

Movie Industry in Japan

1-1 Scale of the Movie Market in Japan

● Movies

The movies publicly projected in movie theaters are divided into Japanese movies and imported movies, and the market is comprised of theater performance revenues, movie software sales revenues and TV broadcast royalties (refer to [Table 1]).

Of the theater performance revenues of projected movies, the performance revenues of Japanese movies amount to ¥54.4 billion while the software sales of Japanese movies are ¥33.4 billion and TV broadcast royalty revenues are ¥2.7 billion. In total of these revenues, the market scale of Japanese movies is ¥90.5 billion. By comparison to other markets, it is rather small, comprising just 1/35th of the TV broadcast market and approximately half the anime market. The performance revenues of Japanese movies and the ratio of the imported and Japanese movies are influenced every year by the existence of hit movies, but the total theater performance revenues of movies (including anime movies have been constant at approximately ¥200 billion a year for the past several years.

In recent years, cinecoms [cinema complexes] have increased and the ratio of theaters with single screens has dropped. Therefore, screening opportunities for artistic and varied movie works are on the decline. On the other hand, cinecoms have a strong tendency to show movies that attract many viewers and that are advertised through TV commercials. There is a tendency that only the movies that are advertised on a large scale will become hit movies. Additionally, among the Japanese movies there are now many movie works that have the investment of TV network stations, and the old anime and dramas in TV favorites tend to be remade into movies, which become hits.

[Table1] Projected Movie Market (Japanese and Imported Movies, Excluding Anime) (Unit: ¥ billion)

	Japanese Movies (¥ billion)	Imported Movies (¥ billion)	Total (¥ billion)	Source
Theater Performance Revenues (05)	54.4	116.4	170.8	A
Movie Software Sales (05)	33.4	120.9	154.3	B
TV Broadcast Royalty Revenues (05)	2.7	5.8	8.5	C
Total	90.5	243.1	333.6	

A Motion Picture Producers Association of Japan: <http://www.eiren.org/toukei/index.html> (Excludes the performance revenues of anime movies that ranked above Top 20)

B Japan Movie Software Association

C TV broadcast royalty is estimated as 1/20th of the performance revenues

1-2. Exports and Imports of Japanese Movies

Movies [Export Amount] Approximately ¥2 to 3 billion (estimated) in projection movies

(Exports)

Regarding the exportation of Japanese movies to overseas destinations, only the actual movies exported to overseas by the four companies (Shochiku, Toei, Toho and Kadokawa Herald) that belong to the Motion Picture Producers Association of Japan are publicly announced ([Table 2]). According to such data, the export amount in 2005 was approximately ¥7.9 billion, which is a compilation by these four companies of the sales revenues from January through December of their rights related to Japanese movies (overseas distribution rights, overseas screening rights, remake rights, overseas broadcast rights, overseas secondary-usage rights of movies and TV movies, and merchandising rights on movie and TV characters), inclusive of anime movies. The changes in each year are due to the existence of hit works; there is no particular trend for expansion or decline.

Based on our hearing survey, we have estimated and added the overseas sales revenues of the movies other than distributed by these four companies and arrived at approximately ¥10 billion as the total overseas sales of Japanese movies, including anime movies. Of this amount, the export amount of Japanese movies (being limited to those actually projected on screens) is considered to be ¥2 to 3 billion, excluding anime movies. In recent years, sales of remake rights are on the topics of discussion, but they aren't a big factor in increasing the total amount of exportation from Japan.

According to the international trade statistics of the Treasury Ministry, the export amount of movie films is ¥2.3 billion, and as export destinations the United States, France and Taiwan account for most (see [Table 1-21]). Please note that this value is only a value of export/import of physical films, and there are no official statistics regarding sales of rights.

[Table 2] Actual Results of Movie Exports

Year (January to December)	Estimated Export Amounts	
	(Unit: \$1,000)	Change from the previous year (%)
2000	59,535	113
2001	80,835	136
2002	70,090	87
2003	69,579	99
2004	60,614	87
2005	72,612	120

Prepared from a document from the Motion Picture Producers Association of Japan.

* The above includes anime movies distributed by the four companies.

* The members of JMPA (and their group companies) compiled their revenues from the sales of rights relative to their Japanese movies.

(Import)

With respect to the imports of overseas movie works (including anime) that generate performance revenues of over ¥1 billion in the domestic theater market), the imported movie works from overseas account for a majority at 56.9% of revenues ([Table 3]). If these are limited to projection movies, we can see that imported overseas movie works account for a much higher percentage, at 68.4% ([Table 4]).

Furthermore, the sales revenues of DVD video discs of projection movies sold in 2005 in Japan accounted for 78.3% for imported movies and 21.7% for Japanese movies, and the imported movies have a large share of the domestic movie market ([Table 5]).

