



Introduction

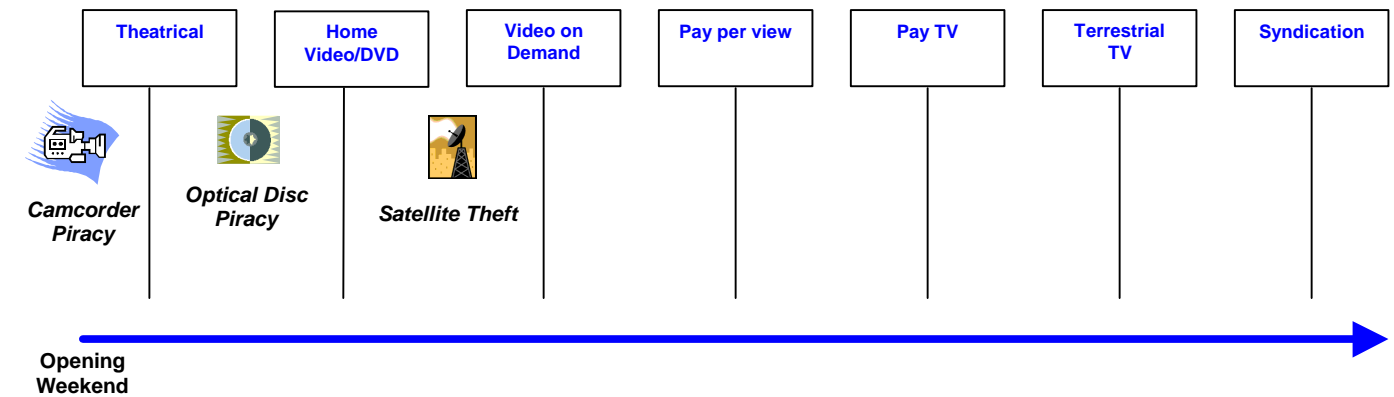
The US entertainment industry loses an estimated \$3.5 billion every year due to film piracy, which does not even include losses due to Internet piracy. This figure continues to rise with more sophisticated technology, easier means of replication and more organized and secretive distribution channels linked to organized crime. This report highlights the impact of piracy on the global market with case studies from ten key markets including Australia, Brazil, China, Germany, Mexico, Russia, South Korea, Taiwan, Thailand and the United Kingdom.

Piracy is a global dilemma that needs to be dealt with through stronger legislation, tougher prosecution and stiffer penalties. Many of the world’s leading pirates operate out of the select countries discussed in this report and distribute pirated materials to other parts of the world. Consequently, many other local economies and governments suffer at the hands of these global operatives.

Film Piracy- Overview

Most pirated movies are distributed in the form of hard goods, such as DVDs, CD-Rs, DVD-Rs, VCDs and VHS cassettes. The release pattern for a theatrical film follows a typical release pattern illustrated below:

**Release Schedule for a Typical MPA Member Film
(Piracy Timeline)**



Source: Motion Picture Association

Piracy impacts each segment of the release schedule, resulting in millions of dollars of lost revenue over the life of each film. Considerable pirated product is released prior to even the theatrical release of the film. In many instances, pirate copies of blockbuster features are available for sale on street corners months before the final product has even been released.

A team of well-trained Motion Picture Association (“MPA”) experts, in partnership with worldwide justice officials across the world, lead investigations, raids and seizures with much success. Unfortunately, the statistics paint a grim picture of the steadily growing piracy problem around the world. For instance, between

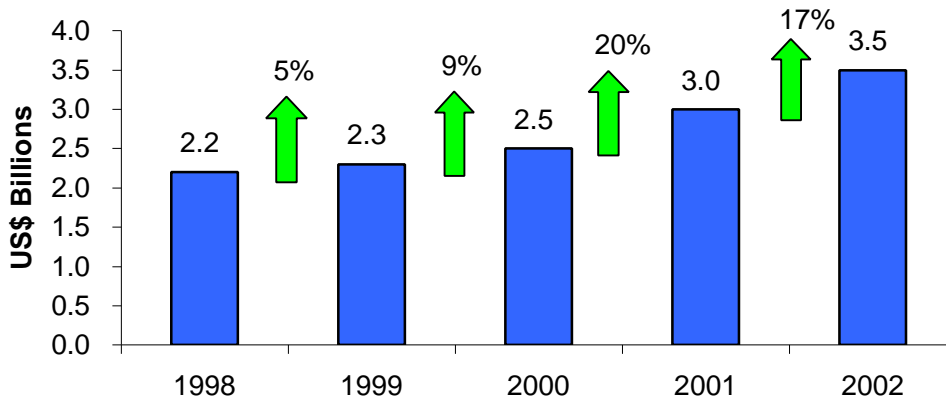


1997 and 2002, the number of investigations and raids increased 24% and 48%, respectively, while the number of seized items (including Videocassettes, DVDs, VCDs, and replication material) jumped a whopping 510%. In 2002 alone, officials seized 58.2 million items tied to piracy, compared to 9.5 million items in 1997.

Global Trends

Piracy losses are increasing at alarming rates. In 1997, piracy losses were estimated to be \$2.2 billion. These losses were primarily related to pirated material in VHS and VCD format. However, with the advent of the DVD format in North America, Europe and Asia Pacific, as well as the increased penetration of VCD players in many of the Asia Pacific countries in 1998-99, piracy has reached epidemic levels in a number of countries. In 2002, losses are estimated to be \$3.5 billion, a sixty percent jump since 1997.

**Worldwide Film Piracy Losses
1998-2002**



Source: Motion Picture Association

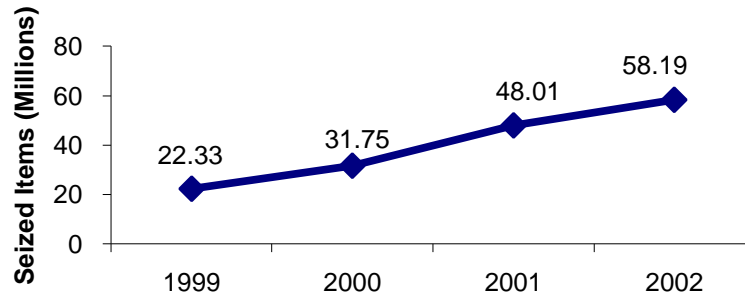


2003 Full Ten Country Piracy Fact Sheet

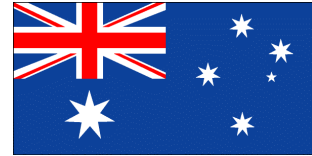


The number of seized goods related to piracy has jumped 161% since 1999, when seized items were 22.3 million. In 2002, seizures topped 58 million.

