YEARBOOK 2015
KEY TRENDS

TELEVISION, CINEMA,
VIDEO AND ON-DEMAND
AUDIOVISUAL SERVICES -
THE PAN-EUROPEAN PICTURE

OBSERVATOIRE EUROPÉEN DE L'AUDIOVISUEL
EUROPEAN AUDIOVISUAL OBSERVATORY
EUROPÄISCHE AUDIOVISUELLE INFORMATIONSSTELLE

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0 INTRODUCTION

Charting new territories

The aim of this first edition of "Key Trends" is to enhance the data of the Yearbook published annually by the Observatory by providing an overview of the developments taking place in the audiovisual sector. This publication, to which contributions have been made by the analysts of the Observatory's two departments, the Department for Information on Markets and Financing and the Department for Legal Information, covers the main segments of the value chain: the production of content, audiovisual services and their distribution, markets and market players. The publication both presents key figures that characterise the sector, and focuses on specific themes that we consider particularly important for its future.

The Internet transition

The audiovisual sector is indisputably undergoing a transition phase in a very difficult economic environment in Europe. The Internet is shaking up the sector at the same time as its sources of revenue are stagnating or diminishing, with the possible short-term exception of paid audiovisual services. In 2014, for example, the overall turnover of the sector was lower than gross revenues in 2010 in constant euros.

However, the Internet does not affect everyone in the value chain in the same way. Intermediaries and distributors, as well as TV channels, face the risk of "uberisation" (disintermediation) linked to the direct distribution of content on the Internet and consumption on demand. At the same time, we are also witnessing the emergence of new intermediaries, such as YouTube, market places that aggregate content and facilitate its dissemination.

By contrast, at the two extremities of the chain, consumers, who have a wider choice, and content producers, whose distribution channels are proliferating, could be the main beneficiaries of this transition. In the United States, the production of TV series is experiencing a new golden age as a result of the fierce competition between the traditional players and newcomers.

The Internet not only brings about a simplification of the value chain but contributes to a certain globalisation as far as players and, perhaps ultimately, the markets are concerned. Whereas in 2014 eight out of the top ten global audiovisual groups were based in the US, on-demand services, which are experiencing significant growth – but still account for only a tiny share of the market – are confronted with the emergence of global players, mainly of North American origin, capable of offering similar content European-wide.

Risks for European production

The new on-demand services are both competing against the traditional television services and contributing to downward pressure on advertising rates and on prices for subscription services. The erosion of the revenues of the incumbent players in the European audiovisual industry consequently poses a risk to the production of European works, for which they provide the prefunding. For their part, the newcomers do not (yet) have sufficient resources to take over from them and do not necessarily have the desire or the obligation to do so. According to a study carried out by the European Audiovisual Observatory, the catalogues of European VOD and SVOD services only contain on average 30% of European films.

The question therefore arises as to how competitive the European programme industry is, in particular in view of the fact that content can too often only be exploited in a single territory and consequently is produced with budgets that are much lower than those for North American programmes.

Some people believe the appropriate response is to set up a single European market for digital audiovisual rights, but other routes are possible, such as greater co-operation between TV channels on the co-production of programmes or the establishment of pan-European production companies. The obligations to be met by on-demand audiovisual services at the end of the process to revise the Audiovisual Media Services Directive will naturally have an impact on the role of the new audiovisual services in the funding of content, even though the various European countries have so far adopted very different strategies in this regard.

The response of the traditional players

The "traditional" audiovisual industry players have in any case identified the risks and begun to respond to them. First of all by developing their production activities: 2014 and 2015 were accordingly characterised by a number of moves towards consolidation between production companies or between TV channels and production companies. Secondly, TV channels are diversifying their brands in the direction of on-demand consumption, not only with their catch-up services but also their offerings of (free or paid) original content, thus foreshadowing the future of a channel as a "portal" combining live and on-demand programmes. Finally, they are also beginning to free themselves from the control of network distributors/operators by drawing on the open Internet to re-establish a direct relationship with their viewers and customers.

For the commercial TV channels, one of the main challenges is to maintain the competiveness of TV advertising in the light of the spread of better targeted Internet advertising. Programmatic advertising, i.e. the personalisation of advertising screens according to the viewer's profile as a result of increasingly addressable television sets, can enable them to achieve this.

The growing importance of "intelligence technologies"

Across all sectors, the services that have become established on the Internet have in particular demonstrated excellence in the software field. The ability to process large quantities of data in real time, the ability to develop simple and effective interfaces, and the establishment of control over distribution on the heterogeneous networks that make up the Internet also apply to the distribution of video services. Offering consumers the right content at the right time and adapted according to the consumption context, bringing audience analysis tools up to the standards of the web and offering advertisers ever more targeted advertising involves considerable expertise in the field of "intelligence technologies". Acquiring that expertise is a key challenge for the traditional players in their efforts to compete with the newcomers from the Internet.

1 CONTENT

1.1 Film: budgets under pressure

Is there an average European film budget?

Defining the average European film budget is rather difficult, calculating it is virtually impossible. Only 14 of the 36 European countries covered in our Yearbook report on their average film budgets. However, there is one constant within this reduced sample: European countries do not share common trends when it comes to film budgets; although there usually is consistency in the evolution of average budgets within each country, this does not apply to the pan-European trends, which, if calculated, would provide a somewhat meaningless figure.

Ups and downs

Five of the 14 countries for which figures were available experienced a year-on-year drop in their average budgets in 2014; namely, Portugal (-48.2%), Spain (-22.5%), France (-19.3%), Italy (-16.3%) and the Netherlands (-7.75%). In all cases, the dropping budgets were a further step (although severe, in the cases of France and Spain) within a trend which started at least three years before and may well be linked to the financial difficulties in those countries.

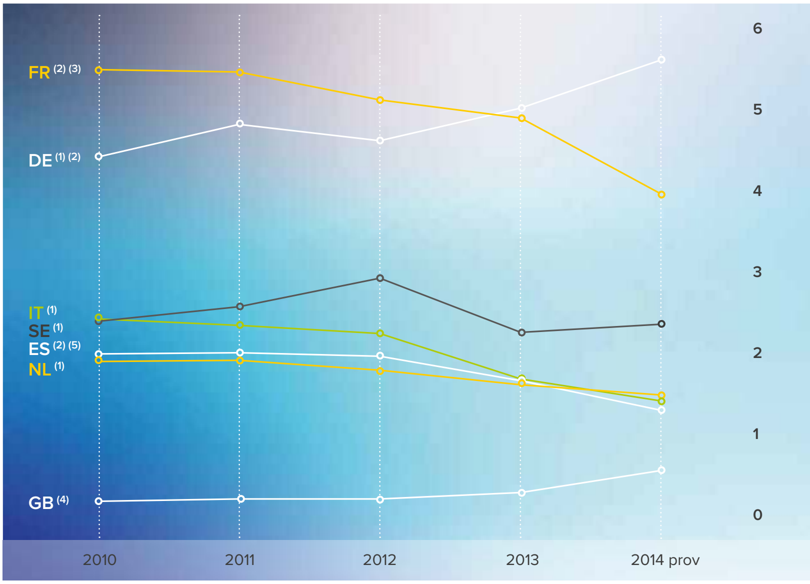
Of interest is the fact that the number of productions in those countries either increased or decreased by a percentage well below that of the year-on-year budget decrease, implying that a decrease in the overall financing available tended to reduce the budget of the productions rather than the overall number of productions.

In the UK, median budgets both for entirely domestic productions and inward investment films increased dramatically. The former doubled year-on-year in 2014, up to EUR 0.5 million, confirming a steady trend of growth in recent years, whereas the latter (inward investment) reached a peak in the decade with a median budget of EUR 21.3 million. In turn, Germany's average budget continued its upward trend, reaching a figure of EUR 5.6 million in 2014 - the highest in Europe (if we exclude British inward investment productions) for the second consecutive year.

Is low-budget the new median?

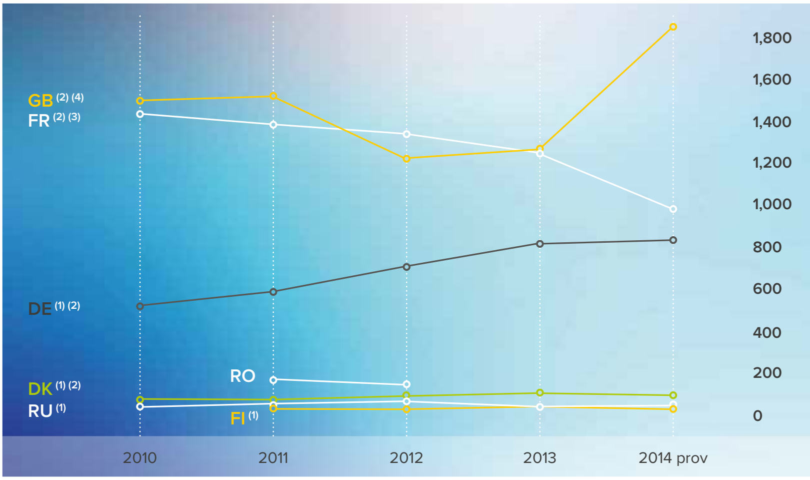
While the lack of figures in many countries, along with the absence of breakdowns by budget band in most, does not facilitate the analysis of film investment distribution within each country, in reality there is a growing concern that an ever growing share of the national investment is ending up in the hands of a few high budget projects (that is, by national standards). This would be at the expense of medium-size budget projects, which, in a time of less overall investment, would have no choice but to become low-budget.

→ **Average feature film production budgets in selected countries (2010-2014)** – *In EUR million*



(1) Fiction films only. (2) Minority co-productions included. (3) French initiative films only. (4) Median (instead of average) UK domestic production budget. Includes films with budgets under GBP 500,000. (5) Restated series.
Source: European Audiovisual Observatory

→ **Film production investment (2010-2014)** – *In EUR million*



(1) Fiction films only. (2) Minority co-productions included. (3) French initiative films only. (4) UK spend only. Restated series. Includes films with budgets under GBP 400,000. Includes inward investment films.
Source: European Audiovisual Observatory

1.2 Film: public funding in Europe

The number of funds remains steady

By the end of 2014 there were 235 national, regional and local funds operating in Europe (all EU members plus Albania, Bosnia and Herzegovina, "the Former Yugoslav Republic of Macedonia", Iceland, Norway, the Russian Federation, Switzerland and Turkey) – just one less than in 2010. This could generate the illusion that not much happened over that period, but sometimes *everything needs to change, so everything can stay the same*[1]. In fact, 15 new funds were created while 16 shut down over said period.

England carried out a merger of most of the regional screen agencies by the beginning of the decade, while Poland continued the development of a network of regional funds. In turn, several countries (Lithuania, Latvia, Hungary, the Czech Republic, to name just a few) created their national film institutes, independent from the respective former ministerial departments in charge of the film and audiovisual portfolio.

No relevant changes occurred in the geographical distribution of funds, with national institutions representing approximately one fourth of the funding body population, yet accounting for 82% of the total spend in 2014 (compared to 85% in 2010).

Income and spend in Europe

Although only provisional estimates are available at the time of publishing, it appears that income returned to 2010 levels by the end of 2014 (around EUR 2.35 billion a year), after a decrease in between. Meanwhile, spend grew slightly – from EUR 2.25 billion in 2010 to EUR 2.45 billion in 2014, suggesting that overall, funding bodies may have resorted to using their reserves in order to maintain or increase their spend in a time of zero-growth budgets. It remains to be seen to what extent this has been an homogeneous trend throughout Europe. More precise results and analysis will be available in the upcoming report on *Soft Money for Film and TV – How do European countries fund production and circulation?*, to be released later in 2016.

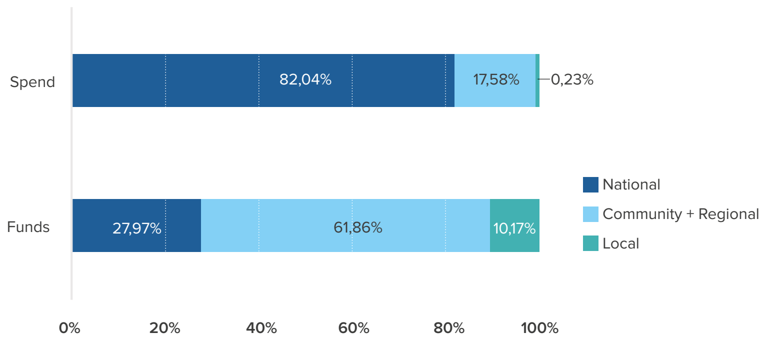
The main sources of income were and continue to be the broadcasters (through levies or negotiated contributions), followed by the national and regional governments. The latter, along with local governments experienced a hike in their share of the total income contributed over this period.

Feature film production continues to get the lion's share of the spend, with an average 42% of the total between 2010 and 2014; TV production is next from the top, followed from a distance by support to the organisation of events (festivals, markets) and exhibition activities.

As one might expect, digitisation support has dropped drastically, now that the digital roll-out is almost complete and activities such as feature film development or support for multimedia activities are receiving a larger and larger share of the cake.

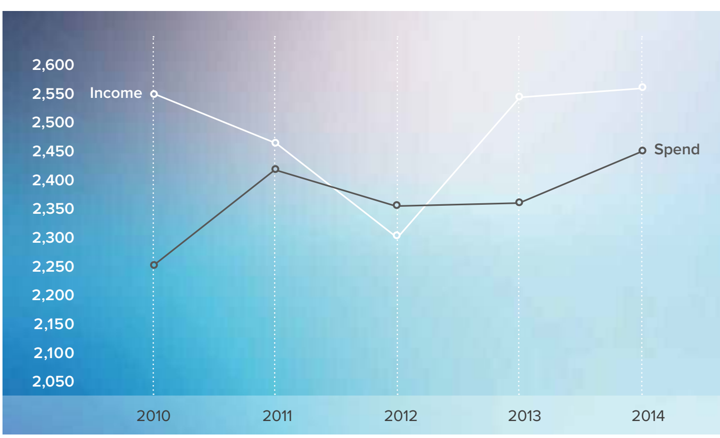
1 Giuseppe Tomasi di Lampedusa, *The Leopard*, Pantheon, 1960.

➜ Estimated share of the number of funds and spend by geographical level (2014) – *In %*



Source: European Audiovisual Observatory

➜ Estimated income and spend of funding bodies in Europe (2010-2014) – *In EUR million*



Source: European Audiovisual Observatory

1.3 Towards the end of territoriality?

The copyright reform announced by the EU Commission

Probably the most worrying trend for many stakeholders in the European cinema industry are the plans of the European Commission concerning the reform of the copyright framework, in particular with regard to the principle of territoriality in copyright law. This principle means essentially that, within the framework of international treaties and relevant EU directives, each country can regulate copyright in a different way. Therefore, copyright rules may vary from one member state to the next. More importantly for the purposes of this publication, according to this principle right-holders have the right to (but are not obliged to) grant territorial licences to different licensees in different countries.

According to the Commission, the current EU copyright rules must be modernised in order to, among other things, broaden the access to creative content across the EU. As a first step, the Commission proposed rules in December 2015 in order to make content portable across borders. The Commission wants to make sure that Europeans can travel with the content that they have legally acquired or subscribed to in their home country. The Commission has also announced that it will take action to:

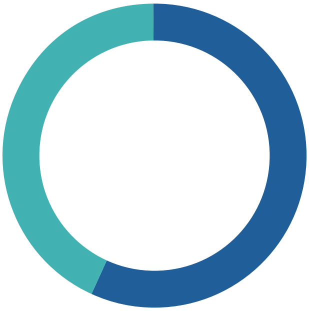
- improve cross-border distribution of TV and radio programmes in an online environment,
- facilitate licensing to allow for cross-border access to content,
- give new life to works which are no longer commercialised.

Furthermore, the Commission has stated that while it is now too early to consider a full harmonisation of copyright in the EU, in the form of a single copyright code and a single copyright title, this should remain an objective for the future.

Territoriality and the pre-sales of rights

The audiovisual industry fears that the Commission's reform plans will lead in practice to the abolition of the principle of territoriality in copyright law. In their view, this would have very negative consequences for the up-front financing of feature films through the mechanism of the pre-sales of rights. Under a territorial pre-sales agreement, a distributor in a particular territory agrees to pay an advance against a negotiated royalty (or a flat price) upon completion and delivery of the film. Pre-sales are often associated with licensing on a territory-by-territory basis, as financial advances are secured against exclusive local distribution rights before the film enters into production (see examples opposite). This exclusivity provides the distributor with the possibility of recoupment on each investment. When it refers to the cross border distribution of films across the EU, these investments are particularly relevant as, contrary to the US market, the EU market is heterogeneous and highly fragmented – as a result of different languages, cultures and audience preferences – and requires that distributors adapt to different national specificities and put into place specific marketing and distribution efforts on all platforms: advertising, subtitling and dubbing, etc.

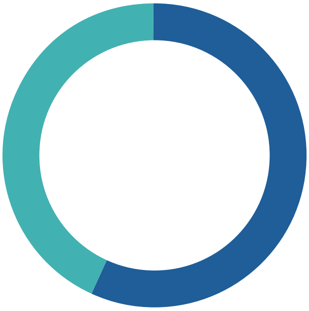
→ **The Cut (2013)**
Budget: €15.1 m



Note: This financing diagram has been simplified to highlight key elements - ‘pre-sales’ may also include some equity investment.

Source: IFTA Case Studies on the financing of recent European films, p. 9.

→ **The Lobster (2015)**
Budget: €4.2 m



Note: This financing diagram has been simplified to highlight key elements - ‘pre-sales’ may also include some equity investment.

Source: IFTA Case Studies on the financing of recent European films, p. 3.

1.4 Broadcaster investment in original programming remains stable

Recent analysis carried out by the European Audiovisual Observatory looked at the investment of the main TV groups in 15 countries in original programming (2009-2013). The countries are Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Poland, Portugal, Spain, Sweden and the United Kingdom. A total of 86 TV groups were included in the analysis of data provided by IHS and 22 of these groups were public service broadcasters.

Overall, the investment in original programming by these groups has remained stable between 2009 and 2013 at a rate of more than EUR 15 billion. The rate of investment peaked in 2012 at EUR 15.9 billion before dropping to EUR 15.7 billion in 2013. The stability of investment may reflect the consistent needs of broadcasters for programming to fill fixed schedules of their channels, while slight increases may be indicative of rises in inflation or production costs.