[Table 3] Ratios of Imported Movies and Domestic Movies Among the Movie Works Generating Performance Revenues Exceeding ¥1 Billion in 2005 in Japan (Including Anime Movies)

	Imported	Domestic	Total
Number of Works	39	26	65
Revenue Amount (¥ billion)	97.06	73.39	170.45
% share of total	56.9%	43.1%	

Prepared from documents of the Motion Picture Producers Association of Japan.

[Table 4] Ratios of Imported Movies and Domestic Movies Among the Movie Works Generating Performance Revenues Exceeding ¥1 Billion in 2005 in Japan (Projection Movies Only, Excluding Anime Movies)

	Imported	Domestic	Total
Number of Works	38	19	57
Revenue Amount (¥ billion)	91.8	42.44	134.24
% share of total	68.4%	31.6%	

Prepared from documents of the Motion Picture Producers Association of Japan.

[Table 5] Ratios of Imported Movies and Domestic Movies of the 2005 Domestic Sales of DVD Videodiscs (Projection Movies Only)

	Imported	Domestic
Sales Amounts	148224	41024
% share of total	78.3%	21.7%

Estimated from a document of the Japan Video Software Association (Unit: ¥ million)

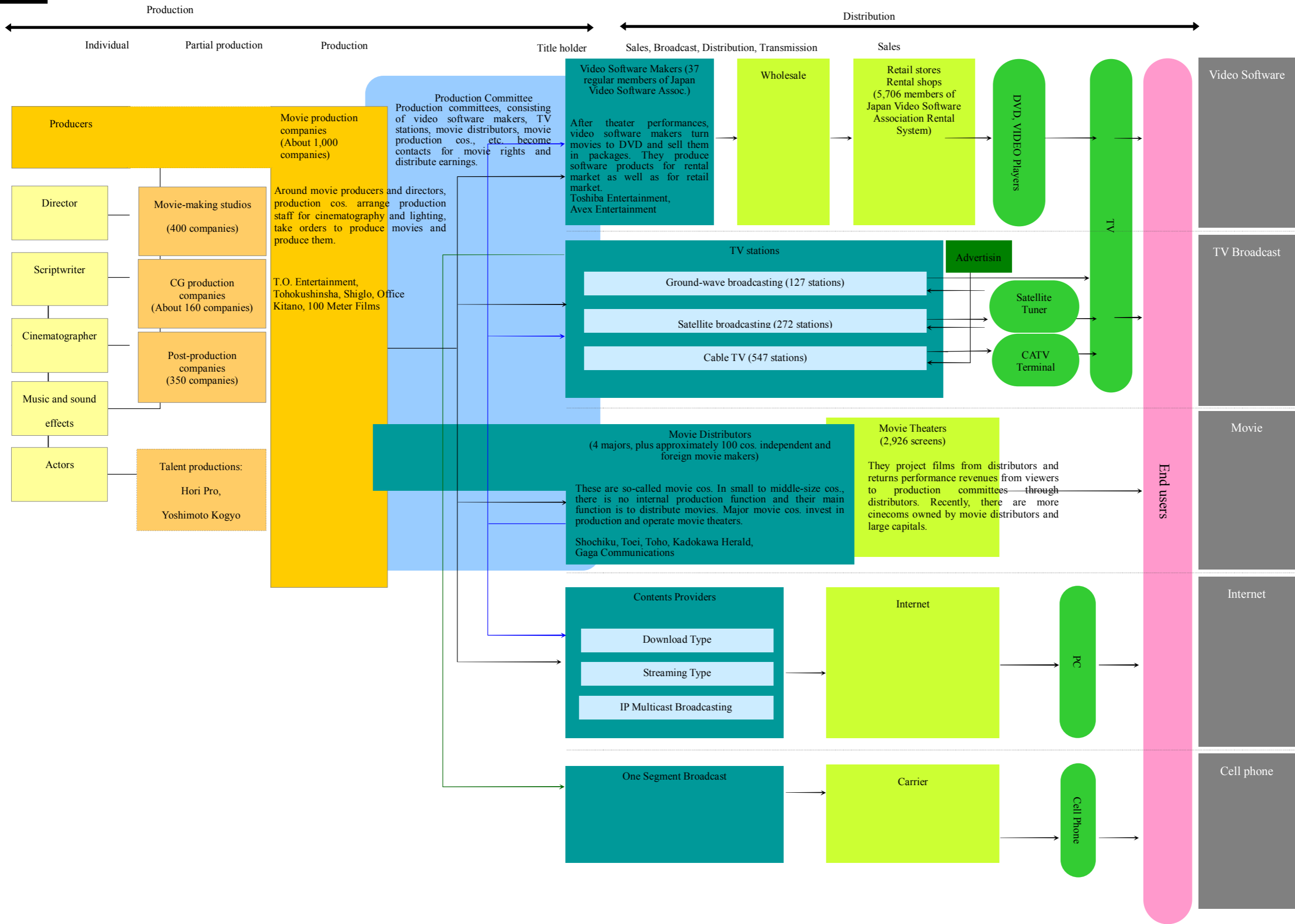
1-3 Structure of the movie industry and domestic transactions

Japanese movies are made and owned by video software manufacturers, TV stations, movie distribution companies and movie production companies, who often organize their production committees, own movie titles and distribute them to various media. Among the movie distribution companies there are approximately 100 companies that are independent, American and European, in addition to the four major Japanese companies ([Table 6]).