Number of Seized Pirate Items* 1999-2002



*Items include optical discs, videocassettes, replication hardware, packaging, etc.
Source: Motion Picture Association



Australia

Key Statistics-2002

Piracy losses (US\$ millions)	\$34 million
Seizures (all items)	87,713
Piracy level (Video & Optical Disc)	8%

Home Entertainment

Australia is one of the largest consumer markets for film entertainment in the Asia-Pacific region. *Screen Digest* reports that DVD households jumped by two-thirds between 2001 and 2002. At the end of 2002 DVD households stood at 2 million, up from 1.2 million in 2001. This rapid growth in DVD households has helped fuel piracy. According to Australian Visual Software Distributors Association (AVSDA) chief executive Simon Bush, "Three years ago, illegal-copy DVDs comprised one percent of the market, last year, this rose to eight percent."

Optical Disc Piracy

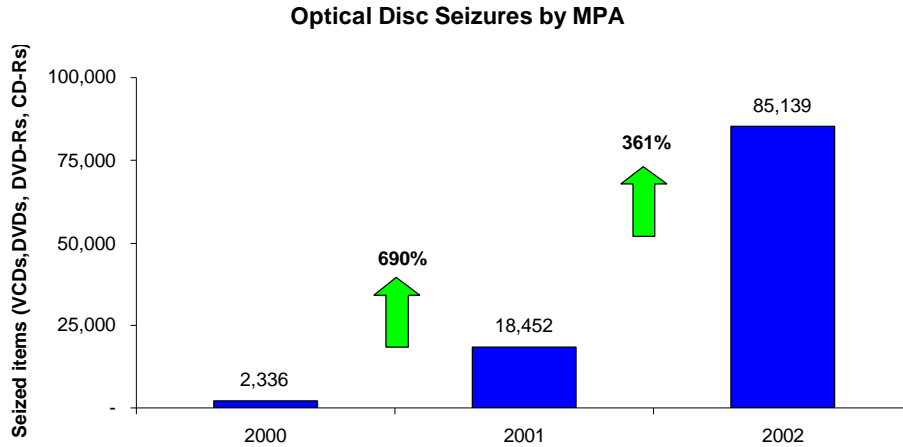
Pirated goods were mostly found in the DVD, VCD and CD-R format, however in more recent times the DVD-R format has become the most prominent. Optical disc pirate product is available in retail and street market locations. The *Newcastle Herald* reports that many operators are using children to sell the pirated videos and DVDs at markets. In a September raid, officers from the Australasian Film and Video Security Office (AFVSO) seized a large number of DVDs.

There are a number of different sources distributing the pirate product. Experts believe that much of the pirate DVDs are replicated and shipped predominantly from Malaysia, whereas the pirate VCDs are replicated and shipped from both Malaysia and China. Organized crime is behind much of these imports.

Locally pirated CD-Rs and DVD-Rs have now entered Australia's pirated market. It is believed that as customs import seizures have become more effective and serve as a deterrent for such imports, then, CD-R and DVD-R burned formats have appeared in increasing numbers. Security office director, Steve Howes, AFVSO, said that operators had started "manufacturing" their own pirated CD-R and DVD-Rs around March 2003 because a concerted campaign by Australian Customs had dried up supply from Asia. He added, "Because of the technology available...smaller backyard operators...may copy ten of the latest movies and take them to sell at the smaller markets. On the other hand, a recent raid revealed approximately 10,000 OD copies in one household production with the majority produced on 16 DVD burners."



Piracy has infiltrated the schools as well. According to the *Newcastle Herald*, one high school class was found to have watched "Finding Nemo" before it reached the cinemas. An AFVSO report states that this has been a problem in many schools across Australia.



Internet Piracy

According to *IDC*, Australia was one of the most wired countries in the region at the end of 2002 with 3.9 million, or 52% of total households connected to the Internet. During this same period, broadband penetration showed impressive growth as well, growing from 4.1% to 7.4% of Internet households. Consequently, Internet distribution of pirate product is a growing concern with significant increases in 2002 and indications of an escalation of this problem in 2003.

Television

Signal theft across Australia is estimated at approximately one percent. Nonetheless, there has been a concerted effort to curb piracy in the industry. According to the Australian Subscription Television and Radio Association (ASTRA), the pay television industry has recently intensified efforts across Australia to crack down on piracy.

Piracy Losses

Between 1998 and 2002, economic losses to the US motion picture industry due to audiovisual piracy in Australia were estimated at \$123 million. These losses do not include the impact of Internet piracy or the damage to the local Australian economy resulting from piracy.



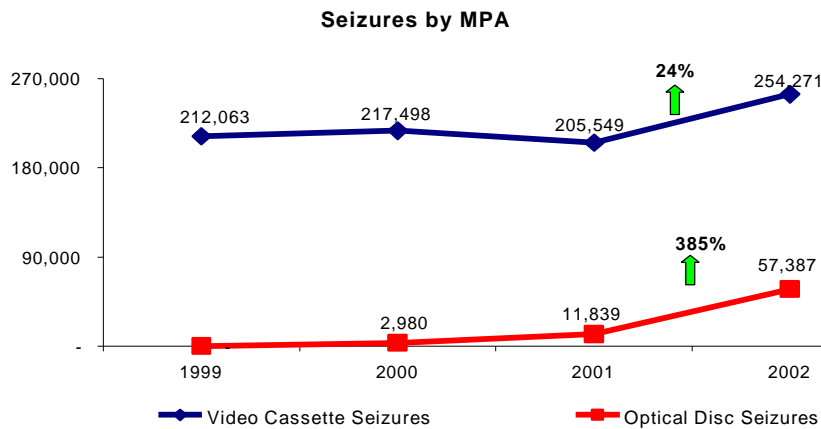
Brazil

Key Statistics-2002

Piracy losses (US\$ millions)	\$120 million
Seizures (all items)	344,935
Piracy level (Video & Optical Disc)	35%

Home Entertainment

Brazil, Latin America's second largest economy, continues to struggle with piracy. Retail outlet VHS piracy remains the main piracy threat in Brazil. However, optical disc piracy is gradually increasing in Brazil and accounted for about 20% of total audio-visual seizures in 2002.



Retail video piracy

Retail video store piracy continues to be MPA's main piracy concern in Brazil and the main concern of local Studio executives because of the continuing importance of video store revenue for local home entertainment operations. About one-third of the VHS market is pirate. Pirate videos are primarily those in current home video release, with the majority of those being back-to-back copies made in the stores. There is now a growing percentage of pirate product coming from numerous small reproduction centers that distribute to stores. Particularly worrisome is the ability of these reproduction centers to counterfeit anti-piracy security mechanisms such as exclusive production colors of VHS cassette boxes.



Optical Disc Piracy

Optical disc piracy is increasing in Brazil, with a piracy rate approaching 15% of the DVD market and accounting for about 25% of total MPA seizures of pirate product, showing a definite growth trend. Most of this optical disc piracy is CD-R, with small amounts of DVD-R. Inevitably, however, the growing DVD user-base will open the door for strong growth of pirate DVD-R. With the impressive growth of optical disc hardware, especially in the middle class population, this illegal competition will inevitably have a negative impact. Sales of low-quality CD-R are growing quickly in the street markets in urban centers. CD-R and DVD-R are also available in Ciudad del Este, Paraguay, on the Brazilian border, for illegal introduction into Brazil.

