security problems for institutional networks including computer viruses, firewall breaches, spyware, and exposure of confidential data. The brochures, which also explain how to tackle the risks, can be downloaded in six languages at www.ifpi.org.



Instant messages to infringing file-sharers
IFPI national groups in 10 countries have sent more than 45 million instant messages to individual users of P2P services, warning them to stop putting other people's music on the internet without permission.

The pro-music campaign
The international cross-sector music campaign www.pro-music.org, launched in 2003, is now available in four languages (English, French, German, Italian) and includes a global directory of legitimate online services. The mission of pro-music is to promote legitimate digital music and confront the myths surrounding online music piracy.

Internet advertising
French-intitiated pro-music viral email "The Drummer" was rolled out across Europe, calling on music fans to protect those involved in creating music by downloading legally.

Artist campaigns
In the US, artists including Lenny Kravitz, Missy Elliot and Sheryl Crow featured in an 'I Download (Legally)' campaign. A similar project was rolled out in France in a poster campaign with 14 artists in 30 cities.

WHY NOT TO DOWNLOAD ILLEGALLY

Your computer may crash
Peer-to-peer (P2P) programs write files to your hard disc and change your computer settings. These can be nearly impossible to remove and may crash your computer if you try.

You can catch a computer virus
There is no quality control on the files that other people put on unlicenced P2P services. A 2004 study by security firm TruSecure found that 45% of the computer programs downloaded using Kazaa contained a virus or other malicious code.

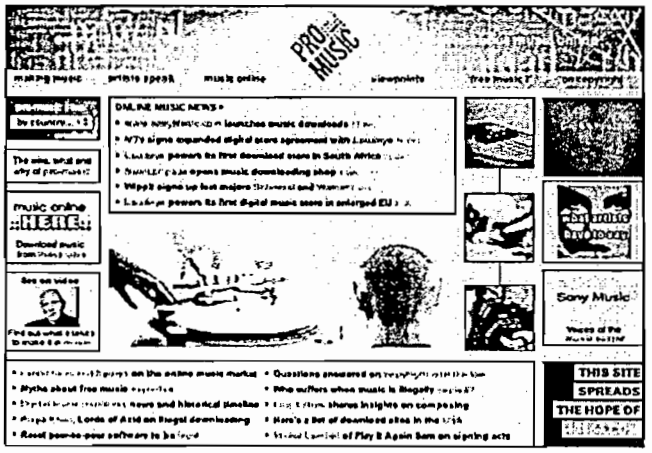
You will get adware and pop-ups by default
Unlicenced P2P services make their money by selling advertising. The advertising comes to you via software they put on your machine – sometimes without you knowing.

You may get spyware without knowing it
In many cases, the software that unlicenced P2P services distribute also contains modules that report on your file searching, web browsing or other activity. Among other things, it helps them send advertising to you.

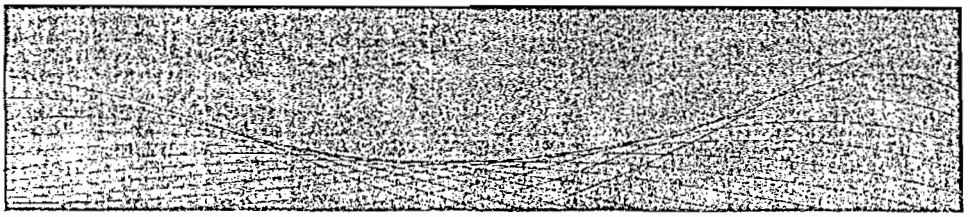
You will come across unsolicited pornographic material
Search for any popular artist's music on an unlicenced P2P service and you will also get lists of files that include a whole range of pornographic and obscene material.

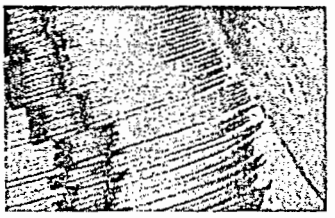
You will open up your computer to complete strangers
Unlicenced P2P file-sharing involves giving millions of anonymous strangers access to your computer.

You could be sued
Over 7,000 cases have been brought against bulk uploaders in several countries worldwide.



"WE HAVE TO TAKE RESPONSIBILITY. CALL PIRACY WHAT IT IS AND NOT ALLOW IT TO BE CONFUSED WITH 'UNLIMITED FREEDOM'. I BELIEVE IN CULTURAL CREATION AND DIVERSITY, WHICH ARE THE VICTIMS OF PIRACY. THEY NEED TO BE PROTECTED."
RENAUD DONNEDIEU DE VABRES, MINISTER OF COMMUNICATION, FRANCE





2. DETERRENCE

In 2004 IFPI and its member record companies significantly stepped up the deterrence campaign against internet piracy. Cooperative work with Internet Service Providers (ISPs), litigation cases against infringing services, as well as cases against individual illegal uploaders, are all part of this strategy.

High-volume notice and takedown

Notifications are sent to ISPs, universities and companies when users are found using their systems to offer unauthorised music on the internet. ISPs are often cooperative in removing infringing web, FTP and links sites when they receive such notice. In many cases, they will also block access to P2P servers running on individuals' computers, or block pre-release music files being offered from an individual's computer. The ISPs' own terms of service typically prohibit individual users from engaging in such activities.

In 2004 IFPI's internet anti-piracy unit and anti-piracy staff in 28 national recording industry groups, secured the take-down of 60,900 infringing websites (41,000 in 2003), 477 unauthorised P2P servers (1,050 in 2003) and 1.6 billion infringing music files in 102 countries (1.6 billion in 2003).

High-profile litigation against sites and services

Where cooperation does not work, the industry pursues strategic court cases against internet sites and services that build their business on music that has not been paid for. The industry's main litigation strategy has been to stop infringement at the level of the services through which the majority of unauthorised music files are available. The bulk of the traffic on P2P networks is driven by a relatively small number of uploaders – 75% of all distribution is accounted for by 15% of all individuals (NPD 2003).

RECENT CASES HAVE INVOLVED CLAIMS AGAINST:

Companies and principals related to the Kazaa P2P service (Australia)
This case, which went to trial in November 2004, alleges that the defendants violated copyright and authorised others to do so. At time of print, the judge was preparing his decision in the case.

Japan MMO
This P2P service operator was found guilty of infringement and ordered to pay ¥36.9 million (US$350,000) plus interest as compensation. The court also issued an injunction against the service.

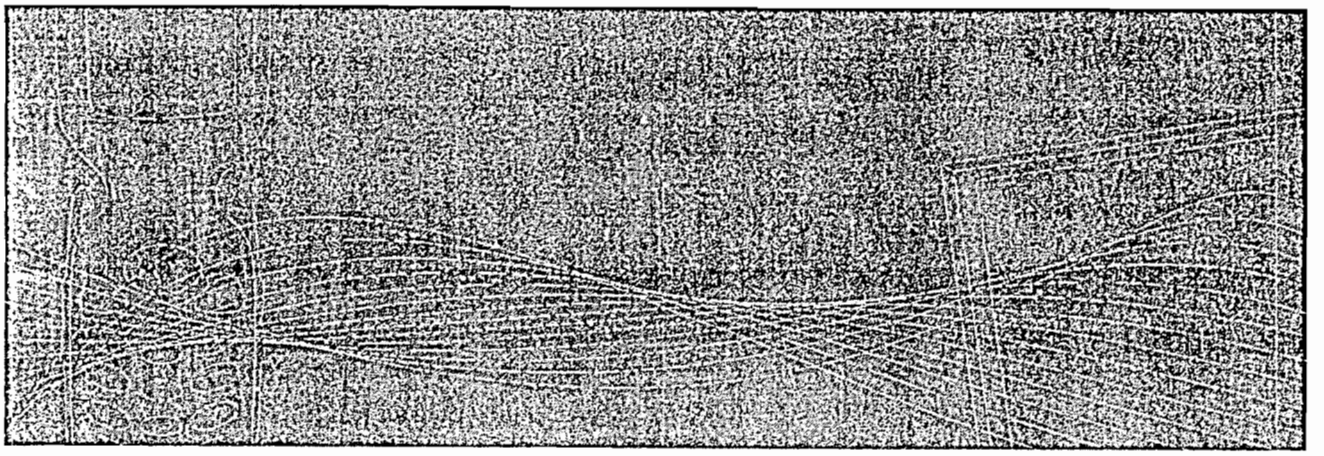
Kuro, EzPeer (Taiwan)
Taiwan courts have enjoined these subscription P2P services from offering 105 infringing tracks. Civil and criminal proceedings continue.

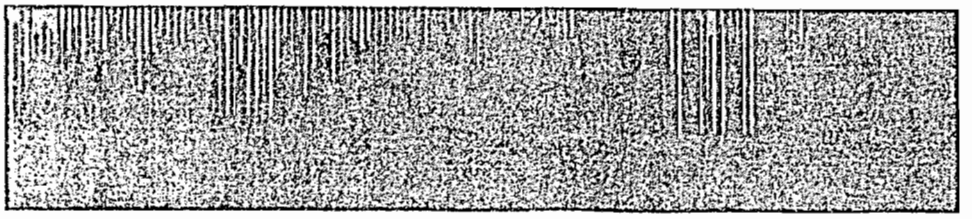
Weblisten (Spain)
All six civil plaintiffs have secured injunctions against this site in cases claiming that the site offered streams and downloads without licences from the record labels. Appeals and enforcement are pending.

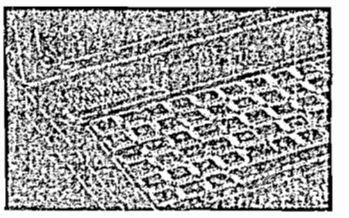
Legal cases against individuals engaged in 'uploading'

In 2004 it became clear that, however effective education programmes were in raising awareness, stronger action was needed to deter a significant group of 'hard core' illegal uploaders. The industry needed to show that uploaders of copyrighted music are not only breaking the law, but can be caught and made accountable. In 2004, an initial 700 legal cases were launched against bulk uploaders of music in Austria, Canada, Denmark, France, Germany, Italy and UK. In addition, more than 6,000 cases have been brought to date in the US, which started bringing lawsuits in 2003.

In most of the countries involved, there has been a regular flow of settlements averaging a few thousand euros. In Austria, around 50 cases were settled within three months, the highest compensation payment being EUR4,000. In Denmark and Germany, over 100 cases have been settled, with the highest individual payment of EUR13,000.







"WE KNOW THAT THERE ARE MILLIONS OF ILLEGAL FILES CIRCULATING ON THE INTERNET AT ANY GIVEN TIME. IN THE EUROPEAN PARLIAMENT WE HAVE DEALT WITH THIS BY PASSING EFFECTIVE LAWS TO LEGISLATE FOR THE INTERNET AGE. THERE IS NO UPSIDE TO ILLEGAL UPLOADING – IT UNDERMINES JOBS AND CREATIVITY. THE LAW IS THERE TO BE RESPECTED AND ENFORCED."
ARLENE MCCARTHY, MEMBER OF THE EUROPEAN PARLIAMENT

WHY FIGHT THE BATTLE?

The aim of the record industry's educational and anti-piracy actions is to help create a breathing space for the burgeoning online music market, to raise awareness, change attitudes and contain illegal file-sharing. Their impact in 2004 has been visible.

INCREASING PUBLIC AWARENESS ABOUT ILLEGAL FILE-SHARING

Seven out of ten people surveyed in North America and Europe are now aware that unauthorised file-sharing is illegal. Before the recording industry began its public education initiatives and anti-piracy actions against unauthorised file-sharing, this figure stood at only 37%.

CONTAINING ILLEGAL FILE-SHARING

Online music piracy has proliferated dramatically in recent years, but is being contained in the context of the dramatic increases in broadband coverage of the last two years, and rising levels of film and video piracy.

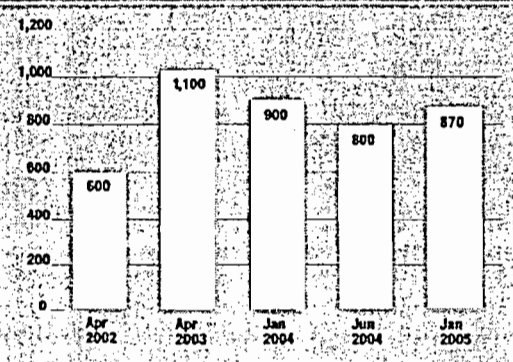
In the five years up to 2004, the number of infringing music files on the internet soared from 1 million to 1.1 billion. The problem has been largely contained since early 2003, when plans to act against illegal file-sharing were first announced in the US and the first raft of legitimate online services were rolled out for consumers.

Measuring online piracy is an inexact business and often confused by the competing claims and methodologies of countless research firms. Methodologies range from counting website hits to software downloads, traffic and request data, and user sampling.

IFPI has consistently measured the number of unauthorised music files offered at any one time. This is based on the number of users per service, the average number of files per user, and the average percentage of music files versus the other files offered by users.

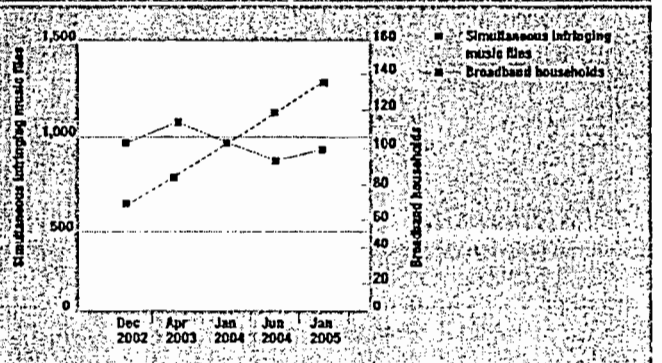
IFPI estimates show that pirate music online has not grown since 2004 despite a massive increase in broadband

INFRINGING MUSIC FILES ON THE INTERNET (MILLIONS)

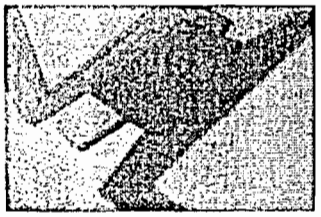


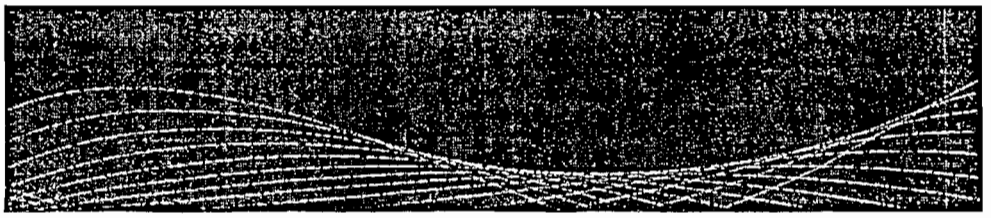
Source: IFPI, includes P2P networks and Web and FTP sites

IFPI INTERNET PIRACY TRACKING (MILLIONS)



Source: IFPI and broadband data from PWC





usage across the music industry's most key markets. In January 2005 there are around 870 million infringing music files on the internet at any one time (about 90% of them are on P2P networks, the remainder on FTP and websites). This is down slightly from 900 million in January 2004 (and sharply down from 1.1 billion in April 2003).

Notable trends are the decline in use of the largest service Kazaa, the rise in file-sharing of films and video and the increase in illegal file-sharing activity on new services where there has up until now been less enforcement. This led to a slight increase in the overall estimated numbers of infringing music files in the second half of 2004, from 800 million to 870 million files.

Indeed with the migration from Kazaa, use of other peer-to-peer services (notably eDonkey, Gnutella, DirectConnect and BitTorrent) rose in 2004. However, user numbers on those services increased more sharply than the number of infringing music files; this appears to be largely accounted for by a big rise in file-sharing of non-music files, such as film, video and software. Music files represent a smaller proportion of the newer services – an estimated 25% of files on eDonkey are music, for example, as opposed to an estimated 75% on Kazaa.

STEPPING UP DETERRENCE IN 2005

Legal actions against illegal file-sharing will be stepped up in an increasing number of countries in 2005. Lawsuits, which up until now have been largely focused on users of Kazaa, will increasingly target different networks, despite those services' devious techniques to avoid liability. These include pushing various technical functions to other users, encrypting communications, using third parties' internet accounts, moving infringing files off-shore, and disguising their identities through various technical means.

INTERNET PIRACY: THE KEY STATISTICS

870 million unauthorised music files on the internet (all services), January 2005 (down from 900 million in January 2004)

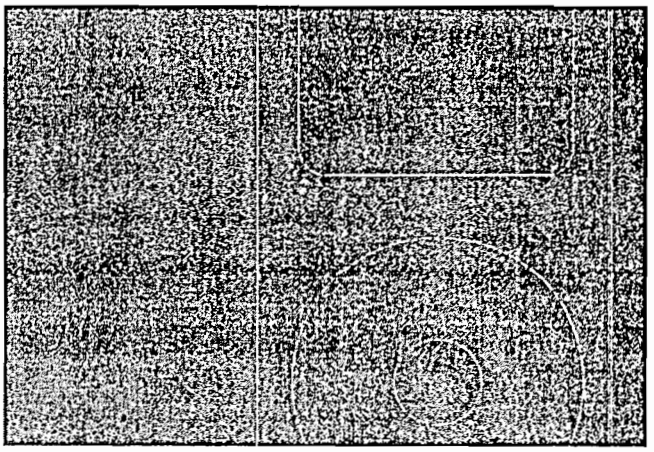
8.6 million concurrent users on P2P networks offering unauthorised music files as of January 2005 (6.2 million in January 2004), with the biggest growth among users offering film and video files

2.3 million concurrent users on Kazaa and its related services (3.2 million in January 2004)

150,000 infringing web/FTP music sites on the internet in January 2005 (25% less than in January 2004)

ILLEGAL MUSIC FILES ON THE INTERNET (MILLIONS)

	APRIL 2002	APRIL 2003	JANUARY 2004	JUNE 2004	JANUARY 2005
WEB & FTP SITES	100	100	100	100	110
P2P NETWORKS	500	1,000	800	700	760
TOTAL	600	1,100	900	800	870



"ILLEGAL COPYING PREVENTS CREATIVE PEOPLE MAKING A LIVING FROM THEIR ART"
BRIAN MIKKELSEN, MINISTER OF CULTURE, DENMARK

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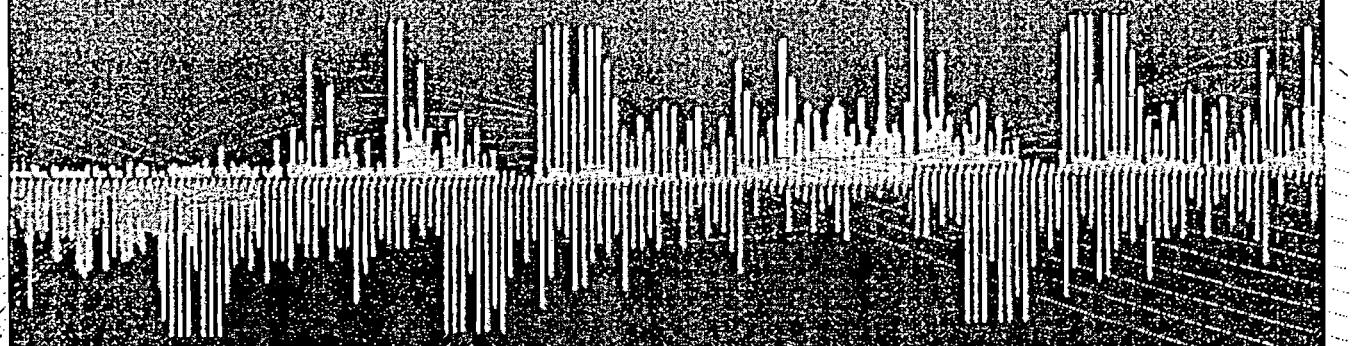

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representing the recording industry worldwide

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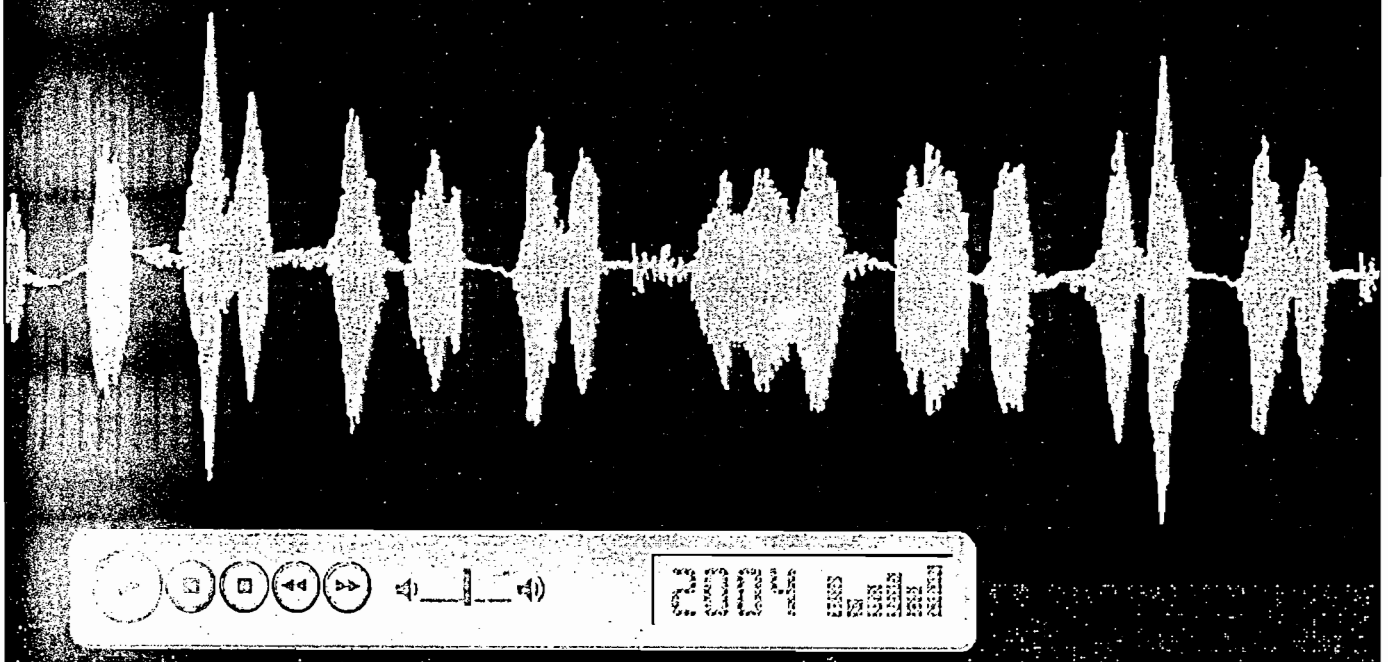
IFPI online music report



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Representing the recorded music industry

The Music Industry's Internet Strategy Is Turning The Corner

For everyone working towards the creation of a successful legitimate online music business, the start of 2004 brings a new sense of optimism along with evidence of real change.

Legal online services are spreading quickly across the United States, and are now beginning to take hold firmly in the rest of the world. A picture of healthy competition is emerging in Europe as legitimate services such as iTunes, Napster and Rhapsody, as well as scores of retailers, Internet Service Providers (ISPs) and hundreds of record companies, vie to break into a new online market in the first half of 2004.

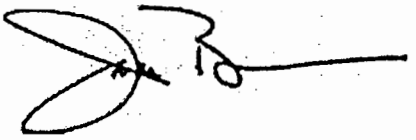
Availability of legally licensed music online from a multitude of websites in Europe is increasing sharply - growing during the last three months of 2003 alone, from a total catalogue of 220,000 tracks to nearly 300,000 across the various legitimate services.

Public awareness of the legal issues around online music distribution, a crucial part of our industry's online strategy, is much higher internationally than it was a year ago. Nearly 70% of surveyed respondents in four major European markets are aware that unauthorised file-swapping is illegal.

Robust anti-piracy enforcement - including lawsuits against large-scale file-swappers - is increasingly accepted as the right and the obligation of record companies and other copyright holders. Market evidence appears to show that this strategy is working, with the total number of simultaneous illegal music files available on peer-to-peer services falling from an estimated one billion in April 2003 to 800 million in January 2004.

We believe that the music industry's internet strategy is now turning the corner, and that in 2004 there will be, for the first time, a substantial migration of consumers from unauthorised free services to the legitimate alternatives that our industry is providing internationally.

The purpose of this first such publication produced by IFPI is to raise awareness of the developments in the online music market, and in doing so, help accelerate them. This report focuses on the events that took place in 2003 as well as the prospects for 2004 - but it must not be forgotten that these are only the culmination of the work that the music industry and its partners have been doing since the mid-1990s to prepare a thriving legitimate online music business.



Jay Berman, Chairman & CEO, IFPI

The report highlights:

> The rapid development during the course of 2003 of a critical mass of legitimate online services, reaching around half a million consumers in Europe by the end of 2003 - a figure that is set to increase sharply in 2004. Yet the results of our survey, released for the first time in this report, indicate a very low level of awareness of the existence of these legitimate services among consumers.

> A high level of awareness among consumers internationally that distributing copyrighted music on the internet without permission is illegal. Our survey shows that in a selected number of countries in Europe, 66% of all people were aware of this.

> The impact of the industry's internet anti-piracy awareness strategies. Two factors explain the progress made in this area: the public information campaigns conducted around the world in 2003 and lawsuits against individual large-scale uploaders.

> The increasing public acceptance of the industry's use of litigation as an important option of last resort to fight online piracy. Our survey figures show that 54% of respondents support the strategy of legal action, with 19% yet to make up their minds.

> The industry will use litigation internationally where necessary, as it has done in the US. Making copyrighted music available on the internet without permission is illegal in virtually every country of the world. This is not a grey area and people who are breaking the law may have to face the consequences.

> The different processes our industry is developing in order to create business models for the online environment. These are often underestimated and misunderstood outside the music industry.

> Evidence that illegal file-swapping hurts sales of music. A survey of five major markets shows that 27% of people downloading illegally distributed music bought less music as a result.

The Growth Of Legitimate Online Music Services

A promising online music business emerges in 2003

2003 was the break-through year for online music services, as record companies expanded their licensing agreements across a wide variety of online retailers, offered consumers greater flexibility of track usage, began licensing the catalogue of major international acts and shortened the gap between off-line and online releases. During 2004 we are likely to see a sharp acceleration in the provision of online legitimate music for consumers to enjoy.

Major and independent record companies have now licensed hundreds of thousands of tracks for legitimate download in Europe. As an example of this, EMI in April 2003 announced the biggest European download initiative, making available over 140,000 tracks from over 3,000 EMI artists for sale online.

The music to mobile market has also benefited from an increase in licensing deals. This market continues to take shape as record companies embrace the ring tones market as well as downloads to mobile.

These recent developments build on a process that goes back to 1998, when eMusic.com began selling MP3 singles and albums on the web in the US. Steamwaves, another American service, launched in 1999 and was one of the first to offer a streaming subscription service. By the summer of 2001 OD2, the company founded by Peter Gabriel, launched its WebAudioNet platform, enabling retailers to offer legitimate services in Europe.

Many services followed from there. MusicNet, Press*play* and Rhapsody were launched in the end of 2001 in the US and were licensed by all five majors by the end of 2002. These are only some of the services that pioneered the legitimate online music market, many of which are still active in its development today.

Where are we now? Legitimate services in the US

The total market for music downloads in the US during the second half of 2003 stood at 19.2 million as measured by Nielsen SoundScan (tracking download sales since July). Downloads outsold physical singles by three to one over that period.

According to an internet tracking research by Ipsos-Insight[1], the number of Americans who have paid for downloads doubled from 8% to 16% over the first half of 2003. The total catalogue of different songs available to US consumers across the various services was between 400,000 and 500,000 tracks - the equivalent of around 40,000 albums - by the end of the year.

Record companies license iTunes

It was in 2003 that legitimate online services really took-off in the US. This was driven initially by the success of Apple's iTunes Music Store, which was launched to Macintosh users (around 3% of computer users in the US) in April. According to Apple, iTunes sold an average of 500,000 downloads per week over the first six months, reaching a total of 13 million by mid-October when the service was rolled out to PC users. Apple reported sales of 1.5 million downloads in the PC market in the first week, helping to drive total sales to 25 million[2] by mid-December 2003.

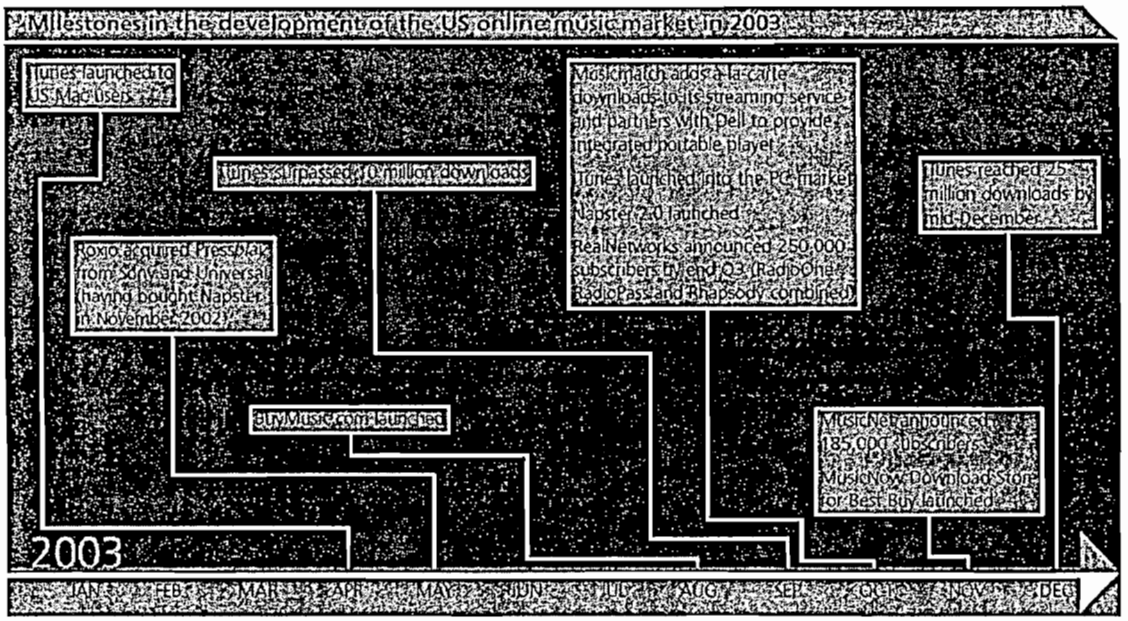
iTunes' success lies in its simplicity, the wide and flexible usage rights of the tracks and its smooth integration with a portable digital player device - the iconic iPod. The service has been heavily marketed by Apple and, alongside Napster, has become a widely recognised brand name in online music.

Since the second half of 2003, there has been a flurry of new service launches and existing service enhancements in the US. Most recently, in January 2004 retailer chain Wal-Mart started testing a digital service, Real Networks launched its RealPlayer Music Store offering over 300,000 tracks and Sony announced the launch of its Connect downloads service for April 2004, featuring 500,000 tracks.

Additionally Loudeye Corp. is developing 'white label' download stores designed for third parties to build branded digital music services. There have been further announcements by broadband providers, such as EarthLink, of partnerships with online music services to offer packages to subscribers.

1. Ipsos-Insight - TEMPO: Keeping Pace with Digital Music Behaviour, November 2003. Base: downloaders.

2. iTunes sales from April to mid-December.



The legitimate online music market has become very competitive, with services looking to secure new marketing routes via partnership deals with:

> Broadband suppliers: iTunes and AOL, Rhapsody and Comcast

> Hardware manufacturers: Musicmatch and Dell, Napster and Samsung

> Other established brands: iTunes and Pepsi, RealPlayer Music Store and RollingStone.com

> Academic institutions: Napster and Penn State University

Moreover, in January 2004 Apple announced its agreement to license the technology behind its digital music player, the iPod, to Hewlett-Packard who will bundle the iTunes Music Store software into its PCs. Hewlett-Packard also intends to release its own digital music player to compete with other products already in the market such as the Zen Xtra, Dell DJ, Rio's Karma and Samsung's Napster player. According to Apple, the iPod has sold over 730,000 units in the three months to December 2003.

Legitimate online music services in Europe - poised for sharp growth

A burgeoning online music market has already taken shape in Europe in 2003 through nearly 30 legitimate services. The launches of Entertainment UK (EUK) and Virgin Megastore France at the end of 2003 were the most recent in Europe. Most of the European services are OD2's brand partners, but several independent services are also beginning to emerge, such as Germany's T-Online 'musicload', launched in the summer of 2003.

Following the US example, European-based services have now widely introduced the à-la-carte option whereby consumers are able to buy single tracks. This sharply increased the number of customers for legitimate online services in Europe, which reached over half a million people across all services.

This figure is expected to rise further as services such as iTunes, Napster and Rhapsody enter the European market in 2004. The amount of available repertoire on the existing services has already risen sharply. Consumers can access between 275,000 to 300,000 tracks depending on the service used.

While customer numbers in Europe grow, awareness of legitimate services is still fairly low. A survey conducted by IFPI in December 2003[3] found that only one in four people are aware of legal alternatives for downloading music. Although awareness of such services increases to nearly 40% for those aged 16-29, the industry clearly has some ground to gain in terms of making consumers aware of legitimate online services in 2004.

Other announcements include Coca-Cola's plans for its forthcoming service mycokemusic.com, due for UK launch in 2004, based on the OD2 platform.

3. Conducted by GfK Media for IFPI in Denmark, France, Germany and Italy (n = 3,500, random sample).

In Germany, Phonoline, a cross-industry business-to-business platform for online retailers and portals offering music services, is set to launch early in 2004 with many services able to offer 250,000 tracks at launch from all five majors and many independent labels.

OD2 has been instrumental in the development of the online music market in Europe, along with its retail partners including MSN Music Club, Virgin Downloads, Tiscali Music Club, HMV Digital Downloads, Fnac, TDC musik (Denmark), Karstadt and MTV DE. Aggregated data for European services provided by OD2 shows significant growth in the final three months of 2003.

Aggregated online indicators for Europe

	End Q3 2003	End Q4 2003
Registered users	380,000	450,000
Tracks available (flexible use)	210,000	275,000
Tracks downloaded (monthly average)	220,000	300,000

Source: OD2

Most services using the OD2 'engine' offer a combination of streaming and à-la-carte downloads, with both subscription and pay as you go alternatives. Services differentiate themselves by a combination of exclusive content, flexible payment options and benefits for 'premium' service or broadband subscribers.

To further help the development of the legitimate online music market, IFPI and its record company members are working with music publishers and authors' collecting societies in Europe to create a simple framework for obtaining music publishing rights for legitimate online services. It is hoped that such an agreement can be reached early in 2004.

Summary of expected launches in 2004

US Based	Europe Based	Elsewhere
Hewlett-Packard	iTunes (Europe)	Puretracks (French version, Canada)
Microsoft	Napster 2.0 (Europe)	iTunes (Canada)
Amazon	Coca-Cola (UK)	MusicNet (Canada)
MTV Networks	PlayLoudet (UK)	Napster 2.0 (Canada)
	Rhapsody (UK)	ninemsn (Australia)
	Phonoline (Germany)	iTunes (Japan)
	T-Online (Germany)	iBIZ (Taiwan)
	eMusic Kft (Hungary)	

Legitimate online services outside the US and Europe

The developments in the online space are mirrored outside the US and Europe. Canada's first legitimate online service, Puretracks, was launched in October 2003 with a catalogue of 175,000 tracks, including many local and international artists. The service offers single tracks and album downloads as well as exclusive material. By the end of 2003 the service's catalogue had reached around 300,000 tracks. A French-language version of the site will be available in 2004. The retailer Groupe Archambault also entered the Canadian online market in January 2004 with www.archambaultzik.ca, their French-language site which focuses on local Quebec talent.

In the Asia-Pacific region, the service provider Soundbuzz has access to a wide-ranging catalogue from international and regional labels, powering portals such as those of Hewlett-Packard Singapore and the India Times. Other operating services in the region are mylisten.com, PlanetMG, ilikepop.com and clickbox.co.kr. In Taiwan, the iBIZ platform imusic.com.tw, to be launched in 2004, will be that market's first legal music download service. The platform is set to offer 500,000 songs for download as broadband provision expands.

In Australia, Destra Corp. has created a digital music network, supporting services from Sanity and HMV among others. Destra has access to over 100,000 tracks and aims to reach 500,000 by mid-2004. Telstra Big Pond was the second to launch a download service, making available 200,000 tracks for download. Other services are expected to launch during 2004.

In Brazil, digital service provider iMusica, launched in March 2000, is the first online music service in Latin America. It provides 60,000 tracks from over 70 local labels and powers a wide variety of portals including MSN, Americanas.com and Compaq. The service allows for downloads, streams and on-demand CDs. During 2004 iMusica expects to broaden its existing catalogue and regional operations.

"We at the Orchard are very encouraged by the new legitimate download services. These new services are the backbone of our future business plans; they offer the perfect inventory solution and our product is always in stock. For an independent, that is a significant accomplishment."

Scott Cohen, Founder and President, The Orchard (largest distributor of non-major label music)

Building a legitimate download business: what the unauthorised services don't have to think about	
Digitising content	Quality libraries of music repertoire need to be built from scratch. Hundreds of thousands of music tracks and supporting artwork need to be digitised to a high quality specification.
Rights-clearance and re-negotiations	Clearing sound recordings for online distribution can involve complex business considerations with a variety of parties. The sound recording rights need to be cleared with record companies and the rights in the songs separately licensed with relevant music publishers or collection societies. Rights in many recordings may need different licences in different territories.
High-performing technologies	Legitimate services are accountable to consumers and therefore need to ensure that download times are minimised for the range of consumers' connection speeds.
Consumer-friendly DRM and establishing 'usage rules'	Digital rights management systems are critical to legitimate services. Once a track is downloaded, consumers need to be able to store and use that track without violating copyrights. However, there are complex business negotiations and DRM technologies behind such usage rules. All these require clever and costly technological solutions.
Virus free services	Both content and operating systems need to be virus-free and reliable, requiring a range of supporting technologies.
Secure payment systems	Legitimate services must be paid for. Secure payment and billing systems need to be put in place, so that people can pay for music online using a variety of available means, from credit cards to pre-pay cards and special accounts.

"2003 was the year we proved that consumers would pay for digital music - it is absolutely clear there is a market. This has injected a huge confidence-booster to labels, to investors and everyone who is looking at it as a business to get into."

Ed Averdieck, Sales and Marketing Director, OD2
(European online music distributor)

Building a legal online music market - a complex business

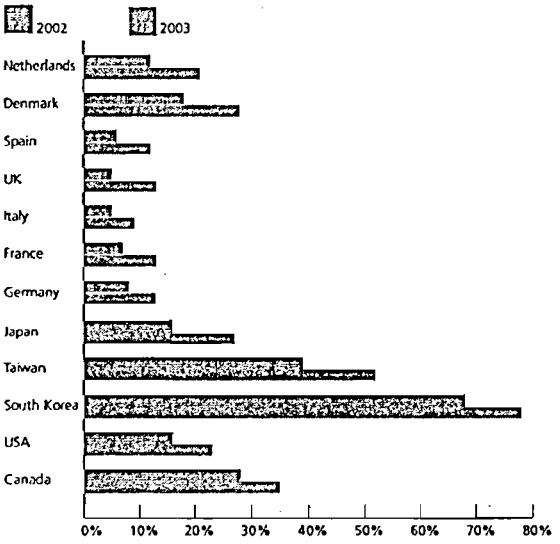
Record companies and many other parties have been working together for over five years to create viable online business models. However, this has proved an incomparably more complex undertaking than the setting-up of unauthorised distribution models - a fact that is often misunderstood outside the music industry (see table above).

Two further strategic issues have combined to slow down the development of the digital music market to date:

> Widespread piracy on the internet has provided unfair competition to legitimate services, thereby significantly increasing their business risk.

> The relatively low penetration of broadband internet services in many countries until late 2002/early 2003 markedly limited the growth of legitimate online music. This is changing as broadband penetration expands.

Household broadband penetration



Source: Understanding & Solutions

IFPI facilitates one-stop shop for Simulcasting & Webcasting

The industry is adapting its procedures in order to simplify substantially the licensing of internet music distribution, particularly streaming.

IFPI developed and announced two important one-stop licensing initiatives in 2003 to facilitate the roll out of legal streaming services. These initiatives - reciprocal agreements between record producers' collecting societies - enable the participating societies to grant blanket licences to music service providers clearing producers' rights and covering repertoire in all of the participating territories.

The Simulcasting Agreement covers record producers' rights to the simultaneous and unaltered transmission of free-off-the-air broadcasts via the internet. The Webcasting Agreement, announced in November 2003, covers services that stream sound recordings as part of programmed content, exclusively over the internet. The agreements do not cover the licensing of download services or individual on-demand streams.

The agreements are ground-breaking because, for the first time, streaming services can obtain licences that cover all the record producers' rights with respect to a multitude of territories (as of January 2004 the Simulcasting Agreement covered 36 countries) and a large proportion of the world repertoire from their local producers' collecting society.

Emerging business models still evolving

Business models offering both subscription and à-la-carte options with a range of single track downloads, album downloads, track streaming and customised streaming services, are thriving in the US and now growing in Europe (see chart below). There has been a clear trend so far from the predominant subscription model to the à-la-carte model - the simple format pioneered by iTunes.

Other innovative business models are also springing up, such as Wippit and PlayLouder Music Service Provider (MSP) in the UK. Wippit is the world's first subscription-based peer-to-peer (P2P) music service to secure needed licences, offering subscribers (approximately 5,000) access to music files for an annual fee.

Major services' business models

Service	Core Offer	Payment Method	Unique Offering
iTunes	à-la-carte downloads	pay per song, music allowance accounts, gift certificates sold at iTunes and Apple Stores	audiobooks, share music samples via email, exclusive tracks and on-demand videos, customised playlists, transfer to portable player (iPod)
Napster 2.0	track streaming, customised streaming, à-la-carte downloads	monthly subscription for Napster Premium, pay per song, Napster Card sold at over 14,000 retailers	playlist recommendations and sharing, exclusive material (on-demand videos, free online music magazine, exclusive track - in-studio performances), transfer to portable player
Rhapsody	track streaming, customised streaming	monthly subscription, with additional charges for CD burning	access music from any PC
MusicMatch	track streaming, customised streaming, à-la-carte downloads	one-off fee for MusicMatch Jukebox Plus, pay per song thereafter	transfer to portable players, personalised CD package, new music recommendations based on customer playlist
OD2 (branded by HMV, Fnac, MSN, etc.)	track streaming, à-la-carte downloads	pre-payment credits (activities such as downloads and streams have different credit value), pay per song, subscription	discounts for products paid with credits, transfer to portable player, news and special features with artists

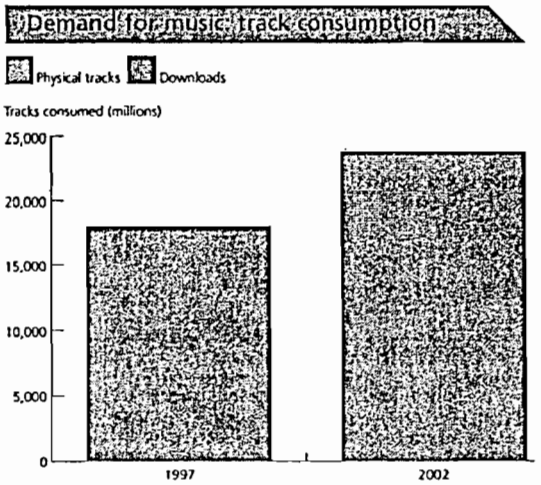
PlayLouder MSP plans to offer broadband access bundled with high-quality music services - whilst paying royalties to rights owners, songwriters and publishers - and allowing subscribers to freely exchange licensed music for a monthly fee. The service is currently under trial and it is expected to launch in the first quarter of 2004. Both services are experimental and appear to be aimed at specific niche markets.

Legitimate online music will also benefit new, independent services, as well as artist sites that offer paid-for content and build on communication between artists and music fans. During 2003, a number of artists have had considerable success offering downloads on their branded sites, including Madonna, Muse, Ben Folds and others.

Growth opportunities for legitimate online music

The opportunities the internet presents to the music industry are clear:

> The demand for music is strong, and the internet is proving to be a popular medium to access it - especially for younger consumers. The prospect of converting unauthorised online music distribution into legal music downloads represents an important commercial opportunity. An IFPI survey conducted in Australia, Germany, UK, USA and Canada showed that total music consumption (legitimate physical formats plus all digital downloads) actually increased by 30% between 1997 and 2002. Total online consumption of music - the vast bulk of it unlicensed - amounted to approximately eight billion tracks in those countries alone - one third of all songs consumed.



Source: IFPI survey conducted in Australia, Germany, UK, US and Canada.
Singles = 2 tracks; CDs and cassettes = 12 tracks

> Surveys show that an increasing number of people are using or willing to use pay-for music services. In September 2002, an independent study[4] of online music fans concluded that 36% of peer-to-peer users across Germany, France, Sweden, Spain and Italy, were willing to pay for music. In a study of visitors to its online sites in Europe about downloading, MTV discovered in summer 2003 that a third of online music fans - mostly under 25's - were willing to purchase downloads.

> The music industry will be a beneficiary of the growing practice of paying for products and services online. In December 2003, the American Express Retail Index on internet shopping found that 54% of Americans were planning to use the internet to gift shop, with CDs and DVDs the second most popular category (82%) behind clothing (85%).

> The uptake of broadband services has demonstrated that consumers are willing to pay a premium to improve their access to the internet. As broadband penetration expands, ISPs are increasingly looking to content such as music to attract and retain customers. In Europe, Tiscali, MSN, TDC and BT-Yahoo have all pursued this strategy. In the US, AOL (through MusicNet on AOL, Sessions@AOL and First Listen) has done the same - with considerable success.

"Our experience as a pan-European ISP tells us that consumers are moving away from the free internet access model, towards the paying model based on high quality connections like broadband. There are parallels to be drawn between this evolution and content distribution. Music fans will also be attracted to quality - and we are combining our strengths with the music industry to supply something which no unauthorised online service can ever provide: a comprehensive, safe, entertaining online music experience."

Sergio Benoni, Head of Music, Tiscali (ISP)

4. Jupiter Research - Online Music in Europe, 2002.

Changing music consumption
How do you want to listen?

> A-la-carte download - most services allow users to pay a single fee for one song, which they download to their PC hard drive or to a portable music player.

> Tethered download - these allow consumers to rent tracks for a given period of time. These tracks are non-transferable to portable music players but sit on the consumers PC hard drive until they 'time out' or the subscription ends. These have been popular on European services and are a good way for consumers to preview songs before they decide to buy.

> Download an album - a popular option that enables consumers to pay a single fee for one album.

> Download a bundle - some services enable consumers to download a playlist that has been suggested by other consumers, or perhaps the artist. Such bundles may also include video content or artwork/photography.

> Streaming - allows the consumer to listen to a song once and is very low cost. Streaming is ideal for listening to exactly what you want without having to pay to own a copy of the song. It is the preferred option for consumers who want to explore a broad range of songs, artists or genres.

> Customised streaming - these services offer subscribers the ability to compile their own programme of tracks based on their favourite genre, artist, or choose an already compiled program.

"MSN Music Club is growing in popularity and this is to a large extent due to the increasing number of the very latest A-list releases that are available as digital downloads. This is what large proportions of the online audience want, and it clearly indicates to us that legitimate digital music services will have a mass market."

Geoff Sutton, General Manager, MSN Europe (ISP)

Music to mobile networks and devices

Strong evidence emerged in 2003 that mobile networks and devices could become a key distribution platform for music over the next few years. The majority of activity in the sector so far has been promotional partnerships between mobile operators and music companies, allowing mobile subscribers to stream and sample new music as well as offering personalised artist-related material via the handset. The ring tones and mobile entertainment market first emerged in Japan and South Korea, where growth has been rapid.

Activity has spread throughout Asia and to Western Europe, and more recently reached the US. As 3G technology and handset penetration develops, new services including music content, and more specifically music downloads, are expected to launch.

In the latter part of 2003, mobile operators, record companies and music-related companies (such as MTV) formed a number of partnerships that lead to a wave of new services. In the UK, O2 launched its download to mobile service in November 2003, allowing mobile users to download music and transfer files to a player device manufactured by Siemens. In the US, Warner Music is the third major record company to make material available for Sprint Music Tones, a ring tone service, following a Sony Music deal in July 2003 and a Universal deal in January 2004. AT&T Wireless is set to launch its mMode service in 2004 using the handset as a channel for clips and full tracks downloadable to the PC.

Music to mobile will be boosted in 2004 by:

> Intensified activity by manufacturers and network operators in search of new business opportunities from entertainment content, met by the development of innovative products by music, film and game producers.

> Developments in 3G mobile technology enabling delivery of video to portable devices and the proliferation of Wi-Fi (wireless fidelity) 'hot-spots' with broadband capacity.

> Emergence of media-capable handsets such as the Nokia 7700.

> The development of wireless DRM enabling distribution of content across mobile operator's networks whilst protecting copyrighted content.

The Fight Against Online Music Piracy

The lure of 'free'

Although the development of an international online music market is now well underway, its progress has been hampered by unfair competition from illegitimate sites and services - that is, from online music piracy. A host of unauthorised internet sites and peer-to-peer services sprang up before legitimate services had a chance to set up, seducing many music lovers with the lure of 'free music'.

Why call them 'unauthorised'? Because these are sites and services that enable users to distribute and exchange digital files - not just music but also film, computer games, and pictures - without paying for them. Those who create the music and other products that are exchanged in this way have not agreed to their distribution and do not see a penny in return.

Some say the unauthorised services got their head start from an ingenious concept supported with clever technology. The truth is that the killer idea behind unauthorised music distribution is simply profiteering from other people's music. These services ignore all the requirements of a proper music business, and thus can operate with very little set-up or maintenance costs. They have achieved a system where they make millions of dollars from selling online advertising and bundled software on the back of music taken from someone else.

This has hurt sales of music worldwide, causing artist rosters to be cut and thousands of jobs to be lost, from the music shop assistant and the sound engineer to the band manager, songwriter and music journalist. Anyone who thinks that his or her illegal file-sharing or other unauthorised internet activity cannot affect sales is mistaken: in fact any such person's activity, combined with everyone else's, has a huge aggregate effect.

The nature of the problem

Unauthorised use of music on the internet takes a number of forms:

> Web, FTP and link sites. The 'traditional' forms of internet infringement are still popular in many countries. Those involved may or may not profit from the activity, but often generate advertising revenue, user traffic and even notoriety for their activities.

> Commercial services. A number of commercial services make money from their own copyright infringements and those of their users. Some charge users directly for access to unauthorised copies or streams of music. Others (like peer-to-peer services) claim not to copy music themselves, but encourage and assist users to steal music, and make money from advertising, spyware and other businesses built on the back of user infringements.

> Peer-to-peer (P2P) activities. These involve direct transfers of music files and other material between users ('peers'), typically through a service that encourages and assists the activity. Users not only download music files from other peers' computers, but typically make files available for transmission to large numbers of other users.

> Increasingly sophisticated techniques. As internet enforcement has ramped up, those engaged in infringement have developed increasingly devious techniques to avoid responsibility for their actions. These have involved encrypting various communications, using third parties' internet accounts, moving infringing files off-shore, and hiding their own identities through various technical means.

The size of the problem

Online piracy takes two dominant forms: distribution of files from unlicensed internet sites known as web and FTP sites; and peer-to-peer traffic on file-swapping services such as Kazaa, Grokster, Gnutella, WinMX and others.

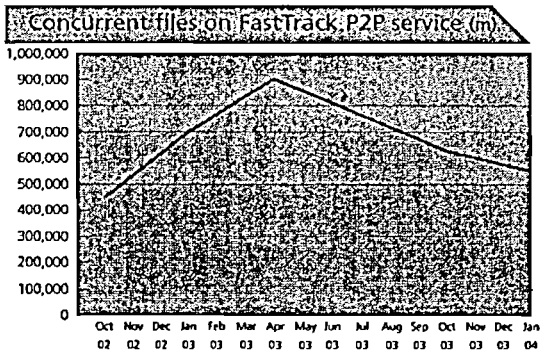
IFPI estimates that the number of infringing music files on traditional web and FTP sites on the internet remained flat at approximately 100 million during 2003, while unauthorised files on peer-to-peer systems dropped by approximately 20% from their peak in April 2003 to approximately 800 million by the year's end. This has resulted in an estimated 900 million infringing music files on the internet as of January 2004.

Infringing music files on the Internet

	Apr 02	Apr 03	Jan 04
Web & FTP files	100 million	100 million	100 million
P2P files	500 million	1.0 billion	800 million
Total	600 million	1.1 billion	900 million
Infringing Web & FTP sites	200,000	200,000	200,000
P2P users offering infringing files (concurrent)	3.0 million	5.0 million	612 million

Source: IFPI

The most substantial change has been the drop in files on the peer-to-peer network FastTrack (Kazaa, Grokster, iMesh) that began in April 2003 and continued as the US recording industry group (RIAA) made public announcements of instant messaging, litigation warnings, and legal cases against users distributing large quantities of music files over the system. The number of simultaneous files on the FastTrack system dropped 33%, from approximately 900 million in April 2003 to approximately 600 million in January 2004, as reported by the FastTrack client software itself.



This trend has been confirmed by independent research firms. According to Nielsen NetRatings[5], there was a 53% drop in use of the FastTrack network in the US between June and December 2003. Similarly, a report by Pew Internet & American Life and ComScore Media Metrix[6] found that usage of leading peer-to-peer services (Kazaa, WinMX, BearShare and Grokster) declined in November 2003 from a year earlier. The user base of Kazaa dropped by 15% and Grokster fell 59% during that period, according to the report.

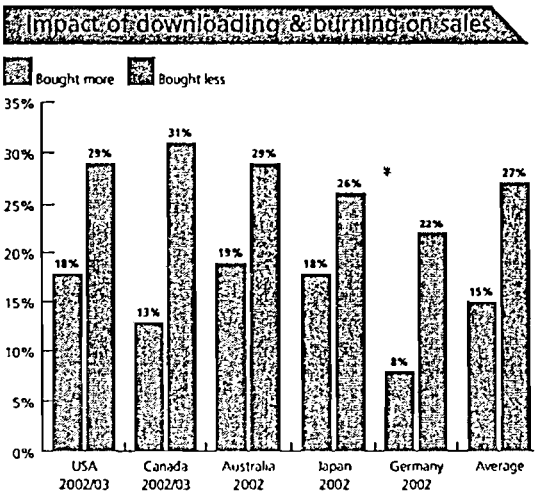
5. Internet Application Continues To Decline, September 2003.
6. America's Online Pursuit, December 2003.

FastTrack also appears to have experienced declines in use outside the US during 2003, measured by the number of users and files that its system reported to be online during off-peak (i.e. overnight) hours in the US - times when European and other non-US usage would be the highest. Between June and December 2003 the FastTrack network experienced a drop of approximately 28% in concurrent files available at off-peak US times, which was nearly the same drop seen in peak US times during the same period. This indicates that the widespread reports of legal actions against US 'uploaders' had a deterrent effect on users of the FastTrack network in other countries as well.

There appears to have been some growth in other regions and on other peer-to-peer systems where litigation has not been focussed so far, but to date this has been outweighed by the decline in the files available on FastTrack, by far the largest peer-to-peer network.

The impact: unauthorised file-swapping hurts sales more than it promotes them

It is a frequent misconception that illegal internet distribution promotes legitimate sales of music. In fact, studies in 2002 in five major music markets - US, Canada, Germany, Japan and Australia - showed that illegal downloading and burning have a clear negative impact on consumers' music purchases. On average, 27% of respondents among all the surveys stated that their spending on CDs and similar music purchases had decreased since they began downloading illegally distributed music, compared with 15% who said that their spending had increased.



Sources: RIAA/Hart Research, CRIA/Solutions Research Group, ARIA/Quantum Market Research, RIAJ, Gfk.

The industry response

The record industry sharply stepped up its response to the growth of internet piracy in 2003. Initiatives took place on four fronts:

1. Technological protection of copyrighted music.
2. Public awareness programmes highlighting the illegality of file-swapping and the damage it inflicts on people across the music sector; combined with the promotion of legal alternative services.
3. Co-operation with ISPs.
4. Litigation directed both at unauthorised file-swapping services and at hundreds of individuals illegally offering and distributing substantial quantities of music files online.

1. Protection through technology

As the technology used to create and play music evolves, so does the role of technology in protecting music against unauthorised copying and distribution.

Music must be protected in two distinct ways. Prior to release, recordings need to be handled securely to avoid early leaks. After release, music must be protected from unauthorised mass copying while giving consumers a wide range of options for enjoying it.

Pre-release security

Increasingly sophisticated security is needed to protect against unauthorised leaks - that is, the stealing and distribution of recordings on the internet prior to their planned release. Pre-release piracy can force an earlier than planned release, disrupt tour dates and marketing or advertising plans, hurt the all-important initial album sales and compound the losses due to substitution by unauthorised copies.

Leaks of albums from bands such as Metallica and Korn led to their release dates being advanced by several weeks, because the leaked copies circulated were of poor quality with the wrong mixes and in the wrong order.

Post-release protection

Digital Rights Management (DRM) technologies are critical to the development of new music services because without them music content is vulnerable. It is possible to burn as many as 200 albums onto multiple CD-R discs in less time that it takes to record a single C90 cassette. Combined with internet file-swapping, digital copying can then be transformed into unlimited distribution at the touch of a button. DRM protects against this, while allowing online stores to offer the consumer a wide range of options including streaming, track rental, track purchase or 'burn to CD-R'.

Copy control technologies (CCT) are also being used by record companies. These have already proved instrumental in the DVD Video format, as well as in computer games and software. But CCT is now evolving further than simply preventing copying. Despite some initial technical and legal hurdles, by integrating DRM flexibility with CCT protection, flexible usage of the protected CD is now becoming possible - for example by allowing the 'burning' of a protected copy, or by allowing the transfer of DRM-protected music files from the CD to a PC jukebox or portable digital player.

Damage control

Among other things, legitimate technologies now allow options such as making alternative ('decoy') files available on otherwise infringing systems - a self-help measure that some record companies have taken. Technology itself thus can provide important tools for increasingly effective action against infringement on the internet.

"As a retailer I feel very strongly about the effect internet piracy is having on music stores and their employees in Canada and indeed around the world. Stealing music on the internet is no different from stealing a pair of shoes, and we have to carry this argument to its logical conclusion. The social contract on which our society is based is rooted in respect for the law."

Natalie Lariviere, President and CEO of Groupe Archambault Inc. (Canadian retailer)

2. Public awareness campaigns

The music industry conducted an intense global information campaign in 2003, with the aim of explaining the illegality of unauthorised online music distribution. These activities are designed to highlight how new legal online services are developing, as well as how online copyright theft hurts people working across the music sector. Campaigns have ranged from music coalition websites, public relations and advertising campaigns, university and school projects and messages sent directly to people using unauthorised services.

These campaigns, coupled with the launch of extensively publicised lawsuits against major copyright offenders in the US, have had a decisive impact in raising public awareness on the issue internationally.

The new figures released by IFPI show that the general public has a very high level of awareness that unauthorised file-swapping is illegal, indicating that the industry's public education activities have indeed had an effect.

Multi-media campaigns

Summer 2003 saw an alliance of music sector groups launch www.pro-music.org (see page 18), a website aimed at promoting legitimate online music services and confronting the myths surrounding online music piracy. The website is supported by six international organisations - FIM, GIART, ICMP-CIEM, IFPI, Impala and GERA-Europe - representing musicians, publishers, performers, artists, major and independent record companies, producers and retailers across the music industry. A national version of pro-music has been launched in Germany, and in France with the support of the French government, with other countries to follow suit.

Many other countries have launched national websites, along with advertisements, CD inserts or education tools. Canada's 'Keep Music Coming' campaign, for example, uses all these media to inform young Canadians that when people buy music, they help artists create more music and give new artists a chance to be heard.

The 'Get It Right!' educational campaign of the Netherlands' broad-based copyright coalition - involving the Ministry of Justice and representatives of copyright industries - aims to teach the value of copyright to 14-15 year olds. The education pack, which includes a video with Dutch rock band Di-rect, a magazine and an interactive website, helps teachers introduce the subject of copyright to their pupils by taking them through the process by which certain products like books, newspapers, film, websites and music are created.

The Singaporean 'Don't let the Music Die' video has been distributed to almost 200 educational institutions, and clips from the video broadcast on television. Singapore's largest broadcaster has also run television and radio commercials as part of the 'Keep the Music Alive' campaign.

Singapore's 'Keep the Music Alive' website and educational video package

Other countries took out advertising to reach consumers, including:

> Japan, where five other industry groups joined the recording industry's 'Respect Our Music' ad.

> Belgium with their 'Please Don't Steal Music. Just because you can doesn't mean you should.' ads.

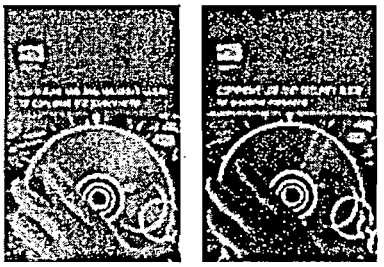
> Canada with two recent advertising spots 'Virus' and 'Jimmy's Room'.

Information to students and employees

File-sharing activities have become a serious concern to companies and universities as peer-to-peer applications quickly consume their bandwidth. There are reported examples in universities around the world where virtually all of the institutions' bandwidth had been taken over by peer-to-peer traffic, affecting those who depend on these resources to study and work. For example, Lund University in Sweden reported in April 2003 that it had blocked all access to peer-to-peer ports, given that peer-to-peer traffic had slowed its university network dramatically.

IFPI's Copyright Use and Security Guides were mailed to thousands of companies, government departments and educational institutions in 21 countries in early 2003. They call on administrators of computer networks within government, private companies and educational establishments to advise employees and students against copyright misuse on computer systems, in particular copying and uploading copyright material to the internet without permission from the rights owner. The guides advise these groups of the security and legal risks they run when copyright material is copied and transmitted without permission.

The distribution of the brochures to academic institutions was the start of a greater co-operation between the music industry and universities around the world.



The Copyright Use and Security Guide brochures

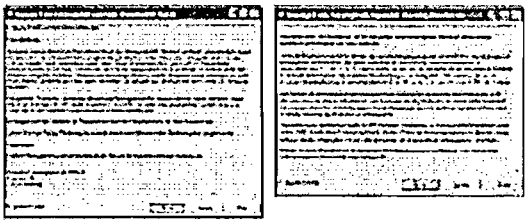
Many schools and universities have taken steps to discourage illicit file-swappingactivity, imposing bandwidth limits, sending warning notices, using filtering and other technical tools, and disconnecting users that trade copyrighted music unlawfully.

In Italy, schools have been requested by their regional educational authorities to adopt copyright protection measures, which include technical tools to prevent the use of unauthorised music files on the institutions' servers.

Most recently, universities in the US have begun giving crash courses in copyright law and at least one has already begun to offer legitimate music services along with cable television, free newspapers, and other perks of campus life when students begin their university term.

Instant messaging: reaching file-swappers directly

Users illegally distributing music online can also be reached directly. For several months the recording industry has been sending instant messages over peer-to-peer systems to users who appear to be offering unlicensed music. These warn users that they should not engage in copyright infringement and explain why using lawful copies of music is so important.



Since April 2003, the RIAA has sent approximately 18 million instant message warnings to peer-to-peer users in the US. Virtually all of the users sued by RIAA for making infringing copies of recorded music available on peer-to-peer services had been sent such a message.

Record industry groups in five other countries - Australia, Austria, Canada, Denmark, Germany - have sent nearly two million instant messages to peer-to-peer users since August 2003.

Following is a sample of the instant messages sent:

> Austria: ACHTUNG! Sie bieten geschützte Musikfiles ohne Zustimmung der Rechteinhaber über eine Internet-Tauschbörse an...

> Australia: INTERNET FILE SHARING IS THEFT. IT ROBS ARTISTS AND SONGWRITERS OF INCOME AND REDUCES THE AVAILABILITY OF NEW MUSIC. Copyright owners are aware that you may be offering copyrighted music from your computer via a file-sharing network...

> Canada: WARNING: It appears that you are offering copyrighted music to others from your computer...

> Denmark: Antipiratgruppen har konstateret, at De øjensynligt er i færd med at kopiere ophavsretligt beskyttede lydoptagelser...

> Germany: Warnung wegen Urheberrechtsverletzungen. Hallo Musikfan, Sie bieten anderen Nutzern der Tauschbörse Musik an...

3. Co-operation with internet operators for high-volume take-down

Much of the industry's internet anti-piracy work takes place as a co-operative effort with ISPs. This is in the interest not only of the music business but also of ISPs, who do not want their systems used for activities that are illegal, that clog the internet service or subject it to security problems.

Most ISPs' terms of service expressly prohibit their customers from engaging in copyright infringement, or from running servers (such as peer-to-peer servers) from individual accounts. ISP agreements also typically provide that they may remove, block or take other action to stop such activities, and co-operate with enforcement efforts to do so.

For many years, IFPI and more than 25 national groups have notified ISPs when unauthorised music files or other infringing activities appeared on those ISPs' services. In the vast majority of cases, they have voluntarily blocked or taken down the sites or files identified as infringing. Given that no legal proceedings or other formal procedures are required, this has proved an efficient and cost-effective way of removing high-volume infringing material.

The number of music files removed from the internet and infringing sites taken down thanks to voluntary action by the ISPs once notified continues to increase year-on-year.

In 2003, IFPI secured the take-down of approximately 41,000 unauthorised web and FTP sites, 1,050 peer-to-peer indexing servers, and 1.6 billion unauthorised copies of recorded music from the internet in 101 countries worldwide.

Infringing files removed from the internet

	2001	2002	2003
Files taken down after ISP notices	700 million	1.3 billion	1.6 billion
Web and FTP sites taken down	26,000	38,000	41,000

Source: IFPI

4. Litigation raising awareness and achieving deterrence

Persistent online infringement

Litigation has proved highly effective when cooperation and public awareness are not enough to reduce unauthorised online music activities. . Examples of potential targets for litigation are:

> Unscrupulous businesses that may have a strong financial incentive to conduct online infringement or encourage users to do so. Such services sometimes will not stop infringements or act responsibly unless forced to do so by law enforcement authorities or the courts.

> Unauthorised web, FTP or other sites which are overtly commercial but which may for ideological reasons spend substantial amounts of time, money and effort to maintain pirate sites, disguise or move them to avoid the law, and resist take-downs or legal actions to stop them.

> Individual users who don't get the message. The idea of taking or distributing someone else's music for free on the internet is a seductive one that may need a tougher deterrent response. Even users fully aware that online infringement is stealing may believe that they will never get caught or face any real consequences, and thus persist in illegal behaviour.

Legal action against services and unauthorised sites

Cases against unauthorised sites are brought in countries all around the world, as the laws everywhere already provide a basis for stopping unauthorised internet copying, transmission and/or distribution.

While such cases may be difficult or prolonged, they are having an overall deterrent effect. The following are examples of the types of cases that have been brought:

Services

> MMO peer-to-peer service (Japan). The final judgement entered in December 2003 found this service itself to have infringed. An injunction was entered against the service, and compensation awarded to the record company and music publisher parties.

> Soribada peer-to-peer service (Korea). The court entered an injunction in July 2002 requiring this service to stop letting users download the plaintiff record companies' copyrighted recordings.

> Weblisten (Spain). First-and second-instance courts have entered injunctions against Weblisten (subject to appeal) for unauthorised use of plaintiff record companies' recordings in its streaming and download service.

> MP3.com, Aimster, Kazaa, Grokster (US). The US industry has brought a range of litigation case against peer-to-peer and other online services that have not secured licences for copyrighted recordings of music.

Web, FTP, Link Sites

> Mp3WmaLand (Australia). The criminal court convicted three individuals in November 2003 for running a complex web of 'free' download sites offering an estimated AUD 60 million in recorded music.

> Bruvik/Napster.No (Norway). In this case brought by recording industry and music publisher plaintiffs, the site was found liable in January 2003 for offering 'links' to unauthorised copies of recorded music (no relation to the original Napster company or case).

Actions against individual infringers

Litigation against high-volume individual distribution is an important option of last resort in the fight against internet piracy. Civil or criminal lawsuits against commercial, persistent or major individual infringers provide a crucial public deterrent. Even some of the biggest critics of the record industry have admitted this:

Mr. [Joe] Kraus [of DigitalConsumer.org] agreed that existing laws should be enforced suggesting that some high-profile prosecutions of major violators could "make consumers feel more vulnerable" and more likely to seek out legitimate sources of online content.

'Customers, Not Technology, Seen as Key for Digital Music'. T R Daily.

[Fred] Von Lohmann [of the Electronic Frontier Foundation] said it was "not such a radical statement" to say piracy suits would be more appropriately aimed at consumers than enabling technology companies... A few targeted lawsuits would get the message across.

'Copyright'. Washington Internet Daily.

The US record industry in 2003 began to enforce the copyright law against individuals. These were not people who had casually downloaded a few files for their own personal or private use. They were individuals alleged to have copied hundreds or thousands of music files onto their personal computers and opened their directory of files to the internet for copying, transmission and distribution to potentially millions of anonymous strangers.

Lawsuits against major 'uploaders' of copyrighted music - a successful deterrence strategy

The lawsuits against substantial 'uploaders', first launched in September 2003 in the US, have got the message across to a vast audience in the US and abroad. Awareness of the illegality of unauthorised file-swapping in the US rose from 37% before the lawsuits to 64% in December 2003.

The message has reached companies and universities, as well as children and parents. There is growing awareness, especially in the US, that the 'sharing' activity sometimes portrayed as harmless or even respectable by peer-to-peer services is in fact illegal and raises a raft of other concerns about security and other content of such services.

Although their primary intent was to create a deterrent via public awareness, the US legal actions have also helped give breathing room to legitimate online services. And there appears to have been a significant reduction in the levels of online piracy in the wake of the litigation campaign. At the same time subscriptions to legitimate online services in the US have risen sharply.

New IFPI survey shows the deterrence effect can work internationally

In December 2003 IFPI commissioned a survey to determine the level of public awareness of illegality of distributing or sharing unlicensed music files over the internet, awareness of legitimate online music services, and support levels for legal action. Research firm GfK conducted the survey using random sample computer assisted telephone interviews. The sample sizes were 1,000 in Germany, France and UK and 500 in Denmark.

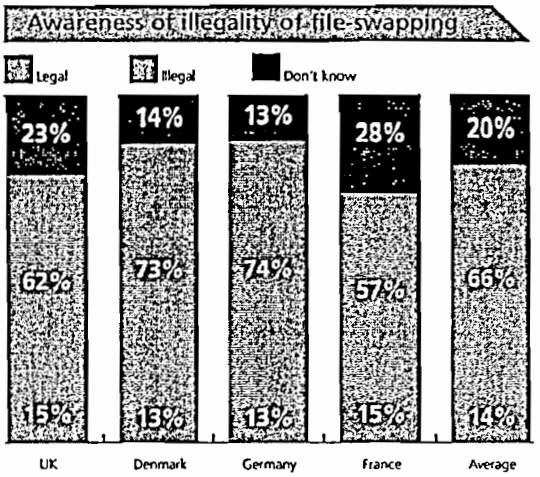
The main findings and conclusions from the survey results are:

> An average of 66% of surveyed respondents in the four countries are aware that unauthorised file-swapping is illegal. This is even higher than the corresponding levels of awareness in the US (64%) in December 2003, after three waves of US lawsuits against individuals.

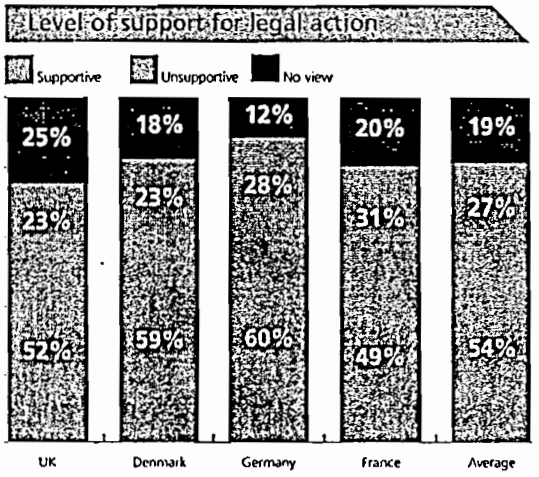
> More than half the people surveyed (54%) in the four countries support the industry's legal actions against major internet infringers. Support is highest in Denmark (59%) and Germany (60%) where awareness of the illegality of file-swapping is also greatest. In France and the UK, the support figures are 49% and 52% respectively, with almost a quarter of consumers undecided whether to support the legal action.

> Litigation has played a critical role internationally in improving the public's awareness that file-swapping is illegal. Awareness of illegality of file-swapping is higher among people who have heard that the industry has taken legal actions against file-swapping services and users. An average of 59% of people surveyed were aware of announcements about such legal actions.

- Half of all respondents (53%) think that the prospect of legal action by music copyright holders would make illegal file-swappers stop or reduce their activities.
- Awareness of legitimate alternatives to file-swapping is still low, at 23% among all respondents. The 16-29 year olds are however more aware; 38% are aware of legitimate online music services.



Question: "As you may know, there are technologies available on the internet that individuals can use to distribute or share music from their computer to other people for free. From what you know about the current laws, is it: 1) legal all the time 2) legal most of the times 3) illegal most of the times, 4) illegal all thetime, 5) Don't know."



Question: "If you were to hear news that the recording industry in (this country) is taking legal action against (nationality) individuals illegally sharing substantial amounts of copyrighted music online, would you say that you are: 1) Supportive 2) Unsupportive 3) No view."

Litigation as a global strategy

Litigation has proved a successful strategy that is increasingly likely to be needed internationally. As growing broadband penetration spurs an increase in unauthorised music distribution, it is likely that there will be lawsuits against major internet distributors internationally in 2004, similar to those filed in the US.

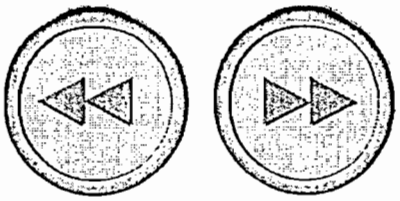
Several countries have already taken selected cases against individuals offering music files without authorisation. These include:

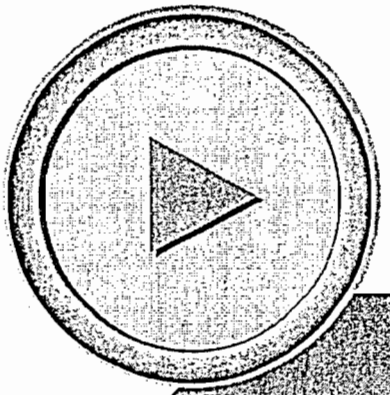
- Denmark. Civil claims against 150 peer-to-peer users in December 2002.
- Germany. Criminal raid against peer-to-peer uploader and server operator in April 2003.
- Italy. Criminal raids of 75 peer-to-peer uploaders and server operators in May 2003.
- Switzerland. Criminal conviction of uploader on peer-to-peer service, May 2003.
- Taiwan. Criminal prosecutions of peer-to-peer users pending.
- Korea. Criminal complaints filed against 100 peer-to-peer users, December 2003.

The industry's willingness to bring lawsuits, alongside its educational and commercial initiatives to promote good commercial and legal online alternatives, should not be doubted. The recording industry has already demonstrated that is prepared to enforce its rights against major infringing uploaders on the internet where necessary.

"We at Fnac have the ambition to become a major player in the digital distribution of music. We are convinced that the market is now ready for legitimate download services and there is evidence to support this. However for the market to really take off it is crucial to fight against piracy - largely responsible for the decline in music sales - as well as giving consumers a really attractive and efficient service."

Christophe Cuvillier, Directeur General International et Developpement, Fnac (French retailer)

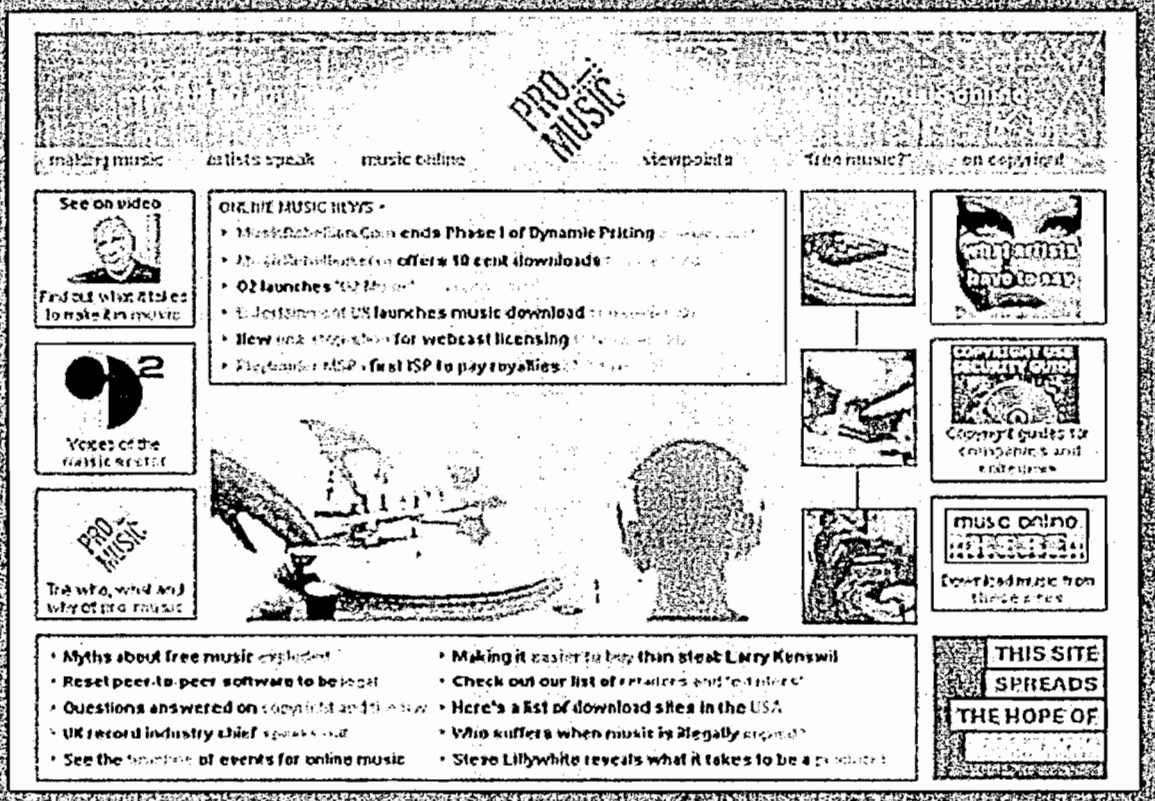




"Making available copyrighted music without permission on the Internet - that means the bulk of all file-sharing - is illegal in virtually every country of the world. Those who ignore this legal reality may have to face the consequences."

Jay Berman, Chairman & CEO, IFPI

visit: www.pro-music.org



Email info@pro-music.org with details of planned or existing legitimate online music services

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PRICEWATERHOUSECOOPERS

Global Entertainment and Media Outlook: 2006–2010*

United States
Europe, Middle East, Africa (EMEA)
Asia Pacific
Latin America
Canada

Filmed Entertainment
Television Networks: Broadcast and Cable
Television Distribution
Recorded Music
Radio and Out-of-Home Advertising
Internet Advertising and Access Spending
Video Games
Business Information
Magazine Publishing
Newspaper Publishing
Book Publishing
Theme Parks and Amusement Parks
Casino and Other Regulated Gaming
Sports

Global overview included

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PRICEWATERHOUSECOOPERS

Global Entertainment and Media Outlook: 2006–2010*

Forecasts and economic analyses of 14 industry segments

The Global Entertainment and Media Outlook is a forecast for the 2006–2010 period of spending in 14 entertainment and media segments. For ordering instructions, please refer to the next page of this book.

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Global Entertainment and Media Outlook: 2006–2010

Prepared and edited by:

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- Individual industry segments are sold in electronic format.

Table of Contents

4 Introduction Letter
5 PricewaterhouseCoopers' Entertainment & Media Practice Global Contacts

Global Entertainment and Media Outlook: 2006–2010, Global Overview

6 Introduction
8 Methodology
9 Regions/Countries Covered
10 Exchange Rates
11 Global Entertainment and Media Market by Region
12 Global Dynamics
14 Principal Industry Drivers
18 Conclusion
19 Global Advertising and Consumer/End-User Spending
22 Global Entertainment and Media Market by Segment
23 Filmed Entertainment
23 Television Networks: Broadcast and Cable
24 Television Distribution
24 Recorded Music
25 Radio and Out-of-Home Advertising
26 Internet Advertising and Access Spending
27 Video Games
27 Business Information
28 Magazine Publishing
28 Newspaper Publishing
29 Book Publishing
29 Theme Parks and Amusement Parks
30 Casino and Other Regulated Gaming
30 Sports
31 The Outlook for Global Entertainment and Media Spending by Region
31 United States
36 Europe, Middle East, Africa (EMEA)
42 Asia Pacific
48 Latin America
53 Canada

Global Entertainment and Media Outlook: 2006–2010

59 Filmed Entertainment
115 Television Networks: Broadcast and Cable
161 Television Distribution
219 Recorded Music
267 Radio and Out-of-Home Advertising
307 Internet Advertising and Access Spending
367 Video Games
399 Business Information
413 Magazine Publishing
447 Newspaper Publishing
489 Book Publishing
533 Theme Parks and Amusement Parks
563 Casino and Other Regulated Gaming
593 Sports
619 Summary of Tables and Charts†

†Totals in tables and charts may not total arithmetically due to rounding.

Key to Symbols Used in the Tables and Charts
p = Preliminary
NA = Not Available
— = No spending that year

Global Entertainment and Media Outlook: 2006–2010*

Recorded Music

220 Summary
222 United States
231 EMEA
245 Asia Pacific
255 Latin America
261 Canada

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Recorded Music

The recorded music market consists of consumer spending on album and single sound recordings and music videos distributed in traditional formats and sold in record stores, including compact discs and cassette tapes. It also includes licensed digital distribution services that provide electronic files for use on computers, iPod devices, and MP3 players, as well as mobile music. Mobile music is music distributed to mobile phones through wireless carriers. Mobile music may be in the form of ring tones, which are monophonic or polyphonic tones that play aloud when the phone rings; or ring backs, which are ring tones or actual songs that the caller hears when a call is placed; or ring tunes, also known as master ring tones and true tones, which are either portions of or an entire actual music track with full vocals and orchestrations, heard either when the phone rings or as a ring back; or music video clips.

Market size and growth by region

Global spending on recorded music rose by 1.2 percent in 2005, its second consecutive increase following four years of decline. Mobile music and licensed digital distribution services fueled the recovery while spending on music in physical formats decreased in most territories except Latin America. Mobile music and licensed digital distribution will drive spending during the next five years, steadily replacing the physical market. Spending will expand from $37.1 billion in 2005 to $47.9 billion in 2010, a 5.2 percent compound annual increase.

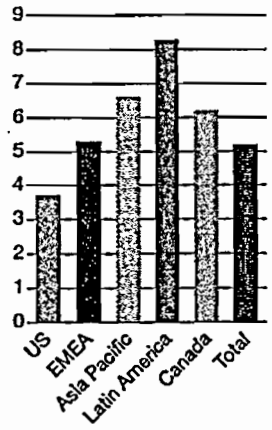
EMEA (Europe, Middle East, Africa), the largest region in 2005, with $14.0 billion in recorded music spending, will increase to $18.2 billion in 2010, a 5.3 percent compound annual gain. Spending in the United States will total $14.7 billion in 2010, up from $12.3 billion in 2005—an increase of 3.7 percent on a compound annual basis. Asia Pacific will advance at a 6.6 percent annual rate to $12.0 billion from $8.7 billion in 2005. Latin America will be the fastest-growing region, with an 8.3 percent compound annual growth rate; spending will increase from $1.3 billion in 2005 to $1.9 billion in 2010. Spending in Canada will advance at a 6.2 percent compound annual rate from $835 million in 2005 to $1.1 billion in 2010.

Principal drivers

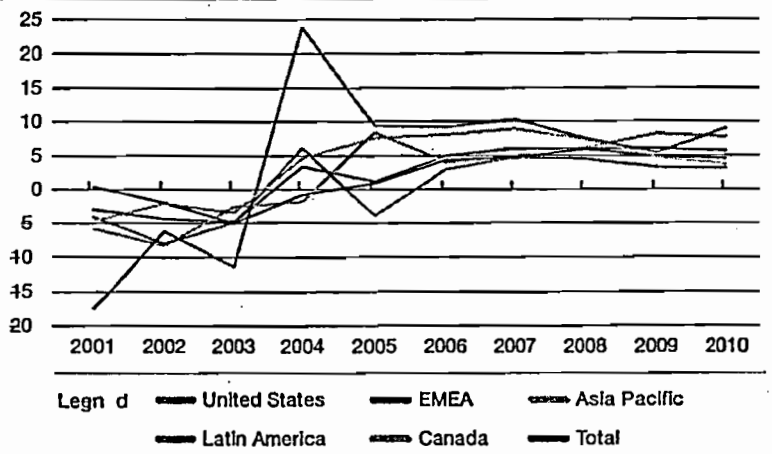
Growth in digital distribution and mobile music will drive spending in each market, offsetting further declines in spending on physical formats. Digital distribution will be fueled by rising broadband subscribership, the launch of new services, content availability and attractive pricing. An expanding wireless universe, upgrades to next-generation wireless networks that can support high-capacity applications such as music, and the migration of the market from ring tones to higher-priced ring tunes will drive mobile music spending. In Asia Pacific, the world's largest mobile music market, mobile music will surpass physical distribution in 2010. Meanwhile, antipiracy initiatives are beginning to yield results, and we expect incremental losses to piracy will moderate. However, physical formats will face growing competition from licensed digital distribution and from distribution of full tracks to wireless devices.

Trend analysis of the outlook for recorded music

Compound Annual Growth Rate (CAGR) (%)



Percent Change (%)



Recorded Music Market (US$ Millions)

Region	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
United States	13,741	12,643	12,025	12,762	12,270	12,639	13,250	13,845	14,299	14,739	
% Change	–4.1	–8.0	–4.9	6.1	–3.9	3.0	4.8	4.5	3.3	3.1	3.7
EMEA	15,034	14,731	13,989	13,880	14,002	14,616	15,301	16,209	17,193	18,160	
% Change	0.4	–2.0	–5.0	–0.8	0.9	4.4	4.7	5.9	6.1	5.6	5.3
Asia Pacific	8,222	8,048	7,764	8,120	8,739	9,447	10,287	11,048	11,573	12,002	
% Change	–4.7	–2.1	–3.5	4.6	7.6	8.1	8.9	7.4	4.8	3.7	6.6
Latin America	1,133	1,063	942	1,167	1,277	1,395	1,538	1,653	1,743	1,899	
% Change	–17.5	–6.2	–11.4	23.9	9.4	9.2	10.3	7.5	5.4	9.0	8.3
Canada	878	805	784	770	835	868	911	967	1,046	1,127	
% Change	–5.8	–8.3	–2.6	–1.8	8.4	4.0	5.0	6.1	8.2	7.7	6.2
Total	39,008	37,290	35,504	36,699	37,123	38,965	41,287	43,722	45,854	47,927	
% Change	–3.0	–4.4	–4.8	3.4	1.2	5.0	6.0	5.9	4.9	4.5	5.2

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

United States

The outlook in brief

- Attractive prices, ease of use, rising broadband penetration, and improved search facilities will continue to drive digital distribution.
- New handsets and the rollout of next-generation wireless networks are facilitating the distribution of actual songs to mobile devices, thereby propelling the mobile music market.
- The overall physical market is being replaced by digitally distributed products.

Overview

- The recorded music market will expand at a 3.7 percent compound annual rate to $14.7 billion in 2010 from $12.3 billion in 2005.
- Growth will be fueled by rapidly expanding digital sales that will offset declines in the physical market. Physical distribution will drop from $11.2 billion in 2005 to $8.5 billion in 2010, a 5.4 percent compound annual decrease.
- Physical album sales—excluding singles and music videos—will fall to $8.0 billion in 2010 from $10.6 billion 2005, a 5.5 percent decline compounded annually.
- The traditional physical singles market—supplanted by digital singles downloads—will virtually disappear, dropping from $24 million in 2005 to only $5 million in 2010.
- Music videos—distributed in the U.S. on DVD and VHS rather than CD—will decline by 3.5 percent compounded annually to $503 million in 2010.
- Licensed digital distribution will rise from $653 million in 2005 to $4.9 billion in 2010, a 49.5 percent compound annual increase. From a 5 percent share in 2005, digital distribution will constitute 33 percent of recorded music spending in 2010.
- Mobile music will advance at a 26.7 percent compound annual rate to $1.4 billion in 2010 from $422 million in 2005.
- Digital distribution and mobile music together will constitute 42 percent of industry spending in 2010.

Recorded Music Market (US$ Millions)

United States	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Albums	13,306	12,283	11,397	11,512	10,569	10,058	9,536	9,015	8,493	7,972
Singles	106	43	57	35	24	15	10	5	5	5
Music Videos	329	288	400	607	602	604	620	618	567	503
Physical Music Total	13,741	12,614	11,854	12,154	11,195	10,677	10,166	9,638	9,065	8,480
Licensed Digital Distribution	—	13	71	303	653	1,422	2,338	3,227	4,044	4,883
Mobile Music	—	16	100	305	422	540	746	980	1,190	1,376
Total	13,741	12,643	12,025	12,762	12,270	12,639	13,250	13,845	14,299	14,739

Sources: PricewaterhouseCoopers LLP, Recording Industry Association of America, Wilkofsky Gruen Associates

Recorded Music Market Growth (%)

United States	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2006–10 CAGR
Albums	–4.1	–7.7	–7.2	1.0	–8.2	–4.8	–5.2	–5.5	–5.8	–6.1	–5.5
Singles	–39.1	–59.4	32.6	–38.6	–31.4	–37.5	–33.3	–50.0	0.0	0.0	–26.9
Music Videos	16.7	–12.5	38.9	51.8	–0.8	0.3	2.6	–0.3	–8.3	–11.3	–3.5
Physical Music Total	–4.1	–8.2	–6.0	2.5	–7.9	–4.6	–4.8	–5.2	–5.9	–6.5	–5.4
Licensed Digital Distribution	—	—	446.2	326.8	115.5	117.8	64.4	38.0	25.3	20.7	49.5
Mobile Music	—	—	525.0	205.0	38.4	28.0	38.1	31.4	21.4	15.6	26.7
Total	–4.1	–8.0	–4.9	6.1	–3.9	3.0	4.8	4.5	3.3	3.1	3.7

Sources: PricewaterhouseCoopers LLP, Recording Industry Association of America, Wilkofsky Gruen Associates

Licensed digital services

- Licensed digital distribution more than doubled in 2005 to $653 million from $303 million in 2004. Downloads of single tracks at 99 cents each have re-created a thriving singles market that had previously proved to be uneconomical in a physical format.

- A total of 367 million tracks were downloaded in 2005, up from 139 million in 2004 and only 25 million in 2003. Virtually any song is now legally available as a single. By contrast, only a fraction of the number of songs is available in the physical singles format. Consequently, the digital market enjoys a competitive advantage over the physical market because it provides greater access to songs and serves that market more efficiently. Moreover, digital's 99-cent price point is far more attractive than the $4.80 average price for a physical single. The significant difference in price points leaves room for price increases on digital product while still maintaining a substantial advantage compared with prices for physical product.

- Album downloads rose to 13.6 million in 2005 from 4.6 million in 2004. In this instance, the price advantage is less compelling, albeit still significant—$9.99 for digital albums compared with $14.71 for physical albums—and there is no access advantage, since on one hand, most albums available digitally are also sold in stores. On the other hand, downloading albums online is convenient and growing in appeal.

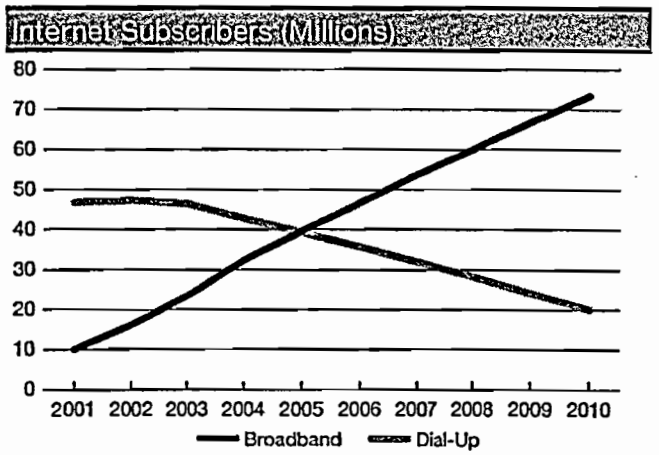
- Online distribution of music videos is becoming viable, now that a majority of Internet subscribers are on broadband. The average price of a digital music video was only $1.95 compared with $14.95 for physical music videos—a significant price advantage for digital. Consumers spent $4 million in 2005 on licensed digital music videos.

- Digital tracks and albums are now being distributed through kiosks and generated $1 million in sales in 2005.

- There is a small, emerging digital subscription market that had 1.3 million subscribers in 2005. Such services as Napster, Rhapsody, and Yahoo! offer subscribers access to thousands of songs for an average of $9.56 per month, which is the equivalent of nearly 10 downloads. However, users must remain members of the service in order to access music downloaded from the service. Subscriptions offer enhanced value to avid music listeners, but consumers are accustomed to buying music rather than renting it on a subscription basis. And while subscribers can listen to songs through a subscription service, they generally cannot download them.

- Rising broadband penetration is facilitating digital distribution because it is much faster to download

music through a broadband connection. The number of broadband subscribers increased by 30 million during the past four years, and in 2005, broadband passed dial-up as a means to access the Internet. We expect the broadband universe to increase from 40 million in 2005 to 73 million in 2010, significantly expanding the potential market for digital music.



Sources: Federal Communications Commission, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- In addition to user-friendly sites such as Apple's iTunes Music Store, search engines are making it easier to find licensed music online. In mid-2005, Yahoo! introduced a search engine that scans licensed download services to locate a song and provide links for users, although software specific to each site is still required in order to purchase the music.

- The proliferation of portable MP3 players and iPods is also facilitating the digital market because these devices enable downloaders to listen to hundreds and even thousands of songs away from their computers, thereby enhancing the appeal of digital music in a manner similar to the boost provided by the Sony Walkman and then, later, by devices for the CD market. The new digital devices dramatically expand the capacity for portable music. And the surge in the device market reflects the growing demand for digital music.

- As more music is being made available for digital distribution, the market is growing. After initial resistance, record companies are now looking to digital distribution—and to mobile music—as sources of growth rather than as cannibalization of their physical product. Although revenues are lower for digital distribution, there are substantial cost savings as well, which allow for the possibility of improved margins.

- The costs of manufacturing, distribution, and managing returns account for more than a quarter of total costs for a typical physical album. Those costs are eliminated when music is distributed digitally. Moreover, it is not financially feasible to release each track as a single in a physical format, but tracks can readily be released digitally, which generates a significant incremental revenue stream with little incremental cost. Support by the record industry has helped digital distribution expand quickly.

- Labels receive approximately 70 percent of the revenue of a downloaded single, with artists and music publishers receiving approximately 25 to 50 percent of the amounts received by the labels. After other costs—such as bandwidth costs, credit card fees, and similar out-of-pocket expenditures—the distributor is typically left with about 5 to 10 percent. With cost pressures rising, we expect prices to increase. We project the 99-cent price point to begin to increase in 2007 and to rise to $1.15 in 2009–10. We have seen a move toward tiered pricing in other countries, and while this has not yet emerged in the U.S., it may well happen.

- We expect single-track downloads to increase from 367 million in 2005 to 1.5 billion in 2010. Spending on singles will rise from $363 million in 2005 to $1.7 billion in 2010.

- The demand for digital-format-album downloads is also growing. With consumers becoming more accustomed to getting music digitally, the demand for music is now moving to entire albums, even though such albums are available in stores. We project digital-album unit sales to rise to 150 million by 2010. With prices edging up from $9.99 to $10.15, sales will total an estimated $1.5 billion.

- The substantial price advantage for music videos purchased online will fuel that market. We project music video downloads to increase to 20 million by 2010. At an estimated $2.25 per download in 2010, consumers will spend $45 million on digital music videos.

- Although the kiosk will not become a major distribution channel, kiosks will contribute to growth, generating $13 million in 2010.

- The subscription market uses the flat-rate pricing model that has been successful in the wireless and Internet access markets wherein consumers pay a set fee for a large bucket of content. Also, consumers overall are becoming accustomed to paying a monthly subscription fee for a bundle of broadband digital content—from music to news, to access to live sports online via streaming video—and this premium-content bundling approach may also contribute to increased online music subscription sales. We project digital subscriptions to increase to 11 million by 2010. Average prices will increase to $11.95 per month, generating $1.6 billion in spending. (These figures do not include paid satellite-radio subscriptions, which are covered under radio in the Radio and Out-of-Home chapter.)

- The overall digital music market will rise to $4.9 billion in 2010, growing at a 49.5 percent compound annual rate.

Licensed Digital Distribution Market

United States	2002	2003	2004	2005	2006	2007	2008	2009	2010
Singles									
Downloads (Millions)	4	25	139	367	700	1,000	1,200	1,350	1,500
Average Price (US$)	1.25	0.99	0.99	0.99	0.99	1.10	1.10	1.15	1.15
Dollar Sales (US$ Millions)	5	25	138	363	693	1,100	1,320	1,553	1,725
Albums									
Downloads (Millions)	—	1	4.6	13.6	35	60	95	125	150
Average Price (US$)	—	9.99	9.99	9.99	9.99	10.10	10.10	10.15	10.15
Dollar Sales (US$ Millions)	—	10	46	136	350	606	960	1,269	1,523
Kiosks†									
Downloads (Millions)	—	—	—	0.7	1.5	3.0	5.0	7.5	10.0
Average Price (US$)	—	—	—	1.43	1.40	1.35	1.30	1.25	1.25
Dollar Sales (US$ Millions)	—	—	—	1	2	4	7	9	13
Music Videos									
Downloads (Millions)	—	—	—	1.9	4.0	6.5	10.0	14.5	20.0
Average Price (US$)	—	—	—	1.95	1.95	1.95	2.00	2.10	2.25
Dollar Sales (US$ Millions)	—	—	—	4	8	13	20	30	45
Subscriptions									
Subscribers (Millions)	0.07	0.3	1.0	1.3	3	5	7	9	11
Monthly Fee (US$)	9.95	9.95	9.95	9.56	10.25	10.25	10.95	10.95	11.95
Annual Spending (US$ Millions)	8	36	119	149	369	615	920	1,183	1,577
Total Digital Spending (US$ Millions)	13	71	303	653	1,422	2,338	3,227	4,044	4,883

†Singles and albums.
Sources: Recording Industry Association of America, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Licensed Digital Distribution Market Growth (%)

United States	2003	2004	2005	2006	2007	2008	2009	2010	2006–10 CAGR
Singles									
Downloads	525.0	456.0	164.0	90.7	42.9	20.0	12.5	11.1	32.5
Average Price	–20.8	0.0	0.0	0.0	11.1	0.0	4.5	0.0	3.0
Dollar Sales	400.0	452.0	163.0	90.9	58.7	20.0	17.7	11.1	36.6
Albums									
Downloads	—	360.0	195.7	157.4	71.4	58.3	31.6	20.0	61.6
Average Price	—	0.0	0.0	0.0	1.1	0.0	0.5	0.0	0.3
Dollar Sales	—	360.0	195.7	157.4	73.1	58.4	32.2	20.0	62.1
Kiosks†									
Downloads	—	—	—	114.3	100.0	66.7	50.0	33.3	70.2
Average Price	—	—	—	–2.1	–3.6	–3.7	–3.8	0.0	–2.7
Dollar Sales	—	—	—	100.0	100.0	75.0	28.6	44.4	67.0
Music Videos									
Downloads	—	—	—	110.5	62.5	53.8	45.0	37.9	60.1
Average Price	—	—	—	0.0	0.0	2.6	5.0	7.1	2.9
Dollar Sales	—	—	—	100.0	62.5	53.8	50.0	50.0	62.3
Subscriptions									
Subscribers	328.6	233.3	30.0	130.8	66.7	40.0	28.6	22.2	53.3
Monthly Fee	0.0	0.0	–3.9	7.2	0.0	6.8	0.0	9.1	4.6
Annual Spending	350.0	230.6	25.2	147.7	66.7	49.6	28.6	33.3	60.3
Total Digital Spending	446.2	326.8	115.5	117.8	64.4	38.0	25.3	20.7	49.5

†Singles and albums.
Sources: Recording Industry Association of America, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile music

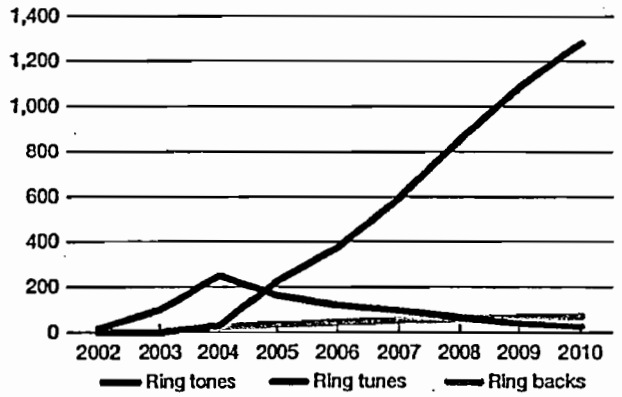
- The mobile music market also grew rapidly in 2005, rising by 37.9 percent to $422 million. The market is being propelled by wireless carriers. Facing a slowdown in cellular subscriber growth, carriers are looking to enhance average revenue per user, and music is one avenue for achieving that goal. Carriers typically retain approximately 40 percent of mobile music revenue. For ring tunes, the label gets approximately 20 percent, the artist 20 percent, and music publishers approximately 10 percent. The remaining 10 percent goes to performance rights and the hosting service.

- The mobile music market is different from both physical and digital music. In the latter two cases, demand stems from a person's desire to listen to music. With mobile music, there is also a public element to demand. Users are making a statement when the wireless device plays ring tones and ring tunes that others can hear. The same applies to ring backs that the caller hears. There is also no competition from "free" peer-to-peer file servers in the mobile market.

- Lack of competition from free services and its public aspect lowers the price sensitivity of mobile subscribers. Mobile subscribers are willing to pay approximately $1.50 for a 30-second ring tone or ring back that consists of polyphonic tones, whereas the market has set the bar at only 99 cents for the full digital download of an entire song with full vocals and orchestration.

- The market dramatically transformed itself in 2005 from one dominated by ring tones to one in which ring tunes constituted the majority of spending. Ring tunes jumped from only $30 million in 2004 to $225 million in 2005. Ring tones totaled $162 million in 2005, down from $250 million in 2004. We expect ring tunes to become the dominant component of mobile music because they are more appealing than ring tones, constituting 93 percent of mobile music spending in 2010.

Mobile Music Market (US$ Millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- New handsets that can hold full songs in memory entered the market in 2005, enabling ring tunes to be downloaded by a larger number of wireless subscribers.

- Carriers are currently using their existing networks for limited high-volume applications, but the rollout of high-capacity, high-speed third-generation (3G) wireless networks that can accommodate the downloading of music and other high-capacity applications on a widespread basis will drive the ring tune market during the next five years.

- While ring tunes have a unique place in the market when they announce an incoming call or serve as a ring back, they face competition from iPods and other mobile devices for full-length songs that can hold far more music and provide better sound quality than a mobile phone can. Furthermore, software is available that allows for the transfer of MP3 files from a computer to a cell phone. This software and additional future technology should allow for the transfer of both full music tracks and ring tunes from computers to cell phones.

- We therefore expect the market for full-length songs distributed via mobile carriers to be circumscribed by the digital distribution market. People can buy actual songs for 99 cents through digital download services and either play them outside the home on iPods or transfer them to cell phones. Such availability will ultimately limit demand for ring tunes. Nevertheless, we do expect ring tunes to be used increasingly by wireless subscribers during the next five years as those subscribers trade up to new handsets and as 3G networks get rolled out.

- Growth in the number of wireless telephone subscribers will also drive the market. During the next five years, 90 million new wireless telephone subscribers are expected, bringing the total to 285 million in 2010. We estimate that 15 percent of those subscribers, or 43 million people, will subscribe to mobile music (excluding digital downloads to mobile phones), up from 6 percent in 2005. Subscribership will be fueled by increased penetration of music-capable handsets.

- The average subscriber spent $35.20 annually on mobile music in 2005. We expect that to increase to $36 in 2006 and then to trend down as prices decline, reflecting competition among wireless carriers. In addition, as subscribers who already have a complement of mobile music on their handsets look to replace songs with new releases that appeal to their tastes, they will spend less annually on mobile music. We expect average annual spending per subscriber to fall to $32 by 2010.

- Overall spending on mobile music will increase to $1.4 billion in 2010, a 26.7 percent compound annual increase.

Mobile Music Market

United States	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Wireless Telephone Subscribers (Millions)	135	148	170	195	218	238	255	270	285
Percent of Wireless Telephone Subscribers Downloading Music in Any Format (%)	1	3	5	6	7	9	11	13	15
Mobile Music Subscribers (Millions)	1	4	9	12	15	21	28	35	43
Annual Spending per Subscriber (US$)	16.00	25.00	34.00	35.20	36.00	35.50	35.00	34.00	32.00
Aggregate Mobile Music Spending (US$ Millions)	16	100	306	422	540	746	980	1,190	1,376

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile Music Market Growth (%)

United States	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Wireless Telephone Subscribers	9.6	14.9	14.7	11.8	9.2	7.1	5.9	5.6	7.9
Mobile Music Subscribers	300.0	125.0	33.3	25.0	40.0	33.3	25.0	22.9	29.1
Annual Spending per Subscriber	56.3	36.0	3.5	2.3	–1.4	–1.4	–2.9	–5.9	–1.9
Aggregate Mobile Music	525.0	206.0	37.9	28.0	38.1	31.4	21.4	15.6	26.7

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- We project ring tune revenue to increase to $1.3 billion by 2010, growing at a 41.6 percent compound annual rate. Ring backs, which represent a small but growing segment of the market, totaled $35 million in 2005, a figure we expect will double to $70 million in 2010—a 14.9 percent gain compounded annually. Ring tones, which had constituted the entire mobile market through 2003, will decline in importance as consumers opt for actual ring tunes. Ring tunes make for a better alternative than ring tones, and once they became available on a widespread basis, consumers started to make the transition. Ring tone revenue will drop to $25 million in 2010 from $162 million in 2005, a 31.2 percent decline compounded annually.

Mobile Music Market (US$ Millions)

United States	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Ring Tones	16	100	250	162	120	96	65	40	25
Ring Backs	—	—	25	35	45	55	60	65	70
Ring Tunes	—	—	30	225	375	595	855	1,085	1,281
Total	16	100	305	422	540	746	980	1,190	1,376

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile Music Market Growth (%)

United States	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Ring Tones	525.0	150.0	–35.2	–25.9	–20.0	–32.3	–38.5	–37.5	–31.2
Ring Backs	—	—	40.0	28.6	22.2	9.1	8.3	7.7	14.9
Ring Tunes	—	—	650.0	66.7	58.7	43.7	26.9	18.1	41.6
Total	525.0	205.0	38.4	28.0	38.1	31.4	21.4	15.6	26.7

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

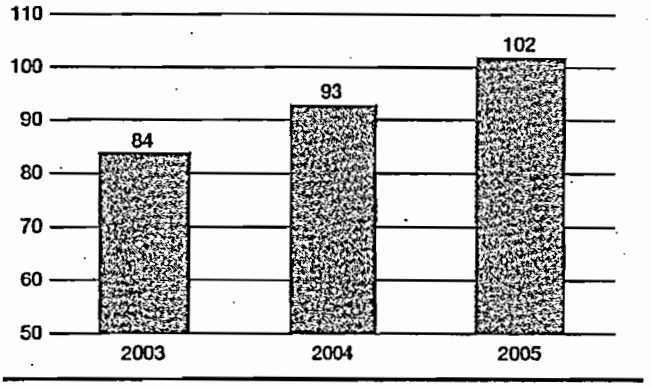
Physical music

- The physical market had been in a long-term decline, losing ground first to unauthorized downloading and CD burning and then to licensed downloading. From 2000 to 2003, physical unit sales fell by 26 percent.

- In 2004, physical unit sales reversed course, rising by 2.1 percent and suggesting that the physical market was stabilizing, but that momentum could not be sustained and physical unit sales fell 8.1 percent in 2005. The decline in 2005 in part reflected a faster-than-expected shift to licensed digital distribution and in part what appears to have been less-popular product. It is difficult to determine the appeal of recordings, but a more moderate decline in sales in early 2006 suggests that less-appealing product may have contributed to the 2005 downturn.

- The physical music market is also suffering from a mediawide trend that emerged in 2005, under which entertainment and media that can be delivered in-home are favored over entertainment and media that must be obtained away from home. For example, store sales of physical music were down significantly in 2005, but sales of physical music through online sites such as Amazon.com flourished. Albums purchased through online sites increased to 102 million in 2005 from 93 million in 2004, bucking the overall downward trend.

Physical Albums Purchased Online (Millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Other examples include the fact that in 2005, DVD sales in video stores slowed for the first time but online DVD rentals surged. Box office revenues from showing movies in theaters were down, but video-on-demand, pay-per-view, and subscription TV in general were up.

- While in each of these examples, a number of specific factors can be cited to account for the trend, we believe a contributing factor to each was the escalation in gasoline prices, which raised the cost of purchasing products away from home. Higher gas prices have the effect of an incremental tax on out-of-home purchases, which gives in-home distribution an added price advantage. We expect that high gasoline prices will continue to hurt store sales of physical music during the forecast period.

- Within the store-sales segment of the physical market, mass merchants held up better than traditional record stores. Mass merchants constituted 40 percent of physical album sales in 2005 compared with 34 percent in 2002. Lower price points compared with traditional record stores helped mass merchants gain share. In fact, traditional music retailers go so far as to argue that big-box retailers sell music below cost as a loss leader to encourage people to come into their stores. After rising by 6.9 percent in 2001, price growth slowed in successive years and during the past two years prices was essentially stable, rising by only 0.4 percent in 2004 and 0.3 percent in 2005. We expect average prices for physical product to remain relatively flat during the next five years.

Average Prices (US$)

United States	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Albums	14.32	14.68	14.88	14.85	14.89	14.90	14.90	14.90	14.90	14.90
Singles	5.05	5.38	4.75	5.00	4.80	5.00	5.00	5.00	5.00	5.00
Music Videos	18.28	19.20	20.00	18.39	17.71	17.25	16.75	16.25	15.75	15.25
Total Physical	14.20	14.67	14.85	14.91	14.95	14.97	14.97	14.97	14.93	14.90
Digital Distribution (single tracks, albums, music videos)	—	1.25	1.35	1.28	1.32	1.42	1.61	1.76	1.91	1.97
Total	14.20	14.61	14.43	12.87	10.33	8.07	6.80	6.11	5.67	5.24

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Average Price Growth (%)

United States	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Albums	5.4	2.5	1.4	–0.2	0.3	0.1	0.0	0.0	0.0	0.0	0.0
Singles	16.1	6.5	–11.7	5.3	–4.0	4.2	0.0	0.0	0.0	0.0	0.8
Music Videos	16.7	5.0	4.2	–8.1	–3.7	–2.6	–2.9	–3.0	–3.1	–3.2	–2.9
Total Physical	6.9	3.3	1.2	0.4	0.3	0.1	0.0	0.0	–0.3	–0.2	–0.1
Digital Distribution	—	—	8.0	–5.2	3.1	7.6	13.4	9.3	8.5	3.1	8.3
Total	—	2.9	–1.2	–10.8	–19.7	–21.9	–15.7	–10.1	–7.2	–7.6	–12.7

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Mass merchants are also entering into exclusive distribution deals with artists. Wal-Mart has such a deal with Garth Brooks, whereby catalog product of his recordings is available only at Wal-Mart. Starbucks also has exclusive deals with artists and sells music in its coffee shop outlets. Among its exclusives are Alanis Morissette's *Jagged Little Pill* and Bob Dylan's *Live at the Gaslight.*

- Traditional record stores are attempting to counter these trends by launching their own digital distribution sites and promoting them in their stores. In some instances, people who order music online get reward points that can be used to buy merchandise at the retail outlet.

- The bright spot in the industry had been music videos. Unit sales more than doubled from 2002 to 2004 and were on pace for an additional double-digit advance during the first half of 2005. During the second half of 2005, however, the music video market slowed markedly and unit sales for the year as a whole rose by only 3.0 percent to 34 million. The availability of low-priced music videos online will eventually cut into the physical market. We expect that, following an additional three years of modest unit sales growth, music video unit sales will decline during 2009–10 as the digital component of that market becomes fully established. We expect physical music video sales to drop to 33 million units by 2010.

- There were positive developments with respect to enforcement of the rights of copyright owners. In June 2005, the Supreme Court ruled in the *Metro Goldwyn Mayer v. Grokster* case that Grokster could be liable if it induced users to infringe on copyrighted material. Grokster subsequently settled, paying $50 million and essentially shutting down its file-sharing operations. Thousands of new lawsuits were filed, and fewer new illegal files became available compared with prior years. Slower growth in piracy should have a positive impact on the physical market.

- On balance, we expect that the physical market will continue to erode, losing sales to digital distribution, but declines will moderate compared with the steep declines in 2001–03 and the decrease in 2005. We project physical album unit sales to drop to 535 million by 2010 from 710 million in 2005—a 5.5 percent compound annual decline—and overall physical unit sales to fall at a 5.3 percent compound annual rate to 569 million. Spending on physical music will fall at a 5.4 percent compound annual rate to $8.5 billion from $11.2 billion in 2005.

Recorded Music Unit Sales (Millions)

United States	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Albums	929	837	766	775	710	675	640	605	570	535	
% Change	–9.0	–9.9	–8.5	1.2	–8.4	–4.9	–5.2	–5.5	–5.8	–6.1	–5.5
Singles	21	8	12	7	5	3	2	1	1	1	
% Change	–47.5	–61.9	50.0	–41.7	–28.6	–40.0	–33.3	–50.0	0.0	0.0	–27.5
Music Videos	18	15	20	33	34	35	37	38	36	33	
% Change	0.0	–16.7	33.3	65.0	3.0	2.9	5.7	2.7	–5.3	–8.3	–0.6
Total Physical	968	860	798	815	749	713	679	644	607	569	
% Change	–10.3	–11.2	–7.2	2.1	–8.1	–4.8	–4.8	–5.2	–5.7	–6.3	–5.3
Licensed Digital Distribution	—	4	26	144	383	741	1,070	1,310	1,497	1,680	
% Change	—	—	550.0	453.8	166.0	93.5	44.4	22.4	14.3	12.2	34.4
Total	968	864	824	959	1,132	1,454	1,749	1,954	2,104	2,249	
% Change	–10.3	–10.7	–4.6	16.4	18.0	28.4	20.3	11.7	7.7	6.9	14.7

Sources: PricewaterhouseCoopers LLP, Recording Industry Association of America, Wilkofsky Gruen Associates

Europe, Middle East, Africa (EMEA)

The outlook in brief

- The launch of new digital distribution services and growth in the number of broadband Internet subscribers will fuel digital download spending.
- Efforts to combat piracy are beginning to yield meaningful results in 2006 and are slowing the steep erosion of the physical market, but competition from licensed online and wireless services will continue to cut into spending on physical music.
- Wireless telephone carriers are using music to drive customers to their 3G networks, but approaching wireless saturation in many European countries will moderate growth in mobile music spending.

Overview

- The downward trend in the recorded music market stabilized in 2005 as large gains in mobile music and an emerging digital distribution market offset continued declines in physical distribution. Overall spending will build on the momentum generated in 2005 and expand at a 5.3 percent compound annual rate to $18.2 billion in 2010.
- Physical distribution will continue to decline, but—helped by intensified antipiracy efforts—at a more moderate, 3.1 percent rate compounded annually, falling to $10.3 billion in 2010 from $12.1 billion in 2005.
- Licensed digital distribution will become a significant component of the market, rising to $3.2 billion in 2010 from $154 million in 2005.
- Mobile music will grow from $1.7 billion in 2005 to $4.6 billion in 2010, a 21.3 percent compound annual gain.
- Mobile music and digital distribution together will constitute 43 percent of recorded music sales in 2010 compared with 14 percent in 2005.

Recorded Music Market (US$ Millions)

EMEA	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Physical Distribution	15,034	14,619	13,412	12,767	12,100	11,831	11,471	11,102	10,726	10,344	–
% Change	0.4	–2.8	–8.3	–4.8	–5.2	–2.2	–3.0	–3.2	–3.4	–3.6	–3.1
Digital Distribution	—	—	3	26	154	389	792	1,449	2,269	3,226	–
% Change	—	—	—	766.7	492.3	152.6	103.6	83.0	56.6	42.2	83.8
Mobile Music	—	112	574	1,087	1,748	2,396	3,038	3,658	4,198	4,590	–
% Change	—	—	412.5	89.4	60.8	37.1	26.8	20.4	14.8	9.3	21.3
Total	15,034	14,731	13,989	13,880	14,002	14,616	15,301	16,209	17,193	18,160	–
% Change	0.4	–2.0	–5.0	–0.8	0.9	4.4	4.7	5.9	6.1	5.6	5.3

†At average 2005 exchange rates.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- In 2005, the United Kingdom was the largest market in the region, at $3.8 billion, followed by Germany, at $2.3 billion, and France, at $2.0 billion, including mobile music and digital distribution.
- These three countries composed 60 percent of digital distribution spending in 2005 and 43 percent of mobile music.
- Including mobile music and digital distribution, the U.K. will expand by 4.4 percent compounded annually to $4.7 billion in 2010. Germany will grow to $2.9 billion, a 4.8 percent compound annual advance, while France will rise by 2.3 percent compounded annually to $2.3 billion.
- The only other country expected to reach the $1-billion mark is Russia, which is expected to reach that level in 2010 (excluding digital and mobile revenue) from $606 million in 2005, an 11.3 percent compound annual growth rate. Russia has been the fastest-growing market in EMEA during the past five years and will continue to be the fastest growing during the next five years.
- At the other end of the spectrum, the Netherlands will record the largest decline—11.4 percent compounded annually—as accelerated migration to digital sales (not included in the country totals) leads to large decreases in physical sales.

Recorded Music Market (US$ Millions)

EMEA	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Western Europe										
Austria††	357	332	312	291	277	261	250	239	229	218
Belgium††	332	308	277	277	266	254	245	237	229	219
Denmark††	262	222	194	187	177	165	155	145	135	125
Finland††	162	152	155	134	131	123	116	107	99	92
France††	2,628	2,740	2,359	2,046	2,043	2,123	2,152	2,177	2,220	2,287
Germany††	2,940	2,768	2,356	2,367	2,278	2,293	2,367	2,531	2,708	2,875
Greece††	99	106	96	89	83	80	75	71	67	63
Ireland††	181	169	143	147	139	137	134	132	129	126
Italy††	738	746	713	658	609	578	549	521	500	477
Netherlands††	619	580	552	511	404	346	291	261	241	221
Norway	304	322	281	286	279	261	247	234	221	209
Portugal††	180	195	164	128	114	112	108	106	102	98
Spain††	861	727	659	577	516	491	472	459	457	455
Sweden††	404	381	325	268	224	209	196	183	170	157
Switzerland	325	317	278	258	233	241	231	223	218	211
United Kingdom††	3,642	3,585	3,695	3,768	3,759	3,856	3,981	4,182	4,419	4,673
Western Europe Total	14,034	13,650	12,559	11,992	11,532	11,530	11,569	11,808	12,144	12,506
Central and Eastern Europe										
Czech Republic††	61	49	48	42	39	35	32	30	29	27
Hungary††	74	69	73	60	52	47	44	42	40	38
Poland††	148	111	109	104	99	92	87	83	78	74
Romania‡‡	12	24	27	26	26	25	25	24	24	23
Russia	231	286	354	500	606	735	835	915	974	1,034
Turkey‡‡	125	135	161	178	189	181	180	178	176	160
Central and Eastern Europe Total	651	674	772	910	1,011	1,115	1,203	1,272	1,321	1,356
Middle East/Africa										
Israel	44	40	42	45	46	45	44	43	41	40
Saudi Arabia/Pan Arab‡	138	112	96	92	90	87	84	80	77	73
South Africa	167	190	190	239	263	281	295	308	316	317
Middle East/Africa Total	349	342	328	376	399	413	423	431	434	430
Digital Distribution Not Included in Country Totals	—	—	—	1	62	157	308	500	746	1,088
Mobile Music Not Included in Country Totals	—	65	330	601	998	1,401	1,798	2,198	2,548	2,780
EMEA Total	15,034	14,731	13,989	13,880	14,002	14,616	15,301	16,209	17,193	18,160

†At average 2005 exchange rates.
‡Comprises Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Syria, and the United Arab Emirates.
††European Union members.
‡‡European Union applicants.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Recorded Music Market Growth (%)

EMEA	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Western Europe											
Austria††	–8.5	–7.0	–6.0	–6.7	–4.8	–5.8	–4.2	–4.4	–4.2	–4.8	–4.7
Belgium††	–7.8	–7.2	–10.1	0.0	–4.0	–4.5	–3.5	–3.3	–3.4	–4.4	–3.8
Denmark††	–16.8	–15.3	–12.6	–3.6	–5.3	–6.8	–6.1	–6.5	–6.9	–7.4	–6.7
Finland††	3.2	–6.2	2.0	–13.5	–2.2	–6.1	–5.7	–7.8	–7.5	–7.1	–6.8
France††	15.0	4.3	–13.9	–13.3	–0.1	3.9	1.4	1.2	2.0	3.0	2.3
Germany††	–10.1	–5.9	–14.9	0.5	–3.8	0.7	3.2	6.9	7.0	6.2	4.8
Greece††	–18.2	7.1	–9.4	–7.3	–6.7	–3.6	–6.3	–5.3	–5.6	–6.0	–5.4
Ireland††	11.0	–6.6	–15.4	2.8	–5.4	–1.4	–2.2	–1.5	–2.3	–2.3	–1.9
Italy††	–8.7	1.1	–4.4	–7.7	–7.4	–5.1	–5.0	–5.1	–4.0	–4.6	–4.8
Netherlands††	0.8	–6.3	–4.8	–7.4	–20.9	–14.4	–15.9	–10.3	–7.7	–8.3	–11.4
Norway	–4.1	5.9	–12.7	1.8	–2.4	–6.5	–5.4	–5.3	–5.6	–5.4	–5.6
Portugal††	–5.8	8.3	–15.9	–22.0	–10.9	–1.8	–3.6	–1.9	–3.8	–3.9	–3.0
Spain††	0.8	–15.6	–9.4	–12.4	–10.6	–4.8	–3.9	–2.8	–0.4	–0.4	–2.5
Sweden††	0.5	–5.7	–14.7	–17.5	–16.4	–6.7	–6.2	–6.6	–7.1	–7.6	–6.9
Switzerland	–2.4	–2.5	–12.3	–7.2	–9.7	3.4	–4.1	–3.5	–2.2	–3.2	–2.0
United Kingdom††	7.4	–1.6	3.1	2.0	–0.2	2.6	3.2	5.0	5.7	5.7	4.4
Western Europe Total	0.4	–2.7	–8.0	–4.5	–3.8	0.0	0.3	2.1	2.8	3.0	1.6
Central and Eastern Europe											
Czech Republic††	–6.2	–19.7	–2.0	–12.5	–7.1	–10.3	–8.6	–6.3	–3.3	–6.9	–7.1
Hungary††	–7.5	–6.8	5.8	–17.8	–13.3	–9.6	–6.4	–4.5	–4.8	–5.0	–6.1
Poland††	–26.7	–25.0	–1.8	–4.6	–4.8	–7.1	–5.4	–4.6	–6.0	–5.1	–5.7
Romania††	–36.8	100.0	12.5	–3.7	0.0	–3.8	0.0	–4.0	0.0	–4.2	–2.4
Russia	17.9	23.8	23.8	41.2	21.2	21.3	13.6	9.6	6.4	6.2	11.3
Turkey‡‡	123.2	8.0	19.3	10.6	6.2	–4.2	–0.6	–1.1	–1.1	–9.1	–3.3
Central and Eastern Europe Total	5.3	3.5	14.5	17.9	11.1	10.3	7.9	5.7	3.9	2.6	6.0
Middle East/Africa											
Israel	–6.4	–9.1	5.0	7.1	2.2	–2.2	–2.2	–2.3	–4.7	–2.4	–2.8
Saudi Arabia/Pan Arab†	–19.3	–18.8	–14.3	–4.2	–2.2	–3.3	–3.4	–4.8	–3.8	–5.2	–4.1
South Africa	1.8	13.8	0.0	25.8	10.0	6.8	5.0	4.4	2.6	0.3	3.8
Middle East/Africa Total	–8.6	–2.0	–4.1	14.6	6.1	3.5	2.4	1.9	0.7	–0.9	1.5
Digital Distribution Not Included in Country Totals	—	—	—	—	6,100.0	153.2	96.2	62.3	49.2	45.8	77.4
Mobile Music Not Included in Country Totals	—	—	407.7	82.1	66.1	40.4	28.3	22.2	15.9	9.1	22.7
EMEA Total	0.4	–2.0	–5.0	–0.8	0.9	4.4	4.7	5.9	6.1	5.6	5.3

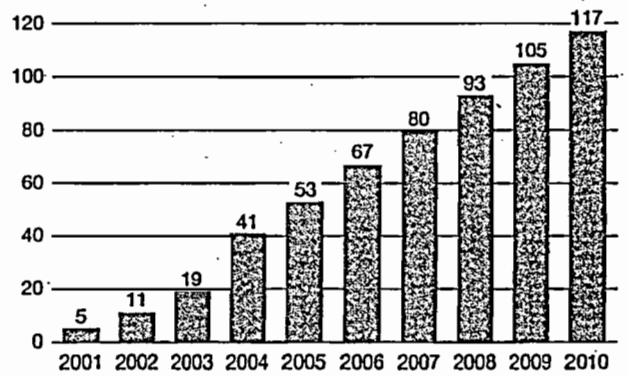
†Comprises Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Syria, and the United Arab Emirates.
††European Union members.
‡‡European Union applicants.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Licensed digital services

- Licensed digital distribution rose from only $26 million in 2004 to $154 million in 2005.
- The United Kingdom has the largest digital download market, at $43 million in 2005, followed by Germany, at $37 million.
- Single-track prices are attractive at €0.99 ($1.23), while albums typically cost €9.49 ($11.80), and subscription services, whereby subscribers get access to thousands of songs on a streaming basis, have been introduced at €9.95 ($12.37) per month.
- The market was boosted by the growing availability of content as the volume of songs available through licensed services doubled to 2 million as of year-end 2005.
- Digital distribution also serves the unmet market for single tracks that for the most part are not available in a stand-alone physical format.
- The European Union is looking to facilitate the licensed digital distribution market by harmonizing licensing procedures and by creating a unified European Union license that would enable music to be distributed digitally throughout the member countries, thereby eliminating the need to license music separately in each country.
- The growing broadband market will also enlarge the potential market for digital downloads, because music is transmitted much faster through a broadband connection.

The broadband universe in EMEA will more than double during the next five years from 53 million subscribers in 2005 to 117 million in 2010—in the process, substantially boosting the number of people able to purchase music online.

Broadband Subscribers in EMEA (Millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Now that licensed digital services are in place in most countries, the digital distribution market is poised to take off. We project spending to more than double during each of the next two years and to increase to $3.2 billion by 2010, an 83.8 percent compound annual increase.
- The U.K. will remain the leading market, rising to $920 million in 2010. Germany will total $861 million, and France, $357 million. Spending in the remainder of the region will expand from $62 million in 2005 to $1.1 billion in 2010.

Licensed Digital Distribution Market (US$ Millions)

EMEA	2003	2004	2005p	2006	2007	2008	2009	2010
France	—	4	12	33	75	143	239	357
Germany	—	12	37	95	200	405	634	861
United Kingdom	3	9	43	104	209	401	650	920
Remainder of the Region	—	1	62	157	308	500	746	1,088
Total	3	26	154	389	792	1,449	2,269	3,226

†At average 2005 exchange rates.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Licensed Digital Distribution Market Growth (%)

EMEA	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
France	—	200.0	175.0	127.3	90.7	67.1	49.4	97.1
Germany	—	208.3	156.8	110.5	102.5	56.5	35.8	87.7
United Kingdom	200.0	377.8	141.9	101.0	91.9	62.1	41.5	84.5
Remainder of the Region	—	6,100.0	153.2	96.2	62.3	49.2	45.8	77.4
Total	766.7	492.3	152.6	103.6	83.0	56.6	42.2	83.8

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Piracy

- *Piracy* refers to illegal downloads, unauthorized CD burning, and counterfeit physical product, which enable people to acquire music without paying the authorized distributors, and thus the creators, of that music.

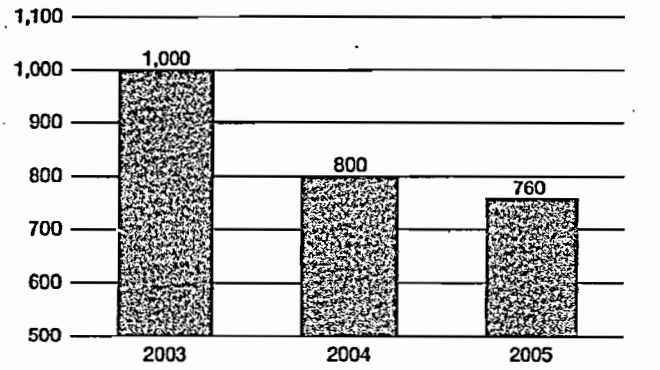
- The decline in unit sales of physical music reflects in part the sales lost because of piracy. Physical recorded music unit sales declined during each of the past five years, including a 2.6 percent drop in 2005.

- The impact was most severe in Western Europe, where opportunities for unauthorized downloading are the greatest because of Western Europe's larger broadband universe. Unit sales fell 6.3 percent in Western Europe in 2005, including double-digit decreases in the Netherlands, Sweden, Portugal, Switzerland, and Germany.

- Not all of those declines can be attributed to piracy. In the Netherlands and Germany, for example, the availability of licensed download services contributed to a shift in purchases from physical to digital.

- At the same time, because of stepped-up enforcement efforts and the filing of thousands of lawsuits, the number of infringing music files on peer-to-peer networks decreased during the past two years. In 2003, there were 1 billion such files available. That total dropped to 800 million in 2004 and to 760 million in 2005. In the U.K. and Germany, more music is now believed to be downloaded legally than illegally, and in the Netherlands, unauthorized downloading decreased in 2004. These developments suggest that antipiracy efforts are beginning to yield results.

