



Entertainment Imaging

Business Overview



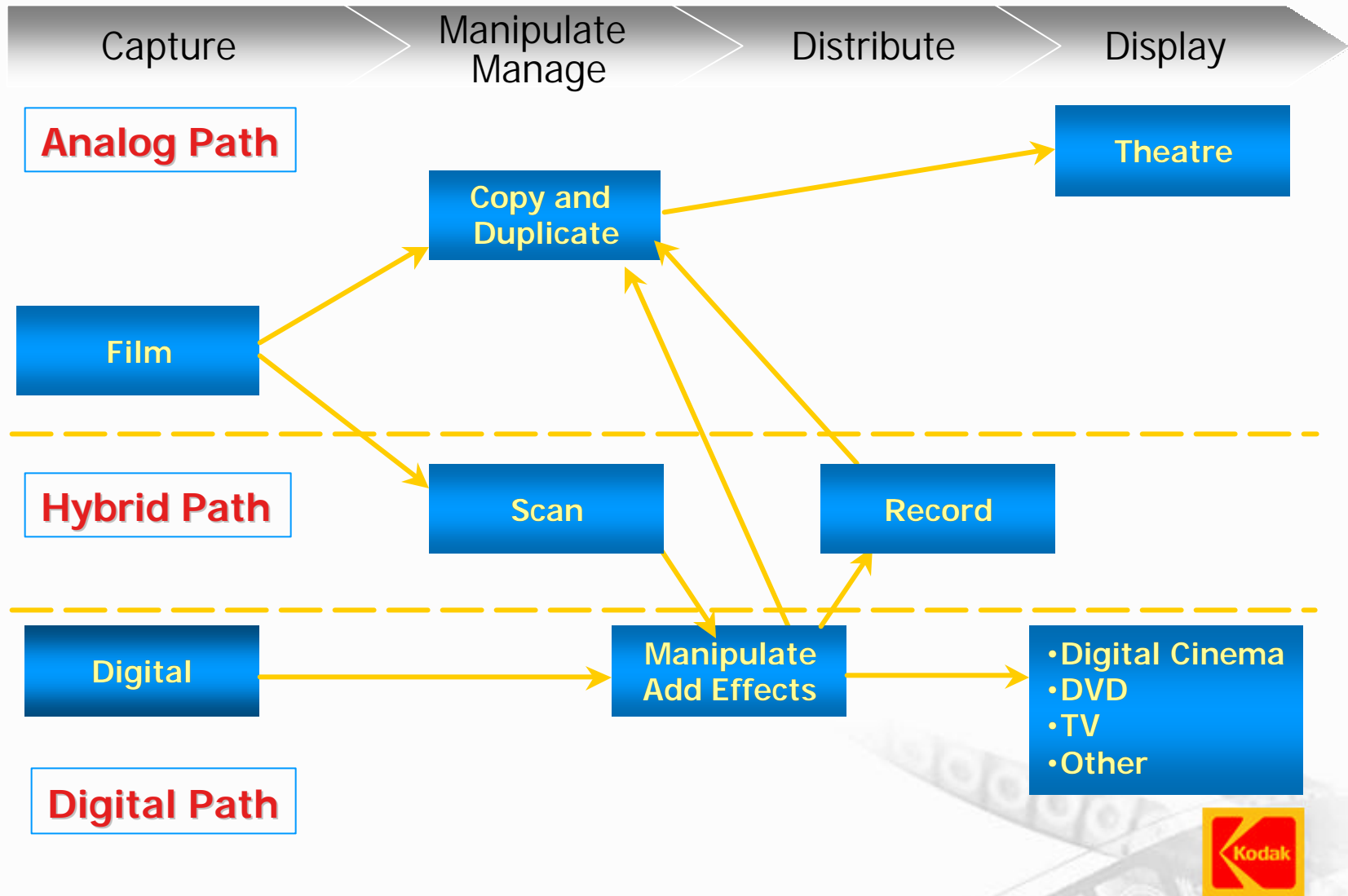
Agenda



- The Entertainment Industry
- Kodak's WW Motion Picture Business
- Navigating the Future
 - Film Businesses
 - Digital Services
 - Digital Cinema



Imaging Value Chain - Feature Film



The Imaging Value Chain - TV/Commercials



Hybrid Path

Film

Scan

Record
(Cinema Adv.)

Digital

Manipulate
Add Effects

- D-Cinema Ads
- DVD
- TV
- Other

Digital Path



Motion Picture Film Market

- **Color Print Market ('Display')**

- The color print market will grow in the low- to mid-single digits over the next couple of years (industry statement)
- Global Day & Date driving Color Print market growth, although trend → slowing
- Film prints will outnumber digital 'prints' at least until 2009

- **Color Negative Market ('Capture')**

- Color Negative market flat to declining slightly with volume losses in Television in part offset by increases in Feature Film sector (industry statement)



