



“e-Content 2008”

THE 3RD REPORT ON DIGITAL CONTENT MARKET

The third Confindustria Servizi Innovativi Federation's Report on Digital Content Market represents **the only source of observation and monitoring able to provide** a detailed picture of the Italian market and its segments, examining in depth evolutionary paths and factors supporting its progress.

In Italy, during 2007, the number of hours spent surfing on internet per week increased of approximately 20%, up to more than 5 hours per week and almost 22 hours per month (Tab. 1).

TABLE 1 User evolution and time spent on the Internet in Italy
(January 2008-January 2007)

Comparison between January 07/08	January 07	January-08	increase
Total No. of active web surfers	20.25 Mln	24.3 Mln	+ 21%
Web sessions per person /month	29	32	+ 10%
Average time spent on the Web per person /month	18h 36m	21h 45 m	+ 18.7%

Source: Nielsen

Market value

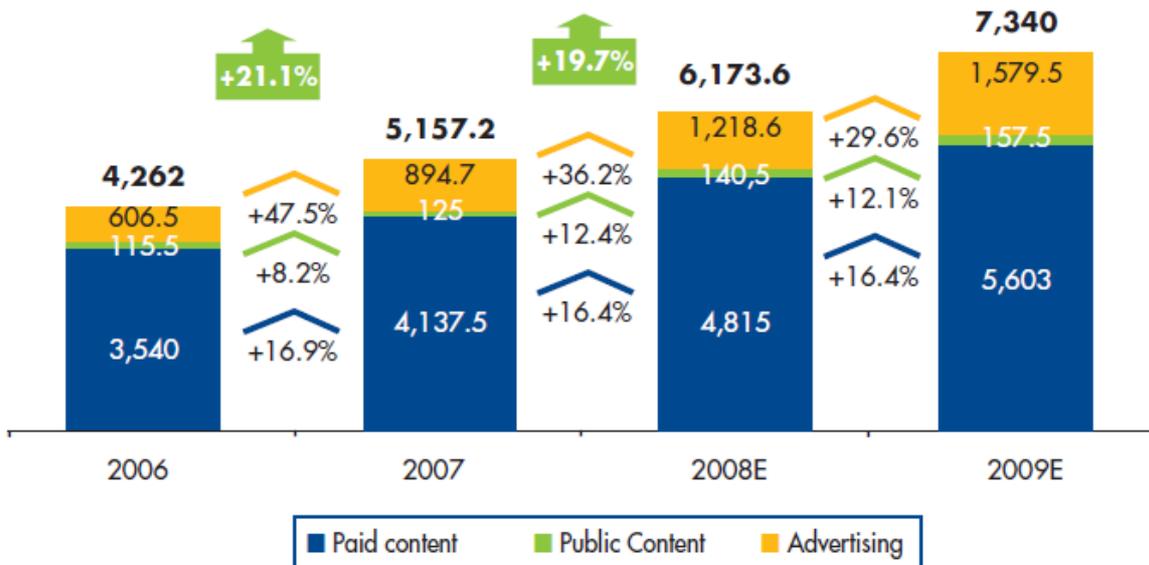
The market value analysis shows **an overall growth of 21%** in 2007, (which is expected to continue for the next two years), for a market value that has grown in 2007 **up to 5,157.2 Million Euros** (representing the 20% of the total revenue deriving from CIS, the Central Information System, sectors).

The most significant component of the market continues to be the one represented by paid contents (as reported in past editions), for a total market value of 4,137.5 Million Euros, but **advertising is continuing to grow very quickly**, recording an increase in revenue in 2007 of 47.5% foreseen to



substantially increase over the next years up to exceeding the threshold of 1.5 billion Euros (Fig. 1) already in 2009.

FIGURE 1 Trend of digital content market value (2006-2009E)

