1st MEETING OF EXPERTS ON INDEPENDENT DISTRIBUTION IN EUROPE

Session I

Independent Distribution Today

14.00 to 17.30

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Background paper prepared by the

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THE DISTRIBUTION OF FILMS IN EUROPE

This document provides a very brief overview of the theatrical distribution sector in Europe, using data for 2004 and 2005 as available. Much of the data quoted for 2005 is still provisional.

The number of theatrical distribution companies in Europe.

The distribution sector in Europe is a populous one. In the five largest markets alone, a total of around 368 companies were active in 2004/2005. A further 276 companies were active in the 20 other European Union countries, while Iceland, Norway and Switzerland accounted for a total of around 66 companies. Another 12 companies were active in Turkey. 47 companies distributed films commercially in the Russian Federation in 2005, with most of them also holding rights in the C.I.S. Alongside these companies there were 74 public 'distributors' releasing to theatres of the former state network.

Table 1 Number of active theatrical distributors in Europe 2004 - 2005

Country	Number of distributors	Country	Number of distributors
Austria	22	Latvia	7
Belgium	25	Lithuania	4 e
Bulgaria	13	Malta	1
Croatia	16	Netherlands	27
Cyprus	7 e	Norway	16
Czech Republic	18	Poland	18
Denmark	22	Portugal	16 e
Estonia	11	Romania	16 e
Finland	14	Russian Federation	47
France	108	Slovakia	12
Germany	75	Slovenia	9
Greece	9 e	Spain	80 e
Hungary	17	Sweden	25
Iceland	4	Switzerland	46
Ireland	12	Turkey	12
Italy	44	United Kingdom	61
Total EU 25		**644**	
Total Europe		**814**	

Active = at least one title in commercial distribution in 2004 or 2005   e: estimation
Sources: Screen Digest / European Audiovisual Observatory

Although there is no great difficulty in ascertaining the number of companies involved in theatrical distribution in any one country, analysing the activity and strategies of the sector as a whole is a much more difficult exercise. National situations in terms of the distribution of films are extremely heterogeneous – there is no single European model and a very wide diversity of corporate strategies. Many of the larger and some of the mid-sized companies are vertically integrated, with various combinations of production, distribution and exhibition activity. There is also substantial overlap of different kinds of distribution activity (theatrical, home entertainment, licensing and rights trading, international sales). Finally, a number of large distributors are linked to TV broadcasters, particularly in France and Italy.

The current market context for distribution companies.

All of these companies operate within a context of increasing offer, in terms of new titles in distribution each year. The table below presents the evolution of the number of new releases on various European markets over the last five years.

Table 2 Number of new releases 2001 – 2005

Country	2001	2002	2003	2004	2005 (4)	*2005/ 2001*
Austria	239	259	267	289	304	*27%*
Belgium (1)	351	371	394	430	477	*36%*
Bulgaria	109	98	137	130	125	*15%*
Croatia (2)	146	114	196	477	not available	-
Cyprus	120	149	126	120	114	*-5%*
Czech Republic	173	196	208	192	193	*12%*
Denmark	172	208	209	237	233	*35%*
Estonia	105	97	112	141	148	*41%*
Finland	172	192	177	189	189	*10%*
France	506	487	509	559	550	*9%*
Germany	375	369	359	430	447	*19%*
Hungary	172	199	216	231	220	*28%*
Iceland	177	176	175	170	not available	-
Italy	410	393	428	392	392	*-4%*
Latvia	143	99	131	166	151	*6%*
Lithuania	122	129	138	136	220	*80%*
Netherlands	242	252	269	307	not available	-
Norway	183	208	229	236	224	*22%*
Poland	205	195	195	216	224	*9%*
Portugal	208	not available	not available	297	259	*25%*
Romania	135	154	143	171	178	*32%*
Russian Federation	262	320	271	303	354	*35%*
Slovakia	157	181	180	174	174	*11%*
Slovenia	137	165	168	194	not available	-
Spain	517	567	529	530	569	*10%*
Sweden	204	201	229	254	279	*37%*
Switzerland	329	326	354	404	383	*16%*
Turkey	154	167	188	207	219	*42%*
United Kingdom & Ireland (3)	321	350	423	451	461	*44%*
United States	462	449	459	520	535	*16%*

