



Entertainment Imaging

Business Overview

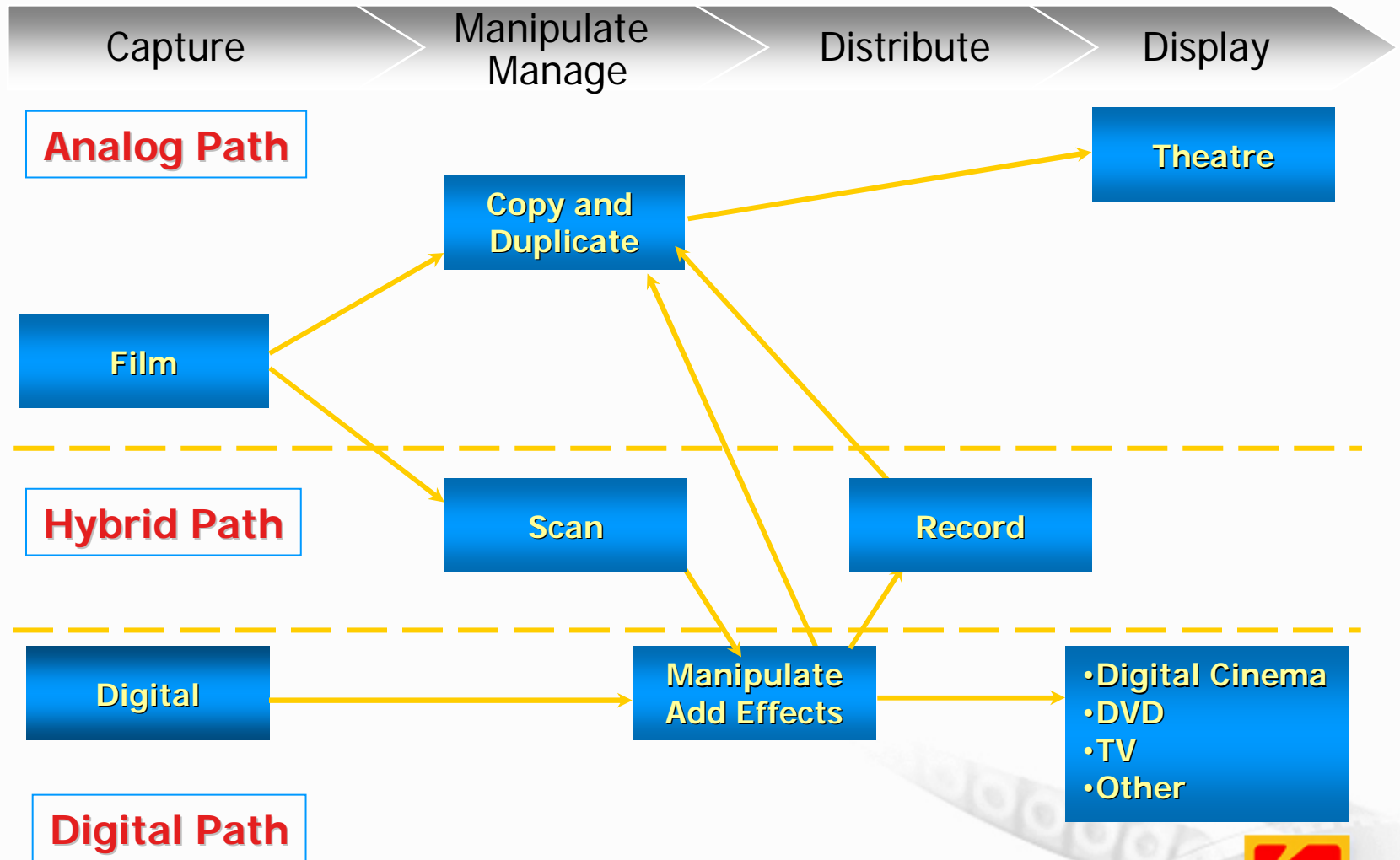


Agenda

- 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 still driving Color Print market volumes, 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)