A significant proportion of investment in original programming is made by public broadcasters

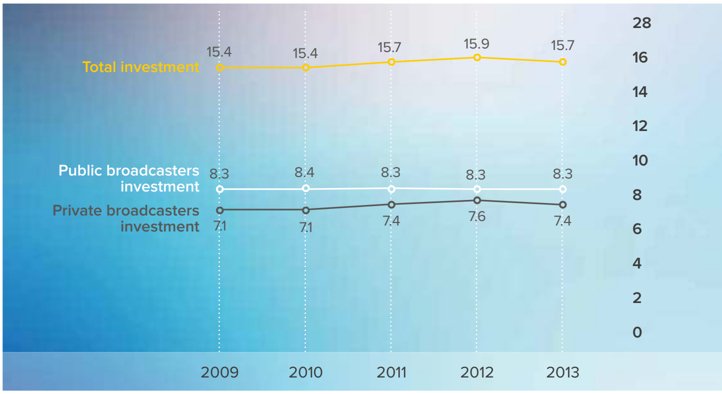
While the public service broadcasters represent just 25% of the TV groups analysed, 53% of the total investment in original programming was provided by the public sector. This can be partly explained by the size of some public broadcasters, remits as regards production of original programming and also the support of public funding to facilitate these investments. The proportion of public service investment is particularly high in Germany, Denmark, the Czech Republic and Ireland.

A country by country analysis showed that French, Italian and UK private broadcasters also had higher levels of investment than the average private broadcasting group. While the levels of investment in original programming show a steady growth in the UK and France, in Germany there has been a slight decline since 2012.

The financial crisis and public sector cuts have a long term impact on investment in original programming

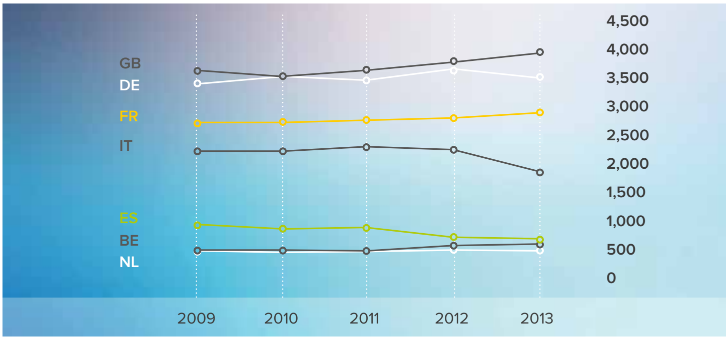
Despite the relative stability in the investment in programming in Europe, the analysis has revealed significant decreases in Portugal (26%), Spain (25%), Ireland (17%) and Italy (16%) between 2009 and 2013. In the case of Italy, the public broadcaster investment has seen a steady decline over the time period (investment in 2013 was 70% of the investment in 2009). It can be assumed that overall this is a direct result of drops in both public and private funding resources to the sector. For example, in Spain, TV advertising revenues dropped by 29% over the period and public media funding by 36%.

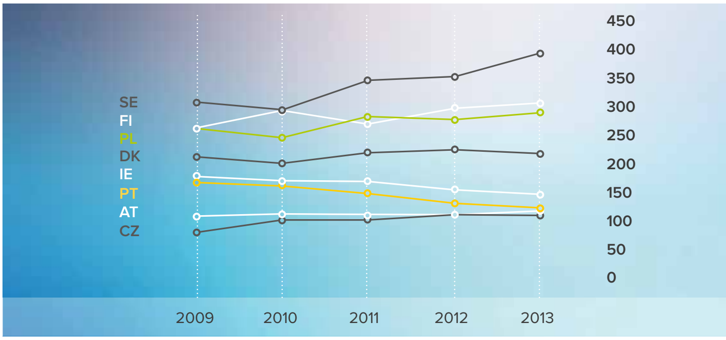
Investment in original programming: total, public broadcasters, and private broadcasters (2009-2013) – *In EUR billion*



Source: European Audiovisual Observatory, IHS

15 EU countries and levels of investment in original programming by 86 TV groups (2009-2013) – *In EUR million*





Source: European Audiovisual Observatory, IHS

1.5 Circulation: US fiction content continues to dominate European TV screens

Recent research carried out by the European Audiovisual Observatory looked at the origin of fiction on a range of TV channels over 5 years (96 TV channels in 14 European markets). The findings show that non-European fiction content represents 62% of the fiction on our main channels. In fact more than 50% of fiction content is from the US (with the remainder coming from other non-European countries).

Just over 30% of the fiction tends to be European. Of this, national production broadcast in its home country makes up, on average, 55% of the European content on national channels. At the same time around 45% of European content is non-national, which is a positive indication of the circulation of European fiction works. A further 7% of TV fiction originates from mixed co-productions (co-productions with a European and a non-European partner country).

Public service broadcasters are important drivers in the broadcast and circulation of European fiction

There is a striking difference between the proportions of European fiction content on public and private channels, with public channels in the pan-European analysis scheduling more than 50% of European fiction content and private channels scheduling less than 20%. This data highlights the important role that public service broadcasters play in the broadcast and circulation of European works.

Several country specific exceptions should be noted: the levels of European content were much higher than the average on the French and British private channels. On the other hand the levels of European content were much lower than the average on the German, Dutch, Swedish and Danish private channels.

Diversity in the origin of content between countries

The levels of European content are much higher (than the average) on all the channels in France, Finland, the United Kingdom, Poland and Portugal than in the pan-European overview. It should be noted that "European content" in the case of the United Kingdom, Poland and Portugal is almost entirely "national" content.

Several countries have a much lower than average level of national TV fiction content on their channels: Austria, the Belgian French Community, Ireland, Luxemburg, Sweden and Denmark. TV fiction on the TV screens in small countries may often originate in a neighbouring country: German content in Austria; French content on the channels in Belgium; and British content on the Irish channels.

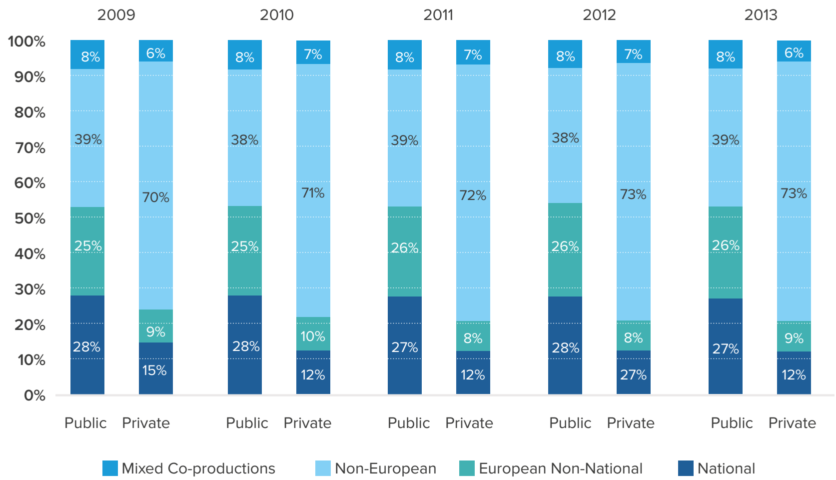
Strongest European fiction genres are animation and TV films

TV series tend to have the strongest proportions of non-European content. This appears to be growing and reached 67% non-European content in 2013.

Regarding feature films, the non-European proportion broadcast on the channels remains very stable at 60% over five years. For feature films the number of mixed co-productions (co-productions with a non-European partner country) is also higher than average (16%). This implies a European involvement in the production of at least 40% of the feature films on the main channels.

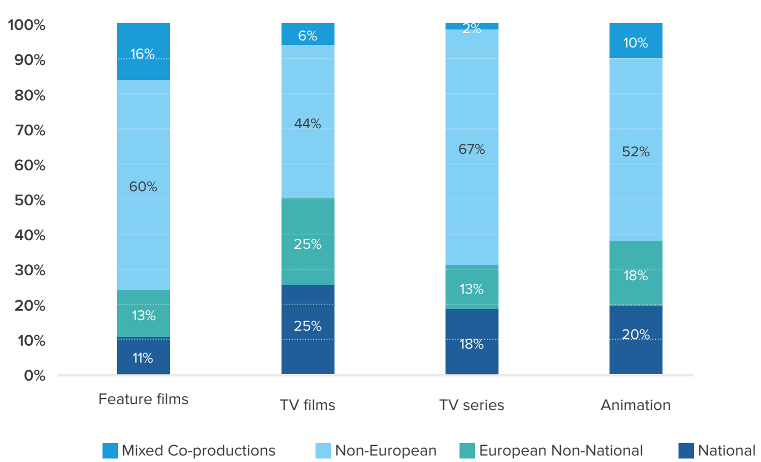
Genres that are strongest in terms of European content are TV films (50% are European) and animation (around 40% European, and a further 10% mixed co-productions).

➜ Public and private channels: origin of fiction in 14 European markets[1] (2009-2013)



Source: European Audiovisual Observatory, ROVI International

➜ Snapshot of main fiction genres (and their origin) on TV in 14 European markets[1] (2013) – *In %*



Source: European Audiovisual Observatory, ROVI International

(1) The 14 markets include: AT, BE (CFB), BE (VLG), DE, DK, ES, FI, FR, GB, IE, IT, LU, NL and SE.

1.6 Circulation: copyright in the digital single market

Enforcing copyright online meets new practical obstacles

In the current profound transitional phase for the European audiovisual sector, characterised by the decline of old models, the rise of new online services and of new competition patterns for traditional players, creative content remains more than ever at the heart of the digital market. Digital technologies and services increase the possibilities of disseminating creative content around the world. However, they have also increased the possibilities to copy and distribute copyright-protected works illegally. There is a general consensus that authors and creators, who are at the heart of the creative process, shall receive remuneration for their work. However, the enforcement of copyright online faces many practical obstacles and raises numerous concrete questions.

Combating copyright infringement online is at the crossroad of various policy priorities of the EU

One of the priorities of the EU in the field of copyright is to adapt the EU legal framework for civil law proceedings in order to allow more effective combating of copyright infringement via the Internet. This question was already raised in the context of the public consultation on the review of EU copyright rules carried out in 2013, which asked stakeholders whether some of the provisions of the Enforcement Directive are still fit to ensure a proper respect for copyright in the digital age. Emphasis was placed on this occasion on the need for stronger enforcement measures in case of copyright infringement committed on a commercial scale, and on the clarification of the role of intermediaries in the IP infrastructure, with due respect for the private life and data protection for end-users. The modernisation of the Enforcement Directive is also one of the priorities announced in the 2015 Communication "A Digital Single Market Strategy for Europe". Such a modernised legal framework could go through a clarification of the rules on the activities of intermediaries in relation to copyright-protected content.

New strategies are emerging at international, European and national level to tackle copyright infringement online

Among the four strategic themes of the EU digital economy is also the need for new measures to tackle illegal content on the Internet requiring intermediaries to exercise greater responsibility and due diligence in the way they manage their networks and systems. As part of this process, a consultation was launched in 2015 on the regulatory environment for platforms, online intermediaries, data and cloud computing and the collaborative economy. Among the different approaches that are being tested at international, European and national level, the European Commission will give priority to "Notice and Action" procedures, and so-called "follow the money" approaches that aim to deprive commercial scale infringers of the revenue flows that draw them into such activities (see the graphics opposite for an overview of such revenues). National courts and the Court of Justice of the European Union are also playing a pathfinder role in interpreting the laws in light of new technologies and services. However, these approaches need to be concretely implemented, and need to develop alongside public awareness activities. Of course, there will always be people that are aware but nevertheless do not care. However, a lot can be done to ensure that the majority opts for legal content.

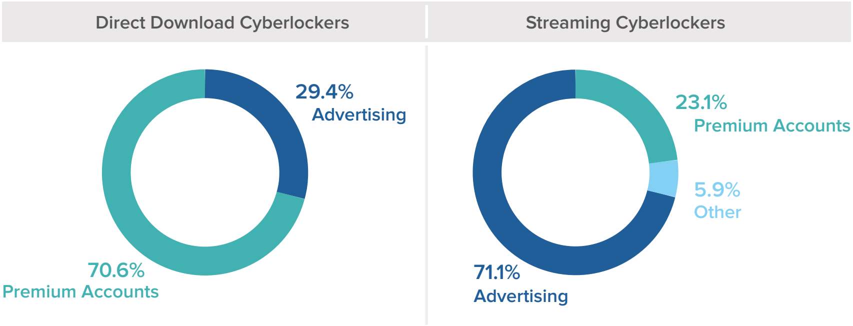
→ Profitability analysis of ad-supported businesses based on copyright infringement

SEGMENT	AD REVENUE	MARGIN
BitTorrent and Other P2P Portals		
Small	2,079,334 USD	85.9%
Medium	3,227,159 USD	84.5%
Large	23,181,252 USD	94.1%
Linking Sites		
Small	3,690,915 USD	79.9%
Medium	8,351,446 USD	89.8%
Large	4,498,344 USD	87.5%
Video Streaming Hosts		
Small	529,480 USD	79.9%
Medium	1,681,477 USD	
Large	4,661,535 USD	
Direct Download (DDL) Host Sites		
Small	401,087 USD	
Medium	1,281,344 USD	
Large	3,084,123 USD	

Q3 Aggregate Ad Revenue, Margin for Ad-Supported Sites

Source: “Good Money Gone Bad: Digital Thieves and the Hijacking of the Online Ad Business
A Report on the Profitability of Ad-Supported Content Theft”, Digital Citizens Alliance, February 2014.

→ Cyberlockers’ revenue sources



Source: “Behind the cyberlocker door: A report on how shadowy cyberlocker businesses use credit card companies to make millions”, A NetNames Report for Digital Citizens Alliance, 2014.

1.7 Circulation: European films access to on-demand services

Methodology of study – Identifying the country of origin of films in VOD catalogues across the EU

The results presented here are part of an Observatory study on the composition of the catalogues of VOD services in the EU. 75 VOD and 16 SVOD services across the EU have been analysed and 29,869 unique film titles were retrieved. The study distinguishes between "catalogue offer", where all films are counted on every VOD service, and "film pool", where films are only counted once for all VOD services in order to highlight the variety of films across the EU and thus representing the diversity of the "potential" film offering.

Catalogue offering – only 27% of films in VOD catalogues are of EU-28 origin

The share of EU films in the catalogues of the 75 VOD services in the 28 member states is below 30% and films produced in the US have a share of 59%. Another finding of the study is that on average only 8% of the films in catalogues are national films, however with significant differences across the 28 countries. In fact, countries that produce a high number of films per year tend to have a higher share of national films in the catalogues of VOD services. Therefore non-national EU films are key to raising the share of EU films in VOD catalogues in countries with a less important domestic film production industry.

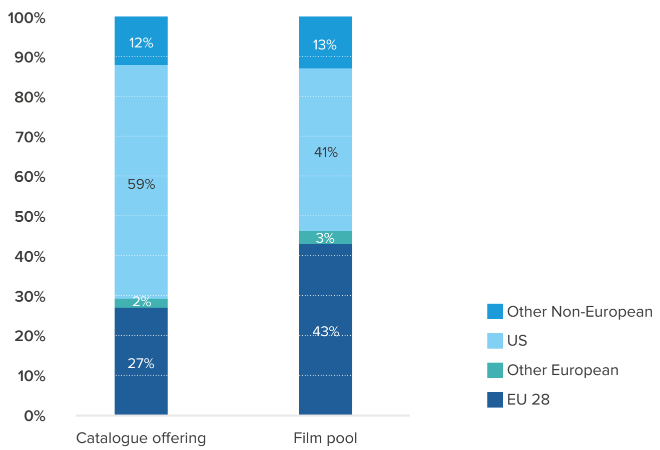
Film pool – 43% of films available are of EU origin indicating US films have a better circulation

If the variety of film indicator is considered the study finds that EU films have a higher share, namely 43% and films produced in the US a lesser share of 41%. This indicates that US films will in general be made available on several VOD services across the EU whereas EU films tend to be distributed in their home markets and experience a weaker distribution in other EU countries.

Visibility of EU films on VOD services in 3 countries – 28% of promotional spots for EU films

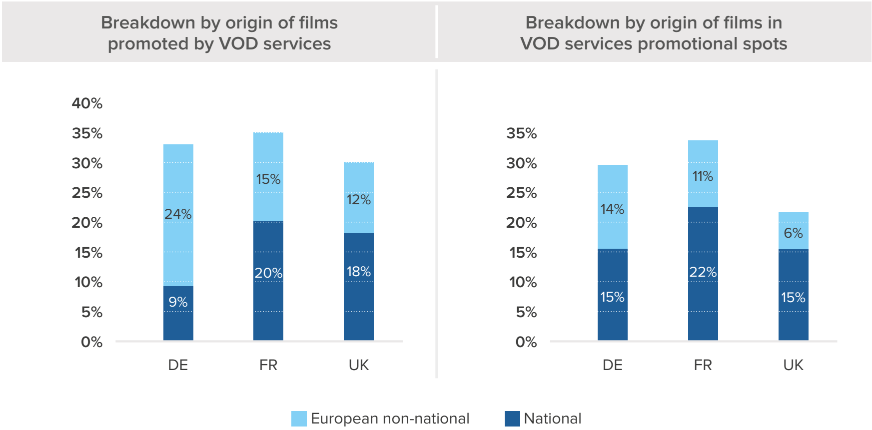
In this study, the homepages of VOD services in the United Kingdom, France and Germany were tracked for one month to identify the origin of films promoted. On average, the services promote 270 films per month, with the 10 most promoted films taking 40% of all promotional spots (10 films out of which 8 were of US origin). 90% of the promotional spots were given to recent films, released in 2014 or later. On average, 28% of the promotional spots were given to EU films and 60% to US films, making EU films less visible to consumers and therefore less "discoverable" than US films.

→ Share of EU films in 75 VOD services across the EU - Catalogue offering and Film pool (October 2015)



Source: European Audiovisual Observatory for the European Commission

→ Promotion of EU films in 3 countries on VOD services (October 2015)



Source: European Audiovisual Observatory for the European Commission

1.8 Film: export of European films outside Europe significant yet concentrated

Close to one in five tickets for European films sold outside of Europe in 2014

The European Audiovisual Observatory estimates that in 2014 European films cumulatively sold at least 458 million tickets in cinemas around the world. Film exports do contribute a large share to overall admissions. On a cumulative level about 40% of total admissions to European films were generated on non-national and 60% on national markets.

It is interesting to observe that the theatrical exploitation of European films outside of European markets accounts for almost half of these non-national admissions. A total of 589 European films were screened in cinemas outside of Europe[1] in 2014. While this represents the largest number of films exported outside Europe in the past five years in absolute terms, the ratio of European films that manage to get released outside of Europe has remained stable at one in ten films. Cumulatively these films generated almost EUR 500 million in gross box office and sold about 82 million tickets accounting for 18% of worldwide admissions to European films. This implies that roughly speaking one in five tickets for European films in 2014 were sold outside Europe.

North America was the largest market for European films outside Europe

The North American market proved to be the most important "overseas" market for European films in terms of admissions, with 27.4 million and 3.4 million tickets sold for European films in the US and Canada respectively in 2014. The US market hence represents the single largest market for European films, screening 188 European films and accounting for 33% of total admissions to European films outside Europe.

Despite having only 22 European films on theatrical release in 2014, China became – with 15.5 million tickets sold – the second largest non-European export market in terms of admissions, accounting for 19% of total admissions, followed by Mexico (12%), South Korea (9%) and Brazil (8%).

