

aheda

AUSTRALIAN HOME ENTERTAINMENT
DISTRIBUTORS ASSOCIATION

2013

yearbook

Contents

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What the AHEDA Yearbook shows is that the Australian physical DVD and Blu-ray disc business remains a \$1bn plus industry ...

Foreword

Simon Bush, Chief Executive, AHEDA



It is fitting that in 2013, 30 years since the creation of our industry association to represent the Australian home entertainment film and TV industry, that we launch our first Yearbook providing a snapshot of our industry.

Over the 30 years our industry has gone through tremendous changes almost always led by the relentless surge of new technology; VHS/BETA, laserdisc, DVD, Blu-ray and now digital and cloud based services. Our industry has always embraced and profited from such changes and today is no different.

What the AHEDA Yearbook shows is that the Australian physical DVD and Blu-ray disc business remains a \$1bn plus industry and that the relative new digital and online business is growing at over 30 per cent annually and projected to be worth \$260m by 2017 (from \$130m today). And after recent years of declines in our business, 2013 is on track to end the year flat.

IHS forecasts in Chapter 3 that the total video market in 2017 will be worth \$1.12 billion which shows the durability of our billion dollar industry (and this does not include growth from new sVoD services).

I am proud to represent an industry that embraces change, is not afraid of technology and has a mantra of giving consumers what they want and when they want it. We are now at the stage when we can offer consumers exciting ways to consume film and TV content in and out of the home on multiple devices at any time they wish, often same time or within 24 hours of US release.

We cannot, however, provide quality content and roll out new cloud based digital and online services against illegal piracy websites. We know that consumers love our content and are happy to pay the right price for it but we cannot compete with free. We look forward to the new government following from our leading trading partners around the world and introduce legislation to assist with tackling peer-2-peer piracy as well as block streaming websites of illegal content.

Thank you to all the contributors and I hope you enjoy the Yearbook and if you have any suggestions on improvements for our second edition in 2014, I would love to hear from you.

Kind regards

Simon Bush





The state of the Australian home entertainment film industry:

Insight from AHEDA Managing Directors on challenges and opportunities facing the business

Andrew Colley

Film historians will long remember Baz Luhrmann for his brave and adventurous adaptation of F. Scott Fitzgerald's 1925 American literary classic *The Great Gatsby*.

However, they might not recall that the film was experimental in another important way. It was among a handful of films released earlier this year in the US that were made available for digital download weeks before release in retail stores on Blu-ray and DVD discs.

Known as early electronic sell through (EST), it's among a broad range of strategies that the entertainment industry is testing to address the internet's impact on physical retail channels. Australia has closely followed with early EST titles including *Prometheus*, *the Internship* and *World War Z*.

While some Wall Street analysts have taken a gloomy view of the industry's prospects of navigating the shift to digital, it can fairly lay claim to a track record for successfully confronting technological change.

"We're an industry that is used to managing change," says one senior industry source. **"Whether it was the shift from silent movies to sound, black-and-white theatrical to colour, or the launch of TV and cable TV, we've managed change in an effective way".**

However, the winds of technological change the industry faces this time around are flukier than in previous transition periods.

Consumers have a larger range of video devices and delivery channels at their disposal than ever before in history leaving content owners to chase audiences that seem to fragment and change faster than the Melbourne weather.

Google's free internet video YouTube stopped being an outlier long ago and terrestrial broadcasters are scrambling to stretch their eyeball catchments online. Internet connected televisions and game consoles are erasing the already heavily smudged line between home computing and home entertainment thereby accelerating the online audience's migration to the living room.

However, arguably, it is consumers' growing comfort with downloading pirated material content that represents the biggest challenge – after all, it's hard to compete with free.

The copyright battlefield extends wider than the movie industry and the stakes are higher than perceived. A study by PricewaterhouseCoopers released late 2012 found that in the 2011 financial year Australia's copyright industries employed 8 per cent of Australia's workforce (just over 900,000 jobs) and contributed of \$93.2bn in value to Australia's economy.

However, signs of the challenging technological climate our copyright industries are now facing are becoming apparent. The PwC report found that the value Australia's copyright industries added to the economy grew steadily and strongly from \$69bn in 1997 to a 2007 peak of \$100.2bn in 2007.

Given the speed and scope of the changes the internet has brought, it would be pointless to deny that the industry has had to shift its weight to the back foot.

"The really different factor is that digital channels are making the transformation consumer led. Previously, studios drove the changes – we would spot new

"We are singularly at the most exciting and the most challenging time that our industry has seen in recent history".

release windows or find ways to add technology to the mix to drive incremental value from our intellectual property,” one senior industry source says.

“If we don’t respond to what we’re hearing and seeing from consumers, then we’re in trouble”.

The industry has started to respond and there are signs its strategies are working. The success of Hulu, Netflix and the upcoming Australian launch of Foxtel’s Presto online video-on-demand (VoD) service signals the arrival of public internet infrastructure as a legitimately mainstream conduit for TV and movie inventory. More recently, new Digital Rights Management (DRM) technologies such as UltraViolet have been combined with centralised cloud computing in ways that could potentially transform the manner in which consumers think about renting, owning and curating their favourite TV shows and film titles.

Traditional content release windows continue to test consumers’ patience particularly as entertainment industry marketing becomes more tightly entwined with global social media networks. Accordingly, release windows – particularly for globally distributed television series – are gradually contracting.

However, Australia’s physical retail market still turns over about a billion dollars per year, and there are signs that it is starting follow to the US trends and return to growth after four years in decline.

The key challenge facing the home entertainment industry is to respond to consumer demands while balancing investment in digital and physical channels in ways that ensures neither suffers unnecessarily.

The cogs and sprockets of the business have become highly sensitive and sophisticated but the reward for tuning them all correctly could be great.

As one senior industry executive says: **“We are singularly at the most exciting and the most challenging time that our industry has seen in recent history”.**

The challenge: mixing discs and digital

It’s becoming harder to find consumers that still take the modest meal approach to home entertainment. The endless reproducibility of digital video and music content has ensured that with a few clicks they can

have access to a banquet of entertainment that would take many lifetimes to consume.

Home entertainment distributors are reporting sharp year-on-year increases in digital sales and, inevitably, some consumers are choosing disreputable means to obtain digital content for free or to get it sooner.

In such an environment, it would be easy to bow to market pressures to beat a hasty retreat from the physical business models that evolved to make investing billions of dollars in high quality entertainment worthwhile.

However, while it is accepted that the industry has become consumer-led, local entertainment industry players say that ramping up digital too quickly would be reckless and destructive.

“If we do that, all of the traditional business models and release windows that we’ve used to monetise our intellectual property and generate profit to reinvest in creating compelling content would evaporate overnight. That clearly can’t work,” a senior industry executive says.

Last financial year local retailers sold nearly 63 million DVD and Blu-ray discs generating \$1.14bn in sales.

Furthermore, while the physical segment has been declining 7 per cent a year since 2009 recent industry figures indicate that in Australia the decline is finally starting to slow. Between January 1 and June 30 this year it fell to negative 1 per cent aligning with US trends.

Local distributors report that new release DVDs and Blu-ray titles are withstanding the emergence of digital channels. That, they say, is because, consumers still want to be first to watch the latest TV shows and movies. They also want to be able to enjoy certain titles and genres in Blu-ray formats that would be too prohibitively large to download digitally. As higher resolution TVs become increasingly affordable the latter trend can only deepen.

Sales of physical catalogue titles are, however, either flat or in negative territory with viewers increasingly preferring to buy or stream them via digital channels. That’s attracting more bricks-and-mortar physical movie renters and retailers such as JB Hi-Fi to move into the online space alongside giants like Amazon, Hulu, Netflix and iTunes.

Accordingly, local industry players predict that digital sales, whether they’re video-on-demand or download-to-own, will continue to grow with the category over the coming year.

While, the industry is resisting pressure to retreat from the physical retail market it has recognised a need to experiment with digital release windows creating potential for certain titles to be released electronically prior to DVD.

Early EST is becoming more common in the US and it’s seen as a means to combat online piracy.

While pricing remains the key driver behind internet piracy in Australia, recent surveys have also found is the window between overseas and local TV release dates has also been a significant factor.

“We expect to be able to watch our favourite TV shows at the same pace as the rest of the world and while the lag has been virtually eliminated on Pay TV channels, take-up rates for such services in Australia are still low relative to other markets,” said one industry executive.

Most distributors are experimenting with EST release windows and those that aren’t say that they plan to start eventually. For instance, Paramount Home Entertainment Australia gave *World War Z* download-to-own sales a one-week head start over VoD and physical retail following its theatrical launch, last June and Twentieth Century Fox has also gone down this path with its film *The Internship*.

Most local distributors also agree that the current four-month theatrical movie release window for Australia will narrow over time. (However, some have expressed concerns about how that will impact theatre promotions).

What is agreed is that it is not a case of physical trumping digital or vice-versa. The industry is evolving and consumers now enjoy a wide range of options if they want to access movies digitally. iTunes, Foxtel, Google, Microsoft and Sony sit right alongside local players Telstra, Fetch TV, Ezyflix and Quickflix* to offer access to new releases films.

At the same time DVD retail is still a large and thriving business with key players like JB Hi-Fi, Kmart, Big W, Target, ABC Shops and Woolworths enjoying great

success in the category. Blu-ray sales continue to grow and local pricing is competitive with most global markets.

“We believe that while physical will get smaller it will remain a vibrant business for at least the next five to ten years,” said one industry executive.

Piracy

No serious discussion of the modern home entertainment market can ignore the explosion in music, movie and television piracy that has shadowed the growth of the internet.

Wide scale illegal copying of popular television series *Breaking Bad* and *Game of Thrones* on Australia’s networks earlier this year demonstrated we are among the most prolific online pirates in the world.

Recent industry statistics indicate that the proportion of home entertainment content obtained through piracy here is 35 per cent and growing steadily. Adding to concerns, the TV has stolen the computer’s crown as the dominant way that consumers view pirated material.

Our courts have already hosted two major internationally observed copyright battles. One of those, Roadshow vs. iiNet, which tested whether ISPs could be held liable for their customers’ online movie piracy habits, ended up in our highest court but did not resolve the problem.

The vast majority of internet piracy is carried out by about 20 per cent of the online community. Expecting that group to change their habits would be “ambitious”, says one industry senior industry executive. The challenge instead, he says, is to minimise the number of individuals resorting to online piracy within the remaining 80 per cent of consumers willing to pay for content.

The industry is battling a sneering and cynical attitude that online piracy only serves to harm a greedy, cabal of elites that is financially untouchable. As mentioned, Australia’s copyright industries were responsible for employing over 900,000 Australians in the 2011 financial year. The PwC study found that their real average wage increased from \$48,499 per employee in 1996-97 financial year to \$56,031 in 2010-11.

According to the Australian Screen Association, Australia's screen industry contributes \$5.3bn to our economy each year and employs approximately 50,000 people.

And it's not just the actors and directors that need to be remembered. The screen industry supports hundreds of small businesses and individual traders; set-builders, caterers, writers, cinema operators, graphic designers, animators and truck drivers.

Ongoing illegal movie and music downloading activity is placing the livelihoods and well being of all these Australians at risk.

Having provided many legal online download services, local distributors argue that consumers can no longer lay claim to the argument that content owners should share the blame for piracy.

They argue that they've exhausted every viable avenue to combat piracy and that it's now time for legislators to step up to the plate.

"In this country we obviously need to have a much stronger legislative regime that supports distributors and owners of intellectual property. We need assistance from internet providers to grow legitimate and innovative digital markets for our content and I'm hopeful that we'll see some movement in that in the year ahead," said one senior industry executive.

The previous federal government attempted to negotiate a truce between carriers and content owners over piracy through the Attorney-General's Department but its efforts collapsed without result.

However, the election of Liberal government in September has brought fresh hopes of a solution. By October the media was reporting that the Attorney-General's Department was taking steps to revive the negotiations and banging the legislative stick against the podium more forcefully.

The NBN and the digital opportunity

The internet's potential to disrupt the home entertainment business is well understood but, equally, its potential to create new revenue is often overlooked.

For example it is widely accepted that the federal government's national broadband network could

accelerate online piracy. However, fast, reliable and ubiquitous broadband also has the potential to make commercial cloud-based video services more feasible.

Furthermore, subscription music services such as Spotify, Pandora and iTunes Radio are already changing consumer attitudes to owning content and recent industry surveys suggest it is becoming less important.

As consumers see the benefits of accessing their favourite content reliably on multiple devices new income streams could emerge to supplement physical retail.

For instance, the home entertainment industry has achieved broad support for a protected, cloud-based online video content management standard called UltraViolet.

UltraViolet is already being used to let consumers purchase digital versions of their favourite movies along with their box office ticket and as rewards for purchasing film merchandise. However, industry executives concede that not enough is being done to promote these technologies.

Acknowledgements

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Chris Chard – Managing Director,
Roadshow Entertainment

Paul Muller – Managing Director,
Paramount Home Entertainment Australia

Flavio Paoli – Managing Director,
Twentieth Century Fox Home Entertainment Australia

John Cracknell – Managing Director,
The Walt Disney Company Australia

Australia's copyright industries employed 8 percent of Australia's workforce (just over 900,000 jobs) and contributes \$93.2bn in value to Australia's economy.

2

Retail physical market

GfK Retail and Technology, Australia

As new options for accessing and purchasing content are adopted, new legal and illegal digital channels have experienced significant growth.

Historical trends

The turn of the century marked a major shift for the Australian home entertainment industry. The take-up of DVD was accelerating, and by 2002, DVD had overtaken VHS to become the leading format in video entertainment. Just two years later, the popularity of DVD had created a 1 billion dollar retail sector. Despite the Global Financial Crisis, further growth was experienced in 2008 and 2009, with both the hardware and software sectors of the Australian home entertainment industry benefiting from the array of stimulus packages triggered. **In 2009, physical retail sales of video entertainment peaked at 87 million units, and \$1.57bn in revenue.**

Despite the increased take-up of the Blu-ray format over the past 5 years, physical retail sales of video software have been steadily contracting since the peak of 2009. The home entertainment industry is undergoing further structural change as consumer behaviour adapts to the phenomenal pace of technological advancement in their personal

hardware devices. As new options for accessing and purchasing content are adopted, new legal and illegal digital channels have experienced significant growth. Catch-up TV, video on demand, digital ownership, and unfortunately, piracy, are increasingly becoming part of everyday life for many.

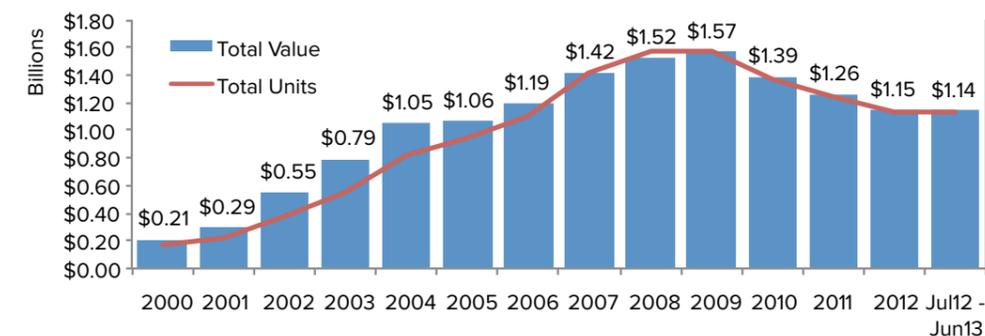
However, in the year ending June, 2013, the physical retail channel still generated revenue of well over \$1bn, and remains the dominant channel for the acquisition of video entertainment titles.

What's happening now?

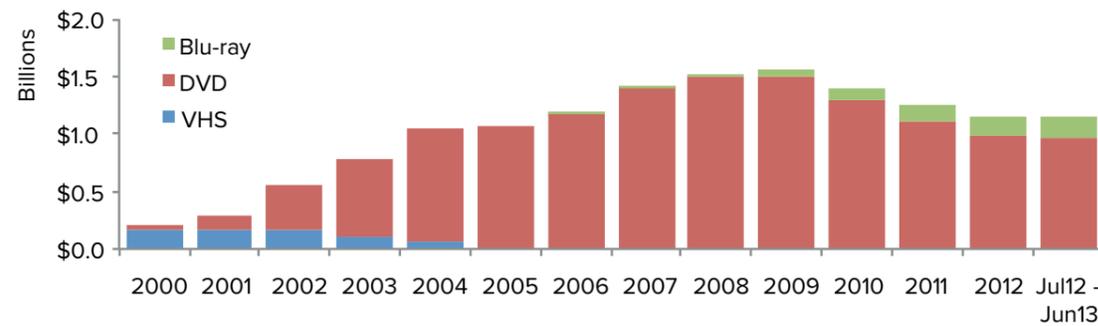
In the year ending June, 2013, the physical DVD and Blu-ray retail sector sold nearly 63 million discs, for a total value of more than \$1.14bn.

While we have seen a 7 per cent year-on-year decline in value, the rate of decline has slowed dramatically. **During the 6 months from January to June, 2013, decline has slowed to only -1 per cent in value, while volume actually increased by 1 per cent.**

Physical retail market size



Physical retail market value by format



Volume growth was fuelled by both widespread retailer promotions, and the success of key new releases.

Walt Disney's *The Avengers*, was the third highest grossing film of all time at the Australian box office, and soon after its physical release, became the top-selling title on disc during the last 12 months.

Warner Bros' *Batman The Dark Knight Rises* and Roadshow's *Hunger Games* were the next most popular titles, contributing significantly to the past year's solid sales performance.

The year's top 10 value chart is not dissimilar to the volume chart, with the notable exception of *Game of Thrones Season 2* (Warner Bros). Commanding a higher price point, the popular TV series claims the number 5 value spot.

Top selling titles, July 2012 – June 2013, ranked by volume

Rank	Title	Distributor	Genre
1	MARVEL THE AVENGERS	WALT DISNEY STUDIOS	ADVENTURE
2	BATMAN THE DARK KNIGHT RISES	WARNER BROS	ADVENTURE
3	HUNGER GAMES	ROADSHOW	ACTION
4	SAPPHIRES	20TH CENTURY FOX	MUSICAL
5	TED	UNIVERSAL	COMEDY
6	ICE AGE 4 CONTINENTAL DRIFT	20TH CENTURY FOX	ANIMATED
7	TWILIGHT SAGA BREAKING DAWN P2	SONY PICTURES	THRILLER
8	HOBBIT AN UNEXPECTED JOURNEY	WARNER BROS	ADVENTURE
9	JAMES BOND SKYFALL	20TH CENTURY FOX	ACTION
10	BRAVE	WALT DISNEY STUDIOS	ANIMATED

Top selling titles, July 2012 – June 2013, ranked by value*

Rank	Title	Distributor	Genre	Value
1	MARVEL THE AVENGERS	WALT DISNEY STUDIOS	ADVENTURE	\$13,088,151
2	BATMAN THE DARK KNIGHT RISES	WARNER BROS	MOVIE - ADVENTURE	\$9,269,875
3	HUNGER GAMES	ROADSHOW	MOVIE - ACTION	\$8,674,287
4	TED	UNIVERSAL	MOVIE - COMEDY	\$7,191,063
5	GAME OF THRONES SEASON 2	WARNER BROS	TV SERIES - DRAMA	\$7,056,562
6	HOBBIT AN UNEXPECTED JOURNEY	WARNER BROS	MOVIE - ADVENTURE	\$6,728,177
7	SAPPHIRES	20TH CENTURY FOX	MOVIE - MUSICAL	\$6,667,982
8	TWILIGHT SAGA BREAKING DAWN PT 2	SONY PICTURES	MOVIE - THRILLER	\$6,273,237
9	ICE AGE 4 CONTINENTAL DRIFT	20TH CENTURY FOX	MOVIE - ANIMATED	\$6,156,825
10	JAMES BOND SKYFALL	20TH CENTURY FOX	MOVIE - ACTION	\$6,087,359
Total Top 10				\$77,193,517

*Data has been extrapolated to gain full market value

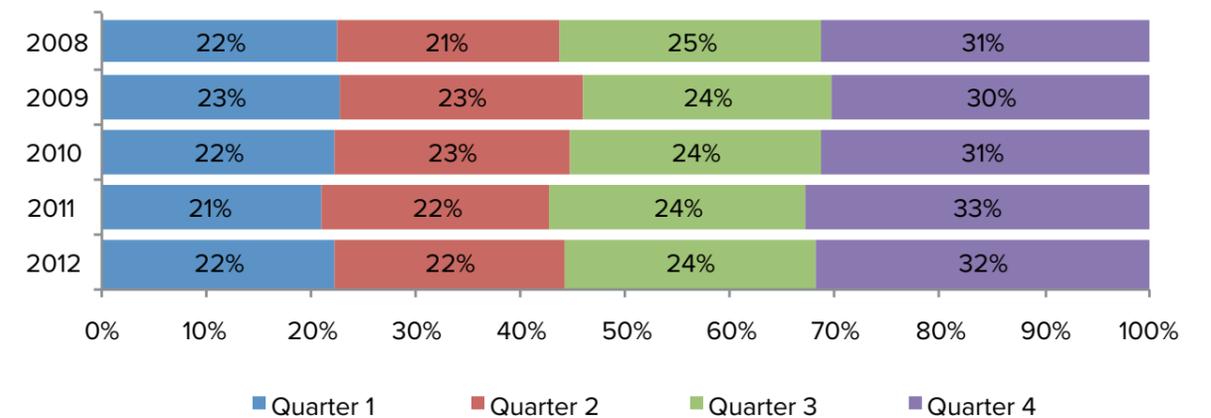
Seasonality

Over the years, the seasonality of the video entertainment sector has remained extremely consistent. Quarters 1 and 2 account for approximately 22 per cent each of the total year's volume sales; 24 per cent of volume is sold in quarter 3, and the final 32 per cent of sales take place in quarter 4.

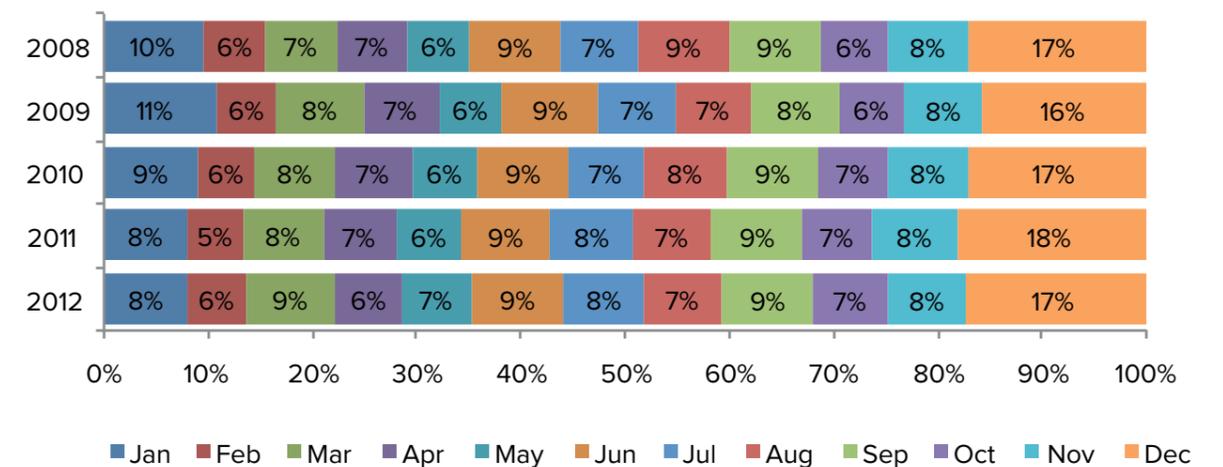
December is a key month for the DVD and Blu-ray retail sector, so while quarter 4 accounts for a third of the year's sales, monthly trends reveal that 20 per cent of revenue is generated in the final, Christmas-fuelled, month of the year.