Internet Piracy

The growth of optical disc piracy as Internet hard goods sales of CD-R and DVD-R is increasing more rapidly than any other form of digital piracy in Brazil. MPA has tracked a steady increase in the incidence of Internet sites for hard goods sales, including both DVD-R and CD-R recordings of its member company product. MPA has seen an increase of 139% in the number of cease and desist letters sent to individuals related to illegal file sharing or hard goods sales activity during the period Q1-Q3 2002 and Q1-Q3 2003.

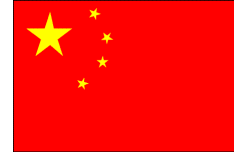
Much of the increased piracy activity over the Internet can be attributed to increased Internet activity in the country. Brazil has the largest Internet user-base in Latin America. By the end of 2002, *IDC* reported that approximately 8.3% of Brazilian households connected to the Internet, while 17% of these households enjoyed high-speed, broadband access.

Television

According to *Euromonitor*, Brazil is one of the world's largest television markets, with 37 million TV households. Nonetheless, pay-television household penetration hovered around 8.6% in 2002, a slight decrease from 9.1% in 2001. According to the *Yankee Group*, the pay-television market has been static over the years. This could be due, in part, to signal piracy. Cable TV providers, such as *DIRECTV*, have increased efforts to fight signal piracy by replacing older smart cards with more secure cards.

Piracy Losses

Between 1998 and 2002, economic losses to the US motion picture industry due to audiovisual piracy in Brazil were estimated at well over one-half of a billion dollars (\$605 million). These losses do not include the impact of Internet piracy or the damage to the local Brazilian economy resulting from piracy.



China

Key Statistics-2002

Piracy losses (US\$ millions)	\$168 million
Seizures (all items)	19,214,046
Piracy level (Video & Optical Disc)	91%

Home Entertainment

China struggles with chronic piracy, which is estimated to comprise 91% of its total home entertainment market. Some of the factors that fuel the piracy epidemic include the lack of deterrence in the system; the uncoordinated enforcement activities throughout China; the lack of transparency; and the continued local protectionism. Additionally, government regulations inhibit legitimate content in the form of home video, optical disc and television product from reaching the market. Consequently, the legitimate supply does not meet the strong customer demand. This fuels the ongoing success of the pirates across the country.

Optical Disc Piracy

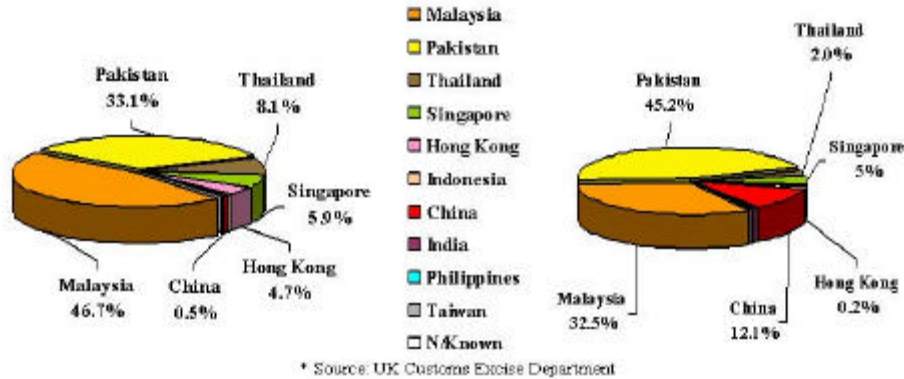
Optical disc (OD) source piracy (VCD and DVD) remains the greatest problem and involves piracy of pre-theatrical and pre-video release. According to the National Anti-Piracy & Pornography Working Committee (NAPPWC), the majority of the pirate OD produced locally are used for local consumption. However, China is emerging as a major world exporter, with increasing pirate DVDs being shipped to countries such as Hong Kong, Vietnam, Russia, Europe and the US.

As the level of pirate manufacturing grows in China, the most current seizure figures released from the UK Customs and Excise Department (“UK Customs”) suggest China’s pirate DVD exports are rapidly escalating. Some experts warn that China’s pirated product in the UK may even surpass seizure figures of some of the biggest exporters, such as Malaysia and Pakistan in the near future.



UK Seizure statistics of Pirate DVD Exports 2002

UK seizure statistics of Pirate DVD Exports from January to July 2003.

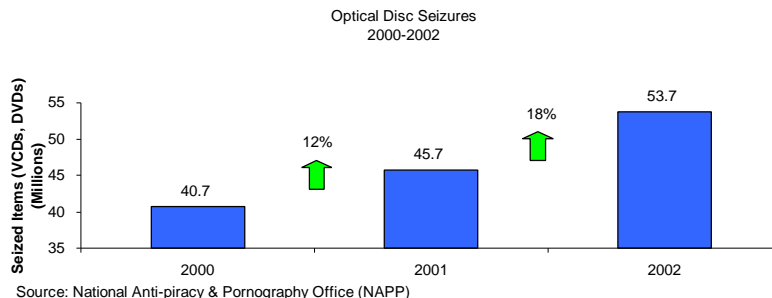


Sources within China Customs indicate that smuggling activities of pirate optical discs coming into China remain a major problem. As of 30th September 2003, authorities seized more than 30 million pirate optical discs being smuggled through waters and border control points. Ninety percent of these seizures originated from Hong Kong and nearby countries.

Sources from NAPPWC revealed that as of 30th September 2003, the Chinese government had raided ten underground optical disc factories. They seized 24 optical disc production lines (compared with 23 for the whole year in 2002) which included 9 DVD lines, 13 VCD lines, 1 DVD mastering line and 1 VCD mastering line. Notwithstanding these successes the market is flooded with pirate product.

Unlike Hong Kong and Taiwan, the burned CD-R and DVD-R piracy in China has not emerged; the price of replicated pirate DVDs at US\$ 1 does not create sufficient incentives for syndicates to get into the burning business. This may be because the cost of CD-R and DVD-R is still expensive in China.

Pirate DVDs (DVD-5 US\$1.0 and DVD-9 US\$2.5) and VCDs (US\$0.75) of latest pre-theatrical or pre-video Hollywood movies are available in the shops in key cities such as Beijing, Shanghai and Guangzhou or through street vendors.





Internet Piracy

According to IDC statistics, China is quickly becoming a major Internet and broadband market. At the end of 2002 the number of Internet households was 6.6 million, up 76% since 2001. Broadband grew 164% in the same period and reached nearly one million households. Consequently, experts believe Internet piracy is a looming problem. Authorities reported significant increases in Internet distribution of pirate product in 2002 and during the first half of 2003.

During the first nine months of 2003, MPA had issued 260 Cease & Desist letters to the ISPs in China requesting them to shut down illegal operations. In response to the request, the respective ISPs took down a total of 93 pirated websites.

