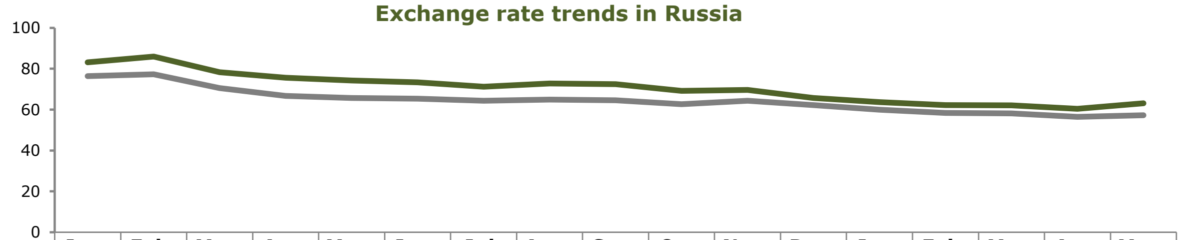
RUSSIAN FILM MARKET OVERVIEW: 2016 RESULTS

Xenia Leontyeva, Senior Analyst at Nevafilm Research
Tatyana Gorskaya, Alexander Stoev and Pavel Kuzmichev, Analysts at Nevafilm Research

Background to Development of the Cinema Market

In 2016, the rate of decline slowed down and, in some sectors of economy, the negative trend even gave way to growth (for example, in industrial and agricultural production indices) compared to the catastrophic decline of the key macroeconomic indicators in 2015. At the same time, we expect growth this year in the Russian economy according to the forecast of the Ministry of Economic Development of the Russian Federation.

Exchange rate trends in Russia



	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17
USD	76,3	77,2	70,5	66,6	65,6	65,3	64,3	64,9	64,6	62,6	64,3	62,2	59,9	58,4	58,1	56,4	57,1
EUR	83,0	85,9	78,2	75,5	74,2	73,3	71,2	72,7	72,4	69,1	69,6	65,6	63,6	62,1	62,0	60,4	63,1

Source: Central Bank of Russia

Despite the ruble strengthening in 2016, Russia failed to enter the top ten countries in terms of dollar-denominated box office receipts, same as in 2015, taking only 14th place. Thus, the exchange rate dynamics are still affecting box office receipts, which are calculated in US dollars.

Table 1. Box Office Receipts by Country in 2016

No.	Country	Box office receipts (USD million)		
		2016	2015	Change
1	USA	10,134.9	10,343.20	-2%
2	China	6,886.2	7,085.50	-3%
3	Japan	2,163.9	1,895.90	14%
4	Great Britain	1,657.4	1,580.70	5%
5	France*	1,535.9	1,478,5	4%
6	South Korea	1,499.6	1,449.90	3%
7	India	1,485.2	1,793.90	-17%
8	Germany	1,132.4	1,294.90	-13%
9	Australia	940.5	921.6	2%
10	Mexico	803.5	840.7	-4%
11	Canada	767.7	786.0	-2%
12	Brazil	744.7	n/a	n/a
13	Italy	732.5	n/a	n/a
14	Russia	711.3	722.6	-2%

Sources: IHS, European Audiovisual Observatory, CNC (*)

Russia retained seventh place in global cinema attendance rating, which it has held for three years in a row and has set a new attendance record, while China – the new driving force of the world market – slowed down considerably.

Table 2. Cinema Attendance by Country in 2016

No.	Country	Admissions (million)		
		2016	2015	Change
1	India	2 263,0	2,071.9	9%
2	China	1,370.0	1,253.9	9%
3	USA	1,315.2	1,240.0	6%
4	Mexico	321.0	286.0	12%
5	South Korea	217.0	217.3	0%
6	France**	213.1	205.4	4%
7	Russia	194.6	174.1	12%
8	Brazil	185.0	170.7	8%
9	Japan	180.1	166.6	8%
10	Great Britain	168,0*	171.9	-2%

Sources: IHS, European Audiovisual Observatory (*), CNC (**)

2016 was declared the Year of the Russian Cinema. In honour of this event, all federal subsidies to filmmakers were declared irrevocable (this rule did not apply to the Cinema Fund's own funds that were received in the form of repayments of monetary funds previously given out to producers).

