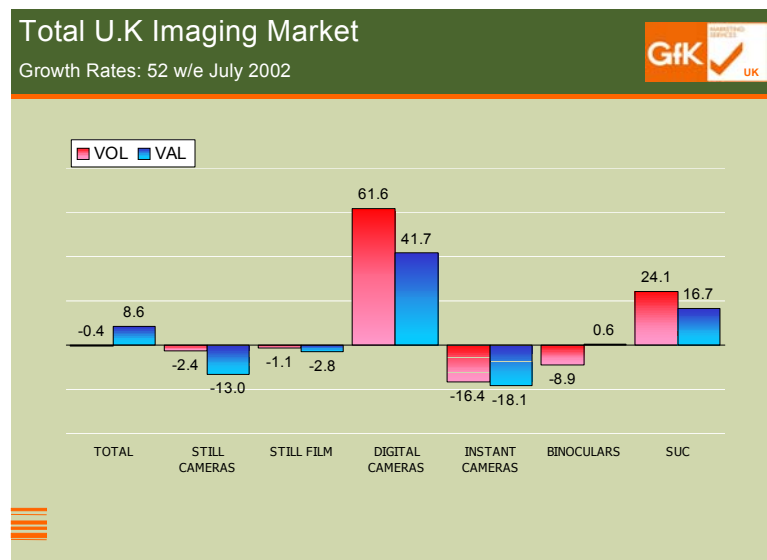


THE U.K. IMAGING MARKET – JULY 2002

In a rapidly changing industry the U.K. Imaging market has grown 8.6% in value over the last year, up to July 2002. Volume has not fared the same luxury seeing a decline of -0.4%. Following the trend across the rest of the world it is Digital Camera sales that are boosting the Imaging market in the U.K, in fact now equating to between 65-69% value share of the total cameras market. So as traditional formats decline, digital seems to carry on the market growth. However the growth in terms of volume and value of digital camera sales is slowing, even as they become a mass marketed product in mainstream U.K retail outlets.

The Imaging market in the U.K. has been growing now for eight years, with market value for the year to



July 2002 currently at nearly £755 million, GfK coverage. Volume in the traditional formats is declining, however Digital Camera sales have now passed 1 million units to July 2002, currently at 1.1 million giving an annual growth of nearly 62%.

A constant roll out of new products, stretching the pixel classifications further and further is fuelling the market growth in digital cameras. Within the U.K the key pixel sector remains the 2-3 million, accounting for 38% of the market in terms of value in July 2002. However the 3-4 million and 4-5 million are rapidly expanding with the latter sector now 13.4% of the overall market, this can partly be explained by a fall in average price, but also by the consumer willing to trade up to the next level. Digital camera trends have exceeded expectations also in volume, they have been well ahead of SLR sales since the late 1990s, and in the early part of this year were outselling 35mm cameras, a fact that clearly states the underlying impact this format is having on a highly competitive market.

Despite the continuous roll out of higher specification digital cameras, average prices have been falling rapidly. Average digital camera prices are now under £300, and are falling at a rate of over 1% per month. This puts top end 35mm SLR and Zoom cameras in direct competition with their technological neighbour the Digital Camera.

The Analogue Still Camera market has not been able to achieve positive rolling annual growth rates for the whole of 2002, in fact even the heavy promotional led campaigns and large reductions in average price have not been able to lift the volume.

The APS format has declined 12% over the last year to July 2002, this drop is being driven by a fall in Auto-Focus and Zoom formats. As the U.K Analogue Camera prices decline, there appear to be two ends of the market opening up. This is leading to the erosion of the Auto Focus format. U.K. consumers are opting to the lower end Non-Auto focus and higher end zoom cameras, leaving no place for a middle format. In a declining market, 35mm cameras are not fairsing as badly. Indeed 35mm Non-Auto focus cameras have grown 13% over the last year, driven by heavy promotions. The 35mm zoom and SLR formats are also not declining at the same rate as the overall market, a very positive sign for many manufacturers, and the industry.

As Digital Camera sales increase in the U.K. the Still Film market could be under threat as Memory Cards become the more popular storage medium, indeed in the U.K Memory Card sales are now worth £32 million and this figure is rapidly rising. However the Still Film market in the U.K. has not seen the same decline as Analogue cameras, in fact for the past 6 months volume has not dropped lower than a 5% decline month on month.

The main decline is within the traditional CN 135mm film. This is dropping sharply, down 7% in value and it's been left for the APS film and Disposable cameras to support the market. Disposable cameras are now being supported by a larger number of major high street retailers. This is helping to contribute to a volume growth rate of 24% against last year. Could it be that the consumer is now choosing a higher specification camera for special occasions and then using a Disposable camera for more practical use such as at parties, or on the beach?

The Instant format after peaking through 2000 and 2001 is now in decline, Instant film has declined 9% in value against last year, whilst Instant Cameras have declined 18%. This format remains seasonal and will surely need to be aware of the threat that Digital Cameras pose to the whole imaging market this Christmas.

Grocery and hypermarkets are becoming an increasingly important trade channel for the sales of Still Film, indeed they are competing directly with the Variety Stores. The growth of multi-pack sales is keeping the market volume up, but also driving the average price down through "Buy one get one free" offers. An increase in distribution outlets is meaning that the Still Film market is becoming very price competitive and that promotions are becoming more frequent. Large supermarkets and hypermarkets are now able to use large "Point of Sale" displays to promote their products.

Generally it is the Mass Merchandisers that are performing well across the whole Imaging market. Digital Camera sales within Mass Merchandisers have increased rapidly up 143% on last year. This sector is still only worth 15% of the total market, however with this growth this will inevitably change. As prices decline in the analogue camera market it will again be the Mass Merchandisers who will benefit. As the market changes it is imperative for Photo specialists to stay competitive, and carry a product portfolio that meets the needs of the general consumer.

Overall the U.K Imaging market is achieving healthy value growth, a majority of this has come through increased Digital Camera sales, the negative however is that we are witnessing a down turn in the traditional formats. It remains to be seen where the future lies, will APS cameras be able to regain growth, can leading manufacturers boost the shrinking analogue camera market and what exactly will the impact of Digital Camera sales be for the rest of this year?

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