Television

Signal theft across China is high. According to the Hong Kong trade organization Cable & Satellite Broadcasting Association of Asia (CASBAA), government regulation makes it hard to get into the pay-television market in China. Consequently, because many of the global cable and satellite operators are not current players in the China market, efforts to curb and measure the impact of piracy have focused on revenue generating markets.

Piracy Losses

Between 1998 and 2002, economic losses to the US motion picture industry due to audiovisual piracy in China were estimated at \$688 million. In 2002, losses were estimated at \$168 million, but are set to rise. These losses do not include the impact of Internet piracy or the damage to the local Chinese economy resulting from piracy.



Germany

Key Statistics-2002

Piracy losses (US\$ millions)	\$90 million
Seizures (all items)	307,327
Piracy level (Video & Optical Disc)	20%

Home Entertainment

Germany has become increasingly plagued with piracy challenges. According to the German Federation Against Copyright Theft (GVU), the increasing popularity of digital technology in Germany has made the country an attractive market for pirates. The growing pirate market includes illegal file sharing and downloads, as well as increased distribution of pirate optical discs over the Internet and at street markets. Pirate DVDs are starting to become popular and most of the seized product appears to have been produced in Russia. According to *Euromonitor*, DVD households jumped 81% to 6.9 million in 2002, up from 3.8 million in 2001.

Optical Disc Piracy

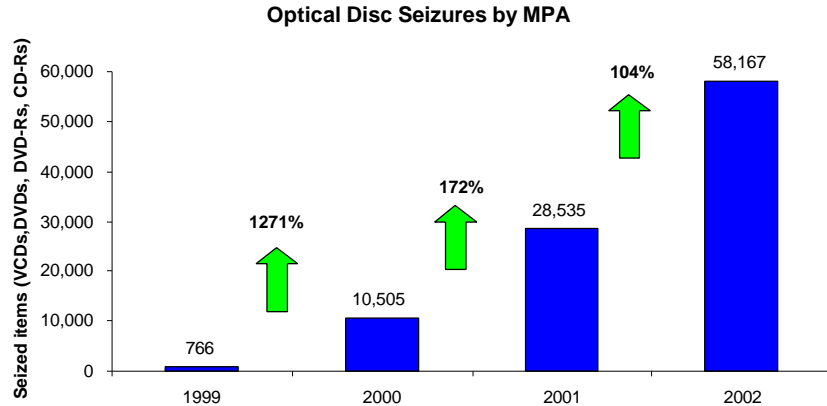
Optical disc piracy remains essentially anchored in the CD-R format. Because of the German language requirement, pirates routinely download films from the Internet and then overlay a dubbed soundtrack once the films premiere in Germany. Local production of CD-Rs and DVD-Rs appears to be on the rise. These discs are primarily distributed over the Internet as hard goods, but there is also an increase in the amount of pirate discs being sold in street/flea markets. Pre-theatrical release piracy is cited as the number one problem in Germany by the GVU.

In September 2003, the GVU raided ten different locations in the Rhine-Ruhr valley seizing PCs, burners and thousands of CD-Rs and DVD-Rs containing films, games and business software. The raids netted several trucks containing burners and other equipment, 30 hard drives on 17 PCs, over 20,000 DVD-Rs and CD-Rs and documentation evidencing extensive production and distribution.

The GVU estimates that 62% of all pirate transactions are done over the Internet. In other words, people both purchase pirated hard copies over the Internet, as well as download pirate films from the Internet. Street vendors sell another 25% of pirate discs and approximately 10% are sold through closed groups (so-called "playground piracy", the term used to describe young/teenage pirates who are not overly concerned with quality). Pirate DVDs containing pre-theatrical titles have also started to appear, but CD-Rs are expected to continue to be the most



popular format until pirate DVD manufacturers are able to meet the German language dubbing requirement.



According to *Variety*, authorities in Hanover broke up the biggest DVD piracy operation ever in Germany in June 2003. Police confiscated 16,000 pirated DVDs and master discs, including popular blockbuster titles as well as films that had yet to be released in Germany, with an estimated value of \$1.17 million. This operation was the result of cooperation between the GVV and FACT in the United Kingdom.

Internet Piracy

By the end of 2002, *IDC* reported that approximately 36% of German households were connected to the Internet, while 19% enjoyed high-speed, broadband access. Consequently, Internet piracy has mushroomed. The main problems on the Internet are auctions, eMail-Networks, homepages, P2P-networks (portals) and organized release-groups (FTP, IRC etc.). File sharing has become very popular and authorities are concerned about the rapid spread of a number of well-known P2P networks. Experts have observed a significant increase in the number of cease and desist letters being sent to individuals related to illegal file sharing activity during the period Q1-Q3 2002 and Q1-Q3 2003.

In September 2003, the *Hollywood Reporter* reported that German police and the GVV had shut down, “one of the world’s largest illegal download servers, responsible for distributing thousands of illegal copies of pre-release feature films to web sites around the globe”. Police raided the offices of IT service company GATEL in Frankfurt, where the server, known as Unreality or UNR was located. The Unreality server acted as a wholesale distributor of illegally pirated films, where users paid UNR a fee to acquire the latest films. The UNR server had been running for as long as 2½ years, causing damage to rightsholders estimated at several millions of dollars annually.

Also in September 2003, Germany adopted amendments to its 1965 copyright law to bring it into compliance with the EU Copyright Directive.



Television

The level of signal theft piracy is thought to be approximately one percent in Germany. According to *Informa Media*, piracy is kept in check because the encryption technology, which prevents unauthorized viewing of pay-television services, is constantly being enhanced to counter the ever-increasing threat of piracy.

Piracy Losses

Between 1998 and 2002, economic losses to the US motion picture industry due to audiovisual piracy in Germany were estimated at \$372 million. These losses do not include the impact of Internet piracy or the damage to the local German economy resulting from piracy.



Mexico

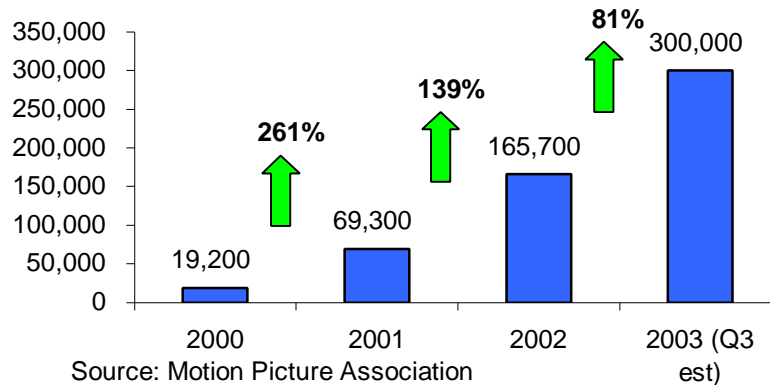
Key Statistics-2002

Piracy losses (US\$ millions)	\$50 million
Seizures (all items)	1.5 million
Piracy level (Video & Optical Disc)	40%

Home Entertainment

Mexico has been hard hit with black-market film piracy in recent years, especially with the recent and explosive growth of optical disc piracy (DVD-R), which directly threatens the growing DVD market. Optical disc piracy has grown impressively to replace VHS as the most important threat in Mexico. For example, two years ago the pirate video market was 80% VHS, today it is over 90% optical disc. In addition, the quality of DVD-R has also increased significantly with an increasing proportion of high-quality DVD-Rs reaching the consumer prior to the home video window and occasionally in competition with the theatrical window.