(1) Brussels releases only
(2) 2004 data includes releases on video
(3) 2001 and 2002 data does not include Indian films released in the United Kingdom
(4) Some 2005 data is provisional

Source: European Audiovisual Observatory

If this data indicates a general trend towards increase, data on the number of screens shows that growth has slowed over recent years in the larger markets, while a number of smaller and mid-sized markets have shown more dynamism. A number of countries, chiefly in Central and

South-Eastern Europe, have experienced a significant decline in screen provision, notably Bulgaria, Latvia and Romania.

Table 4 Number of screens in European countries 2001 - 2005

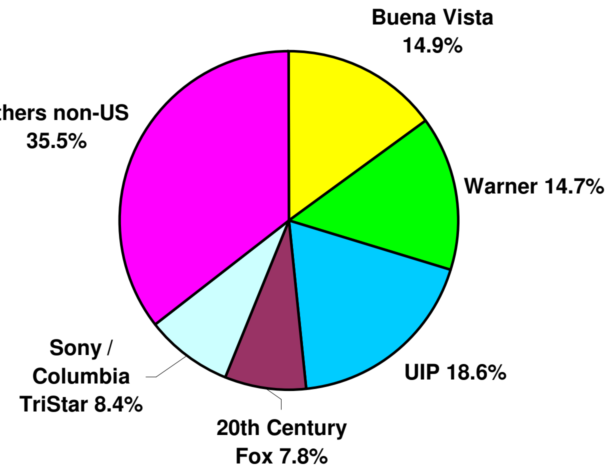
Country	2001	2002	2003	2004	2005	*2004/2001*
Austria	564	564	553	560	568	*-1%*
Belgium	492	505	503	493	not available	*0%*
Bulgaria	202	194	194	80	97	*-60%*
Croatia	147	146	142	147	not available	*0%*
Cyprus	43	43	47	38	35 e	*-12%*
Czech Republic	761	785	756	765	not available	*1%*
Denmark	361	358	379	380	386	*5%*
Estonia	81	81	81	71	69	*-12%*
Finland	339	342	338	336	340	*-1%*
France	5 249	5 264	5 299	5 347	5 366	*2%*
Germany	4 792	4 868	4 868	4 870	4 889	*2%*
Greece *(esttimated)*	454	439	450	450	450	*-1%*
Hungary	622	605	580	510	485	*-18%*
Iceland	51	52	46	45	not available	*-12%*
Ireland	322	326	329	335	391	*4%*
Italy	2 662	2 839	3 038	3 171	3 296	*19%*
Latvia	113	107	105	78	65	*-31%*
Lithuania	84	79	83	75	70	*-11%*
Luxembourg	25	25	25	25	24	*0%*
Malta	45	42	42	42	not available	*-7%*
Netherlands	558	596	602	623	659	*12%*
Norway	394	401	398	426	434	*8%*
Poland	852	854	877	870	not available	*2%*
Portugal	460	401	468	474	511	*3%*
Romania	259	247	213	183	120	*-29%*
Russian Federation (1)	136	271	606	797	1 036	*486%*
Slovakia	289	308	290	279	245	*-3%*
Slovenia	71	83	100	111	106	*56%*
Spain	3 770	4 039	4 253	4 390	4 383	*16%*
Sweden	1 155	1 176	1 170	1 178	1 174	*2%*
Switzerland	500	518	529	539	537	*8%*
Turkey	889	1 002	1 059	1 269	1 333	*43%*
United Kingdom	3 248	3 402	3 433	3 475	3 486	*7%*
Total EU 25 *(estimated)*	**27 412**	**28 131**	**28 669**	**28 946**	not available	*6%*
United States	35 173	35 836	35 995	36 652	38 852	*4%*