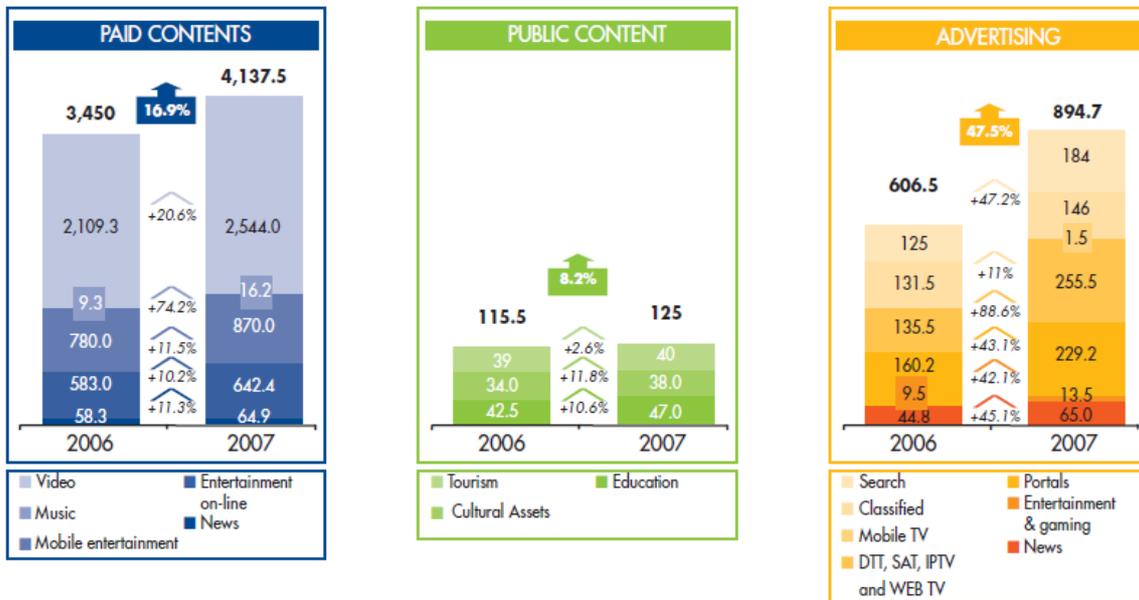


Fonte: NetConsulting

Paid contents also showed a considerable increase (+16.9%), with trends relatively consistent within their segment, even though certain sectors have recorded more positive trends, such as music, which will develop substantially over the next years. Examining the market composition of paid contents (fig.2), **Video** represents the leading market segment with a value of 2,544 million Euros (excluding advertising revenue), with an incidence of 61.5% in this market sector and a growth in 2007 of approximately 20%. This positive trend is justified by the development of the IPTV, that has launched its main products between 2005 and 2006, the increase of terrestrial digital TV and the considerable growth of satellite TV, that despite being smaller than in other markets, still represents the most consistent market in terms of absolute value. In order of importance in the Paid Contents market sector, follows the **Entertainment** segment with its two components **Mobile** (with an incidence of almost 21%) and **On-line** (with an incidence of 15.5%), registering an overall market value of respectively 870 and 642 Million Euros.



FIGURE 2 Trend of digital content market value (2006-2007) - values expressed in Millions of Euros



Source: NetConsulting

The **News** segment has a very low incidence equal to 1.6% (for a value of 64.9 Million Euros), in reason of the inclination of main operators to mainly focus on revenues deriving from advertising.

Still marginal the weight of the **on-line Music** segment that even if it shows an interesting progress, has recorded a value of only 16.2 million Euros.

Advertising, which in 2007 has registered a turnover of 894.7 Million Euros, is composed for a percentage of 28.6% by **satellite TV** and **Digital Terrestrial TV** (even if this last to a much lower extent). The remaining percentage derives from Web revenues, especially **Portals** and **search engines**, with a market shares of respectively 25.6% and 20.6%, followed by the so-called **Classifieds**, i.e. adverts of various kinds published on Internet, which registered an incidence of 16.3%. Still controlled the specific weight in the market of the News segment, representing the 7.3% of the total revenues of the sales, notwithstanding it has significantly increased over the last two years.

Finally, the **Public Content** market worth 125 Million Euros is the one that has shown the most limited increase, with a growth of only 6.8% in 2007, below

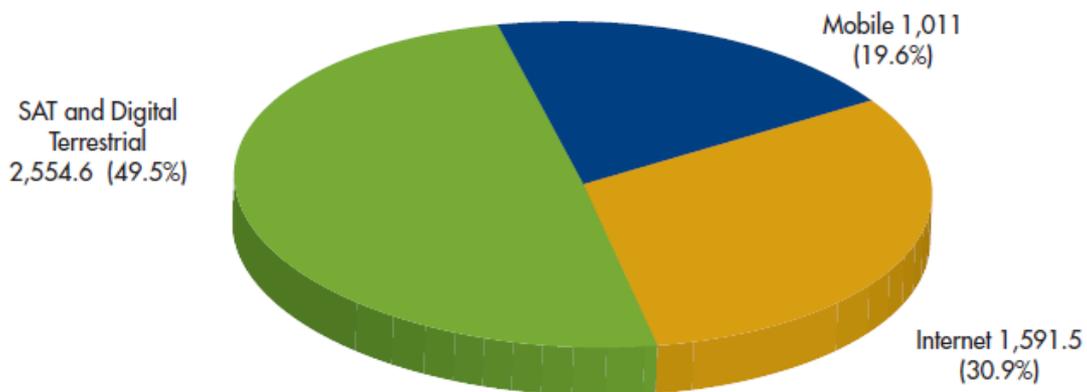


expectations foreseen in the past edition of this study. This lower trend is mainly due to the slowdown of the Tourism sector as a consequence of the shutting down of Italia.it portal and to the inactivity of the DIGI School project in the Education sector. Within the Public Content market, the allocation of market share amongst its three components is fairly balanced: Education (37.6%), more significant than the others, Tourism (32%) and Cultural Heritage (30.4%).

