



Introduction

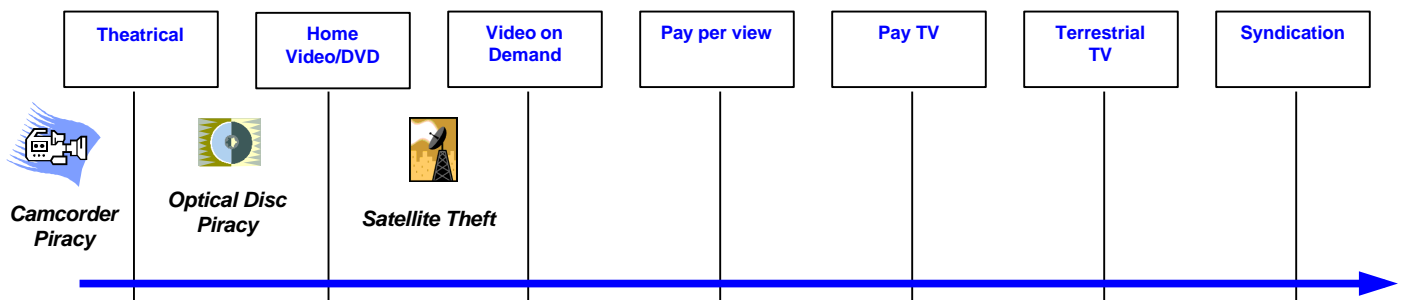
The US entertainment industry loses an estimated \$3.5 billion every year due to film piracy, which does not even include losses due to Internet piracy. This figure continues to rise with more sophisticated technology, easier means of replication and more organized and secretive distribution channels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

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

Film Piracy- Overview

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

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



Opening Weekend

Source: Motion Picture Association

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

A team of well-trained Motion Picture Association (“MPA”) experts, in partnership

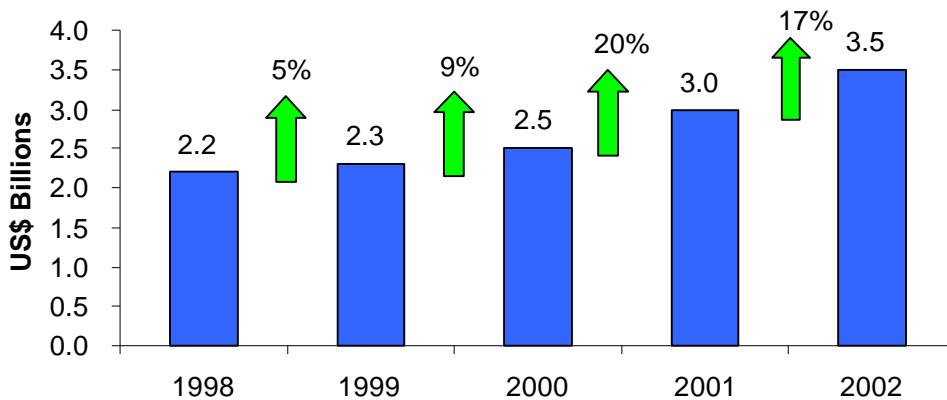


with justice officials across the world, lead investigations, raids and seizures with much success. Unfortunately, the statistics paint a grim picture of the steadily growing piracy problem around the world. For instance, between 1997 and 2003, the number of investigations and raids increased 29% and 85%, respectively, while the number of seized items (including Videocassettes, DVDs, VCDs, and replication material) jumped a whopping 663%. In 2003 alone, officials seized 72.8 million items tied to piracy, compared to 9.5 million items in 1997.

Global Trends

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

**Worldwide Film Piracy Losses
1998-2002**

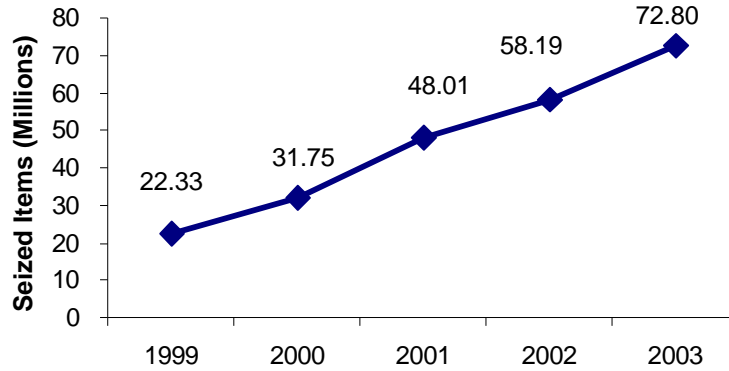


Source: Motion Picture Association



The number of seized goods related to piracy has jumped 226% since 1999, when seized items were 22.3 million. In 2003, seizures topped 72 million. This was up 25% from 2002.