Also worthy of note is the seasonality of disc release dates. Catering for the Christmas holiday season, many of the stronger movie titles have their cinematic release in or around December. With a general window of 4 months between cinema and disc release, a large number of disc titles are introduced to the retail channel in May of the following year.

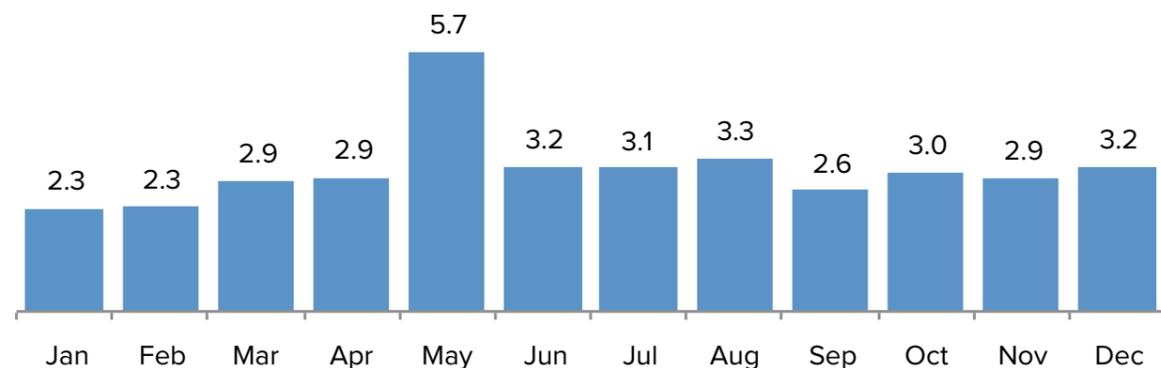
Market season by quarter – volume shares



Market season by month – volume shares



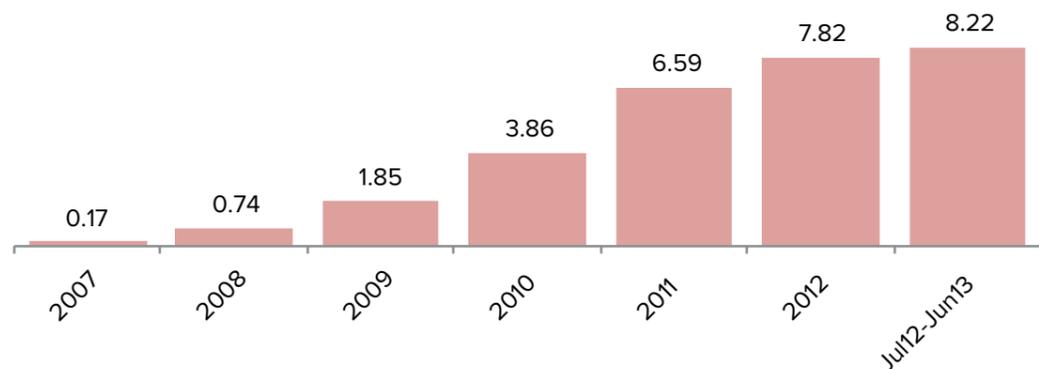
Average number of theatrical title releases: 2008–2012



Format value shares: July 2012 – June 2013



Blu-ray volume sales (million)



Format trends

2007 marked the launch of Blu-ray; a format that has achieved solid year-on-year sales growth ever since. In the twelve months to June, 2013, the Australian physical retail channel sold over 8 million Blu-ray units, generating revenue of \$174m.

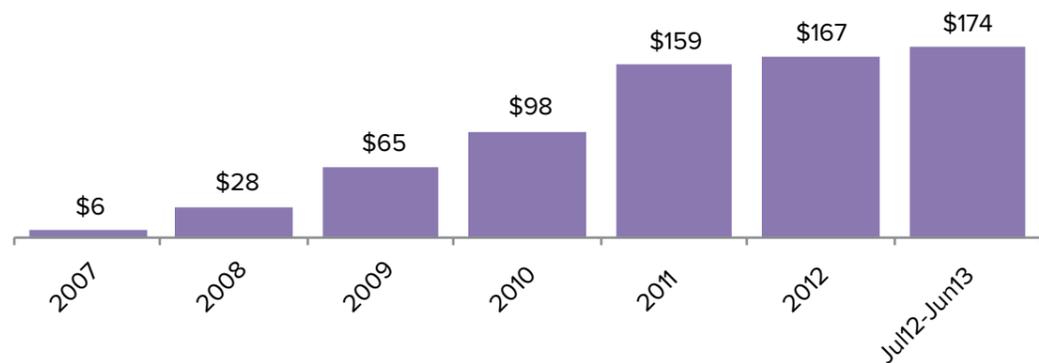
In the twelve months to June, 2013, Blu-ray experienced a 14 per cent volume and 4 per cent year-on-year value growth through the channel. DVD, on the other hand, declined in both volume and value, by -8 per cent and -9 per cent respectively. Blu-ray sales accounted for 10 per cent of the market volume and commanded a higher average price than DVDs: \$21.2 compared to \$17.7.

Offering a superior picture and sound quality to DVD, the structure of Blu-ray sales differs significantly from the earlier format. 9 out of every 10 Blu-ray purchases

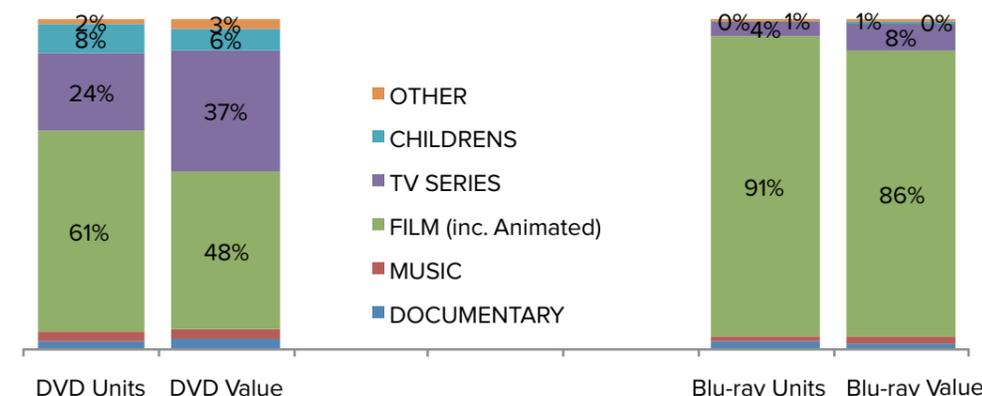
are film titles, while on DVD, film accounts for just 60 per cent of units sold. Conversely, TV titles account for nearly a quarter of all DVD sales units, but just 5 per cent of Blu-rays. Children’s titles are also well represented on DVD (8%), while accounting for less than 1 per cent of Blu-ray purchases.

Films in the action, adventure and sci-fi genres all over-index for Blu-ray. These genres account for nearly a half of all Blu-ray films sold in the past 12 months, compared to a quarter of DVDs. The animation genre is particularly strong within DVD, with comedy and drama also showing a skew towards the format.

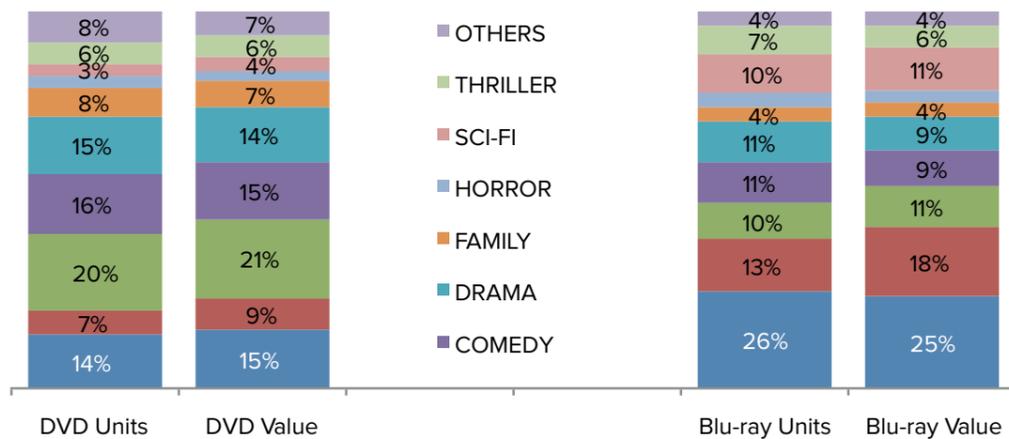
Blu-ray value sales (million)



Category performance by format



Category performance by format



The structural differences within the two formats are also evident in the chart results:

Top selling DVD titles, July 2012 – June 2013, ranked by volume

Rank	Title	Distributor	Genre
1	MARVEL THE AVENGERS	WALT DISNEY STUDIOS	ADVENTURE
2	SAPPHIRES	20TH CENTURY FOX	MUSICAL
3	HUNGER GAMES	ROADSHOW	ACTION
4	BATMAN THE DARK KNIGHT RISES	WARNER BROS	ADVENTURE
5	TED	UNIVERSAL	COMEDY
6	TWILIGHT SAGA BREAKING DAWN P2	SONY PICTURES	THRILLER
7	ICE AGE 4 CONTINENTAL DRIFT	20TH CENTURY FOX	ANIMATED
8	BRAVE	WALT DISNEY STUDIOS	ANIMATED
9	MRS BROWNS BOYS SERIES 1	UNIVERSAL	TV - COMEDY
10	JAMES BOND SKYFALL	20TH CENTURY FOX	ACTION

Top selling Blu-ray titles, July 2012 – June 2013, ranked by volume

Rank	Title	Distributor	Genre
1	MARVEL THE AVENGERS	WALT DISNEY STUDIOS	ADVENTURE
2	BATMAN THE DARK KNIGHT RISES	WARNER BROS	ADVENTURE
3	HOBBIT AN UNEXPECTED JOURNEY	WARNER BROS	ADVENTURE
4	JAMES BOND SKYFALL	20TH CENTURY FOX	ACTION
5	AVATAR (2009)	20TH CENTURY FOX	SCI-FI
6	HUNGER GAMES	ROADSHOW	ACTION
7	TED	UNIVERSAL	COMEDY
8	PROMETHEUS	20TH CENTURY FOX	SCI-FI
9	AMAZING SPIDER-MAN	SONY PICTURES	ADVENTURE
10	BATTLESHIP (2012)	UNIVERSAL	ACTION

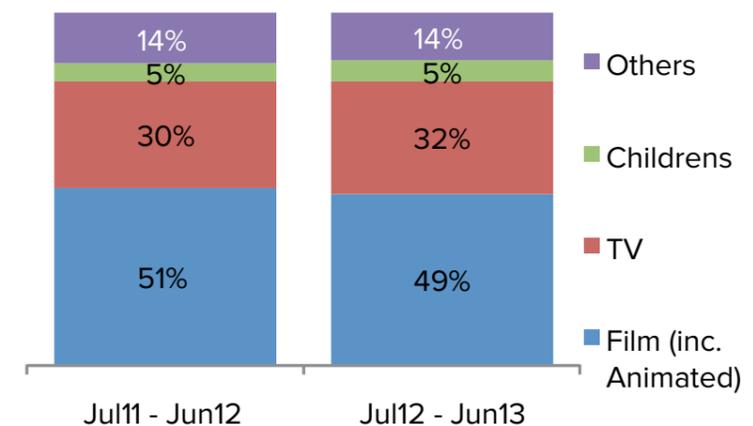
Another interesting Blu-ray segment is 3D. Accounting for just 1 in 10 Blu-rays sold, 3D is small but growing. In the twelve months to June, 2013, 3D volume grew by 19 per cent. 700,000 3D titles were sold in the period, with *Avatar* (20th Century Fox) topping the 3D charts.

Top selling 3D Blu-ray titles, July 2012 – June 2013, ranked by volume

Rank	Title	Distributor	Genre
1	AVATAR (2009)	20TH CENTURY FOX	SCI-FI
2	MARVEL THE AVENGERS	WALT DISNEY STUDIOS	ADVENTURE
3	PROMETHEUS	20TH CENTURY FOX	SCI-FI
4	HOBBIT AN UNEXPECTED JOURNEY	WARNER BROS	ADVENTURE
5	AMAZING SPIDER-MAN	SONY PICTURES	ADVENTURE
6	TITANIC	20TH CENTURY FOX	DRAMA
7	CONAN THE BARBARIAN (2011)	ROADSHOW	ACTION
8	LIFE OF PI	20TH CENTURY FOX	ADVENTURE
9	BRAVE	WALT DISNEY STUDIOS	ANIMATED
10	WRATH OF THE TITANS	WARNER BROS	ADVENTURE

Categories

Category value shares



Looking at category shares at the total channel level (combined sales of DVD and Blu-ray), the dominance of film is still apparent, accounting for just under half of all revenue generated in the past twelve months.

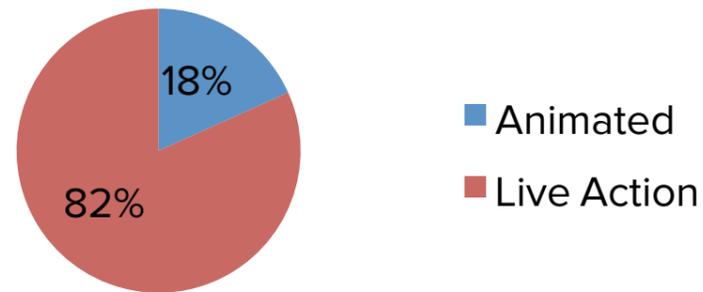
However, TV's share of the value market has grown at the expense of film in the past year. Dominated by box-sets, which usually contain a full series, the TV

category has a significantly higher average price than the market average, leading to a far stronger value share position than volume.

The share of children's and others (documentaries, music, sport, etc.) remain unchanged, jointly accounting for 19 per cent of value.

Categories: film

Format value shares: July 2012 – June 2013



The film category includes both animated and live action titles. In the past twelve months, animated titles accounted for 18 per cent of the revenue generated by film.

The live action segment includes all the remaining film genres, including action, sci-fi, comedy and drama.

Sales of film titles can be further analysed by the length of time the title has been available for purchase. New release titles are those that have been available for thirteen weeks or less. Titles older than thirteen weeks are categorised as catalogue.

Film titles in their new release window performed well in the six months to June, 2013, with a growth of 7 per cent in volume and 3 per cent in value. This is partly related to the higher penetration of Blu-ray in this segment, accounting for more than 27 per cent of all new release sales. This is most notable in the adventure genre, where Blu-ray's share of the top-selling models (*Avengers*, *Batman Dark Knight Rises* and *Hobbit An Unexpected Journey*) was 35 per cent or more.

Films in their catalogue phase experienced an overall decline of 11 per cent for the 12 months to June.

This trend was reversed in quarter 2, 2013, however, when the segment returned to growth: 7 per cent in volume and 3 per cent in value. This growth was fuelled by very strong promotional activity, especially through the supermarket chains. Promotions had a particularly strong impact on catalogue titles that were 2 or more years old, with that particular sub-segment growing by 7 per cent in value, while younger titles declined by 10 per cent.

This growth was particularly apparent within the animation genre, with animation accounting for the top 5 selling models in the 2+ years segment.

This new growth segment reflected an increase in disc purchases by mothers, shopping with, and for, their children. This is explored further in the 'Consumer Behaviour' section.

Top 5 selling catalogue film titles, 2+ years, July 2012 – June 2013, ranked by volume

Rank	title	Distributor
1	TOY STORY	WALT DISNEY STUDIOS
2	CLOUDY WITH A CHANCE OF MEATBALLS	SONY PICTURES
3	CARS	WALT DISNEY STUDIOS
4	TOY STORY 2	WALT DISNEY STUDIOS
5	DUMBO	WALT DISNEY STUDIOS

Top 5 selling Catalogue Film titles, 2+ years, July 2012 – June 2013, ranked by volume

License	Distributor
GAME OF THRONES	WARNER BROS
DOWNTON ABBEY	UNIVERSAL
MRS BROWNS BOYS	UNIVERSAL
BREAKING BAD	SONY PICTURES
GOSSIP GIRL	WARNER BROS
DR WHO	ROADSHOW
TRUE BLOOD	WARNER BROS
BIG BANG THEORY	WARNER BROS
KIM KARDASHIAN	UNIVERSAL
DEXTER	PARAMOUNT

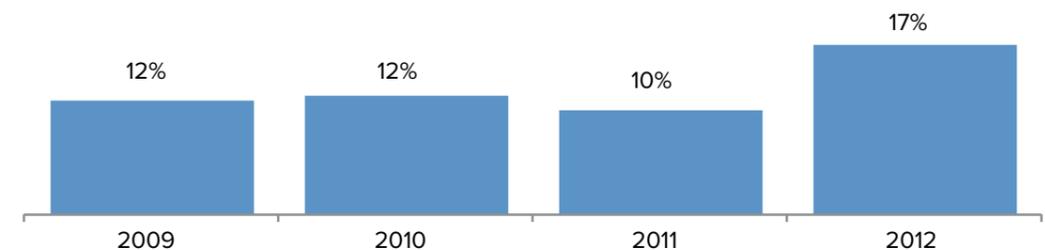
Categories: TV series

TV titles account for nearly a third of the value of the physical retail channel. The category is still dominated by the DVD format, with a Blu-ray share of just 4 per cent. Game of Thrones alone accounted for a third of the total Blu-ray TV market.

Licenses drive the sales of TV Series, with the aforementioned *Game of Thrones* leading the way. In keeping with film, it is new and recent release titles that have underpinned the growth of the TV segment. Titles in their first year of release have recorded value growth of 6 per cent, while older titles are in decline.

Within this new release segment, it is worth noting the concentration of the top 3 licences. In 2012, the top 3 accounted for 17 per cent of the segment. This was a big increase on previous years, where the share of the top 3 had been as low as 10 per cent. This increased concentration in 2012 was largely due to the popularity of Universal's *Mrs Browns Boys*, which sold more in 2012 than the top 3 2011 new release licenses combined. It was also the biggest new release license since the first *Underbelly* was launched by Roadshow, back in 2008.

Percentage that the top 3 licenses make up of new release TV



Categories: children's

In the six months to June 2013, children's titles (titles aimed at children, with a running time of under 60 minutes) experienced the strongest growth of any category, growing 10 per cent on the previous year. The vast majority of children's titles are animated, with live action now accounting for less than 20 per cent of sales. The number 1 children's title this year was *Peppa Pig* (licensed by Hopscotch and distributed by 20th Century Fox). Other top sellers included Disney's *Mickey Mouse* and the *Lego* titles from Universal and 20th Century Fox.

Top 10 selling licenses, TV series, YTD June 2013, ranked by volume

License	Distributor
PEPPA PIG	20TH CENTURY FOX
DISNEY MICKEY MOUSE	WALT DISNEY STUDIOS
LEGO	UNIVERSAL/20TH CENTURY FOX
DORA THE EXPLORER	PARAMOUNT
WIGGLES	ROADSHOW
SCOOBY DOO	WARNER BROS
TEENAGE MUTANT NINJA TURTLES	PARAMOUNT/SONY PICTURES
THOMAS & FRIENDS	ROADSHOW
STRAWBERRY SHORTCAKE	BEYOND/MAGNA ENTERTAINMENT
MADAGASCAR	PARAMOUNT

Categories: others

'Other' titles in the disc market include documentaries, music, anime and sport titles.

Blu-ray is a particularly popular format for documentary titles, accounting for 15 per cent of sales. Within Blu-ray documentaries, 3D also over-indexes, with nearly 50 per cent share of all Blu-ray sales.