Infringing Files on Peer-to-Peer Networks (Millions)



Source: International Federation of the Phonographic Industry

- Spain, which has the highest recorded music piracy rate in Western Europe, at 24 percent, has taken steps to address the problem. In October 2004, the Spanish Cultural Ministry began the process of introducing a new intellectual property law, and antipiracy actions became stepped up in 2005, including the Spanish police's dismantling of 74 piracy networks. The Spanish government also instituted a campaign targeting street vendors who sell illegal product. The program makes low-cost authorized product available to street vendors for resale while revoking the licenses of those vendors who sell unauthorized product. In October 2005, the government broke up a piracy ring that was reportedly responsible for distributing more than 10 million illegal CDs annually into the market.

- In Russia, where piracy is estimated at 66 percent, Ural Electronic Plant (UEP), the country's largest optical disc manufacturer, and the International Federation of the Phonographic Industry (IFPI) entered into an agreement in mid-2005 to help make sure that only legitimate product is manufactured at the plant. UEP will notify IFPI if legality is suspect, and IFPI will launch an investigation. IFPI will also inspect all new manufacturing equipment installed at UEP and will sample manufactured product to determine legality. Unit sales of physical music rose 17.6 percent in 2005, the largest increase in the region.

- In Western Europe, France was the only major market to record an increase in physical unit sales, posting a 4.0 percent gain. It appears that that growth was stimulated by a steep decline in average prices. The price decline served to offset the boost to unit sales, however, and spending on physical product fell.

- In several countries, however, efforts against piracy suffered setbacks. In Italy, for example, legislation introduced in late 2005 would reduce the statute of limitations for certain crimes—including unauthorized use of music—to six years from seven and a half years, which would result in the majority of pending cases' being dropped.

- In France, an amendment to a copyright bill introduced in parliament provides for an exemption for home copying of music from online services. The bill also provides for a fee paid to Internet service providers that will be distributed to copyright holders.

- On balance, increased enforcement appears to be slowing the growth of piracy, while the launch of licensed digital distribution services is giving consumers a legal alternative. Continued price cutting will also help make physical music more affordable.

- We do not expect these developments to reverse the downward trend in physical music. On one hand, piracy will provide less of an incremental threat to physical sales than in the past, but on the other, the proliferation of legal digital sites will provide more competition.

The outlook for physical recorded music

- There is also increased competition from other legitimate sources. In the United Kingdom, for example, the practice of giving away compilation albums as covermounts with newspapers or magazines cut into that segment of the market, and unit sales of compilation albums fell by 16 percent in 2005. Single-artist albums, by contrast, did well in 2005, rising by 1.4 percent. Overall unit sales in the U.K. fell by 5.0 percent.
- In Western Europe as a whole, physical unit sales fell at a 4.9 percent compound annual rate during the past five years. We are projecting a compound annual decline of 4.0 percent during the next five years.
- In Central and Eastern Europe, large increases in Russia and Turkey will lead to an expansion in unit sales in that area, while modest declines are expected in Middle East/Africa.
- For EMEA as a whole, physical unit sales will fall to 1.0 billion in 2010 from 1.1 billion in 2005, a 1.8 percent compound annual decrease.

Physical Recorded Music Unit Sales (Millions)

EMEA	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Western Europe										
Austria††	19.2	17.1	17.3	15.7	14.8	14.0	13.5	13.0	12.5	12.0
Belgium††	26.7	24.4	22.0	23.0	22.3	21.5	21.0	20.5	20.0	19.5
Denmark††	15.5	12.4	10.5	10.4	10.1	9.5	9.0	8.5	8.0	7.5
Finland††	11.7	10.6	11.4	9.9	9.5	9.0	8.5	8.0	7.5	7.0
France††	171.7	180.3	159.1	144.2	150.0	155.0	155.0	153.0	150.0	147.0
Germany††	246.0	223.9	183.2	178.5	160.0	150.0	140.0	130.0	120.0	110.0
Greece††	8.1	8.3	7.7	8.2	8.5	8.5	8.3	8.1	8.0	7.9
Ireland††	11.0	10.5	9.1	9.7	9.2	9.0	8.9	8.8	8.7	8.6
Italy††	48.7	53.0	41.7	36.4	33.3	31.0	29.0	27.0	25.5	24.0
Netherlands††	38.3	34.2	33.2	31.8	24.0	21.0	18.0	16.5	15.5	14.5
Norway	14.6	16.6	14.3	15.2	14.5	14.0	13.5	13.0	12.5	12.0
Portugal††	15.4	15.4	15.8	14.3	12.4	12.0	11.5	11.0	10.5	10.0
Spain††	80.5	66.8	60.2	49.9	43.3	40.5	38.0	36.0	35.0	34.0
Sweden††	31.1	31.0	27.3	23.5	20.0	19.0	18.0	17.0	16.0	15.0
Switzerland	25.0	25.4	22.0	21.5	19.0	20.0	19.5	19.2	19.0	18.8
United Kingdom††	285.3	283.3	280.2	288.5	274.0	265.0	255.0	245.0	235.0	225.0
Western Europe Total	1048.8	1013.2	915.0	880.7	824.9	799.0	766.7	734.6	703.7	672.8
Central and Eastern Europe										
Czech Republic††	6.6	4.6	4.2	3.9	3.5	3.2	3.0	2.9	2.8	2.7
Hungary††	6.2	5.1	5.1	4.5	4.0	3.7	3.5	3.4	3.3	3.2
Poland††	25.1	14.1	12.5	12.3	11.8	11.0	10.5	10.0	9.5	9.0
Romania††	12.2	16.2	16.9	17.5	17.0	16.8	16.6	16.4	16.2	16.0
Russia	111.9	113.7	115.7	119.0	140.0	160.0	175.0	185.0	190.0	195.0
Turkey‡‡	30.1	27.9	35.7	43.5	50.0	52.0	54.0	56.0	58.0	60.0
Central and Eastern Europe Total	192.1	181.6	190.1	200.7	226.3	246.7	262.6	273.7	279.8	285.9
Middle East/Africa										
Israel	4.2	3.6	6.1	5.8	6.0	6.0	5.9	5.7	5.5	5.3
Saudi Arabia/Pan Arab†	38.3	30.0	25.3	21.4	21.0	20.0	19.0	18.0	17.0	16.0
South Africa	16.3	17.3	17.0	20.6	22.0	23.0	23.5	24.0	24.0	23.5
Middle East/Africa Total	58.8	50.9	48.4	47.8	49.0	49.0	48.4	47.7	46.5	44.8
EMEA Total	1,299.7	1,245.7	1,153.5	1,129.2	1,100.2	1,094.7	1,077.7	1,056.0	1,030.0	1,003.5

†Comprises Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Syria, and the United Arab Emirates.
††European Union members.
‡‡European Union applicants.
Sources: BPI, BV Phono, International Federation of the Phonographic Industry, NVPI, PricewaterhouseCoopers LLP, Recording Industry of South Africa, Wilkofsky Gruen Associates

Physical Recorded Music Unit Sales Growth (%)

EMEA	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Western Europe											
Austria††	–18.3	–10.9	1.2	–9.2	–5.7	–5.4	–3.6	–3.7	–3.8	–4.0	–4.1
Belgium††	–9.2	–8.6	–9.8	4.5	–3.0	–3.6	–2.3	–2.4	–2.4	–2.5	–2.6
Denmark††	–24.0	–20.0	–15.3	–1.0	–2.9	–5.9	–5.3	–5.6	–5.9	–6.3	–5.8
Finland††	–0.8	–9.4	7.5	–13.2	–4.0	–5.3	–5.6	–5.9	–6.3	–6.7	–5.9
France††	8.9	5.0	–11.8	–9.4	4.0	3.3	–0.0	–1.3	–2.0	–2.0	–0.4
Germany††	–8.1	–9.0	–18.2	–2.6	–10.4	–6.3	–6.7	–7.1	–7.7	–8.3	–7.2
Greece††	–11.0	2.5	–7.2	6.5	3.7	0.0	–2.4	–2.4	–1.2	–1.3	–1.5
Ireland††	0.0	–4.5	–13.3	6.6	–5.2	–2.2	–1.1	–1.1	–1.1	–1.1	–1.3
Italy††	1.2	8.8	–21.3	–12.7	–8.5	–6.9	–6.5	–6.9	–5.6	–5.9	–6.3
Netherlands††	–4.0	–10.7	–2.9	–4.2	–24.5	–12.5	–14.3	–8.3	–6.1	–6.5	–9.6
Norway	–7.0	13.7	–13.9	6.3	–4.6	–3.4	–3.6	–3.7	–3.8	–4.0	–3.7
Portugal††	–8.3	0.0	2.6	–9.5	–13.3	–3.2	–4.2	–4.3	–4.5	–4.8	–4.2
Spain††	12.9	–17.0	–9.9	–17.1	–13.2	–6.5	–6.2	–5.3	–2.8	–2.9	–4.7
Sweden††	–2.5	–0.3	–11.9	–13.9	–14.9	–5.0	–5.3	–5.6	–5.9	–6.3	–5.6
Switzerland	–3.5	1.6	–13.4	–2.3	–11.6	5.3	–2.5	–1.5	–1.0	–1.1	–0.2
United Kingdom††	1.0	–0.7	–1.1	3.0	–5.0	–3.3	–3.8	–3.9	–4.1	–4.3	–3.9
Western Europe Total	–1.3	–3.4	–9.7	–3.7	–6.3	–3.1	–4.0	–4.2	–4.2	–4.4	–4.0
Central and Eastern Europe											
Czech Republic††	–4.3	–30.3	–8.7	–7.1	–10.3	–8.6	–6.3	–3.3	–3.4	–3.6	–5.1
Hungary††	–20.5	–17.7	0.0	–11.8	–11.1	–7.5	–5.4	–2.9	–2.9	–3.0	–4.4
Poland††	–27.5	–43.8	–11.3	–1.6	–4.1	–6.8	–4.5	–4.8	–5.0	–5.3	–5.3
Romania‡‡	–22.8	32.8	4.3	3.6	–2.9	–1.2	–1.2	–1.2	–1.2	–1.2	–1.2
Russia	1.2	1.6	1.8	2.9	17.6	14.3	9.4	5.7	2.7	2.6	6.9
Turkey‡‡	–22.2	–7.3	28.0	21.8	14.9	4.0	3.8	3.7	3.6	3.4	3.7
Central and Eastern Europe Total	–10.4	–5.5	4.7	5.6	12.8	9.0	6.4	4.2	2.2	2.2	4.8
Middle East/Africa											
Israel	–8.7	–14.3	69.4	–4.9	3.4	0.0	–1.7	–3.4	–3.5	–3.6	–2.5
Saudi Arabia/Pan Arab†	–23.9	–21.7	–15.7	–15.4	–1.9	–4.8	–5.0	–5.3	–5.6	–5.9	–5.3
South Africa	–6.3	6.1	–1.7	21.2	6.8	4.5	2.2	2.1	0.0	–2.1	1.3
Middle East/Africa Total	–18.7	–13.4	–4.9	–1.2	2.5	0.0	–1.2	–1.4	–2.5	–3.7	–1.8
EMEA Total	–3.7	–4.2	–7.4	–2.1	–2.6	–0.5	–1.6	–2.0	–2.5	–2.6	–1.8

†Comprises Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Syria, and the United Arab Emirates.
††European Union members.
‡‡European Union applicants.
Sources: BPI, BV Phono, International Federation of the Phonographic Industry, NVPI, PricewaterhouseCoopers LLP, Recording Industry of South Africa, Wilkofsky Gruen Associates

- There is a wide range of prices for physical recorded music in EMEA, from as little as $1.53 in Romania to $19.24 in Norway. For the region as a whole, the average unit cost was $11.00 in 2005. Average prices for physical recorded music are falling—a trend we expect will continue. For the region as a whole, the average price fell by 6.3 percent during the past three years, with steep cuts in Central and Eastern Europe as well as a more modest decline in Western Europe, offsetting increases in Middle East/Africa.

- With physical unit sales demand continuing to weaken, we expect average prices to continue to decline, falling by a projected 1.3 percent compound annual rate to $10.31 in 2010.

Physical Recorded Music Average Price† (US$)

EMEA	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Western Europe										
Austria††	18.59	19.42	18.03	18.54	18.72	18.64	18.52	18.38	18.32	18.17
Belgium††	12.43	12.62	12.59	12.04	11.93	11.81	11.67	11.56	11.45	11.23
Denmark††	16.90	17.90	18.48	17.98	17.52	17.37	17.22	17.06	16.88	16.67
Finland††	13.85	14.34	13.60	13.54	13.79	13.67	13.65	13.38	13.20	13.14
France††	15.31	15.17	14.70	13.81	13.01	12.74	12.43	12.12	11.81	11.50
Germany††	11.95	12.28	12.32	12.15	12.19	12.12	12.12	12.12	12.12	12.13
Greece††	12.22	12.77	12.47	10.85	9.76	9.41	9.04	8.77	8.38	7.97
Ireland††	16.45	16.10	15.71	15.15	15.11	15.22	15.06	15.00	14.83	14.65
Italy††	15.15	14.08	17.10	18.08	18.29	18.65	18.93	19.30	19.61	19.88
Netherlands††	16.16	16.96	16.63	16.07	16.83	16.48	16.17	15.82	15.55	15.24
Norway	20.82	19.40	19.65	18.82	19.24	18.64	18.30	18.00	17.68	17.42
Portugal††	11.69	12.66	10.38	8.95	9.19	9.33	9.39	9.64	9.71	9.80
Spain††	10.70	10.88	10.95	11.56	11.92	12.12	12.42	12.75	13.06	13.38
Sweden††	12.99	12.29	11.90	11.40	11.20	11.00	10.89	10.76	10.63	10.47
Switzerland	13.00	12.48	12.64	12.00	12.26	12.05	11.85	11.61	11.47	11.22
United Kingdom††	12.77	12.57	12.73	12.16	12.18	12.27	12.36	12.45	12.55	12.72
Western Europe Total	13.38	13.43	13.46	13.04	12.96	12.89	12.84	12.79	12.75	12.72
Central and Eastern Europe										
Czech Republic††	9.24	10.65	11.43	10.77	11.14	10.94	10.67	10.34	10.36	10.00
Hungary††	11.94	13.53	14.31	13.33	13.00	12.70	12.57	12.35	12.12	11.88
Poland††	5.90	7.87	8.72	8.46	8.39	8.36	8.29	8.30	8.21	8.22
Romania‡‡	0.98	1.48	1.60	1.49	1.53	1.49	1.51	1.46	1.48	1.44
Russia	2.06	2.52	3.06	4.20	4.33	4.59	4.77	4.95	5.13	5.30
Turkey‡‡	4.15	4.84	4.51	4.09	3.78	3.48	3.33	3.18	3.03	2.67
Central and Eastern Europe Total	3.39	3.71	4.06	4.53	4.47	4.52	4.58	4.65	4.72	4.74
Middle East/Africa										
Israel	10.48	11.11	6.89	7.76	7.67	7.50	7.46	7.54	7.45	7.55
Saudi Arabia/Pan Arab‡	3.60	3.73	3.79	4.30	4.29	4.35	4.42	4.44	4.53	4.56
South Africa	10.25	10.98	11.18	11.60	11.95	12.22	12.55	12.83	13.17	13.49
Middle East/Africa Total	5.94	6.72	6.78	7.87	8.14	8.43	8.74	9.04	9.33	9.60
EMEA Total	11.57	11.74	11.63	11.31	11.00	10.81	10.64	10.51	10.41	10.31

†At average 2005 exchange rates.
‡Comprises Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Syria, and the United Arab Emirates.
††European Union members.
‡‡European Union applicants.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Physical Recorded Music Average Price Growth (%)

EMEA	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Western Europe											
Austria††	12.0	4.5	–7.2	2.8	1.0	–0.4	–0.6	–0.8	–0.3	–0.8	–0.6
Belgium††	1.6	1.5	–0.2	–4.4	–0.9	–1.0	–1.2	–0.9	–1.0	–1.9	–1.2
Denmark††	9.5	5.9	3.2	–2.7	–2.6	–0.9	–0.9	–0.9	–1.1	–1.2	–1.0
Finland††	4.1	3.5	–5.2	–0.4	1.8	–0.9	–0.1	–2.0	–1.3	–0.5	–1.0
France††	5.6	–0.9	–3.1	–6.1	–5.8	–2.1	–2.4	–2.5	–2.6	–2.6	–2.4
Germany††	–2.2	2.8	0.3	–1.4	0.3	0.6	0.0	0.0	0.0	0.1	–0.1
Greece††	–8.1	4.5	–2.3	–13.0	–10.0	–3.6	–3.9	–3.0	–4.4	–4.9	–4.0
Ireland††	11.0	–2.1	–2.4	–3.6	–0.3	0.7	–1.1	–0.4	–1.1	–1.2	–0.6
Italy††	–9.8	–7.1	21.4	5.7	1.2	2.0	1.5	2.0	1.6	1.4	1.7
Netherlands††	5.0	5.0	–1.9	–3.4	4.7	–2.1	–1.9	–2.2	–1.7	–2.0	–2.0
Norway	3.1	–6.8	1.3	–4.2	2.2	–3.1	–1.8	–1.6	–1.8	–1.5	–2.0
Portugal††	2.8	8.3	–18.0	–13.8	2.7	1.5	0.6	2.7	0.7	0.9	1.3
Spain††	–10.7	1.7	0.6	5.6	3.1	1.7	2.5	2.7	2.4	2.5	2.3
Sweden††	3.1	–5.4	–3.2	–4.2	–1.8	–1.8	–1.0	–1.2	–1.2	–1.5	–1.3
Switzerland	1.1	–4.0	1.3	–5.1	2.2	–1.7	–1.7	–2.0	–1.2	–2.2	–1.8
United Kingdom††	6.4	–1.6	1.3	–4.5	0.2	0.7	0.7	0.7	0.8	1.4	0.9
Western Europe Total	1.7	0.4	0.2	–3.1	–0.6	–0.5	–0.4	–0.4	–0.3	–0.2	–0.4
Central and Eastern Europe											
Czech Republic††	–1.9	15.3	7.3	–5.8	3.4	–1.8	–2.5	–3.1	0.2	–3.5	–2.1
Hungary††	16.4	13.3	5.8	–6.8	–2.5	–2.3	–1.0	–1.8	–1.9	–2.0	–1.8
Poland††	1.0	33.4	10.8	–3.0	–0.8	–0.4	–0.8	0.1	–1.1	0.1	–0.4
Romania‡‡	–18.3	51.0	8.1	–6.9	2.7	–2.6	1.3	–3.3	1.4	–2.7	–1.2
Russia	16.4	22.3	21.4	37.3	3.1	6.0	3.9	3.8	3.6	3.3	4.1
Turkey‡‡	186.2	16.6	–6.8	–9.3	–7.6	–7.9	–4.3	–4.5	–4.7	–11.9	–6.7
Central and Eastern Europe Total	17.7	9.4	9.4	11.6	–1.3	1.1	1.3	1.5	1.5	0.4	1.2
Middle East/Africa											
Israel	2.5	6.0	–38.0	12.6	–1.2	–2.2	–0.5	1.1	–1.2	1.3	–0.3
Saudi Arabia/Pan Arab†	5.9	3.6	1.6	13.5	–0.2	1.4	1.6	0.5	2.0	0.7	1.2
South Africa	8.7	7.1	1.8	3.8	3.0	2.3	2.7	2.2	2.7	2.4	2.5
Middle East/Africa Total	12.5	13.1	0.9	16.1	3.4	3.6	3.7	3.4	3.2	2.9	3.4
EMEA Total	4.2	1.5	–0.9	–2.8	–2.7	–1.7	–1.6	–1.2	–1.0	–1.0	–1.3

†Comprises Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Syria, and the United Arab Emirates.
††European Union members.
‡‡European Union applicants.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Spending on physical recorded music in EMEA fell by 5.2 percent in 2005 and by a combined 19.5 percent during the past four years.
- We project a somewhat more moderate, 3.1 percent compound annual decline through 2010, with spending falling to $10.3 billion from $12.1 billion in 2005.

Physical Recorded Music Spending† (US$ Millions)

EMEA	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Western Europe										
Austria††	357	332	312	291	277	261	250	239	229	218
Belgium††	332	308	277	277	266	254	245	237	229	219
Denmark††	262	222	194	187	177	165	155	145	135	125
Finland††	162	152	155	134	131	123	116	107	99	92
France††	2,628	2,735	2,339	1,992	1,951	1,975	1,927	1,854	1,771	1,690
Germany††	2,940	2,749	2,257	2,169	1,951	1,818	1,697	1,576	1,454	1,334
Greece††	99	106	96	89	83	80	75	71	67	63
Ireland††	181	169	143	147	139	137	134	132	129	126
Italy††	738	746	713	658	609	578	549	521	500	477
Netherlands††	619	580	552	511	404	346	291	261	241	221
Norway	304	322	281	286	279	261	247	234	221	209
Portugal††	180	195	164	128	114	112	108	106	102	98
Spain††	861	727	659	577	516	491	472	459	457	455
Sweden††	404	381	325	268	224	209	196	183	170	157
Switzerland	325	317	278	258	233	241	231	223	218	211
United Kingdom††	3,642	3,562	3,567	3,509	3,336	3,252	3,152	3,051	2,949	2,863
Western Europe Total	14,034	13,603	12,312	11,481	10,690	10,303	9,845	9,399	8,971	8,558
Central and Eastern Europe										
Czech Republic††	61	49	48	42	39	35	32	30	29	27
Hungary††	74	69	73	60	52	47	44	42	40	38
Poland††	148	111	109	104	99	92	87	83	78	74
Romania††	12	24	27	26	26	25	25	24	24	23
Russia	231	286	354	500	606	735	835	915	974	1,034
Turkey‡‡	125	135	161	178	189	181	180	178	176	160
Central and Eastern Europe Total	651	674	772	910	1,011	1,115	1,203	1,272	1,321	1,356
Middle East/Africa										
Israel	44	40	42	45	46	45	44	43	41	40
Saudi Arabia/Pan Arab‡	138	112	96	92	90	87	84	80	77	73
South Africa	167	190	190	239	263	281	295	308	316	317
Middle East/Africa Total	349	342	328	376	399	413	423	431	434	430
EMEA Total	15,034	14,619	13,412	12,767	12,100	11,831	11,471	11,102	10,726	10,344

†At average 2005 exchange rates.
‡Comprises Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Syria, and the United Arab Emirates.
††European Union members.
‡‡European Union applicants.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Physical Recorded Music Spending Growth (%)

EMEA	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Western Europe											
Austria††	–8.5	–7.0	–6.0	–6.7	–4.8	–5.8	–4.2	–4.4	–4.2	–4.8	–4.7
Belgium††	–7.8	–7.2	–10.1	0.0	–4.0	–4.5	–3.5	–3.3	–3.4	–4.4	–3.8
Denmark††	–16.8	–15.3	–12.6	–3.6	–5.3	–6.8	–6.1	–6.5	–6.9	–7.4	–6.7
Finland††	3.2	–6.2	2.0	–13.5	–2.2	–6.1	–5.7	–7.8	–7.5	–7.1	–6.8
France††	15.0	4.1	–14.5	–14.8	–2.1	1.2	–2.4	–3.8	–4.5	–4.6	–2.8
Germany††	–10.1	–6.5	–17.9	–3.9	–10.1	–6.8	–6.7	–7.1	–7.7	–8.3	–7.3
Greece††	–18.2	7.1	–9.4	–7.3	–6.7	–3.6	–6.3	–5.3	–5.6	–6.0	–5.4
Ireland††	11.0	–6.6	–15.4	2.8	–5.4	–1.4	–2.2	–1.5	–2.3	–2.3	–1.9
Italy††	–8.7	1.1	–4.4	–7.7	–7.4	–5.1	–5.0	–5.1	–4.0	–4.6	–4.8
Netherlands††	0.8	–6.3	–4.8	–7.4	–20.9	–14.4	–15.9	–10.3	–7.7	–8.3	–11.4
Norway	–4.1	5.9	–12.7	1.8	–2.4	–6.5	–5.4	–5.3	–5.6	–5.4	–5.6
Portugal††	–5.8	8.3	–15.9	–22.0	–10.9	–1.8	–3.6	–1.9	–3.8	–3.9	–3.0
Spain††	0.8	–15.6	–9.4	–12.4	–10.6	–4.8	–3.9	–2.8	–0.4	–0.4	–2.5
Sweden††	0.5	–5.7	–14.7	–17.5	–16.4	–6.7	–6.2	–6.6	–7.1	–7.6	–6.9
Switzerland	–2.4	–2.5	–12.3	–7.2	–9.7	3.4	–4.1	–3.5	–2.2	–3.2	–2.0
United Kingdom††	7.4	–2.2	0.1	–1.6	–4.9	–2.5	–3.1	–3.2	–3.3	–2.9	–3.0
Western Europe Total	0.4	–3.1	–9.5	–6.7	–6.9	–3.6	–4.4	–4.5	–4.6	–4.6	–4.4
Central and Eastern Europe											
Czech Republic††	–6.2	–19.7	–2.0	–12.5	–7.1	–10.3	–8.6	–6.3	–3.3	–6.9	–7.1
Hungary††	–7.5	–6.8	5.8	–17.8	–13.3	–9.6	–6.4	–4.5	–4.8	–5.0	–6.1
Poland††	–26.7	–25.0	–1.8	–4.6	–4.8	–7.1	–5.4	–4.6	–6.0	–5.1	–5.7
Romania‡‡	–36.8	100.0	12.5	–3.7	0.0	–3.8	0.0	–4.0	0.0	–4.2	–2.4
Russia	17.9	23.8	23.8	41.2	21.2	21.3	13.6	9.6	6.4	6.2	11.3
Turkey‡‡	123.2	8.0	19.3	10.6	6.2	–4.2	–0.6	–1.1	–1.1	–9.1	–3.3
Central and Eastern Europe Total	5.3	3.5	14.5	17.9	11.1	10.3	7.9	5.7	3.9	2.6	6.0
Middle East/Africa											
Israel	–6.4	–9.1	5.0	7.1	2.2	–2.2	–2.2	–2.3	–4.7	–2.4	–2.8
Saudi Arabia/Pan Arab†	–19.3	–18.8	–14.3	–4.2	–2.2	–3.3	–3.4	–4.8	–3.8	–5.2	–4.1
South Africa	1.8	13.8	0.0	25.8	10.0	6.8	5.0	4.4	2.6	0.3	3.8
Middle East/Africa Total	–8.6	–2.0	–4.1	14.6	6.1	3.5	2.4	1.9	0.7	–0.9	1.5
EMEA Total	0.4	–2.8	–8.3	–4.8	–5.2	–2.2	–3.0	–3.2	–3.4	–3.6	–3.1

†Comprises Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Syria, and the United Arab Emirates.
††European Union members.
‡‡European Union applicants.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

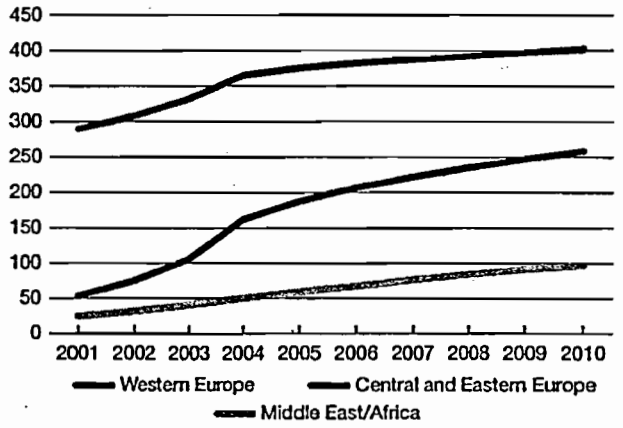
Mobile music

- The mobile music market in EMEA grew 61.1 percent in 2005 to $1.8 billion. The United Kingdom and Germany have the two largest mobile markets, at $380 million and $290 million, respectively.

- The leading mobile operators in the region are using music to stimulate demand for their newly developed 3G wireless networks that accommodate high-volume data applications such as music.

- Wireless penetration in Western Europe reached 95 percent in 2005, was above 50 percent in Central and Eastern Europe, and is approaching that level in Middle East/Africa. Subscriber growth in Western Europe will average only 1.4 percent compounded annually, and the region as a whole will grow at a 4.0 percent compound annual rate. Consequently, carriers, particularly in Western Europe, are looking at only modest growth in subscribership and, as such, are focusing their efforts on boosting average revenue per user.

Wireless Subscribers in EMEA (Millions)



Sources: International Telecommunication Union, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Carriers have substantial sums invested in 3G networks, having paid high fees for licenses in spectrum auctions in the late 1990s and early 2000s. When the economy weakened, their ability to build those networks became limited due to financial shortfalls. Now that most networks are in place, carriers need to generate incremental revenue in order to earn a return on their investment.

- Carriers are looking to transform the mobile music market from ring tones to ring tunes, which require subscriptions to enhanced multimedia services. Full-length songs represent one of the features carriers are offering to attract 3G subscribers.

- Virtually all major wireless carriers in the region are generating incremental revenue from music, and we look for revenue to expand as the market migrates to ring tunes from less-expensive ring tones.

- Increased subscribership to 3G networks will drive spending, but slow growth in the overall wireless universe will ultimately lead to a moderation in mobile music.

- We project the percentage of wireless telephony subscribers who download music will more than double to 27 percent in 2010 from 12 percent in 2005 as phones capable of playing music fully penetrate the market and as interest in mobile music grows. The number of mobile music subscribers will increase from 75 million in 2005 to 204 million in 2010. Average annual spending per subscriber jumped 11.5 percent in 2005 as ring tunes began to replace ring tones.

- We expect annual spending per subscriber to slow during 2006–07 and then decline during 2008–10 as subscribers purchase fewer incremental tunes. Overall mobile music spending will continue to grow at double-digit rates through 2009, with a high-single-digit gain in 2010, averaging 21.3 percent compounded annually during the forecast period as a whole.

Mobile Music Market

EMEA	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Wireless Telephone Subscribers (Millions)	415	480	577	622	656	685	711	735	757
Percent Downloading Music (%)	2	6	9	12	15	18	21	24	27
Mobile Music Subscribers (Millions)	8	29	52	75	98	123	149	176	204
Annual Spending per Subscriber† (US$)	14.00	19.80	20.90	23.30	24.45	24.70	24.55	23.85	22.50
Aggregate Mobile Music† (US$ Millions)	112	574	1,087	1,748	2,396	3,038	3,658	4,198	4,590

†At average 2005 exchange rates.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile Music Market Growth (%)

EMEA	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Wireless Telephone Subscribers	15.7	20.2	7.8	5.5	4.4	3.8	3.4	3.0	4.0
Mobile Music Subscribers	262.5	79.3	44.2	30.7	25.5	21.1	18.1	15.9	22.2
Annual Spending per Subscriber	41.4	5.6	11.5	4.9	1.0	–0.6	–2.9	–5.7	–0.7
Aggregate Mobile Music	412.5	89.4	60.8	37.1	26.8	20.4	14.8	9.3	21.3

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- The U.K. will remain the largest mobile music market in EMEA, at $890 million in 2010, with Germany projected to rise to $680 million and France to $240 million. Total mobile music spending will increase to $4.6 billion in 2010.

Mobile Music Market† (US$ Millions)

EMEA	2002	2003	2004	2005p	2006	2007	2008	2009	2010
France	5	20	50	80	115	150	180	210	240
Germany	19	99	186	290	380	470	550	620	680
United Kingdom	23	125	250	380	500	620	730	820	890
Remainder of Region	65	330	600	1,000	1,400	1,800	2,200	2,550	2,780
Total	112	574	1,086	1,750	2,395	3,040	3,660	4,200	4,590

†At average 2005 exchange rates.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile Music Market Growth (%)

EMEA	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
France	300.0	150.0	60.0	43.8	30.4	20.0	16.7	14.3	24.6
Germany	421.1	87.9	55.9	31.0	23.7	17.0	12.7	9.7	18.6
United Kingdom	443.5	100.0	52.0	31.6	24.0	17.7	12.3	8.5	18.6
Remainder of Region	407.7	81.8	66.7	40.0	28.6	22.2	15.9	9.0	22.7
Total	412.5	89.2	61.1	36.9	26.9	20.4	14.8	9.3	21.3

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Asia Pacific

The outlook in brief

- Fueled by the shift to full-length songs, mobile music will become the dominant component of the industry, surpassing physical distribution in 2010.
- Piracy will continue to cut into sales, but improved enforcement, combined with an increasingly more sophisticated and enabled economy, will lessen its incremental impact as antipiracy efforts begin to yield results.
- The licensed digital distribution market has been tiny to date but will begin to grow rapidly as new services enter the market and as increased content becomes available.

Overview

- Physical distribution will continue to decline during the forecast period, falling by 4.7 percent compounded annually to $5.2 billion in 2010 from $6.6 billion in 2005.
- Mobile music will become the largest component of the market in 2010, totaling $5.8 billion, up 22.8 percent on a compound annual basis from 2005.
- Digital distribution will grow to $1.0 billion by 2010 from $32 million in 2005, a 99.1 percent compound annual gain.
- The market as a whole will expand from $8.7 billion in 2005 to $12.0 billion by 2010, a 6.6 percent compounded annual increase.

Recorded Music Market† (US$ Millions)

Asia Pacific	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Physical Distribution	8,222	7,855	7,215	7,040	6,646	6,331	6,049	5,768	5,495	5,234	
% Change	–4.7	–4.5	–8.1	–2.4	–5.6	–4.7	–4.5	–4.6	–4.7	–4.7	–4.7
Digital Distribution	—	—	—	5	32	96	230	510	774	1,002	
% Change	—	—	—	—	540.0	200.0	139.6	121.7	51.8	29.5	99.1
Mobile Music	—	193	549	1,075	2,061	3,020	4,008	4,770	5,304	5,766	
% Change	—	—	184.5	95.8	91.7	46.5	32.7	19.0	11.2	8.7	22.8
Total	8,222	8,048	7,764	8,120	8,739	9,447	10,287	11,048	11,573	12,002	
% Change	–4.7	–2.1	–3.5	4.6	7.6	8.1	8.9	7.4	4.8	3.7	6.6

†At average 2005 exchange rates.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Japan is the largest market in the region, at $4.8 billion in 2005, including digital distribution. Australia is a distant second at $668 million.
- Japan declined 4.8 percent in 2005 as physical sales continued to fall. A small but emerging digital distribution market will help cushion continuing declines in physical sales. Japan will decline at a 2.7 percent compound annual rate to $4.2 billion in 2010.
- Physical sales plummeted in Australia, and the market fell by 10.6 percent in 2005, its largest decline in five years. Further decreases are expected during the next two years but at slower rates as digital distribution expands. An emerging and rapidly expanding digital distribution market will offset declines in physical distribution in 2008 and generate positive growth during 2009–10.

Recorded Music Market† (US$ Millions)

Asia Pacific	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Australia	840	791	792	747	668	635	619	619	628	636
China	130	165	200	214	222	235	239	242	246	249
Hong Kong	98	100	93	81	78	75	73	70	67	65
India	245	190	153	152	152	151	152	150	150	154
Indonesia	75	64	68	79	82	83	82	81	81	80
Japan	5,939	5,684	5,169	5,080	4,835	4,613	4,462	4,399	4,316	4,212
Malaysia	42	35	33	32	32	30	29	27	25	24
New Zealand	140	139	134	124	120	117	114	111	108	106
Pakistan	17	25	23	24	24	23	22	21	20	19
Philippines	30	26	27	25	24	23	22	21	21	20
Singapore	50	53	51	46	45	43	40	38	35	33
South Korea	334	270	188	149	128	139	170	240	297	340
Taiwan	180	174	150	152	130	122	111	101	91	81
Thailand	102	139	134	140	136	135	135	135	134	133
Digital Distribution Not Included in Country Totals	—	—	—	—	2	3	9	23	50	84
Mobile Music	—	193	549	1,075	2,061	3,020	4,008	4,770	5,304	5,766
Total	8,222	8,048	7,764	8,120	8,739	9,447	10,287	11,048	11,573	12,002

†At average 2005 exchange rates.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Recorded Music Market Growth (%)

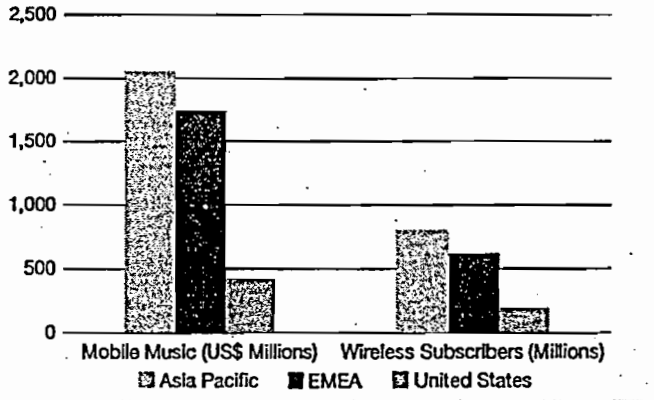
Asia Pacific	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Australia	9.1	–5.8	0.1	–5.7	–10.6	–4.9	–2.5	0.0	1.5	1.3	–1.0
China	30.0	26.9	21.2	7.0	3.7	5.9	1.7	1.3	1.7	1.2	2.3
Hong Kong	–9.3	2.0	–7.0	–12.9	–3.7	–3.8	–2.7	–4.1	–4.3	–3.0	–3.6
India	15.0	–22.4	–19.5	–0.7	0.0	–0.7	0.7	–1.3	0.0	–2.7	0.3
Indonesia	–8.5	–14.7	6.3	16.2	3.8	1.2	–1.2	–1.2	0.0	–1.2	–0.5
Japan	–6.8	–4.3	–9.1	–1.7	–4.8	–4.6	–3.3	–1.4	–1.9	–2.4	–2.7
Malaysia	–20.8	–16.7	–5.7	–3.0	0.0	–6.3	–3.3	–6.9	–7.4	–4.0	–5.6
New Zealand	3.7	–0.7	–3.6	–7.5	–3.2	–2.5	–2.6	–2.6	–2.7	–1.9	–2.5
Pakistan	–59.5	47.1	–8.0	4.3	0.0	–4.2	–4.3	–4.5	–4.8	–5.0	–4.6
Philippines	0.0	–13.3	3.8	–7.4	–4.0	–4.2	–4.3	–4.5	0.0	–4.8	–3.6
Singapore	4.2	6.0	–3.8	–9.8	–2.2	–4.4	–7.0	–5.0	–7.9	–5.7	–6.0
South Korea	1.2	–19.2	–30.4	–20.7	–14.1	8.6	22.3	41.2	23.8	14.5	21.6
Taiwan	–23.7	–3.3	–13.8	1.3	–14.5	–6.2	–9.0	–9.0	–9.9	–11.0	–9.0
Thailand	–5.6	36.3	–3.6	4.5	–2.9	–0.7	0.0	0.0	–0.7	–0.7	–0.4
Digital Distribution Not Included in Country Totals	—	—	—	—	—	50.0	200.0	155.6	117.4	68.0	111.2
Mobile Music	—	—	184.5	95.8	91.7	46.5	32.7	19.0	11.2	8.7	22.8
Total	–4.7	–2.1	–3.5	4.6	7.6	8.1	8.9	7.4	4.8	3.7	6.6

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile music

- Asia Pacific has the largest mobile music market in the world, at $2.1 billion in 2005, which exceeds the $1.8 billion in EMEA and the $422 million in the United States, a relationship that approximates the relative sizes of the respective wireless subscriber universes in each region. This reflects the fact that Asia Pacific is ahead of the rest of the world with respect to wireless but behind with respect to digital distribution. High-speed wireless has been available for a number of years, and applications that make use of that technology are well established. Consequently, mobile music became a significant market in Asia before it did in other regions.

Mobile Music and Wireless Subscribers



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Wireless devices are now routinely used for a variety of entertainment and media purposes, and music is one of the most popular applications. In Japan and South Korea, mobile music is dominated by full-length tracks, as mobile devices serve the function of digital download services that exist in other countries. In the rest of the region, mobile music consists largely of traditional ring tones and an emerging ring tunes market.

- South Korea, with its well-developed 3G network technology, is the only country in which mobile music is the dominant distribution channel for recorded music. Wireless carriers distribute music via consolidated sites, which allow songs to be downloaded both to mobile devices and to computers from the same Web site. In most other countries, by contrast, mobile music and digital distribution are provided by different companies.

- Carriers in South Korea are acquiring financial interests in music content. SK Telecom acquired YBM Seoul, a major label, in mid-2005, and Samsung has a deal with DSP Entertainment for content. In late 2004, LGT launched MusicOn, which has more than 700,000 tracks from most of the major labels in South Korea.

- In South Korea, the number of phones capable of downloading music more than doubled in 2005 to approximately 13 million, representing a third of all wireless subscribers. In March 2005, six 3G digital mobile broadcasting licenses were awarded. As digital mobile broadcasting licensees roll out services, they will expand the reach for full-length downloads.

- The market potential for mobile music in Japan is extensive and only beginning to be tapped. There are 97 million wireless subscribers in Japan, a third of whom already subscribe to a 3G network.

- In Australia, new handsets capable of downloading and storing music are replacing older-generation devices and boosting the market. The Australian Recording Industry Association's intended introduction of charts covering ring tones and other mobile music will stimulate further interest and help drive additional spending.

- In New Zealand, Telecom New Zealand in conjunction with Groove Mobile is offering music downloads on its wireless network. Phones that can store up to 900 tracks are being sold.

- In 2005 there were 807 million wireless subscribers in Asia Pacific, and the market continues to grow rapidly. It will pass the 1-billion threshold in 2007 and rise to 1.5 billion by 2010.

- Approximately 10 percent of wireless subscribers, or 81 million people, downloaded music in 2005. Average annual spending tripled since 2002, reflecting the growing availability of music to mobile devices and, in some countries, the introduction of higher-priced ring tunes and full songs.

- Mobile music is not yet available in all areas, but as new services are introduced, the market will expand. We project that 17 percent of wireless subscribers, or 248 million people, will download music to their mobile phones in 2010.

- Average annual per-subscriber spending, however, will begin to decline in 2007. New subscribers will likely buy less music than early adopters did, thereby reducing average spending. Mobile music will also face competition from services that allow music that is downloaded to a computer from a digital distribution service to be transferred to a mobile phone, bypassing the wireless carrier and bypassing wireless fees for mobile music. We project average annual spending to fall to $23.25 in 2010. Total spending on mobile music will increase to an estimated $5.8 billion in 2010, growing at a 22.8 percent compound annual rate. Mobile music will become the dominant distribution channel for the region as a whole by 2010.

Mobile Music Market

Asia Pacific	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Wireless Telephone Subscribers (Millions)	435	548	675	807	920	1,065	1,197	1,331	1,460
Percent Downloading Music (%)	5	7	8	10	12	14	15	16	17
Mobile Music Subscribers (Millions)	22	38	54	81	110	149	180	213	248
Annual Spending per Subscriber† (US$)	8.75	14.45	19.90	25.45	27.45	26.90	26.50	24.90	23.25
Aggregate Mobile Music† (US$ Millions)	193	549	1,075	2,061	3,020	4,008	4,770	5,304	5,766

†At average 2005 exchange rates.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile Music Market Growth (%)

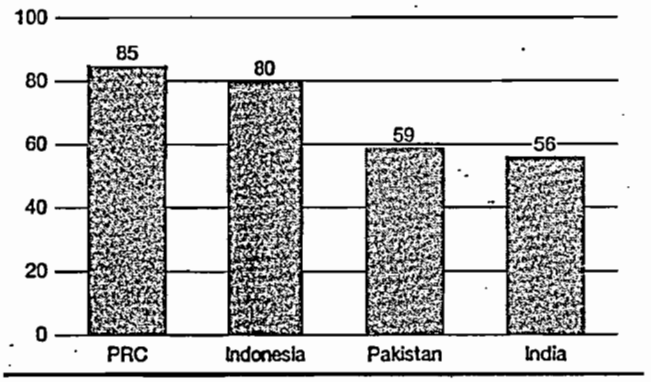
Asia Pacific	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Wireless Telephone Subscribers	26.0	23.2	19.6	14.0	15.8	12.4	11.2	9.7	12.6
Mobile Music Subscribers	72.7	42.1	50.0	35.8	35.5	20.8	18.3	16.4	25.1
Annual Spending per Subscriber	65.1	37.7	27.9	7.9	–2.0	–1.5	–6.0	–6.6	–1.8
Aggregate Mobile Music	184.5	95.8	91.7	46.5	32.7	19.0	11.2	8.7	22.8

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Piracy

- Physical piracy remains a problem in Asia Pacific, with rates above 50 percent for four countries in the region. In the People's Republic of China (PRC), an estimated 85 percent of music was of pirated origin in 2004, the highest percentage in the world. Piracy was at 80 percent in Indonesia and at more than 50 percent in India and Pakistan. The high incidence of piracy dampens spending on legitimate product and reduces the market potential for recordings in the physical formats. Licensed digital distribution is just getting started in the region, and piracy appears to have had little impact on it thus far.

2004 Piracy Rates (%)



Source: International Federation of the Phonographic Industry

- In a number of countries, however, antipiracy efforts have become more aggressive, leading to a slowdown in piracy growth. In the PRC, for example, a long-term campaign culminated in mid-2005 with the arrest of 2,600 people and the seizure of 63 million counterfeit CDs. Although still very high, piracy rates in the PRC have declined from levels in excess of 90 percent.

- In South Korea, the Seoul District Court in October 2005 ruled that Soribada, a file-sharing network, must remove its file-sharing software from peer-to-peer networks. In Australia, Kazaa was found to be liable for copyright infringement by the Federal Court of Australia and by early 2006 was required to install a system that blocks unauthorized file sharing. In Malaysia, five CD manufacturers lost their licenses in November 2005 due to piracy.

- These initiatives appeared to have yielded results, as unit sales of physical music fell only 0.5 percent in 2005 and 0.7 percent in 2004 compared with declines of 7.0 percent or more during 2001–02. The PRC's market continues to expand despite the high piracy rates, reflecting the fact that the economy appears to be growing faster than piracy. Unit sales were up 6.0 percent in 2005. Indonesia and Pakistan, the other leading piracy countries, each recorded unit sales gains of 3.5 percent, continuing their upward climb despite high piracy rates.

- Piracy has ravaged South Korea's physical music market, whose unit sales fell by 74 percent during 2002–05. Part of that decline, however, was due to the emergence of alternative distribution channels for music. The growth in mobile music has also contributed to the decline in physical sales, which now represent only a small component of the market in South Korea.

- We expect that piracy will continue to depress physical sales, but its incremental impact will lessen compared with the past five years. If piracy rates grow more slowly compared with recent years, the adverse impact on sales will also grow more slowly, which will have a positive effect on the market. At the same time, the emergence of authorized digital download services and the growing ability to download music to wireless devices will compete with, and continue to replace, the physical market. We project physical unit sales to fall somewhat faster than in 2005, but much slower compared with prior years. Physical unit sales will total an estimated 841 million in 2010, down 0.8 percent on a compound annual basis from 873 million in 2005.

Physical Recorded Music Unit Sales (Millions)

Asia Pacific	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Australia	63.9	61.5	65.6	63.1	58.4	55.0	52.0	49.0	46.0	43.0
China	74.0	84.8	115.7	123.6	131.0	140.0	145.0	150.0	155.0	160.0
Hong Kong	11.7	11.4	11.8	10.0	9.8	9.6	9.4	9.2	9.0	8.8
India	200.0	171.1	153.0	163.0	170.0	175.0	180.0	185.0	190.0	200.0
Indonesia	51.0	34.3	37.3	39.8	41.2	41.0	40.0	39.0	38.0	37.0
Japan	385.0	358.0	361.0	347.0	336.5	325.0	315.0	305.0	295.0	285.0
Malaysia	7.6	5.7	5.4	6.1	6.3	6.2	6.1	6.0	5.9	5.8
New Zealand	8.7	8.7	8.5	8.2	8.1	8.0	7.9	7.8	7.7	7.6
Pakistan	31.5	41.6	38.1	40.1	41.5	42.0	41.5	41.0	40.5	40.0
Philippines	7.6	5.7	6.9	6.3	5.8	5.5	5.3	5.1	4.9	4.7
Singapore	5.1	5.6	5.9	5.2	5.0	4.8	4.6	4.4	4.2	4.0
South Korea	41.6	29.0	19.8	14.2	11.0	10.0	9.0	8.0	7.0	6.0
Taiwan	20.2	19.7	16.5	16.4	14.8	14.0	13.0	12.0	11.0	10.0
Thailand	40.1	44.2	38.9	35.2	34.0	33.0	32.0	31.0	30.0	29.0
Total	948.0	881.3	884.4	878.2	873.4	869.1	860.8	852.5	844.2	840.9

Sources: Australian Record Industry Association, International Federation of the Phonographic Industry, International Federation of the Phonographic Industry Taiwan, PricewaterhouseCoopers LLP, Recording Industry Association of Japan, Wilkofsky Gruen Associates

Physical Recorded Music Unit Sales Growth (%)

Asia Pacific	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Australia	13.1	–3.8	6.7	–3.8	–7.4	–5.8	–5.5	–5.8	–6.1	–6.5	–5.9
China	–13.1	14.6	36.4	6.8	6.0	6.9	3.6	3.4	3.3	3.2	4.1
Hong Kong	2.6	–2.6	3.5	–15.3	–2.0	–2.0	–2.1	–2.1	–2.2	–2.2	–2.1
India	5.8	–14.5	–10.6	6.5	4.3	2.9	2.9	2.8	2.7	5.3	3.3
Indonesia	–17.6	–32.7	8.7	6.7	3.5	–0.5	–2.4	–2.5	–2.6	–2.6	–2.1
Japan	–11.1	–7.0	0.8	–3.9	–3.0	–3.4	–3.1	–3.2	–3.3	–3.4	–3.3
Malaysia	–20.8	–25.0	–5.3	13.0	3.3	–1.6	–1.6	–1.6	–1.7	–1.7	–1.6
New Zealand	0.0	0.0	–2.3	–3.5	–1.2	–1.2	–1.3	–1.3	–1.3	–1.3	–1.3
Pakistan	–31.1	32.1	–8.4	5.2	3.5	1.2	–1.2	–1.2	–1.2	–1.2	–0.7
Philippines	–8.4	–25.0	21.1	–8.7	–7.9	–5.2	–3.6	–3.8	–3.9	–4.1	–4.1
Singapore	4.1	9.8	5.4	–11.9	–3.8	–4.0	–4.2	–4.3	–4.5	–4.8	–4.4
South Korea	–7.3	–30.3	–31.7	–28.3	–22.5	–9.1	–10.0	–11.1	–12.5	–14.3	–11.4
Taiwan	–26.8	–2.5	–16.2	–0.6	–9.8	–5.4	–7.1	–7.7	–8.3	–9.1	–7.5
Thailand	–3.8	10.2	–12.0	–9.5	–3.4	–2.9	–3.0	–3.1	–3.2	–3.3	–3.1
Total	–7.8	–7.0	0.4	–0.7	–0.5	–0.5	–1.0	–1.0	–1.0	–0.4	–0.8

Sources: Australian Record Industry Association, International Federation of the Phonographic Industry, International Federation of the Phonographic Industry Taiwan, PricewaterhouseCoopers LLP, Recording Industry Association of Japan, Wilkofsky Gruen Associates

- Record companies are also lowering prices to combat piracy. The average price of physical recorded music fell 5.1 percent in 2005, including a 5.2 percent decline in Taiwan; decreases of more than 4.0 percent in Malaysia, Australia, and India; a 3.4 percent drop in Pakistan; and a 2.3 percent decline in the PRC. Declining prices contributed to the slowdown in unit sales erosion in 2005.
- We expect continued declines during the next five years, and we project that by 2010 the average price across all physical formats—principally reflecting albums because albums are by far the dominant format—will drop to $6.22 from $7.61 in 2005, a 4.0 percent compound annual decrease.

Physical Recorded Music Average Price† (US$)

Asia Pacific	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Australia	13.15	12.86	12.07	11.83	11.29	11.05	10.86	10.67	10.48	10.29
China	1.75	1.94	1.73	1.73	1.69	1.68	1.65	1.62	1.58	1.55
Hong Kong	8.41	8.73	7.87	8.13	8.00	7.84	7.71	7.59	7.46	7.33
India	1.23	1.11	1.00	0.93	0.89	0.86	0.84	0.81	0.79	0.77
Indonesia	1.48	1.85	1.84	1.97	2.00	2.03	2.06	2.09	2.12	2.15
Japan	15.43	15.88	14.32	14.63	14.33	14.07	13.85	13.62	13.39	13.17
Malaysia	5.52	6.07	6.06	5.32	5.07	4.88	4.69	4.49	4.29	4.09
New Zealand	16.10	15.94	15.73	15.11	14.77	14.61	14.43	14.25	14.08	13.90
Pakistan	0.55	0.60	0.61	0.59	0.57	0.55	0.54	0.52	0.50	0.49
Philippines	4.01	4.60	3.98	4.01	4.06	4.10	4.13	4.17	4.21	4.24
Singapore	9.77	9.55	8.66	8.90	9.01	8.86	8.71	8.56	8.41	8.26
South Korea	8.03	9.30	9.51	10.42	10.89	11.19	11.48	11.78	12.07	12.36
Taiwan	8.90	8.81	9.07	9.29	8.81	8.70	8.54	8.39	8.23	8.07
Thailand	2.54	3.14	3.44	3.99	4.01	4.09	4.22	4.34	4.47	4.59
Total	8.67	8.91	8.16	8.02	7.61	7.28	7.03	6.77	6.51	6.22

†At average 2005 exchange rates.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Physical Recorded Music Average Price Growth (%)

Asia Pacific	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Australia	–3.5	–2.2	–6.1	–2.0	–4.6	–2.1	–1.7	–1.7	–1.8	–1.8	–1.8
China	48.3	10.9	–10.8	0.0	–2.3	–0.6	–1.8	–1.8	–2.5	–1.9	–1.7
Hong Kong	–11.6	3.8	–9.9	3.3	–1.6	–2.0	–1.7	–1.6	–1.7	–1.7	–1.7
India	8.8	–9.8	–9.9	–7.0	–4.3	–3.4	–2.3	–3.6	–2.5	–2.5	–2.9
Indonesia	11.3	25.0	–0.5	7.1	1.5	1.5	1.5	1.5	1.4	1.4	1.5
Japan	4.8	2.9	–9.8	2.2	–2.1	–1.8	–1.6	–1.7	–1.7	–1.6	–1.7
Malaysia	0.4	10.0	–0.2	–12.2	–4.7	–3.7	–3.9	–4.3	–4.5	–4.7	–4.2
New Zealand	3.6	–1.0	–1.3	–3.9	–2.3	–1.1	–1.2	–1.2	–1.2	–1.3	–1.2
Pakistan	–40.9	9.1	1.7	–3.3	–3.4	–3.5	–1.8	–3.7	–3.8	–2.0	–3.0
Philippines	12.3	14.7	–13.5	0.8	1.2	1.0	0.7	1.0	1.0	0.7	0.9
Singapore	–0.4	–2.3	–9.3	2.8	1.2	–1.7	–1.7	–1.7	–1.8	–1.8	–1.7
South Korea	9.3	15.8	2.3	9.6	4.5	2.8	2.6	2.6	2.5	2.4	2.6
Taiwan	3.9	–1.0	3.0	2.4	–5.2	–1.2	–1.8	–1.8	–1.9	–1.9	–1.7
Thailand	–1.6	23.6	9.6	16.0	0.5	2.0	3.2	2.8	3.0	2.7	2.7
Total	3.3	2.8	–8.4	–1.7	–5.1	–4.3	–3.4	–3.7	–3.8	–4.5	–4.0

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- The combination of declining average prices and falling unit sales will lead to further decreases in spending on physical product. We project spending will drop to $5.2 billion in 2010 from $6.6 billion in 2005, a 4.7 percent compound annual decrease.

- Japan and Australia, the largest markets overall, are also the largest in physical spending. Physical spending in Japan totaled $4.8 billion in 2005, 73 percent of total physical spending in the region. Physical spending in Japan fell by 5.0 percent in 2005, and we expect comparable decreases averaging 4.9 percent compounded annually through 2010.

- Australia, the second-largest physical market in the region, at $659 million in sales, was down 11.7 percent in 2005, its steepest decrease during the past five years as music videos, which had boosted spending in prior years,

fell sharply in 2005 and album sales on CD continued to decline. We expect decreases averaging 7.6 percent compounded annually through 2010.

- The PRC is the third-largest market in the region, at $222 million in 2005. We expect spending on physical music to expand during the next five years by 2.3 percent compounded annually. The PRC is the only country other than India where we expect growth in physical spending, helped by a strong economy.
- India has been relatively flat during the past two years, and we expect it will remain so during the next five years, with spending on physical music totaling $154 million in 2010 compared with $152 million in 2005.

Physical Recorded Music Spending† (US$ Millions)

Asia Pacific	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Australia	840	791	792	746	659	608	565	523	482	443
China	130	165	200	214	222	235	239	242	246	249
Hong Kong	98	100	93	81	78	75	73	70	67	65
India	245	190	153	152	152	151	152	150	150	154
Indonesia	75	64	68	79	82	83	82	81	81	80
Japan	5,939	5,684	5,169	5,077	4,822	4,574	4,362	4,154	3,951	3,753
Malaysia	42	35	33	32	32	30	29	27	25	24
New Zealand	140	139	134	124	120	117	114	111	108	106
Pakistan	17	25	23	24	24	23	22	21	20	19
Philippines	30	26	27	25	24	23	22	21	21	20
Singapore	50	53	51	46	45	43	40	38	35	33
South Korea	334	270	188	148	120	112	103	94	84	74
Taiwan	180	174	150	152	130	122	111	101	91	81
Thailand	102	139	134	140	136	135	135	135	134	133
Total	8,222	7,855	7,215	7,040	6,646	6,331	6,049	5,768	5,495	5,234

†At average 2005 exchange rates.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Physical Recorded Music Spending Growth (%)

Asia Pacific	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Australia	9.1	–5.8	0.1	–5.8	–11.7	–7.7	–7.1	–7.4	–7.8	–8.1	–7.6
China	30.0	26.9	21.2	7.0	3.7	5.9	1.7	1.3	1.7	1.2	2.3
Hong Kong	–9.3	2.0	–7.0	–12.9	–3.7	–3.8	–2.7	–4.1	–4.3	–3.0	–3.6
India	15.0	–22.4	–19.5	–0.7	0.0	–0.7	0.7	–1.3	0.0	2.7	0.3
Indonesia	–8.5	–14.7	6.3	16.2	3.8	1.2	–1.2	–1.2	0.0	–1.2	–0.5
Japan	–6.8	–4.3	–9.1	–1.8	–5.0	–5.1	–4.6	–4.8	–4.9	–5.0	–4.9
Malaysia	–20.8	–16.7	–5.7	–3.0	0.0	–6.3	–3.3	–6.9	–7.4	–4.0	–5.6
New Zealand	3.7	–0.7	–3.6	–7.5	–3.2	–2.5	–2.6	–2.6	–2.7	–1.9	–2.5
Pakistan	–59.5	47.1	–8.0	4.3	0.0	–4.2	–4.3	–4.5	–4.8	–5.0	–4.6
Philippines	0.0	–13.3	3.8	–7.4	–4.0	–4.2	–4.3	–4.5	0.0	–4.8	–3.6
Singapore	4.2	6.0	–3.8	–9.8	–2.2	–4.4	–7.0	–5.0	–7.9	–5.7	–6.0
South Korea	1.2	–19.2	–30.4	–21.3	–18.9	–6.7	–8.0	–8.7	–10.6	–11.9	–9.2
Taiwan	–23.7	–3.3	–13.8	1.3	–14.5	–6.2	–9.0	–9.0	–9.9	–11.0	–9.0
Thailand	–5.6	36.3	–3.6	4.5	–2.9	–0.7	0.0	0.0	–0.7	–0.7	–0.4
Total	–4.7	–4.5	–8.1	–2.4	–5.6	–4.7	–4.5	–4.6	–4.7	–4.7	–4.7

Sources: International Federation of the Phonographic Industry Taiwan, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Licensed digital distribution

- Asia Pacific has not had a meaningful licensed digital distribution market, but we expect that to change with new services entering the region. Spending was only $32 million in 2005, most of which was in Japan, Australia, and South Korea.

- In Japan, Apple's iTunes Music Store entered the market in August 2005 and within its first four days sold 1 million tracks priced from ¥150 to ¥200 ($1.36 to $1.82). The initial success of iTunes suggests that digital distribution has significant potential in Japan. Lower average prices and new services should propel the market. We expect spending to rise from $13 million in 2005 to $459 million in 2010.

- Australia has the second-largest digital distribution market in Asia Pacific at $9 million in 2005. The entrance of iTunes Music Stores in October 2005 led to a jump in downloads in November and December and a surge in spending. Sony BMG announced in January 2006 that it would make its music available to iTunes. We expect a full year of iTunes with more content to further propel the market in 2006. Spending will rise to $193 million by 2010.

- South Korea was next in 2005, at $8 million. We expect that market to take off as well, as evidenced by early results for new services, which suggest that there is substantial demand for digital download services.

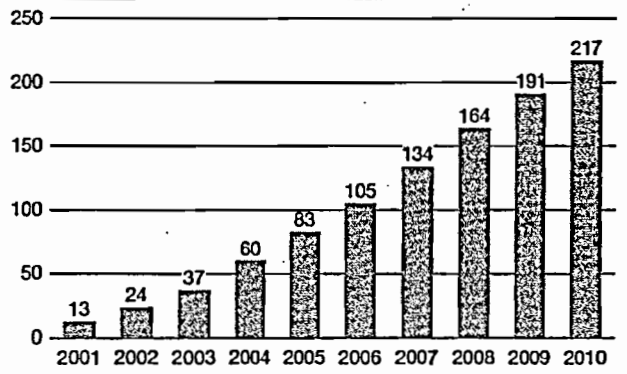
- Moreover, with most Internet subscribers connecting via broadband, the market growth potential is substantial. We project that digital distribution in South Korea will rise to $266 million by 2010.

- Cable operators in South Korea intend to expand digital broadcasting service to current subscribers. They plan to provide digital data services, including music download services.

- The market is just becoming established in other countries. The first service was introduced in the PRC in 2005.

- Growth in broadband will also expand the market. There were 83 million broadband subscribers in Asia Pacific in 2005, more than twice the level in 2003. We expect the broadband universe to more than double during the next five years to 217 million, substantially expanding the potential market for digital distribution.

Broadband Subscribers in Asia Pacific (Millions)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- The market potential will remain limited, however, both by resistance to credit card use for online payments and by the fact that a number of countries in the region are relatively poor and people without means are generally not issued credit cards.

- We project spending to grow to $1.0 billion by 2010, a 99.1 percent compound annual increase. Although increasing rapidly on a percentage basis, digital distribution will remain a smaller percentage of the total market than in EMEA or the United States. This reflects the fact that the U.S. is several years ahead of Asia Pacific in licensed digital distribution, and EMEA is at least a year ahead. We expect these territories will retain those advantages.

Licensed Digital Distribution Market (US$ Millions)

Asia Pacific	2004	2005p	2006	2007	2008	2009	2010
Australia	1	9	27	54	96	146	193
Japan	3	13	39	100	245	365	459
South Korea	1	8	27	67	146	213	266
Rest of Region	††	2	3	9	23	50	84
Total	5	32	96	230	510	774	1,002

†At average 2005 exchange rates.
††Less than US$500,000.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Licensed Digital Distribution Market Growth (%)

Asia Pacific	2005p	2006	2007	2008	2009	2010	2006-10 CAGR
Australia	800.0	200.0	100.0	77.8	52.1	32.2	84.6
Japan	333.3	200.0	156.4	145.0	49.0	25.8	104.0
South Korea	700.0	237.5	148.1	117.9	45.9	24.9	101.5
Rest of Region	—	50.0	200.0	155.6	117.4	68.0	111.2
Total	540.0	200.0	139.6	121.7	51.8	29.5	99.1

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Latin America

The outlook in brief

- Antipiracy initiatives are beginning to yield results, and although still a major problem, piracy will have less of an adverse incremental impact on unit sales.
- Growth in the wireless universe will drive spending on mobile music.
- Expansion in broadband Internet access will generate an emerging legitimate digital distribution market.

Overview

- Spending on physical product will continue to increase through 2007 but will begin to turn down during 2008–10 as the market faces emerging competition from digital distribution. During the forecast period as a whole, spending will fall 0.8 percent compounded annually.
- Mobile music will total $841 million in 2010 from $234 million in 2005, a 29.2 percent compound annual increase.
- Licensed digital distribution will enter the market in 2006 and generate $54 million by 2010.
- We project overall spending to expand at an 8.3 percent compound annual rate to $1.9 billion in 2010 from $1.3 billion in 2005.

Recorded Music Market (US$ Millions)

Latin America	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Physical Distribution	1,133	1,047	900	1,017	1,043	1,070	1,085	1,082	1,046	1,004	
% Change	–17.5	–7.6	–14.0	13.0	2.6	2.6	1.4	–0.3	–3.3	–4.0	–0.8
Mobile Music	—	16	42	150	234	324	448	560	672	841	
% Change	—	—	162.5	257.1	56.0	38.5	38.3	25.0	20.0	25.1	29.2
Licensed Digital Distribution	—	—	—	—	—	1	5	11	25	54	
% Change	—	—	—	—	—	—	400.0	120.0	127.3	116.0	—
Total	1,133	1,063	942	1,167	1,277	1,395	1,538	1,653	1,743	1,899	
% Change	–17.5	–6.2	–11.4	23.9	9.4	9.2	10.3	7.5	5.4	9.0	8.3

†At average 2005 exchange rates.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Piracy

- Latin America accounted for half of all pirated CDs in the world during 2004, and piracy rates remain above 50 percent in each Latin American country. There are signs, however, that antipiracy efforts are beginning to work. Unit sales of physical recordings rose 13.2 percent in 2005, the second consecutive increase following the 8.7 percent gain in 2004. During the prior three years, by contrast, unit sales fell by a cumulative 32 percent. The overall positive movement of the economy in key Latin American markets may also have played a part in that improvement.

- The focus of the rebound was in Mexico, where the economy has stabilized and antipiracy efforts are being given credit for contributing to the progress against piracy. In particular, 2004 saw the launch of Mexico Plus, a program that targets street vendors. Labels have agreed to make albums available to street vendors for retail prices of less than $5, and singles, heretofore a nonexistent format, are being produced for sale at $1.70. These prices are competitive with pirated product and are helping drive legitimate sales. The average price fell by 15.4 percent in 2005, and unit sales in Mexico soared by 43.6 percent. Excluding Mexico, unit sales for the region went down 3.9 percent.

- We project unit sales in Mexico to continue to expand during the next two years, benefiting from increased sales through street vendors. During 2008–10, however, as the incremental impact of the new distribution channel runs its course, unit sales will taper off, losing ground to an emerging digital distribution market.

- Argentina's market has also expanded, riding the wave of improved economic conditions. After falling by a combined 61 percent from 2000 to 2002, unit sales rebounded, and in 2005, on the strength of a 34.3 percent surge, surpassed the level of 2000. With the market on the upswing, labels resumed the signing of local artists, a practice they discontinued when sales were plunging. In 2005, Latin American artists who have achieved global success—such as Los Nocheros, Shakira, Chayanne, and Diego Torres—helped fuel growth. Retailers announced they are opening new locations in response to improved market conditions. We expect an additional year of double-digit growth but look for unit sales to ultimately decline during 2009–10 as digital distribution attracts customers.

- In Brazil, on the other hand, unit sales declined 11.3 percent following 2004's 18.2 percent increase. The market was hurt by a drop in demand for music videos and by the weak performance of midpriced recordings, which proved unappealing to consumers. We expect the market to stabilize in 2006 and to post modest increases through 2008 before edging down during 2009–10.

- For the region as a whole, unit sales will continue to grow during the next three years and will then fall off during the subsequent two years. During the forecast period as a whole, unit sales will expand by 1.0 percent compounded annually to 187 million from 178 million in 2005.

Physical Recorded Music Unit Sales (Millions)

Latin America	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Argentina	11.1	6.2	11.4	13.4	18.0	20.0	21.0	21.0	20.5	20.0
Brazil	80.1	82.8	62.0	73.3	65.0	68.0	70.0	71.0	70.0	68.0
Chile	5.7	7.3	5.8	4.9	4.6	4.4	4.2	4.0	3.8	3.6
Colombia	10.4	7.9	7.4	6.2	5.8	5.3	5.1	5.0	4.9	4.8
Mexico	57.0	55.5	57.0	56.4	81.0	85.0	88.0	90.0	89.0	87.0
Venezuela	5.1	2.1	0.7	2.7	3.2	3.5	3.7	3.8	3.7	3.5
Total	169.4	161.8	144.3	156.9	177.6	186.2	192.0	194.8	191.9	186.9

Sources: International Federation of the Phonographic Industry, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Physical Recorded Music Unit Sales Growth (%)

Latin America	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Argentina	–30.6	–44.1	83.9	17.5	34.3	11.1	5.0	0.0	–2.4	–2.4	2.1
Brazil	–23.3	3.4	–25.1	18.2	–11.3	4.6	2.9	1.4	–1.4	–2.9	0.9
Chile	–21.9	28.1	–20.5	–15.5	–6.1	–4.3	–4.5	–4.8	–5.0	–5.3	–4.8
Colombia	–25.2	–24.0	–6.3	–16.2	–6.5	–8.6	–3.8	–2.0	–2.0	–2.0	–3.7
Mexico	–15.4	–2.6	2.7	–1.1	43.6	4.9	3.5	2.3	–1.1	–2.2	1.4
Venezuela	18.6	–58.8	–66.7	285.7	18.5	9.4	5.7	2.7	–2.6	–5.4	1.8
Total	–20.6	–4.5	–10.8	8.7	13.2	4.8	3.1	1.5	–1.5	–2.6	1.0

Sources: International Federation of the Phonographic Industry, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- A factor contributing to the jump in unit sales in 2005 was the decline in average prices. Except for Venezuela, average prices declined in each country, with an overall drop of 9.4 percent for the region, most of which was the result of the 15.4 percent drop in Mexico.

- The experience in Mexico demonstrated that lower price points can drive sales and combat piracy. Although we do not anticipate such steep declines, we expect further price cuts that will average 1.8 percent compounded annually. The average price of a physical recording will drop from $5.87 in 2005 to $5.37 in 2010.

Physical Recorded Music Average Price† (US$)

Latin America	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Argentina	4.06	5.67	5.51	6.24	6.07	5.97	5.89	5.80	5.72	5.63
Brazil	5.43	5.63	6.22	6.14	5.78	5.65	5.54	5.44	5.34	5.24
Chile	8.44	7.52	7.71	8.30	8.13	8.01	7.92	7.83	7.74	7.65
Colombia	9.44	9.06	7.99	8.82	8.73	8.58	8.45	8.32	8.19	8.06
Mexico	8.59	7.37	6.02	6.61	5.59	5.50	5.41	5.32	5.23	5.14
Venezuela	3.41	4.24	5.98	5.26	5.33	5.45	5.57	5.69	5.80	5.92
Total	6.69	6.47	6.24	6.48	5.87	5.75	5.65	5.55	5.45	5.37

†At average 2005 exchange rates.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Physical Recorded Music Average Price Growth (%)

Latin America	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Argentina	–8.1	39.7	–2.8	13.2	–2.7	–1.6	–1.3	–1.5	–1.4	–1.6	–1.5
Brazil	4.0	3.7	10.5	–1.3	–5.9	–2.2	–1.9	–1.8	–1.8	–1.9	–1.9
Chile	–1.7	–10.9	2.5	7.7	–2.0	–1.5	–1.1	–1.1	–1.1	–1.2	–1.2
Colombia	36.0	–4.0	–11.8	10.4	–1.0	–1.7	–1.5	–1.5	–1.6	–1.6	–1.6
Mexico	0.2	–14.2	–18.3	9.8	–15.4	–1.6	–1.6	–1.7	–1.7	–1.7	–1.7
Venezuela	–27.8	24.3	41.0	–12.0	1.3	2.3	2.2	2.2	1.9	2.1	2.1
Total	3.9	–3.3	–3.6	3.8	–9.4	–2.0	–1.7	–1.8	–1.8	–1.5	–1.8

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Mexico moved ahead of Brazil in 2005 to become the leading market in the region in terms of physical distribution, at $453 million, compared with $376 million for Brazil. The two countries together constitute 79 percent of spending on physical music, with Argentina third, at $109 million.
- Spending in Mexico rose 21.4 percent in 2005 as the increase in unit sales more than offset the drop in average price. In Brazil, spending fell by 16.4 percent, reversing the gain achieved in 2004.
- For the region as a whole, we project spending on physical recordings to increase during the next two years and then to decrease beginning in 2008, with declines in excess of 3 percent expected during 2009–10. By 2010, physical spending will total $1 billion, down $39 million, or 0.8 percent compounded annually from 2005.

Physical Recorded Music Spending (US$ Millions)

Latin America	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Argentina	45	35	63	84	109	119	124	122	117	113
Brazil	435	467	386	450	376	384	388	386	374	356
Chile	48	55	45	41	37	35	33	31	29	28
Colombia	98	72	59	55	51	45	43	42	40	39
Mexico	490	409	343	373	453	468	476	479	465	447
Venezuela	17	9	4	14	17	19	21	22	21	21
Total	1,133	1,047	900	1,017	1,043	1,070	1,085	1,082	1,046	1,004

†At average 2005 exchange rates.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Physical Recorded Music Spending Growth (%)

Latin America	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Argentina	–36.6	–22.2	80.0	33.3	29.8	9.2	4.2	–1.6	–4.1	–3.4	0.7
Brazil	–20.2	7.4	–17.3	16.6	–16.4	2.1	1.0	–0.5	–3.1	–4.8	–1.1
Chile	–23.8	14.6	–18.2	–8.9	–9.8	–5.4	–5.7	–6.1	–6.5	–3.4	–5.4
Colombia	1.0	–26.5	–18.1	–6.8	–7.3	–11.8	–4.4	–2.3	–4.8	–2.5	–5.2
Mexico	–15.1	–16.5	–16.1	8.7	21.4	3.3	1.7	0.6	–2.9	–3.9	–0.3
Venezuela	–15.0	–47.1	–55.6	250.0	21.4	11.8	10.5	4.8	–4.5	0.0	4.3
Total	–17.5	–7.6	–14.0	13.0	2.6	2.6	1.4	–0.3	–3.3	–4.0	–0.8

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile music

- A rapidly expanding wireless subscriber base is fueling demand for mobile music. Piracy does not play a role in mobile music because content is available only through wireless carriers. Thus, while the physical market operates well below its potential because of piracy, mobile music has not been so restrained and is expanding. Mobile music generated $234 million in 2005, up 56.0 percent from 2004 and more than five times the level in 2003.

- Ring tones still make up the bulk of the market, but handsets that play and store ring tunes and full-length songs are entering the market and driving that segment.

- The potential market for mobile music lies in Latin America's 176 million wireless subscribers. The wireless universe doubled since 2002 and will expand by more than 109 million during the next five years, a 62 percent increase. Rising incomes and falling prices for wireless services are driving subscribership.

- The improved economic climate is also inducing carriers to invest in their infrastructure, as prospects for returns on investment improve. Foreign companies are also investing in the region.

- As the wireless infrastructure becomes upgraded, more subscribers will have access to enhanced services such as music. We expect that the percentage of wireless subscribers who download music will increase from 5 percent in 2005 to 10 percent in 2010. The mobile music subscriber universe will increase from 9 million in 2005 to 29 million in 2010, a 26.4 percent compound annual increase.

- The shift to higher-priced ring tunes will raise average spending, although increased competition will dampen price growth. We project average spending per subscriber will rise from $26 annually in 2005 to $29 in 2010.

- Total spending on mobile music will reach $841 million in 2010, a 29.2 percent compound annual increase from 2005.

Mobile Music Market

Latin America	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Mobile Subscribers (Millions)	85	104	146	176	203	224	246	267	285
Percent Downloading (%)	1	2	4	5	6	7	8	9	10
Mobile Music Subscribers (Millions)	1	2	6	9	12	16	20	24	29
Annual Spending per Subscriber† (US$)	16	21	25	26	27	28	28	28	29
Aggregate Mobile Music Spending† (US$ Millions)	16	42	150	234	324	448	560	672	841

†At average 2005 exchange rates.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile Music Market Growth (%)

Latin America	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Mobile Subscribers	22.4	40.4	20.5	15.3	10.3	9.8	8.5	6.7	10.1
Mobile Music Subscribers	100.0	200.0	50.0	33.3	33.3	25.0	20.0	20.8	26.4
Annual Spending per Subscriber	31.3	19.0	4.0	3.8	3.7	0.0	0.0	3.6	2.2
Aggregate Mobile Music Spending	162.5	257.1	56.0	38.5	38.3	25.0	20.0	25.1	29.2

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Licensed digital distribution

- Currently, there is no meaningful licensed digital distribution market in Latin America, principally because there are so few broadband subscribers.
- There were only 4 million broadband subscribers in 2005, but increased investment is expanding the broadband market. In 2005, broadband subscribership rose by two-thirds in Brazil and nearly doubled in Argentina and Chile. Carriers will be introducing broadband options throughout the region in the next year or two.
- We expect the broadband universe in Latin America to increase to 15 million by 2010. Although still small, the emerging broadband market is attracting licensed digital distribution services. In Argentina, for example, the first such service entered the market in 2005.
- We expect that once such services are available, they will be utilized as they have been in other regions. We project that by 2010, 15 percent of broadband subscribers, or 2.3 million, will download music, spending $54 million in the process.
- That spending, totaling a combined $79 million during 2009–10, will begin to cut into physical sales during those years.

Licensed Digital Distribution Market

Latin America	2006	2007	2008	2009	2010
Broadband Subscribers (Millions)	6	8	10	12	15
Percent Downloading (%)	2	4	6	10	15
Number of Downloaders (Millions)	0.1	0.3	0.6	1.2	2.3
Aggregate Spending† (US$ Millions)	1	5	11	25	54

†At average 2005 exchange rates.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Licensed Digital Distribution Market Growth (%)

Latin America	2007	2008	2009	2010	2006–10 CAGR
Broadband Subscribers	33.3	25.0	20.0	25.0	—
Number of Downloaders	200.0	100.0	100.0	91.7	—
Aggregate Spending	400.0	120.0	127.3	116.0	—

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Canada

The outlook in brief

- Full-track downloads and a growing wireless subscriber base will drive the mobile music market.
- New services and an expanding broadband market will boost licensed digital distribution services.
- The physical market will decline as spending shifts to digital and mobile channels.

Overview

- We project recorded music spending to increase at a 6.2 percent compound annual rate from $835 million in 2005 to $1.1 billion in 2010.
- Physical album sales will fall from $665 million in 2005 to $557 million in 2010, a 3.5 percent compound annual decline.
- Music videos will grow at a 2.5 percent compound annual rate to $86 million in 2010—while the physical singles market has essentially disappeared—and spending will drop to $1 million annually during the next five years.
- Physical distribution as a whole will fall to $644 million in 2010 from $743 million in 2005, a 2.8 percent compound annual decline.
- Digital distribution will total $253 million in 2010 from $39 million in 2005, a 45.3 percent compound annual increase.
- Sales of mobile music will rise by 34.1 percent compounded annually to $230 million in 2010 from $53 million in 2005.

Recorded Music Market (US$ Millions)

Canada	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Albums	837	766	711	667	665	646	623	601	579	557
Singles	4	3	4	2	2	1	1	1	1	1
Music Videos	37	35	65	75	76	78	80	83	84	86
Physical Music Total	878	804	780	744	743	725	704	685	664	644
Digital Distribution	—	—	—	9	39	61	91	135	196	253
Mobile Music		1	4	17	53	82	116	147	186	230
Total	878	805	784	770	835	868	911	967	1,046	1,127

†At average 2005 exchange rates.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Recorded Music Market Growth (%)

Canada	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Albums	–7.9	–8.5	–7.2	–6.2	–0.3	–2.9	–3.6	–3.5	–3.7	–3.8	–3.5
Singles	0.0	–25.0	33.3	–50.0	0.0	–50.0	0.0	0.0	0.0	0.0	–12.9
Music Videos	94.7	–5.4	85.7	15.4	1.3	2.6	2.6	3.8	1.2	2.4	2.5
Physical Music Total	–5.8	–8.4	–3.0	–4.6	–0.1	–2.4	–2.9	–2.7	–3.1	–3.0	–2.8
Digital Distribution	—	—	—	—	333.3	56.4	49.2	48.4	45.2	29.1	45.3
Mobile Music	—	—	300.0	325.0	211.8	54.7	41.5	26.7	26.5	23.7	34.1
Total	–5.8	–8.3	–2.6	–1.8	8.4	4.0	5.0	6.1	8.2	7.7	6.2

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile music

- The mobile music market more than tripled in 2005 to $53 million, fueled by the introduction of ring tunes and full-track downloads.
- As services get rolled out—all wireless carriers now provide ring tones, with ring tunes either available or coming soon—interest in mobile music is growing. The percentage of wireless subscribers who download music jumped to 18 percent in 2005 from 7 percent in 2004. We expect that by 2010, a third of all wireless subscribers will download music.
- The wireless universe itself is also expanding. There were 17 million subscribers in 2005, up from 12 million in 2002, and the market is expected to increase to 28 million by 2010.
- The market for mobile music will nearly triple to 9.2 million subscribers in 2010 from 3.1 million in 2005.
- As mobile music evolves from ring tones to higher-priced ring tunes and full-song downloads, average spending per subscriber will increase. In 2005, the average mobile music subscriber spent $17 annually on downloads. We expect that figure to rise to $25 by 2010.
- Spending on mobile music will increase to $230 million in 2010, growing at a 34.1 percent compound annual rate from 2005.

Mobile Music Market

Canada	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Mobile Subscribers (Millions)	12.0	13.3	15.0	17.0	19.5	21.9	24.0	26.0	28.0
Percent Downloading (%)	1	2	7	18	22	25	28	31	33
Mobile Music Subscribers (Millions)	0.1	0.3	1.1	3.1	4.3	5.5	6.7	8.1	9.2
Annual Spending per Subscriber (US$)	8	12	15	17	19	21	22	23	25
Aggregate Mobile Music Spending (US$ Millions)	1	4	17	53	82	116	147	186	230

†At average 2005 exchange rates.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Mobile Music Market Growth (%)

Canada	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Mobile Subscribers	10.8	12.8	13.3	14.7	12.3	9.6	8.3	7.7	10.5
Percent Downloading	100.0	250.0	157.1	22.2	13.6	12.0	10.7	6.5	12.9
Mobile Music Subscribers	200.0	266.7	181.8	38.7	27.9	21.8	20.9	13.6	24.3
Annual Spending per Subscriber	50.0	25.0	13.3	11.8	10.5	4.8	4.5	8.7	8.0
Aggregate Mobile Music Spending	300.0	325.0	211.8	54.7	41.5	26.7	26.5	23.7	34.1

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Licensed digital distribution

- The digital distribution market in Canada more than quadrupled in 2005 to $39 million from $9 million in 2004. As was the case wherever it has been introduced, the launch of iTunes Music Store in late 2004 jump-started the market in Canada, which was already being served by Puretracks, Napster, Bonfire (Best Buy), Archambault, and other providers.

- The number of downloads rose from 8 million to 33 million in 2005, 200,000 albums were downloaded—twice the 2004 total—and a subscription market began to develop with 10,000 subscribers.

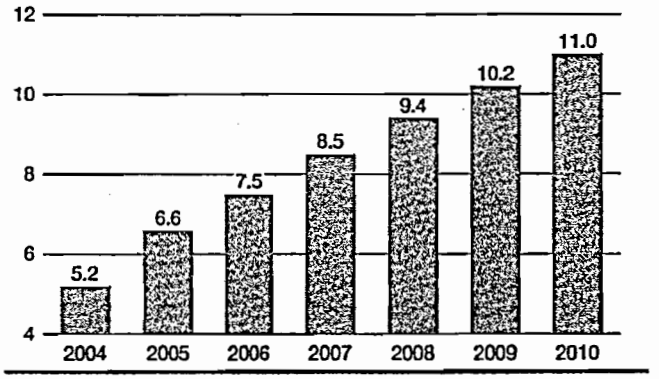
- Digital downloading has been popular in Canada for years, but until 2004 it was confined to unauthorized services. Now that legal services are available, the market is expanding.

- To compensate copyright holders for unauthorized downloading, manufacturers and importers are required to pay a fee on each unit of blank media, with the proceeds distributed to copyright holders by the Canadian Private Copying Collective.

- Expansion of the broadband household base will also fuel growth as broadband subscribers can more easily and quickly download music than can dial-up subscribers.

- The number of broadband subscribers will increase from 6.6 million in 2005 to 11.0 million in 2010, a 67 percent increase that will contribute to the demand for digital downloads.

Broadband Subscribers in Canada (Millions)



Sources: PricewaterhouseCoopers LLP, Statistics Canada, Wilkofsky Gruen Associates

- We project the number of downloaded tracks to increase to 125 million by 2010, with 3 million album downloads and 300,000 online music subscriptions. Consumers will spend $170 million on single tracks, $33 million on album downloads, and $50 million on subscriptions.

- Digital distribution will total an estimated $253 million in 2010, up 45.3 percent compounded annually from $39 million in 2005.

Licensed Digital Distribution

Category	2004	2005p	2006	2007	2008	2009	2010
Singles							
Downloads (Millions)	8	33	50	70	90	110	125
Average Price† (US$)	1.06	1.06	1.06	1.11	1.20	1.28	1.36
Spending† (US$ Millions)	8	35	53	78	108	141	170
Albums							
Downloads (Millions)	0.1	0.2	0.3	0.5	1	2	3
Average Price† (US$)	10.71	10.71	10.71	10.81	10.89	10.98	11.06
Spending† (US$ Millions)	1	2	3	5	11	22	33
Subscriptions							
Subscribers (Millions)	—	0.010	0.030	0.050	0.100	0.200	0.300
Monthly Fee† (US$)	—	12.79	13	13.2	13.41	13.62	13.82
Annual Spending† (US$ Millions)	—	2	5	8	16	33	50
Total Digital Spending† (US$ Millions)	9	39	61	91	135	196	253

†At average 2005 exchange rates.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Licensed Digital Distribution Market Growth (%)

Category	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Singles							
Downloads	312.5	51.5	40.0	28.6	22.2	13.6	30.5
Average Price	0.0	0.0	4.7	8.1	6.7	6.3	5.1
Spending	337.5	51.4	47.2	38.5	30.6	20.6	37.2
Albums							
Downloads	100.0	50.0	66.7	100.0	100.0	50.0	71.9
Average Price	0.0	0.0	0.9	0.7	0.8	0.7	0.6
Spending	100.0	50.0	66.7	120.0	100.0	50.0	75.2
Subscriptions							
Subscribers	—	200.0	66.7	100.0	100.0	50.0	97.4
Monthly Fee	—	1.6	1.5	1.6	1.6	1.5	1.6
Annual Spending	—	150.0	60.0	100.0	106.3	51.5	90.4
Total Digital Spending	333.3	56.4	49.2	48.4	45.2	29.1	45.3

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Physical distribution

- Even though unauthorized downloading has been a serious problem in Canada, physical recorded music has held up better than in most other countries. Music videos have generally been strong, and album sales reversed a downward slide in 2004, remaining reasonably steady in 2005. The singles market actually expanded during 2002–03, although it has since declined as licensed digital downloads became available.
- In June 2005, legislation was introduced that makes it illegal to put copyrighted material into file-sharing archives. If the new legislation slows growth in uploading unauthorized material, unauthorized downloading likely will slow as well.
- In countries in which antipiracy enforcement has been pursued aggressively, there have been signs that the incidence of piracy either grew more slowly or declined in 2005. We expect a similar result in Canada.

- While piracy will be an incrementally lesser threat to physical distribution, licensed digital distribution will be a greater threat. We expect album unit sales to fall at a faster rate during the next five years compared with 2004–05. Album unit sales will drop from 55 million to 50 million, a 1.9 percent compound annual decrease.
- Music videos, by contrast, are less subject to competition, and we expect that, following a pause in 2005, unit sales will increase to 6.4 million in 2010, a 2.7 percent gain compounded annually.
- Overall unit sales, which fell by 1.0 percent in 2005, will decrease at a 1.5 percent annual rate to 56.5 million in 2010.

Physical Recorded Music Unit Sales (Millions)

Canada	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Albums	61.5	57.6	53.5	55.2	55.0	54.0	53.0	52.0	51.0	50.0
Singles	0.5	0.7	0.9	0.5	0.3	0.2	0.1	0.1	0.1	0.1
Music Videos	2.5	2.8	4.8	5.8	5.6	5.6	5.8	6.0	6.2	6.4
Total	64.5	61.1	59.2	61.5	60.9	59.8	58.9	58.1	57.3	56.5

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Physical Recorded Music Unit Sales Growth (%)

Canada	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Albums	–7.8	–6.3	–7.1	3.2	–0.4	–1.8	–1.9	–1.9	–1.9	–2.0	–1.9
Singles	0.0	40.0	28.6	–44.4	–40.0	–33.3	–50.0	0.0	0.0	0.0	–19.7
Music Videos	56.3	12.0	71.4	20.8	–3.4	0.0	3.6	3.4	3.3	3.2	2.7
Total	–6.3	–5.3	–3.1	3.9	–1.0	–1.8	–1.5	–1.4	–1.4	–1.4	–1.5

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

- Average prices for recorded music overall have followed an up-and-down pattern during the past five years, rising in 2001, 2003, and 2005 but declining in 2002 and 2004. We expect that prices will follow a steadily downward path during the next five years as distributors and retailers look to make physical product more appealing and as alternative distribution channels gain momentum.
- We project average prices to decline at a 1.4 percent compound annual rate to $11.39 in 2010 from $12.20 in 2005. Spending on physical recorded music will decline by 2.8 percent compounded annually to $644 million.

Physical Recorded Music Average Price† (US$)

Canada	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010
Albums	13.61	13.30	13.30	12.08	12.09	11.97	11.76	11.55	11.35	11.14
Singles	7.59	4.30	4.95	4.95	5.50	5.36	5.36	5.36	5.36	5.36
Music Videos	14.85	12.68	13.58	12.95	13.56	14.03	13.86	13.70	13.53	13.37
Total	13.61	13.16	13.19	12.10	12.20	12.13	11.95	11.78	11.58	11.39

†At average 2005 exchange rates.
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Physical Recorded Music Average Price Growth (%)

Canada	2001	2002	2003	2004	2005p	2006	2007	2008	2009	2010	2006–10 CAGR
Albums	–0.1	–2.3	0.0	–9.2	0.1	–1.0	–1.8	–1.8	–1.7	–1.9	–1.6
Singles	4.5	–43.3	15.1	0.0	11.1	–2.5	0.0	0.0	0.0	0.0	–0.5
Music Videos	22.5	–14.6	7.1	–4.6	4.7	3.5	–1.2	–1.2	–1.2	–1.2	–0.3
Total	0.4	–3.3	0.2	–8.3	0.8	–0.6	–1.5	–1.4	–1.7	–1.6	–1.4

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

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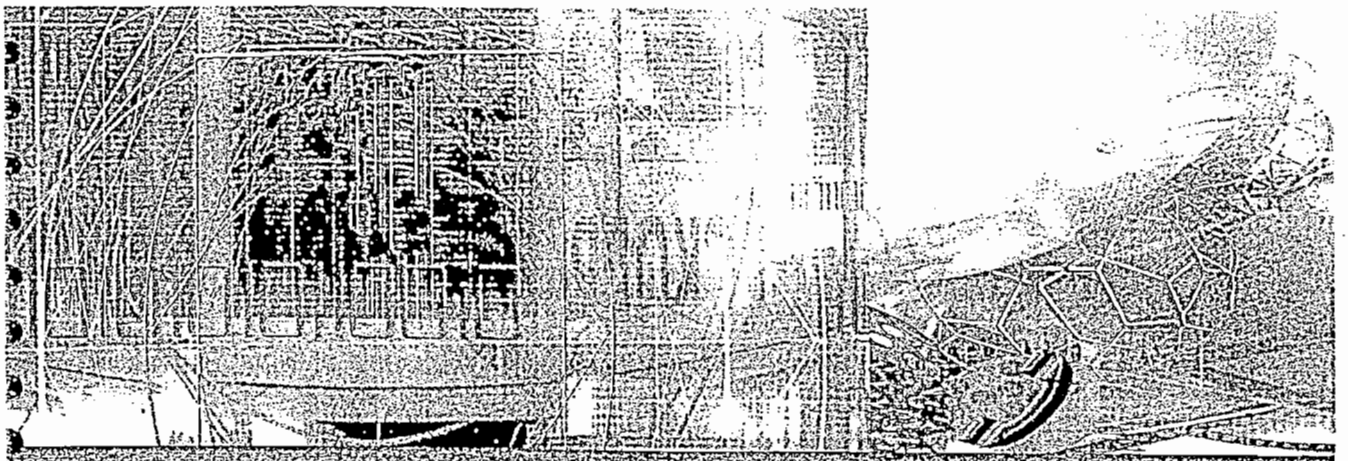

Digital Home Entertainment:

Future Consumer Spending Habits

by Adam Thomas
& Simon Dyson

MANAGEMENT REPORT

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Future Consumer Spending Habits

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Contents

CHAPTER 1

EXECUTIVE SUMMARY 1

Global average annual household sector spend ($) 2

Global average annual household sector spend share 2

Sector analysis 3

Global home entertainment sales ($ million) .. 4

Share of total revenues by sector in 2000 and 2010 (%) 4

CHAPTER 2

ANALYSIS AND FORECASTS 7

Overview 7

Sector definitions 8

Sector forecasts and analysis 9

U.S. music consumption by age group (%) ... 10

P2P traffic distribution by format (August 2005) 11

Global: Entertainment spending 11

Global: Average annual household sector spend ($) 12

Share of global average annual household sector spend by category (%) 13

North America: Entertainment spending 13

North America: Average annual household sector spend ($) 14

North America: Share of total average annual household sector spend by category (%) 14

Europe: Entertainment spending 15

Europe: Average annual household sector spend ($) 16

Europe: Share of total average annual household sector spend by category (%) 16

Asia Pacific: Entertainment spending 17

Asia Pacific: Average annual household sector spend ($) 18

Asia Pacific: Share of total average annual household sector spend by category (%) 18

Latin America: Entertainment spending 19

Latin America: Average annual household sector spend ($) 19

Latin America: Share of total average annual household sector spend by category (%) 20

Rest of the World: Entertainment spending .. 20

Rest of the World: Average annual household sector spend ($) 21

Rest of the World: Share of total average annual household sector spend by category (%) 21

Forecasts 22

U.S.: entertainment spending 22

Canada: entertainment spending 23

UK: entertainment spending 24

Germany: entertainment spending 25

France: entertainment spending 26

Spain: entertainment spending 27

Italy: entertainment spending 28

Japan: entertainment spending 29

Australia: entertainment spending 30

China: entertainment spending 31

Brazil: entertainment spending 32

Mexico: entertainment spending 33

Europe: entertainment spending 34

North America: entertainment spending 35

Asia Pacific: entertainment spending 36

Latin America: entertainment spending 37

Rest of the World: entertainment spending ... 38

Global: entertainment spending 39

CHAPTER 3

TELEVISION 41

Platform offerings 44

Typical high-speed applications and bandwidth requirements 45

On-demand variations 46

True video-on-demand (VOD) 46

Near video-on-demand (NVOD) 47

Pay-per-view (PPV) 47

Internet-on-demand 47

Push and pull 48

On-demand activity 48

Sector analysis 50

Global pay TV details 50

Share of total revenues by region in 2005 and 2010 (%) 51

North America pay TV details 51

Europe pay TV details 52

Asia Pacific: TV sales ($ million) 52

Latin America: TV sales ($ million) 52

Rest of the World: TV sales ($ million) 53

TV revenues ($ million) 54

CHAPTER 4

GAMES 61

Consoles 61

Next-generation launch dates 62

Handheld 66
Mobile 67
Broadband 69
Interactive TV 70
Sector analysis 71
Global games sales ($ million) 72
Global games sales by category ($ million) ... 72
Global games sales by category in 2005 and 2010 (%) 72
Asia Pacific games sales ($ million) 73
Asia Pacific games sales by category ($ million) 73
Asia Pacific games sales by category in 2005 and 2010 (%) 73
North America games sales ($ million) 74
North America games sales by category in 2005 and 2010 (%) 74
Europe games sales ($ million) 74
Europe games sales by category in 2005 and 2010 (%) 75
Latin America games sales ($ million) 75
Latin America games sales by category in 2005 and 2010 (%) 75
Rest of the World games sales ($ million) 76
Rest of the World games sales by category in 2005 and 2010 (%) 76
Games revenues ($ million) 77

CHAPTER 5
RECORDED MUSIC 83
Overview 83
Digital formats 84
CD growth compared with digital (%) 84
Digital audio formats 85
Driving digital sales 86
Quarterly iPod shipment growth (000) 86
Online competition 87
Mobile music 91
Sector analysis 94
Global recorded music sales ($ million) 95
Global recorded music sales by category ($ million) 95
Global recorded music sales by category in 2005 and 2010 (%) 95
North America recorded music sales ($ million) 96
North America recorded music sales by category ($ million) 96
North America recorded music sales by category in 2005 and 2010 (%) 97
Asia Pacific recorded music sales ($ million) . . 97
Asia Pacific recorded music sales by category ($ million) 98
Asia Pacific recorded music sales by category in 2005 and 2010 (%) 98
Europe recorded music sales ($ million) 99
Europe recorded music sales by category ($ million) 99
Europe recorded music sales by category in 2005 and 2010 (%) 99
Latin America recorded music sales ($ million) 100
Latin America recorded music sales by category ($ million) 100
Latin America recorded music sales by category in 2005 and 2010 (%) 101
Rest of the World recorded music sales ($ million) 101
Rest of the World recorded music sales by category ($ million) 101
Rest of the World recorded music sales by category in 2005 and 2010 (%) 102
Recorded music revenues ($ million) 103

CHAPTER 6
FILM 113
Hard format movie sales 113
Pirate film availability on the internet in France (%) 114
The online film market 115
Top 20 countries by broadband subscribers in 2005, 2008 and 2010 117
Sector analysis 118
Global film sales ($ million) 119
Global film sales by category ($ million) ... 119
North America film sales ($ million) 119
North America film sales by category ($ million) 120
Europe film sales ($ million) 120
Europe film sales by category ($ million) ... 120
Asia Pacific film sales ($ million) 121
Asia Pacific film sales by category ($ million) 121
Latin America film sales ($ million) 121
Latin America film sales by category ($ million) 122
Rest of the World film sales ($ million) 122
Rest of the World film sales by category ($ million) 123
Film revenues 124

Chapter 1

Executive Summary

The home entertainment sector has increased in value and complexity significantly over the past twenty years. Advances in both the digital storage and delivery of content have provided a wealth of new opportunities and outlets for content owners to exploit.

Added to this has been the creation of new entertainment sub-categories as well as whole new home entertainment sectors. This has resulted in much greater competition for the limited household income that is devoted to entertainment.

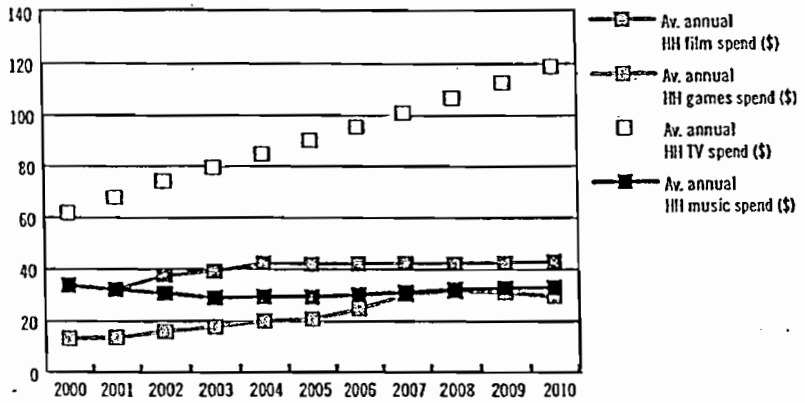
As well as competition amongst each of the sectors covered in this report, the battle for home entertainment spending is also affected by the ever-increasing range of external leisure activities that have evolved through a general rise in the standard of living in the developed world. Moreover, social changes, such as the ageing population, changing household structures as well as shifting patterns of free time have also had an impact.

Informa Telecoms & Media has found that the global average annual household expenditure on recreation and culture stood at $1,621 in 2000. Included under the heading of recreation and culture are spending categories that range from audio-visual, photographic and information processing equipment to gardens, plants and flowers and recreational and sporting services. This figure is forecast to rise to $2,279 by 2010, equivalent to an average annual increase of 3.5%.

Within this all-encompassing value figure, the combined home entertainment spending on TV, film, games and music is also set to rise, but at a higher annual rate in the same 10-year period, at 4.7%. By 2010, the share of spending per household on recreation and culture devoted to TV, film, games and music will stand at 9.9%. This compares with 8.8% in 2000 and 9.4% in 2005.

Although the share of recreation spending devoted to the four home entertainment categories is forecast to rise, the balance between the categories and the average annual revenues devoted to each category are set to change significantly during the 10-year period detailed in this report.

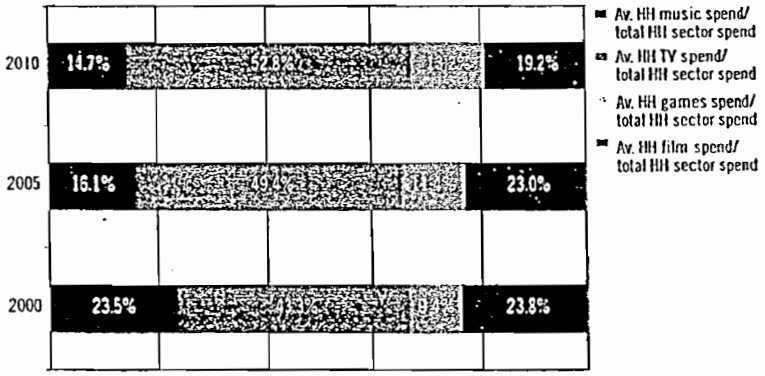
Global average annual household sector spend ($)



Source: Informa Telecoms & Media

At the beginning of the decade, TV accounted for 43.3% of the average annual household spend devoted to the four home entertainment sectors. Games and film took an almost equal share at just below 24% with games accounting for the remainder. By 2010, TV's share of the total is forecast to have risen to 52.8%, largely at the expense of music and film, while games will account for an increased 13.2% share.

Global average annual household sector spend share



Source: Informa Telecoms & Media

Sector analysis

Of the four home entertainment sectors detailed in this report, the television sector is by far the largest. The growth in the number of platforms offering a variety of TV services has been driven by the transition to digital at the expense of analogue broadcasting. Informa Telecoms & Media has included revenues from basic and premium subscription TV services as well as pay-per-view and on-demand.

The shift to digital is well under way in many developed territories. Nearly all DTH broadcasters in North America and Europe are digital-only and the race is on in the competing cable sector to convert their networks to make the most of their capacity advantages.

The first decade of the 21st century will see an increase of 76.1% in the number of pay TV subscribers. This compares with a rise in the number of TV households in the same period of just 11.7%. The rise in the popularity of pay TV will result in subscription revenues more than doubling. Moreover, the marked rise of PPV will help push TV revenues from pay TV, PPV and on-demand to $173.2 billion in 2010.

The film sector consists of two categories, hard format and internet. Hard fotmat comprises DVD and VHS and is further subdivided into sales and rental revenues. For internet, Informa has grouped revenues generated from downloads, streaming and subscriptions.

The rapid transition from analogue VHS to DVD resulted in one-quarter of the world's TV households owning a DVD player by end-2005. This compares with just 3% penetration in 2002. DVD player penetration is forecast to reach 46% by 2010. However, many of the most developed markets already enjoy DVD player penetration at greater than 50% of homes.

Following a slight dip in 2001, total revenues from the film sector increased each year up to and including 2005. Informa forecasts this trend will continue for the years to 2010.

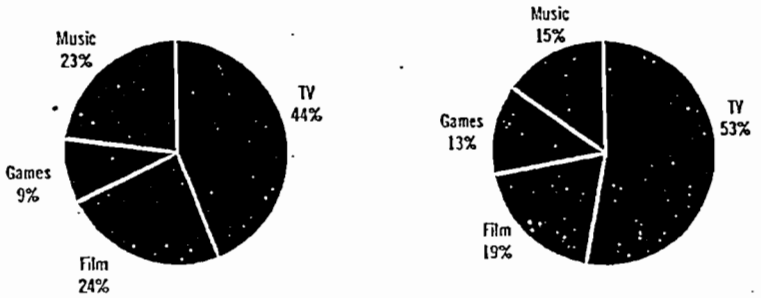
The fall in revenues from VHS sales and rental will be compensated for by the steady rise in DVD sales. As with the way the CD provided a significantly improved user experience compared with the cassette and vinyl formats, the DVD-Video provides a similarly-enhanced experience compared with VHS. However, the sharp increases in the first half of the decade will be more measured in the second half.

Global home entertainment sales ($ million)

Sector	2000	2002	2004	2006	2008	2010
TV	77,109.8	95,145.7	111,641.7	130,085.6	150,334.3	173,158.7
Film	42,290.8	48,274.7	55,884.3	57,286.3	59,595.8	62,898.7
Music	41,783.3	39,403.1	38,843.6	41,152.1	45,419.4	48,195.3
Games	16,711.3	20,774.1	26,596.9	33,784.2	44,626.5	43,389.1
Total	177,895.2	203,597.6	232,966.5	262,308.2	299,976.0	327,641.8

Source: Informa Telecoms & Media

Share of total revenues by sector in 2000 and 2010 (%)



Source: Informa Telecoms & Media

Expenditure on games is derived from the console, PC, handheld, mobile, online/broadband and interactive TV games sectors. To aid comparison between the other sectors, Informa has excluded any revenues from hardware sales in the games category.

Reminiscent of the music industry in the early 1990s, the value of the games industry in 2000-2005 has gone from strength to strength. However, the picture within each of the sectors differs considerably.

In 2005, console software accounted for slightly less than half of the year's total games revenues. Although this share will have fallen below 40% in 2010, the release of the next generation of consoles from November 2005 will result in a 55% share of games expenditure in 2007.

PC games revenues are forecast to decline, given the generally superior attributes of the various consoles. To some extent, the broadband games sector will gain at the expense of the PC market as console games will have online functions and as broadband penetration rises.

Mobile games is the fastest growing 'new' sector, ahead of broadband and interactive TV. Extraordinary growth in mobile games in Asia, especially in Japan and South Korea, is starting to translate to the European market.

Recorded music comprises audio hard formats (both albums and singles), music video hard formats, music video downloads, internet digital sales (a-la-carte downloads and subscriptions) and mobile music sales (full track downloads, ringtones, ring-back tones and mobile streaming services).

Of all the entertainment sectors covered in this report, the music industry is arguably the most volatile. Since the late 1990s, music retailers of all kinds have been forced to battle against a wealth of freely available content via the Peer-to-Peer (P2P) networks. The timing of the rise of P2P could not have been worse, as the shift from analogue soundcarriers such as the audiocassette and vinyl LP was almost complete in most developed territories.

The introduction of the first pre-recorded audiocassette in 1965 gave the consumer portability and robustness, not previously offered by the vinyl LP. The introduction of the CD almost 20 years later added sound quality and playability. It also restarted revenue growth for the music industry, which had stagnated at $12 billion for the first half of the 1980s, with many consumers 'upgrading' their analogue formats for digital. While that produced average year-on-year growth of 11.7% between 1985 and 1995, the completion of this transition meant the music industry needed to find new ways to keep revenues rising.

Although much more complex than previous format advances, the evolution of music delivery via the internet and via the mobile phone handset is expected to return global music sales to growth. The decline in overall hard format sales of soundcarriers is not forecast to reverse but will be more than compensated by the rise of internet and more importantly, mobile sales, driven largely by ringtones.

Chapter 2

Analysis and Forecasts

Overview

The home entertainment sector has increased in value and complexity significantly over the last twenty years. Advances in both the digital storage and delivery of content has provided a wealth of opportunity for content owners to exploit and re-package their wares, in addition to the creation of whole new areas of home entertainment.

While this has provided much greater choice for the consumer, home entertainment has been forced to compete with an ever-increasing range of leisure activities that have evolved through the rise in the standard of living in the developed world.

Social changes have also increased the pressure on home entertainment. While an ageing population could have a positive effect on certain sectors such as pay TV, changing household structures have meant more people live alone and have greater interest in out of home activities. Shifting patterns of free time are also having an impact.

Attitudes to entertainment differ between countries and cultures. According to a study by the University of California, the average American spends nine times as many minutes viewing TV or movies as they do on all leisure-based physical activities combined. For U.S. citizens, leisure-time physical activities were found to be "at the bottom of our priority list".

The study found that, with the exception of sleeping, the largest collective contribution to energy consumption was driving a car, then working at an office, followed by watching TV. Although the University of California said that a reduction in the time spent watching TV could free up time to do other activities, it did note that Americans work much longer hours than many other developed countries.

In the developed countries of the European Union, around half of all household consumption is spent on the three categories of housing (which includes direct housing expenditure plus water, electricity, gas and other fuels), transport and food and non-alcoholic beverages. However, spending patterns differ within the category of recreation and culture. For example, the UK and Spain have higher than average consumption levels on restaurants and hotels. This contrasts with Germany, Sweden and Belgium which have one of the lowest restaurant and hotels consumption levels.

The location of households either in city or rural locations can impact on overall household consumption levels. For example, surveys of household expenditure in Australia often find significant differences between state capitals and more rural areas of each state. Australian household spending, like several other Asia Pacific countries, is also affected by climate –

warmer regions encourage greater out of home activities. Economic problems, such as the recession in Japan, can also impact on the different categories of household consumption, as can high levels of audio-visual piracy.

To judge how successful or not the main players in home entertainment have been, Informa Telecoms & Media has analysed four main sectors – TV, film, games and music – between 2000 and 2010 and compared both the actual and forecast sector revenues against each other, as well as entertainment spending as a whole.

Sector definitions

The measure of how much each household spends on entertainment has been derived from various organisations including the World Bank, the OECD and the European Union, as well as national statistics organisations. The most common measure used by all of these organisations is Household Final Consumption Expenditure, which, according to the OECD, consists of:

> *"the expenditure, including imputed expenditure, incurred by resident households on individual consumption goods and services, including those sold at prices that are not economically significant."*

Within this measure is a list of categories broken down by consumption purpose using the COICOP classification (classification of individual consumption by purpose.) The main ones are:

1. Food and non-alcoholic beverages
2. Alcoholic beverages, tobacco and narcotics
3. Clothing and footwear
4. Housing, water, electricity, gas and other fuels
5. Furnishings, household equipment and routine household maintenance
6. Health
7. Transport
8. Communication
9. Recreation and culture
10. Education
11. Restaurants and hotels
12. Miscellaneous goods and services

TV, recorded music, film and games form part of the recreation and culture category, which Informa Telecoms & Media refers to in this report as 'entertainment'. The number of categories and sub-categories within recreation and culture are extensive. The list below gives some idea as to the wide variety of goods and activities included.

1. Audio-visual, photographic and information processing equipment
2. Major durables for outdoor recreation
3. Games, toys and hobbies
4. Gardens, plants and flowers
5. Recreational and sporting services
6. Newspapers, books and stationery
7. Package holidays

Included in Informa's TV figures are revenues from basic and premium subscription services as well as pay-per-view and on-demand revenues. For recorded music, Informa includes audio hard formats (both albums and singles), music video hard formats, music video downloads, internet digital sales (a-la-carte downloads and subscriptions) and mobile music sales (full track downloads, ringtones, ring-back tones and mobile streaming services).

Spending on games is derived from the console, PC, handheld, mobile, online/broadband and interactive TV games sectors. To aid comparison continuity between the sectors, Informa has not included revenues from hardware sales in the games category. The household video sector consists of two categories divided between hard format and internet. Hard format comprises DVD and VHS and is further subdivided into sales and rental revenues. For internet, Informa has grouped together revenues generated from downloads, streaming and subscriptions.

Sector forecasts and analysis

The global average for annual household 'entertainment' spending stood at $1,621 in 2000. For the ten years up to and including 2010, the average annual increase in this expenditure is forecast at 3.5%, taking the total to $2,279, equivalent to overall growth of 41%. During this timeframe, the world's population is forecast to have increased by 760 million, or 12.5%. The number of households is expected to rise by 208 million, equivalent to a 10-year increase of 16.7%.

This report shows that the four household entertainment sectors have each developed along very different paths. Although around 90% of the total spending on recreation and culture is derived from categories other than TV, music, games and film, it is quite possible that the growth in revenues for one of the four will have been at the expense of the other three.

The most obvious category to suffer from a rise in competing entertainment spending is recorded music. Although the other three sectors are also competing against unauthorised file sharing via the internet, it is the music industry that has suffered the most from this practice.

With a limited amount of income to spend on entertainment, particularly amongst younger demographics, the availability of 'free' music via P2P networks has provided users with the opportunity to 'have their cake and eat it'. Rather than replace one home entertainment category with another, P2P users have been able to reduce spending on music while spending more on another category.

In the U.S., the largest music market, the shift in music consumption between age groups in the ten years to 2004 provides evidence of this trend with music buying in the categories of 15-19 years and 20-24 years down significantly.

U.S. music consumption by age group (%)

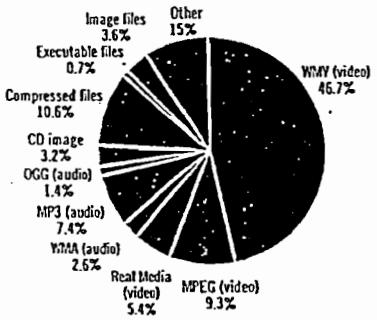
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
10-14 Years	8.0	7.9	8.9	9.1	8.5	8.9	8.5	8.9	8.6	9.4
15-19 Years	17.1	17.2	16.8	15.8	12.6	12.9	13.0	13.3	11.4	11.9
20-24 Years	15.3	15.0	13.8	12.2	12.6	12.5	12.2	11.5	10.0	9.2
25-29 Years	12.3	12.5	11.7	11.4	10.5	10.6	10.9	9.4	10.9	10.0
30-34 Years	12.1	11.4	11.0	11.4	10.1	9.8	10.3	10.8	10.1	10.4
35-39 Years	10.8	11.1	11.6	12.6	10.4	10.6	10.2	9.8	11.2	10.7
40-44 Years	7.5	9.1	8.8	8.3	9.3	9.6	10.3	9.9	10.0	10.9
45+	16.1	15.1	16.5	18.1	24.7	23.8	23.7	25.5	26.6	26.4

Source: RIAA

Worrying for the music industry is the fact that a new generation has been brought up on a near limitless diet of free and disposable music from file sharing networks. When these consumers age and increase spending power, they should become key music buying consumers. But unless the music industry can transition these consumers, whilst they are young, away from free consumption to paid music formats, be they digital or CDs, they may never develop music purchasing behaviour and the recording industry could suffer even greater harm long-term.

The content industries scored some successes in 2005 in forcing P2P networks to either close or become legitimate. However, the number of users remains high and the content being shared has spread to other industries. According to the P2P traffic monitor CacheLogic, video accounted for 61.4% of overall P2P traffic by volume on the four major P2P networks in August 2005, while audio accounted for 11.3%. Non-audio and non-video file formats accounted for the remaining 27.2%.

P2P traffic distribution by format (August 2005)



Source: CacheLogic

According to CacheLogic, Microsoft video formats represented 46% of aggregate worldwide P2P traffic. For audio, 65% of files by volume were still in the MP3 format. However, the open source OGG Vorbis format accounted for 12.3%. Almost all of these were traded via BitTorrent, particularly in Asia.

Global: Entertainment spending

Global	2000	2002	2004	2006	2008	2010
Households (000)	1,247,260	1,281,001	1,317,224	1,361,636	1,407,587	1,455,230
Av. annual HH entertainment spend ($)	1,621.0	1,740.0	1,875.1	2,003.7	2,131.6	2,278.9
Sector annual HH spend						
Av. annual HH music spend ($)	33.5	30.8	29.5	30.2	32.3	33.1
Av. annual HH TV spend ($)	61.8	74.3	84.8	95.5	106.8	119.0
Av. annual HH games spend ($)	13.4	16.2	20.2	24.8	31.7	29.8
Av. annual HH film spend ($)	33.9	37.7	42.4	42.1	42.3	43.2
Total av. annual HH sector spend ($)	142.6	158.9	176.9	192.6	213.1	225.1
Total sector spend ($ mil.)	177,895.3	203,597.6	232,966.6	262,308.2	299,976.0	327,641.9
Av. HH music spend/total HH sector spend (%)	23.5	19.4	16.7	15.7	15.1	14.7
Av. HH TV spend/total HH sector spend (%)	43.3	46.7	47.9	49.6	50.1	52.8
Av. HH games spend/total HH sector spend (%)	9.4	10.2	11.4	12.9	14.9	13.2
Av. HH film spend/total HH sector spend (%)	23.8	23.7	24.0	21.8	19.9	19.2
Av. HH music spend/Av. HH entertainment spend (%)	2.1	1.8	1.6	1.5	1.5	1.5
Av. HH TV spend/Av. HH entertainment spend (%)	3.8	4.3	4.5	4.8	5.0	5.2
Av. HH games spend/Av. HH entertainment spend (%)	0.8	0.9	1.1	1.2	1.5	1.3
Av. HH film spend/Av. HH entertainment spend (%)	2.1	2.2	2.3	2.1	2.0	1.9

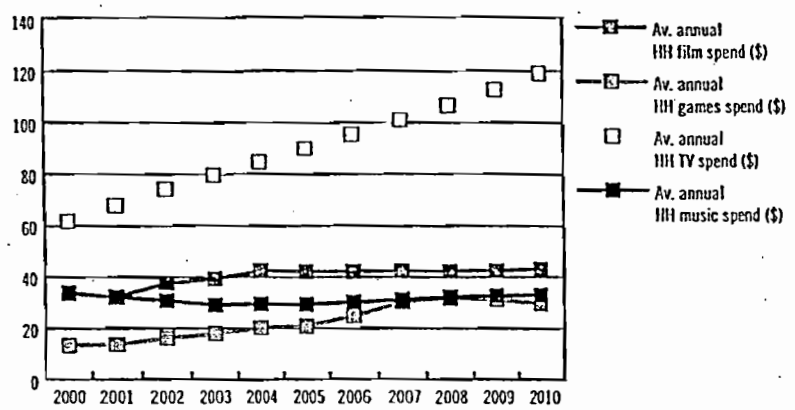
Note: Financial figures are constant 2004 exchange rates.

Source: Informa Telecoms & Media, OECD, World Bank, EU, country statistics offices, local industry associations

The global average annual spend on the four household entertainment sectors of TV, music, games and film in 2000 totalled $142.6 in 2000, equivalent to 8.8% of total entertainment spend in that year. Of the four, TV accounted for the greatest share (43.3%) with music and film each accounting for slightly less than 24% and games the remaining 9.4%. By 2010, average annual spending on the four entertainment sectors is forecast to have risen to $225.

Although each sector's actual spend in 2010 is higher than in 2000, the different rates of increase will significantly alter the balance between each sector.

Global: Average annual household sector spend ($)



Source: Informa Telecoms & Media

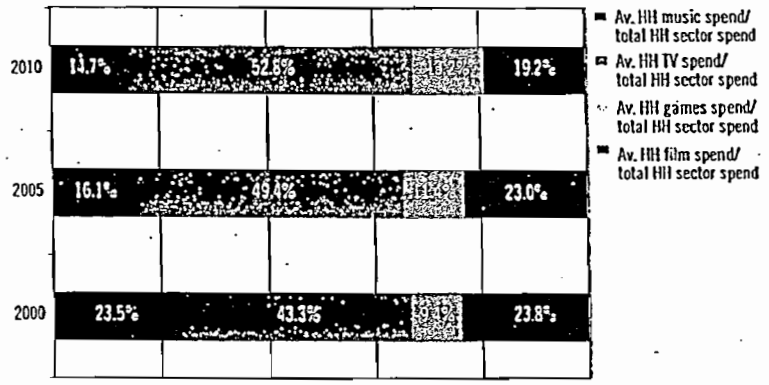
For TV, the annual increase in household average annual spending for the ten years up to and including 2010 is forecast at 6.8%. Early in the decade, growth exceeds this average, but slows in the middle of the decade in line with a slow down in the growth of pay TV subscriptions. The games sector has the highest average annual growth, at 8.7%, but also exhibits the greatest annual fluctuations. As console games account for a large share of revenues, the release of a new or upgraded machine, such as the Xbox 360 or PlayStation 3, results in a surge in sales. Conversely, the year prior to a console launch will typically result in a decrease in revenues, as the market awaits a new unit.

For film, the early part of the decade showed the sharpest growth, with the sector benefiting from the rapid transition from VHS to DVD. Overall, the average annual increase in the ten years up to and including 2010 is estimated at 2.6%.

In contrast to each of the other three sectors, recorded music is expected to record a small average annual decrease in this ten-year period. The first half of the decade was not good for music with a decrease in average household spending in five of the first six years. Although spending returned to growth in the latter part of the decade, the average household spend on music in 2010 is set to remain lower than in 2000.

TV generates the highest revenues, increasing its share of the four sectors combined to 52.8% in 2010, compared with 43.3% in 2000. Games is the only other sector forecast to experience an increase in share, rising to 13.2% in 2010 compared with 9.4% in 2000. Music is set to experience the largest percentage fall, down from 23.5% in 2000 to 14.7% in 2010. Film's decline is less pronounced, falling from 23.8% in 2000 to 19.2% in 2010.

Share of global average annual household sector spend by category (%)



Source: Informa Telecoms & Media

Of the five regions, North America has the highest average annual household entertainment spend. The figure stood at $7,415 in 2000. This is forecast to rise to $10,500 in 2010, equivalent to an average annual increase of 3.5%.

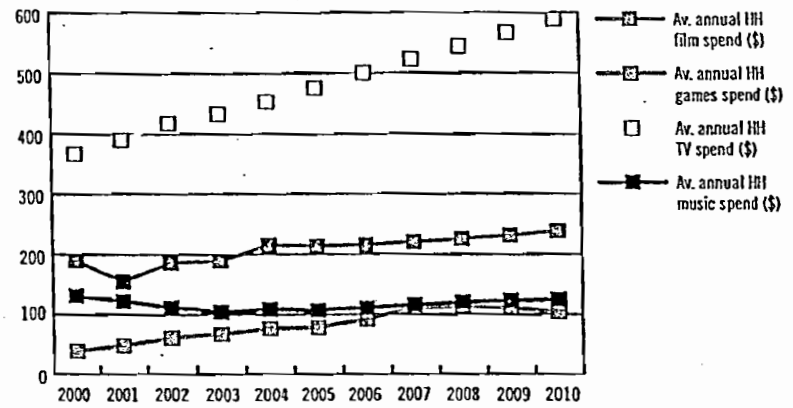
North America: Entertainment spending

	2000	2002	2004	2006	2008	2010
Households (000)	116,256	120,572	122,950	124,326	125,946	127,587
Av. annual HH entertainment spend ($)	7,414.5	7,814.3	8,568.5	9,180.4	9,818.0	10,499.9
Total entertainment spend ($ mil.)	861,982.6	942,185.3	1,053,497.9	1,141,354.6	1,236,534.7	1,339,648.4
Sector annual HH spend						
Av. annual HH music spend ($)	131.3	111.5	108.7	110.8	120.6	125.1
Av. annual HH TV spend ($)	367.0	418.0	452.8	500.5	544.4	588.7
Av. annual HH games spend ($)	39.4	61.4	76.9	92.3	114.0	103.8
Av. annual HH film spend ($)	189.6	186.3	215.8	216.2	226.0	238.8
Total av. annual HH sector spend ($)	727.4	777.2	854.1	919.8	1,005.0	1,056.4
Total sector spend ($ mil.)	84,560.1	93,714.0	105,010.8	114,359.1	126,578.2	134,777.3
Av. HH music spend/total HH sector spend (%)	18.1	14.3	12.7	12.0	12.0	11.8
Av. HH TV spend/total HH sector spend (%)	50.5	53.8	53.0	54.4	54.2	55.7
Av. HH games spend/total HH sector spend (%)	5.4	7.9	9.0	10.0	11.3	9.8
Av. HH film spend/total HH sector spend (%)	26.1	24.0	25.3	23.5	22.5	22.6
Av. HH music spend/Av. HH entertainment spend (%)	1.8	1.4	1.3	1.2	1.2	1.2
Av. HH TV spend/Av. HH entertainment spend (%)	4.9	5.3	5.3	5.5	5.5	5.6
Av. HH games spend/Av. HH entertainment spend (%)	0.5	0.8	0.9	1.0	1.2	1.0
Av. HH film spend/Av. HH entertainment spend (%)	2.6	2.4	2.5	2.4	2.3	2.3

Note: Financial figures are constant 2004 exchange rates.
Source: Informa Telecoms & Media, OECD, World Bank, EU, country statistics offices, local industry associations

Average annual spending on the four household entertainment sectors in North America stood at $727.4 in 2000, equivalent to 9.8% of that year's total entertainment spend. By 2010, this share is forecast to have increased a little, to 10.1%, when average annual spending on the four sectors will total $1,056.4.

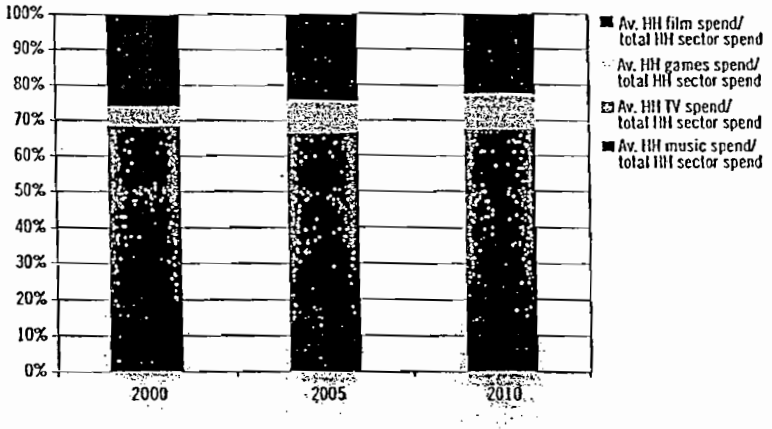
North America: Average annual household sector spend ($)



Source: Informa Telecoms & Media

At the beginning of the forecast period, TV was the dominant sector, accounting for just over half of the four sectors combined. By 2010, this share is forecast to have risen to 55.7%. The decline in the region's recorded music revenues will result in a decrease in share for this ten-year period, even though average annual household spending on the sector is forecast to return to steady growth from 2005 onwards.

North America: Share of total average annual household sector spend by category (%)



Source: Informa Telecoms & Media

The the number of European households is set to rise by 7.2 million between 2000 and 2010. At the beginning of the decade, average annual household spending on entertainment in Europe stood at $2,929. Informa Telecoms & Media estimates this will increase to $4,176 in 2010, equivalent to an average annual increase of 3.6%.

Europe: Entertainment spending

	2000	2002	2004	2006	2008	2010
Households (000)	201,991	206,171	208,400	208,759	209,016	209,272
Av. annual HH entertainment spend ($)	2,929.0	3,177.1	3,423.5	3,660.3	3,908.7	4,175.7
Total entertainment spend ($ mil.)	591,624.0	655,033.8	713,452.5	764,118.1	816,988.3	873,859.0
Sector annual HH spend						
Av. annual HH music spend ($)	74.7	73.1	66.5	66.0	68.7	71.2
Av. annual HH TV spend ($)	88.0	111.4	131.4	157.9	189.8	226.5
Av. annual HH games spend ($)	30.8	30.7	39.0	47.8	66.2	60.1
Av. annual HH film spend ($)	43.7	65.4	74.7	79.4	87.8	95.2
Total av. annual HH sector spend ($)	237.2	280.6	311.7	351.1	412.6	453.0
Total sector spend ($ mil.)	47,916.7	57,846.4	64,958.9	73,299.5	86,243.2	94,791.5
Av. HH music spend/total HH sector spend (%)	31.5	26.0	21.3	18.8	16.7	15.7
Av. HH TV spend/total HH sector spend (%)	37.1	39.7	42.2	45.0	46.0	50.0
Av. HH games spend/total HH sector spend (%)	13.0	10.9	12.5	13.6	16.1	13.3
Av. HH film spend/total HH sector spend (%)	18.4	23.3	24.0	22.6	21.3	21.0
Av. HH music spend/Av. HH entertainment spend (%)	2.5	2.3	1.9	1.8	1.8	1.7
Av. HH TV spend/Av. HH entertainment spend (%)	3.0	3.5	3.8	4.3	4.9	5.4
Av. HH games spend/Av. HH entertainment spend (%)	1.1	1.0	1.1	1.3	1.7	1.4
Av. HH film spend/Av. HH entertainment spend (%)	1.5	2.1	2.2	2.2	2.2	2.3

Note: Financial figures are constant 2004 exchange rates.

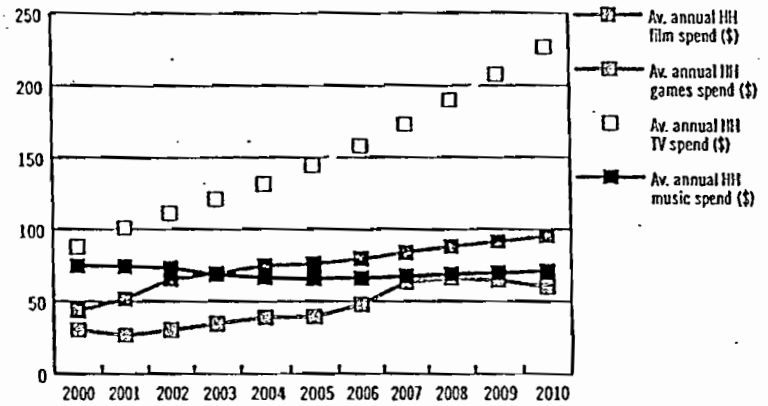
Source: Informa Telecoms & Media, OECD, World Bank, EU, country statistics offices, local industry associations

The average annual household spend on TV, music, games and film is forecast to rise from $237.2 in 2000 to $453 in 2010. Much of the increase is set to come from spending on pay TV. In the ten years up to and including 2010, pay TV spending is forecast to rise at an average annual rate of 9.9%. Subscription growth in Europe during the decade is forecast to be steady, with each yearly increase close to the average.

