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Results for the Russian cinema exhibition market in 2010

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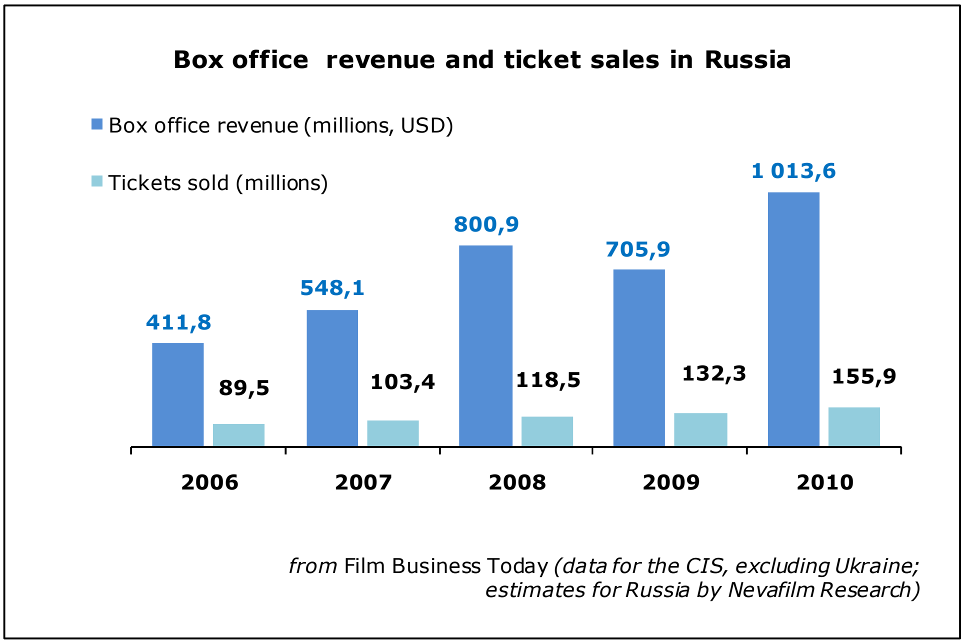
For the Russian film market, 2010 turned out to be a year of change. While the film production sector was coming to terms with the new state financing system, and the construction sector of the market was trying to bounce back from the financial crash, cinemas focused all their attention on making the upgrade to digital. Film distributors were only too happy to oblige, flooding the market with a wide variety of digital 3D and 2D films.

The year also saw new trends in film retail outside cinemas. The video market went through its own upgrade—to Blu-ray. Experts at *Screen Digest* estimate that the number of Blu-ray players in Russia doubled to 600,000 in 2010, while sales of Blu-ray discs already account for 2% of the legal DVD sales market. The television market also saw new developments. One of the country's terrestrial channels, a member of the All-Russian State Television and Radio Broadcasting Company (VGTRK), underwent rebranding. Two others (7TV and Sport) switched formats. New channels were launched, including the children's channel Carousel, and the first satellite 3D channels began broadcasting on the NTV Plus network. The Video on Demand industry underwent a veritable revolution. Previously exclusively offered by cable networks, VoD services began appearing on the Internet in 2010, both as pay-per-view and "free" services, paid for by advertising. Today, 12 companies offer VoD services to approximately 11 million subscribers via cable and IPTV networks. By the end of 2010, there were more than 15 websites legally offering VoD, with six offering services for free. We should note that major film studios and distributors have been more than happy to share their content.

Film distribution

2010's film distribution market reached unparalleled heights, with box office returns exceeding USD 1 billion! *Russian Film Business Today* magazine reports that the film distribution market in the CIS (excluding Ukraine) took in USD 1,057.4 million, 43.6% higher than in 2009. Estimates based on data from leading distributors put Russia's share of box-office receipts[1] at USD 1,013.6 million, or RUB 30.9 billion (using the year's average exchange rate of USD 1 to RUB 30.5). The number of cinema tickets sold in the Russian Federation was estimated at 155.9 million – 17.8% more than in 2009. Ticket prices soared in 2010, increasing by 14.7% in roubles (22% in dollars), reaching an average price of RUB 194.4 (USD 6.50). The main reason for this drastic growth in ticket prices was the increasing number of 3D screenings. 2010 saw 3D rise due to the broadening reach of the digital cinema network and an increase in the number of digital 3D releases.

[1] Russia's share of total box-office receipts and number of cinema tickets sold across the CIS (excluding Ukraine) was calculated based on weighted statistics collected from WDSPR, Twentieth Century Fox CIS, Caro Premiere, Caroprokat, and UPI. In 2010, Russia accounted for 95.9% of total box office returns and 93.9% of total visits.