Many of the top selling documentary titles are music documentaries. *One Direction* titles have performed particularly well in the twelve months to June, as illustrated below:

Top selling documentaries, July 2012 – June 2013, ranked by volume

RANK	TITLE	DISTRIBUTOR
1	ONE DIRECTION ALL FOR ONE	PARAMOUNT
2	KATY PERRY PART OF ME	PARAMOUNT
3	ONE DIRECTION THE ONLY WAY IS UP	MADMAN ENT
4	KOKODA/DIVIDE & CONQUER/ ETC	PAYLESS
5	MICHAEL JACKSONS THIS IS IT	SONY PICTURES
6	ONE DIRECTION THIS IS HOW WE DO IT	MADMAN ENT
7	DAVID ATTENBOROUGH AFRICA	ROADSHOW
8	SENNA	UNIVERSAL
9	SOUND CITY REEL TO REEL	SBME
10	MICHAEL PARKINSON PARKYS PICKS	ROADSHOW

Australian artist Guy Sebastian holds the number 1 title for the music genre, with his *Armageddon* DVD:

Top selling music titles, July 2012 – June 2013, ranked by volume

Rank	Title	Distributor	Genre
1	GUY SEBASTIAN ARMAGEDDON	SBME	ROCK & METAL
2	COLDPLAY LIVE 2012	EMI INDENT	ROCK & METAL
3	ONE DIRECTION UP ALL NIGHT LIVE TOUR	SBME	ROCK & METAL
4	LED ZEPPELIN CELEBRATION DAY	WARNER MUSIC	ROCK & METAL
5	ED SHEERAN	UNIVERSAL MUSIC	CLASSICAL
6	ANDRE RIEU HOME FOR CHRISTMAS	UNIVERSAL MUSIC	CLASSICAL
7	SO FRESH HITS OF SPRING 2012	SBME	DANCE
8	LES MISERABLES 25TH ANNIVERSARY O2	UNIVERSAL	CLASSICAL
9	PARKWAY DRIVE HOME IS 4 HEARTLESS	SHOCK RECORDS	ROCK & METAL
10	ADELE LIVE AT ROYAL ALBERT HALL	INERTIA DIST	ROCK & METAL

Madman Entertainment titles performed particularly within anime. *Naruto Shippuden* was the genre's top selling license, with 4 titles in the top 10:

Top selling anime titles, July 2012 – June 2013, ranked by volume

Rank	Title	Distributor
1	ARRIETTY	MADMAN ENT
2	SUPERNATURAL THE ANIME SERIES	WARNER BROS
3	HOWLS MOVING CASTLE	MADMAN ENT
4	MY NEIGHBOR TOTORO	MADMAN ENT
5	NARUTO SHIPPUDEN MOVIE 3	MADMAN ENT
6	NARUTO SHIPPUDEN COLL 9 EPS 113-126	MADMAN ENT
7	MASS EFFECT PARAGON LOST	MADMAN ENT
8	NARUTO SHIPPUDEN COLL 11 EPS 127-140	MADMAN ENT
9	PRINCESS MONONOKE	MADMAN ENT
10	NARUTO SHIPPUDEN COLL 13 EPS 154-166	MADMAN ENT

Shock Records and Scooter Entertainment are both well represented in the sport and health and fitness genres. Michelle Bridges titles are popular within health and fitness, while *WWE* is the top-selling sports license in Australia:

Top selling sport and health and fitness titles, July 2012 – June 2013, ranked by volume

Rank	Title	Distributor	Genre
1	MICHELLE BRIDGES ITS CRUNCH TIME	SCOOTER ENT	HEALTH & FIT
2	AFL PREMIERS 2012 SYDNEY SWANS	VISUAL ENT GRP	SPORT
3	MICHELLE BRIDGES PROJECT SHAPE UP	SCOOTER ENT	HEALTH & FIT
4	NBA ULTIMATE JORDAN DELUX ED	BEYOND	SPORT
5	MICHELLE BRIDGES PROJECT EXTREME	SCOOTER ENT	HEALTH & FIT
6	WWE WRESTLEMANIA 29 XXIX	SHOCK RECORDS	SPORT
7	NITRO CIRCUS THE MOVIE	UNIVERSAL	SPORT
8	WWE THE ATTITUDE ERA	SHOCK RECORDS	SPORT
9	MICHELLE BRIDGES PROJECT RIPPED	SCOOTER ENT	HEALTH & FIT
10	WWE ROYAL RUMBLE 2013	SHOCK RECORDS	SPORT

Top seller charts by film genre

Source: GfK Retail Tracking

Top selling action titles, July 2012 – June 2013, ranked by volume

Rank	Title	Distributor	Genre
1	HUNGER GAMES	ROADSHOW	ACTION
2	JAMES BOND SKYFALL	20TH CENTURY FOX	ACTION
3	BATTLESHIP (2012)	UNIVERSAL	ACTION
4	BOURNE LEGACY	UNIVERSAL	ACTION
5	EXPENDABLES 2	ROADSHOW	ACTION
6	TOTAL RECALL (2012)	SONY PICTURES	ACTION
7	EXPENDABLES	ROADSHOW	ACTION
8	FAST & FURIOUS 5	UNIVERSAL	ACTION
9	UNDERWORLD AWAKENING	SONY PICTURES	ACTION
10	GHOST RIDER 2 SPIRIT OF VENGEANCE	WARNER BROS	ACTION

Top selling adventure titles, July 2012 – June 2013, ranked by volume

Rank	Title	Distributor	Genre
1	MARVEL THE AVENGERS	WALT DISNEY STUDIOS	ADVENTURE
2	BATMAN THE DARK KNIGHT RISES	WARNER BROS	ADVENTURE
3	HOBBIT AN UNEXPECTED JOURNEY	WARNER BROS	ADVENTURE
4	SNOW WHITE AND THE HUNTSMAN	UNIVERSAL	ADVENTURE
5	AMAZING SPIDER-MAN	SONY PICTURES	ADVENTURE
6	LIFE OF PI	20TH CENTURY FOX	ADVENTURE
7	JOHN CARTER	WALT DISNEY STUDIOS	ADVENTURE
8	WRATH OF THE TITANS	WARNER BROS	ADVENTURE
9	IRON MAN 2	PARAMOUNT	ADVENTURE
10	IRON MAN	PARAMOUNT	ADVENTURE

Top selling animated titles, July 2012 – June 2013, ranked by volume

Rank	Title	Distributor	Genre
1	ICE AGE 4 CONTINENTAL DRIFT	20TH CENTURY FOX	ANIMATED
2	BRAVE	WALT DISNEY STUDIOS	ANIMATED
3	MADAGASCAR 3 EUROPE'S MOST WANTED	PARAMOUNT	ANIMATED
4	DR SEUSS THE LORAX (2012)	UNIVERSAL	ANIMATED
5	WRECK IT RALPH	WALT DISNEY STUDIOS	ANIMATED
6	TINKER BELL AND SECRET OF THE WINGS	WALT DISNEY STUDIOS	ANIMATED
7	TANGLED	WALT DISNEY STUDIOS	ANIMATED
8	CINDERELLA	WALT DISNEY STUDIOS	ANIMATED
9	HOTEL TRANSYLVANIA	SONY PICTURES	ANIMATED
10	RISE OF THE GUARDIANS	PARAMOUNT	ANIMATED

Top selling comedy titles, July 2012 – June 2013, ranked by volume

Rank	Title	Distributor	Genre
1	TED	UNIVERSAL	COMEDY
2	21 JUMP STREET (MOVIE)	SONY PICTURES	COMEDY
3	AMERICAN PIE REUNION	UNIVERSAL	COMEDY
4	DARK SHADOWS	ROADSHOW	COMEDY
5	BRIDESMAIDS	UNIVERSAL	COMEDY
6	WHAT TO EXPECT WHEN YOU ARE EXPECTING	ROADSHOW	COMEDY
7	DICTATOR	PARAMOUNT	COMEDY
8	FIVE YEAR ENGAGEMENT	UNIVERSAL	COMEDY
9	CAMPAIGN	WARNER BROS	COMEDY
10	HOPE SPRINGS	ROADSHOW	COMEDY

Top selling drama titles, July 2012 – June 2013, ranked by volume

Rank	Title	Distributor	Genre
1	MAGIC MIKE	ROADSHOW	DRAMA
2	BEST EXOTIC MARIGOLD HOTEL	20TH CENTURY FOX	DRAMA
3	STEP UP 4 MIAMI HEAT	UNIVERSAL	DRAMA
4	VOW THE	SONY PICTURES	DRAMA
5	RED DOG	ROADSHOW	DRAMA
6	LUCKY ONE (2012)	ROADSHOW	DRAMA
7	ARGO	WARNER BROS	DRAMA
8	TITANIC	20TH CENTURY FOX	DRAMA
9	SALMON FISHING IN THE YEMEN	ROADSHOW	DRAMA
10	WAR HORSE	WALT DISNEY STUDIOS	DRAMA

Top selling titles – all other genres combined, July 2012 – June 2013, ranked by volume

Rank	Title	Distributor	Genre
1	SAPPHIRES	20TH CENTURY FOX	MUSICAL
2	TWILIGHT SAGA BREAKING DAWN P2	SONY PICTURES	THRILLER
3	LES MISERABLES (2012)	UNIVERSAL	MUSICAL
4	MEN IN BLACK 3	SONY PICTURES	SCI-FI
5	PITCH PERFECT	UNIVERSAL	MUSICAL
6	PROMETHEUS	20TH CENTURY FOX	SCI-FI
7	AVATAR (2009)	20TH CENTURY FOX	SCI-FI
8	TWILIGHT SAGA BREAKING DAWN P1	SONY PICTURES	THRILLER
9	LOOPER	ROADSHOW	SCI-FI
10	TAKEN 2	20TH CENTURY FOX	THRILLER

The best of all time: life-to-date sales

Source: GfK Retail Tracking

Since the launch of GfK reporting in August 1997, *Avatar* has been the highest grossing movie at the box office and also tops the chart for the top selling physical disc of all time. Another notable inclusion in the top seller charts is the *Lord of the Rings*, with all three titles appearing in the top 10 selling films of all time.

As these charts include the sales of a product throughout its lifetime, it is not surprising that most of the titles in the top 10 have been in the market for 10 years or more.

Top selling titles, life-to-date, ranked by volume

Rank	Model	Distributor	Release date
1	AVATAR (2009)	20TH CENTURY FOX	29-04-10
2	FINDING NEMO	WALT DISNEY STUDIOS	16-01-04
3	SHREK	PARAMOUNT/UNIVERSAL	07-11-01
4	MONSTERS INC	WALT DISNEY STUDIOS	30-09-02
5	LOTR: FELLOWSHIP OF THE RING	ROADSHOW	06-08-02
6	LOTR: TWO TOWERS	ROADSHOW	23-08-03
7	TITANIC	20TH CENTURY FOX	15-10-97
8	ICE AGE	20TH CENTURY FOX	16-10-02
9	LOTR: RETURN OF THE KING	ROADSHOW	25-05-04
10	DIRTY DANCING	SONY PICS/MAGNA ENT	31-05-97

Top selling DVD titles, life-to-date, ranked by volume

Rank	Model	Distributor	Release date
1	FINDING NEMO	WALT DISNEY STUDIOS	16-01-04
2	AVATAR (2009)	20TH CENTURY FOX	29-04-10
3	LOTR: TWO TOWERS	ROADSHOW	23-08-03
4	LOTR: RETURN OF THE KING	ROADSHOW	25-05-04
5	TWILIGHT (2008)	SONY PICTURES	22-04-09
6	SHREK 2	PARAMOUNT/UNIVERSAL	03-11-04
7	HARRY POTTER & PRISONER OF AZKABAN	WARNER BROS	01-12-04
8	HARRY POTTER & CHAMBER OF SECRETS	WARNER BROS	11-04-03
9	SHREK	PARAMOUNT/UNIVERSAL	07-11-01
10	MONSTERS INC	WALT DISNEY STUDIOS	30-09-02

Top selling Blu-ray titles, life-to-date, ranked by volume

Rank	Model	Distributor	Release date
1	AVATAR (2009)	20TH CENTURY FOX	29-04-10
2	MARVEL THE AVENGERS	WALT DISNEY STUDIOS	29-08-12
3	INCEPTION	WARNER BROS	08-12-10
4	BATMAN THE DARK KNIGHT RISES	WARNER BROS	28-11-12
5	BATMAN THE DARK KNIGHT	WARNER BROS	10-12-08
6	TRANSFORMERS DARK OF THE MOON	PARAMOUNT	10-11-11
7	HARRY POTTER & DEATHLY HALLOWS P2	WARNER BROS	16-11-11
8	HARRY POTTER & DEATHLY HALLOWS P1	WARNER BROS	15-04-11
9	STAR WARS SAGA EPISODES I-VI	20TH CENTURY FOX	14-09-11
10	HOBBIT AN UNEXPECTED JOURNEY	WARNER BROS	01-05-13

Since the launch of GfK reporting in August 1997, *Avatar* has been the highest grossing movie at the box office and also tops the chart for the top selling physical disc of all time.

3

Retail digital market

Fateha Begum, Analyst IHS

Kamila Nigmatulina, Analyst IHS

Growth of the online video sector has been driven by the launch of new video services, by both international and local players, as well as increased access to the Internet and connected devices.

Australian video market

Analysis of the Australian video market shows that the digital segment – online EST, online rental and pay-TV VoD – has grown considerably over the past two years in terms of both volume of transactions and value. **The digital video market in Australia generated more than A\$126.2m in consumer revenue (consumer spend less sales tax) in the full financial year ending June 2013 for transactional movies and TV, representing a year-on-year growth of 31 per cent. IHS expects the market to grow to A\$260m in annual consumer revenue by year-end 2017.**

Growth of the online video sector has been driven by the launch of new video services, by both international and local players, as well as increased access to the Internet and connected devices. The pay-TV market has responded to the increasingly

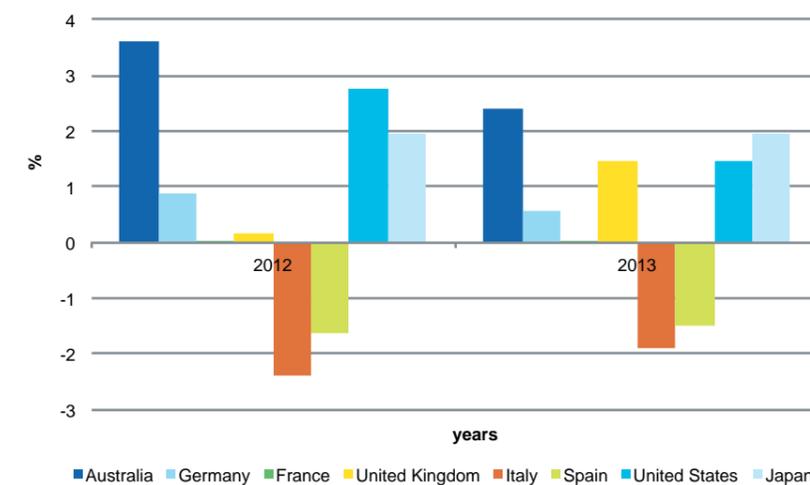
competitive video-on-demand market by launching more sophisticated technology to deliver content to the consumer via the set-top box.

Macroeconomic and infrastructure trends

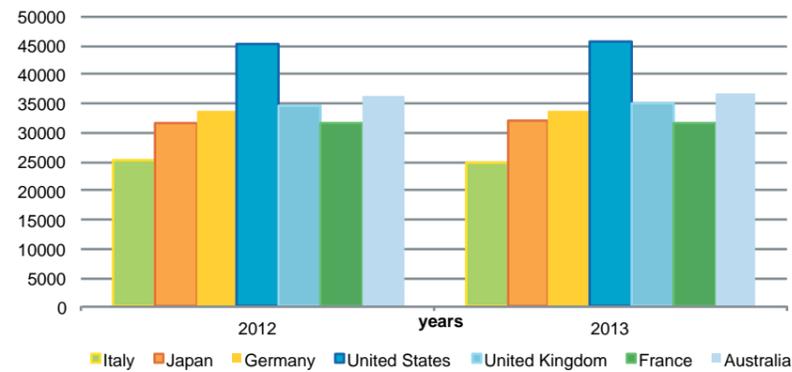
The year of 2012 and the first half of 2013 have been a relatively positive period for the Australian economy, with real GDP rising by 3.62 per cent from US\$840.7bn in 2011 to US\$861.2bn in 2012, and expected to grow a further 2.43 per cent in 2013, reaching US\$914.7bn, according to IHS Global Insight.

In comparison, other developed markets across the globe experienced low or even negative growth; the UK, for example, expanded by just 0.17 per cent

in 2012, while the US grew by 2.78 per cent. Australia's real GDP per capita (\$36,205, 2012) is also higher than many other developed countries,

Real GDP growth across countries (per cent)

Real GDP growth per capita US\$



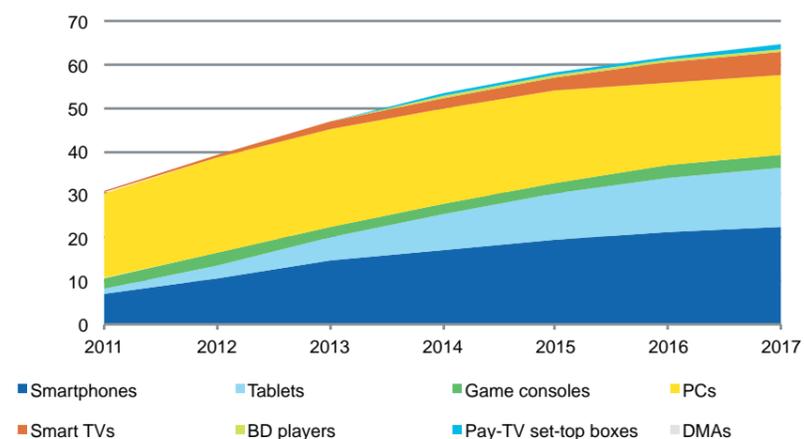
including France (\$31,624, 2012), Germany (\$33,547, 2012), and the UK (\$34,647, 2012) and is expected to show sustained growth throughout the remainder of 2013 and in 2014. Unemployment has been relatively stable, at a rate of 5.23 per cent, with marginal increases to 5.69 per cent in 2013 expected.

The monetary stimulus measures of the Australian government have helped to stabilise levels of household income in Australia, which in turn have ensured that domestic spending on entertainment (including digital video) has been sustained.

In addition, the anticipated improvement of Australia's broadband infrastructure under the ongoing development of the country's high-speed National Broadband Network will provide a stimulus for the

further expansion of the digital segment. Australia's broadband sector has classically been characterised by heavy data caps, making metered video streaming unattractive for many consumers, particularly for high definition movies and TV series. The NBN project aims to cover 71 per cent of premises with FTTH (fibre to the node), 22 per cent with FTTH (fibre to the home) where demand is sufficient to justify it, such as business districts, industrial and commercial parks, schools, hospitals, and 7 per cent with fixed wireless and satellite technology. The project aims to solve the bandwidth capacity problem by 2019. IHS expects this to be a significant contributor to online video market expansion, as the decline of metering prompts greater competition for online video and better consumer awareness and uptake of services.

Australia: connected devices installed by type (million)



The growth in the number of broadband-connected devices available to consumers is also contributing to the development of the digital segment. The IP-delivered video landscape is changing dramatically with more and more online video services are becoming available on not only ubiquitous PCs/Macs but also on other household and personal devices such as smartphones, tablets, game consoles. With better internet speeds and improved software and technical capabilities of devices, consumers are increasingly demanding the ability to watch video content on different screens.

Thus in a highly competitive digital landscape where customers have access to a large number of online video services, media owners are required to develop their own services on multiple screens and devices or they will miss out on market growth.

IHS data indicates that the installed base of such connected devices in Australia is expected to grow 20 per cent in 2013, from 39 million in 2012 to 47 million in 2013. In the next 5 years, while the PC will maintain pole position as the leading broadband-connected device, its prominence is expected to fall in favour of alternative products. Two categories that will see the most significant growth are those of tablets and smartphones. Installed base of smartphones is expected to grow 35 per cent in 2013 to nearly 15 million, while the number of tablets is anticipated to nearly double over the same period to just over 5 million.

As a consequence of the generally positive macroeconomic conditions, combined with this growth in connectivity, the Australian digital landscape continues to show steady growth, both in terms of the number of transactions taking place and in terms of the revenues generated.

Online services: transactional movies and TV

Company	Service	Business Model	Rental Launch Date	Retail Launch Date
Telstra	BigPond Movies	Rental	Q1 06	
Sony Computer Entertainment Europe (SCEE)	PlayStation Store	Rental, retail	Q2 10	Q2 10
Apple	iTunes Store (ITS)	Rental, retail	Q3 08	Q4 10
Hybrid Television Services	CASPA on Demand	Rental	Q2 09	
Foxtel	Foxtel Download	Rental	Q4 09	
Microsoft	Xbox Video	Rental, retail	Q4 09	
MUBI	MUBI	Rental	Q1 09	
Sony	Video Unlimited (Qriocity)	Rental	Q4 10	
Quickflix	Quickflix	Rental	Q1 12	
Sony	Sony Entertainment Network	Rental, retail	Q2 11	Q2 11
Viewster AG	Viewster	Rental	Q1 12	
Google	Youtube Films	Rental	Q2 12	
Google	Google Play Movies	Rental, retail	Q2 12	Q4 12

Online services: subscription video services

Company	Service	Business Model	Launch Date
Quickflix	Quickflix	Standalone/bundled with DVD rentals	Q4 11/Q2 13
Foxtel	Foxtel	Standalone	Q3 13
Code 7 Entertainment	MovieFlix	Standalone	Q2 99
Code 7 Entertainment	MovieWay	Standalone	Q1 08
FIDD Aps.	Movieurope	Standalone	Q2 08
MUBI	MUBI	Standalone	Q1 09

Online services: transactional movies and TV

Company	Platform	Technology	Business Model	Launch dates
Foxtel	Cable	nVoD	Rental	1999
Optus TV	Cable	nVoD	Rental	1999
Foxtel	Satellite	nVoD	Rental	1999
Foxtel	Satellite	Push-VoD	Rental	2007
Foxtel	Satellite	IP-VoD	Rental, Free	2008

Definitions and examples

Pay-TV On-Demand (Pay-TV VoD)	The practice of paying for a rental on an a la carte basis over a closed pay TV network. Formally speaking it applies to a temporary right of use that is purchased by a one off payment. It can be either movies or TV shows. For example, a movie rental through Foxtel's satellite TV platform.
Online Rental (Online VoD)	The practice of paying for a rental on an a la carte basis over the open internet. Formally speaking it applies to a temporary right of use that is purchased by a one off payment. It can be either movies or TV shows. For example, a movie rental through iTunes.
VoD (Digital Rental)	The practice of paying for a rental on an a la carte basis over the open internet and/or closed pay TV network (ie. Pay TV on-demand and online rental combined)
Electronic Sell-Through (EST) (Online Retail)	Refers to paid for transactional non-physical purchases for ownership of film entertainment content; excludes adult, event, free, sport and subscription content unless otherwise stated.
Digital Video	Refers to retail and rental transactional movies and TV content purchases via both the open internet (online) and closed pay TV networks (Pay-TV on-demand).
Online Subscription (Online sVoD)	Refers to subscription video on demand (often referred to as 'streaming') over the open internet and is the temporary rights of use accessed with a recurring payment. For example, a subscription package through Quickflix.

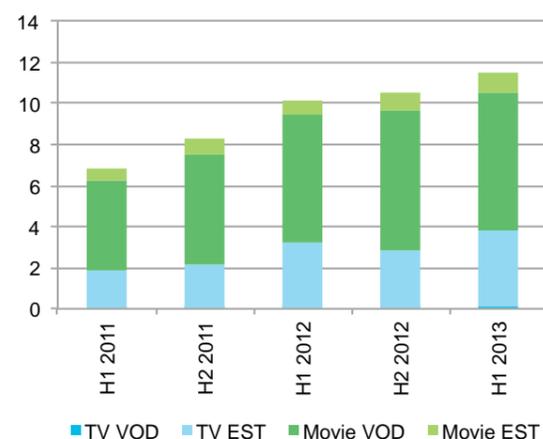
Australian digital market

General market trends

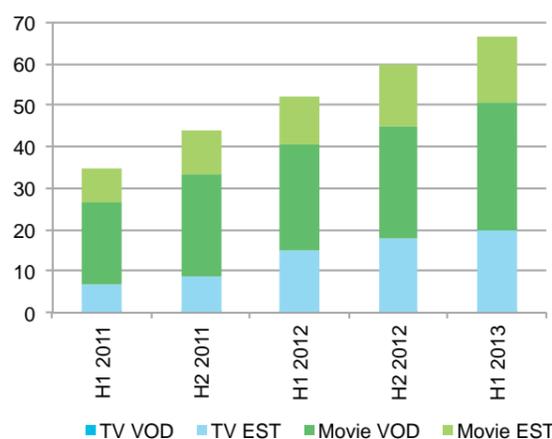
Analysis of VoD (digital movie and TV rentals) and EST (digital retail) data from AHEDA members indicates that the number of movie and TV transactions grew 64 per cent over the course of the last two years, from 6.9m in H1 2011 to 11.3m in H1 2013.