The market share of European films in the non-European territories covered by the Observatory remained fairly stable over the past years: in general European films tend to represent between 20% and 25% of the films on release and capture a market share of 3% to 5% of admissions.

French and UK films cumulatively accounted for 80% of admissions outside Europe

Admissions to European films outside of Europe show a comparatively high degree of concentration. 90% of the cumulative admissions were generated by 9% of the films (54 films). *Lucy*, the most successful European film export in 2014, alone sold 31.9 million admissions and hence accounted on its own for 38% of total admissions outside Europe. In 2014, as in past years, France and the UK exported by far the largest number of films to non-European territories and cumulatively accounted for almost 80% of total admissions to European films outside Europe.

1 Data available for the following 12 non-European markets: USA, Canada, China, South Korea, Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, Australia, New Zealand.

Number of European films on theatrical release (2010-2014) – *Estimated*

	2010	2011	2012	2013	2014	AVG
Total “world”	**4 474**	**4 469**	**4 730**	**4 916**	**6 188**	**4 955**
In Europe	4 385	4 384	4 622	4 762	6 061	4 843
Outside of Europe	448	427	509	566	589	508
US & CA	172	221	277	273	218	232
Latin America	270	205	216	226	318	247
AU & NZ	113	88	101	102	126	106
CN & KR	-	-	-	-	155	155
CA	-	98	149	133	94	119
US	-	183	217	202	188	198
AR	93	59	74	58	87	74
BR	97	79	93	111	144	105
CL	36	35	31	30	40	34
CO	63	44	61	63	94	65
MX	117	71	87	75	130	96
VE	16	21	34	24	23	24
AU	86	65	87	75	110	85
NZ	76	61	60	70	72	68
CN	-	-	-	-	22	22
KR	69	63	114	180	142	114

Source: European Audiovisual Observatory / LUMIERE, Rentrak

Admissions to European films (2010-2014) – *Estimated, in millions*

	2010	2011	2012	2013	2014	AVG
Total "world"	**364.6**	**426.4**	**474.0**	**397.3**	**458.4**	**424.1**
In Europe	303.6	356.7	343.1	317.3	376.3	339.4
Outside of Europe	61.0	69.7	130.9	80.0	82.0	84.7
US & CA	31.4	34.9	67.2	36.6	30.7	40.2
Latin America	14.6	18.4	31.1	19.0	21.2	20.9
AU & NZ	6.3	5.7	7.2	5.0	7.0	6.2
CN & KR est	8.7	10.7	25.4	19.3	23.1	17.4
CA	-	2.7	6.3	3.4	3.4	3.9
US	-	32.2	60.8	33.3	27.4	38.4
AR	1.7	2.3	4.2	2.7	1.7	2.5
BR	3.0	5.1	6.6	5.3	6.4	5.3
CL	0.4	0.5	0.7	0.7	0.6	0.6
CO	1.2	1.8	3.0	2.2	2.2	2.1
MX	7.4	8.0	15.3	7.4	9.5	9.5
VE	1.0	0.7	1.3	0.7	0.7	0.9
AU	5.1	4.3	6.0	4.0	5.9	5.1
NZ	1.1	1.4	1.1	1.0	1.1	1.1
CN	-	-	-	-	15.5	-
KR	4.1	3.6	12.0	7.1	7.5	6.9

Source: European Audiovisual Observatory / LUMIERE, Rentrak

2 AUDIOVISUAL SERVICES

2.1 The revision of the AVMS Directive

The EU regulatory framework for the audiovisual sector

The media landscape in the EU member states is diverse, both in terms of industry structure, and of market and cultural specificities. The Audiovisual Media Services Directive (AVMSD) provides minimum rules, at the European level, to facilitate the creation of an internal market for audiovisual media services. It aims to produce a framework for cross-border audiovisual media services in order to strengthen the internal production and distribution market and to guarantee conditions of fair competition. In particular, EU coordination aims to provide rules to shape technological developments; to create a level playing field for emerging audiovisual media; to preserve cultural diversity; to protect children and consumers; to safeguard media pluralism; to combat racial and religious hatred; and to guarantee the independence of national media regulators. According to this legal framework, AVMS providers are subject only to the rules applicable in the country where they are established and are free to distribute across borders.

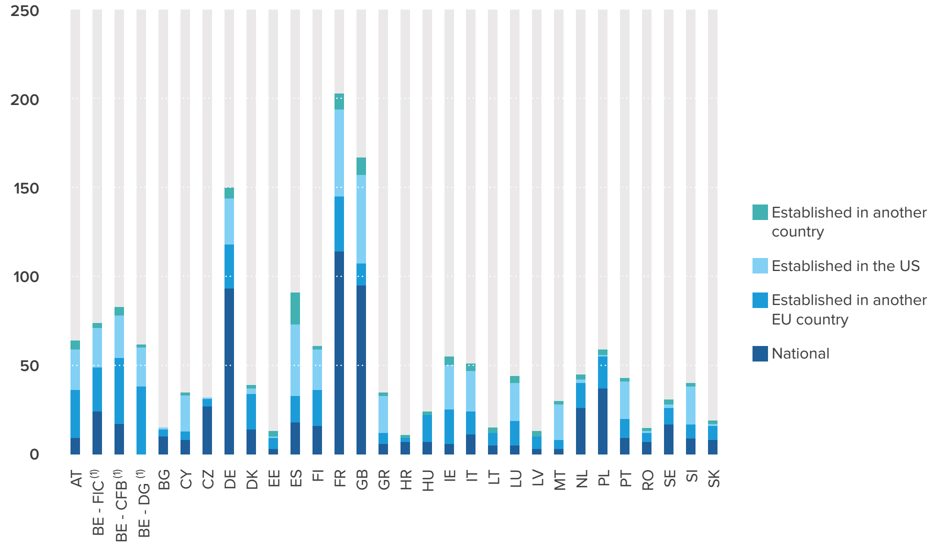
A "media framework for the 21st century" in 2016?

As the Internet changes the way audiovisual media are consumed, viewers can increasingly access on-demand audiovisual content from all over the European Union, also on mobile devices (see graphs opposite regarding availability of services). In light of these developments, the European Commission announced in 2015 in its Digital Single Market Strategy a review of the AVMSD under the title "A media framework for the 21st century" with a view to modernising it and making it fit for the new converged media environment. According to the Strategy, the Commission in 2015 began examining the functioning of the AVMSD with a focus on its scope, in order to determine whether the rules should be broadened to encompass new services and players that are currently not considered as audiovisual media services under the Directive, and/or to include providers that fall outside its current geographical scope. It will also analyse the nature of the rules applicable to all market players, in particular measures for the promotion of European works, and the rules on the protection of minors, and advertising rules.

The REFIT exercise

Accordingly, in 2015 the Commission launched a broad assessment of the AVMSD via the new Regulatory Fitness (REFIT) evaluation process in order to identify burdens, gaps and inefficient or ineffective measures, including possibilities for simplification of, or for the repeal of existing regulation. This exercise was accompanied by a broad public consultation of all industry stakeholders, the outcome of which will serve as a basis for the Commission to present new policy options for the future of the Directive in 2016.

➜ Number of VOD services available in the EU by country of establishment (December 2015)

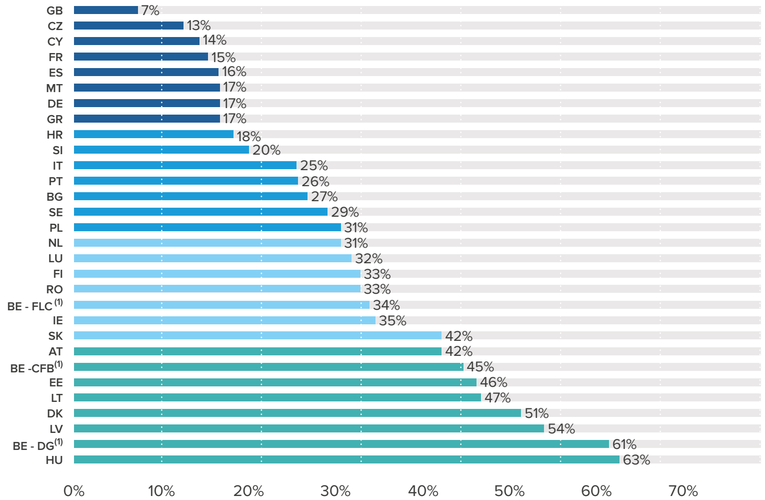


(1) VOD services for Belgium (Flemish, French and German) can be counted twice or three times due to availability throughout Belgium.

Source: European Audiovisual Observatory / MAVISE database.

➜ Share of non-national EU VOD services among available VOD services (December 2015)

In % of number of services. Ranked by % share in ascending order.



(1) VOD services for Belgium (Flemish, French and German) can be counted twice or three times due to availability throughout Belgium.

Source: European Audiovisual Observatory / MAVISE database.

2.2 Live TV challenged

Young people are leading the change

Time spent watching television varies strongly between European Union countries, ranging from 2h33mn per day in Sweden to 5h42mn in Romania. However, since 2012, television viewing has reached a plateau, on average, across the European Union. As time-shifted television viewing has been increasingly included in television audience measurement, this stability implies that live television viewing has actually declined.

In all countries, television viewing is significantly lower among young people; on average, a young viewer watches about half as much television as the average viewer. Also, the difference between time spent by the general audience and by young viewers has increased over the 2011-2014 time period.

Mobile and Netflix are game changers

The use of on-demand services probably accounts for this stagnation or slight decline of live television viewing. On the one hand, TV channels are increasingly launching catch-up television services, either on the TV set or on the open Internet. On the other hand, Internet pure players deliver a wide range of video services:

- video platforms (e.g. YouTube) and social networks (Facebook) gather numerous viewers but mostly for short videos;
- subscription video-on-demand services (e.g. Netflix), in turn, have a more limited audience base but individual consumption times are in the range of 30 minutes per day, therefore clearly impacting upon the time for watching "legacy" television.

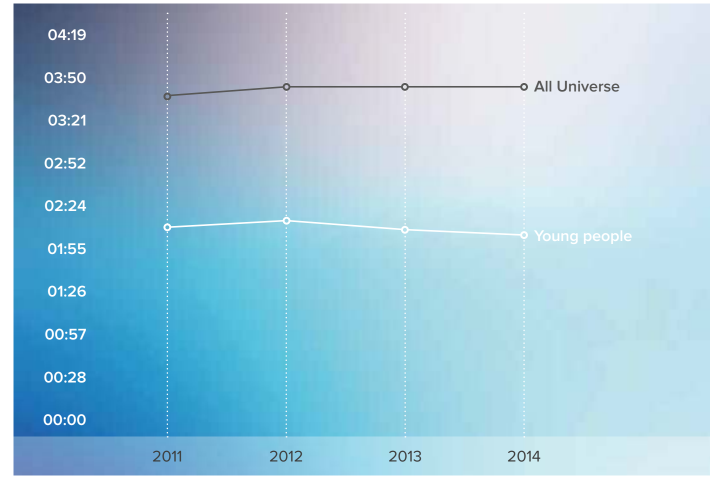
If watching short videos on a PC has dramatically increased over the last year, figures are now stagnating both in terms of number of viewers and of total time spent watching videos. Most of the growth comes from mobile video, in particular due to Facebook having successfully integrated the "autoplay" of video.

However, it should be kept in mind that time spent watching video online, depending on the country, still only represents between 5% and 10% of the total time spent watching video (online or on TV).

Audience more concentrated on the Internet at the European level than on TV

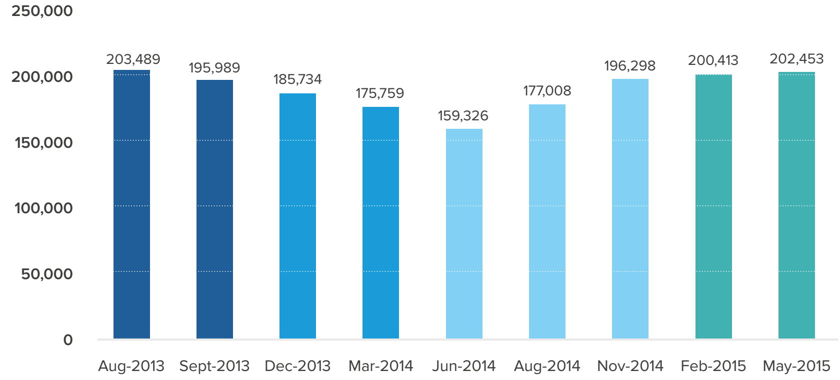
The concentration of audiences tends to decline in the traditional world: the multiplication of thematic channels has led to a fragmentation of the audience at the expense of the main historical public and private TV channels. But the audience of online video is shared between a limited number of players, often pan-European: in the countries monitored by comScore, the top ten properties accounted for between 56% and 73% of all videos viewed and their market shares are tending to increase.

→ **Average television viewing in the EU (2011-2014)** – *In hh:mm*



Source: European Audiovisual Observatory, Eurodata TV Worldwide

→ **Online video in EU6 (1) – total minutes per month for total audience (August 2013 - May 2015)** – *In million minutes*



(1) EU6 = France, Germany, Italy, the Netherlands, Spain and the United Kingdom.
Source: European Audiovisual Observatory, comScore Video Metrix

2.3 Growth in TV channels driven by HD

49% more TV channels established in the EU in 2015 than seven years earlier

According to the MAVISE database, the total number of channels established in the EU grew by 49% from a total of 3,615 TV channels in 2009 to 5,370 in 2015 (excluding local channels and windows). This represented a total net gain of 1,755 channels in seven years. The markets with the highest number of established channels in 2015 were the UK (1,582), France (494), Germany (398) and Italy (374). Other countries with more than 150 channels established in their territories included Spain (311), the Czech Republic (228), the Netherlands (261), Romania (155), Sweden (170) and Bulgaria (167).

Development of hubs of pan-European brand channels by large broadcasting companies

Among the countries that host a significant number of TV channels several are specifically targeting other national markets and this includes the numerous linguistic versions of pan-European branded channels (many of which are American). These major hubs include the United Kingdom with a total of 1,030 TV channels targeting foreign markets; 63% of channels that are established in the UK are broadcasting to other European countries. Other important centres for the establishment of television channels that target other counties include France (150), the Czech Republic (124), Luxembourg (94), the Netherlands (91) and Sweden (85).

TV channels established in the EU dominated by six genres

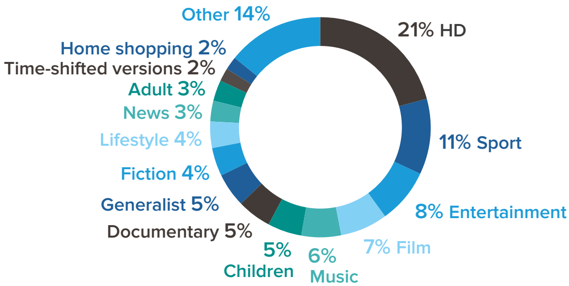
Almost two thirds of all TV channels established in the EU in 2015 were divided between six genres. The top six genres of channels established in 2015 included HD (21%), sport (11%), entertainment (8%), film (7%), music (6%,) and children's channels (5%). The aggregated total of those top six genres was the equivalent of 58% of all television channels established in the 28 EU member states.

HD channels were main driver of channel growth in the EU

HD channels accounted for 57% of the net increase of channels in the period from 2009 to 2015. Other genres with significant net channel growth in the same time period were sport (11% of the total net increase) and entertainment channels (6% of the total net increase).

Note: The figures presented here do not include local channels or windows. Please also note that the genre HD includes channels that only exist in HD as well as HD simulcasts of channels in standard definition (SD). Hence, the great majority of channels summarised in the genre HD have in reality a different type of sub-genre.

→ Breakdown by genre of audiovisual services established in the EU 28 (2015)



Source: European Audiovisual Observatory / MAVISE database

→ Number of linear audiovisual media services by country of establishment (2009, 2015)

GENRE	2009	2015	2015 V. 2009
AT	83	49	-41%
BE (CFB)	29	37	28%
BE (DSG)	2	1	-50%
BE (VLG)	56	69	23%
BE (1)	46	46	0%
BG	72	167	132%
CY	34	37	9%
CZ	94	228	143%
DE	249	398	60%
DK	33	37	12%
EE	11	20	82%
ES	231	311	35%
FI	34	104	206%
FR	314	494	57%
GB	1,075	1,582	47%
GR	45	67	49%
HR	22	88	300%
HU	35	48	37%
IE	11	26	136%
IT	385	374	-3%
LT	14	21	50%
LU	38	122	221%
LV	17	38	124%
MT	28	58	107%
NL	160	261	63%
PL	72	128	78%
PT	61	105	72%
RO	124	155	25%
SE	188	170	-10%
SI	28	64	129%
SK	24	65	171%
EU 28 (no local no windows)	**3,615**	**5,370**	**49%**

(1) Europe by satellite language versions.
Source: European Audiovisual Observatory / MAVISE database

2.4 News channels: stability despite online alternatives

According to the MAVISE database, at the end of 2015, there were 208 news channels established in Europe (EU28 plus Albania, Bosnia and Herzegovina, Switzerland, Montenegro, "the former Yugoslav Republic of Macedonia", the Russian Federation, Norway and Iceland). The figure for the EU28 was 146[1]. It should be noted that the total number of channels includes particular brands that may have various country or linguistic versions, for example Euronews (one brand but 13 channels), three Al Jazeera Channels, or the three language versions of France 24. Pan-European and global news brands make up 73 of the news channels (approximately one third). A further 84 news channels are available (over satellite and on various IPTV and cable packages) that originate from outside of Europe. Approximately 64 channels were launched and 25 channels closed in the period between 2011 and 2015.

Who is making the news?

The first graphic opposite outlines the origin of the news channels established in Europe. The majority are licensed in the UK, France, the Russian Federation, Turkey and Italy. Of these, many are in fact pan-European channels targeting other countries or whole regions (in particular those licensed in the UK, France and Germany).

It is interesting to note the cluster of countries where a large number of news channels are competing on the national markets, often a significant proportion relative to the population. When compared with 11 news channels on the national market in the UK, seven on the French national market and four on the German national market; the totals for Romania (8), Albania (7), Portugal (7), Bulgaria (6) are very high. These figures suggest a particular appetite for news in these national audiovisual markets. In contrast, there are currently no news channels established in Austria, Cyprus, Estonia, Finland, Iceland, Sweden, Slovenia and Montenegro.