Japanese movies are produced by the 58 movie production companies who are members of the Motion Picture Producers Association of Japan and approximately 1,000 video production companies (as compiled in *2004 Uni Video Almanac*). Under these production companies, there are 490 producers who are regular members of the Japan Movie & TV Producers Association, 580 directors who are members of the Directors Guild of Japan, 350 scriptwriters who are members of the Association of Scenario Writers Japan, 290 cinematographers who are members of the Japanese Society of Cinematographers, approximately 150 music production companies and music studios (estimated from *2004 Uni Video Almanac*), approximately 400 movie-making studios (estimated from *2004 Uni Video Almanac*), approximately 160 CG production companies (*CG&Video Creators Almanac*), approximately 350 post-production companies, including 102 regular members of the Japan Post Production Association (estimated from *2004 Uni Video Almanac*), and by numerous actors.

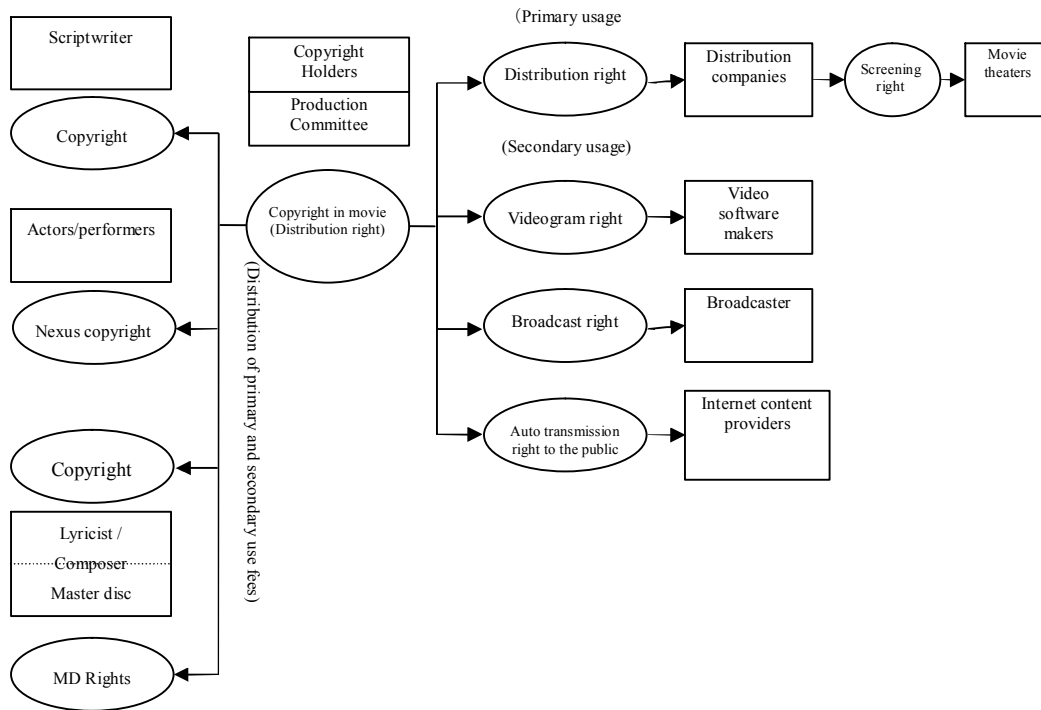
With respect to the domestic distribution, the primary-usage movies are projected on 2926 movie-theater screens through the distribution of the movie distributors (the Motion Picture Producers Association of Japan). With respect to secondary usage, the movies are turned to DVD and other video software products, to TV broadcast and distributed via the Internet.

[Table 6] Structure of the Movie Industry and Domestic Transactions



1-4 Structure of Movie Rights Transactions

[Table 7] Structure of Movie Rights Transactions



(Rights sold on movies)

The copyrights on movies are referred to as the rights to distribute, and they are owned by corporations that have provided funds and become movie producers. In Japan today, movie distributors, TV stations and video software makers, etc., invest in a production committee, which becomes a movie producer and holds the distribution right.

Given the scheme of movie distribution right, while the copyright is retained by the right holder, the right to distribute the copyrighted movie for each media is assigned to the responsible party for each distribution channel.

Among the movie rights sold, in addition to the right to distribute a movie for screening in movie theaters there is a right to broadcast a movie on TV and a right to make it to a video software product. Recently, there have been more cases for the right to transmit a movie via the Internet. Additionally, there is the right to show in flight, as a specific right on a movie.