Throughout this, the rental of movies has been the most important single component of the digital sector and accounted for 58 per cent of total on-demand and EST transactions in H1 2013. The electronic sell-through of TV content (TV EST) proved to be the second most important segment of the market by volume, accounting for 33 per cent of the total transactions in H1 2013.

Australia: transactions (million)



Australia: consumer revenue (A\$m)



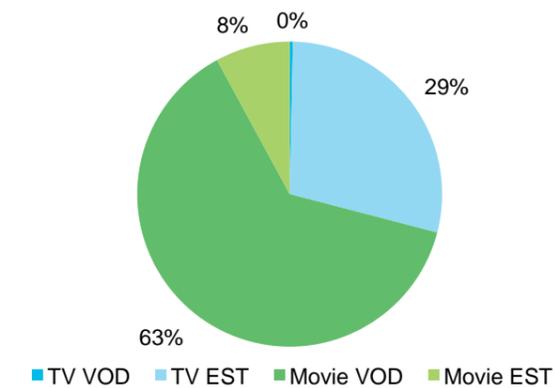
Transactions for TV content on a rental basis remain small, at less than 1 per cent of total transactions in H1 2013, although have been seeing the highest rate of growth. Rental transactions for TV content increased by 133 per cent year-on-year in H1 2013, while revenue increased by 183 per cent.

AHEDA data indicates that in terms of consumer revenues, the market has continued to show sustained growth since 2011 through to H1 2013, with the market expanding from A\$34.9m in H1 2011 to A\$66.4m in H1 2013 with movie rentals accounting for 46 per cent of total revenues in H1 2013 and TV EST accounting for 31 per cent. By contrast, a year earlier, movie rentals accounted for 49 per cent of revenues in H1 2012, and TV EST 29 per cent – indicating a growing propensity to buy TV shows via EST platforms such as iTunes.

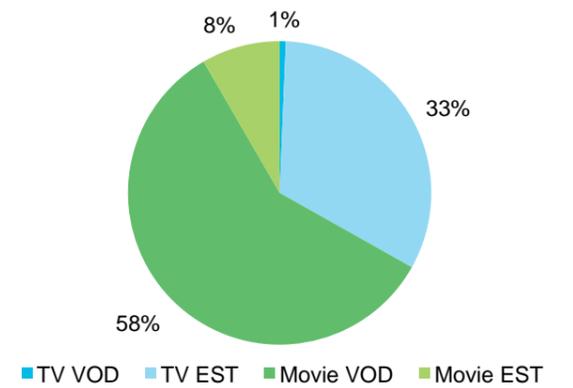
On a year-on-year basis, while digital video transactions have increased by 12 per cent to 11.3m transactions in H1 2013, compared with H1 2012, consumer revenue has increased by 28 per cent over the same time period. **The higher rate of growth in revenue compared to transactions comes due to the rapid growth seen in both movie and TV consumption on electronic sell-through (EST), and the associated higher price point, particularly with the growth in popularity of HD content.**

AHEDA data shows that monthly digital video transactions have continued to strengthen with every month in 2013 on the previous year, for all components of the digital video market. As a rule, January tends to see an uptick in digital video consumption with stand-out performances each year as a result of the Australian summer which

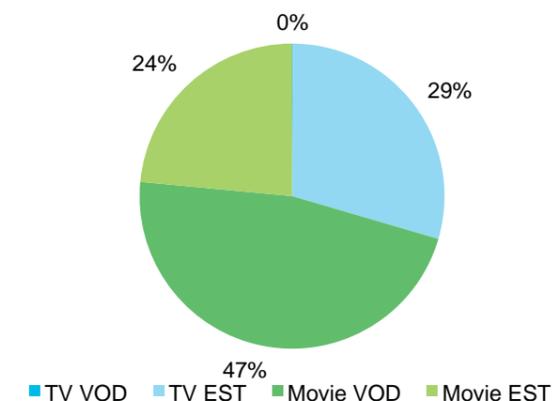
Australia: transactions 2012



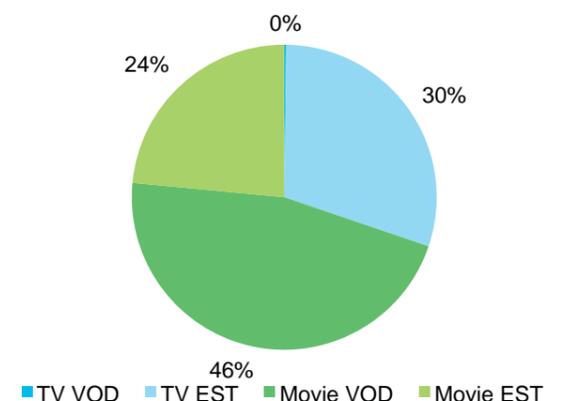
Australia: transactions H1 2013



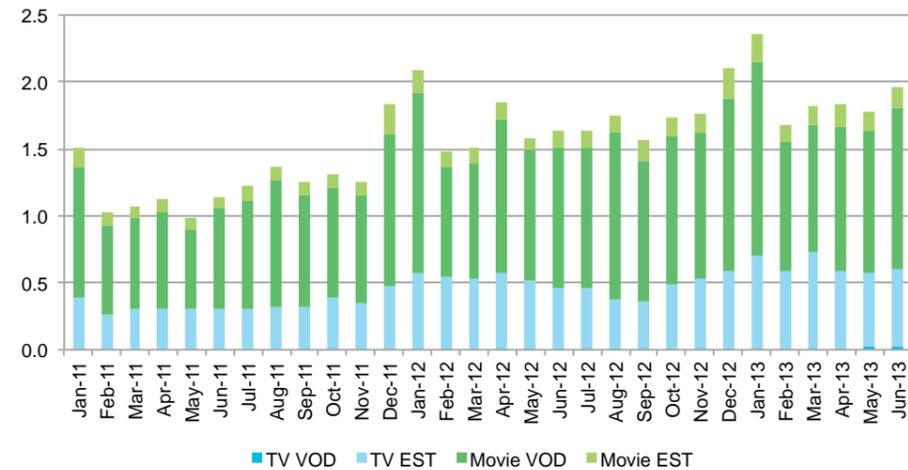
Australia: consumer revenue 2012



Australia: consumer revenue H1 2013



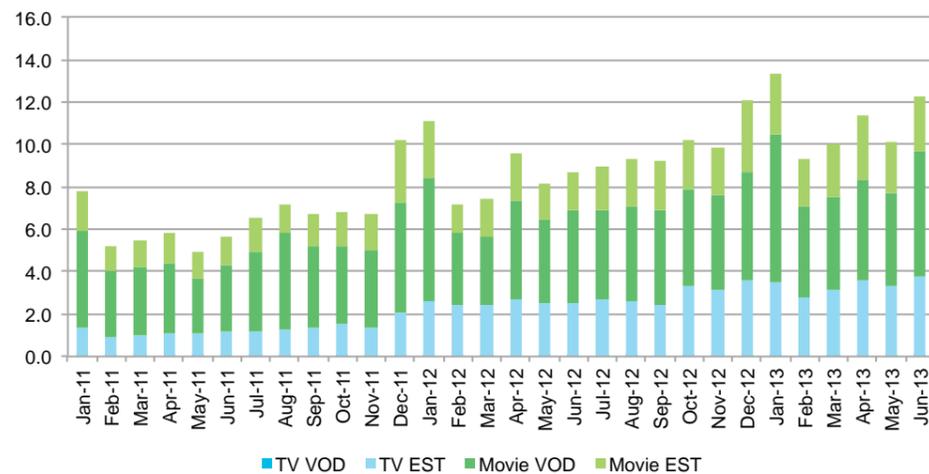
Australia: monthly transactions (million)



sees extreme weather conditions, combined with an influx boost from video-enabled devices following the Christmas period. In January 2013 for instance, the total number of movie and TV transactions on digital platforms reached 2.4m, up 34 per cent on November 2012. Movie EST saw the highest rate of growth between November 2012 and January

2013 with a near 50 per cent rise in transactions. But while the Christmas device growth helps to increase the market ceiling, growth subsides in the following months. For instance, the total number of movie and TV transactions saw a drop between January and February 2013 of approximately 29 per cent.

Australia: monthly consumer revenue (A\$m)



Pay TV operator on-demand services

- Pay-TV based VoD includes rental of movie and TV content over a closed pay-TV network.
- The main player in the pay-TV VoD segment is Foxtel (including the former Austar TV service) which provides both satellite and cable TV services.
- Pay-TV VoD is forecast to grow from 6m transactions in 2012 to 6.4m in 2013, while consumer spend will increase from A\$53.9m to A\$55.5m over the period.

IHS estimates that pay TV-based on-demand services, such as that on Foxtel's cable and satellite TV services, account for approximately a quarter of the digital retail and rental market in terms of consumer revenue. In total, more than 3m movie and TV transactions were made via pay TV on-demand services in the first half of 2013, worth A\$15.5m in consumer revenue, up from A\$14.7 in H1 2012. Although pay TV VoD's contribution to total digital transactions has declined over the years, this has been as a result of the online video market growing at a faster rate rather than any real declines. Pay TV VoD has in actual fact grown in the past two years, albeit at a slower rate than online video, driven primarily by satellite operator Foxtel (and the former Austar platform) switching its subscriber base over to a progressive download on-demand system using an Internet connection (IP-VoD) service on the internet

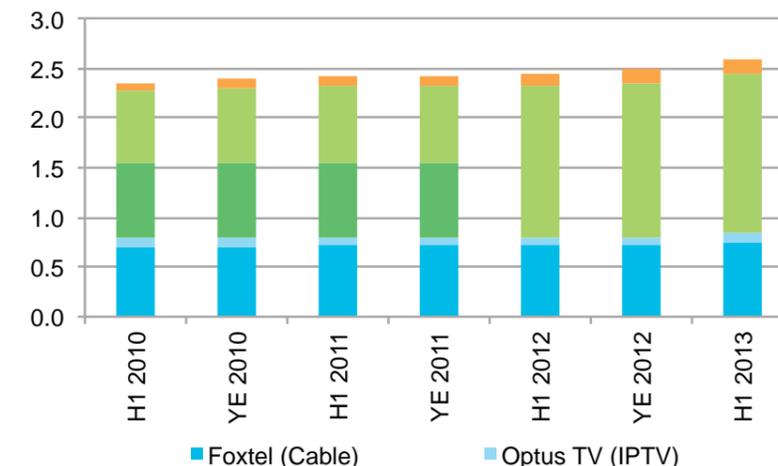
enabled Foxtel iQ set-top boxes, foregoing the traditional staggered start time broadcast near-VoD service.

Unlike the near-VoD service, which requires viewers to tune into a series of broadcast channels at a given time; IP-VoD gives the user a higher degree of flexibility in terms of when to watch content, in addition to larger catalogue sizes.

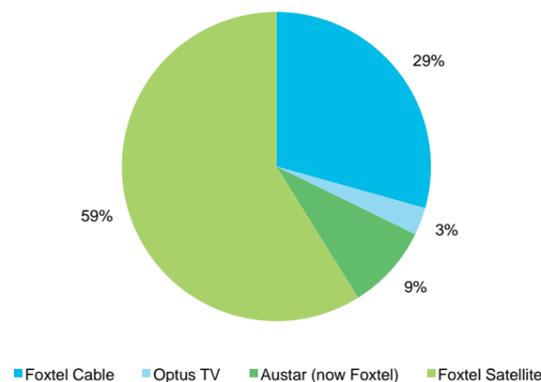
This tends to result in a higher number of VoD purchases on IP-VoD services compared to nVoD. The pay TV on-demand market is dominated by Foxtel. In the pay-TV space, Foxtel only has two competitors, though both are comparatively small. IPTV operator TransACT only offers sports and events and adult content on-demand, leaving only cable TV service Optus TV to compete in terms of provisioning of movie and TV content on a rental basis. The acquisition of Austar has meant that Foxtel now accounts for 97 per cent of the on-demand movie and TV market, by IHS estimates, with Optus TV accounting for the remainder.

Following the acquisition of Austar by Foxtel, a number of Austar customers were moved over to the Foxtel video-on-demand service, allowing them access to push-VoD services via the MyStar set-top box, in addition to IP-VoD for those who had installed the latest set-top box (iQ/iQ HD) and connected it to a broadband connection. Push-VoD refers to a

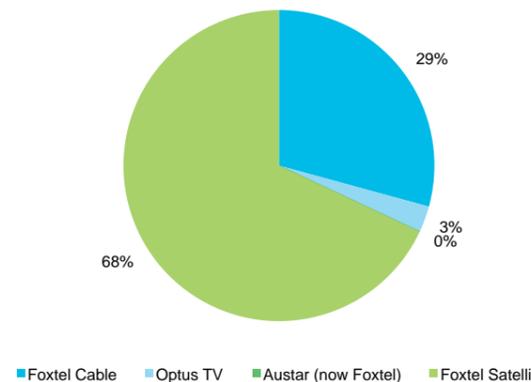
Australia pay-TV subscribers by operator (million)



Movie and TV transactions by operator, 2012 (per cent)



Movie and TV transactions by operator, 2013 (per cent)



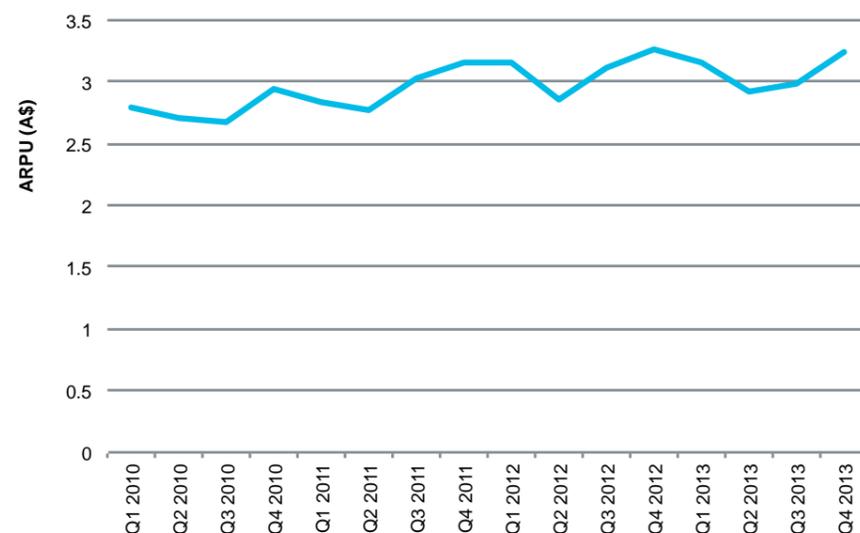
mechanism whereby on-demand content is 'pushed' out to a set-top box via broadcast and stored on a hard drive. In the case of Fostel, customers are able to access 12 hours worth of free content on-demand via the service.

IHS estimates that approximately half of Fostel's satellite TV base is able to access catch-up content via the push-VoD service, with an additional 15-20 per cent estimated to have connected their set-top box to a broadband connection, enabling them with access to the IP-VoD service.

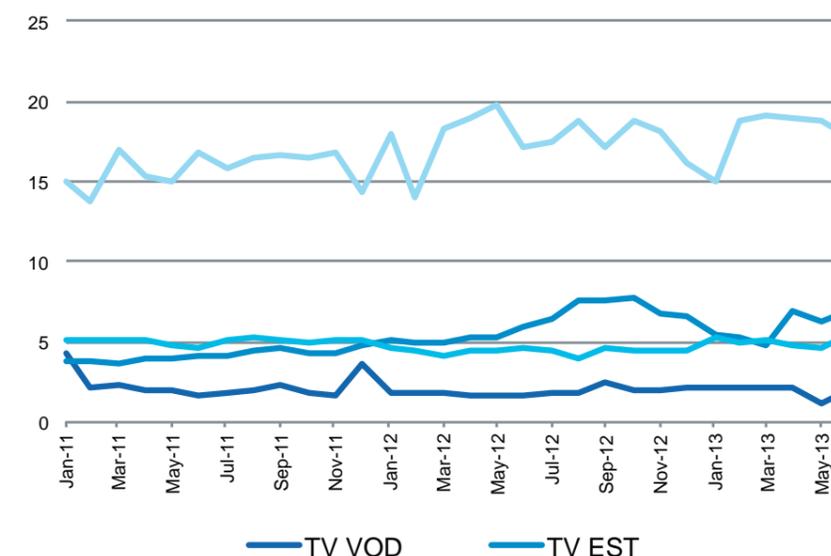
In total, more than 1.22m homes in Australia are equipped with VoD technology (true-, IP- and push-VoD) via their pay TV set-top box, up from 0.53m at half-year 2010.

Prior to the acquisition of Austar by Fostel, Austar customers were only able to use near-VoD services. As a result of the post-merger move to provisioning ex-Austar customers with newer services, the number of transactions on nVoD has declined. The increased convenience offered by IP-VoD to the consumer can be seen by the higher rate of purchases; IPVoD enabled households bought an average of 0.87

Quarterly new-release movie revenues per TV subscriber



Australia: consumer average selling price (A\$)



blockbuster movie titles a quarter in the first half of 2013, compared to 0.6 for nVoD enabled homes.

Quarterly transactions on pay-TV VoD as a whole have continued to grow year-on-year for all quarters in 2012 and 2013 as a result of this transition. nVoD's contribution to on-demand revenues has declined over the years, particularly in the past two to three years with increased uptake of Fostel's latest generation services. In Q2 2013, nVoD represented a little over half of all pay-TV on-demand transactions, down from 75 per cent in Q1 2012. This is expected to decline further as a larger proportion of pay-TV households gain access to better VoD technology.

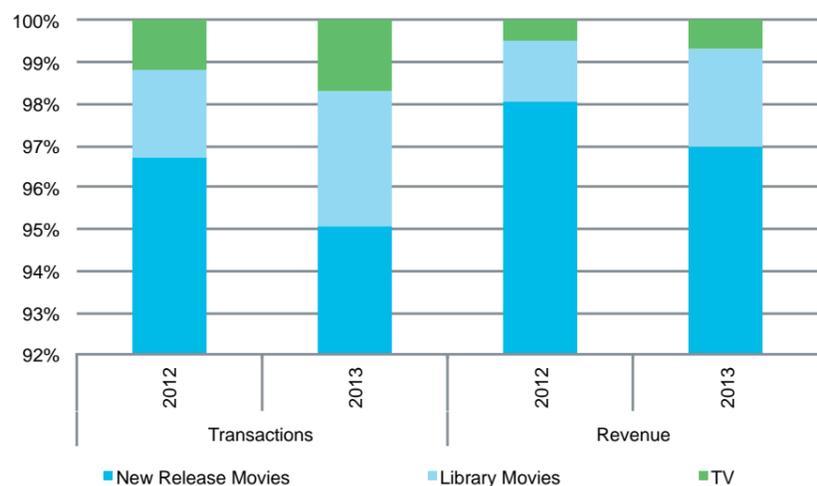
IHS expects that Fostel's cable TV service will experience growth in the number of movie transactions in the second half of 2013, following a drop in the average movie price from \$6 per movie to \$5.50. Fostel is anticipated to see a near 7 per cent increase in the number of movie transactions between 2012 and 2013 on its cable TV service, while transactional revenues are to rise by more than 1 per cent on 2012. The price drop is likely to have come as a measure against the fast growth seen in over-the-top video platforms, to incentivise cable customers to purchase titles on Fostel's cable VoD service rather than via online competitors' services. In 2012, the average price for a movie rental was roughly the same on both online and pay-TV VoD outlets

at approximately A\$5.64 on pay-TV and A\$5.80 for online rental, thus the drop in price is likely to help Fostel's cable service have a slight competitive advantage.

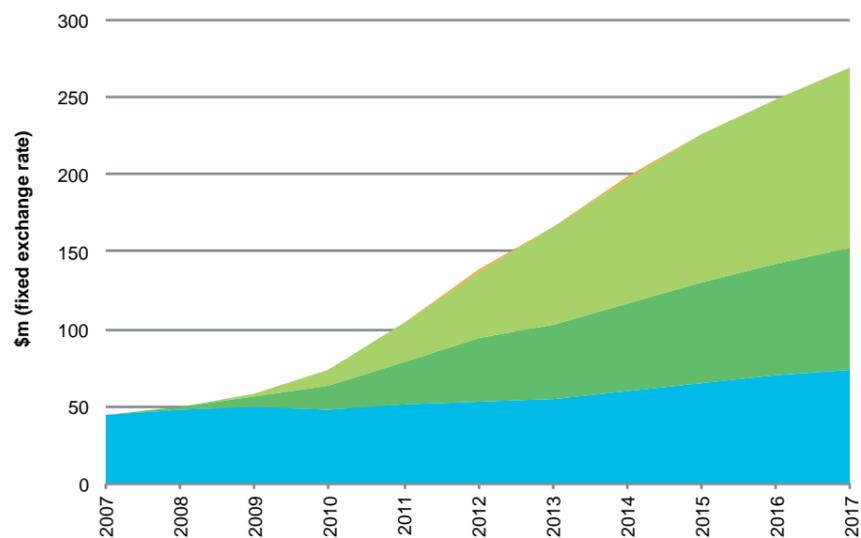
Australian average EST and VoD (movie and TV) consumer prices all increased YOY to the end of H1 2013. As well as an increase in the volume of VoD transactions, both via pay-TV based and online platforms, higher consumer prices are also contributing to increased revenues. In terms of pay TV VoD, the rise in average pricing is relatively small and is attributed to the higher number of HD movie purchases which demand a higher price point. However, HD only accounted for 1.6 per cent of transactional movie and TV revenues in 2012, forecast to increase by one percentage point in 2013 according to IHS estimates.

The composition of the pay-TV VoD market in regards to genre has changed considerably in the past year with the introduction of the progressive download (IP-VoD) service on Fostel's satellite TV platform. Satellite TV customers, who previously only had access to a limited array of new-release titles are now able to purchase a greater array of content on a transactional basis. As a result, the contribution of new-release movies in terms of share of transactions and revenue has declined in the past year, with library film titles increasing share. Nonetheless, new-release films have

Pay-TV on-demand transactions and revenue by genre



Australia: online and TV-based VoD spending



continued to grow in absolute terms, with transactions increasing by 6 per cent year-on-year in the first half of 2013 compared to H1 2012 and revenue increasing by 5 per cent over the same time period.

Growth in consumer spending on pay-TV on-demand services has remained stable over the past five years, with a slight increase seen in recent quarters as a result of the move to VoD over from nVoD services. However, over the next five years, although pay-TV rental revenues are expected to continue increasing,

ongoing competition with online services is expected to mute growth to some extent. Online video rental has seen a high rate of growth in the past two years, increasingly becoming the preferred video rental option for consumers. **Consumer spend on online video services overtook pay-TV VoD spend for the first time in 2011, with the launch of Telstra's T-Box being a key driver.** In 2012, 39 per cent of consumer spend on digital video was via pay-TV VoD services, with the remainder via online platforms; down from 49 per cent in 2011, and 64 per cent in 2010.