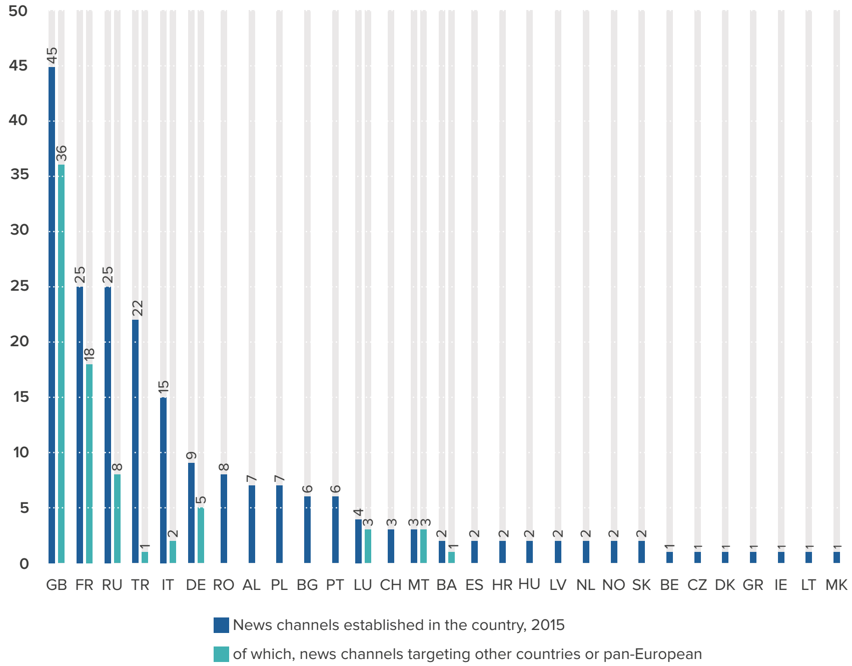
Thirty five news channels are provided by the public service broadcasters (with an additional 13 Euronews channels operating in co-operation with public service and private investment). The remaining 155 are established by private operators.

The most common languages for news channels are English, Turkish, Russian and Arabic

The graphic illustration of the various languages of news channels shows that the most common languages of news channels established in Europe are English, Turkish, Russian, Arabic, Italian, French and German. Most of these languages are representative of major European states. In many cases the large number of channels in a particular language are pan-European or global news channels – most of which are in English, Arabic, French, Russian and German. The Turkish and Italian language channels are generally more focused on the national markets. This is also the case for news channels broadcast in Romanian, Albanian, Portuguese, Polish and Bulgarian. As noted above, these are countries with a high proportion of national news channels relative to the market size.

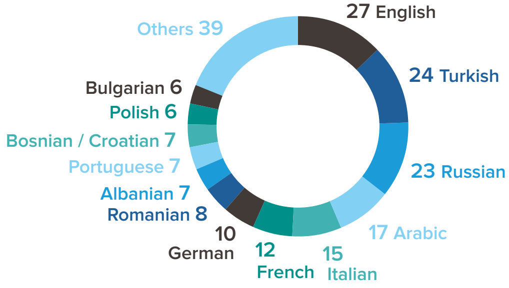
1 No HD versions of the channels are included in the total. In addition, it does not include the news feeds of the European Commission's audiovisual services (48 Europe by satellite language feeds) which are aimed at other audiovisual services rather than directly at the public.

→ Origin of news channels in Europe (2015)



Source: European Audiovisual Observatory, MAVISE database

→ The language of news (2015)



Source: European Audiovisual Observatory, MAVISE database

2.5 Growth in the number of VOD services in Europe

Pan-European/pan-regional and national on-demand audiovisual services on the rise

In the past couple of years, a multitude of on-demand services have been launched in Europe, enlarging the options available to European citizens to consume audiovisual content on-demand. These services (with subscription-, transactional- or advertising-based business models) are mainly operated by audiovisual or telecommunication players for European services, and mostly tech players for international services.

For example, Netflix expanded into every European country at the beginning of 2016, Amazon launched its Prime Instant Video services in Austria, the Spanish VOD service wuaki.tv, owned by Japanese e-commerce giant Rakuten, launched in 4 additional EU countries (DE, FR, GB, IT) as did the Italian transactional VOD service Chili.tv (AT, DE, GB, PL). National players such as the Dutch telco KPN (Play van KPN), the French IPTV operator SFR (Zive) or the commercial TV channel RTL Netherlands (Videoland Unlimited) have taken their new SVOD services to the market. In addition to these new launches, since 2014 several niche services have launched such as Afrostream (specialising in African content), Lebara Play (targeting Asian communities) and NBC Universal's Hayu (offering mainly reality TV shows).

The offer of on-demand services has tended to become pan-European or at least pan-regional with several players aiming to expand their services into new markets in order to increase their audience – be it customers, subscribers or "eyeballs" for advertising-based services.

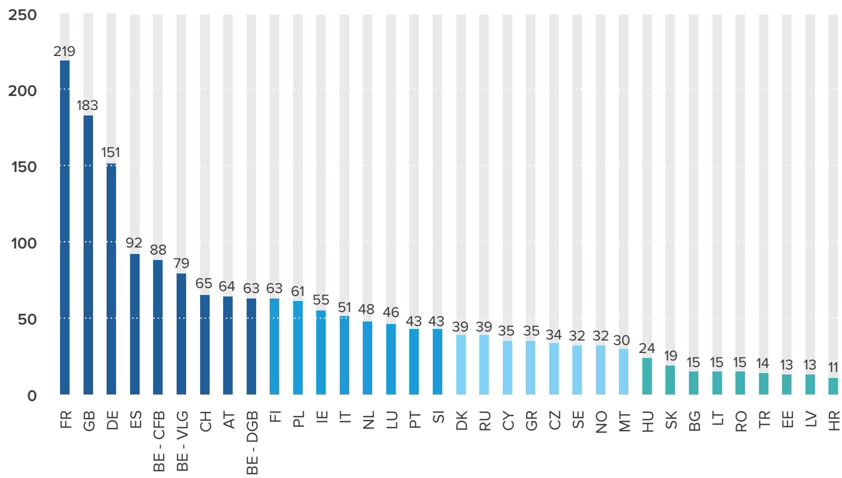
Catch-up TV services become mainstream: trend towards time-shifted viewing apparent

Another evolution is the increase in catch-up TV services. TV channels are increasingly focused on making their content available for time-shifted viewing, for an average 7-day period after the initial broadcast. In addition to specific catch-up TV services, channels are additionally investing in YouTube, Dailymotion and other advertising-financed on-demand audiovisual sites where they make their content available for viewing, with the aim of further monetizing their content and extending their reach to an audience which was not touched by the linear broadcasts.

More on-demand choices for consumers but concentration(s) loom(s) on VOD markets

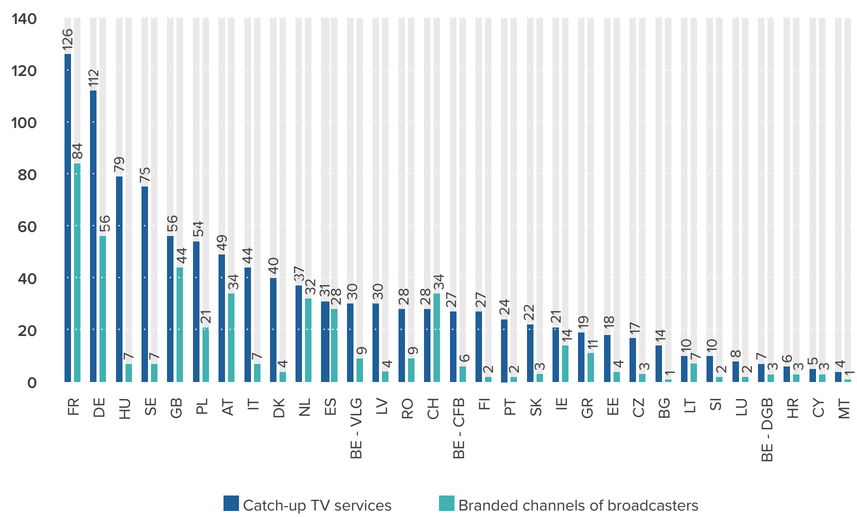
Even if the number of VOD services is increasing in Europe, a small number of players appears to be taking larger market shares and establishing dominant positions on each market segment for on-demand services. Many services can coexist; however, only a handful may dominate their respective market segment and territory. Actual market shares published in the Yearbook 2015 of the British Video Association tend to demonstrate this; in the UK, Netflix has 71.1% of the SVOD market, iTunes has 57% and Amazon has 19% of the digital retail market, while Sky has 54.5% of the digital rental market.

→ Number of available VOD services by country (December 2015)



Source: European Audiovisual Observatory, MAVISE database

→ Number of available catch-up TV services and branded channels of broadcasters available by country (December 2015)



Source: European Audiovisual Observatory, MAVISE database

2.6 Distribution: "skinny bundles" and OTT

The end of "one-size fits all'

Many factors have turned the collective usage of television into a more individual experience. The number of one person households increases; more and more individual devices (laptops, tablets, smartphones) are available to access video; on-demand services empower each member of the household to schedule their video time. The relatively expensive typical pay-TV package of 200 and more TV channels designed to cover all the family needs may therefore no longer be the right value proposition.

Over-the-top virtual pay-TV packages

On-demand services have demonstrated that over-the-top was a viable solution to distribute video programming. The next step is the launch of "virtual pay-TV service providers", operators delivering a full package of live TV channels and on-demand programmes over the open Internet, i.e., unlike cable or IPTV operators, without owning or (fully) controlling the distribution network.

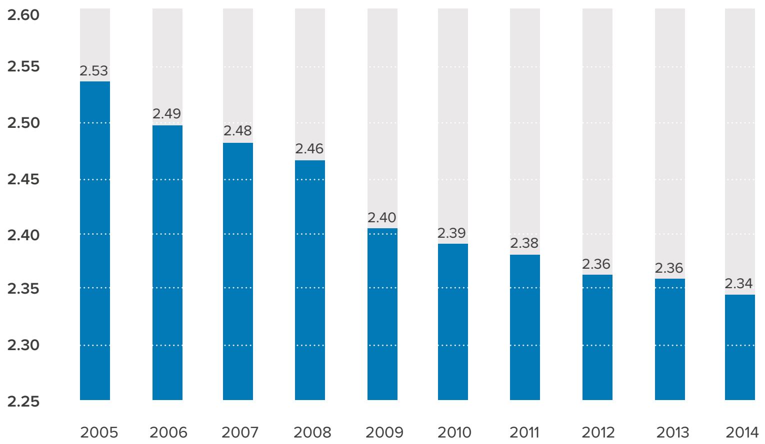
The first examples of virtual pay-TV providers include, in the US market, Vue, managed by Sony and available on its PlayStation game console, or Sling Television, a subsidiary of the satellite television service DISH. The Internet video services could follow the same path and extend their line-ups. Hulu and Amazon Instant Prime already distribute a third party pay-TV channel, Showtime, on their platforms.

"Skinny bundles"

In the face of competition from Internet services for the delivery of video programming, the incumbent TV distributors (marketing cable, satellite, or IPTV-based bundles of channels), starting in the United States, have launched "skinny bundles" with a limited number of TV channels, more tailored to the needs of the consumers. US cable operators Comcast launched "Stream TV", a limited bundle of main TV networks and the premium pay-TV service HBO. Similarly, Charterhouse is testing a limited bundle under the brand "Spectrum TV stream". Other cable operators have introduced the possibility for their customers to select individual channels to compose their television package.

Essentially a US trend, low-cost television bundles distributed over the Internet may also launch in Europe, as US players may increasingly target the European market. However, this low-cost strategy may prove more difficult to execute, as the prices of legacy pay-television services are significantly lower in Europe than in the US. But the network operators will be increasingly challenged as the "gate-keepers" of pay-television services and at the same time will regain prominence as providers of high quality Internet connections to enable the access to over-the-top services.

➜ Average number of inhabitants per household in the EU (2005-2014)



Source: European Audiovisual Observatory, Eurostat

➜ Innovation in the distribution of pay-TV in the USA (2015)

MOVE	EXAMPLES
OTT services distribute 3rd party services	Free and subscription on-demand service Hulu distributes Showtime. Amazon distributes Showtime and Starz over its SVOD Instant Video platform.
New entrants compete with incumbent cable, IPTV and DBS distributors	Sony PlayStation Vue service rolls out its OTT package and expands its line-up through a deal with Disney.
Incumbent pay-TV operators develop beyond their coverage zone	A subsidiary of DBS service DISH, Sling Television markets an OTT pay-TV package to gain accessibility in urban zones. Verizon tests Go90, a mobile-first TV package.
Incumbent pay-TV operators launch “skinny bundles” to resist cord-cutting	Comcast launches “Stream TV”, an IP low cost TV offer including HBO bundled with its broadband services. Cable operator Charter launches “Spectrum TV Stream”, an IP TV package targeting its broadband-only customers.
Pay-TV players bring Internet content to the TV set	Comcast launches Watchable, a TV application gathering the best of Internet video.

Source: European Audiovisual Observatory

2.7 Big data: the grey zone

Who is scared of profiling?

In this age of Internet, connected TV sets and "second screens", the possibilities to obtain personal data of media users in both legal and illegal ways have multiplied exponentially. Such data is a very important commodity for advertisers, and can be used to provide individually targeted ads on online services and on the many connected devices in use. Furthermore, personal data obtained via search engines, social media and connected devices can be used as a means to provide a better experience for the user of an online service.

However, the use of big data implies some problems from a legal point of view. Such collection of personal data could give large Internet firms an unfair competitive advantage and erect barriers to new competitors. According to Margrethe Vestager, European Commissioner for Competition, "if a company's use of data is so bad for competition that it outweighs the benefits, we may have to step in to restore a level playing field". But probably the biggest problem of big data is that of the access to and use of personal data by third parties, whether provided willingly or inadvertently by the users, which can have an intrusive effect on their personal lives.

The long-awaited reform of the EU rules

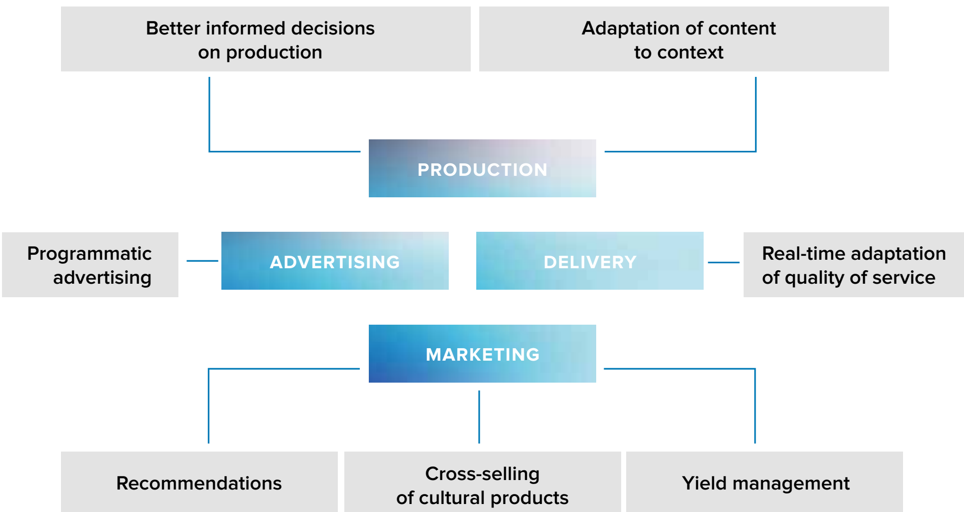
With the adoption of a new General Data Protection Regulation ("GDPR"), the European Commission aims to put an end to the patchwork of data protection rules that currently exists in the EU. At the time of writing, the legislative process was not yet concluded but was in its final phase. On 15 December 2015, the three European institutions reached an agreement, which was approved by the European Parliament's Civil Liberties Committee and the Permanent Representatives Committee (Coreper) of the Council with very large majorities. The agreement was welcomed by the European Council of 17-18 December 2015 as a major step forward in the implementation of the Digital Single Market Strategy. A final adoption of the GDPR is expected at the beginning of 2016.

Thou shalt not get my data: Schrems and the Safe harbour agreement

Due to the global nature of the Internet, and to the fact that many big Internet companies have their seat in non-EU countries, the processing of personal data often happens outside of the EU territory and is therefore protected by third-party legislation. Hence the EU Data Protection Directive (95/46/EC) provides that the transfer of personal data to a third country may, in principle, take place only if that third country ensures an adequate level of protection of the data. In a decision of 26 July 2000, the Commission considered that the United States ensures such an adequate level of protection of the personal data transferred. However, on 6 October 2015, the Court of Justice of the European Union (CJEU) concluded that the Commission decision was "invalid" because it did not state "that the United States in fact 'ensures' an adequate level of protection by reason of its domestic law or its international commitments". Thus, the decision was invalid, "without there being any need to examine the content of the safe harbour principles" by the Court.

Due to this judgment, European and American negotiators reached a new agreement in order to make legal any transfer of data from the EU to the US. On 2 February 2016, the College of Commissioners approved the political agreement that had been reached and has mandated Vice-President Ansip and Commissioner Jourová to prepare the necessary steps to put in place the new arrangement.

→ Impacts of big data on the audiovisual sector



Source: European Audiovisual Observatory

→ A simplied work flow of TV programmatic advertising

Source: European Audiovisual Observatory

3 DISTRIBUTION

3.1 Digital TV almost universal

Over 80% of European households access digital television

By the end of 2014, 89.2% of the European Union households and 84% of European households had access to digital television through digital terrestrial television (DTT), digital satellite, digital cable or IPTV. Satellite has been fully digital for several years; the transition from analogue to DTT has been completed in the European Union and will soon be complete in most other European countries; IPTV, i.e. the distribution of television programming over a DSL or fibre network is intrinsically digital. For the most part, the full digitisation of television in Europe will therefore depend on the migration from analogue cable to digital cable.

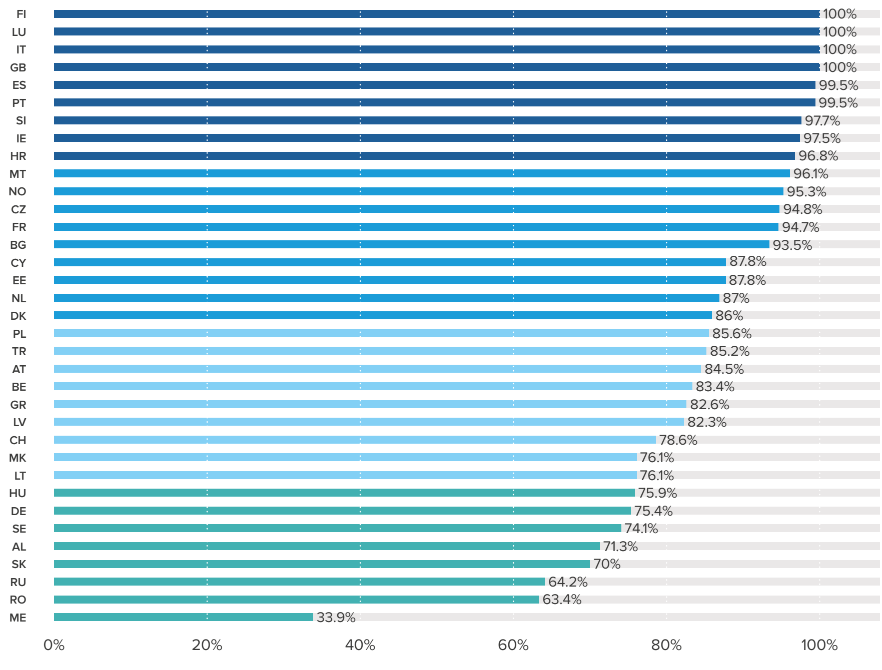
Cable still remains to be fully digitised

As of the end of 2014, the digitisation rate of cable households was 54.5% in the European Union and 46.9% in Europe. This comparatively low figure results from the very different structure of cable networks in Europe. In certain countries, cable networks were indeed initially designed, as early as the 50s, as a super "collective antenna" to serve a mix of national and foreign channels. This scheme was specially developed in countries where, for linguistic reasons, consumers had an interest in foreign channels (e.g. Scandinavia, Austria, Belgium, etc.). Marketed at a very low tariff, this first generation of cable networks reached a high level of penetration among households. The local cable networks were (and still are to an extent) managed by a myriad of local companies, sometimes private, sometimes a partnership between private, small companies and local authorities.