Average annual household spending on films and games in the region is also forecast to rise during this forecast period, by 8.3% and 7.7% respectively. For film, the initial revenue burst at the beginning of the decade, driven by the growth of the DVD format, will slow in the second part. However, growth will be fairly steady, benefiting from a rise in DVD hardware penetration in several Eastern Europe territories, most notably Russia. For games, revenue growth will be more erratic, due to the console upgrade cycle.

Music is the only sector to experience an average annual decrease in the 10 years to 2010. Although the sector is forecast to experience growth in revenues in each year from 2006 onwards, the growth will not compensate for the first half regression. Such was the decline during the first half of the decade, the average annual household spend on music in 2010 will be $3 lower than in 2000.

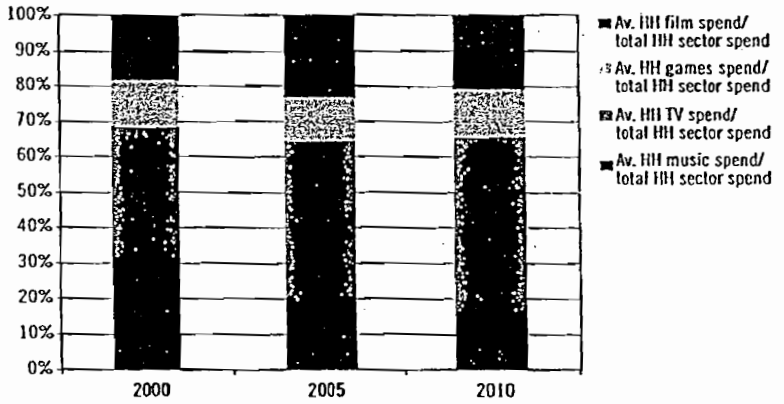
Europe: Average annual household sector spend ($)



Source: Informa Telecoms & Media

Of the four entertainment sectors, TV is set to account for the greatest share of revenues in 2010, rising to 50% compared with 37.1% in 2000. Music's share is forecast to halve during this forecast period while games is set to remain almost unchanged and film up slightly.

Europe: Share of total average annual household sector spend by category (%)



Source: Informa Telecoms & Media

In terms of population and households, Asia Pacific accounts for well over half of the global total. The region also contains the greatest extremes in terms of wealth and spending on entertainment. For example, total entertainment sending in Japan in 2005 is almost three times that of China, even though China has more than 10 times the population of Japan.

The average annual household spend on entertainment in Asia Pacific stood at just $732 in 2000. Boosted by a rise in entertainment spending in China, Informa Telecoms & Media forecasts this figure will increase to $1,047 in 2010, equivalent to an average annual increase of 3.7%.

Asia Pacific: Entertainment spending

	2000	2002	2004	2006	2008	2010
Households (000)	707,272	716,586	733,796	765,476	798,098	831,971
Av. annual HH entertainment spend ($)	731.7	780.5	819.7	896.9	962.2	1,046.8
Total entertainment spend ($ mil.)	517,525.9	559,270.2	601,486.6	686,576.9	767,937.2	870,940.1
Sector annual HH spend						
Av. annual HH music spend ($)	13.7	13.3	13.8	15.6	17.4	18.2
Av. annual HH TV spend ($)	14.8	21.3	28.5	33.3	38.4	43.9
Av. annual HH games spend ($)	7.4	8.3	10.2	13.6	17.5	18.3
Av. annual HH film spend ($)	14.9	15.9	17.4	16.6	14.6	13.7
Total av. annual HH sector spend ($)	50.8	58.8	69.9	79.0	87.8	94.1
Total sector spend ($ mil.)	35,924.8	42,108.5	51,272.7	60,510.3	70,112.3	78,265.8
Av. HH music spend/total HH sector spend (%)	26.9	22.6	19.8	19.7	19.8	19.3
Av. HH TV spend/total HH sector spend (%)	29.2	36.3	40.8	42.1	43.7	46.7
Av. HH games spend/total HH sector spend (%)	14.7	14.1	14.5	17.2	19.9	19.5
Av. HH film spend/total HH sector spend (%)	29.3	27.1	24.9	21.0	16.6	14.5
Av. HH music spend/Av. HH entertainment spend (%)	1.9	1.7	1.7	1.7	1.8	1.7
Av. HH TV spend/Av. HH entertainment spend (%)	2.0	2.7	3.5	3.7	4.0	4.2
Av. HH games spend/Av. HH entertainment spend (%)	1.0	1.1	1.2	1.5	1.8	1.8
Av. HH film spend/Av. HH entertainment spend (%)	2.0	2.0	2.1	1.9	1.5	1.3

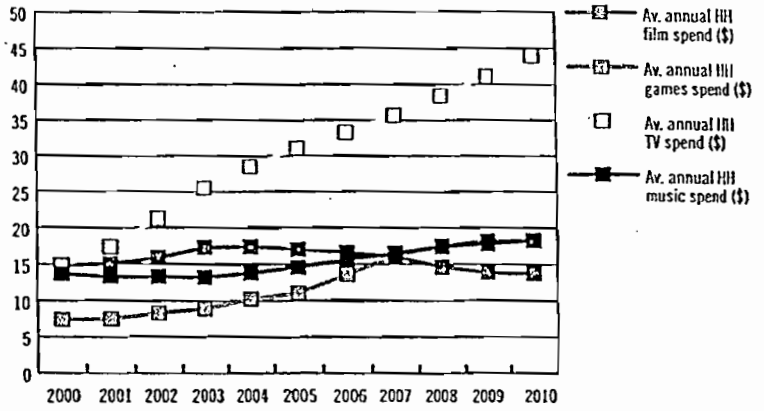
Note: Financial figures are constant 2004 exchange rates.

Source: Informa Telecoms & Media, OECD, World Bank, EU, country statistics offices, local industry associations

In 2000, the average household spending on the four sectors of TV, film, music and games was $50.8, equivalent to 6.9% of total household entertainment expenditure in that year. With the exception of games, spending on the other three sectors was similar in 2000. However, in the years up to and including 2010 the differing fortunes of each sector results in dissimilar growth. In the case of film, high levels of piracy and downward pressure on prices are forecast to result in 2010's average household spend being a little lower than in 2000.

The sharpest growth in average household spending is forecast to come from pay TV. Informa estimates the sector will record an average annual growth in the ten years to 2010 of 11.6%. Average annual household spending is forecast to rise to $43.9 in 2010 compared with $14.8 in 2000. The games sector is also forecast to record high growth, averaging 9.7% in the ten year period.

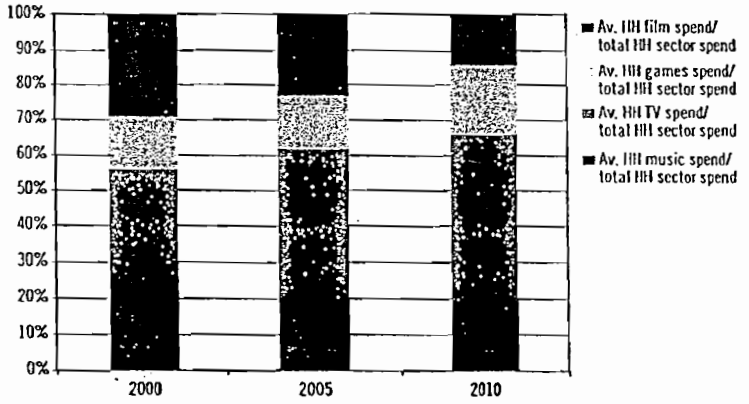
Asia Pacific: Average annual household sector spend ($)



Source: Informa Telecoms & Media

For music, the annual household spend in the 10 years up to and including 2010 is forecast to rise at a moderate annual average of 2.9%. Declines in the first part of the decade will be compensated for by rises in the second part. However, music's share of spending for the four sectors is forecast to fall from 26.9% in 2000 to 19.3% in 2010. TV will account for the greatest share of the four in 2010, at 43.9%.

Asia Pacific: Share of total average annual household sector spend by category (%)



Source: Informa Telecoms & Media

As with Asia Pacific, the average annual household spend in entertainment in Latin America is below the global average. In 2000, the figure stood at slightly more than $1,000. Growth in TV and games spend will push this figure close to $2,000 by 2010, equivalent to an average annual increase of 7%.

Latin America: Entertainment spending

	2000	2002	2004	2006	2008	2010
Households (000)	94,963	100,679	105,725	109,137	112,510	115,919
Av. annual HH entertainment spend ($)	1,001.2	1,136.9	1,328.0	1,506.0	1,720.5	1,965.5
Total entertainment spend ($ mil.)	95,072.3	114,459.9	140,407.1	164,355.2	193,568.6	227,835.9
Sector annual HH spend						
Av. annual HH music spend ($)	14.0	9.9	9.9	10.8	12.2	13.0
Av. annual HH TV spend ($)	57.6	54.8	60.3	71.2	83.8	100.4
Av. annual HH games spend ($)	6.1	9.7	12.5	14.8	18.1	16.2
Av. annual HH film spend ($)	6.1	6.0	6.5	6.9	6.7	6.5
Total av. annual HH sector spend ($)	83.9	80.5	89.1	103.7	120.8	136.1
Total sector spend ($ mil.)	7,963.4	8,102.7	9,419.5	11,316.7	13,588.1	15,775.1
Av. HH music spend/total HH sector spend (%)	16.7	12.3	11.1	10.4	10.1	9.5
Av. HH TV spend/total HH sector spend (%)	68.7	68.1	67.7	68.6	69.4	73.8
Av. HH games spend/total HH sector spend (%)	7.3	12.1	14.0	14.3	15.0	11.9
Av. HH film spend/total HH sector spend (%)	7.3	7.5	7.2	6.7	5.6	4.7
Av. HH music spend/Av. HH entertainment spend (%)	1.4	0.9	0.7	0.7	0.7	0.7
Av. HH TV spend/Av. HH entertainment spend (%)	5.8	4.8	4.5	4.7	4.9	5.1
Av. HH games spend/Av. HH entertainment spend (%)	0.6	0.9	0.9	1.0	1.1	0.8
Av. HH film spend/Av. HH entertainment spend (%)	0.6	0.5	0.5	0.5	0.4	0.3

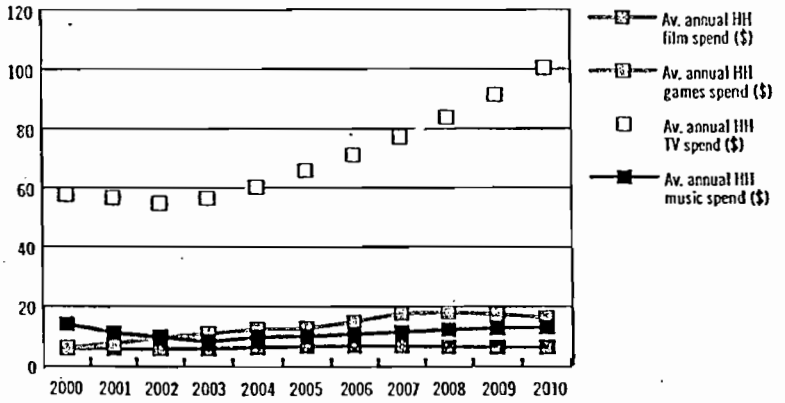
Note: Financial figures are constant 2004 exchange rates.

Source: Informa Telecoms & Media, OECD, World Bank, EU, country statistics offices, local industry associations

At the beginning of the decade spending on pay TV accounted for the majority of total spending of the four main entertainment groups. In the years up to and including 2010, this share will increase by five percentage points to 73.8%.

As is the case with the other regions, the share of spending on games will be heavily influenced by the console upgrade sector. Even so, the share of household spending in 2010 will be greater than in 2000. Actual household spend in the ten years to 2010 is forecast to more than double.

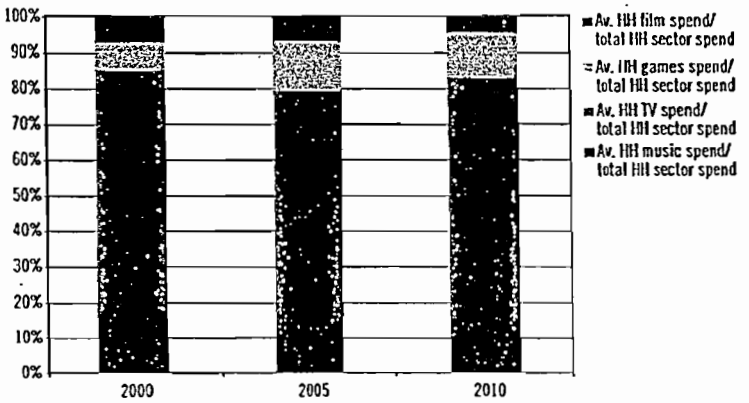
Latin America: Average annual household sector spend ($)



Source: Informa Telecoms & Media

In contrast, average annual household spending on music and film is not forecast to increase significantly. For film, average annual household spend will increase in the ten years to 2010 by just 6.6%. For music, spending is forecast to decrease by $1 to $13. With TV and games spending rising, music and film spending as a share of the four is set to fall. For music, the share is forecast to fall from 16.7% in 2000 to 9.5% in 2010, while film's share will end 2010 at 4.7% compared with 7.3% in 2000.

Latin America: Share of total average annual household sector spend by category (%)



Source: Informa Telecoms & Media

Rest of the World*: Entertainment spending

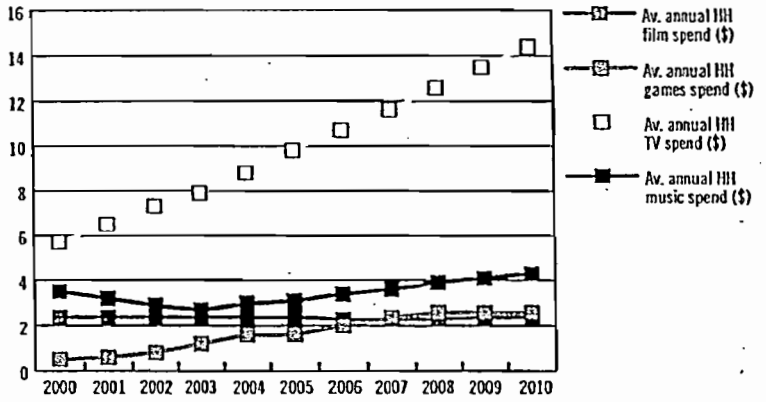
	2000	2002	2004	2006	2008	2010
Households (000)	126,778	136,993	146,353	153,938	162,017	170,480
Av. annual HH entertainment spend ($)	367.2	414.9	480.3	543.7	618.5	704.5
Total entertainment spend ($ mil.)	46,548.2	56,837.4	70,299.4	83,693.6	100,203.7	120,107.1
Sector annual HH spend						
Av. annual HH music spend ($)	3.5	2.9	3.0	3.4	3.9	4.3
Av. annual HH TV spend ($)	5.7	7.3	8.8	10.7	12.6	14.4
Av. annual HH games spend ($)	0.5	0.8	1.6	2.0	2.6	2.6
Av. annual HH film spend ($)	2.4	2.4	2.4	2.3	2.3	2.4
Total av. annual HH sector spend ($)	12.1	13.3	15.7	18.3	21.3	23.7
Total sector spend ($ mil.)	1,530.3	1,826.0	2,304.7	2,822.6	3,454.2	4,032.1
Av. HH music spend/total HH sector spend (%)	29.0	21.7	18.9	18.4	18.1	18.1
Av. HH TV spend/total HH sector spend (%)	47.1	54.5	56.0	58.2	59.0	60.9
Av. HH games spend/total HH sector spend (%)	3.9	6.1	10.0	10.7	12.0	10.8
Av. HH film spend/total HH sector spend (%)	20.1	17.7	15.1	12.8	10.9	10.1
Av. HH music spend/Av. HH entertainment spend (%)	1.0	0.7	0.6	0.6	0.6	0.6
Av. HH TV spend/Av. HH entertainment spend (%)	1.5	1.7	1.8	2.0	2.0	2.0
Av. HH games spend/Av. HH entertainment spend (%)	0.1	0.2	0.3	0.4	0.4	0.4
Av. HH film spend/Av. HH entertainment spend (%)	0.7	0.6	0.5	0.4	0.4	0.3

Note: Financial figures are constant 2004 exchange rates.

**includes Middle East and Africa*

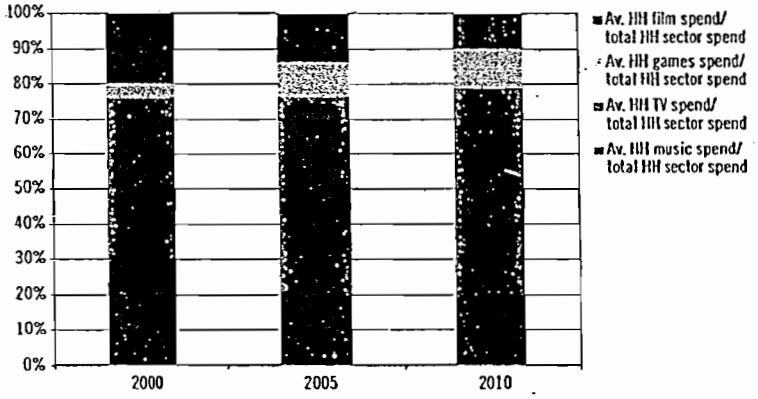
Source: Informa Telecoms & Media, OECD, World Bank, EU, country statistics offices, local industry associations

Rest of the world: Average annual household sector spend ($)



Source: Informa Telecoms & Media

Rest of the world: Share of total average annual household sector spend by category (%)



Source: Informa Telecoms & Media

U.S.: Entertainment spending

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Households (000)	104,286	107,434	108,435	109,939	110,485	111,033	111,788	112,548	113,313	114,083	114,858
Av. annual HH entertainment spend ($)	7,761.4	7,893.3	8,155.0	8,443.5	8,958.9	9,278.9	9,592.9	9,917.5	10,253.0	10,599.9	10,958.5
Total entertainment spend ($ mil.)	809,401.9	848,011.0	884,289.2	928,272.0	989,823.2	1,030,270.4	1,072,359.6	1,116,188.4	1,161,796.9	1,209,268.2	1,258,678.3
Sector annual HH spend											
Av. annual HH music spend ($)	137.9	128.3	117.0	109.5	114.5	112.2	116.4	121.7	126.6	129.5	131.2
Av. annual HH TV spend ($)	368.7	392.1	421.6	437.8	458.5	482.8	508.4	531.0	553.3	575.7	597.6
Av. annual HH games spend ($)	39.9	49.1	61.1	68.5	77.7	79.8	93.2	111.5	114.6	110.6	104.4
Av. annual HH film spend ($)	193.1	157.6	188.9	192.2	218.4	216.7	218.4	222.8	227.8	233.5	240.2
Total av. annual HH sector spend ($)	739.5	727.1	788.6	808.0	869.0	891.4	936.4	986.9	1,022.3	1,049.4	1,073.4
Total sector spend ($ mil.)	77,123.6	78,115.3	85,506.7	88,835.9	96,012.8	98,979.9	104,678.9	111,073.1	115,839.7	119,714.9	123,285.9
Av. HH music spend/total HH sector spend (%)	18.6	17.6	14.8	13.6	13.2	12.6	12.4	12.3	12.4	12.3	12.2
Av. HH TV spend/total HH sector spend (%)	49.8	53.9	53.5	54.2	52.8	54.2	54.3	53.8	54.1	54.9	55.7
Av. HH games spend/total HH sector spend (%)	5.4	6.8	7.7	8.5	8.9	9.0	9.9	11.3	11.2	10.5	9.7
Av. HH film spend/total HH sector spend (%)	26.1	21.7	24.0	23.8	25.1	24.3	23.3	22.6	22.3	22.3	22.4
Av. HH music spend/Av. HH entertainment spend (%)	1.8	1.6	1.4	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.2
Av. HH TV spend/Av. HH entertainment spend (%)	4.7	5.0	5.2	5.2	5.1	5.2	5.3	5.4	5.4	5.4	5.5
Av. HH games spend/Av. HH entertainment spend (%)	0.5	0.6	0.7	0.8	0.9	0.9	1.0	1.1	1.1	1.0	1.0
Av. HH film spend/Av. HH entertainment spend (%)	2.5	2.0	2.3	2.3	2.4	2.3	2.3	2.2	2.2	2.2	2.2
Total av. HH sector spend/ Total av. HH entertainment spend (%)	9.5	9.2	9.7	9.6	9.7	9.6	9.8	10.0	10.0	9.9	9.8

Source: Informa Telecoms & Media

Canada: Entertainment spending

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Households (000)	11,970	12,065	12,137	12,441	12,466	12,490	12,538	12,585	12,633	12,681	12,729
Av. annual HH entertainment spend ($)	5,846.5	6,042.5	6,349.0	6,489.5	6,798.8	7,062.7	7,323.5	7,593.9	7,874.3	8,165.0	8,466.5
Total entertainment spend ($ mil.)	69,984.9	72,904.2	77,059.6	80,736.5	84,751.2	88,214.3	91,819.0	95,570.9	99,476.0	103,540.6	107,771.2
Sector annual HH spend											
Av. annual HH music spend ($)	74.1	67.8	62.2	59.2	57.1	58.1	60.7	63.5	66.1	68.2	69.7
Av. annual HH TV spend ($)	352.2	372.6	385.9	392.3	401.8	413.1	430.1	447.3	465.3	487.1	508.7
Av. annual HH games spend ($)	35.1	44.6	64.5	62.0	70.3	71.8	84.7	102.7	108.6	109.6	98.1
Av. annual HH film spend ($)	159.8	134.7	163.7	166.5	192.6	193.5	196.6	203.0	210.0	217.8	226.2
Total av. annual HH sector spend ($)	621.2	619.7	676.2	680.0	721.8	736.4	772.1	816.5	850.0	882.7	902.8
Total sector spend ($ mil.)	7,436.5	7,477.3	8,207.3	8,459.7	8,997.9	9,198.3	9,680.3	10,275.4	10,738.5	11,193.7	11,491.4
Av. HH music spend/total HH sector spend (%)	11.9	10.9	9.2	8.7	7.9	7.9	7.9	7.8	7.8	7.7	7.7
Av. HH TV spend/total HH sector spend (%)	56.7	60.1	57.1	57.7	55.7	56.1	55.7	54.8	54.7	55.2	56.4
Av. HH games spend/total HH sector spend (%)	5.6	7.2	9.5	9.1	9.7	9.7	11.0	12.6	12.8	12.4	10.9
Av. HH film spend/total HH sector spend (%)	25.7	21.7	24.2	24.5	26.7	26.3	25.5	24.9	24.7	24.7	25.1
Av. HH music spend/Av. HH entertainment spend (%)	1.3	1.1	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Av. HH TV spend/Av. HH entertainment spend (%)	6.0	6.2	6.1	6.0	5.9	5.8	5.9	5.9	5.9	6.0	6.0
Av. HH games spend/Av. HH entertainment spend (%)	0.6	0.7	1.0	1.0	1.0	1.0	1.2	1.4	1.4	1.3	1.2
Av. HH film spend/Av. HH entertainment spend (%)	2.7	2.2	2.6	2.6	2.8	2.7	2.7	2.7	2.7	2.7	2.7
Total av. HH sector spend/ Total av. HH entertainment spend (%)	10.6	10.3	10.7	10.5	10.6	10.4	10.5	10.8	10.8	10.8	10.7

Source: Informa Telecoms & Media

U.K. Entertainment spending

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Households (000)	24,641	24,739	24,838	24,937	25,036	25,136	25,236	25,357	25,479	25,601	25,724
Av. annual HH entertainment spend ($)	5,347.6	5,615.3	5,876.9	6,125.4	6,408.5	6,707.8	7,021.0	7,343.0	7,679.6	8,031.8	8,400.0
Total entertainment spend ($ mil.)	131,773.1	138,918.6	145,970.1	152,746.9	160,442.9	168,604.9	177,181.9	186,195.1	195,666.7	205,620.0	216,079.4
Sector annual HH spend											
Av. annual HH music spend ($)	142.3	150.8	149.0	150.8	149.7	153.3	155.2	156.9	160.2	163.6	166.6
Av. annual HH TV spend ($)	136.3	182.8	203.6	220.5	236.7	254.4	276.2	300.3	325.9	354.3	382.7
Av. annual HH games spend ($)	70.4	61.1	67.2	74.1	81.4	81.3	98.8	131.8	134.8	127.1	112.5
Av. annual HH film spend ($)	136.0	163.1	201.0	206.3	222.8	225.8	234.7	244.2	253.1	260.5	267.1
Total av. annual HH sector spend ($)	485.0	557.8	620.8	651.6	690.6	714.8	764.9	833.1	873.9	905.5	928.9
Total sector spend ($ mil.)	11,951.5	13,799.2	15,419.4	16,249.9	17,291.0	17,968.0	19,303.1	21,125.7	22,265.5	23,181.3	23,894.2
Av. HH music spend/total HH sector spend (%)	29.3	27.0	24.0	23.1	21.7	21.4	20.3	18.8	18.3	18.1	17.9
Av. HH TV spend/total HH sector spend (%)	28.1	32.8	32.8	33.8	34.3	35.6	36.1	36.0	37.3	39.1	41.2
Av. HH games spend/total HH sector spend (%)	14.5	11.0	10.8	11.4	11.8	11.4	12.9	15.8	15.4	14.0	12.1
Av. HH film spend/total HH sector spend (%)	28.0	29.2	32.4	31.7	32.3	31.6	30.7	29.3	29.0	28.8	28.8
Av. HH music spend/Av. HH entertainment spend (%)	2.7	2.7	2.5	2.5	2.3	2.3	2.2	2.1	2.1	2.0	2.0
Av. HH TV spend/Av. HH entertainment spend (%)	2.5	3.3	3.5	3.6	3.7	3.8	3.9	4.1	4.2	4.4	4.6
Av. HH games spend/Av. HH entertainment spend (%)	1.3	1.1	1.1	1.2	1.3	1.2	1.4	1.8	1.8	1.6	1.3
Av. HH film spend/Av. HH entertainment spend (%)	2.5	2.9	3.4	3.4	3.5	3.4	3.3	3.3	3.3	3.2	3.2
Total av. HH sector spend/ Total av. HH entertainment spend (%)	9.1	9.9	10.6	10.6	10.8	10.7	10.9	11.3	11.4	11.3	11.1

Source: Informa Telecoms & Media

Germany: Entertainment spending

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Households (000)	34,986	35,125	34,619	34,858	34,995	35,134	35,274	35,443	35,614	35,784	35,956
Av. annual HH entertainment spend ($)	4,794.0	4,957.1	5,061.1	5,109.0	5,194.0	5,281.4	5,370.3	5,456.3	5,543.6	5,632.3	5,722.5
Total entertainment spend ($ mil.)	167,723.4	174,119.8	175,211.9	178,087.8	181,762.8	185,558.6	189,433.5	193,389.1	197,427.2	201,549.5	205,757.8
Sector annual HH spend											
Av. annual HH music spend ($)	95.5	87.1	83.0	70.1	68.1	66.8	67.2	68.5	70.3	72.4	73.9
Av. annual HH TV spend ($)	133.9	140.9	152.3	166.5	181.2	194.4	204.7	218.4	234.4	251.7	271.1
Av. annual HH games spend ($)	40.1	36.2	41.6	48.5	53.7	54.7	64.5	83.7	85.3	81.6	73.7
Av. annual HH film spend ($)	33.0	40.3	49.9	55.1	61.6	64.4	67.9	72.1	76.7	81.3	85.8
Total av. annual HH sector spend ($)	302.5	304.5	326.8	340.1	364.6	380.3	404.4	442.7	466.7	486.9	504.4
Total sector spend ($ mil.)	10,581.6	10,696.5	11,314.9	11,856.9	12,759.1	13,362.5	14,264.5	15,691.1	16,620.8	17,423.2	18,137.0
Av. HH music spend/total HH sector spend (%)	31.6	28.6	25.4	20.6	18.7	17.6	16.6	15.5	15.1	14.9	14.6
Av. HH TV spend/total HH sector spend (%)	44.3	46.3	46.6	48.9	49.7	51.1	50.6	49.3	50.2	51.7	53.7
Av. HH games spend/total HH sector spend (%)	13.2	11.9	12.7	14.3	14.7	14.4	15.9	18.9	18.3	16.8	14.6
Av. HH film spend/total HH sector spend (%)	10.9	13.2	15.3	16.2	16.9	16.9	16.8	16.3	16.4	16.7	17.0
Av. HH music spend/Av. HH entertainment spend (%)	2.0	1.8	1.6	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Av. HH TV spend/Av. HH entertainment spend (%)	2.8	2.8	3.0	3.3	3.5	3.7	3.8	4.0	4.2	4.5	4.7
Av. HH games spend/Av. HH entertainment spend (%)	0.8	0.7	0.8	0.9	1.0	1.0	1.2	1.5	1.5	1.4	1.3
Av. HH film spend/Av. HH entertainment spend (%)	0.7	0.8	1.0	1.1	1.2	1.2	1.3	1.3	1.4	1.4	1.5
Total av. HH sector spend/ Total av. HH entertainment spend (%)	6.3	6.1	6.5	6.7	7.0	7.2	7.5	8.1	8.4	8.6	8.8

Source: Informa Telecoms & Media

France: Entertainment spending

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Households (000)	22,385	22,451	22,518	22,585	22,652	22,720	22,788	22,874	22,961	23,048	23,136
Av. annual HH entertainment spend ($)	4,539.5	4,724.0	4,870.0	4,996.5	5,176.9	5,321.5	5,469.9	5,618.0	5,770.1	5,926.3	6,086.7
Total entertainment spend ($ mil.)	101,614.7	106,060.6	109,652.6	112,844.2	117,268.5	120,901.2	124,646.3	128,507.2	132,487.7	136,591.3	140,821.9
Sector annual HH spend											
Av. annual HH music spend ($)	107.3	119.4	125.2	109.2	94.5	95.5	95.2	95.8	97.3	99.0	99.9
Av. annual HH TV spend ($)	91.3	103.8	114.5	124.0	135.4	149.1	165.0	182.0	201.1	220.3	238.4
Av. annual HH games spend ($)	36.9	32.5	37.3	43.5	49.5	50.9	60.2	79.3	80.1	76.1	67.5
Av. annual HH film spend ($)	66.8	76.8	96.8	103.5	117.9	119.5	123.3	128.0	132.4	136.1	139.7
Total av. annual HH sector spend ($)	302.2	332.5	373.8	380.1	397.4	414.9	443.8	485.0	510.9	531.5	545.5
Total sector spend ($ mil.)	6,764.5	7,464.3	8,416.7	8,584.9	9,001.0	9,426.2	10,112.2	11,093.5	11,730.9	12,251.1	12,620.9
Av. HH music spend/total HH sector spend (%)	35.5	35.9	33.5	28.7	23.8	23.0	21.5	19.7	19.0	18.6	18.3
Av. HH TV spend/total HH sector spend (%)	30.2	31.2	30.6	32.6	34.1	35.9	37.2	37.5	39.4	41.4	43.7
Av. HH games spend/total HH sector spend (%)	12.2	9.8	10.0	11.4	12.5	12.3	13.6	16.3	15.7	14.3	12.4
Av. HH film spend/total HH sector spend (%)	22.1	23.1	25.9	27.2	29.7	28.8	27.8	26.4	25.9	25.6	25.6
Av. HH music spend/Av. HH entertainment spend (%)	2.4	2.5	2.6	2.2	1.8	1.8	1.7	1.7	1.7	1.7	1.6
Av. HH TV spend/Av. HH entertainment spend (%)	2.0	2.2	2.4	2.5	2.6	2.8	3.0	3.2	3.5	3.7	3.9
Av. HH games spend/Av. HH entertainment spend (%)	0.8	0.7	0.8	0.9	1.0	1.0	1.1	1.4	1.4	1.3	1.1
Av. HH film spend/Av. HH entertainment spend (%)	1.5	1.6	2.0	2.1	2.3	2.2	2.3	2.3	2.3	2.3	2.3
Total av. HH sector spend/ Total av. HH entertainment spend (%)	6.7	7.0	7.7	7.6	7.7	7.8	8.1	8.6	8.9	9.0	9.0

Source: Informa Telecoms & Media

Spain: Entertainment spending

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Households (000)	13,579	13,578	13,578	13,577	13,577	13,576	13,576	13,587	13,597	13,608	13,619
Av. annual HH entertainment spend ($)	3,878.0	4,139.8	4,382.7	4,627.7	4,999.1	5,203.8	5,416.7	5,633.9	5,859.7	6,094.5	6,338.8
Total entertainment spend ($ mil.)	52,658.0	56,211.2	59,506.8	62,831.0	67,872.2	70,648.2	73,537.7	76,545.3	79,675.9	82,934.4	86,326.1
Sector annual HH spend											
Av. annual HH music spend ($)	64.0	65.9	57.8	54.8	49.3	45.2	46.2	48.2	50.3	52.0	53.3
Av. annual HH TV spend ($)	58.6	78.2	95.2	99.7	101.6	112.9	130.2	147.9	167.8	187.3	207.1
Av. annual HH games spend ($)	20.8	18.8	21.8	25.9	29.7	30.2	36.0	48.0	49.2	46.4	42.1
Av. annual HH film spend ($)	37.6	41.6	64.0	76.2	69.7	70.2	73.2	77.3	81.7	86.1	90.6
Total av. annual HH sector spend ($)	180.9	204.4	238.7	256.6	250.3	258.5	285.6	321.5	349.1	371.9	393.1
Total sector spend ($ mil.)	2,457.0	2,775.6	3,241.4	3,483.6	3,398.6	3,509.0	3,876.7	4,367.6	4,746.2	5,060.6	5,353.0
Av. HH music spend/total HH sector spend (%)	35.3	32.2	24.2	21.4	19.7	17.5	16.2	15.0	14.4	14.0	13.6
Av. HH TV spend/total HH sector spend (%)	32.4	38.2	39.9	38.8	40.6	43.7	45.6	46.0	48.1	50.4	52.7
Av. HH games spend/total HH sector spend (%)	11.5	9.2	9.1	10.1	11.9	11.7	12.6	14.9	14.1	12.5	10.7
Av. HH film spend/total HH sector spend (%)	20.8	20.3	26.8	29.7	27.8	27.2	25.6	24.1	23.4	23.2	23.1
Av. HH music spend/Av. HH entertainment spend (%)	1.6	1.6	1.3	1.2	1.0	0.9	0.9	0.9	0.9	0.9	0.8
Av. HH TV spend/Av. HH entertainment spend (%)	1.5	1.9	2.2	2.2	2.0	2.2	2.4	2.6	2.9	3.1	3.3
Av. HH games spend/Av. HH entertainment spend (%)	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.9	0.8	0.8	0.7
Av. HH film spend/Av. HH entertainment spend (%)	1.0	1.0	1.5	1.6	1.4	1.3	1.4	1.4	1.4	1.4	1.4
Total av. HH sector spend/ Total av. HH entertainment spend (%)	4.7	4.9	5.4	5.5	5.0	5.0	5.3	5.7	6.0	6.1	6.2

Source: Informa Telecoms & Media

Italy: Entertainment spending

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Households (000)	21,380	21,401	21,422	21,443	21,464	21,486	21,507	21,545	21,584	21,623	21,662
Av. annual HH entertainment spend ($)	4,658.5	4,824.5	4,993.4	5,190.8	5,358.1	5,545.0	5,738.4	5,933.7	6,135.6	6,344.4	6,560.4
Total entertainment spend ($ mil.)	99,600.4	103,248.8	106,969.0	111,306.8	115,008.6	119,137.0	123,413.5	127,843.3	132,432.1	137,185.5	142,109.4
Sector annual HH spend											
Av. annual HH music spend ($)	40.2	38.5	40.6	40.5	38.8	36.2	36.9	38.5	40.0	40.9	41.8
Av. annual HH TV spend ($)	35.6	45.2	53.3	64.3	74.7	96.6	118.5	138.7	159.5	180.5	204.5
Av. annual HH games spend ($)	18.1	16.4	18.5	21.5	25.1	25.5	29.9	35.4	36.1	34.1	31.1
Av. annual HH film spend ($)	29.4	28.0	34.7	40.1	45.3	45.3	46.1	47.4	49.0	50.9	53.1
Total av. annual HH sector spend ($)	123.3	128.2	147.0	166.5	184.0	203.5	231.4	260.0	284.6	306.4	330.4
Total sector spend ($ mil.)	2,636.3	2,742.8	3,149.9	3,569.7	3,949.6	4,372.4	4,976.0	5,601.1	6,143.3	6,625.6	7,157.4
Av. HH music spend/total HH sector spend (%)	32.6	30.0	27.6	24.3	21.1	17.8	16.0	14.8	14.1	13.3	12.7
Av. HH TV spend/total HH sector spend (%)	28.9	35.3	36.2	38.6	40.6	47.4	51.2	53.3	56.0	58.9	61.9
Av. HH games spend/total HH sector spend (%)	14.6	12.8	12.6	12.9	13.6	12.5	12.9	13.6	12.7	11.1	9.4
Av. HH film spend/total HH sector spend (%)	23.9	21.9	23.6	24.1	24.6	22.3	19.9	18.2	17.2	16.6	16.1
Av. HH music spend/Av. HH entertainment spend (%)	0.9	0.8	0.8	0.8	0.7	0.7	0.6	0.6	0.7	0.6	0.6
Av. HH TV spend/Av. HH entertainment spend (%)	0.8	0.9	1.1	1.2	1.4	1.7	2.1	2.3	2.6	2.8	3.1
Av. HH games spend/Av. HH entertainment spend (%)	0.4	0.3	0.4	0.4	0.5	0.5	0.5	0.6	0.6	0.5	0.5
Av. HH film spend/Av. HH entertainment spend (%)	0.6	0.6	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Total av. HH sector spend/ Total av. HH entertainment spend (%)	2.6	2.7	2.9	3.2	3.4	3.7	4.0	4.4	4.6	4.8	5.0

Source: Informa Telecoms & Media

Japan: Entertainment spending

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Households (000)	46,780	47,497	47,728	47,977	48,184	48,389	48,594	48,799	49,004	49,209	49,414
Av. annual HH entertainment spend ($)	6,637.6	6,543.6	6,474.0	6,410.9	6,448.1	6,458.2	6,468.5	6,478.8	6,489.4	6,500.0	6,510.8
Total entertainment spend ($ mil.)	310,508.7	310,799.4	308,996.4	307,574.3	310,692.4	312,505.0	314,327.9	316,161.3	318,005.1	319,859.5	321,724.5
Sector annual HH spend											
Av. annual HH music spend ($)	152.8	144.9	136.4	129.9	130.5	129.0	128.7	130.0	132.3	132.8	132.1
Av. annual HH TV spend ($)	115.2	130.4	154.9	176.0	194.0	212.8	231.5	253.1	276.4	300.3	323.6
Av. annual HH games spend ($)	76.4	78.4	85.5	88.0	102.6	106.0	137.7	163.3	171.9	170.8	162.1
Av. annual HH film spend ($)	52.9	56.2	62.6	67.3	72.0	68.5	67.7	68.0	68.9	70.0	71.3
Total av. annual HH sector spend ($)	397.3	409.9	439.5	461.2	493.2	516.3	565.6	614.6	649.5	673.9	689.1
Total sector spend ($ mil.)	18,585.2	19,469.4	20,975.6	22,124.8	24,051.7	24,983.2	27,486.8	29,989.6	31,830.4	33,153.8	34,051.2
Av. HH music spend/total HH sector spend (%)	38.4	35.4	31.0	28.2	26.1	25.0	22.8	21.2	20.4	19.7	19.2
Av. HH TV spend/total HH sector spend (%)	29.0	31.8	35.2	38.2	38.9	41.2	40.9	41.2	42.6	44.6	47.0
Av. HH games spend/total HH sector spend (%)	19.2	19.1	19.5	19.1	20.6	20.5	24.3	26.6	26.5	25.3	23.5
Av. HH film spend/total HH sector spend (%)	13.3	13.7	14.3	14.6	14.4	13.3	12.0	11.1	10.6	10.4	10.4
Av. HH music spend/Av. HH entertainment spend (%)	2.3	2.2	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Av. HH TV spend/Av. HH entertainment spend (%)	1.7	2.0	2.4	2.7	3.0	3.3	3.6	3.9	4.3	4.6	5.0
Av. HH games spend/Av. HH entertainment spend (%)	1.2	1.2	1.3	1.4	1.6	1.6	2.1	2.5	2.6	2.6	2.5
Av. HH film spend/Av. HH entertainment spend (%)	0.8	0.9	1.0	1.0	1.1	1.1	1.0	1.1	1.1	1.1	1.1
Total av. HH sector spend/ Total av. HH entertainment spend (%)	6.0	6.3	6.8	7.2	7.7	8.0	8.7	9.5	10.0	10.4	10.6

Source: Informa Telecoms & Media

Australia: Entertainment spending

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Households (000)	6,979	7,042	7,105	7,169	7,233	7,298	7,364	7,436	7,509	7,582	7,656
Av. annual HH entertainment spend ($)	5,079.9	5,332.1	5,642.3	5,988.6	6,353.1	6,553.9	6,761.0	6,969.0	7,183.4	7,404.4	7,632.2
Total entertainment spend ($ mil.)	35,453.5	37,547.4	40,088.4	42,931.0	45,952.9	47,830.7	49,785.2	51,819.5	53,936.9	56,140.8	58,434.6
Sector annual HH spend											
Av. annual HH music spend ($)	106.6	112.7	107.6	115.0	109.2	99.2	100.3	102.1	103.4	104.7	105.7
Av. annual HH TV spend ($)	68.8	79.6	84.0	92.2	102.8	115.4	127.5	143.3	166.7	198.0	234.9
Av. annual HH games spend ($)	39.1	34.4	37.2	41.3	45.2	46.4	56.3	71.8	73.0	70.1	64.5
Av. annual HH film spend ($)	41.7	53.4	79.6	106.8	123.3	127.0	131.2	135.3	139.3	143.7	148.2
Total av. annual HH sector spend ($)	256.3	280.1	308.4	355.2	380.5	387.9	415.3	452.4	482.4	516.5	553.3
Total sector spend ($ mil.)	1,788.5	1,972.5	2,191.3	2,546.2	2,751.9	2,831.2	3,058.2	3,363.7	3,621.9	3,916.0	4,236.1
Av. HH music spend/total HH sector spend (%)	41.6	40.2	34.9	32.4	28.7	25.6	24.2	22.6	21.4	20.3	19.1
Av. HH TV spend/total HH sector spend (%)	26.8	28.4	27.2	26.0	27.0	29.7	30.7	31.7	34.6	38.3	42.4
Av. HH games spend/total HH sector spend (%)	15.3	12.3	12.1	11.6	11.9	12.0	13.6	15.9	15.1	13.6	11.7
Av. HH film spend/total HH sector spend (%)	16.3	19.1	25.8	30.1	32.4	32.7	31.6	29.9	28.9	27.8	26.8
Av. HH music spend/Av. HH entertainment spend (%)	2.1	2.1	1.9	1.9	1.7	1.5	1.5	1.5	1.4	1.4	1.4
Av. HH TV spend/Av. HH entertainment spend (%)	1.4	1.5	1.5	1.5	1.6	1.8	1.9	2.1	2.3	2.7	3.1
Av. HH games spend/Av. HH entertainment spend (%)	0.8	0.6	0.7	0.7	0.7	0.7	0.8	1.0	1.0	0.9	0.8
Av. HH film spend/Av. HH entertainment spend (%)	0.8	1.0	1.4	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Total av. HH sector spend/ Total av. HH entertainment spend (%)	5.0	5.3	5.5	5.9	6.0	5.9	6.1	6.5	6.7	7.0	7.2

Source: Informa Telecoms & Media

China: Entertainment spending

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Households (000)	394,690	398,031	400,961	403,800	406,629	409,197	411,591	413,807	415,843	417,695	419,361
Av. annual HH entertainment spend ($)	184.0	208.4	240.1	268.0	269.7	299.5	354.3	380.9	418.4	458.3	500.9
Total entertainment spend ($ mil.)	72,608.9	82,966.1	96,262.6	108,208.6	109,683.7	122,540.3	145,817.5	157,615.0	173,974.8	191,446.6	210,063.9
Sector annual HH spend											
Av. annual HH music spend ($)	0.3	0.4	0.5	0.6	1.0	1.5	2.0	2.5	3.0	3.3	3.6
Av. annual HH TV spend ($)	4.0	4.5	4.9	7.1	8.3	9.3	10.1	10.9	11.9	12.9	14.1
Av. annual HH games spend ($)	0.1	0.1	0.3	0.5	1.0	1.7	2.4	3.4	4.4	5.7	7.2
Av. annual HH film spend ($)	0.1	0.2	0.8	1.5	2.3	2.7	2.9	3.0	3.3	3.6	4.1
Total av. annual HH sector spend ($)	4.4	5.2	6.5	9.7	12.6	15.3	17.3	19.8	22.5	25.6	29.0
Total sector spend ($ mil.)	1,750.2	2,059.9	2,617.1	3,921.5	5,104.4	6,250.9	7,128.1	8,180.4	9,356.0	10,675.9	12,171.8
Av. HH music spend/total HH sector spend (%)	6.8	7.5	7.5	6.5	7.8	9.9	11.8	12.6	13.2	13.0	12.4
Av. HH TV spend/total HH sector spend (%)	90.0	86.0	75.7	73.5	65.9	61.1	58.1	55.1	52.7	50.6	48.7
Av. HH games spend/total HH sector spend (%)	1.5	1.9	4.4	5.1	7.8	11.3	13.7	17.0	19.5	22.4	24.9
Av. HH film spend/total HH sector spend (%)	1.7	4.6	12.4	15.0	18.5	17.7	16.5	15.3	14.6	14.0	14.0
Av. HH music spend/Av. HH entertainment spend (%)	0.2	0.2	0.2	0.2	0.4	0.5	0.6	0.7	0.7	0.7	0.7
Av. HH TV spend/Av. HH entertainment spend (%)	2.2	2.1	2.1	2.7	3.1	3.1	2.8	2.9	2.8	2.8	2.8
Av. HH games spend/Av. HH entertainment spend (%)	0.0	0.0	0.1	0.2	0.4	0.6	0.7	0.9	1.0	1.2	1.4
Av. HH film spend/Av. HH entertainment spend (%)	0.0	0.1	0.3	0.5	0.9	0.9	0.8	0.8	0.8	0.8	0.8
Total av. HH sector spend/ Total av. HH entertainment spend (%)	2.4	2.5	2.7	3.6	4.7	5.1	4.9	5.2	5.4	5.6	5.8

Source: Informa Telecoms & Media

Brazil: Entertainment spending

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Households (000)	45,461	46,507	47,553	48,600	49,646	50,692	51,377	52,070	52,773	53,486	54,208
Av. annual HH entertainment spend ($)	1,005.5	1,084.1	1,139.1	1,227.0	1,326.7	1,404.3	1,497.7	1,597.2	1,703.3	1,816.4	1,937.1
Total entertainment spend ($ mil.)	45,711.1	50,418.3	54,167.3	59,629.7	65,865.3	71,189.7	76,944.5	83,164.5	89,887.3	97,153.6	105,007.2
Sector annual HH spend											
Av. annual HH music spend ($)	10.2	7.8	8.3	6.8	8.1	6.9	7.5	8.2	9.0	9.4	9.7
Av. annual HH TV spend ($)	23.4	26.1	22.9	25.3	26.7	28.6	30.9	33.9	37.4	41.8	47.2
Av. annual HH games spend ($)	4.4	5.6	7.1	8.2	9.3	9.5	11.1	13.2	13.5	13.0	12.2
Av. annual HH film spend ($)	5.0	4.9	5.0	5.1	5.4	5.6	5.6	5.6	5.4	5.2	5.1
Total av. annual HH sector spend ($)	43.1	44.4	43.3	45.4	49.4	50.5	55.2	60.9	65.3	69.4	74.2
Total sector spend ($ mil.)	1,959.4	2,064.1	2,056.9	2,207.1	2,454.5	2,561.7	2,835.6	3,170.3	3,443.9	3,711.5	4,022.5
Av. HH music spend/total HH sector spend (%)	23.7	17.6	19.1	15.0	16.3	13.6	13.7	13.4	13.8	13.5	13.1
Av. HH TV spend/total HH sector spend (%)	54.4	58.7	52.9	55.8	54.1	56.6	56.0	55.7	57.3	60.2	63.6
Av. HH games spend/total HH sector spend (%)	10.3	12.5	16.5	18.0	18.8	18.8	20.1	21.7	20.7	18.8	16.4
Av. HH film spend/total HH sector spend (%)	11.7	11.1	11.5	11.3	10.8	11.0	10.2	9.1	8.2	7.5	6.9
Av. HH music spend/Av. HH entertainment spend (%)	1.0	0.7	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Av. HH TV spend/Av. HH entertainment spend (%)	2.3	2.4	2.0	2.1	2.0	2.0	2.1	2.1	2.2	2.3	2.4
Av. HH games spend/Av. HH entertainment spend (%)	0.4	0.5	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.7	0.6
Av. HH film spend/Av. HH entertainment spend (%)	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Total av. HH sector spend/ Total av. HH entertainment spend (%)	4.3	4.1	3.8	3.7	3.7	3.6	3.7	3.8	3.8	3.8	3.8

Source: Informa Telecoms & Media

Mexico: Entertainment spending

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Households (000)	22,074	22,586	23,099	23,612	24,125	24,638	24,976	25,318	25,665	26,017	26,373
Av. annual HH entertainment spend ($)	1,537.3	1,652.5	1,729.9	1,852.4	2,004.9	2,122.2	2,263.1	2,413.4	2,573.7	2,744.6	2,926.9
Total entertainment spend ($ mil.)	33,932.8	37,323.6	39,959.6	43,738.8	48,368.2	52,287.2	56,523.7	61,103.4	66,054.2	71,405.9	77,191.2
Sector annual HH spend											
Av. annual HH music spend ($)	25.5	21.0	17.3	14.3	15.5	18.6	19.0	19.2	19.3	19.6	19.8
Av. annual HH TV spend ($)	40.0	46.6	51.0	54.5	63.1	72.0	78.8	85.7	93.0	100.8	108.9
Av. annual HH games spend ($)	5.2	6.4	8.3	9.4	10.7	10.9	12.8	15.3	15.6	15.1	14.1
Av. annual HH film spend ($)	7.9	7.7	7.8	8.1	8.5	8.9	9.1	9.1	8.8	8.5	8.4
Total av. annual HH sector spend ($)	78.5	81.7	84.4	86.2	97.9	110.4	119.7	129.2	136.8	144.0	151.2
Total sector spend ($ mil.)	1,733.7	1,845.8	1,948.6	2,034.3	2,361.0	2,719.0	2,989.8	3,271.4	3,510.8	3,745.9	3,988.2
Av. HH music spend/total HH sector spend (%)	32.4	25.7	20.5	16.6	15.9	16.8	15.9	14.8	14.1	13.6	13.1
Av. HH TV spend/total HH sector spend (%)	50.9	57.0	60.5	63.2	64.5	65.2	65.8	66.3	68.0	70.0	72.0
Av. HH games spend/total HH sector spend (%)	6.6	7.8	9.8	10.9	11.0	9.9	10.7	11.9	11.4	10.5	9.3
Av. HH film spend/total HH sector spend (%)	10.0	9.5	9.3	9.4	8.7	8.1	7.6	7.0	6.5	5.9	5.6
Av. HH music spend/Av. HH entertainment spend (%)	1.7	1.3	1.0	0.8	0.8	0.9	0.8	0.8	0.8	0.7	0.7
Av. HH TV spend/Av. HH entertainment spend (%)	2.6	2.8	2.9	2.9	3.1	3.4	3.5	3.5	3.6	3.7	3.7
Av. HH games spend/Av. HH entertainment spend (%)	0.3	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.5	0.5
Av. HH film spend/Av. HH entertainment spend (%)	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3
Total av. HH sector spend/ Total av. HH entertainment spend (%)	5.1	4.9	4.9	4.7	4.9	5.2	5.3	5.4	5.3	5.2	5.2

Source: Informa Telecoms & Media

Europe: Entertainment spending

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Households (000)	201,991	204,594	206,171	208,106	208,400	208,630	208,759	208,888	209,016	209,145	209,272
Av. annual HH entertainment spend ($)	2,929.0	3,060.7	3,177.1	3,286.2	3,423.5	3,539.7	3,660.3	3,782.3	3,908.7	4,039.8	4,175.7
Total entertainment spend ($ mil.)	591,624.0	626,204.8	655,033.8	683,868.8	713,452.5	738,494.3	764,118.1	790,072.3	816,988.3	844,904.1	873,859.0
Sector annual HH spend											
Av. annual HH music spend ($)	74.7	74.3	73.1	68.6	66.5	65.7	66.0	67.2	68.7	69.8	71.2
Av. annual HH TV spend ($)	88.0	100.9	111.4	121.1	131.4	144.1	157.9	173.1	189.8	207.6	226.5
Av. annual HH games spend ($)	30.8	27.0	30.7	34.9	39.0	39.6	47.8	63.3	66.2	64.8	60.1
Av. annual HH film spend ($)	43.7	51.7	65.4	69.2	74.7	76.1	79.4	83.7	87.8	91.5	95.2
Total av. annual HH sector spend ($)	237.2	254.0	280.6	293.9	311.7	325.6	351.1	387.3	412.6	433.8	453.0
Total sector spend ($ mil.)	47,916.7	51,962.4	57,846.4	61,156.9	64,958.9	67,921.6	73,299.5	80,910.1	86,243.2	90,716.8	94,791.5
Av. HH music spend/total HH sector spend (%)	31.5	29.3	26.0	23.4	21.3	20.2	18.8	17.4	16.7	16.1	15.7
Av. HH TV spend/total HH sector spend (%)	37.1	39.7	39.7	41.2	42.2	44.3	45.0	44.7	46.0	47.9	50.0
Av. HH games spend/total HH sector spend (%)	13.0	10.6	10.9	11.9	12.5	12.2	13.6	16.3	16.1	14.9	13.3
Av. HH film spend/total HH sector spend (%)	18.4	20.4	23.3	23.6	24.0	23.4	22.6	21.6	21.3	21.1	21.0
Av. HH music spend/Av. HH entertainment spend (%)	2.5	2.4	2.3	2.1	1.9	1.9	1.8	1.8	1.8	1.7	1.7
Av. HH TV spend/Av. HH entertainment spend (%)	3.0	3.3	3.5	3.7	3.8	4.1	4.3	4.6	4.9	5.1	5.4
Av. HH games spend/Av. HH entertainment spend (%)	1.1	0.9	1.0	1.1	1.1	1.1	1.3	1.7	1.7	1.6	1.4
Av. HH film spend/Av. HH entertainment spend (%)	1.5	1.7	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.3	2.3
Total av. HH sector spend/ Total av. HH entertainment spend (%)	8.1	8.3	8.8	8.9	9.1	9.2	9.6	10.2	10.5	10.7	10.8

Source: Informa Telecoms & Media

North America: Entertainment spending

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Households (000)	116,256	119,499	120,572	122,380	122,950	123,523	124,326	125,133	125,946	126,764	127,587
Av. annual HH entertainment spend ($)	7,414.5	7,554.8	7,814.3	8,080.8	8,568.5	8,877.2	9,180.4	9,493.8	9,818.0	10,153.2	10,499.9
Total entertainment spend ($ mil.)	861,982.6	902,785.0	942,185.3	988,930.5	1,053,497.9	1,096,547.1	1,141,354.6	1,187,992.2	1,236,534.7	1,287,059.8	1,339,648.4
Sector annual HH spend											
Av. annual HH music spend ($)	131.3	122.2	111.5	104.4	108.7	106.7	110.8	115.9	120.6	123.4	125.1
Av. annual HH TV spend ($)	357.0	390.1	418.0	433.1	452.8	475.7	500.5	522.5	544.4	566.8	588.7
Av. annual HH games spend ($)	39.4	48.7	61.4	67.9	76.9	79.0	92.3	110.6	114.0	110.5	103.8
Av. annual HH film spend ($)	189.6	155.3	186.3	189.6	215.8	214.3	216.2	220.8	226.0	232.0	238.8
Total av. annual HH sector spend ($)	727.4	716.3	777.2	795.0	854.1	875.8	919.8	969.8	1,005.0	1,032.7	1,056.4
Total sector spend ($ mil.)	84,560.1	85,592.7	93,714.0	97,295.6	105,010.8	108,178.2	114,359.1	121,348.5	126,578.2	130,908.6	134,777.3
Av. HH music spend/total HH sector spend (%)	18.1	17.1	14.3	13.1	12.7	12.2	12.0	11.9	12.0	11.9	11.8
Av. HH TV spend/total HH sector spend (%)	50.5	54.5	53.8	54.5	53.0	54.3	54.4	53.9	54.2	54.9	55.7
Av. HH games spend/total HH sector spend (%)	5.4	6.8	7.9	8.5	9.0	9.0	10.0	11.4	11.3	10.7	9.8
Av. HH film spend/total HH sector spend (%)	26.1	21.7	24.0	23.8	25.3	24.5	23.5	22.8	22.5	22.5	22.6
Av. HH music spend/Av. HH entertainment spend (%)	1.8	1.6	1.4	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.2
Av. HH TV spend/Av. HH entertainment spend (%)	4.9	5.2	5.3	5.4	5.3	5.4	5.5	5.5	5.5	5.6	5.6
Av. HH games spend/Av. HH entertainment spend (%)	0.5	0.6	0.8	0.8	0.9	0.9	1.0	1.2	1.2	1.1	1.0
Av. HH film spend/Av. HH entertainment spend (%)	2.6	2.1	2.4	2.3	2.5	2.4	2.4	2.3	2.3	2.3	2.3
Total av. HH sector spend/ Total av. HH entertainment spend (%)	9.8	9.5	9.9	9.8	10.0	9.9	10.0	10.2	10.2	10.2	10.1

Source: Informa Telecoms & Media

Asia Pacific: Entertainment spending

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Households (000)	707,272	714,867	716,586	721,263	733,796	749,614	765,476	781,635	798,098	814,873	831,971
Av. annual HH entertainment spend ($)	731.7	753.1	780.5	809.5	819.7	847.9	896.9	924.7	962.2	1,002.9	1,046.8
Total entertainment spend ($ mil.)	517,525.9	538,373.4	559,270.2	583,835.5	601,486.6	635,627.9	686,576.9	722,799.8	767,937.2	817,197.2	870,940.1
Sector annual HH spend											
Av. annual HH music spend ($)	13.7	13.3	13.3	13.2	13.8	14.6	15.6	16.5	17.4	17.8	18.2
Av. annual HH TV spend ($)	14.8	17.4	21.3	25.5	28.5	31.1	33.3	35.7	38.4	41.1	43.9
Av. annual HH games spend ($)	7.4	7.5	8.3	8.9	10.2	11.0	13.6	16.2	17.5	18.2	18.3
Av. annual HH film spend ($)	14.9	15.1	15.9	17.3	17.4	17.0	16.6	16.0	14.6	13.9	13.7
Total av. annual HH sector spend ($)	50.8	53.3	58.8	64.9	69.9	73.8	79.0	84.4	87.8	91.0	94.1
Total sector spend ($ mil.)	35,924.8	38,081.9	42,108.5	46,791.5	51,272.7	55,337.6	60,510.3	65,932.9	70,112.3	74,185.5	78,265.8
Av. HH music spend/total HH sector spend (%)	26.9	25.0	22.6	20.3	19.8	19.8	19.7	19.5	19.8	19.6	19.3
Av. HH TV spend/total HH sector spend (%)	29.2	32.6	36.3	39.2	40.8	42.2	42.1	42.4	43.7	45.2	46.7
Av. HH games spend/total HH sector spend (%)	14.7	14.1	14.1	13.8	14.5	14.9	17.2	19.2	19.9	20.0	19.5
Av. HH film spend/total HH sector spend (%)	29.3	28.3	27.1	26.7	24.9	23.1	21.0	18.9	16.6	15.2	14.5
Av. HH music spend/Av. HH entertainment spend (%)	1.9	1.8	1.7	1.6	1.7	1.7	1.7	1.8	1.8	1.8	1.7
Av. HH TV spend/Av. HH entertainment spend (%)	2.0	2.3	2.7	3.1	3.5	3.7	3.7	3.9	4.0	4.1	4.2
Av. HH games spend/Av. HH entertainment spend (%)	1.0	1.0	1.1	1.1	1.2	1.3	1.5	1.8	1.8	1.8	1.8
Av. HH film spend/Av. HH entertainment spend (%)	2.0	2.0	2.0	2.1	2.1	2.0	1.9	1.7	1.5	1.4	1.3
Total av. HH sector spend/ Total av. HH entertainment spend (%)	6.9	7.1	7.5	8.0	8.5	8.7	8.8	9.1	9.1	9.1	9.0

Source: Informa Telecoms & Media

Latin America: Entertainment spending

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Households (000)	94,963	97,370	100,679	103,996	105,725	107,463	109,137	110,819	112,510	114,210	115,919
Av. annual HH entertainment spend ($)	1,001.2	1,080.8	1,136.9	1,225.0	1,328.0	1,409.0	1,506.0	1,609.6	1,720.5	1,838.9	1,965.5
Total entertainment spend ($ mil.)	95,072.3	105,240.0	114,459.9	127,398.9	140,407.1	151,410.0	164,355.2	178,378.7	193,568.6	210,020.0	227,835.9
Sector annual HH spend											
Av. annual HH music spend ($)	14.0	11.1	9.9	8.4	9.9	10.1	10.8	11.4	12.2	12.7	13.0
Av. annual HH TV spend ($)	57.6	56.7	54.8	56.5	60.3	65.8	71.2	77.1	83.8	91.5	100.4
Av. annual HH games spend ($)	6.1	7.6	9.7	10.9	12.5	12.7	14.8	17.7	18.1	17.4	16.2
Av. annual HH film spend ($)	6.1	6.0	6.0	6.1	6.5	6.8	6.9	6.9	6.7	6.5	6.5
Total av. annual HH sector spend ($)	83.9	81.5	80.5	81.9	89.1	95.4	103.7	113.1	120.8	128.1	136.1
Total sector spend ($ mil.)	7,963.4	7,939.7	8,102.7	8,520.1	9,419.5	10,251.7	11,316.7	12,537.6	13,588.1	14,632.2	15,775.1
Av. HH music spend/total HH sector spend (%)	16.7	13.7	12.3	10.3	11.1	10.5	10.4	10.1	10.1	9.9	9.5
Av. HH TV spend/total HH sector spend (%)	68.7	69.6	68.1	68.9	67.7	69.0	68.6	68.2	69.4	71.4	73.8
Av. HH games spend/total HH sector spend (%)	7.3	9.4	12.1	13.3	14.0	13.3	14.3	15.7	15.0	13.6	11.9
Av. HH film spend/total HH sector spend (%)	7.3	7.4	7.5	7.5	7.2	7.1	6.7	6.1	5.6	5.1	4.7
Av. HH music spend/Av. HH entertainment spend (%)	1.4	1.0	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Av. HH TV spend/Av. HH entertainment spend (%)	5.8	5.3	4.8	4.6	4.5	4.7	4.7	4.8	4.9	5.0	5.1
Av. HH games spend/Av. HH entertainment spend (%)	0.6	0.7	0.9	0.9	0.9	0.9	1.0	1.1	1.1	0.9	0.8
Av. HH film spend/Av. HH entertainment spend (%)	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.3
Total av. HH sector spend/ Total av. HH entertainment spend (%)	8.4	7.5	7.1	6.7	6.7	6.8	6.9	7.0	7.0	7.0	6.9

Source: Informa Telecoms & Media

Rest of the World*: Entertainment spending

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Households (000)	126,778	131,309	136,993	142,749	146,353	150,034	153,938	157,931	162,017	166,200	170,480
Av. annual HH entertainment spend ($)	367.2	394.7	414.9	445.7	480.3	508.8	543.7	579.6	618.5	660.0	704.5
Total entertainment spend ($ mil.)	46,548.2	51,830.0	56,837.4	63,622.0	70,299.4	76,334.4	83,693.6	91,539.8	100,203.7	109,699.7	120,107.1
Sector annual HH spend											
Av. annual HH music spend ($)	3.5	3.2	2.9	2.7	3.0	3.1	3.4	3.6	3.9	4.1	4.3
Av. annual HH TV spend ($)	5.7	6.5	7.3	7.9	8.8	9.8	10.7	11.6	12.6	13.5	14.4
Av. annual HH games spend ($)	0.5	0.6	0.8	1.2	1.6	1.6	2.0	2.4	2.6	2.6	2.6
Av. annual HH film spend ($)	2.4	2.4	2.4	2.4	2.4	2.4	2.3	2.3	2.3	2.4	2.4
Total av. annual HH sector spend ($)	12.1	12.8	13.3	14.1	15.7	16.9	18.3	20.0	21.3	22.5	23.7
Total sector spend ($ mil.)	1,530.3	1,676.4	1,826.0	2,009.7	2,304.7	2,539.4	2,822.6	3,150.7	3,454.2	3,744.2	4,032.1
Av. HH music spend/total HH sector spend (%)	29.0	25.1	21.7	19.0	18.9	18.5	18.4	18.1	18.1	18.2	18.1
Av. HH TV spend/total HH sector spend (%)	47.1	51.2	54.5	55.8	56.0	57.9	58.2	58.2	59.0	59.9	60.9
Av. HH games spend/total HH sector spend (%)	3.9	4.8	6.1	8.4	10.0	9.6	10.7	12.1	12.0	11.5	10.8
Av. HH film spend/total HH sector spend (%)	20.1	18.8	17.7	16.7	15.1	13.9	12.8	11.6	10.9	10.4	10.1
Av. HH music spend/Av. HH entertainment spend (%)	1.0	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Av. HH TV spend/Av. HH entertainment spend (%)	1.5	1.7	1.7	1.8	1.8	1.9	2.0	2.0	2.0	2.0	2.0
Av. HH games spend/Av. HH entertainment spend (%)	0.1	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Av. HH film spend/Av. HH entertainment spend (%)	0.7	0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.3
Total av. HH sector spend/ total av. HH entertainment spend (%)	3.3	3.2	3.2	3.2	3.3	3.3	3.4	3.4	3.4	3.4	3.4

**Includes Middle East and Africa*

Source: Informa Telecoms & Media

Global: Entertainment spending

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Households (000)	1,247,260	1,267,639	1,281,001	1,298,494	1,317,224	1,339,264	1,361,636	1,384,405	1,407,587	1,431,192	1,455,230
Av. annual HH entertainment spend ($)	1,621.0	1,679.7	1,740.0	1,806.0	1,875.1	1,931.7	2,003.7	2,063.8	2,131.6	2,203.2	2,278.9
Total entertainment spend ($ mil.)	2,021,846.2	2,129,247.8	2,228,684.8	2,345,082.5	2,469,875.5	2,587,001.0	2,728,371.6	2,857,106.6	3,000,423.4	3,153,251.7	3,316,295.7
Sector annual HH spend											
Av. annual HH music spend ($)	33.5	32.2	30.8	29.1	29.5	29.4	30.2	31.2	32.3	32.8	33.1
Av. annual HH TV spend ($)	61.8	67.9	74.3	79.7	84.8	90.1	95.5	101.0	106.8	112.8	119.0
Av. annual HH games spend ($)	13.4	13.8	16.2	18.0	20.2	20.8	24.8	30.4	31.7	31.3	29.8
Av. annual HH film spend ($)	33.9	32.2	37.7	39.3	42.4	42.0	42.1	42.4	42.3	42.6	43.2
Total av. annual HH sector spend ($)	142.6	146.1	158.9	166.2	176.9	182.4	192.6	205.1	213.1	219.5	225.1
Total sector spend ($ mil.)	177,895.3	185,253.1	203,597.6	215,773.8	232,966.6	244,228.4	262,308.2	283,879.8	299,976.0	314,187.3	327,641.9
Av. HH music spend/total HH sector spend (%)	23.5	22.0	19.4	17.5	16.7	16.1	15.7	15.2	15.1	14.9	14.7
Av. HH TV spend/total HH sector spend (%)	43.3	46.5	46.7	48.0	47.9	49.4	49.6	49.3	50.1	51.4	52.8
Av. HH games spend/total HH sector spend (%)	9.4	9.5	10.2	10.8	11.4	11.4	12.9	14.8	14.9	14.3	13.2
Av. HH film spend/total HH sector spend (%)	23.8	22.0	23.7	23.7	24.0	23.0	21.8	20.7	19.9	19.4	19.2
Av. HH music spend/Av. HH entertainment spend (%)	2.1	1.9	1.8	1.6	1.6	1.5	1.5	1.5	1.5	1.5	1.5
Av. HH TV spend/Av. HH entertainment spend (%)	3.8	4.0	4.3	4.4	4.5	4.7	4.8	4.9	5.0	5.1	5.2
Av. HH games spend/Av. HH entertainment spend (%)	0.8	0.8	0.9	1.0	1.1	1.1	1.2	1.5	1.5	1.4	1.3
Av. HH film spend/Av. HH entertainment spend (%)	2.1	1.9	2.2	2.2	2.3	2.2	2.1	2.1	2.0	1.9	1.9
Total av. HH sector spend/ Total av. HH entertainment spend (%)	8.8	8.7	9.1	9.2	9.4	9.4	9.6	9.9	10.0	10.0	9.9

Source: Informa Telecoms & Media

Chapter 3

Television

The television sector is by far the largest of the four home entertainment sectors detailed in this report. The popularity of pay TV services has grown exponentially since Time Inc. introduced the first pay TV service, for cable, in the U.S. in the early 1960s. More recently, the number of platforms offering TV services has increased, driven mainly by the transition to digital.

In many developed territories the shift to digital is well under way. Most DTH broadcasters in North America and Europe are digital-only and the race is on in the competing cable sector to upgrade their networks to make the most of their greater two-way capability.

Nearly 30 million digital TV households were added to the global total in 2005, pushing penetration up to 13% of global TV households. North American penetration exceeds 50%, with western Europe at 31%. By 2010, a third of the world's TV homes will receive digital signals – equivalent to 400 million. This suggests that digital growth will accelerate as the decade progresses, especially outside North America and western Europe.

Cable will be the main platform for digital TV households, providing 230 million homes by 2010. DTH will be the next most popular delivery system at 92 million. There will be 26 million households receiving IPTV signals and 45 million digital terrestrial TV (DTT) homes that are not subscribing to cable, satellite or IPTV. However, 711 million homes will still take analogue signals, so digital growth will extend well beyond 2010.

About one fifth of global TV homes will take digital cable by end-2010, with high penetration in North America boosting that figure. Digital DTH will be strong in North America and Europe, but less so elsewhere. DTT will be taken by 20% of western European homes.

North America accounted for 44% of the world's digital TV households at the end of 2005, down four percentage points on the previous year. This proportion will drop to 32% by 2010, with Europe accounting for 30%. Asia will become the dominant continent by 2010, accounting for 36% of the total, up from 12% in 2004.

The U.S. had 59 million digital households (41% of the world's total) at end-2005, an increase of nearly seven million for the year. The U.S. will add 46 million more digital homes by end-2010, keeping it in top place by taking 27% of the global total. China will be in second place by 2010, having gained 67 million digital homes between 2005 and 2010. The top five countries will account for 65% of the global total in 2010, down from 68% in 2005.

The rapid conversion of cable homes was the most dynamic area for digital television until IPTV launches began on a large scale in 2005. About 15 million new digital cable subscribers were added in 2005. This level of expansion is expected to continue for some time, with the total reaching 230 million in 2010. North American homes were the fastest to convert to digital cable. North America accounted for 60% of global digital cable homes at end-2005, though this figure will fall to 31% by 2010.

IPTV is a relatively new form of delivery. Much of its growth has come from incumbent telcos finding new ways to deliver TV signals, especially after the European telcos were ordered to dispose of their cable interests by regulators. DSL upgrades are relatively cheap to carry out and TV signals are an easy add-on to high-speed internet offers, so fast growth is expected in some countries, especially those with low cable penetration.

There were fewer than three million IPTV subs by end-2005 . However, this figure is forecast to rise to 25.9 million by 2010, with Asia Pacific and Europe providing 81% of the total, equivalent to 21 million subs. However, despite the rapid increase, IPTV is only ever expected to be a relatively niche TV delivery platform. By 2010, 2% of the world's households will take these signals.

DTT is also a relatively marginal player at present. However, this situation is likely to change over the next decade as governments license new services and require that analogue transmissions switch over. DTT homes are those that are DTT-only, having been calculated from those not receiving cable, DTH or IPTV signals. DTT in most countries is likely to be non-subscription. From 1.4 million homes in 2000, the global total climbed to 18.2 million by end-2005 and will exceed 45 million by 2010.

In addition to greater clarity of audio and video – and an almost inexhaustible number of channel slots – the conversion to digital allows for the introduction of new, potentially lucrative services such as true video-on-demand (VOD).

The technical ability to offer video 'at the touch of a button' exists in most parts of the world. However, numerous factors have impacted on this seemingly simple concept, to the extent that the prospect of the latest premium content being available instantaneously is still a long-term aspiration in most markets . This is not to suggest that operators around the world have not made notable gains into the sector, only that the most successful operators have created a business model largely on less valuable content that is available for free.

One major difference between VOD and hard format is the window following theatrical release. Concerns regarding the release window for VOD reflect apprehension in the movie industry about the interests of distributors and exhibitors. Movie studios have benefited considerably from DVD sales, with some movies generating higher revenues from DVD sales and rental than at the cinema. This means any calls for simultaneous release windows for DVD and VOD are unlikely to bear fruit.

A possible way to drive ancillary revenues could come through t-commerce such as the purchase of goods related to the content being viewed. For movies this could be a hard copy, for music videos a consumer may purchase a CD while TV shows could also result in a hard copy purchase.

In October 2005 it was widely reported that three major U.S. TV networks were looking to offer on demand prime time programming by mid-2006. The three networks – ABC, NBC and CBS – have been in talks with cable operators in the U.S. about their content being added to the operators' offerings. This move would suggest the broadcast networks are warming to VOD in the same way as the Hollywood movie studios. Apple's introduction of its video iPod in October 2005 included a deal with Disney for the purchase of current and past episodes of *Desperate Housewives* and *Lost*, as well as the drama series *Night Stalker* and the two most popular shows from Disney Channel, *That's So Raven* and *The Suite Life of Zack & Cody* for $1.99 per episode via iTunes.

In the UK merged cable operators NTL and Telewest both launched VOD services in 2005. NTL initially launched its service in Glasgow to 75,000 consumers and has steadily increased the number of served locations. According to the company it has been satisfied with the service's performance. For its most advanced regions it has more than 50% of its subscribers using it. In 2H 2005 the average usage per customer per month, including free and paid content, was between six and eight times.

Telewest launched its service to a limited number of 2,100 digital TV customers in Bristol. From July 2005 the cable operator expanded the service not only territorially but also with new packages. In addition to its movie on-demand offering, the new packaging model offers PPV on-demand, subscription options in addition to free content.

In contrast to some of the U.S. VOD providers, NTL has found that free content is not necessarily a big driver for pay content amongst its customers. According to the company, about one third of its VOD users only view free content, a further third view only pay content and the remainder use both. Although NTL expected high use of free content it suggests that its 'strong' NVOD service has already familiarised its subscribers with the concept of paying for content.

While the early findings for NTL differ to the U.S. cable operators, one of the important lessons that VOD providers have learnt from the U.S. deployments is the importance of creating a seamless experience. VOD is a simple offering, but from an operational point of view there needs to be integration within the overall TV provision.

According to Terri Richardson, vice-president for product management at C-Cor, the cable technology and VOD system supplier, the lessons they have learnt is that "you cannot underestimate the amount of system integration needed in each new settop box to support

each new interactive TV or software application. It is still relatively early in terms of the overall seamlessness of the applications in the sense of the end-to-end value chain and from the perspective of ingesting content from the media archives to the video servers and then automating the distribution process through an open network. Our efforts are now to improve the seamless integration and automation of tasks related to content management and distribution."

For Telewest the main lesson learnt in deploying VOD has also been about the importance of service integration. According to the company many of the technology questions have been solved but the most complex piece of a VOD deployment has been around integration with its subscriber management system and the software that drives the content management, such as the provisioning and billing and authentication of subscribers.

Platform offerings

The number of platforms offering VOD content has increased considerably in a short frame of time. Most of the platforms differ due to technical limitations. Each has its distinct advantages and disadvantages. The delivery methods for on-demand services include:

- Cable
- DSL
- FTTH
- Satellite/DTH
- Digital Terrestrial
- Wireless Local Loop
- 3G
- Internet

The most technically advanced platform for VOD is fibre-to-the-home (FTTH). The high two-way capacity allows for the delivery of true VOD. While FTTH has few technical disadvantages, most markets already have a co-axial cable infrastructure in place, which supports on-demand functionality. Although technically inferior, the presence of these networks continues to make the rollout of FTTH in most markets something of an expensive luxury.

VOD via cable has started to prove profitable for operators. North America remains the most advanced region and is considered by other European and Asia-Pacific-based operators as a potential model for the rollout of local services. Although cable seems best placed to exploit on-demand services, it has some limitations. Networks based on the tree-and-branch system (even upgraded ones) do not support point-to-point connections and treat VOD as an extension of conditional access.

While a small number of standalone services may succeed, the on-demand model is proving to be most successful as an add-on, bundled with other services, such as pay TV, interactive services, internet access and IP telephony, irrespective of delivery platform.

Typical high-speed applications and bandwidth requirements

Applications	Downstream bandwidth	Upstream bandwidth
Music and video downloads	High	Low
Real-time music and video streaming	Medium	Low
Shopping online/personal banking	Medium	Low
Games	High	Medium
Internet telephony	Low	Low
Videoconferencing	High	High
Document transfer	High	High

Source: Informa Telecoms & Media

There is general agreement that the business model of a VOD service need not be different for cable and telco operators. However, the platforms, both capable of deploying VOD, have their own advantages and limitations. In terms of VOD deployments, depending on network architecture, both are able to provide high levels of reliability. Although the cable platform is more advanced in terms of deployments, telcos have begun to focus on VOD. Some within the sector believe that telcos are going to be more positive about the technology and could ultimately take a significantly higher number of subscribers than cable.

One major point of debate regarding the deployment of VOD is about the most effective architecture. The decision about which architecture is best suited to stream VOD content does not necessarily depend on the platform, but more on other issues such as the bandwidth, geographical location, amount of content, type of content and the costs.

Some believe that IP networks are in the best position to take advantage of a distributed architecture. Almost all telcos are deploying this type, as it allows the provider to optimise content more demographically, rather than adopting a one size fits all. However, a centralised architecture provides advantages of savings on storage costs by needing just one storage facility in one location. This would seem better for cable.

However, UK cable operator NTL has built its VOD system using a distributed architecture. NTL's argument is that it makes more sense to distribute content 'closer to the edge' as it is cheaper than centralised storage. As it is dealing with mainstream mass market content, there is no need to have a centralised architecture. NTL points out that the situation may change in the future because of changing costs of storage and transport or, in the case of more content being made available, the tailoring of niche content.

Seachange, the U.S. VOD system supplier, suggests that operators will never be able to deploy video streaming if they utilise a single network architecture. According to Tom Rosenstein, director of strategic alliances at Seachange, one thing required in the video streaming system is "the ability to manage the number of dispersed systems. You need to look at what the video library, archives look like – how many users are expecting to access them. The way our system is developed is that we can support a centralised or distributed environment".

Seachange considers that, to ensure a VOD system is scalable, the software used to run the service must allow for new, incremental services and applications. This allows operators to continue innovating using new technologies and services to further increase revenues and lower costs.

Leading VOD system specialists agree that the main technological advances that have helped them to deploy and maintain VOD services more efficiently and economically have been the dramatic decrease in costs of transport, software and hardware components; the decrease in the costs of streams and the increase in bandwidth capacity. These innovations apply to both cable and DSL VOD platforms.

The other current major advance is around bandwidth efficiency. This has largely been driven by the move towards advanced codecs. That, according to some is one of the main reasons why European VOD will greatly increase. Advanced codecs allows providers to offer the same quality of picture with half of the bandwidth and half of the storage capacity. This reduction in bandwidth, according to those involved in such technology is likely to halve again in the next few years.

On-demand variations

Although on-demand technology systems have been established for several years, some confusion still surrounds the term 'on-demand'. Purists talk of 'true' on-demand services in the context of a very wide content choice and VCR-style capability. However, NVOD services, offering top movies on a staggered basis, have had a head start and boast more subscribers than true VOD.

NVOD/PPV represents a linear push model, scheduled at a certain time and with the settop box as the key gatekeeper allowing access to content. In contrast, VOD constitutes a genuine push model, with content generally accessed through a central server at the viewer's convenience.

True video-on-demand (VOD)

Viewers have full control over when and where (in the case of internet-based distribution) they want to watch content. In a TV environment, viewers select titles from a library (typically comprising 250-3,500 titles) via an on-screen menu and the remote control. True VOD has VCR functionality, which means viewers can stop, pause, fast-forward and rewind. While a television VOD service represents a pre-filtered, walled-garden application, a broadband internet service potentially has full access to all titles available online.

VOD applications can come in either pre-cached or streamed format. The pre-cached model involves content being stored at the edge of the network or on a consumer's settop box

(having been previously broadcast/downloaded) – customers have instant access to movies. Streamed content, however, requires up to 10Mbps of bandwidth to deliver a movie to the home, although improved compression technology, such as MPEG-4, can cut this requirement to about 2-3Mbps. Cached content at the edge of the network or locally stored content reduces bandwidth requirements and costs and increases reliability.

Near video-on-demand (NVOD)

Also called staggered VOD or staggercasting. This form of service usually comprises programmes transmitted as part of a schedule, usually at staggered intervals of 10-30 minutes. This means consumers cannot access the service immediately, but have to wait until the selected title next begins. A set number of channels are reserved on a digital TV platform for NVOD/PPV services. If titles are offered at 15-minute intervals, eight channels would be required to show a two-hour movie. S-VOD is a variant of NVOD, in which users pay a flat fee for unlimited on-demand access to a pool of titles over a specific time period, rather than for individual titles as is the case with NVOD.

Pay-per-view (PPV)

PPV is, confusingly, used to describe three separate concepts within the TV industry. First, it is used as a generic term for any programme that is accessed through payment of an extra fee.

Secondly, PPV also signifies live or exclusive one-off events, such as football matches, concerts or movie premieres that involve a specific additional payment. Such events are deemed 'too special' for a standard service or are in some way excluded from the other offerings – perhaps because of a rights deal. It is sometimes also called pay-per-play, particularly in an internet context.

Finally, PPV is also used to describe a NVOD-style staggered content service, but with a more restricted choice of content. In this context, a PPV service is usually analogue-based and offers staggered content across fewer than 10 channels – meaning that a service using 10 or more channels would be described as NVOD.

Internet-on-demand

On-demand content on the internet operates in a different way to TV-based VOD. The term purely indicates that pre-recorded content is available on-demand. With the exception of porn sites and some niche or B2B services, content delivery did not usually involve a fee until recently. But the sector has undergone radical change, as the majors, in the guise of MovieLink and CinemaNow continue to warm to the market.

Push and pull

The technology behind many digital initiatives is of no importance to the average consumer. The same could be said for the two categories of VOD – push and pull.

True VOD offers consumers a genuine pull model with content made available through a central server at the consumer's whim. In contrast, push models, largely introduced by satellite operators and marketed as home video rental services require the installation of a DVR. Content is transferred to a subscribers' DVR when bandwidth allows for the transfer, normally overnight. Assuming the capacity of the DVR is sufficient, the range of content can usually satisfy most consumers.

One clear advantage pull models have over push VOD service is the range of content available. Theoretically, a pull VOD service is only limited by the capacity of the hosting server. In contrast, push models require high capacity DVRs in order to compete. However, questions still remain as to whether the depth of content is the main driver of uptake. According to operators, the majority of premium movies ordered via VOD are those that have proved popular via PPV and NVOD. This suggests that a large capacity DVR is enough to counter the greater flexibility of true VOD.

However, the concern with the rise in DVR penetration is the potential loss of advertising revenues. Some DVR services include the ability to skip advertising in their marketing material. ReplayTV in the U.S., for example, offers a facility allowing users to fast forward in increments of 30 seconds.

On-demand activity

By early 2006 pay TV subscribers in the U.S. are well served by a variety of on-demand TV offerings. Most of the larger cable providers have established a VOD business model that mixed transactional with subscription and free on-demand content. The introduction of VOD services has allowed the cable operators to make up some ground on their satellite rivals, which account for slightly less than half of the country's digital TV subscribers.

However, some have questioned whether cable VOD has been the "success" claimed in many quarters, given that the vast majority of available content is free to view. Cable operators counter this by suggesting the offer of free content via VOD reduces churn and should be viewed as an ongoing process that firstly introduces the consumer to the world of VOD then shifts the balance more towards paid content.

Because of technical limitations, the DTH operators DirecTV and EchoStar are unable to offer true VOD. However, like several satellite operators, they both offer a DVR-based 'virtual VOD' service. As expected, DirecTV withdrew support for TiVo and introduced its

own-branded DVR model to coincide with the launch of its download-on-demand facility. EchoStar introduced its DISH On Demand service in March 2005.

High satellite and cable penetration in the U.S. means the launch of a third digital TV delivery platform will prove difficult. However, this has not prevented telcos from making plans to introduce IPTV and VOD services. Technical delays have resulted in the postponement of SBC's introduction, although a launch is likely in early 2006. Verizon's IPTV service, which will also incorporate VOD, is scheduled to beat SBC to market. In addition to IPTV, Verizon has launched a movie download service for its FiOS broadband subscribers in partnership with Movielink. BellSouth confirmed in August 2005 that it was examining the business case for the launch of an IPTV service in mid-2006.

Although the rollout of digital satellite across Europe has matched the U.S., many territories' digital cable progress lags behind. Because of this, the rollout of VOD via cable is at an early stage of development. However, several European operators are looking to repeat the rollouts in the U.S. in the hope of scoring similar benefits. In the UK, the soon to be merged NTL and Telewest have both launched a VOD service, while the region's largest MSO UGC is looking to rollout a service in the Netherlands before end-2006, extending this to other markets if successful.

In a similar move to the two U.S. satellite operators, several European DTH platforms have looked to capitalise on cable's slower rollout with DVR-based push services. BSkyB in the UK continues to experience growth in subscribers to its Sky Plus DVR service, although take up slowed in 1H 2005.

Premiere in Germany soft-launched a push VOD service in June 2005 and is looking to expand the service through aggressive marketing and the replacement of its installed base of D-Boxes over the next three years. Sky Italia launched a DVR in September 2005 and in France both DTH operators were looking to introduce a push VOD service in late 2005. Spain's Digital + DTH service is expected to introduce a DVR early in 2006.

Several territories in Europe have seen a sharp uptake in DTT penetration, making the creation of a fourth DSL-based digital platform that much more difficult. The UK's incumbent telco BT is set to launch a hybrid broadband TV service in the summer of 2006, combining broadcast TV from Freeview with VOD content delivered over DSL. The Dutch incumbent carrier KPN launched a similar service in October 2004. TV over DSL in the UK was first introduced by Hull-based Kingston Communications, rolling out its Kingston Interactive Television (KIT) offering in the Hull region at the beginning of 2000. This was followed by Video Networks' Homechoice VOD service in October of the same year.

France is Europe's most advanced TV-over-DSL market. France Telecom has forecast that its MaLigne TV service exceeded 200,000 subscribers at end-2005 from a potential reach of 10

million homes. MaLigne TV competes with Free, the service offered by the country's largest independent ISP Iliad and Neuf Telecom's Neuf TV.

IP-based video services have also proved popular in Asia Pacific with several services already launched and many others at the trial stage. Positive moves by governments in several of the region's territories have resulted in high penetration in countries such as South Korea. Many networks run at high speed, making it particularly well suited to TV delivery. In China, and to a lesser extent India, the region also has broadband markets of enormous potential.

Satellite operators Dish TV in India and pay-TV dominant Astro of Malaysia were looking to launch push VOD services in 4Q 2005 and 1Q 2006 respectively. In an effort to compete, all the leading Indian cable operators have hastened moves towards digitisation.

The acceleration of digital rollout in Japan resulted in J-Com increasing its digital subscriber penetration to 25.7% by end-June 2005. J-Com had extended its VOD offering to all its franchise areas by July 2005, having first introduced its VOD service to subscribers in the Nerima area of Tokyo.

Sector analysis

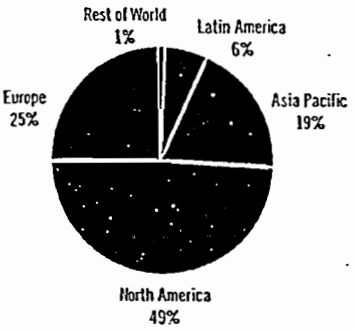
The ten years to end-2010 will see a 76.1% increase in the number of pay TV subscribers. This compares with an 11.7% rise in the number of TV households in the same period. The increase in the popularity of pay TV will result in subscription revenues more than doubling, from $75.8 billion in 2000 to $162.2 billion in 2010. Moreover, the marked rise of PPV revenues will put total TV revenues to $173.2 billion in 2010, equivalent to an average annual increase since 2000 of 8.4%.

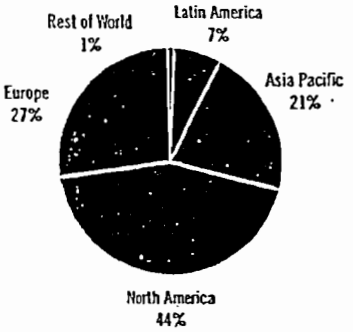
Global pay TV details

	2000	2002	2004	2006	2008	2010
TV households (000)	1,121,468	1,150,786	1,176,730	1,201,858	1,227,580	1,253,739
Pay TV subs (000)	341,482	399,289	463,788	505,951	552,552	601,548
Subs/TV households (%)	30.4	34.7	39.4	42.1	45.0	48.0
Digital homes (000)	51,357	79,711	116,090	178,757	285,234	390,516
Digital subs/TV households (%)	4.6	6.9	9.9	14.9	23.2	31.1
Basic/premium revenues ($ mil.)	75,848.1	93,108.1	108,944.1	125,668.1	143,205.1	162,202.6
PPV movie revenues ($ mil.)	1,261.7	2,037.6	2,697.7	4,417.5	7,129.2	10,956.1
Total revenues ($ mil.)	77,109.8	95,145.7	111,641.7	130,085.6	150,334.3	173,158.7

Source: Informa Telecoms & Media

Share of total revenues by region in 2005 and 2010 (%)





Source: Informa Telecoms & Media

A third of the world's TV homes will receive digital signals by 2010, equivalent to nearly 400 million households. This indicates that digital growth will accelerate as the decade progresses, especially outside North America and western Europe.

North America accounted for 44% of the world's digital TV households at end-2005, down four percentage points on the previous year. However, this proportion will fall below 30% by the end of 2010, with Europe accounting for 30%. Asia will become the dominant continent by 2010, accounting for 36% of the total.

North America pay TV details

	2000	2002	2004	2006	2008	2010
TV households (000)	113,931	118,643	121,475	123,107	124,762	126,439
Pay TV subs (000)	93,923	103,892	109,074	115,258	119,668	123,141
Subs/TV households (%)	82.4	87.6	89.8	93.6	95.9	97.4
Digital homes (000)	26,473	42,806	56,128	75,655	97,323	114,892
Digital subs/TV households (%)	23.2	36.1	46.2	61.5	78.0	90.9
Basic/premium revenues ($ mil.)	42,045.6	49,366.8	54,359.8	60,115.7	65,402.8	70,377.8
PPV movie revenues ($ mil.)	616.5	1,030.3	1,308.2	2,108.3	3,168.1	4,735.3
Total revenues ($ mil.)	42,662.0	50,397.1	55,668.0	62,224.0	68,570.9	75,113.1

Source: Informa Telecoms & Media

Virtually all of Europe's territories have long since reached saturation point in terms of TV households. As such, the number of TV households is set to increase by just 3.4% in the ten years to 2010. Digital penetration of TV households is forecast to reach 32.9% at end-2010, compared with just 5.4% at end-2000. Total revenues from subscriptions and PPV movies in the region will increase at an average annual rate of 10.3% between 2000 and 2010.

Europe pay TV details

	2000	2002	2004	2006	2008	2010
TV households (000)	342,498	344,243	346,864	349,271	351,655	354,043
Pay TV subs (000)	85,530	97,360	107,624	117,657	128,459	139,121
Subs/TV households (%)	25.0	28.3	31.0	33.7	36.5	39.3
Digital homes (000)	18,384	26,036	39,389	59,153	86,855	116,308
Digital subs/TV households (%)	5.4	7.6	11.4	16.9	24.7	32.9
Basic/premium revenues ($ mil.)	17,240.4	22,171.1	26,374.6	31,290.5	36,824.5	42,907.5
PPV movie revenues ($ mil.)	536.5	797.6	1,013.7	1,681.1	2,855.2	4,497.2
Total revenues ($ mil.)	17,776.9	22,968.7	27,388.3	32,971.6	39,679.7	47,404.7

Source: Informa Telecoms & Media

Although Asia Pacific will have the largest number of digital TV homes of all the regions in 2010, total revenues from subscriptions and PPV movies will remain third behind North America and Europe. Of the total TV households, the digital share is forecast to reach 23.5% by 2010, compared with less than 1% in 2000.

Asia Pacific: TV sales ($ million)

Global total	2000	2002	2004	2006	2008	2010
TV households (000)	523,629	542,213	557,786	573,410	589,470	606,010
Pay TV subs (000)	142,236	176,764	223,595	246,999	275,391	306,547
Subs/TV households (%)	27.2	32.6	40.1	43.1	46.7	50.6
Digital homes (000)	3,862	6,316	14,039	34,819	88,352	142,393
Digital subs/TV households (%)	0.7	1.2	2.5	6.1	15.0	23.
Basic/premium revenues ($ mil.)	10,414.6	15,161.2	20,718.0	25,132.5	29,937.5	35,420.9
PPV movie revenues ($ mil.)	68.4	103.3	201.5	347.9	684.3	1,123.3
Total revenues ($ mil.)	10,483.0	15,264.4	20,919.5	25,480.4	30,621.7	36,544.2

Source: Informa Telecoms & Media

Latin America: TV sales ($ million)

Global total	2000	2002	2004	2006	2008	2010
TV households (000)	92,040	95,031	98,159	101,283	104,253	106,692
Pay TV subs (000)	17,398	18,293	19,701	21,608	23,891	26,889
Subs/TV households (%)	18.9	19.2	20.1	21.3	22.9	25.2
Digital homes (000)	2,408	3,701	4,761	6,630	9,374	12,770
Digital subs/TV households (%)	2.6	3.9	4.9	6.5	9.0	12.0
Basic/premium revenues ($ mil.)	5,427.3	5,447.6	6,273.9	7,601.7	9,167.0	11,251.9
PPV movie revenues ($ mil.)	40.3	73.4	101.8	165.7	258.1	387.4
Total revenues ($ mil.)	5,467.6	5,521.0	6,375.7	7,767.4	9,425.0	11,639.3

Source: Informa Telecoms & Media

Rest of the World: TV sales ($ million)

Global total	2000	2002	2004	2006	2008	2010
TV households (000)	49,370	50,656	52,446	54,787	57,440	60,555
Pay TV subs (000)	2,395	2,980	3,794	4,430	5,143	5,851
Subs/TV households (%)	4.9	5.9	7.2	8.1	9.0	9.7
Digital homes (000)	229	851	1,773	2,500	3,331	4,152
Digital subs/TV households (%)	0.5	1.7	3.4	4.6	5.8	6.9
Basic/premium revenues ($ mil.)	720.2	961.5	1,217.7	1,527.7	1,873.3	2,244.5
PPV movie revenues ($ mil.)	0.0	33.0	72.5	114.5	163.6	212.9
Total revenues ($ mil.)	720.2	994.5	1,290.2	1,642.2	2,037.0	2,457.4

Source: Informa Telecoms & Media

TV revenues ($ million)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
U.S.											
TV Households (000)	102,200	105,500	106,700	108,400	109,159	109,923	110,692	111,467	112,247	113,033	113,824
Pay TV Subs (000)	84,334	90,331	93,938	95,702	99,038	101,958	104,875	107,020	108,906	110,881	111,987
Subs/TV Households (%)	82.5	85.6	88.0	88.3	90.7	92.8	94.7	96.0	97.0	98.1	98.4
Digital Homes (000)	24,744	32,680	39,346	44,994	51,719	59,066	69,385	79,535	89,103	98,011	104,688
Digital Subs/TV Households (%)	24.2	31.0	36.9	41.5	47.4	53.7	62.7	71.4	79.4	86.7	92.0
Basic/Premium Revenues (US$ mil.)	37,878.5	41,356.6	44,796.7	47,121.7	49,486.0	52,229.0	54,925.2	57,477.3	59,803.1	62,153.1	64,337.5
PPV Movie Revenues (US$ mil.)	567.2	768.8	915.9	1,004.8	1,173.4	1,375.0	1,906.0	2,280.5	2,890.0	3,521.1	4,299.9
Total Revenues (US$ mil.)	**38,445.7**	42,125.4	45,713.7	48,126.4	50,659.4	53,604.0	56,831.2	59,757.8	62,693.1	65,674.1	68,637.4
Japan											
TV Households (000)	42,871	43,012	43,154	43,296	43,439	43,583	43,726	43,871	44,015	44,161	44,305
Pay TV Subs (000)	12,385	14,661	17,571	19,218	21,214	22,894	24,628	26,491	28,271	29,936	31,566
Subs/TV Households (%)	28.9	34.1	40.7	44.4	48.8	52.5	56.3	60.4	64.2	67.8	71.2
Digital Homes (000)	2,144	2,527	3,012	3,252	5,418	10,087	13,325	18,784	24,261	30,107	34,938
Digital Subs/TV Households (%)	5.0	5.9	7.0	7.5	12.5	23.1	30.5	42.8	55.1	68.2	78.9
Basic/Premium Revenues (US$ mil.)	5,326.3	6,129.0	7,319.8	8,367.8	9,265.2	10,194.5	11,105.4	12,120.1	13,202.4	14,277.0	15,352.4
PPV Movie Revenues (US$ mil.)	62.7	66.0	73.0	76.5	81.2	101.1	145.0	232.0	344.6	498.2	636.4
Total Revenues (US$ mil.)	**5,389.0**	6,195.0	7,392.8	8,444.3	9,346.4	10,295.7	11,250.4	12,352.1	13,547.0	14,775.2	15,988.9
UK											
TV Households (000)	24,223	24,344	24,465	24,588	24,711	24,834	24,958	25,083	25,209	25,335	25,461
Pay TV Subs (000)	8,196	9,129	9,659	10,153	10,574	11,156	11,833	12,610	13,402	14,164	14,932
Subs/TV Households (%)	33.8	37.5	39.5	41.3	42.8	44.9	47.4	50.3	53.2	55.9	58.6
Digital Homes (000)	6,514	8,760	9,657	12,216	14,380	15,834	17,194	18,385	19,647	20,716	21,471
Digital Subs/TV Households (%)	26.9	36.0	39.5	49.7	58.2	63.8	68.9	73.3	77.9	81.8	84.3
Basic/Premium Revenues (US$ mil.)	3,157.1	4,224.1	4,731.4	5,158.7	5,558.1	5,979.4	6,482.3	7,055.8	7,682.2	8,328.5	8,992.4
PPV Movie Revenues (US$ mil.)	201.9	298.7	326.1	339.6	367.0	416.1	488.6	558.5	621.6	742.3	852.0
Total Revenues (US$ mil.)	3,359	4,523	5,057	5,498	5,925	6,395	6,971	7,614	8,304	9,071	9,844

Note: All figures refer to year-end

Source: Informa Telecoms & Media

TV revenues ($ million) (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Germany											
TV Households (000)	34,391	34,563	34,100	34,370	34,540	34,713	34,886	35,061	35,236	35,412	35,589
Pay TV Subs (000)	21,735	22,624	23,820	25,410	27,162	28,242	29,106	30,147	31,227	32,274	33,353
Subs/TV Households (%)	63.2	65.5	69.9	73.9	78.6	81.4	83.4	86.0	88.6	91.1	93.7
Digital Homes (000)	2,319	2,471	2,714	3,195	5,202	6,280	7,828	11,914	16,589	21,334	24,876
Digital Subs/TV Households (%)	6.7	7.1	8.0	9.3	15.1	18.1	22.4	34.0	47.1	60.2	69.9
Basic/Premium Revenues (US$ mil.)	4,625.8	4,889.1	5,208.8	5,730.4	6,252.2	6,714.6	7,059.5	7,459.8	7,859.5	8,292.2	8,803.8
PPV Movie Revenues (US$ mil.)	58.4	61.1	64.8	72.6	89.4	116.5	162.0	281.8	479.9	714.2	943.0
Total Revenues (US$ mil.)	4,684.2	4,950.2	5,273.7	5,802.9	6,341.7	6,831.1	7,221.5	7,741.6	8,349.4	9,006.5	9,746.8
Canada											
TV Households (000)	11,731	11,848	11,943	12,267	12,315	12,365	12,415	12,464	12,514	12,564	12,615
Pay TV Subs (000)	9,589	9,995	9,955	10,080	10,036	10,199	10,383	10,571	10,762	10,956	11,153
Subs/TV Households (%)	81.7	84.4	83.4	82.2	81.5	82.5	83.6	84.8	86.0	87.2	88.4
Digital Homes (000)	1,729	2,883	3,461	3,966	4,409	5,331	6,270	7,231	8,221	9,196	10,204
Digital Subs/TV Households (%)	14.7	24.3	29.0	32.3	35.8	43.1	50.5	58.0	65.7	73.2	80.9
Basic/Premium Revenues (US$ mil.)	4,167.1	4,413.5.	4,570.1	4,757.1	4,873.8	5,001.9	5,190.5	5,391.2	5,599.7	5,815.9	6,040.3
PPV Movie Revenues (US$ mil.)	49.3	82.6	113.4	123.5	134.7	157.3	202.4	237.6	278.1	361.1	435.4
Total Revenues (US$ mil.)	4,216.3	4,496.1	4,683.5	4,880.6	5,008.5	5,159.2	5,392.8	5,628.8	5,877.7	6,177.0	6,475.7
China											
TV Households (000)	323,840	327,726	331,659	335,639	339,666	343,742	347,867	352,042	356,266	360,541	364,868
Pay TV Subs (000)	85,000	92,000	100,000	110,050	128,000	134,400	141,427	149,505	158,358	167,874	178,228
Subs/TV Households (%)	26.2	28.1	30.2	32.8	37.7	39.1	40.7	42.5	44.4%	46.6%	48.8%
Digital Homes (000)	0	0	50	300	480	3,360	7,363	20,256	38,572	54,386	67,665
Digital Subs/TV Households (%)	0.0	0.0	0.0	0.1	0.1	1.0	2.1	5.8	10.8%	15.1%	18.5%
Basic/Premium Revenues (US$ mil.)	1,574.6	1,772.1	1,979.9	2,880.8	3,352.8	3,818.0	4,134.0	4,491.7	4,895.7	5,342.8	5,838.4
PPV Movie Revenues (US$ mil.)	0.0	0.0	0.0	0.0	0.5	2.4	6.8	17.9	39.0	63.7	86.4
Total Revenues (US$ mil.)	1,574.6	1,772.1	1,979.9	2,880.8	3,353.2	3,820.3	4,140.8	4,509.6	4,934.8	5,406.5	5,924.9

Note: All figures refer to year-end
Souce:Informa Telecoms & Media

TV revenues ($ million) (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
France											
TV Households (000)	21,960	22,048	22,136	22,224	22,313	22,402	22,492	22,582	22,672	22,763	22,854
Pay TV Subs (000)	5,974	6,557	7,122	7,513	8,130	8,705	9,401	10,148	10,844	11,541	12,052
Subs/TV Households (%)	27.2%	29.7%	32.2%	33.8%	36.4%	38.9%	41.8%	44.9%	47.8%	50.7%	52.7%
Digital Homes (000)	3,449	3,982	4,486	4,874	5,573	6,990	8,281	9,617	11,492	13,023	14,651
Digital Subs/TV Households (%)	15.7%	18.1%	20.3%	21.9%	25.0%	31.2%	36.8%	42.6%	50.7%	57.2%	64.1%
Basic/Premium Revenues (US$ mil.)	1,895.0	2,172.5	2,423.1	2,646.9	2,896.1	3,192.3	3,511.2	3,876.0	4,252.1	4,627.9	4,972.3
PPV Movie Revenues (US$ mil.)	148.0	158.5	155.5	152.5	171.4	194.5	248.1	286.1	366.1	449.2	542.5
Total Revenues (US$ mil.)	**2,042.9**	**2,331.0**	**2,578.6**	**2,799.4**	**3,067.5**	**3,386.8**	**3,759.4**	**4,162.2**	**4,618.2**	**5,077.1**	**5,514.8**
Italy											
TV Households (000)	20,975	21,017	21,059	21,101	21,143	21,185	21,228	21,270	21,313	21,355	21,398
Pay TV Subs (000)	2,007	1,800	2,594	2,568	3,321	4,139	4,797	5,460	6,069	6,729	7,392
Subs/TV Households (%)	9.6%	8.6%	12.3%	12.2%	15.7%	19.5%	22.6%	25.7%	28.5%	31.5%	34.5%
Digital Homes (000)	2,007	1,800	2,594	2,568	4,191	6,270	7,672	9,017	9,880	10,751	11,944
Digital Subs/TV Households (%)	9.6%	8.6%	12.3%	12.2%	19.8%	29.6%	36.1%	42.4%	46.4%	50.3%	55.8%
Basic/Premium Revenues (US$ mil.)	722.2	912.8	1,084.2	1,306.9	1,521.3	1,967.7	2,405.7	2,817.7	3,231.6	3,659.9	4,119.7
PPV Movie Revenues (US$ mil.)	39.6	55.2	56.8	71.8	82.9	106.7	142.6	169.8	210.2	242.9	309.1
Total Revenues (US$ mil.)	**761.8**	**968.1**	**1,141.0**	**1,378.7**	**1,604.3**	**2,074.4**	**2,548.3**	**2,987.5**	**3,441.8**	**3,902.8**	**4,428.8**
Mexico											
TV Households (000)	17,510	17,832	18,217	18,581	18,953	19,332	19,660	19,975	20,294	20,619	20,659
Pay TV Subs (000)	3,236	3,699	3,768	4,167	4,825	5,132	5,425	5,727	6,038	6,358	6,676
Subs/TV Households (%)	18.5%	20.7%	20.7%	22.4%	25.5%	26.5%	27.6%	28.7%	29.8%	30.8%	32.3%
Digital Homes (000)	693.7	1,010.5	1,258.8	1,475.1	1,925.2	2,363.8	2,711.8	3,097.1	3,589.6	4,129.2	4,827.5
Digital Subs/TV Households (%)	4.0%	5.7%	6.9%	7.9%	10.2%	12.2%	13.8%	15.5%	17.7%	20.0%	23.4%
Basic/Premium Revenues (US$ mil.)	864.7	1,024.2	1,138.3	1,235.9	1,457.4	1,689.5	1,863.8	2,046.0	2,242.2	2,452.9	2,675.8
PPV Movie Revenues (US$ mil.)	18.5	28.2	39.9	50.1	64.4	84.5	103.8	123.2	144.9	169.1	196.0
Total Revenues (US$ mil.)	**883.1**	**1,052.5**	**1,178.2**	**1,286.0**	**1,521.8**	**1,773.9**	**1,967.6**	**2,169.1**	**2,387.1**	**2,622.0**	**2,871.8**

Note: All figures refer to year-end

Souce: Informa Telecoms & Media

TV revenues ($ million) (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Spain											
TV Households (000)	13,068	13,094	13,120	13,147	13,173	13,199	13,226	13,252	13,279	13,305	13,332
Pay TV Subs (000)	1,882	2,507	2,845	2,793	2,924	3,314	3,668	4,052	4,432	4,747	5,065
Subs/TV Households (%)	14.4%	19.1%	21.7%	21.2%	22.2%	25.1%	27.7%	30.6%	33.4%	35.7%	38.0%
Digital Homes (000)	1,835	2,246	2,027	1,896	1,975	2,449	2,935	3,611	4,307	4,953	5,608
Digital Subs/TV Households (%)	14.0%	17.2%	15.4%	14.4%	15.0%	18.6%	22.2%	27.3%	32.4%	37.2%	42.1%
Basic/Premium Revenues (US$ mil.)	767.6	1,028.1	1,249.4	1,313.0	1,331.0	1,473.3	1,695.6	1,926.9	2,177.4	2,419.9	2,655.3
PPV Movie Revenues (US$ mil.)	28.4	33.5	42.7	40.1	48.5	58.9	71.4	82.7	104.6	129.4	164.7
Total Revenues (US$ mil.)	796.1	1,061.6	1,292.1	1,353.2	1,379.5	1,532.2	1,767.0	2,009.6	2,282.0	2,549.3	2,820.0
Brazil											
TV Households (000)	36,868	37,458	38,057	38,666	39,285	39,913	40,552	41,160	41,737	42,279	42,786
Pay TV Subs (000)	3,442	3,554	3,519	3,548	3,691	3,828	4,022	4,241	4,517	4,897	5,341
Subs/TV Households (%)	9.3%	9.5%	9.2%	9.2%	9.4%	9.6%	9.9%	10.3%	10.8%	11.6%	12.5%
Digital Homes (000)	1,067	1,189	1,199	1,247	1,368	1,484	1,713	2,388	2,841	3,319	3,851
Digital Subs/TV Households (%)	2.9%	3.2%	3.2%	3.2%	3.5%	3.7%	4.2%	5.8%	6.8%	7.9%	9.0%
Basic/Premium Revenues (US$ mil.)	1,046.7	1,187.6	1,061.0	1,202.6	1,294.6	1,413.0	1,543.9	1,713.7	1,907.6	2,154.1	2,461.3
PPV Movie Revenues (US$ mil.)	19.0	24.0	26.7	28.7	32.3	36.9	43.1	53.3	65.9	80.8	98.4
Total Revenues (US$ mil.)	1,065.7	1,211.7	1,087.7	1,231.3	1,326.9	1,449.9	1,587.1	1,767.0	1,973.4	2,234.9	2,559.8
Australia											
TV Households (000)	6,847	6,915	6,984	7,054	7,125	7,196	7,268	7,341	7,414	7,488	7,563
Pay TV Subs (000)	1,344	1,481	1,445	1,520	1,662	1,775	1,898	2,070	2,322	2,621	2,953
Subs/TV Households (%)	19.6%	21.4%	20.7%	21.5%	23.3%	24.7%	26.1%	28.2%	31.3%	35.0%	39.1%
Digital Homes (000)	660	737	782	1,060	1,890	2,532	2,966	3,480	4,172	4,719	5,185
Digital Subs/TV Households (%)	9.6%	10.7%	11.2%	15.0%	26.5%	35.2%	40.8%	47.4%	56.3%	63.0%	68.6%
Basic/Premium Revenues (US$ mil.)	480.2	560.3	596.9	628.5	699.4	784.1	870.8	984.0	1,153.7	1,383.8	1,659.7
PPV Movie Revenues (US$ mil.)	0.0	0.0	0.0	32.5	44.1	57.8	68.0	81.4	98.1	117.5	138.5
Total Revenues (US$ mil.)	480.2	560.3	596.9	661.0	743.5	841.9	938.8	1,065.4	1,251.8	1,501.3	1,798.1

Note: All figures refer to year-end

Source: Informa Telecoms & Media

TV revenues ($ million) (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
North America											
TV Households (000)	113,931	117,343	118,643	120,667	121,475	122,288	123,107	123,932	124,762	125,598	126,439
Pay TV Subs (000)	93,923	100,326	103,892	105,782	109,074	112,156	115,258	117,591	119,668	121,838	123,141
Subs/TV Households (%)	82.4%	85.5%	87.6%	87.7%	89.8%	91.7%	93.6%	94.9%	95.9%	97.0%	97.4%
Digital Homes (000)	26,473	35,563	42,806	48,960	55,128	64,397	75,655	86,766	97,323	107,207	114,892
Digital Subs/TV Households (%)	23.2%	30.3%	36.1%	40.6%	46.2%	52.7%	61.5%	70.0%	78.0%	85.4%	90.9%
Basic/Premium Revenues (US$ mil.)	42,045.6	45,770.1	49,366.8	51,878.7	54,359.8	57,230.9	60,115.7	62,868.6	65,402.8	67,969.0	70,377.8
PPV Movie Revenues (US$ mil.)	616.5	851.4	1,030.3	1,128.3	1,308.2	1,532.3	2,108.3	2,518.1	3,168.1	3,882.2	4,735.3
Total Revenues (US$ mil.)	**42,662.0**	**46,621.5**	**50,397.1**	**53,007.0**	**55,668.0**	**58,763.2**	**62,224.0**	**65,386.7**	**68,570.9**	**71,851.2**	**75,113.1**
Europe											
TV Households (000)	342,498	343,692	344,243	345,635	346,864	348,070	349,271	350,460	351,655	352,847	354,043
Pay TV Subs (000)	85,530	91,324	97,360	101,931	107,624	112,802	117,657	123,037	128,459	133,846	139,121
Subs/TV Households (%)	25.0%	26.6%	28.3%	29.5%	31.0%	32.4%	33.7%	35.1%	36.5%	37.9%	39.3%
Digital Homes (000)	18,384	22,859	26,036	30,737	39,389	49,341	59,153	72,082	86,855	102,005	116,308
Digital Subs/TV Households (%)	5.4%	6.7%	7.6%	8.9%	11.4%	14.2%	16.9%	20.6%	24.7%	28.9%	32.9%
Basic/Premium Revenues (US$ mil.)	17,240.4	19,936.2	22,171.1	24,321.5	26,374.6	28,797.0	31,290.5	33,973.3	36,824.5	39,780.7	42,907.5
PPV Movie Revenues (US$ mil.)	536.5	711.9	797.6	871.1	1,013.7	1,274.5	1,681.1	2,185.5	2,855.2	3,642.6	4,497.2
Total Revenues (US$ mil.)	**17,776.9**	**20,648.0**	**22,968.7**	**25,192.6**	**27,388.3**	**30,071.5**	**32,971.6**	**36,158.7**	**39,679.7**	**43,423.3**	**47,404.7**
Asia Pacific											
TV Households (000)	523,629	530,831	542,213	549,699	557,786	565,638	573,410	581,373	589,470	597,700	606,010
Pay TV Subs (000)	142,236	159,881	176,764	196,011	223,595	234,396	246,999	260,937	275,391	290,554	306,547
Subs/TV Households (%)	27.2%	30.1%	32.6%	35.7%	40.1%	41.4%	43.1%	44.9%	46.7%	48.6%	50.6%
Digital Homes (000)	3,662	4,651	6,316	8,808	14,039	24,146	34,819	58,014	88,352	116,134	142,393
Digital Subs/TV Households (%)	0.7%	0.9%	1.2%	1.6%	2.5%	4.3%	6.1%	10.0%	15.0%	19.4%	23.5%
Basic/Premium Revenues (US$ mil.)	10,414.6	12,345.8	15,161.2	18,190.5	20,718.0	23,080.2	25,132.5	27,430.9	29,937.5	32,601.2	35,420.9
PPV Movie Revenues (US$ mil.)	68.4	87.1	103.3	166.4	201.5	262.1	347.9	496.1	684.3	912.9	1,123.3
Total Revenues (US$ mil.)	**10,483.0**	**12,432.9**	**15,264.4**	**18,356.8**	**20,919.5**	**23,342.3**	**25,480.4**	**27,927.0**	**30,621.7**	**33,514.1**	**36,544.2**

Note: All figures refer to year-end
Source: Informa Telecoms & Media

TV revenues ($ million) (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Latin America											
TV Households (000)	92,040	93,496	95,031	96,617	98,159	99,724	101,283	102,779	104,253	105,709	106,692
Pay TV Subs (000)	17,398	18,347	18,293	18,441	19,701	20,523	21,608	22,681	23,891	25,325	26,889
Subs/TV Households (%)	18.9%	19.6%	19.2%	19.1%	20.1%	20.7%	21.3%	22.1%	22.9%	24.0%	25.2%
Digital Homes (000)	2,408	3,212	3,701	3,909	4,761	5,603	6,630	7,921	9,374	10,996	12,770
Digital Subs/TV Households (%)	2.6%	3.4%	3.9%	4.0%	4.9%	5.6%	6.5%	7.7%	9.0%	10.4%	12.0%
Basic/Premium Revenues (US$ mil.)	5,427.3	5,468.1	5,447.6	5,787.0	6,273.9	6,947.5	7,601.7	8,339.3	9,167.0	10,133.7	11,251.9
PPV Movie Revenues (US$ mil.)	40.3	57.2	73.4	85.0	101.8	128.4	165.7	207.4	258.1	318.1	387.4
Total Revenues (US$ mil.)	**5,467.6**	**5,525.3**	**5,521.0**	**5,872.1**	**6,375.7**	**7,075.8**	**7,767.4**	**8,546.7**	**9,425.0**	**10,451.8**	**11,639.3**
Rest of the World											
TV Households (000)	49,370	49,999	50,656	51,342	52,446	53,669	54,787	56,103	57,440	58,987	60,555
Pay TV Subs (000)	2,395	2,719	2,980	3,290	3,794	4,086	4,430	4,777	5,143	5,484	5,851
Subs/TV Households (%)	4.9%	5.4%	5.9%	6.4%	7.2%	7.6%	8.1%	8.5%	9.0%	9.3%	9.7%
Digital Homes (000)	229	543	851	1,292	1,773	2,104	2,500	2,918	3,331	3,725	4,152
Digital Subs/TV Households (%)	0.5%	1.1%	1.7%	2.5%	3.4%	3.9%	4.6%	5.2%	5.8%	6.3%	6.9%
Basic/Premium Revenues (US$ mil.)	720.2	846.9	961.5	1,071.0	1,217.7	1,377.0	1,527.7	1,695.3	1,873.3	2,056.1	2,244.5
PPV Movie Revenues (US$ mil.)	0.0	12.0	33.0	51.4	72.5	93.2	114.5	138.8	163.6	187.8	212.9
Total Revenues (US$ mil.)	**720.2**	**858.9**	**994.5**	**1,122.4**	**1,290.2**	**1,470.2**	**1,642.2**	**1,834.1**	**2,037.0**	**2,243.9**	**2,457.4**
Global total											
TV Households (000)	1,121,468	1,135,366	1,150,786	1,163,961	1,176,730	1,189,389	1,201,858	1,214,647	1,227,580	1,240,841	1,253,739
Pay TV Subs (000)	341,482	372,595	399,269	425,505	463,788	484,062	505,951	529,024	552,552	577,047	601,548
Subs/TV Households (%)	30.4%	32.8%	34.7%	36.6%	39.4%	40.7%	42.1%	43.6%	45.0%	46.5%	48.0%
Digital Homes (000)	51,357	66,829	79,711	93,706	116,090	145,591	178,757	227,702	285,234	340,067	390,516
Digital Subs/TV Households (%)	4.6%	5.9%	6.9%	8.1%	9.9%	12.2%	14.9%	18.7%	23.2%	27.4%	31.1%
Basic/Premium Revenues (US$ mil.)	75,848.1	84,367.1	93,108.1	101,248.7	108,944.1	117,432.5	125,668.1	134,307.3	143,205.1	152,540.7	162,202.6
PPV Movie Revenues (US$ mil.)	1,261.7	1,719.5	2,037.6	2,302.2	2,697.7	3,290.5	4,417.5	5,545.9	7,129.2	8,943.6	10,956.1
Total Revenues (US$ mil.)	**77,109.8**	**86,086.7**	**95,145.7**	**103,550.8**	**111,641.7**	**120,723.0**	**130,085.6**	**139,853.2**	**150,334.3**	**161,484.2**	**173,158.7**

Note: All figures refer to year-end

Source: Informa Telecoms & Media

Chapter 4

Games

There are numerous, often conflicting, definitions of terms such as 'video games' and 'computer games'. For the purpose of this report, we have concentrated research on six game types – consoles, PCs, handheld, mobile, online/broadband and interactive TV.

Reminiscent of the music industry in the early 1990s, the value of the games industry in the 2000-2005 period has gone from strength to strength. However, the picture within each of the games sectors differs considerably.

Consoles

The PlayStation 2 (PS2) quickly established unequivocal market dominance in the 128-bit generation of games machines. This has prompted Microsoft to beat it to market in the next generation. The Xbox launched a fully upgraded machine (Xbox 360) in late 2005, with the Nintendo Revolution and PlayStation 3 (PS3) following in 2006, thus reinforcing the traditional five-year console hardware cycle.

PlayStation 2 is forecast to sell 120 million console units during its lifespan. Sony crossed the halfway mark for this estimate in 2H 2003. The global launch of the multi-use PSX was anticipated to give the machine a further boost in 2005, but its delay negated this.

The PlayStation 2 enjoyed a head start over Xbox and GameCube following its November 2000 launch. Price cuts for the Xbox and GameCube boosted sales and put them neck-and-neck.

However, the life cycle for these two machines is not forecast to be as long as the PlayStation 2, with GameCube sales expected to reach negligible levels in 2007 and Xbox reaching a similar stage a year later. Xbox has enjoyed strong sales in North America and, to a lesser extent, in Europe. However, Xbox has performed poorly in Japan.

The launch of three different 128-bit consoles boosted the market considerably and not since the early 1990s have three manufacturers vied for the same market. The roll-out of these consoles in all major markets was completed in May 2002 when the GameCube went on sale in Europe. At the same time, a price war was initiated, with Nintendo dropping the price of its console before the European launch. Global console hardware sales peaked at 37.7 million in 2002, with 20.4 million going to the PlayStation 2 alone. The next peak is expected in 2007 with the sale of 43.6 million machines globally.

Software sales bring in higher revenues and better margins than console hardware. Furthermore, console software sales have a longer lifespan, as content can be sold after the hardware has ceased production or the next generation machine has been released. This trend

is illustrated by the long-term popularity of Sony's PSOne. In addition, developers and publishers now seek to make most games available across multiple platforms, unless an exclusive licence has been agreed with a manufacturer, thus spreading risk and costs.

Detailed information about the next-generation of 256-bit consoles emerged in 1H 2005 from all three major console companies. The three makers each revealed specifications and games demos for their new machines at the E3 Expo in May 2005. The next generation consoles unveiled by Microsoft and Sony extend beyond pure gaming, as each tries to take a larger portion of the digital entertainment pie. Both the Xbox 360 and Sony's PS3 will position themselves as powerful entertainment devices for the living room, with a focus on increased internet connectivity.

The Xbox 360 was first revealed to consumers on MTV in May 2005, before being shown to insiders at E3. Microsoft is reported to have opted not to use a sequential numbering system for its new console because it did not want to be aligned in consumer's minds with the PS2, which was much more successful than the original Xbox.

The early signs for Xbox 360 have been good – with stores in the U.S. and Europe quickly selling out following launch. This was despite some negative publicity surrounding the Xbox 360 version of the game *King Kong* – which was too dark to play properly. But Japan was generally less enthusiastic about the launch, with 62,000 units sold in its first two days on release there – compared to 123,000 units that the original Xbox sold in its first three days.

Next-generation launch dates

Console	Launch date
Xbox 360	Nov. 2005
PS3	Spring 2006
GameCube	2006

Source: Informa Telecoms & Media

Of the three, Sony appears to have had the most hurdles to cross, since its new console is to be based on an entirely new chip design. The company and its chip partners began large scale production in 1H 2005. The PS3 is expected to have more processing power than the Xbox 360, while the Microsoft machine is expected to have a greater memory. The PS3 will also support the highest resolution of high definition (HD) video and playback of HD DVDs.

Meanwhile, Nintendo's next-generation console, code-named Revolution, will look to be a simpler but, it believes, innovative game-playing device rather than a digital hub. Nintendo will target a younger market and is likely to be significantly cheaper than its rivals' machines. However, the Revolution has built-in wi-fi internet access and a detachable device is anticipated to be sold for DVD playback.

Nintendo committed itself to producing a new machine after conjecture that it would exit the console sector. Amid the speculation the company initially implied that any new unit

would likely be a relatively minor upgrade of the GameCube. But Nintendo confirmed in May 2004 that the next generation unit was codenamed 'Revolution' because it would be "entirely different" from the GameCube - quelling thoughts that it would be a less radical evolution of the previous unit.

While games that Sony demonstrated at the E3 were reported to be "dazzling", the Xbox 360 games were generally reported as lacklustre in comparison. But the first models of new consoles, especially those used for demonstration purposes, are not always ready to fully exploit their technological potential, meaning these early glimpses are by no means definitive.

Consoles launched in 2000/2001 have passed their peak sales period, although price cuts have ensured sales have not dropped off disastrously. While these price cuts have meant that each console has enjoyed a temporary period of dominance, the underlying sales patterns for the current generation were quickly established. The runaway success of the PS2 left its rivals scrambling behind for second place. PS2 sales have partly been aided by the launch of a slimline, lighter PS2 model in November 2004.

Microsoft has had less leeway for Xbox price cuts because it has less control over component costs. However, the company has still found ways to make reductions to maintain consumer interest. Xbox Europe believes that the launch of the Xbox successor could spur interest in the original machine, in the same way that PS1 sales received a boost when the PS2 launched and the original machine's price was cut.

With its retail price already low, the GameCube has little scope for further price cuts until it drops into the sub-£50 category, presumably when its successor launches. The five-year replacement cycle for consoles has been evident since 8-bit consoles were the standard. Although publishers, developers and hardware manufacturers have become accustomed to maintaining sales and margins during a console cycle, several factors set the 256-bit consoles apart from previous machines. While this may not halt the five-year cycle span, it can still radically alter the way in which the sector evolves during the next decade.

Moreover, the more technically advanced machine will be able to handle improved games standards, boosting its life span compared with its precursors. The production schedule of the new Cell chip design will prevent Sony from launching before the Xbox 360. Moreover, Sony's December 2003 launch of the PSX in Japan also made it reluctant to push forward the launch of PS3 to 2005 – or five years after the PS2 launched.

This will potentially extend the life-span of the 128-bit consoles, and also extend the lifespan of the software for these machines. The PS3 is set to be backwards compatible with PS1 and PS2 games. Although traditional content types will remain as the battleground for revenues in the short term, the type of games content is set to alter substantially in the medium to long-term. This content shift will come from the enhanced multimedia capabilities of 256-bit

machines as well as the various corporate goals set by the companies that make them. Microsoft has already curtailed its investment in first-party software for the Xbox, despite early fruits from titles such as *Halo*, in order to concentrate on developing the machine as an entertainment hub.

The problem with the five-year cycle is that developers and publishers are bound by practical constraints. As such, the emergence of 512-bit or 1,024-bit machines might not necessarily be desirable. Developers found designing games for PS2 was up to four times more expensive and time consuming than for its predecessor. The incremental costs caused by the launch of a 512-bit machine could be very damaging to publishers. Microsoft could benefit here, as one of its main aims is to ensure that Xbox users are also Microsoft internet customers. They can then be fed with a variety of content through the machine's network.

PC

The PC gaming market continued its gradual decline in 2005, losing more ground to the console sector. With the PS2, Xbox and Nintendo Game Cube all nearing the end of their five year lifecycles, some thought that PC gaming might recover from 2003's disappointing results. The hoped-for growth did not materialise in either 2004 or 2005, and sales of PC games continued to fall in the U.S, both in terms of sales value and number of units.

The downward trend in PC games is now firmly established, and is unlikely to be reversed. The console has become the mainstream game player's product of choice, outperforming the PC in several key areas, including price/performance ratio, quality and range of games, and ease of use. With the highly-anticipated launch of the Xbox 360 and the PS3 in 2005/6, the console's dominance over the PC is set to strengthen. Games developers are increasingly prioritising console titles, and even traditionally PC-focused companies such as ID Software now cater for the console market too.

At the same time, PC titles are losing shelf and promotional space in retail stores, and the marketing budgets of the console manufacturers ensure that console games have a much higher profile than their PC equivalents.

Despite the generally downbeat scenario, the PC games sector is far from finished. Recent convergence between PC and console technology means that it is now technically easier for games publishers to adapt console titles to the PC. The result is that although developers have switched their primary focus to the console market, the stream of good quality games for the PC should be maintained or even grow. PC versions can be more profitable for publishers because they do not have to pay a platform fee to the console maker.

With an increasing number of games now available as internet downloads, the diminishing position of PC games in shops may also be less damaging than anticipated. The costs of digital

distribution are low, allowing developers to make a wide variety of games available while incurring very little risk. If a title proves to be a hit online, publishers can produce a physical version for retail stores, with a much better idea that demand will be strong. Consumer awareness of digital distribution is boosted by the simultaneous release of major games online and at retail.

PC gaming is also becoming more user-friendly. Microsoft's Xbox 360 game pad controller is PC compatible, and the Windows Vista operating system, due in 2006, will make loading games straightforward, meaning that the PC gaming experience will get closer to consoles in terms of simplicity and convenience. At the same time, the PC will retain its traditional advantages over consoles in certain genres, such as strategy games and online community-based games, where a keyboard and mouse are essential.

Online gaming is one area in which the PC platform maintains a clear lead over consoles. Multiplayer role playing games have grabbed the headlines, with 2004's *World of Warcraft* reaching 5 million subscribers worldwide in late 2005. The casual online games market, meanwhile, may prove even bigger: Yahoo's online games section generates more than 20 million visitors a week. This sector is growing fast, and several business models exist, from completely free games on sites such as Yahoo's to restricted versions which can be unlocked on payment of a fee, and games with monthly subscriptions.

The PC remains the platform of choice for hardcore gamers who want the cutting-edge in hardware. These players are willing to pay up to $5,000 for custom-made PCs, with specialist games PC makers such as Alienware in the U.S. supplying this niche market. Although the numbers are tiny compared to standard PC sales, companies like Dell, Hewlett Packard and Gateway have all added games-orientated PCs to their range, in an attempt to associate their brands with home entertainment.

The average retail price for PC games in the U.S. remains around $22. Prices range from just under $50 for an AAA game – a major release which makes the top ten in the sales charts – to under $10 for budget games and expansion packs. In March 2005 the major games publishers announced that the price of AAA games for the next generation of consoles would rise by $5-$10 to around $60, but it is likely that the PC versions will not be affected.

In the long-term, the distinction between PC gaming and console gaming may disappear. Convergence is seeing consoles incorporating PC-like features such as hard drives, DVD playback and broadband connectivity, while PCs are becoming more game player friendly. The ultimate goal on both sides is a mass-market home entertainment system for music, TV, films and games.

Handheld

The handheld games market is thriving, with the entry of several new machines in 2004/5, and a growing, more varied consumer base. Key recent developments include Sony's PlayStation Portable (PSP), the rise of wireless gaming and the diversification of gaming devices.