The access per channel analysis shows that Terrestrial Digital TV and satellite TV markets still have the highest incidence, equal to 49.5% of the whole market value, mainly due to satellite TV, representing solely the 45.6% of the entire market. Internet maintains almost a third of the e-Content market value, with a market share registered of approximately 31%.

Less relevant the incidence of the mobile segment, slightly superior to 19%. This sector has in fact experienced a more controlled growth compared to previous years due to the slower growth of the entertainment mobile segment compared with other segments (Fig. 3).

FIGURE 3 Distribution of the e-Content market value for access systems (2007) - Values expressed in Millions of Euros and incidence %



Source: NetConsulting

Contents related to Museums, Libraries and Tourism, as well as those regarding Education are currently transmitted only through Internet, but an increase is expected in a medium/long term basis, that might involve other channels of transmission. As far as the Education sector is concerned, contents distributed via CD Rom have not been included in this analysis.

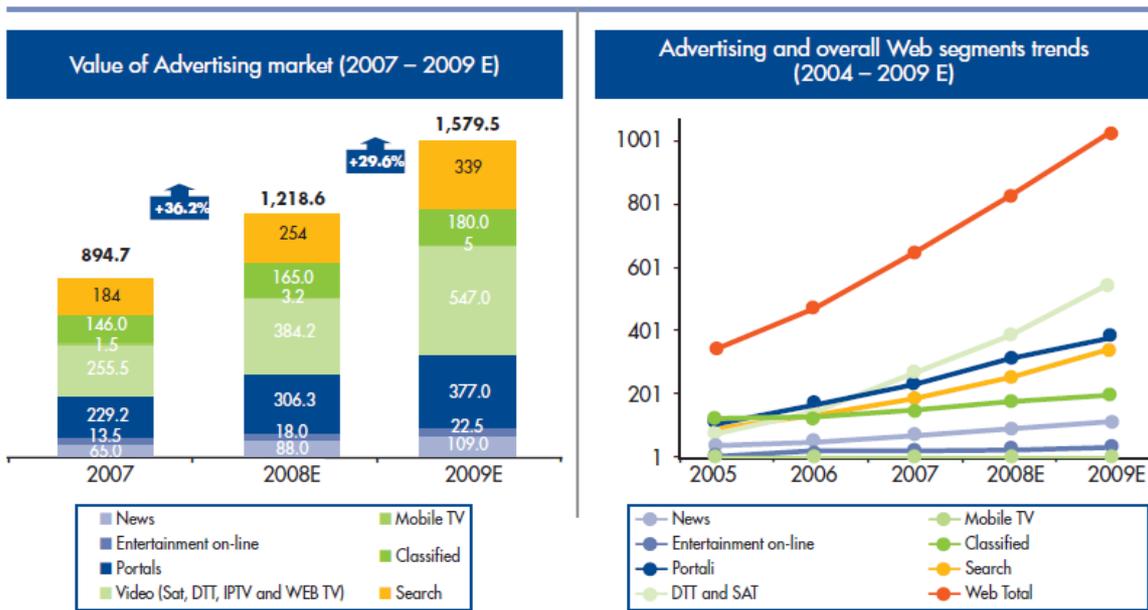


Expected evolutions

Even though certain factors that might be responsible of its slow growth will persist such as the lower penetration of PCs with broadband connections in Italian families compared to other European countries, and the slow process of *switch off* to digital terrestrial television, the **e-Content market** is expected to continue to increase at double-digit rates and **exceed in 2009, 7 billion Euros**.

This trend is the consequence of **the positive progress of certain segments, first amongst all the advertising segment**, that even if is slightly slowing down compared to the positive trend of the past years, it will still substantially increase up to 36% in 2008 and 29.6% in 2009 (Fig. 4).