The migration of cable to digital requires significant investments: in the network on the one side; at the consumer premises on the other side, where a digital set-top-box has to be installed. These investments can only be recouped by increasing the tariff, and therefore convincing the consumer to opt for more expensive digital packages. At a time where many alternatives exist in terms of access to television programming (including free digital terrestrial television channels), there is a risk that customers may sign-off from their cable subscription.

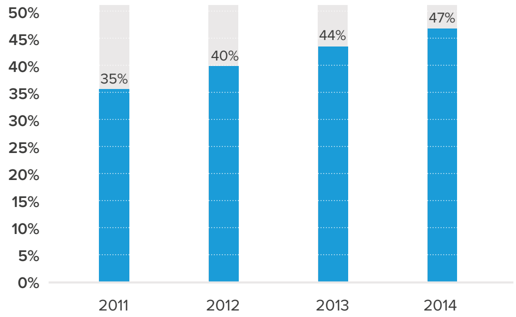
In addition, investing in the upgrade of a cable network makes more sense if the coverage of the network is wide, as many economies of scale can be reached (e.g. only one head-end for the full network). A long process of consolidation of cable networks has therefore begun, either through pan-European players such as Liberty Global, or through a series of mergers and/or acquisitions between telecommunications operators and cable operators. The view here is that, in the mid-term, cable networks and DSL networks will technologically converge towards similar designs incorporating more and more fibre, either to the building or to the home. However, even if clear leaders are now appearing both at national, regional or pan-European levels, the cable sector remains fragmented in many countries.

→ Share of TV households accessing digital television (end 2014) – *In % of TV households*
Ranked by share in descending order



Source: IHS

→ Digitisation rate of cable networks in Europe (2011-2014) – *In %*



Source: IHS

3.2 TV distribution platforms: competition and complementarity

Methodological complexity

Assessing the market share of each of the main television distribution platforms – digital terrestrial television (DTT), satellite, cable, IPTV over DSL or fibre – is complex as households often use several solutions (e.g. for the main or for the additional TV sets). Reliable figures, to an extent, usually only take into account the main TV set (“primary reception”), and may lead to an underestimation of the actual market share of certain networks, and in particular DTT.

Four networks competing for the delivery of television

At the European Union level, DTT is the premier TV reception network with a 32% share of TV households, followed by cable (30%), satellite (23%) and IPTV (15%). But these average figures do not reflect the strong heterogeneity of the television transmission landscapes in Europe. Differences in terms of reception modes result, among other factors, from the history of the roll-out of the TV networks; from the appetite of consumers for national channels or also for foreign channels; and from the regulatory framework.

In a first category of countries, terrestrial wired networks (cable and IPTV over DSL or fibre) serve over 50% of households. In many of these countries, cable networks were rolled out several decades ago to improve the access to foreign channels. Cable can achieve penetration rates of over 80% of households (in Belgium, the Netherlands and Denmark). Telecommunications operators have often entered these markets with IPTV offers, and, in order to increase their reach more rapidly, have acquired cable networks to distribute their services with the intention of managing the technological convergence between cable and IPTV.

In a second category of countries, DTT serves over 50% of households (Cyprus, Spain, Greece, Croatia and Italy) and is generally complemented by satellite. Cable networks did not manage to develop significantly so far, but a new push by telecommunication operators to develop IPTV over their networks could challenge DTT.

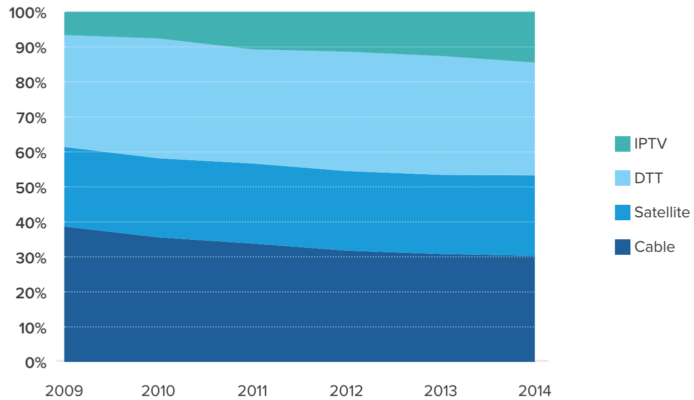
The third category includes countries where satellite is used by more than 50% of the population for primary reception on the television set (Austria, Ireland and Poland). Outside of these countries, satellite mainly complements the television reception, in particular in more rural areas.

Finally, in a series of countries, no television network has a clear edge over the other (Bulgaria, Czech Republic, Germany, France, United Kingdom or Lithuania).

Cooperation between networks

Television networks do not only compete to serve television channels; they also cooperate. Hybrid television networks combine two different networks to deliver more efficiently linear television channels or on-demand services: IPTV set-top-boxes may include a DTT tuner to provide access to the most popular TV channels without saturating the DSL network and therefore freeing more bandwidth for Internet services. Satellite services may similarly use hybrid set-top-boxes connected to the Internet to deliver on-demand services (e.g. catch-up TV) to their viewers.

➜ Share of television networks by access to television on the main TV set (2009-2014) – *In %*



Source: IHS

➜ Structure of TV reception in the European Union (2014)

DTT > 50% TV HH	CABLE/IPTV > 50% TVHH	SATELLITE > 50% TVHH	NO SINGLE NETWORK > 50% TV HH
Cyprus	Belgium	Austria	Bulgaria
Spain	Denmark	Ireland	Czech Republic
Greece	Estonia	Poland	Germany
Croatia	Finland		France
Italy	Hungary		United Kingdom
	Luxembourg		Lithuania
	Latvia		
	Malta		
	Netherlands		
	Portugal		
	Romania		
	Sweden		
	Slovenia		
	Slovak Republic		

Source: European Audiovisual Observatory, IHS

3.3 OTT on the rise

OTT video – from desktops and laptops to connectable TVs and mobile devices

OTT ("Over-the-Top") video has benefited tremendously from the equipment of European households with connected devices: smart TVs, video game consoles, media players, and HDMI dongles have rendered watching online videos accessible and convenient for European citizens. Whereas the main screen for OTT video remained the PC prior to these devices, nowadays watching OTT video on the TV screen or "on-the-go" has become ubiquitous.

In the EU28, connectable TV households have risen by 2,900% in the past 5 years to 51 million in 2014. IHS estimates that 50% of households in France, Germany and the United Kingdom will have smart TVs by 2019. As old "dumb" TVs are replaced by smart TVs, OTT video will further strengthen its position as a main ingredient in the audiovisual menu of European households, accelerating the transition from linear to non-linear video consumption.

The role of mobile devices is an essential factor in the rise of OTT video. Smartphones and tablets are individual entertainment screens, allowing video consumption at ease, whenever and wherever the user wants. Coupled with the continuous improvement of mobile Internet speeds and bandwidths, this change in consumption habits impacts profoundly upon the interaction with and production of video content, which becomes tailor-made for mobile screens (short clips, web series). Younger generations making a more intensive use of their phones, are at the forefront of these changes and the past years have witnessed numerous service launches targeting specifically these audiences. This trend is very likely to continue and give rise to new forms of video entertainment.

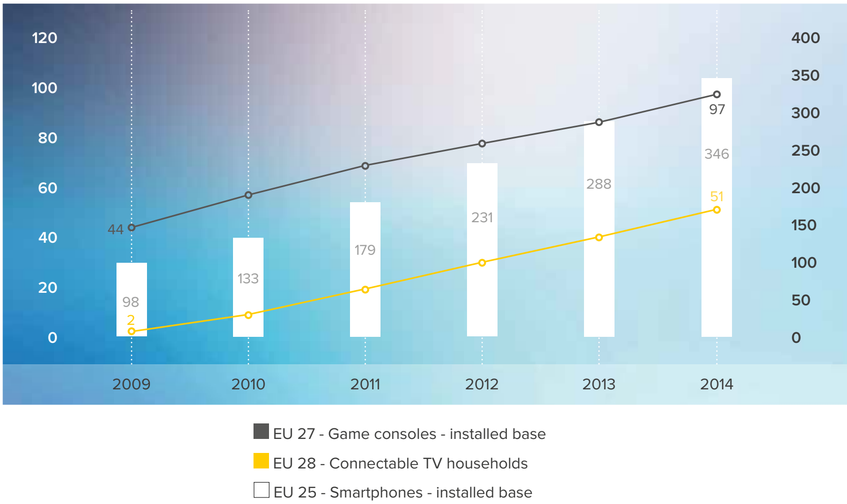
OTT VOD revenues – the growth factor for on-demand consumer revenues in Europe

The importance of OTT video is seen in the changing mix of consumer revenues generated from video on-demand (VOD) in Europe. Until 2012, VOD was mainly consumed on managed networks by audiovisual players (and therefore under their control), with OTT video representing only a quarter of VOD revenues. The situation is completely different in 2014: OTT video represents almost 2/3 of consumer revenues. If revenues generated by online video advertising is factored in, the share of OTT video in revenues increases further. The future ecosystem might be one where all video is distributed "Over-the-Top" and "Television" becomes synonymous with "Internet Television".

OTT players dominating OTT video markets

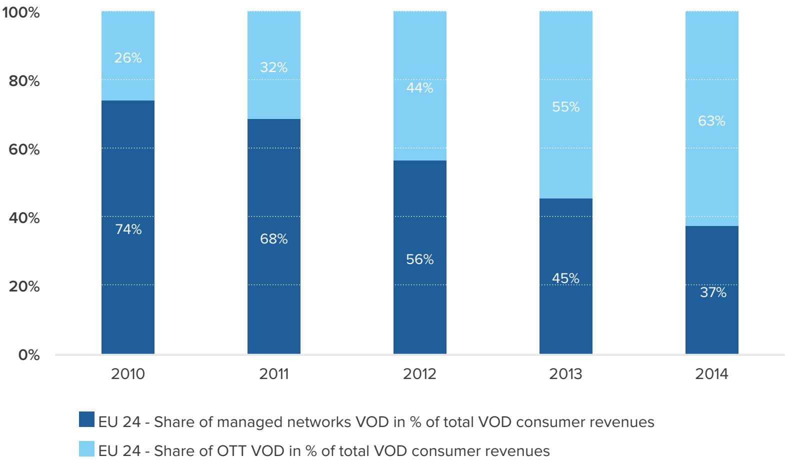
Online tech players dominate OTT video distribution. European players, who were able to dominate the VOD markets when they managed the distribution network, are losing control over the content consumed. In the OTT ecosystem, size and reach matters, favouring players present in several markets. In each market segment for online video, one or two international tech companies dominate their competition: YouTube and Facebook for advertising-financed video, Apple for EST and Netflix/Amazon for SVOD video services. European players have also started to make their services available OTT but have not succeeded, in the majority of cases, to be an effective competitor for these global players. In the Internet ecosystem, network effects are at work; the logic of "Winner-takes-all" might well prove to be true in OTT video distribution markets.

➔ Smartphones, connectable TV households and game consoles in the EU (2009-2014)
In millions



Source: IHS (no Smartphone data for Cyprus, Luxembourg, Malta; no breakdown by countries for game consoles)

➔ EU 24 OTT VOD and managed networks VOD consumer revenues (2010-2014)
In % of total VOD consumer revenues



Source: IHS (no data for Bulgaria, the Czech Republic, Croatia and Romania)

4.1 Audiovisual revenues in Europe: a slow crisis

Pay-TV is the only segment that is growing

2014 ended with signs of a recovery in the audiovisual market. Global revenues in current euros in the European Union increased by 2.8% compared with 2013, after two years of stagnation. However, the growth was only due to one segment, the pay-services (linear and on-demand). And, in constant 2010 euros, the sector's total revenues decreased by 4% since 2010.

Other than pay-services, all the other sources of funding of the European Audiovisual sector face at best stagnation, or even a drop in revenues: TV and radio advertising, public funding of public television and radio services and cinema box-office are stable. Physical video revenues decreased by an average of 10% each year, and the loss was not compensated by the increase of on-demand services revenues.

Among pay-services revenues, pay-TV recorded in 2014 a healthy 4% growth, in line with the average for the last 4 years. But it is unclear whether this growth rate is sustainable in the medium term as 2015 showed early signs that the number of pay-TV subscribers started to decrease in several countries.

Overall, the structure of the revenues of the audiovisual sector remains stable: 44% from consumer direct expenses, 32% from advertising and 24% from public funding.

Structural factors

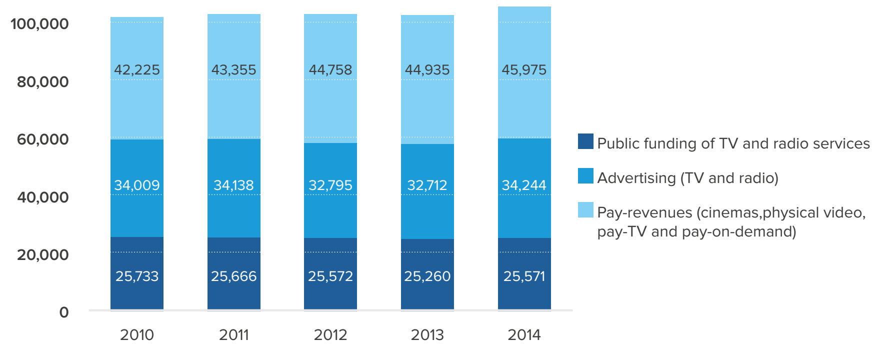
The slow crisis of the audiovisual sector is due to a combination of several factors. Some are conjunctural: weak economic conditions both constrain the States' capacity to support the public broadcasting sector, and affect advertising budgets. But most of them are structural: on one side, more competition leads to a decrease of tariffs and prices: the number of television channels keeps on growing in Europe, leading to more competition for advertising and therefore to lower tariffs. Also, the Internet has emerged as a leading advertising platform, gaining market share against the legacy media (although TV has resisted better than the press). The pay-TV market may now experience the same trend, as the proliferation of low-cost over-the-top subscription on-demand services will impact pay-TV prices and penetration.

On the other side, piracy remains an issue: affordable "all-you-can-eat" subscription services have launched, and may partially substitute the illegal use of content under copyright, at least with regard to TV series. But these new services are more of a substitute to pay-TV services than to physical video; and transactional video-on-demand, the successor of physical video, is still hampered by piracy.

Reasons for hope

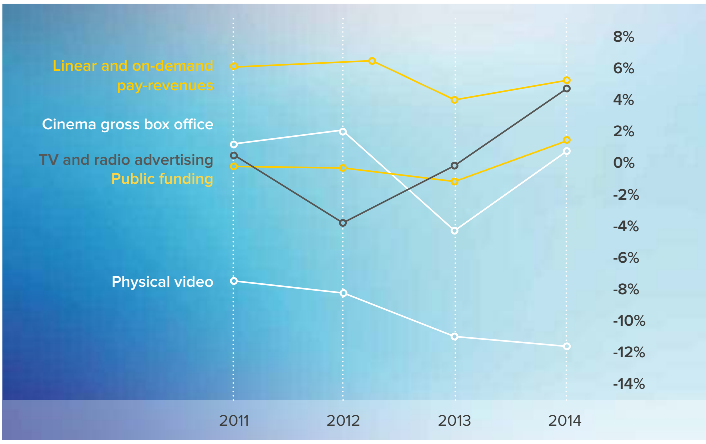
Even if negative trends affect the European audiovisual industries, some positive factors could open up brighter perspectives in the medium to long term. Regarding revenues, TV could regain competitiveness thanks to targeted advertising; low-cost pay-services could contribute to expanding the global pay market. Regarding expenditures, more circulation of European content would improve the amortisation of production costs; and direct-to-consumer distribution would cut the fees of intermediaries.

→ **Evolution of the audiovisual market in the European Union (2010-2014)** – *In EUR million*



Source: European Audiovisual Observatory, from company reports, IHS, Médiamétrie/Eurodata TV, EBU/MIS, WARC, LUMIERE

→ **Compared growth rates of segment of the audiovisual market in the European Union (2011-2014)** – *In %*



Source: European Audiovisual Observatory, from company reports, IHS, Médiamétrie/Eurodata TV, EBU/MIS, WARC, LUMIERE

4.2 TV advertising: recovery or transformation?

Internet advertising grows at the expense of press and magazines

In 2014, Internet was the 2nd advertising platform in Europe with a 30% market share of advertising expenditure, up from 18% in 2010. This impressive growth took place mainly at the expense of advertising in the press or in magazines, while the share of advertising going to television remained quite stable.

Television accounts for 32% of advertising expenditure in the European Union, with strong differences between countries. Schematically, countries with the higher advertising expenses per capita are also those where television has a lower share of the advertising expenses. And, conversely, television has captured a high share of advertising in countries with the lower advertising per capita levels.

Still no full recovery from the 2007-2008 crash

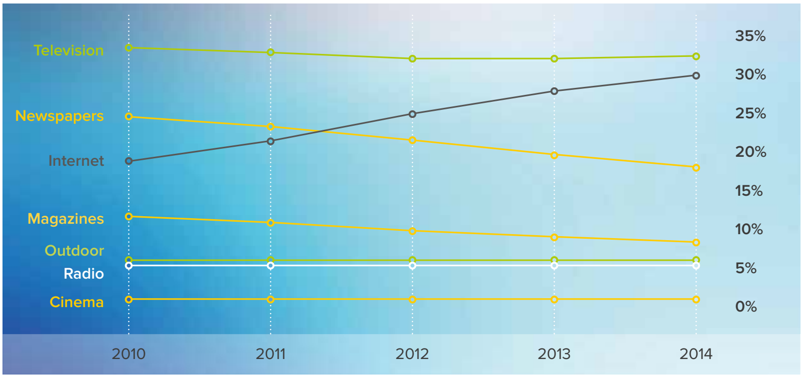
As a consequence of the economic downturn, TV advertising fell by 17% between 2007 and 2009. A partial recovery has taken place, followed by a period of stagnation: in 2014, TV advertising revenues are still lower than in 2007. The recovery process is therefore not over, as there are also structural causes at work, with probably greater impact than the direct competition with Internet for advertising: the European economy remains weak; the television viewing time is no longer growing and is even decreasing among the young viewers; the proliferation of TV channels has led to competition on advertising tariffs and has increased the market power of advertisers.