In addition, several competitions were held to support the opening of screens in small towns in December 2015, and in June and December 2016. As a result, 437 screens received financing; applications could be submitted for projects located in towns with a population under 100 thousand people (according to the conditions of the first two competitions) and under 500 thousand people (according to the conditions of the third competition). At the same time, the average number of residents in towns which applications were approved by the Fund amounted to 28.2, 17.7 and 31.2 thousand people respectively, i.e., the expansion of conditions in the third competition did not attract projects from large cities. Keep in mind that the recipients of the first tranche were set to open screens by the end of 2016 (two of them failed to do so and they returned the money to the Fund), and for the recipients of the second and third tranches – by the end of 2017. Thus, large-scale government intervention in the cinema exhibition market has facilitated its growth significantly, specifically in those segments where private investors do not take risks.

In 2016, another issue related to filmmaking was actively developed in Russian regions – concerning the issue related to opening film commissions and the approval of rebate programmes. This development covers two directions: the activities the Cinema Fund and the Association of Film and Television Producers together with the Agency for Strategic Initiatives. In the framework of the last project, a system of payments to film crews in terms of the funds spent in the regions should be launched in Kaliningrad and Ulyanovsk (the relevant agreements of which were signed at the end of 2016), as well as in Rostov-on-Don, Irkutsk and Karelia (the agreements for these regions were signed during Russian Investment Forum in Sochi in February 2017). With the support of the Cinema Fund in 2017, the film commissions and the mechanisms of returning a part of the funds spent in regions for film production were also launched in Vladivostok and Astrakhan. In May 2017, a film commission was set up in Moscow (under the Moscow Cinema State Budgetary Institution of Culture). This will help to reduce administrative barriers for film crews working in Russia's capital.

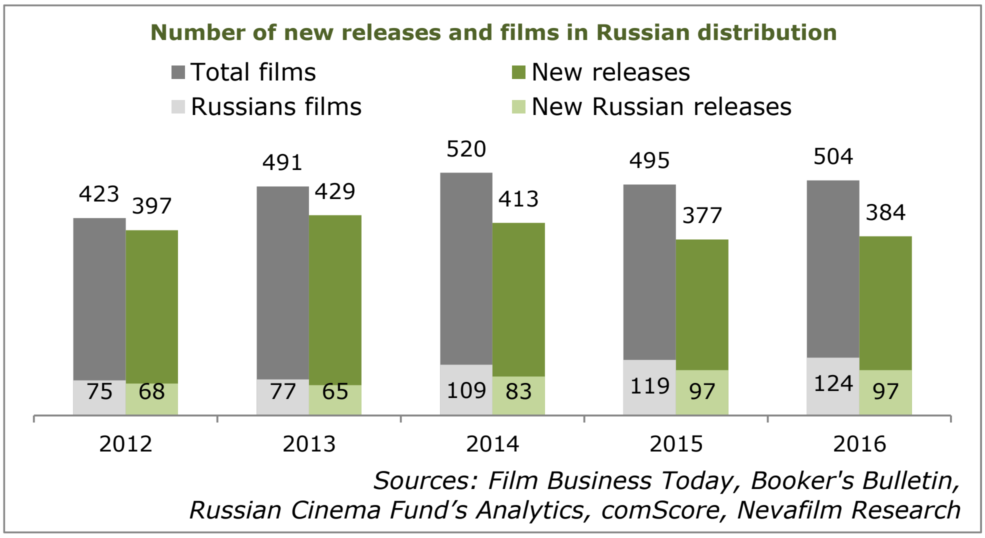
The next incident was developed throughout the year 2016. It was repeatedly discussed both at the level of state meetings and in the sectoral media, but its disappointing culmination took place at the close of 2016 with the simultaneous publishing of the Decree of the Government of the Russian Federation No. 1421 of 21 December 2016, "On Amending the Procedure for Issue, Refusal to Issue and Withdrawal of Film Distribution Certificates." The bulk of the impact thereof came to the owners of online cinemas, as they were obliged to obtain a distribution certificate for audio-visual streaming content, however, upon the explanations, the Ministry of Culture alleviated the scenario. At present, video-on-demand services shall have a distribution certificate for films offered to users upon the effective date of the above-mentioned decree.