IHS anticipates that this trend will continue through the second half of 2013, with online platforms taking 67 per cent of the share across full-year 2013.

Online rental movies

- The online rental movies sector includes services which provide consumers with access to rental (pay-per-view) movies over the Internet.
- The segment is expected to grow from 7m transactions annually in 2012 to 9.7m in 2013 and from A\$31.1m in 2012 to A\$42.2 in consumer revenues in 2013.
- The main players driving the growth are the major international video content providers such as Apple, Microsoft, Sony, and Google as well local players such as telecommunications company Telstra and pay TV operator Foxtel.

The online rental movie sector in Australia is led by major international players including Apple, Microsoft, Sony, and Google and also strong local players such as telecommunications company Telstra and pay TV operator Foxtel. Telstra's rental services contributed significantly to the growth of the number of rental transactions in 2012. Telstra's BigPond rentals grew almost 60 per cent in 2012, outperforming the online rental segment as a whole.

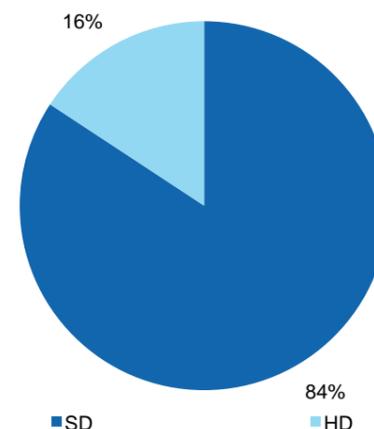
BigPond, which debuted in 2006, was one of the first online movie rental services to launch in Australia. At the time of writing, the service had a catalogue

of more than 7,000 titles, with movies and TV series in SD and HD formats from studios including all of the Hollywood, ABC, Miramax, Lionsgate and others. BigPond is available primarily through T-Box – Telstra's digital set-top. During the financial year ending June 2012, Telstra sold 168,000 T-Boxes, bringing the total number of installed boxes to more than half a million. A key factor which has contributed to the relative success of BigPond is the fact that downloads of content from BigPond are exempt from Telstra's bandwidth caps and thus any bandwidth used is not counted towards monthly data usage allowance.

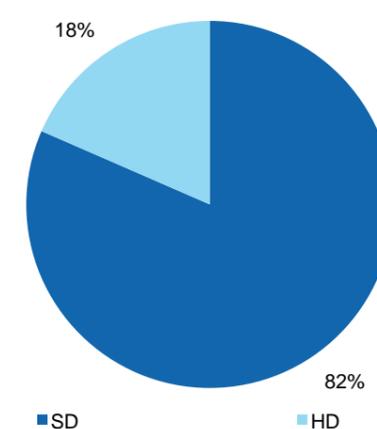
HD rental movie content is becoming more and more popular among customers of digital services in Australia. A combination of different factors contributed to the growth of HD content in recent periods. The size and quality of screens, improvements in software and steadily increasing broadband speeds have stimulated consumers into increasingly choosing a higher quality online video experience. IHS estimates that HD's share of rental revenues will grow from 13 per cent in 2012 to 25 per cent in 2013.

Australia's digital rental market is expected to grow by 38 per cent between 2012 and 2013, from 7m transactions in 2012 to 9.7m in 2013. Consumer-level revenues are expected to follow suit, increasing by 36 per cent in the same period, from A\$31.1m in 2012 to A\$42.2m in 2013.

Australia: TV EST shares of HD/SD in consumer revenues (2012)



Australia: TV EST shares of HD/SD in consumer revenues (2013)



Movies EST

- The movies EST sector includes services which provide download-to-own film content.
- The main players in the segment are similar to those in the film rental sector – primarily the major international players such as Apple’s iTunes, Microsoft Xbox Video, Google Play, and Sony PlayStation Network.
- **The movies EST sector has grown from 1.9m transactions in 2012 to 2.5m in 2013, and from A\$29.6m to A\$39m in 2013 in consumer revenues – largely driven by increased connected device penetration and awareness of services.**

AHEDA data indicates that the movies EST sector has seen rapid growth in the number of transactions over the past two years, increasing from 0.72m purchases in H1 2012 to 0.95m in H1 2013. In consumer revenues terms, the segment grew by 35 per cent over the same period, from A\$11.6m to A\$15.5m. Movies EST accounted for 8 per cent of total digital retail and rental transactions in H1 2013 and 23 per cent of consumer revenues in the same period.

The digital retail movie sector is dominated by the major international players, with Apple’s iTunes, Microsoft and Sony video services accounting for more than 98 per cent of the total market. Google Play launched services in Q4 2012 and is expected to begin to have a meaningful impact on the growth of the segment through the remainder of 2013 and beyond.

Similar to the rental movies segment, the share of HD content is expected to grow, increasing from 17 per cent of revenues in 2012 to 29 per cent in 2013, driving average price levels of retail movies upwards. Similar factors as those driving the rental movies segment encourage customers to choose HD format versions of content - namely availability of HD versions (by no means universal at present), developments in connected device capabilities and changing broadband infrastructure.

Online TV EST segment

- The online TV EST market segment includes services which provide download-to-own TV shows and series.
- The main players in the segment are those also present in the EST film sector – primarily the major international players such as Apple’s iTunes, Microsoft Xbox Video, Google Play, and Sony PlayStation Network.
- The EST TV sector has grown from 7.8m transactions in 2012 to 10.1m in 2013, and from A\$35.4m to A\$46.3m in consumer revenues.

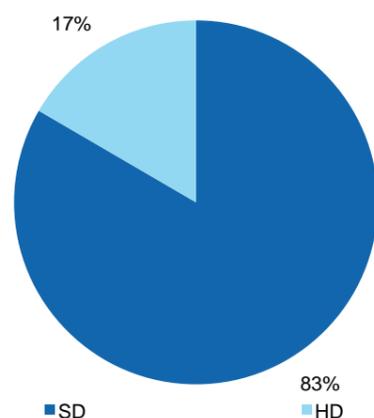
AHEDA data indicates that the TV EST segment grew 16.5 per cent in transactions from 3.2m in H1 2012 to 3.7m in H1 2013, and 35 per cent in consumer revenues terms from A\$15.2m to A\$20.5m.

The main contributors to the growth of TV EST include services from the major international players, such as Apple’s iTunes, Microsoft Xbox Video, Google Play, and Sony PlayStation Network. IHS estimates that Apple’s iTunes dominates the TV EST segment and together with Microsoft and Sony services, account for almost the entire EST market for TV shows in terms of transactions and consumer revenues.

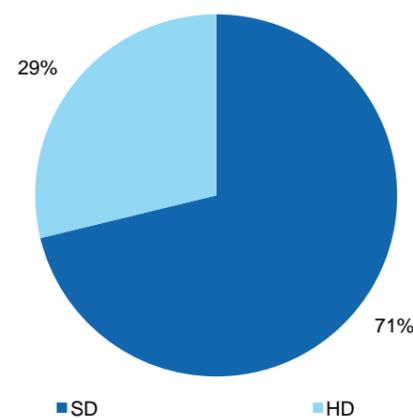
Single episode EST TV transactions (as opposed to bundled season EST TV packages) are the main drivers of the segment and accounted for almost 95 per cent of total TV EST transactions in 2012 and 84 per cent of consumer revenues, and are expected to stay at similar proportions in 2013. This preference is due to the fact that the EST TV sector is driven by catch-up purchasing, with consumers frequently downloading shows just after broadcast.

Similarly to the rental movies and TV EST segments, IHS analysis indicates that the share of HD TV EST content in consumer revenue is growing steadily, having increased from 16 per cent in 2012 to 18 per cent in full-year 2013 as increasing numbers of consumers express a positive attitude towards high definition video.

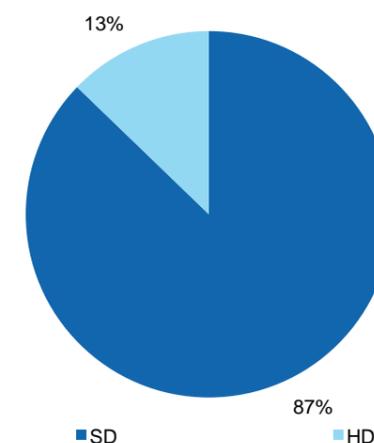
Australia: movies EST shares of HD/SD in consumer revenues (2012)



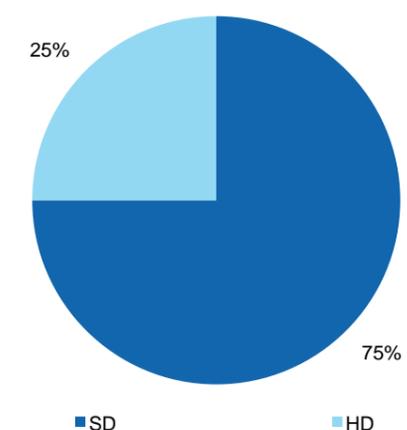
Australia: movies EST shares of HD/SD in consumer revenues (2013)



Australia: movies rental shares of HD/SD in consumer revenues (2012)



Australia: movies rental shares of HD/SD in consumer revenues (2013)



Online SVOD

Subscription video on demand services in Australia are a relatively small component of the market at present, and underdeveloped compared to transactional services. In 2012, by IHS estimates, the market was worth less than \$1m in revenue (note: for methodological reasons, IHS does not count revenues from joint/bundled packages – e.g. Quickflix streaming + DVD – towards its market totals).

The leading player active in the subscription sector in Australia is Quickflix, Australia's main disc-by-mail rental business, launched in 2004. It offers subscription services, with access to a wide range of movies and TV shows via disc by mail or via its newer online video service – WatchNow. WatchNow is available via a number of connected devices, including PCs/ Mac, Smart TVs, smartphones, Xbox 360 and Samsung Galaxy Tablets.

In October 2011 WatchNow was launched to consumers as a standalone service (i.e. not requiring a subscription to a disc-by-mail service as well); however in mid-2013, Quickflix restructured its plans and returned to a bundled offer for streaming. The company also launched a pay-per-view service and expanded WatchNow into New Zealand in spring 2012. In addition to movies, Quickflix started to offer TV series on an EST basis in summer 2013.

Other standalone online subscription services present in Australia include small international niche players such as MUBI and the recently launched standalone service (July 2013) from pay-tv operator Foxtel, branded Foxtel Play, which offers access to live pay-TV channels across different devices including PC/ Mac, Microsoft Xbox360, Smart TVs as well as via mobile devices through the Foxtel GO application. The basic package costs A\$25 a month, on top of which the customer must pay an extra A\$25 a month for access to the Sports channels, and/or A\$25 a month for the Movies channels.

In addition Foxtel intends to launch an online subscription movie service (Presto) by the end of 2013. For A\$24.99 a month, the service will offer on demand and live access to Foxtel's movies content. Foxtel Movies has a large catalogue of all the major

studios and key independent filmmakers including Roadshow Films, Hopscotch, Entertainment One, ICON, StudioCanal and Transmission Films. At launch Presto will be available on PC/Mac and later on iOS.

Nine Entertainment is another potential player in the subscription video sector. The company, which owns free-to-air network Nine Network and youth-dedicated free-to-air digital channel Go! has indicated its plans to launch an SVoD service. Ahead of the initial public offering at the end of 2013 the company announced a possible launch of an sVoD service as way of diversifying revenue streams and attracting new audiences. As yet, no other details regarding the catalogue size, device availability and detailed launch date have been revealed.

The challenges for sVoD expansion in Australia should not be underestimated. These include the widespread availability of free-to-view services, speed/quality of broadband, as well as associated bandwidth caps, as well as the ever-present danger of piracy. Broadband speeds and caps are arguably the most significant issue. While technically, the broadband packages which most customers in urban areas have access to, offer download speeds from 8 to 24 Mbit/s, actual speeds will be lower, and data-caps will restrict the ability to watch large volumes of content online. It is this fact which has the greatest bearing on SVoD. The average Netflix user spends 90 minutes per day viewing content online. If Australian consumers were to attempt to view video online at the same rate, they would breach even the most relaxed bandwidth caps in less than three weeks (by conservative estimates – if the consumer was watching HD, this would occur in just over a week). The rollout of the NBN will consequently have significantly ramifications for the potential growth of the sVoD segment, given that the project aims to connect the majority of Australian households and businesses with a fibre to the node (FTTN) open access network, with the side-effect of less restrictive data caps.

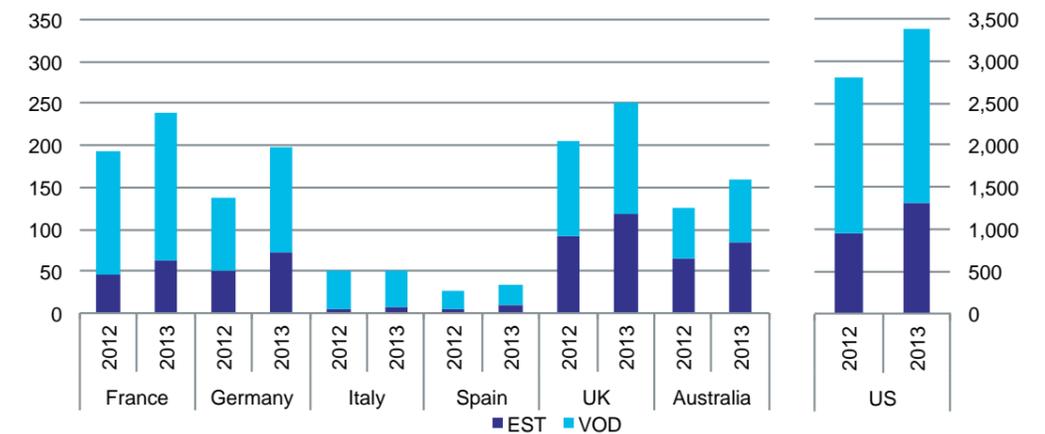
The Australian digital market in context

International context

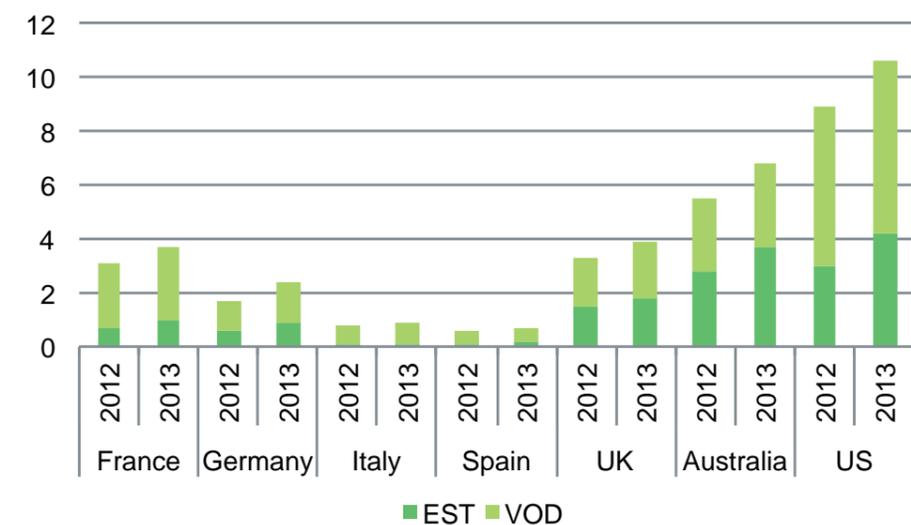
The Australian digital video landscape (online and pay-TV on-demand) shows strong potential for growth in the next few years, with consumer spend expected to nearly double between 2012 and 2017, from \$0.14bn to US\$0.27bn. High disposable income, strong consumer willingness to pay for video content as well as improving broadband infrastructure will stimulate the sector to further expansion.

In 2012, the digital video sector in Australia reached a value of less than 5 per cent of that of the USA, the largest digital video market in the world. But comparisons with European markets are more favourable, and show that the Australian digital video segment is almost five times larger than that of Spain and 2.5 times than of Italy, albeit smaller than the UK, France or Germany. The UK witnessed nearly four times as many EST/VoD transactions in 2012 than Australia, driven by the UK's larger population, and higher broadband penetration.

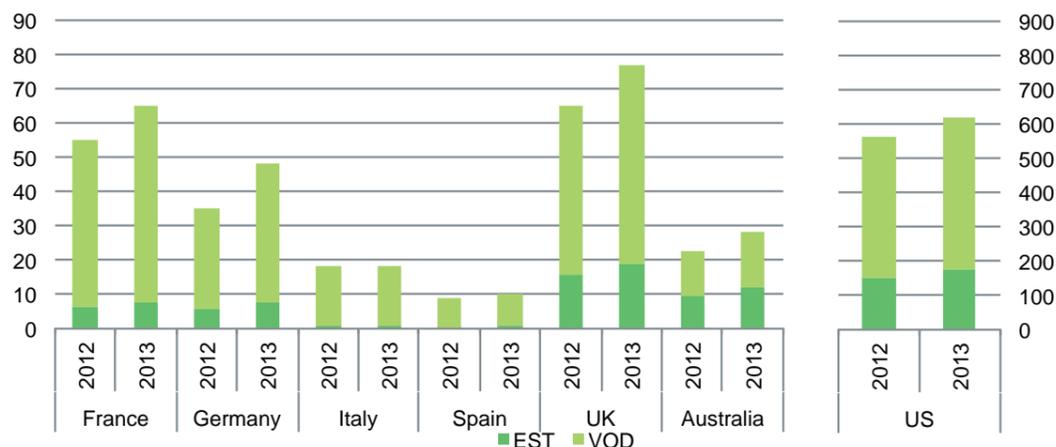
VOD and EST consumer revenue (US\$m)



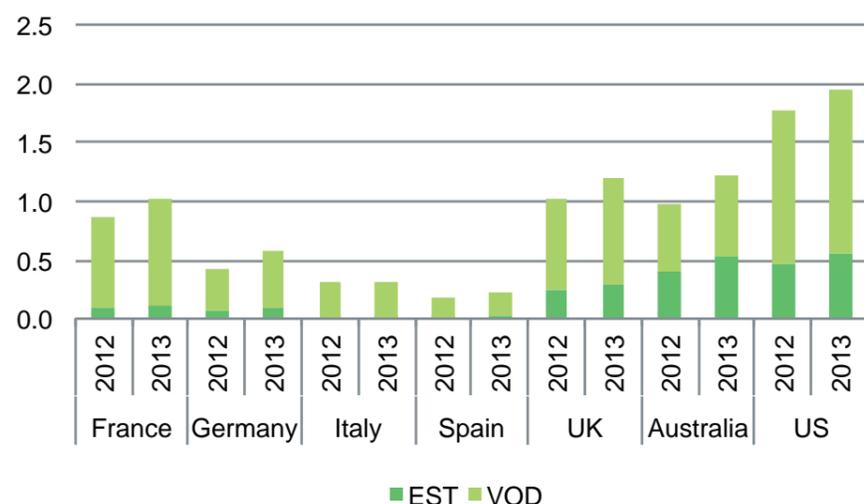
VOD and EST consumer revenue (US\$m)



VOD and EST transactions (million)



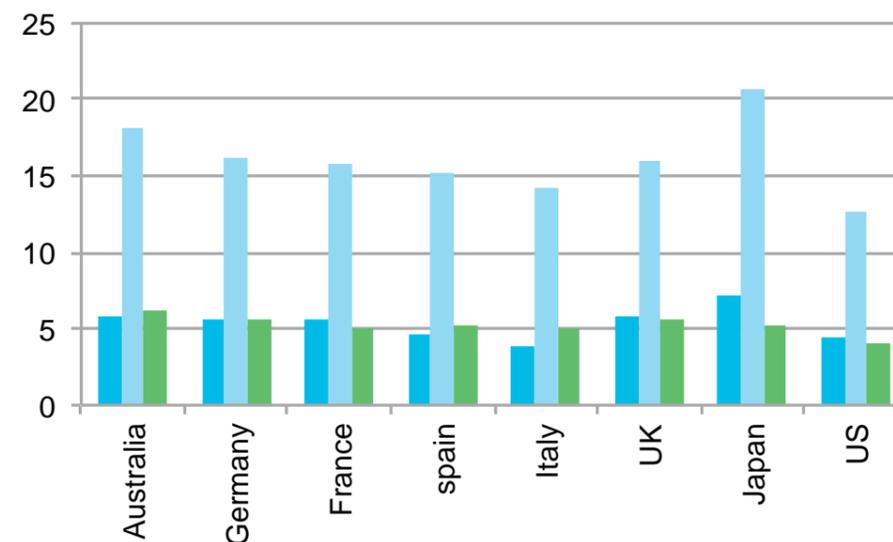
VOD and EST transactions per capita



European markets are structured in a similar way to the Australian digital space. In the UK, Germany and France the big international players (such as iTunes, Google Play, Microsoft Video, Sony Entertainment Network) have prominence, with local players such as Lovefilm in the UK and Canal Plus in France, having a significant role in the market development. However, in contrast to Western Europe, Australia has lower levels of broadband penetration, with 58 per cent of homes connected in 2012, compared to the UK's 72 per cent, France 61 per cent and Germany's 61 per cent, which impacts the relative addressable market for digital video.

When looking at VoD and EST transactions per broadband household, the Australian digital video market outperforms most other territories. Australia's digital market featured 4.4 transactions per broadband home in 2012 – higher than in the UK (3.3), France (3.3), Germany (1.4), Spain (1), Italy (2), although lower than in the USA (6.6). Consumer revenues from VoD and EST per broadband household in Australia are also strong – at US\$25 in 2012; higher than in the UK (US\$10.3), France (US\$11.5), Germany (US\$5.6), Spain (US\$3), Italy (US\$4) and a little lower than in the USA (US\$33.2).

H1 2013: average transactional movie price (US\$)



In per capita terms, VOD and EST consumer revenues in Australia are expected to grow from US\$5.5 in 2012 to US\$6.8 in 2013; higher than in the UK (2012, US\$3.2), France (2012, US\$3), Germany (2012, US\$1.7), Italy (2012, US\$0.8) and Spain (2012, US\$0.5) but lower than in the USA (2012, US\$8.9). The better economic conditions in Australia have helped maintain strong growth in the digital entertainment market. Much of the growth in consumer revenue per capita between 2012 and 2013 will come from increased spending on EST. Consumer revenue per capita on EST is set to grow by 30 per cent, reaching US\$3.7 in 2013. In comparison, VoD expected is to see a growth of 19 per cent, reaching US\$3.1 in 2013.

The disparity between transactions and revenues demonstrates the higher prices charged for VoD and EST content in Australia compared to other markets. While the US and big Western European

markets suffered in the midst of the economic crisis – impacting the entertainment market in terms of consumers' willingness to spend – Australia has flourished in relative terms, with average prices continuing to increase.