Optical Disc Seizures by MPA



The dramatic growth of optical disc piracy is a reflection of the participation and influence of organized criminal reproduction and distribution systems coordinating with Mexico's extensive black market distribution system. The main distribution centers for optical disc piracy are in Mexico City and Guadalajara although the product reaches all corners of the country in Mexico's extensive and nation-wide street market system. In addition to the black market availability, there has been notable growth in pirate DVD-Rs in many independent video stores, an important market for the home entertainment sector.



Television

Television piracy is an on-going problem in Mexico. Distributors of gray-market satellite systems often sell to hotels and individuals. This piracy adversely impacts the legitimate cable operators, the content owners of film and other media and the technology makers of legitimate cable and satellite systems, among others.

Piracy Losses

Between 1998 and 2002, economic losses to the US motion picture industry due to audiovisual piracy in Mexico were estimated at \$272 million. These losses do not include the impact of piracy on the local Mexican economy.



Russia

Key Statistics-2002

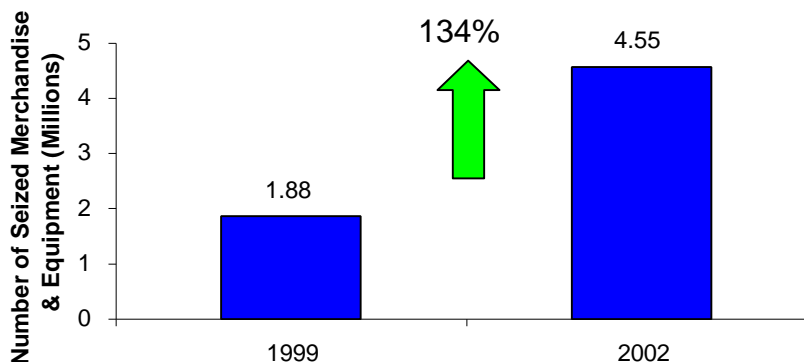
Piracy losses (US\$ millions)	\$250 million
Seizures (all items)	4.6 million
Piracy level (Video & Optical Disc)	80%

Home Entertainment

Piracy in Russia continues to rise, especially optical disc piracy. Over the past eighteen months, there has been a major surge of large-scale factory production in Russia. In 2002, DVD piracy exploded. In 2001, most of the pirate DVD product on the local market was imported from the Far East. Today, the majority of pirated DVDs are manufactured in Russia. Domestic pirate DVD production has devastated the legitimate Russian market and is threatening markets throughout Eastern and Western Europe. The Russian market has now become so saturated with pirate DVDs that the pirates have resorted to selling them on the streets by the kilogram.

Russia is now one of the world's largest producers and distributors of illegal optical media material. According to the Russian Anti-Piracy Organization, or RAPO, local DVD plants have an annual production capacity of over 20 million DVDs (over 10 times the level of legitimate local demand). These DVDs carry multiple language tracks and subtitles and are clearly being manufactured for export. The explosive growth of illegal optical media plants run by organized crime syndicates with widespread distribution networks further compounds the problem.

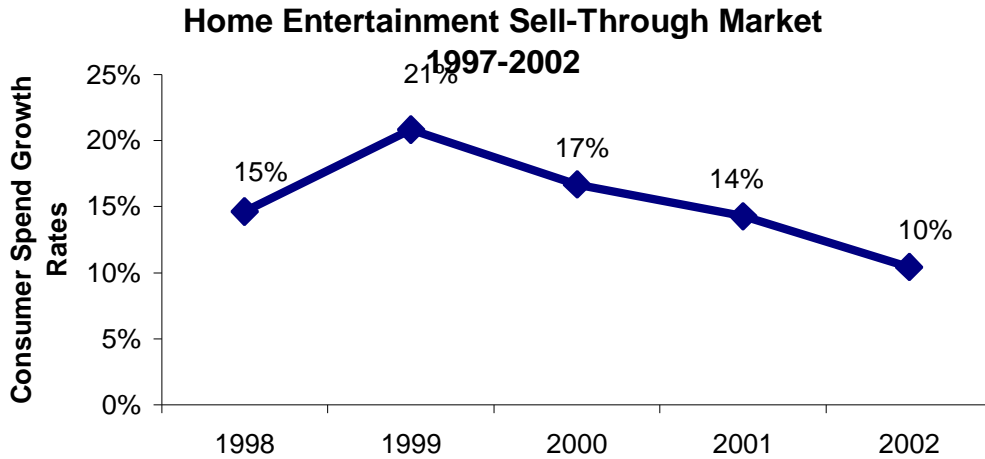
Seized Piracy Items*



*Items include optical discs, videocassettes, replication hardware, packaging, etc.
Source: Motion Picture Association



According to *PricewaterhouseCoopers*, consumer spending growth rates of legitimate home entertainment products have fallen back to pre-1998 levels, despite a large increase in the number of households with DVD players. Although market dynamics play a prominent role in consumer spend trends, piracy has had a significant adverse impact on growth.



Source: PricewaterhouseCoopers

The piracy problem is an epidemic in Russia, and some films are available before their theatrical release in the US. According to the *Moscow Times*, Russian video pirates are obtaining high-grade pirate copies by duplicating the film right in the projector booths of movie theaters and adding subtitles in many European languages.

Sales of pirate product outpace those of the legitimate market and are clearly taking a toll on the entertainment industry. According to RAPO, of the estimated 115 million videotapes sold in Russia in 2002, only 20 million were licensed. Out of the estimated 16 million DVDs manufactured, only 450,000 to 500,000 were published legally. Pirate DVDs are sold everywhere including, street markets, kiosks, retail stores and over the Internet. Lax enforcement, in particular, the lack of deterrence in the Russian criminal enforcement system to address persistent commercial piracy, is one problem that needs to be addressed. Moreover, there is a need for critical legal reforms that will deter commercial piracy.

Television

Television piracy is an on-going problem in Russia. Although the government has made significant progress in regulating the television industry, television piracy outside of Moscow remains a problem. Moreover, outside of Moscow, cable piracy abuses are still rampant.



Piracy Losses

By the end of 2002, economic losses since 1999 to the US motion picture industry due to audiovisual piracy in Russia, are estimated to have reached \$1 billion. These losses do not even include the impact of piracy on the local Russian economy.