In addition, we finally have the practice of shifting the screening date in case a distribution certificate has already been issued for a film with a similar topic, genre or target audience. It is worth noting that the procedure includes negotiations among the interested players, and if an agreement is still not reached, the decision will be taken by the Ministry of Culture.

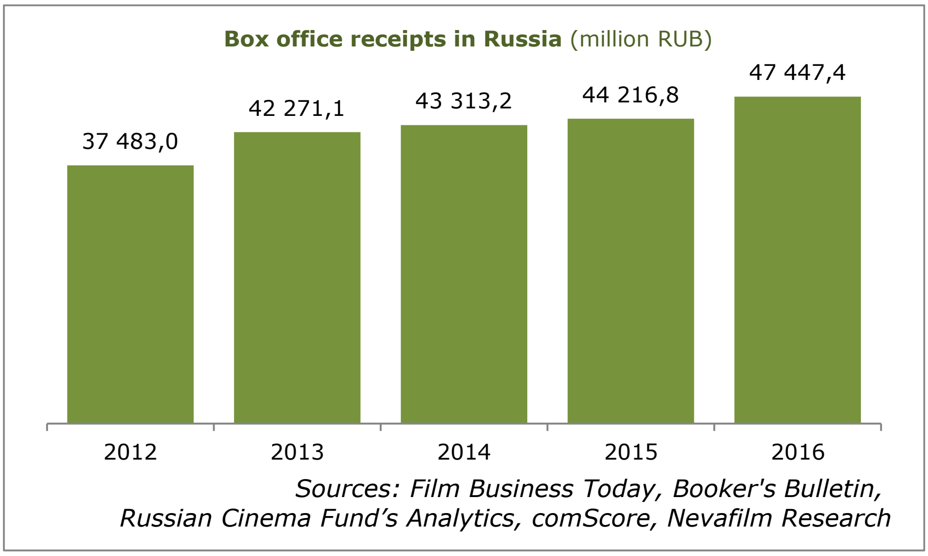
The beginning of 2017 has already been marred by another ambiguous initiative to raise the cost of distribution certificates from RUB 3,500 to RUB 5 million, but has still not yet been approved.

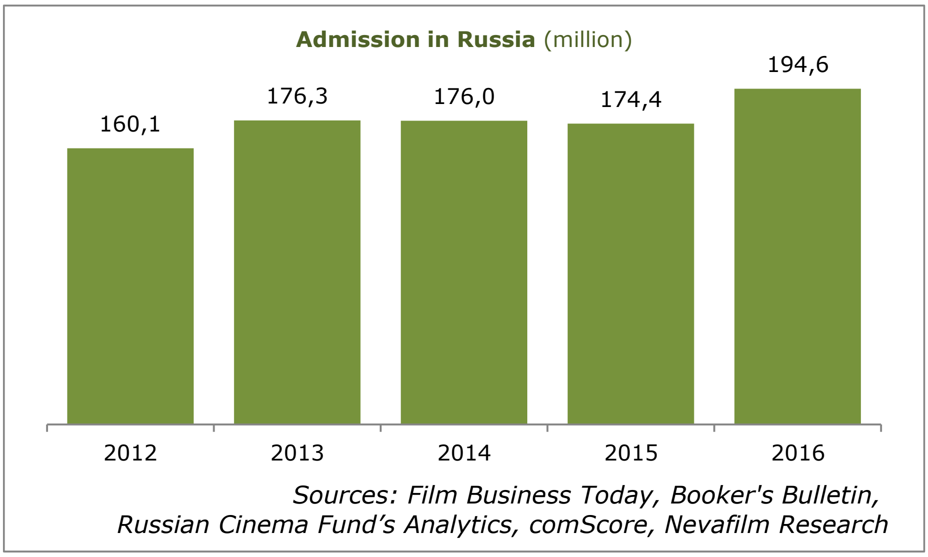
Film Distribution

The number of new films distributed in Russia is quite stable: in 2016, 384 films were released. Nearly the same quantity was recorded in 2015, and the peak indicators of 2013-2014 remain decisively unchallenged, of which during that time, over 400 films were released. In total, more than 500 films were screened in 2016 (excluding event cinema and regional films).