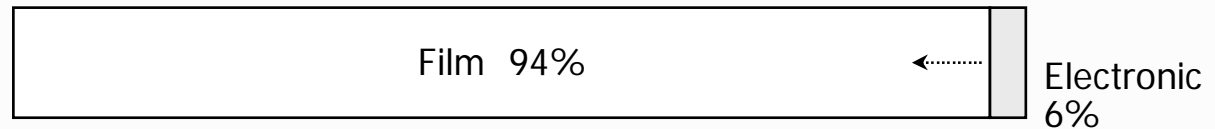




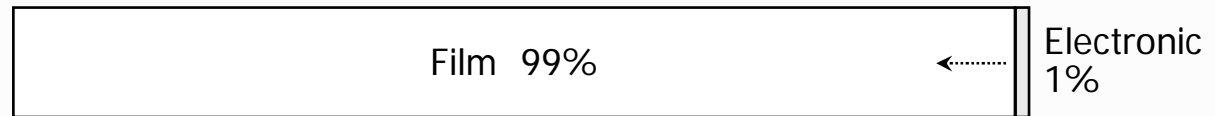
Industry Analysis

Image Market Share

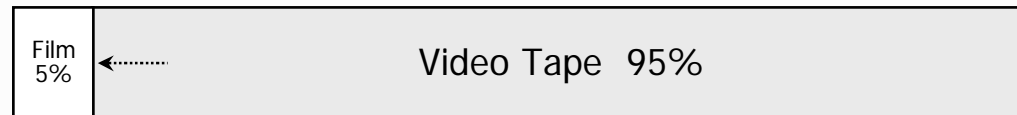
Theatrical Origination



Theatrical Distribution



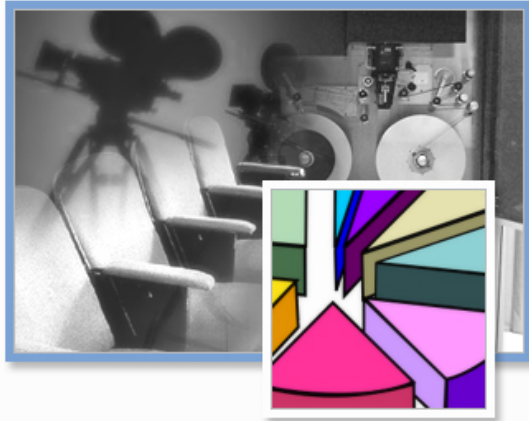
TV Origination



Commercial Origination



Overview WW Business



- Market Participation
 - Feature Films
 - Television
 - Commercials
 - Cinema/Exhibition

- Film

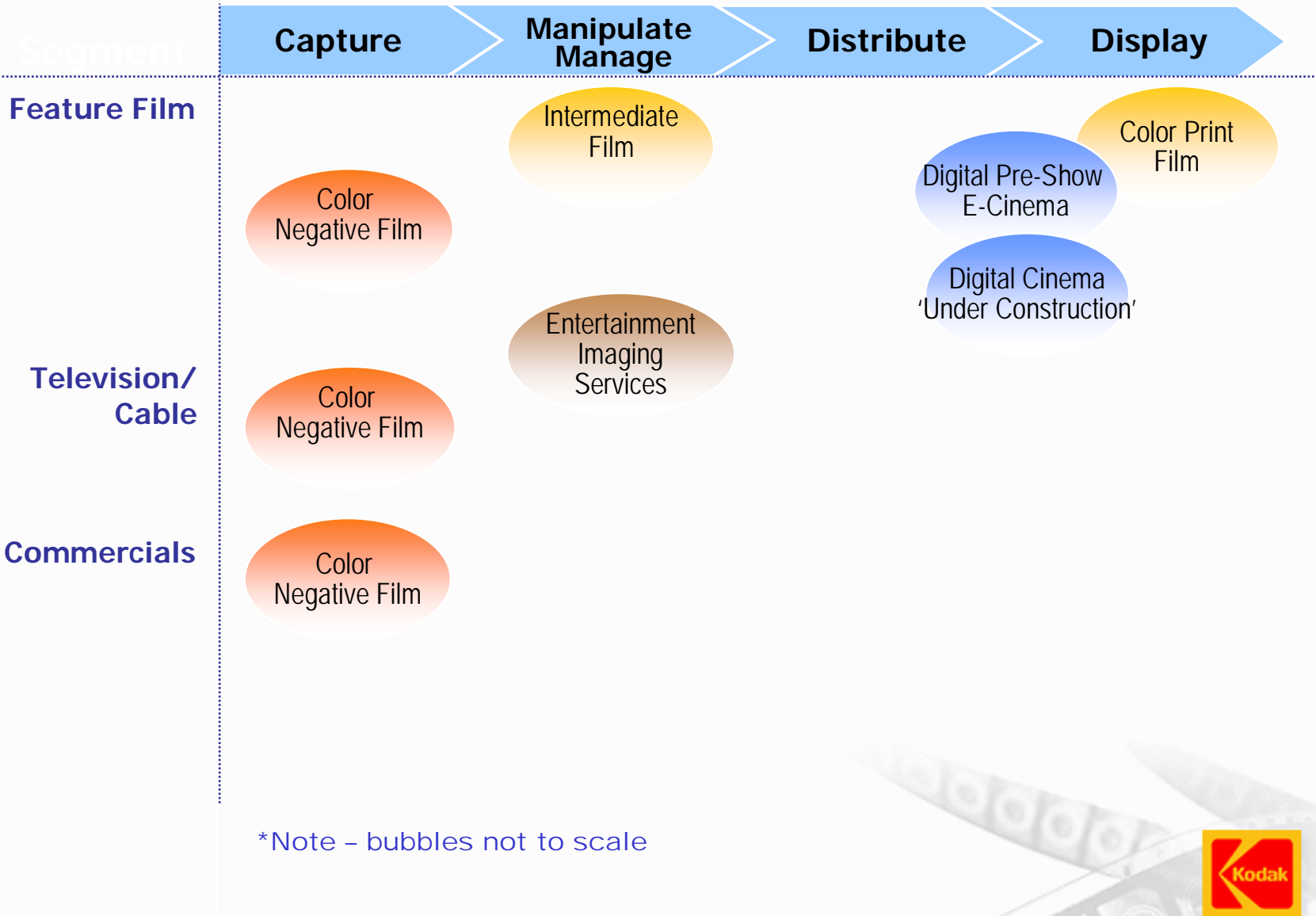
- Extensive film portfolio with high degree of service/support