(1) Modern screens only

Sources: European Audiovisual Observatory / MEDIA Salles

If the distribution sector is fragmented in terms of the number of companies, the reverse side of the coin is its concentration in terms of the high percentage of revenue accruing to a relatively small number of distributors. An estimation of the overall market share obtained by US major affiliated distributors in the five major markets shows that these companies capture roughly 65% of revenues, leaving approximately 35% for European companies, many of whom also distribute US produced films.

Figure 1 Distributor market shares on the five major EU markets 2004 *(estimated)*



Source: European Audiovisual Observatory

Table 5 Market concentration in theatrical distribution in selected EU markets 2004 or 2005 as available

	Market share Top 10 distributors	Market share other distributors	Share of films released by Top 10	Share of films released by other distributors
France	79%	21%	39%	61%
Germany	92%	8%	45%	55%
Italy	92%	8%	56%	44%
Spain	90%	10%	35%	65%
United Kingdom	97%	3%	41%	59%

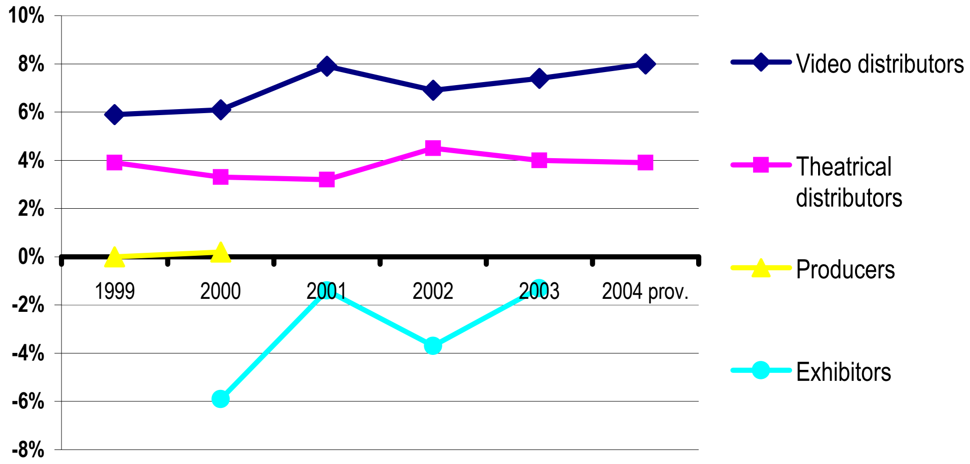
	Market share Top 5 distributors	Market share other distributors	Share of films released by Top 5	Share of films released by other distributors
Czech Republic	91%	9%	68%	32%
Denmark	97%	3%	65%	35%
Estonia	99%	1%	86%	14%
Slovakia	93%	7%	72%	28%
Sweden	74%	26%	e 43%	e 57%

Source: European Audiovisual Observatory

The financial performance of European Union companies.

Turning now to financial analysis, it is interesting to compare the profit margins of the different branches of the European Union film industry. This analysis is possible thanks to the use of a financial database published and regularly updated by a Brussels company, Bureau Van Dijk Electronic Publishing. The database collects the profit and loss accounts and balance sheets of almost 6 million European companies. The European Audiovisual Observatory has indexed within this mass of information those companies forming part of the audiovisual sector. Austrian, Danish, Dutch and German companies are poorly represented in the group, for reasons linked to the legal requirements to publish accounts. Nonetheless we have identified 485 companies whose principal activity is theatrical distribution, more than 520 home entertainment distributors and around 50 sales agents. The following figures are based on an analysis of the financial performance of these companies.