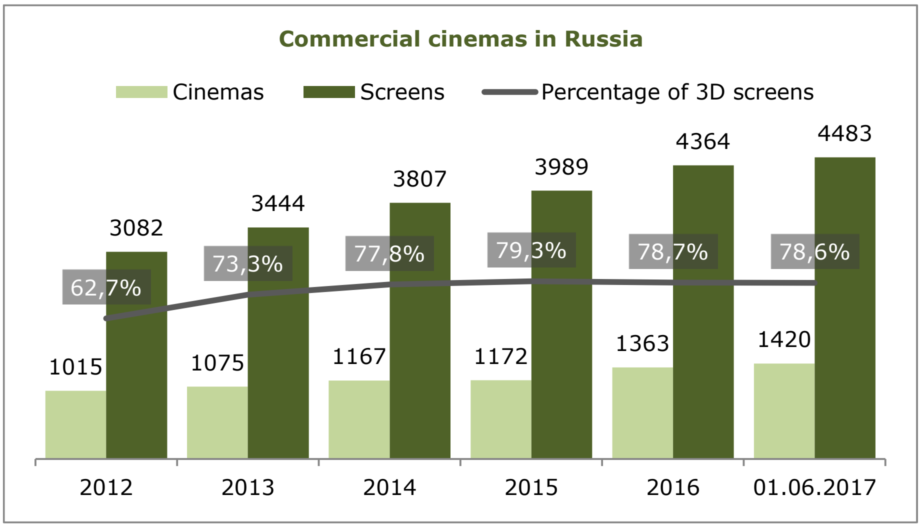
According to our estimates, box office receipts in Russia in 2016 amounted to RUB 47.5 billion, while the number of purchased tickets totalled RUB 194.6 million. Thus, in 2016 there was an explosive growth in the domestic film industry: upon three years of stagnation the attendance grew suddenly by 7.4% (in 2015 it decreased by 0.9%), and box office receipts increased by 11.6% (vs. 2.1% in 2015).





Cinema Exhibition

As of 1 January 2017, there were 4,364 commercial screens at 1,363 sites in Russia (the average number of screens for the cinema complex was 3.2); by 1 June 2017, the number of screens had grown by more than a hundred (up to 4,483), and the number of sites exceeded 1,400. The share of 3D screens for the last few years has remained practically on the same level, only showing a slight decrease – the rate of decline has been hampered due to the Cinema Fund's programme for cinema development in small towns (where such screens support 3D format almost always).



In Russia, the number and share of single screen cinemas is growing due to the Cinema Fund's programme for subsidising screens in small towns.

Table 3. Allocation of Commercial Cinemas in Russia by Number of Screens as of 1 January 2017

Number of screens per site	Number of sites	Number of screens	Market share by number of screens	Market share by number of sites
Single screen cinemas	552	552	12.6%	40.5%
Miniplexes	673	2,520	57.7%	49.4%
Multiplexes	134	1,213	27.8%	9.8%
Megaplexes	4	79	1.8%	0.3%
Total in Russia	**1,363**	**4,364**	**100%**	**100.0%**

Table 4. Allocation of Commercial Cinemas in Russia by Number of Screens as of 1 June 2017

Number of screens per site	Number of sites	Number of screens	Market share by number of screens	Market share by number of sites
Single screen cinemas	599	599	13.4%	42.2%
Miniplexes	679	2,557	57.0%	47.8%
Multiplexes	138	1,248	27.8%	9.7%
Megaplexes	4	79	1.8%	0.3%
Total in Russia	**1,420**	**4,483**	**100%**	**100%**

By the end of 2016, Cinema Park and Formula Kino retained leadership in the Russian market. In early 2016, the merger of these two leading companies was announced, but in April it turned out that the cinema chains failed to reach an agreement. Nevertheless, in the spring of 2017, Alexander Mamut acquired Cinema Park and then signed an agreement on the purchase of a 75% stake in Formula Kino from A1. In May 2017, the chains merged into one structure with a 14% market share.