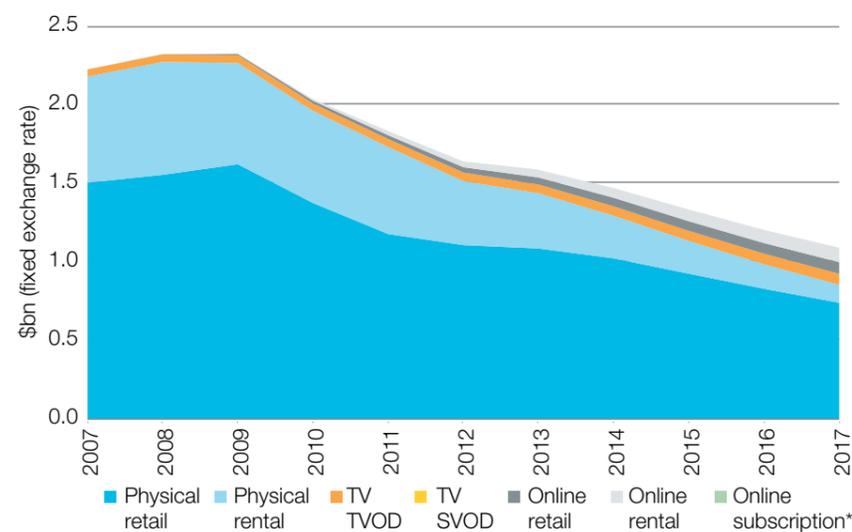
Australian online video services demand the highest average price for transactional movies on both retail and rental options compared to the US and the big five European markets. Online movies cost an average of US\$18.08 on a retail basis and US\$6.10 on rental in Australia, compared to US\$12.61 and US\$3.99 respectively in the US. Pay TV rental services were charging an average of US\$5.75, down from US\$5.85 in H1 2013, with the price decrease likely to be attributable to increased competition from OTT services rather than reflecting consumers switching to lower price films.

Digital in the wider video sector

Digital is still a fraction of the total video sector and growth in the market has thus far failed to offset the decline in consumer spending on physical video. IHS expects that total video market (digital and physical) consumer spending in Australia will decline over the next five years from \$1.66bn in 2012 to \$1.12bn in 2017.

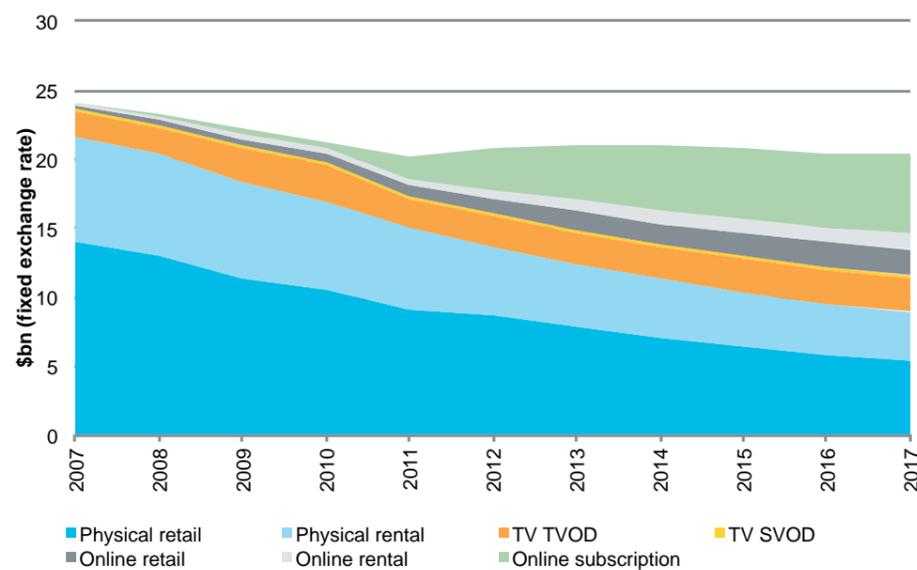
IHS estimates suggest that physical video retail accounted for the 67 per cent of total video spending in Australia in 2012 and will stay dominant even in 2017 at 66 per cent of the market. However in the next five years, physical retail and physical rental are expected to see heavy declines, from US\$1.52bn in 2012 to US\$0.86bn in 2017. Specifically, physical rental is anticipated to decline almost 71 per cent from US\$0.41bn in 2012 to US\$0.12bn in 2017.

Australia: total video spending



*Analysis and forecasts exclude revenues of services not yet launched.

US: total video spending



There are several reasons behind the decline, including the growth of pay TV (including on-demand film access), digital products, and DVR uptake pushing consumers to opt for alternative means of watching video. Pay-TV and online on-demand video offerings also allow the consumer to watch movies both in the house and outside on other devices, giving them mobility and greater choice. DVRs also enable the customer to store and build a video archive, thus partially eliminating the need to buy or rent physical discs.

Between 2012 and 2017, the physical retail and rental market is set to decline by US\$0.66bn in terms of consumer spend, while digital means of video consumption are to only increase by US\$0.13bn. As the physical market declines, the contribution of digital outlets will grow from eight per cent of video spending in 2012 to 24 per cent in 2017.

The trends in Australia broadly mirror those seen in other markets worldwide. A comparison with the USA video sector shows similar declines in the physical retail and rental markets and growth in digital.

Total video spending in the US reached US\$20.9bn in 2012, up 3 per cent to 2011 and will stay almost on the same level in 2017 reaching US\$20.36bn. The physical video market, retail and rental combined, is expected to decline by 34 per cent from US\$13.7bn in 2012 to US\$9bn in 2017.

But in contrast to the Australian video landscape, where online SVoD market is a relatively small component of the video market at present, digital SVoD in the US has seen rapid growth, and is expected to expand further, from US\$3.17bn in 2012 to US\$5.7bn in 2017. Growth is driven primarily by Netflix, offsetting the trend of declining consumer video spending. However, it is important to note that the impact on returns to content producers and distributors is different to that typically seen in the physical retail and rental sector as content owners are usually paid a flat fee for their content in sVoD services, so the rise of revenues does not necessarily mean that the amount that content owners are paid increases proportionally.

Wider Australian entertainment industry trends

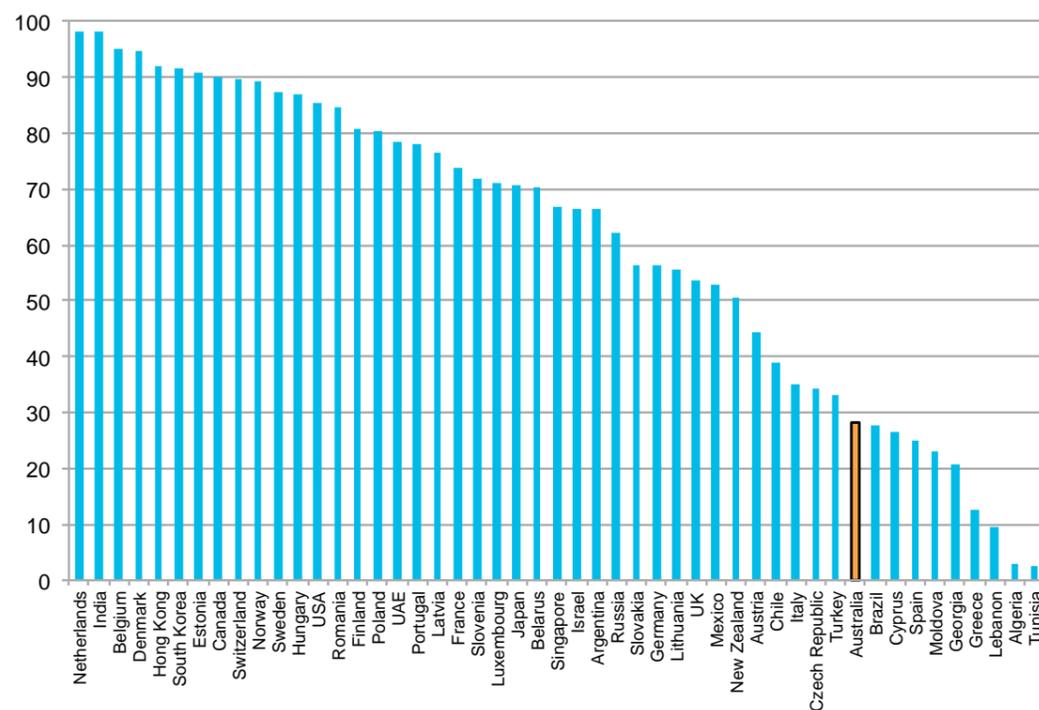
According to IHS estimates, total filmed entertainment industry consumer spending will remain relatively flat between 2012 and 2017 – this includes digital and video services, as well as cinema admissions (theatrical) and pay-TV subscription revenue. IHS predicts that consumer spend will grow by five per cent over the period, from US \$5.6bn in 2012 to US \$5.9bn in 2017.

IHS estimates that almost a half of the total filmed entertainment spending in 2012 and 2013 is accounted for by cable and satellite TV subscription revenues (e.g. Foxtel), keeping total spending broadly stable while physical rental and retail segments have declined. In the next five years, cable and satellite subscriptions will remain the main contributors to the filmed entertainment industry expansion in Australia, growing 23 per cent from US\$2.8bn in 2012 to US\$3.45bn in 2017.

The physical rental segment is expected to decline rapidly from US \$0.41bn in 2012 to US \$0.12bn in 2017, contributing to only two per cent of total filmed entertainment spending in 2017, down from seven per cent in 2012, while cable and satellite subscription revenues increase their share of the market from 50 per cent up to 58 per cent over the same time period. Growth is driven by increased pay-TV penetration as more households take up paid television subscriptions for the first time, as well as by expected price increases in subscription fees. Australia currently has an extremely high free television penetration rate with nearly 72 per cent of households without a pay-TV subscription in 2012. New Zealand, by contrast, has a 50 per cent penetration rate for pay TV services. Between 2012 and 2017, Australia's pay TV operators are expected by IHS to add another 0.28 million pay-TV homes to their current tally, reaching 2.76 million homes.

Digital rental and retail are expected to see further steady growth up from US\$0.14bn in 2012 to US\$0.27bn in 2017. The theatrical segment will continue to contribute to the growth of the entertainment sector, up 17 per cent from US\$1.17bn in 2012 to US\$1.36bn in 2017. Cinemas will continue to provide an experience which living room and portable

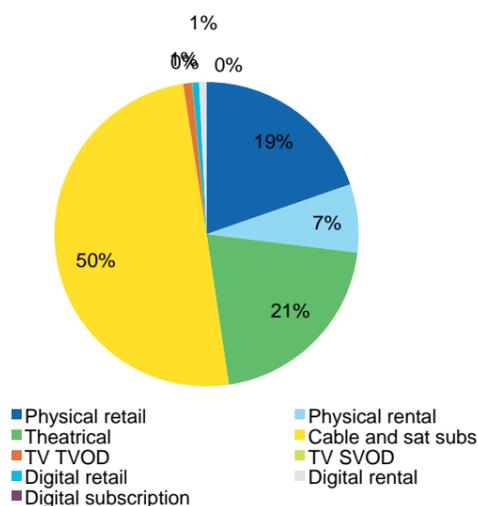
2012: primary pay-TV penetration (per cent)



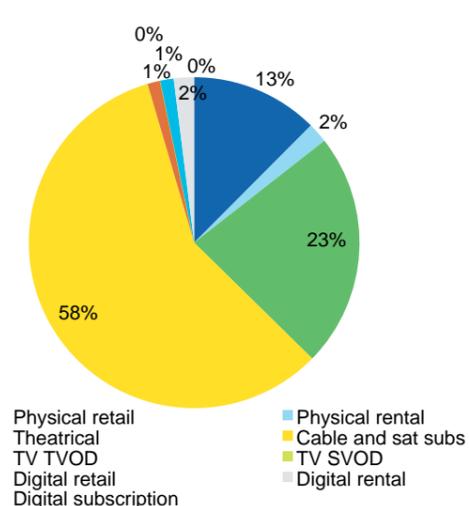
devices are unable to replicate. Despite the growth of pay TV and digital methods of consumption, theatrical revenues are expected to make up 23 per cent of audiovisual media revenues in 2017, up from 21 per cent in 2012. In international markets, the same sort of trend is being observed.

In international markets, the same sort of trend is being observed. In the USA, total filmed entertainment spending reached US\$127.7bn in 2012 and is expected to grow 8 per cent up to US\$138.1bn in 2017. Similarly to the Australian film and TV industry, the cable and satellite subscription segment will be the

Australia: total filmed entertainment industry consumer spending split by segments (2012)



Australia: total filmed entertainment industry consumer spending split by segments (2017)



main contributor to the sector expansion, growing 10 per cent from US\$97bn to US\$107bn.

Conclusion

The Australian digital sector has seen rapid expansion over the last 2 years due to positive economic conditions, improving broadband infrastructure, increasing number of different connected devices, in addition to new services and new offers from existing players. According to AHEDA data, VoD and EST transactions grew by 64 per cent between H1 2011 and H1 2013, generating A\$66.4m in consumer revenues in H1 2013. On a per capita basis, Australian VoD and EST revenues are higher than that in the big five European markets, although still lower than the US.

Online video-on-demand services are driving much of the growth in digital video consumption, particularly movie rentals which are expected to grow by 38 per cent in transactions and 36 per cent in revenue in 2013 on a year-to-year basis according to IHS. Movie and TV EST services are also seeing fast growth, with HD content becoming more and more popular. AHEDA data indicates that TV EST accounted for 31 per cent of consumer revenue on digital video in H1 2013 and 33 per cent of transactions, while movie EST accounted for 23 per cent of consumer revenue and eight per cent of transactions.

The online video segment, across retail and rental outlets, is led by the big international players such as Apple's iTunes and Microsoft's Xbox Video, though the online rental segment also has strong local players such as Telstra.

SVoD remains relatively small compared to the transactional market, as a consequence of limited choice, bandwidth caps and the fact that the main player, Quickflix, has not separated its offer into digital and physical (unlike Netflix in the US, and Lovefilm in the UK). However several other video providers such as Foxtel and Nine Entertainment intend to launch SVoD services by the end of 2013. IHS anticipates that the rollout of next-generation broadband will have the greatest positive effect on the SVoD segment, as it removes one of the biggest consumer disincentives to subscribing to SVoD – metering.

Pay-TV based on-demand services, such as those

operated by Foxtel, accounted for 26 per cent of total consumer revenues from digital video services in Australia, though their share is declining as online video services grow rapidly. Partly in response to the growth of online VoD services, pay-TV operators have launched higher end on-demand solutions in order to deliver more content to the consumer and to offer a higher degree of flexibility and interactivity. Satellite TV operator Foxtel - which accounts for 97 per cent of pay-TV VoD revenues and transactions – offers a traditional near-VoD service (via broadcast channels) in addition to push-VoD and IP-VoD to households with a connected set-top box.

Despite high growth in digital consumer revenues, largely being driven by online video services, the digital segment has not been able to compensate for the decline in the physical disc market, resulting in a likely contraction of the overall video market by US\$0.53m (A\$0.55m) between 2012 and 2017. But the outlook remains positive for the overall filmed entertainment industry - consumer spending is expected to remain relatively flat over the next five years, with the help of satellite and cable TV subscription revenues and ongoing strength in theatrical distribution.

Screen Digest

Screen Digest, now part of IHS Electronics & Media, is the pre-eminent firm of industry analysts covering global media markets including film, television, broadband media, mobile media, cinema, home entertainment, gaming, and advertising. As part of IHS Electronics & Media, Screen Digest joins with over 1200 data transformation analysts and researchers, over 350 sector analysts and industry experts with access to tens of millions of data points. The IHS Electronics & Media product portfolio is the unique combination of established brands each with world renowned research prowess to bring together market, technology and supply chain analysis and forecasts for every operational step of the electronics value chain. Providing resources for global strategies, planning & analysis; product design & development and risk management, IHS Electronics & Media addresses and has solutions for all of the critical customer workflows. More information at: <http://www.ihs.com/products/electronicmedia/index.aspx>

Consumer behaviour

GfK Retail and Technology, Australia

Part I: The digital evolution

Source: GfK ConsumerScope and GfK Retail Tracking

“I want it easily, I want it here and I want it now”

20 years ago, when the internet was in its infancy, consumers commenced an almost unperceivable evolution in how they could access content easily, immediately and in their own homes.

The Home Entertainment industry is already in the throes of adapting to a digital lifestyle, attempting to find a balance between giving the consumer everything they want, while still operating as a profitable business. However, the legacy of online music piracy, global awareness of TV and movie content, and learnings carried over from legal digital music acquisition have already set the expectations of many Australian consumers.

Mainstream behaviour

There are two commonly held misconceptions around digitally acquired home entertainment in Australia. The first is that we are only just starting to see consumers moving into digital media, while the second pertains to how they intend to view the digitally acquired content.

In the second half of 2012, more than half of all Australians were consuming digitally acquired content on a monthly basis, via catch-up TV, video on demand and rented files (VoD), electronic sell through (EST), and online piracy.

The under 35s are particularly active with digital media: 60 per cent of 25-34 year olds, and over 70 per cent of under 25 year olds are consuming digital

content each month. Older age groups have a much higher reliance on broadcast TV, but are still engaging with digital frequently enough for the industry to be considered in its mainstream, rather than early adoption, phase.

Mobile devices, but not mobile consumption

A trend that is often linked to the increase in digital home entertainment is the explosive growth of mobile devices, such as smartphones and tablet PCs. There is an assumption that the increased penetration of mobile devices naturally leads to mobile consumption – a link that was certainly valid with the iPod, during the digital music revolution. **However, there is no evidence to suggest that consumers are currently using their mobile devices in any great numbers to watch video content “on-the-go”.**

Currently, less than 2 per cent of all digitally acquired home entertainment is watched outside of the home, with over 60 per cent of the content being watched in the living room. There is some impact from the ownership of tablet PCs within the home, with 8 per cent of digital content being watched on these devices, but this is typically happening in the living room, as a personal display, often alongside multiple people watching different content on different screens.

The potential exists to open up the home entertainment market into the mobile consumption area; but at this point, consumers want to watch their content in the home.

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Growth of VoD and the reduced desire for ownership

While electronic sell through (e.g. a purchase-to-own acquisition) remains the dominant paid digital format, video-on-demand and digital rental services are closing the gap. The success of VoD services in Australia has been due in most part to Foxtel's On-Demand service, which accounts for over 50 per cent of VoD and digital rental volume. The service delivers against consumer expectations of immediate, convenient content delivery, integrated into an easy-to-use delivery system, straight to the user's TV. The limiting factor for this service is Foxtel's active subscription base.

Underpinning the growth of VoD has been the change in attitude towards ownership of digital media. The Music industry has seen the growth of internet radio subscriptions. Cloud computing is increasing in popularity. In both instances, consumers no longer need to hold content on a local device. In other words, if a consumer knows they can access content reliably, from a number of devices, when they need it, there is less of a need to have local ownership of a copy.

One metric that has shown how people are happier to access rented digital content, rather than needing to own it, is their attitude to purchasing after watching VoD content. **In quarter 2, 2011, 62 per cent of people who watched and enjoyed VoD content stated that they still intended to purchase the discs, and 38 per cent said they would purchase via EST. Two years later, those numbers dropped to 36 and 28 per cent.**

Another indicator of Australians' thirst for streamed media, albeit free content, has been the rise of catch-up TV.

Catch-up TV

Australian Free-to-Air TV broadcasters have been utilising internet based catch-up TV services for over 4 years. The proportion of Australians watching EST on a monthly basis peaked in the second half of 2012 at 16 per cent, falling to 10 per cent in quarter 2, 2013, and over the same period VoD has gradually

increased to 8 per cent. Meanwhile, consumption of Catch-up TV has grown consistently from 18 to 34 per cent of the population in the 24 months to quarter 2, 2013, even surpassing the number of people accessing Pay TV.

One main difference between Catch-up TV and other digitally acquired media is how it's consumed. Whereas EST, VoD and even pirated content is watched primarily on a TV, 60 per cent of Catch-up TV is watched on a PC, probably in solitude. In this instance, it seems that the consumption of content is not considered a sociable experience.

Piracy

A study on the effects of digitally acquired home entertainment would not be complete without a review of piracy trends.

Excluding Catch-up TV, piracy represents 35 per cent of home entertainment 'acquisitions', and is steadily growing. The TV is now the dominant viewing device for pirated content, and most consumers openly watch their content in the lounge or living room.

Consumers who pirate state that they do so for convenience, ease and immediacy: exactly the same reasons that are given for all digital acquisitions. But there are two other key motives given by consumers of pirated content: availability and price.

The first is largely specific to the high proportion of TV series that are pirated compared to movies. TV series makes up less than 20 per cent of disc volume, and 30 per cent of EST transactions, yet the share of TV through piracy is in excess of 50 per cent.

22 per cent of TV pirates said they would not be prepared to pay anything for the content they have downloaded. This is in contrast to 14 per cent for pirates of new release movies. It's possible that the tradition of Free-to-Air TV, and free access to Catch-up TV, gives consumers a sense of rightful 'free' ownership of all TV.

Interestingly, the remaining 78 per cent of TV pirates said they would actually be willing to pay for the TV series they stole. The price they claim to be prepared to pay is in-line with current EST fees. Yet consumers still choose to acquire the content illegally.

One of the challenges in tackling the issue for TV series is the window between overseas and local release dates. **Australian consumers expect to be able to access the content at the same time as the rest of the world**, especially when spoilers hit social networks and plots are divulged. Pay TV and some EST channels offer the TV shows within hours of an overseas release, but not all consumers have a pay TV subscription, or own the specific hardware that enables them to acquire and download the content onto their TV.

For movie piracy, consumers state that the main driver is price. On average, 86 per cent of movie pirates who stated they were prepared to pay for movies said they were only prepared to pay around one third of the price of a disc in order to acquire the content legally through EST channels.

The growth of legal consumption

Encouragingly, it is the consumer segments that are involved in legal acquisition of content that are experiencing the most growth. Also, consumers who are legally obtaining digital content through EST, VoD or rented files on average buy the same amount of physical DVD and Blu-ray discs as someone who is not involved with digital acquisitions. Even the majority of pirates are also purchasers of discs and legal digital media.

If the issues of availability and price can be addressed, alongside the focus on convenience, ease and immediacy, the proportion of legal acquisitions should continue to grow well into the future.

Part II: Keeping mum in the video entertainment market

Source: GfK ConsumerScope and GfK Retail Tracking

Mum's the word

While we can expect an increasing proportion of movies and TV shows to be purchased, rented or streamed through digital means in the coming years, more than half of the Australian population are still watching DVD and Blu-ray discs. One segment of the population that is becoming more prevalent in the

purchasing of discs, and while doing so, is changing the dynamic of the market, is mothers. Specifically, mothers with children under-14 years old.

Changes in mothers' behaviour

The proportion of disc buyers who are mothers has grown in the last 2 years from 17 to 23 per cent, augmented by a slight increase in the number of discs they put in their baskets. Over that time their behaviour has changed in two ways. Firstly, they are renting fewer discs than they used to. Mums who rent say that their monthly rental basket has dropped by 41 per cent in the last 24 months. Purchasing has become a better value-for-money proposition for mothers, with decreasing prices and regular promotional activity drawing them towards an ownership rather than a rental opportunity that allows for repeat viewing.