Russia serves as a manufacturing and distribution center for much of the pirated material around the world. Pirate Russian DVDs have now turned up in many countries across Central and Eastern Europe, and beyond. Last year, the local anti-piracy organization in Poland (FOTA) seized over 17,000 Russian made pirate DVDs compared to only 481 in 2001. Pirate DVDs accounted for about 40% of Poland's pirate market last year compared to only 1% in 2001. Other markets that have been negatively impacted by imports of pirate Russian DVDs are Estonia, Finland, Ukraine, the Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Israel and Turkey. Small numbers of Russian discs carried in travellers' luggage have also turned up in other territories. Suspected Russian discs have also appeared in Belgium, Germany and Serbia. The over \$1 billion in losses since 1999 do not include the losses suffered in those foreign markets, whose legitimate home entertainment markets are clearly suffering from having to compete with the "black" market.



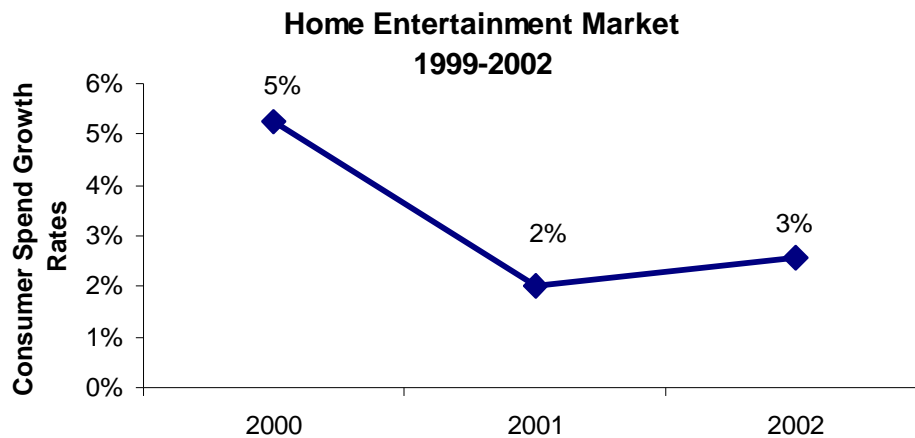
South Korea Key Statistics-2002

Piracy losses (US\$ millions)	\$27 million
Seizures (all items)	231,514
Piracy level (Video & Optical Disc)	25%

Home Entertainment

Piracy has been on the rebound in South Korea since the economic downturn in 2001 and 2002. Historically, piracy of high quality, counterfeit videocassettes has been the most prevalent in the market. However, in 2003, there has been a significant increase in the number of DVD imports and optical disc burner operations in South Korea. In addition, duplication facilities of videocassette plants and now burner labs have become larger, more secretive and more sophisticated with technology. This signals a shift from the historical trend where piracy duplication facilities had small and medium capacity.

The expansion of duplication plants, as well as an increase in optical disc piracy is an indication of a new kind of piracy, which competes directly with legitimate distributors for a share of the video market. Seizure activity in 2002 suggests that the pirate market has become more secretive and dispersed, as the major players protect against major equipment seizures. For instance, seizures in 2001 collected 3.5 million items, compared to only 232,000 in 2002. This decrease suggests that more pirated product has been getting in the hands of consumers, slowing the growth in the legitimate market. *PricewaterhouseCoopers* estimates that the growth in consumer spend in home entertainment has slowed dramatically since 2000. Between 2001 and 2002, growth was a laggard 3%, down two percentage points or 40% from 1999 and 2000.



Source: PricewaterhouseCoopers

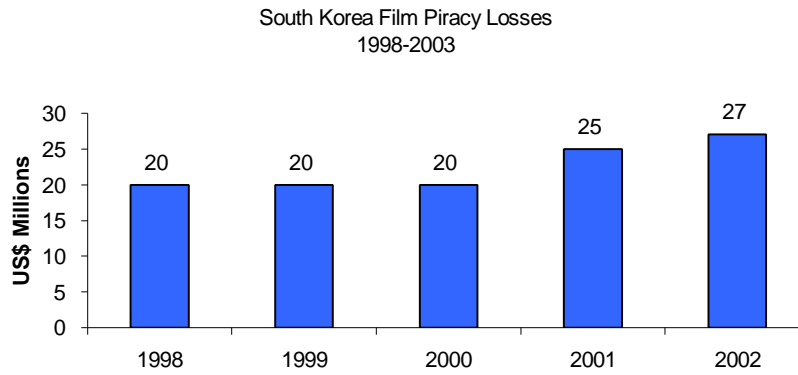
Consumers find some of the pirated product being sold door-to-door for home use in English language “educational packages”. This method of commercialization of pirate material is far more difficult to detect and quantify. Nonetheless, losses are clearly mounting based on the growing number of pirate duplication facilities. Further, investigations and raids have uncovered increasing amounts of pirated recordable media particularly in CD-R and DVD-R format at mall and street locations such as Yong Sang Electronic Market. In addition to sales in markets, pirated optical discs are now being retailed over the Internet.

Internet piracy is a growing concern. South Korea is way out ahead of any other country in the world in broadband penetration according to *IDC*. *IDC* estimates that there were 9.8 million households online in South Korea at the end of 2002, or 67% of all households. Of these, 8.7 million used a broadband connection. There is growing evidence that many broadband users may be pirating film content over the web. Though our loss estimates only reflect hard-copy piracy, we are monitoring the situation and remain vigilant in tackling all forms of piracy in South Korea.



Piracy Losses

By the end of 2002 economic losses since 1998 to the US motion picture industry due to audiovisual piracy in South Korea are estimated to be \$112 million. These losses do not even include the impact of piracy on the local South Korean economy.



Source: Motion Picture Association



Taiwan

Key Statistics-2002

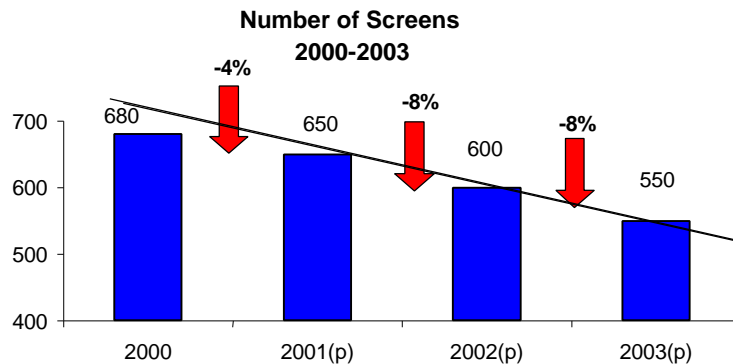
Piracy losses (US\$ millions)	\$42 million
Seizures (all items)	2.3 million
Piracy level (Video & Optical Disc)	44%

Home Entertainment

Piracy rates in Taiwan have soared 44% between 2000 and 2002, reaching 43.4% and comprising \$41.6 million in annual losses to the US film entertainment industry in 2002, up 38% from \$30 million in 2000. Moreover, a 2002 study concluded that piracy rates for top films were well above 50% and as high as 61% for some titles.¹

The number of seized items related to piracy doubled from 1.16 million items in 2001 to 2.32 million items in 2002. Based on the number of seized material, there has been a significant increase in piracy in two major areas including pirated DVD, where seized material rose a staggering 229% and pirated VCDs which jumped 25%. Pirated VCDs (mainly in CD-R format) of infringed MPA titles are being sold by the thousands by street vendors.