After years of enjoying a virtual monopoly, Nintendo now has a serious competitor. In the past none of Nintendo Game Boy's rivals, which have included Game Gear, Atari's Lynx, the NEC TurboExpress and NeoGeo Pocket Color, have managed to wrest significant market share from Nintendo. Sony, however, is already the market leader in fixed consoles, and benefits from longstanding relationships with games developers. Just as the PlayStation expanded and then dominated the market by catering for older gamers, the PSP is also aimed at young adults who want a "Walkman of the 21st century" – a mobile entertainment device handling games, music and video.

Convergence is an important trend: personal digital assistants (PDAs) and mobile phones are becoming increasingly capable of serious gaming, while the new gaming devices have expanded their functions to include music and video playback. Whether multifunction handhelds will compete with dedicated music players such as the iPod remains to be seen.

Online handheld gaming is also taking off, with many new devices having wireless capability so that players can use wi-fi hotspots (locations where there is wireless fidelity capability) to play against opponents who could be anywhere in the world.

These developments mean that the range of devices offering high quality gaming is much broader than a few years ago, and this is mirrored by the type of consumer buying handheld consoles. In recent years the Game Boy Advance (GBA) has dominated the sector, with a core demographic of teenage, largely male, gamers. Sony is pitching the PSP, which is the most powerful handheld on the market, at an older market (18-34). Nintendo, on the other hand, hopes that its Dual Screen (DS) can attract casual and first-time players, including the previously neglected female market.

With improved processing power, PDAs and Smartphones are offering a competitive alternative to dedicated handhelds, even though game playing is seen as a desirable extra rather than the principal function.

Nintendo released the DS (U.S. retail price $150) in late 2004, shortly before Sony's PSP ($270), and both devices achieved impressive sales in the first six months following release.

Nintendo's Game Boy Advance continues to sell well, and the company should benefit from a slimmed-down version, called the GBA Micro ($100), which appeared in September 2005. Despite this refit, functionality of the current range of GBAs is almost unchanged from the original GBA in 2001. A completely redeveloped successor is expected in 2006/7.

Nokia's N-Gage handheld console/mobile phone hybrid, which first appeared in late 2003, has failed to take a significant share of the market. While the N-Gage itself may be phased out; the technology will live on, as Nokia will incorporate the platform into its next generation of Smartphones in 2006.

The Gizmondo (£229 in the UK) is an interesting new entry to the market. Again, it is much more than a games device: features include a camera, text messaging, music and video playback, and GPS technology for location-based functions. Without compelling games, however, even the best handheld will fail. The Gizmondo has made a reasonable start in attracting support from third party games developers, but its catalogue must improve if it is to succeed.

Mobile

The mobile games market is rich with potential. There are 1.8 billion mobile subscribers worldwide. With mobile phone penetration reaching saturation point in many key markets, the mobile operators' attempts to increase ARPU have switched focus to ancillary services. This has created opportunities for game developers, publishers, technology providers and content aggregators. The dotcom crash cut short some of the early activity in this sector, but confidence is returning and investors are once again looking at the mobile game business.

The Asia-Pacific region – specifically Japan and South Korea – has been the focus for western mobile operators seeking inspiration as they develop non-voice strategies. South Korea, in particular, has turned into a mobile data powerhouse through innovative marketing, early rollout of attractive colour handsets and financial incentives for content providers.

The mobile games value chain is lengthening, with new entrants and established companies targeting niche markets which are becoming mainstream relatively quickly – including multiplayer, 3D, community services, testing and porting.

However, before the potential of mobile gaming can be fully realised, several issues must be resolved in order for the concept to reach mass-market awareness. The sector is embryonic in terms of technology and business models – even the most established companies have only around six or seven years of mobile gaming experience.

The mobile sector encompasses several generations of technology, which is not conducive to a coherent business proposition. Mobile games fall into the following categories:

1) embedded applications on the handset or the SIM

2) messaging/interactive games through SMS, MMS or the like

3) WAP-based games

4) downloadable games (J2ME, BREW)

5) networked games

6) multi-platform games

Future revenues will depend to a large extent on the format games take. Network operators, handset manufacturers and content developers must also agree on a cost and revenue sharing model. The cost of ensuring that games can be played on 150 different handsets presents a huge hurdle to publishers. Such costs can eat up 30% to 50% of publishers' average budget, which some analysts say can mean up to $150,000 a game.

Many mainstream games developers are awaiting widespread acceptance of Java/J2ME and GPRS enabled handsets before entering the market. This packet-based technology enables downloads of more sophisticated, full colour and high-resolution games. However, the enormous potential the mobile gaming market offers has already attracted a number of traditional video game publishers to the field, including THQ Inc., Electronic Arts Inc., Konami Digital Entertainment, Square Enix Co., Sega Corp. and Bandai Games.

In the early days of SMS gaming, the leading lights were simple games already familiar to the users, such as hangman, and branded games that worked well on SMS. Trivia is a formula suitable for SMS. Finnish company Codetoys (formerly called Codeonline) and Motorola found success via the mobile rights to TV quiz show *Who Wants to be a Millionaire?* More than 50 million mobile *WWTBAM?* questions have been answered globally.

As operators and games developers refocus their efforts on developing more sophisticated games for this technology, the potential of simple SMS games – with its established penetration of handsets – could be under-exploited in favour of 'sexier' games for which there is a much more limited market. The move towards multiplayer games, and games featuring 3D could therefore alienate potential new gamers who are intimidated by their sophistication.

By targeting hardened game players, mobile operators will have to ensure that the game titles offered meet customers' expectations. The concern is that more sophisticated mobile games will miss both markets, by proving too advanced for casual gamers but not advanced enough for game-playing veterans. Complex strategy games will appeal to a certain segment of the mobile subscriber base, but the industry needs to turn its attention towards the casual gamer, which is the mass-market demographic.

Mobile games will likely never provide as immersive a game-playing experience as that of video- and console-games, due to the limitations of the small form factor of mobile phones. South Korea's largest cellco SK Telecom estimates that less than 6% of its total subscriber base plays mobile games, and it is unlikely that this ratio would be exceeded elsewhere in the world. Indeed, most industry estimates put mobile gamers at between 3-6% of cellco subscriber bases.

The highly anticipated launch of 3G phones meant gaming and other data applications were seen as a key part of the mobile industry's expansion strategy. But 3G has been slow to reach many markets, and the early launches that have taken place have not provided the success that the mobile industry hoped for - although games have tended to perform better than most other data services.

Broadband

The global online games market is growing rapidly, driven by broadband uptake, the popularity of multiplayer and casual games, and support from the console giants. China is overtaking the U.S. to become the largest online gaming market. The vast majority of online games are played on PCs, but the growth of online console gaming will accelerate when Sony, Microsoft and Nintendo launch their next generation of consoles.

The big challenge facing the online games business is to find the most effective revenue model to use with each type of game. The genre that has dominated online gaming until now is the Massively Multiplayer Online Game, which appeals to a young, predominantly male, demographic and which usually works on a monthly subscription basis. Now casual games - simple, addictive games to fill a spare few minutes - are attracting millions of players each week. Women, in particular, are playing an expanding range of online puzzles, quizzes and fun games. Many of these are provided free on portals such as Yahoo! Games, but as demand grows, more efforts will be made to monetise players.

The International Games Developers Association (IGDA) has identified six types of online games:

1) MMPS: PC-based Massively Multiplayer games, also called Massively Multiplayer Online Role-Playing Games (MMORPGs), Persistent-State Worlds (PSWs), or Massively Multiplayer Online Games (MMOGs).

2) PC CD-based online games.

3) PC web-based games.

4) Console-based games.

5) Wireless platform games.

6) Interactive television games.

The attraction of gaming online is partly down to the multiplayer aspecr, which allows a level of competition that goes far beyond playing friends at home. Some genres, such as racing, combat and role-playing games, are particularly suited to online gameplay.

A further advantage is that games can be frequently refreshed with new content, not only by the publishers but by players themselves - sometimes in the form of illegal modifications known as 'mods'. Moreover, casual gamers who rarely visit a games retailer can easily access hundreds of titles, often free, direct from their home or office computer.

Interactive TV

Although it is experiencing steady growth, the interactive TV (iTV) games sector remains a niche business. Rejuvenation during 2004 and 2005 has been partly aided by a trend for iTV games platforms to converge with other platforms, such as premium rate telephony, mobile games and online gambling, in order to appeal to a broader demographic and gain maximum distribution. However, the exploitation of television's specific audiovisual content capabilities and ease of use has also been important.

iTV gaming has instant appeal with the casual gamer. User loyalty is also increasingly sought through offering community-based additions to iTV games services through features such as chat and multiplayer functions. Enhanced games features, allowing viewers to play along with popular programmes such as *Who Wants to be a Millionaire?* have also proved popular.

As a stand-alone platform the iTV games sector is still searching for the elusive 'killer application' that will transform it from a business that generates limited, albeit welcome, revenues, into a significant revenue-earner. While many early iTV services – such as home banking – failed to live up to expectations, games have been one of the few areas that both appealed to digital TV customers and generated real revenues.

When digital TV services first launched, the early optimism for games encouraged many to enter the sector, but it has failed to take off in the way anticipated, and many in the industry now believe that iTV games on their own are not a strong enough proposition to significantly improve ARPU. The main problem so far has been an inability to convert relatively high user numbers into revenue streams. For example, in the UK, one of the world leaders in digital TV penetration, pay-per-play has worked best with large user bases. For services that attract fewer than 50,000 users the subscription model is favoured.

In addition to business models, there are other problems. Operators face the dilemma of either keeping costs down through offering a basic service, or investing more to offer advanced options. This problem was essentially solved when it became clear that digital settop boxes would have to be subsidised. The production of low cost simplistic boxes took preference over ones that could support a range of iTV applications.

There is also a technical problem with internet-style graphics viewed through the TV set. Many sites that offer games normally include high level graphics and these need to be simplified to look good on a television screen. Also, broadband internet penetration is

becoming cheaper and thus more widespread. Consumers looking for more complex interactive gaming are more likely to turn to the internet than their TV.

With their full potential still untapped, interactive TV games remain a relatively unknown quantity. For the user, iTV games offer a simpler form of play than the console or PC sectors but are much less attractive to the serious gamer. Nevertheless, several iTV platforms have attracted a relatively large number of players, strengthening the assertion that the sector will one day offer a viable commercial option for games developers and publishers.

Sector analysis

For the purpose of this report, the games sector comprises revenues generated by console games, PC games, handheld console games, mobile games, online/broadband games and interactive TV games. Unlike the other three sectors analysed in the other chapters, much of the games sector is inherently cyclical. The release of a new games console is normally followed by high sales of games. Sales decrease over time and are only driven again by the development and release of a new console. Because of this, a decrease in overall revenues in one year for the sector is viewed differently than for the other three sectors.

In 2005, console software accounted for slightly less than half of the year's total games revenues. Although this share will have fallen below 40% in 2010, the release of the next generation of consoles from November 2005 will result in a 55% share of games sales in 2007.

In the years that console software sales go into decline, overall games sales will be boosted by other sectors. In 2005, the handheld sector increased its share of games sales, boosted by the success of Sony's PSP.

PC games revenues are forecast to continue to decline, given the generally superior attributes of the various consoles. To some extent, the broadband (online) games sector will gain at the expense of the PC market as more and more console games will have online functions and broadband penetration rises.

The broadband sector has been assisted by fast growth from the Xbox Live! and, to a lesser extent, PS2 online. This sector will be given a significant boost when the next generation machines launch.

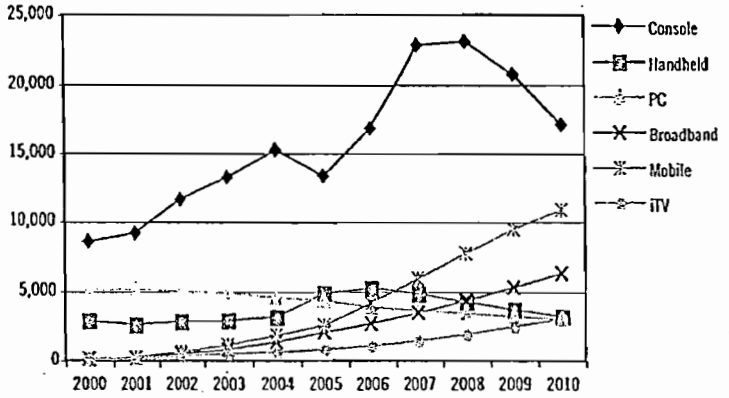
Mobile games is the fastest growing 'new' sector, ahead of broadband and interactive TV. Extraordinary growth in mobile games in Asia, especially in Japan and South Korea, is starting to translate to the European market.

Global games sales ($ million)

	2000	2002	2004	2006	2008	2010
Console	8,596.1	11,626.0	15,221.0	16,813.9	23,071.4	17,102.8
Handheld	2,838.3	2,808.2	3,105.5	5,230.2	4,225.8	3,169.2
PC	5,066.8	4,969.3	4,545.5	3,873.0	3,404.1	2,991.6
Broadband	72.0	456.5	1,337.1	2,646.8	4,331.5	6,303.6
Mobile	60.7	577.9	1,804.2	4,162.9	7,706.9	10,829.2
iTV	77.4	336.3	583.7	1,057.4	1,886.9	2,992.7
Total	16,711.3	20,774.1	26,596.9	33,784.2	44,626.5	43,389.1

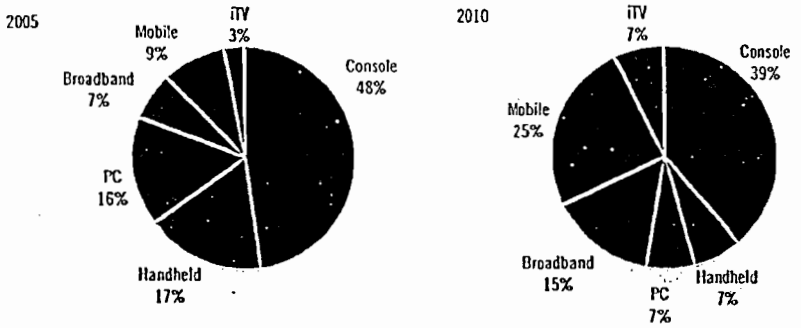
Source: Informa Telecoms & Media

Global games sales by category ($ million)



Source: Informa Telecoms & Media

Global games sales by category in 2005 and 2010 (%)



Source: Informa Telecoms & Media

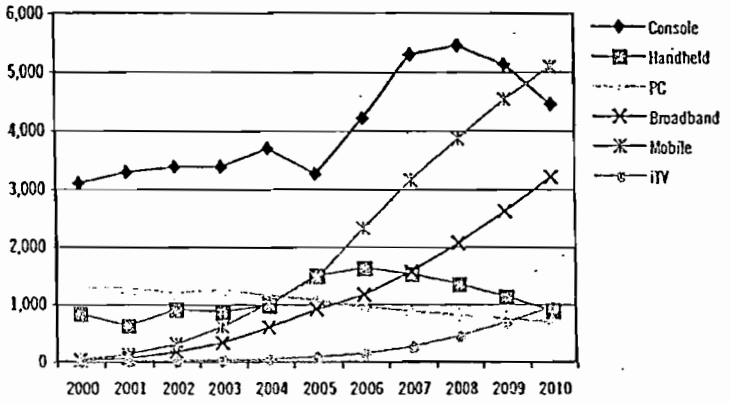
Asia Pacific is set to become the largest games market in 2010 and it is the only region where forecast mobile games revenues will account for the greatest share of total revenues. From 18% in 2005, mobile games will rise to 33% of revenues in 2010, compared with consoles' share of 29%.

Asia Pacific games sales ($ million)

	2000	2002	2004	2006	2008	2010
Console	3,084.8	3,366.8	3,684.5	4,203.9	5,446.2	4,450.1
Handheld	837.8	907.1	982.9	1,627.7	1,348.2	887.2
PC	1,287.0	1,192.1	1,146.2	953.5	812.1	689.1
Broadband	23.3	172.1	592.2	1,153.9	2,060.5	3,192.8
Mobile	28.5	304.1	1,009.0	2,315.3	3,853.6	5,084.0
iTV	4.3	15.5	44.9	149.1	452.9	945.1
Total	5,265.6	5,957.6	7,459.8	10,403.4	13,973.5	15,248.4

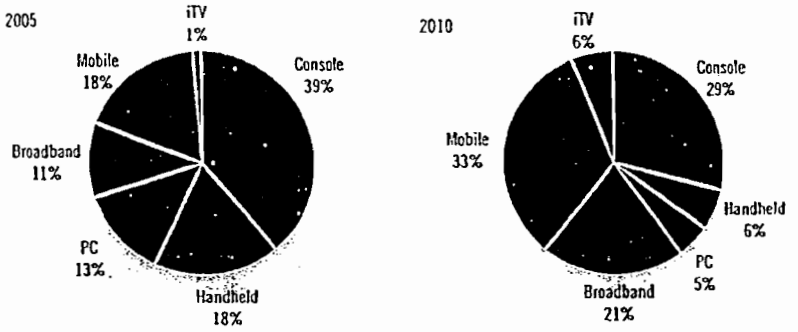
Source: Informa Telecoms & Media

Asia Pacific games sales by category ($ million)



Source: Informa Telecoms & Media

Asia Pacific games sales by category in 2005 and 2010 (%)



Source: Informa Telecoms & Media

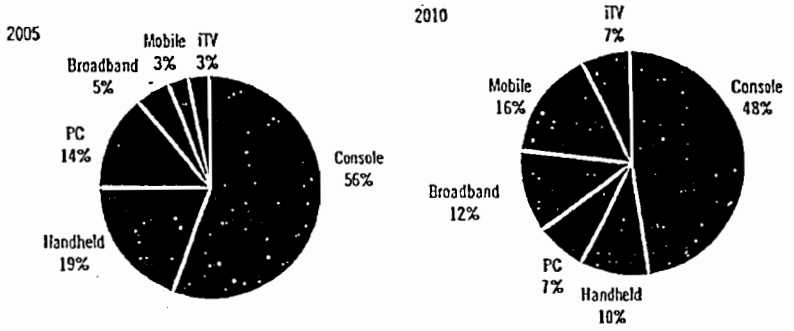
Console games' share of total revenues in North America is forecast to decline from 56% in 2008 to 48% in 2010. Overall, North America will account for 30.5% of total games revenues, behind Asia Pacific's leading share of 35.1%.

North America games sales ($ million)

	2000	2002	2004	2006	2008	2010
Console	1,967.8	4,476.2	6,111.7	6,465.5	8,451.2	6,318.5
Handheld	922.6	876.6	1,151.6	2,066.0	1,701.0	1,324.8
PC	1,651.1	1,706.3	1,418.6	1,227.5	1,098.0	982.1
Broadband	34.7	168.8	359.2	674.4	1,071.6	1,526.3
Mobile	6.2	34.0	165.8	626.5	1,377.9	2,163.9
iTV	0.0	141.1	249.6	416.8	658.2	927.3
Total	4,582.5	7,403.1	9,456.4	11,476.7	14,357.8	13,242.8

Source: Informa Telecoms & Media

North America games sales by category in 2005 and 2010 (%)



Source: Informa Telecoms & Media

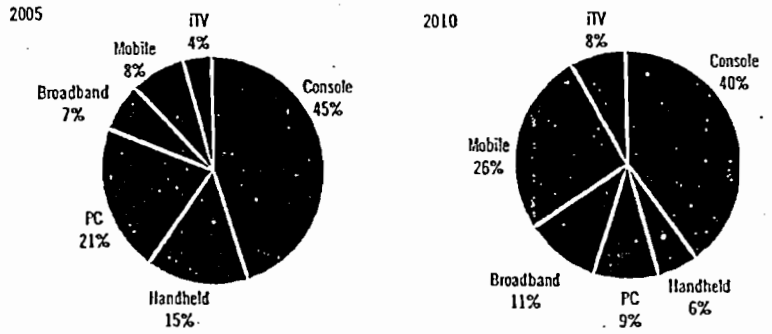
The continued dominance of the console sector in Europe will result in an overall revenue peak in 2008 then two years of slight decline. However, the steady rise in some of the other games sectors will lessen the impact of the console sector's decrease. Although a small share of overall revenues, interactive TV (iTV) games revenues will account for 8% of the total in 2010 compared with 4% five years earlier. Europe is the largest region in the world for this category.

Europe games sales ($ million)

	2000	2002	2004	2006	2008	2010
Console	3,253.3	3,100.0	4,388.9	5,019.7	7,678.6	5,184.6
Handheld	943.3	889.4	775.8	1,178.1	875.9	716.1
PC	1,916.5	1,843.4	1,774.0	1,506.8	1,322.1	1,159.1
Broadband	9.3	91.9	331.7	713.4	1,026.0	1,325.3
Mobile	25.2	235.6	606.9	1,131.3	2,265.7	3,228.5
iTV	73.1	163.3	256.7	432.9	675.7	966.1
Total	6,220.7	6,323.5	8,134.0	9,982.3	13,844.0	12,579.7

Source: Informa Telecoms & Media

Europe games sales by category in 2005 and 2010 (%)



Source: Informa Telecoms & Media

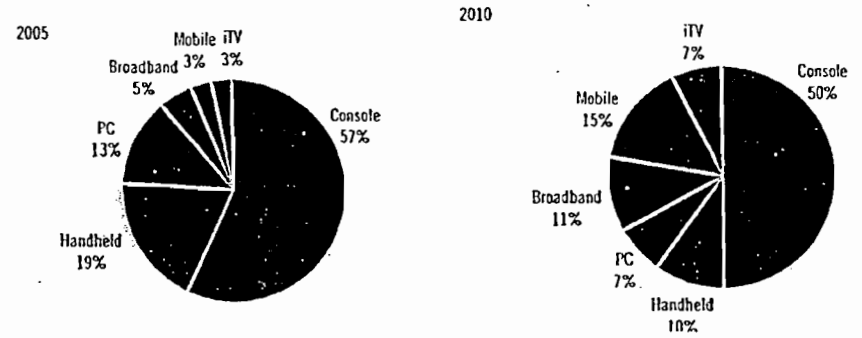
With the exception of consoles, games revenues from the other five sectors in Latin America will be spread fairly evenly in 2010. Consoles will remain the largest sector with a forecast revenue share of slightly less than 50% followed by mobile with a share of 15.4%. A steady rise in broadband connections will result in the sector increasing its share of revenues to 11.3% in 2010.

Latin America games sales ($ million)

	2000	2002	2004	2006	2008	2010
Console	263.6	612.4	880.2	945.1	1,237.8	927.3
Handheld	122.2	121.2	165.9	301.1	248.9	194.4
PC	192.6	204.0	175.7	155.6	142.3	130.1
Broadband	4.3	21.6	47.1	90.3	146.6	213.2
Mobile	0.7	3.8	19.6	77.2	177.2	290.2
iTV	0.0	15.0	28.3	50.3	84.6	126.8
Total	583.4	978.0	1,316.7	1,619.7	2,037.5	1,882.1

Source: Informa Telecoms & Media

Latin America games sales by category in 2005 and 2010 (%)



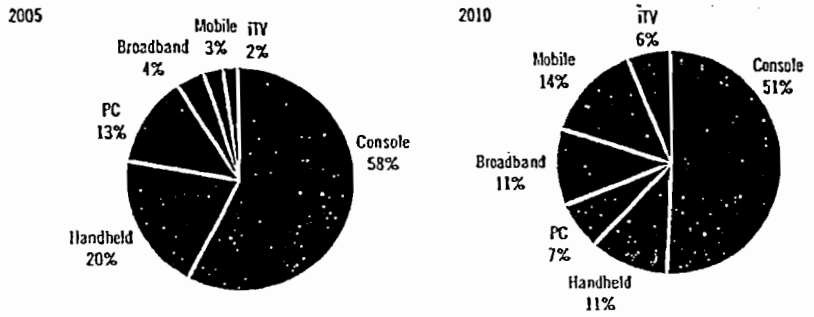
Source: Informa Telecoms & Media

Rest of the World games sales ($ million)

	2000	2002	2004	2006	2008	2010
Console	26.7	70.6	155.7	179.7	257.6	222.3
Handheld	12.4	14.0	29.3	57.3	51.8	46.6
PC	19.5	23.5	31.1	29.6	29.6	31.2
Broadband	0.3	2.0	7.0	14.8	26.8	46.0
Mobile	0.1	0.4	2.9	12.6	32.5	62.6
iTV	0.0	1.4	4.2	8.2	15.5	27.4
Total	59.0	111.8	230.2	302.2	413.8	436.1

Source: Informa Telecoms & Media

Rest of the World games sales by category in 2005 and 2010 (%)



Source: Informa Telecoms & Media

Games revenues ($ million)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
U.S.											
Console	1,788.9	2,792.7	3,972.5	4,837.8	5,556.1	4,907.7	5,883.1	7,622.4	7,689.9	6,892.2	5,749.3
Handheld	838.8	826.3	797.0	905.1	1,046.9	1,663.4	1,878.2	1,751.2	1,546.4	1,365.0	1,204.4
PC	1,501.0	1,573.0	1,551.2	1,328.5	1,289.6	1,247.7	1,117.9	1,057.3	1,000.0	945.7	894.4
Broadband	28.0	73.1	138.2	222.1	304.5	432.4	583.8	758.0	948.3	1,150.9	1,367.0
Mobile	5.8	14.6	31.8	62.8	152.7	316.1	569.5	867.9	1,198.2	1,540.8	1,932.1
ITV	0.0	0.0	129.6	177.0	229.7	296.4	382.3	487.6	602.7	725.0	846.3
Total	4,162.5	5,279.7	6,620.3	7,533.3	8,579.5	8,863.7	10,414.8	12,544.6	12,985.4	12,619.6	11,993.5
Japan											
Console	2,684.0	2,919.0	2,978.3	2,947.5	3,180.9	2,763.1	3,594.9	4,404.0	4,493.1	4,167.7	3,554.1
Handheld	598.4	450.5	647.9	620.7	702.1	1,011.0	1,162.6	1,087.2	963.0	805.3	633.7
PC	264.0	260.7	244.5	254.1	235.1	217.4	195.6	180.6	166.6	153.5	141.4
Broadband	6.7	20.4	61.0	131.1	210.0	289.4	374.1	459.8	542.4	618.1	686.0
Mobile	17.8	64.4	140.4	254.2	595.0	803.0	1,286.3	1,718.9	2,083.0	2,415.4	2,675.8
ITV	3.2	6.9	10.3	14.2	22.8	46.5	79.0	120.4	177.8	244.8	316.9
Total	3,574.0	3,721.9	4,082.4	4,221.7	4,945.9	5,130.5	6,692.5	7,970.9	8,425.9	8,404.8	8,007.8
China											
Console	12.1	14.3	17.4	22.3	29.0	32.5	44.0	121.0	198.0	272.8	346.5
Handheld	4.4	6.9	6.6	7.4	7.2	13.8	13.7	20.7	28.6	40.7	59.8
PC	9.8	16.0	15.2	18.3	18.2	22.7	19.4	31.4	47.6	69.9	106.6
Broadband	0.0	1.9	72.6	138.5	298.2	502.5	644.4	796.6	977.5	1,189.2	1,427.0
Mobile	0.0	0.0	4.1	12.9	41.3	112.3	210.5	342.9	469.2	667.5	877.4
ITV	0.0	0.0	0.4	1.2	6.2	21.4	43.8	78.4	103.7	151.3	209.1
Total	26.3	39.1	116.3	200.5	400.2	705.2	975.8	1,391.0	1,824.6	2,391.4	3,026.3
UK											
Console	924.0	677.1	826.1	930.5	1,106.6	949.1	1,339.8	2,128.8	2,154.9	1,893.0	1,475.6
Handheld	269.5	261.8	254.1	246.4	221.7	325.4	336.6	292.6	250.3	227.0	204.6
PC	504.4	510.4	485.1	511.5	466.8	446.7	396.5	371.5	347.9	325.8	305.0
Broadband	0.5	1.6	7.5	22.3	47.9	78.1	104.2	128.1	150.1	170.2	190.1
Mobile	3.7	12.1	34.4	66.0	101.1	130.2	182.5	268.6	361.1	449.3	512.5
ITV	32.1	48.2	60.7	72.1	94.1	114.5	132.5	151.4	169.2	188.4	206.4
Total	1,734.2	1,511.2	1,668.0	1,848.8	2,038.2	2,044.1	2,492.1	3,341.0	3,433.4	3,253.7	2,894.2

Note: All figures refer to year-end
Source: Informa Telecoms & Media

Games revenues ($ million) (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Germany											
Console	686.4	518.2	663.3	824.5	992.5	851.3	1149.5	1760.0	1750.7	1524.3	1176.9
Handheld	188.2	184.5	188.1	192.7	174.4	272.5	268.7	232.7	199.5	181.6	164.7
PC	507.9	512.0	485.2	512.0	468.3	448.1	398.5	373.2	347.7	324.4	303.9
Broadband	4.6	11.9	22.2	31.9	53.2	90.2	134.2	166.1	183.7	212.5	241.4
Mobile	4.5	14.4	38.9	77.1	116.0	168.0	211.4	313.1	421.7	525.7	600.7
iTV	10.3	29.2	42.7	52.2	73.6	91.7	112.5	123.0	135.2	150.1	162.5
Total	1,401.9	1,270.2	1,440.3	1,690.4	1,877.9	1,921.8	2,274.9	2,968.2	3,038.5	2,918.6	2,650.1
France											
Console	448.9	334.2	430.9	520.9	627.6	548.8	732.9	1,122.1	1,113.4	969.4	746.6
Handheld	130.2	126.4	123.6	122.5	110.9	177.1	175.8	152.8	129.8	117.7	105.4
PC	239.6	240.5	227.1	239.9	220.0	210.5	187.6	175.6	162.6	151.0	141.6
Broadband	0.4	3.2	11.3	23.7	52.4	65.3	88.0	112.0	125.2	131.4	135.2
Mobile	2.7	9.7	25.4	49.3	71.5	104.8	133.5	182.2	232.0	300.2	340.5
iTV	3.7	14.8	20.7	25.1	39.4	49.2	55.1	68.4	76.0	85.0	93.2
Total	825.5	728.8	839.0	981.3	1,121.8	1,155.7	1,372.9	1,813.1	1,839.0	1,754.8	1,562.5
Canada											
Console	178.9	279.3	503.7	483.8	555.6	485.9	582.4	754.6	761.3	682.3	569.2
Handheld	83.9	82.6	79.7	90.5	104.7	166.3	187.8	175.1	154.6	136.5	120.4
PC	150.1	157.3	155.1	132.8	129.0	122.3	109.6	103.6	98.0	92.7	87.7
Broadband	6.7	17.1	30.5	44.5	54.7	72.5	90.6	106.7	123.3	141.1	159.2
Mobile	0.5	1.3	2.2	4.4	13.0	23.7	57.0	108.5	179.7	269.6	231.8
iTV	0.0	0.0	11.5	15.8	20.0	25.9	34.5	44.5	55.4	67.4	81.0
Total	420.1	537.6	782.8	771.7	876.9	896.6	1,061.9	1,293.1	1,372.3	1,389.6	1,249.3
Italy											
Console	182.2	138.0	176.7	212.7	270.4	229.4	310.3	417.3	416.9	363.0	282.6
Handheld	52.8	52.2	50.7	50.0	45.8	70.9	69.7	53.3	45.5	41.3	37.4
PC	147.3	148.5	140.7	148.5	135.8	130.0	115.6	108.2	100.8	96.1	91.2
Broadband	0.2	1.0	3.3	9.3	26.1	33.7	46.5	62.3	73.2	80.7	85.5
Mobile	1.9	6.1	16.3	31.1	43.1	62.8	77.4	96.1	114.9	124.5	140.8
iTV	1.5	6.1	8.5	10.3	17.0	20.6	23.3	25.4	28.5	31.8	35.3
Total	385.9	352.0	396.2	461.9	538.1	547.3	642.9	762.7	779.9	737.4	672.7

Note: All figures refer to year-end

Source: Informa Telecoms & Media

Games revenues ($ million) (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Brazil											
Console	90.5	138.1	209.8	259.2	303.5	269.2	322.6	416.4	418.4	373.5	307.6
Handheld	42.0	42.2	41.5	48.1	56.7	90.6	102.0	94.8	83.5	73.5	64.0
PC	66.1	70.1	69.9	61.7	60.5	58.8	53.1	50.5	48.1	45.7	43.1
Broadband	2.4	7.9	11.1	17.9	23.4	35.9	50.4	64.6	75.2	91.1	108.9
Mobile	0.2	0.6	1.3	2.6	6.6	13.8	25.8	40.9	58.8	78.6	95.5
iTV	0.0	0.0	5.0	7.2	9.6	12.8	17.0	22.3	28.4	35.1	42.2
Total	201.2	258.8	338.7	396.6	460.4	481.0	570.9	689.5	712.3	697.4	661.2
Spain											
Console	149.6	113.8	145.7	176.1	215.1	182.2	247.0	385.8	385.5	338.3	265.5
Handheld	43.4	43.1	41.8	41.4	38.0	57.4	56.6	50.2	42.9	39.2	35.8
PC	86.3	87.0	82.5	87.0	79.6	74.5	66.2	64.3	62.2	59.6	56.5
Broadband	0.1	1.1	4.1	8.6	19.0	23.1	31.0	41.0	47.9	51.8	54.0
Mobile	1.6	5.1	14.8	29.8	38.7	56.0	69.5	86.9	104.2	113.2	128.4
iTV	1.2	5.0	7.0	8.5	13.5	16.3	18.6	23.5	26.3	29.7	33.1
Total	282.3	255.2	295.9	351.4	403.8	409.7	488.8	651.7	668.9	631.8	573.3
Australia											
Console	125.0	91.6	111.8	125.9	149.7	128.4	181.3	288.0	291.6	256.1	199.7
Handheld	45.4	44.1	42.8	41.5	37.3	54.8	56.7	49.2	42.1	38.2	34.4
PC	101.5	102.7	97.7	103.0	94.0	89.9	79.8	74.8	70.0	65.6	61.4
Broadband	0.4	0.8	2.4	4.9	12.0	20.3	30.3	37.5	41.4	47.9	54.4
Mobile	1.0	3.2	9.1	18.8	29.4	38.2	55.4	68.5	84.2	101.1	116.2
iTV	0.0	0.0	0.9	1.7	4.4	7.3	11.5	15.6	18.6	22.9	27.7
Total	273.2	242.4	264.6	295.7	326.7	338.9	414.9	533.6	548.0	531.8	493.9
Mexico											
Console	51.8	79.1	120.2	147.3	174.2	155.1	186.7	241.8	244.0	218.7	182.4
Handheld	24.0	24.2	23.8	27.6	32.5	52.1	58.9	55.0	48.6	42.9	37.9
PC	37.9	40.2	40.0	35.1	35.1	34.3	31.0	29.7	28.3	27.1	25.9
Broadband	0.1	0.2	3.2	5.4	8.2	11.6	18.5	24.8	29.4	36.6	44.7
Mobile	0.1	0.3	0.7	1.5	3.8	8.1	15.2	24.2	34.9	46.8	57.1
iTV	0.0	0.0	2.9	4.0	5.4	7.2	9.6	12.7	16.2	20.1	24.2
Total	114.0	144.0	190.8	220.9	259.3	268.3	319.9	388.1	401.3	392.2	372.2

Note: All figures refer to year-end

Source: Informa Telecoms & Media

Games revenues ($ million) (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Asia Pacific											
Console	3,084.8	3,273.2	3,366.8	3,371.7	3,684.5	3,243.7	4,203.9	5,288.9	5,446.2	5,110.9	4,450.1
Handheld	837.8	630.6	907.1	868.9	982.9	1,496.3	1,627.7	1,522.1	1,348.2	1,127.5	887.2
PC	1,287.0	1,270.9	1,192.1	1,238.7	1,146.2	1,059.9	953.5	880.3	812.1	748.4	689.1
Broadband	23.3	49.0	172.1	325.7	592.2	902.8	1,153.9	1,568.6	2,060.5	2,613.6	3,192.8
Mobile	28.5	121.7	304.1	604.0	1,009.0	1,453.5	2,315.3	3,137.0	3,853.6	4,528.8	5,084.0
iTV	4.3	9.6	15.5	25.5	44.9	85.7	149.1	261.0	452.9	690.2	945.1
Total	5,265.6	5,355.0	5,957.6	6,434.6	7,459.8	8,241.9	10,403.4	12,658.0	13,973.5	14,819.4	15,248.4
North America											
Console	1,967.8	3,072.0	4,476.2	5,321.6	6,111.7	5,393.6	6,465.5	8,377.1	8,451.2	7,574.5	6,318.5
Handheld	922.6	909.0	876.6	995.6	1,151.6	1,829.8	2,066.0	1,926.4	1,701.0	1,501.5	1,324.8
PC	1,651.1	1,730.3	1,706.3	1,461.3	1,418.6	1,369.9	1,227.5	1,160.9	1,098.0	1,038.4	982.1
Broadband	34.7	90.2	168.8	266.6	359.2	504.9	674.4	864.7	1,071.6	1,291.9	1,526.3
Mobile	6.2	15.9	34.0	67.2	165.8	339.8	626.5	976.4	1,377.9	1,810.4	2,163.9
iTV	0.0	0.0	141.1	192.8	249.6	322.3	416.8	532.2	658.2	792.4	927.3
Total	4,582.5	5,817.3	7,403.1	8,305.1	9,456.4	9,760.3	11,476.7	13,837.6	14,357.8	14,009.2	13,242.8
Europe											
Console	3,253.3	2,421.7	3,100.0	3,668.0	4,388.9	3,781.4	5,019.7	7,685.8	7,678.6	6,685.6	5,184.6
Handheld	943.3	916.3	889.4	862.4	775.8	1,220.2	1,178.1	1,024.1	875.9	794.5	716.1
PC	1,916.5	1,939.5	1,843.4	1,943.7	1,774.0	1,697.5	1,506.8	1,411.6	1,322.1	1,238.1	1,159.1
Broadband	9.3	35.1	91.9	171.4	331.7	543.0	713.4	873.4	1,026.0	1,175.4	1,325.3
Mobile	25.2	89.2	235.6	425.9	606.9	672.4	1,131.3	1,679.0	2,265.7	2,830.5	3,228.5
iTV	73.1	130.7	163.3	199.1	256.7	340.3	432.9	541.6	675.7	821.0	966.1
Total	6,220.7	5,532.5	6,323.5	7,270.6	8,134.0	8,254.8	9,982.3	13,215.5	13,844.0	13,545.1	12,579.7
Latin America											
Console	263.6	402.6	612.4	751.1	880.2	784.6	945.1	1,225.8	1,237.8	1,110.5	927.3
Handheld	122.2	123.1	121.2	140.5	165.9	266.2	301.1	281.3	248.9	220.1	194.4
PC	192.6	204.3	204.0	178.9	175.7	171.7	155.6	148.8	142.3	136.1	130.1
Broadband	4.3	11.3	21.6	34.6	47.1	66.9	90.3	117.1	146.6	178.6	213.2
Mobile	0.7	1.7	3.8	7.8	19.6	41.0	77.2	122.9	177.2	237.8	290.2
iTV	0.0	0.0	15.0	21.1	28.3	37.7	50.3	66.3	84.6	105.1	126.8
Total	583.4	743.0	978.0	1,133.9	1,316.7	1,367.9	1,619.7	1,962.2	2,037.5	1,988.3	1,882.1

Note: All figures refer to year-end

Source: Informa Telecoms & Media

Games revenues ($ million) (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Rest of the World											
Console	26.7	43.6	70.6	112.5	155.7	142.8	179.7	242.9	257.6	247.1	222.3
Handheld	12.4	13.3	14.0	21.0	29.3	48.4	57.3	55.8	51.8	49.0	46.6
PC	19.5	22.1	23.5	26.8	31.1	31.2	29.6	29.5	29.6	30.3	31.2
Broadband	0.3	1.0	2.0	4.3	7.0	10.3	14.8	20.2	26.8	35.4	46.0
Mobile	0.1	0.2	0.4	1.0	2.9	6.3	12.6	21.2	32.5	47.1	62.6
iTV	0.0	0.0	1.4	2.6	4.2	5.8	8.2	11.4	15.5	20.8	27.4
Total	59.0	80.3	111.8	168.2	230.2	245.0	302.2	381.0	413.8	429.6	436.1
Global											
Console	8,596.1	9,213.1	11,626.0	13,224.9	15,221.0	13,346.1	16,813.9	22,820.5	23,071.4	20,728.7	17,102.8
Handheld	2,838.3	2,592.3	2,808.2	2,888.5	3,105.5	4,860.8	5,230.2	4,809.7	4,225.8	3,692.6	3,169.2
PC	5,066.8	5,167.2	4,969.3	4,849.4	4,545.5	4,330.2	3,873.0	3,631.2	3,404.1	3,191.3	2,991.6
Broadband	72.0	186.6	456.5	802.5	1,337.1	2,027.9	2,646.8	3,443.9	4,331.5	5,294.9	6,303.6
Mobile	60.7	228.7	577.9	1,105.9	1,804.2	2,513.0	4,162.9	5,936.5	7,706.9	9,454.6	10,829.2
iTV	77.4	140.2	336.3	441.1	583.7	791.9	1,057.4	1,412.6	1,886.9	2,429.6	2,992.7
Total	16,711.3	17,528.1	20,774.1	23,312.4	26,596.9	27,870.0	33,784.2	42,054.4	44,626.5	44,791.6	43,389.1

Note: All figures refer to year-end

Source: Informa Telecoms & Media

Chapter 5

Recorded music

Overview

Of all the entertainment sectors covered in this report, the music industry is arguably the most volatile. Since the late 1990s, music retailers of all kinds have been forced to battle against a wealth of freely available content via the Peer-to-Peer (P2P) networks. The timing of the rise of P2P could not have been worse, as the shift from analogue soundcarriers such as the audiocassette and vinyl LP was almost complete in most developed territories.

The launch of the first pre-recorded audiocassette in 1965 gave the consumer portability and robustness, not previously offered by the vinyl LP. The introduction of the CD almost 20 years later added sound quality and playability. It also restarted revenue growth for the music industry, which had stagnated at $12 billion for the first half of the 1980s, with many consumers 'upgrading' their analogue formats for digital. While that produced average year-on-year growth of 11.7% between 1985 and 1995, the completion of this transition meant the music industry needed to find new ways to keep revenues rising.

At the same time as the transition away from analogue hard was progressing, software was already freely available online that could extract audio from a CD and compress it to a size easily transferable via the growing number of internet users.

The storage of audio in digital format in CD quality requires large storage space, a factor that drove the development of audio compression. In 1989 the Fraunhofer Institute in Erlangen, Germany was granted a patent for the Moving Pictures Experts Group, Audio Layer III (MP3) software compression standard. This reduced digital audio by around one tenth the size of the original audio contained on a CD. The loss of sound quality was almost non-discernable. Most significantly to the music industry was that MP3 was made freely available as a public domain standard.

In 1999, Napster introduced a functionality to its software allowing users to connect directly to each other and exchange any type of digital file – MP3 quickly became the defacto audio compression standard. Such was the popularity of Napster, that by the end of 2000, it was estimated that 30% of all PCs contained Napster software. At its peak, Napster became more popular that any other music-related web site. Although the service went offline in late 2001, new services quickly filled the void, satisfying the ever-increasing demand for manageable digital music files.

While many of these illicit services succumbed to legal pressure, they have all played a part in the education of consumers into experiencing music in soft format. There is a strong

argument that unauthorised file exchange through P2P was responsible for bringing forward the shift away from hard formats. Initial, hurried, efforts by the music companies to sell downloads directly to consumer, to stifle the growth of P2P and offer a legal alternative, were totally ineffective. Since then, the most successful revenue generators in the download space have been either technology manufacturers, communication providers or newly established companies with no music company affiliations.

Digital formats

Although the CD was the first audio format to carry digital recordings, 'digital music' now usually refers to sales of music in digital form via internet and mobile downloads and subscription services that do not require a hard format carrier. With the exception of Sony's ATRAC format, all other digital formats have been developed by companies and organisations not affiliated with music companies.

The move to digital is still at an embryonic stage. However, music companies have reported significant increases in digital revenues. For 1H 2005 Universal Music Group (UMG) reported strong profit growth derived from higher sales volumes in digital product. Although it did not provide details of digital sales, *Music & Copyright* stated that digital revenues for the six month period totalled €105 million, equivalent to 5% of overall revenues. Moreover, in 2Q 2005 this percentage share rose to 6% or €36 million. *Music & Copyright* estimated that well over half of UMG's digital revenues derived from the mobile phone music sector.

According to the international record industry association IFPI, the retail value of global digital recorded music sales in 1H 2005 increased by 259% against 1H 2004 to $790 million. It defined digital music as a-la-carte downloads, subscription services, mobile phone downloads and sample ringtones. The rapid growth meant digital sales accounted for slightly less than 6% of the total retail value of $13.2 billion compared with a less than 2% share of total music sales in 1H 2004.

CD growth compared with digital (%)

Year	CD share of total album sales (%)	Digital share of total revenues (%)
Year 1	0.4	0.2
Year 2	1.2	2.4
Year 3	3.7	6.2
Year 4	8.1	11.1
Year 5	13.8	15.6
Year 6	17.7	20.3
Year 7	25.1	23.9
Year 8	30.3	27.4

Note: For CDs, Year 1 is taken as 1983 and for digital, Year 1 is 2003

Source: Informa Telecoms & Media

While not a totally like-for-like comparison, the forecast growth of digital sales is set to mirror the rise of the CD. If similar growth was to continue beyond 2010, digital revenues would account for the majority of sales by around 2015.

For that to happen, several issues must be resolved, most crucially, the growing concerns regarding the interoperability of platforms and formats. Much of the criticism has been aimed at Apple and its unwillingness to open its FairPlay DRM system. FairPlay is used by Apple's music related technology including the iPod, iTunes and iTunes Music Store. All music files purchased from the iTunes Music Store are encoded with FairPlay. The encryption of an AAC format file prevents the music from being played on an incompatible portable device or computer not equipped with iTunes software.

All other internet download stores that retail major label content use Microsoft's protected Windows Media Audio format. Those online stores that have been unable to secure such licenses, or specialise in independent and unsigned artists, have continued to use the unprotected MP3 format.

Digital audio formats

Codec	Extension	Features
AAC	aac, .mpe	Developed by Fraunhofer to preserve audio quality at lower bitrates. High licensing costs have limited usage. The format of choice for Apple's iTunes Music Stores.
AAC+	m4a, .mp4	High quality codec used primarily for mobile streaming and download audio applications.
AIFF	aif, .aiff	The audio format native to Macintosh computers developed by Apple.
ATRAC	atrac	Stands for Adaptive Transform Acoustic Coding, and was initially developed by Sony in 1991 for the MiniDisc.
KOZ	koz	Proprietary format developed by Chaoticom in the U.S. for mobile download services.
MP3	mp3	MPEG-1 layer 3 audio encoding used to compress audio on CD-ROMs and for downloading via the internet.Developed by the Motion Picture Experts Group, it has become the de facto compression technology for file exchange. Unsecured.
MP3 PRO	mp3	Codec developed by Thomson that achieves the same audio quality in smaller file sizes. Take-up remains limited.
OGG Vorbis	ogg	Open source codec designed to compete with MP3. Since it is not licensed like MP3, software using this codec does not pay royalties
RealAudio	ra, .ram, .rm	Highly compressed audio format used on the internet because of its ability to stream. (Can be played while being downloaded).
WAV	wav	Uncompressed audio format developed by IBM and Microsoft. Became standard audio file used on PCs. Not used online due to its size.
WMA	wma	Microsoft's proprietary audio codec designed to compete with MP3. Claims competitive sound quality at lower bit rates. Used by the majority of online distributors.

Source: Informa Telecoms & Media

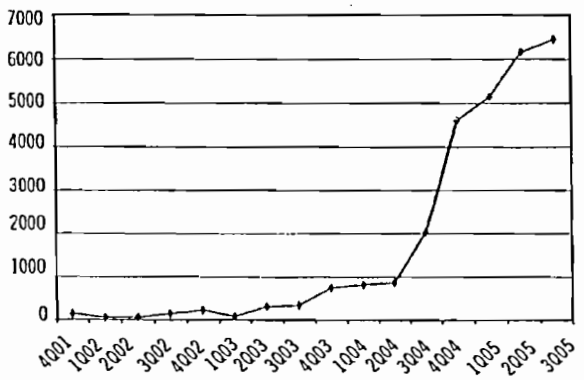
Apple has consistently defended its position to not open its DRM system to its competitors. A move by RealNetworks to reverse engineer FairPlay to make it compatible with its Harmony technology resulted in Apple upgrading FairPlay to ensure it is incompatible.

Driving digital sales

With Apple so dominant in the internet download and portable music sectors it has unashamedly voiced its opposition to any change that could eat into its share - stating that it is not preventing any other download retailer or portable player manufacturer from entering the sector to compete with it. Estimates vary, but even in countries where the iTunes Music Store has significant competition, it accounts for more than 70% of paid-for music download sales, while the range of iPod portable music players typically have a 70%-plus share of portable hard drive digital music player sales.

Apple's supremacy in the portable player market is at present unassailable, in large part because it is built on widespread cultural approval and sophisticated marketing rather than on technical superiority. However, the continued dominance of the iTunes Music Store became less certain in 2H 2005. At launch in April 2003, iTunes had the unequivocal support of all the major record companies. In 2006 this is now not the case and crucially its licences to sell major label content are due for renewal.

Quarterly iPod shipment growth (000)



Source: Apple

The iTunes concept and Apple's marketing of it have been recognised by the record industry as a prime factor in turning around the previously struggling legitimate online download market. However, many in the industry now believe that iTunes is becoming an obstacle to further growth in this sector, for two main reasons. The first is Apple's reluctance to introduce a range of prices for tracks; the second is the company's positioning of iTunes as a loss-leader to encourage the sale of its much more profitable iPod. As of early 2006, iTunes claimed more than 80% of the U.S. download market.

For record companies, selling music is profit-driven, regardless of whether iTunes is a profit centre for Apple. So far, revenues from digital sales have largely come from the mobile sector,

where higher prices are encouraged by both the telecoms companies and the major music companies. Crucially, these prices are also accepted by consumers.

Once the legitimate online music market was established, record companies did extensive research on the online prices that consumers would accept. The resulting consensus was that the variable price structure seen in the offline market, in which there are frontline, mid price and budget albums, could be successfully transplanted to the online market. But the majors have had little success in persuading Apple to implement such a policy for iTunes. The effect of Apple's pricing policy, combined with low usage of iTunes by iPod owners, is that the majors' revenues and profits from iTunes have been lower than expected.

The licensing terms agreed between the majors and Apple are confidential, but according to Music & Copyright, they vary significantly. For example, in the UK, where Apple set the retail price for a single track download at £0.79, it is paying the majors a wholesale price of between £0.42 and £0.47. The actual amount per download relates to the level of the advance paid by Apple to the given major to secure the licence.

In the run up to the new round of licence negotiations, both sides publicly stated different opinions. Executives from the majors, keen to tap into the greater margins that online sales represent, espoused variable pricing. In contrast, Apple has accused the major recording companies of being greedy, and raised the spectre of a return to untrammelled P2P piracy if iTunes is not supported by the record industry.

Although unlikely, it is possible that one or more majors may not re-license their repertoire to iTunes. The launch of the Australian version of iTunes in October 2005 went ahead without content from SonyBMG, following an inability to agree licensing terms. The launch of the Japanese version two months earlier also went ahead without music from Sony Music Japan. However, this did not prevent download sales exceeding one million just four days after launch.

Online competition

If the iTunes crown was to slip, there are numerous companies, with a variety of business models, which are positioned to take market share and continue the shift away from hard formats. Some of iTunes' competitors offer downloads as part of an online subscription service, some offer both subscription and a-la-carte services, and some offer only downloads.

According to *Music & Copyright*, the highest profile brand competing with iTunes is Napster. In late 2002 the U.S. CD replication software company Roxio bought the Napster name and some of the technology of the unauthorised file sharing service, for $5.3 million. Subsequently Roxio sold its software division and renamed itself Napster. It offers a subscription service that allows users to download a number of tracks per month, share them with other users and listen to radio streams.

The service initially grew quickly in the U.S. In contrast to iTunes, it has affiliates only in the UK and Canada. It plans to launch in Japan, via a joint venture worth Tower Records, as well as extending its European presence to Germany.

At end-September 2005 Napster claimed 448,000 subscribers, representing a year-on-year increase of 146%. Although no territory specific figures were published, in its financials for the quarter to end-June 2005 it stated that 75,000 of the total 402,000 subscribers were UK based, putting the North American total at 327,000.

Napster's most innovative strategy, and a key revenue driver, has been to secure group subscription deals with U.S. universities and colleges. Napster offers the universities a discounted bulk deal, giving the educational institutions a legitimate alternative to illegal file-sharing. Napster is also hoping to generate future customers when the participating students leave the university.

Napster has agreed deals with scores of U.S. university and college campuses. Another company to take this route is Colorado-based Sea Blue Media which operates Cdigix, a service that provides streams and downloads of films, television programmes and music to university campuses. The privately-held company does not disclose revenue or subscriber information.

In July 2005 Napster entered a strategic alliance with U.S. satellite radio company XM, which has five million subscribers. The deal involves some integration between the two services – XM listeners will be able to buy tracks they hear via Napster. Napster has also agreed hardware branding and licensing deals with well known consumer electronics brands, increasing the number of portable music players that are compatible with its Napster To Go service. However, Napster has not been able to capitalise on such deals to the same extent that Apple benefits from its control of the iPod range of players.

One of the oldest legal music services is RealNetworks, which was set up in 1993. The company created its own streaming programmes, RealAudio and RealVideo, and one of the first PC-based audio streaming software players, the RealPlayer. After buying Listen and its digital music subscription service Rhapsody in August 2003, RealNetworks entered the online music markets with the revamped Rhapsody subscription service. Rhapsody subscribers can listen to an unlimited number of tracks per month from a catalogue of over one million and download most of those tracks for $0.79 each.

In addition to being marketed directly by RealNetworks, Rhapsody is also sold via third party providers. RealNetworks also offers the RealPass subscription internet radio service, which provides access to over 70 proprietary music channels and simulcasts of 3,200 other radio stations.

In September 2005 Real reported that it had more than 2.2 million paid subscribers to its premium digital media services, up from over 1.6 million 12 months earlier. Of the total, Real had more than 1.3 million paid music subscribers, a significant increase on the 625,000 figure at end-September 2004. The music subscriber counts include Rhapsody, premium commercial-free radio services and Rhapsody radio registrations bundled with broadband internet service providers.

Like Napster, the company works mainly on a subscription model. RealNetworks has dedicated consumer websites for Australia, China, Greater China, France, Germany, Japan and the UK, as well as another website in English which allows users to select other languages such as Spanish (and then select from several territories including Argentina, Mexico, Spain and the U.S.), Italian and Swedish. However, these websites only offer the RealPlayer software, which includes a link to the Real Store and a 14 day trial (free in most regions) for radio streaming and CD burning. RealNetworks uses a version of the AAC codec.

Both RealNetworks and Napster face strong competition from Yahoo! Music. As a more recent entrant to the subscription download sector, Yahoo! has not been associated with the sale of digital music. However, the launch of its low cost service could place it alongside Napster in terms of subscriber numbers in a very short period of time.

Since launch, Yahoo! has not published subscriber details. However, for the quarter ending September 30, 2005, 'fees', which contains revenues from its music download and subscription service as well as payments to Yahoo! from other ISPs, rose 46% to $170 million.

In mid-October 2005, Yahoo! increased the cost of subscriptions - to users who want to download songs to portable music players or burn them to CDs - from $4.99 to $9.99 per month, for people who sign up for a year of service. For customers who subscribe on a month-to-month basis without signing up for the full year, the price rose from $6.99 to $11.99 per month. It charges $0.79 for most downloads.

Although Yahoo! acknowledged this increase will impact some of its subscribers, it highlight one of the largest pitfalls for subscription downloads. Once a user stops subscribing, they lose access to all downloads held on their computer. If a service provider increases prices by an unacceptable amount, the consumer is left with a choice to either pay the extra amount or cancel the subscription and lose all the music downloaded during the subscription period.

Few details have been published of how profitable Yahoo! expects the service to be at such a low price. However, subscription providers are thought to pay content providers around $6 per month for a standard "all you can eat" subscription. For portable subscriptions, the monthly fee paid to music companies rises to around $8.

In one respect, the relatively low price charged by Yahoo! may result in greater interest in subscriptions. The downside to low prices is that consumers that sign up to the service may be forced to pay more for music they have already downloaded. This could turn subscribers that had been attracted to the rental system back to a-la-carte.

Similar to Apple selling downloads that are only playable on its own portable players, Sony's Connect download service was introduced to sell music downloads only to its hardware owners.

Following its U.S. launch, the service was extended to several leading European markets including the UK, France and Germany. The company has not released any sales or performance details. However, it undertook a reorganisation of its corporate structure, placing the development of the Network Walkman in the same division as the Connect service.

Although redesigned since launch, the service suffers because users have to download the proprietary Connect player software before buying music from the website. The service, available in the U.S. and eight major European territories, charges $0.99 for most tracks. Although there is a direct link to Sony Walkman player information and sales, the website reportedly does not offer the same user-friendly experience as iTunes.

There are many other websites and companies offering downloads for sale. These include MTV, MyCoke in Europe, the UK-based websites of HMV and Virgin and online service provider AOL. Microsoft offers a download service MSN, which it has never trumpeted in the manner of Apple. Microsoft's decision to suspend negotiations with the majors concerning a subscription service suggests that it no longer sees music as central to its expansion plans. There are also several regional and national download services, such as tarabu.com in Mexico, Singapore-based Soundbuzz in southeast and south Asia and Australia, and musicindionline in India.

Most of the brand-led download services use other companies to provide them with back office services such as distribution, encoding, hosting and content management. Many of them use U.S.-based Loudeye, which consolidated its dominance of the business-to-business (B2B) sector with the purchase of UK-based OD2 in June 2004. As a result of the acquisition Loudeye, which previously operated only in the U.S., now has clients in over 20 countries, including several in Europe, plus Australia and South Africa.

Loudeye's clients include Coca-Cola and Microsoft, as well as Amazon.com, AOL and Apple – Loudeye runs most of the iTunes services in continental Europe. It also provides some back office services to Sony Connect and Yahoo!. A likely key source of future revenues for Loudeye are the telecoms and mobile phone companies, such as Cingular, France Telecom and Nokia, which are using Loudeye for their mobile music applications.

Although customers that have already licensed music can use Loudeye's services, the company itself has licences covering 20 territories and 1.3 million tracks. Loudeye also provides digital management services, intended mainly to prevent unauthorised distribution of music content via P2P networks. Despite competition from companies including Groove Mobile, Liquid Digital, Melodeo, MusiWave and Bertelsmann's Digital World Services, Loudeye dominates the B2B digital music services sector.

A competitor, in some fields, is MusicNet which provides catalogue and back office services for several online music stores including Yahoo!. The company was set up in 1999 by RealNetworks, Bertelsmann, EMI, SME and Time Warner. Initially intended to be a subscription download service, it was sold to U.S.-based investment firm Baker Capital in April 2005.

Mobile music

In a relatively short space of time, the mobile platform has become a significant revenue generator for the music industry. Ringtones are set to remain as the largest sector in the years to 2010 but, in certain territories, full track downloads to the mobile have already become more popular than internet downloads.

With the shift to sample ringtones well under way, record companies are now benefiting from more than just the publishing share of each sale. The higher cost to the consumer for a sample ringtone compared with a full track download means they are far more profitable for a music company. Production costs are also much lower than for the full track equivalent.

The rise in the number of mobile handsets equipped with MP3 playback coupled with an increasing number of mobile full track service launches has propelled the mobile to the forefront of future music industry thinking. In addition, music companies see mobile operators as potentially better partners than Apple, being far more likely to adopt their variable pricing structure.

Overall, the growth of mobile music has been impressive, quickly moving from a cottage industry making basic monophonic ringtones in 1998 to a multi-billion global business on which the music industry is staking much of its future. According to Informa Telecoms & Media, over $11 billion will be generated by all forms of mobile music in 2010.

A large sector of both the mobile and the music industries have galvanised around mobile music and have been helping to progress this sector. Handset manufacturers are devoting significant energy into creating sophisticated music devices. Meanwhile operators have been busy rolling out advanced music download services. In Japan, full track downloads have been showing remarkable growth.

Because of this, large equipment vendors like Ericsson and LogicaCMG have redoubled efforts in this space, offering both systems integration services for large scale mobile music systems, as well as platforms and even content aggregation services to clients.

During 2005, traditional mobile content companies – notably ringtone vendors – have gone from strength to strength with large scale multi-million dollar global advertising budgets in evidence, and mergers and acquisitions happening at an increasing rate. All of this activity might suggest that mobile music is in something of a bubble at present, and indeed there are a large number of issues which need to be resolved at all points in the value chain before mobile music can truly move beyond its current ringtone staple.

Pricing problems are a key obstacle, since consumers can obtain legal downloads online for substantially less than the cost of delivery over mobile – especially if the file can only be accessed over the phone. Ringtones arguably represent less value than full track downloads since they are only a clip of a song often without using the actual recording. Once sample ringtones become the norm, consumers may question why they should pay more for a clip than for a full track. However, it is worthwhile remembering that the function of a ringtone is to personalise a ring signal and is fundamentally different from that of a full track, which is listened to for enjoyment.

As has proved problematic in the online space, DRM remains a key concern for the mobile industries. Attempts to develop cross industry standards have been hamstrung by disputes from within and patent infringement claims from outside the industries. Moreover, proprietary technologies have the advantage of being developed specifically for a certain use, but may not be applicable to the whole value chain.

But perhaps the biggest question mark is over which party will eventually drive, and ultimately benefit from, mobile music services. Music owners are beginning to see profits, but could stifle the market through onerous licensing demands. Mobile operators are currently driving full track mobile downloads, but are not yet seen as music brands. Online digital music companies are beginning to make their plays into the mobile world but may face resistance from the operators. Above all, the consumer market – which originally drove the largely unanticipated ringtone business – may make a totally leftfield decision and opt for something completely different.

The business models in the mobile music sector provide a variety of revenue streams for operators, vendors and music owners, but could also provide a number of dead-ends depending on which services consumers eventually adopt.

In broad terms mobile music can be split into personalisation services, like ringtones and ringback tones; and consumption services like full track music downloads or streaming.

Personalisation services – predominantly ringtones – currently dominate the sector with more than 90% of all revenues. Ringback tones are also personalisation services and have overtaken ringtones in terms of value in their country of inception, South Korea. But it is not clear whether the success of ringback tones in Korea will be mirrored in other countries around the world. Full track downloads will, however, propel the market once sufficiently sophisticated handsets become widely available. It is likely that handset availability, coupled with the resolution of DRM standards problems will lead to a surge in full track downloads after the Christmas season in 2006 – a vast amount of handsets are traditionally sold in December.

The value chain in digital music varies depending on the type of service being offered. Not surprisingly, the greater the number of different parties in the value chain, the lower the revenue share available for each party. So monophonic ringtones were the most lucrative for the providers, whereas real tones and full track downloads can become loss leaders for some parties in the value chain as these require substantial payments for recording rights. Content providers may nevertheless choose to offer them, either as a means to establish their brand as a music provider, or a means to build relationships for future business in lieu of ongoing licensing discussions.

Record companies are the central part of the chain by virtue of owning the recording rights, but some of them are also increasingly aggressive in securing further rights around the artist, so that they can offer a complete package of mobile music.

Mobile music service providers such as Buongiorno Vitaminic, Musiwave, Groove Mobile and technology vendors like Siemens and Ericsson all provide slightly different services to operators depending on the cellco's requirements.

Service providers who offer ringtones have developed good music industry connections, secured content licenses and often have their own innovative technology for providing services like videotones. These companies can open up sales channels in new markets, and aggregate content for use by smaller operators. They also typically provide a customer relationship management (CRM) role, may take customer calls and also monitor spending habits and drive upsell and marketing initiatives to end users.

Mobile operators reacted slowly to the emergence of the ringtone market. Now, they are keen to provide both ringtones and other mobile music services. Typically large operators look to strike direct content deals with record labels.

Part of the reason operators are now keen to become involved in content retail is to drive revenues through non voice services. The margins on voice and SMS – the staples of cellco's revenues – are becoming increasingly tight and so operators not only want to provide a channel for digital content distribution, but also become content brands themselves.

Those operators which take a more proprietary approach to content, only allowing their subscribers to browse and buy content from within a 'walled garden' mobile portal are clearly trying to own the content relationship. Most operators are, however, now recognising the need to drive revenues from content both on and off portal.

There is still a large question mark over whether operators will eventually come to dominate in digital music retail, or whether existing music brands will usurp the mobile channel. As long as operators keep a tight rein on the access channel for mobile content they will remain the dominant provider of content, but as networks become faster and consumers start to demand open access, this position will likely not remain tenable. Mobile operators must therefore establish themselves early on as credible suppliers of digital music.

The final key element in the mobile music value chain is the handset. The idea of the mobile phone as an 'iPod Killer' has gained momentum recently, spurred on by the release of handsets with MP3 functionality and 4GB hard drives. Yet just as camera phones did not suddenly destroy the digital camera business, neither will MP3-enabled phones decimate the digital music player market in the immediate future. This is because it is a market with susbstance. It is not a trivial matter to develop a desirable, and fully functional digital music player – for example MP3 players existed for several years as a niche product years before Apple released the iPod.

Sector analysis

Under the broad title Recorded Music, Informa Telecoms & Media has included in its total value figures audio hard formats (both albums and singles), music video hard formats, music video downloads, internet digital sales (a-la-carte downloads and subscriptions) and mobile music sales (full track downloads, ringtones, ring-back tones and mobile streaming services).

Although much more complex than previous format advances, the evolution of music delivery through the internet and by the mobile phone handset is expected to return global music sales to growth. The decline in hard format sales of soundcarriers is not forecast to reverse but will be more than compensated for by the rise of internet and more importantly, mobile sales, driven largely by ringtones.

The video sector has proved profitable for music companies with the music DVD forecast to all but replace the VHS format by the end of this decade. Music video download revenues are forecast to account for more than 10% of total music video sales, aided by the forecast growth of video-enabled portable music players.

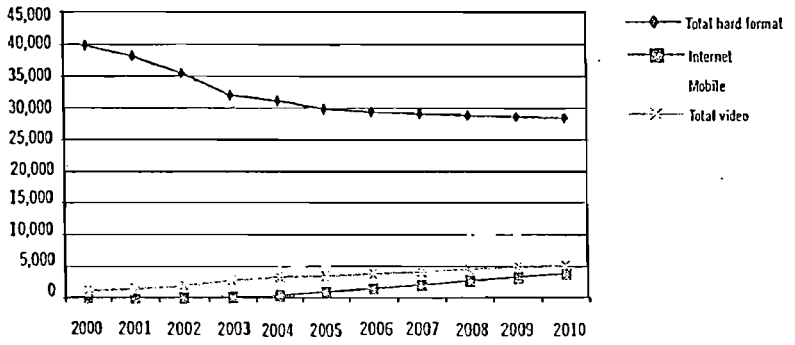
For audio-only, digital, which includes internet and mobile sales will account for 34.3% of revenues in 2010, compared with just 2.6% in 2000. Of the digital total, mobile-related sales will command the lion's share, accounting for 75%.

Global recorded music sales ($ million)

	2000	2002	2004	2006	2008	2010
Hard format						
CD	35,042.6	31,851.7	28,754.5	27,584.6	27,362.0	27,083.0
Other albums	3,469.9	2,470.5	1,696.1	1,401.2	1,282.0	1,225.6
Singles	1,166.7	921.4	551.3	316.0	148.5	53.2
Total hard format	39,679.2	35,243.6	31,001.9	29,301.8	28,792.6	28,361.8
Internet	0.6	3.8	308.2	1,372.7	2,595.3	3,700.1
Mobile	1,046.8	2,289.6	4,402.3	6,811.3	9,616.3	11,092.4
Total audio	40,726.6	37,536.9	35,712.4	37,485.8	41,004.2	43,154.3
Video						
DVD	595.4	1,662.3	3,052.0	3,538.2	4,115.4	4,530.0
VHS	461.4	203.8	79.2	29.1	6.7	1.2
Video download	0.0	0.0	0.0	98.9	293.1	509.8
Total video	1,056.7	1,866.1	3,131.2	3,666.2	4,415.3	5,041.0
Total audio & video	41,783.3	39,403.1	38,843.6	41,152.1	45,419.4	48,195.3

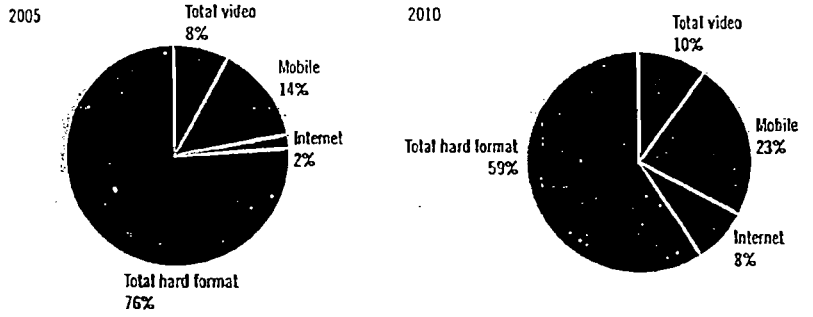
Source: IFPI, Informa Telecoms & Media

Global recorded music sales by category ($ million)



Source: IFPI, Informa Telecoms & Media

Global recorded music sales by category in 2005 and 2010 (%)



Source: IFPI, Informa Telecoms & Media

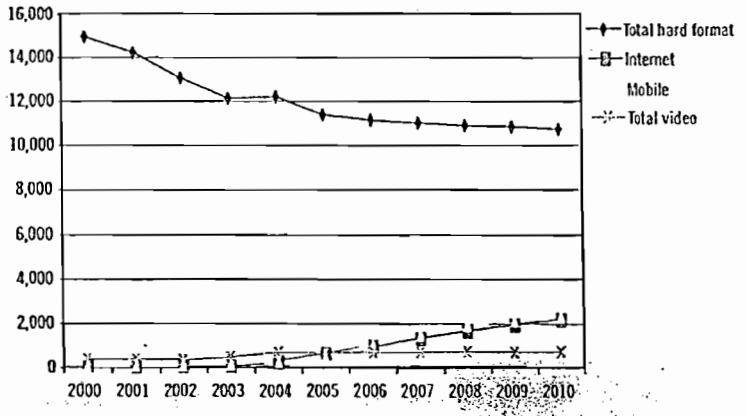
With the U.S. counting for such a large share of global music sales, it is not surprising that North America will be the largest region for music sales in 2010. However, the fall in value during the first part of the decade and the subsequent rise from 2006 will only return the region's value to slightly more than at the beginning of the decade. With ringtones not gaining widespread acceptance in the region until after Asia Pacific and Europe, internet sales quickly caught up with mobile. By 2010, the two platforms will each account for 14% of total music revenues.

North America recorded music sales ($ million)

	2000	2002	2004	2006	2008	2010
Hard format						
CD	14,171.2	12,739.1	12,066.7	11,033.9	10,794.8	10,577.2
Other albums	625.7	256.1	62.2	54.8	61.4	90.5
Singles	114.9	40.1	38.5	17.6	9.5	3.4
Total hard format	14,911.8	13,035.3	12,167.4	11,106.2	10,865.7	10,671.1
Internet	0.6	3.1	265.2	967.6	1,649.3	2,173.6
Mobile	10.7	84.0	246.3	991.6	1,890.8	2,288.9
Total audio	14,923.1	13,122.4	12,678.9	13,065.4	14,405.7	15,133.6
Video						
DVD	99.2	268.8	629.8	662.6	703.2	702.3
VHS	247.4	55.0	49.9	19.3	5.2	1.2
Total video	346.7	323.8	679.7	681.8	708.4	703.5
Total audio and video	15,269.7	13,446.2	13,358.6	13,747.2	15,114.1	15,837.1

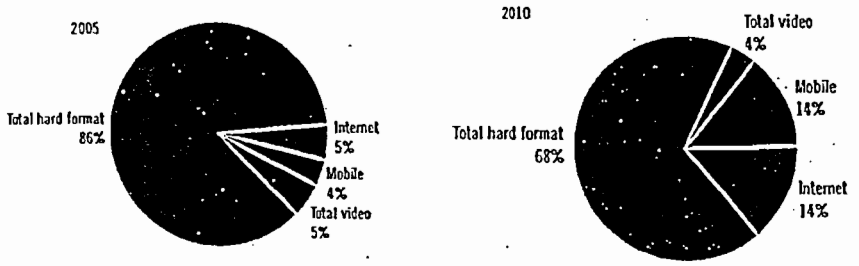
Source: IFPI, Informa Telecoms & Media

North America recorded music sales by category ($ million)



Source: IFPI, Informa Telecoms & Media

North America recorded music sales by category in 2005 and 2010 (%)



Source: IFPI, Informa Telecoms & Media

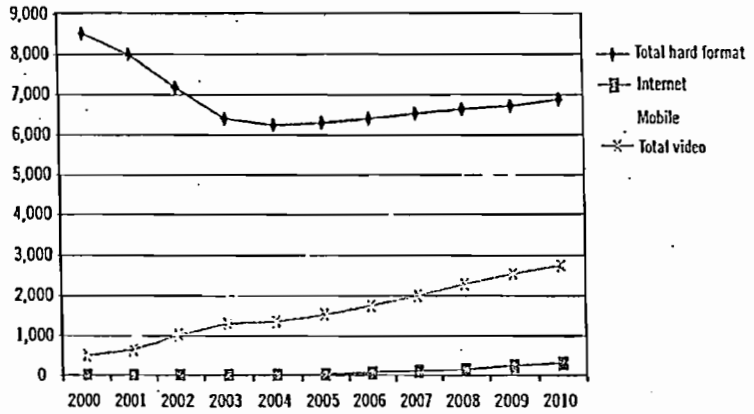
Asia Pacific is the region largely responsible for the more healthy appearance of global music sales. Overall, the region will experience growth from 2003 onwards, largely down to the success of mobile music. In 2010, mobile music is forecast to account for 34% of total music sales, compared with 46% for hard formats. However, it should be noted that hard format sales are forecast to increase slightly from 2004, driven mainly by sales in China.

Asia Pacific recorded music sales ($ million)

	2000	2002	2004	2006	2008	2010
Hard format						
CD	6,780.4	5,778.0	5,187.7	5,435.7	5,734.7	6,013.2
Other albums	1,707.6	1,371.6	1,026.2	943.7	880.8	842.4
Singles	1.7	1.5	1.6	1.7	1.8	2.0
Total hard format	8,489.6	7,151.1	6,215.4	6,381.0	6,617.4	6,857.6
Internet	0.0	0.0	2.2	66.2	156.4	321.4
Mobile	690.3	1,348.8	2,595.2	3,735.8	4,833.5	5,205.6
Total audio	9,179.9	8,499.9	8,812.9	10,183.0	11,607.3	12,384.7
Video						
DVD	417.1	965.9	1,323.5	1,706.0	2,167.4	2,545.4
VHS	60.6	29.7	3.8	0.0	0.0	0.0
Video download	0.0	0.0	0.0	26.9	94.1	180.0
Total video	477.7	995.6	1,327.3	1,732.9	2,261.5	2,725.4
Total audio and video	9,657.6	9,495.5	10,140.2	11,915.9	13,868.8	15,110.1

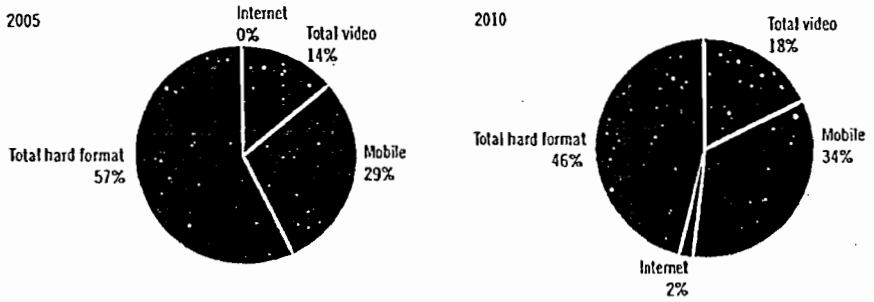
Source: IFPI, Informa Telecoms & Media

Asia Pacific recorded music sales by category ($ million)



Source: IFPI, Informa Telecoms & Media

Asia Pacific recorded music sales by category in 2005 and 2010 (%)



Source: IFPI, Informa Telecoms & Media

The pattern of hard format music sales in Europe is forecast to fairly much mirror North America in the years between 2000 and 2010. However, the mobile is expected to play a greater part, accounting for 21% of total music revenues at the end of the decade.

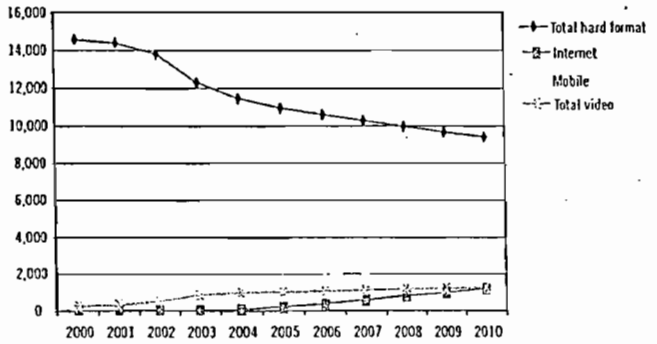
Unlike the other regions, total revenues in Europe at the end of the decade will remain lower that at the beginning, albeit by just 1.6%. The rise in the value of internet and mobile music sales will not compensate for the decline in the value of hard format sales until 2007.

Europe recorded music sales ($ million)

	2000	2002	2004	2006	2008	2010
Hard format						
CD	12,621.8	12,217.9	10,436.8	10,002.6	9,590.8	9,154.0
Other albums	861.9	660.3	479.3	261.5	196.1	166.2
Singles	1,042.3	872.6	508.6	295.3	136.6	47.9
Total hard format	14,526.1	13,750.8	11,424.7	10,559.5	9,923.5	9,368.1
Internet	0.0	0.6	40.5	336.5	777.5	1,171.0
Mobile	342.8	832.8	1,448.0	1,842.2	2,530.1	3,132.9
Total audio	14,868.9	14,584.2	12,913.2	12,738.2	13,231.0	13,672.0
Video						
DVD	69.0	377.5	928.0	978.7	1,024.7	1,042.2
VHS	145.4	106.1	22.5	9.8	1.5	0.0
Video download	0.0	0.0	0.0	42.3	110.8	176.3
Total video	214.4	483.6	950.5	1,030.8	1,137.0	1,218.6
Total audio and video	15,083.3	15,067.8	13,863.7	13,769.0	14,368.1	14,890.6

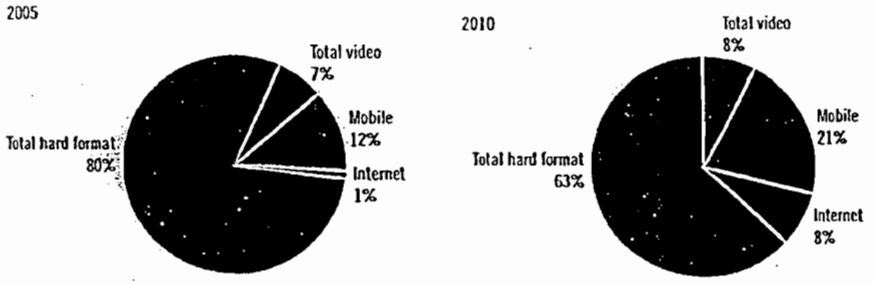
Source: IFPI, Informa Telecoms & Media

Europe recorded music sales by category ($ million)



Source: IFPI, Informa Telecoms & Media

Europe recorded music sales by category in 2005 and 2010 (%)



Source: IFPI, Informa Telecoms & Media

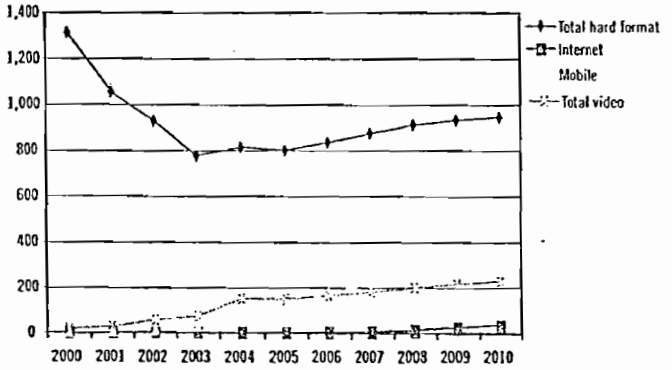
Latin America is forecast to benefit from the growth of mobile music sales, increasing its overall share of revenues to 20% in 2010, compared with 12% at the beginning of the decade. Although hard format audio sales are set to return to growth in 2007, the rate of increase will be low. Piracy is set to remain prevalent in the region well after the end of this decade. Video is forecast to account for 15% of total music revenues in the region in 2010.

Latin America recorded music sales ($ million)

	2000	2002	2004	2006	2008	2010
Hard format						
CD	1,265.2	916.2	806.7	828.9	903.4	935.3
Other albums	43.2	9.8	4.8	3.4	6.4	8.5
Singles	3.6	2.8	2.0	1.3	0.7	0.0
Total hard format	1,312.0	928.8	813.5	833.6	910.5	943.8
Internet	0.0	0.0	0.3	2.1	11.3	32.4
Mobile	1.8	14.2	81.2	176.6	251.8	303.2
Total audio	1,313.8	943.0	895.0	1,012.3	1,173.6	1,279.3
Video						
DVD	9.5	41.9	146.6	160.5	185.7	203.3
VHS	5.3	13.0	3.0	0.0	0.0	0.0
Video download	0.0	0.0	0.0	2.1	11.5	22.8
Total video	14.9	54.9	149.6	162.7	197.3	226.1
Total audio and video	1,328.6	997.8	1,044.5	1,175.0	1,370.9	1,505.4

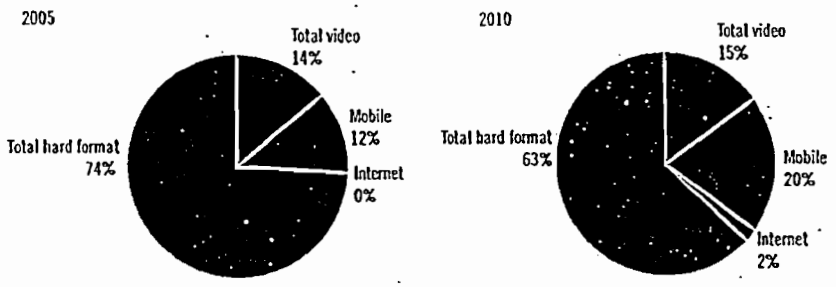
Source: IFPI, Informa Telecoms & Media

Latin America recorded music sales by category ($ million)



Source: IFPI, Informa Telecoms & Media

Latin America recorded music sales by category in 2005 and 2010 (%)



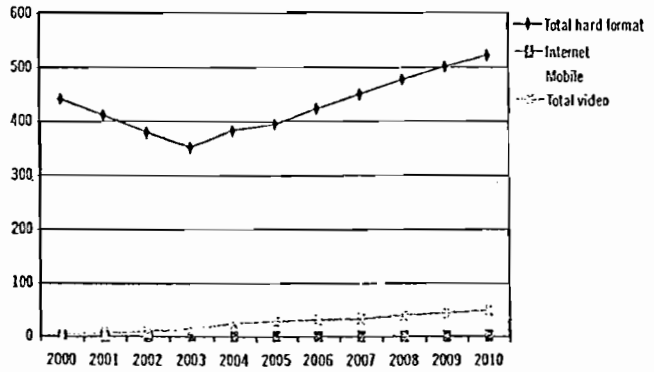
Source: IFPI, Informa Telecoms & Media

Rest of the World recorded music sales ($ million)

	2000	2002	2004	2006	2008	2010
Hard format						
CD	204.0	200.4	256.7	283.6	338.2	403.4
Other albums	231.5	172.6	123.6	137.9	137.4	117.9
Singles	4.2	4.5	0.6	0.0	0.0	0.0
Total hard format	439.7	377.6	380.9	421.5	475.6	521.3
Internet	0.0	0.0	0.0	0.3	0.8	1.6
Mobile	1.3	9.9	31.6	65.1	110.1	161.8
Total audio	441.0	387.4	412.5	486.9	586.5	684.7
Video						
DVD	0.5	8.3	24.1	30.4	34.4	36.8
VHS	2.6	0.0	0.0	0.0	0.0	0.0
Video download	0.0	0.0	0.0	0.9	5.1	10.1
Total video	3.1	8.3	24.1	31.3	39.5	46.9
Total audio and video	444.1	395.7	436.6	518.2	626.0	731.6

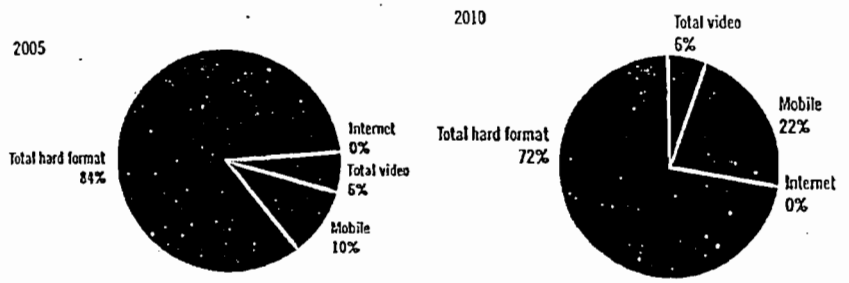
Source: IFPI, Informa Telecoms & Media

Rest of the World recorded music sales by category ($ million)



Source: IFPI, Informa Telecoms & Media

Rest of the World recorded music sales by category in 2005 and 2010 (%)



Source: IFPI, Informa Telecoms & Media

Recorded music revenues ($ million)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	201
U.S.											
Hard format											
CD	13,325.8	12,915.5	12,037.2	11,231.8	11,448.5	10,653.0	10,426.7	10,319.3	10,205.1	10,145.7	10,003.7
Other albums	603.9	388.9	250.7	163.6	61.8	57.0	53.1	52.8	58.8	69.3	86.3
Singles	112.3	107.3	37.8	59.2	36.5	22.6	16.9	12.9	9.5	6.5	3.4
Total hard format	14,042.0	13,411.7	12,325.7	11,454.6	11,546.8	10,732.6	10,496.7	10,385.0	10,273.4	10,221.4	10,093.3
Internet	0.6	1.4	3.1	55.0	259.8	625.4	939.2	1,270.6	1,589.0	1,848.7	2,082.7
Mobile	10.0	39.2	79.5	140.0	233.4	498.5	938.5	1,386.5	1,784.3	2,001.1	2,157.7
Total audio	14,052.6	13,452.3	12,408.3	11,649.6	12,040.0	11,856.5	12,374.3	13,042.1	13,646.7	14,071.3	14,333.6
Video											
DVD	94.5	181.7	239.6	367.3	559.1	566.1	597.6	612.0	637.0	622.2	637.3
VHS	235.2	145.7	44.0	26.0	47.4	29.4	18.2	9.1	5.2	2.4	1.2
Video download	0.0	0.0	0.0	0.0	0.0	2.7	23.4	35.6	61.8	82.1	98.6
Total video	329.7	327.4	283.6	393.3	606.5	598.2	639.2	656.7	704.0	706.7	737.2
Total audio and video	14,382.3	13,779.7	12,691.9	12,042.9	12,646.5	12,454.7	13,013.5	13,698.9	14,350.7	14,777.9	15,070.8
Japan											
Hard format											
CD	5,226.2	4,925.5	4,526.5	3,930.0	3,881.0	3,746.8	3,703.3	3,652.4	3,601.8	3,542.4	3,483.5
Other albums	141.2	124.0	84.0	72.6	60.5	109.4	97.8	92.4	94.4	101.1	111.1
Singles	1,052.9	856.4	712.9	652.4	630.5	447.3	311.5	223.3	161.7	109.0	66.0
Total hard format	6,420.4	5,905.9	5,323.4	4,654.9	4,572.0	4,303.5	4,112.5	3,968.1	3,857.8	3,752.5	3,660.5
Internet	0.0	0.0	0.0	0.6	1.4	23.1	50.1	77.8	111.2	178.1	239.9
Mobile	351.2	494.2	715.4	968.8	1,119.8	1,359.8	1,522.9	1,717.2	1,921.7	2,006.0	2,025.1
Total audio	6,771.6	6,400.1	6,038.8	5,624.2	5,693.2	5,686.4	5,685.4	5,763.0	5,890.8	5,936.6	5,925.5
Video											
DVD	209.2	371.1	399.9	557.7	589.1	554.9	560.6	567.3	567.5	567.6	564.4
VHS	165.0	113.0	72.5	48.3	6.7	1.2	0.0	0.0	0.0	0.0	0.0
Video download	0.0	0.0	0.0	0.0	0.0	0.2	8.1	15.9	23.2	32.6	40.1
Total video	374.2	484.1	472.4	606.0	595.8	556.3	568.6	583.2	590.7	600.2	604.5
Total audio and video	7,145.8	6,884.2	6,511.2	6,230.2	6,289.0	6,242.7	6,254.0	6,346.2	6,481.4	6,536.8	6,530.0

Note: All figures refer to year-end

Source: Informa Telecoms & Media

Recorded music revenues ($ million) (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
UK											
Hard format											
CD	2,893.6	3,172.9	3,101.7	3,192.1	3,143.8	3,146.4	3,151.8	3,118.6	3,115.0	3,107.9	3,081.6
Other albums	152.7	67.6	86.4	40.8	25.5	29.0	29.5	33.1	37.4	39.2	41.3
Singles	346.0	316.6	280.7	192.6	157.9	160.8	118.3	79.1	43.5	24.1	8.3
Total hard format	3,392.3	3,557.1	3,468.8	3,425.5	3,327.2	3,336.1	3,299.6	3,230.7	3,195.9	3,171.1	3,131.2
Internet	0.0	0.0	0.2	1.8	16.3	75.2	133.1	199.6	279.1	343.4	411.6
Mobile	61.1	89.0	140.0	191.0	223.7	247.2	275.2	331.4	382.8	441.6	502.6
Total audio	3,453.4	3,646.1	3,609.0	3,618.3	3,567.2	3,658.5	3,707.9	3,761.8	3,857.7	3,956.1	4,045.5
Video											
DVD	17.9	42.4	66.7	132.0	181.5	193.4	202.7	204.8	204.7	204.4	201.9
VHS	36.0	42.3	26.3	9.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Video download	0.0	0.0	0.0	0.0	0.0	0.3	6.8	11.6	18.4	27.7	38.2
Total video	53.9	84.7	93.0	141.1	181.5	193.7	209.4	216.5	223.1	232.1	240.2
Total audio and video	3,507.3	3,730.8	3,702.0	3,759.4	3,748.7	3,852.2	3,917.4	3,978.2	4,080.8	4,188.3	4,285.6
Germany											
Hard format											
CD	2,757.0	2,460.0	2,274.7	1,785.9	1,740.7	1,689.8	1,673.3	1,655.3	1,636.5	1,633.0	1,610.8
Other albums	110.0	119.2	63.5	82.7	61.7	47.1	40.0	34.4	27.2	25.1	25.3
Singles	368.9	328.6	256.7	174.9	137.5	110.6	92.9	74.7	54.1	43.4	24.5
Total hard format	3,235.9	2,907.8	2,594.9	2,044.4	1,939.9	1,847.4	1,806.2	1,764.5	1,717.7	1,701.5	1,660.6
Internet	0.0	0.0	0.2	0.7	10.8	39.7	73.0	112.6	167.5	212.2	262.0
Mobile	66.4	95.1	142.4	201.0	223.2	253.3	277.6	329.6	387.0	435.0	483.2
Total audio	3,302.3	3,002.9	2,737.4	2,246.1	2,173.9	2,140.4	2,156.8	2,206.6	2,272.2	2,348.7	2,405.8
Video											
DVD	17.3	39.0	79.2	172.6	197.7	199.4	200.6	203.3	204.2	206.6	207.4
VHS	21.5	18.0	56.6	25.1	11.4	7.4	5.2	2.0	1.0	0.0	0.0
Video download	0.0	0.0	0.0	0.0	0.0	0.2	9.1	15.5	25.1	34.2	42.6
Total video	38.8	57.0	135.8	197.7	209.1	207.0	214.9	220.8	230.3	240.8	250.0
Total audio and video	3,341.1	3,059.9	2,873.2	2,443.8	2,383.0	2,347.4	2,371.7	2,427.4	2,502.4	2,589.5	2,655.8

Note: All figures refer to year-end.

Source: Informa Telecoms & Media

Recorded music revenues ($ million) (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
France											
Hard format											
CD	1,940.8	2,166.8	2,272.9	1,889.0	1,597.3	1,625.8	1,617.8	1,606.7	1,592.9	1,588.7	1,570.8
Other albums	112.7	93.3	65.7	46.3	56.1	11.5	11.6	11.3	12.6	14.2	16.6
Singles	246.0	262.3	271.6	204.5	140.5	129.7	102.0	65.9	47.7	35.6	18.4
Total hard format	2,299.5	2,522.5	2,610.1	2,139.8	1,793.9	1,766.9	1,731.4	1,683.9	1,653.2	1,638.5	1,605.7
Internet	0.0	0.0	0.1	0.2	4.3	17.9	33.0	58.3	84.4	111.7	136.1
Mobile	44.3	71.1	103.3	142.8	157.5	174.8	190.6	225.0	263.5	293.1	326.2
Total audio	2,343.8	2,593.7	2,713.5	2,282.8	1,955.8	1,959.6	1,954.9	1,967.3	2,001.1	2,043.2	2,068.1
Video											
DVD	26.1	65.0	86.9	171.9	185.4	209.3	210.5	213.6	215.0	218.3	218.4
VHS	31.0	22.4	18.5	11.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Video download	0.0	0.0	0.0	0.0	0.0	0.1	4.8	9.7	18.2	20.6	25.9
Total video	57.1	87.4	105.4	183.7	185.4	209.4	215.4	223.3	233.2	238.9	244.3
Total audio and video	2,400.9	2,681.1	2,818.9	2,466.5	2,141.2	2,169.0	2,170.3	2,190.6	2,234.3	2,282.1	2,312.4
China											
Hard format											
CD	21.3	38.4	71.5	68.8	105.1	138.8	168.4	200.4	230.4	260.4	289.5
Other albums	42.0	33.9	30.2	58.0	30.2	32.3	27.5	23.6	21.0	18.9	17.2
Singles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total hard format	63.3	72.3	101.7	126.8	135.3	171.1	195.9	224.0	251.4	279.3	305.8
Internet	0.0	0.0	0.0	0.0	0.0	0.1	0.4	1.3	2.7	5.9	13.7
Mobile	12.1	20.5	33.8	55.4	185.6	349.5	518.9	653.5	791.3	879.1	942.8
Total audio	75.4	92.8	135.5	182.2	320.9	520.7	715.2	878.9	1,045.4	1,164.3	1,263.4
Video											
DVD	41.0	59.4	61.4	71.6	76.5	95.8	115.2	136.1	160.2	180.5	198.4
VHS	3.2	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Video download	0.0	0.0	0.0	0.0	0.0	0.0	7.8	12.2	25.0	38.4	50.4
Total video	44.2	60.8	61.4	71.6	76.5	95.8	123.0	148.3	185.2	218.9	248.8
Total audio and video	119.6	153.6	196.9	253.8	397.4	618.5	838.2	1,027.1	1,230.7	1,383.3	1,512.2

Note: All figures refer to year-end

Souce: Informa Telecoms & Media

Recorded music revenues ($ million) (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Italy											
Hard format											
CD	636.3	616.0	657.4	636.1	588.6	540.5	533.3	528.7	523.3	516.5	509.7
Other albums	130.7	83.2	49.6	20.2	5.2	0.0	1.3	2.0	3.8	4.5	5.5
Singles	25.4	24.6	20.8	16.3	8.5	6.5	5.0	3.5	2.1	0.7	0.0
Total hard format	792.4	723.9	727.7	672.5	602.2	547.0	539.6	534.2	529.1	521.7	515.1
Internet	0.0	0.0	0.0	0.2	1.7	6.5	19.6	32.2	46.7	59.3	72.5
Mobile	58.8	90.0	128.7	160.3	179.7	189.5	196.8	223.8	245.4	255.9	267.0
Total audio	851.2	813.9	855.4	833.0	783.6	743.1	756.0	790.2	821.2	836.9	854.7
Video											
DVD	2.9	5.4	10.8	34.7	50.2	34.4	35.6	36.6	37.3	37.7	38.7
VHS	5.0	3.7	2.5	1.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Video download	0.0	0.0	0.0	0.0	0.0	0.0	2.4	3.3	5.1	9.9	12.3
Total video	7.9	9.1	13.3	35.8	50.3	34.4	37.9	40.0	42.4	47.6	51.0
Total audio and video	859.1	823.0	869.7	868.8	833.9	777.5	793.9	830.2	883.6	884.5	905.7
Canada											
Hard format											
CD	845.4	775.2	701.9	650.1	618.2	614.9	607.2	598.4	589.7	582.1	573.5
Other albums	21.8	7.9	5.4	1.0	0.3	1.5	1.7	2.0	2.6	3.3	4.2
Singles	2.6	3.1	2.2	3.6	2.1	1.0	0.7	0.3	0.0	0.0	0.0
Total hard format	869.8	786.2	709.6	654.7	620.6	617.4	609.6	600.8	592.3	585.4	577.8
Internet	0.0	0.0	0.1	0.6	5.4	14.5	28.4	44.4	60.3	75.9	90.9
Mobile	0.7	2.3	4.5	7.8	12.9	27.9	53.1	80.7	106.5	119.8	131.2
Total audio	870.5	788.5	714.2	663.1	638.9	659.8	691.1	725.8	759.0	781.1	799.9
Video											
DVD	4.7	14.1	29.2	67.7	70.8	63.8	65.0	67.2	66.2	67.5	65.0
VHS	12.2	15.8	11.0	5.6	2.4	1.6	1.1	0.5	0.0	0.0	0.0
Video download	0.0	0.0	0.0	0.0	0.0	0.1	3.3	5.2	9.8	16.7	21.9
Total video	17.0	29.9	40.2	73.3	73.2	65.5	69.3	72.9	76.0	84.2	86.9
Total audio and video	887.5	818.4	754.4	736.4	712.1	725.4	760.4	798.7	835.0	865.3	886.8

Note: All figures refer to year-end

Souce: Informa Telecoms & Media

Recorded music revenues ($ million) (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Australia											
Hard format											
CD	645.7	681.1	624.4	637.1	602.0	531.3	531.6	530.4	525.9	520.8	515.4
Other albums	7.8	6.7	7.4	6.2	4.0	3.9	4.0	4.3	5.1	5.5	6.0
Singles	55.3	55.0	44.7	33.6	31.5	38.8	31.9	24.7	17.3	11.0	6.4
Total hard format	708.8	742.8	676.5	676.9	637.6	574.0	567.4	559.4	548.3	537.3	527.8
Internet	0.0	0.0	0.0	0.2	0.8	4.9	13.5	25.3	36.6	47.2	55.7
Mobile	20.2	28.4	44.2	61.0	72.5	79.4	87.3	100.7	113.5	128.1	142.5
Total audio	729.0	771.2	720.7	738.1	710.9	658.3	668.1	685.4	698.4	712.6	726.0
Video											
DVD	10.7	18.4	41.1	84.7	78.8	65.6	67.6	69.0	69.6	70.2	69.3
VHS	4.5	4.0	2.6	1.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Video download	0.0	0.0	0.0	0.0	0.0	0.0	2.9	4.4	8.4	10.9	14.0
Total video	15.2	22.4	43.7	86.1	79.1	65.6	70.5	73.4	78.0	81.1	83.3
Total audio and video	744.2	793.6	764.4	824.2	790.0	723.9	738.6	758.8	776.4	793.6	809.2
Spain											
Hard format											
CD	751.8	781.5	682.3	602.3	508.6	464.9	459.5	453.9	448.1	445.5	438.5
Other albums	74.6	51.6	15.3	7.4	4.1	1.2	0.8	2.1	1.7	2.7	2.6
Singles	11.7	12.7	13.7	15.7	8.0	4.7	3.6	2.0	1.0	0.5	0.0
Total hard format	838.1	845.8	711.4	625.4	520.8	470.8	463.8	458.1	450.8	448.7	441.1
Internet	0.0	0.0	0.0	0.2	1.2	5.9	11.9	21.8	32.8	42.5	51.6
Mobile	24.9	38.3	62.1	89.1	95.1	103.9	114.4	135.6	156.1	170.3	183.9
Total audio	863.0	884.2	773.6	714.6	617.1	580.5	590.1	615.5	639.8	661.4	676.7
Video											
DVD	3.5	9.1	10.8	29.3	50.4	33.0	34.8	35.9	36.6	37.2	37.1
VHS	2.0	1.0	0.6	0.0	1.6	0.7	0.4	0.1	0.0	0.0	0.0
Video download	0.0	0.0	0.0	0.0	0.0	0.0	2.1	4.0	7.7	8.9	11.6
Total video	5.5	10.1	11.4	29.3	52.0	33.7	37.3	40.0	44.3	46.1	48.7
Total audio and video	868.5	894.3	785.0	743.9	669.1	614.2	627.4	655.5	684.1	707.6	725.3

Note: All figures refer to year-end

Souce: Informa Telecoms & Media

Recorded music revenues ($ million) (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Mexico											
Hard format											
CD	498.0	440.6	368.7	309.3	331.6	403.8	408.3	407.6	400.3	399.0	396.8
Other albums	57.4	26.7	12.3	5.3	4.8	2.2	1.6	2.2	2.6	2.4	3.2
Singles	2.2	0.9	0.0	0.0	0.0	0.8	0.8	0.4	0.4	0.0	0.0
Total hard format	557.7	468.2	381.0	314.6	336.4	406.8	410.7	410.2	403.3	401.4	400.0
Internet	0.0	0.0	0.0	0.0	0.1	0.5	1.0	2.2	5.5	10.0	15.5
Mobile	0.4	1.5	3.4	5.7	15.0	25.0	31.8	37.3	43.1	48.6	51.5
Total audio	558.1	469.7	384.4	320.3	351.5	432.3	443.6	449.7	451.8	460.0	467.0
Video											
DVD	0.0	0.0	0.0	2.0	21.4	25.5	30.8	33.5	39.1	42.2	46.0
VHS	4.5	4.6	14.2	14.6	2.1	0.0	0.0	0.0	0.0	0.0	0.0
Video download	0.0	0.0	0.0	0.0	0.0	0.0	0.9	1.8	4.8	7.2	9.1
Total video	4.5	4.6	14.2	16.6	23.5	25.5	31.7	35.2	43.9	49.4	55.1
Total audio and video	562.6	474.3	398.6	336.9	375.0	457.7	475.2	484.9	495.8	509.4	522.1
Brazil											
Hard format											
CD	452.1	340.8	352.9	272.7	278.1	216.5	239.2	261.9	292.1	305.6	315.4
Other albums	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	1.2	1.2	1.8
Singles	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total hard format	452.6	340.8	352.9	272.7	278.1	216.5	239.2	262.5	293.3	306.8	317.2
Internet	0.0	0.0	0.0	0.0	0.1	0.4	0.9	2.1	5.0	9.7	14.3
Mobile	0.7	2.9	5.8	10.2	26.8	41.8	51.3	59.6	68.2	73.6	79.0
Total audio	453.3	343.7	358.7	282.9	305.0	258.7	291.4	324.2	366.5	390.1	410.5
Video											
DVD	8.6	19.5	32.6	47.1	96.2	89.3	93.5	96.4	98.8	101.2	101.1
VHS	1.8	0.7	2.2	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Video download	0.0	0.0	0.0	0.0	0.0	0.0	2.5	4.0	8.9	10.6	13.5
Total video	10.4	20.2	34.8	47.8	96.2	89.3	96.0	100.4	107.7	111.8	114.5
Total audio and video	463.7	363.9	393.5	330.7	401.2	348.0	387.3	424.6	474.2	501.9	525.0

Note: All figures refer to year-end

Source: Informa Telecoms & Media

Recorded music revenues ($ million) (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
North America											
Hard format											
CD	14,171.2	13,690.7	12,739.1	11,881.9	12,066.7	11,267.9	11,033.9	10,917.7	10,794.8	10,727.8	10,577.2
Other albums	625.7	396.8	256.1	164.5	62.2	58.5	54.8	54.8	61.4	72.6	90.5
Singles	114.9	110.4	40.1	62.9	38.5	23.6	17.6	13.2	9.5	6.5	3.4
Total hard format	14,911.8	14,197.9	13,035.3	12,109.3	12,167.4	11,350.0	11,106.2	10,985.7	10,865.7	10,806.8	10,671.1
Internet	0.6	1.4	3.1	55.7	265.2	639.9	967.6	1,315.0	1,649.3	1,924.6	2,173.6
Mobile	10.7	41.5	84.0	147.8	246.3	526.4	991.6	1,467.2	1,890.8	2,121.0	2,288.9
Total audio	14,923.1	14,240.8	13,122.4	12,312.8	12,678.9	12,516.3	13,065.4	13,767.9	14,405.7	14,852.4	15,133.6
Video											
DVD	99.2	195.8	268.8	435.0	629.8	629.9	662.6	679.2	703.2	689.7	702.3
VHS	247.4	161.5	55.0	31.6	49.9	31.0	19.3	9.6	5.2	2.4	1.2
Total video	346.7	357.3	323.8	466.6	679.7	660.9	681.8	688.8	708.4	692.1	703.5
Total audio and video	15,269.7	14,598.1	13,446.2	12,779.4	13,358.6	13,177.2	13,747.2	14,456.7	15,114.1	15,544.5	15,837.1
Asia Pacific											
Hard format											
CD	6,780.4	6,229.0	5,778.0	5,095.9	5,187.7	5,276.3	5,435.7	5,599.2	5,734.7	5,837.6	6,013.2
Other albums	1,707.6	1,734.2	1,371.6	1,280.2	1,026.2	985.2	943.7	908.4	880.8	859.2	842.4
Singles	1.7	1.6	1.5	1.5	1.6	1.6	1.7	1.8	1.8	1.9	2.0
Total hard format	8,489.6	7,964.7	7,151.1	6,377.6	6,215.4	6,263.1	6,381.0	6,509.3	6,617.4	6,698.7	6,857.6
Internet	0.0	0.0	0.0	0.8	2.2	29.4	66.2	108.6	156.4	240.6	321.4
Mobile	690.3	923.3	1,348.8	1,826.6	2,595.2	3,172.4	3,735.8	4,277.5	4,833.5	5,083.9	5,205.6
Total audio	9,179.9	8,888.0	8,499.9	8,204.9	8,812.9	9,464.8	10,183.0	10,895.4	11,607.3	12,023.2	12,384.7
Video											
DVD	417.1	579.8	965.9	1,277.5	1,323.5	1,507.7	1,706.0	1,926.4	2,167.4	2,378.9	2,545.4
VHS	60.6	45.9	29.7	13.4	3.8	1.0	0.0	0.0	0.0	0.0	0.0
Video download	0.0	0.0	0.0	0.0	0.0	0.4	26.9	49.9	94.1	139.7	180.0
Total video	477.7	625.7	995.6	1,290.8	1,327.3	1,509.1	1,732.9	1,976.3	2,261.5	2,518.6	2,725.4
Total audio and video	9,657.6	9,513.7	9,495.5	9,495.8	10,140.2	10,973.9	11,915.9	12,871.7	13,868.8	14,541.8	15,110.1

Note: All figures refer to year-end

Souce: Informa Telecoms & Media

Recorded music revenues ($ million) (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Europe											
Hard format											
CD	12,621.8	12,618.1	12,217.9	10,974.7	10,436.8	10,199.9	10,002.6	9,801.0	9,590.8	9,375.0	9,154.0
Other albums	861.9	761.7	660.3	624.4	479.3	330.5	261.5	230.6	196.1	173.3	166.2
Singles	1,042.3	993.4	872.6	637.0	503.6	381.4	295.3	210.3	136.6	96.4	47.9
Total hard format	14,526.1	14,373.2	13,750.8	12,236.1	11,424.7	10,911.9	10,559.5	10,242.0	9,923.5	9,644.7	9,368.1
Internet	0.0	0.0	0.6	3.4	40.5	176.9	336.5	533.6	777.5	960.1	1,171.0
Mobile	342.8	528.2	832.8	1,209.8	1,448.0	1,651.8	1,842.2	2,197.8	2,530.1	2,823.5	3,132.9
Total audio	14,868.9	14,901.4	14,584.2	13,449.3	12,913.2	12,740.5	12,738.2	12,973.4	13,231.0	13,428.3	13,672.0
Video											
DVD	69.0	197.1	377.5	772.2	928.0	955.5	978.7	1,004.5	1,024.7	1,037.8	1,042.2
VHS	145.4	107.7	106.1	64.4	22.5	16.1	9.8	3.3	1.5	0.0	0.0
Video download	0.0	0.0	0.0	0.0	0.0	1.2	42.3	63.9	110.8	139.3	176.3
Total video	214.4	304.8	483.6	836.6	950.5	972.8	1,030.8	1,071.7	1,137.0	1,177.0	1,218.6
Total audio and video	15,083.3	15,206.2	15,067.8	14,285.9	13,863.7	13,713.3	13,769.0	14,045.1	14,368.1	14,605.3	14,890.6
Latin America											
Hard format											
CD	1,265.2	1,028.5	916.2	764.6	806.7	792.9	828.9	868.6	903.4	922.7	935.3
Other albums	43.2	22.6	9.8	7.4	4.8	4.2	3.4	4.6	6.4	7.0	8.5
Singles	3.6	1.2	2.8	2.0	2.0	1.3	1.3	0.7	0.7	0.0	0.0
Total hard format	1,312.0	1,052.3	928.8	774.0	813.5	798.5	833.6	873.9	910.5	929.7	943.8
Internet	0.0	0.0	0.0	0.0	0.3	0.9	2.1	4.5	11.3	21.2	32.4
Mobile	1.8	6.4	14.2	31.0	81.2	134.9	176.6	212.6	251.8	282.5	303.2
Total audio	1,313.8	1,058.7	943.0	805.0	895.0	934.3	1,012.3	1,091.0	1,173.6	1,233.4	1,279.3
Video											
DVD	9.5	22.1	41.9	60.0	146.6	146.1	160.5	172.7	185.7	195.6	203.3
VHS	5.3	4.0	13.0	13.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0
Video download	0.0	0.0	0.0	0.0	0.0	0.2	2.1	4.5	11.5	17.4	22.8
Total video	14.9	26.1	54.9	73.0	149.6	146.3	162.7	177.2	197.3	212.9	226.1
Total audio and video	1,328.6	1,084.8	997.8	878.0	1,044.5	1,080.6	1,175.0	1,268.2	1,370.9	1,446.3	1,505.4

Note: All figures refer to year-end
Source: Informa Telecoms & Media

Recorded music revenues ($ million) (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Rest of the World											
Hard format											
CD	204.0	191.8	200.4	216.6	256.7	259.7	283.6	309.7	338.2	369.4	403.4
Other albums	231.5	214.3	172.6	133.8	123.6	132.5	137.9	139.6	137.4	130.8	117.9
Singles	4.2	3.6	4.5	0.9	0.6	0.3	0.0	0.0	0.0	0.0	0.0
Total hard format	439.7	409.8	377.6	351.3	380.9	392.5	421.5	449.3	475.6	500.2	521.3
Internet	0.0	0.0	0.0	0.0	0.0	0.1	0.3	0.5	0.8	1.2	1.6
Mobile	1.3	4.9	9.9	17.4	31.6	49.1	65.1	87.1	110.1	135.6	161.8
Total audio	441.0	414.6	387.4	368.7	412.5	441.7	486.9	536.9	586.5	637.0	684.7
Video											
DVD	0.5	4.1	8.3	14.0	24.1	28.4	30.4	31.0	34.4	35.2	36.8
VHS	2.6	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Video download	0.0	0.0	0.0	0.0	0.0	0.0	0.9	2.0	5.1	7.6	10.1
Total video	3.1	6.7	8.3	14.0	24.1	28.4	31.3	33.0	39.5	42.8	46.9
Total audio and video	444.1	421.3	395.7	382.7	436.6	470.1	518.2	569.9	626.0	679.8	731.6
Global											
Hard format											
CD	35,042.6	33,758.1	31,851.7	28,933.8	28,754.5	27,796.7	27,584.6	27,496.2	27,362.0	27,232.5	27,083.0
Other albums	3,469.9	3,129.6	2,470.5	2,210.2	1,696.1	1,510.9	1,401.2	1,338.1	1,282.0	1,242.9	1,225.6
Singles	1,166.7	1,110.2	921.4	704.3	551.3	408.3	316.0	225.9	148.5	104.8	53.2
Total hard format	39,679.2	37,997.9	35,243.6	31,848.3	31,001.9	29,715.9	29,301.8	29,060.2	28,792.6	28,580.1	28,361.8
Internet	0.6	1.4	3.8	59.8	308.2	847.2	1,372.7	1,962.2	2,595.3	3,147.7	3,700.1
Mobile	1,046.8	1,504.2	2,289.6	3,232.5	4,402.3	5,534.6	6,811.3	8,242.2	9,616.3	10,446.4	11,092.4
Total audio	40,726.6	39,503.5	37,536.9	35,140.7	35,712.4	36,097.6	37,485.8	39,264.7	41,004.2	42,174.2	43,154.3
Video											
DVD	595.4	999.0	1,662.3	2,558.7	3,052.0	3,267.5	3,538.2	3,813.7	4,115.4	4,337.2	4,530.0
VHS	461.4	321.7	203.8	122.4	79.2	48.1	29.1	12.9	6.7	2.4	1.2
Video download	0.0	0.0	0.0	0.0	0.0	4.6	98.9	161.1	293.1	402.7	509.8
Total video	1,056.7	1,320.6	1,866.1	2,681.0	3,131.2	3,320.2	3,666.2	3,987.7	4,415.3	4,742.3	5,041.0
Total audio and video	41,783.3	40,824.1	39,403.1	37,821.7	38,843.6	39,417.9	41,152.1	43,252.4	45,419.4	46,916.5	48,195.3

Note: All figures refer to year-end

Source: Informa Telecoms & Media

Chapter 6

Film

Hard format movie sales

The rapid transition from analogue VHS to DVD Video resulted in one quarter of the world's TV households owning a DVD player at end-2005. This compares with just 3% penetration in 2002. DVD player penetration is forecast to reach 46% by 2010. However, many of the most developed markets already have DVD player penetration at more than 50% of homes.

The continued popularity of DVD video has impacted cinema box office and pay TV movie services. UK platform BSkyB scaled back its Sky Box Office pay-per-view film service. Such services have come under increasing pressure from the expansion of DVD players and the advance of DVD rentals and sales. According to the communications regulator Ofcom, the rental market is five times the size of pay-per-view.

As the DVD player market matures, the next major growth area is DVD recorders. Following fairly slow take-up to date, the DVD recorder market is now going to accelerate for the same reason as what was behind the DVD player boom – lower retail prices.

But price is not the only factor behind DVD take-up. The DVD outperforms the VCR due to its superior audiovisual quality, which does not degrade after each play. Moreover, DVD discs can hold substantially more information. By 2010, 31% of the global TV households will have a DVD recorder. Open standards will be available towards the end of the forecast period, which should stimulate demand further.

The movie studios' main reservation about DVD recorders is their capacity for illicit use – either on an individual basis, where friends and family pass on duplicate copies, or on a larger mass-market factory-piracy scale. Few DVD discs have effective security measures, thus exposing them to piracy. DVDs are easy to replicate repeatedly, with the quality never fading.

For example, two in five films released theatrically in France are available illegally via internet P2P networks, according to research by the country's film association and its leading anti-piracy group. The extent of piracy in France may represent the shape of things to come in other European countries, because France has been the early leader in deploying high-bandwidth broadband networks using ADSL 2+ technology.

The research by the Centre National de la Cinematographie (CNC) and l'Association de Lutte contre la Piraterie Audiovisuelle (ALPA) found that 37.9% of movies released in French cinemas in the year to August 2005 were available illegally online.

CNC and ALPA found a marked difference in piracy levels between French and U.S. films. Only 26.8% of French-made theatrical releases were pirated on the internet, compared with 72.7% for U.S.-produced films. The 66 French films that were available illegally accounted for 56.1% of box office admissions for French movies during the 12 months surveyed, while the 117 pirated U.S. films represented 84.7% of admissions for U.S. films.

The ease with which high-quality films can be streamed or downloaded over the internet in France is one reason why the initially web-phobic studios have become keener to encourage legitimate internet-based film services, such as Movielink and CinemaNow.

The main victim of illegal P2P sharing of movies is the video and DVD retail and rental business – 92% of the pirated features were available on the internet before their French DVD and video release. In contrast, 34.5% of films were available illegally before they were shown in cinemas. Only three French films were pirated before their theatrical release in France, compared with 53% of U.S.-made films.

Pirate film availability on the internet in France (%)

	All	U.S.	French
More than 3 months before video release	36.4	56.7	11.1
Less than 3 months before video release	56.2	38.8	77.8
Less than 3 months after video release	5	1.5	9.3
More than 3 months after video release	0	0	0

Note: Films released in theatres and on DVD Zone 2 in France between 1/8/2004 and 31/7/2005
Source: Centre National de la Cinematographie

The phenomenal rise of the DVD has spelt bad news for the VCR market, which it is effectively replacing. However, more than half the world's TV homes still have and use at least one VCR. The VCR will retain its dominance over the DVD in developing countries for some time to come.

Fast DVD hardware take-up has benefited the software sector, especially as discs were reasonably priced at sell-through from the outset and as many initially did not envisage a DVD rental market. However, the fast growth years are nearly over for DVD software. Library replacement and high sales/rental rates from early adopters spurred the market for several years, but the number of new homes buying DVD hardware is not as prolific. Hence the combined DVD and VHS software market is now growing much more slowly, though a consistent $57 billion-$60 billion sector is hardly one in crisis. This more muted future growth is down to four main factors:

- Lower per household buys and rentals as later adopters of DVD purchase less than the early technophiles. Households tend to buy more discs when they first obtain a DVD player, to replace their VHS library of favourite films.
- Lower prices as the novelty of the DVD wears off and consumers need incentives to buy more.

- The end of the VHS transition. Although the VHS market has lost considerable revenues in the last few years, the sector was still worth $8.4 billion in 2005. This figure will fall to $1.4 billion in 2010. The DVD sector will continue its growth, but only at the same pace that the VHS sector falls.
- Piracy will become an even larger problem, given the ease in duplicating DVD discs, especially as quality of the master disc does not deteriorate as the number of copies increases (as is the case with VHS). As the number of DVD recorders increases so the piracy problem will escalate.

The growth of the DVD sell-through market has come not only at the expense of the VHS sell-through sector, but also the VHS rental sector. DVD rental has been an unexpected revenue generator, as many had not planned for it when DVDs first appeared. The upshot is that rental revenues will fall, but not as rapidly as many observers imagined.

It is true that DVD has done substantial harm to the VHS market. VHS revenues fell by two thirds between 2000 and 2004, while DVD revenues rose by a multiple of five over the same period. These VHS revenues are likely to fall by a factor of 10 by 2010. However, even by then the VHS sector will still have some life left in it, by recording revenues of around $1.4 billion. DVD's dominance of the sell-through market will almost eclipse VHS, accounting for 98.3% of sell-through revenues in 2010.

DVD rental revenues overtook VHS rentals in 2004 – not bad for an afterthought. DVD rentals accounted for as little as 5.3% of total revenues as recently as 2000. By 2010, DVDs are expected to take 96% of total rental revenues.

Although rental revenues have produced an almost unexpected bonus for the movie studios, they are still not totally satisfied with the sector. They want retailers to buy discs for rental purposes at a much higher rate than the wholesale price charged for sell-through discs, as rental stores gain much more than the sell-through cost via multiple turns. Unsurprisingly, the stores are reluctant to do this, and there is some evidence that some have even resorted to buying discs from retailers for rental purposes.

The European Union's 'Rental Right Directive' allows distributors to charge a premium for discs that will be used for rental. This could limit the number of discs made available by stores for rental, and thus hit rental revenues. At the same time it may boost sell-through (as the stores can acquire these discs more cheaply).

The online film market

The film industry is famously hesitant at embracing change. The success of television in the 1950s dramatically hit cinema revenues, and since then the industry greets every new

distribution technology with trepidation. The launch of video in the 1980s was met with much suspicion, and legal action, and there was a similar negative response from many studios towards DVD in the 1990s. It is more understandable that the internet – which has already proven itself as a highly effective platform to enable the illicit sharing of music files – is met with equal, if not greater, concern.

Content creators and rights owners have expressed fear about the possible 'Napsterisation' of video content that will be facilitated by widespread broadband access. At present there are fundamental differences between the film and music industries, which mean many issues are not the same. While illicit distribution of files certainly poses a problem for the film industry, it does not yet present a danger of the same magnitude as that experienced by the music industry. This may change as broadband penetration grows

The reality, of course, is that the studios have ultimately benefited from each new distribution technology. By the late 1990s both Disney and Paramount – through parent Viacom – owned two of the three broadcast TV networks, which had led to such a revenue drain for them in the 1950s. And the vertical integration continued as NBC Universal was created through the merger of General Electric's NBC TV network and Vivendi Universal's entertainment business in May 2004.

The introduction of video served to dramatically increase revenues for the Hollywood majors, a scenario which was replicated with the launch of pay TV and DVD. So, while the studios tread carefully, they generally come out on top. The media mega-mergers of 2000 that spawned AOL Time Warner (the AOL prefix was dropped in September 2003) and Vivendi Universal (which was sold on in 2004 to create NBC Universal) suggest Hollywood will stay at the forefront of the digital media marketplace.

The media majors are adept at backing upstart technologies, such as digital video recorders (DVRs), to ensure that they profit from the future convergent marketplace, regardless of which system dominates. And so it has proved with online film distribution, where they have made an investment in the sector. Five of the seven major film studios combined to form the Movielink internet-based VOD service. Fox allied itself with rival service CinemaNow, which is backed by Lions Gate Entertainment, and includes Microsoft and Blockbuster amongst its minority shareholders.

There are still doubters amongst the major players, however. Some high-profile directors – including Steven Spielberg and George Lucas - are reportedly refusing to license their films to any internet service. This is particularly surprising in Lucas' case, as he is known to back new technologies such as digital cinema.

If film on the internet is to thrive, it is essential that it finds an easy way for downloaded content to be viewed on a TV screen. New models of PCs are emerging that bridge the gap

between the television set and the computer. The most prominent is Microsoft's Media Center PC (MCP), an 'entertainment hub' that enables users to choose broadband content via remote control and watch it on TV.

The number of people with internet access continued to grow in 2005. Several of the more developed markets are well advanced in their transition from narrowband to broadband access. Several markets in Asia are already nearing saturation point for broadband internet access. Almost all internet users in South Korea, Hong Kong and Singapore have a broadband connection.

Top 20 countries by broadband subscribers in 2005, 2008 and 2010

	Country	2005 (000s)	Country	2008 (000s)	Country	2010 (000s)
1	U.S.	42,046	China	74,163	China	111,043
2	China	27,881	U.S.	69,913	U.S.	87,133
3	Japan	23,447	Japan	35,681	Japan	40,302
4	South Korea	11,353	Germany	15,777	Germany	18,887
5	Germany	9,645	South Korea	14,017	South Korea	15,060
6	UK	8,356	UK	12,891	UK	14,873
7	France	6,984	France	11,610	France	14,703
8	Canada	6,812	Italy	9,351	India	11,085
9	Italy	6,189	Canada	8,808	Italy	10,899
10	Spain	4,246	Brazil	7,772	Brazil	10,028
11	Brazil	3,964	Spain	6,117	Canada	9,871
12	Netherlands	3,650	India	5,442	Spain	6,880
13	Belgium	1,880	Netherlands	4,640	Netherlands	5,056
14	Sweden	1,635	Mexico	3,034	Mexico	4,114
15	Switzerland	1,633	Sweden	2,501	Sweden	2,941
16	Hong Kong	1,600	Belgium	2,372	Poland	2,840
17	India	1,456	Poland	2,219	Argentina	2,641
18	Mexico	1,277	Switzerland	2,140	Belgium	2,613
19	Poland	1,196	Argentina	2,050	Switzerland	2,247
20	Denmark	1,126	Hong Kong	1,933	Hong Kong	2,084

Note: figures refer to year-end
Source: Informa Telecoms & Media

The U.S. was the largest single broadband market at the beginning of 2006. However, rapid growth in China is expected to result in its ascension to the number one position, extending its lead over the U.S. in the years to 2010.

The rise of broadband penetration has been linked to the growth in piracy. In the illicit music sector, broadband certainly makes life easier for pirates, but it is essential for those looking to download pirate films. It can take between 12 and 24 hours for narrowband users to download a film, during which time stresses on a network can cause system crashes and lost files. Several broadband platforms that support video delivery are emerging, though most business models are still unproven.

There are six key broadband delivery systems in place: DSL, cable modem, satellite-to-PC, fibre-to-the-home/curb, fixed wireless and powerline, with 3G mobile and DAB/telematics emerging. As internet users migrate to broadband connections it is logical to assume that the faster download speed will encourage consumers to download more. File compression technology will also continue to improve, magnifying the technological gains. This could be good news for a la carte paid-for sites such as Movielink and CinemaNow, but it will be bad news for those trying to stem file sharing – unless the legitimate services are appealing enough to attract the majority of users away from illegal, but free, alternatives.

Legitimate services will benefit from compacting distribution windows. There is already a trend towards shorter, and parallel, windows. Films are often released worldwide within a few days of their premiere to give pirates less time to copy films and distribute them. The previous strategy was to release the film domestically (usually the U.S.) and then release it slowly across territories, gaining word-of-mouth momentum as it rolled out. Piracy means that a staggered release is often no longer wise, although some have blamed this new strategy on the malaise in theatrical box office in 2005.

DVDs and videos are also now commonly released as soon as four months after their cinema debut. By making this timeline even shorter the pirates would have less of an opportunity to exploit the public's desire to see a film on DVD/VHS, or via a download to their PC, before the official release. But, again, shorter windows have the potential to hurt revenues in the cinema window.

Sector analysis

The film sector consists of two categories, hard format and internet. Hard format is divided between DVD and VHS and is further subdivided into sales and rental revenues. For internet, Informa Telecoms & Media has grouped revenues generated from downloads, streaming and subscriptions.

Following a slight dip in 2001, total revenues from the household film sector increased each year up to and including 2005. Informa forecasts this trend will continue for the years to 2010.

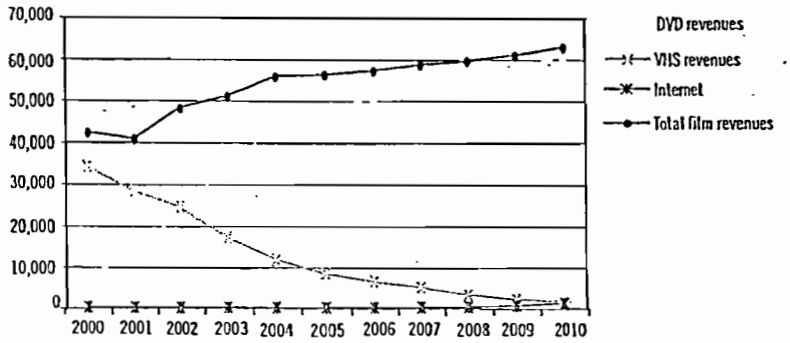
The decline of revenues from VHS sales and rental will be more than compensated for by the steady rise in DVD sales. As the CD provided a significantly improved user experience compared with the music cassette and vinyl formats, the DVD-Video provides a similarly-enhanced experience compared to VHS. However, the sharp increases in DVD revenues in the first half of the decade will be replaced by more measured growth in the second half.

Global film sales ($ million)

	2000	2002	2004	2006	2008	2010
Hard format						
DVD revenues	8,152.9	23,890.2	44,031.1	50,806.7	56,048.9	60,478.5
VHS revenues	34,137.8	24,383.2	11,841.5	6,422.6	3,296.6	1,443.8
Total hard format revenues	42,290.7	48,273.4	55,872.6	57,229.4	59,345.5	61,922.3
Internet	0.2	1.3	11.7	56.9	250.3	976.4
Total film revenues	42,290.8	48,274.7	55,884.3	57,286.3	59,595.8	62,898.7

Source: Informa Telecoms & Media

Global film sales by category ($ million)



Source: IFPI, Informa Telecoms & Media

The rapid fall of VHS revenues will result in the DVD format accounting for 98.4% of total film revenues in 2010. Internet sales will experience sharp growth towards the end of the decade but are expected to become a greater alternative to hard formats in the years beyond this forecast period.

Accounting for 48.4% of global revenues in 2010, North America will maintain its position as the largest region. Its overall share will slip slightly during this ten year period – it accounted for 52.1% of global revenues in 2000.

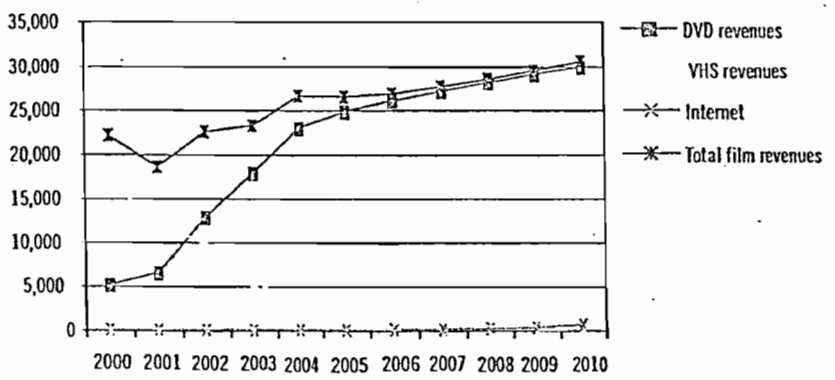
The hard format transition occurred fastest in North America, with revenues from DVD overtaking VHS in 2002. Internet sales revenues will overtake VHS in 2010, although will only account for 2% of total revenues.