Figure 2 Profit margins of the various branches of the European Union film industry 1999 to 2004



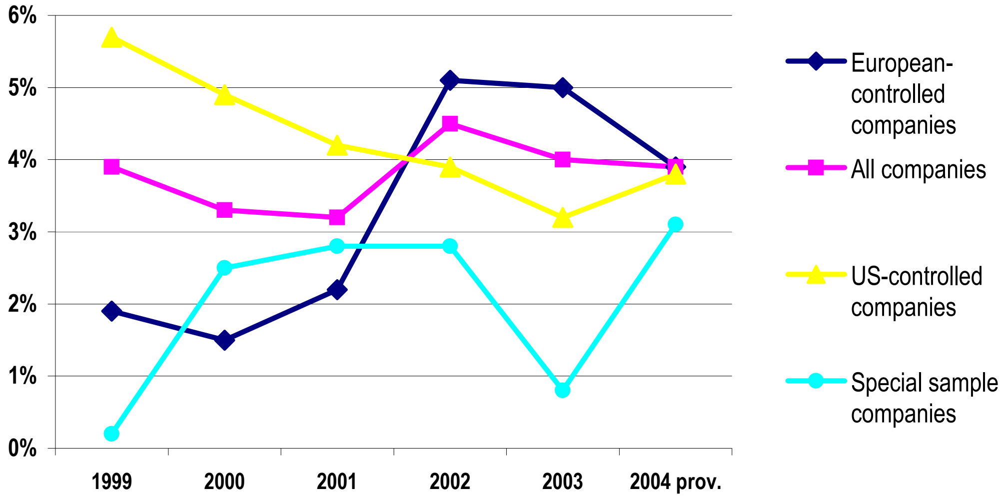
Profit margin: (Profit before taxation / Operating revenues) x 100

Source: European Audiovisual Observatory

Figure 2 shows that companies whose principal activity is video distribution are those with the highest profit margins in the industry, fluctuating between 6 and 8% for the period 1999 to 2004. In a wider industrial context this is a fairly modest profit margin. Theatrical distributors showed margins hovering around 4%, whereas the production sector, for which we have been unable to draw up recent figures as a number of the larger companies no longer publish their accounts, operated in 1999 and 2000 on the financial waterline. Exhibition, the sector requiring the highest level of investment, is also the only branch to show consistently negative ratios during the period.

If we focus now on the distribution sector, it is possible to distinguish the performance of a small number of US major affiliates (51 in the sample for which company accounts are available) from that of a large number of European companies (434 in the sample). Figure 3 also shows a separate curve for a sub-group of the European company group, those companies which are involved in the distribution of non-national European films. The basic criterion for inclusion in this group was to have made regular declarations to the MEDIA Programme automatic distribution support programme over the past 5 years - no particular criterion of independence has been applied.

Figure 3 Profit margins of European Union distribution companies 1999 - 2004



Source: European Audiovisual Observatory

US-controlled distributors showed falling profit margins from 1999 to 2003, with a recovery to just under 4% in 2004. European-controlled distributors showed the opposite trend, with profit margins improving in 2001 and 2002, stable in 2003 and falling slightly again to 4% in 2004. Companies in the special sample of those involved in the distribution of European non-national films showed improving performance in the years 1999 to 2002, falling back in 2003n and recovering in 2004. It should be noted that as the companies in this group have been identified with no particular reference to a standard of 'independence' the sample involves companies of very different sizes and structures; from the distribution wings of vertically-integrated groups to companies linked to broadcasters to smaller art house distributors.

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The European Audiovisual Observatory

Set up in December 1992, the European Audiovisual Observatory's goal is to gather and diffuse information on the audiovisual industry in Europe. The Observatory is a European public service body forming part of the Council of Europe and is comprised of 36 member states and the European Community, represented by the European Commission. In addition to contributions to conferences, other major activities are the publication of a Yearbook, a legal newsletter and reports, the compilation and management of databases (LUMIERE, KORDA and IRIS MERLIN) and the provision of information through the Observatory's Internet site http://www.obs.coe.int/).

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