Keeping TV advertising relevant

The Internet provides a mix of advertising solutions of great appeal to advertisers: the combination of mass-media, with the ability to reach a large audience, and direct marketing with targeted advertising. Ultimately, the Internet may provide the missing link between advertising and e-commerce, guiding the consumer all along the purchase process. The relevance of television advertising is therefore challenged: a limited knowledge of the customer base, due to analytics inherited from the analogue world; and the impossibility of identifying the right targets as the same advertising messages are sent to all viewers.

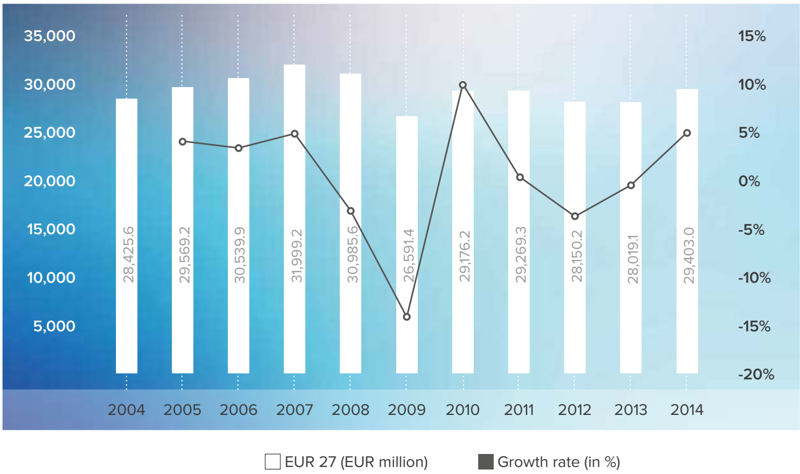
Broadcasters and TV distributors have, however, started to implement the logic of Internet “programmatic advertising” into linear television: advanced set-top-boxes gather more data on viewers and enable addressable advertising, adapted to a subgroup of customers on the basis of their profiles, using a largely automated process to match audiences and the advertisers’ criteria. Big data-intensive, programmatic advertising implies scale, which is a challenge for broadcasters when competing with the major Internet platforms.

→ Evolution of the breakdown of advertising expenses by media in the European Union (2010-2014) – *In %*



Source: European Audiovisual Observatory, WARC

→ TV advertising expenses in the European Union (2004-2014)



Source: European Audiovisual Observatory, WARC (no data for Luxembourg)

4.3 Pay-TV: cord-cutting in Europe?

Cord-cutting: a US phenomenon?

"Cord-cutting" describes the phenomenon of consumers leaving their traditional cable, IPTV or satellite pay-television provider to access television and video either fully from the Internet, or by combining digital terrestrial or satellite free television and Internet services. As the Internet may not provide the full array of television services, consumers may only do some "cord-shaving", i.e. reducing their pay-television plan to the minimum and completing it with Internet video services.

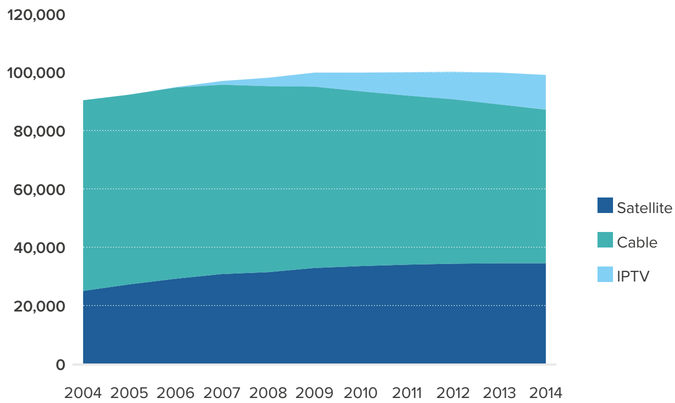
The number of subscribers to legacy pay-television services is indeed slightly decreasing in the United States, although not yet with enough significance to confirm that cord-cutting is an installed trend. Several factors could account for these early signs: broadband Internet delivers satisfactory levels of quality of service; several solutions enable the usage of Internet video content on the television set; innovative and attractive services are available on the Internet. The rapidly increasing prices of pay-TV in the USA, with the average "Expanded basic" service priced as high as USD 66 per month in 2014 is an additional incentive for consumers to explore alternative ways to access content, as the tariffs of services such as Amazon, Hulu+ or Netflix are priced in the range of USD 10 per month.

The prospects for pay-TV in Europe

The pay-TV market in Europe is heterogeneous and has emerged from two different models: countries with a large roll-out of cable, initially used as a low-cost "collective antenna"; countries with mainly high-end premium pay-television serving a limited proportion of consumers and where the majority of the viewers use free TV. The level of development of free-television services, and in many cases the weight of public service broadcasters has obviously also had an impact on the development of the pay-TV market. The market is therefore unevenly developed, with annual pay-TV revenues per household ranging from EUR 46 to EUR 392 in 2014 in the European Union.

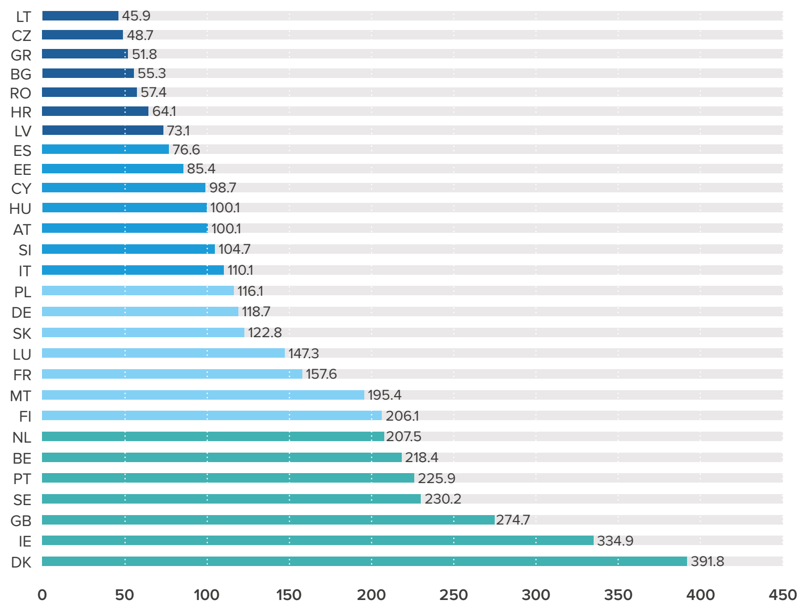
Overall, pay-TV has experienced a strong growth, with an average annual growth rate of 5.3% since 2006, driven by the digitisation of cable, the introduction of new advanced services, and the competition between cable operators and telecommunications operators. On average, the market remains less developed than in the USA, and tariffs are lower. Therefore, in Europe, the new competition from on-demand services distributed on the Internet may, in the short term, contribute to further expanding the global market for pay-television services; but the legacy players will face tough competition from the new entrants when it comes to accessing the new streams of revenues generated by on-demand services.

→ Subscribers to pay-TV services in the USA (2004-2014) – *In millions*



Source: European Audiovisual Observatory, Ampere Analysis data

→ Annual pay-TV revenues per household in the EU (2014) – *In EUR million*



Source: European Audiovisual Observatory, IHS, Eurostat

4.4 On-demand: SVOD and EST driving growth

Explosive growth in SVOD consumer revenues throughout Europe

One business model has really pushed paid on-demand services to a new level in Europe in recent years: subscription video-on-demand (SVOD) services. These services, with relatively modest monthly fees well below pay TV subscription prices (most of the time less than EUR 10 per month), the "all you can eat" buffet formula for audiovisual content for a flat fee (as opposed to transactional VOD services), coupled with flexible viewing options adapted to the mobile era (ATAWAD - anytime, anywhere, on any device) are convincing European consumers. The launch and acquisition of exclusive content by SVOD services, increasingly in the first pay TV window, further strengthens the value of the deal offered to their subscribers.

Consumer revenues for SVOD services grew exponentially during the five year period from 2010 to 2014, from EUR 40.7 million to EUR 844.1 million in the 22 countries of the EU for which market data is available, with a compound annual growth rate of 113%. Western European countries such as the United Kingdom (EUR 393.3 million), Norway (EUR 108.9 million) and Sweden (EUR 95.1 million) have a more developed market for SVOD services due to earlier launches and quicker consumer adoption.

More SVOD offers: national SVOD services and the entry of international players in Europe

This strong growth underlines the market entry of international services such as Netflix and Amazon on the European market, the launch of SVOD services by national players and the rapid adoption of SVOD services by European consumers. With the launch of Netflix in all European countries at the beginning of 2016, the competition for subscribers will increase dramatically.

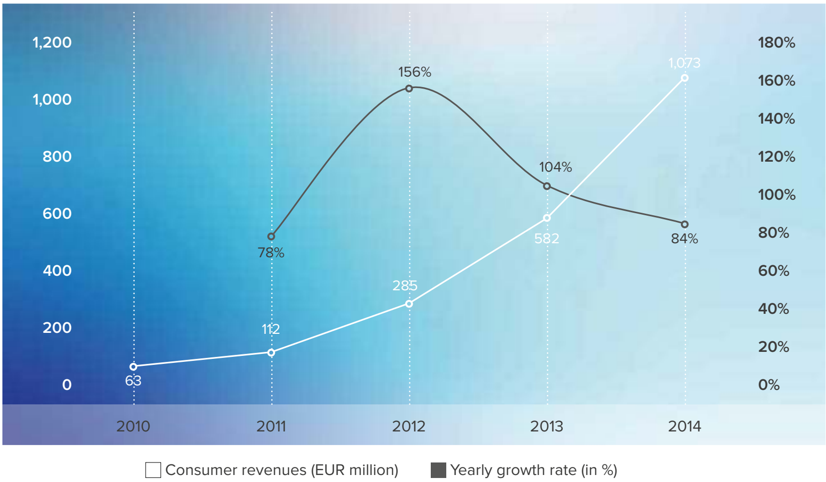
National audiovisual players will have to adapt to these changing market dynamics in order to remain competitive in the future. The necessary high investments in R&D (infrastructure, user interface, recommendation tools) to ensure a seamless user experience and the increased costs for content acquisition may reduce the competition to a few players on each market.

Economies of scale will further advantage pan-European (such as Vivendi, Sky, Telefonica, The Modern Times Group, Altice...) and global players who have the necessary size to effectively compete for subscribers and amortise the associated costs.

Electronic-sell-through gains traction as DVD and Blu-ray sales drop

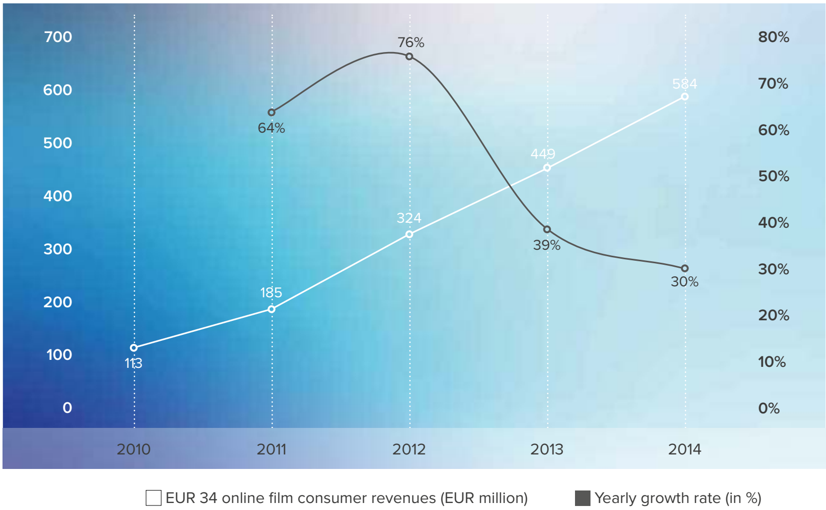
The other coming of age in Europe regarding on-demand audiovisual services are electronic-sell-through (EST) services, of which Apple's iTunes is the best known and, supposedly, market leader in Europe. As physical video retail continues its decline, and as online rental seems to reach a certain maturity, the industry is looking towards EST as a possible growth relay. With online film revenues reaching EUR 523.9 million (up by 30%), EST could well be the answer but for now it does not yet compensate the value loss on the retail market (EUR - 2.8 billion in the 5 year period). Earlier availability is the main advantage of EST, coming however at an increased price for consumers, who still have plenty of choice in the digital audiovisual ecosystem.

→ EUR 26[(1)] consumer revenues SVOD services (2010-2014)



(1) EU 28 minus CY, EE, HU, MT, LT, LV, plus CH, NO, RU and TR.
Source: IHS

→ EUR 34[(1)] online film consumer revenues (2010-2014)



(1) EU 28 plus AM, CH, MA, MK, NO, RU and TR.
Source: IHS

4.5 Cinema: same screens, more digital

All quiet on the European front

The number of European screens grew by 1.57% on previous year to a total of 37,335 in 2014, well in line with the 0.94% and 1.39% growth in the United States and Japan respectively. However, the number of screens slightly decreased in the European Union, by 0.14% on 2013, down to 29,943.

On average, theatrical infrastructure has clearly been stagnating in recent years, with an average 5-year growth of 1.31% – a figure close to zero when it comes to the EU. However, theatrical infrastructure and its evolution is quite heterogeneous within Europe; in fact, five countries experienced a double-digit growth compared to the previous year, with Estonia topping the list with a 29.41% increase, followed by the Slovak Republic, Bulgaria, Turkey, Romania and the Russian Federation. Turkey and the Russian Federation are quite remarkable indeed, with a 20% and 37.5% hike in the number of screens respectively over the period 2010-2014. In turn, most major consolidated markets experienced growth below one percentage point, with the exception of Spain (-5.32% year-on-year) and Italy (-2.94% year-on-year).

Digital roll-out about to wrap up

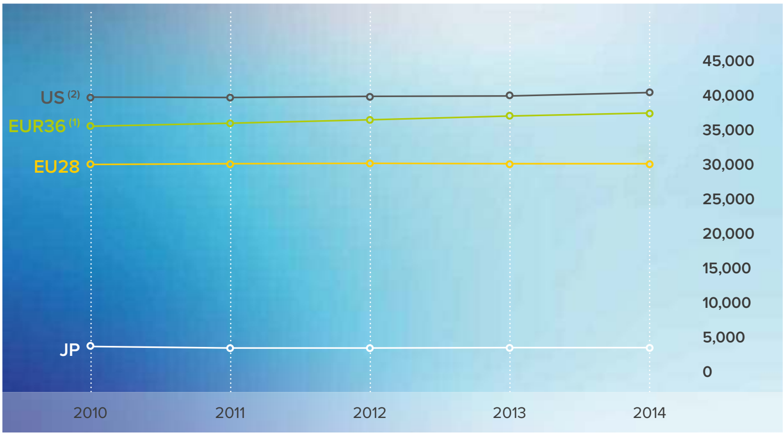
With 33,916 digital screens in Europe (27,932 in the EU), 2014 saw digital penetration reach a peak of 91% (93% in the EU). Again, the evolution of digital screens varies significantly from country to country; 21 of the 33 countries analysed were above the 91% European digital penetration. The number of fully digitised countries rose by five in 2014, to a total of 11. In that period, four additional countries went over 80% digital penetration, from which it is safe to say that commercial venues have reached full digitisation, leaving only 9 European countries below that threshold. Moreover, in Spain and Italy, relevant rises in the number of digital screens led to a huge increase in digital penetration also due to the closure of conventional theatres (still using film reels).

3D no longer leads the way

Although the digital roll-out was strongly driven by 3D screens at the outset, these days seem to have passed. The 8,410 3D screens operating in Europe in 2010 accounted for 81.3% of digital screens. Five years later, the number of 3D screens has more than doubled (17,149 in 2014), yet they only represent around half the digital stock on the continent (50.6% in 2014).

In fact, 3D screens consolidated in 2013; the minor 4.2% year-on-year increase (2.1% in the EU) in 2014 was mainly due to the delay of the 3D market consolidation in some countries; notably the Russian Federation and, to a much lesser extent, the Czech Republic and Bulgaria at EU level. Moreover, the gap between 3D and non-3D digital screens has continued to widen since 2010, as can be seen in the second graph.

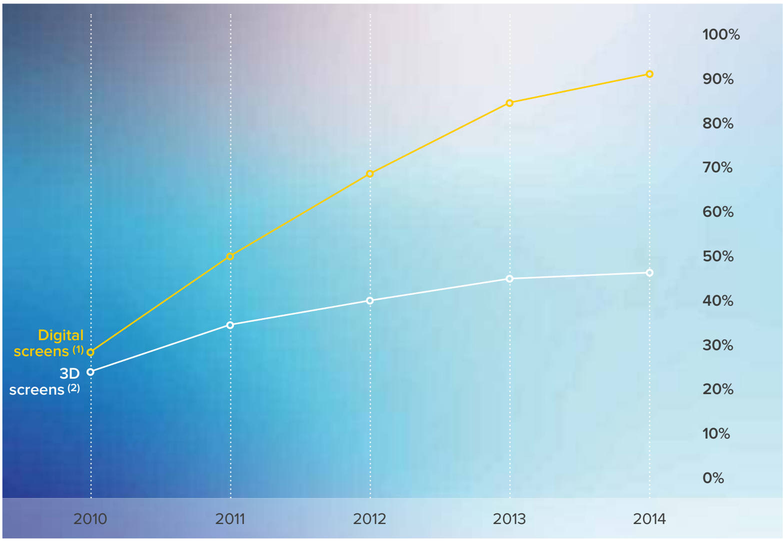
→ Number of screens in Europe, USA and Japan (2010-2014)



(1) EUR 36 refers to the countries covered by the European Audiovisual Observatory for which data were available, minus AL, AM, MA and ME.
(2) Including outdoor cinemas and video theatres. Excluding IMAX screens.

Source: European Audiovisual Observatory, National Film Centres.

→ Digital and 3D screens as percentage of total screens in Europe (2010-2014)



(1) EUR 34 refers to the countries covered by the European Audiovisual Observatory minus AL, AM, LI, MA, ME, MK.
(2) EUR 33 refers to the countries covered by the European Audiovisual Observatory minus AL, AM, BA, LI, MA, ME, MK.

Source: European Audiovisual Observatory, Media Salles.

4.6 Cinema: record market share for European films in 2014

Market share for European films reaches record high in 2014

2014 proved to be an exceptionally good year for European films[1] as a whole. Cumulatively selling about 302 million tickets in the 28 EU member states, European films took an estimated record market share of 33.2%. This is well above the usual range of 26% to 29% and indeed is the highest level observed since the Observatory started to calculate the European market share in 1996. This peak in market share for European films can be explained – *inter alia* – by the exceptional success of a couple of European "blockbusters" on the one hand and the comparatively poor performance of US studio films on the other hand. Market share for US films dropped accordingly from its 2013 record level of 69.5% to 63.1%.