North America film sales ($ million)

	2000	2002	2004	2006	2008	2010
Hard format						
DVD revenues	5,106.0	12,780.1	22,957.6	26,036.6	28,123.9	29,831.5
VHS revenues	16,939.7	9,686.5	3,562.4	810.8	178.4	25.0
Total hard format revenues	22,045.6	22,466.6	26,519.9	26,847.4	28,302.3	29,856.5
Internet	0.1	1.0	7.9	37.2	161.5	607.3
Total film revenues	22,045.8	22,467.5	26,527.8	26,884.5	28,463.8	30,463.8

Source: Informa Telecoms & Media

North America film sales by category ($ million)



Source: IFPI, Informa Telecoms & Media

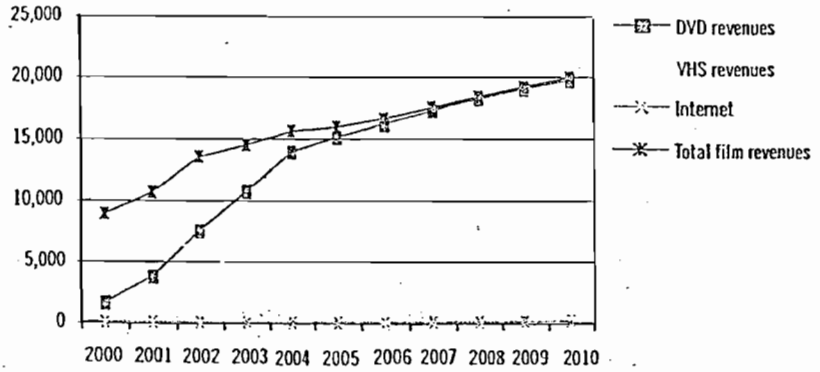
Europe is the second largest region for household film revenues and is forecast to account for 31.7% of the global total in 2010. This compares with 20.9% in 2000 and 28.3% in 2005. As with North America, the DVD format will almost completely replace VHS sales by 2010. Internet sales will account for less than 1% of total revenues by then.

Europe film sales ($ million)

	2000	2002	2004	2006	2008	2010
Hard format						
DVD revenues	1,559.1	7,491.0	13,867.1	16,177.3	18,198.8	19,691.7
VHS revenues	7,276.6	5,995.3	1,703.6	388.6	105.7	32.0
Total hard format revenues	8,835.7	13,486.2	15,570.7	16,566.0	18,304.5	19,723.7
Internet	0.1	0.2	2.2	10.6	47.0	192.8
Total film revenues	8,835.8	13,486.5	15,572.9	16,576.6	18,351.5	19,916.5

Source: Informa Telecoms & Media

Europe film sales by category ($ million)



Source: IFPI, Informa Telecoms & Media

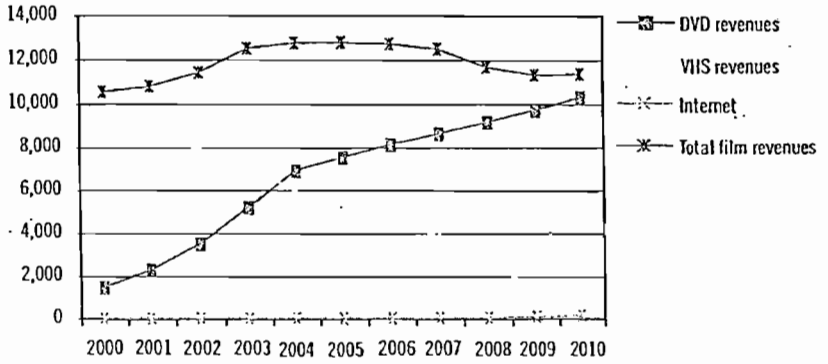
In contrast to the two developed regions, Asia Pacific is not forecast to experience year-on-year increases in the years to 2010. The region is home to some of the largest pirate markets in the world. China is thought to be the largest single pirate producer. Industry sources suggest that more than two-thirds of all VCDs and 80% of DVD discs produced in China are pirate product.

Asia Pacific film sales ($ million)

	2000	2002	2004	2006	2008	2010
Hard format						
DVD revenues	1,467.1	3,497.4	6,910.3	8,126.9	9,160.3	10,285.8
VHS revenues	9,051.4	7,893.5	5,841.4	4,575.4	2,450.3	919.4
Total hard format revenues	10,518.5	11,390.9	12,751.7	12,702.3	11,610.6	11,205.2
Internet	0.0	0.1	1.6	8.4	37.7	157.9
Total film revenues	10,518.5	11,391.0	12,753.2	12,710.6	11,648.3	11,363.1

Source: Informa Telecoms & Media

Asia Pacific film sales by category ($ million)



Source: IFPI, Informa Telecoms & Media

The decline of the VHS format in Asia Pacific is not forecast to be totally compensated for by the rise in sales of DVDs and VCDs. Pirate sources are expected to satisfy a large share of the region's demand. However, following four years of decline, total revenues will return to growth in 2010. It should be noted that pirate sales are forecast to remain high.

Latin America film sales ($ million)

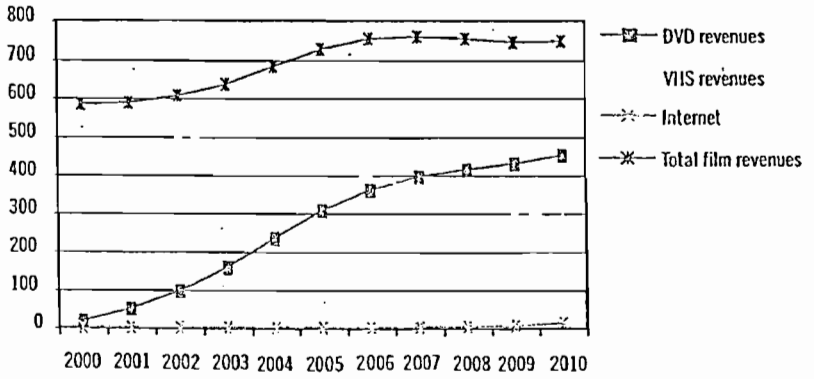
	2000	2002	2004	2006	2008	2010
Hard format						
DVD revenues	16.7	97.1	234.4	360.1	414.6	453.4
VHS revenues	567.0	508.7	448.1	393.9	337.3	282.5
Total hard format revenues	583.7	605.8	682.5	754.0	751.9	735.9
Internet	0.0	0.0	0.1	0.5	2.7	12.3
Total film revenues	583.7	605.8	682.6	754.5	754.6	748.2

Source: Informa Telecoms & Media

Latin America is also home to several of the world's largest pirate markets. According to the Motion Picture Association of America (MPAA), the optical disc piracy rate for films in Brazil is approximately 15% of the market and accounts for an increasing share of total seizures of pirate product. Although most pirate optical discs in the country are CD-Rs, DVD-Rs are soon likely to overtake CD-Rs. In 2004, 30% of optical discs seizures were DVD-Rs. About one-third of the VHS market in Brazil is pirate.

Mexico also suffers from high levels of piracy. According to the MPAA, optical disc piracy rates are some of the highest in the world. Since mid-2003, the piracy rate and losses to the audio-visual industry have increased dramatically. The MPAA estimates that for each DVD a studio sells, pirates sell at least two copies.

Latin America film sales by category ($ million)



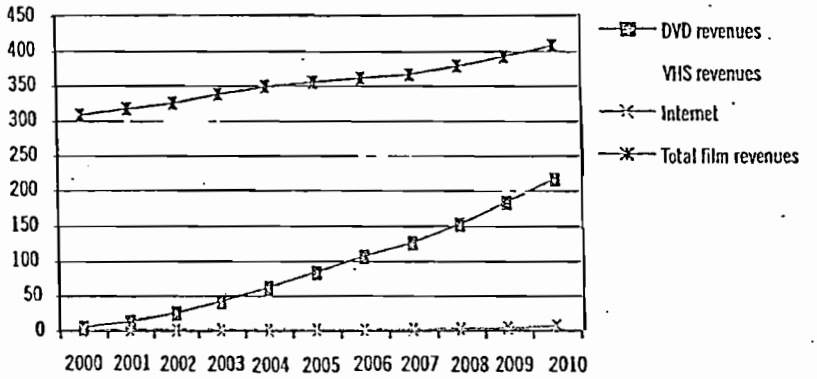
Source: IFPI, Informa Telecoms & Media

Rest of the World film sales ($ million)

	2000	2002	2004	2006	2008	2010
Hard format						
DVD revenues	4.0	24.6	61.7	105.8	151.2	216.1
VHS revenues	303.0	299.2	286.1	254.0	224.9	184.8
Total hard format revenues	307.0	323.9	347.8	359.8	376.2	400.9
Internet	0.0	0.0	0.0	0.2	1.4	6.1
Total film revenues	**307.0**	**323.9**	**347.8**	**360.0**	**377.5**	**407.1**

Source: Informa Telecoms & Media

Rest of the World film sales by category ($ million)



Source: IFPI, Informa Telecoms & Media

Film revenues

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
U.S.											
Hard format											
DVD revenues	4,663.0	5,930.0	11,650.0	16,270.0	20,880.0	22,513.5	23,648.1	24,634.0	25,497.7	26,290.1	26,996.8
VHS revenues	15,470.0	11,000.0	8,830.0	4,860.0	3,240.0	1,527.9	736.4	364.4	161.7	64.7	22.6
Total hard format revenues	20,133.0	16,930.0	20,480.0	21,130.0	24,120.0	24,041.4	24,384.5	24,998.4	25,659.4	26,354.8	27,019.5
Internet	0.1	0.5	0.9	3.2	7.5	16.1	34.9	73.5	151.0	288.5	564.8
Total film revenues	20,133.1	16,930.5	20,480.9	21,133.2	24,127.5	24,057.5	24,419.5	25,071.9	25,810.4	26,643.3	27,584.3
UK											
Hard format											
DVD revenues	533.3	1,411.4	2,884.6	3,831.0	4,938.0	5,409.7	5,788.2	6,111.4	6,392.6	6,619.1	6,806.0
VHS revenues	2,817.7	2,623.0	2,107.3	1,312.2	640.4	265.3	131.7	74.9	42.7	24.4	13.9
Total hard format revenues	3,351.0	4,034.3	4,991.9	5,143.2	5,578.4	5,675.0	5,919.9	6,186.3	6,435.3	6,643.5	6,820.0
Internet	0.0	0.0	0.1	0.2	0.6	1.2	2.8	5.9	12.2	25.0	50.1
Total film revenues	3,351.0	4,034.3	4,991.9	5,143.4	5,579.0	5,676.3	5,922.7	6,192.1	6,447.5	6,668.5	6,870.1
Japan*											
Hard format											
DVD revenues	1,029.2	1,443.1	1,852.9	2,398.1	2,955.6	3,008.4	3,120.2	3,226.7	3,320.8	3,401.0	3,459.5
VHS revenues	1,447.2	1,225.2	1,136.3	830.3	514.2	304.6	166.4	86.8	41.0	16.4	4.9
Total hard format revenues	2,476.4	2,668.3	2,989.2	3,228.4	3,469.8	3,313.0	3,286.7	3,313.5	3,361.7	3,417.4	3,464.4
Internet	0.0	0.0	0.0	0.2	0.6	1.4	3.2	6.9	14.3	29.7	60.0
Total film revenues	2,476.4	2,668.3	2,989.2	3,228.6	3,470.3	3,314.4	3,289.8	3,320.4	3,376.1	3,447.0	3,524.4
**DVD figures also include Laser Discs*											
France											
Hard format											
DVD revenues	351.0	739.5	1,368.1	1,815.9	2,503.8	2,646.7	2,783.8	2,914.2	3,029.4	3,120.3	3,198.3
VHS revenues	1,144.2	984.0	812.1	521.6	166.3	67.2	24.0	9.6	1.9	0.4	0.0
Total hard format revenues	1,495.2	1,723.5	2,180.2	2,337.5	2,670.1	2,713.8	2,807.8	2,923.8	3,031.4	3,120.7	3,198.4
Internet	0.0	0.0	0.0	0.1	0.4	0.8	1.8	3.8	8.0	16.3	32.8
Total film revenues	1,495.2	1,723.5	2,180.3	2,337.7	2,670.5	2,714.6	2,809.6	2,927.6	3,039.3	3,137.0	3,231.1

Note: All figures refer to year-end

Source: Informa Telecoms & Media

Film revenues (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Germany											
Hard format											
DVD revenues	227.2	552.6	1,054.7	1,562.1	1,970.0	2,159.1	2,341.3	2,525.2	2,712.3	2,890.0	3,055.0
VHS revenues	927.2	863.6	673.0	357.5	186.2	102.4	53.8	25.5	11.6	5.2	2.2
Total hard format revenues	1,154.4	1,416.2	1,727.7	1,919.6	2,156.2	2,261.5	2,395.0	2,550.8	2,723.9	2,895.2	3,057.2
Internet	0.0	0.0	0.0	0.1	0.3	0.7	1.5	3.2	6.6	13.4	27.0
Total film revenues	1,154.4	1,416.2	1,727.7	1,919.7	2,156.5	2,262.1	2,396.5	2,553.9	2,730.5	2,908.6	3,084.2
Canada											
Hard format											
DVD revenues	443.0	569.3	1,130.1	1,594.5	2,077.6	2,262.6	2,388.5	2,512.7	2,626.3	2,734.2	2,834.7
VHS revenues	1,469.7	1,056.0	856.5	476.3	322.4	153.6	74.4	37.2	16.7	6.7	2.4
Total hard format revenues	1,912.6	1,625.3	1,986.6	2,070.7	2,399.9	2,416.2	2,462.8	2,549.8	2,642.9	2,740.9	2,837.0
Internet	0.0	0.0	0.0	0.2	0.4	1.0	2.2	4.9	10.5	20.9	42.5
Total film revenues	1,912.6	1,625.3	1,986.6	2,070.9	2,400.4	2,417.1	2,465.1	2,554.7	2,653.4	2,761.8	2,879.5
China*											
Hard format											
DVD revenues	13.9	74.5	257.9	507.7	851.5	1,019.3	1,102.5	1,202.7	1,321.0	1,459.8	1,660.3
VHS revenues	15.8	20.7	66.1	78.5	91.8	88.7	68.7	45.9	36.4	17.0	11.9
Total hard format revenues	29.7	95.2	324.0	586.2	943.3	1,108.0	1,171.2	1,248.5	1,357.3	1,476.8	1,672.2
Internet	0.0	0.0	0.0	0.1	0.4	0.9	1.9	4.1	8.7	18.0	36.3
Total film revenues	29.7	95.2	324.1	586.3	943.6	1,108.9	1,173.2	1,252.7	1,366.0	1,494.7	1,708.5
***DVD figures also include VCD**											
Spain											
Hard format											
DVD revenues	75.0	181.9	413.7	754.9	851.7	914.9	979.5	1,043.8	1,106.4	1,164.0	1,218.8
VHS revenues	435.1	382.7	454.7	280.0	94.3	37.7	13.2	5.3	1.1	0.2	0.0
Total hard format revenues	510.1	564.6	868.4	1,034.9	946.0	952.6	992.7	1,049.0	1,107.4	1,164.2	1,218.9
Internet	0.0	0.0	0.0	0.1	0.2	0.4	0.8	1.8	3.8	7.7	15.4
Total film revenues	510.1	564.6	868.4	1,035.0	946.2	953.0	993.5	1,050.8	1,111.2	1,171.9	1,234.3

Note: All figures refer to year-end
Source: Informa Telecoms & Media

Film revenues (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Italy											
Hard format											
DVD revenues	92.0	165.2	338.1	594.1	824.0	881.5	938.8	990.6	1,038.4	1,083.4	1,127.7
VHS revenues	537.4	434.6	404.8	266.2	149.1	91.1	51.2	28.1	15.5	8.9	5.1
Total hard format revenues	629.4	599.8	743.0	860.2	973.1	972.7	990.0	1,018.7	1,053.9	1,092.3	1,132.8
Internet	0.0	0.0	0.0	0.1	0.2	0.4	1.0	2.0	4.2	8.6	17.4
Total film revenues	629.4	599.8	743.0	860.3	973.3	973.1	990.9	1,020.8	1,058.1	1,100.9	1,150.2
Australia											
Hard format											
DVD revenues	43.7	128.3	359.0	627.9	824.7	890.4	947.5	995.3	1,037.5	1,079.5	1,119.1
VHS revenues	247.2	247.9	206.3	137.4	66.8	35.8	17.6	8.8	4.8	2.8	1.6
Total hard format revenues	290.9	376.2	565.3	765.2	891.5	926.2	965.1	1,004.1	1,042.4	1,082.3	1,120.6
Internet	0.0	0.0	0.0	0.1	0.1	0.3	0.8	1.6	3.4	7.0	14.2
Total film revenues	290.9	376.2	565.3	765.3	891.7	926.5	965.9	1,005.8	1,045.7	1,089.3	1,134.8
Brazil											
Hard format											
DVD revenues	6.5	19.2	37.7	61.7	90.6	118.2	138.2	149.6	155.6	160.9	167.9
VHS revenues	222.3	210.6	199.3	186.8	175.4	164.5	151.9	139.1	127.3	113.9	103.6
Total hard format revenues	228.8	229.7	237.0	248.4	266.0	282.7	290.1	288.7	282.9	274.8	271.5
Internet	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.5	1.1	2.4	5.0
Total film revenues	228.8	229.7	237.0	248.4	266.0	282.8	290.3	289.3	284.0	277.2	276.5
Mexico											
Hard format											
DVD revenues	5.0	14.9	29.3	48.1	71.1	93.2	109.9	121.6	127.2	130.9	136.8
VHS revenues	169.0	160.2	151.7	142.3	133.9	125.8	116.9	107.2	98.7	89.8	81.8
Total hard format revenues	174.0	175.0	181.0	190.4	204.9	219.0	226.9	228.8	225.9	220.7	218.7
Internet	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.3	0.8	1.6	3.4
Total film revenues	174.0	175.0	181.0	190.5	205.0	219.1	227.0	229.2	226.7	222.3	222.1

Note: All figures refer to year-end
Source: Informa Telecoms & Media

Film revenues (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
North America											
Hard format											
DVD revenues	5,106.0	6,499.3	12,780.1	17,864.5	22,957.6	24,776.1	26,036.6	27,146.6	28,123.9	29,024.2	29,831.5
VHS revenues	16,939.7	12,056.0	9,686.5	5,336.3	3,562.4	1,681.5	810.8	401.6	178.4	71.4	25.0
Total hard format revenues	22,045.6	18,555.3	22,466.6	23,200.7	26,519.9	26,457.6	26,847.4	27,548.2	28,302.3	29,095.7	29,856.5
Internet	0.1	0.5	1.0	3.4	7.9	17.1	37.2	78.4	161.5	309.4	607.3
Total film revenues	**22,045.8**	**18,555.8**	**22,467.5**	**23,204.2**	**26,527.8**	**26,474.7**	**26,884.5**	**27,626.6**	**28,463.8**	**29,405.0**	**30,463.8**
Europe											
Hard format											
DVD revenues	1,559.1	3,732.7	7,491.0	10,668.5	13,867.1	15,088.5	16,177.3	17,262.4	18,198.8	18,989.6	19,691.7
VHS revenues	7,276.6	6,842.9	5,995.3	3,738.4	1,703.6	788.6	388.6	205.8	105.7	57.5	32.0
Total hard format revenues	8,835.7	10,575.6	13,486.2	14,406.9	15,570.7	15,877.1	16,566.0	17,468.2	18,304.5	19,047.1	19,723.7
Internet	0.1	0.1	0.2	0.9	2.2	4.8	10.6	22.6	47.0	96.0	192.8
Total film revenues	**8,835.8**	**10,575.7**	**13,486.5**	**14,407.8**	**15,572.9**	**15,881.9**	**16,576.6**	**17,490.8**	**18,351.5**	**19,143.1**	**19,916.5**
Asia Pacific											
Hard format											
DVD revenues	1,467.1	2,262.9	3,497.4	5,195.6	6,910.3	7,515.3	8,126.9	8,633.1	9,160.3	9,709.7	10,285.8
VHS revenues	9,051.4	8,517.3	7,893.5	7,308.2	5,841.4	5,260.6	4,575.4	3,825.0	2,450.3	1,522.4	919.4
Total hard format revenues	10,518.5	10,780.2	11,390.9	12,503.7	12,751.7	12,775.8	12,702.3	12,458.1	11,610.6	11,232.1	11,205.2
Internet	0.0	0.1	0.1	0.6	1.6	3.7	8.4	18.0	37.7	78.1	157.9
Total film revenues	**10,518.5**	**10,780.3**	**11,391.0**	**12,504.4**	**12,753.2**	**12,779.5**	**12,710.6**	**12,476.2**	**11,648.3**	**11,310.2**	**11,363.1**
Latin America											
Hard format											
DVD revenues	16.7	49.3	97.1	159.1	234.4	306.5	360.1	395.7	414.6	431.6	453.4
VHS revenues	567.0	537.3	508.7	476.9	448.1	420.6	393.9	363.5	337.3	308.3	282.5
Total hard format revenues	583.7	586.6	605.8	636.0	682.5	727.1	754.0	759.3	751.9	739.8	735.9
Internet	0.0	0.0	0.0	0.0	0.1	0.2	0.5	1.2	2.7	5.9	12.3
Total film revenues	**583.7**	**586.6**	**605.8**	**636.1**	**682.6**	**727.3**	**754.5**	**760.5**	**754.6**	**745.7**	**748.2**

Note: All figures refer to year-end

Source: Informa Telecoms & Media

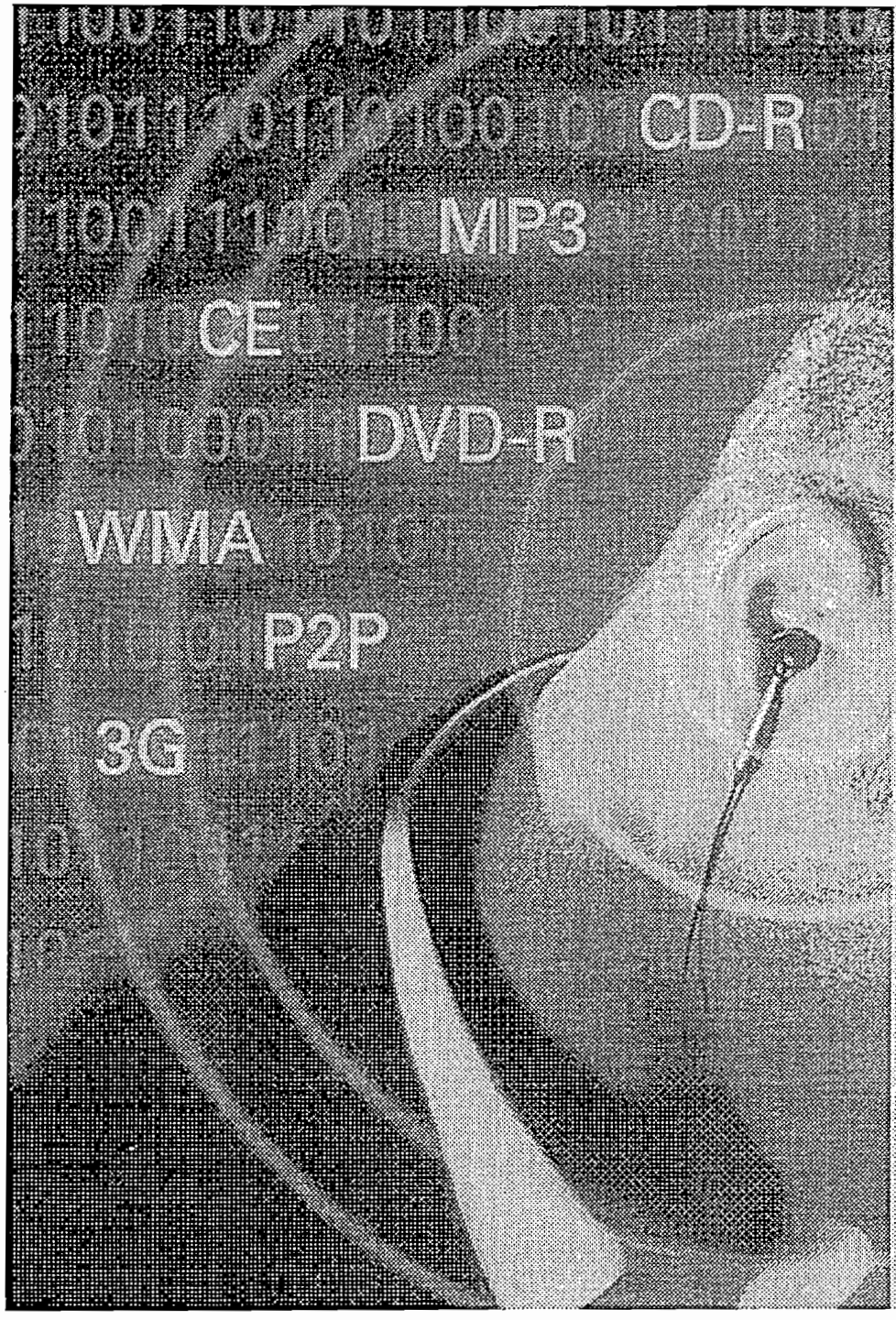
Film revenues (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Rest of the World											
Hard format											
DVD revenues	4.0	12.4	24.6	40.8	61.7	82.8	105.8	124.9	151.2	183.5	216.1
VHS revenues	303.0	303.4	299.2	295.6	286.1	271.2	254.0	240.2	224.9	204.4	184.8
Total hard format revenues	307.0	315.8	323.9	336.5	347.8	354.0	359.8	365.1	376.2	387.9	400.9
Internet	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.6	1.4	2.9	6.1
Total film revenues	307.0	315.8	323.9	336.5	347.8	354.1	360.0	365.7	377.5	390.9	407.1
Global											
Hard format											
DVD revenues	8,152.9	12,556.6	23,890.2	33,928.5	44,031.1	47,769.2	50,806.7	53,562.8	56,048.9	58,338.7	60,478.5
VHS revenues	34,137.8	28,256.9	24,383.2	17,155.4	11,841.5	8,422.4	6,422.6	5,036.2	3,296.6	2,163.9	1,443.8
Total hard format revenues	42,290.7	40,813.6	48,273.4	51,083.9	55,872.6	56,191.6	57,229.4	58,599.0	59,345.5	60,502.6	61,922.3
Internet	0.2	0.7	1.3	4.9	11.7	25.9	56.9	120.8	250.3	492.3	976.4
Total film revenues	42,290.8	40,814.2	48,274.7	51,088.8	55,884.3	56,217.5	57,286.3	58,719.8	59,595.8	60,994.9	62,898.7

Note: All figures refer to year-end

Source: Informa Telecoms & Media

EXHIBIT CO 0724



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TEMPO:

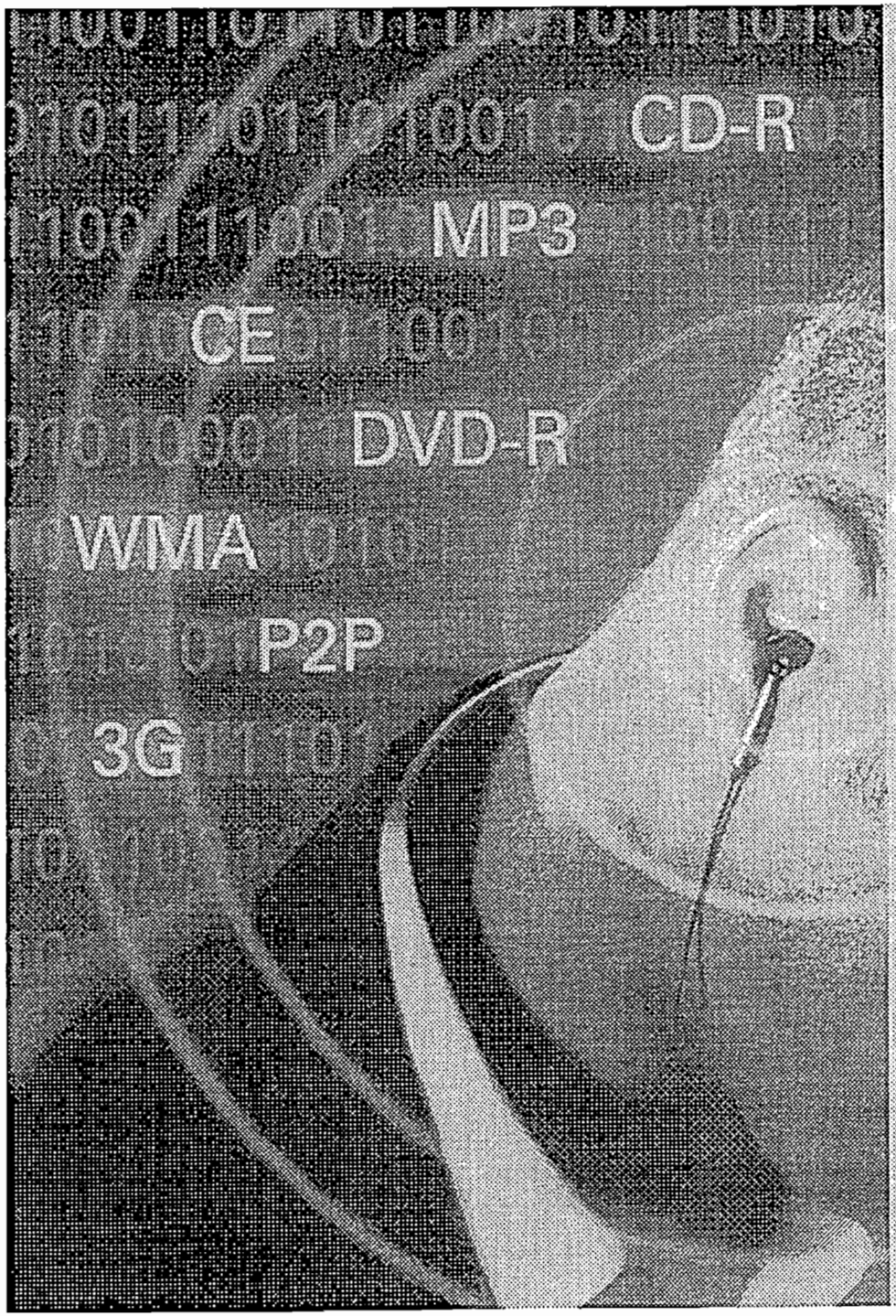
Keeping Pace with Digital Music Behavior

2006 Quarter 2 Report

- October 2006 -

Contents

- Dashboard, p. 3
- Background and Objectives, p. 5
- Research Methodology, p. 9
- Executive Summary, p. 11
- Detailed Findings
  - Prevalence Data, p. 19
    - Prevalence of Music Downloading, p. 19
    - Prevalence of Fee-based Digital Music Acquisition, p. 27
    - Prevalence of File Sharing Service Usage, p. 34
    - Prevalence of Digital Music Behaviors, p. 40
    - Prevalence of Portable MP3 Player Behaviors, p. 45
    - Prevalence of Downloading via Mobile Phones, p. 52
    - Prevalence of Traditional CD Purchase Behavior, p. 58
    - Prevalence of Fee-based Digital Video Downloading Behaviors, p. 63
    - General Population Technographics, p. 66
    - General Population Demographics, p. 68
  - Downloading In-depth Data, p. 70
    - Fee-based Digital Music Downloading Activity, p. 72
    - Awareness and Perceptions of Fee-based Digital Music Services, p. 84
    - Broader Digital Media Behaviors, p. 115
    - Digital Music Applications/Software, p. 122
    - Portable & Mobile Music Behaviors, p. 125
    - Music Collection Format & Source of Content, p. 132
    - Downloader Technographics & Media Behaviors, p. 137
    - Downloader Demographics, p. 141
- Index, p. 143



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TEMPO Q2 2006 Dashboard

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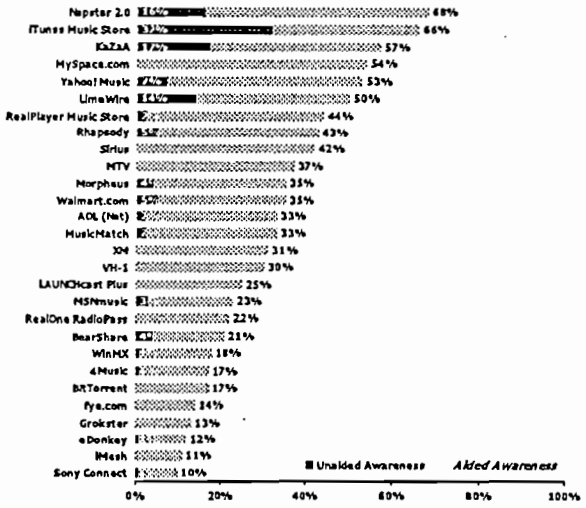
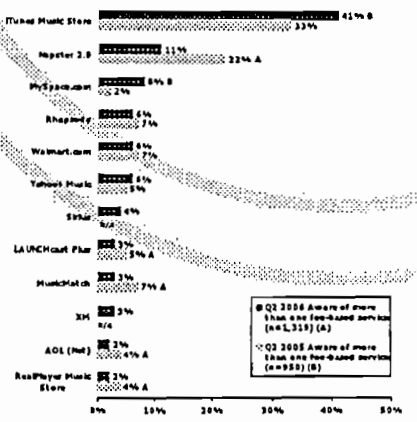
Awareness of Music Destinations



Base: US Downloaders Aged 12+ (n=1,501)

- Roughly one-quarter (26%) of the general US population downloaded digital music files by Summer 2006 (15% in the past 30 days).
  - This equates to 60 million Americans (33 million in the past 30 days).
- Among Downloaders, Napster 2.0 retained its position as the most recognizable brand, despite the fact that both aided and unaided awareness for the site slipped considerably versus Summer 2005. Meanwhile, awareness of iTunes continued to increase, for the first time putting the brand alongside Napster in the top tier of mindshare among Downloaders.
  - KaZaA, MySpace, Yahoo! Music and LimeWire make up the second tier of highly recognizable digital music destinations.
- Growth of fee-based downloading slowed in Summer 2006, with 59% of Downloaders among the US general population having paid to download digital music (27% in the past 30 days).
  - This projects to roughly 35 million Americans aged 12 and older who have paid a fee to download music or MP3 files from the Internet (16 million in the past 30 days).
- Among Fee-based Downloaders, iTunes Music Store is used by a vast and growing majority.
  - Napster 2.0 is the next most used fee-based digital music service with Walmart.com, Rhapsody, Yahoo! Music and Myspace.com rounding out the third tier.
  - Satisfaction with iTunes among its users is also extremely high. Interestingly, however, those who have used XM are even more satisfied. Walmart.com, Napster 2.0 and eMusic suffered the largest decrease in satisfaction versus last year, while MSNmusic showed the largest gains.
- Overall, iTunes is still rated the "best" digital music site or download store with Napster 2.0 still second. The number of people who rated Napster "best" decreased significantly in Summer 2005, however, while iTunes and MySpace gained considerably.

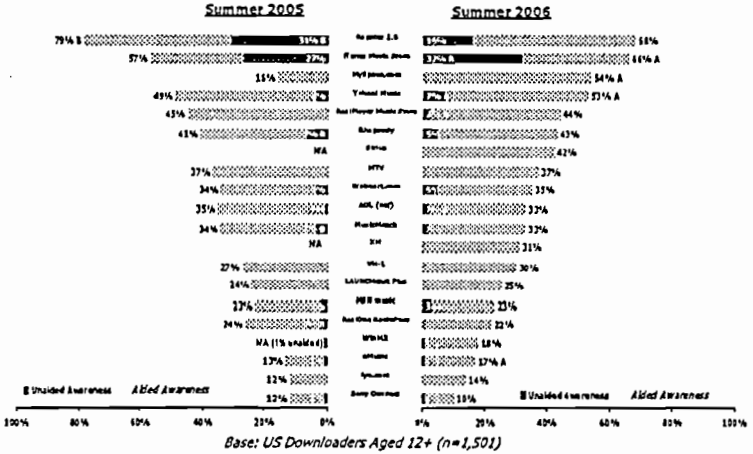
Best Fee-Based Digital Music Site or Download Store



Base: Aware of more than one fee-based service

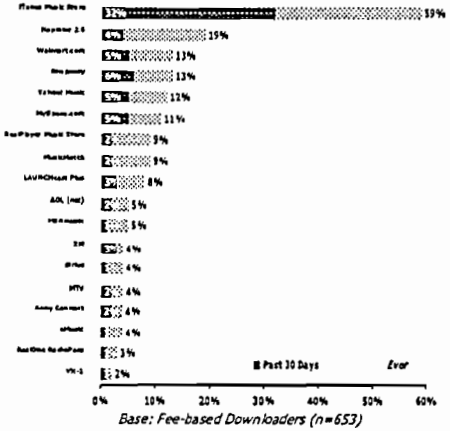
Digital Music Brandscape

Awareness of Fee-based Music Sites & Download Stores



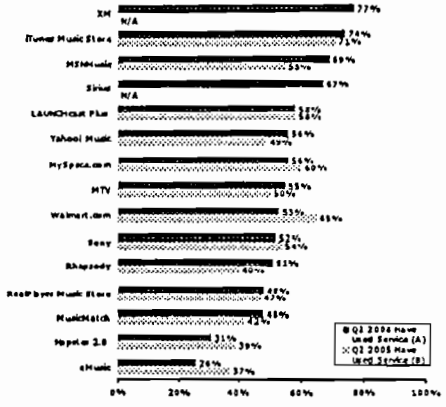
Base: US Downloaders Aged 12+ (n=1,501)

Service Usage

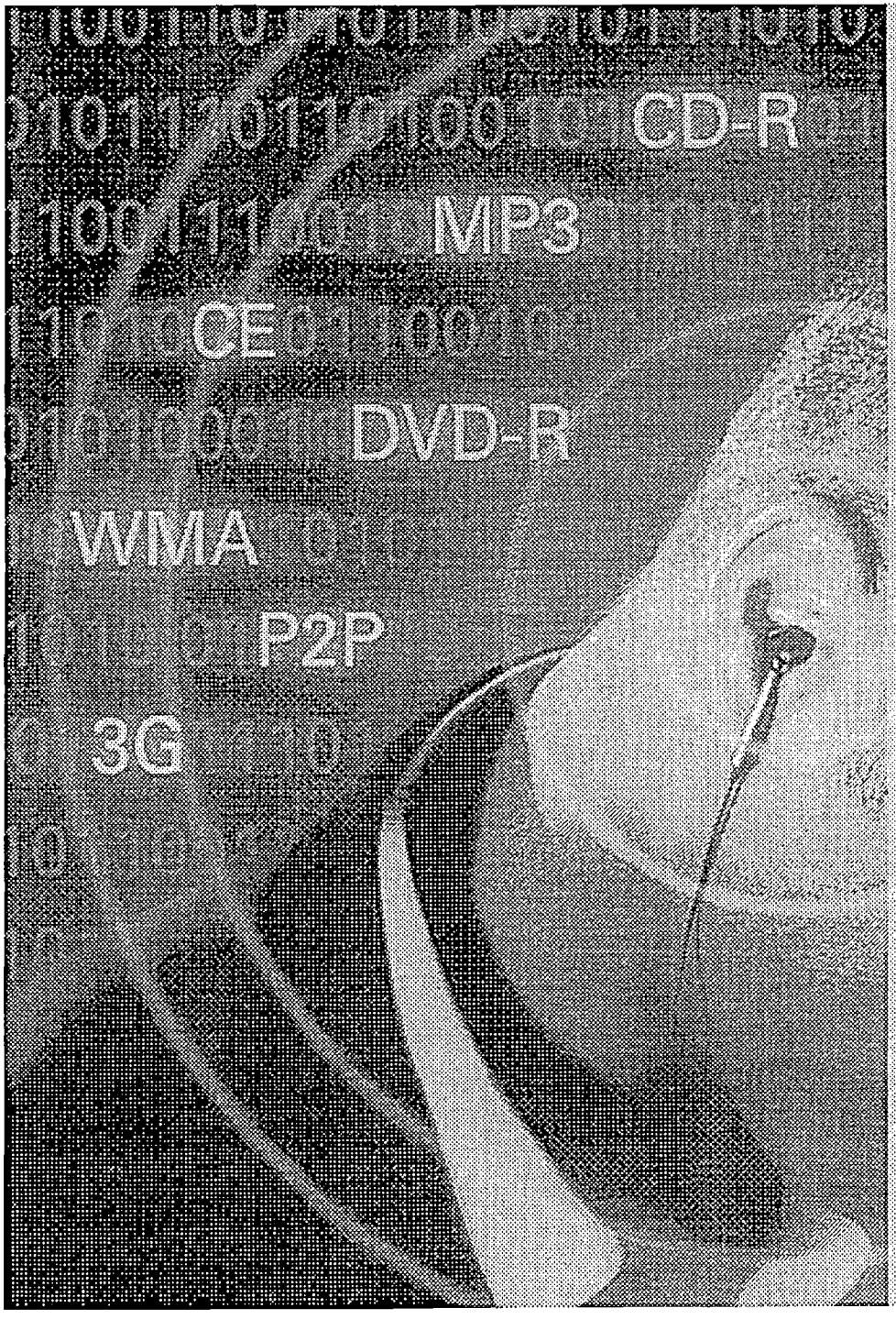


Base: Fee-based Downloaders (n=653)

Service Satisfaction



Base: Downloaders who have used this service (bases vary)



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Keeping Pace with Digital Music Behavior

Background and Objectives

- October 2006 -

Background and Objectives

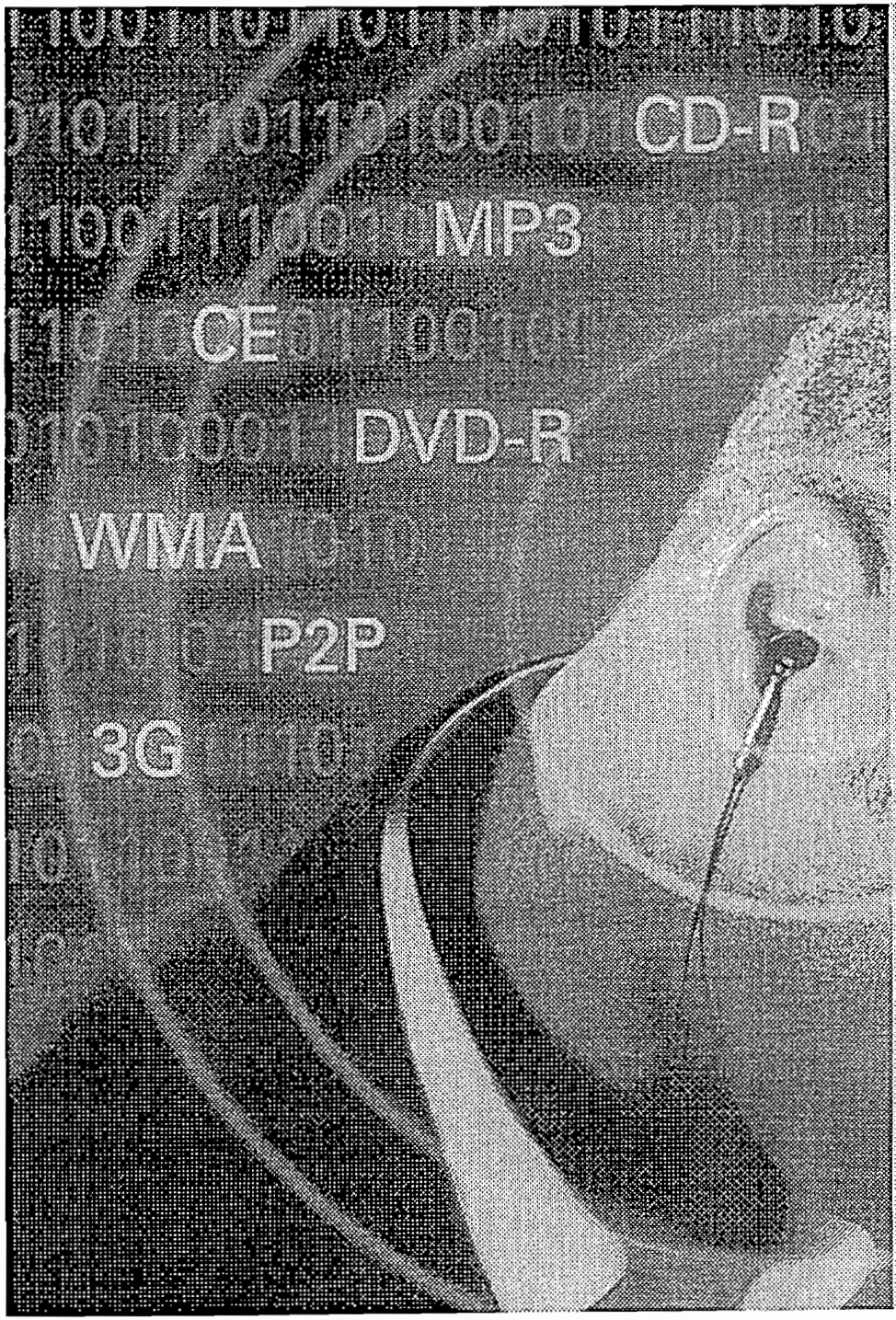
- Globally, declining music sales and continuing concern over peer-to-peer filesharing and content trading have become familiar challenges for most affiliated with the music industry.
  - Indeed, the ability to deliver CD-quality music digitally has not only resulted in a fundamental shift in the way consumers listen to, organize and acquire music but has also created opportunities for new fee-based offerings.
- Today, a growing number of legitimate fee-based online, mobile and satellite-based music services are under increasing pressure to become both effective and profitable alternative music distribution channels and still others, such as ad-supported and industry-endorsed peer-to-peer networks, are just starting to emerge.
- Meanwhile, consumers are becoming increasingly acquainted with the practical uses of digital music technology, and digital media itself is evolving. Converged storage, access and playback options have led the digital market to become more mobile, more mainstream and more on-demand than ever. Indeed, the birth and widespread impact of the iPod and, most recently, multimedia mobile phones have introduced consumers to the control, convenience and flexibility inherent to digital content.

Background and Objectives

- In 1999, with these complex issues in mind, Ipsos Insight sought to employ primary market research techniques to measure and track the effects of online music distribution on the global music industry.
  - The multi-wave *TEMPO: Keeping Pace with Digital Music Behavior* is a result of this effort, and marked a new approach to strategic planning within the entertainment industry - one based on the quantitative measurement of consumer behavior that offers a glimpse into what is really happening. In short, real data for a real understanding of how these technological changes are unfolding!
- The first edition of *TEMPO* was published in 2000. Entitled *Global Benchmark*, this study provided the first quantitative examination of youth music downloading in 16 countries around the world. In 2001, the second installment of *TEMPO* established a unique two-stage methodology for tracking the general American population's adoption of digital music behaviors immediately prior to the launch of the first legitimate online music services.
- In 2002, Ipsos-Insight transformed *TEMPO* into the preeminent quarterly music market report, aimed at both tracking and understanding the evolving impact of consumer digital music activities on traditional music discovery, listening and purchase behaviors.

Background and Objectives

- During the first half of 2006, shifting consumer preferences in music listening, organization and acquisition behaviors accelerated. Disappointing sales of physical CDs persisted, while the use of peer-to-peer file sharing remained both an active source of frustration and potential area of future opportunity for the music industry.
- Meanwhile, the fee-based digital music market continues to experience many dynamic changes, and finally appears poised to begin achieving significant revenue growth. iTunes and Napster continue to be the most popular pay-per-download offerings, and community sites such as MySpace.com provide yet another avenue for online music discovery and peer exchange.
  - In addition, the official launch of full song Over-the-Air (OTA) mobile downloads and emerging portable satellite radio devices have ushered in an entirely new method of mobile acquisition for consumers to experiment with. Finally, the industry is abuzz with talk of reclaiming peer-to-peer distribution via ad-supported, licensed and industry-endorsed networks.
- Indeed, the digital music world is continuing to evolve in often unforeseen ways, with consumer behavior both driving these market changes and validating the success of each development. Specifically, the research objectives for *TEMPO* are to:
  - Obtain and track representative measures of the general awareness and adoption of digital music activities and peripheral ownership among US consumers aged 12 and over;
  - Examine motivations behind digital music behaviors, including the effects of specific website features and content on visitation, experimentation and return;
  - Investigate preferred music acquisition and storage methods, and acceptable price points for online, mobile and satellite music distribution; and,
  - Gain a thorough understanding into the impact of digital music behaviors on traditional music discovery, listening, storage and acquisition behaviors.



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TEMPO:

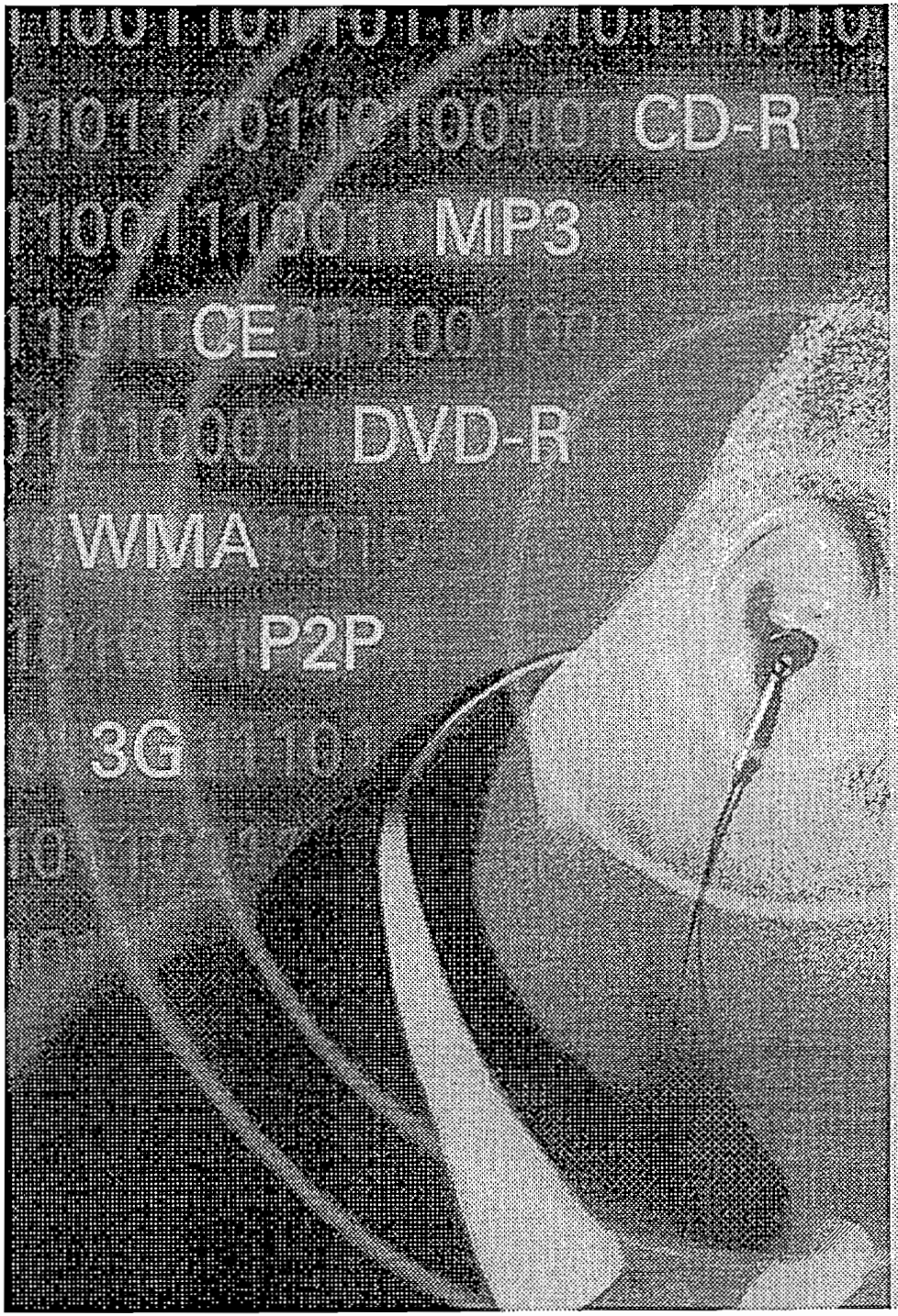
Keeping Pace with Digital Music Behavior

Research Methodology

- October 2006 -

Research Methodology

- To collect the data for *TEMPO 2006,* a unique two-stage research approach was used:
  - Each quarter, a nationally representative US sample of respondents aged 12 and over is surveyed to gather prevalence tracking data on digital music behaviors.
  - Additionally, in Quarter 2 and Quarter 4, a more in-depth survey stage targets a sample of Music Downloaders aged 12 and over across the US This stage employs a thorough post-survey weighting process to ensure the findings are grounded in the larger context of the general US population.
- For the second quarter 2006 Prevalence Stage, Ipsos Insight collected 1,143 interviews via Computer Aided Telephone Interviewing (CATI) among a nationally representative sample of the US population aged 12 and over.
  - Interviewing for this stage took place between June 23 and July 4, 2006, and lasted roughly 10 minutes in length.
  - With a total sample size of n=1,143, one can say with 95% certainty that the results are accurate to within +/- 2.90% points.
- For the In-depth Downloader Web Stage, Ipsos-Insight collected 1,501 interviews from a representative sample of Downloaders aged 12 and over via the Ipsos-Insight I-Say US Internet Panel. Respondents were sent an email containing a unique password and invited to visit a secure website to complete the survey.
  - Interviewing for this stage took place between August 21, 2006 and August 30, 2006, and lasted roughly 30 minutes in length.
  - With a total sample size of n=1,501 Downloaders, one can say with 95% certainty that the results are accurate to within +/- 2.53% points.



Ipsos

TEMPO:

Keeping Pace with Digital Music Behavior

Executive Summary

- October 2006 -

Executive Summary

- In Summer 2006, Americans continued to embrace digital music listening, acquisition and organization behaviors. Mass market interest in digital music increased, although growth of fee-based behaviors slowed slightly following dynamic increases earlier this year.
  - The proportion of Americans who have ever downloaded music (fee-based or file-sharing) remained consisted with those experienced earlier this year with 26% of the general populace aged 12 and older having ever downloaded music (15% in the past 30 days). This equates to nearly 60 million Americans who have ever downloaded, 33 million who have done so in the past 30 days. Overall past 30 day music downloading activity inched up, continuing an upward trend that began earlier in the year after remaining consistent throughout most of 2005 (14% in Q1, 2006 and 13% in Q4, 2005).
  - The average total number of digital music files downloaded in the past month rebounded this quarter as well (mean of 15.5).
  - Similar to past waves of TEMPO, the level of involvement in music downloading varies depending on age and gender, although this latest wave shows notable gains among younger Americans.
    - In particular, Americans aged 12 to 24 remain the most active Downloaders overall. Teens have shown the largest increases in past 30 day music downloading behavior. Also of note in Summer 2006, past 30 day downloading among those 55 and older doubled, reaching its highest level to-date.
    - Males continue to be more likely than females to indicate having ever downloaded digital music files. In addition, males fueled the increase in past 30 day downloading while females' downloading remained steady.
- More measured growth in overall downloading behaviors suggests that the most prolific music enthusiasts have already entered the digital music category and that the market is maturing and becoming more mainstream. As such, new entrants are likely to be more casual and moderately-involved mass market consumers.

Executive Summary

- Growth in fee-based digital music acquisition slowed in Summer 2006 following record levels seen earlier this year. In Summer 2006, 16% of the general US population indicated having ever paid to download.
  - Three in five (59%) Downloaders have ever paid for digital music in Summer 2006; 27% in the past 30 days. This equates to approximately 35 million Americans - 16 million who have paid for digital music in the past 30 days.
    - This is down slightly from the 63% who indicated they had paid in Spring 2006 (28% in the past 30 days). The Spring results represent the largest single-quarter jump in fee-based activity since the TEMPO program began quarterly tracking in Summer 2002. The 59% reported in Summer 2006 is statistically consistent with the numbers reported earlier this year and represents significant growth over late 2005 when just 52% of Downloaders said they had paid (24% past 30 days).
  - Meanwhile, roughly one in eight (13%) Americans aged 12 and older report having ever downloaded digital music files from a online file-sharing service – 4% in the past 30 days. (~30 million Americans 'ever'; 9 million past 30 days).
    - While Americans aged 12 to 24 continued to be the most prolific file-sharers, much of the increase in fee-based downloading can be attributed to increased experimentation with fee-based methods among this demographic group.
    - Overall, past 30 day fee-based downloading has increased for all age groups since 2005 with the exception of those 55 and older.
- It appears that recent efforts to entice more reluctant fee-based experimenters continue to prove successful, although new entries may be slowing as the market matures. Today, a growing majority of Downloaders have at least tried fee-based downloading, but this experimentation has yet to correlate directly with more than modest increases in the number of monthly fee-based digital music purchases. This suggests that while Americans are increasingly experimenting with fee-based acquisition, additional incentives, services features or exclusive content that are tailored to specific consumer needs and motivations may be required to encourage more repetitive engagement and increase overall purchase patterns.

Executive Summary

- Intrinsically linked to increased experimentation with fee-based digital music acquisition, ownership of portable MP3 players and the availability of mobile- and satellite-accessed digital content is steadily gaining a lasting place with the American consumer.
  - In Summer 2006, one in five Americans aged 12 and older reported owning at least one portable MP3 player (19%), and 6% owned more than one. This marks a significant increase year over year (18% ownership in July 2005; 14% in 2004), and more than a doubling since July 2003 (9%).
    - Interestingly, the proportion of teenage Americans with MP3 players jumped in 2006 from approximately one-quarter at the end of 2005 to just shy of one-half (43%) by Summer 2006.
    - Increasingly, portable MP3 player owners report that their devices have the ability to play video (27% vs. 24% in Spring).
  - In addition to expanding portable MP3 player ownership, American mobile phone owners are also continuing to experiment with emerging mobile music and video content acquisition.
    - Mobile downloading of ringtones continues to remain a popular activity, with some resurgent growth this past quarter. In Summer of 2006, one-quarter (27%) of mobile phone owners report having downloaded ringtones, up from 21% earlier this year.
    - Meanwhile, experimentation with ringbacks and full song downloads is gaining momentum, particularly among males and those aged 12 to 24.
    - Increases in full song mobile downloads, online music downloading and a variety of CD ripping and organization behaviors continue to suggest that as more people acquire these devices, they are then more likely to experiment with various digital music activities.
- Indeed, by providing increased accessibility, portable MP3 players and mobile phones have helped fuel interest in a variety of digital content. Over time, we have witnessed in TEMPO that as consumers acquire these devices, they subsequently experiment with digital music and often progress on to more involved digital music management and organization behaviors. This heightened comfortability may encourage a more rapid transformation to an all-digital lifestyle.

Executive Summary

- Reflecting the continued experimentation and growth in fee-based downloading and the broadening population of portable MP3 player owners, Americans aged 12 and older are also increasingly integrating digital music behaviors into their traditional music listening and organization habits.
  - Approximately half (51%) of Americans aged 12 and older indicate that they still purchase CDs, down from roughly 60% just a year ago. Moreover, the number of CDs purchased on average in the past six months continued to drop from approximately four to just over three.
- This trend suggests increasing reliance upon non-traditional methods of content acquisition as consumers are exposed to a wider variety of digital acquisition, organization and storage methods.
  - Not surprisingly, those demographic groups less wedded to traditional music behaviors (such as teens) appear more ready to make the shift to a digitally-enabled lifestyle. As such, these groups represent critical targets for digital music and mobile service providers moving forward, who may benefit from increasingly tailored offers that appeal to the unique needs of these diverse digital music consumers.

Executive Summary

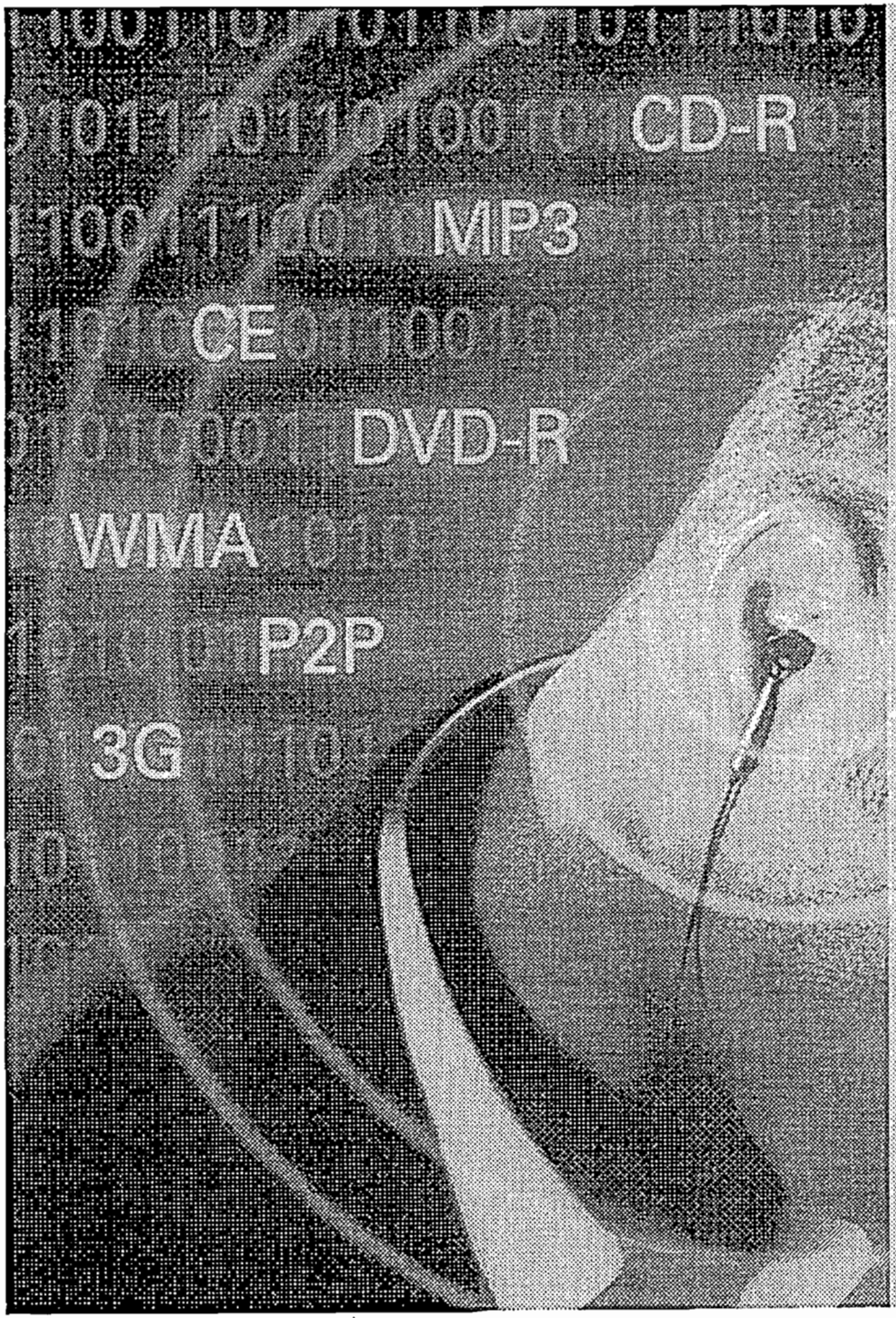
- In an attempt to better understand how Fee-based Downloaders' decision process and usage patterns for various methods of digital music acquisition have evolved in the past year, this most recent wave of TEMPO revisited an in-depth examination of fee-based diagnostics and service decision criteria:
  - Fee-based Downloaders are becoming more experienced, with 75% of Downloaders reporting they first experimented with fee-based downloading six months ago or longer in Summer 2006 (vs. 63% in Summer 2005 and 49% in Summer 2004).
  - Downloaders most frequently mention only wanting to purchase one song from a particular artist as the reason for initially deciding to pay for digital music, followed by the convenience of the Internet as a source for music. These same two reasons as well as savings from only paying for the songs they want instead of entire albums are the reasons most experienced Downloaders continue to purchase digital music.
  - In Summer 2006, paying for individual songs (72%) continued to be the most common method of fee-based digital music acquisition, followed by online music subscription services (27%).
    - Single songs continue to dominate the total purchase mix, as an average of 86% of fee-based downloads are in this format.
      - None-the-less, Fee-based Downloaders are increasingly experimenting with full album downloads. One-fifth of Fee-based Downloaders listed downloading full albums as one way in which they acquire digital music in Summer 2006 compared with one-sixth throughout 2005 and just one-tenth in late 2004. This suggests that, as consumers become more comfortable with digital acquisition in general, they may also become more comfortable making the switch to digital acquisition of music they wish to add to their permanent collections as well such as albums by their favorite artists and compilations by artists in a similar genre.
    - The average number of individual song downloads purchased each month is 6, consistent with measures in Summer 2004 and 2005.
    - While one-third (35%) of Fee-based Downloaders indicated they have not spent any money on digital music in the past month, the average amount spent among those who have was roughly $13.00.

Executive Summary

- In Summer 2006, TEMPO explored the competitive landscape of fee-based digital music services relative to one year ago, including Fee-based Downloader awareness, familiarity, usage, favorability, satisfaction and perceptions of various fee-based digital music sites.
- Despite an increasing array of digital music service offerings, Apple's iTunes Music Store and Napster 2.0 continue to capture strong consumer mindshare.
  - Encouragingly, overall consumer awareness for the entire fee-based digital music category appears to be growing in the US, with most fee-based services experiencing increased awareness year over year.
    - On an unaided basis, Downloaders were most likely to be aware of Apple iTunes (32%). Unaided awareness for Napster 2.0 slipped in Summer 2006, putting the one-time filesharing service alongside the contemporary filesharing services KaZaA and Morpheus in the second tier of recognition.
    - Despite a similar drop in aided awareness, Napster 2.0 (68%) remained the most recognizable name in fee-based music services. Awareness of iTunes continued its upward trend to 66% awareness, all but eliminating the gap between the two brands.
    - MySpace.com made record gains in aided awareness over the past year, skyrocketing from 16% last year to 54% in Summer 2006.
- Similar to overall awareness levels, iTunes and Napster 2.0 are the fee-based services used most often.
  - iTunes Music Store is by far the website Fee-based Downloaders use most often (59%), followed by Napster 2.0 (19%), Walmart.com (13%), Rhapsody (13%) and Yahoo! Music (12%).
    - Use of many major fee-based services decreased from Summer 2005 to Summer 2006 as iTunes continued to gain dominance.
    - One exception to this was the community/idea sharing website, MySpace.com. Use of MySpace jumped from 2% ever in Summer 2005 to 11% in Summer 2006 (5% in the past 30 days versus just 1% in the past 30 days a year ago).
  - XM and iTunes captured the highest satisfaction ratings from their customers, followed by MSNmusic and Sirius.
- While iTunes has continued to strengthen its leadership position since 2004, nuanced fee-based brand perceptions suggest continually emerging market opportunities for competitors.
  - iTunes Music Store was rated as the 'best' fee-based service by two-in-five (41%) US Downloaders, significantly more than in Summer one year ago (33%) or in 2004 (24%). Napster 2.0 experienced significantly fewer 'best' fee-based service mentions yet again in 2006 (11% vs. 22% in 2005 and 32% in 2004).
    - Similar to Summer 2005, the primary reason for digital music services to be seen as 'best' are having the best selection of music and perceived ease of use.
  - iTunes is most closely associated with being a complete music service, offering single songs, albums and extras like Podcasts, as well as working seamlessly with Downloaders' MP3 players.
    - Interestingly, perceptions of good sound quality, a broad music selection and ease of use were no longer associated specifically with iTunes. Instead, these highly important attributes are now perceived as common to most, if not all, brands.
  - Walmart.com is the most closely associated with the attributes "good value" and "low price", similar to Q2 2004 and 2005.
  - Image-oriented attributes such as "hip/cool/cutting edge" and discovery-related attributes such as "helps me discover new artists and songs" or "enables me to share ideas with other users" are still correlated with MTV and MySpace.com but AOL MusicNow and Napster 2.0 now share in these associations as well.

Executive Summary

- While the online fee-based digital music market continues to expand and differentiate, experimentation with broader music storage, organization and acquisition behaviors persists. Indeed, recent data suggest Downloaders are truly integrating both traditional and advanced methods of music consumption through technology such as satellite radio, portable MP3 players and digital media applications/ software, as well as maintaining pre-recorded CD purchase behavior.
  - Downloaders are experimenting with mobile music options in increasing number. In Summer 2006, 51% of Downloaders who own mobile phones report that they have downloaded a ringtone (20% past 30 days) and fully 10% have now downloaded a full song or MP3 file directly to their phone (5% past 30 days).
    - The average number of both ringtones and full songs stored on mobile phones amongst those who have downloaded this type of content is six of each.
    - Unlike early online acquisition, much of the early experimentation with mobile music is fee-based, and 80% of Ringtone Downloaders have paid, while 38% of Full Song Downloaders have done so.
  - Meanwhile, a majority of Downloaders now owns a portable MP3 player (53%) in Summer 2006 compared to just 29% in Summer 2005. Furthermore, 31% of Downloaders with MP3 players own more than one.
    - Apple iPod (51%), Creative Labs (8%), Sony (6%) and up-and-coming competitor, SanDisk (5%) are the most frequently owned by US Downloaders.
  - When asked about the methods of acquisition they are likely to use in the future, Downloaders indicated that they are more likely to subscribe to satellite radio than an online fee-based service, although traditional CD purchasing and a la carte downloading, both fee-based and non, remain the most likely methods of acquisition Downloaders plan to participate in over the coming year.
    - Currently, mobile music and media acquisition is the least likely activity for Downloaders to participate in. None-the-less, use of this method of acquisition is increasing rapidly quarter-over-quarter.
    - On a portable level, 13% are likely to purchase a new MP3 player within the next 12 months.
  - As Downloaders increasingly exercise digital acquisition and listening behaviors, they also appear to be gaining familiarity with the benefits of specific digital music management applications/ software.
    - iTunes has overtaken both RealPlayer and Windows Media Player as the most frequently used digital music application among Fee-based Downloaders. Non Fee-based Downloaders continue to use Windows Media Player most often.



Ipsos

TEMPO:

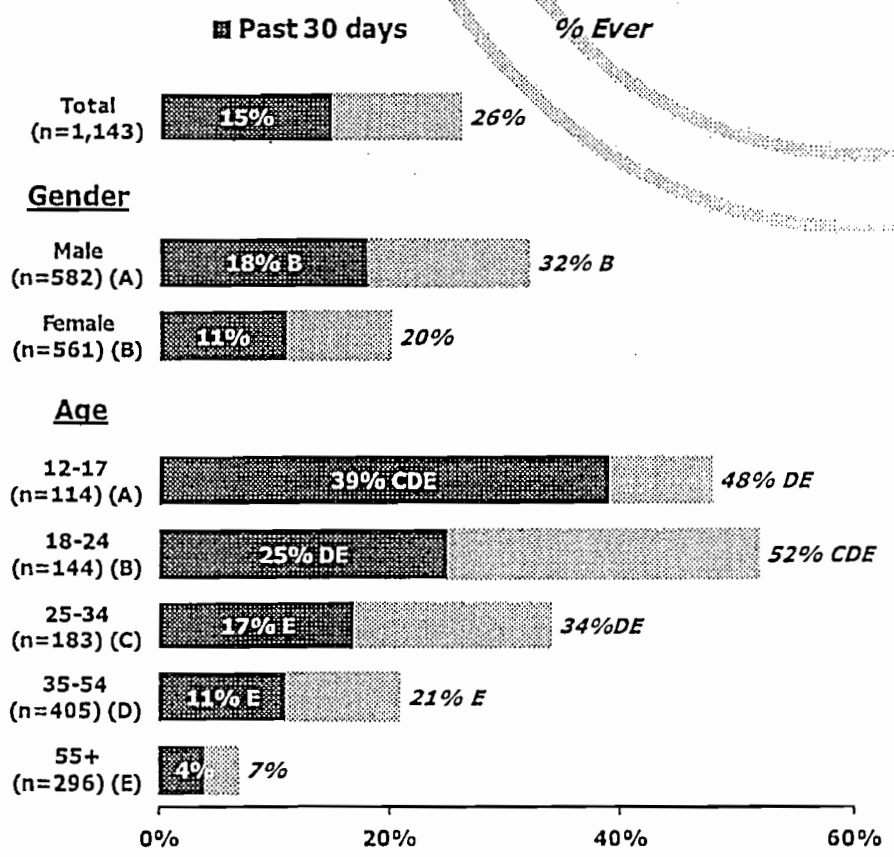
Keeping Pace with Digital Music Behavior

Prevalence of Music Downloading

- October 2006 -

Prevalence of Music Downloading

- Consistent with Spring 2006, approximately one-quarter of Americans aged 12 and older indicated that they have downloaded digital music or MP3 files (via fee-based methods or otherwise).
  - Gender differences remained apparent, with one-third of males saying they have downloaded versus one-fifth of females.
  - Unsurprisingly, those 34 and under remain more likely to download than those 35 plus.
    - The influence of age is especially pronounced among past 30 day Downloaders.

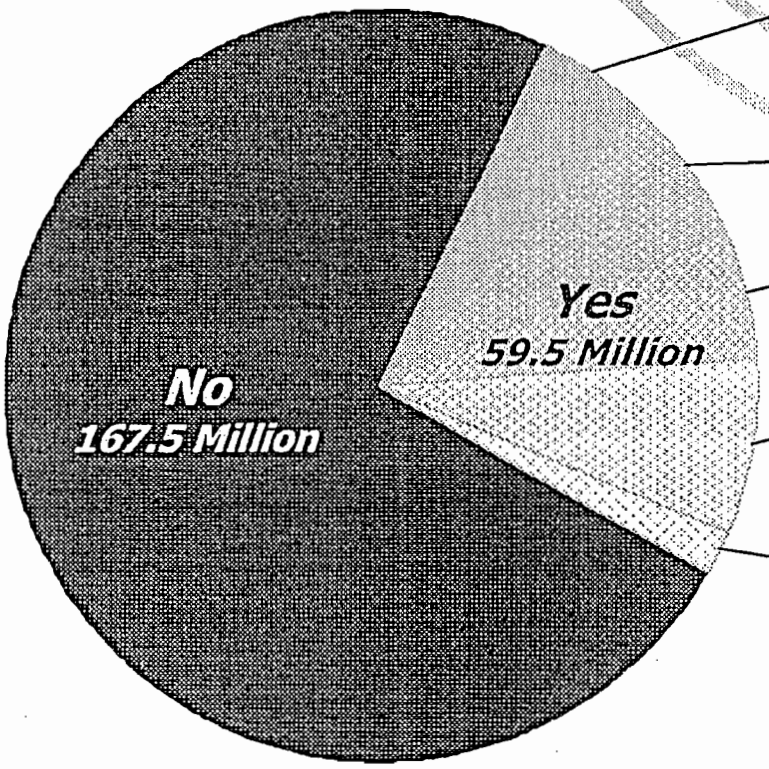


t3. Have you ever downloaded a digital music or MP3 file off of the Internet from a PC?
T4a. In the past month, how many digital music or MP3 files have you downloaded off of the Internet?

Base: All respondents

Projected Population of Downloaders

- With a total US population aged 12 and older of 227.0 million*, the projected population of Downloaders is now roughly 59.5 million; 33.2 million in the past 30 days.



Age

12-17:
10.7 Million

18-24:
14.9 Million

25-34:
12.5 Million

35-54:
17.2 Million

55+:
4.2 Million

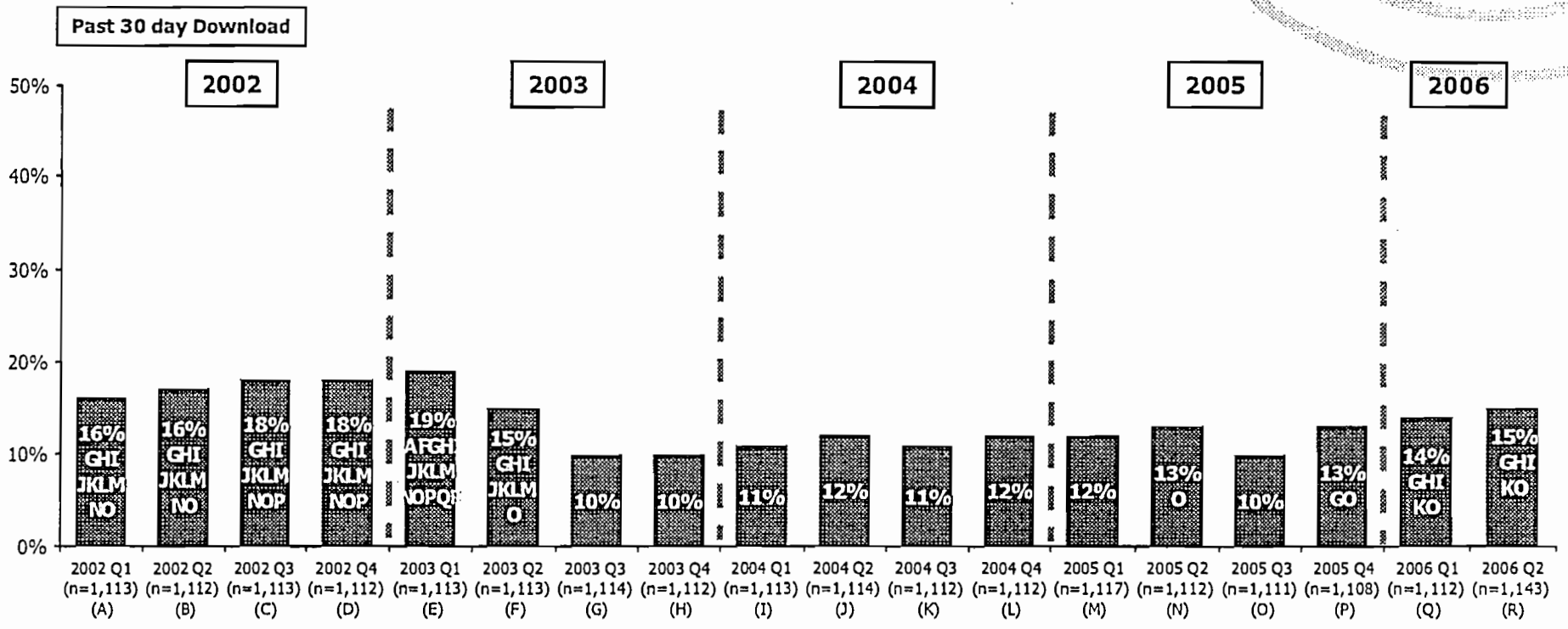
** This March 2005 US Census projection takes into account a US household telephone penetration rate of 94%.*

*Base: US Population age 12 and over**

Prevalence of Past 30 Day Music Downloading

Trending

- Past 30 day downloading among Americans aged 12 and older continued to rebound in Q2 2006, following a low in the fall of 2005.



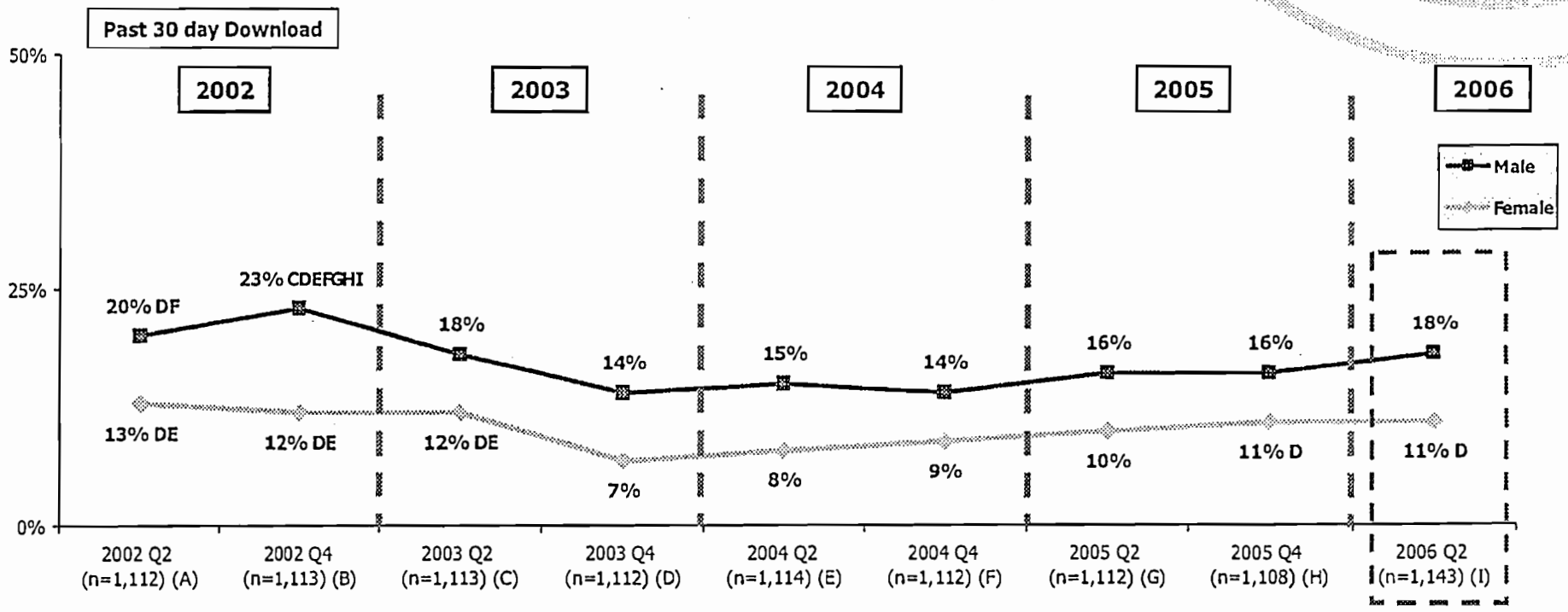
T4a. In the past month, how many digital music or MP3 files have you downloaded off of the Internet?
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: All respondents

Prevalence of Past 30 Day Music Downloading

Trending by Gender

- Consistently, males are more likely than females to report having downloaded digital music files off the Internet in the past 30 days.
  - This trend continued to increase directionally in Summer 2006.



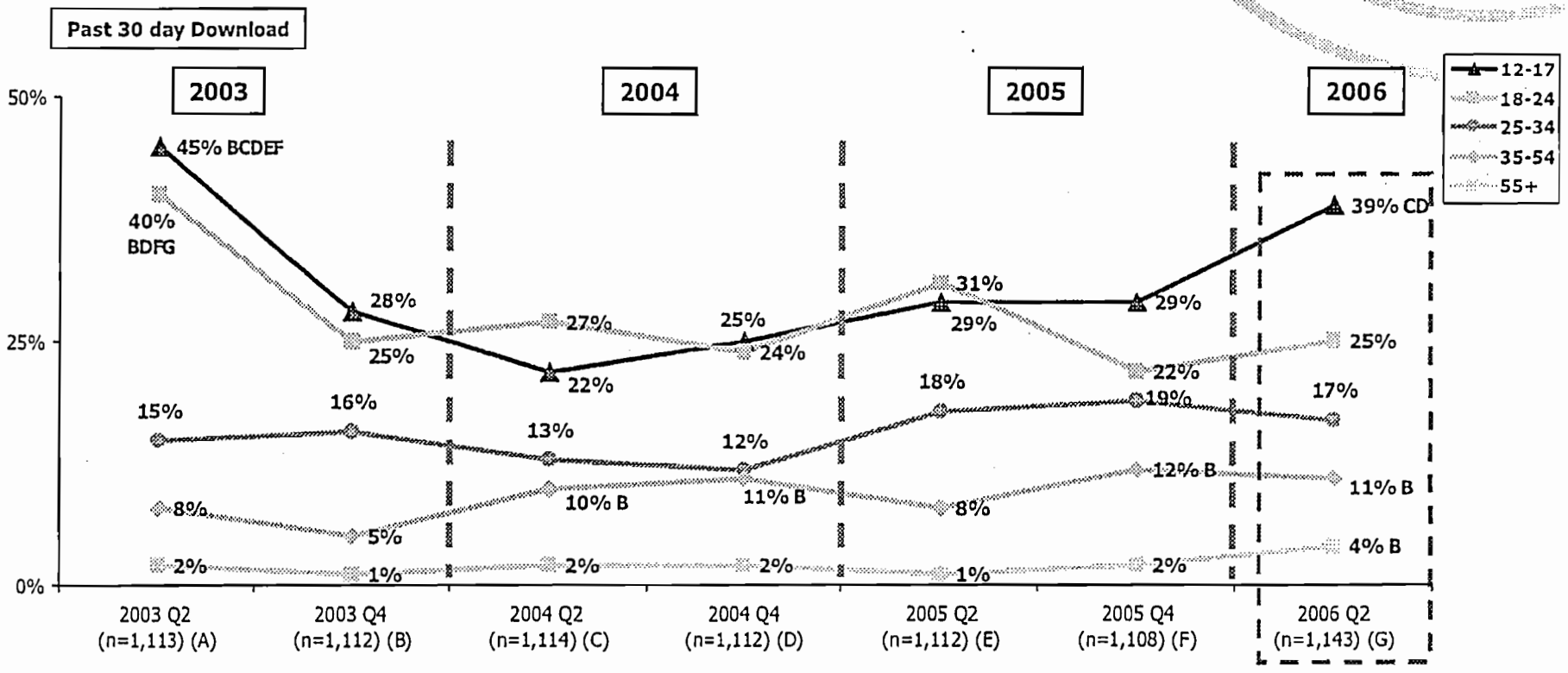
T4a. In the past month, how many digital music or MP3 files have you downloaded off of the Internet?
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: All respondents

Prevalence of Past 30 Day Music Downloading

Trending by Age

- Past 30 day downloading among teens, young adults and, surprisingly, those aged 55 and older increased directionally in Summer 2006.



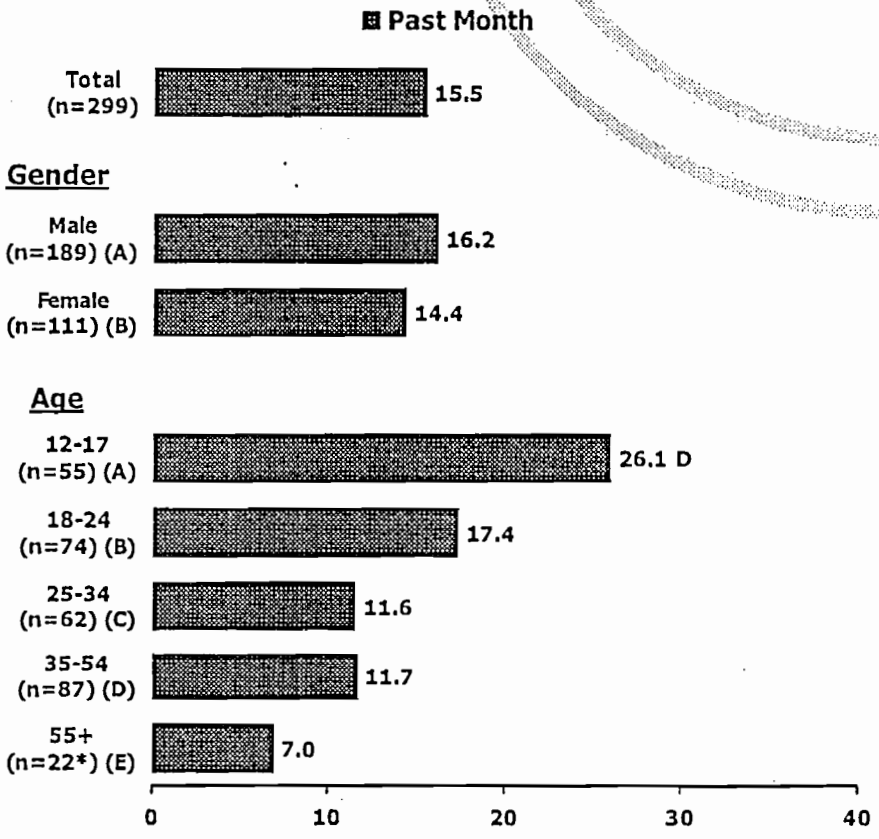
T4a. In the past month, how many digital music or MP3 files have you downloaded off of the Internet?
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: All respondents

Past Month Downloading Activity

by Age and Gender

- Downloaders ages 12 and older report having downloaded an average of 15.5 digital music or MP3 files in the past 30 days.
- As has often been the case in past quarters, males downloaded more digital music files, on average, than females. Those aged 12 to 17 downloaded more files in Summer 2006 than any other age group. In Spring 2006, 18 to 24 year olds had been the most prolific downloaders.
  - Teenagers and young adults have alternated as the largest past-month downloaders for years, consistently outpacing all other ages for average number of downloads.



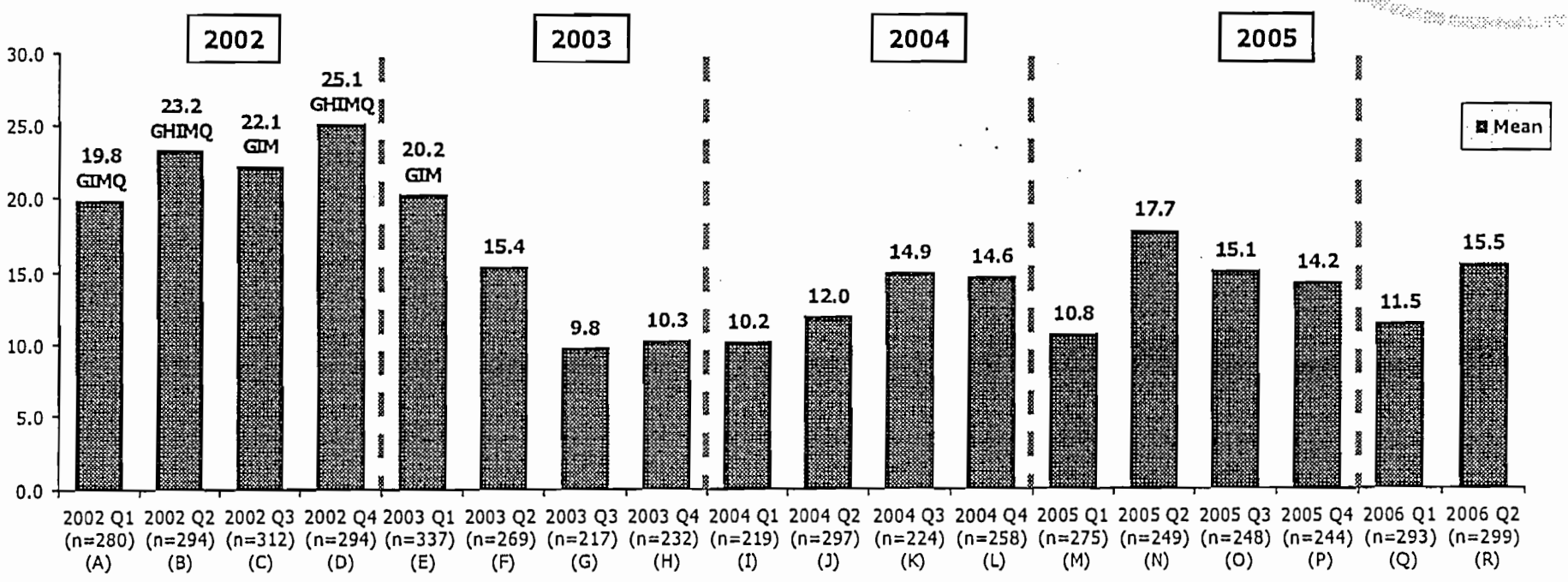
T4a. In the past month, how many digital music or MP3 files have you downloaded off of the Internet? (Mean incl. 0)
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: Downloaders
** Caution small base*

Past Month Download Activity

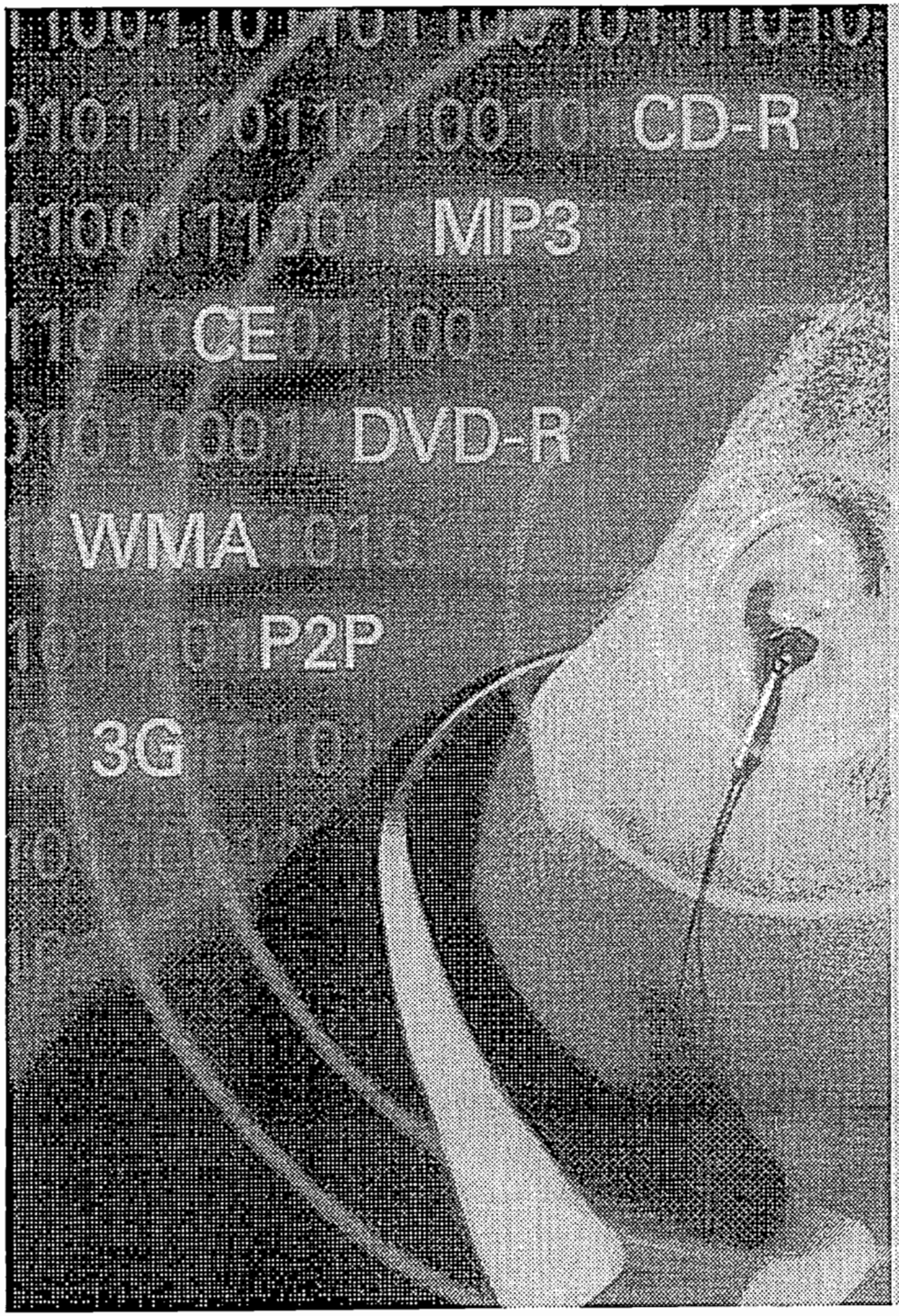
Trending

- In Q2 2006, the average number of files downloaded in the past month rebounded following a three-quarter directional decline.



t4a. In the past month, how many digital music or MP3 files have you downloaded off of the Internet?
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: Downloaders



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TEMPO:

Keeping Pace with Digital Music Behavior

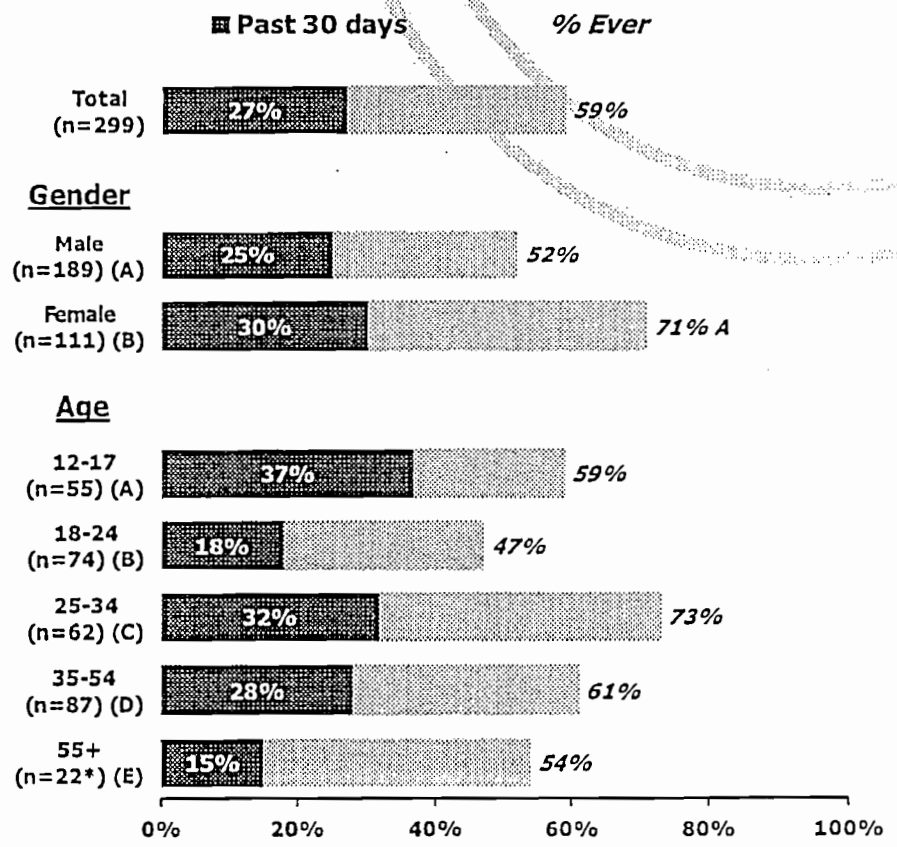
Prevalence of Fee-based Digital Music Acquisition

- October 2006 -

Fee-based Digital Music Acquisition

by Age and Gender

- In Summer 2006, three-fifths of U.S. Music Downloaders had ever paid a fee to download digital music from the Internet.
- Interestingly, females were significantly more likely to have paid to download than their male counterparts, with over two thirds of female respondents reported having ever done so.

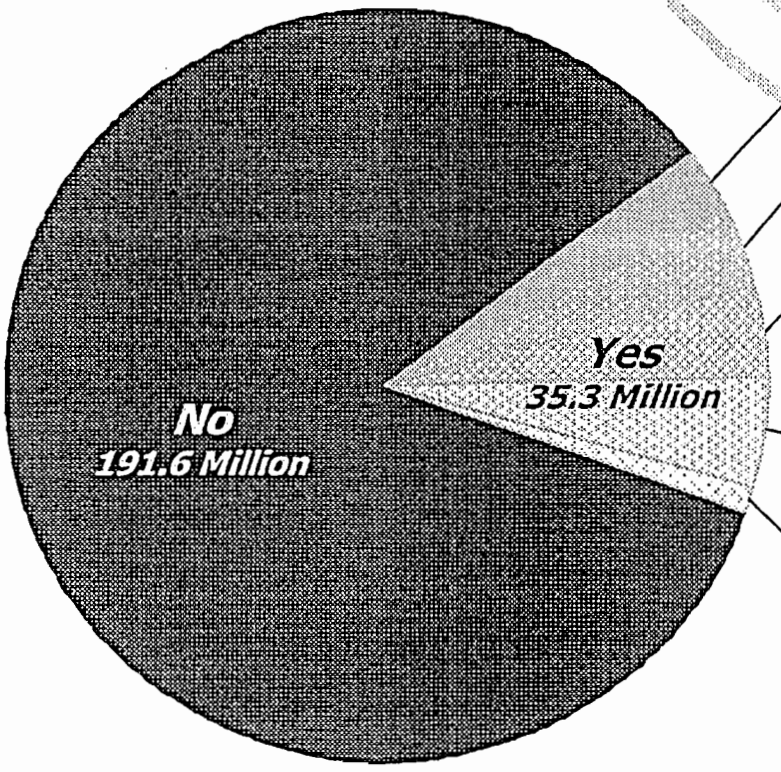


t4cx. Have you ever paid a fee for the digital music or MP3 files that you have downloaded off of the Internet?
t4d. And have you done so in the past 30 days?
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: Downloaders
** Caution small base*

Projected Population of Fee-based Digital Music Acquisition

- With a total population aged 12 and over of 227.0 million*, the projected population of fee-based digital music Downloaders in the US is now roughly 35.3 million; 16.1 million in the past 30 days.



Age

12-17:
6.4 Million

18-24:
7.1 Million

25-34:
9.2 Million

35-54:
10.6 Million

55+:
2.5 Million

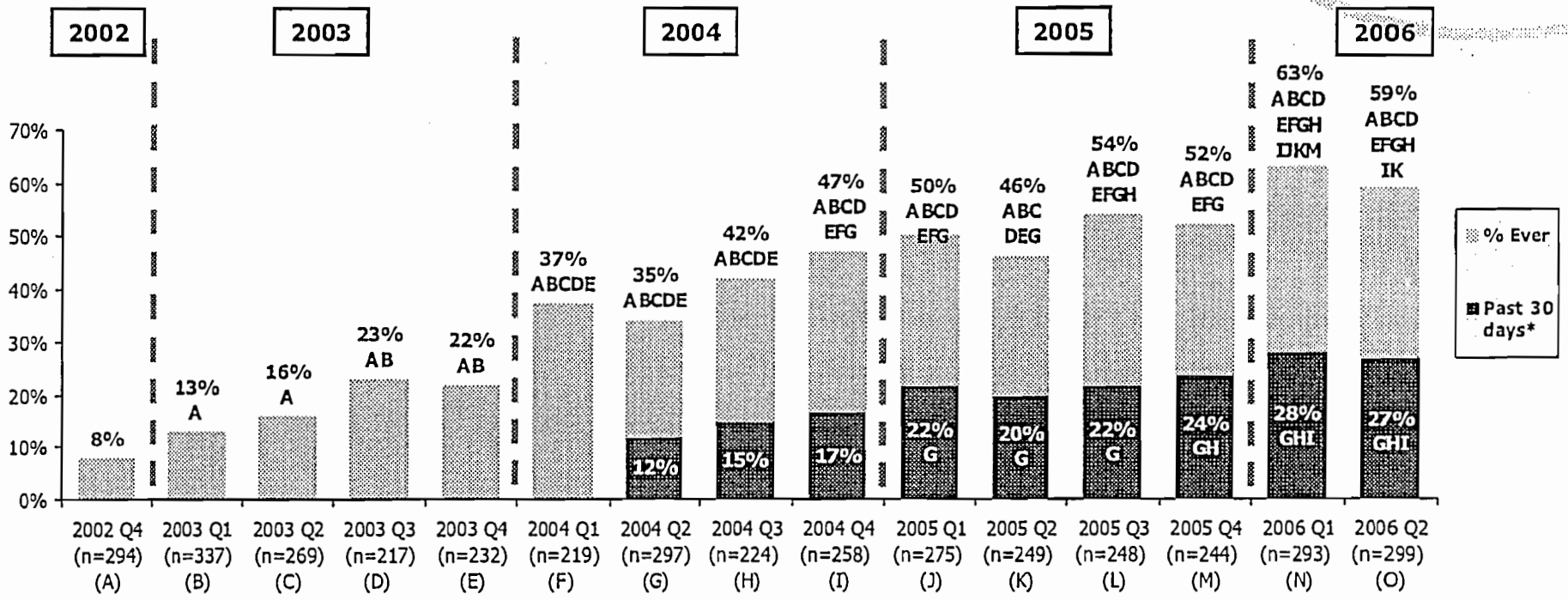
** This March 2005 US Census projection takes into account a US household telephone penetration rate of 94%.*

*Base: US Population age 12 and over**

Fee-based Digital Music Acquisition

Trending

- Both overall and past 30 day fee-based downloading stuttered slightly in Summer 2006 following substantial increases this past Spring. Still, a majority of Downloaders have now at least experimented with fee-based downloading.
  - Additional demographic and behavioral trending data are available in the TEMPO Online Archive.

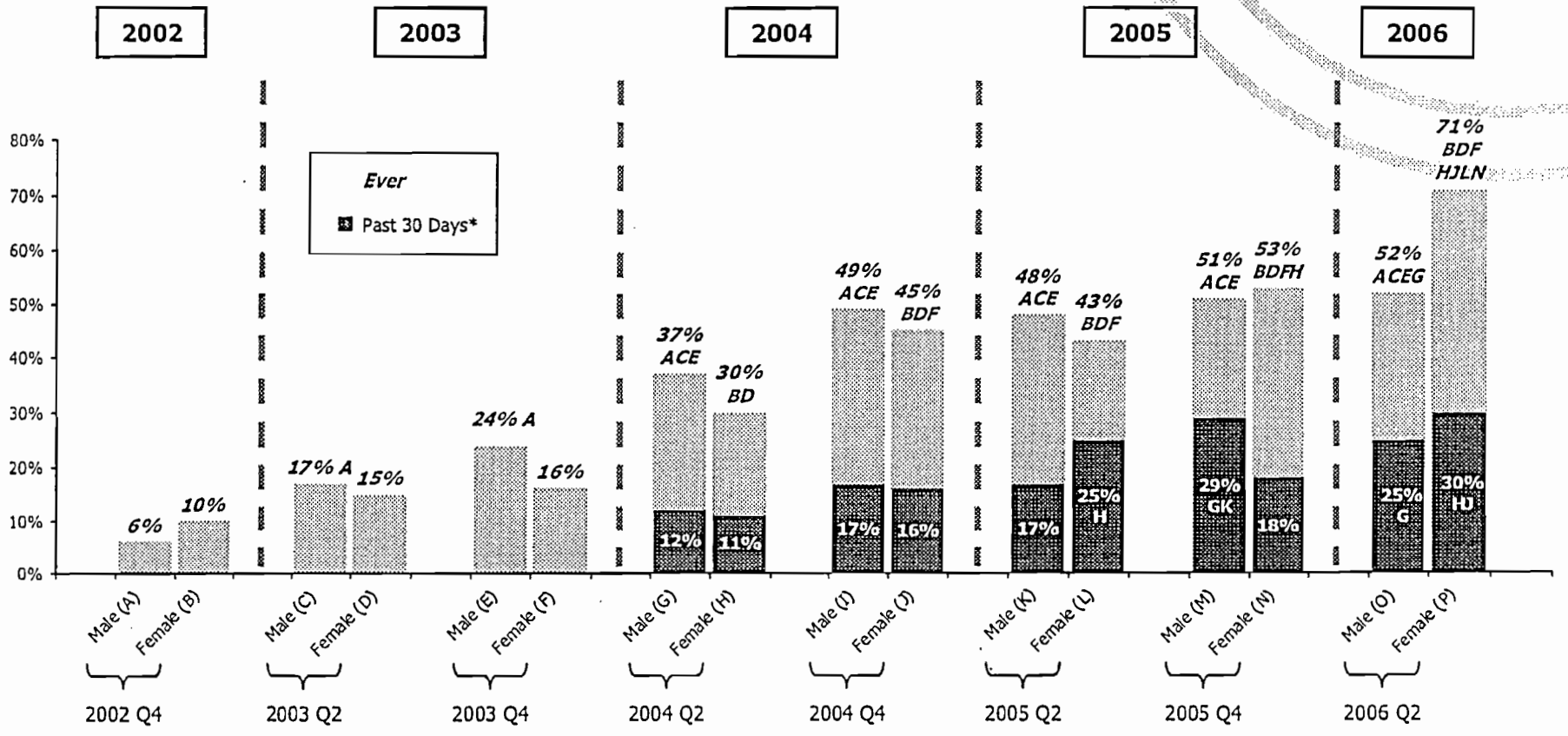


t4c. Have you ever paid a fee for the digital music or MP3 files that you have downloaded off of the Internet?
*t4d. And have you done so in the past 30 days? *Past 30 Day fee-based experience not asked prior to Q2 2004*
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: Downloaders

Fee-based Digital Music Acquisition

Trending by Gender

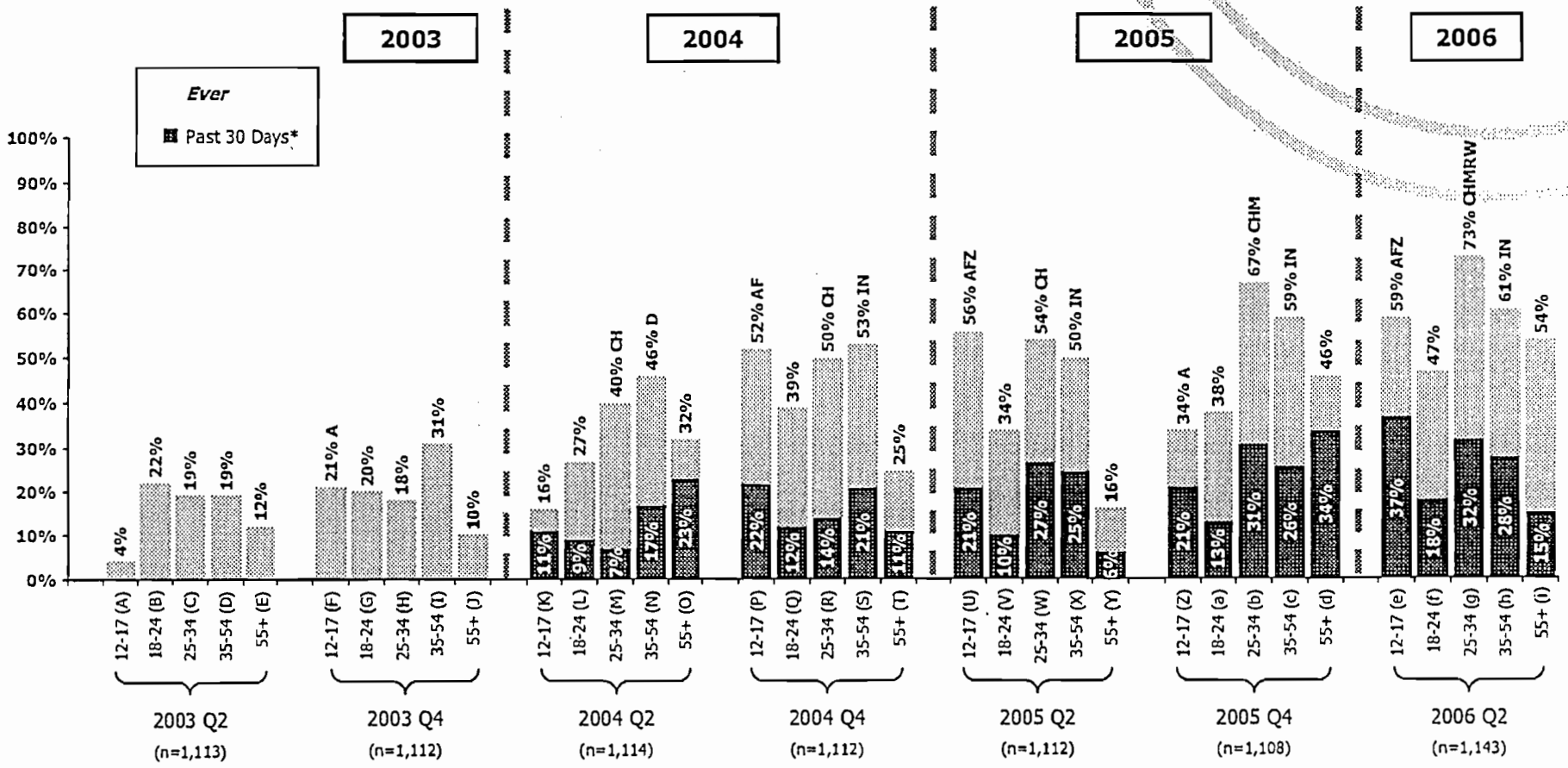


t4c. Have you ever paid a fee for the digital music or MP3 files that you have downloaded off of the Internet?
*t4d. And have you done so in the past 30 days? *Past 30 Day fee-based experience not asked prior to Q2 2004*
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: Downloaders

Fee-based Digital Music Acquisition

Trending by Age



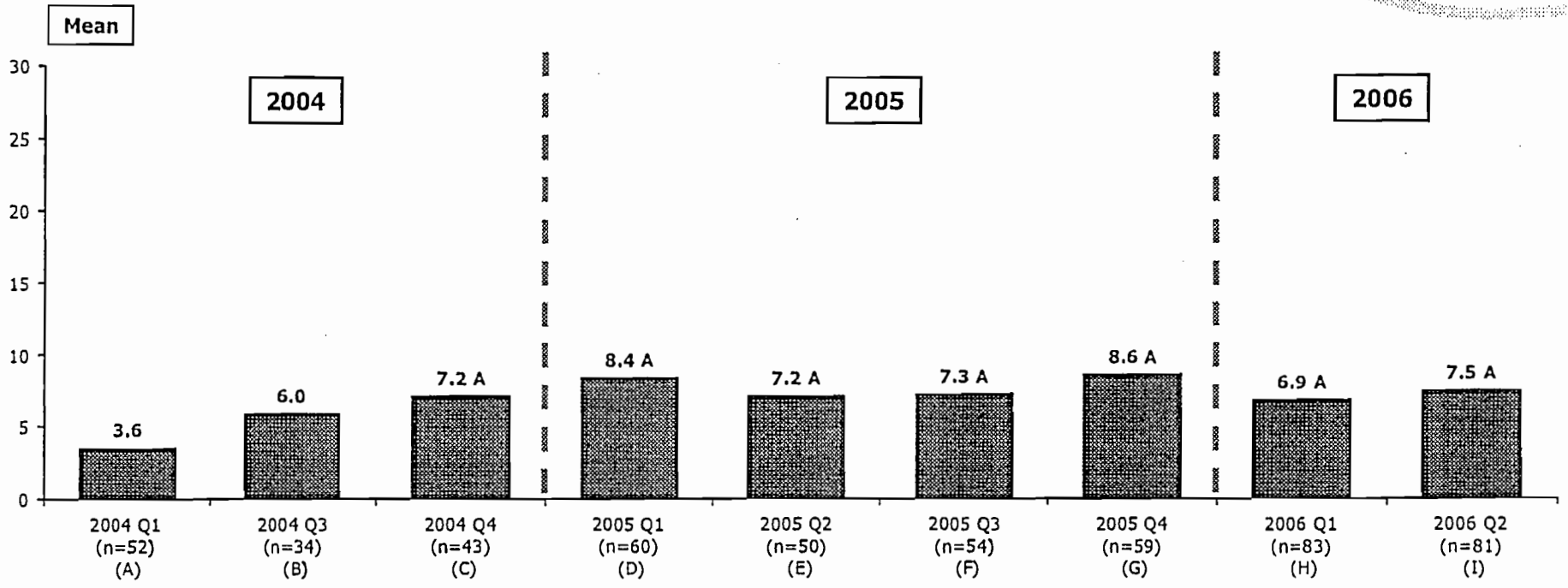
t4c. Have you ever paid a fee for the digital music or MP3 files that you have downloaded off of the Internet?
*t4d. And have you done so in the past 30 days? *Past 30 Day fee-based experience not asked prior to Q2 2004*
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: Downloaders

Past Month Fee-based Downloading Activity

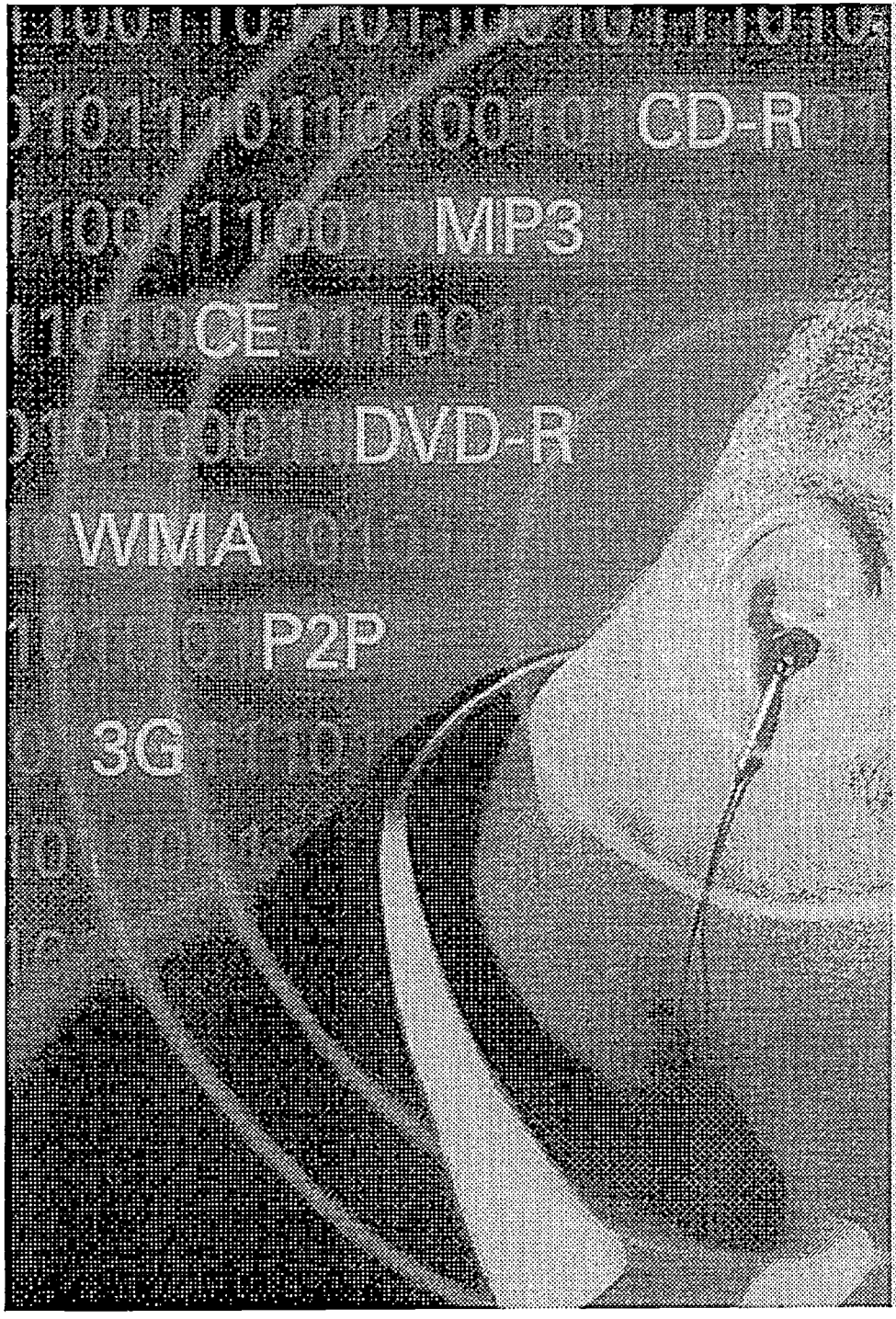
Trending

- Downloaders pay to acquire just over seven digital music files from fee-based online stores each month, on average.
  - This finding has fluctuated slightly but remained fairly consistent since Winter 2004.



N2. And in the past 30 days, how many digital music or MP3 files have you paid to download from a fee-based website or service?
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: Fee-based Downloaders



Ipsos

TEMPO:

Keeping Pace with Digital Music Behavior

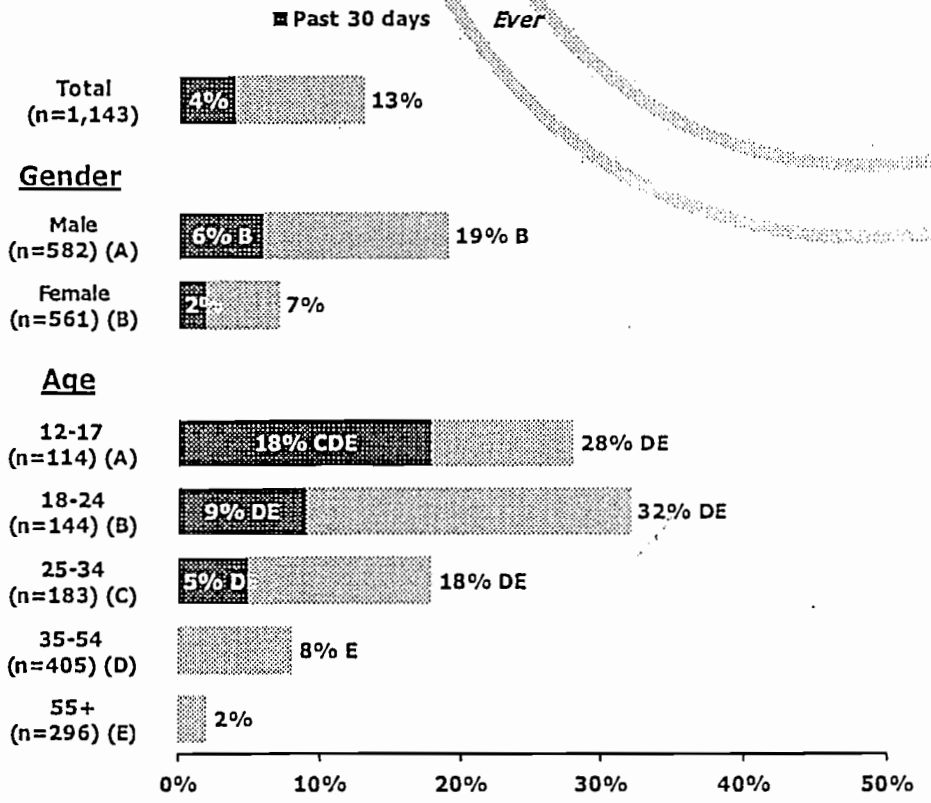
Prevalence of File Sharing Service Usage

- October 2006 -

Prevalence of File Sharing Service Usage

by Age and Gender

- In Summer 2006, roughly one in eight (13%) Americans ages 12 and older have downloaded digital music from an online file sharing service, and 4% have done so in the past 30 days.
- The most prolific peer-to-peer Downloaders continue to be college-aged Americans, although teenagers may soon bridge that gap given how many of them report having done so in the past 30 days relative to the other age groups.
- Males continue to be significantly more likely than females to have ever participated in digital music file sharing.



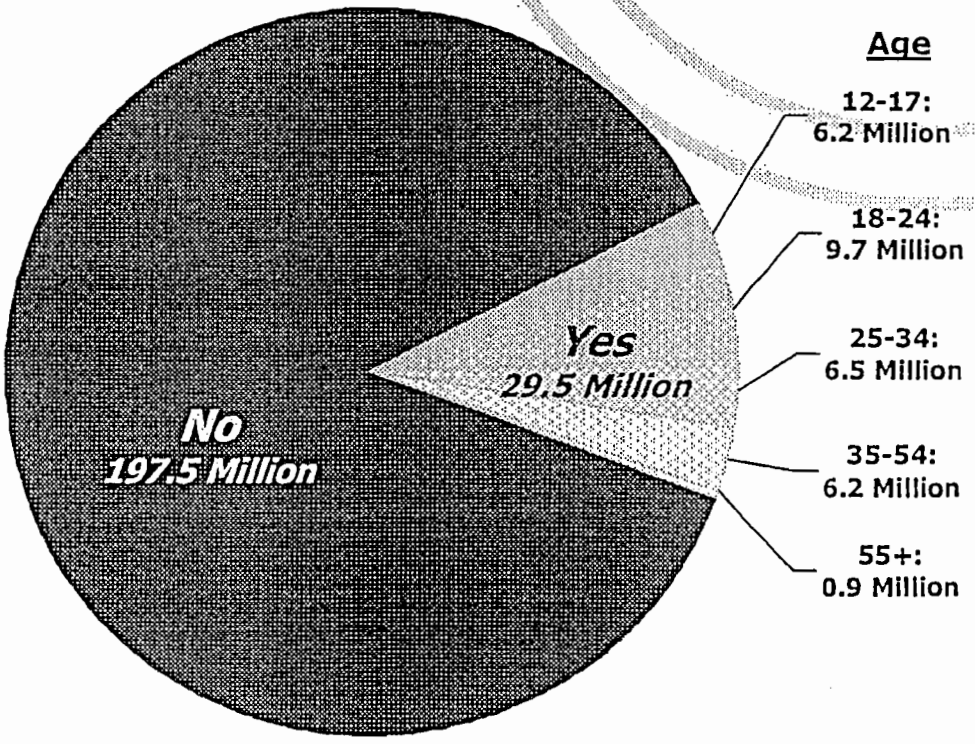
t5.a Have you ever downloaded digital music files (or MP3 files) from an online file sharing service (such as Morpheus or KaZaA)?
t5b. And have you done this in the past 30 days?
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: All respondents

Projected Population of File Sharers

Online File Sharing Services

- With a total US population aged 12 and over of 226.7 million* people, the projected population of Americans who have downloaded music from an online file sharing service is 29.5 million; 9.1 million in the past 30 days.



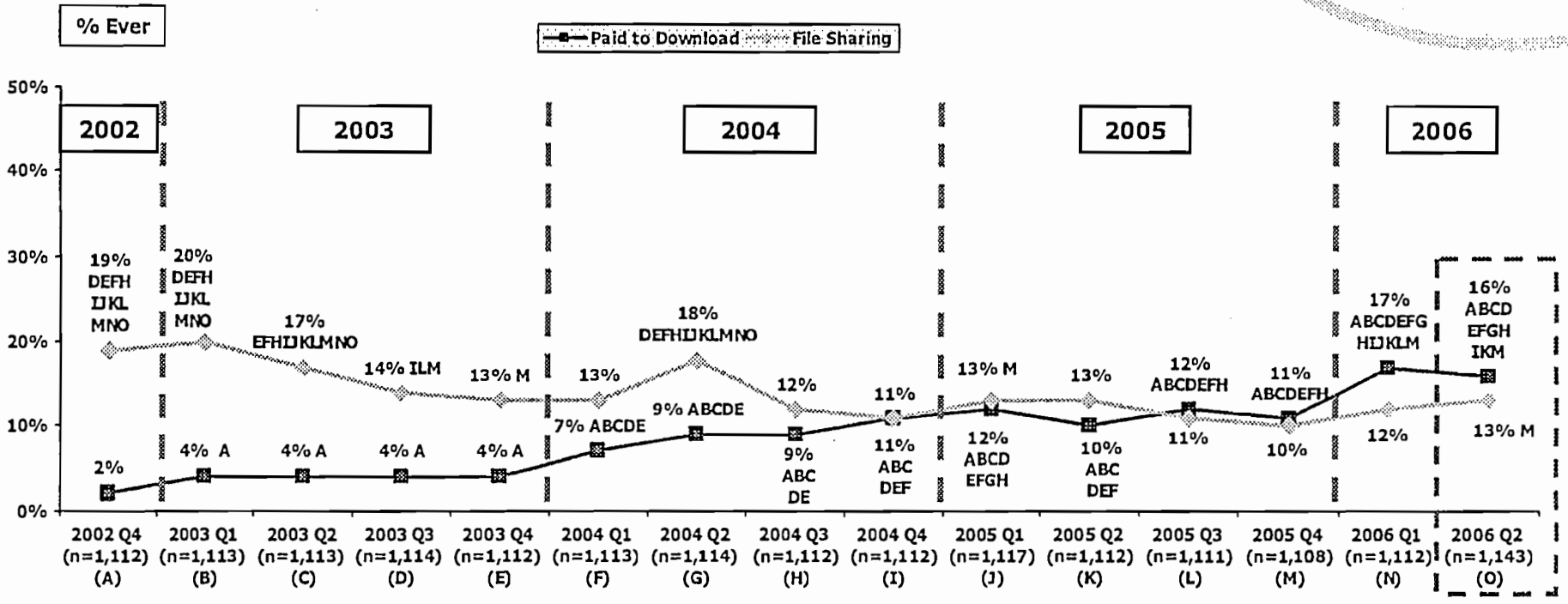
** This March 2005 US Census projection takes into account a US household telephone penetration rate of 94%.*

*Base: US Population age 12 and over**

Prevalence of Music Downloading

Fee-based Downloading vs. File Sharing

- Prevalence of file sharing and fee-based digital music acquisition first converged in Winter 2004, and the trend towards increased fee-based acquisition has continued ever since.
- Growth in fee-based downloading slowed in Summer 2006, but continued to overshadow file-sharing, which has rebounded somewhat from lows in late 2005.