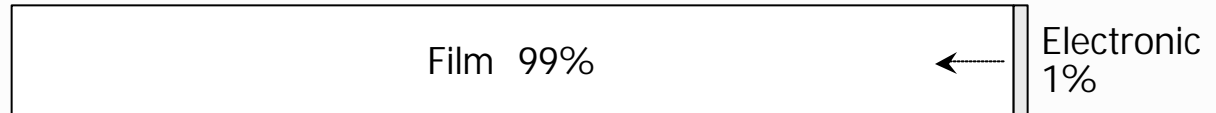
Industry Analysis

Image Market Share

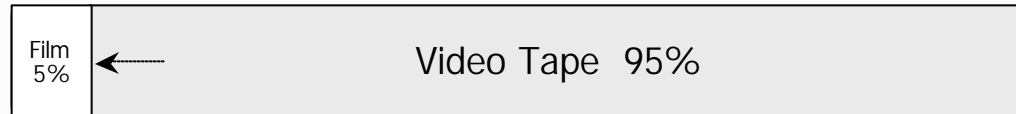
**Theatrical
Origination**



**Theatrical
Distribution**



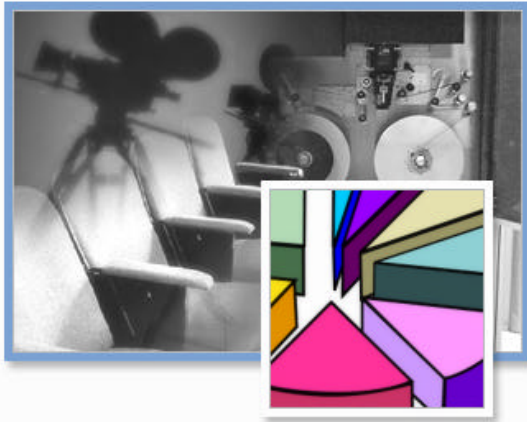
**TV
Origination**



**Commercial
Origination**



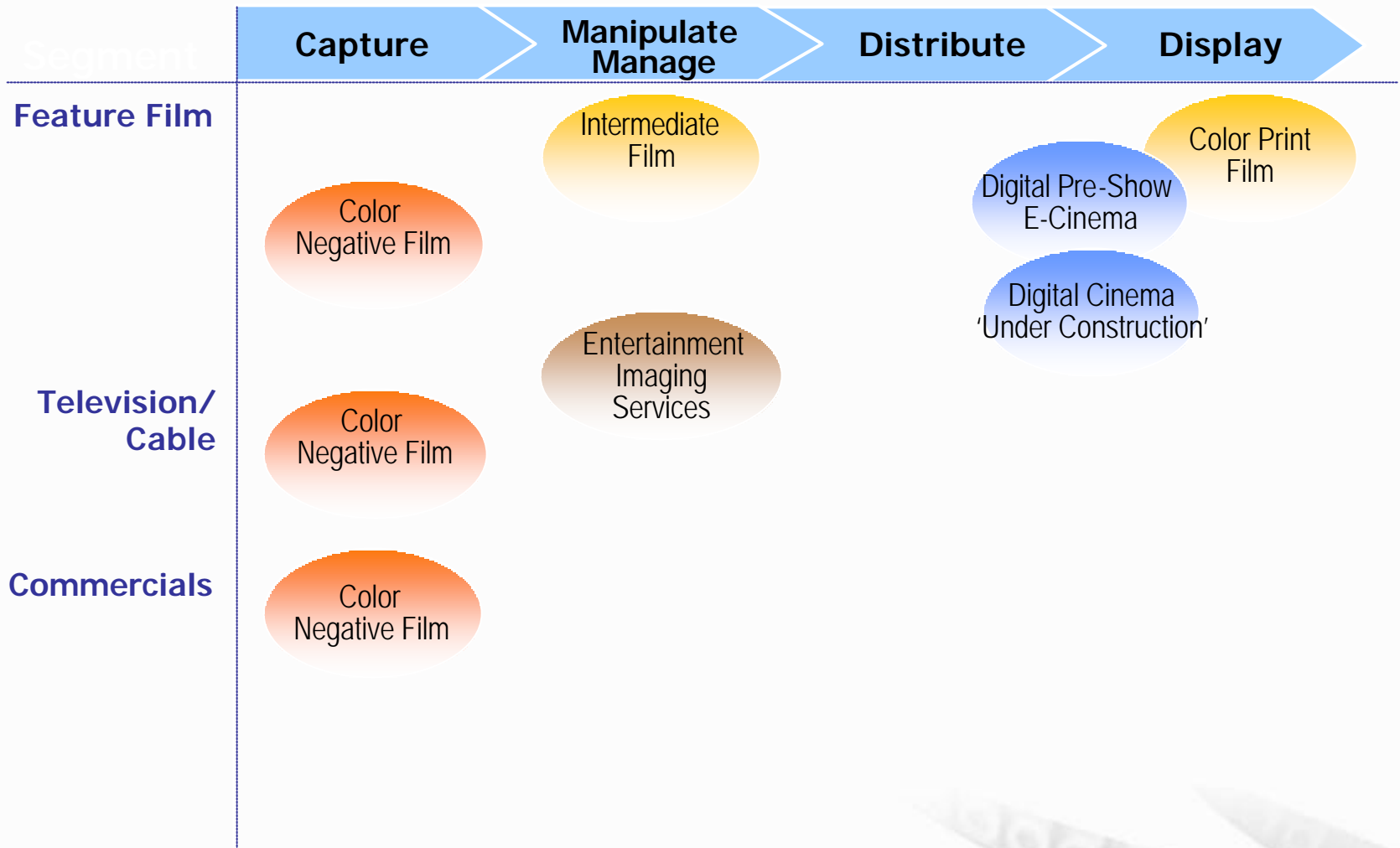
Overview WW Business



- Market Participation
 - Feature Films
 - Television
 - Commercials
 - Cinema/Exhibition
- Film
 - Extensive film portfolio with high degree of service/support
- Services
 - Cinesite-UK: Visual effects, models & miniatures and practical effects
 - Laser Pacific-Hollywood: TV post-production, digital mastering for features
 - Pro-Tek: Restoration, archiving
 - FPC: Certified destruction and recycling of motion picture print



EI SPG Model & Motion Imaging Value Chain



*Note - bubbles not to scale





Navigating the Future



Digital Transition is Beginning

- Motion picture value chain is complex, and many dynamics influence the digital transition (standards, technology development/quality, industry relationships and 'culture,' etc.)
- Parts of the imaging chain – representing different market segments – are transitioning at unequal pace
- Short to intermediate (2-3 years) impact on traditional film businesses is expected to be modest
- Significant impact of digital beginning in the 3-5 year timeframe



Continued Investment in Film to:

- Maintain share in developed markets
- Grow business in developing markets
 - Invest in small film and digital scanning labs
- Extend film's 'creative edge' with:
 - New film capture products
 - Hybrid films and systems (maximize overall 'system' quality by combining capture film with digital technology)
- Be lowest cost manufacturer of color print film



Digital Services Strategy

- Build Entertainment Imaging Services strategy from core capabilities of Cinesite and Laser Pacific
- Fulfill growth potential in the creation, management and delivery of a 'universal' 4K digital master, along with subsequent long term asset management services
- Support hybrid film strategy ('scan-only films') to help extend use of capture films
- Support D-cinema business via preparation of digital cinema distribution masters and packaging





Digital Cinema



Industry Expectations from Digital Cinema

- Clean, sharp, consistent pictures
- Expanded entertainment experiences
 - 3D?
 - Interactivity
- Distribution costs greatly reduced
- Faster response to changing market conditions
- WW technology standards, interoperability
- Intellectual property protection (anti-piracy)
- Economic and 'equitable' business model
- Operational reliability on par with film
- Creative 'buy in'



Current Industry Status

- DCI (US Studio funded group) expects 'standards' by year-end
- Studios forming consortia to explore opportunities, pilots