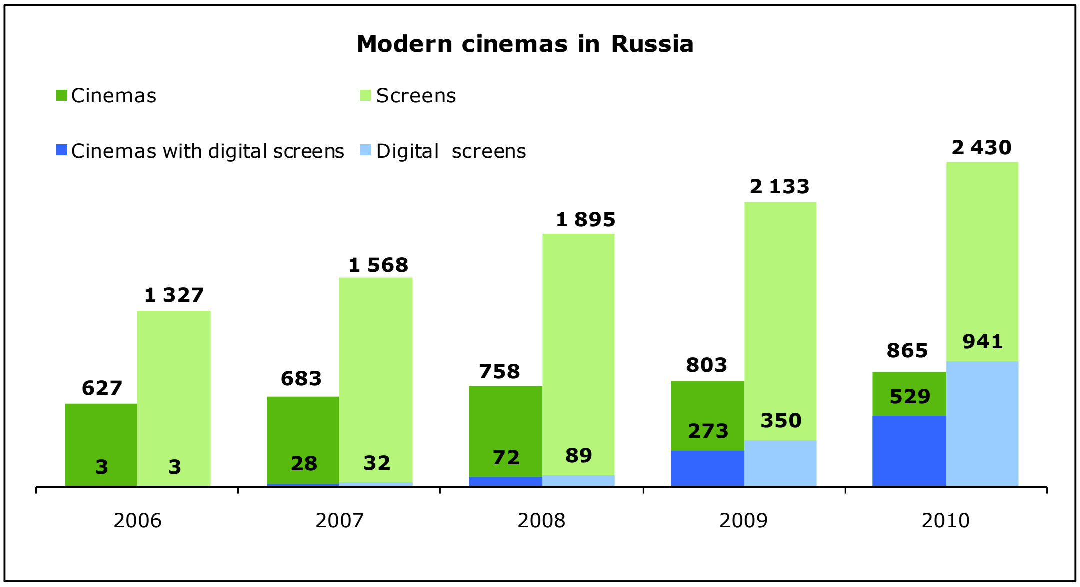


from Film Business Today *(data for the CIS, excluding Ukraine; estimates for Russia by Nevafilm Research)*

The total number of releases also grew during the 2010 film distribution year. A total of 363 films, including 162 digital productions, were released last year, a 12% increase. The digital segment of the market grew 69%, up from 96 digital releases in 2009. First-run blockbusters and 3D offerings dominate screens (2010 saw the number of 3D releases grow to 32), but Russian digital cinemas have begun offering a wider range of content. Twenty-five alternative content programs were screened in Russia last year, seven of which were screened live. The practice of *digital-only* releases also continued in 2010. The year saw 42 such releases, a considerable increase from 15 in 2009. 12 of these were 3D films; the others were midsize or limited releases. The seventeen *digital-only* releases were shown on an average of just 250 screens. A quarter (24.4%) of the total number of prints distributed on the Russian market last year were digital copies, compared to 6.9% in 2009. This increase is ample proof that Russia's distributors are adapting to the new format.

The modern cinema exhibition market

As of 31 December 2010, Russia had 2,430 modern screens in 865 cinemas, with an average of 2.8 screens per cinema. The number of digital screens reached 941 in 529 cinemas, 937 of which can project 3D.



Over the course of 2010, 85 new cinemas opened their doors, with a total of 331 new screens. This was a third higher than the previous year's level. The number of cinemas closing remained stable compared to 2009. Most of the 23 cinemas that closed in 2010 were one- or two-screen outfits, accounting for a total of just 34 screens. The modern cinema market's annual growth averaged 13.9% in 2010, slightly higher than the 12.6% growth of 2009. The world financial crisis continued to cast its pall over Russia's construction industry. Yet the share of Russian cinemas located in shopping and entertainment complexes has gradually increased. Last year, 67% of all cinemas in the country were located in these mall complexes, compared to 63% in 2009. The share of screens located in shopping malls is also growing. By the end of 2010, it reached more than 55%.

2010 saw a phenomenal increase in the number of digital screens. A huge 594 new digital screens were added over the course of the year, and the number of cinemas offering digital projection grew by 258. A total of three screens in two cinemas were closed when the complexes where they were located were shuttered, and the digital projection equipment was moved to other cinemas owned by the operators. Overall, the digital exhibition market grew by 169%. The large chains fuelled this increase by upgrading to digital projection, sometimes using one-time or long-term VPF agreements with the majors. Independent cinemas also pitched in, hoping to get their hands on digital copies of new releases. This was primarily felt in small towns with populations under 100,000, where the number of digital screens rose more than five-fold in 2010!

The total number of Russian film exhibition market players is nearing 500. Only 84 of these are cinema chains.

The fragmentation of Russia's exhibition market by type of cinema operator (data as at 31 December 2010)

Operator type	Number of operators		Cinemas	Screens	Cinemas with digital screens	Digital screens	Share of digital cinemas	Share of digital screens	Market share by number of screens
	Overall	Digital screens' owners							
Nationwide chains	19	18	200	1091	168	422	84.0%	38.7%	**45%**
Regional chains	9	8	82	190	47	63	57.3%	33.2%	**8%**
Local chains	56	48	171	403	106	151	62.0%	37.5%	**17%**
Independent cinemas	412	208	412	746	208	305	50.5%	40.9%	**31%**
Total in Russia	**496**	**282**	**865**	**2,430**	**529**	**941**	**61.2%**	**38.7%**	**100%**

In 2010, access to modern screens among the population reached 1.7 screens per 100,000 people (compared to 1.5 screens per 100,000 in 2009). Taking into account the population of cities which have modern cinemas, the average screen density in Russia reached 3.2 per 100,000 in 2010 (compared to 2.8 in 2009).