(Structure of transactions with the rights)

As shown in [Table 7], a movie film is distributed by a distribution company to movie theaters on the basis of its distribution right, giving them the right to screen with limited locations and periods, and they are projected in movie theaters. To video software makers, the right to duplicate the movie to video software

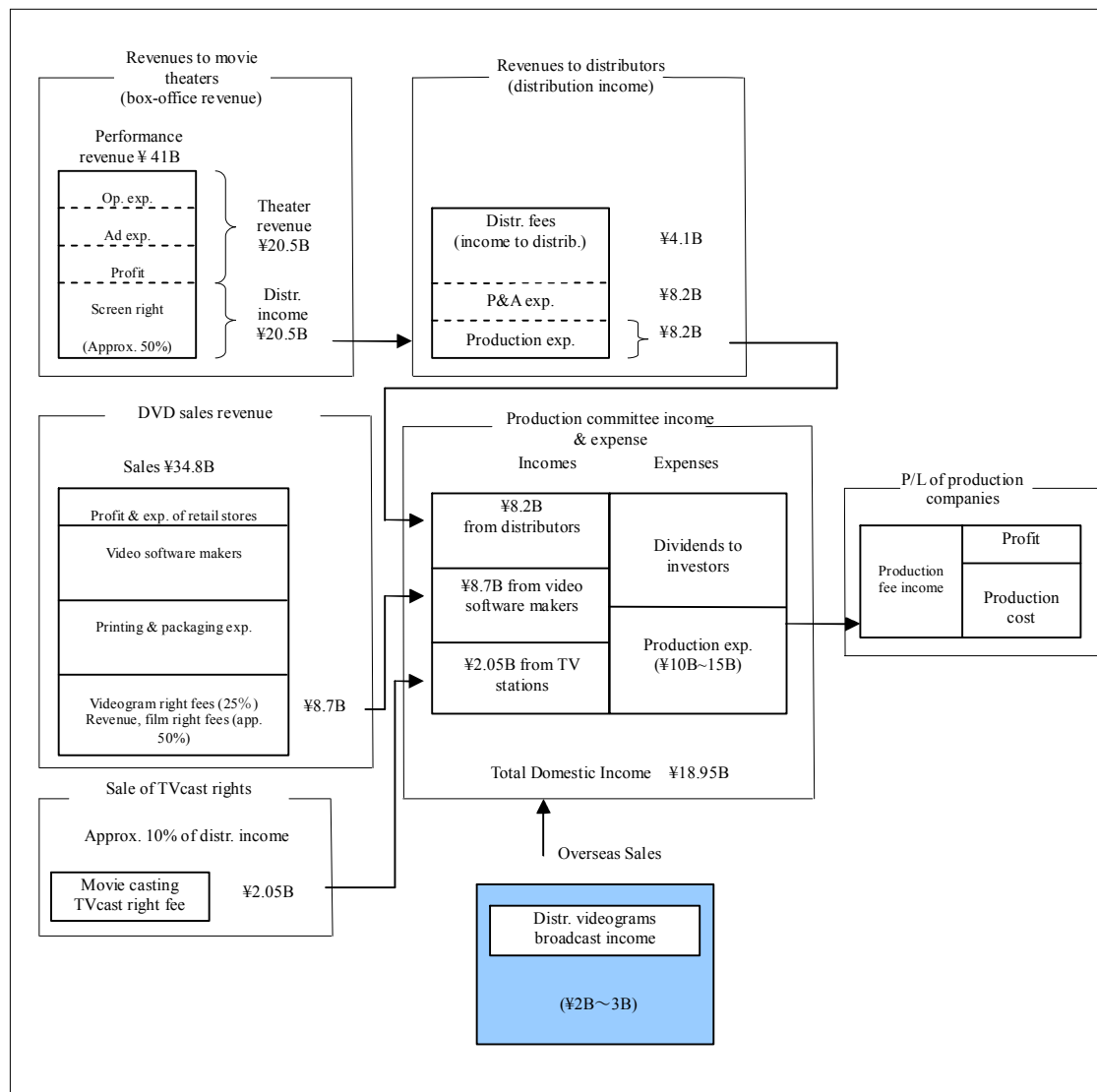
product (right to make videograms) is assigned, and they can sell DVDs. To TV stations, the TV broadcasting right is assigned and the movie is broadcast. To the Internet content providers, the right to automatically transmit to the public is assigned and the video is transmitted. All these bring copyright income to the copyright holders via the distribution right.

Additionally, among the producers involved in producing a movie, a scriptwriter is granted a copyright. Moreover, the actors and performers in the movie are granted nexus copyrights and are paid usage fees in the secondary usage of a movie. Copyrights are granted on movie music as well, and usage fees are paid to composers and lyricists based on the use of their music in the movie works, while to the producer of the master disc of music usage fees are paid based on the use of the master disc.