Secondly, although these mothers were buying discs in the past, there has been a notable rise in the frequency of disc shopping trips.

Bought by mum, not for mum

There is one significant difference in the way mothers shop compared to other population groups, and that's the recipient of the disc. More than half the discs that mums currently purchase are intended for other people. In the rest of the population, this drops to a quarter. In the last 3 years there has been a continuous decrease in self-purchase by mums, while the rest of the market's self-purchase levels have remained flat.

At the start of 2010, a third of all discs that mothers purchased went to someone else in the home. By quarter 2, 2013, this had increased to 50 per cent. Of the titles bought by mothers for the household, 18 per cent were for a partner, and 62 per cent were for children under the age of 14.

The impact of this trend is visible in the video software category dynamics. Just under 20 per cent of all movie titles purchased in the first half of 2013 were animated; an increase from 14 per cent in 2012.

Top selling Movie Animated titles, July 2012 – June 2013, ranked by volume.

Rank	Title	Publisher	Release date
1	ICE AGE 4 CONTINENTAL DRIFT	20TH CENTURY FOX	28-11-12
2	BRAVE	WALT DISNEY STUDIOS	21-11-12
3	MADAGASCAR 3 EUROPE'S MOST WANTED	PARAMOUNT	09-01-13
4	DR SEUSS THE LORAX (2012)	UNIVERSAL	01-08-12
5	WRECK IT RALPH	WALT DISNEY STUDIOS	24-04-13
6	TINKER BELL SECRET OF THE WINGS	WALT DISNEY STUDIOS	07-11-12
7	TANGLED	WALT DISNEY STUDIOS	11-05-11
8	CINDERELLA	WALT DISNEY STUDIOS	03-10-12
9	HOTEL TRANSYLVANIA	SONY PICTURES	17-01-13
10	RISE OF THE GUARDIANS	PARAMOUNT	10-04-13

Source: GfK Retail Trackinga

In-store influence

When shopping on their own, mothers are more likely to buy for themselves, with a preference for drama-orientated movies or drama TV shows.

When accompanied by children, however, there is a clear shift in behaviour, as baskets fill-up with animated movies, children's animated TV, and family titles. The retailer's product positioning for the child, therefore, seems to be at least as important as the positioning for the mother.

Another key influence on mothers' shopping behaviour has been in-store promotions. The past year has been notable for the levels of promotional activity across the Australian physical retail channel, coming in the form of price discounts and added value promotions such as 2-for-1 offers. The price of buying a children's or family title on DVD has dropped over the last 3 years, from \$19.40 to \$19.10 for new release titles, and from \$13.40 to \$11.10 for catalogue.

These promotions have been highly effective at influencing purchases, especially when mums are out shopping with no intention of buying a disc. Two thirds of all impulse disc purchases over the past year were part of a promotion. In 18 per cent of impulsive disc purchases, mums stated that the promotion was the most influential factor, with a further 15 per cent saying that the offer was an important, but lesser factor in their decision.

The promotions are most effective on catalogue titles (over 14 weeks since release). Mums stated that 3 out of 4 of those titles would not have been purchased had they not been on promotion.

Making a list

Despite the influence of children and promotions, 2 out of 3 shopping trips which resulted in a disc purchase were actually planned with the forethought of buying a DVD or Blu-ray. When mothers plan a shopping trip that is anticipated to result in a disc purchase, there are a number of prerequisites that lead to the choice in retailer.

Primarily, mothers shop with the expectation that wherever they go, they're going to get the best possible price, and that includes expectancy of promotional activity. However, mothers will only check prices of discs across multiple retailers on 3 out of 5 planned disc buying trips. On occasions where prices have been checked, the main information sources are in-store, using retailers' web sites, and finally, printed catalogues.

Other important factors for mothers, compared to the general population, revolve around convenience. Mothers generally buy discs as part of a bigger shop, and will gravitate towards convenient store locations.

The past year has been notable for the levels of promotional activity across the Australian physical retail channel, coming in the form of price discounts and added value promotions such as 2-for-1 offers.

Hardware trends

GfK Retail and Technology, Australia

Which device do you use?

TVs, DVDs, Blu-ray players, consoles, computers and mobile devices; these hardware products offer a vast array of options for consumers to view their entertainment content. Trends within the hardware sector often lead to changes in both how and where content is being acquired and consumed – and there has certainly been plenty of change within these categories over the past ten years.

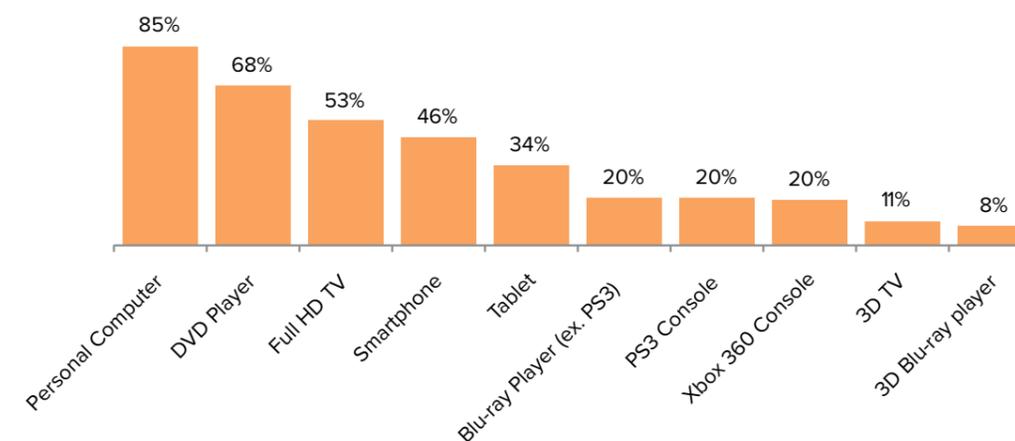
DVD and Blu-ray players

DVD discs are still the largest form of paid content acquisition in Australia, with more than half the population watching a DVD at least once a month. Following their launch, sales of DVD players rapidly accelerated, corresponding with the uptake in DVD software. The category peaked a few years earlier than software, however, and since that peak in 2006, has been in decline ever since.

Blu-ray players, on the other hand, have experienced continuous growth since their launch in 2007. In the twelve months to June, 2013, Blu-ray unit sales accounted for 47 per cent of the market. The take-up of Blu-ray, however, has not been equal to the decline in DVD, leading to an overall category decline of 21 per cent in volume and 24 per cent in value.

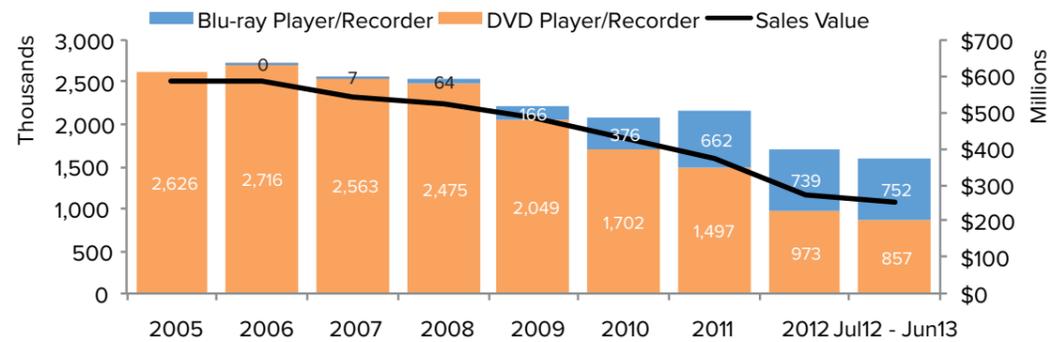
While hardware shares of DVD and Blu-ray are near parity, it is worth noting DVDs continued dominance of video software's physical retail channel, with 90 per cent unit share. Due to the backward compatibility of Blu-ray players, consumers who own a Blu-ray can still choose to purchase the lower-priced DVD format for the bulk of their disc acquisitions.

Australian household penetration

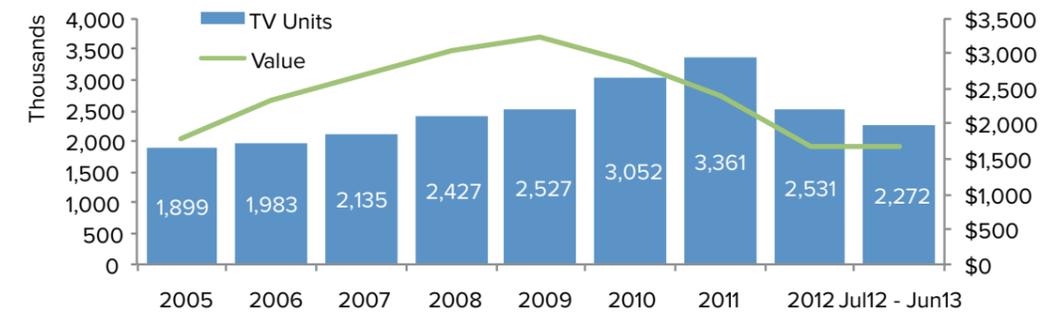


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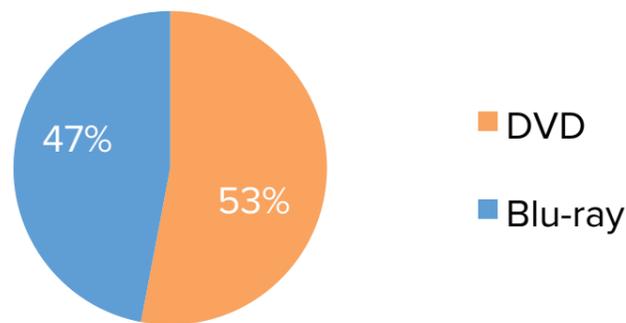
DVD and Blu-ray player/recorder sales*



TV sales



Hardware volume sales*: Jul 2012 – Jun 2013



Games consoles

Stand-alone Blu-ray players are only one piece of the Blu-ray hardware picture, with the PlayStation 3 console also offering an integrated Blu-ray drive. 20 per cent of Australian consumers have a PS3 in their home; the same number that has a standalone Blu-ray player.

The next generation of consoles is due to launch in quarter 4, 2013, with both the PlayStation 4 and the Xbox One offering a Blu-ray drive as standard. Both these devices will also have internet connectivity and, with the Xbox Marketplace and PlayStation Network both offering digital content directly, these devices will offer yet another way for consumers to access their favourite shows and movies.

Televisions

Television remains a central hub of our entertainment landscape. Following the introduction of panel TVs, the category experienced significant growth, fuelled by the replacement of cathode ray technology, and the trend of multiple ownership. While the now mature panel TV market stabilises at more ‘natural’ sales volumes, underlying growth segments reveal some interesting trends.

Full high definition televisions make up 69 per cent of the 2.3 million TVs that were sold in the last 12 months, with nearly 50 per cent of households in possession of a HDTV. This trend is set to continue, as newer formats like 4K TV are released into the market – a TV that typically has twice the horizontal and vertical resolution of a regular HDTV. This will allow for the next generation of entertainment content to be viewed in even greater definition.

TVs are also getting smarter. These Smart TVs offer a range of internet connected services, from apps and streaming, through to IPTV and web browsing. Since their launch in 2010, there have been close to 2 million Smart TVs sold. These TVs offer the consumer a new way of viewing content and have contributed to the growth of products such as Catch-up TV.

Viewing content in 3D is another relatively new option for consumers. 3D was available in more than a quarter of TVs sold in the first half of this year; an 8 per cent year-on-year growth.

Owning a Smart or 3D-capable TV does not, of course, mean that the TV’s potential for connecting with the internet, or for 3D viewing, is being utilised. These features are increasingly offered as a standard

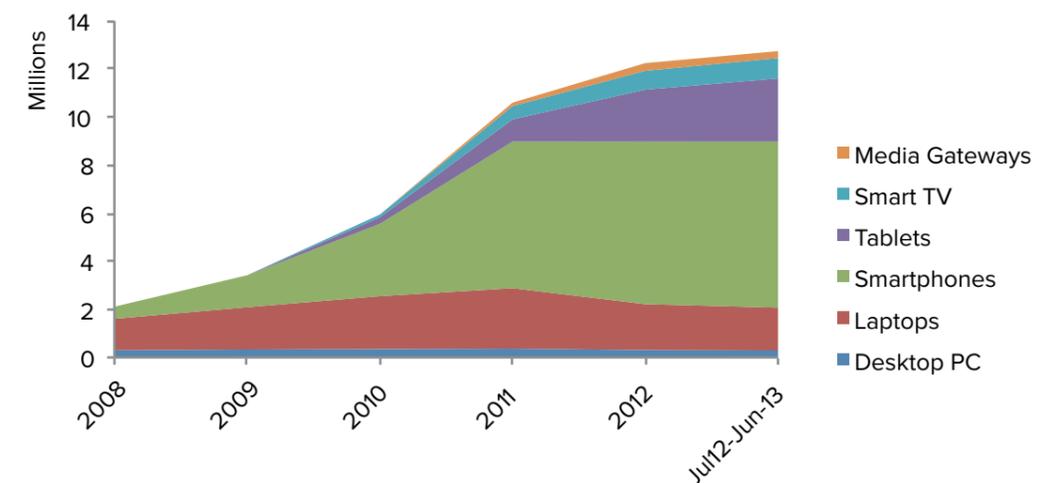
in higher-end, and particularly large-screen TVs. The levels of penetration, however, do illustrate the potential for the utilisation of these features.

Laptops

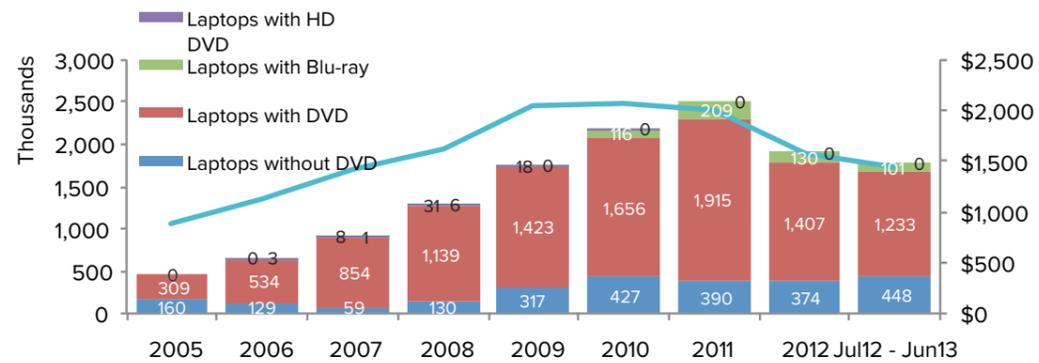
One of the most significant trends in recent years has been the boom in mobile, or personal, devices that can connect to the internet. Smartphones and increasingly, tablets, make up the vast majority of these devices.

Prior to 2010, however, the laptop was the first device to offer mobility in the consumption of content. DVD drives came as standard in the majority of laptops during the category’s growth phase, making it

Internet connected devices volume sales (extrapolated to total market)



Laptop sales



possible to view video content in secondary rooms around the house, or on the move.

In more recent years, laptops are of course, heavily utilised in the acquisition, downloading and viewing of digital content. The category is now in its mature phase, with volume sales recently superseded by the lower-priced, and even more portable, tablet.

Tablets

Over a third of Australian households own at least one media tablet. Unit sales of tablets grew by just under 60 per cent in the twelve months to June, 2013.

Volume sales of tablets began to outperform laptops in July, 2012, with tablets now consistently outselling laptops and other types of PC devices. However, holding a far higher average price point, the revenue generated by the laptop category is still significantly higher than for tablets.

Smartphones

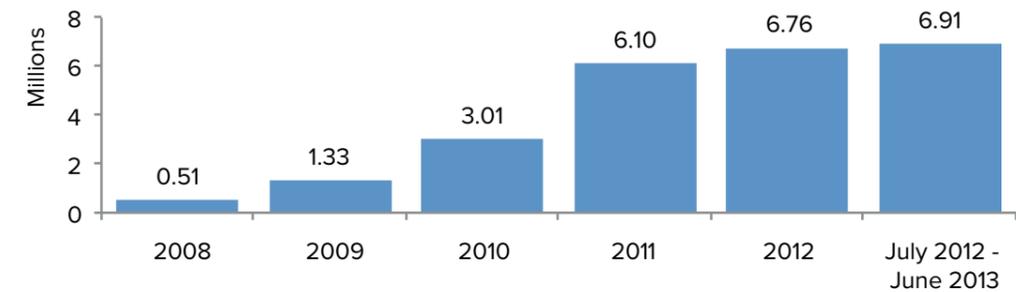
Volume sales of smartphones are finally beginning to plateau after an explosive period of growth. In the twelve months to June, 2013, the smartphone category sold nearly 7 million units into the Australian consumer channel.

The frequency and type of entertainment content consumed on a smartphone in the future will be heavily influenced by the speed of internet connection and the screen size of the phone.

4G or LTE (Long Term Evolution) is the latest digital standard, delivering data to consumers faster than ever before. Half of the smartphones purchased in 2013 were connected to these faster 4G networks, allowing for quicker data access.

Screens on mobile devices have also been increasing. Many of the models recently released to the market offer a screen size of 5 inches or more. In May and

Smartphone volume sales (extrapolated to total market)



June, 2013, 1 in every 4 smartphones sold had a screen size of over 5 inches.

Despite the high penetration and popularity of smartphones, however, the table below demonstrates how few consumers currently choose to view their video entertainment content on their phone.

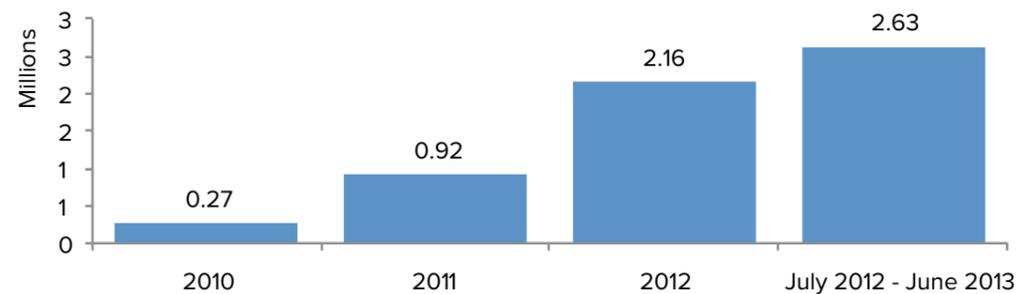
content. In fact, less than 2 per cent of consumers claim to view their video content outside the home. In other words, mobile devices are being used, but the content is still being viewed in the living room, bedroom or study.

Viewing habits

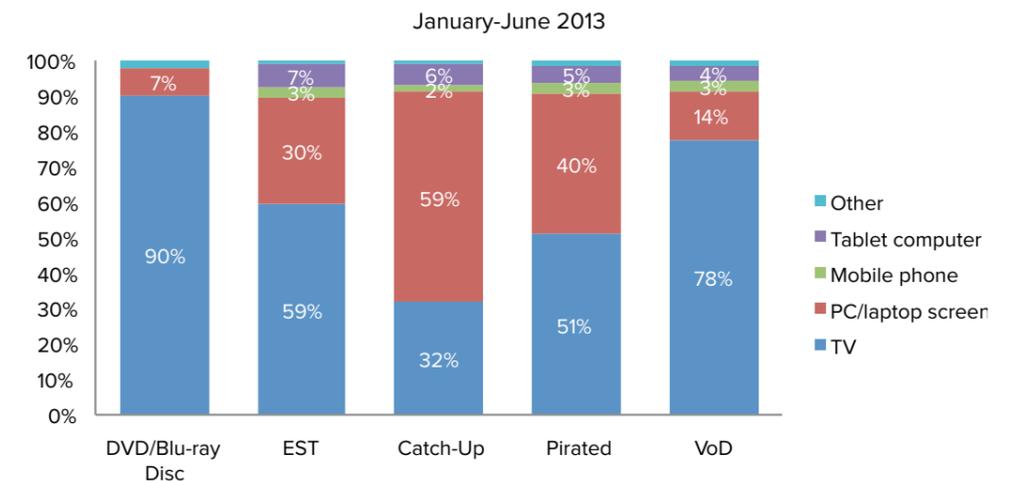
In 2013, TV is still the dominant device for viewing video entertainment content. The choice of viewing device varies enormously, however, depending on the content source.

Despite the popularity of laptops and tablets for viewing digital content, we have not yet seen a surge in the mobile consumption of home entertainment

Tablet volume sales (extrapolated to total market)



Tablet volume sales (extrapolated to total market)



6

The state of the Australian cinema industry

Marc Wooldridge, Chairman, Motion Pictures Distributors Association of Australia

... Australia continues to rank as the most avid cinema going nation in the world outside of the US, with an average of 4 visitations a year per person.

In the face of increased competition for the entertainment dollar, cinema-going in Australia has been remarkably resilient and has continued to trend comfortably over A\$1bn in box office sales for the last 3 years. While 2012 – with a total box office of \$1,125,536,000 – was not a record year, it was up 2.8 per cent on 2011, and just 0.2 per cent off the record set in 2010.

The Top 10 films of 2012 represented a significant 29 per cent of the total box office for the year, led by *The Avengers* which became the third biggest movie ever to be released in Australia with a \$53.2m take.

Of particular note in 2012 was the record-breaking Boxing Day result, with the top 10 movies alone generating over A\$10.8m in box office receipts. Just under one million movie-goers enjoyed the big screen experience of the cinema within a single day – representing more than 47 per cent more than any other Boxing Day in history.

The Hobbit took number 1 position and also broke the record for the biggest film ever to be released on Boxing Day with \$5.9m GBO. *Les Miserables*, *Wreck*

It Ralph, *Parental Guidance* and *Skyfall* rounded out the top 5 and all drew big audiences.

The previous record Boxing Day was in 2003 which saw 7 new releases taking \$6.3m, driven largely by the release of *Lord of The Rings: Return of the Kings* which was, until now, the highest grossing film released on Boxing Day in Australia.

From an international perspective, according to Screen Digest data, Australia continues to rank as the most avid cinema going nation in the world outside of the US, with an average of 4 visitations a year per person. As a mature market, Australia remains a very important contributor to the rapidly growing international business, which is seeing particularly strong year on year box office growth from the likes of the BRIC countries; Brazil (+16%), Russia (+10%), India (+24%) and China (+30%).

As of 8 November 2013, the market had generated \$942,763,207 in box office sales year to date but was tracking at -4 per cent below prior year (end October), but still on course for yet another great year of cinema going. The top 10 films to date in 2013 are shown in the table on the nextpage.