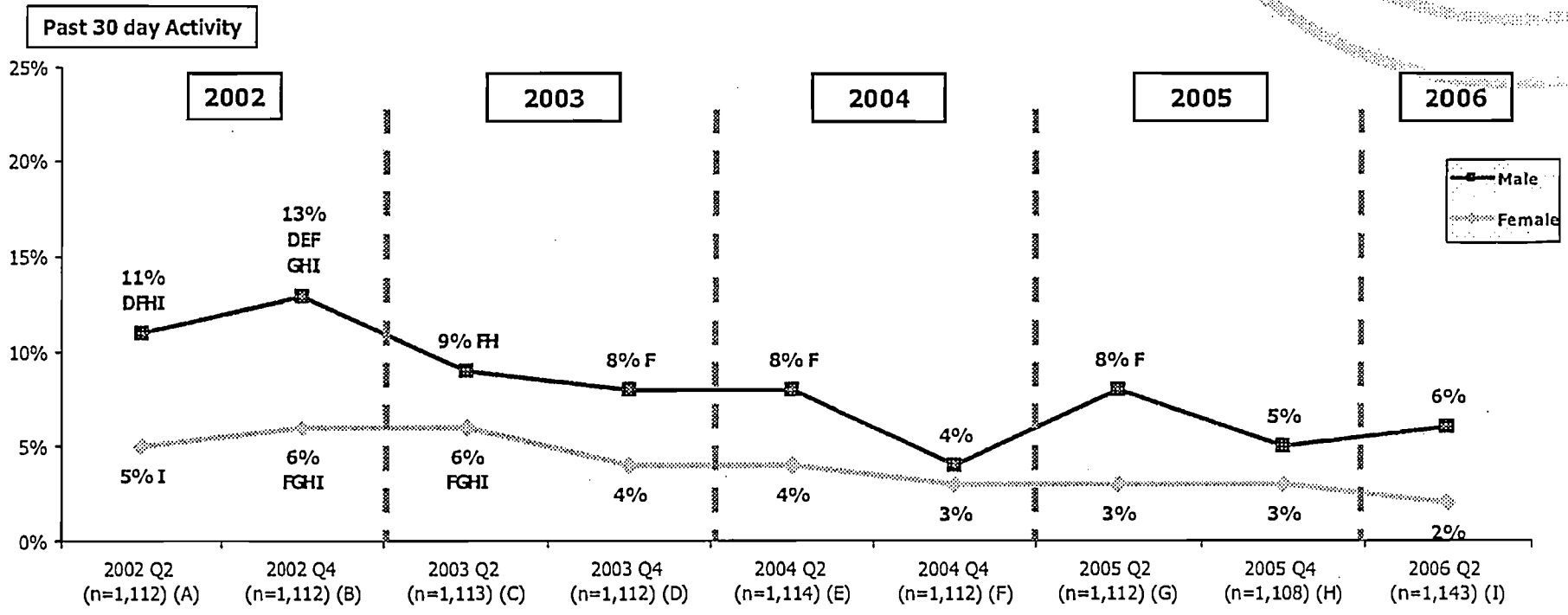


t4cx. Have you ever paid a fee for the music or MP3 files that you have downloaded off of the Internet?
t5. Have you ever downloaded digital music files (or MP3 files) from an online file sharing service (such as Morpheus or KaZaA)?
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: All respondents

Prevalence of File Sharing Service Usage

Trending by Gender

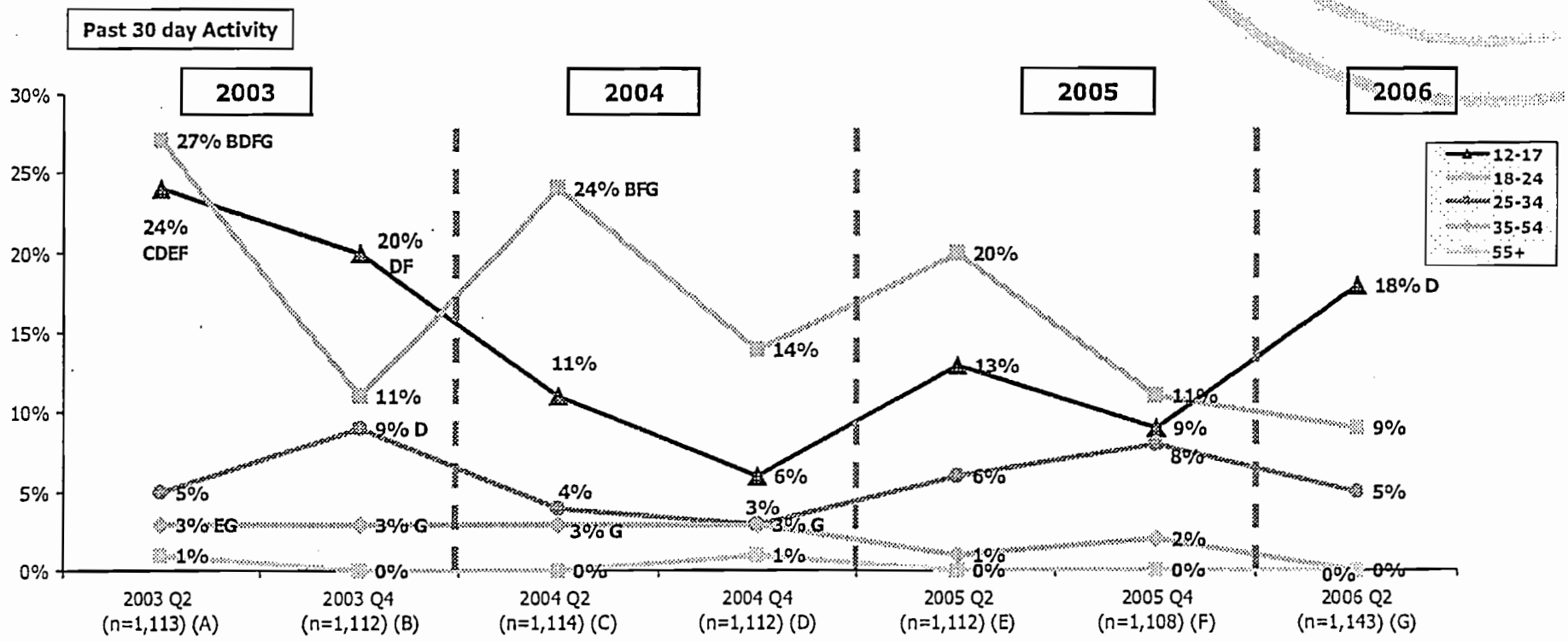


T5b. Have you downloaded digital music files (or MP3 files) from an online file sharing service (such as Morpheus or KaZaA) in the past 30 days?
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: All respondents

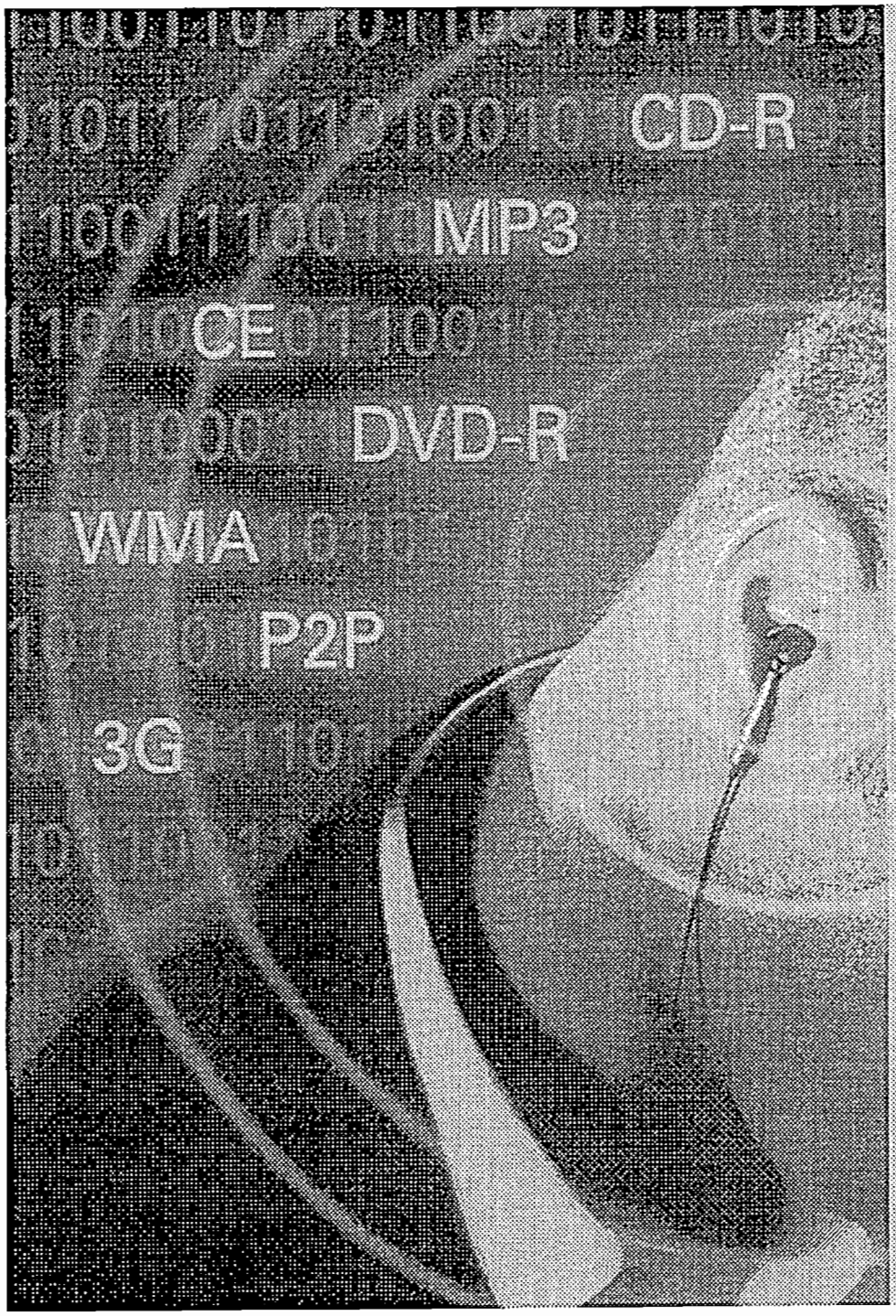
Prevalence of File Sharing Service Usage

Trending by Age



T5b. Have you downloaded digital music files (or MP3 files) from an online file sharing service (such as Morpheus or KaZaA) in the past 30 days?
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: All respondents



Ipsos

TEMPO:

Keeping Pace with Digital Music Behavior

Prevalence of Digital Music Behaviors

- October 2006 -

Prevalence Summary of Digital Music Behaviors

		Ever	Past 30 days
Listening/Watching	Listened to a recordable Compact Disc (CD-R) on a car audio system?	47%	33%
	Listened to a recordable Compact Disc (CD-R) on your home audio system?	45%	28%
	Listened to pre-recorded music CD's that were playing in a PC's CD-ROM drive?	35%	20%
	Listened to digital music files that were stored on a PC's Hard Drive?	31%	19%
	Listened to Internet radio stations on a PC?	30%	14%
	Listened to streamed music clips or audio files, without actually downloading them, while you're connected to the Internet on your PC?	29%	15%
	Watched streamed music videos while you're connected to the Internet on your PC?	18%	8%
	Listened to a Portable MP3 Player, such as an iPod, while in your car?	18%	12%
	Listened to a Portable MP3 Player, such as an iPod on your home audio system?	17%	12%
Burning/Ripping	Copied (or ripped) a pre-recorded Compact Disc that YOU own onto your computer?	27%	13%
	Copied (or ripped) several pre-recorded CDs you own onto your computer, then burned the files into a custom compilation CD-R?	17%	6%
	Burned (or copied) a pre-recorded music CD owned by someone else rather than actually purchasing that particular CD?	16%	5%
	Burned a CD of SELECT SONGS from digital music files you have DOWNLOADED off of the Internet?	16%	7%
	Burned (or copied) an entire album onto a recordable Compact Disc (CD-R) for your friends or relatives?	15%	5%
	Copied (or ripped) a Compact Disc onto your computer and then transferred the files onto a Portable MP3 Player, such as as an iPod?	15%	8%
	Copied (or ripped) a pre-recorded Compact Disc that SOMEONE ELSE owns onto your computer?	14%	4%
	Burned a CD of an ENTIRE ALBUM from digital music files you have DOWNLOADED off of the Internet?	10%	4%
Downloading/Purchasing	Purchased a CD of prerecorded music off of the Internet (shipped to your home, not downloaded)?	17%	4%
	Downloaded a video game off of the Internet?	14%	6%
	Downloaded music (or an MP3 file) off of the Internet, and then transferred it onto a Portable MP3 Player, such as an iPod?	14%	8%
	Downloaded digital music files (or MP3 files) from an online file-sharing service (such as Morpheus or KaZaA)?	13%	4%
	Downloaded music videos from the Internet?	10%	4%
	Downloaded a movie trailer off of the Internet?	9%	4%
	Downloaded an artist-endorsed promotional song or track off of the Internet from a website other than a file-sharing service?	8%	3%
	Sent or recived digital music or MP3 files via Instant Messaging and/or email?	8%	3%
	Downloaded or listened to a Podcast?	7%	4%
	Paid a fee to listen to digital music over the Internet (such as streaming music or Internet Radio)?	7%	3%
	Downloaded a digital music or MP3 file after first learning of this artist via a blog on the Internet?	6%	3%
	Downloaded a television show off of the Internet?	5%	3%
	Downloaded a full-length motion picture from the Internet?	3%	1%
	Downloaded an audio book off of the Internet?	3%	1%
Blogs	Read music reviews that were written by other fans and posted to online journals or blogs?	13%	7%
	Written your own online journal or blog?	8%	4%

T5a. Have you ever ..... ? T5b. And have you done this in the past 30 days?

Base: All respondents (n=1,143)

Projected Population for Digital Music Behaviors

	Have you ever...	Ever Done (In millions)
Listening/Watching	Listened to a recordable Compact Disc (CD-R) on a car audio system?	106.7
	Listened to a recordable Compact Disc (CD-R) on your home audio system?	102.1
	Listened to pre-recorded music CD's that were playing in a PC's CD-ROM drive?	79.4
	Listened to digital music files that were stored on a PC's Hard Drive?	70.4
	Listened to Internet radio stations on a PC?	68.1
	Listened to streamed music clips or audio files, without actually downloading them, while you're connected to the Internet on your PC?	65.8
	Watched streamed music videos while you're connected to the Internet on your PC?	40.9
	Listened to a Portable MP3 Player, such as an iPod, while in your car?	40.9
	Listened to a Portable MP3 Player, such as an iPod on your home audio system?	38.6
Burning/Ripping	Copied (or ripped) a pre-recorded Compact Disc that YOU own onto your computer?	61.3
	Copied (or ripped) several pre-recorded CDs you own onto your computer, then burned the files into a custom compilation CD-R?	38.6
	Burned (or copied) a pre-recorded music CD owned by someone else rather than actually purchasing that particular CD?	36.3
	Burned a CD of SELECT SONGS from digital music files you have DOWNLOADED off of the Internet?	36.3
	Burned (or copied) an entire album onto a recordable Compact Disc (CD-R) for your friends or relatives?	34.0
	Copied (or ripped) a Compact Disc onto your computer and then transferred the files onto a Portable MP3 Player, such as as an iPod?	34.0
	Copied (or ripped) a pre-recorded Compact Disc that SOMEONE ELSE owns onto your computer?	31.8
	Burned a CD of an ENTIRE ALBUM from digital music files you have DOWNLOADED off of the Internet?	22.7
Downloading/Purchasing	Purchased a CD of prerecorded music off of the Internet (shipped to your home, not downloaded)?	38.6
	Downloaded a video game off of the Internet?	31.8
	Downloaded music (or an MP3 file) off of the Internet, and then transferred it onto a Portable MP3 Player, such as an iPod?	31.8
	Downloaded digital music files (or MP3 files) from an online file-sharing service (such as Morpheus or KaZaA)?	29.5
	Downloaded music videos from the Internet?	22.7
	Downloaded a movie trailer off of the Internet?	20.4
	Downloaded an artist-endorsed promotional song or track off of the Internet from a website other than a file-sharing service?	18.2
	Sent or recived digital music or MP3 files via Instant Messaging and/or email?	18.2
	Downloaded or listened to a Podcast?	15.9
	Paid a fee to listen to digital music over the Internet (such as streaming music or Internet Radio)?	15.9
	Downloaded a digital music or MP3 file after first learning of this artist via a blog on the Internet?	13.6
	Downloaded a television show off of the Internet?	11.3
	Downloaded a full-length motion picture from the Internet?	6.8
	Downloaded an audio book off of the Internet?	6.8
Blogs	Read music reviews that were written by other fans and posted to online journals or blogs?	29.5
	Written your own online journal or blog?	18.2

** This March 2005 US Census projection takes into account a US household telephone penetration rate of 94%.*

Base: US Population

Prevalence Summary of Digital Music Behaviors

Trending

	Have you ever ...	2002 Q2 (n=1,112) (A)	2002 Q4 (n=1,112) (B)	2003 Q2 (n=1,113) (C)	2003 Q4 (n=1,112) (D)	2004 Q2 (n=1,114) (E)	2004 Q4 (n=1,112) (F)	2005 Q2 (n=1,112) (G)	2005 Q4 (n=1,108) (H)	2006 Q2 (n=1,143) (I)
Listening/Watching	Listened to a recordable Compact Disc (CD-R) on a car audio system?	-	-	51%	48%	57%CDH	54%DH	54%DH	47%	47%
	Listened to a recordable Compact Disc (CD-R) on your home audio system?	-	-	53%I	50%	58%CDFGH	52%I	52%I	49%	45%
	Listened to pre-recorded music CD's that were playing in a PC's CD-ROM drive?	49%DH	47%H	47%H	44%I	51%DFGH	45%I	46%H	41%	35%
	Listened to digital music files that were stored on a PC's Hard Drive?	31%D	29%	29%	27%	35%ABCDFH	30%	32%D	29%	31%
	Listened to Internet radio stations on a PC?	28%	27%	29%	29%	34%ABCDFGH	29%	28%	29%	30%
	Listened to streamed music clips or audio files, without actually downloading them?	27%	25%	27%	25%	-	-	-	-	29%
	Watched streamed music videos while you're connected to the Internet on your PC?	-	-	18%	16%	21%DF	16%	17%	19%	18%
	Listened to a Portable MP3 Player, such as an iPod, while in your car?	-	-	9%D	6%	11%DF	8%D	11%DF	12%CDF	16%CDEFGH
	Listened to a Portable MP3 Player, such as an iPod on your home audio system?	-	-	-	-		-	9%	11%	17%
Burning/Ripping	Copied (or ripped) a pre-recorded Compact Disc that YOU own onto your computer?	13%	13%	17%A	15%	22%ABCD	19%AD	22%ABCD	21%ABD	27%ABCDEFGH
	Copied (or ripped) several CDs you own to computer, then burned the files to a compilation CD-R?	11%	12%	14%A	13%AB	17%AB	14%	17%ABFH	14%	17%AB
	Burned a CD of SELECT SONGS from music you have DOWNLOADED off of the Internet?	14%	15%	15%	12%	19%ABDFH	14%	17%DH	12%	16%
	Burned (or copied) a music CD owned by someone else rather than purchasing that CD?	-	12%	12%	11%	12%	11%	13%	11%	16%BCDEFH
	Copied (or ripped) a CD onto your computer then transferred the files onto a Portable MP3 Player?	4%	3%	4%	3%	7%ABCD	6%BD	8%ABCDF	10%ABCDEF	15%ABCDEFGH
	Burned (or copied) an entire album onto a CD-R for your friends or relatives?	11%	9%	13%B	12%	16%ABDH	13%B	13%B	11%	13%ABH
	Copied (or ripped) a pre-recorded Compact Disc that SOMEONE ELSE owns onto your computer?	9%	9%	10%D	7%	13%ABDF	9%	12%ABD	11%D	14%ABCDFH
	Burned a CD of an ENTIRE ALBUM from digital music files you have DOWNLOADED?	9%	9%	10%	8%	9%	9%	9%	9%	10%
Downloading/Purchasing	Purchased a CD of pre-recorded music off of the Internet (shipped to your home, not downloaded)?	12%	12%	13%	12%	11%	12%	12%	10%	17%ABCDEFGH
	Downloaded music (or an MP3 file) and then transferred it onto a Portable MP3 Player?	4%	4%	4%	3%	6%ABD	5%D	7%ABCD	9%ABCDEF	14%ABCDEFGH
	Downloaded a video game off of the Internet?	-	-	-	-	13%G	11%	10%	11%	14%G
	Downloaded digital music files (or MP3 files) from an online file-sharing service?	19%DFGH	19%DFGH	17%DFGH	13%H	18%DFGH	11%	13%H	10%	13%H
	Downloaded music videos from the Internet?	-	-	-	-	-	-	-	-	10%
	Downloaded a movie trailer off of the Internet?	-	-	-	-	-	12%H	10%	8%	9%
	Downloaded an artist-endorsed promotional song/track from a site other than a file-sharing service?	12%CDFGH	10%DH	9%H	7%	10%H	8%	8%	6%	8%
	Sent or recived digital music or MP3 files via Instant Messaging and/or email	-	7%ADEFGH	7%ADEFGH	5%AEFGH	-	-	-	-	8%
	Downloaded or listened to a Podcast?	-	-	-	-	-	-	3%	5%	7%
	Paid a fee to listen to digital music over the Internet (such as streaming music or Internet Radio)?	-	-	-	-	-	-	-	-	7%
	Downloaded a digital music or MP3 file after first learning of this artist via a blog on the Internet?	-	-	-	-	-	-	4%	4%	6%
	Downloaded a television show off of the Internet?	-	-	-	-	2%	3%	2%	3%	5%
	Downloaded a full-length motion picture from the Internet?	-	-	3%G	3%	4%G	4%G	2%	3%	3%
	Downloaded an audio book off of the Internet?	-	-	-	-	2%	2%	-	-	3%
Blogs	Read music reviews that were written by other fans and posted to online journals or blogs?	-	-	-	-	-	-	-	-	13%
	Written your own online journal or blog?	-	-	-	-	-	-	-	-	8%

T5a. Have you ever ..... ?

Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: All respondents

Prevalence of Digital Music Behaviors

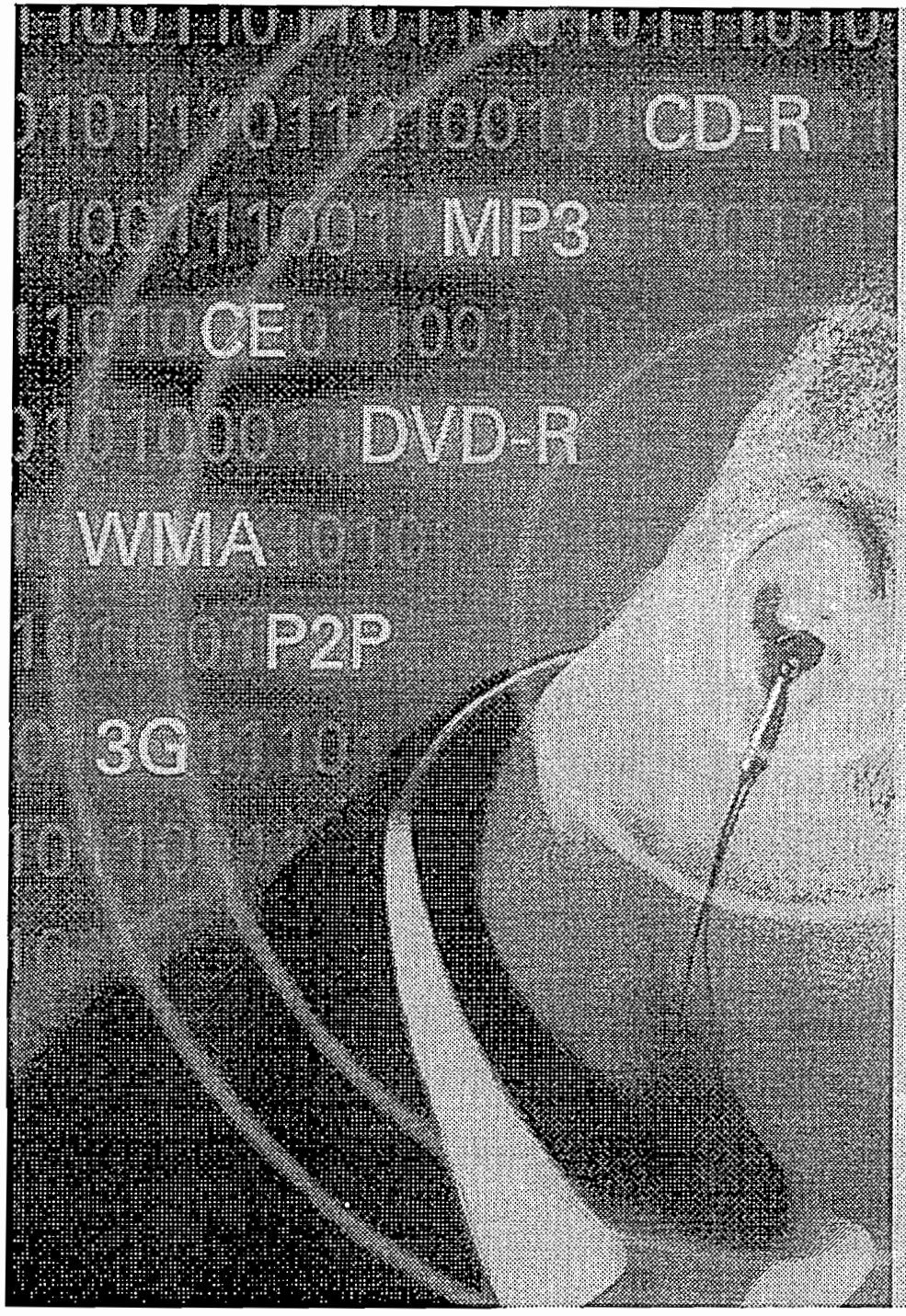
Trending of Past 30 Day Activity

	Past 30 days...	2002 Q2 (n=1,112) (A)	2002 Q4 (n=1,112) (B)	2003 Q2 (n=1,113) (C)	2003 Q4 (n=1,112) (D)	2004 Q2 (n=1,114) (E)	2004 Q4 (n=1,112) (F)	2005 Q2 (n=1,112) (G)	2005 Q4 (n=1,108) (H)	2006 Q2 (n=1,143) (I)
Listening/Watching	Listened to a recordable Compact Disc (CD-R) on a car audio system?	-	-	40%I	38%I	42%HI	43%HI	43%DHI	37%	33%
	Listened to a recordable Compact Disc (CD-R) on your home audio system?	-	-	39%I	36%I	42%DHI	38%I	38%I	35%I	28%
	Listened to pre-recorded music CD's that were playing in a PC's CD-ROM drive?	26%I	25%I	23%	23%	24%I	22%	24%I	21%	20%
	Listened to digital music files that were stored on a PC's hard drive?	18%	18%	18%	17%	22%ABCDFH	19%	22%ABCD	18%	19%
	Listened to streamed music clips/audio files, without actually downloading them?	15%	15%	14%	15%	-	-	-	-	15%
	Listened to Internet radio stations on a PC?	12%	12%	13%	15%	16%AB	14%	14%	14%	14%
	Listened to a Portable MP3 Player, such as an iPod on your home audio system?	-	-	-	-	-	-	7%	9%	12%
	Listened to a Portable MP3 Player, such as an iPod, while in your car?	-	-	7%D	4%	8%D	6%	9%DF	10%DF	12%CDEFG
	Watched streamed music videos while you're connected to the Internet on your PC?	-	-	9%	9%	11%	10%	9%	11%	8%
Burning/Ripping	Copied (or ripped) a pre-recorded Compact Disc that you own onto your computer?	7%	6%	8%D	5%	8%	7%	9%ABD	10%ABDF	10%ABCDEFG
	Copied (or ripped) a Compact Disc onto your computer then transferred the files onto a Portable MP3 Player?	2%	1%	2%B	2%	4%ABCDF	2%B	5%ABCDF	6%ABCDF	8%ABCDEFG
	Burned a CD of select songs from digital music files you have downloaded off of the Internet?	6%	6%	7%D	5%	6%	6%	5%	6%	7%
	Copied (or ripped) several pre-recorded CD's to computer, then burned files a custom compilation CD-R?	5%	5%	6%	5%	7%ABD	6%	7%AD	6%	6%
	Burned (or copied) an entire album onto a recordable Compact Disc (CD-R) for your friends or relatives?	5%F	4%	4%	4%	6%BF	3%	4%	5%	5%
	Burned (or copied) a pre-recorded music CD owned by someone else rather than purchasing that CD?	-	3%	4%D	2%	3%	3%	4%	3%	5%BDF
	Burned a CD of an entire album from digital music files you have downloaded off of the Internet?	4%D	3%D	4%D	2%	3%	3%	3%D	4%D	4%D
	Copied (or ripped) a pre-recorded Compact Disc that someone else owns onto your computer?	3%	3%	4%D	2%	5%ABDF	3%	5%ABDF	4%	4%
Downloading/Purchasing	Downloaded music (or an MP3 file) then transferred it onto a Portable MP3 Player?	1%	2%	2%A	2%	4%ABD	2%A	4%ABCDF	5%ABCDF	8%ABCDEFGH
	Downloaded a video game off of the Internet?	-	-	-	-	4%	4%	3%	4%	6%G
	Downloaded digital music files (or MP3 files) from an online file-sharing service?	8%DEFGHI	9%DEFGH	8%FGHI	5%F	6%	4%	5%	4%	4%
	Downloaded an artist-endorsed promotional track from a website other than a file-sharing service?	5%DEFGHI	4%H	4%	3%	3%	3%	3%	2%	3%
	Purchased a CD of pre-recorded music off of the Internet (shipped to your home, not downloaded)?	3%	4%G	4%G	5%AEG	3%	3%	2%	4%	4%G
	Downloaded a movie trailer off of the Internet?	-	-	-	-	-	4%	4%	4%	4%
	Downloaded or listened to a Podcast?	-	-	-	-	-	-	2%	3%	4%G
	Downloaded music videos from the Internet?	-	-	-	-	-	-	-	-	4%
	Downloaded a digital music or MP3 file after first learning of this artist via a blog on the Internet?	-	-	-	-	-	-	2%	1%	3%H
	Paid a fee to listen to digital music over the Internet (such as streaming music or Internet Radio)?	-	-	-	-	-	-	-	-	3%
	Sent or received digital music or mp3 files via instant messaging and/or email?	-	3%	3%	2%	-	-	-	-	3%
	Downloaded a television show off of the Internet?	-	-	-	-	1%	1%	1%	1%	3%EFG
	Downloaded an audio book off of the Internet?	-	-	-	-	1%	1%	-	-	1%
	Downloaded a full-length motion picture from the Internet?	-	-	2%DG	1%	1%	1%	1%	1%	1%
Blogs	Read music reviews that were written by other fans and posted to online journals or blogs?	-	-	-	-	-	-	-	-	7%
	Written your own online journal or blog?	-	-	-	-	-	-	-	-	4%

T5a. Have you ever ..... ? T5b. And have you done this in the past 30 days?

Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: All respondents



Ipsos

TEMPO:

Keeping Pace with Digital Music Behavior

Prevalence of Portable MP3 Player Behaviors

- October 2006 -

Portable MP3 Player Behaviors

- As consumers continue to experiment with the expanding portfolio of digital entertainment available online, Americans have voiced a clear demand for increased portability in downloaded digital content.

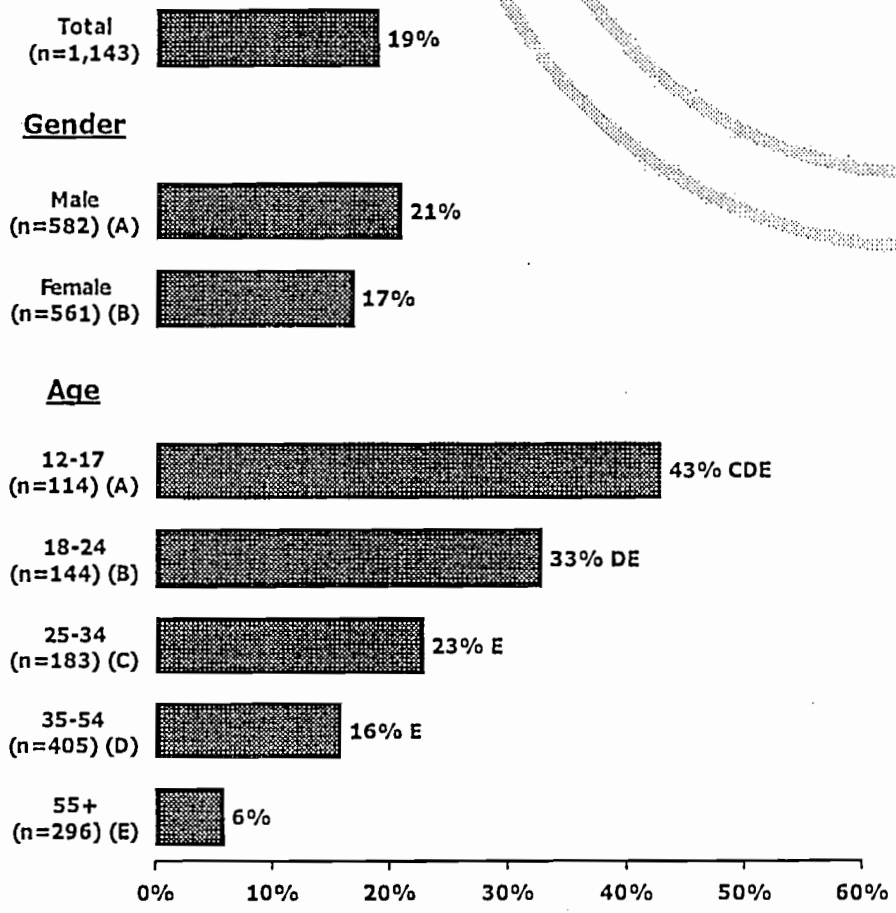
- This demand has driven portable MP3 player adoption throughout the US and abroad over the past few years, further increasing the need for digitally formatted music and consumer-friendly methods of acquisition.
  - Indeed, past waves of *TEMPO* have shown a link between growth in portable MP3 player ownership and increased experimentation with online music websites that provide content for these devices.

- In this edition of *TEMPO*, we continue to focus on portable MP3 player ownership and usage behaviors among Americans aged 12 and older. In addition, this wave of *TEMPO* continues to track multiple device ownership and video playback capabilities, as well as brand in an effort to better understand how knowledgeable consumers are adapting specific players to different usage activities and locations based on their own storage and feature needs.

Portable MP3 Player Ownership

by Age and Gender

- In Summer 2006, one out of every five Americans aged 12 and older report owning a portable MP3 player, consistent with Spring findings.
- Demographic trends seen in previous quarters have continued throughout 2006:
  - Portable MP3 player ownership becomes increasingly less pronounced among older Americans.
  - Interestingly, males are still more likely than females to own a portable MP3 player but no longer significantly so.



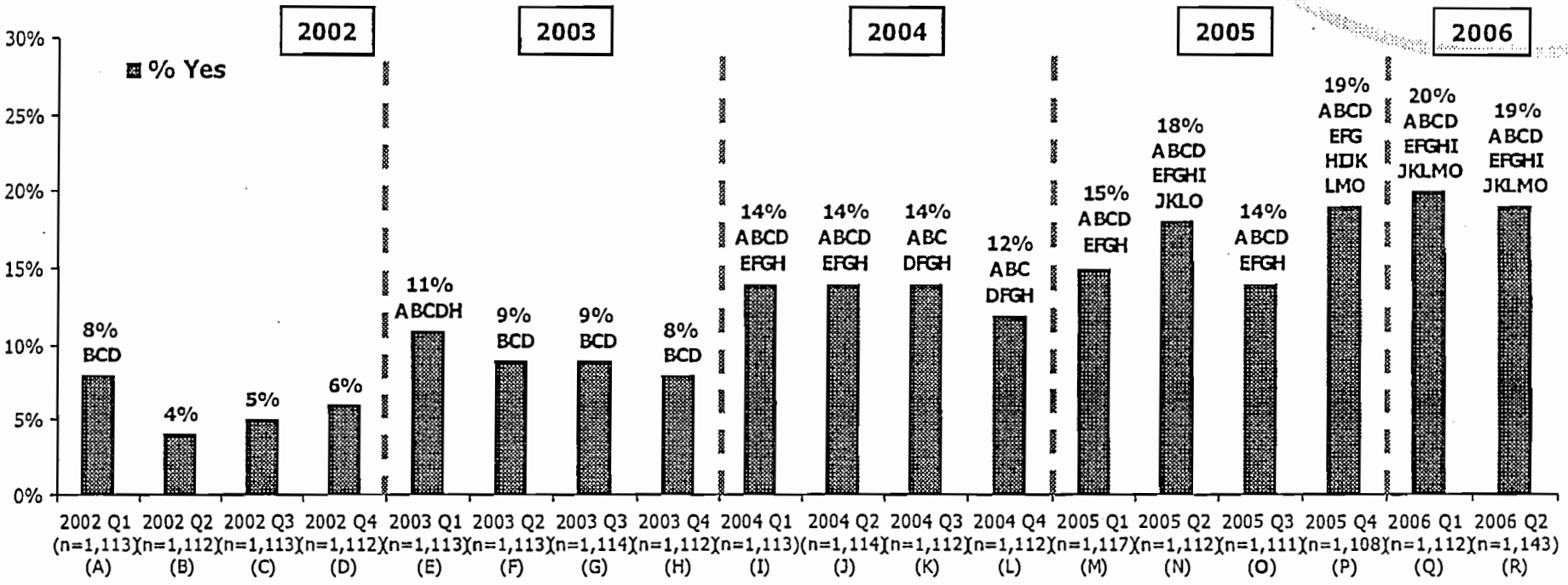
t9. Please indicate which of the following you, yourself, currently own. [A Portable MP3 Player]
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: All respondents

Portable MP3 Player Ownership

Trending

- Ownership of portable MP3 players remained consistent with recent quarters, up more than double since 2003.

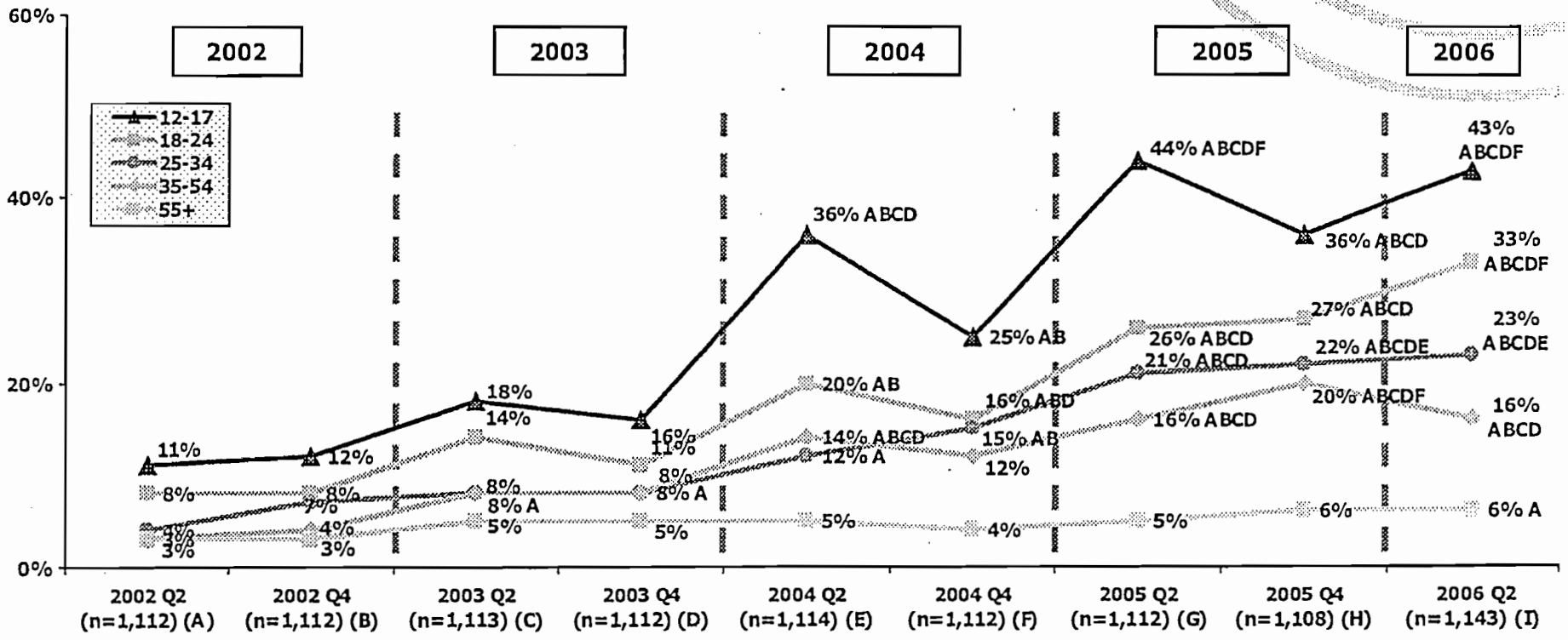


t9. Please indicate which of the following you, yourself, currently own. [A Portable MP3 Player]
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: All respondents

Portable MP3 Player Ownership

Trending by Age



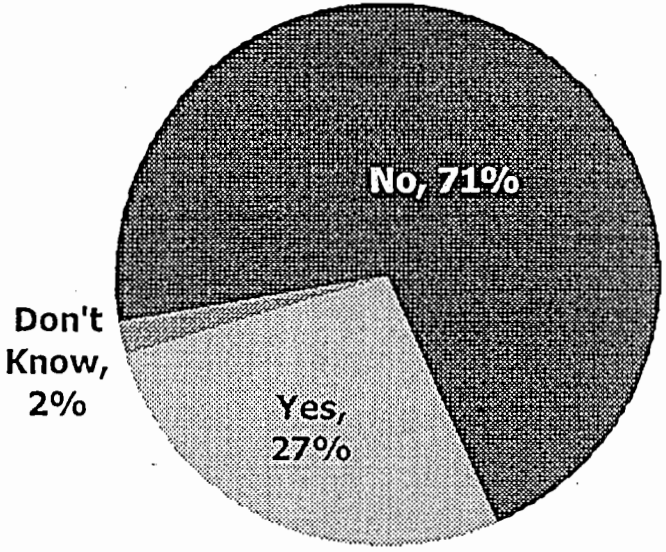
T9. Please indicate which of the following you, yourself, currently own?
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: All respondents

Multiple Device Ownership & Video Playback Capability

- Over one-quarter of Portable MP3 player owners indicate that their primary player has the capability to play video.
- Additionally, over one-quarter of owners now have more than one MP3 player.

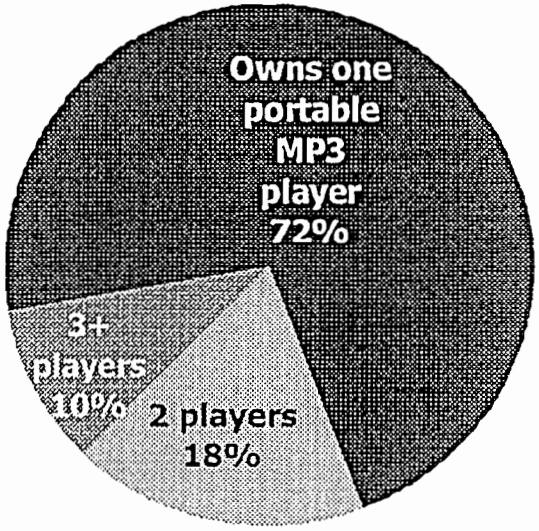
Video Playback Capability



T10a. Does your primary Portable MP3 Player have the ability to play videos?

Base: Owns a portable MP3 player, such as an iPod (n=221)

Portable MP3 Player Ownership



T9a. How many dedicated portable MP3 players do you currently own?

Base: Owns a portable MP3 player, such as an I-Pod (n=221)

Prevalence of Portable MP3 Player Usage

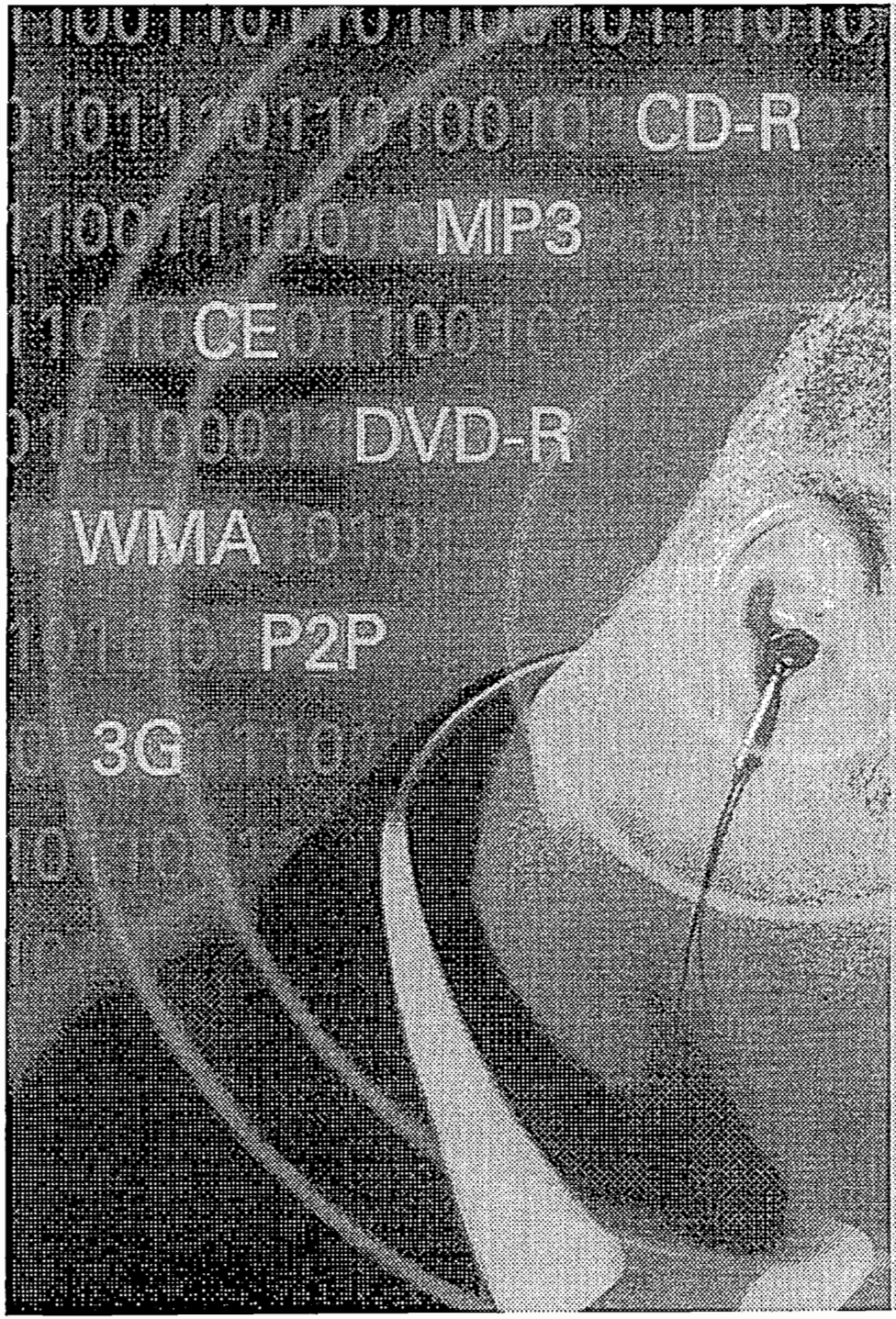
by Age and Gender

- Americans aged 12 to 34 are much more likely to participate in portable MP3 player activities than those aged 35 and older.
- Males are also more likely than females to have experimented with many portable MP3 player activities, although past 30 day prevalence continues to suggest that the gap between the genders could narrow with time.

	Total (n=1,143)	Gender: Male (n=582) (A)	Gender: Female (n=561) (B)	Age: 12-17 (n=114) (A)	Age: 18-24 (n=144) (B)	Age: 25-34 (n=183) (C)	Age: 35-54 (n=405) (D)	Age: 55+ (n=296) (E)
Ever								
Listened to a Portable MP3 Player while in your car?	18%	23% B	14%	54% BCDE	34% CDE	18% E	12% E	6%
Downloaded music (or an MP3 file) and then transferred it to a Portable MP3 Player?	14%	16% B	11%	34% CDE	26% DE	19% DE	10% E	2%
Listened to a Portable MP3 Player on your home audio system?	17%	20% B	14%	49% BCDE	33% DE	19% E	12% E	4%
Copied (or ripped) a CD onto your computer and then transferred the files onto a Portable MP3 Player?	15%	18% B	12%	32% DE	32% DE	21% DE	9% E	4%
Downloaded or listened to a Podcast?	7%	10% B	4%	17% CDE	13% E	6%	6% E	2%
Past 30 Days								
Listened to a Portable MP3 Player while in your car?	12%	14% B	9%	35% CDE	24% DE	12% E	7% E	3%
Downloaded music (or an MP3 file) and then transferred it to a Portable MP3 Player?	8%	8%	8%	23% CDE	12% E	9% E	6% E	2%
Listened to a Portable MP3 Player on your home audio system?	12%	13%	10%	34% CDE	20% DE	15% E	8% E	2%
Copied (or ripped) a CD onto your computer and then transferred the files onto a Portable MP3 Player?	8%	10%	7%	18% DE	19% DE	13% DE	5% E	1%
Downloaded or listened to a Podcast?	4%	5%	3%	11% DE	7% E	4%	3% E	1%

t5a. Have you ever ... ? t5b. And have you done this in the past 30 days?
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: All respondents



Ipsos

TEMPO:

Keeping Pace with Digital Music Behavior

Prevalence of Downloading via Mobile Phones

- October 2006 -

Downloading via Mobile Phones

- Historically, mobile phone usage within the United States has been, and continues to be, far more advanced than many downloading behaviors. Applications such as Short Text Messaging (SMS), gaming and the downloading of ringtones are widely practiced.

- In the past several years, adoption of advanced wireless services has increased throughout the US and abroad, further facilitating the transfer of multimedia content and applications, and providing additional revenue streams for carriers and content providers alike.

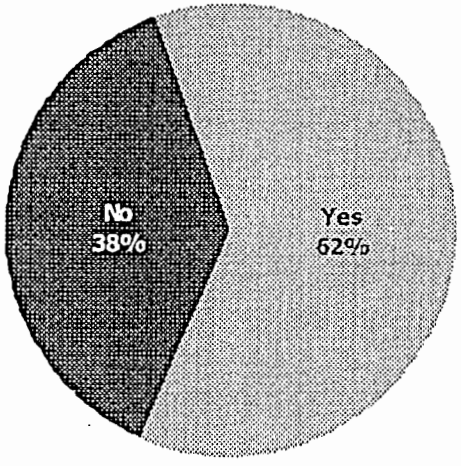
- Content providers, record companies and songwriters have begun seeing the benefits, as royalties gained through the downloading of ringtones, ringbacks, music clips and full song downloads are collected from users through existing service provider billing arrangements.

- In *TEMPO*, we continue to measure and track this emerging channel of music distribution in the US, so that future trends can be identified. Moreover, this wave of *TEMPO* seeks to further understand the full potential of these markets by exploring the prevalence of mobile phones with multimedia capabilities.

Mobile Phone Downloading Behaviors

- Consistent with recent quarters, nearly two-thirds of Americans aged 12 and older own a mobile phone.
- Moreover, over one-quarter of these Americans have downloaded ringtones, an increase from earlier this year, and at least one in twenty have downloaded more cutting-edge music content like ringbacks, full songs, music videos and/or short video clips.

Mobile Phone Ownership

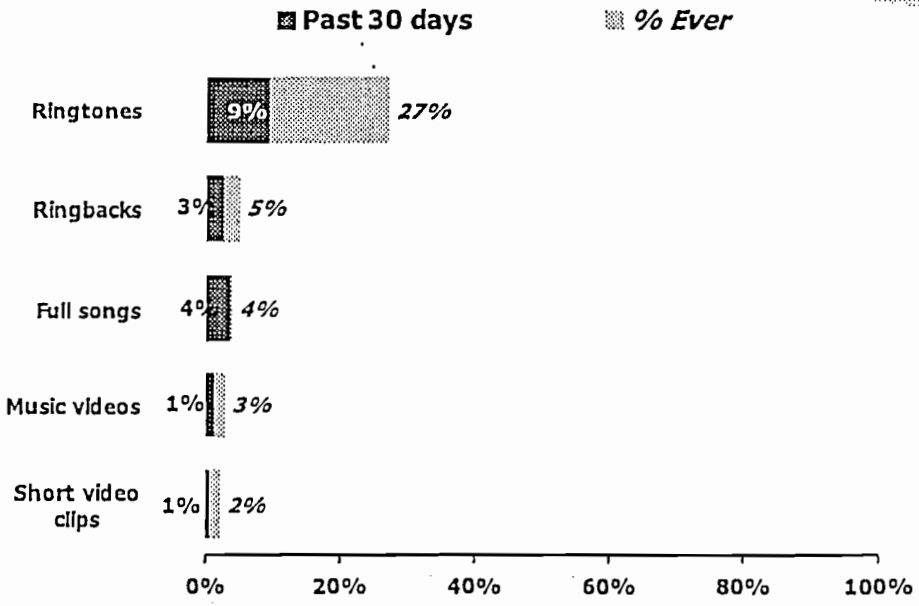


T9. Please indicate which of the following you, yourself, currently own? [Mobile or Wireless Phone]

Base: All respondents (n=1,143)

"Yes"

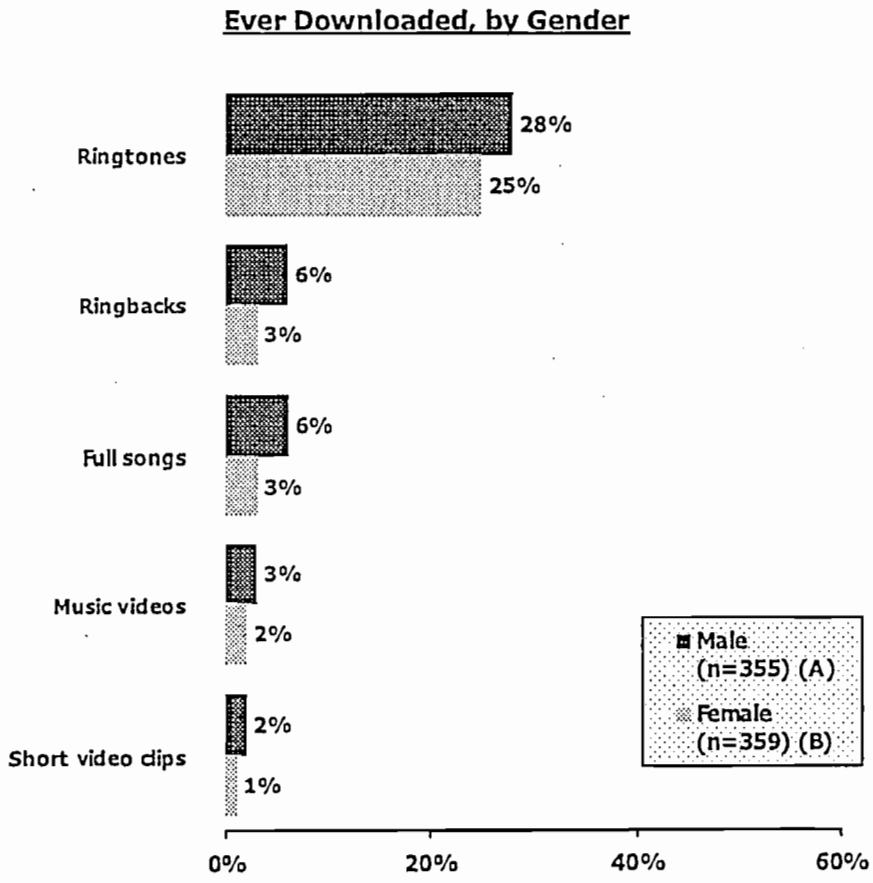
Mobile Phone Downloading Behaviors

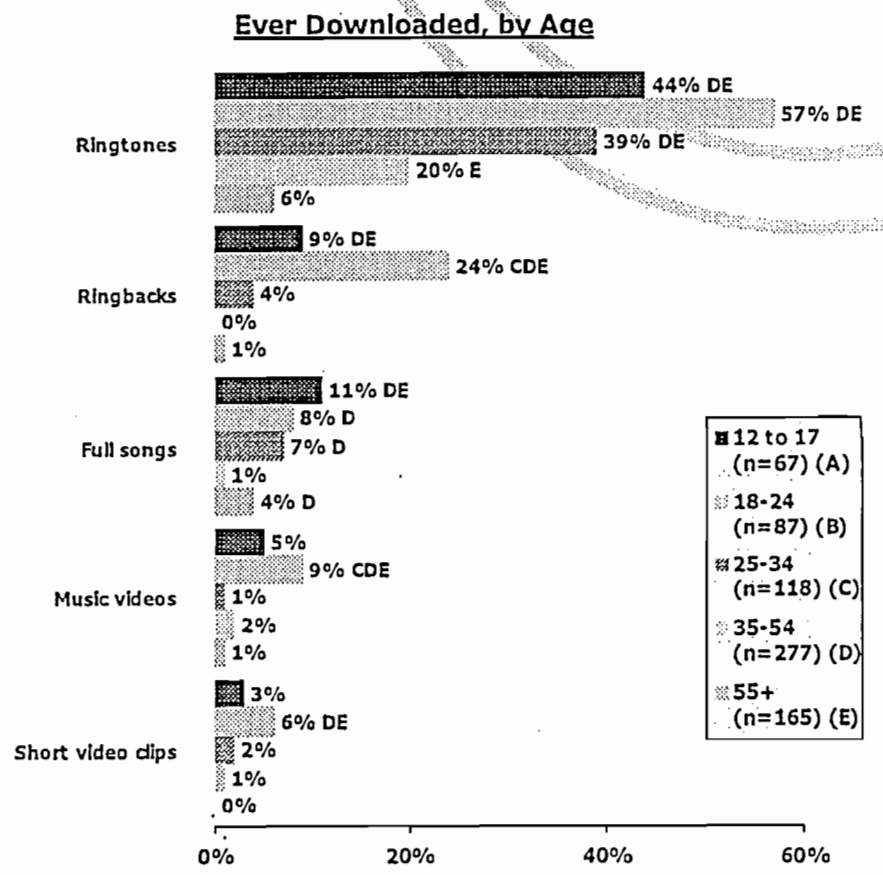


T12a. Please indicated which of the following features you have downloaded from the Internet for your mobile or wireless phone? Have you ever downloaded ....?
T12b. And in the past 30 days have you downloaded ...
Base: Owns a mobile phone (n=714)

Mobile Phone Downloading Behaviors

by Age & Gender





T12a. Please indicated which of the following features you have downloaded from the Internet for your mobile or wireless phone? Have you ever downloaded ....?

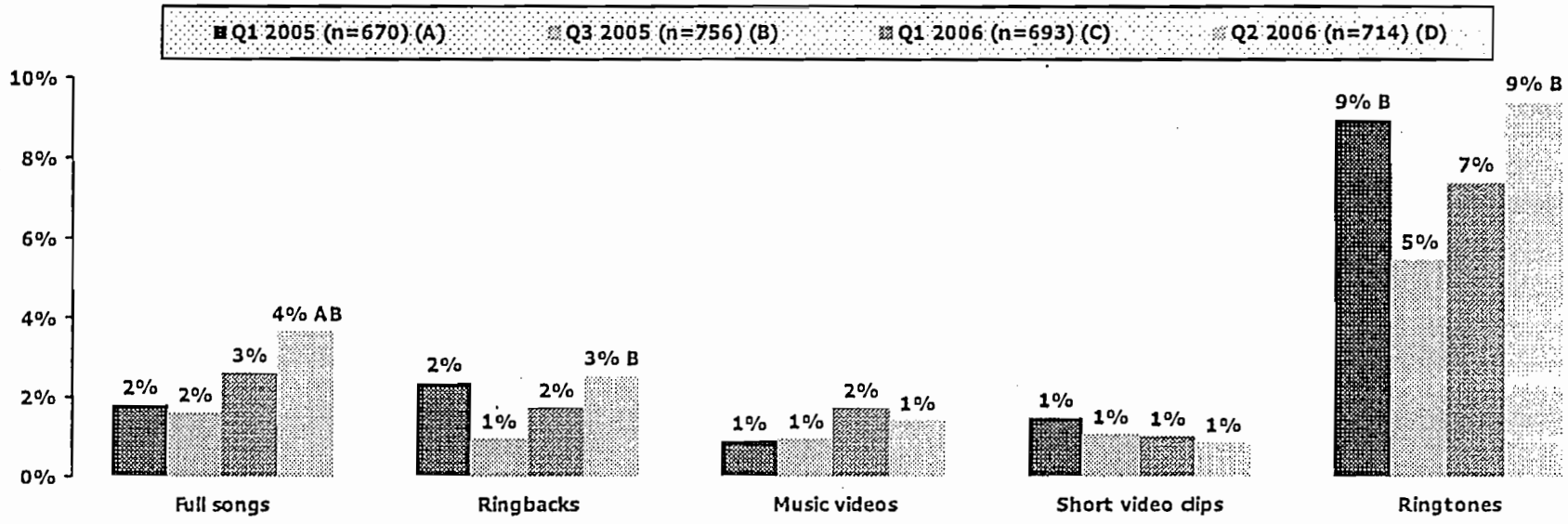
Base: Owns a mobile phone (n=714)
Base: Owns a mobile phone and has done activity (bases vary)

Mobile Phone Downloading Behaviors

Trending

- Past 30 day downloads of full-songs and ringbacks have continued their directional increase, and ringtone downloading has rebounded since a low in Q3 2005.
  - Recently, several new download services were launched by major mobile phone service providers, likely spurring some of this growth.

Mobile Phone Downloading Behaviors (Past 30 Days)



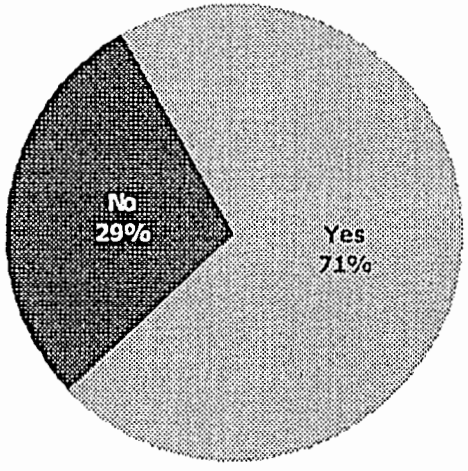
T12b. And in the past 30 days have you downloaded ...

Base: Owns a mobile phone and has downloaded this type of content (bases vary)

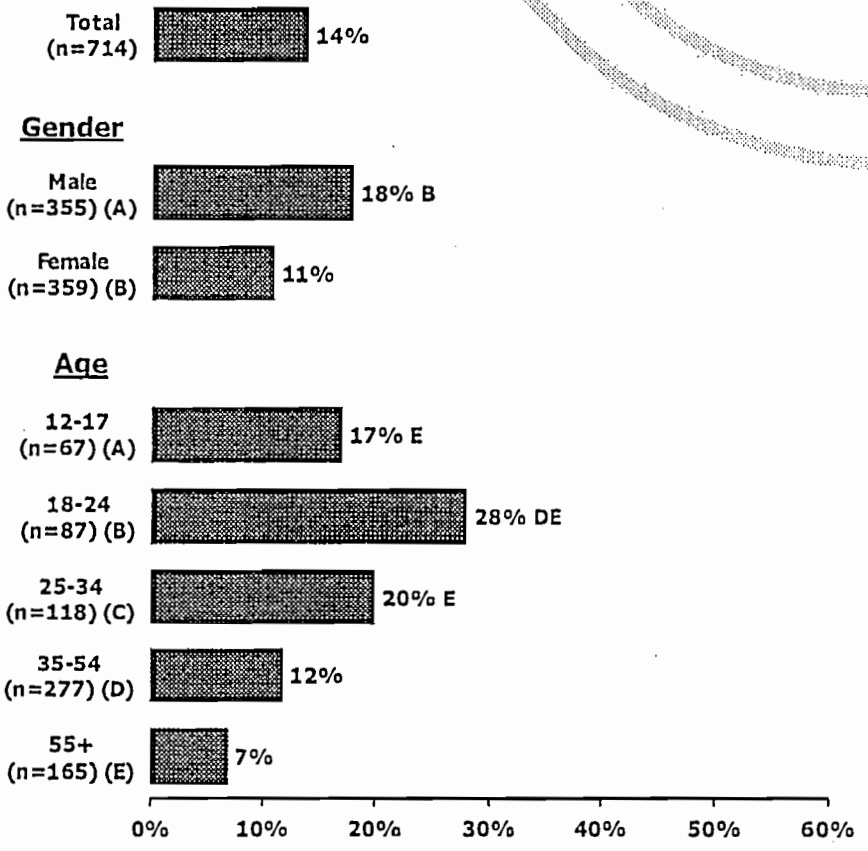
Mobile Phones With MP3 Player Capability

- While most (71%) mobile phone owners are aware that some phones can play MP3 files, few people actually own a phone with this capability (14%).

Awareness of Ability to Play Full Songs on Mobile Phones

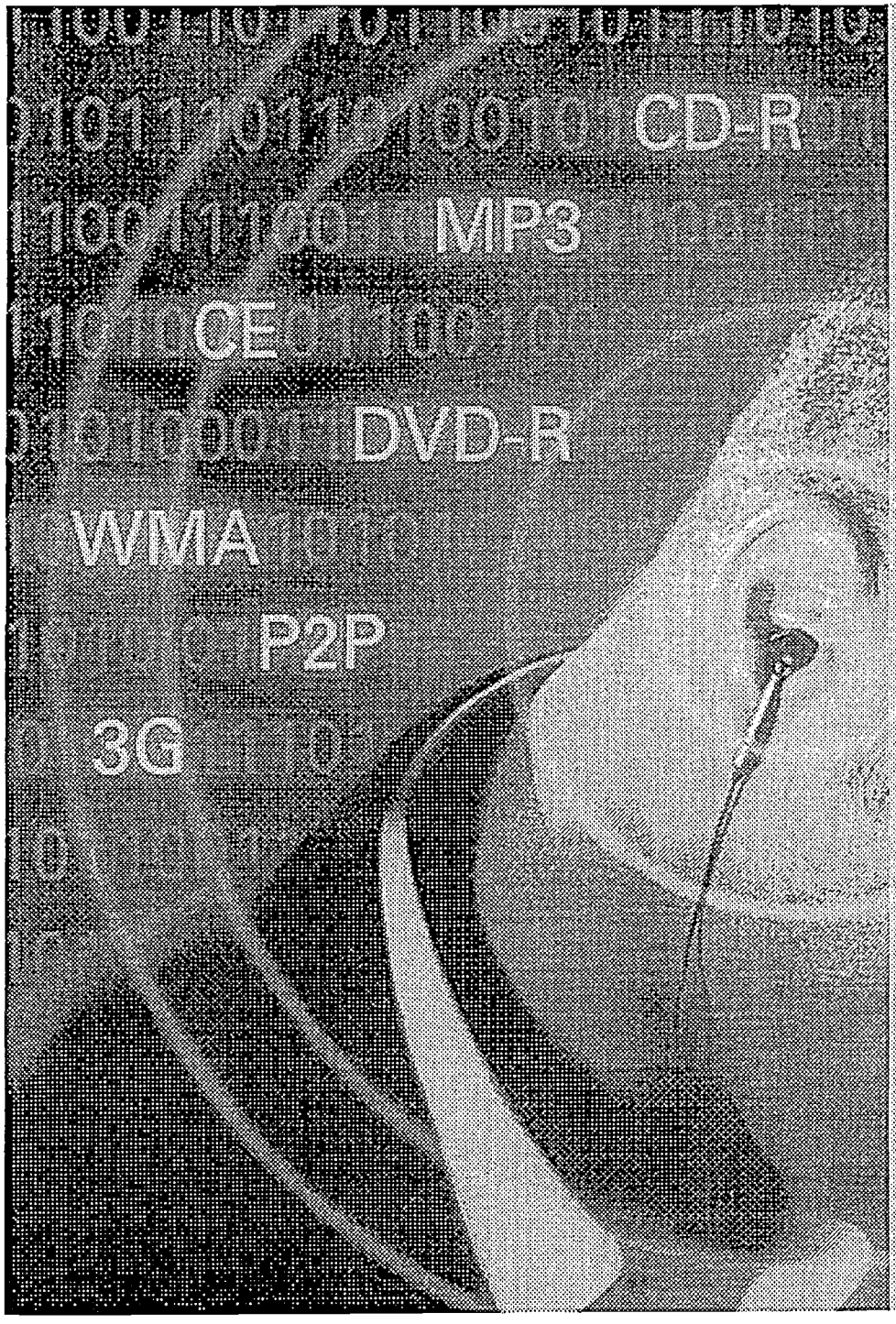


Own A Mobile Phone with the Ability to Play MP3 Files



T12. Before today, were you aware that some mobile/wireless phones allow you to download entire songs (the whole song - not just ringtones or an audio clip) directly to your mobile phone without the use of a computer?
T12f. Does your mobile phone have the ability to play MP3 files?

Base: Owns a mobile phone (n=714)



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TEMPO:

Keeping Pace with Digital Music Behavior

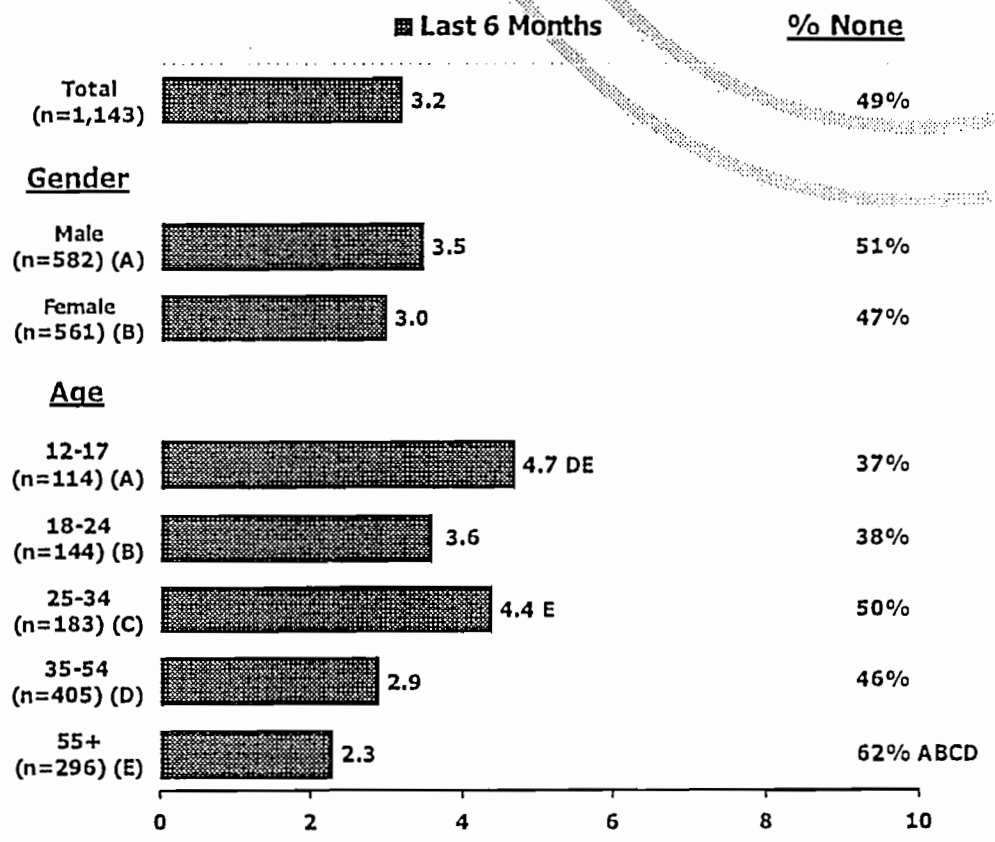
Prevalence of Traditional CD Purchase Behavior

- October 2006 -

Past CD Purchase Behavior

by Age and Gender

- On average, Americans purchased roughly three CDs over the past six months, down from recent quarters.
- Teens and those aged 25 to 34 continued to indicate that they purchased more CDs in the past six months than those aged 18 to 24 and 35 and older.



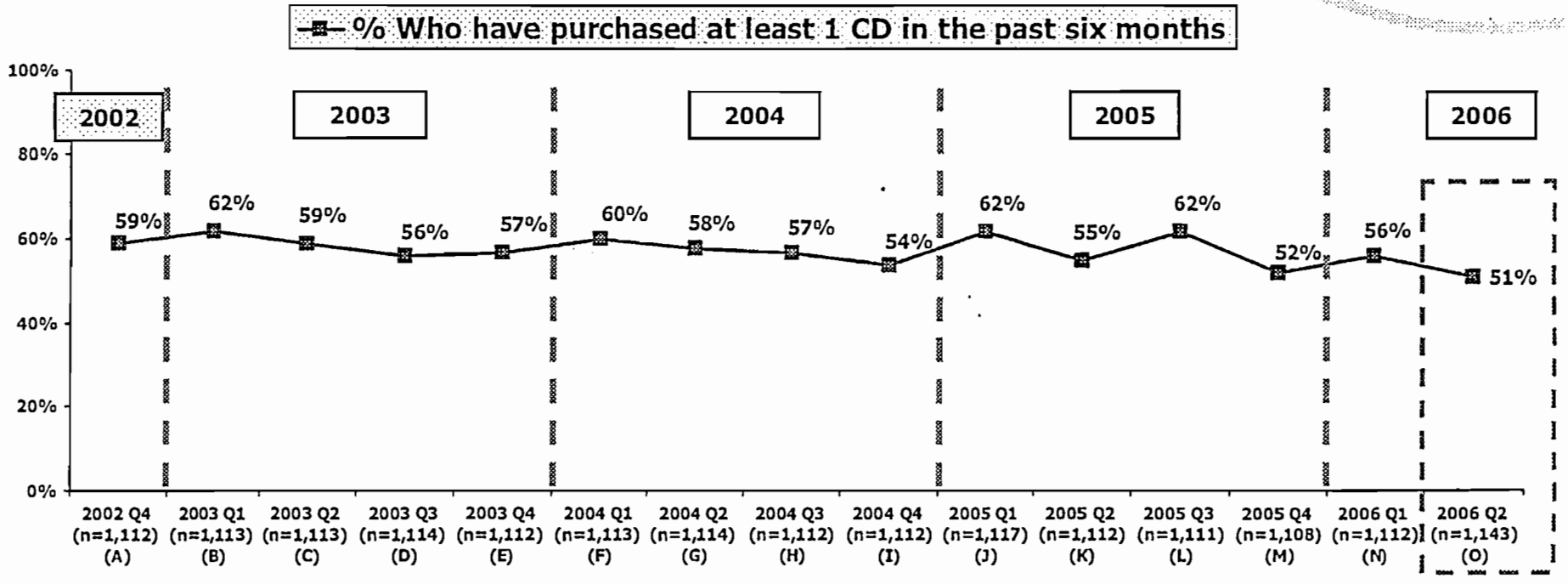
t7a. In the past SIX months, how many prerecorded music CD's have you purchased from any location?
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: All respondents

Prevalence of CD Purchase Behavior

Trending

- Consistent with recent quarters, just over half of Americans aged 12 and older indicate that they are still actively adding to their music collections by purchasing CDs.
  - It should be noted that CD purchasing did hit a four-year low in Summer 2006, although it was not significantly lower than other recent quarters. Overall purchasing has declined from 2002 to 2006, however, with roughly half of Americans ages 12 and older continuing to purchase CDs today versus approximately 60% three to four years ago.



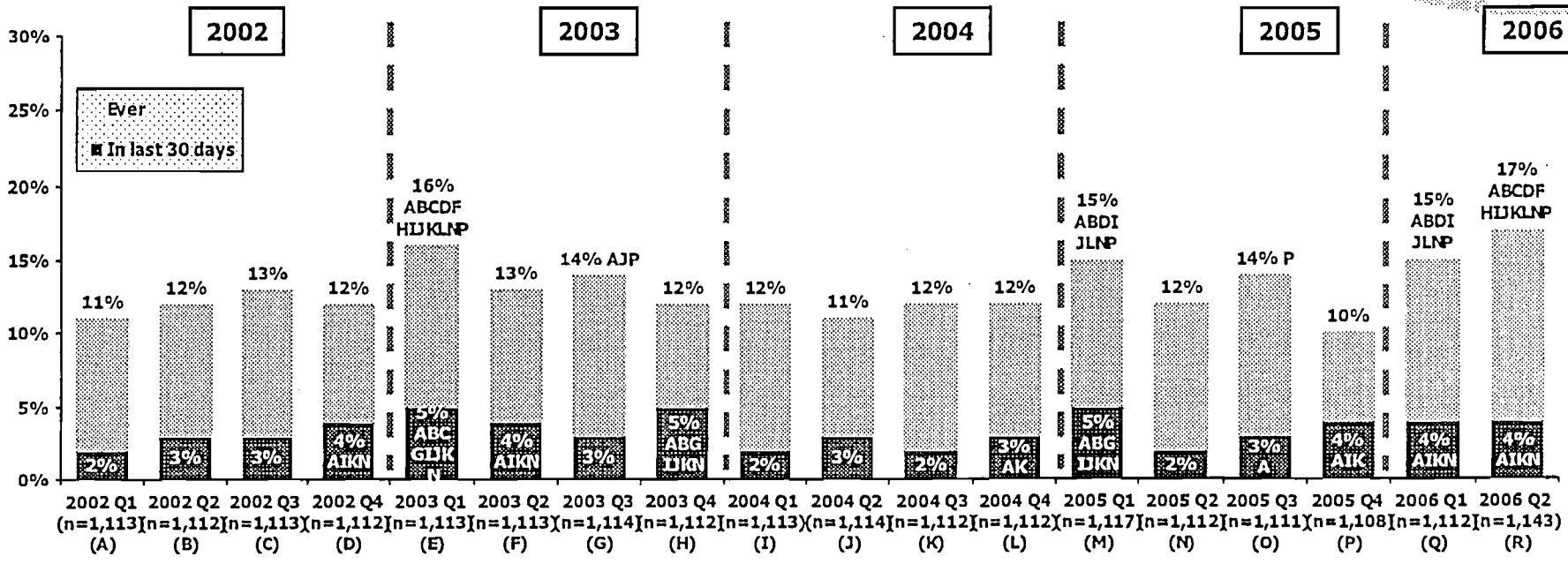
T7ax. In the past six months, how many prerecorded music CD's have you purchased from any location?
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: All respondents

Prevalence of Internet-based Physical CD Purchases

Trending

- Online pre-recorded CD purchasing behavior has reached new highs in Summer 2006.

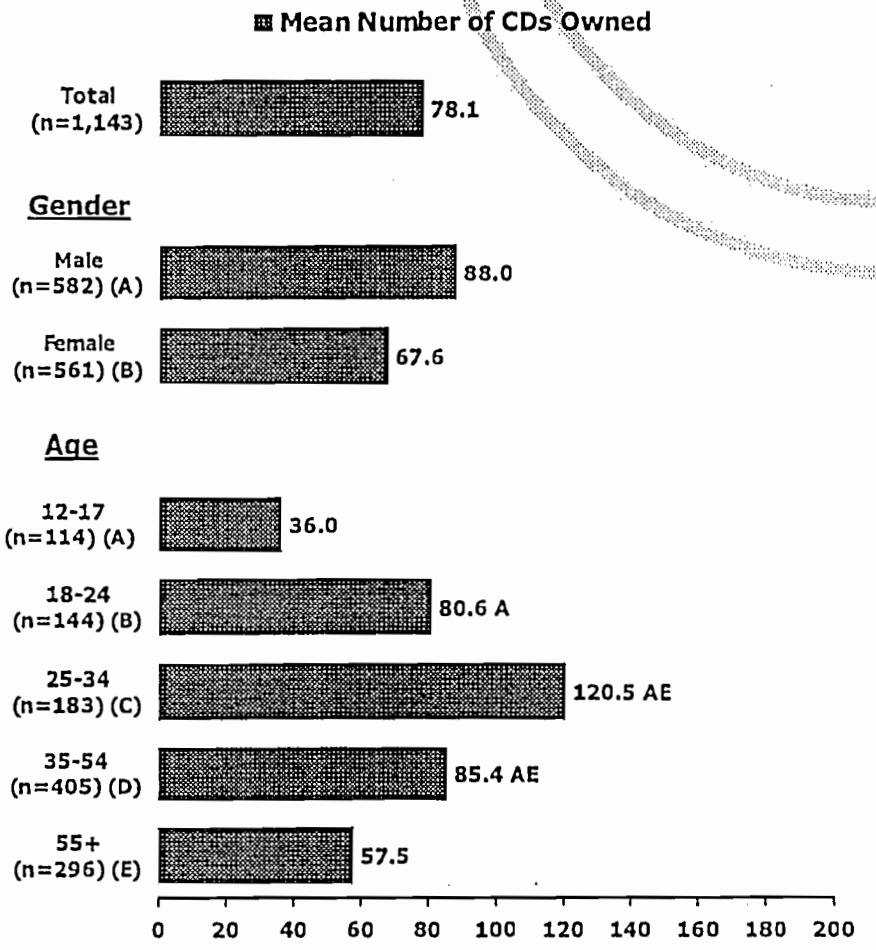


t5.a Have you ever purchased a CD of prerecorded music off of the Internet (shipped to your home, not downloaded)?
t5b. And have you done this in the past 30 days?
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: All respondents

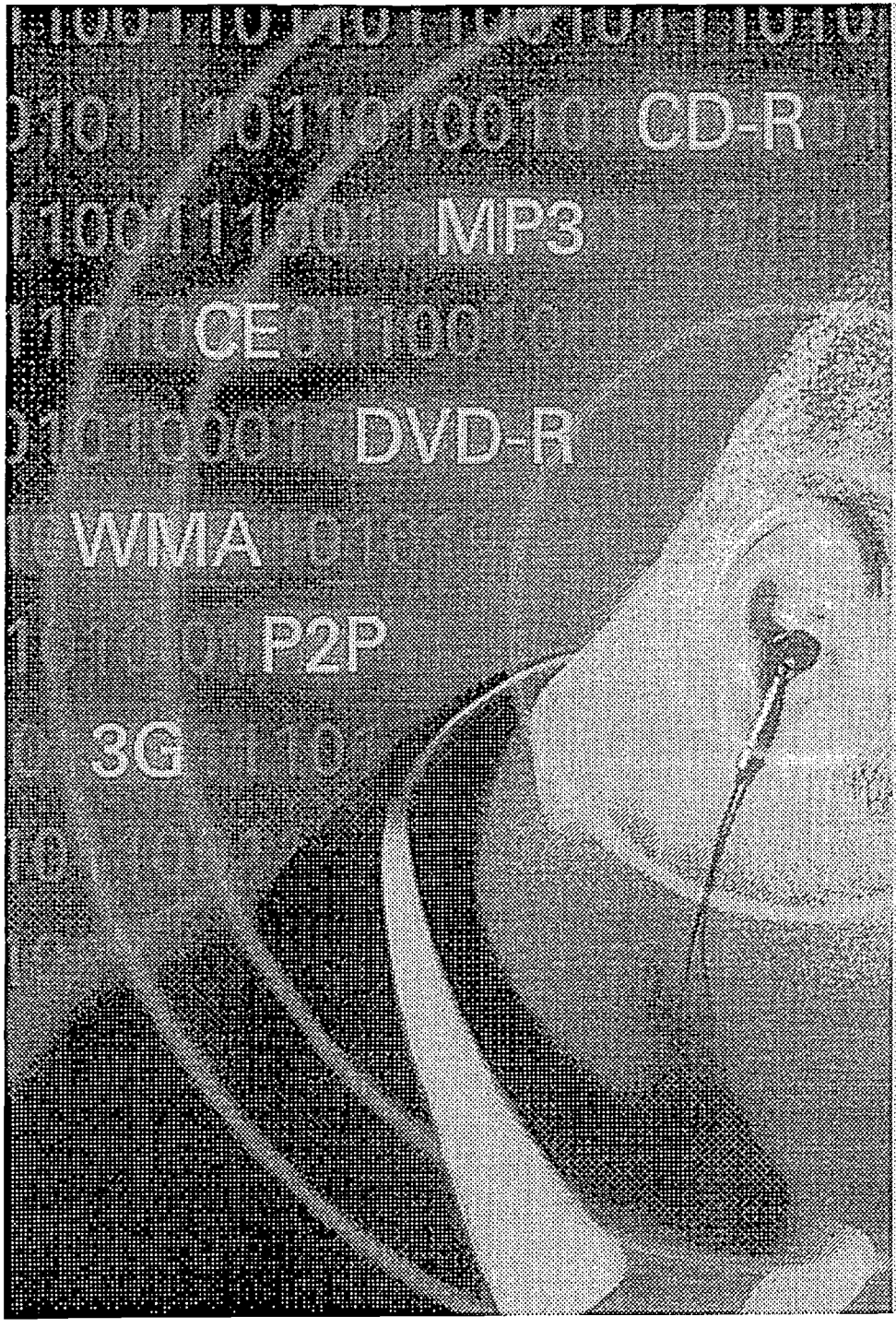
Total Number of Physical CDs Owned

- Overall, Americans aged 12 and older own an average of approximately 80 physical CDs. This is consistent with previous quarters.
  - Males tend to own more CDs than females.
- Interestingly, teens and young adults have smaller CD libraries than those 25 and older, perhaps reflecting their greater propensity toward predominantly digital music collections.



T7cx. In total, how many prerecorded CDs do you personally own?
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: All respondents



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TEMPO:

Keeping Pace with Digital Music Behavior

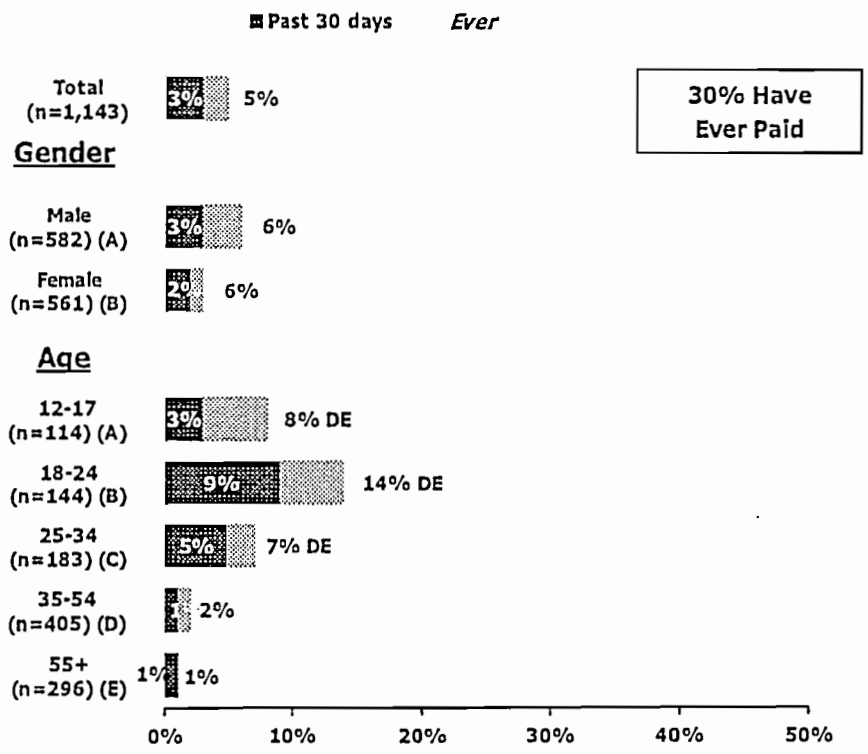
Prevalence of Fee-based Digital Video Downloading Behaviors

- October 2006 -

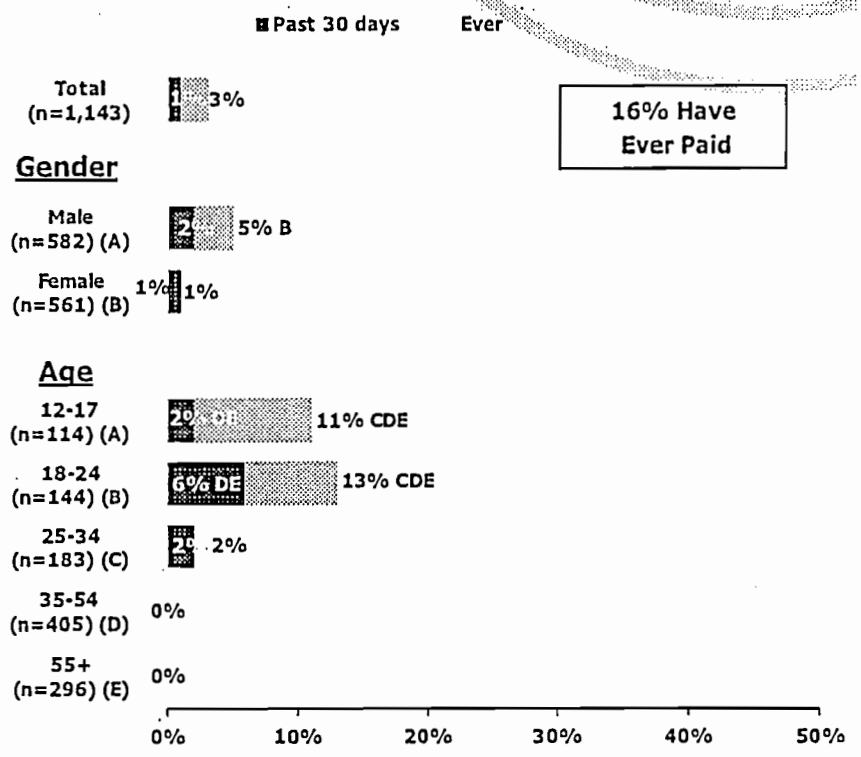
Prevalence of Digital Video Downloading

- Among those who have downloaded digital video content, under one-third of Television Downloaders and one-sixth of Movie Downloaders have paid to do so.

Download a Television Program



Download a Full-length Motion Picture

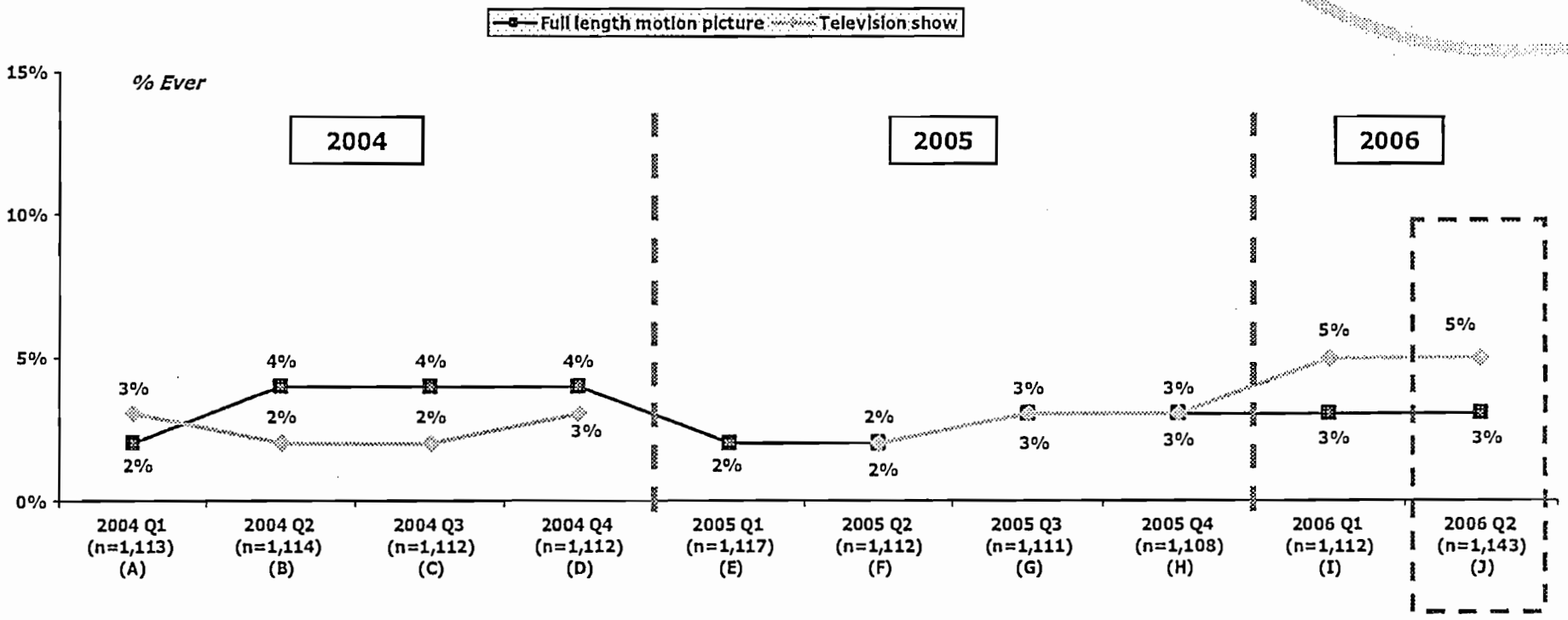


t5.a Have you ever.....?
t5b. And have you done this in the past 30 days?
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: All respondents

Prevalence of Digital Video Downloading

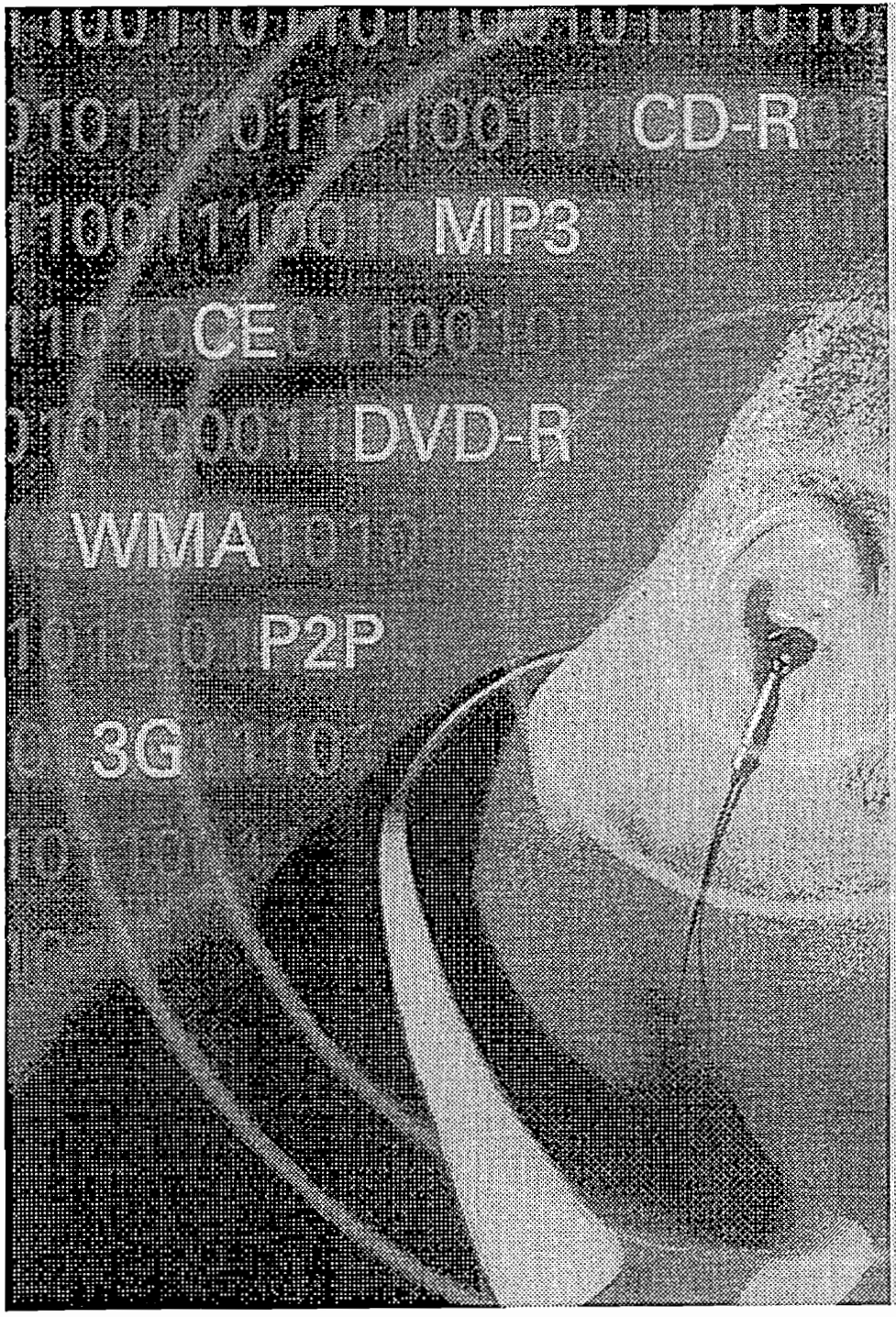
Trending



t5.a Have you ever.....?

Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: All respondents



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TEMPO:

Keeping Pace with Digital Music Behavior

General Population Technographics

- October 2006 -

Ownership of Digital Music Peripherals

by Age and Gender

	Total (n=1,143)	Gender: Male (n=582) (A)	Gender: Female (n=561) (B)	Age: 12-17 (n=114) (A)	Age: 18-24 (n=144) (B)	Age: 25-34 (n=183) (C)	Age: 35-54 (n=405) (D)	Age: 55+ (n=296) (E)
A Mobile or Wireless Phone	62%	61%	64%	59%	61%	64%	68% E	56%
Headphones	47%	51% B	42%	77% CDE	69% CDE	47% E	43% E	29%
A digital still camera	41%	41%	41%	47% E	41%	45%	43% E	34%
Video game console	35%	43% B	27%	72% CDE	61% DE	49% DE	28% E	8%
A PC-based Compact Disc Recorder/ Burner (CD-R)	34%	40% B	28%	48% DE	55% CDE	37% E	32% E	18%
Home Theater System, which typically includes more than 4 speakers and can play surround sound	31%	36% B	26%	40% E	43% E	38% E	34% E	13%
DVD Recorder	30%	29%	30%	33%	24%	25%	31%	32%
A PC-based DVD Recorder/ Burner (DVD-R)	25%	28% B	21%	33% E	33% E	26%	26% E	16%
Whole-home audio	20%	24% B	17%	29% E	22% E	21% E	23% E	11%
A Portable MP3 Player, such as an I-Pod	19%	21%	17%	43% CDE	33% DE	23% E	16% E	6%
Large screen plasma or LCD television	17%	20%	15%	27% DE	20%	18%	16%	13%
HDTV	16%	16%	17%	22% E	17%	18%	18%	12%
A DVD Player in your car	16%	14%	18%	11% B	2%	12% B	20% B	22% ABC
Digital/ Personal video recorder (such as TIVO)	15%	15%	15%	22% E	18%	16%	16% E	9%
Satellite Radio Receiver	12%	15% B	9%	26% BCDE	10%	14%	12% E	7%
A Hand held organizer, Personal Digital Assistant (PDA) or Pocket PC, such as a Palm Pilot or Blackberry	10%	9%	10%	11%	6%	8%	13% E	8%
Speakers specifically designed for use with a portable MP3 player, such as an iPod	9%	10%	8%	23% BCDE	10% E	11% E	8% E	3%

t9. Please indicate which of the following you, yourself, currently own.
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: All respondents

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TEMPO:

Keeping Pace with Digital Music Behavior

General Population Demographics

- October 2006 -

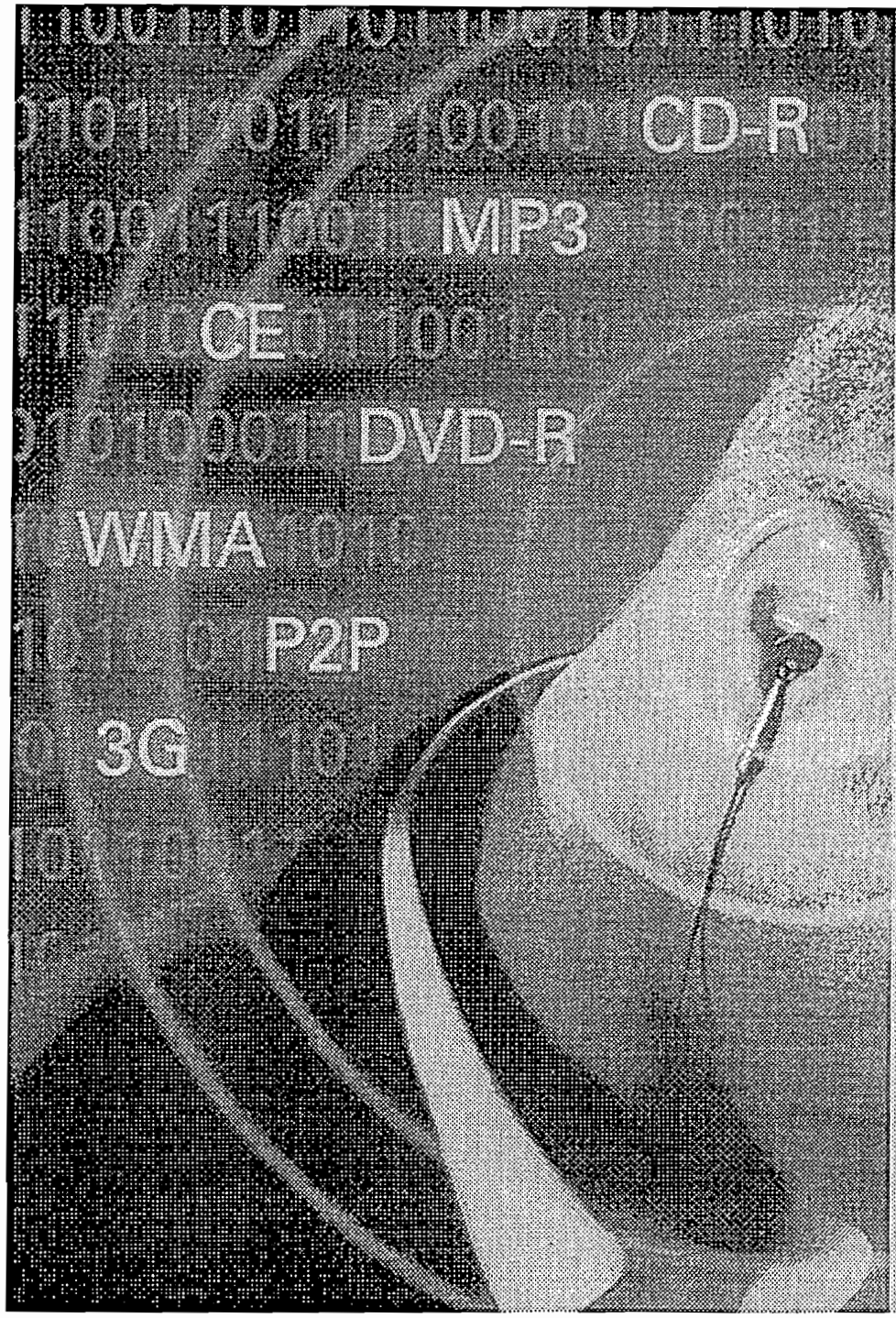
Demographics

	Total (n=1,143)	Downloaders (n=299) (A)	Non-Downloaders (n=656) (B)
Gender			
Male	51%	63% B	47%
Female	49%	37%	53% A
Age			
12-17	10%	18% B	8%
18-24	13%	25% B	10%
25-34	16%	21%	15%
35-44	14%	16%	15%
45-54	21%	13%	25% A
55-64	15%	5%	17% A
65+	11%	2%	10% A
Mean	*44.0*	*34.2*	*45.1 A*
Ethnicity			
White	77%	69%	80% A
Black	12%	16% B	10%
Hispanic	7%	11% B	5%
Asian	1%	1%	1%
American Indian	1%	1%	2%
Other	1%	2%	2%
Education Status			
No High school	7%	3%	4%
High school	38%	38%	35%
Some college	30%	28%	33%
College degree	25%	31%	27%

	Total (n=1,143)	Downloaders (n=299) (A)	Non-Downloaders (n=656) (B)
Region			
Northeast	19%	21%	16%
Midwest	23%	19%	26% A
South	36%	35%	34%
West	22%	25%	24%
Employment Status			
EMPLOYED (Net)	56%	65%	58%
Full time	45%	53%	47%
Part time	11%	12%	11%
Not employed	26%	33% B	23%
Retired	17%	3%	18% A
Income			
Under $25,000	27%	17%	26% A
$25,000 to less than $50,000	26%	25%	27%
$50,000 to less than $75,000	14%	19%	14%
$75,000 to less than $100,000	12%	16%	12%
$100,000 or more	14%	20% B	13%
Marital Status			
Yes	48%	45%	52%
No	52%	55%	48%
Household Size			
1	19%	11%	18% A
2	35%	26%	37% A
3	17%	19%	17%
4	16%	23%	16%
5	9%	16% B	7%
6+	4%	6%	4%

Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: All respondents



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TEMPO:

Keeping Pace with Digital Music Behavior

Downloading In-Depth

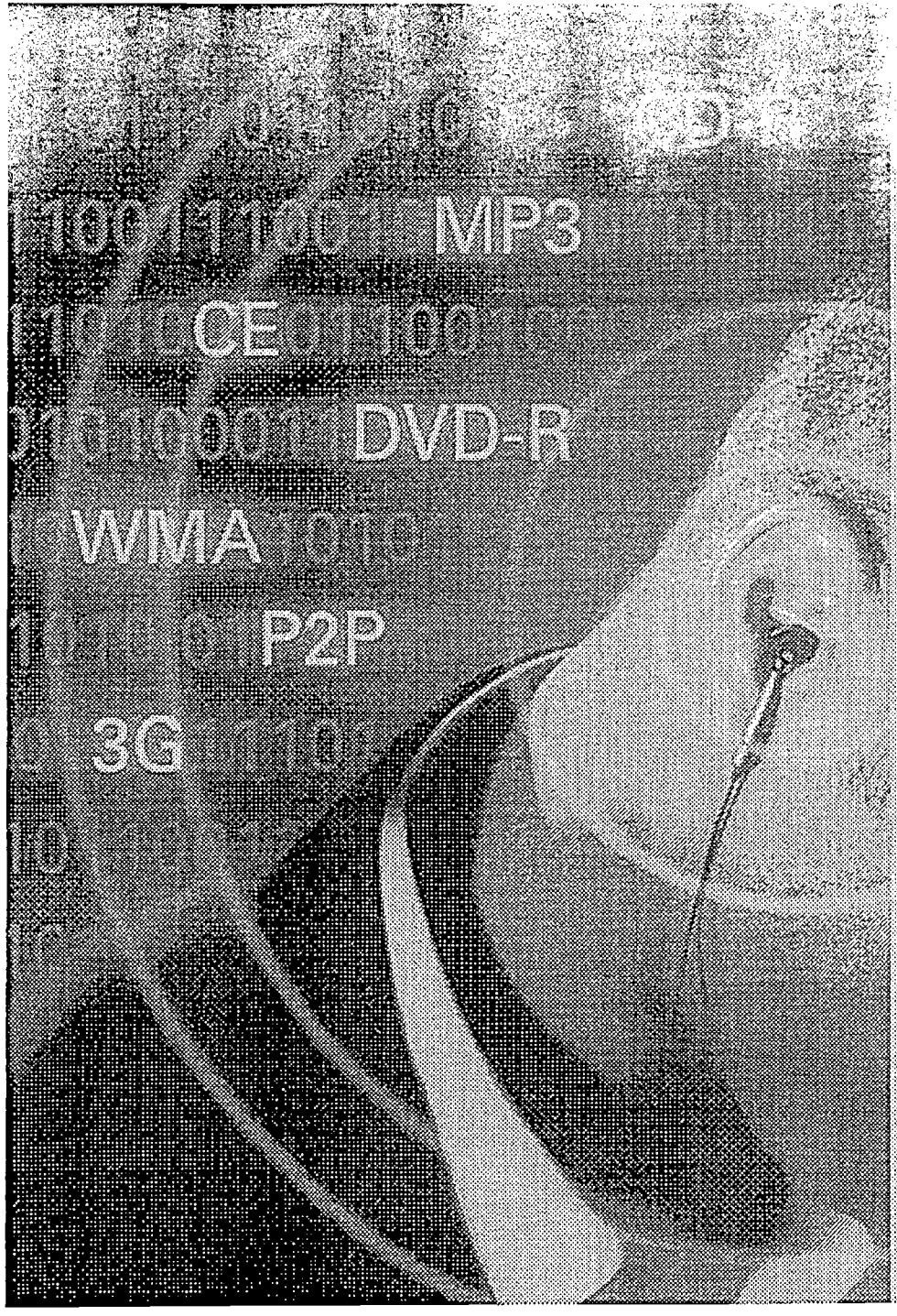
- October 2006 -

Downloading In-depth

- In 2006, the online fee-based digital music market witnessed unprecedented growth with both new brand entrants and service offering diversity. As the market continues to define brand strengths and differentiated offerings, consumer perceptions and expectations will become increasingly critical to luring and keeping consumers within the paid online digital music space.

- In an ongoing effort to better understand Downloaders and their relationship with fee-based online music services, this edition of TEMPO sought to revisit Downloader awareness, familiarity, usage and perceptions of various fee-based online digital music services.
  - This exploration represents TEMPO's third deep dive into the fee-based digital music market, and features both current and past tracking data revealing how awareness, perceptions and positioning have shifted since the summer of 2004.
  - To assist in this examination, we have employed the analytical techniques of brand association, perceptual and quadrant mapping.

- Additional fee-based service awareness, usage and perception profiling data are available in the TEMPO Online Archive.



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TEMPO:

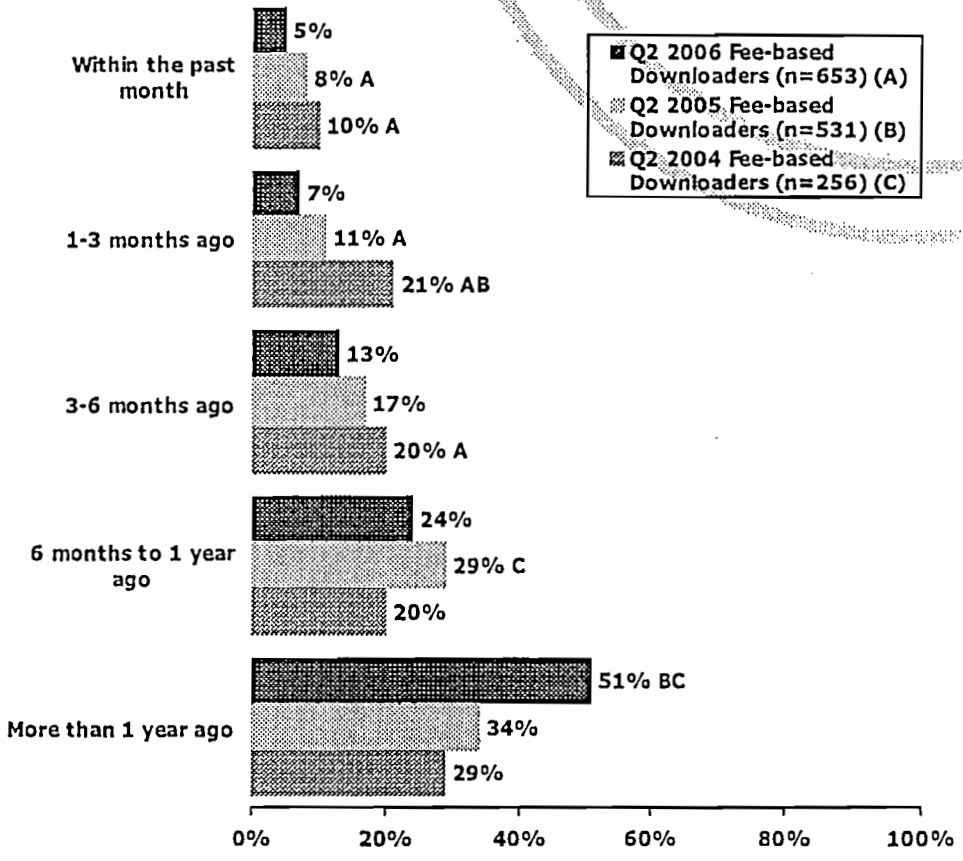
Keeping Pace with Digital Music Behavior

Fee-based Digital Music Downloading Activity

- October 2006 -

Fee-based Downloading Tenure

- As shown previously, 59% of Downloaders within the general population have paid to download digital music off of the Internet.
- Fee-based downloading tenure has continued its directional increase, with a greater proportion of Fee-based Downloaders reporting in Summer 2006 that they first paid to download digital music more than one year ago.

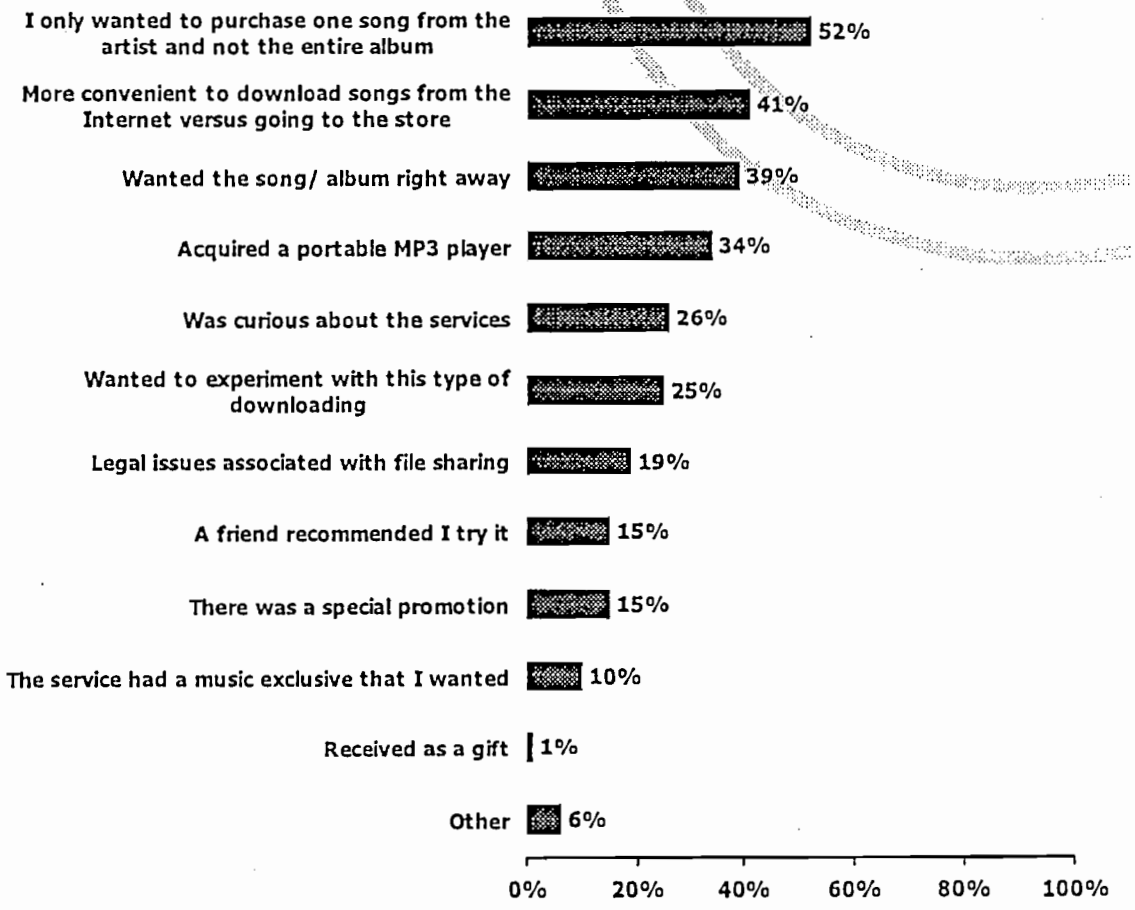


B4. When was the first time you paid a fee to download digital music or MP3 files off of the Internet?
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: Fee-based Downloaders

Reasons for First Paying for Digital Music

- The most frequently cited reasons for first paying to download digital music center around only wanting one song from an artist (52%) and the convenience of the Internet as an acquisition channel (41%).
  - One-third (34%) started downloading when they acquired a portable MP3 player, up from 23% in Summer 2005 (data not shown).
- Interestingly, in Summer 2006, some Downloaders are compelled to pay as a result of possible legal issues surrounding file sharing (19%).

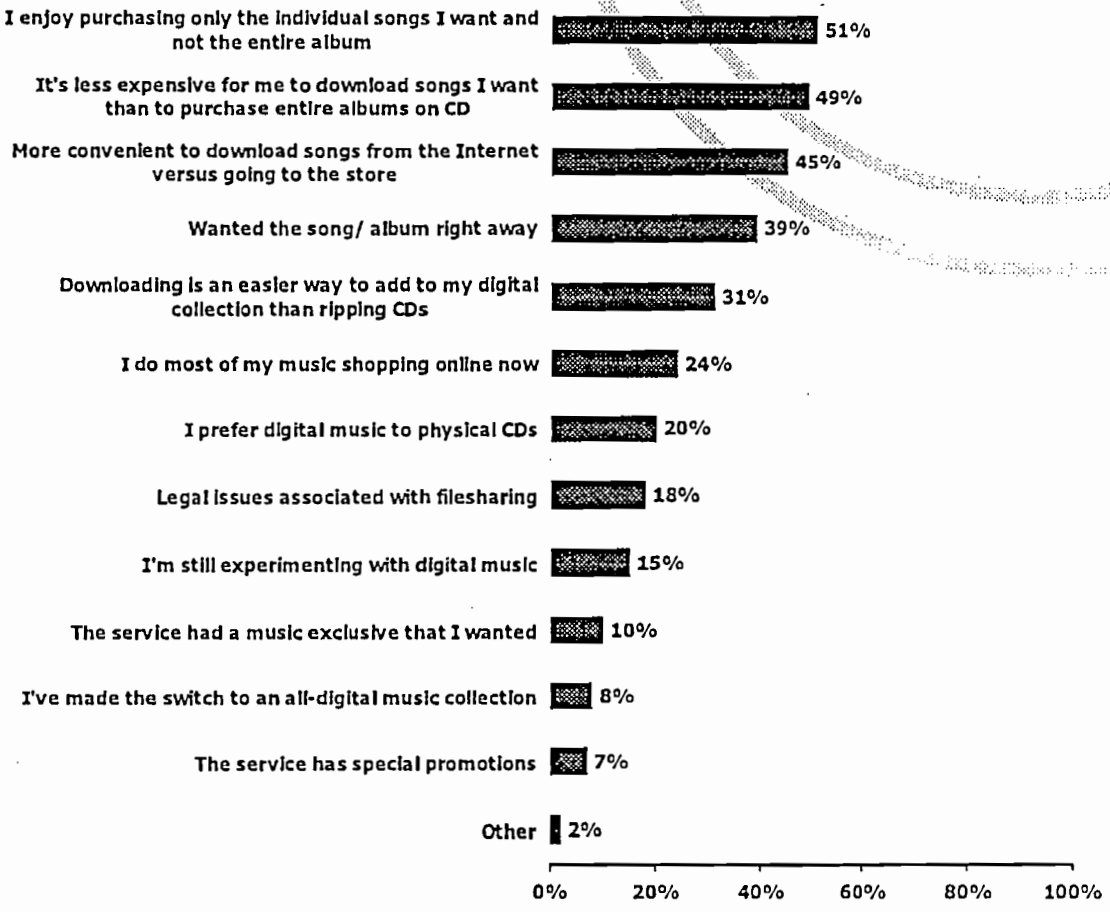


B5. Thinking back to when you first paid a fee to download digital music or MP3 files off of the Internet, which of the following reasons describes what prompted you to do this?

Base: Fee-based Downloaders (n=653)

Reasons for Continuing to Pay for Digital Music

- Similar to reasons for first paying for digital music, only wanting one song from an artist and the convenience of the Internet as an acquisition channel are also frequently cited reasons for continuing to pay for digital music.
- Additionally, price is a significant driver of continued fee-based digital music downloading, with half (49%) of Fee-based Downloaders reporting that it is less expensive than buying an entire physical CD.

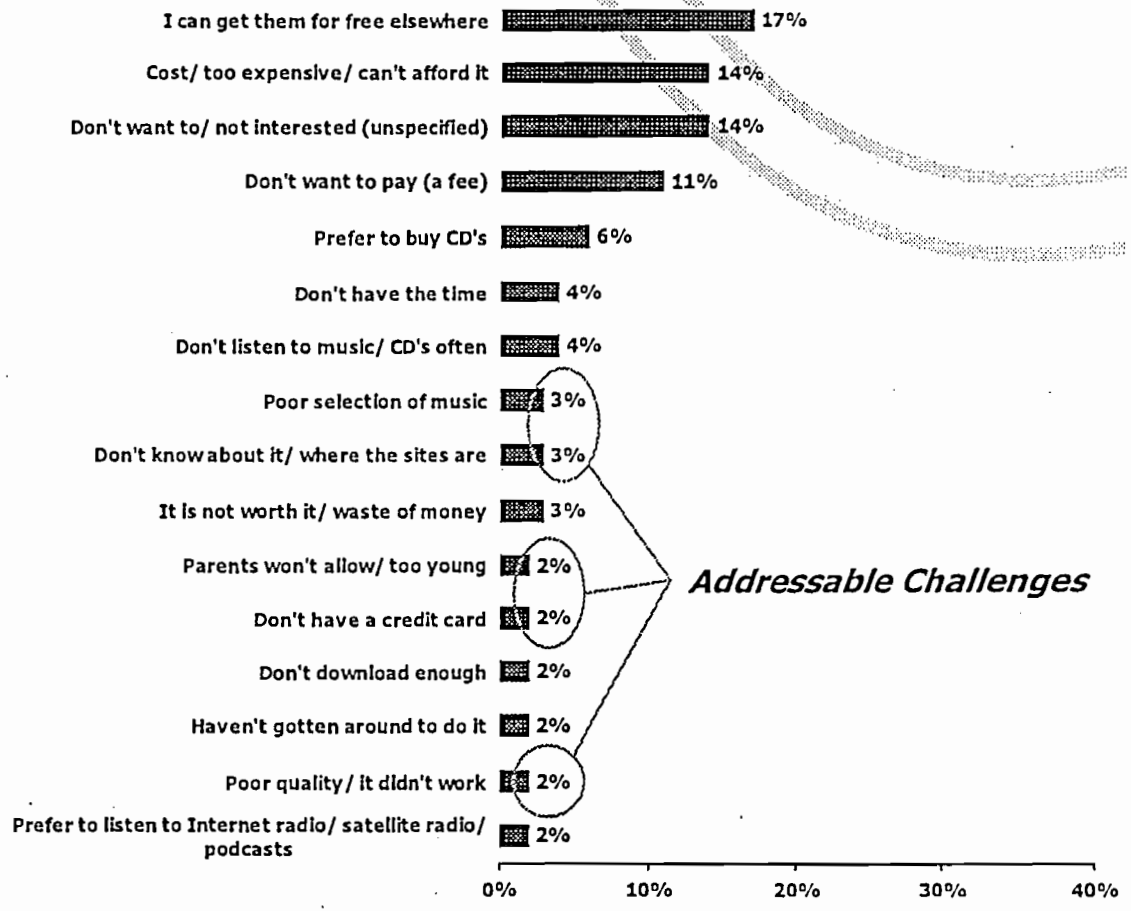


B5a. Since first paying a fee to download digital music or MP3 files off of the Internet, which of the following reasons best describe why you have continued to do so?

Base: Fee-based Downloaders (n=653)

Reasons for Not Paying for Digital Music

- Among US Downloaders who have never paid a fee to download music, a variety of reasons are given for not doing so.
- Cost and perceived lack of need are the two most oft-cited reasons for not paying to download digital music.
- While referenced less often than cost or desire not to pay, a preference for physical CDs did rank among the top five reasons given by Non Fee-based Downloaders for not purchasing digital music (6%).

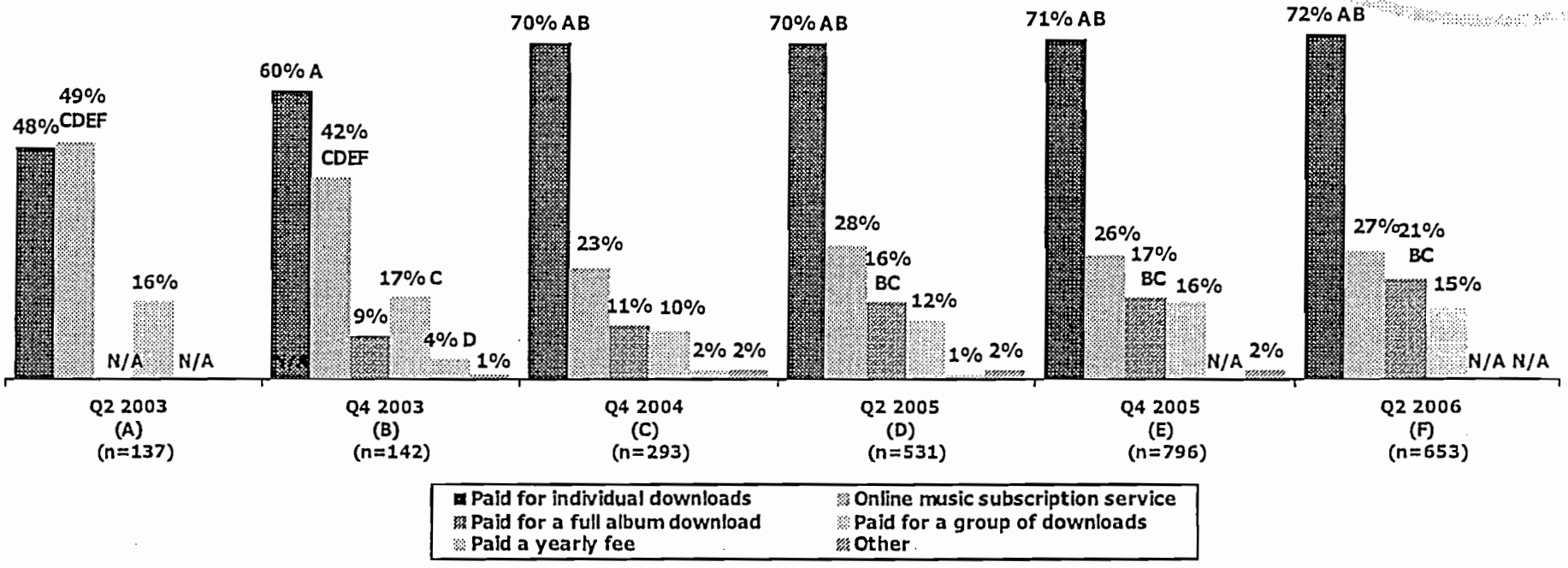


B15. Why have you not tried fee-based music downloading from online digital music services and download stores?
Responses of 2% or higher shown.

Base: Non-fee-based Downloaders (n=848)

Methods of Fee-Based Acquisition

- Downloading individual songs continues to be the most common form of digital music acquisition in Summer 2006 (72%), while online subscriptions make up over one-quarter (27%) of total fee-based downloading activity.
  - Methods of fee-based digital music acquisition have remained consistent since Q2 of last year.



B1. You mentioned that you have paid to download digital music or MP3 files off of the Internet. Which of the following best describes how you acquired the digital music or MP3 files for a fee?

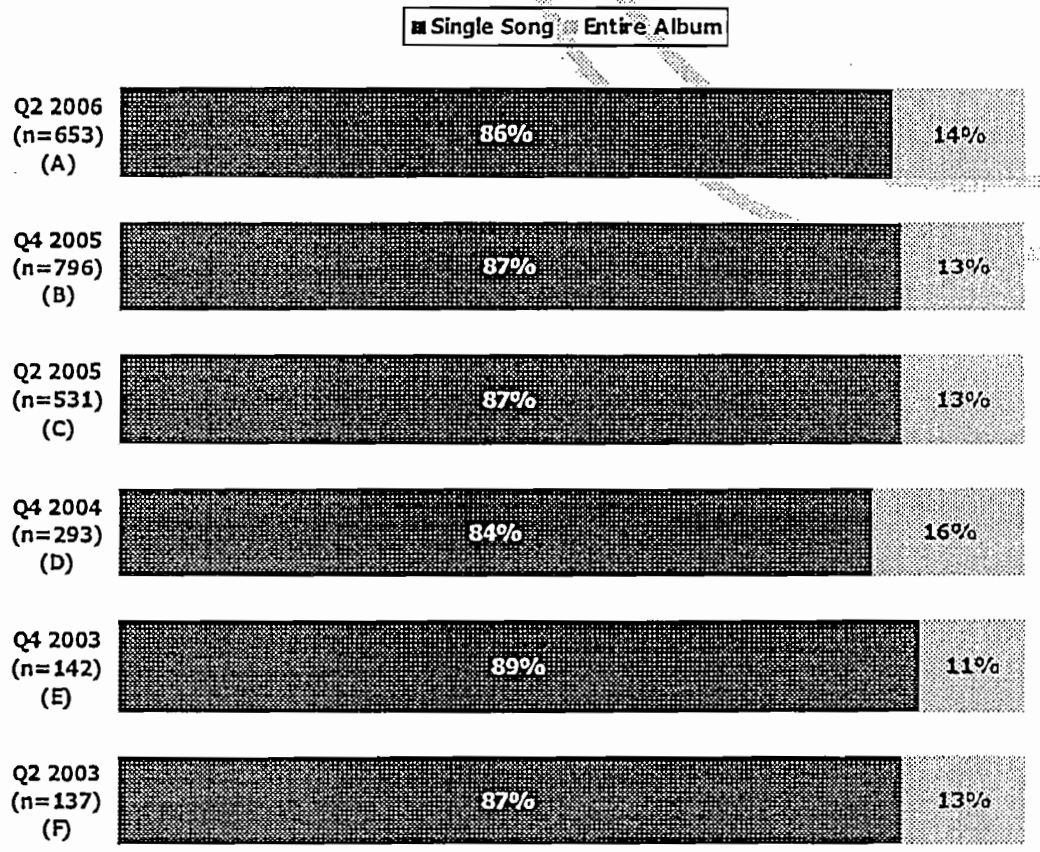
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: Fee-based Downloaders

Types of Fee-based Files Downloaded

Individual Songs vs. Albums

- Over the past three years, Fee-based Downloaders have consistently downloaded a greater proportion of their paid music one song at a time, rather than entire albums.



B6. Thinking of all of the digital music or MP3 files that you have paid to download off of the Internet, what would you say the mix was between single songs and entire albums?

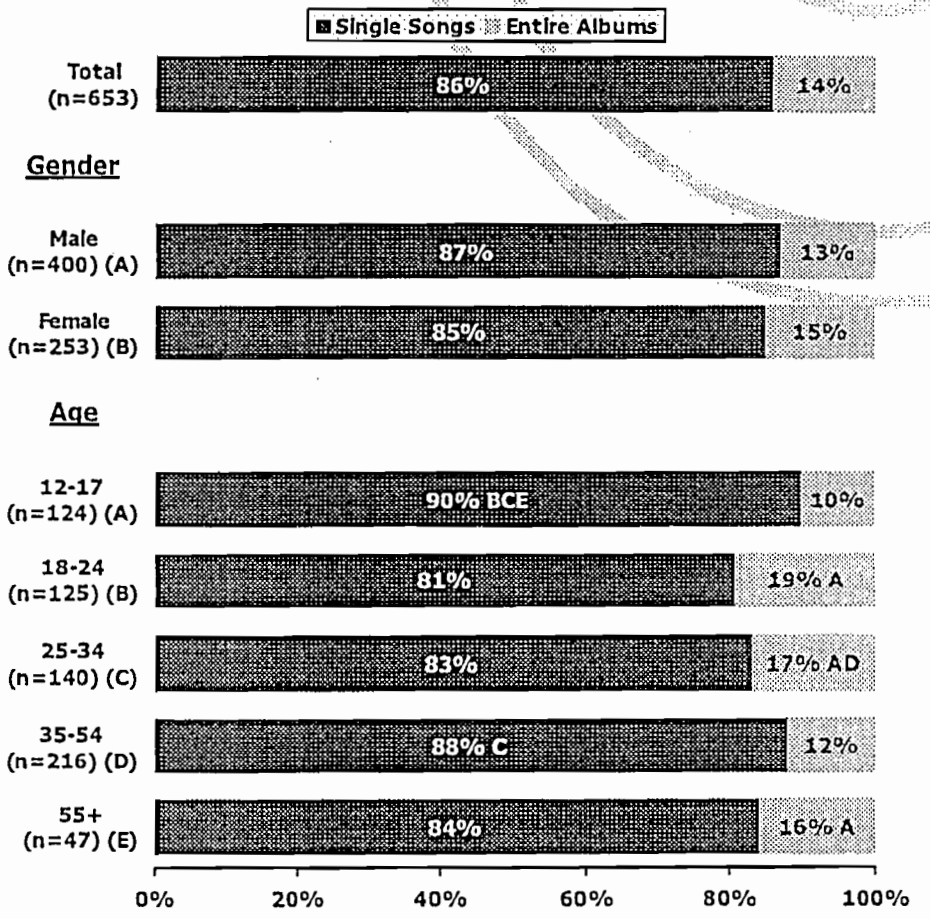
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: Fee-based Downloaders

Types of Fee-based Files Downloaded

Individual Songs vs. Albums

- Interestingly, Fee-based Downloaders aged 18-34 and those aged 55 and older are more likely than teens and 35-54 year olds to pay to download entire albums.
  - Teens are especially likely to pay to download digital music one song at a time.