- More movies (53 WW in 2004) in film and digital release
- 335 WW digitally equipped screens – in 'market test' (out of 120,000 screens)
- DLP 2K becoming de-facto standard for 'first phase' – 4K next?
- Exhibitors still cautious, expect studios to fund the capital
- Government funding outside US to support local film industries (e.g. UK Film Council, China)
- New entrants, such as Mark Cuban with proposed 4K network could accelerate/change the game



The Economic Hurdle

Film prints are good value for Studios:

- All-in cost for one film print...\$1200-1500
- Film prints per screen per year...10-12
- Cost for film prints per screen per year...\$15K-18K

Digital is currently too expensive

- Total cost per screen (incl. projector, server, packaging, maintenance)...\$105,000
- Payback period at current economics...6-7 years



The Digital Cinema Landscape

- Services are the 'consumable' – annuity stream – in digital world
 - Content preparation and distribution
 - System maintenance and enhancements
- Ultimate leaders will simplify complexity of this transition – integrated solutions & relationships remain important
 - Should be some value available for a system integrator-at least in the initial years
- Studios will fund deployment, will attempt to 'control' evolution of market to maximize overall benefits-avoid repeat of digital audio
 - Independent producers should gain improved access to exhibition in a digital world



Kodak's D-cinema Plans

- Networked systems: pre-show today...features tomorrow
- Content mastering and packaging
- Key Rights Management (KRM)
- Content distribution
- Service and support



Kodak Status in Digital Cinema

- Current WW leader in independent pre-show systems (behind Regal and AMC who have their own networks)
- Now installing 'true' HD pre-show
- 1000 Kodak Digital Cinema Pre-Show systems installed (US and Canada) – network provides platform for growth
- Preparing/delivering pre-show seen by 3M moviegoers/month
- Features system in market test – three screens/major exhibition chains, showing Studio movies
- Leveraging company competencies in color, imaging, software development, service
- Made long-term commitment to continue to advance quality, meet industry needs for cost-effective, differentiated solutions



EI Strategy Summary

Vision

- Be acknowledged leader in services and film for creation, management, distribution, display and preservation of professional multi-media entertainment content

Path Forward

- Continue to generate revenue/earnings through film and services
 - Film/hybrid/digital
- Leverage core film business to attain competitive advantage in industry transition to more digital pipeline
 - Build off existing industry relationships, image science, etc.
- Continue to selectively invest in D-Cinema technologies, services, and partnerships to position for future growth