1-5 Structures of incomes and expenses of corporations involved in movies and contents, and their financing methods

The key to the incomes and expenses of the movie business is the production committee consisting of corporations that take charge of distribution as sales contacts for a movie show on a screen, DVD sales and TV broadcasting, and very often it is with the investment of the production committee that movies are produced. The projection movies in Japan are supported with the income from sales overseas, in addition to the domestic income from these distribution channels.

**[Table 8] Incomes and Expenses in the Projection Movie Business in Japan
(2004 Estimates)**

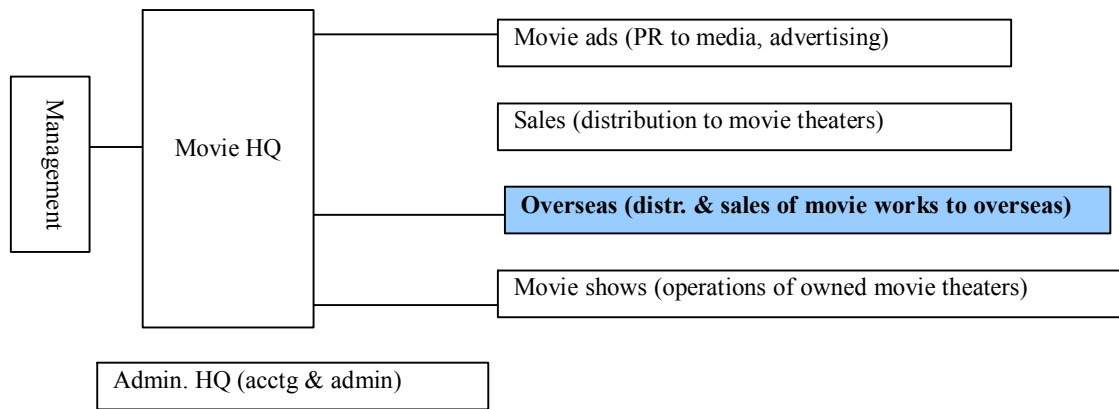


1-6 Structures of Movie Companies and Departments in Charge of Overseas Transactions

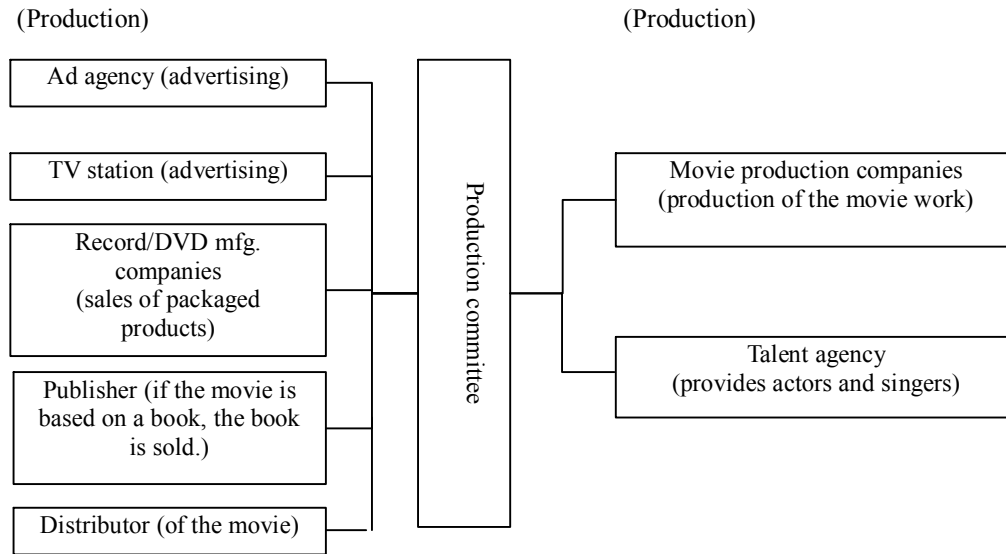
Departments dedicated to overseas transactions are found only in the major distribution companies ([Table 9]). The overseas transaction contacts for production committees are often performed by distribution companies ([Table 10]). Other companies do not have dedicated departments, so their owners, managers in charge of distribution, sales or administration conduct sales to overseas ([Tables 11 and 12]). Among these middle to small distribution and production companies, a few of them specialize in overseas sales.

* The blue color indicates a department or a company in charge of overseas transactions.