Luc Besson's sci-fi thriller *Lucy* and French culture clash comedy *Qu'est-ce qu'on a fait au Bon Dieu* (*Serial (Bad) Weddings*) stood out among European films, selling 19.8 and 18.1 million tickets in Europe respectively. Other exceptionally successful EU films include the Spanish comedy *Ocho apellidos vascos* (*Spanish Affair*), which became the highest grossing Spanish film of all time, and British family comedy *Paddington*, both of which made it into the list of the 25 top grossing films in 2014.

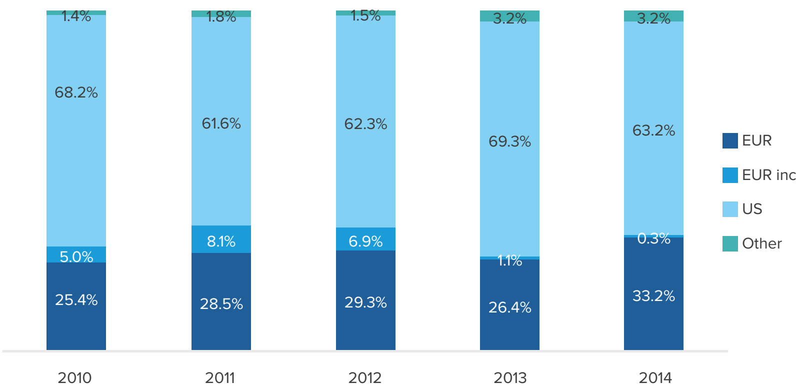
Although it is too early to estimate market shares by origin of films for 2015, it seems that the picture will look quite different from 2014. Unlike 2014, admissions growth in the EU in 2015 seems to be driven by the strong performance of primarily US blockbusters and it remains to be seen how this will impact the performance of European films in absolute terms as well as in terms of market share.

European films performed well both on national as well as non-national markets

In 2014 admissions to European films increased both on domestic as well as on non-national markets. The Observatory estimates that EU films sold about 219 million tickets on their domestic markets (up from 176 million in 2013) and generated 84 million admissions in non-national EU markets (up from 63 million). National admissions hence still represented the lion's share of admissions to European films accounting for 72% of cumulative admissions to European films in the EU compared to 28% for non-national admissions.

1 Films that were majority-financed in a European country excluding so called "incoming investment" films, i.e. films that are produced in Europe with incoming investment from US studios (EUR inc).

→ Breakdown of EU admissions by origin of films (2010-2014) – *Estimated*



Source: European Audiovisual Observatory

→ Top 20 European films ranked by admissions in Europe (2014)

Estimated admissions for calendar year 2014; In million

Rank	Original title	Country of origin	Director	Total admissions in Europe 2014
1	Lucy	FR	L. Besson	**19,829,947**
2	Qu'est-ce qu'on a fait au Bon Dieu?	FR	P. de Chauveron	**18,064,858**
3	Ocho apellidos vascos	ES	E. Martínez Lázaro	**9,322,499**
4	Recep Ivedik 4	TR	T. Gökbakar	**8,088,084**
5	Paddington	GB/FR	P. King	**8,025,598**
6	Supercondriaque	FR/BE	D. Boon	**6,032,778**
7	The Inbetweeners Movie 2	GB	D. Beesley, L. Morris	**5,032,430**
8	Viy	RU/UA/CZ	O. Stepchenko	**4,457,278**
9	The House of Magic	BE	J. Degruson, B. Stassen	**4,434,361**
10	The Physician (5)	DE	P. Stölzl	**3,938,890**
11	Hundraåringen som klev ut genom...	SE	F. Herngren	**3,922,316**
12	La belle et la bête	FR/DE	C. Gans	**3,841,509**
13	Yolki 3	RU	A. Karpilovskiy, et al.	**3,806,566**
14	Les vacances du petit Nicolas	FR	L. Tirard	**3,761,204**
15	Eyyvah Eyvah 3	TR	H. Algül	**3,602,099**
16	Samba	FR	O. Nakache, E. Toledano	**3,589,023**
17	Dügün dernek	TR	S. Aydemir	**3,122,824**
18	Philomena	GB/US/FR	S. Frears	**2,964,673**
19	Astérix: Le domaine des dieux	FR	L. Clichy, A. Astier	**2,820,278**
20	Babysitting	FR	N. Benamou, P. Lacheau	**2,748,291**

Source: European Audiovisual Observatory, LUMIERE

4.7 Cinema: 2015 - Highest admissions level in the past five years

EU cinema attendance hits second major peak of the past decade in 2015

The Observatory estimates that total admissions in the European Union increased in 2015 by 7.6% to 980 million tickets sold, 69 million more than in 2014. This is the second highest level registered in the EU in the past ten years. Only in 2009 - boosted by *Avatar* and the novelty factor of 3D - did cinemas in the EU sell marginally more tickets. Geographically speaking the growth in EU cinema attendance was primarily driven by the strong year-on-year performance of Germany (+17.5 million, +14.4%) and the UK (+14.4 million, +9.2%) followed by Italy (+8.7 million, +8.9%), Spain (+7.1 million, +8.2%) and Poland (+4.2 million, +10.5%). Including non-EU European territories, 2015 actually saw the highest admission levels since 2004 with estimated record admissions of over 1.2 billion tickets sold.

GBO expected to reach new record high

Reliable figures on 2015 gross box office do not become available until later in the year but it seems likely that the strong increase in admissions will drive cumulative gross box office takings in the 28 EU member states to a new record level well above EUR 6.5 billion. This would make 2015 the first year since 2009 where GBO grows due to a strong increase in admissions, since the impressive GBO growth registered between 2009 and 2012 was primarily fuelled by increasing ticket prices which kept box office growing despite falling admissions. The pan-European average ticket price – measured in euros – then stabilised at EUR 6.9 but might increase again in 2015 as provisional data show that ticket prices – measured in national currencies – increased in the majority of EU member states. This could provide an additional growth stimulus for GBO.

2015 growth likely driven by strong performance of US blockbusters

Although it is too early to break down overall admissions by the origin of films, it seems that EU admissions growth in 2015 was primarily driven by the strong performance of a number of – primarily US – blockbusters. This would clearly be in contrast with the results of 2013 and 2014 when US blockbusters performed comparatively poorly as illustrated by the below average admissions of the top performing films: the top grossing film of 2013, *Despicable Me 2*, generated 25.4 million and *The Hobbit: Battle of the Five Armies*, the most successful film of 2014, merely 22.3 million admissions in the EU. This was well below the ten year average annual admissions level of 38 million tickets sold for the top grossing film over the past ten years. In contrast in 2015 not just one but several films such as *Star Wars: The Force Awakens, Spectre* or *Minions* are expected to reach that benchmark which would prove to be a significant factor in explaining the overall market growth in 2015.

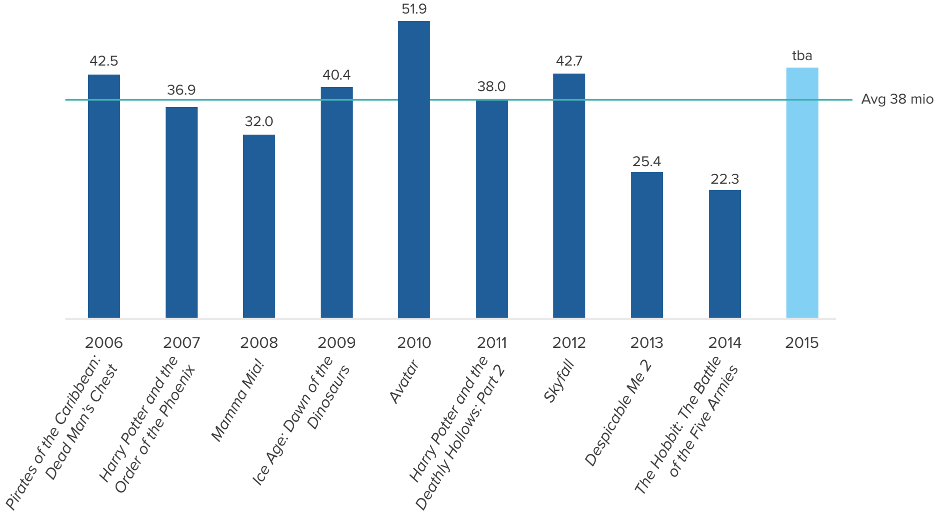
➔ Cinema attendance, GBO and average ticket price in the EU (2006-2015)

Estimated indexed development, base year is 2006

Source: European Audiovisual Observatory

➔ Admissions to top grossing films in the EU by calendar year (2006-2014)

In millions; admissions refer to calendar year



Source: European Audiovisual Observatory

4.8 Video: VOD does not compensate for physical video losses

The new kid on the block

Video on demand services marked the beginning of the end of the DVD and Blu-ray era, the same way DVD had previously sentenced VHS to extinction or VHS had also surpassed BETA. However, the current change is way more profound and complex than any other that has occurred before in the video industry, as it is not just a change of format but a change of consumption and business models. In the midst of this transition, revenues from film on demand are not compensating for the huge losses in the physical video sector (DVD and Blu-ray retail and rental combined). However, it would be unfair to blame the change of model for the drop in revenues of the traditional video formats, as the sector was in decline (although more moderate) long before video-on-demand even started to gain momentum, most probably due to piracy and diversification in media consumption.

Physical video v. film on-demand

2014 saw revenues for physical video dropping by 12% on the previous year, down to EUR 5,343 million in the European Union[1]. The decline is even more evident in view of the EUR 2,688 million the sector has lost since 2010 (a 5-year 33.5% drop). In turn, retail revenues, the lion's share of the video market in the EU, have been freefalling since 2010, down to EUR 4,796 million in 2014. Showing an even sharper trend, the rental sector shrank by more than half over the last 5 years, down to EUR 547 million in 2014.

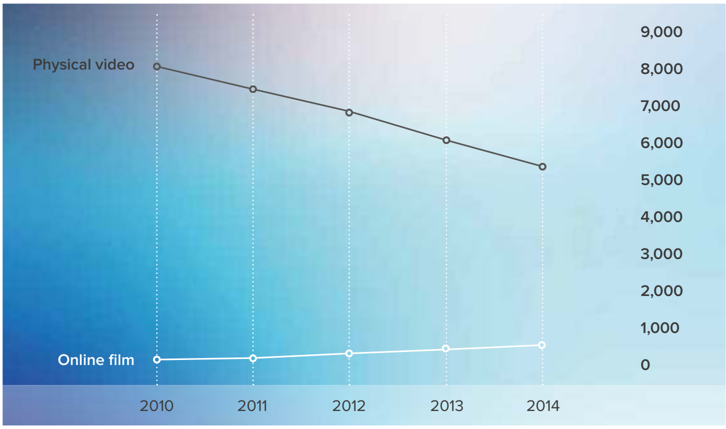
During the same 5-year period, on-demand film revenues[2] have multiplied almost five fold, from EUR 110.8 million in 2010 to EUR 524 million in 2014 (a year-on-year growth of 30% on 2013); a gigantic growth, yet not enough to compensate for the enormous losses in the sector.

The evolution of film on-demand

Film on-demand has almost multiplied by five its revenues in the European Union over the period 2010-2014; reaching EUR 524 million in 2014. As it can be expected, the main European countries by population are also the main film on-demand markets, with the UK topping 2014's list by revenues (EUR 175.6 million), followed by Germany (EUR 128.4 million), France (EUR 71.5 million), Spain (EUR 22.6 million) and Italy (EUR 20.5 million). In addition, online film is penetrating more and more in all European countries – the forerunners UK, France and Germany accounted for 91% of the revenues in 2010, compared to only 72% in 2014.

1 Data for the main 18 EU markets.
2 On-demand data refer to the 28 EU members states.

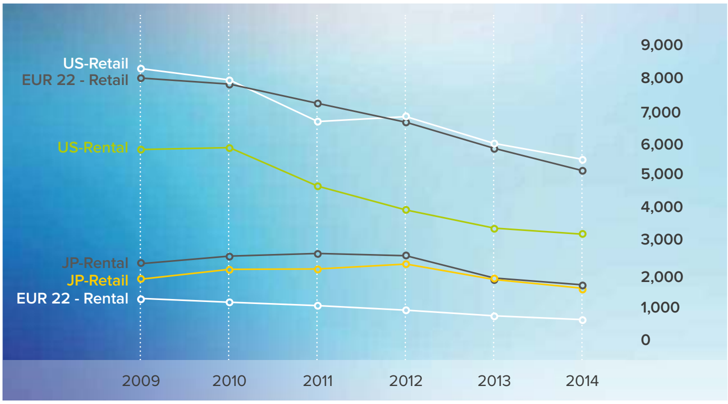
→ Consumer revenues for online film and physical video in the EU[3] (2010-2014)
In EUR million



(3) Data on physical video refers only to the main 18 EU markets and is not restricted to film. Data on other forms of on-demand film distribution were not available.

Source: IHS

→ DVD+Blu-ray turnover (2009-2014) – *In EUR million*



Source: European Audiovisual Observatory, IHS

5.1 The growing weight of US players

US media groups dominate the world top 50

In 2014, 8 out of the top 10 and 27 out of the top 50 major world audiovisual groups are US-based. US groups account for 69% of the cumulated top 50 revenues, a share that has increased from 60% in 2010 due to a continuous trend towards consolidation. This consolidation process has led to a growth rate for the top 50 players' cumulated revenues much higher than the growth rate of the market itself: 8.8% on average between 2010 and 2014.

Content does matter, as groups controlling one of the six major Hollywood studios (Universal, Disney, 20th Century Fox, Warner Bros., Columbia and Paramount) all rank within the top 12 worldwide audiovisual companies and represent together 36% of the top 50 revenues. In comparison, new entrants in the television sector (either video pure-players such as Netflix, or groups diversifying into the video business, e.g. Apple or Google) still only account for 11% of the top 50 revenues, but are up from 6% in 2010.

European groups are less diversified

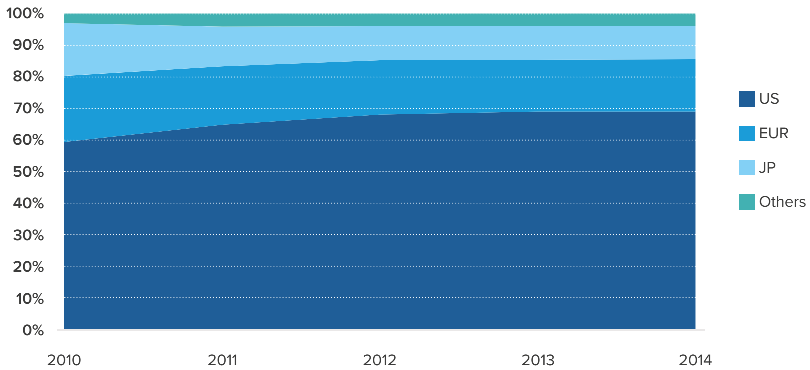
The cumulated revenues of the top 50 European audiovisual companies increased annually by an average of 3%, significantly less than the worldwide top 50: European groups are still focused on the European market, which has experienced a lower growth rate than the USA or emerging countries; also, consolidation has not taken place in Europe to the same extent it has in other markets, with the notable exception of the full take-over of Sky Italia and Sky Deutschland by Sky.

Whereas in the USA the leading audiovisual companies are rather diversified groups (e.g. Comcast being both the leading cable operator and the owner of Hollywood studio Universal, or Twenty First Century Fox, an integrated production and television group, active both in commercial and pay-television), the major European players tend to an extent to remain focused on their initial line of business: commercial TV, pay-TV or pay-TV distribution. Unlike in the USA, no European new entrant in the video sector appears in the European top 50, as the major Internet video service providers are US-based.

PSBs play a significant role in Europe

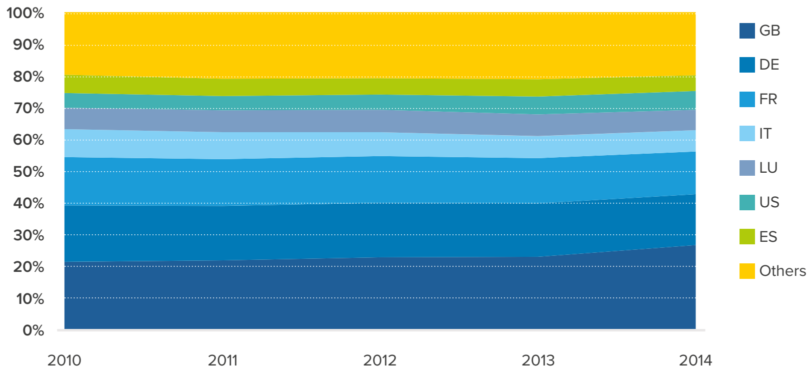
The weight of public service broadcasters (PSBs) is one of the key characteristics of the European audiovisual industry. Whereas only 8 public groups (7 European PSBs and Japan's NHK) appear in the world top 50 and represent 7% of the total revenues (down from 10% in 2010), 20 PSBs rank among the European top 50 players and account for 34% of the top 50 revenues, down from 38% in 2014.

→ **Breakdown of revenues of the worldwide top 50 audiovisual players by region of origin (2010-2014)**



Source: European Audiovisual Observatory based on company reports

→ **Breakdown of revenues of the European top 50 audiovisual players by country of origin (2010-2014)**



Source: European Audiovisual Observatory based on company reports

5.2 Broadcasters: linear euros and on-demand cents

Stagnation of advertising and public funding

Two out of the three main sources of revenues for broadcasters have entered a phase of stagnation at most since 2010. Advertising is slowly recovering from the 2008 downturn. Public funding is under pressure from the States, budgetary constraints. Pay-TV, on the contrary, is still growing, and so are the fees distributed by the pay-TV service providers to broadcasters or the subscription revenues directly collected by TV channels. However, in 2015, early signs show that pay-TV may also soon face the end of its long growth period.

More competition

In this context where legacy revenues are threatened, competition is growing. Digital television has led to a spectacular increase in the number of television channels in Europe competing for advertising. This has turned into a fragmentation of audiences: in most European countries, the television viewing market share of the four main television channels has constantly decreased in recent years. This increasing competition has led to decreasing advertising tariffs and hence revenues. As a probable consequence, less new channels were launched over the last few years.

A new phase is beginning, where on-demand services provide a large variety of free and paid-for content. The challenge for broadcasters is to benefit from these new opportunities without destroying value from their legacy services. The "killer-application" for free quality programming is probably catch-up television, which is now widely offered by broadcasters. Whereas catch-up television can bring additional audiences, related advertising revenues may not compare with what they used to be in the linear world. "Linear Euros and on-demand cents" may describe the painful transition from mass to targeted advertising.