FIGURE 4 Trend of the Advertising value (2007-2009 E)
Values expressed in Millions of Euros and % variations



Source: NetConsulting

Amongst segments contributing the most to this positive trend growth it is worthwhile to mention the following:

- videos, both on satellite platform (currently having a market share comparable to the traditional TV share) and on Digital Terrestrial platform;

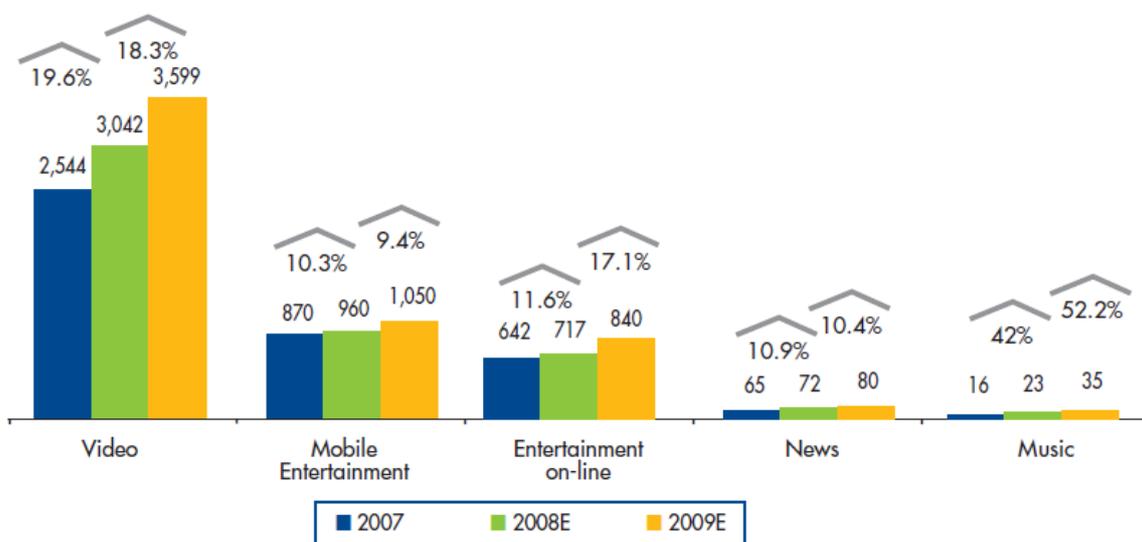


- portals and search engines, that will reach together 886 Million Euros, representing around the 56% of the total value of advertising related to digital contents.

On-line advertising , (in which should be included other forms of web advertising as well as those of portals and search engines,) will represent the **first form of advertising promotion in the digital contents market**, exceeding one billion Euros and therefore affirming itself as the third media of total advertising sales after the TV and the press.

This expansion will be the result of having targeted users' preferences and of the subsequent capability of on-line advertising, to be attractive for both old and new investors.

FIGURA 5 Trend expected for the market value of Pay Contents divided by segments (2007 - 2009 E) - Values expressed in Millions of Euros and % variations



Source: NetConsulting

The **Pay contents market** (Fig. 5) will also register a positive trend reaching a stable increase of 16.4%, despite different trends registered in the different segments of the sector: in the light of a **strong increase in the music segment** (+52% expected in 2009), which is clearly still lower than the levels reached in other countries, a **significant increase of on-line entertainment** (lead by videogames and on-line betting sectors) and of the **video market** (that will continue to represent the main segment in the paid contents market, with an



incidence of 64%); other trends related to more developed market sectors, such as mobile entertainment and **News** seem to have a decreasing trend. Nevertheless the News segment **is still significantly growing with regards to advertising sales**, that already in the current year it is expected to exceed revenues deriving from membership's fees and subscriptions "à la carte".

Main innovations **will be registered in the video market** consisting in the launch of **new forms of Web TV services**, founding their business model exclusively on advertising, as well as in the development of the **Video on Demand offer**, which is intended to evolve gradually replacing the traditional home video market. Such occurrence will meet the consumer's growing aspiration to have the availability of contents he is interested in, whenever and wherever he likes regardless the operator's program. (*Anytime, Anyway, Anywhere*).

The launch of new offers shall be accompanied by the progressive growth of satellite TV and Digital Terrestrial TV, which will experience an increase in the population penetration rate, heading towards the gradual downfall of analogue TV. Public Contents still play a marginal role in the digital contents market although they are expected to grow. This increase, however, even if less substantial than the one recorded for other macro-components, will permit the recovery of this segment after the significant slowdown registered in the last two years.

In the cultural products sector, trends are expected to improve, since this sector can benefit from national and European funding, in virtue of several programs aimed at enhancing the historical cultural heritage of all European countries, of which Italy is undoubtedly one of the main guardians. The growth rates expected for Education and Tourism are more contained. As per the education sector, this lower trend is partially due to uncertainties of school editors with regards to the sustainability of a business relating to e-learning contents, and partially to the regular opposition of a still relevant number of teachers. The tourism sector, on the other hand, has clearly still to recover from the downturn recorded in the past years, on this sector a great influence will have policies that the new government intends to adopt.