[Table 9] Organization Structure of a Major Distribution Company

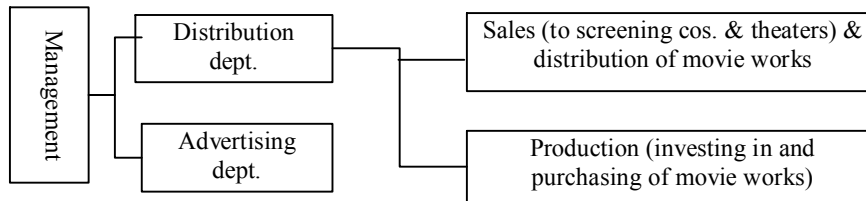


[Table 10] Organization of a Production Committee

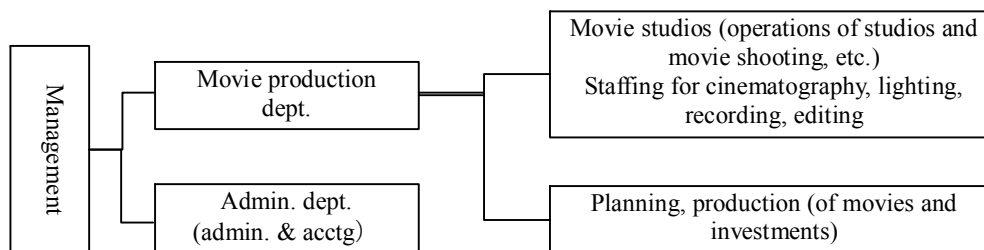


* Other companies (a TV station, ad agency, etc.) of the production committee may take charge of overseas sales. Otherwise, an overseas sales agent outside the production committee may act as the contact for overseas transactions.

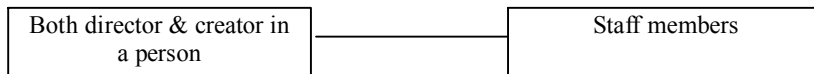
[Table 11] Corporate Organization of a Small to Middle-Size Distribution Company



[Table 12] Corporate Organizatopn of a Movie Production Company



[Table 13] Positioning of a Movie Director



1-7 Ratio of Overseas Sales for the Entire Movie Industry, and Its Positioning

The amount for overseas sales of Japanese movies is approximately ¥10 billion, but a significant portion of this amount is from anime movies, and the amount of overseas sales of projection movies is estimated to be ¥200 million to ¥3 billion. Contrastingly, the revenue earned by distribution companies from projecting Japanese movies in Japanese movie theaters is estimated as approximately ¥20.5 billion annually, and the income to a production committee from the allocation of this distribution income, and from DVD sales and TV broadcasting is estimated as approximately ¥19 billion. Therefore, the amount of overseas sales is approximately 10% of the income on the domestic rights of Japanese movies.

Accordingly, up to 90% of the income on the Japanese projection movies is earned in the domestic transactions, but the titleholders of Japanese movies have wrestled with overseas sales in search of extra income. Now, in the budget for investing in a movie production and recovery of the investment by sales, overseas sales revenue is more often incorporated in the business plan. Therefore, overseas sales are becoming an indispensable income source for many movie works.

Given the above activities, new movie works are more heavily marketed to overseas. On the other hand, companies holding many rights on old movie works, such as major distribution companies, are expecting that overseas sales of old works would make a more profitable business. Based on the category of new movies, there are more inquiries on horror movies in particular, and sales of their remake rights are relatively strong.

1-8 Markets by Target Area

The sales customers of Japanese projection movies have to date been mainly to Asian countries, such as Taiwan, Hong Kong and Singapore. In the United States and Europe, Japanese movies have been shown, but the market scale is small and does not lead to big business.

The United States is overwhelmingly large in the North American market, so in the past Japanese distribution companies used to own and manage movie theaters dedicated to Japanese movies for Japanese Americans. Currently in the United States, the entire transaction amount for performing, broadcasting and selling DVDs of one title of a Japanese projection movie would be several ten million yen down to several million yen; there are fewer than 100 theater screens available, and the number of movie software products sold would be 20,000 to 30,000 at most. They are also TV-casted on movie channels. Canada is heavily influenced by the U.S. market, but there are regulations to protect the movies produced in Canada for theater showing and TV broadcasting. Also, because of being a multi-language country in which English and French are spoken, so sell in Canada it is necessary to have two language versions. In Mexico and Brazil, the screen performances, DVD sales and TV broadcasting of Japanese movies are often made through U.S. distributors. Because there are many Japanese descendants in Brazil, in the past there were distributors dedicated to Japanese movies. Even now there are many fans of Japanese movies in Brazil.

In Europe, many Japanese movies are shown in theaters after being artistically evaluated at the film festivals in Cannes or Berlin. However, there are more cinecoms in various countries that are owned and operated by large international ventures, and independently owned and art-theater screens are on the decline. Thus the opportunity to show artistically evaluated movie works is being lost. In France there are regulations to limit the showing of foreign movies, and Japanese movies too are limited from screening.

In Asia, Korean movies are booming in Taiwan, Hong Kong and Singapore, where Japanese movies used to be popular, and they are competing in the market. In China there are regulations on screening foreign movies, and there is almost no record of showing Japanese movies in theaters. In Korea the market has been opened to Japanese content, and since the regulations on showing foreign movies to the public have been moderated, Korea is expected to become a good market. However, in China, Taiwan and Southeast Asia other than Korea, there are many illegal shows and pirated versions. Particularly, China is overflowing with pirated DVDs, and it is hard to make a business there.