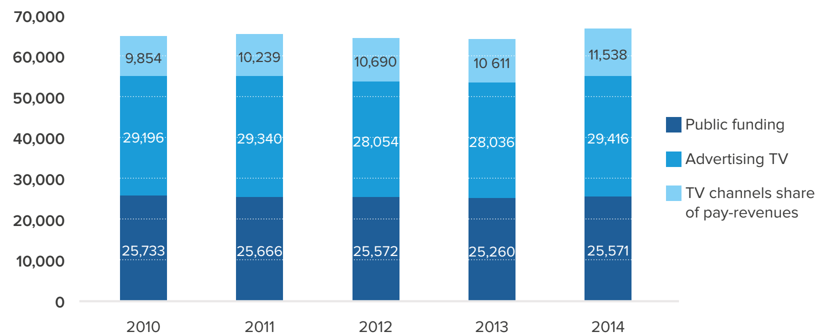
In the pay-TV market, subscription video-on-demand services may in certain countries expand the global market. In others, such low-cost services will probably distract subscribers from the incumbent players or force them into a price war.

Uberization?

On-demand conveys an even more structural risk for broadcasters, as their core business, the scheduling of programmes, may be disintermediated or "Uberized". Rights holders may, in the long term, intend to directly supply their programmes to the consumers, by-passing the broadcasters as TV shows benefit from strong brands, developing independently from the broadcasters. To face this threat, broadcasters may want to become a destination site for on-demand content competing with the Internet players. They may also opt for an upward integration towards production, provided the audiovisual legislation does not prevent them from doing so.

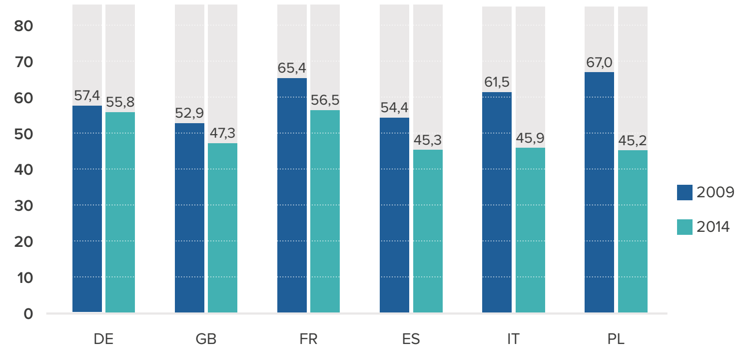
→ Evolution and breakdown of broadcasters' revenues in the European Union (2010-2014)

In EUR million



Source: European Audiovisual Observatory estimates, WARC, EBU/MIS, Company reports

→ Audience market share of the four main channels in a selection of European countries (2009, 2014)



Source: European Audiovisual Observatory, Eurodata TV Worldwide

5.3 Challenges for public service broadcasters

Pressure on PSBs revenues

The level of revenues of public service broadcasters (PSBs) strongly varies between countries, not only in absolute terms, but also per household: in Denmark, revenues per household were EUR 391 in 2014, in comparison to EUR 17 for LRT (Lithuania).

PSBs revenues have decreased on average by 0.3% per year in the European Union between 2010 and 2014. Excluding Germany, by far the most well-funded public television service, where a new licence fee scheme boosted the revenues of the public broadcasters, the decrease was as significant as 1.2% per year. Spain, Portugal and Cyprus experienced the strongest decline.

Both pressure on public funding and the advertising crisis can explain this downward trend, as PSBs generally rely on these two resources, although in different proportions: public funding can account for up to 97% (in Finland), and down to just 36% (in Poland) of PSBs resources.

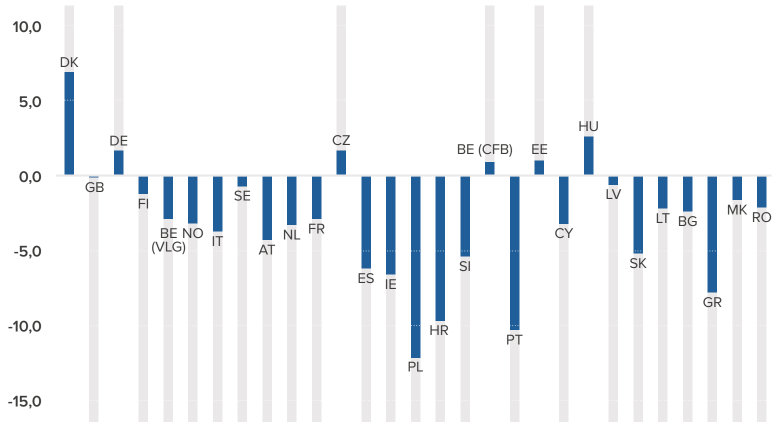
Different trends in viewing shares

The differences in level of funding is one of the key factors explaining why European PSBs' audience shares range from less than 10% to more than 60%. Whatever their audience shares, PSBs, alongside their commercial competitors, are facing an increasing fragmentation of the audience, due to the multiplication of digital television channels. Most have reacted by expanding their portfolio of channels. However, their audience share is generally decreasing since 2010, with notable exceptions: Denmark, Hungary, Germany, Estonia, the Czech Republic and French-speaking Belgium.

Challenges ahead for the access to key programming?

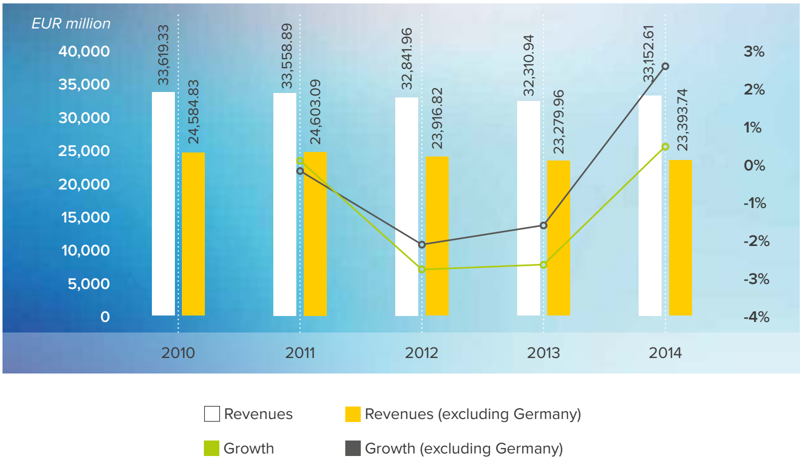
The pressure on PSBs revenues comes at a time when investing in the online distribution of programmes becomes mandatory for broadcasters to address new consumption patterns, in particular of young viewers. The concentration of private broadcasters is another challenge as it may hinder the competitiveness of PSBs on the advertising market. Initial signs of cross-border consolidation may also give the private broadcasters the scale to compete with the Internet giants, whereas PSBs remain essentially national, despite the cooperation in the field of sport right purchases. Discovery/Eurosport's successful bid for the European rights of the Olympic Games from 2018 to 2024, previously held by the EBU (the association of public broadcasters) is a clear warning sign in that respect. And whereas certain PSBs have strong internal production arms (e.g. BBC), others could be threatened by the on-going integration process between commercial broadcasters and production companies.

→ Evolution of PSBs audience market share between 2010 and 2014 in a selection of European countries *– In %*



Source: European Audiovisual Observatory, Eurodata TV Worldwide

→ Revenues and growth rate of PSBs in the European Union (2010-2014)



Source: European Audiovisual Observatory, EBU/MIS, company reports

5.4 Production: integration and consolidation

Buying spree

2014 and 2015 have seen a wave of deals concerning audiovisual production companies in Europe but, also, some acquisitions of US producers by European television groups. Three main factors can explain this unprecedented consolidation moment.

- Already strong exporters of programmes to the European market, US based media groups seek to diversify their activities by directly funding European works or facilitating US-Europe coproductions.
- Broadcasters, facing the slow-down of the linear television market intend to develop their TV production segment to secure the rights and exploit them on any platform.
- Independent producers look for scale, to invest in new projects, to better balance their activities between different genres of programming, to better pre-finance TV shows thanks to a worldwide presence, and to get market power in their negotiations with broadcasters.

A new structure for the audiovisual market

Vertical integration between production (the Hollywood studios) and television channels is the dominant model in the US. However, none of the studios' TV production arms works exclusively for the television channels of its own group. For TV channels the possibility to obtain the best shows, whoever produces them, is key. And TV producers do need to find the best financing deal for their projects, which may not necessarily be proposed by an affiliated TV channel. The integration process in the US has therefore resulted in a balanced situation, with clear and strong synergies between production and broadcasting, but also some level of competition between the studios to supply TV shows to all broadcasters.

The European production landscape was a combination of broadcasters' in-house production and small independent producers, in varying proportions depending on the country. This distinction becomes more irrelevant as independent producers working for broadcasters are increasingly backed by powerful international groups and as commercial broadcasters tend to increase their activities in the field of TV production, not only to serve their own needs but also to deliver programming to their competitors. Despite the incomparable weight of Hollywood studios, the European market structure could therefore increasingly mirror the US one.

The value is in content

The renewed interest in TV production, as shown by the high level of mergers and acquisitions, is the consequence of a shift of market power in the audiovisual value chain. In a phase of uncertainty regarding the future of audiovisual services, in the context of a possible disintermediation of both distributors and broadcasters, and as TV programmes target a worldwide market, the production and exploitation of audiovisual content appear to be more than ever the key assets and expertise of media groups.

→ The top 15 European production companies by revenues (2010-2014)

RANK	COMPANY NAME	COUNTRY	2010	2011	2012	2013	2014
1	Fremantlemedia (1)	GB	1,272	1,429	1,711	1,525	1,486
2	Endemol (2)	NL	1,246	1,362	1,279	1,264	n.a.
3	ITV Studios Ltd	GB	646	590	878	1,010	1,157
4	All3Media Holdings Ltd (cons.) (3)	GB	452	526	597	595	765
5	Mediaproduccion SL	ES	759	n.a.	893	931	748
6	Shine Group (2)	GB	n.a.	n.a.	n.a.	623	n.a.
7	StudioCanal	FR	56	76	420	473	533
8	Zodiak Media (Est) (4) (6)	FR	n.a.	n.a.	588	516	502
9	Banijay (5) (6)	FR	n.a.	n.a.	n.a.	n.a.	n.a.
10	EuropaCorp	FR	231	215	204	282	292
11	Warner Bros. International Television Production Holding B.V.	NL	217	237	251	274	n.a.
12	Colgems Productions Ltd	GB	12	29	116	149	253
13	Gaumont (cons.)	FR	133	141	129	203	223
14	Red Arrow Entertainment Group	DE	14	38	95	124	202
15	Tinopolis	UK	83	80	92	122	188

(1) From RTL Group annual report.
(2) On 15/05/2014, Apollo and 21st Century Fox announced a joint venture to combine 21st Century Fox's Shine Group and Endemol and the Irish advertising agency CORE Media Group. The deal was signed in October 2014.
(3) In September 2014, All3Media was acquired by a joint-venture between Discovery Communications Inc. and Liberty Global. 2014: 16 months.
(4) Estimated from the revenues of the Media & Communication Division of De Agostini S.p.A.
(5) Banijay does not disclose financial data. Operating revenues estimated in the range of EUR 500 million.
(6) Announced merger of Zodiak Media and Banijay Group in 2015.

Source: European Audiovisual Observatory, from company reports and AMADEUS.

→ Examples of deals in the audiovisual production sector (2014-2015)

YEAR	GROUPS INVOLVED	TARGET PRODUCTION COMPANY
2014	Discovery, Liberty Global	Joint acquisition of All3Media.
2014	Discovery	Purchase of Raw TV.
2014	21st Century Fox, Apollo Global Management	Merger of Endemol, Shine and Core Media.
2014	Sky	Purchase of Love production.
2014	ITV	Purchase of Leftfield, Big Talk, The Garden, So TV.
2014	Canal+	Purchase of Red Production.
2015	NBCU, RTL, TF1	Agreement for the joint production of TV series in the US.
2015	LOV Group, De Agostini	Merger of Banijay and Zodiak.
2015	ITV	Acquisition of Twofour Group and Talpa media.

Source: European Audiovisual Observatory

5.5 Radio: new competition from the Internet

Resources: public funding and advertising

Unlike in the United States (with the satellite radio service Sirius XM), pay radio did not develop in Europe. Radio therefore derives its revenues from public funding of the radio activities of the public service broadcasters on the one side, and from advertising on the other.

Public radio can be operated within the same group as television services, but, in more limited cases, by a stand-alone public company (e.g. BNR in Bulgaria, Český rozhlas in the Czech Republic, Deutschlandradio in Germany, Radio France in France, Latvijas Radio in Latvia).

After several years of decrease, radio advertising recovered in 2014 (+3.2%) at EUR 4,827 million for the European Union. However, the average annual growth between 2010 and 2014 was only 0.1%. In 2014, radio advertising accounted for 5.3% of advertising expenditures in the European Union, down from 5.5% in 2010. But the weight of radio as an advertising platform varies widely throughout Europe, from 1.2% in Bulgaria to 22.6% in Romania.

A certain level of internationalisation

Identifying the main European radio groups is challenging, as companies may be active in other segments. Based on the analysis of annual reports, 5 European radio groups had radio revenues higher than EUR 100 million in 2014:

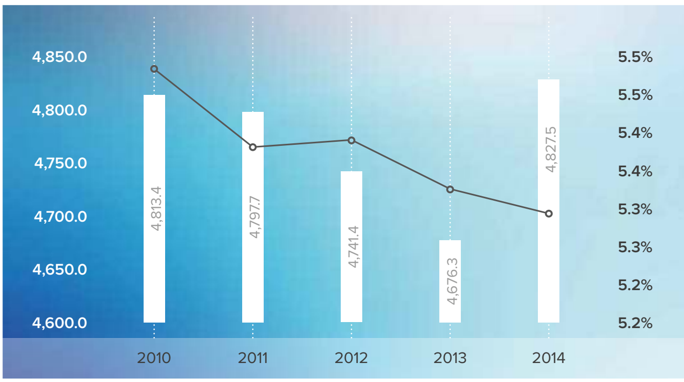
- PRISA (Spain), operating the leading Spanish radio network Cadena SER, and also active in Latin America.
- Global Radio Services Limited, the leading radio group in the United Kingdom, operating a bouquet of radio stations including Heart, Capital, Capital XTRA, Classic FM.
- NRJ Group (France), operating 4 radio networks in France and with a presence in 13 other countries, either directly in Germany, Austria, Belgium, Switzerland, Sweden, Norway, Finland, or via brand franchises.
- Lagardère Active (France), operating 3 radio networks in France and active in the Czech Republic, Poland, Romania, Germany, the Slovak Republic, South Africa and Senegal.
- RTL Radio (France), a subsidiary of Luxembourg based RTL Group, operating three radio networks in France.

The impact of the Internet

As for other segments of the audiovisual sector, the Internet represents both opportunities and challenges for the radio sector. Launching new radio services on the Web may complement the offer at a relatively low cost; podcasts of radio programmes can bring an additional audience.

However the Internet also brings new competition for the radio. Streaming music services (e.g. Spotify, Deezer, YouTube, Apple Music) may offer to an extent a similar experience to music radio stations. More importantly, in order to capture Internet audience and therefore advertising revenues, radio stations need to increase the time spent on their web sites, in particular by developing the offer of video programing. "Filmed radio" is therefore increasingly being implemented, but this implies additional costs. Still in its infancy, filmed radio will either converge with television or become a new media of its own.

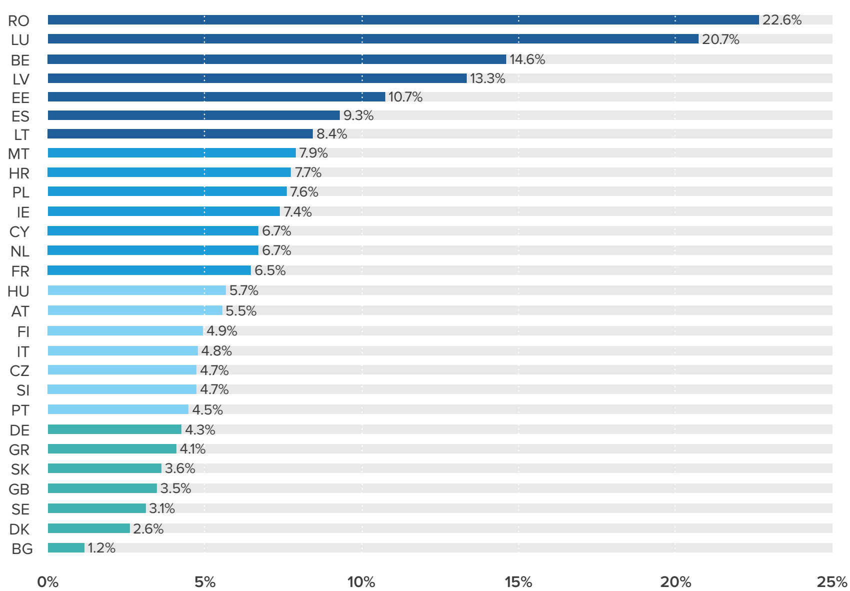
➜ Radio advertising in the European Union (2010-2014)



Radio advertising (in EUR million) Share of total advertising (in %)

Source: WARC

➜ Share of radio in advertising expenses in the European Union (2014) – *In %*



Source: WARC

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The data sets are subdivided into seven main thematic sections:
The markets - The distribution of audiovisual services - Television services - On demand services - Market players - Film and Cinema - Video.

Country profiles – This section follows a geographical approach and offers a country-by-country view of the audiovisual sector in 40 countries.

The profiles provide analysis of: the principal characteristics of the national television market - household equipment - breakdown of adspend - main national players - funding of the public audiovisual media - number of audiovisual services - market trends - audiences - catch-up TV and video-on-demand - cinema market - domestic video market.
Key trends – This publication offers analysis and insights on market developments and , and is included in the Yearbook Online Service.

Geographical coverage:

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European Audiovisual Observatory

Set up in December 1992, the European Audiovisual Observatory's mission is to gather and distribute information on the audiovisual industry in Europe. The Observatory is a European public service body comprised of 41 member states and the European Union, represented by the European Commission. It operates within the legal framework of the Council of Europe and works alongside a number of partners and professional organisations from within the industry and with a network of correspondents.

Major activities of the Observatory are

- the online-Yearbook, the online service for data and analysis on television, cinema, VOD and home video in 40 countries
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- the publication of newsletters and reports
www.obs.coe.int/publications
- the provision of information through the Observatory's Internet site
www.obs.coe.int
- contributions to conferences
www.obs.coe.int/events

The Observatory also makes available free online databases:

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Database on admissions to films released in Europe
www.lumiere.obs.coe.int

MAVISE
Database on TV and on-demand audiovisual services and companies in Europe
www.mavise.obs.coe.int

IRIS Merlin
Database on legal information relevant to the audiovisual sector in Europe
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Database on the transposition of the AVMS Directive into national legislation
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