The legitimate film market is clearly struggling as a result of piracy. In the theatrical market, evidence shows that theaters are closing their doors, in part, due to the affects of piracy. *PricewaterhouseCoopers* estimates that the average annual screen count has dropped seven percent each year since 2000. Consequently, projected 2003 screens are down nineteen percent from 2000 levels.



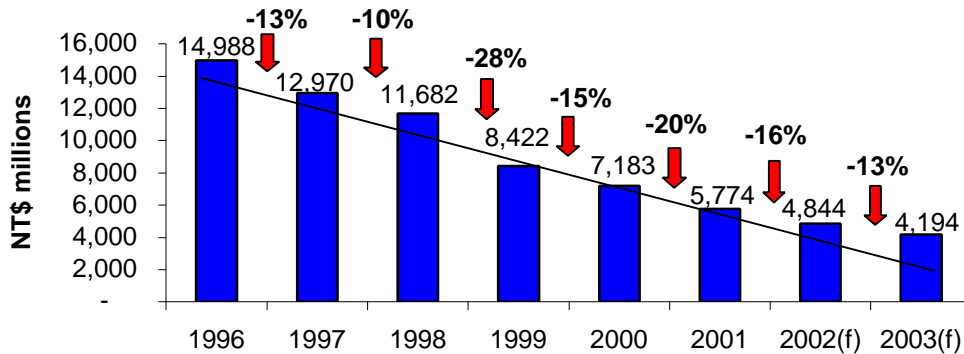
Source: PriceWaterhouseCoopers

¹ AC Nielsen Market Field Study 2002



Similarly, the legitimate home video market continues to suffer the adverse affects of piracy. According to *Screen Digest*, consumer spending on legitimate home entertainment product has suffered tremendously at the hands of piracy. The market trends show a continuous drop in consumer spending over the past eight years, with an average annual reduction of sixteen percent.

Consumer Spend on Video Software*
1996-2003

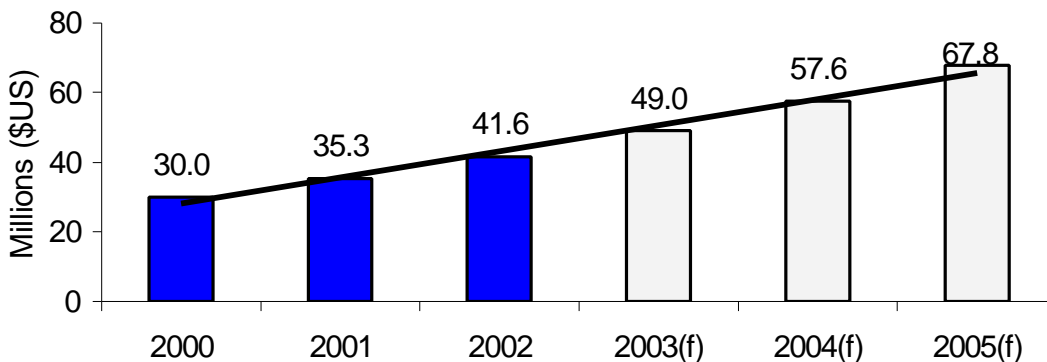


*Video Software includes VHS, VCD and DVD movies
Source: Screen Digest

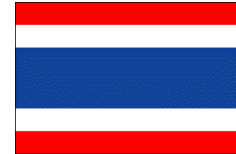
Piracy Losses

Year-on-year piracy losses between 2001 and 2002 rose 18% from \$58 million to \$68 million. Without stronger legislation and stricter enforcement, piracy may continue at this rate well into the future. Using an eighteen percent annual growth rate to estimate future losses, piracy losses for the period 2000-2005 would amount to a staggering \$282 million.

Taiwan-Annual Piracy Losses
2000-2005 (forecasted)



Source: Motion Picture Association



Thailand

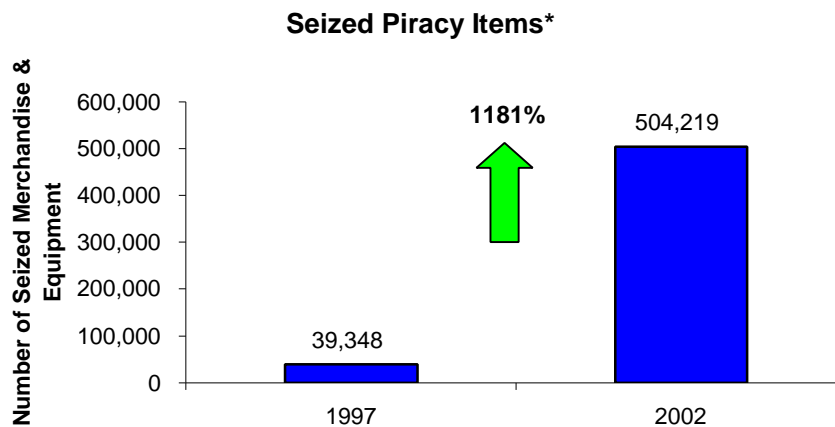
Key Statistics-2002

Piracy losses (US\$ millions)	\$26 million
Seizures (all items)	504,219
Piracy level (Video & Optical Disc)	70%

Home Entertainment

Piracy is a growing problem in Thailand. A 2003 market study concluded that pirated product made up the majority of the film market.² Thailand is suffering from a major increase in the number of pirate retail vendors selling pirated DVDs and VCDs. Moreover, Thailand faces a significant rise in the number of manufacturing facilities in the country, most of which run pirate operations.

The number of seized DVDs grew 54% between 2001 and 2002. Today, the number of seized items related to piracy exceeds one-half of a million, whereas in 1997, it was only 39,000. This rapid shift illustrates the problem facing the Thai economy and legitimate retail film market.



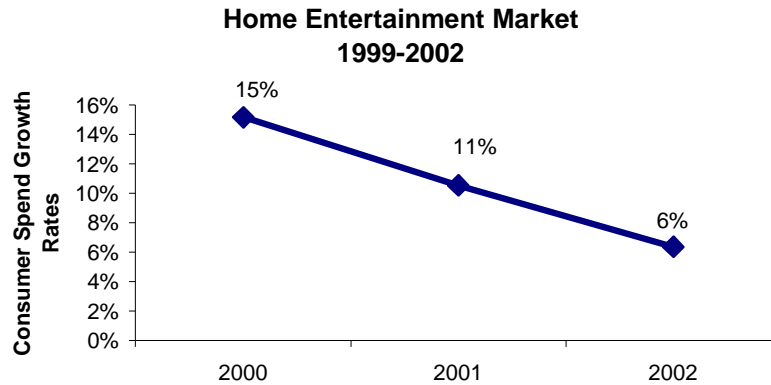
*Items include optical discs, videocassettes, replication hardware, packaging, etc.
Source: Motion Picture Association

The dramatic increase in the number of seized material is one indication of the growing piracy problem in Thailand. Local field experts report that the number of pirate optical disc vendors selling in night markets is surging. These markets cater to foreign tourists and Thai locals. Further, there has been an increase in pirate discs in notorious shopping malls like Panthip Plaza and Klongtom.