QB6. Thinking of all of the digital music or MP3 files that you have paid to download off of the Internet, what would you say the mix was between single songs and entire albums?

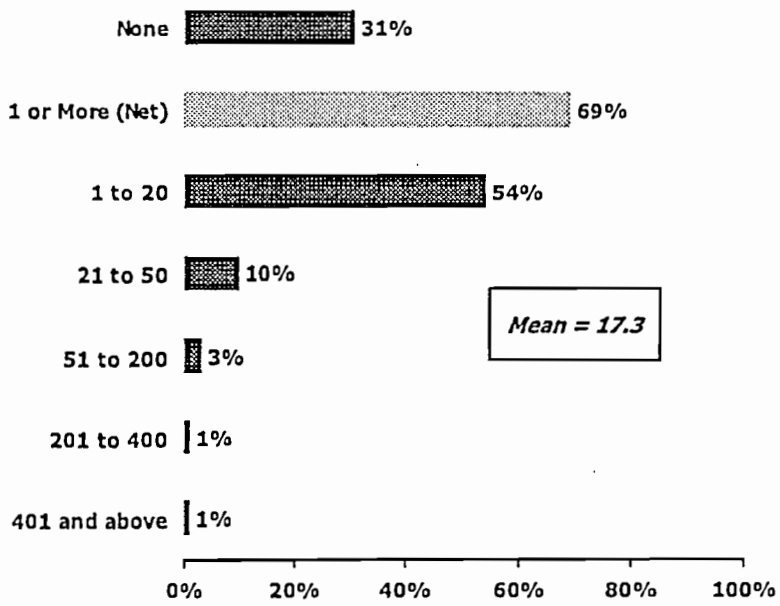
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: Fee-based Downloaders

Average Number of Fee-based Files Downloaded

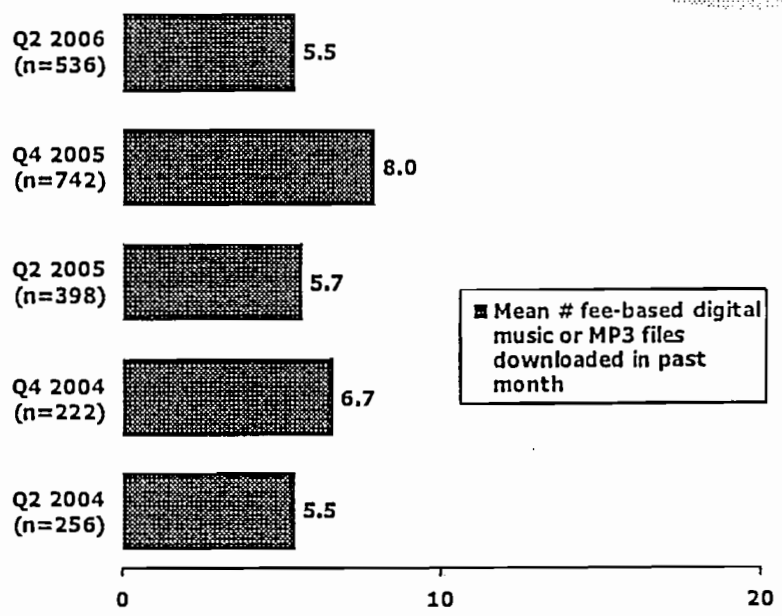
- As a group, US Downloaders downloaded an average of 17 digital music files in the past month.
  - Of these, 6 were fee-based downloads, down from 8 in Q4.
- One-third of US Downloaders did not download any digital music files in the past month.

Total Downloaders – Past 30 Days



D3. In the past month, how many digital music or MP3 files have you downloaded off of the Internet?
Base: US Downloaders (n=1,501)

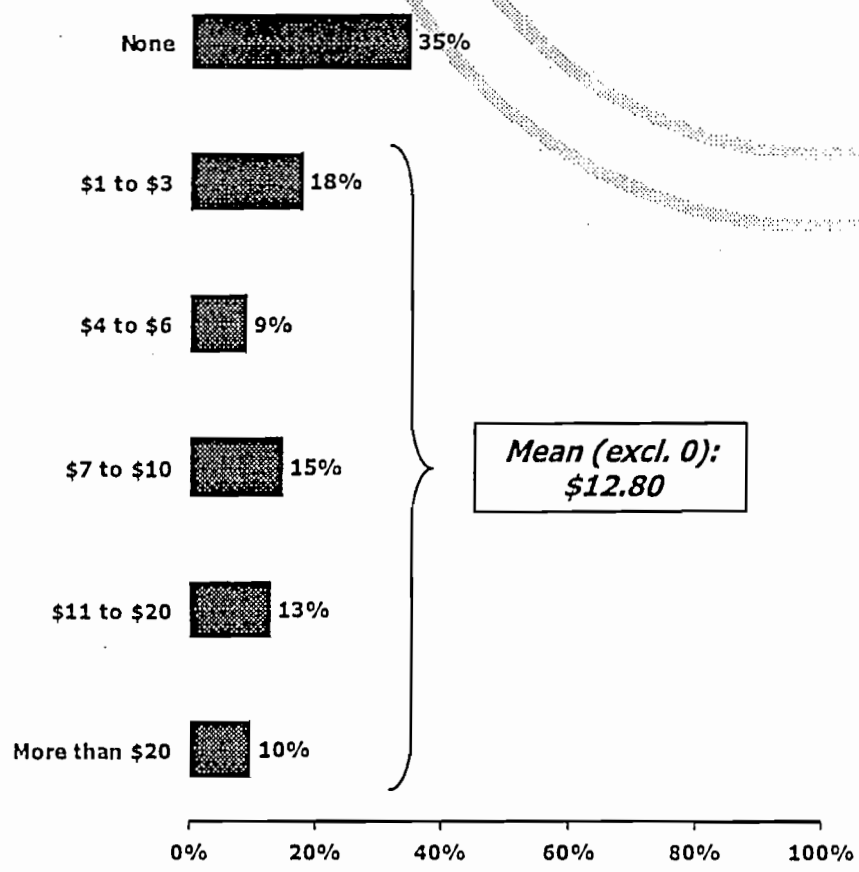
Paid Downloaders – Past 30 Days



B2A. How many digital music or MP3 files in total have you paid to download from a fee-based online digital music service or download store in the past month?
Base: Paid for individual or bundled downloads

Fee-based Digital Music Spending

- While one-third (35%) of Fee-based Downloaders have not spent any money on digital music in the past month, the average among those who have is nearly $13.
  - Fee-based digital music spending in Summer 2006 is consistent with levels observed in Summer 2005.



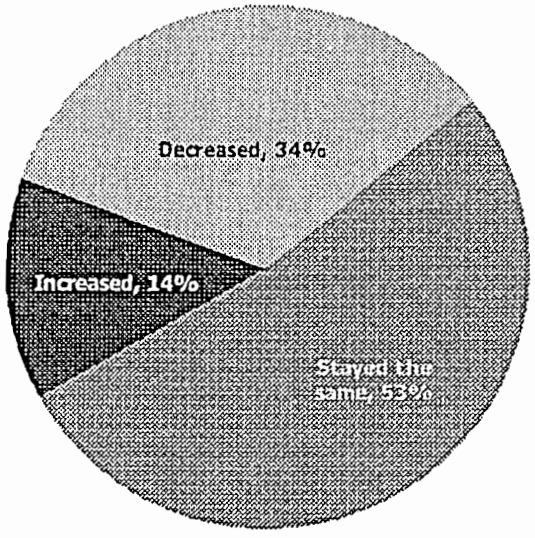
B3. In the past month, how much in total have you spent paying for digital music from an online digital music service or download store? Please include both individual songs and any monthly online music service subscription purchase fees in this total.

Base: Paid for individual or bundled downloads (n=536)

Changes in Digital Music Spending

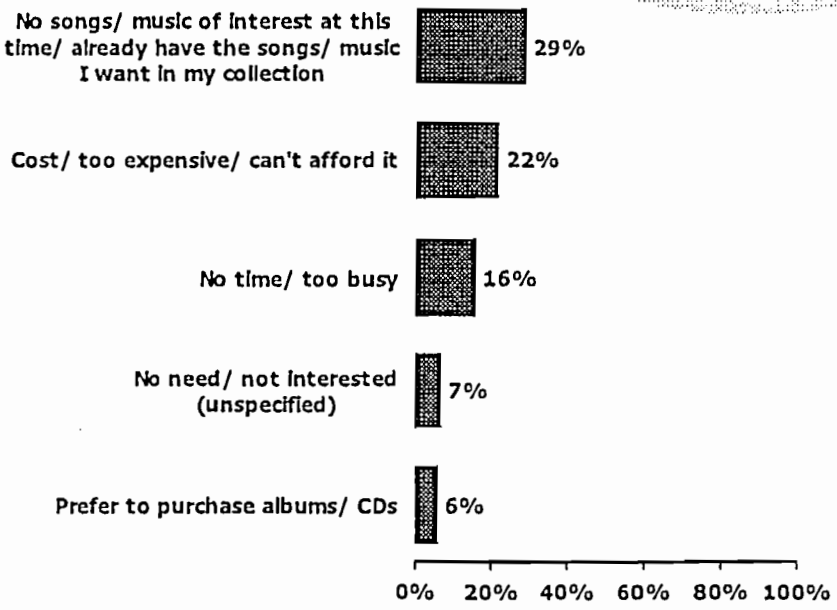
- For approximately half of all Fee-based Downloaders, digital purchasing has remained the same over the past few months. For one-third, however, it decreased.
  - Among those whose purchasing decreased or stayed the same, lack of need and cost were overwhelmingly the most oft-cited reasons for declines in digital music spending.

Changes in Digital Music Purchasing Over Past Few Months



"Decreased or Stayed the Same"

Reasons Purchasing Has Not Increased



B2B. How has your purchasing of digital music or MP3 files from fee-based online digital music services and download stores changed over the past few months?

Base: Fee-based Downloaders (n=536)

B2C. Why have you not increased your purchasing of digital music or MP3 files from fee-based online digital music services and download stores over the past few months?

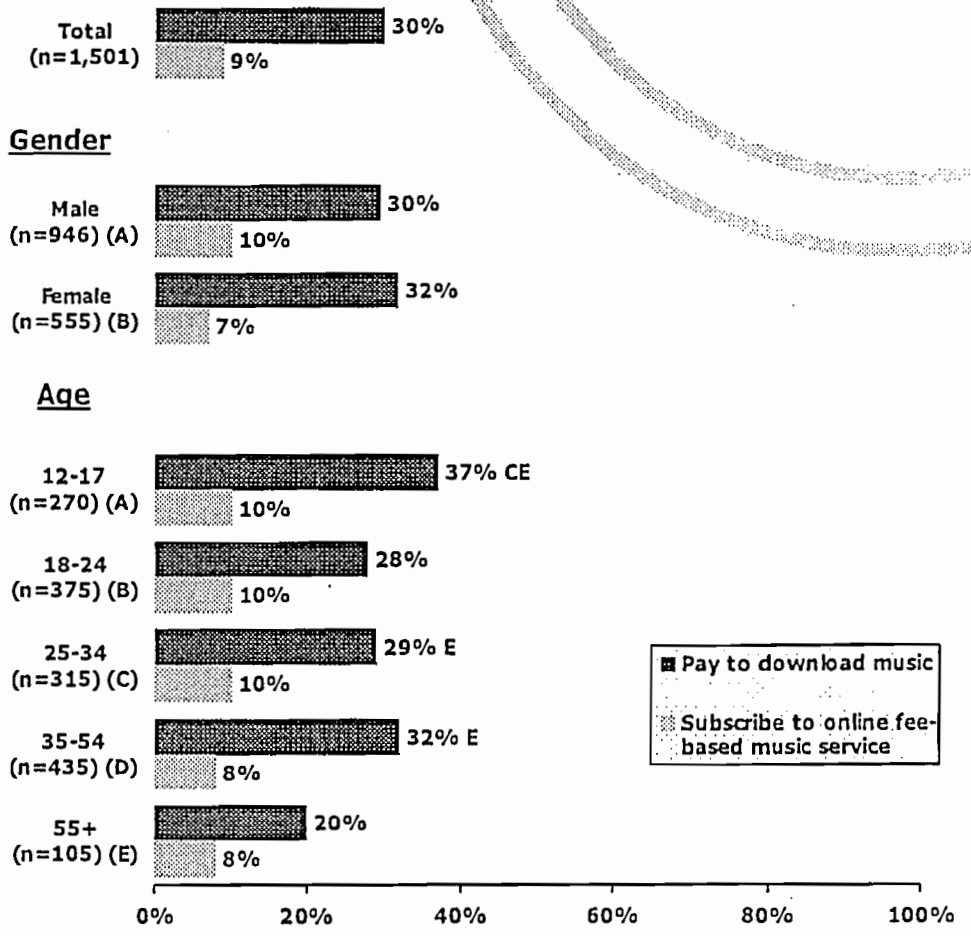
Base: Purchases of digital music or MP3 files from fee-based online digital music services/download stores decreased/stayed the same (n=464)

Responses of 5% or higher shown

Likelihood of Future Fee-based Downloading

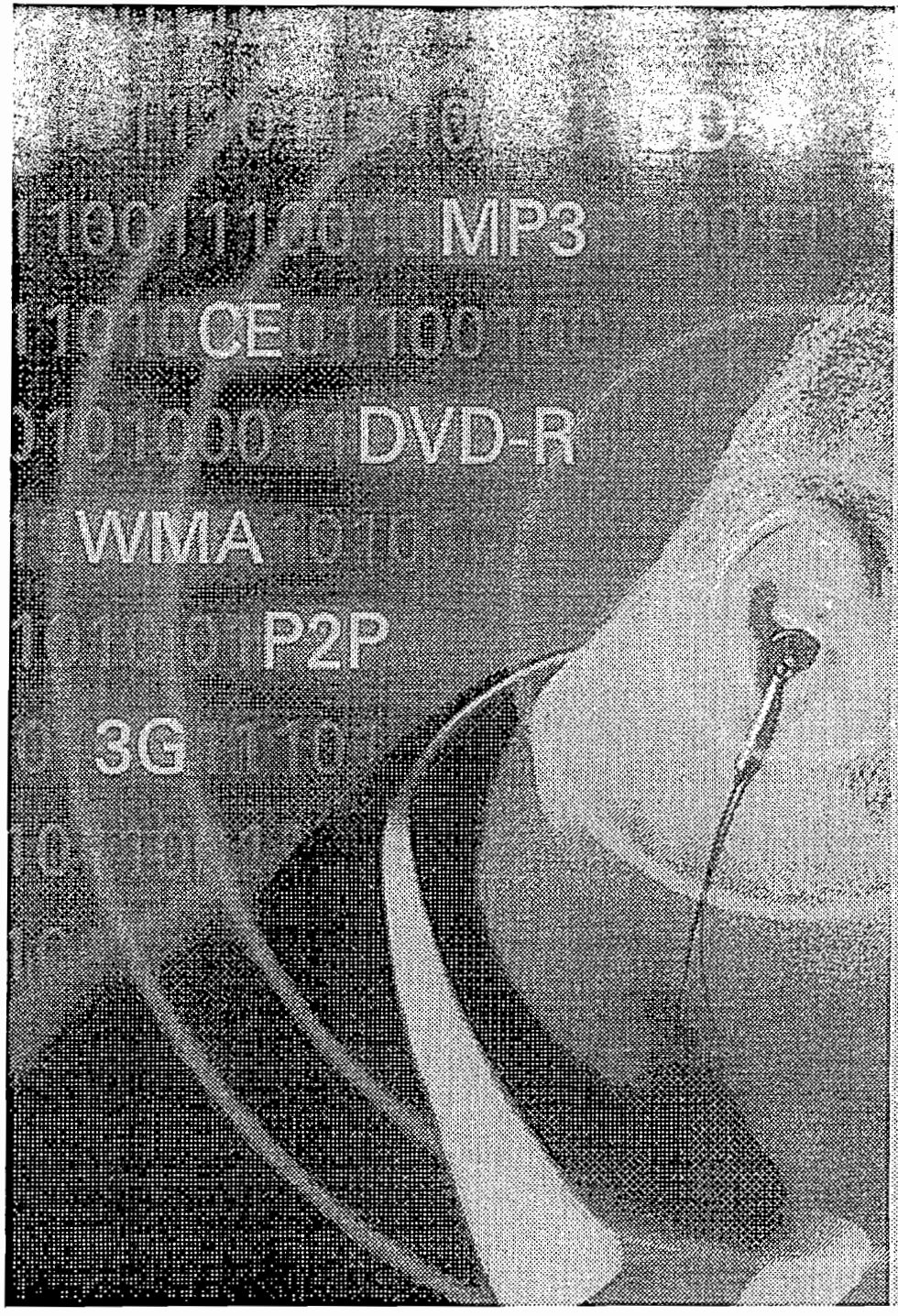
by Age & Gender

- Overall, approximately one-third of US Downloaders intend to pay for fee-based digital music in the next 12 months.
  - Likelihood of future fee-based downloading is largely consistent across different demographic groups, with the exception of teens (where intent to pay to download music is slightly higher).



S2. [TOP2BOX SUMMARY] How likely are you to do each of the following in the next 12 months?
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: US Downloaders



Ipsos

TEMPO:

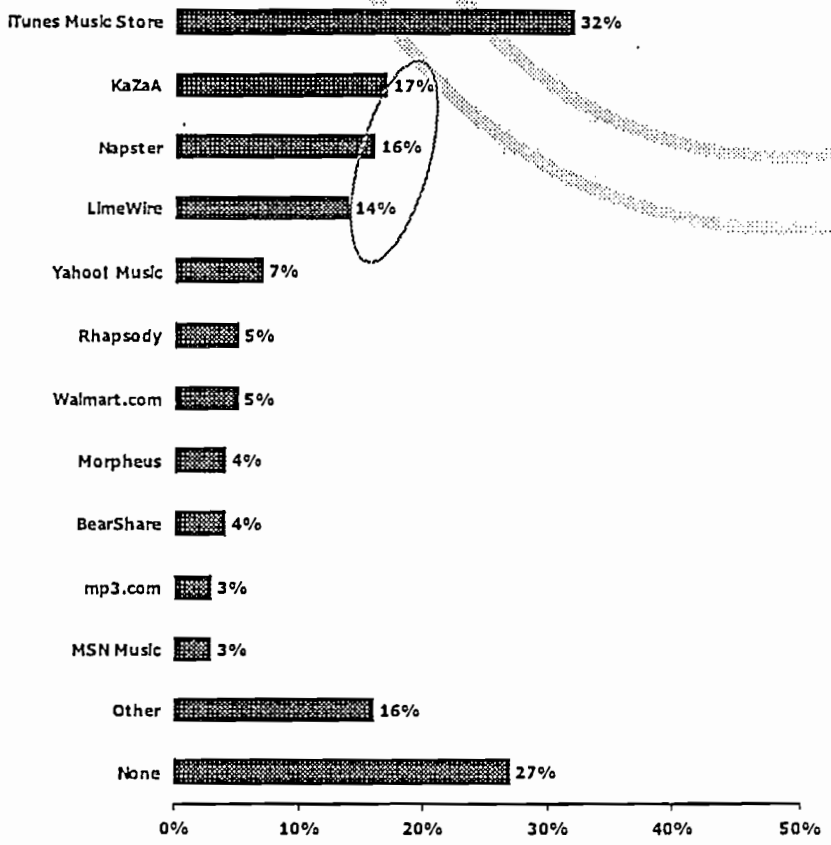
Keeping Pace with Digital Music Behavior

Awareness & Perceptions of Fee-Based Digital Music Services

- October 2006 -

Unaided Awareness of Music Destinations & Fee-Based Services

- iTunes enjoys the highest unaided awareness of any online music service. Unaided awareness of other online music services is relatively low.
- Two file sharing web sites (KaZaA and LimeWire) and one former file sharing web site (Napster) occupy the second tier of unaided brand awareness, and are equally recognized.

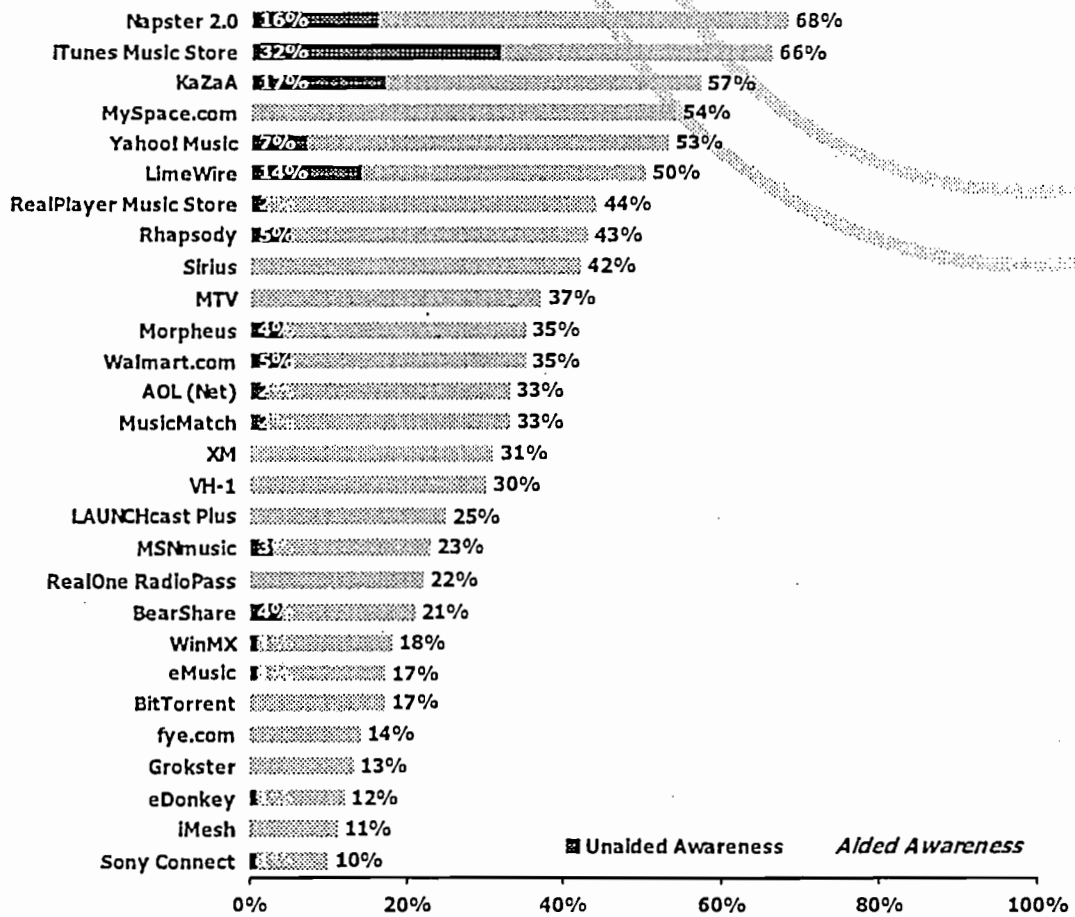


E1. When thinking of downloading digital music or MP3 files off of the Internet, what websites come to mind?
Note: Data less than 3% is not shown

Base: US Downloaders (n=1,501)

Total Awareness of Digital Music Destinations

- When aided awareness is considered, iTunes and Napster 2.0 are the most recognized online music service brands, occupying an equal place in the market.
- While MySpace and Yahoo! Music do not have high unaided awareness, their total awareness levels put them in the top five most recognized brands.



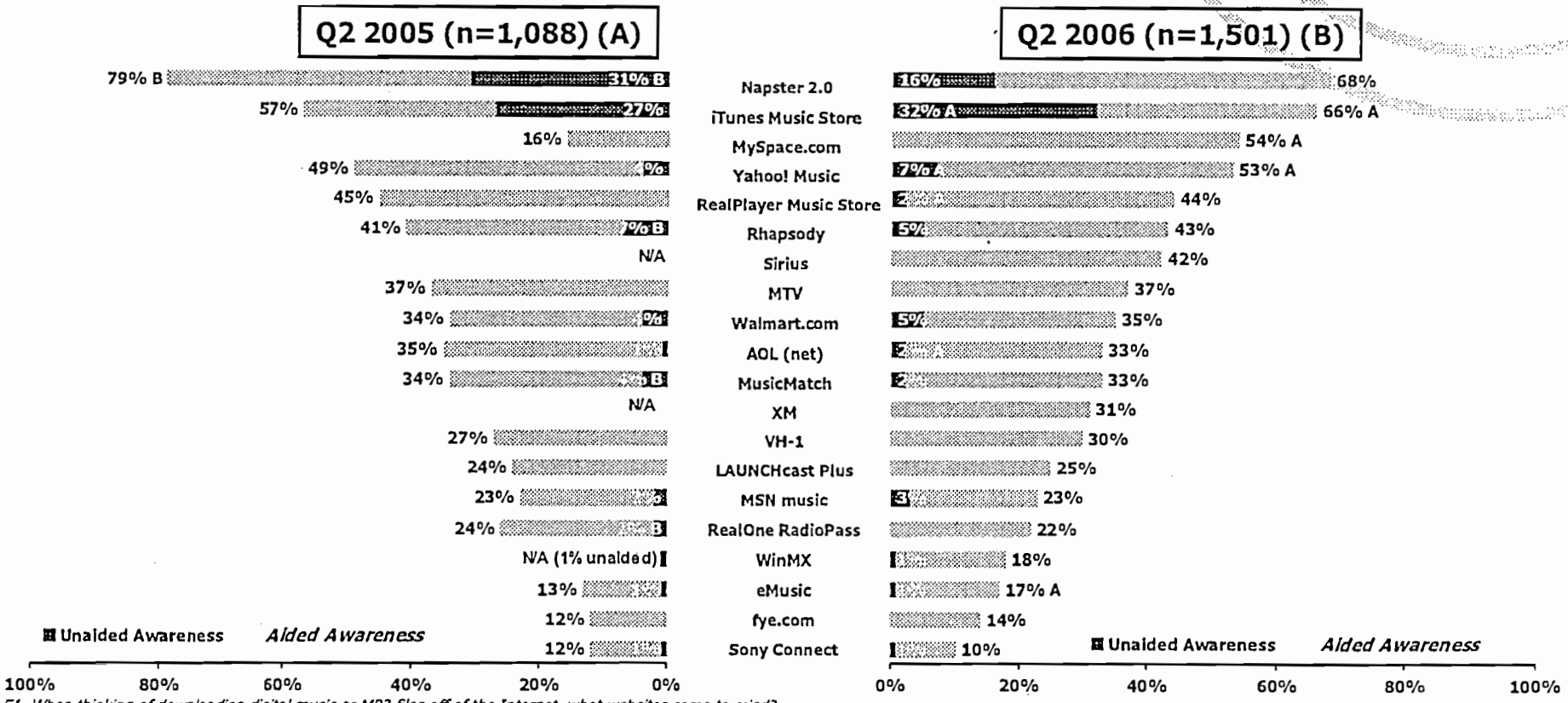
E1. When thinking of downloading fee-based digital music or MP3 files off of the Internet, what fee-based digital online music services or websites come to mind?
E3. Please indicate which of the following music-related websites/ online digital music services you have ever heard of, including any you may have already typed.
Note: Data less than 10% is not shown

Base: Downloaders

Total Awareness of Fee-based Services

Year Over Year

- Awareness of iTunes, MySpace and Yahoo! Music has increased significantly since Q2 2005.
- Awareness of Napster has eroded since last year, perhaps suggesting a decline in Napster's holdover recognition as a file sharing brand.



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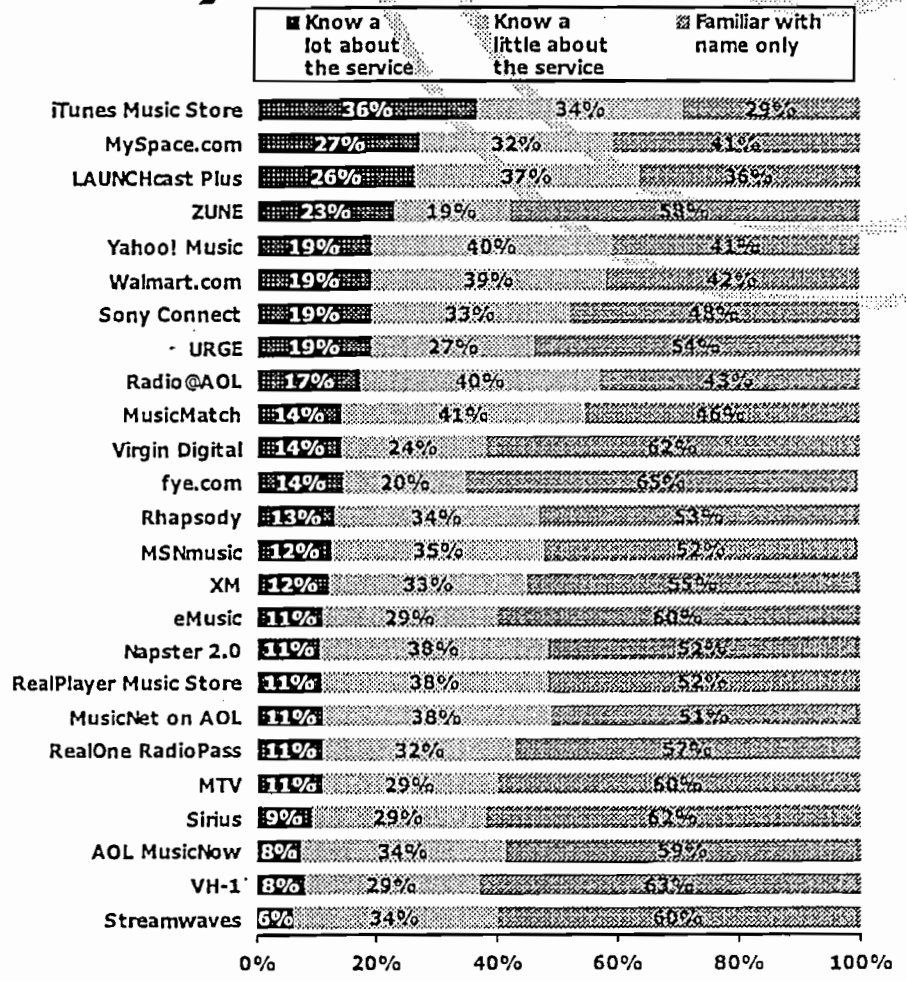
E3. Please indicate which of the following music-related websites/ online digital music services you have ever heard of, including any you may have already typed.
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: Downloaders

Fee-Based Service Familiarity

- In addition to its strong brand awareness, iTunes is, by far, the most familiar fee-based digital music service.
  - MySpace, LAUNCHcast Plus and Yahoo! Music also enjoy relatively high levels of familiarity.
  - Downloaders were also surprisingly familiar with the fee-based newcomer, ZUNE.
- Interestingly, Napster 2.0 is not a very familiar fee-based digital music service to Downloaders, despite strong recognition of the Napster name.



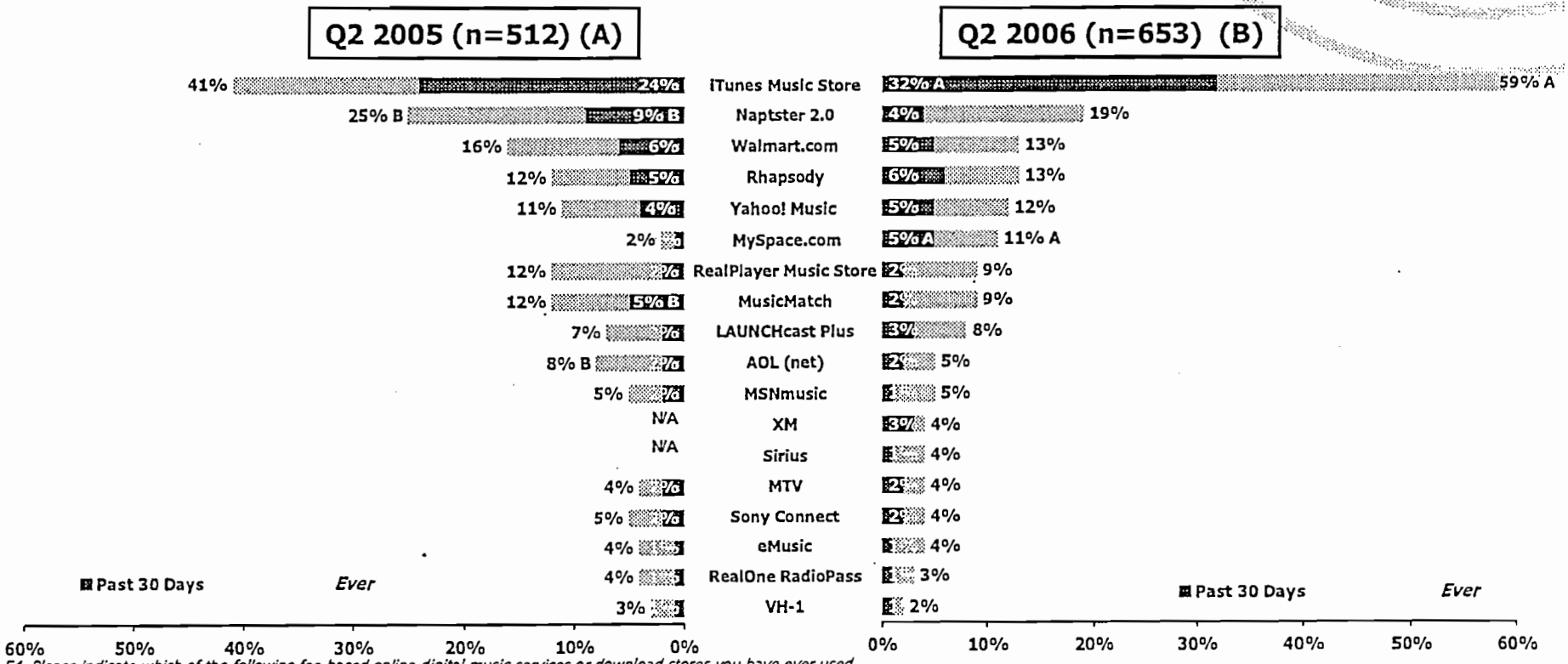
E3b. How familiar are you with each of the following fee-based online digital music services?

Base: Heard of this fee-based site. Base sizes vary.

Fee-based Digital Music Service Usage

Year Over Year

- iTunes' dominance in the fee-based digital music category has increased significantly since last year.
- Usage of MySpace to download digital music has grown considerably since last year as well.

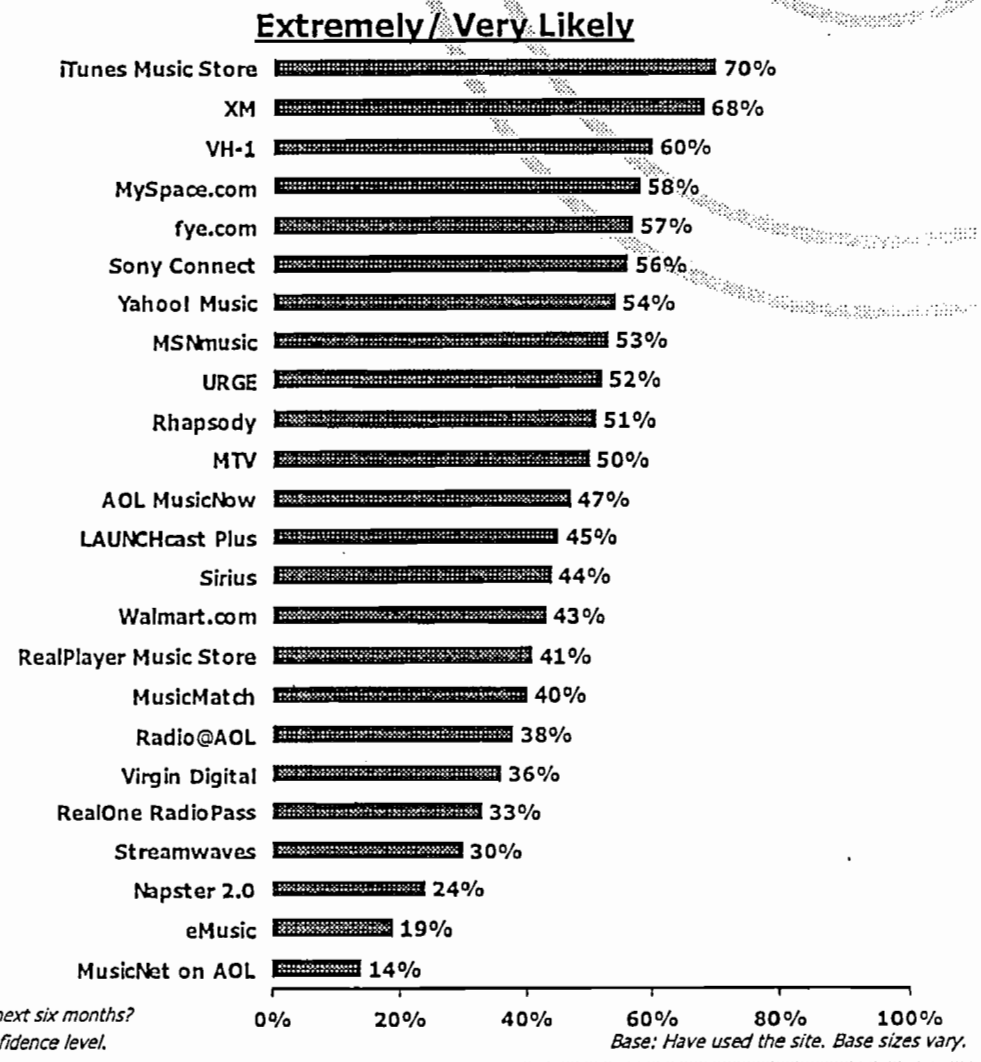


E4. Please indicate which of the following fee-based online digital music services or download stores you have ever used.
E4a. Which of the following fee-based online music services or download stores have you used in the past 30 days?
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: Fee-based Downloaders

Likelihood to Use Fee-based Services

- iTunes users are most likely to indicate intent to use the service again in the near-term.
  - As would be expected, XM Satellite Radio users also report high levels of intended repeat usage.
- Users of VH-1, MySpace, fye.com, and Sony Connect occupy the second tier of likely usage in the next six months.

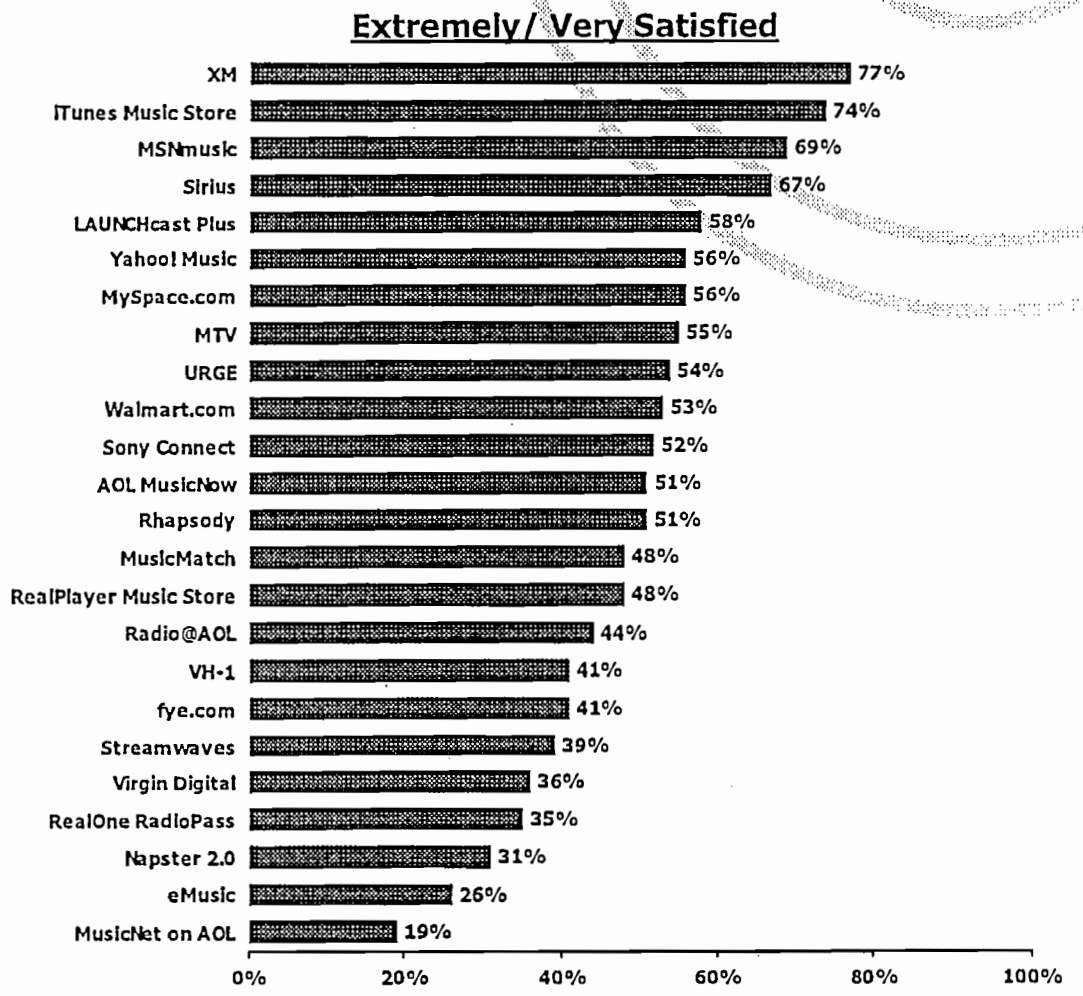


E10. How likely are you to use the following fee-based online music services or download stores in the next six months?
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: Have used the site. Base sizes vary.

Fee-based Digital Music Service Satisfaction

- XM (77%) and iTunes (74%) receive the highest satisfaction ratings from their users.
  - MSNmusic and Sirius also enjoy high levels of satisfaction among users.



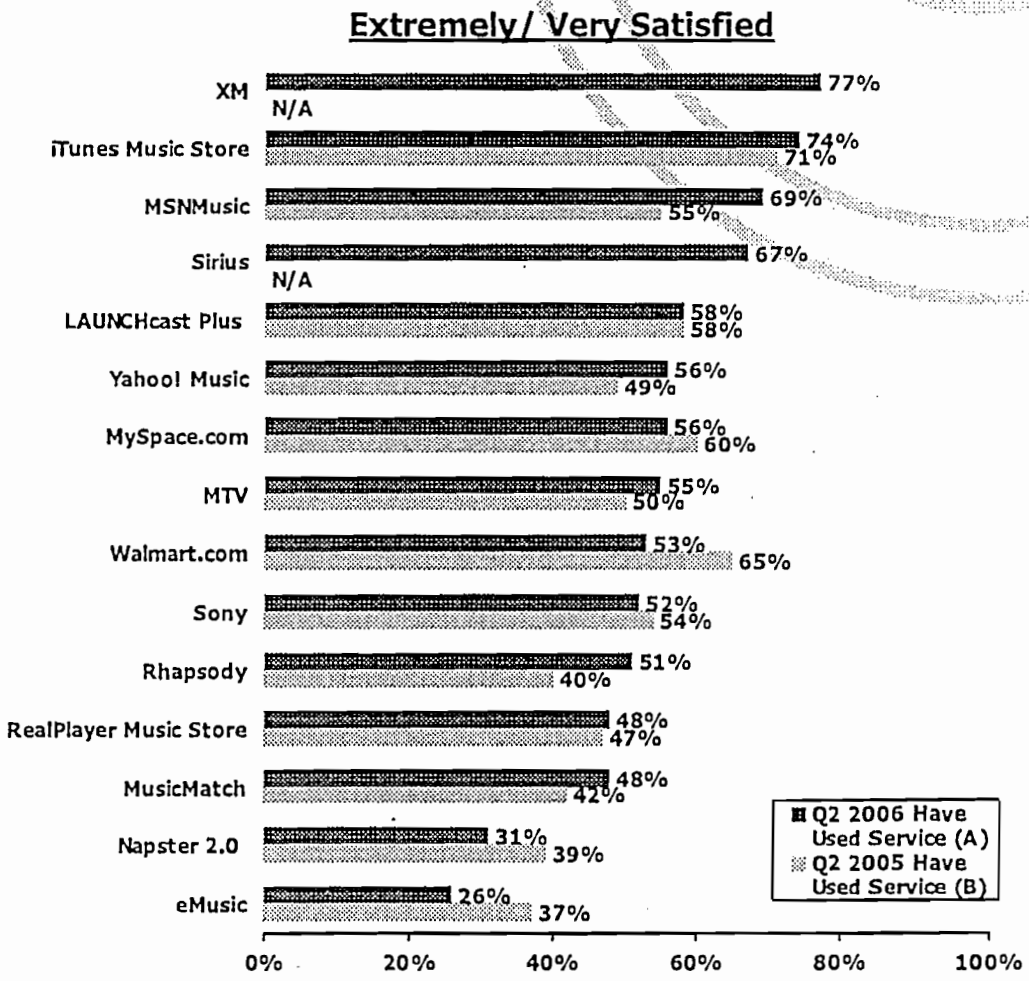
Base: Downloaders who have used the fee-based service
Base size varies

E4b. How satisfied are you overall with each of the following fee-based online music services or download stores that you have used?

Fee-based Digital Music Service Satisfaction

Year Over Year

- Fee-based digital music service satisfaction ratings have remained consistent since last year among users of each service.



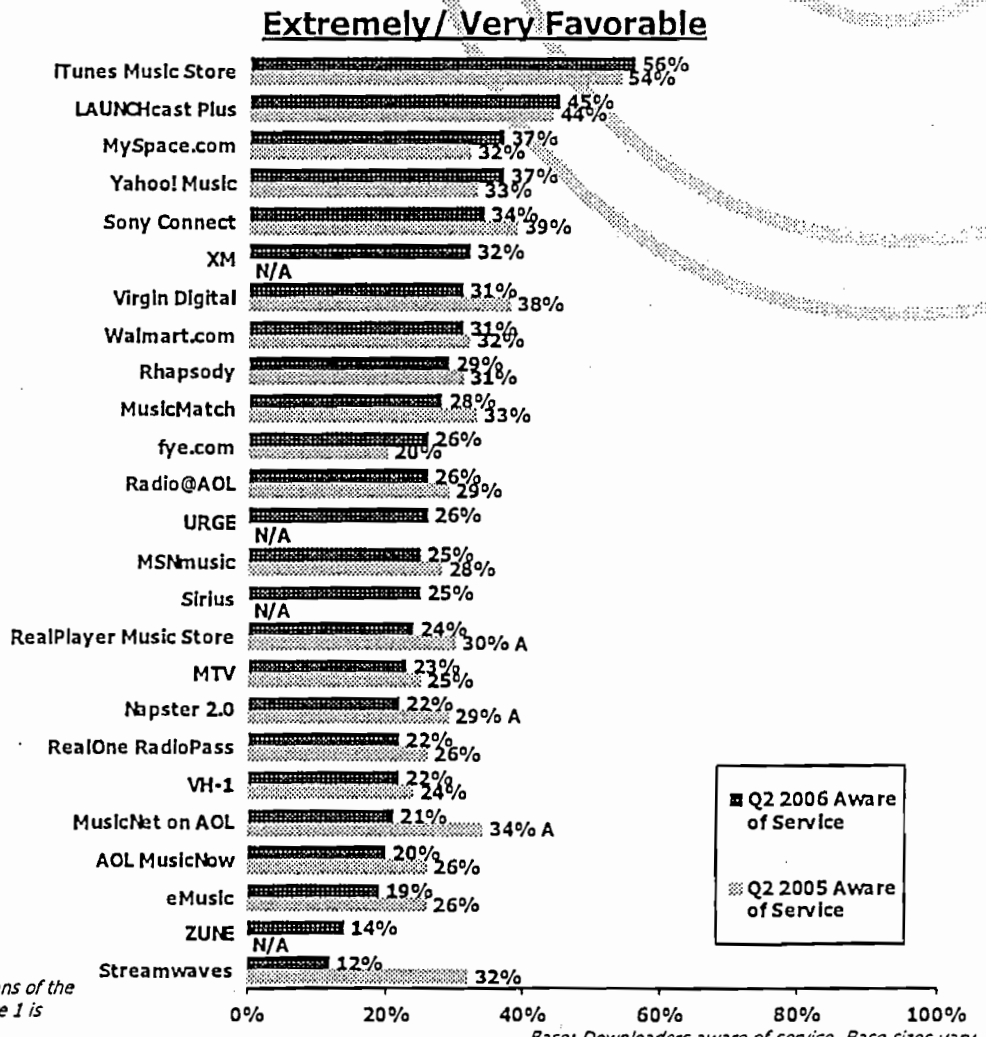
E4b. How satisfied are you overall with each of the following fee-based online music services or download stores that you have used?
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: Downloaders who have used the fee-based service
Base size varies

Overall Favorability of Fee-based Services

Year Over Year

- Overall, perceptions of fee-based digital music services have remained the same since last year.
- Among Downloaders aware of iTunes Music Store, over half (56%) have 'extremely' or 'very' favorable perceptions of the music service.
  - Perceptions of other fee-based digital music services are less positive.



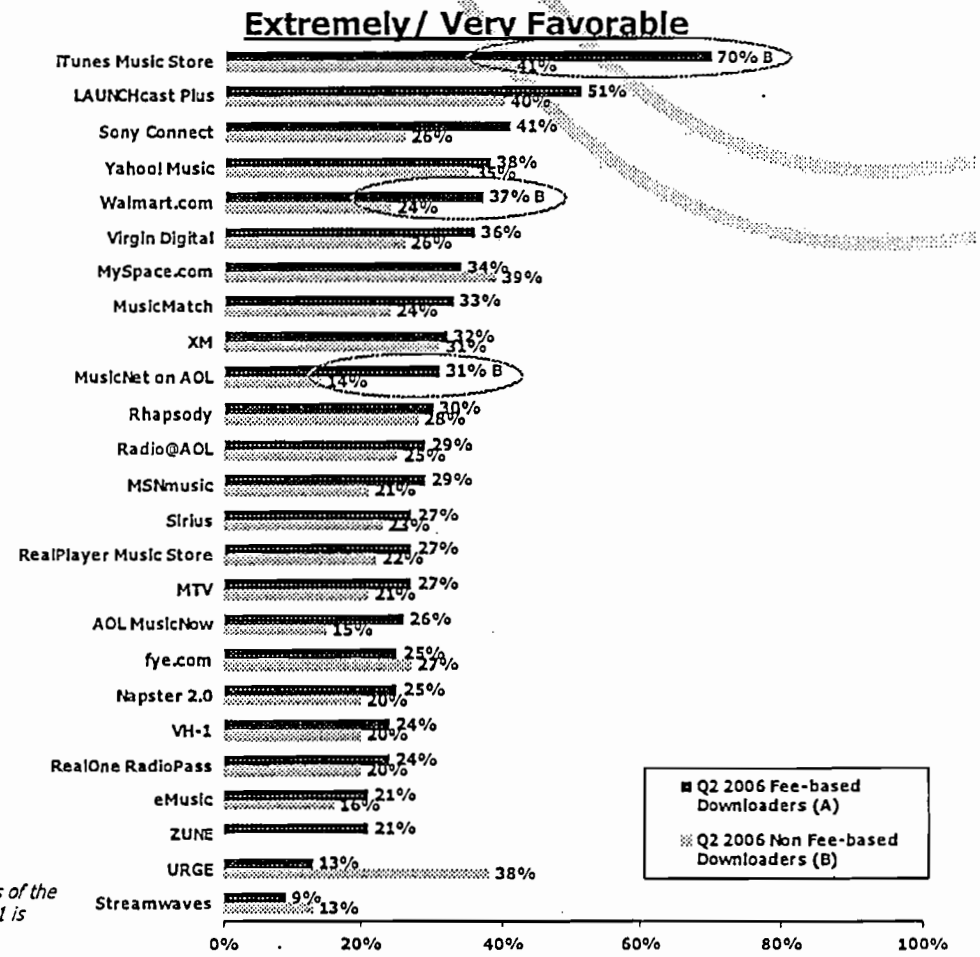
Base: Downloaders aware of service. Base sizes vary.

E5. Based on everything you may have heard, seen, or experienced, please rate your overall perceptions of the following fee-based online digital music service(s)/download stores. Please use a scale of 1 to 5, where 1 is 'not at all favorable' and 5 is 'extremely favorable'.

Current Perceptions of Fee-based Services

Fee-based Downloaders vs. Non Fee-based Downloaders

- Interestingly, Fee-based Downloaders and Non Fee-based Downloaders have similar perceptions of most fee-based offerings.
- However, Fee-based Downloaders are more likely than Non Fee-based Downloaders to have favorable perceptions of iTunes, Walmart.com and AOL's MusicNet.



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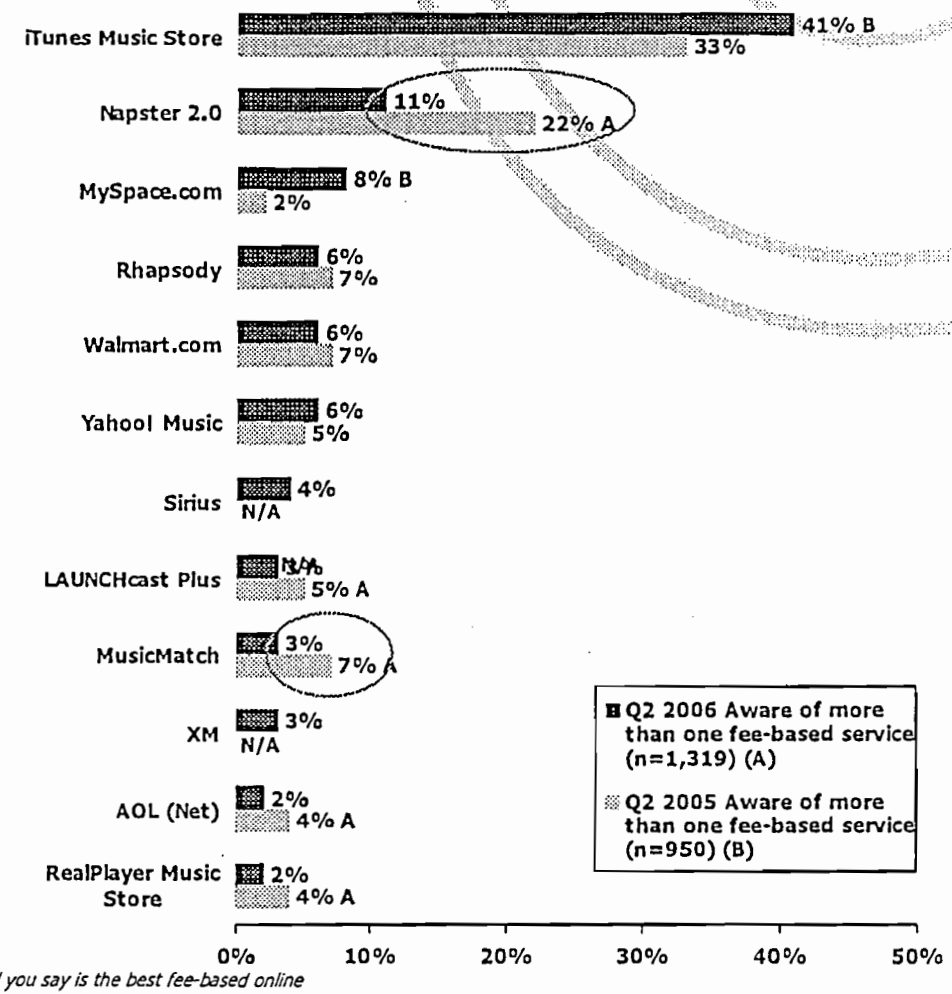
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: Downloaders who have used the fee-based service. Base sizes vary.

Best Fee-Based Service

Year Over Year

- Overall, one in four (41%) Downloaders aware of more than one fee-based digital music service rate iTunes as the 'best' fee-based service.
  - Napster and MySpace follow as the second most frequently mentioned 'best' brands.
- Interestingly, perceptions of Napster as one of the 'best' fee-based services have eroded considerably since last year.



E6. Again, based on everything you may have heard, seen, or experienced, which of the following would you say is the best fee-based online digital music service or download store?

Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

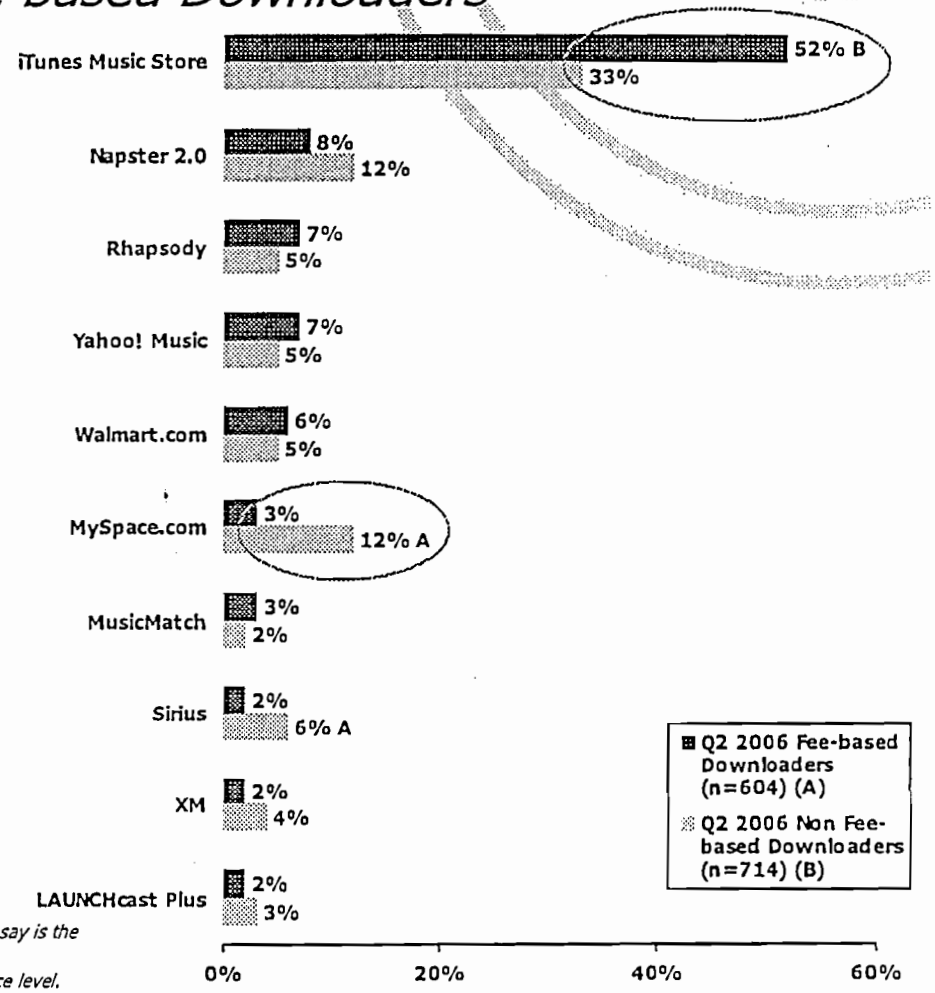
Note: Data less than 2% is not shown

Base: Aware of more than one fee-based site

Best Fee-Based Service

Fee-based Downloaders vs. Non Fee-based Downloaders

- Fee-based Downloaders aware of more than one fee-based digital music service are significantly more likely than Non Fee-based Downloaders to rate iTunes as the 'best' fee-based service.
  - Non Fee-based Downloaders, however, are notably more likely than Fee-based Downloaders to rate MySpace as the 'best' fee-based service.



E6. Again, based on everything you may have heard, seen, or experienced, which of the following would you say is the best fee-based online digital music service or download store?

Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Note: Data less than 2% is not shown

Base: Aware of more than one fee-based site

Reasons Behind 'Best' Perceptions

- The two primary reasons behind digital music services being seen as 'best' are their perceived ease of use and having the best selection of music.
  - Meanwhile, Walmart.com is considered 'best' because of its good prices.
  - Interestingly, Downloaders that rated iTunes Music Store as the 'best' are most likely to indicate this was because the service is most compatible with their system/MP3 player.

	iTunes (n=546) (A)	Napster 2.0 (n=139) (B)	Rhapsody (n=79) (C)	Yahoo! Music (n=77) (D)	Walmart.com (n=73) (E)	MySpace.com (n=102) (F)	Sirius (n=59) (G)	MusicMatch (n=34) (H)	XM (n=40) (I)	LAUNCHcast Plus (n=34) (J)
Best selection available	27%	19%	32% F	28%	21%	15%	17%	18%	43% ABEF	30%
Easy to use	24% BEGIJ	10%	22% BGI	19% GI	10%	13%	3%	19% GJ	3%	8%
Compatible with my system/ mp3 player	17% BCDEFGIJ	1%	1%	1%	3%	-	-	7% BF	4%	3%
It's the one I use/ only one I have used	17% BG	7%	15% G	21% BG	15% G	11%	3%	22% BG	8%	21% BG
Most popular/ well known	11% DHJ	14% CDHIJ	4%	2%	8%	8%	7%	-	2%	-
Best price/ cheapest	10% G	7%	12% G	22% ABGI	47% ABCDFGHIJ	15% GI	-	11% G	2%	10%
I have heard of it (unspecified)	5%	13% ADEFI	10% EF	2%		1%	15% ADEFI	3%	2%	8% F
Recommendation from friends/ family	5%	5%	3%	1%	1%	6%	16% ABCDE	8% DE	9% DE	4%
High/ good quality	4% B	-	2%	-	1%	3%	-	2%	-	-
Well-organized/ professional	4% F	3%	1%	2%	-	-	-	-	-	-
Fast/ good download speed	2%	2%	2%	1%	1%	1%	1%	1%	-	2%
No previous problems/ no problems yet	2%	0%	2%	4%	-	-	2%	-	-	4%
I like it (unspecified)	2%	1%	6%	6%	3%	7%	1%	6%	13% ABEG	4%
Brand/ website preference	2%	0%	1%	10% ABCGI	3%	10% ABI	-	4%	-	6% B
Reliable	1%	-	-	5% ABCF	4% ABF	-	-	-	-	3% B

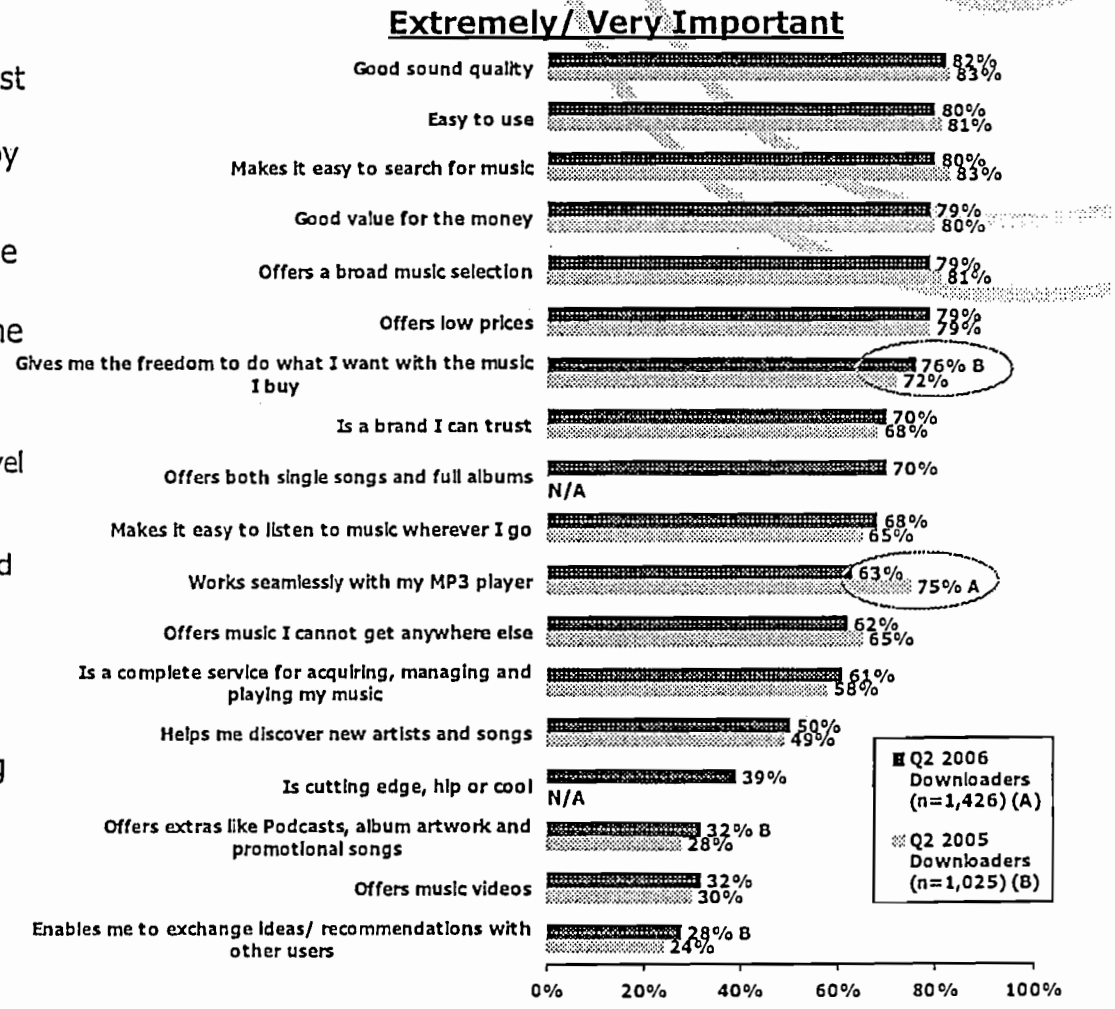
E7. Why do you say ... is the best fee-based online digital music service?
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.
Note: Sites selected as 'best' by less than 2% are not shown

Base: Downloaders who rated service as 'best'

Importance of Fee-based Service Attributes

Year Over Year

- Good sound quality continues to be the most important online fee-based digital music service attribute in 2006, followed closely by ease of use and ease of searching.
- Over the past year, the importance of online fee-based digital music services having flexible usage rights has increased, while the importance of seamless MP3 player compatibility has decreased.
  - This shift may suggest an increase in the level of consumer sophistication, with a greater proportion of the market becoming more comfortable with cross-brand MP3 player and service usage and, at the same time, more demanding regarding file usage freedom.
- Extras like album artwork and the ability to share ideas with others have grown in importance since Summer 2005, suggesting that these features may help differentiate competitive services from one another.



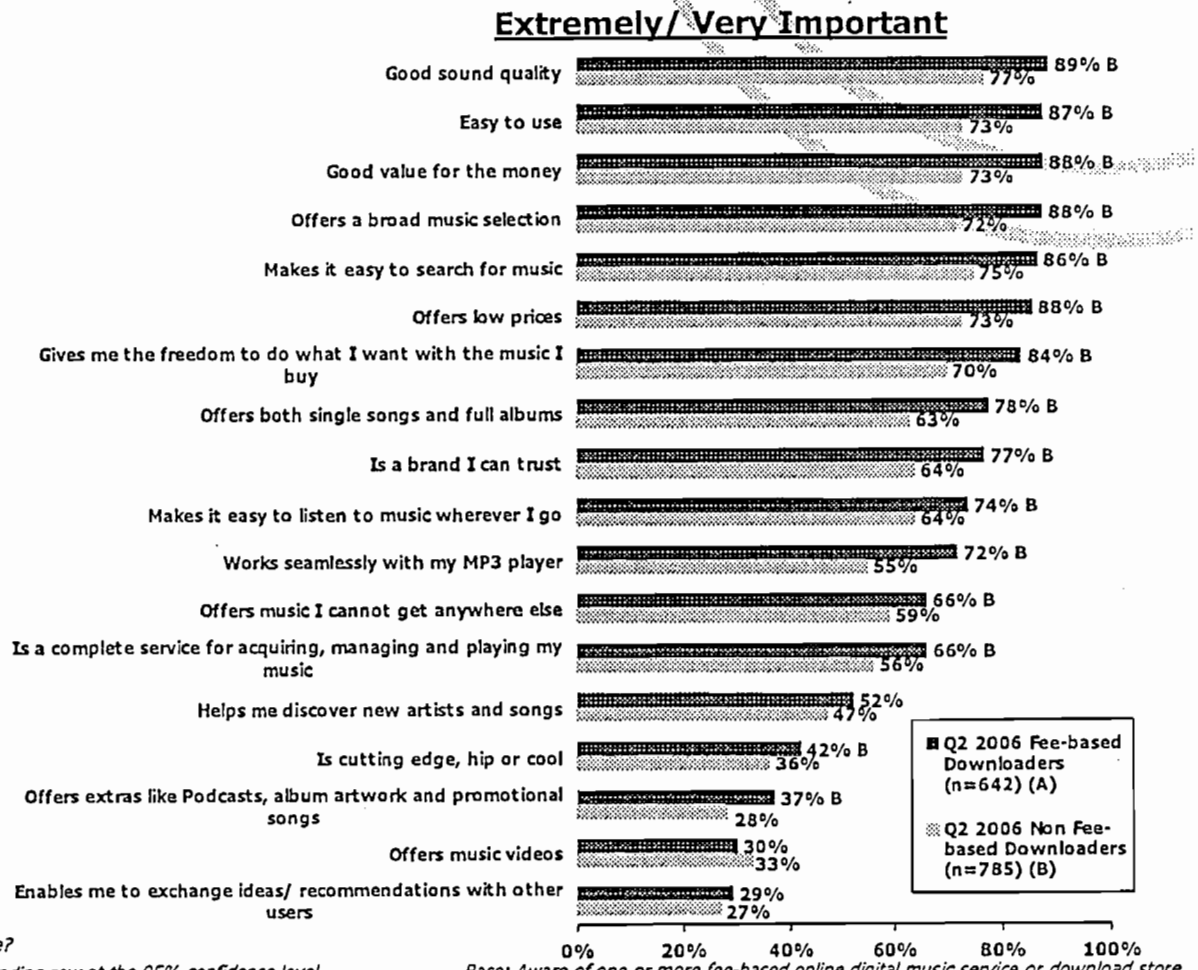
E8. Now please indicate how important the following attributes are when deciding which fee-based online digital music service or download store to use?
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: Aware of one or more fee-based online digital music service or download store

Importance of Fee-based Service Attributes

Fee-based Downloaders vs. Non Fee-based Downloaders

- Fee-based Downloaders are significantly more likely to rate many fee-based digital music service qualities as important when choosing a service to use; most notably:
  - Good sound quality;
  - Ease of use;
  - Good value for the money/ low prices;
  - Broad music selection;
  - Ease of searching for music; and,
  - File usage freedom.



E8. Now please indicate how important the following attributes are when deciding which fee-based online digital music service or download store to use?
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: Aware of one or more fee-based online digital music service or download store.

Importance of Fee-based Service Attributes

Demographics

- Women are more likely than men to indicate that it is important to them that a fee-based digital music service offers a complete solution, includes both single songs and full albums, and enables discovery of new music.
- In general, teen Downloaders are more interested in portability, image and music video availability.

	Total (n=1,426)	Gender: Male (n=893) (A)	Gender: Female (n=534) (B)	Age: 12-17 (n=254) (A)	Age: 18-24 (n=358) (B)	Age: 25-34 (n=305) (C)	Age: 35-54 (n=414) (D)	Age: 55+ (n=96) (E)
Good sound quality	82%	81%	84%	83%	82%	82%	83%	84%
Makes it easy to search for music	80%	79%	82%	84%	78%	81%	80%	80%
Easy to use	80%	78%	83%	83%	76%	79%	81%	83%
Good value for the money	79%	78%	82%	77%	79%	81%	80%	81%
Offers low prices	79%	78%	82%	79%	79%	80%	79%	82%
Offers a broad music selection	79%	77%	82%	78%	76%	81%	80%	83%
Gives me the freedom to do what I want with the music I buy	76%	75%	78%	75%	80%	76%	74%	77%
Offers both single songs and full albums	70%	67%	75% A	68%	70%	74%	69%	69%
Is a brand I can trust	70%	69%	71%	70%	69%	69%	72%	67%
Makes it easy to listen to music wherever I go	68%	66%	71%	74% DE	68%	70% E	66%	58%
Works seamlessly with my MP3 player	63%	64%	62%	73% CDE	66% E	64% E	58% E	46%
Offers music I cannot get anywhere else	62%	61%	63%	61%	64%	65%	59%	59%
Is a complete service for acquiring, managing and playing my music	61%	58%	65% A	65%	62%	59%	58%	58%
Helps me discover new artists and songs	50%	47%	54% A	58% DE	49%	55% DE	42%	40%
Is cutting edge, hip or cool	39%	38%	40%	59% BCDE	36%	44% DE	28%	25%
Offers extras like Podcasts, album artwork and promotional songs	32%	34%	29%	39% DE	36% DE	35% DE	25%	24%
Offers music videos	32%	32%	31%	42% CDE	43% CDE	26%	21%	24%
Enables me to exchange ideas/ recommendations with other users	28%	28%	27%	33% DE	32% DE	32% DE	20%	20%

E8. Now please indicate how important the following attributes are when deciding which fee-based online digital music service or download store to use?
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level. *Base: Aware of one or more fee-based online digital music service or download store*

Fee-based Digital Music Service Brand Perceptions

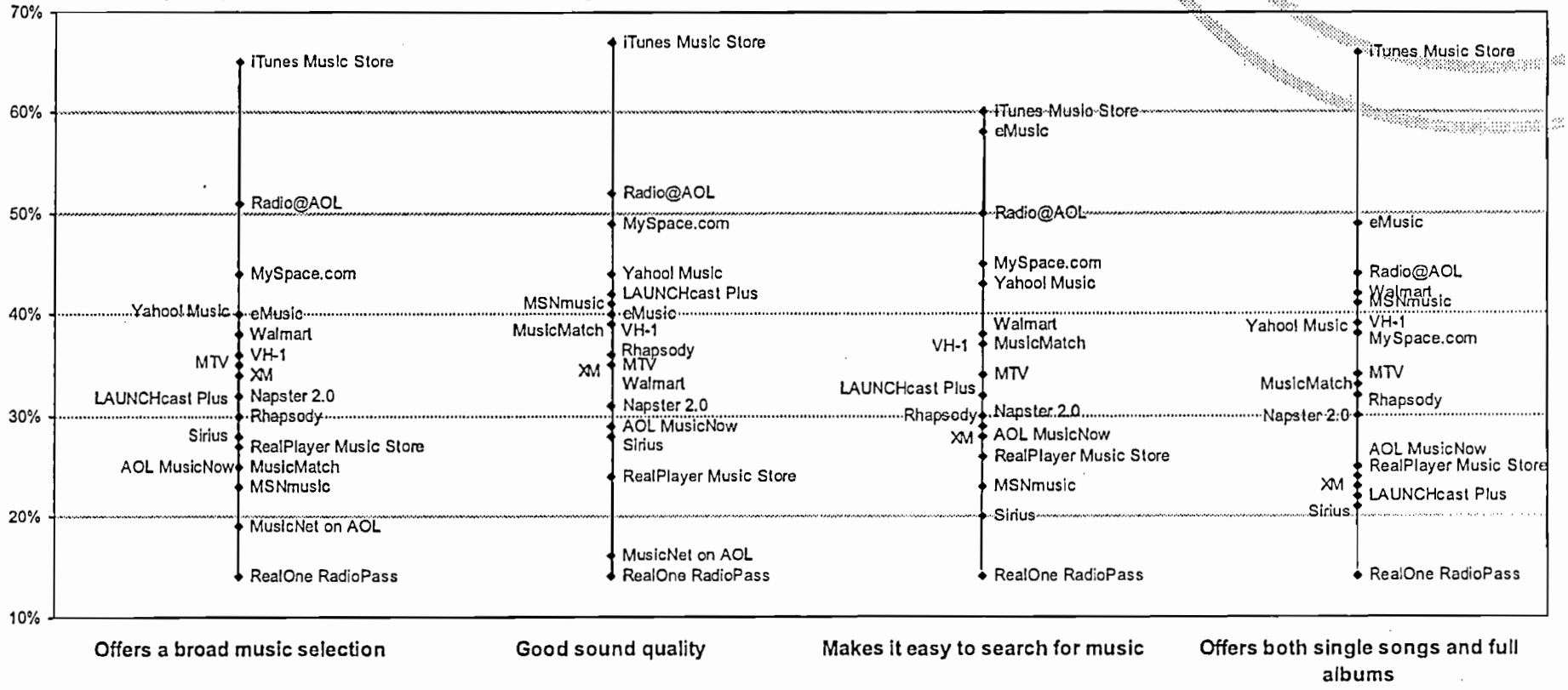
Isotherms

- The following slides represent a summary of top 2 box ratings for each online service brand and attribute tested, on an 5-point scale.
  - Downloaders rated up to three randomly selected fee-based digital music services of which they were aware.
- This graphical presentation allows a view of the relative distance between brands' ratings for each attribute, as well as the magnitude of differentiation across all brands tested.
- In addition, this summary shows the importance of each attribute relative to the others among Downloaders.

Fee-based Digital Music Service Brand Perceptions

Isotherms

- iTunes is considered the leading brand among Downloaders on the attributes 'broad selection of music', 'has good sound quality', and 'offers both single songs and full albums'.



E9t. Now we would like to ask you how well these phrases describe various fee-based online digital music services. Using a scale of 1 to 5, Where 1 'does not describe at all' and 5 'describes completely,' please indicate how well each of the following phrases describe ... ?

** Tracking data for this page can be found in TEMPO Q2 2004 and Q2 2005.*

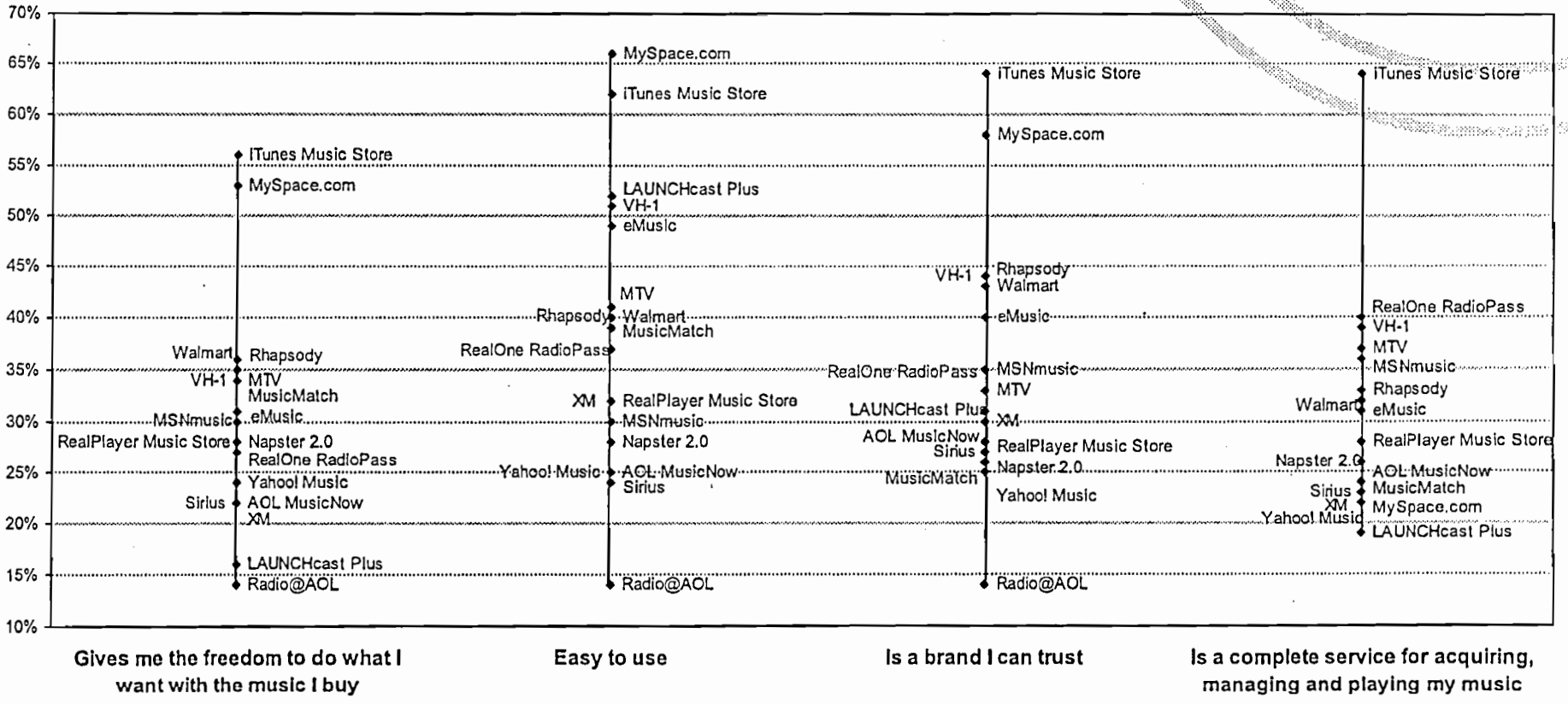
Base: US Downloaders aware of & selected to rate respective service

Caution: Small base sizes for URGE, LAUNCHcast, Radio@AOL, eMusic, Sony, MSNmusic, RealOne, MusicNet, fye.com, Virgin, Streamwaves

Fee-based Digital Music Service Brand Perceptions

Isotherms

- MySpace is perceived similarly to iTunes in terms of allowing file usage freedom, ease of use, and brand trustworthiness.



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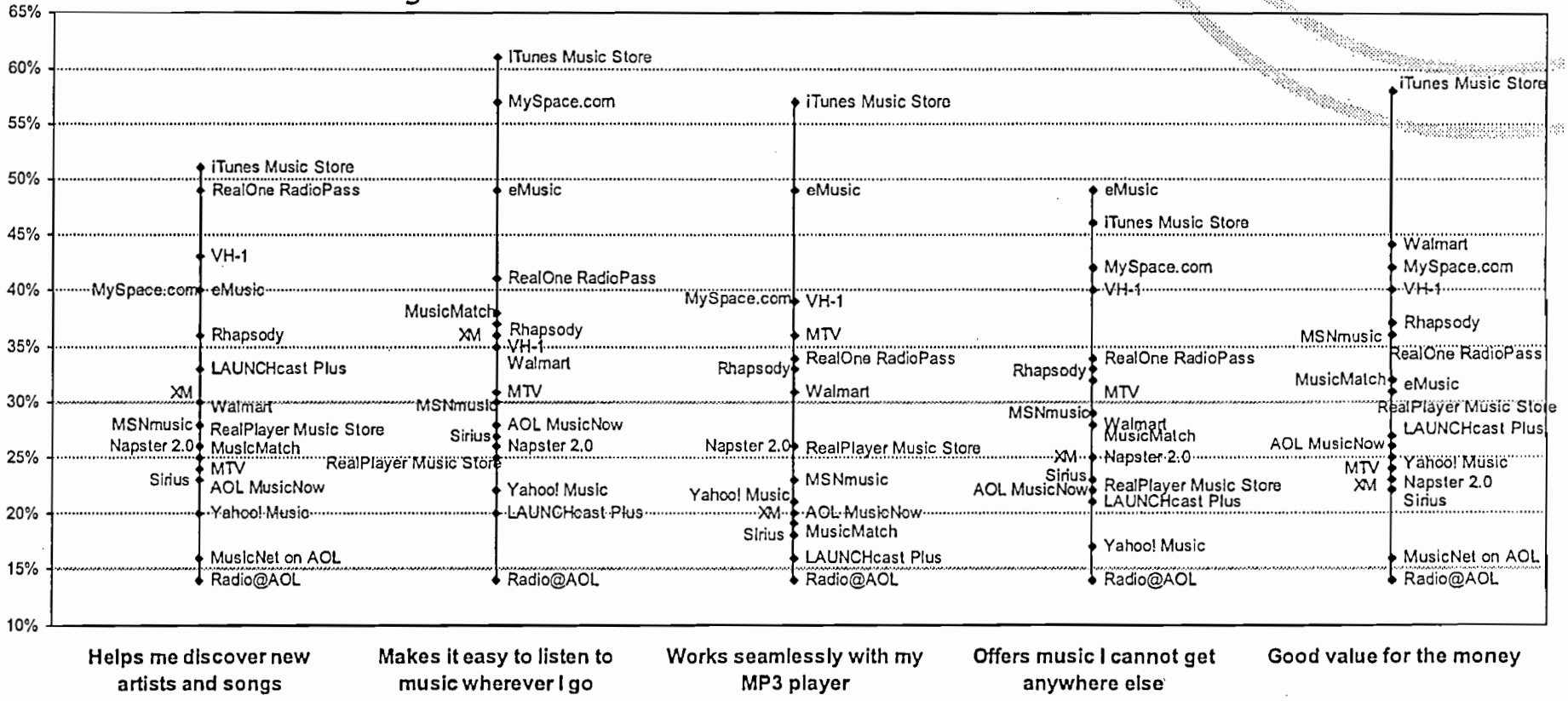
Fee-based Digital Music Service Brand Perceptions

Isotherms

- Despite its overall dominance, iTunes is not a definitive leader in terms of new music discovery and exclusive music offerings.



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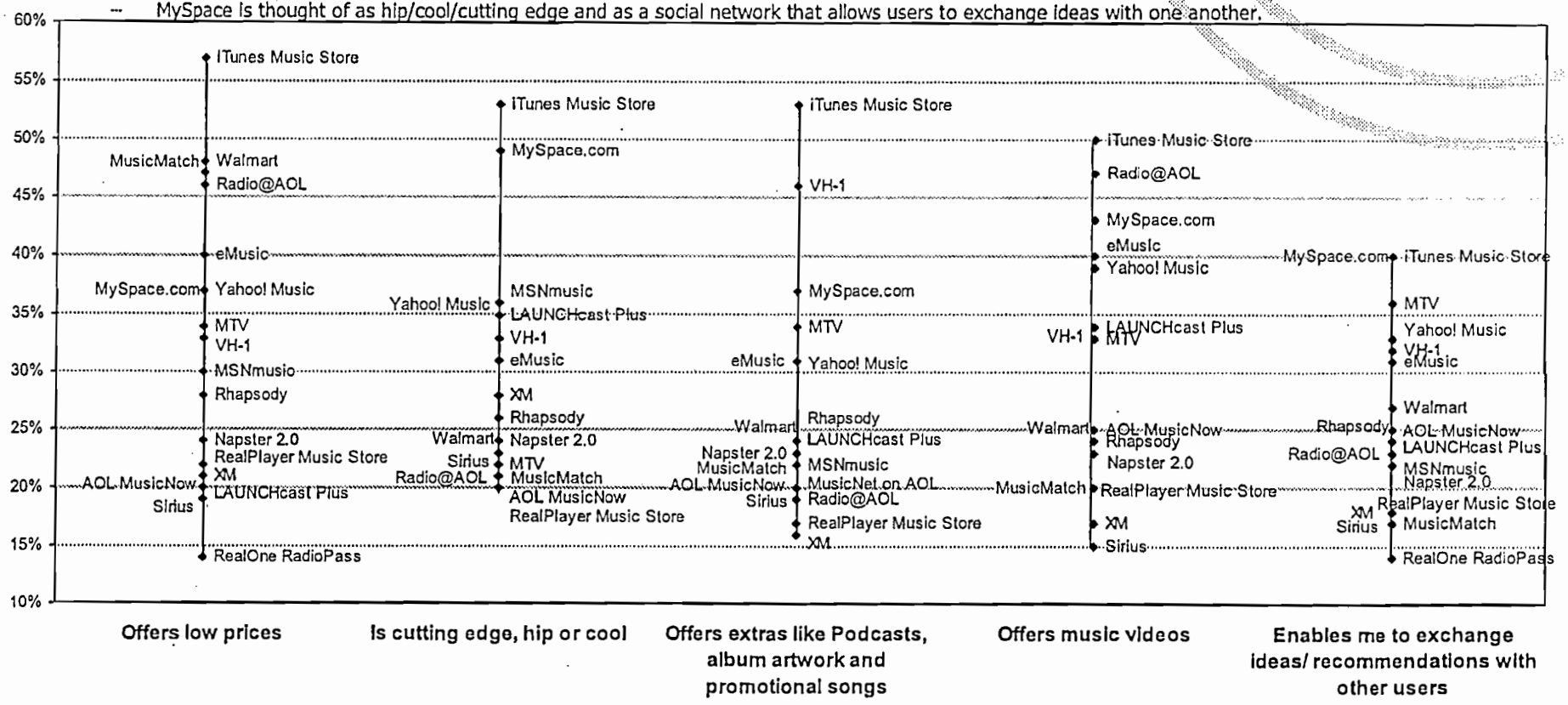
Base: US Downloaders aware of & selected to rate respective service

Caution: Small base sizes for URGE, LAUNCHcast, Radio@AOL, eMusic, Sony, MSNmusic, RealOne, MusicNet, fye.com, Virgin, Streamwaves

Fee-based Digital Music Service Brand Perceptions

Isotherms

- In the areas of price, image, digital extras and community, an even wider variety of brands compete alongside iTunes dominance.
  - MusicMatch, Walmart.com and Radio@AOL are all thought to offer low prices.
  - MySpace is thought of as hip/cool/cutting edge and as a social network that allows users to exchange ideas with one another.



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Base: US Downloaders aware of & selected to rate respective service

Caution: Small base sizes for URGE, LAUNCHcast, Radio@AOL, eMusic, Sony, MSNmusic, RealOne, MusicNet, fye.com, Virgin, Streamwaves

Fee-based Digital Music Service Brand Perceptions

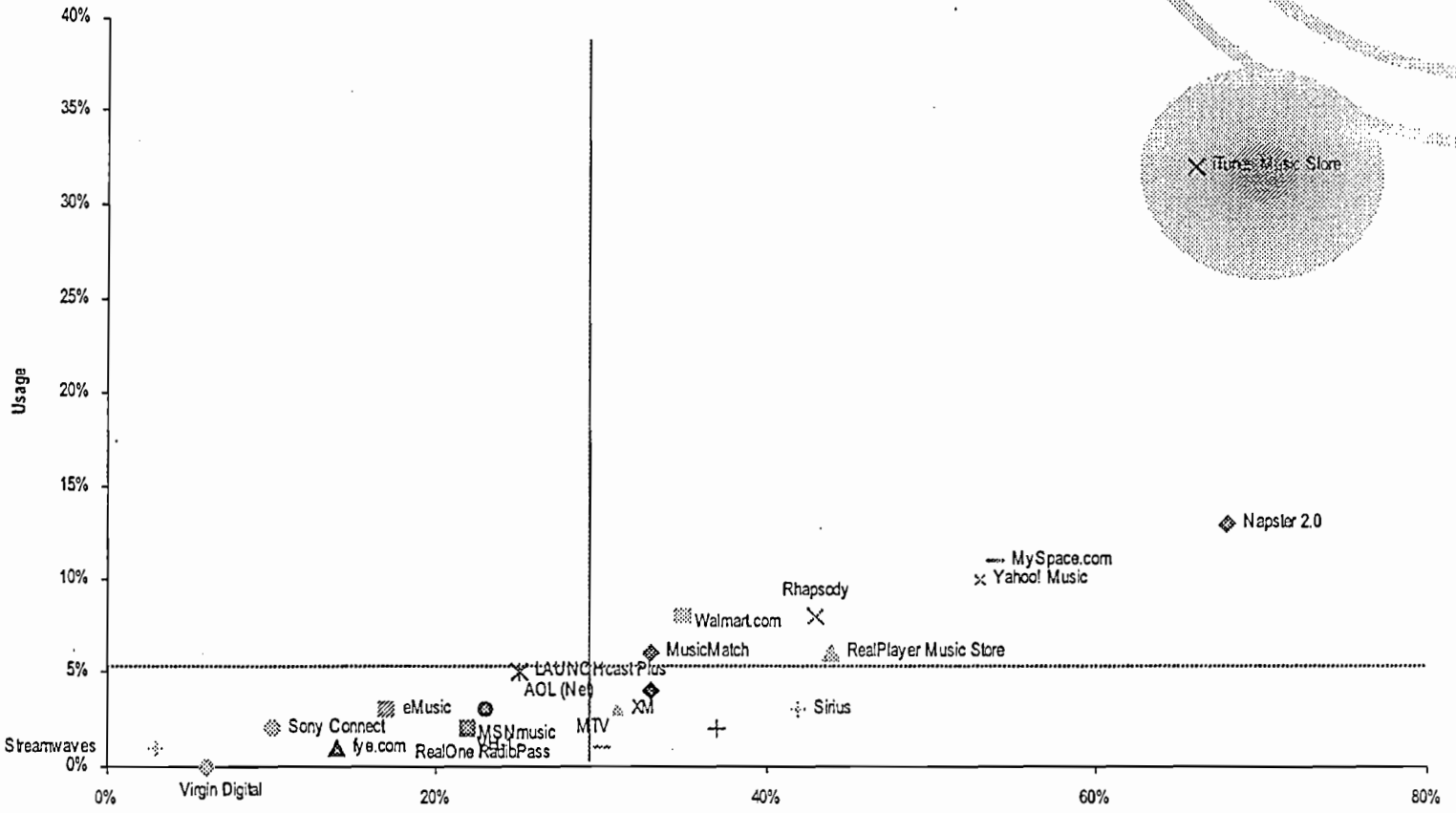
Multi-Variable Plotting

- In this analysis, we have crossed variable attributes against each other to determine the placement of all fee-based service brands relative to each other as well as relative to the attributes.
- For example, in the first Multi-variable Plotting, awareness of the brands is measured against usage of the fee-based services.
  - Brands that appear in the upper right quadrant have higher awareness AND usage, whereas brands that fall into the lower left quadrant of the map have both low awareness and usage.
- Variables displayed together in the plottings include:
  - Awareness vs. Usage
  - Awareness vs. Best Brand
  - Favorability vs. Good Value for the Money
  - Favorability vs. Easy to Use
- Tracking data for this analysis can be found in the TEMPO Q2 2005 report, available under separate cover on the TEMPO Online Archive.

Fee-based Digital Music Service Brand Perceptions

Awareness vs. Usage

- Compared to all fee-based downloading services, iTunes and Napster 2.0 are the most well known and used services.
  - As noted earlier, both awareness for and usage of Napster 2.0 declined over the past year, leaving iTunes in the dominant position.



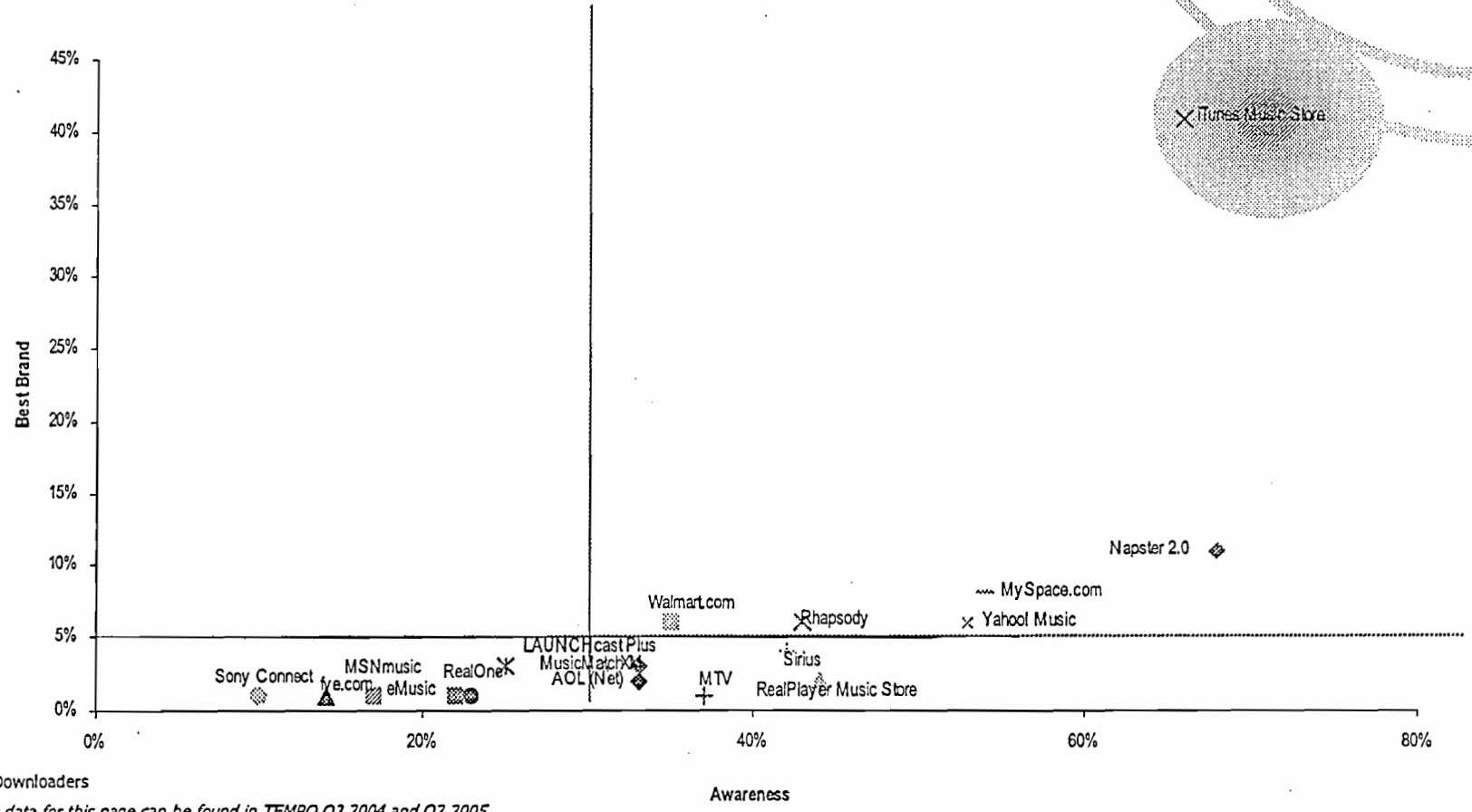
Base: US Downloaders

** Tracking data for this page can be found in TEMPO Q2 2004 and Q2 2005.*

Fee-based Digital Music Service Brand Perceptions

Awareness vs. Best Brand

- Similar to the correlation between awareness and usage, iTunes and Napster 2.0 are the industry leaders with regard to awareness and best brand, with iTunes' lead strengthening.



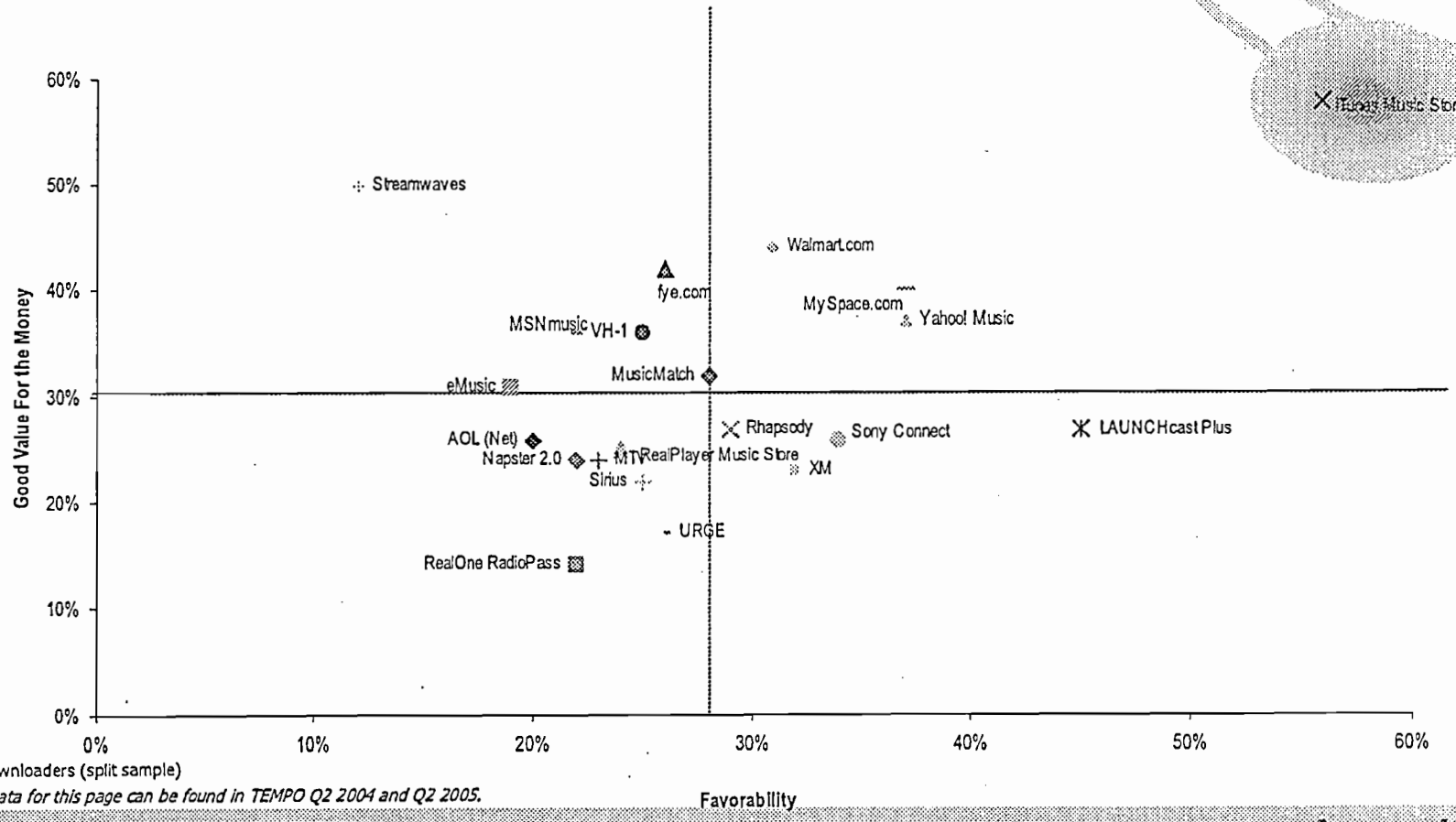
Base: US Downloaders

** Tracking data for this page can be found in TEMPO Q2 2004 and Q2 2005.*

Fee-based Digital Music Service Brand Perceptions

Favorability vs. Value

- iTunes, Walmart.com, MySpace.com and Yahoo! Music are deemed the most favorable services that offer the best value for the money.



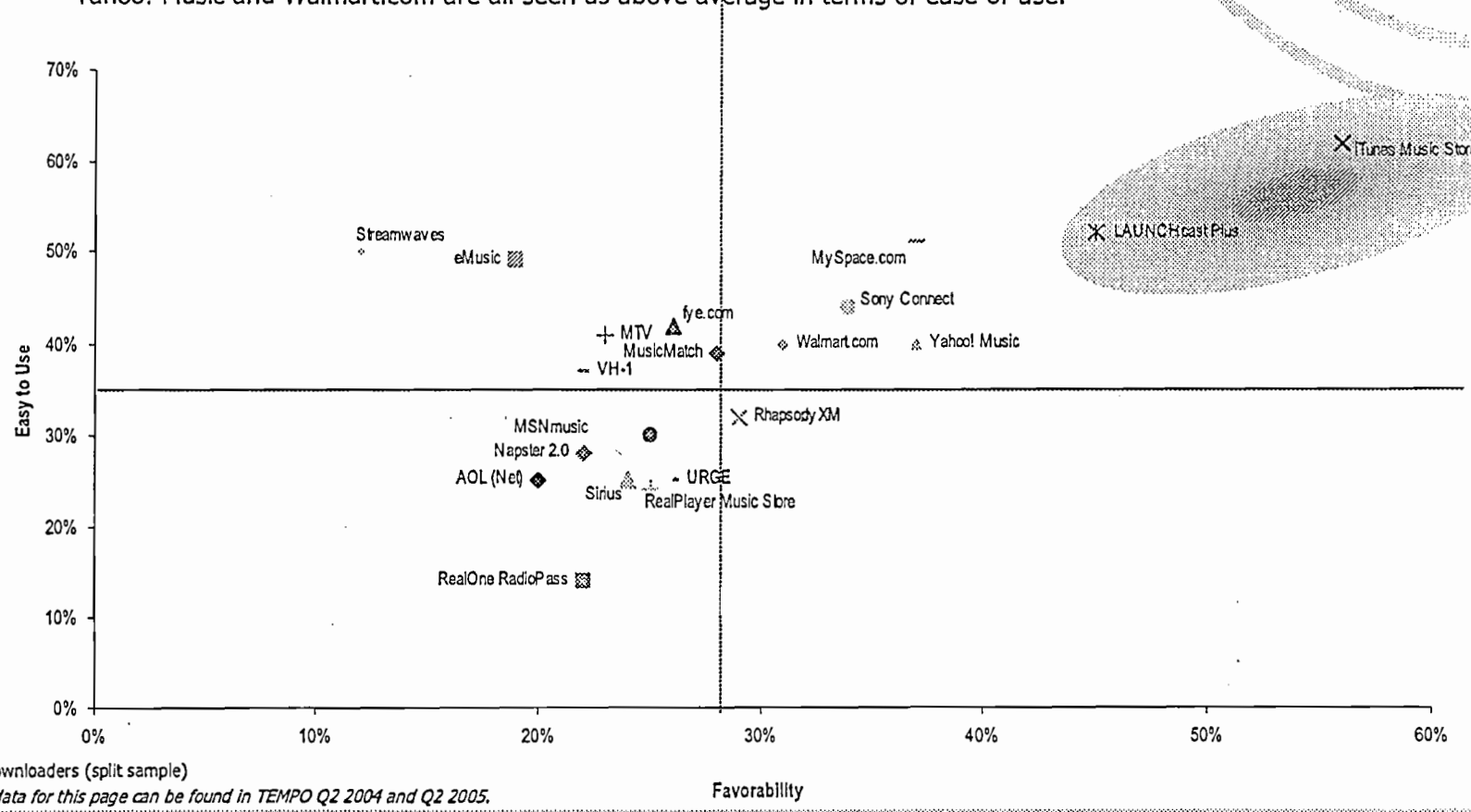
Base: US Downloaders (split sample)

** Tracking data for this page can be found in TEMPO Q2 2004 and Q2 2005.*

Fee-based Digital Music Service Brand Perceptions

Favorability vs. Easy of Use

- iTunes and LAUNCHcast Plus demonstrate the highest levels of both ease of use and favorability
  - There is less differentiation among the other services with regard to these attributes, although MySpace.com, Sony Connect, Yahoo! Music and Walmart.com are all seen as above average in terms of ease of use.



Base: US Downloaders (split sample)

** Tracking data for this page can be found in TEMPO Q2 2004 and Q2 2005.*

Fee-based Digital Music Service Brand Perceptions

Perceptual Mapping

- In order to better analyze the perceptions of the competitive fee-based digital music service landscape, as well as the brand mindshare among Downloaders, the technique of perceptual mapping was employed.
- Perceptual Mapping is the graphical representation of the association between brands and their perceived attributes.
- Specifically, Perceptual Mapping allows you to better understand the following relationships:
  - Brands close together imply substitutability.
  - Attributes close together describe the same idea or theme.
  - Attributes close to the brand mean that the attribute(s) is associated with that brand.
  - Brands close the center imply general appeal but also lack differentiation.

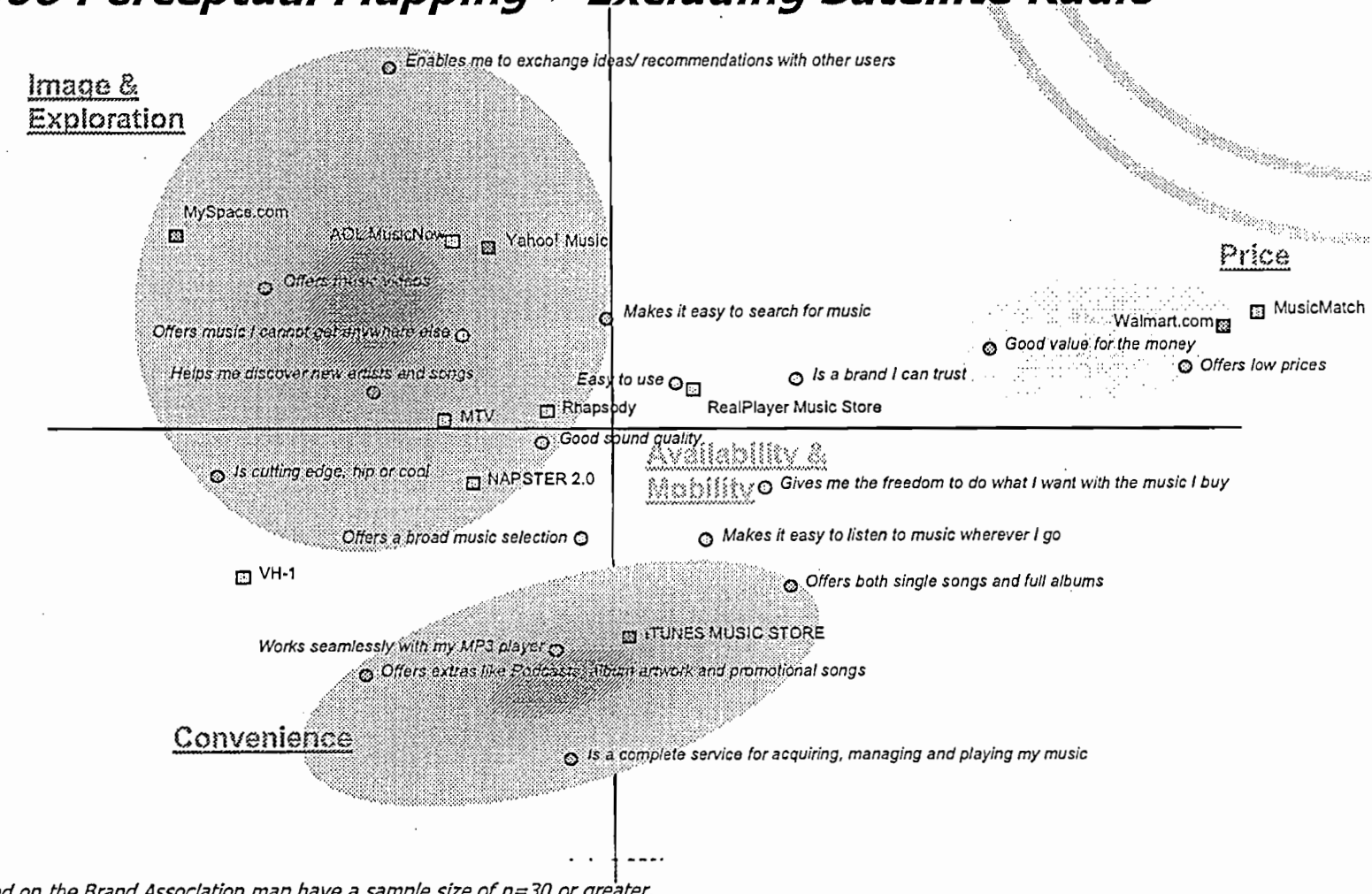
Fee-based Digital Music Service Brand Perceptions

Perceptual Mapping

- In the brand maps illustrated on the following pages, clear and consistent attribute and brand associations emerge:
  - Walmart.com is the brand most closely associated with price-related attributes such as "good value for the money" and "low price", similar to Q2 2005.
  - iTunes is most closely associated with being a complete music service, offering both single songs and full albums, offering extras like Podcasts and working seamlessly with MP3 players.
  - Image-oriented attributes such as "hip/cool/cutting edge" and exploration-related attributes such as "helps me discover new artists and songs" and "enables me to exchange ideas/recommendations with other users" are shared among a variety of websites, including MTV, AOL MusicNow, Napster 2.0 and MySpace.com.
    - These findings are consistent with those from Summer 2005.
  - Interestingly, certain key attributes that were once more highly differentiated no longer are. "Good sound quality," for example, is no longer owned by a small group of brands, and is now thought to be associated with nearly all online fee-based services.
  - When satellite radio is thrown into the mix, convenience-related attributes become less clearly associated with the various fee-based sites, with availability- and mobility-related attributes distinguishing satellite radio services from their online peers.
    - Sirius is the most closely-related brand to "offers a broad music selection," "offers music I cannot get anywhere else," "makes it easy for me to take my music anywhere" and "helps me discovery new artists and songs."

Fee-based Digital Music Service Brand Perceptions

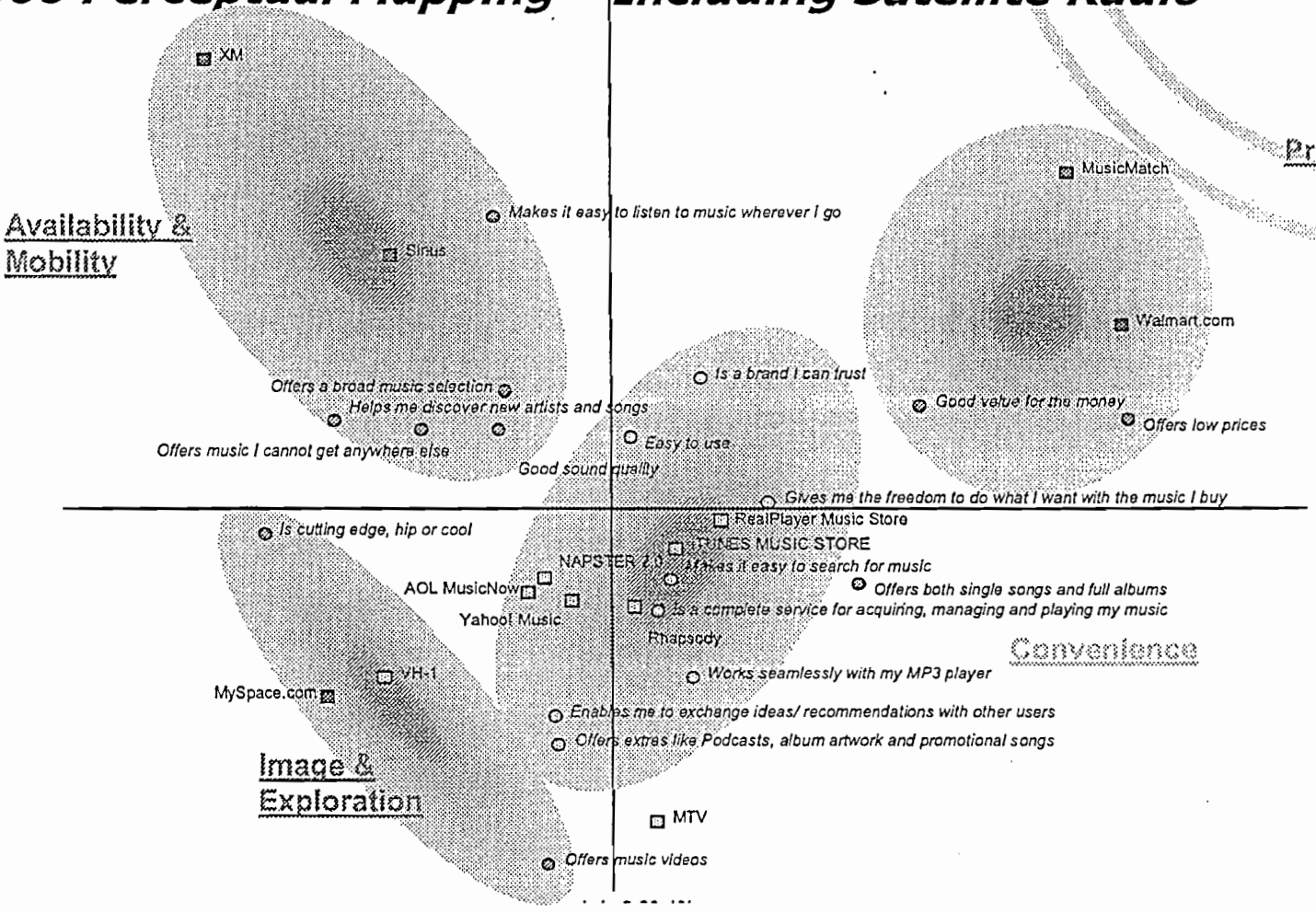
Q2 2006 Perceptual Mapping – Excluding Satellite Radio



*Brands represented on the Brand Association map have a sample size of n=30 or greater.

Fee-based Digital Music Service Brand Perceptions

Q2 2006 Perceptual Mapping – Including Satellite Radio



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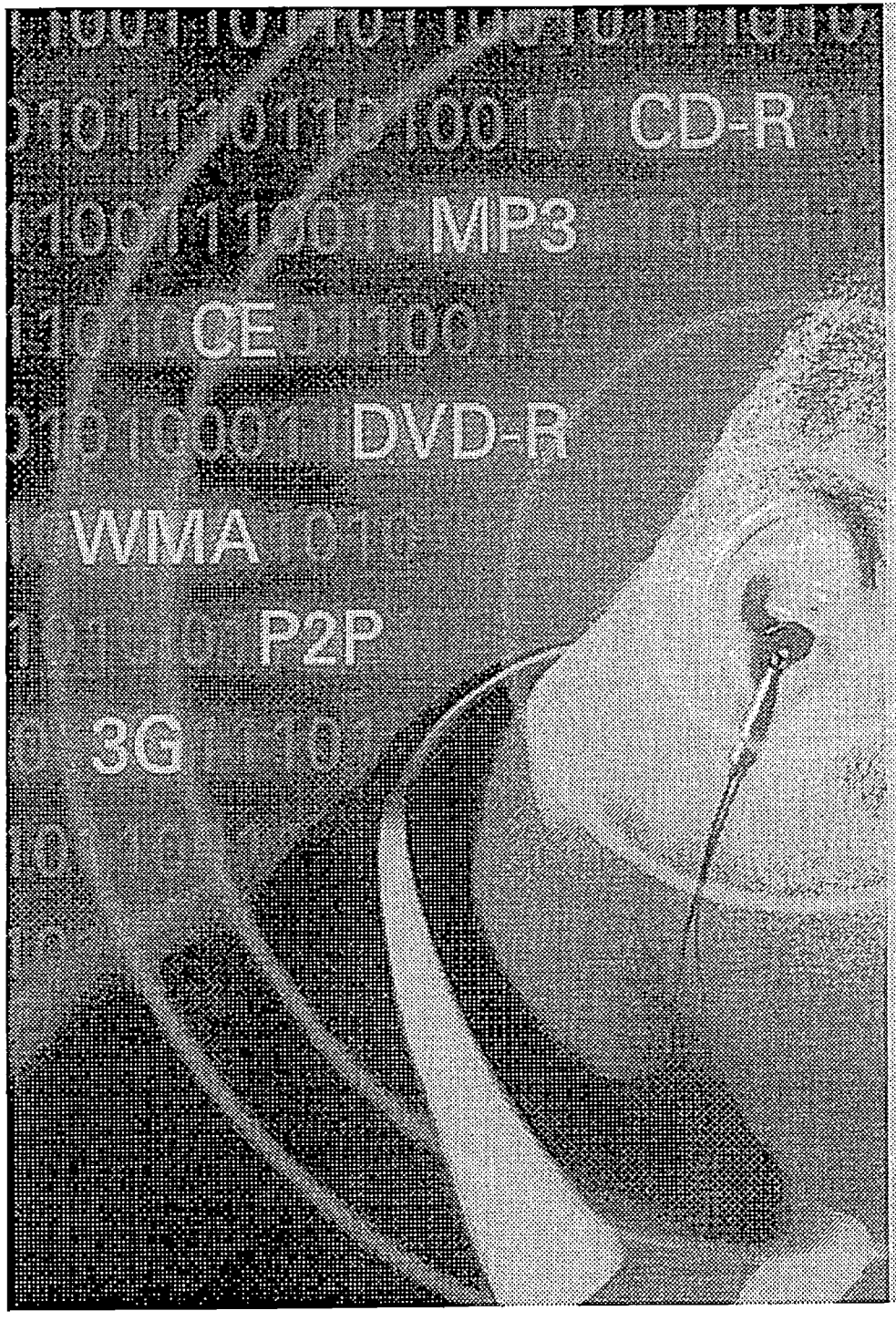


Ipsos

TEMPO:

Keeping Pace with Digital Music Behavior

Broader Digital Media Behaviors

- October 2006 -

Other Digital Media Behaviors

- As the music industry continues to both define and integrate the role of specific digital music acquisition methods in the existing music marketplace, American consumers are also expanding their understanding of the varying digital music options available.

- Web-based subscription and a la carte services, mobile-delivered ringtones and full song downloads and an increasingly prominent satellite radio presence are among the growing digital music and, indeed, digital video options Americans are exploring in increasing numbers.

- In this edition of TEMPO, we examine how consumers view these methods of digital media acquisition, with the hope that a greater understanding will provide insights into how consumers think about, communicate and perceive the benefits and burdens of these unique digital media offerings.

Other Digital Media Activities

- The most common digital media activities Downloaders have experimented with outside of music are: streaming short video clips (58%) and streaming music videos (45%).
  - Young adults aged 18 to 24 are more likely than all other age groups to have streamed music videos and full-length motion pictures.

	Total (n=1,501)	Gender: Male (n=946) (A)	Gender: Female (n=555) (B)	Age: 12-17 (n=270) (A)	Age: 18-24 (n=375) (B)	Age: 25-34 (n=315) (C)	Age: 35-54 (n=435) (D)	Age: 55+ (n=105) (E)
Watched short video clips streamed on your PC while connected to the Internet (such as those shown on YouTube or Google Video)?	58%	62% B	51%	54%	61%	59%	56%	63%
Watched streamed music videos while you're connected to the Internet on your PC	45%	47%	43%	42% E	59% ACDE	43% E	40%	33%
Downloaded a movie trailer off of the Internet	33%	40% B	22%	22%	44% ADE	40% ADE	29% AE	18%
Downloaded a video game off the Internet	32%	35% B	28%	26%	38% A	33%	31%	29%
Downloaded music videos from the Internet	27%	30% B	22%	24% E	40% ADE	30% DE	20% E	11%
Downloaded or listened to a Podcast	20%	23% B	16%	15%	26% ADE	23% A	18%	16%
Downloaded a full-length motion picture from the Internet	16%	19% B	11%	10%	27% ACDE	17% ADE	12%	10%
Downloaded a television show off of the Internet	16%	19% B	11%	11% E	27% ADE	20% ADE	10% E	4%
Downloaded an audio book off of the Internet	12%	14% B	9%	4%	14% A	12% A	14% A	12% A

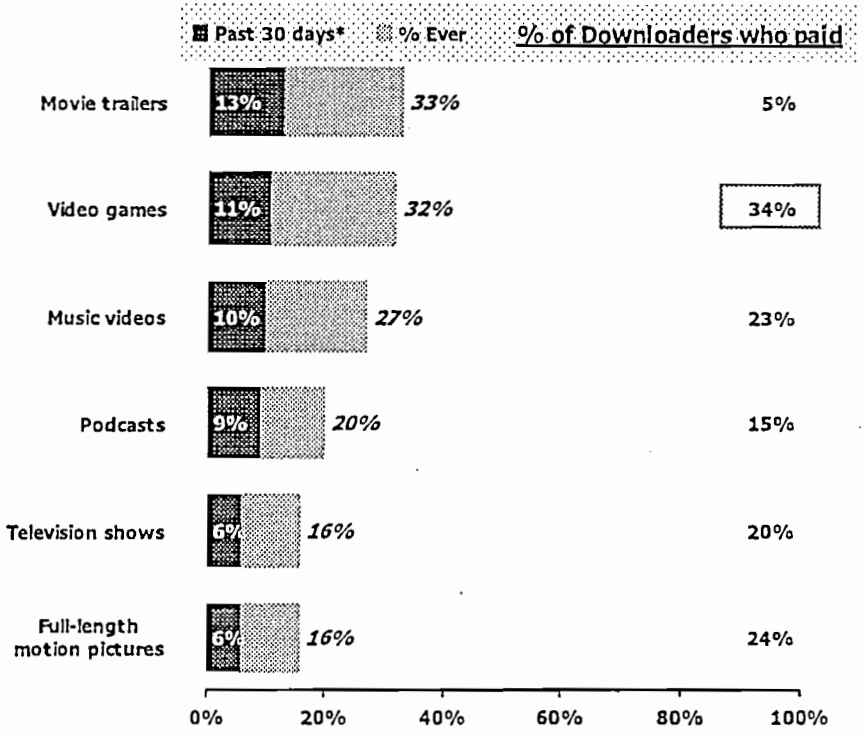
D4. Which of the following activities have you ever done?
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: US Downloaders

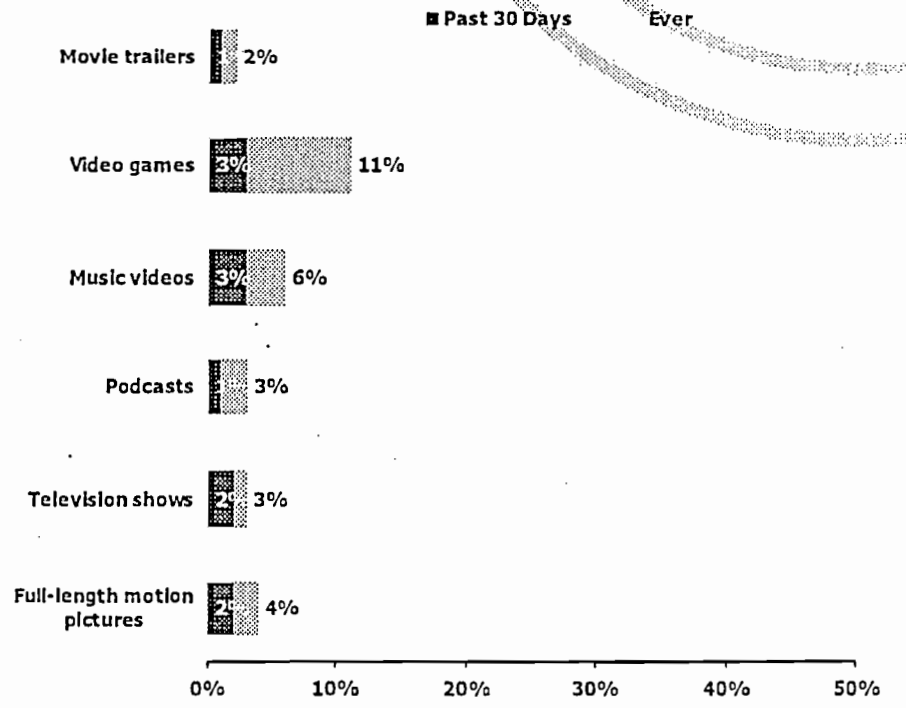
Other Digital Media Activities

Digital Video Downloading

Multimedia Downloading



Fee-based Multimedia Downloading Among All US Downloaders



D4. Which of the following activities have you ever done?
D4a. And which of the following activities have you done in the past 30 days?
D5. Which of the following types of digital files have you ever paid a fee to download off of the Internet?

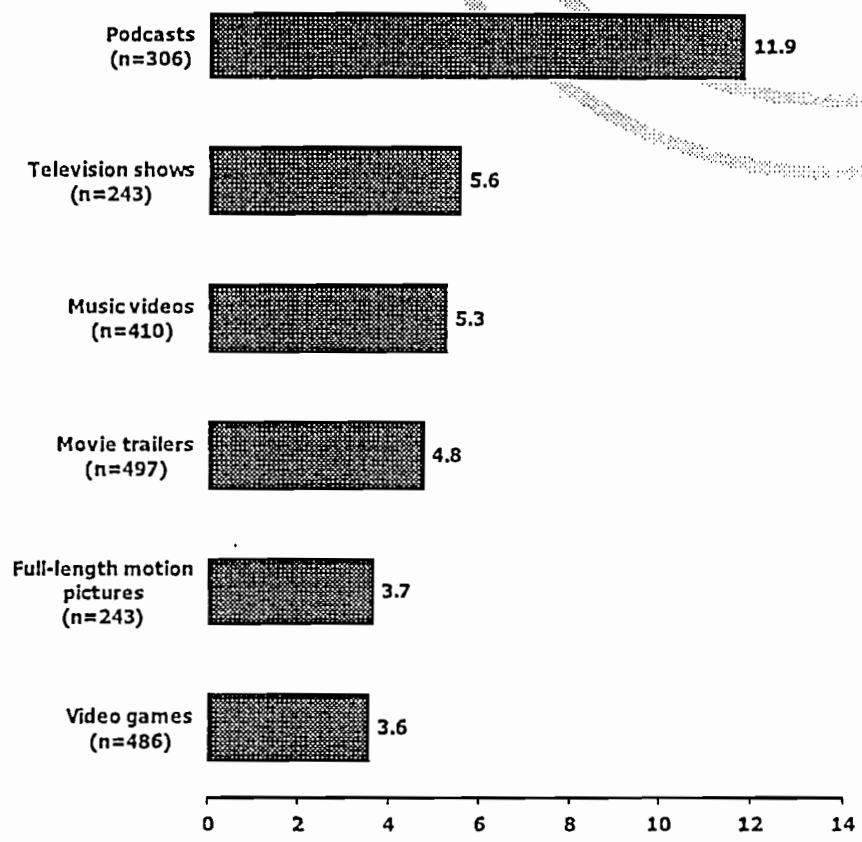
D5. Which of the following types of digital files have you ever paid a fee to download off of the Internet?
D5a. And, in the past 30 days, which of the following types of digital files have you paid a fee to download or stream off of the Internet?

Base: US Downloaders (n=1,501)

Average Number of Multimedia Files Downloaded

- Among the various types of multimedia files available, Podcasts were most frequently downloaded over the last six months.
  - Television shows and music videos are also frequently downloaded.
  - While many Downloaders have experimented with movie trailer and video game downloading, fewer video games are downloaded relative to other types of multimedia files.

Digital Multimedia Downloading – Past Six Months



B16. In the past six months, how many of the following types of digital files have you downloaded off the Internet?

Base: Downloaded this type of digital content

Future Likelihood of Media Acquisition

by Age & Gender

- Even with the prevalence of music downloading, US Downloaders continue to purchase physical CDs.
  - In the next year, males are more likely than females to subscribe to satellite radio or pay to download a music video. Females, on the other hand, are more likely to pay to download a ringtone to their mobile phone.
  - Teens and young adults are more likely than their older counterparts to download music from a file-sharing service and to pay to download a full song to their mobile phone.