Top 10 films in 2012

Rank	Title	Distributor	Box office in 2012
1	THE AVENGERS	WALT DISNEY	53,250,000
2	SKYFALL	SONY PICTURES	44,201,692
3	THE DARK KNIGHT RISES	WARNER BROS	43,377,003
4	TED	UNIVERSAL	34,478,356
5	THE HUNGER GAMES	ROADSHOW	31,178,495
6	THE TWILIGHT SAGA: BREAKING DAWN - PART 2	HOYTS/STUDIO CANAL	28,241,807
7	ICE AGE 4: CONTINENTAL DRIFT	FOX	27,626,683
8	MADAGASCAR 3: EUROPE'S MOST WANTED	PARAMOUNT	24,239,294
9	THE BEST EXOTIC MARIGOLD HOTEL	FOX	21,423,486
10	SHERLOCK HOLMES: A GAME OF SHADOWS	ROADSHOW	20,083,088

Top 10 films to date in 2013

Rank	Title	Genre	Release date	Distributor	BO in 2013	BO as at 11/05/2013
1	IRON MAN 3	ACTION ADVENTURE	24 Apr 2013	WALT DISNEY	39,532,382	39,532,382
2	DESPICABLE ME 2	ANIMATED COMEDY	20 Jun 2013	UNIVERSAL	35,822,632	35,822,632
3	THE GREAT GATSBY	DRAMA ROMANCE	30 May 2013	ROADSHOW	28,998,798	28,998,798
4	LIFE OF PI	ADVENTURE DRAMA	1 Jan 2013	FOX	28,290,560	28,290,560
5	FAST AND FURIOUS 6	ACTION CRIME	6 Jun 2013	UNIVERSAL	27,472,358	27,472,358
6	THE CROODS	ANIMATED	28 Mar 2013	FOX	25,283,066	25,283,066
7	MAN OF STEEL	ACTION ADVENTURE	27 Jun 2013	WARNER BROS	24,547,127	24,547,127
8	MONSTERS UNIVERSITY	ANIMATED ADVENTURE	20 Jun 2013	WALT DISNEY	24,427,461	24,427,461
9	THE HOBBIT: AN UNEXPECTED JOURNEY ADVENTURE	FANTASY	26 Dec 2012	WARNER BROS	23,822,667	42,919,891
10	THE HANGOVER PART III	COMEDY	23 May 2013	WARNER BROS	21,204,078	21,204,078

This year will mark the time when the industry stopped talking about the digital cinema conversion and really shifted to implementation with over 90 per cent of the screens in Australia now converted according to MPDAA data and the majority of the remaining sites in the final stages of conversion. The future of cinema is digital and brings with it opportunities on both sides of the business in terms of presentation, operational efficiencies and new revenue opportunities as well as an unprecedented need for close collaboration between all sectors of the theatrical film and the issues related to the supply and delivery of KDM's and DCP's.

In early 2013, members of FEDCAC (the Film Exhibition and distribution Code Administration Committee) agreed to work together to identify the current issues around the distribution of digital content and see if it was possible to create – if not an industry standard – a consistent “best practice” approach. Major and independent exhibitors and distributors have been working together to draft a framework that identifies where commonality and flexibility exists, addressing some of the current regular problems and sets out an operations framework for delivering and screening digital content.

Although only recently distributed to theatres, it is hoped that improvements will provide scope for both exhibition and distribution to focus more on added value opportunities within the business and reduce the time consuming burden of last minute fixes and operational issues for both parties.

A fantastic dividend of the digital conversion is the availability of these screens to hearing and vision impaired patrons. Australian exhibitors lead the world, on a per capita basis, in the number of screens disabled

people can attend. In December 2012 the four major Australian exhibition companies, Hoyts Cinemas, Village Cinemas, Event/ Greater Union/ Birch Carroll & Coyle Cinemas and Reading Cinemas, were awarded a Human Rights Award recognising the commitment of disability organisations, distributors, exhibitors and government to improving accessibility to the cinema experience.

Distributors and exhibitors continue to monitor and support the fight against piracy and this fight is as important now as it ever was. The Intellectual Property Awareness Foundation's (IPAF) recent research showed that around one in four Australians, aged 12-64 years old, access film and television content from pirate websites. Of great concern is the reluctance of teenagers to pay for content when it is so readily and easily accessible for free. Other causes for alarm are their failure to perceive the value of film or TV content and while recognising that piracy has a negative impact, they do not see themselves as part of the problem.

The importance of being able to protect creative intellectual property cannot be under stated and failure to do so will ultimately define the future of filmed entertainment. There is more work to be done as an industry to educate and influence people, particularly in light of the potential impact of the incoming National Broadband Network.

Keeping the movie going habit top of mind and maintaining and even, wherever possible, improving the unmatched quality of the cinema experience is our collective priority as an industry. The 2012/2013 box office result clearly demonstrates the on-going appeal of the cinema which continues to provide a great value experience for a broad audience.

Keeping the movie going habit top of mind and maintaining and even, wherever possible, improving the unmatched quality of the cinema experience is our collective priority as an industry.

7

Online advertising and the piracy ecosystem

Neil Gane, Regional Director, Australasia, Australian Screen Association

“Parents need to be aware that advertising linked to the sex industry will be served up to their children ...”

Approximately 97 per cent of Google’s revenue comes from advertising – the combined earnings of all of their other products only accounts for 3 per cent of its annual earnings. Online advertising is also big business for pirate websites. Almost every piracy focused site is owned and operated for profit and these profits are predominately generated by advertising whether from banner adverts or from pop-ups and pop-unders which are launched when a link on the piracy site is clicked. **This lucrative online advertising business provides the financial motivation for criminal syndicates to set up and operate such websites.** Take the infamous Pirate Bay website as an example. In their 2009 criminal trial it was uncovered that their expenses were an estimated USD\$110,000, yet their advertising revenues were USD\$1.4m equating to gross illegal profit margins of 1,272 per cent.

If advertisers stay away from piracy sites, their profits dry up and it becomes harder for the criminals who operate them to pay for server space and other overheads. **As such, efforts to dry up piracy sites’ advertising dollars are key to stopping online content theft, not unlike working to get payment processors to refuse to handle piracy sites’ financial transactions.**

In September, the University of Ballarat published research that explored the relationship between piracy sites and online advertising, which specifically targets Australian consumers, with particular focus on the category of products being advertised.

The research found that 99 per cent of the adverts were categorised as “High Risk” advertisements defined as adverts promoting goods or services

which fall outside the legitimate economy and which may be either illegal or restricted within certain jurisdictions, or may be fake or counterfeit. The research placed the high risk ads into five categories: sex industry, malware, gambling, scams and downloading sites. The research found that only 1 per cent per cent of the advertisements on the piracy websites surveyed were “mainstream ads”, in other words adverts placed by legitimate businesses that operate within the formal economy.

Everyone who works in the film industry is fully cognizant of how damaging piracy is to our industry. **What this research throws up is just how damaging piracy can be to those consumers who access piracy sites. With 46 per cent of adverts on piracy sites being categorised as malware, Australians who access such sites are at a substantially higher risk of being exposed to malware infection.** 3 per cent of adverts were categorised as unregulated and unlicensed gambling advertisements targeting Australian users (of all ages). A further key finding was that 20 per cent of adverts were categorised as sex industry ads consequently exposing pre-teen and teen users who access the websites to graphic hard core pornography. As the research points out:

“Parents need to be aware that advertising linked to the sex industry will be served up to their children, even if they are only intending to download unauthorised torrents for television shows or movies”.

The prevalence of high-risk advertising on piracy sites was corroborated in recently published research commissioned by the Intellectual Property Awareness Foundation (IPAF) into the online habits of 12-17 year olds. The research found that the most commonly

viewed adverts when accessing piracy sites, according to pre-teens and teens, were sex industry and gambling advertisements.

The Ballarat research has already been reviewed by John Carr, a member of the Executive Board of the UK Council on Child Internet Safety, the British Government's principal advisory body for online safety and security for children and young people. In a recently published article, Carr has already fired a warning shot to parents:

"Parents who hitherto may not have bothered much about their children's engagement with piracy need to know about this aspect, about what else their children might be tangling with. Right now I'm afraid largely they don't. The wider public also need to know more about the reality of piracy. That might help strip away some of the well-honed myths the pirates have spun around themselves".

Carr also hopes that in highlighting the business relationship between piracy websites and high risk advertisers it will expose the actual motivation behind those operating piracy sites:

"These data rather blow a hole in the carefully nurtured image of piracy sites somehow being a modern version of Robin Hood. They ain't. Quite the opposite. If ever it was in any doubt, by accepting advertising from these dubious sources their owners are showing that their snouts are well and truly in the sort of money trough no respectable or ethical business would go near in a million years".

Well said, indeed. The operators of piracy websites are not in the business to promote innovation, or freedom of speech, nor are they in the game to protect the freedom of the internet, contrary to the rhetoric of the freeloaders and copyleft fraternity who conveniently define a free and open internet as meaning no payment and no permission is required.

Those behind piracy websites are only in it for the money, with their snouts well and truly stuck in the trough.

Like any profitable crime, if the legal risks start to outweigh the illegal profits then fewer players will pursue that criminal route. Drying up the money trough is a key solution to reducing online piracy at its source.

Online advertising is big business for both legitimate businesses and criminal operations, but is there anything more legitimate advertisers can do to dry up piracy sites' advertising dollars. Google recently published a short policy document entitled "How Google Fights Piracy". In the document Google claims that it had disabled its own adverts to 46,000 piracy websites in 2011. The last section of the Google policy paper entitled "Following the Money" outlines their advertising best practices strategy and contains the following comment:

"As a global leader in online advertising, Google is committed to rooting out and ejecting rogue websites from our advertising services".

What Google failed to reference in their policy document was how long these 46,000 adverts had been operational on piracy websites before they were taken down. Nor was there any reference to how much money Google had actually made from these adverts before they were terminated ... tens of millions, hundreds of millions?

Interestingly the findings of the University of Ballarat research paper would question this expressed commitment of Google. Admittedly only 1 per cent of the advertisements found on pirate websites were mainstream adverts, but 87 per cent of these advertisements were Google-ads. The Ballarat research concludes:

"Notwithstanding Google's public undertaking to being "committed to rooting out and ejecting rogue sites from [their] advertising services" and participating in the "Best Practices and Guidelines for Ad Networks to Address Piracy and Counterfeiting" (Google, September 2013), with 87% of Mainstream advertisements being provided by Google Ad Services, these results show that they are still over represented as an ad network supplying mainstream advertising to rogue websites that appear in Google's own Transparency Report, as a proportion of total advertising revenue".

Google's policy document "How Google Fights Piracy" also makes the outlandish claim that search engines are not a major driver of traffic to piracy sites. This commentary was soundly shot down in a recent UK Government select committee report entitled

"Supporting the Creative Economy" in which it concluded:

We strongly condemn the failure of Google, notable among technology companies, to provide an adequate response to creative industry requests to prevent its search engine directing consumers to copyright-infringing websites. We are unimpressed by their evident reluctance to block infringing websites on the flimsy grounds that some operate under the cover of hosting some legal content. The continuing promotion by search engines of illegal content on the internet is unacceptable. So far, their attempts to remedy this have been derisively ineffective.

Google's claims are also disputed by the findings in another recently published research paper "Understanding the Role of Search in Online Piracy" by US based company, Compete Inc.

The study found that search engines provide a major gateway to the initial discovery of pirated content online, even in cases when the consumer was not looking for such content in the first place. 74 per cent of consumers surveyed said they had used a search engine as a navigational tool the first time they discovered a piracy site. According to the study, first time consumers attempting to access piracy sites were more than twice as likely as repeat consumers to use a search engine in their navigation path. Furthermore the vast majority (82%) of queries that resulted in access to piracy websites came from the largest search engine ... Google.

Overall, the research found that search engines influenced 20 per cent of the sessions in which consumers accessed pirated TV or film content. Search engines tend to try to focus the conversation on this percentage and the fact that the majority of the searches conducted daily for movie titles 'generally' lead to non-infringing sites – a statistic that misses two critical points.

Firstly, according to an analysis undertaken by the MPA, the 20 per cent of daily searches still represents an enormous number; 20 per cent of visits daily would mean search engines refer over 4 billion visits per year, or 300 million visits per month to a sample set of piracy sites.

Secondly, it ignores the fact that generic searches like "watch movies," number in the billions each year, even when you only look at a limited specific title list.

No one is inferring that search engines alone can solve the problem, but with such enormous reach and power must surely come a measure of responsibility. As the internet gatekeepers they must surely share the responsibility of not directing audiences to pirated content.

What the University of Ballarat and the Compete Inc research reminds us is that the problem is real, and that advertising networks and search engines share a responsibility to work together with the content industry to develop "effective" voluntary solutions to deter piracy.

The University of Ballarat research can be found here: http://www.icsl.com.au/__data/assets/pdf_file/0020/129521/ICSL-report_digital.pdf

The article by John Carr can be found here: <http://johnc1912.wordpress.com/2013/09/17/piracy-web-sites-perils-and-profits/>

The Compete Inc research can be found here: <http://www.mpa.org/Resources/38bc8dba-fe31-4a93-a867-97955ab8a357.pdf>

The UK Government report "Supporting the Creative Economy" can be found here: <http://www.parliament.uk/business/committees/committees-a-z/commons-select/culture-media-and-sport-committee/news/130923-creative-economy-report/>

The Australian Screen Association

The Australian Screen Association represents the film and television content and distribution industry in Australia. Our core mission is to advance the business and art of film making, increasing its enjoyment around the world.

Our aim is to support, protect and promote the safe and legal consumption of movie and TV content across all platforms. This is achieved through education, public awareness and research programs, to highlight to movie fans the importance and benefits of content protection.

We have operated in Australia since 2004 [and were previously known as the Australian Federation Against Copyright Theft].

8

Are you down with the kids: why they pirate

Lori Flekser, Executive Director, Intellectual Property Awareness Foundation
Anna Meadows, Sycamore Research

“I hope I can trust my kids – I have told them over and over again the dangers of talking to strangers and people they don’t know online ...”

It is unusual to be with a group of parents these days without the subject of kids and technology rearing its head. The debate which ensues tends to be a mix of sneaking admiration for the technological genius of their offspring mixed with self deprecation for their own technical limitations and a fear of the unknown online spheres in which their children might operate.

Recent research commissioned by IPAF into the online behaviour of 12-17 year old movie pirates shows that some of these fears have solid foundation when it comes to the world of movie and TV piracy. It also highlights the role that parents could have in reducing movie and TV piracy and creating a generation of good digital citizens.

The IPAF study (conducted by independent research companies Sycamore and Newspoll) was designed to further understand the relationship Australia’s youth have with the online world with the specific focus on the growing issue of copyright infringement of movies and TV shows. **Previous IPAF research had shown the most prolific pirates in Australia to be 18-24 year old men with many teens entering adulthood with the habit of movie piracy already formed.** It therefore made sense to consider the behaviours that exist in the years preceding adulthood and their relative influences, including the INFLUENCE of parents, IN BETTER EXPLAINING TO THEIR KIDS THE RISKS AND DAMAGE ASSOCIATED WITH ILLEGAL DOWNLOADING.

A life lived online – it’s intense

What is clear from the study is the relationship 12-17 year old pirates have with the online environment can be all consuming.

78 per cent of 12-17 year olds are online on a daily basis. Amongst active movie pirates this figure rises to 88 per cent and they are accessing wherever and whenever they can – during class, between class, when travelling, at night, at mealtimes, even on the toilet. They are socialising, blogging, researching for school, doing group homework tasks, gaming, listening to music and of course watching movies and TV shows.

A world that is second nature to 12-17 year olds is more alien to their parents. Managing their kids and the online environment is an area in which many parents admit to feeling vulnerable. In younger age groups parents try and exercise control over how often their kids are online and what they access but admit they extend a degree of trust and freedom that grows with the age of the children. Their main concerns are the much publicised cyberbullying and personal safety – and they think only of their children as victims of online misconduct but not as perpetrators.

“I hope I can trust my kids – I have told them over and over again the dangers of talking to strangers and people they don’t know online...I’ve tried to restrict access but they worked out how to get around it – and also how do I stop access when it’s needed for schoolwork and I’m at work?”

Australian parents have technically adept children, with relatively unrestricted access to the online environment and a thirst for entertainment. There is also a proliferation of free movies and TV shows that can be accessed from illegal sites. The scene appears set for movie and TV piracy to flourish ... doesn’t it?

A growing habit?

The IPAF research shows that just over three quarters of 12-17 year olds in Australia say they do not illegally download or stream movies and TV shows. However, participation in piracy grows with age (31 per cent of 16 and 17 year olds are active pirates) and still a worrying 1 in 4 12-17 year olds are active pirates.

Why are they doing it?

There are many different influences on the behaviour of online movie and TV pirates. However, the research defines the 3 key drivers:

Firstly, we are social animals. We like to follow the pack and there is a sense from kids that everyone is pirating. It is clear from the statistics above that this is simply not true but the perception that it is a dominant behaviour legitimises it in people's minds. This is particularly so for kids who are at an age where the social need to 'fit in' is strong:

"Why should I be the sucker that has to pay for what everyone else is getting for free?"

Within the social environment of the household piracy is also accepted. Parents accept illegal streaming and downloading as a social norm and are often willing participants:

"I said to the kids, let's go and get a DVD but the kids said no let's download a few movies so we went onto Pirate Bay...it only takes around 10 mins to download and save onto USB, plug in and off you go!"

Furthermore, the belief exists that piracy causes no real harm. If there is a sliver of doubt it is easily rationalised: those in the industry make enough money anyway or it doesn't matter as it's only for personal use. These are justifications that allow piracy to be considered socially acceptable.

"...all the actors that played in Twilight were not only millionaires but have not branched off into other movies...research has shown that even though movie piracy exists Twilight DVD sales were one of the highest selling sequels ever made."

Secondly pirated content is free and easily accessible. Humans tend to prefer the easy option. Illegal downloading and streaming is simply that. Kids have unprecedented access to the means to allow them to behave illegally, some report up to 14 devices in their household on which they can access content. They can download movies and TV at speed and are given the space and freedom to explore.

Pirating itself is simple – as one 12 year old put it: "Open your browser and go to www.xxxx, scroll down and find the show you want to watch and click on it. Scroll down and find the episode you want to watch and click on it, The player will open and you just click on the play button".

The 12-17 year old pirates in the study found it impossible to understand why you would pay for something when you could get the same thing for free. The action of paying is more complicated in their minds:

"Personally I wouldn't pay for a movie or TV show online because I feel like it is such a long process to go through like putting your credit card number and information in. It's such a long process"

They also have limited access to funds and parents who are unwilling to foot the bill for legal behaviour.

Finally there is a perception that nobody is trying to stop piracy. Pirated content is freely available and therefore kids assume that it must be OK or else THE GOVERNMENT OR INDUSTRY would BE DOING SOMETHING ABOUT wouldn't they? They have never seen anyone caught or punished, they believe there are no adverse consequences – other than perhaps greater exposure to viruses. The perceived lack of intervention reinforces the belief that piracy is not really an issue worth worrying about.

"I honestly have no idea of the corporations that are trying to reduce piracy, it seems such a common thing now that they could hardly make a dent."

Does it matter?

The study suggests that tweens and teen pirates place less value on creative content than older pirates. The proliferation of movies and TV shows online means that they are 'less special' than perhaps they were for their parents generation. 12-17 year olds also tend to multitask as they view online and therefore the shows they watch rarely command their undivided attention.

"I am not going to watch it more than once why should I pay for it."

and

"I wouldn't want to waste my money on something I wasn't going to love."

Throughout the study teen pirates talked about 'wasting their money' if they were paying for a movie or TV show that they would only watch once or were unsure if they would enjoy. This is an alarming attitude if we believe movies and TV shows are an intrinsic part of our creative culture and on which people build their livelihoods. It's also going to be a rude shock for the same teens who hanker after a career in the film or TV industry.

A more immediate concern for parents is the accidental exposure to gambling, sex industry and weight loss advertising on sites that profit from pirated content. The majority of teens who had visited these sites recalled advertising from more than one of these sources.

"the sexual ads can be so awkward! Like when they pop up and I try and shut down really quick:".

For parents it should be more of a concern – gambling, porn and weight loss perhaps being at the top of the list of things to which parents want to limit exposure.

The solution?

Interestingly the majority of teens re not averse to more internet regulation which would prevent individuals from downloading or streaming pirated content. Only 19 per cent of kids disagreed with this assertion.

Enhanced regulation to reduce piracy by removing access to the source was supported by the majority of adults as well (54%). The majority of adults (55%) also agreed that courts should have the authority to decide to block overseas websites that solely profit from pirated content.

It would seem from this research that the views of the internet libertarians for a free and open internet (which includes free movies, TV shows and all other copyrighted content) may be loud, but are representative of only a small percentage of Australians.

IPAF

IPAF is an initiative of the Australian film and television community aimed at promoting the benefits of screen copyright and the legal accessing of film and television content.

IPAF conducts national research on attitudes and behaviours of Australians to movie and television theft, creates consumer awareness advertisements and delivers educational programs to Australian secondary schools.

AHEDA members directory



Full members

ANCHOR BAY ENTERTAINMENT

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Tel: (02) 9997 3936 Fax: (02) 9997 3938
www.anchorbayent.com.au
Managing Director: Marilyn Greig
Marketing Director: Lisa Di Giacomo
Chrissy Dermondy: General Manager – Sales
Michelle Godmaire: National Sales Manager
Operations Manager: Geoff Doyle

ENTERTAINMENT ONE FILMS AUSTRALIA PTY LTD

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Tel: (02) 8303 3800 Fax: (02) 9690 1433
www.hopscotchfilms.com.au
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Director of Operations: NA
Commercial Manager – Jo Mandatis
Senior Marketing Manager – Natasha Henry

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Director of Sales: Wilf Robinson
Director of PR & Marketing: Emma Levy
Director of Operations: Jim Kato

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Sales Director: Jacqui Webster
Marketing Director: Richard Clarkson
Operations Director: Wendy Fraser

ROADSHOW ENTERTAINMENT

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Tel: (02) 95528600 Fax: (02) 9552 2510
www.roadshow.com.au
Managing Director: Chris Chard
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Group Marketing Director: Nicola Craddock
Director – Dist & Strategy TV and Digital: Greg Sneddon
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TWENTIETH CENTURY FOX HOME ENTERTAINMENT

Building 61, Level 3, Frank Hurley Grandstand,
Fox Studios Australia, 38 Driver Ave, Moore Park NSW 2021
Tel: 02 8353 2100
Managing Director Australia & New Zealand: Flavio Paoli
Director of Operations Australia: Peter McKeon
Director of Sales Australia & New Zealand: Kerry Morelli
Director of Marketing Australia: Claire Bryant

UNIVERSAL SONY PICTURES HOME ENTERTAINMENT (AUSTRALIA) PTY LTD

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Operations Manager: Barb O'Casey
GM of Consumer Sales and Licensing: Peter Bird
Director of Studio Marketing Strategy: Jo Bladen

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