The third place was taken by Premier zal, replacing KARO in fourth place. Cinema 5, ranked 14th by the end of 2015, entered the Top 10 for the first time. It should be noted that the boost of Premier zal and Cinema 5 is due to the receipt of cinemas that were opened under the Cinema Fund's programme for management or film programme planning rather than the opening of their own sites.

Table 5. Major Operators of Cinema Chains in Russia as of 1 January 2017 (including franchises and cinemas with film programme planning)

Ranking as of 1 January 2017	Ranking as of 1 January 2016	Chain Operator	Number of sites	Number of screens	Market share by number of screens	Head office
1	1	Cinema Park	39	349	8.0%	Moscow
2	2	Formula Kino	35	264	6.0%	Moscow
3	5	Premier zal	161	234	5.4%	Yekaterinburg
4	3	KARO	28	221	5.1%	Moscow
5	4	Kinomax	30	211	4.8%	Moscow
6	6	Luxor	23	158	3.6%	Moscow
7	7	Mirage Cinema	21	145	3.3%	St. Petersburg
8	8	Cinema Star	25	129	3.0%	Moscow
9	9	Monitor	27	102	2.3%	Krasnodar
10	14	Cinema 5	16	86	2.0%	Cheboksary
		Total for operators	**405**	**1,899**	**43.5%**	
		Total in Russia	**1,363**	**4,364**	**100%**	

Table 6. Major Operators of Cinema Chains in Russia as of 1 June 2017 (including franchises and cinemas with film programme planning)

Ranking as of 1 June 2017	Ranking as of 1 January 2017	Chain Operator	Number of sites	Number of screens	Market share by number of screens	Head office
1	1–2	Joint chain of CINEMA PARK and Formula Kino	74	612	13.7%	Moscow
2	3	Premier zal	177	259	5.8%	Yekaterinburg
3	5	Kinomax	32	235	5.2%	Moscow
4	4	KARO	28	216	4.8%	Moscow
5	6	Luxor	23	158	3.5%	Moscow
6	7	Mirage Cinema	21	145	3.2%	St. Petersburg
7	8	Cinema Star	25	126	2.8%	Moscow
8	9	Monitor	27	102	2.3%	Krasnodar
9	10	Cinema 5	16	87	1.9%	Cheboksary
10	11	OptimaKino	27	79	1.8%	Moscow
		Total for operators	**450**	**2,019**	**45.0%**	
		Total in Russia	**1,420**	**4,483**	**100.0%**	

Greater Moscow is the leader among Russian regions, comprising 18.1% of Russia's commercial cinemas according to comScore. This region traditionally brings in more than a quarter of all box office receipts owing to higher ticket prices.

Table 7. Allocation of Commercial Cinemas in Federal Districts in Russia as of 1 January 2017

Federal district	Number of sites	Numbe r of screens	Market share by number of screens	Market share by admission*	Market share by box office receipts*	Average ticket price (RUB)*
Greater Moscow	134	790	**18.1%**	18.6%	25.9%	339.9
Volga Federal District	215	733	**16.8%**	16.7%	13.8%	201.1
Central Federal District (excluding Greater Moscow)	227	632	**14.5%**	13.5%	12.3%	220.7
Siberian Federal District	180	492	**11.3%**	10.9%	9.5%	211.3
Ural Federal District	137	417	**9.6%**	8.3%	7.4%	217.5
Southern Federal District	144	385	**8.8%**	10.9%	10.2%	227.8
St. Petersburg	61	349	**8.0%**	8,7%	9.2%	257.4
North-West Federal District (excluding St. Petersburg)	107	264	**6.0%**	4.9%	4.4%	216.8
Far Eastern Federal District	102	186	**4.3%**	4.8%	5,0%	252.4
North Caucasian Federal District	56	116	**2.7%**	2.5%	2.3%	222.4

Sources: Nevafilm Research, comScore (*)

The complete Overview of the Russian Cinema Market 2016 Report is available to order
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