	Total (n=1,501)	Gender: Male (n=946) (A)	Gender: Female (n=555) (B)	Age: 12-17 (n=270) (A)	Age: 18-24 (n=375) (B)	Age: 25-34 (n=315) (C)	Age: 35-54 (n=435) (D)	Age: 55+ (n=105) (E)
Purchase a physical CD	46%	44%	50%	49%	38%	46%	51% B	49%
Pay to download music	30%	30%	32%	37% CE	28%	29% E	32% E	20%
Download digital music from an online file-sharing service	30%	29%	30%	32% DE	41% CDE	30% DE	21%	16%
Pay to download a ringtone to your mobile phone	15%	12%	21% A	21% DE	21% DE	17% DE	8%	5%
Purchase a portable MP3 player	13%	14%	11%	16% DE	18% E	11%	11%	6%
Subscribe to satellite radio	11%	13% B	9%	9%	12%	11%	12%	14%
Subscribe to a fee-based online music subscription service	9%	10%	7%	10%	10%	10%	8%	8%
Pay to download a music video	7%	9% B	4%	10% D	8%	7%	4%	5%
Pay to download a full song to your mobile phone	7%	7%	7%	8% DE	10% DE	7% E	4%	3%
Pay to download a full-length motion picture	7%	8%	5%	6%	9%	8% D	4%	5%
Pay to download a TV show	5%	6%	4%	5%	5%	8% D	4%	3%
Pay to download a video clip to your mobile phone	5%	6%	4%	4%	8% DE	6% DE	3%	1%
Pay to download a Podcast	5%	5%	4%	5%	4%	6%	5%	2%

S2. [TOP2BOX SUMMARY] How likely are you to do each of the following in the next 12 months?
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: US Downloaders

Online Music Discovery

by Age & Gender

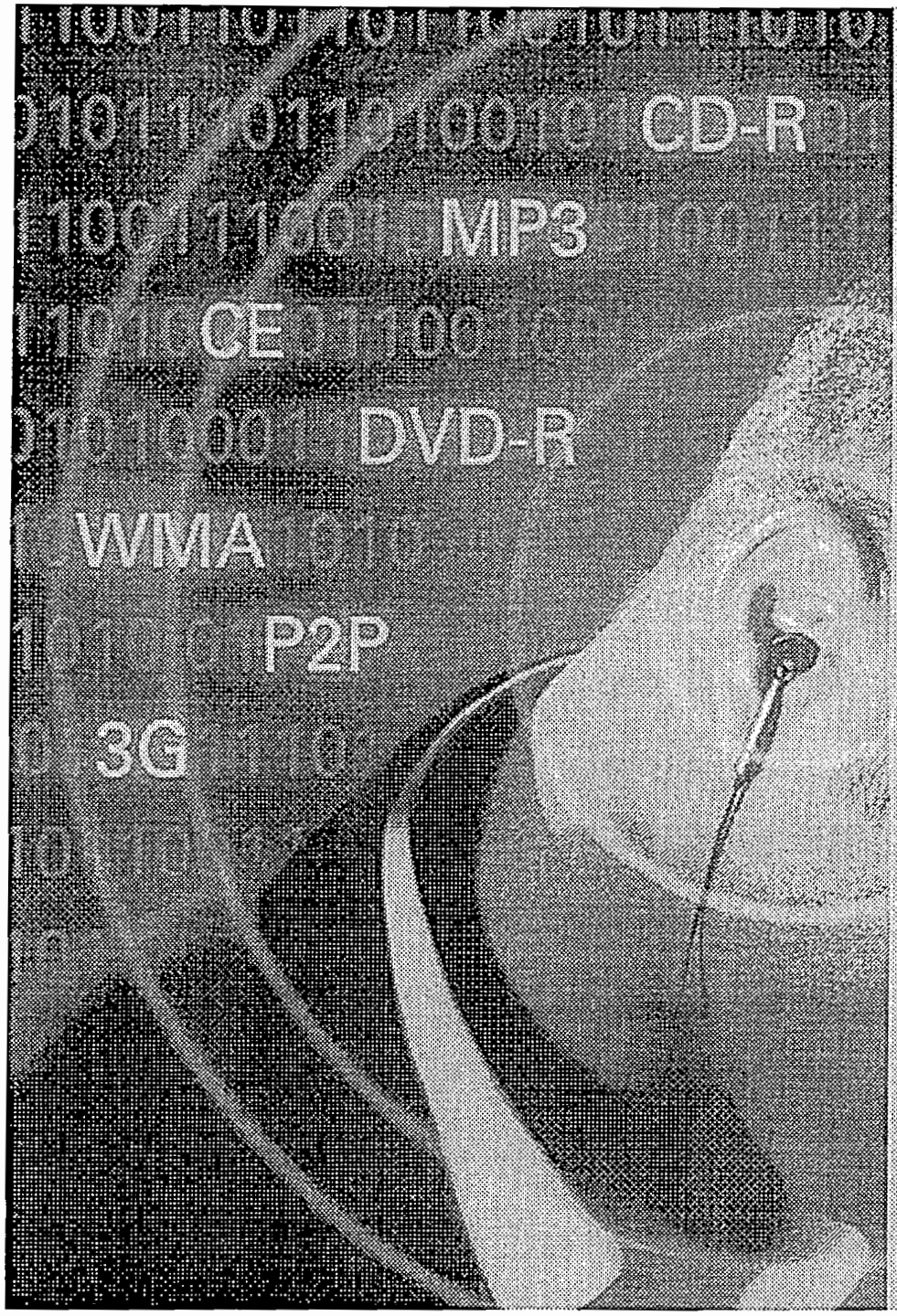
- Downloaders aged 12 to 34 have similar behaviors when it come to using the Internet for music-related purposes.
  - Along the same line, Downloaders 35 and up are more likely than younger Downloaders to not have used the Internet for any of these activities.

Currently Use the Internet To...	Total (n=1,501)	Gender: Male (n=946) (A)	Gender: Female (n=555) (B)	Age: 12-17 (n=270) (A)	Age: 18-24 (n=375) (B)	Age: 25-34 (n=315) (C)	Age: 35-54 (n=435) (D)	Age: 55+ (n=105) (E)
Hear a single or watch a video for the first time	37%	36%	39%	43% DE	45% DE	37% DE	30%	23%
Find out about upcoming concert dates	35%	32%	41% A	35% E	36% E	38% E	37% E	21%
Research bands online	33%	31%	36%	34% DE	41% DE	35% DE	27%	21%
Find out about upcoming releases	31%	30%	33%	37% DE	34% E	35% DE	26% E	17%
Discover new bands and music	29%	29%	30%	32% DE	36% DE	34% DE	22% E	14%
View exclusive photos or behind the scenes information	20%	19%	21%	26% DE	23% DE	21% DE	14%	9%
Participate in Fan Clubs, Artist Communities, Online Chats or Blogs with artists and/or fans	11%	9%	13%	15% DE	13% E	11% E	8%	4%
None of the above	35%	37%	31%	30%	30%	32%	40% ABC	55% ABCD

G1. Excluding downloading digital music (or MP3 files) or listening to Internet Radio/ streamed audio, do you currently use the Internet for any of the following music related purposes or services?

Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: US Downloaders



Ipsos

TEMPO:

Keeping Pace with Digital Music Behavior

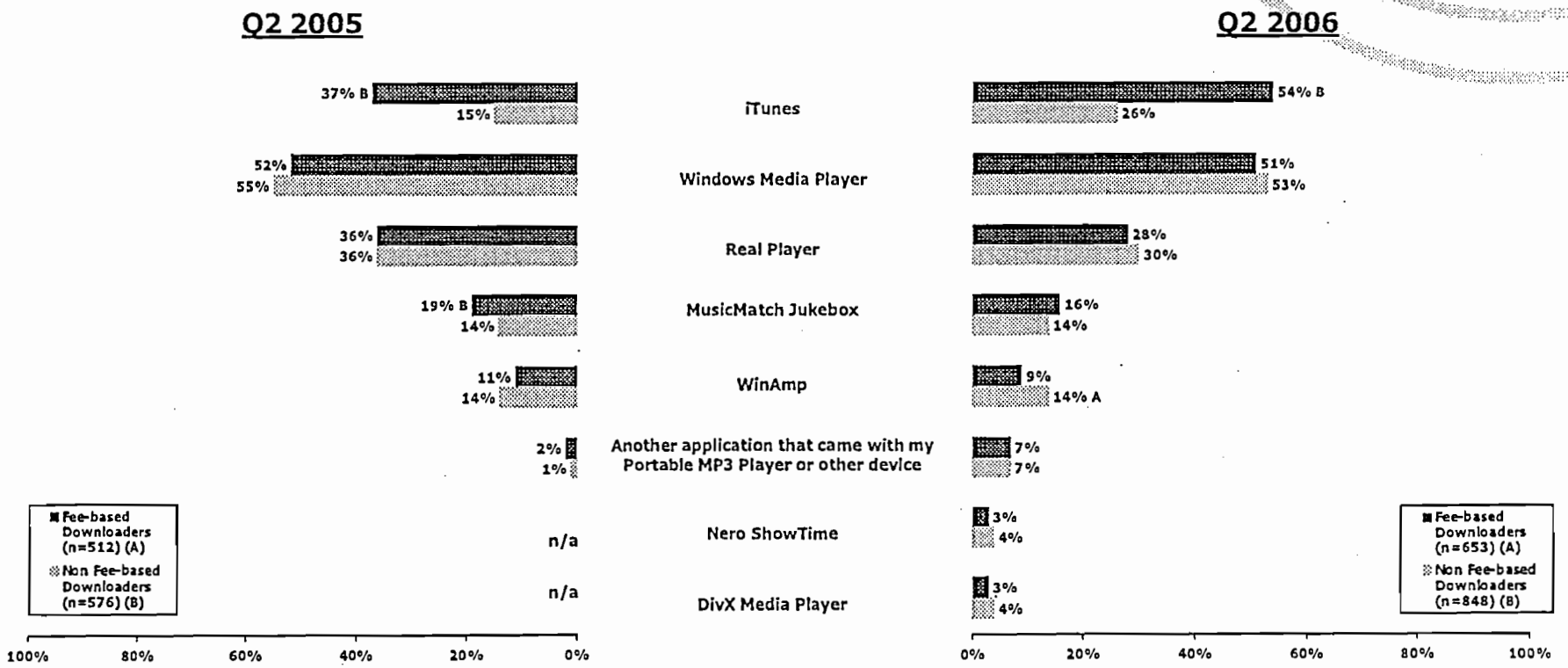
Digital Music Applications/Software

- October 2006 -

Digital Music Applications/Software

Year Over Year

- In the past year, iTunes has taken the lead as being the most used software application for Fee-based Downloaders, while Windows Media player remains the most popular among Non Fee-based Downloaders.
  - Use of iTunes among Fee-based Downloaders may have increased due to a decrease in the use of Real Player, MusicMatch and WinAmp.
  - Newer, specialty media players such as Nero and DivX are used less frequently.



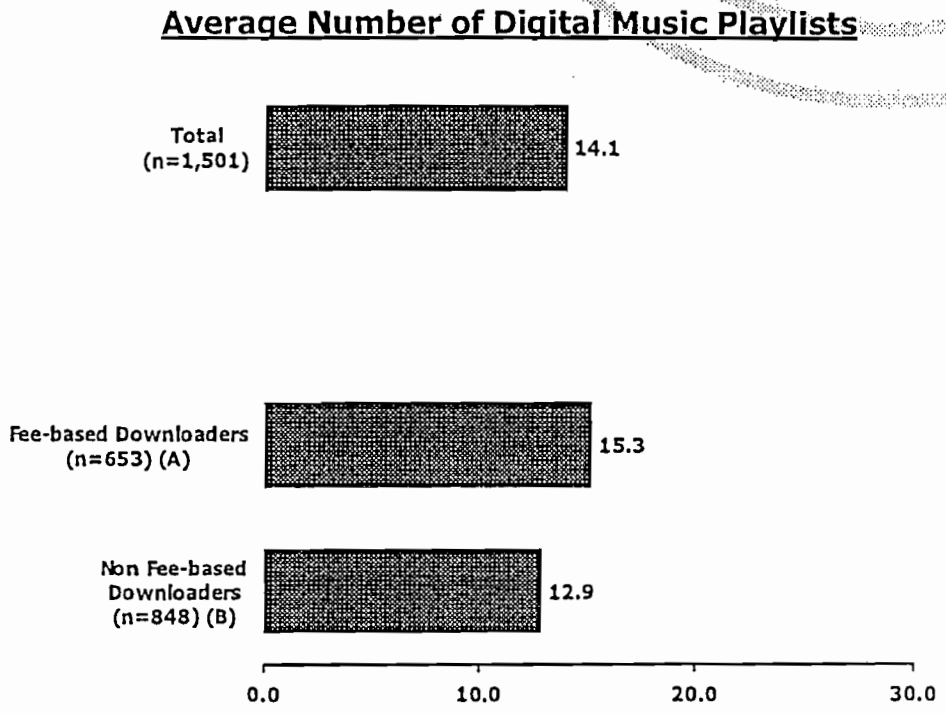
QF5. Which of the following software tools or applications do you use primarily to store, manage and listen to your digital music collection?
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: US Downloaders

Number of Digital Music Playlists Stored on PC

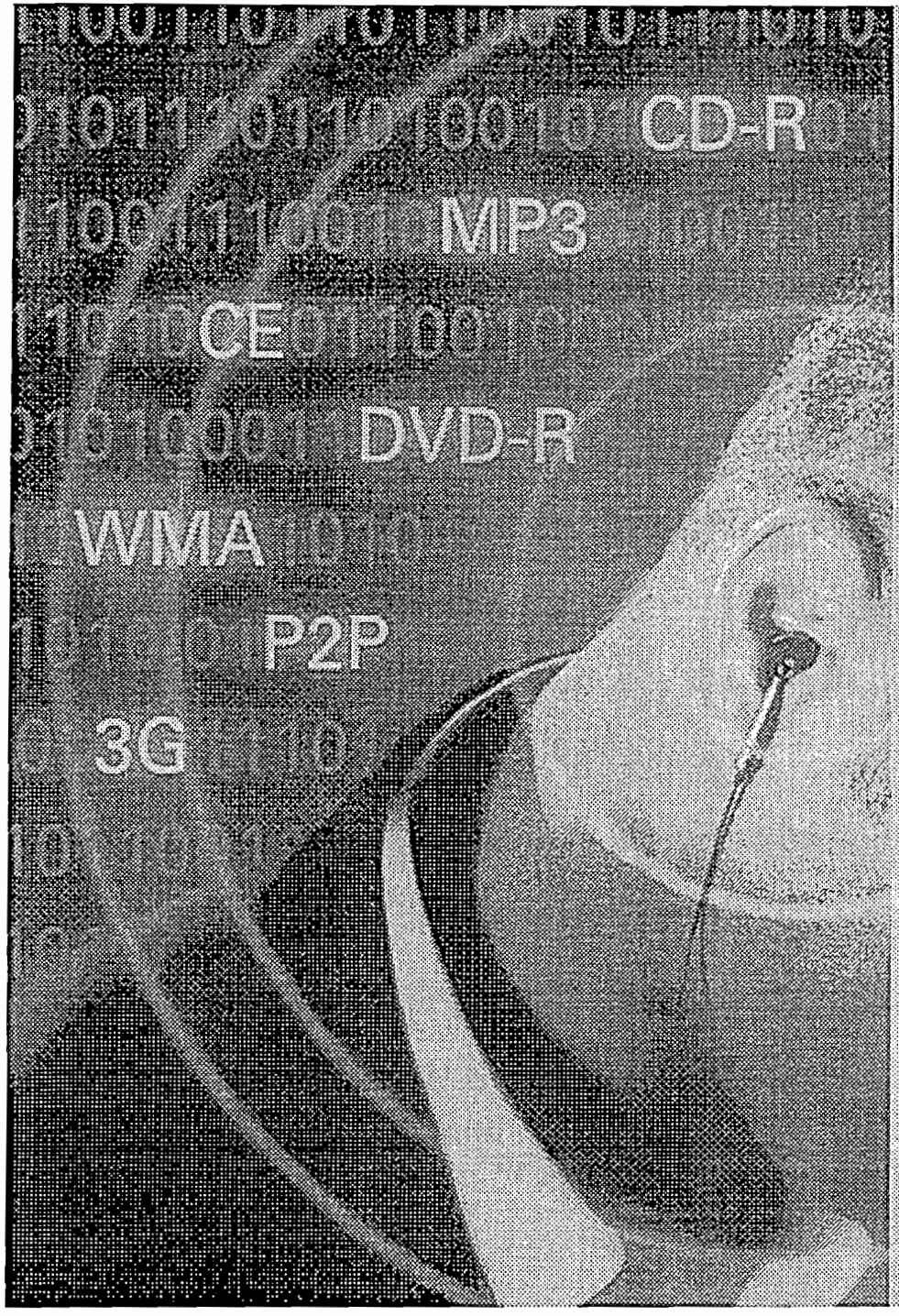
Fee-based Downloaders vs. Non Fee-based Downloaders

- Downloaders aged 12 and older reported having an average of 14 digital music playlists stored on their computers.
- Among Fee-based Downloaders and Non Fee-based Downloaders, Fee-based Downloaders have a slightly higher number of playlists stored on their computers.



F4b. How many separate digital music playlists do you currently have stored on your computer?
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: US Downloaders



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TEMPO:

Keeping Pace with Digital Music Behavior

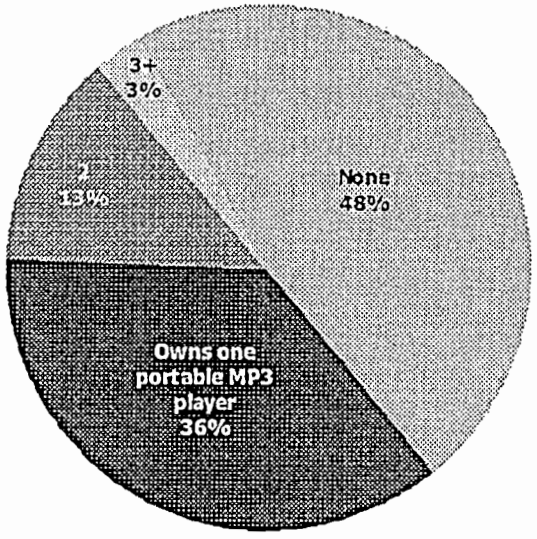
Portable & Mobile Music Behaviors

- October 2006 -

Portable MP3 Player Ownership

- A little over half of US Downloaders report owning at least one portable MP3 player.
  - Of those who do own an MP3 player, about 70% only own one device.
  - Apple is the most commonly owned brand, with half of MP3 owners owning an iPod or other Apple product.
  - Apple's closest competitors are Creative Labs (8%) and Sony (6%).

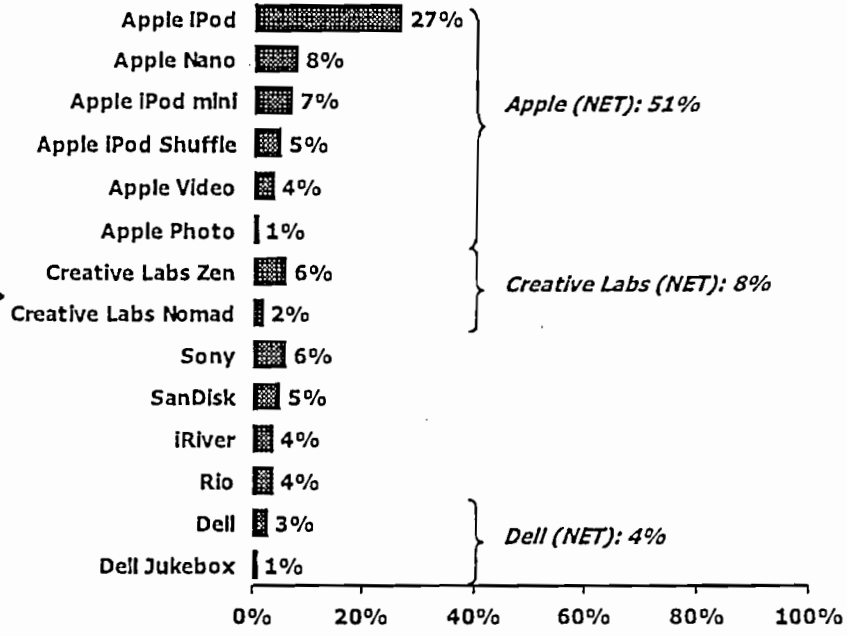
Portable MP3 Player Ownership



P1. How many Portable MP3 Players do you currently own?
Base: US Downloaders

Owns one or more portable MP3 players

Portable MP3 Player Brand/Model

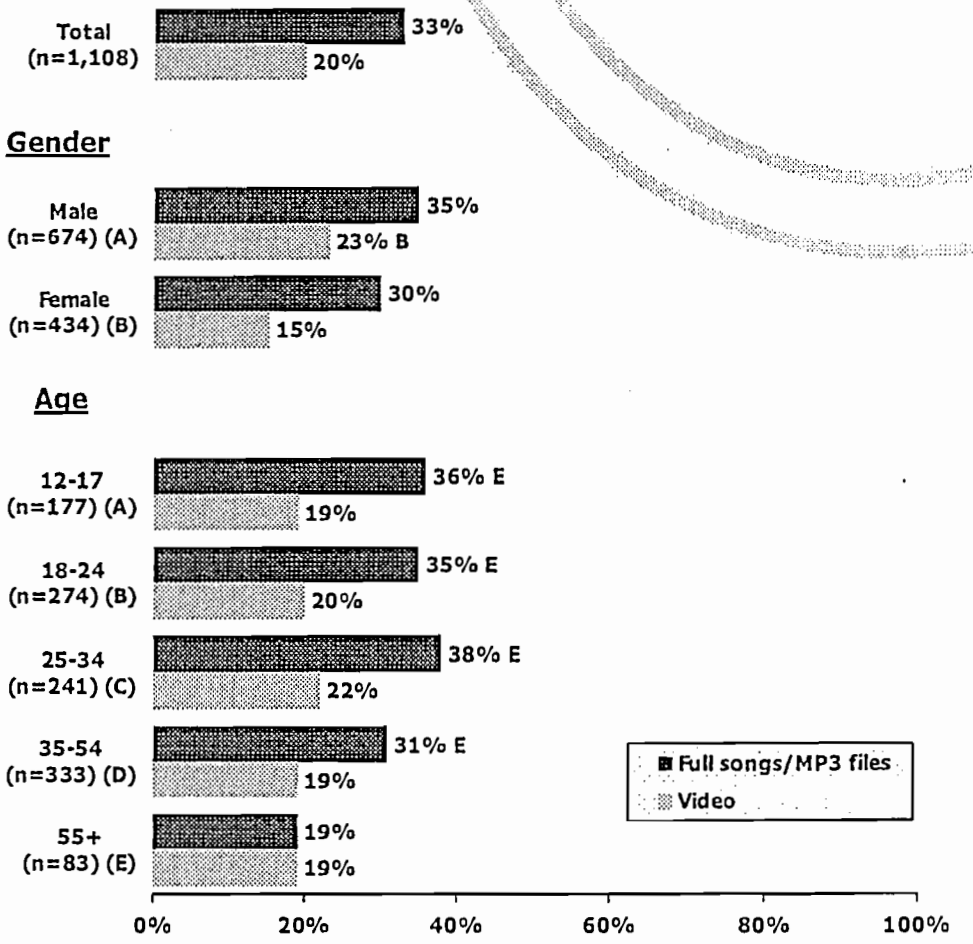


P2. What is the brand and model of your primary Portable MP3 Player?
Base: Owns a portable MP3 player, such as an iPod (n=794)

Multimedia Mobile Phone Ownership

by Age & Gender

- Overall, one third of Downloaders who own mobile phones have the ability to play full songs on their phones and 1 in 5 have the ability to play videos.
  - Males are more likely than females to own mobile phones with video-playing capabilities.
  - Not surprisingly, younger mobile phone owners are more likely to be able to play full songs than older owners. However, mobile video capabilities remains consistent regardless of age.



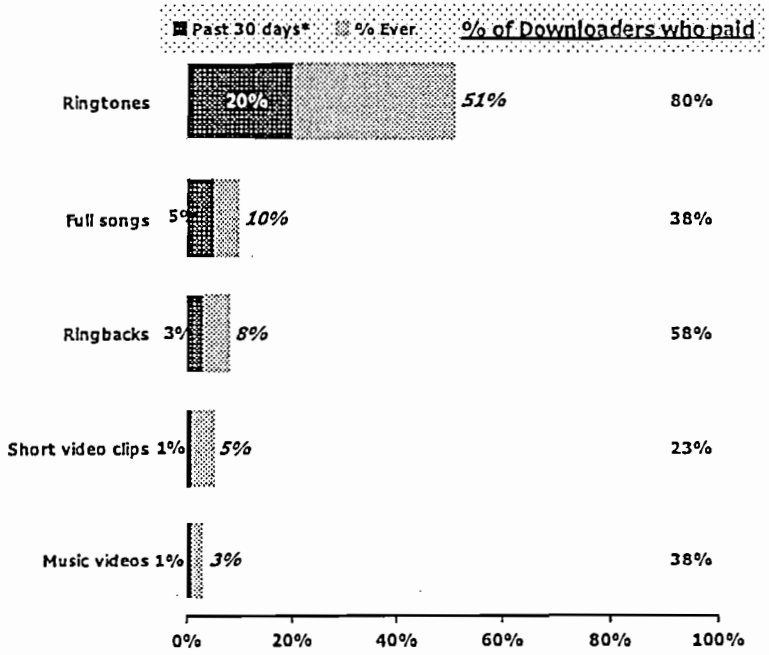
T2c. Does your mobile phone have the ability to play multimedia content such as full songs (e.g., MP3 files) or video?
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: Downloaders who own a mobile or wireless phone

Mobile Phone Downloading Behaviors

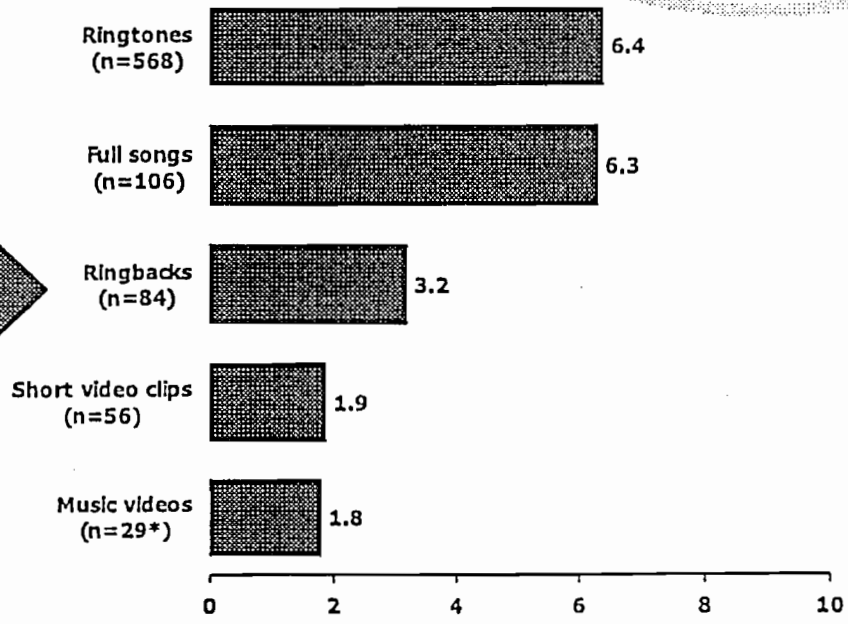
- Ringtones continue to be the most commonly downloaded content for mobile phones, with half of mobile phone owners downloading this content. Ringtones and ringbacks were paid for most often, while video clips were the least likely to be fee-based.
- Ringtones and full songs have the highest number of files stored on mobile phones with more than twice as many stored as other types of content.

Mobile Phone Content Downloading



T3A. Please indicate which of the following you have ever downloaded from the Internet for your wireless or mobile phone?
T3B And which of the following have you downloaded to your wireless or mobile phone in the past 30 days?
Base: Downloaders who own a wireless or mobile phone (n=1,108)
T3C. Have you ever paid a fee to download any of the following features?
Base: Downloaded this type of content to mobile phone. Base sizes vary.

Average Number Stored

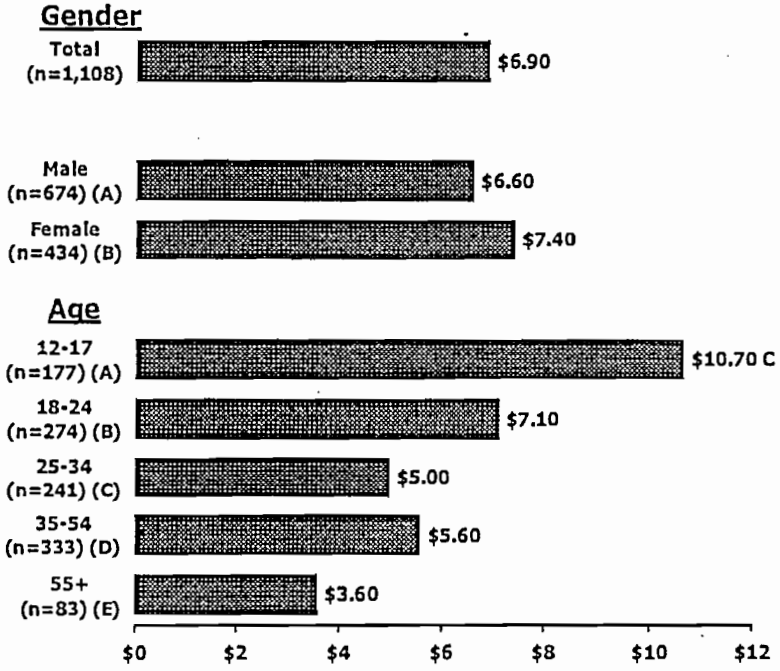


T3E. How many of each of the following types of files are saved on your wireless or mobile phone?
Base: Owns a mobile or wireless phone and has downloaded this type of file
* Caution small base size

Mobile Phone Downloading Behaviors

- Overall, Downloaders who own mobile phones spend an average of nearly $7.00 on mobile phone music content each month.
  - Downloaders aged 12 to 17 spend a considerably higher amount, averaging almost $11.00 a month.
- Of those Downloaders who have paid to download mobile phone content in the past, 40% report their downloading behavior to have decreased in the past few months.

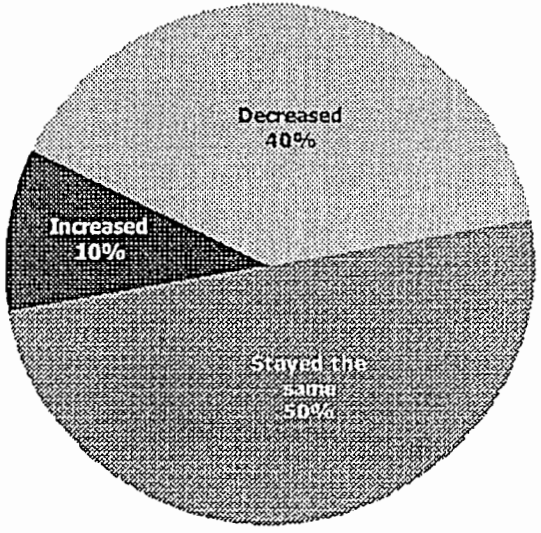
Average Mobile Music Spending



T4. In the past month, how much have you spent, in total, paying for mobile phone music content, such as ringtones, ringbacks, full songs or music videos?

Base: Owns a mobile or wireless phone and has downloaded mobile music

Change in Mobile Music Spending

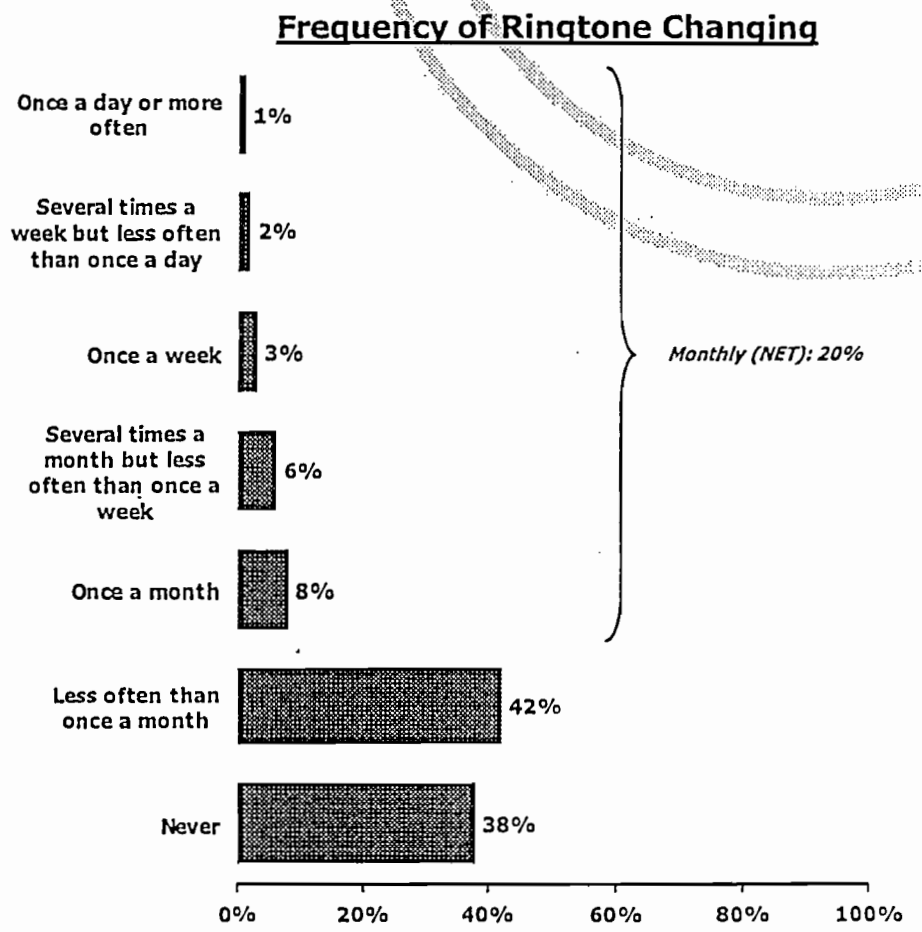


T5. How has your purchasing of mobile phone music content changed over the past few months?

Base: Owns a mobile or wireless phone and has paid to download mobile music (n=477)

Frequency of Ringtone Changes

- The vast majority of Downloaders who own mobile phones never change their ringtones or change them less often than once a month.
  - One in five Downloaders who own a mobile phone change their ringtone monthly.



T7. Which of the following best describes how often you change ringtones on your wireless or mobile phone?
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: Downloaders who own a mobile or wireless phone (n=1,108)

Frequency of Ringtone Changes
by Age & Gender

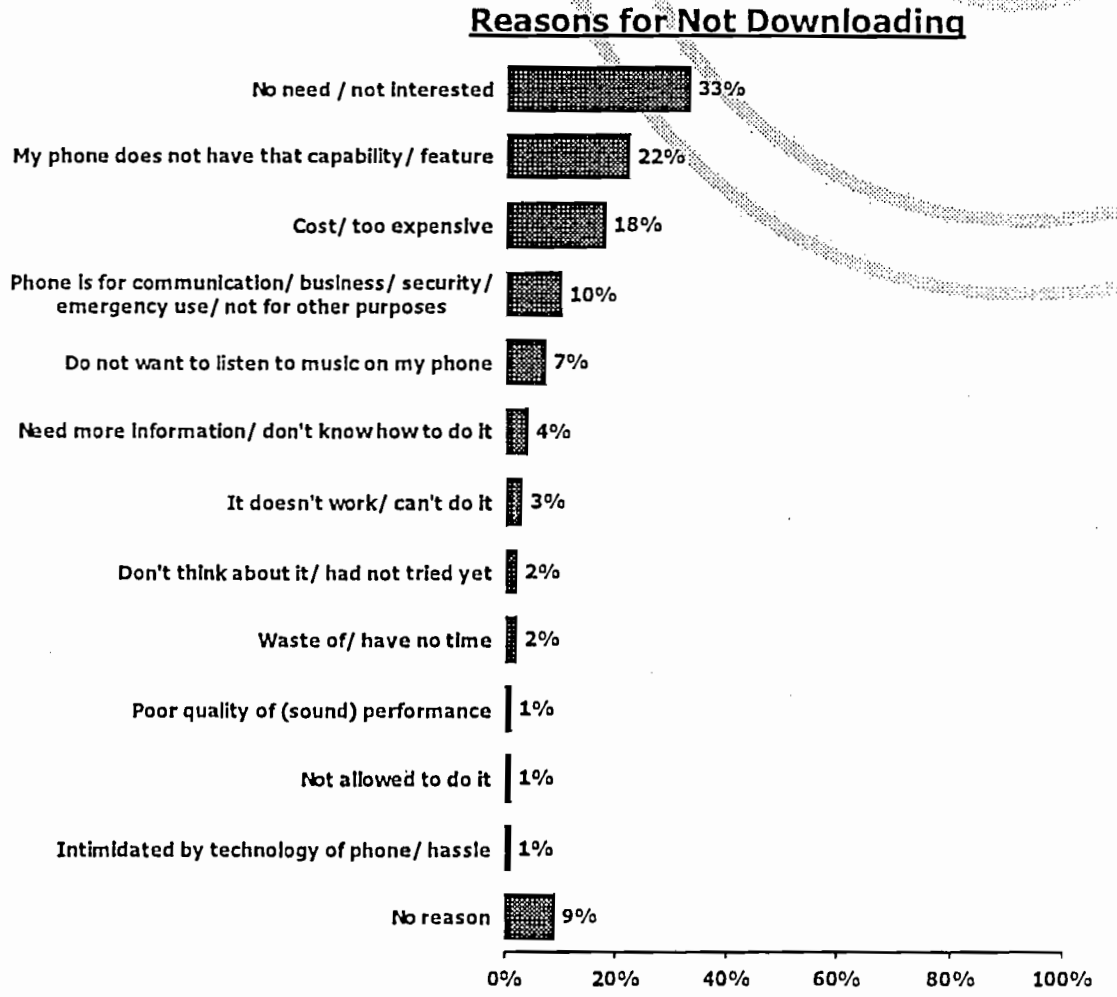
	Total (n=1,108)	Gender: Male (n=674) (A)	Gender: Female (n=434) (B)	Age: 12-17 (n=177) (A)	Age: 18-24 (n=274) (B)	Age: 25-34 (n=241) (C)	Age: 35-54 (n=333) (D)	Age: 55+ (n=83) (E)
Never	38%	43% B	29%	21%	36% A	34% A	45% AC	60% ABCD
Less often than once a month	42%	39%	47% A	40%	36%	52% ABDE	44%	34%
Monthly (NET)	20%	17%	23% A	40% BCDE	29% CDE	13% E	10%	5%
More than once a day	0%	0%	0%	1%	0%	0%	0%	0%
Once a day	1%	1%	0%	1%	2%	0%	0%	1%
Several times a week but less often than once a day	2%	2%	2%	7% CDE	3%	1%	1%	0%
Once a week	3%	4% B	1%	6% CDE	4%	2%	2%	0%
Several times a month but less often than once a week	6%	4%	10% A	14% CDE	7%	5% DE	2%	1%
Once a month	8%	6%	10% A	11% CDE	13% DE	5%	5%	3%

T7. Which of the following best describes how often you change ringtones on your wireless or mobile phone?
Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: Downloaders who own a mobile or wireless phone (n=1,108)

Reasons for Not Downloading Mobile Music

- Mobile phone owners who have never downloaded ringtones, ringbacks or full songs onto their phones most commonly stated that they were not interested in the activity, did not have the feature on their phone, or thought the activity was too expensive.
  - Interestingly, skepticism about the functionality of this method of delivery was quite measured with only 3% expressing doubts that this type of downloading works and only 1% expressing doubts regarding sound quality.

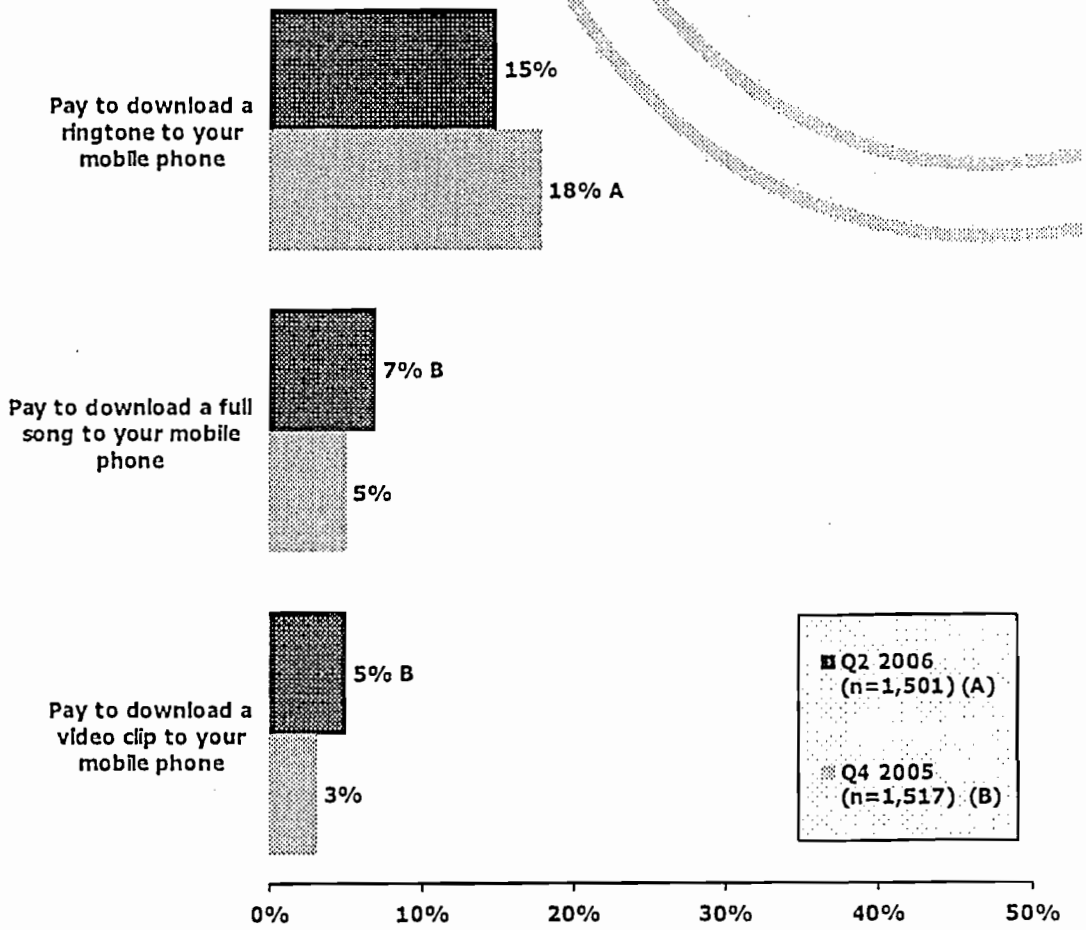


T6. Why have you never tried downloading music to your mobile or wireless phone?

Base: Owns a mobile or wireless phone but has never downloaded mobile music (n=518)

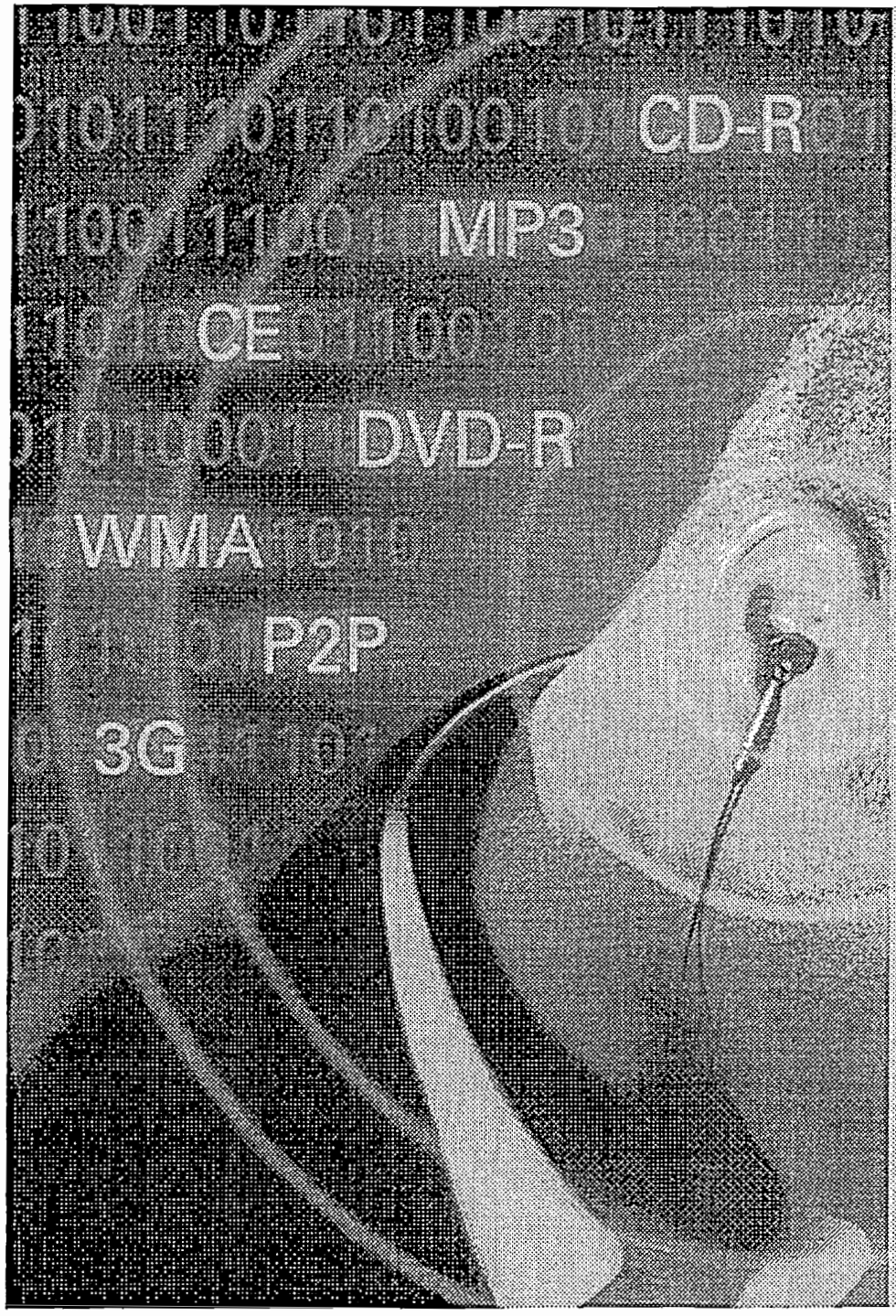
Mobile Phone Content Acquisition Likelihood

- US Downloaders 12 and older are less likely to pay for ringtones than they had been in Winter 2005.
  - However, this may be partially attributable to the fact that Downloaders are now more likely to pay to download a full song.
  - Likelihood to pay for video downloads is up as well.



S2. [TOP2BOX SUMMARY] How likely are you to do each of the following in the next 12 months?

Base: US Downloaders



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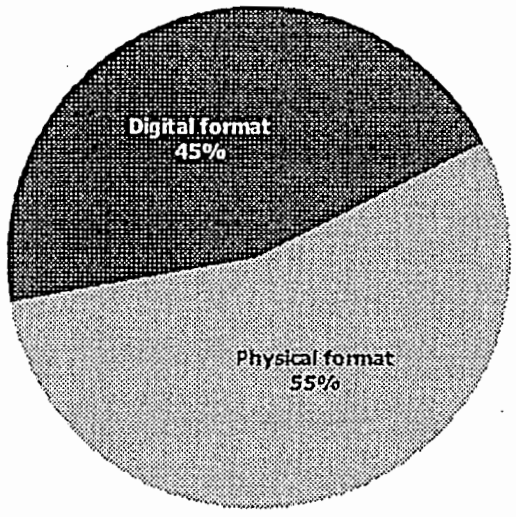
Music Collection Format & Source of Content

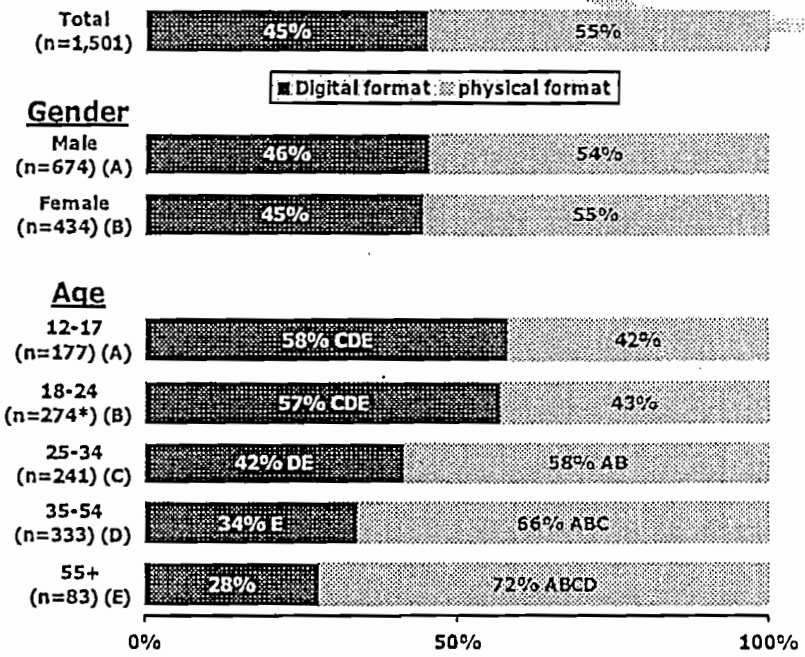
- October 2006 -

Music Collection Format

- US Downloader's are quickly approaching a point at which the majority of their music collections will be digital.
  - Downloaders aged 12 to 24 have a larger percentage of their music collection in the digital format already.

Music Collection Format





F7d. Thinking of your entire music collection, what percentage of this music would you say is in each of the following formats?

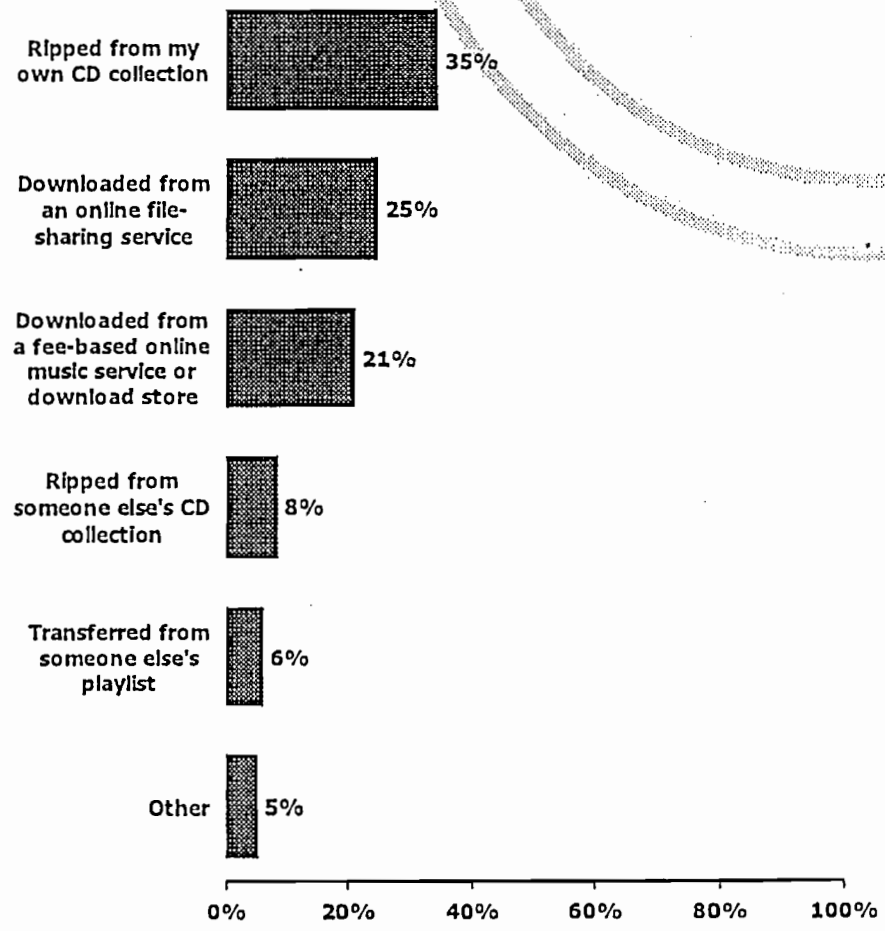
Base: US Downloaders (n=1,501)

F7d. Thinking of your entire music collection, what percentage of this music would you say is in each of the following formats?

Base: US Downloaders

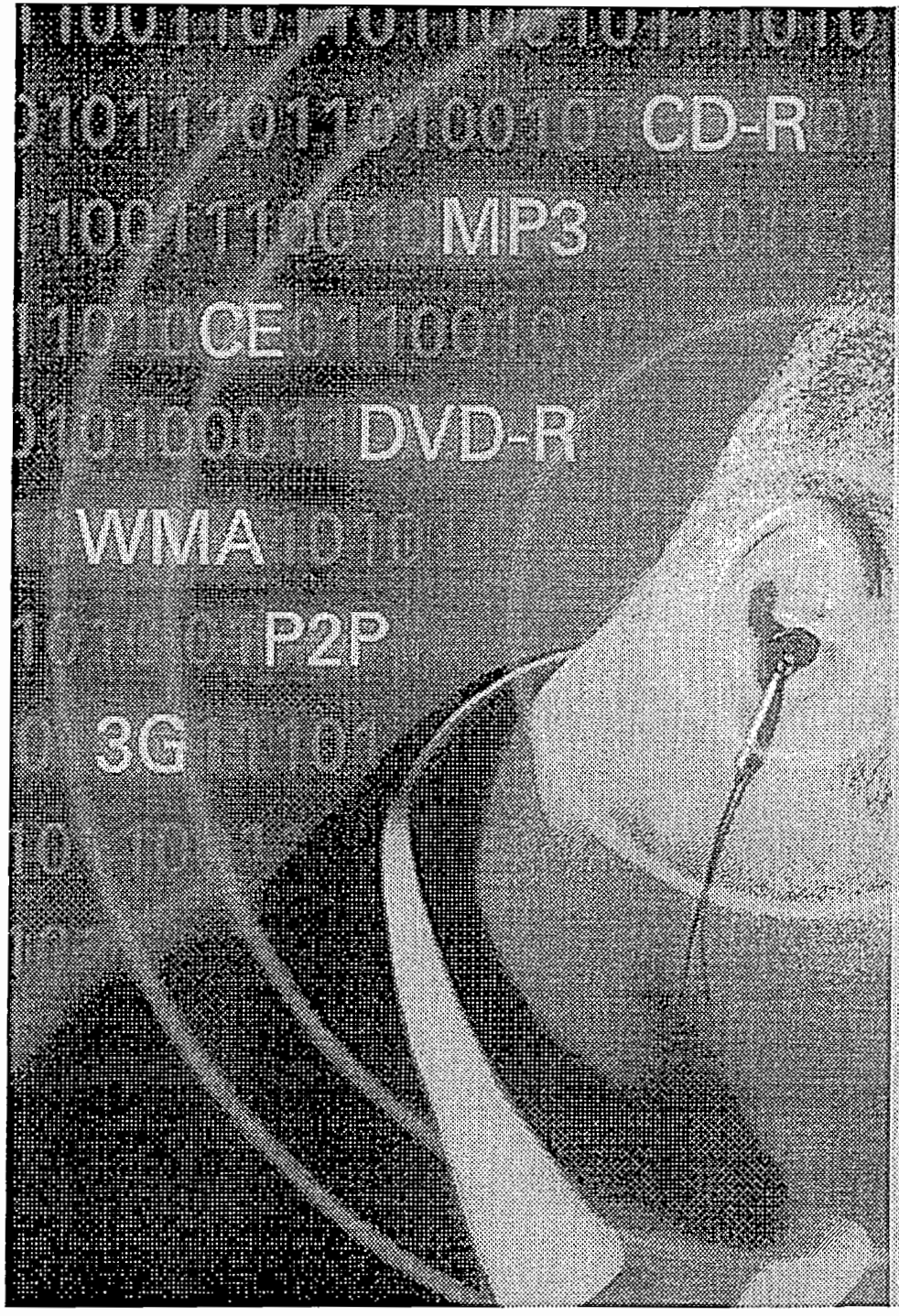
Source of Digital Content

- Downloaders who have music stored in the digital format most commonly obtain it by ripping CDs, either from their own or someone else's music collection.
  - Despite Downloaders continued reliance upon physical CD's, fee-based downloading has become a trusted and oft-utilized method of music acquisition.
  - None-the-less, file-sharing is still a slightly more common method of obtaining digital music than fee-based downloading.



F8. Thinking of all the digital music files currently stored on your computer, portable MP3 player and other devices, what percent of the files come from each of the following sources?

Base: US Downloaders with at least 1% of music collection in digital format (n=1,431)



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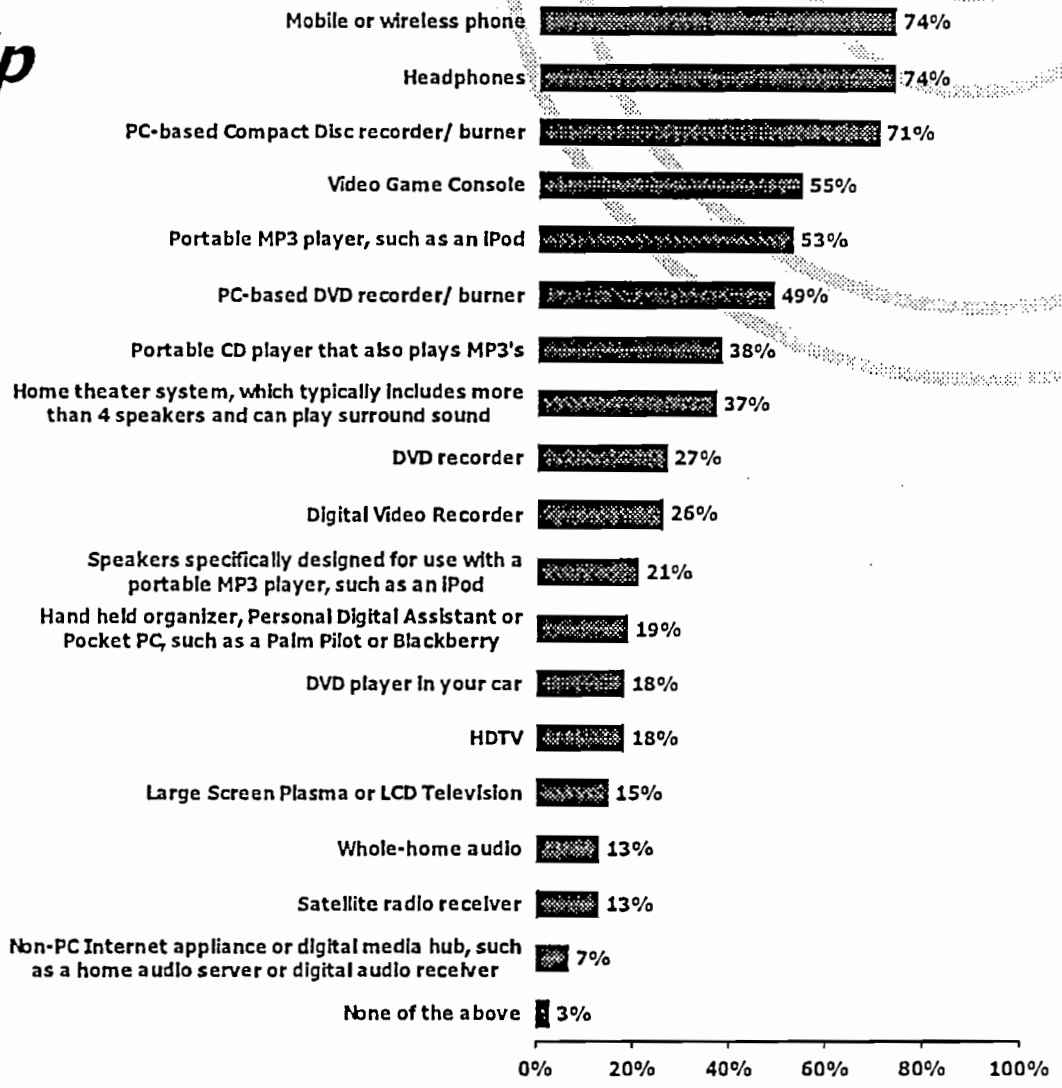
Downloader Technographics & Media Behaviors

- October 2006 -

Technology Ownership

- US Downloaders aged 12 and older report a broad technology inventory.
- The vast majority of US Downloaders owns a mobile phone and headphones (74%).
- Additionally, almost three quarters of US Downloaders own a CD burner on their PC.



F7c. Please indicate which of the following items you, yourself, own.

Base: Downloaders (n=1,501)

Music Style Preferences

	Total (n=1,501)	Gender: Male (n=946) (A)	Gender: Female (n=555) (B)	Age: 12-17 (n=270) (A)	Age: 18-24 (n=375) (B)	Age: 25-34 (n=315) (C)	Age: 35-54 (n=435) (D)	Age: 55+ (n=105) (E)
Alternative/Modern Rock	17%	15%	22% A	23% DE	19% E	23% DE	12% E	3%
Classic Rock	15%	18% B	10%	13% C	10%	7%	28% ABCE	16% C
Country	11%	8%	16% A	6%	11%	15% AD	10%	16% AD
Pop	9%	7%	12% A	10%	9%	11%	8%	6%
Hip-Hop	7%	7%	8%	13% CDE	10% DE	7% DE	3%	0%
Metal/Hard Rock	7%	8%	5%	7% E	5%	9% E	9% E	1%
Contemporary Christian	5%	5%	5%	5%	4%	6%	6%	3%
Oldies	4%	5%	3%	2%	2%	1%	7% ABC	18% ABCD
Rap	4%	5% B	2%	8% CDE	8% CDE	0%	1%	1%
R&B/Urban	3%	2%	4%	2%	6% DE	3%	2%	1%
Dance/Electronica	2%	3%	2%	1%	4%	3%	2%	1%
Classical	2%	3%	1%	1%	2%	1%	3% C	9% ABCD
Jazz	2%	3%	1%	0%	-	3% AB	3% AB	8% ABCD
Soundtracks	2%	2%	1%	1%	2%	2%	1%	1%
Blues	1%	1%	1%	-	-	1%	2% A	6% ABCD
Latin	1%	1%	1%	1%	1%	1%	1%	1%
Reggae	1%	1%	1%	1%	1%	2% D	0%	-
Gospel	1%	1%	1%	0%	1%	0%	1%	1%
Another style not listed here	5%	6%	5%	5%	6%	6%	4%	9% D

S5. Which one of the following styles of music do you listen to most often?
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

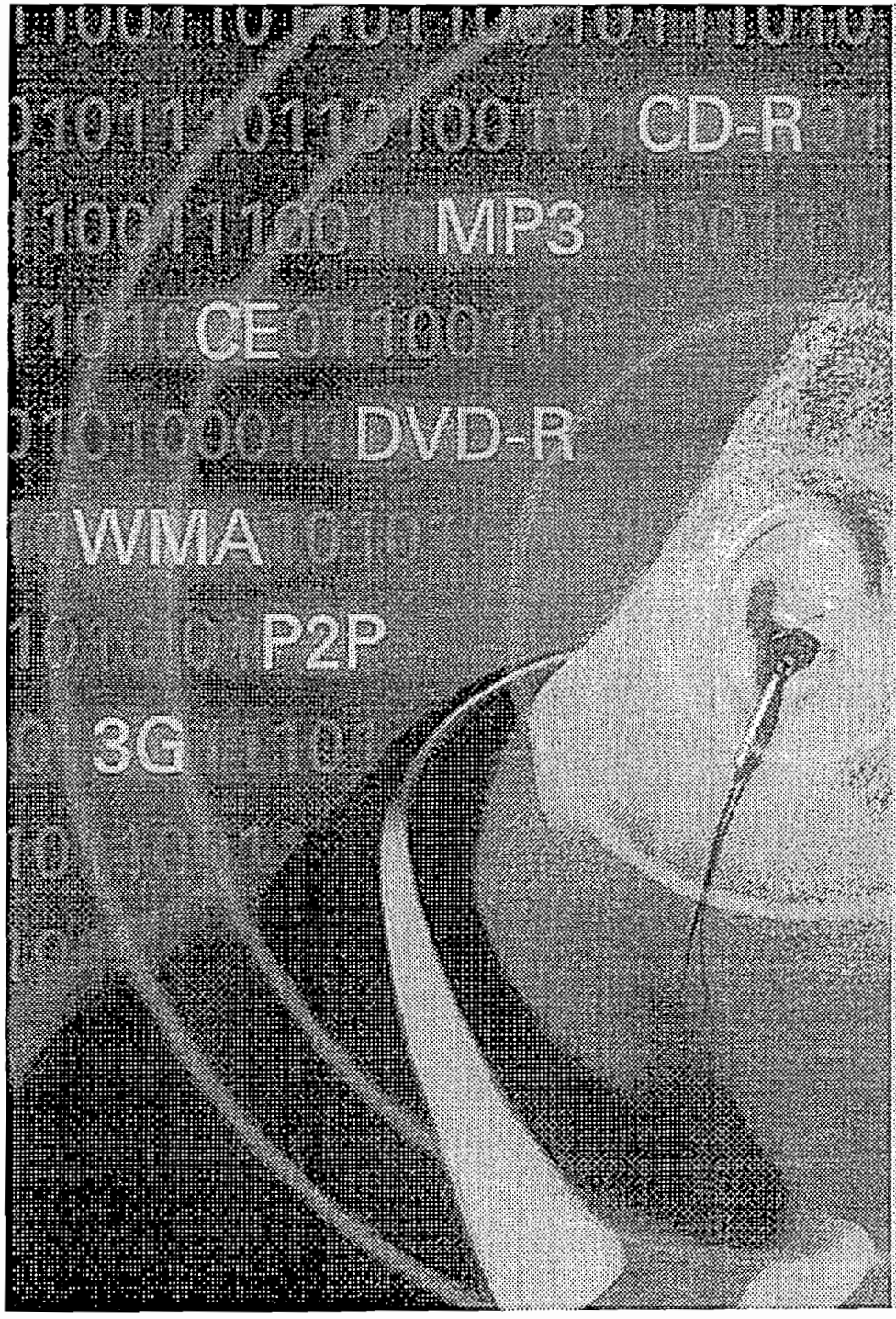
Base: US Downloaders

Cable Music Channel Viewership

	Total (n=1,501)	Gender: Male (n=946) (A)	Gender: Female (n=555) (B)	Age: 12-17 (n=270) (A)	Age: 18-24 (n=375) (B)	Age: 25-34 (n=315) (C)	Age: 35-54 (n=435) (D)	Age: 55+ (n=105) (E)
MVT Branded (Net)	**35%**	**31%**	**42% A**	**55% BCDE**	**41% DE**	**39% DE**	**20% E**	**8%**
MTV	32%	28%	39% A	52% BCDE	39% DE	33% DE	19% E	7%
MTV2	15%	15%	15%	24% DE	17% DE	19% DE	9% E	3%
MHD	1%	1%	0%	-	1%	1%	0%	-
VH-1 Branded (Net)	**32%**	**30%**	**36%**	**45% BDE**	**27% E**	**41% BDE**	**28% E**	**15%**
VH-1	27%	25%	31% A	40% BDE	23% E	36% BDE	22% E	8%
VH-1 Classic	11%	11%	11%	11%	7%	14% B	13% B	9%
VH-1 Soul	3%	3%	4%	4%	3%	4%	2%	2%
VH-1 Uno	1%	1%	2%	1%	1%	1%	1%	2%
CMT (Net)	**17%**	**13%**	**22% A**	**14%**	**14%**	**19%**	**18%**	**20%**
Country Music Television	15%	11%	21% A	12%	14%	16%	16%	18% A
CMT Pure Country	7%	5%	10% A	8%	5%	8%	7%	8%
Black Entertainment Television	8%	7%	9%	11% DE	11% DE	8% E	5%	3%
Great American Country	6%	4%	9% A	3%	7%	7% A	7% A	6%
FUSE TV	6%	6%	7%	8% DE	8% E	7% E	4% E	1%
Music Choice	5%	5%	5%	6%	6%	3%	4%	4%
The Tube	1%	2%	1%	2%	1%	2%	1%	1%
TeleHit	<1%	0%	0%	0%	-	0%	0%	-
None of the above	50%	54% B	43%	33%	52% A	44% A	58% AC	67% ABCD

S1a. Which of the following cable music television channels do you watch on a regular basis?
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level.

Base: US Downloaders



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Downloader Demographics

- October 2006 -

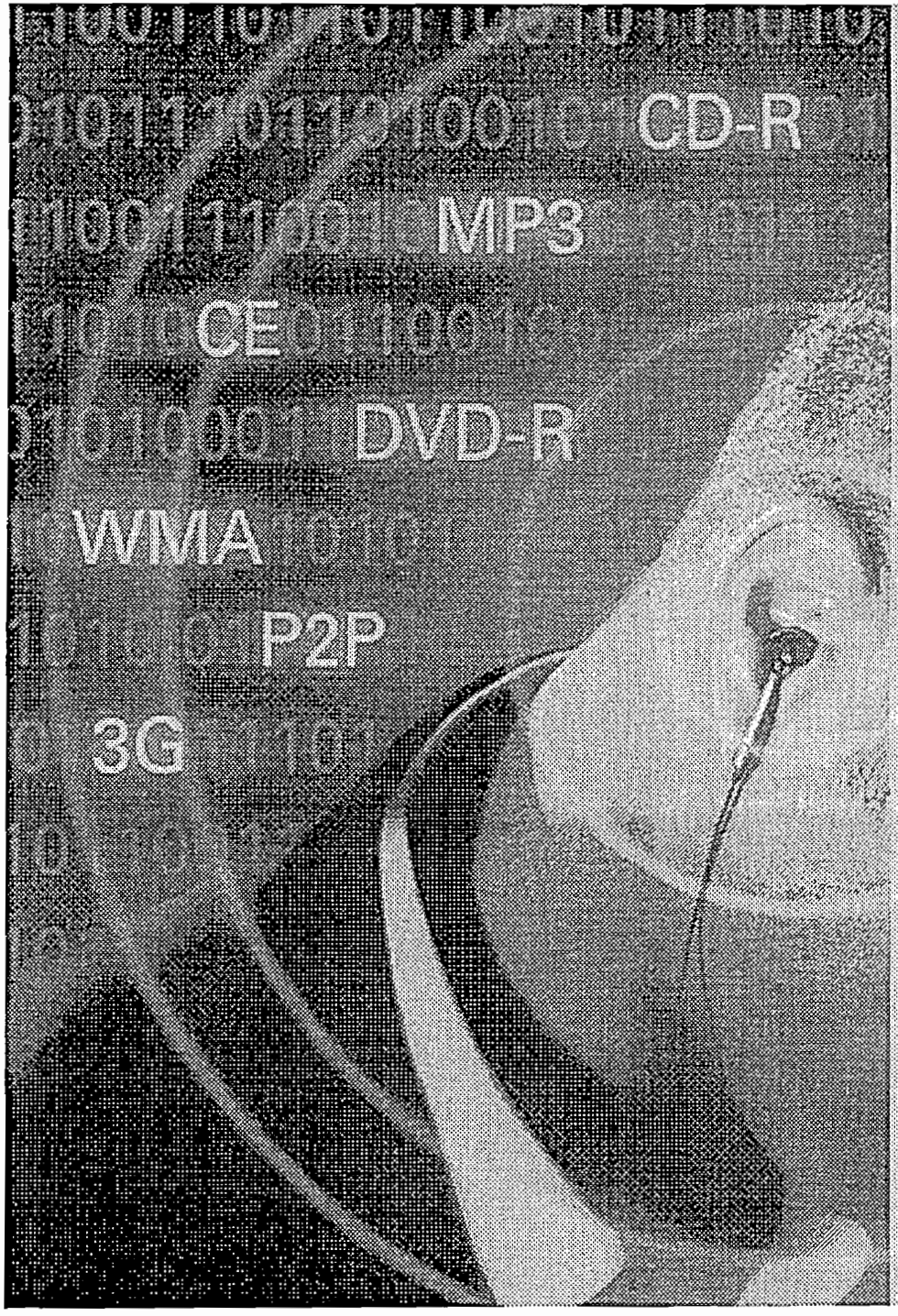
Demographics

	Total	Paid Downloaders		File Sharers	
	Downloader (n=1,501)	Yes (n=653) (A)	No (n=848) (B)	Filesharing & Fee-based (n=257) (A)	Filesharing only (n=380) (B)
Gender					
Male	63%	61%	64%	63%	66%
Female	37%	39%	36%	37%	34%
Region					
White	81%	83%	79%	85%	79%
Black	4%	4%	4%	3%	3%
Asian or Pacific Islander	4%	2%	5%	2%	4%
Native American or Alaskan Native	1%	1%	1%	1%	1%
Mixed racial background	5%	5%	5%	5%	7%
Employment Status					
Employed Full-time	47%	50%	45%	49%	46%
Employed Part-time	10%	10%	9%	11%	9%
Not Currently Employed	13%	9%	15% A	9%	15%
Student	25%	25%	25%	27%	26%
Retired	5%	6%	5%	4%	3%
Marital Status					
Single	52%	48%	54%	55%	59%
Married	39%	42%	36%	33%	32%
Divorced	7%	8%	7%	10%	6%
Widowed	0%	0%	1%	0%	0%
Don't Know	2%	1%	2%	2%	3%

	Total	Paid Downloaders		File Sharers	
	Downloader (n=1,501)	Yes (n=653) (A)	No (n=848) (B)	Filesharing & Fee-based (n=257) (A)	Filesharing only (n=380) (B)
Age					
12 to 17	18%	19%	17%	15%	14%
18 to 24	25%	19%	30% A	27%	41% A
25 to 34	21%	22%	21%	27%	20%
35 to 44	16%	19% B	14%	16%	12%
45 to 54	13%	14%	12%	10%	10%
55 to 64	5%	6%	4%	4%	3%
65+	2%	2%	2%	1%	1%
Household Income					
Under $25,000	16%	13%	19% A	15%	22%
$25,000 to less than $50,000	25%	21%	29% A	23%	31%
$50,000 to less than $75,000	19%	23% B	17%	21%	19%
$75,000 to less than $100,000	15%	17%	14%	19% B	12%
$100,000 or higher	12%	17% B	9%	16% B	8%

Letters indicate the value is significantly higher than the value in the corresponding row at the 95% confidence level.

Base: Downloaders



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TEMPO:

Keeping Pace with Digital Music Behavior

Index

- October 2006 -

Index

Background & Objectives 6-8

CD Purchase Behavior
- Internet-based CD Purchases, Ever & Past 30 Days, Trending, by Total 61
- Number of CDs Owned, by Total, Gender, Age 62
- Past CD Purchase Behavior, by Total, Gender, Age 59
- Past CD Purchase Behavior, Trending by Total 60

Dashboard 3

Demographics 69, 142

Digital Music Applications/Software
- Digital Music Application/Software Usage 123
- Number of Digital Music Playlists, By Fee-based & Non Fee-based Downloaders 124

Digital Music Behaviors
- Projected Population 42
- Total Population, Ever and Past 30 Days 41
- Trending, Ever 43
- Trending, Past 30 Days 44

Digital Video
- Digital Video Downloading & Streaming, by Total, Gender, Age 117
- Digital Video Downloading, Trending, by Total 65
- Future Likelihood of Multimedia Acquisition, By Total, Gender, Age 120
- Movie Downloading, Ever & Past 30 Days, by Total, Gender, Age 64, 118
- Number of Multimedia Files Downloaded, by Total 119
- Television Downloading, Ever & Past 30 Days, by Total, Gender, Age 64

Downloading, General
- Number of Files Downloaded, Past 30 Days, by Total, Gender Age 25, 80
- Prevalence by Total, Gender Age, Ever 20
- Prevalence by Total, Gender Age, Past 30 Days 20
- Projected Population of Downloaders 21
- Trending, by Age 24
- Trending, by Gender 23
- Trending, Number of Files Downloaded, Past 30 Days, Total Population 26
- Trending, Past 30 Day, Total Population 22

Executive Summary 12-18

Fee-based Downloading
- Awareness of Fee-based Services, Trending 87
- Awareness of Music Destinations 85-86
- Best Fee-based Service, by Fee-based & Non Fee-Based Downloaders 96
- Best Fee-based Service, Reasons Behind 97
- Best Fee-based Service, Trending 95
- Changes In Spending 82
- Familiarity with Fee-based Services 88
- Favorability of Fee-based Services, by Fee-based & Non Fee-based Downloaders 94
- Favorability of Fee-based Services, Trending 93
- Importance of Attributes, by Total, Gender, Age 100
- Importance of Attributes, by Fee-based & Non Fee-Based Downloaders 99
- Importance of Attributes, Trending 98
- Likelihood of Using Service, By Total, Gender, Age 83
- Likelihood of Using Specific Fee-based Service 90
- Methods of Acquisition 77
- Number Downloaded, Past 30 Day, Trending 33, 80
- Perceptions of Fee-based Services 102-114
- Projected Population 29
- Reason for Continuing to Pay for Service 75
- Reason for First Paying for Service 74
- Reason for Not Paying for Service 76

Index

Fee-based Downloading (Continued)
Reason Purchasing Has Not Increased 82
Satisfaction with Fee-based Services 91
Satisfaction with Fee-based Services, Trending 92
Service Usage, Trending 89
Spending 81
Tenure, Trending, by Total 73
Trending, Ever & Past 30 Days, Age 32
Trending, Ever & Past 30 Days, Gender 31
Trending, Ever & Past 30 Days, by Total 30
Type Download, by Total, Gender, Age 79
Type of Download, Trending, by Total 78
Usage, by Total, Gender, Age 28

Filesharing
Usage, Projected Population 36
Usage, by Total, Gender, Age 35
Usage, Trending, Past 30 Days, by Age 39
Usage, Trending, Past 30 Days, by Gender 38

Mobile Music (OTA & Mobile Phones)
Awareness of Mobile Music Phones 57
Frequency of Ringtone Changing, by Total 130
Frequency of Ringtone Changing, by Total, Gender, Age 131
Likelihood of Mobile Acquisition, Trending, by Total 133
Mobile Music Downloading, Ever & Past 30 Days, By Total 54, 128
Mobile Music Downloading, by Gender, Age 55
Mobile Music Downloading, Trending, Past 30 Days, by Total 56
Number of Multimedia Files Stored on Mobile Phone 128
Ownership of Mobile Music Phones, by Total, Gender, Age 57, 127
Ownership of Mobile Video Phones, by Total, Gender, Age 127
Reasons for Not Downloading Mobile Music 132
Spending, by Total, Gender, Age 129
Spending, Changes Over Past Few Months, by Total 129

Music Collection
Cable Television Music Channel Viewership, by Total, Gender, Age 140
Digital vs. Physical Format, by Total, Gender, Age 135
Music Style/Genre Preferences 139
Source of Digital Content, by Total 136

Ownership
Digital Music Peripherals, by Total, Gender, Age 67, 138
Mobile Phones, by Total 54
Mobile Music Phones, by Total, Gender, Age 57
Number of CDs Owned, by Total, Gender, Age 62
Portable MP3 Player Brand Ownership 126
Portable MP3 Players, by Total, Gender, Age 47
Portable MP3 Players, Trending 48
Portable MP3 Players, Number Owned 50, 126

Past 30 day Activity
Digital Music Behavior, by Total, Gender, Age 41,
Digital Music Behavior, Trending 44
Digital Video Downloading, by Total 64, 118
Fee-based, Total, Gender, Age 28
Fee-based, Trending, Age 32
Fee-based, Trending, Gender 31
Fee-based, Trending, Total 30
Fee-based Service Usage, by Total 89
Filesharing Service Usage, by Total, Gender, Age 35
Filesharing Usage, Trending, by Age 39
Filesharing Usage, Trending, by Gender 38
Internet-based CD Purchases, Trending, by Total 61
Mobile Music Downloading, by Total 54
Mobile Music Downloading, Trending, by Total 56
Movie Downloading, by Total, Gender, Age 64
Music Downloading, Total 20
Music Downloading, Trending 22-24
Number of Files Downloaded, Fee-based Trending 33, 80
Number of Files Downloaded, Total, Gender, Age 25, 80
Television Downloading, by Total, Gender, Age 64
Trending, Number of Files Downloaded, Past 30 Days, Total Population 26

Index

Portable MP3 Players
Ownership, by Total, Gender, Age 47
Ownership, Number of Devices 50
Ownership, Trending 48
Ownership, Trending, by Age 49
Usage Behaviors, by Total, Gender, Age 51
Video Playback Capability 50

Projected Populations
Digital Music Behaviors 42
Downloaders 21
Fee-based Digital Music Acquisition 29
Filesharing Service Users 36

Research Methodology 10

Trending
Digital Music Applications/Software 123
Digital Music Behaviors, Ever 43
Digital Music Behaviors, Past 30 Days 44
Digital Video Downloading Trending, by Total 65
Downloading, Past 30 Days, Age 24
Downloading, Past 30 Days, Gender 23
Downloading, Past 30 Days, Total Population 22

Trending (Continued)
Fee-based, Awareness of Fee-based Services 87
Fee-based, Best Service 95
Fee-based Digital Music Acquisition, Age 32
Fee-based Digital Music Acquisition, Gender 31
Fee-based Digital Music Acquisition, Total 30
Fee-based Digital Music Service Usage 89
Fee-based, Importance of Attributes 98
Fee-based, Reasons for Best Rating 97
Fee-based, Tenure, by Total 73
Fee-based, Type of Download, by Total 78
Filesharing Usage, Past 30 Days, by Age 39
Filesharing Usage, Past 30 Days, by Gender 38
Internet-based CD Purchases, Ever & Past 30 Days, by Total 61
Mobile Music Acquisition Likelihood, by Total 133
Mobile Music Downloading, Past 30 Days, by Total 56
Music Downloading, Fee-based vs. File-sharing 37
Number of Files Downloaded, Past 30 Days, Total 26
Number of Files Downloaded, Fee-based 33, 80
Ownership of Portable MP3 Players, by Age 49
Ownership of Portable MP3 Players, by Total 48
Past CD Purchase Behavior, by Total 60
Satisfaction with Fee-based Services 92

EXHIBIT CO 0725

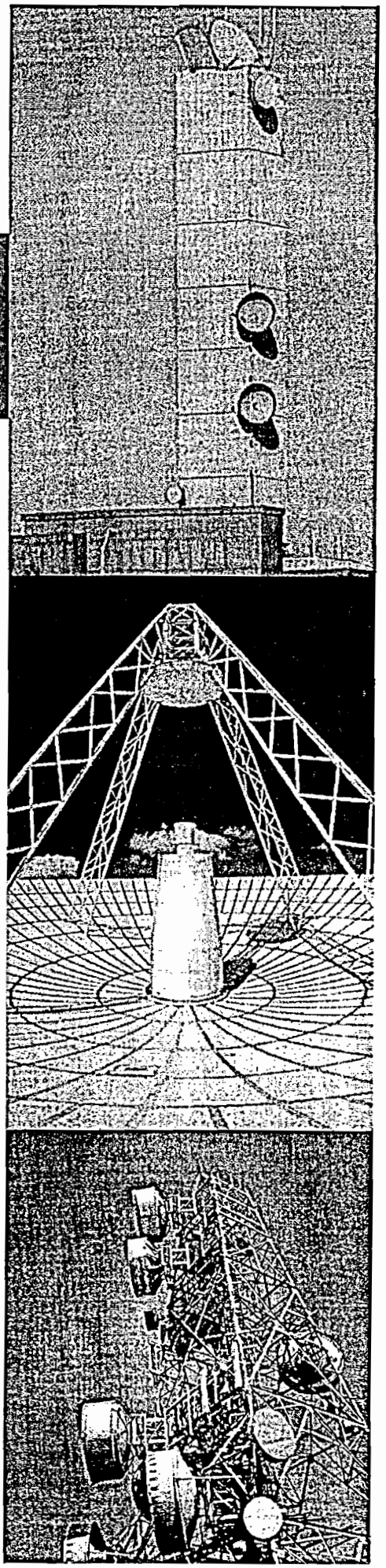
PRICEWATERHOUSECOOPERS

IAB Internet Advertising Revenue Report

An Industry Survey Conducted by PricewaterhouseCoopers and Sponsored by the Interactive Advertising Bureau (IAB)

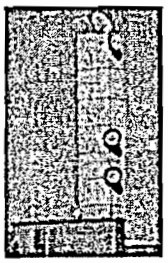
2006 Second-Quarter and First Six-Month Results

September 2006



Interactive Advertising Bureau

Table of Contents



Background 2

Executive Summary 3

Detailed Findings 4

- 2006 Second-Quarter and First Six-Month Results
- Annual and Quarterly Trends
- Industry Concentration
- Advertising Formats
- Industry Category Spending
- Pricing Models

Appendix 11

- Survey Scope and Methodology
- IAB Board Officers and Directors
- Organization Profiles

Background

About the IAB Internet Advertising Revenue Report

Conducted by the New Media Group of PricewaterhouseCoopers LLP on an ongoing basis, with results released quarterly, the "Internet Advertising Revenue Report" was initiated by the Interactive Advertising Bureau (IAB) in 1996. This report aggregates data and information reported directly to PricewaterhouseCoopers LLP by companies representing thousands of Web sites, in addition to other online ad selling companies.

The results reported are considered the most accurate measurement of Internet/online advertising revenues since the data is compiled directly from information supplied by companies selling advertising online. All-inclusive, the report includes data reflecting online advertising revenues from Web sites, commercial online services, e-mail providers, as well as other companies selling online advertising.

The report is conducted independently by PricewaterhouseCoopers LLP on behalf of the IAB. PwC does not audit the information and provides no opinion or other form of assurance with respect to the information. Only aggregate results are published and individual company information is held in strict confidence with PricewaterhouseCoopers LLP. Further details regarding scope and methodology are provided in the appendix to this report.

David Silverman
Partner, PricewaterhouseCoopers LLP

Peter Petrusky
Director, PricewaterhouseCoopers LLP

Executive Summary

IAB Internet Advertising Revenue Report
2006 Second-Quarter and First Six-Month Highlights

Internet advertising revenues ("revenues") in the United States totaled $7.9 billion for the first six months of 2006, with Q1 accounting for $3.85 billion and Q2 totaling $4.06 billion. Internet advertising revenues for the first six months of 2006 increased nearly 37 percent from the same period in 2005.

Key trends underlying 2006 year-to-date results:

- **Revenues Continue to Post Record Results** – Internet advertising revenue in the U.S. totaled $4.06 billion in the second quarter of 2006, marking the seventh quarterly revenue increase since the fourth quarter of 2003. Total revenues for the 2006 second quarter increased 5.5 percent from the 2006 first-quarter total of $3.85 billion, and 36 percent from the 2005 second-quarter total of $2.99 billion. Year-to-date Internet advertising revenues through June 2006 totaled $7.9 billion, up nearly 37 percent versus the same six-month period in 2005.

  "Interactive delivers an arsenal of options for advertisers no matter their marketing and business objectives. From search, broadband, lead generation, behavioral targeting, consumer generated content and new emerging platforms like mobile and iPTV, Interactive continues to solidify its position as a mainstream medium. This latest report is a clear indication that Interactive is of increased importance to marketers today to engage their consumers and drive sales."

  – Greg Stuart, President and CEO, IAB

- **Consumer Advertisers Lead Spending** – Consumer-related advertisers accounted for the largest category of revenues at 49 percent of 2006 second-quarter revenues, down from 51 percent from the same period in 2005. Financial Services, the second-largest category, accounted for 16 percent, followed by Computing advertisers at 10 percent. Within the Consumer category the biggest sub-categories are Retail (47 percent of 2006 second-quarter consumer revenue category), Automotive (21 percent), Leisure (14 percent) and Entertainment (8 percent).

  "The latest results reaffirm the Internet's growing importance for marketers to integrate online advertising into their overall media plans. While search advertising remains the largest format in terms of revenues, we expect to see new formats like video ads to continue to emerge as advertisers seek to leverage the branding opportunities afforded by the growing installed base of broadband users."

  – David Silverman, Partner, PricewaterhouseCoopers LLP

- **Search Continues to Lead, Followed by Display, Classifieds and Referrals** – Search revenue accounted for 40 percent of 2006 second-quarter revenues, consistent with the same period in 2005. Display advertising, Classifieds, and Referrals all increased compared to last year accounting for 21 percent, 20 percent, and 7 percent of 2006 second-quarter revenues respectively.

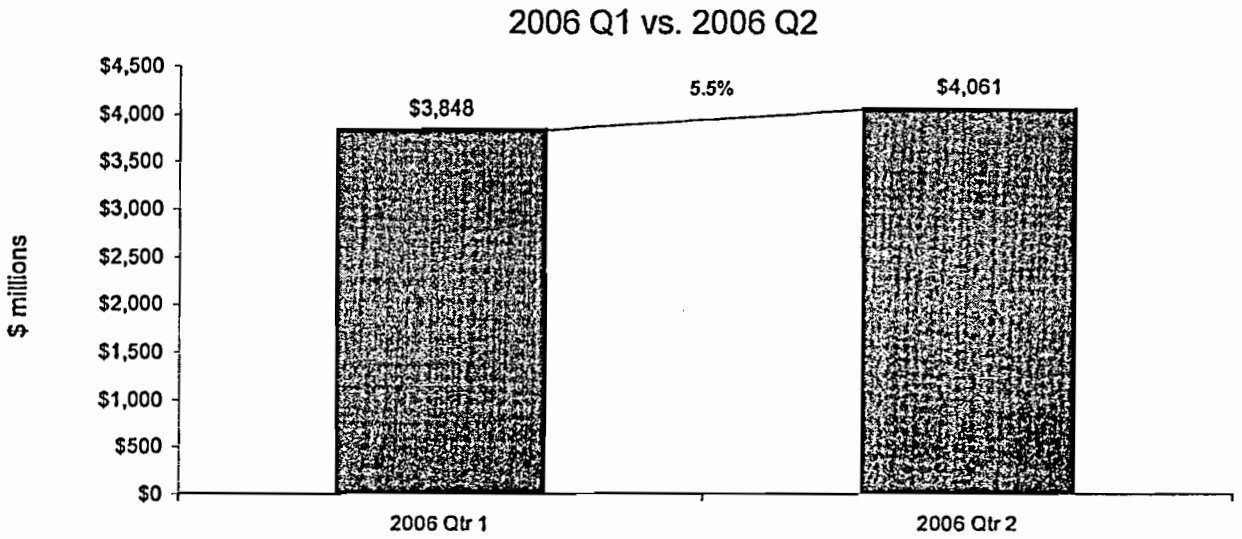
  "Internet advertising continues to reach new milestones, exceeding $4 billion in quarterly revenues for the first time, and on pace for another record year of revenues. With the seventh consecutive quarter of growth behind us we are confident that the Internet will continue to reconcile the imbalances between its share of media consumption versus its relative share of total advertising spend."

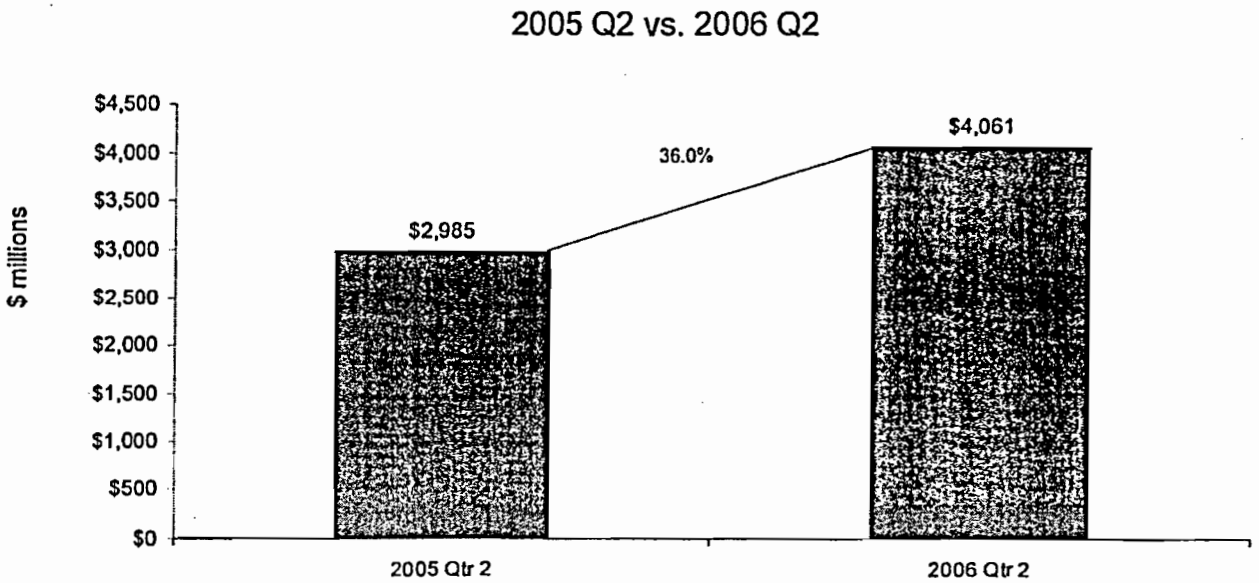
  – Peter Petrusky, Director, PricewaterhouseCoopers LLP

Detailed Findings

Revenues Totaled $4.1 Billion in the Second Quarter of 2006

- Online ad sellers reported aggregate revenues totaling over $4.0 billion for the second quarter of 2006.
- Total 2006 second-quarter revenues were $213 million or 5.5 percent higher than the first quarter of 2006, and nearly $1.1 billion or 36 percent higher than the second quarter of 2005.

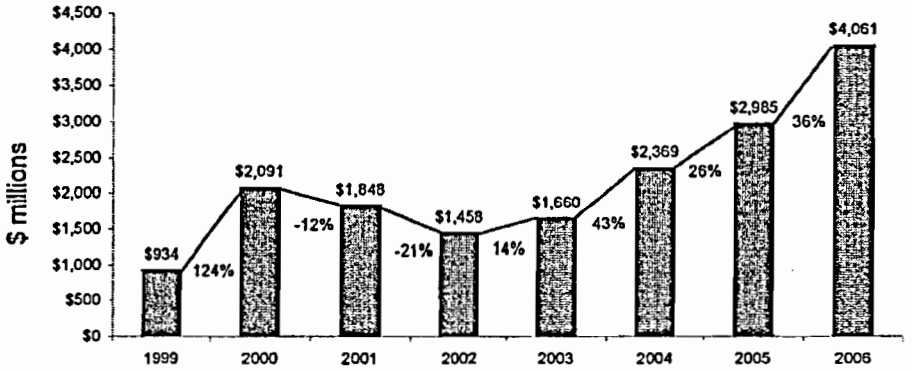




Historical Second-Quarter Revenue Trends

- Second-quarter revenues have increased significantly on a year-over-year percentage and dollar basis for the fourth consecutive year, after declining in 2001 and 2002.

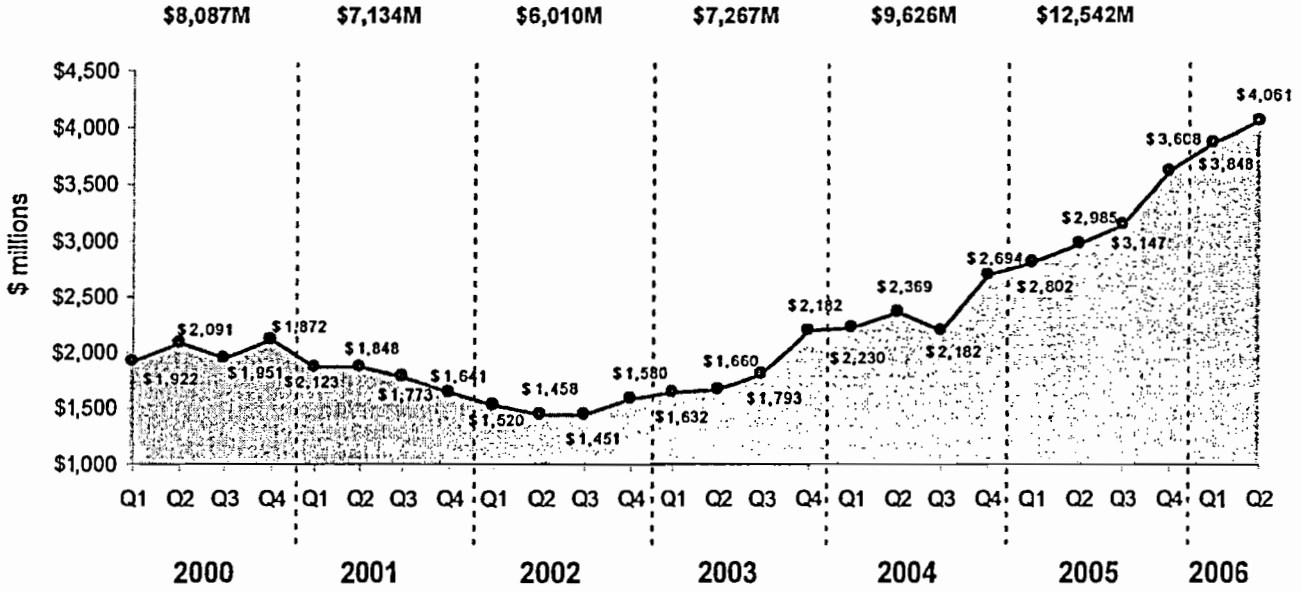
Second-Quarter $ Revenue – 1999 through 2006



Quarterly Revenues Post Record Levels

- 2006 second-quarter revenues recorded the highest quarterly revenue total since reporting began in 1996, and marked the first time quarterly revenues exceeded $4.0 billion.
- Industry revenues began a period of decline from the fourth quarter of 2000 through the second quarter of 2002. Since the third quarter of 2002 revenues have increased 14 of the past 15 consecutive quarters.

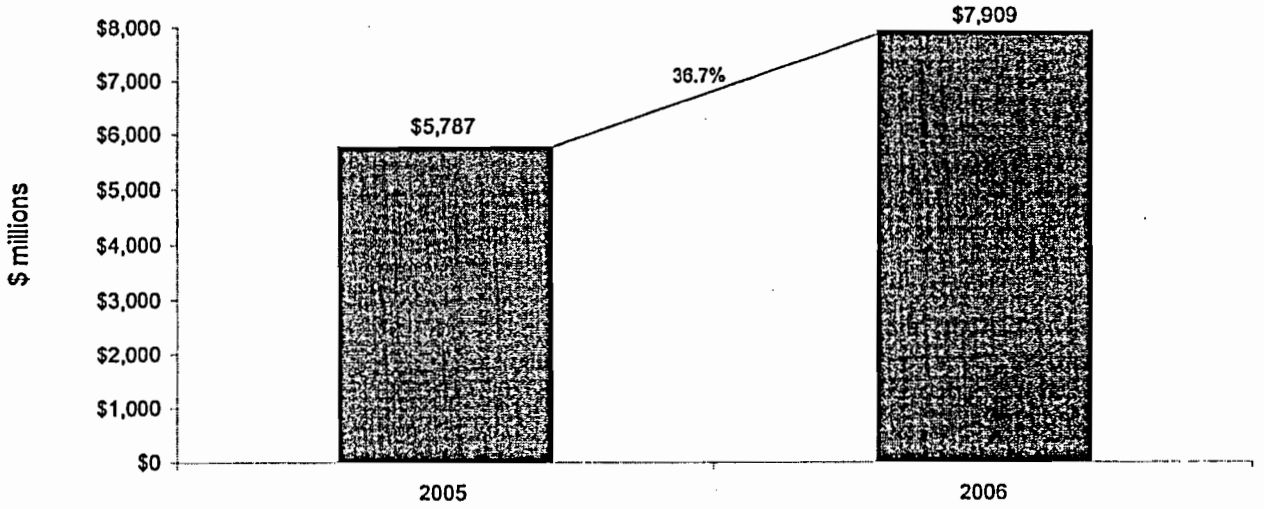
Quarterly $ Revenue Growth Comparisons – 2000-2006 YTD



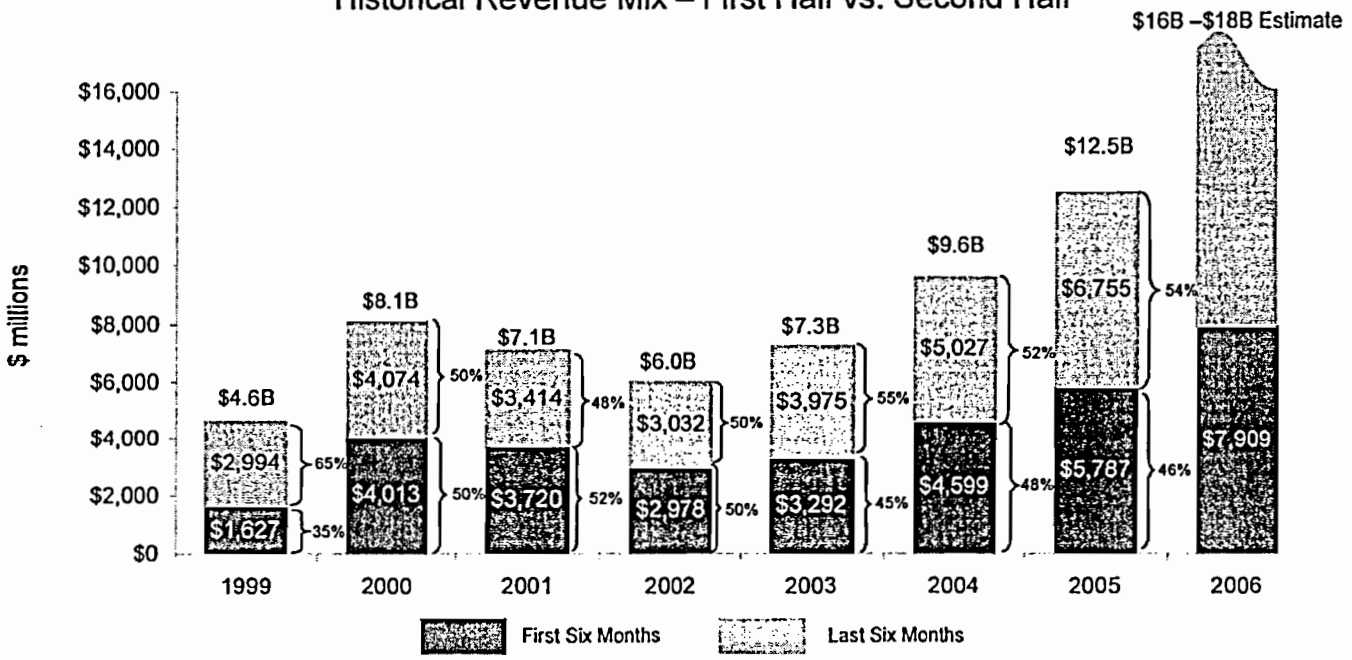
2006 First Six-Month Revenues Totaled Nearly $8.0 Billion

- First six-month revenues for 2006 totaled just under $8.0 billion, $2.1 billion or 36.7 percent higher than the same period in 2005.
- Applying historical seasonal data, the 2006 first six-month revenues of nearly $8.0 billion are on an annual run-rate of between $16 - $18 billion.

First Six-Month Revenues - 2005 vs. 2006



Historical Revenue Mix – First Half vs. Second Half



Historical Revenue Performance

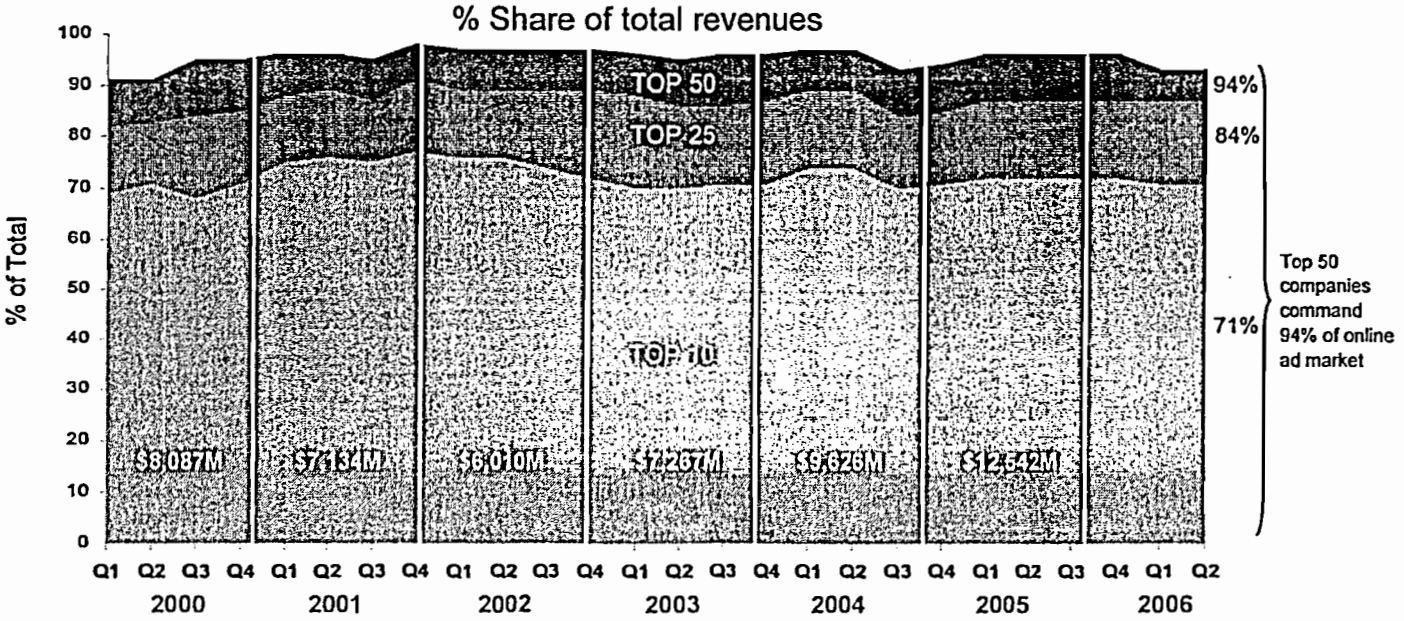
Annual and Quarterly Revenue Growth Comparisons

	$ Rev Millions	% GROWTH Qtr/Qtr	% GROWTH Year/Year
1Q97	$130	18%	333%
2Q97	$214	66%	313%
3Q97	$227	6%	200%
4Q97	$336	48%	205%
Total 1997	$907		239%
1Q98	$351	5%	171%
2Q98	$423	20%	97%
3Q98	$491	16%	116%
4Q98	$656	34%	95%
Total 1998	$1,920		112%
1Q99	$693	6%	97%
2Q99	$934	35%	121%
3Q99	$1,217	30%	148%
4Q99	$1,777	46%	171%
Total 1999	$4,621		141%
1Q00	$1,922	8%	177%
2Q00	$2,091	9%	123%
3Q00	$1,951	-7%	60%
4Q00	$2,123	9%	19%
Total 2000	$8,087		75%
1Q01	$1,872	-12%	-3%
2Q01	$1,848	-1%	-12%
3Q01	$1,773	-4%	-10%
4Q01	$1,641	-7%	-23%
Total 2001	$7,134		-12%

	$ Rev Millions	% GROWTH Qtr/Qtr	% GROWTH Year/Year
1Q02	$1,520	-7%	-19%
2Q02	$1,458	-4%	-21%
3Q02	$1,451	-1%	-18%
4Q02	$1,580	9%	-4%
Total 2002	$6,010		-16%
1Q03	$1,632	3%	7%
2Q03	$1,660	2%	14%
3Q03	$1,793	8%	24%
4Q03	$2,182	22%	38%
Total 2003	$7,267		21%
1Q04	$2,230	2%	37%
2Q04	$2,369	6%	43%
3Q04	$2,333	-2%	30%
4Q04	$2,694	15%	24%
Total 2004	$9,626		33%
1Q05	$2,802	4%	25%
2Q05	$2,985	7%	26%
3Q05	$3,147	5%	35%
4Q05	$3,608	15%	34%
Total 2005	$12,542		30%
1Q06	$3,848	7%	37%
2Q06	$4,061	6%	36%
3Q06			
4Q06			
Total 2006			

Industry Revenue Concentration Remains High

- Online advertising continues to remain concentrated with the ten leading ad-selling companies, which accounted for 71 percent of total revenues in the second quarter of 2006, down from 72 percent reported for the second quarter of 2005.
- Companies ranked 11th to 25th accounted for 13 percent of revenues for the second quarter of 2006, while companies ranked 26th to 50th accounted for 10 percent in the second quarter of 2006.

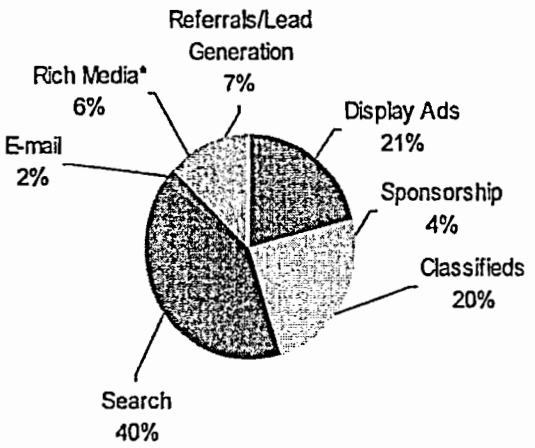


Search, Display and Classifieds Lead Ad Formats

- Search remains the largest revenue format, accounting for 40 percent of 2006 Q2 revenues, consistent with the 40 percent reported for the same period in 2005. Search advertising revenues totaled $1.6 billion in the second quarter of 2006, up 36 percent from the second quarter of 2005, when Search revenues totaled $1.2 billion.
- Display-related advertising accounted for $1.3 billion or 31 percent of total revenues during the second quarter of 2006, compared to the $1.0 billion (34 percent of total) reported in the second quarter of 2005. Display-related advertising includes Display ads (21% of 2006 Q2 revenues), Rich Media (6%), and Sponsorship (4%). Display-related advertising revenues totaled $2.4 billion or 31 percent for the first six months of 2006 revenues, compared to $2.0 billion (34 percent of total) reported for the same period in 2005.
- Classifieds revenues accounted for 20 percent of 2006 second-quarter revenues or $812 million, up slightly from the 18 percent reported in the second quarter of 2005.
- Lead Generation revenues accounted for 7 percent of the 2006 second-quarter revenues or $284 million, up slightly from the 6 percent reported in the second quarter of 2005.

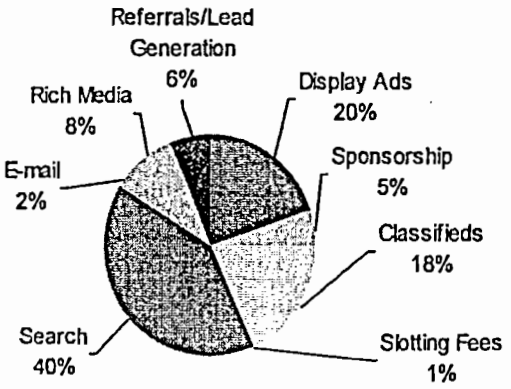
Internet Ad Revenues by Advertising Format

% of 2006 Second-Quarter Revenues



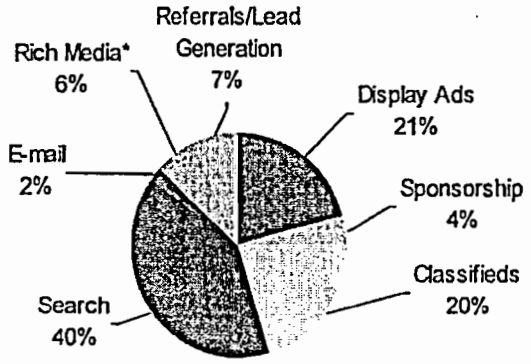
Total – $4.1 Billion

% of 2005 Second-Quarter Revenues



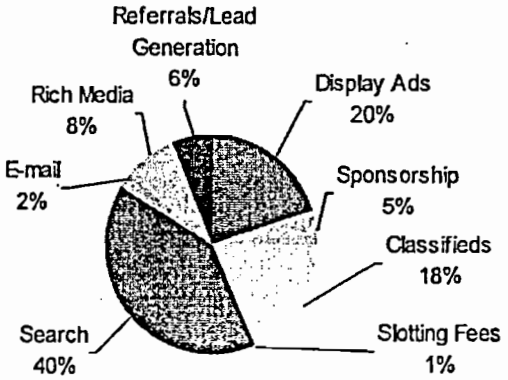
Total – $3.0 Billion

% of 2006 First Six-Month Revenues



Total – $7.9 Billion

% of 2005 First Six-Month Revenues



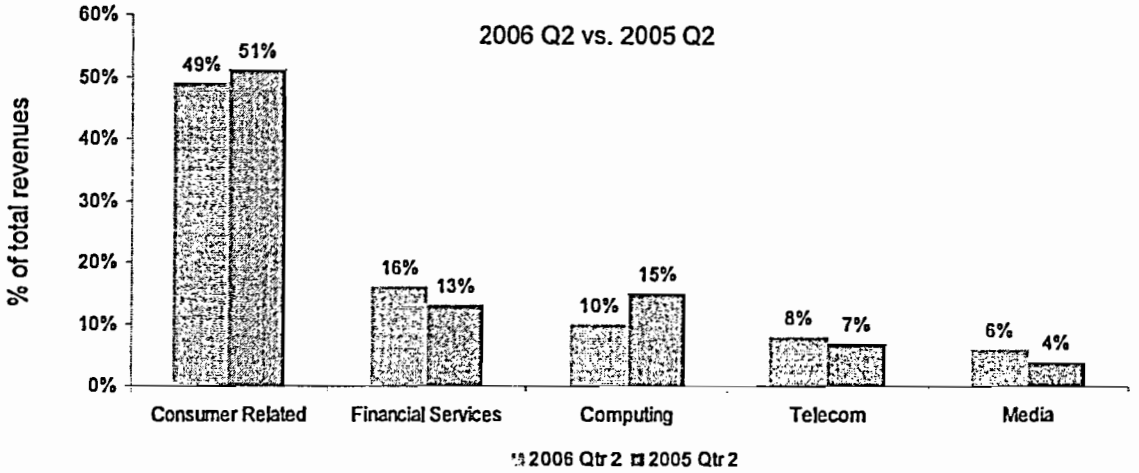
Total – $5.8 Billion

*Rich Media includes Broadband Video; definition on page 12 of report. Slotting fees accounted for less than 1% in 2006.

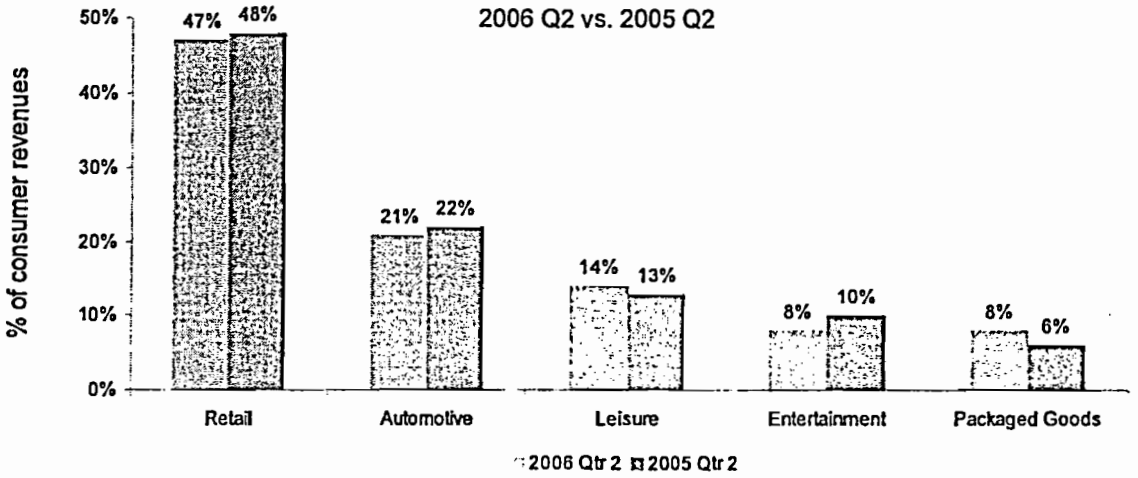
Retail Advertisers Continue to Drive Consumer Ad Spending

- Consumer advertisers continue to represent the largest category of Internet ad spending, accounting for 49 percent of 2006 second-quarter revenues or $2.0 billion, down from 51 percent reported for the same period in 2005.
- Financial Services advertisers represented the second-largest category of spending at 16 percent of 2006 second-quarter revenues or $650 million, up from the 13 percent reported in the same period in 2005.
- Computing advertisers represented the third-largest category of spending at 10 percent of 2006 second-quarter revenues or $406 million, down from the 15 percent reported in the second quarter of 2005.
- Telecom companies accounted for 8 percent of 2006 second-quarter revenues or $325 million, up from the 7 percent reported in the same period in 2005, while Media accounted for 6 percent of 2006 second-quarter revenues or $244 million, up from the 4 percent reported in the second quarter of 2005.
- The consumer related categories are Retail at 47 percent of the 2006 second quarter consumer ad revenues, followed by Automotive at 21 percent, Leisure (travel, hotel & hospitality) at 14 percent, Entertainment (music, film & TV entertainment) at 8 percent, and Packaged Goods at 8 percent.

Internet Ad Revenues by Major Industry Category*



Internet Ad Revenues by Major Consumer Category*



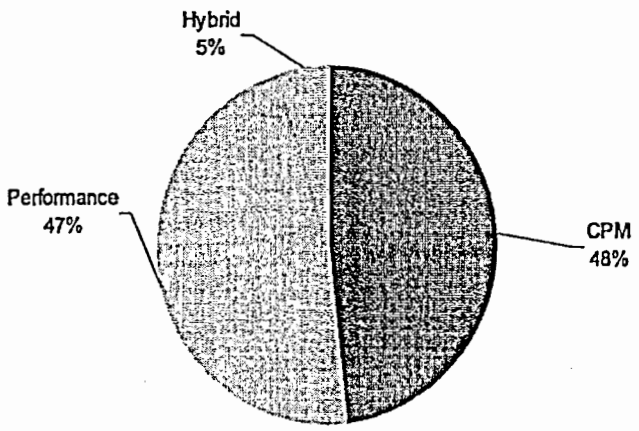
*Categories listed represent the top five ranked by revenue, and may not add up to 100 percent.

Performance-Based Pricing Rebounds

- Survey participants reported 47 percent of 2006 second-quarter revenues were priced on a performance basis, up from 40 percent reported for the second quarter of 2005.
- Approximately 48 percent of 2006 second-quarter revenues were priced on a CPM or impression basis consistent from 48 percent for the same period in 2005.
- Approximately 5 percent of 2006 second-quarter revenues were priced on a hybrid basis, down from the 12 percent reported for the same period in 2005.

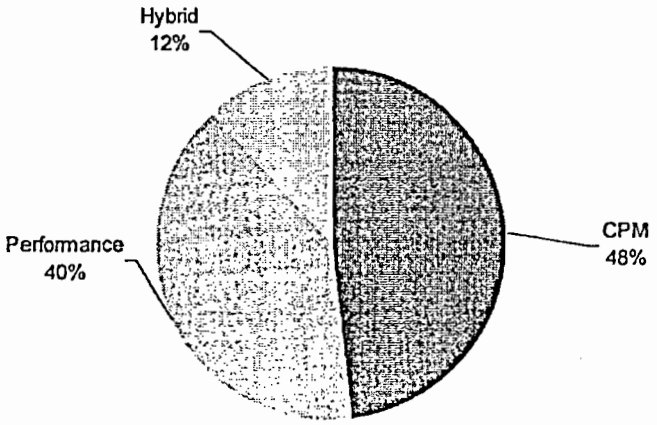
Internet Ad Revenues by Pricing Model

% of 2006 Second-Quarter Revenues



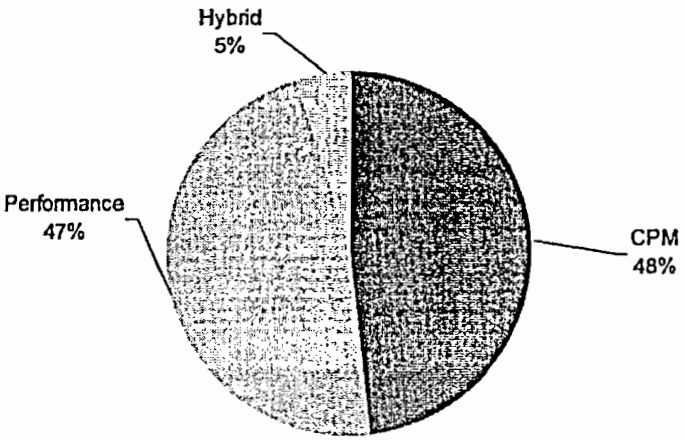
Total – $4.1 Billion

% of 2005 Second-Quarter Revenues



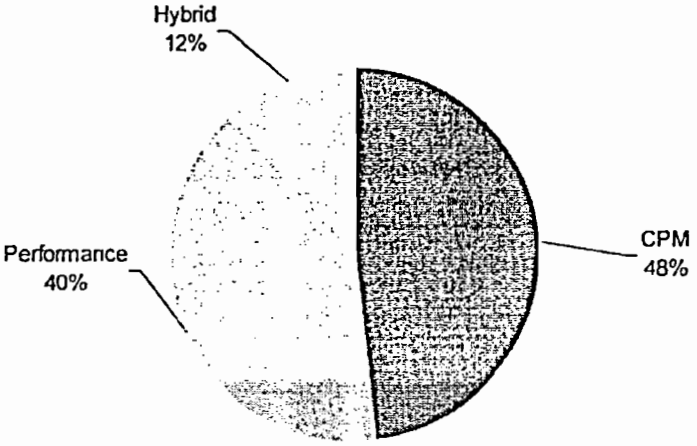
Total – $3.0 Billion

% of 2006 First Six-Month Revenues



Total – $7.9 Billion

% of 2005 First Six-Month Revenues



Total – $5.8 Billion

Appendix

Definitions of Leading Industry Categories

The industry categories used in the IAB Internet Advertising Revenue Report were sourced from the Northern American Standard Industrial Classification (SIC) Manual.*

Consumer-Related – includes industry categories classified as consumer-related, including automotive, mail order/catalog, travel/hotel/airlines, amusement & recreation, apparel, drug stores, home furnishings/textiles, retail stores, cosmetics, jewelry, restaurants/fast food, household products, tobacco, toys, pet food/supplies and appliances.

Computing Products – includes hardware (computers, computer storage devices, and computer peripheral equipment), prepackaged software (operating, utility and applications programs), local area network systems and network systems integration, computer processing and data preparation, and data processing services.

Financial Services – includes commercial banks, credit agencies, personal credit institutions, consumer finance companies, loan companies, business credit institutions, and credit card agencies. Also includes companies engaged in the underwriting, purchase, sale or brokerage of securities and other financial contracts.

Telecommunications – includes point-to-point communications services, including telephone voice and data communications, two-way mobile/cellular communications services, and other non-vocal message communications services (e.g., cablegram, electronic mail and facsimile).

Media – includes establishments primarily engaged in radio and television broadcasting (network and station) including commercial, religious, educational, and other radio or television stations. Includes multi-channel video providers on a subscription fee basis (e.g., cable television, wireless cable television, and direct broadcast satellite services). Also includes establishments primarily engaged in publishing newspapers, periodicals and books.

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* *Survey participants reported results based on the 37 industry categories listed on page 13, which were used specifically for the IAB Internet Advertising Revenue Report. This is consistent with other relevant industry categorization sources that measure advertising spending by industry. For purposes of this report, PricewaterhouseCoopers classified a number of individual categories under "Consumer Related."*

Definitions of Advertising Formats

Display Advertising – advertiser pays an Internet company for space to display a static or hyper-linked banner or logo on one or more of the Internet company's pages.

Sponsorship – represents custom content and/or experiences created for an advertiser which may or may not include ad unties (i.e., display advertising, brand logos, advertorial and pre-roll video). Sponsorships fall into several categories:

- Spotlights are custom built pages incorporating an advertiser's brand and housing a collection of content usually around a theme;
- Advergaming can range from an advertiser buying all the ad units around a game or a "sponsored by" link to creating a custom branded game experience;
- Content & Section Sponsorship is when an advertiser exclusively sponsors a particular section of the site or email (usually existing content) reskinned with the advertiser's branding;
- Sweepstakes & Contests can range from branded sweepstakes on the site to a full-fledge branded contest with submissions and judging

E-mail – banner ads, links or advertiser sponsorships that appear in e-mail newsletters, e-mail marketing campaigns and other commercial e-mail communications. Includes all types of electronic mail (e.g., basic text or HTML-enabled).

Search – fees advertisers pay Internet companies to list and/or link their company site domain name to a specific search word or phrase (includes paid search revenues). Search categories include:

- *Paid listings* – text links appear at the top or side of search results for specific keywords. The more a marketer pays, the higher the position it gets. Marketers only pay when a user clicks on the text link.
- *Contextual search* – text links appear in an article based on the context of the content, instead of a user-submitted keyword. Payment only occurs when the link is clicked.
- *Paid inclusion* – guarantees that a marketer's URL is indexed by a search engine. The listing is determined by the engine's search algorithms.
- *Site optimization* – modifies a site to make it easier for search engines to automatically index the site and hopefully result in better placement in results.

Referrals / Lead Generation – fees advertisers pay to Internet advertising companies that refer qualified purchase inquiries (e.g., auto dealers which pay a fee in exchange for receiving a qualified purchase inquiry online) or provide consumer information (demographic, contact, behavioral) where the consumer opts into being contacted by a marketer (email, postal, telephone, fax). These processes are priced on a performance basis (e.g., cost-per-action, -lead or -inquiry), and can include user applications (e.g., for a credit card), surveys, contests (e.g., sweepstakes) or registrations.

Classifieds and auctions – fees advertisers pay Internet companies to list specific products or services (e.g., online job boards and employment listings, real estate listings, automotive listings, auction-based listings, yellow pages).

Rich media – advertisements that incorporate animation, sound, and/or interactivity in any format. It can be used either singularly or in combination with the following technologies: sound, Flash, and with programming languages such as Java, JavaScript, and DHTML. It is deployed via standard Web and wireless applications including e-mail, static (e.g. html) and dynamic (e.g. asp) Web pages, and may appear in ad formats such as banners, buttons, and interstitials. Interstitials are included in the rich media category and represent full- or partial-page text and image server-push advertisements which appear in the transition between two pages of content. Forms of interstitials can include splash screens, page takeovers and pop-up windows.

Broadband Video Commercials –TV-like advertisements that may appear as in-page video commercials or before, during, and/or after a variety of content in a player environment including but not limited to, streaming video, animation, gaming, and music video content. This definition includes broadband video commercials that appear in live, archived, and downloadable streaming content.

Slotting fees – fees charged to advertisers by Internet companies to secure premium positioning of an advertisement on their site, category exclusivity or similar preference positioning (similar to slotting allowances charged by retailers).

Survey Scope

The Interactive Advertising Bureau (IAB) retained PricewaterhouseCoopers to establish a comprehensive standard for measuring the growth of Internet/online advertising revenues.

- The IAB Internet Advertising Revenue Report is an ongoing IAB mission to provide an accurate barometer of Internet advertising growth.
- To achieve differentiation from existing estimates and accomplish industry-wide acceptance, key aspects of the survey include:
  - Obtaining historical data directly from companies generating Internet/online advertising revenues;
  - Making the survey as inclusive as possible, encompassing all forms of Internet/online advertising, including Web sites, consumer online services and e-mail providers; and
  - Ensuring and maintaining a confidential process, only releasing aggregate data.

Methodology

- PricewaterhouseCoopers:
  - Compiles a database of industry participants selling Internet/online advertising revenues.
  - Conducts a quantitative mailing survey with leading industry players, including Web publishers, commercial online service providers, e-mail providers and other online media companies.
  - Requests and compiles several specific data items, including monthly gross commissionable advertising revenue by industry category and transaction.
  - Identifies non-participating companies and applies a conservative revenue estimate based on available public sources.
  - Analyzes the findings, identifies and reports key trends.
  - The 2001 and 2000 full-year revenue data were adjusted to reflect revenue restatements reported in public filings by several individual companies. Those reported restatements totaled $77 million in 2001 and $138 million in 2000. Historical industry revenue figures are now adjusted to $7.134 billion in 2001 and $8.087 billion in 2000.

Survey Industry Categories

Amusement & recreational services

Apparel

Automotive

Beer/wine/liquor

Beverages

Computing products (hardware/software)

Consumer Packaged Goods

Cosmetics/toiletries

Drug stores

Educational Services

Entertainment (Film, Music, Box Office, Video Games)

Financial services (Banks, Insurance, Securities)

Food

Health care services

Home furnishings/textiles

Household products/supplies

Internet/ISP/E-commerce

Leisure (Travel/hotels/airlines)

Manufacturing

Media (Broadcast, Cable, Publishing)

Pharmaceuticals

Professional sports, sporting & athletic goods

Real estate

Restaurants/fast food

Retail/chains/mail order/catalog

Telecommunications

Toys/games

Overall Report Guidance Provided by IAB Leadership

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James Spanfeller
Forbes.com

President
Greg Stuart
IAB

Chairman Emeritus
Steve Wadsworth
Walt Disney Internet Group

Founding Chairman
Rich LeFurgy
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Google

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David Moore
24/7 Real Media

Martin Nisenholtz
New York Times Company

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Warren Schlichting
Comcast Spotlight

Jim Spanfeller
Forbes.com

Steve Wadsworth
Walt Disney Internet Group

Jeff Webber
USATODAY.com

Dave Yovanno
ValueClick Media

About the Interactive Advertising Bureau

Founded in 1996, the Interactive Advertising Bureau (IAB) represents over 250 leading interactive companies that are actively engaged in, and support the sale of interactive advertising. IAB members are responsible for selling over 86% of online advertising in the United States. On behalf of its members, the IAB evaluates and recommends standards and practices, fields interactive effectiveness research and educates the advertising industry regarding the use of interactive advertising. For more information, please visit www.iab.net.

PricewaterhouseCoopers New Media Group

PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax and advisory services for public and private clients. More than 120,000 people in 144 countries connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders.

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PricewaterhouseCoopers' New Media Group was the first practice of its kind at a Big Four firm. Currently located in New York, Los Angeles, Boston, Seattle and the Bay Area, our New Media Group includes accounting, tax and consulting professionals who have broad and deep experience in the three areas that converge to form new media: advanced telecommunications, enabling software and content development/distribution.

Our services include:

- Business assurance services
- Web audience measurement and advertising delivery auditing and advisory
- IAB Measurement Certification Compliance auditing
- Privacy policy structuring, attestation and compliance advisory
- Mergers & Acquisition assistance
- Tax planning and compliance
- Capital sourcing and IPO assistance

PricewaterhouseCoopers LLP is a licensed CPA WebTrust auditor, a designated TRUSTe auditor, and the leading service provider in the area of Web Advertising Delivery Auditing.

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