- Services

- Cinesite-UK: Visual effects, models & miniatures and practical effects
 - Laser Pacific-Hollywood: TV post-production, digital mastering and packaging for features
 - Kodak Digital Cinema Services: Content and Key distribution
 - 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



The Box Office

- Full year 2005 = Domestic Box down 4.6% vs. 2004
 - Fewer blockbusters, less low- to mid-range product and no big surprise hits (like last year's *The Passion of the Christ* and *Fahrenheit 911*).
 - Domestic & international release width stagnated during summer 05
- Industry rationale behind downturn:
 - Narrowing release windows, home theaters, in-theater advertising...?
 - All played a part, but many believe quality of movies was key driver
- Some recovery in 4Q
 - **Holiday boxoffice (starting Friday before America's Thanksgiving) up 5% year over year...due to quality slate of films?**
 - Goblet of Fire = \$883.5M in WW B/O to date
 - Chronicles of Narnia = \$652M WW B/O to date
 - King Kong = \$538.4M WW B/O to date





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')
- Parts of 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 to help extend use of capture films
- Support D-cinema business via preparation of digital cinema distribution masters and packaging; content and Key distribution





Digital Cinema





Industry Expectations from Digital Cinema

- **Benefits**
 - Clean, sharp, consistent pictures
 - Expanded entertainment experiences
 - 3D
 - Interactivity
 - Distribution costs greatly reduced
 - Faster response to changing market conditions
 - Network provides efficiency, flexibility, reduced labor costs
- **Threshold Requirements**
 - 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

- Technical standards
 - DCI set requirements; SMPTE writing standards
- Studios supporting digital with increasing releases
 - Most major releases from Disney, Warners, Dreamworks *also* made available in digital
 - Studios will support all systems that meet DCI specs
 - Funding model includes Virtual Print Fees from Studios, maintenance paid by Exhibitors
- Disney's *Chicken Little* 3D pilot (Christie-Dolby in US, Kodak-Barco in Australia) proved value of 'incremental experience'
- Estimated 600+ digitally-equipped screens WW (1K, 1.3K, 2K)
 - out of 120K film screens WW
- DLP 2K is de-facto standard for 'first phase' – 4K needs to be 'proven' to Exhibitors
- Government funding outside US to support local film industries (e.g. UK Film Council, China)





The Economics

- Financing the Conversion
 - Systems vendors promoting/soliciting a wide range of capital sources
 - Financial players (e.g. GE Capital, JP Morgan) careful about involvement until viable business model demonstrated via venture/equity funded pilot roll-outs
- The Economic Hurdle
 - Cost per film print...\$1200-1500
 - Film prints per screen per year...10-12
 - Cost for film prints per screen per year...\$15K-18K
 - Digital cinema system (total cost per screen incl. projector, server, packaging)...\$85,000

5-6
year
'payback'





The Digital Cinema Landscape

- Services are the 'consumable' – annuity stream – in digital world
 - Content preparation and distribution
 - System maintenance and enhancements
- 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, test interoperability, 'control' evolution to maximize benefits – avoid repeat of digital audio
- Exhibitors expected to fund service – insist on 'reliability equal to/better than film'
- Independent producers should gain improved access to exhibition in a digital world





Kodak's D-cinema Plans

- Portfolio:
 - Networked systems: for pre-show, alternative content, features – in 2D and/or 3D
 - Industry's most flexible server – for multiple compression formats, encrypted/unencrypted content, alternative content/features
- Key Partners:
 - Barco, InFocus, Microspace, LaserPacific, REAL D, others -- for 'full solution'
- Key Plays:
 - Content mastering, packaging, distribution
 - Key Rights Management (KRM)
 - Service and support



Kodak Status in Digital Cinema

• Pre-Show

- Current WW leader in independent digital pre-show systems (behind National Cinemedia; owned by Regal, AMC and Cinemark)
- Now installing 'true' HD pre-show
- 1600+ pre-show systems installed (US, Canada, Japan) – network provides platform for growth
- Preparing/delivering pre-show seen by 4M moviegoers/month

• Theatrical Projection/Features

- Prepared and distributed digital features from five studios – including *Harry Potter*, *Star Wars III*, *Walk the Line*
- In major test with Disney – distributing *Shaggy Dog* to 100+ screens in March
- In discussions/negotiations with other major industry suppliers/aggregators to participate in their launches
- Introducing industry's most flexible server and feature network at ShoWest (major industry convention)
- Growing number of strategic alliances – Barco, REAL D, Microspace – enables Kodak to offer full solution
- Pursuing sources of capital because financing options are becoming 'table stakes'





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

