

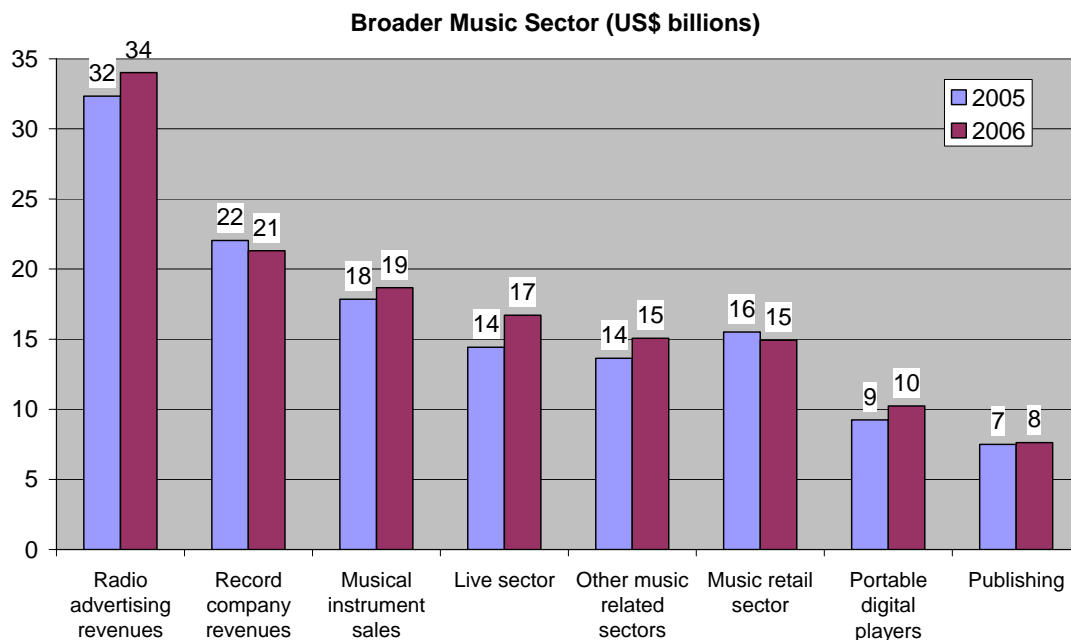
THE BROADER MUSIC INDUSTRY

The recorded music industry is the engine helping to drive a much broader music industry, worth more than US\$130 billion globally. This is over three times the value of the recorded music sector, and shows music to have an economic importance that extends far beyond the scope of recorded music sales.

Global retail sales of recorded music totalled US\$31 billion in 2006. This is a valuable global industry that is a catalyst for a wide range of commercial uses of music, and which has been created without subsidy or special measures. The recording industry is the principal investor in music talent and invests some 20% of its revenues in the search for and development of new artists – one of the highest rates of R&D investment in any IP sector.

Music also is one of the leading creative industries driving the media and entertainment sector that is now worth an estimated US\$1.4 trillion, with experts predicting this figure will grow to US\$1.8 trillion by 2010 (PWC).

Music is becoming an increasingly important economic driver in the digital era. Not included in this analysis is the impact of the recorded music industry on fast-growing sectors such as mobile phone manufacturers and Internet Service Providers - consumers spent over US\$100 billion on broadband subscriptions in 2006 according to PWC, and all major operators' position music as a key consumer benefit of broadband.



Source: IFPI. Radio advertising: PWC. Record company revenues: physical, digital, performance rights income and licensing income (IFPI). Musical instruments: Music Trades. Live: IFPI extrapolations of Pollstar data. Other music related sectors: music magazines (IFPI extrapolations of PWC data), music channels advertising revenues (Viacom), US satellite radio subscriptions (PWC), audio home system sales (CEA, EITO). Music retail: physical, digital and ringtone retail sales (IFPI, Informa). Portable digital players: IDC. Publishing: IFPI estimates based on CISAC data and performers' performance rights collections from IFPI data.

The largest sector underpinned by recorded music sales is the global commercial radio advertising market, which was worth US\$34 billion in 2006. Record companies provide radio stations with content they need to attract the audience that advertisers want to reach. However with only 1% of advertising revenues flowing back to record companies, or just over US\$190 million in performance rights income from radio broadcasts to producers in 2006, radio networks currently squeeze incredible value from recorded music.

Sales of physical and digital recorded music products fell by 5% in 2006, yet revenues streams such as performance rights income and licensing revenues continued to grow strongly. Overall the recorded music sector still experienced a small drop compared to 2005.

Live performance is a fast-growing sector, worth US\$17 billion in 2006, up 16% on 2005. Merchandising and sponsorships are new and growing revenue streams in this sector, now accounting for an estimated 30% of sector revenues.

Nothing illustrates the importance of recorded music to other sectors more than the phenomenal growth in portable digital music players. Research firm IDC estimates the value of this sector to be US\$10 billion in 2006, up 11% on 2005.