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

Capture → Manipulate → Distribute → Display

Analog Path
- Film
- Theatre

Hybrid Path
- Scan
- Record
- Manipulate
- Add Effects
- Digital Cinema
- DVD
- TV
- Other

Digital Path
- Digital
- Copy and Duplicate
The Imaging Value Chain – TV/Commercials

Capture  Manipulate Manage  Distribute  Display

Hybrid Path

Film

Scan

Record (Cinema Adv.)

Digital

Manipulate Add Effects

Digital Path

- D-Cinema Ads
- DVD
- TV
- Other
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**
  - Film 94%
  - Electronic 6%

- **Theatrical Distribution**
  - Film 99%
  - Electronic 1%

- **TV Origination**
  - Film 5%
  - Video Tape 95%

- **Commercial Origination**
  - Film 10%
  - Video Tape 90%
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
El SPG Model & Motion Imaging Value Chain

**Segment:**

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*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