Number of Seized Pirate Items* 1999-2003



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



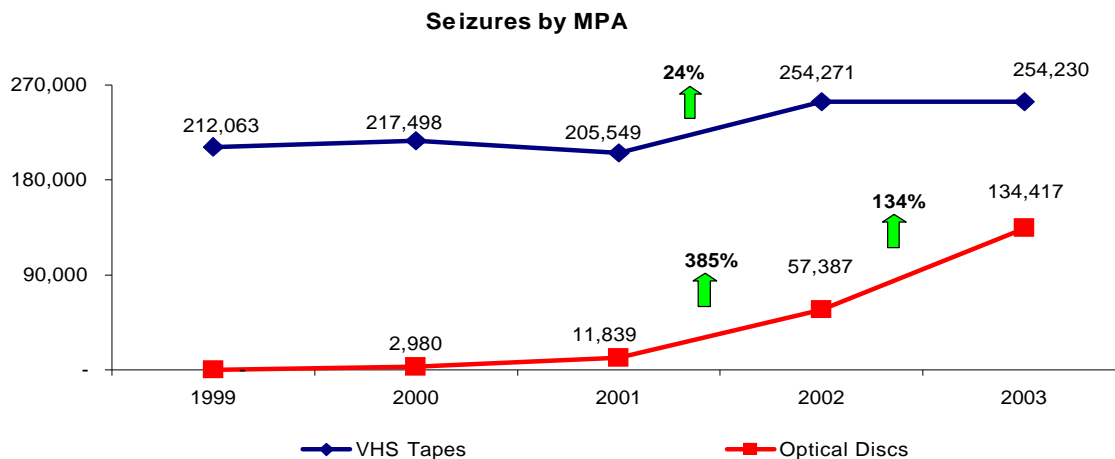
Brazil

Key Statistics-2003

Piracy losses (US\$ millions)	\$120 million
Seizures (all items)	518,461
Piracy level (Video & Optical Disc)	30%

Home Entertainment

Brazil, Latin America's second largest economy, continues to struggle with piracy. Optical disc piracy (CD-R and DVD-R) is increasing in Brazil, with a piracy rate approaching 15% of the market and accounting for approximately 25% of total seizures of pirate product. Retail outlet VHS piracy continues to be a major threat in Brazil.



Retail video piracy

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

Optical Disc Piracy



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

Internet Piracy

The growth of optical disc piracy as Internet hard goods sales of CD-R and DVD-R is increasing more rapidly than any other form of digital piracy in Brazil. MPA has tracked a steady increase in the incidence of Internet sites for hard goods sales, including both DVD-R and CD-R recordings of its member company product.

Much of the increased piracy activity over the Internet can be attributed to increased Internet activity in the country. Brazil has the largest Internet user-base in Latin America. By the end of 2003, *IDC* reported that approximately 8% of Brazilian households connected to the Internet, while 24% of these households enjoyed high-speed, broadband access.

Television

According to *Euromonitor*, Brazil is one of the world's largest television markets, with 44 million TV households. Nonetheless, pay-television (cable & satellite) household penetration hovered around 8.1% in 2002, a slight decrease from 8.4% in 2002. According to the *Yankee Group*, the pay-television market has been static over the years. This could be due, in part, to signal piracy. Cable TV providers, such as DIRECTV, have increased efforts to fight signal piracy by replacing older smart cards with more secure cards.

Piracy Losses

With few concrete actions by the government to point to in 2004, audio visual piracy enforcement in Brazil remains a disappointment. Between 1998 and 2003, economic losses to the US motion picture industry due to audiovisual piracy in Brazil were estimated at well over one-half of a billion dollars (\$725 million). These losses do not include the impact of Internet piracy or the damage to the local Brazilian economy resulting from piracy.



Mexico

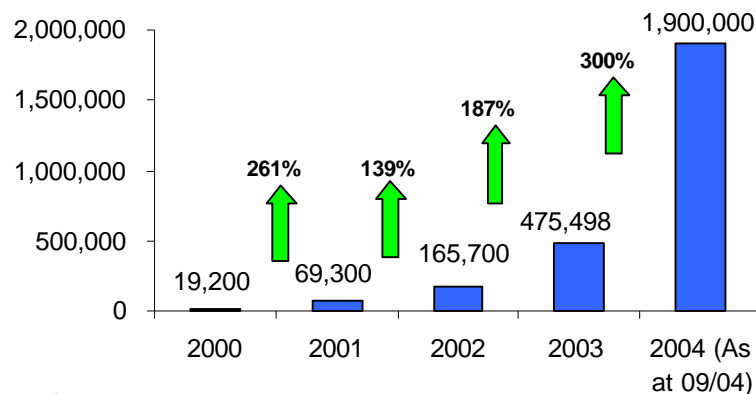
Key Statistics-2003-2004

Piracy losses (US\$ millions)	\$140 million
Seizures (all items)	876,818
Piracy level (Video & Optical Disc)	65%

Home Entertainment

Mexico has been hard hit with black-market film piracy in recent years, especially with the recent and explosive growth of optical disc piracy (DVD-R), which directly threatens the growing DVD market. Optical disc piracy has grown impressively to replace VHS as the most important threat in Mexico. For example, three years ago the pirate video market was 80% VHS, today it is over 94% optical disc (as of September 2004). In addition, the quality of DVD-R has also increased significantly with an increasing proportion of high-quality DVD-Rs reaching the consumer prior to the home video window and occasionally in competition with the theatrical window.

Optical Disc Seizures by MPA



Source: Motion Picture Association

Optical disc piracy in Mexico is some of the worst in the world and getting worse. Over the past 18 months the piracy rate and losses to the audio-visual industry have risen significantly. The 2004 year-to-date optical disc seizures have already jumped 300% over 2003 seizures to 1.9 million discs. The dramatic growth of optical disc piracy is a reflection of the participation and influence of organized criminal reproduction and distribution systems coordinating with Mexico's extensive black market distribution system.

The main distribution centers for optical disc piracy are in Mexico City and Guadalajara although the product reaches all corners of the country in Mexico's



extensive and nation-wide street market system. In addition to the black market availability, there has been notable growth in pirate DVD-Rs in many independent video stores, an important market for the home entertainment sector.

Television

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

Piracy Losses

In 2003, economic losses to the US motion picture industry due to audiovisual piracy in Mexico were estimated at \$140 million. These losses do not include the impact of piracy on the local Mexican economy.