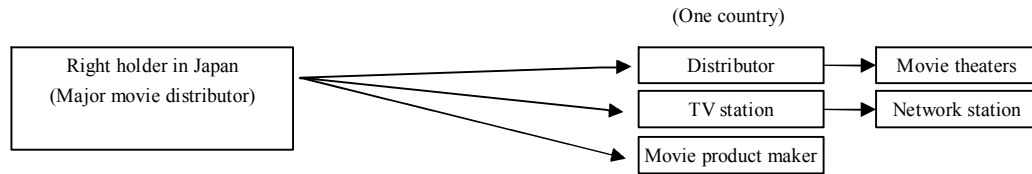
1-9 Customers in Overseas Sales, and Examples of Sales Channels

Domestic companies that are selling overseas are mostly major movie distribution companies, which serve as contacts for production committees. Moreover, movie production companies that have joined production committees to hold rights are also participating in overseas sales. Although the scale of sales overseas by independent distributors and movie production companies is small, there are companies dedicated to overseas sales, and some companies make more than 5% of their total sales selling to overseas customers. Moreover, a Japanese production committee may do a joint production with foreign investors and movie companies.

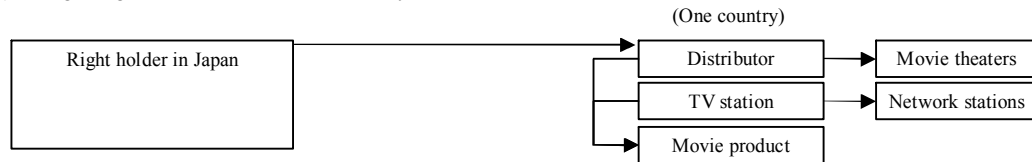
The major movie distribution companies in Japan often sell to their counterparts in various foreign countries the rights to show movies in theaters, TV broadcasting rights or the rights to make movie software products, or may directly sign contracts to sell all these rights. Moreover, 20 or 30 companies in Japan that are independent distributors and movie production companies assign all rights to their agents, and these agents often broker the sales of the rights to show movies in theaters, to broadcast on TV and to make movie software products to the companies that do these activities. Among these agents, some broker sales only in one country of Europe or Asia, and others broker sales in multiple countries.

[Table 14] Examples of Major Sales Channels

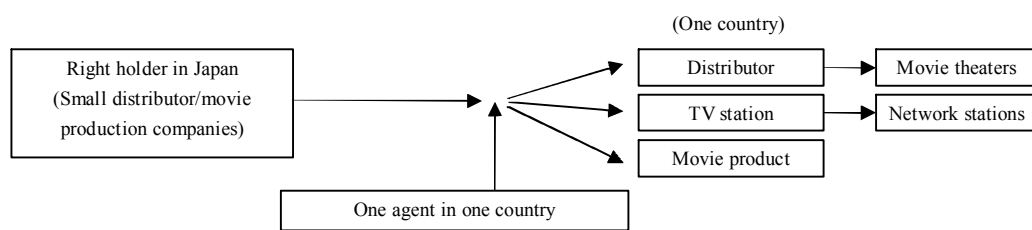
(1) Direct sales of each right to each country



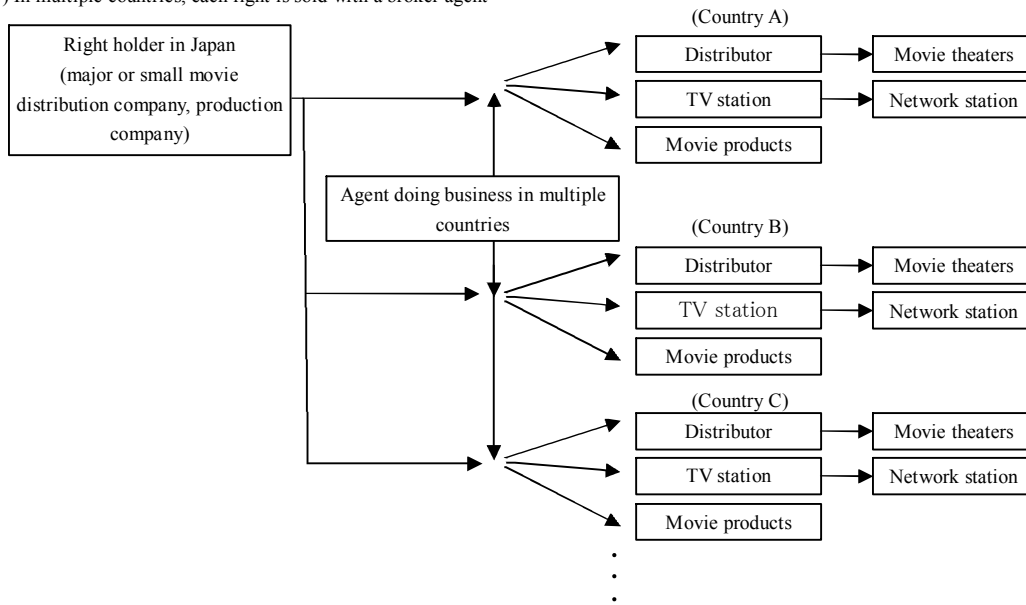
(2) Selling all rights to a distributor for each country