² Synovate Market Field Study 2003



The legitimate market is clearly feeling the pangs of the growing piracy problem. *PricewaterhouseCoopers* estimates that market growth was down by 60% between 2001 and 2002 compared to growth between 1999 and 2000. Many market factors, including piracy play a role in this decline.



Source: PricewaterhouseCoopers

Television

Television piracy is an on-going problem in Thailand. Cable piracy remains unchecked in areas outside the main cities where enforcement is more difficult to carry out.

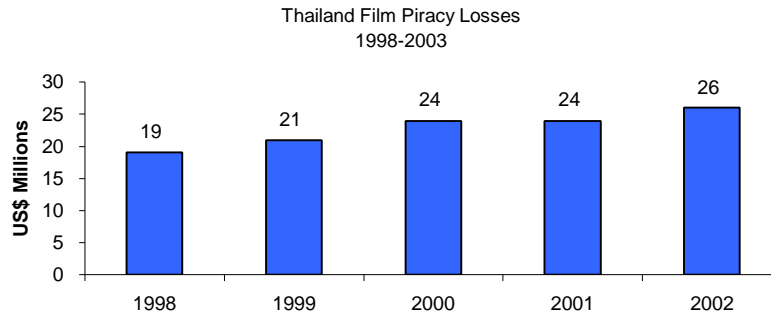
Public Performance

Public performance piracy is rampant in Thailand. Many hotels outside Bangkok still transmit unauthorized videos over in-house movie systems. Most bars in tourist areas openly exhibit videos without authorization. Further, a growing number of bars and restaurants have also added "private" rooms to illegally screen MPA member company product.



Piracy Losses

By the end of 2002, economic losses since 1998 to the US motion picture industry due to audiovisual piracy in Thailand are estimated to have reached \$114 million. These losses do not even include the impact of piracy on the local Thai economy.



Source: Motion Picture Association



United Kingdom

Key Statistics-2002

Piracy losses (US\$ millions)	\$93 million
Seizures (all items)	972,302
Piracy level (Video & Optical Disc)	18%

Home Entertainment

Fueled by rapid DVD growth, piracy in the United Kingdom (UK) has become a primary concern. According to *Euromonitor*, DVD households jumped 95% to 5.4 million in 2002, up from 2.8 million in 2001.

Optical Disc Piracy

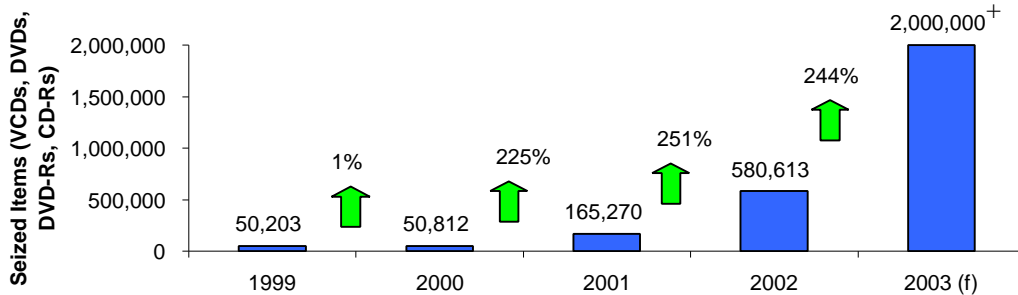
According to the Federation Against Copyright Theft (FACT), pirate DVDs have all but completely taken over the UK pirate market. The DVDs are imported into the country via mail and courier packages, cargo shipments, and in passengers' luggage. The main sources of these pirate DVDs are Pakistan, Malaysia and China. Evidence is now emerging to suggest that discs are being sent to ports elsewhere in Europe and then shipped to the UK to bypass UK Customs controls. In May 2003, FACT conducted a controlled delivery of discs seized by Customs and discovered a storage facility containing over 100,000 pirate DVDs and a DVD-R burning lab with 10 DVD burners. In July, a routine traffic stop by police in Essex led to a seizure of over 100,000 pirate DVDs at a pirate's home.

The vast majority of pirate DVDs are sold to the public at markets and boot fairs (unregulated markets where traders arrive in motor vehicles at ad-hoc venues and sell their wares from beside their vehicles), and through street vendors and magazine advertisements. Hundreds of markets have been raided across the country and market operators have been arrested. FACT's market strategy has yielded impressive results with the closure of Hackney market in London in July and the arrest of the market's operator, and the cleaning up of Skegness market following criminal action against the operator.

The seizure rate of DVDs has exploded over the past year. In 2002, 329,792 were seized. FACT reports the seizure year to date of over 1.5 million pirate DVDs and now estimates that over 2 million pirate DVDs (with a street value of over US \$24 million) will be seized in 2003.



Optical Disc Seizures by MPA
1999-2003f



The pirate market has become so lucrative that there now exists a wholesale/retail structure in the UK. This means that vendors at street markets and boot fairs buy their discs in bulk domestically rather than importing them from Asia themselves. Criminal networks, comprised mostly of Asian immigrants, are the main importers. It is almost impossible to infiltrate these networks and they use violence to maintain control over their members.

In addition to the discs brought into the country, there is also an active business in home-burned CD-Rs, and DVD-Rs. These discs, manufactured in small labs and often mastered from imported pirate product or from Internet downloads, are a fast-growing problem.

Internet Piracy

By the end of 2002, *IDC* reported that approximately 39% of UK households were connected to the Internet, while 12% enjoyed high-speed, broadband access. Consequently, Internet piracy has mushroomed. Authorities now believe that Internet downloading of film media is a dominant threat in the UK and an increasing number of searches in domestic environments are revealing computers with massive hard drive storage capacity with films stored on them, instead of master disc collections which would previously have been found. The films are offered either as Internet downloads or are burned onto discs and sent by mail.

While illicit file downloading and peer-to-peer (P2P) “file-sharing” is certainly increasing, there has been a similar jump in hard goods piracy via the Internet. *FACT* effected over 12,000 takedowns in 2002 of sites selling pirate hard goods. It is, however, difficult to ascertain the true extent of hard goods distributed via the Internet due to the fact that pirates often only offer one copy for sale and then repeatedly sell it to as many buyers as possible.

Television

The level of signal theft piracy is thought to be approximately ten percent in the UK. Following an interview with a pay-television expert, *Inside Digital TV*,



reported that pay-television subscriptions have increased over the last couple of years. It was revealed that this increase was due, in part, to a coordinated crackdown on piracy by manufacturers and operators alike.

Piracy Losses

Between 1998 and 2002, economic losses to the US motion picture industry due to audiovisual piracy in the UK were estimated at \$273 million. These losses do not include the impact of Internet piracy or the damage to the local British economy resulting from piracy.