(3) Selling each right for each country with an agent as broker



(4) In multiple countries, each right is sold with a broker agent



In the United States it is most common to sell directly or through agents or distributors, the performance right, movie software product rights and TV rights in a package of all rights to a distribution company. Generally in Europe, sometimes all rights for the entire continent are sold to one agent, or at other times they're sold to agents for different countries.

To show a movie in China it is not only necessary to sell the right to a movie distribution company but also to obtain the approval of the Chinese government. Moreover, in Korea there used to be regulations on the showing of Japanese and foreign movies, but since 2006 these have been modified and Japanese movie distributors are beginning to discuss sales with their Korean counterparts. In Taiwan agents are quite active but the market is small, and there is a case where Japanese movies shown in theaters in Taiwan were also shown in Mainland China through an illegal transaction. There are many unclear points in their approval scheme. In Thailand, Singapore and other countries of Southeast Asia, transactions are made through an agent for the whole area or an agent for each country, but there are issues because their contract amounts are very low. The screen performances and sales of movie software products not being reported to the public; and income exceeding MG is impossible to obtain.

1-10 How to Cultivate Overseas Customers

The major movie distributors are directly (or through their agents) making transactions with their multiple counterparts in the United States, Europe and Asia, and they are in a position to discuss sales according to the features of the movies they want to sell. Even if they did sell movies to overseas customers before, small/medium distributors and movie production companies are forced to start over by finding overseas distributors, agents or makers of movie software products who want to handle the particular movie each time they want to sell a movie, according to its features. Even these major movie distributors, with their existing customers, have to understand the trend in new customers, since there are stronger monopolies of international capital in the global movie distribution and sales of movie software products, and overseas small/medium distributors and makers of movie software products are continually being established, closed or merged.

Amid such conditions, the places to find and cultivate overseas customers are the international movie festivals and the movie product trade shows. However, it is a nearly impossible feat of skill to find an overseas distributor, an agent or a maker of movie software products who can match the features of the movie the company wants to sell and to get the contract signed simply by exhibiting in a movie festival or trade show only once a year. International movie festivals and movie trade shows function as places in which to participate in the global movie industry and to grasp the business trend of distributors and movie software product makers from different countries in a familiar network, whether new ones are founded, closed or merged, and to exchange information or to meet new people. Consequently, in order to fully utilize this function, it is not enough to exhibit in a booth: It is important to participate in individual sales talks and in receptions. Moreover, if you are only exhibiting in a booth you cannot say you are participating in the global movie industry and the familiar network of movie distributors. So, in order to achieve your position there, you will do well talking about participating and receiving prizes in an international movie festival in a press announcement.

Now that Internet communication is so advanced, it is not necessary to depend on direct, face-to-face conversations at the international movie festivals. Exchanges of information through a website, business talks by e-mail, small transactions, transactions among the independents, distribution of niche movie works for fans and sales of movie software products are increasingly possible. In order to promote it, a portal site linked to separate sites, for sales of Japanese movies to overseas customers, would be highly effective, where a viewer can look at Japanese movies as well as the directors, producers and companies that sell them.

On the other hand, to distribute movie works aiming to be global hits and to sell a lot of movie software products, particularly for the Hollywood transactions, only a few Japanese companies and sales staff members outside anime field are participating in the American movie industry and building a network of familiar business contacts. Thus it would be desirable to have a scheme that would boost the whole

Japanese movie industry and interact with Hollywood.

1-11 Joint Productions with Foreign Companies, and Format Sales

(Sales of the remake rights)

In recent years there have been actual sales of remake rights to Hollywood, for such movies as “Ring” and “Shall We Dance?” In “Juon” the deal involved the sale of remake rights and a Japanese movie director was hired for the remake.

The contract formats of the remake rights consist of (1) buyout or (2) option. The buyout is to sell off the movie rights regardless of the production status. On the other hand, the option is to set up a period of a few years and sell the movie rights whereby, if the movie is not produced within the period, the rights are returned to the seller.

For example, the remake rights of “Ring” were sold in a format close to the buyout, and Asmik Ace sold them to DreamWorks, a production and distribution company in which Steven Spielberg is a partner. After the sale, the Kadokawa Group acquired all rights to the remade work for the Japanese market.

(Joint production with foreign companies)

In Asia too, a Chinese movie or a Korean movie will be jointly produced, with Japanese actors comprising the main cast.

On our questionnaire, Shiguro Ltd. reported on the joint planning and production of a documentary movie with the governments of the U.S., Australia and Papua New Guinea.