Availability of modern screens to urban populations of the Russian Federation (as at 31 December 2010)

City population bracket	Share of cities in this bracket with modern cinemas	Share of cities in this bracket with digital cinemas	Share of population with access to modern film exhibition	Cinemas	Screens	Cinemas with digital screens	Digital screens	Number of screens per 100,000 inhabitants
more than 1 million people	100.0%	100.0%	100.0%	243	1090	176	424	4.23
500,000-1 million people	100.0%	100.0%	100.0%	147	491	111	188	3.18
250,000-500,000 people	100.0%	100.0%	100.0%	139	300	94	134	2.31
100,000-250,000 people	89.0%	69.2%	91.7%	141	289	86	121	2.05
under 100,000	19.1%	6.5%	34.7%	195	260	62	74	0.98
Total in cities*	**30.3%**	**17.9%**	**79.7%**	**865**	**2,430**	**529**	**941**	**2.54**

**population in cities of the Russian Federation – 95,609,400 people.*

There was little change among the top five Russian film exhibitors. Karo Film, Cinema Park, Kinomax, and Kronverk Cinema held on to the first four spots, while the Luxor chain took fifth place, squeezing KinoStar out of the top five. Overall, the top ten major cinema chains own 38.8% of the country's modern screens and 40% of the country's digital screens. The upgrade to digital was the first priority for each and every leader of the Russian film exhibition market in 2010.

Top 10. Largest cinema chain operators in Russia, as at 31 December 2010 (including franchises and repertory cinemas)

Rank in 2010	Rank in 2009	Cinema operator	Cinemas	Screens	Cinemas with digital screens	Digital screens	Share of cinemas with digital screens	Share of digital screens in the chain	Market share by number of screens	Head Office
1	1	Karo Film	33	170	30	60	90.9%	35.3%	7.0%	Moscow
2	2	Cinema Park	19	159	19	74	100.0%	46.5%	6.5%	Moscow
3	3	Kinomax	25	112	19	24	76.0%	21.4%	4.6%	Moscow
4	4	Kronverk Cinema	16	105	12	28	75.0%	26.7%	4.3%	St. Petersburg
5	6	Luxor	18	97	18	44	100.0%	45.4%	4.0%	Moscow
6	5	KinoStar	6	75	6	57	100.0%	76.0%	3.1%	Moscow
7	7	Formula Kino	12	72	12	41	100.0%	56.9%	3.0%	Moscow
8	8	Premier-Zal	40	55	18	19	45.0%	34.5%	2.3%	Yekaterinburg
9	9	Paradise	9	50	9	21	100.0%	42.0%	2.1%	Moscow
10	12	Cinema Star	9	47	8	12	88.9%	25.5%	1.9%	Moscow
Total for these cinema operators			**187**	**942**	**151**	**380**	**80.7%**	**40.3%**	**38.8%**	
Total in Russia			**865**	**2,430**	**529**	**941**	**61.2%**	**38.7%**	**100.0%**	

Cinema advertising market[2]

2010 saw a cinema advertising market nearly double that of 2009, even managing to outstrip the pre-crisis 2008 by more than a third. By the end of 2010, the cinema advertising market had returns estimated by the Russian Association of Communication Agencies (AKAR) at RUB 880 million (USD 28.8 million). Among the main driving forces behind this substantial growth were the popularity of last year's releases, the use of the new 3D format in advertising, and the development of new methods for selling cinema advertising time.

In addition to boosting overall cinema admissions in Russia, 3D releases and digital screens captured advertisers' attention. To them, 3D shows mean more viewers in the seats and higher ticket prices, which translate into fewer latecomers; when tickets are expensive, people are more likely to show up on time. All this is in conjunction with a higher degree of interest in the advert itself. Though the first 3D commercials were produced as early as 2009, it was in 2010 that 3D advertising flourished on Russia's screens.

Another factor driving the cinema advertising market in 2010 was the new Kino-Kontakt! system. This new ad placement structure guarantees a certain number of viewers based on independently audited box-office receipts. With the introduction of this fully transparent placement system, which offered such good terms, advertisers were no longer at the mercy of the cinema distribution market. The Kino-Kontakt! structure dictates that each commercial will be played at every show and in every screen until it's seen by the target number of viewers. The Kino-Kontakt! system already covers a third of the cinema exhibition market—more than 65 million cinema visits in every major chain in the country. The Karo Film and Formula Kino chains are as yet hanging back, selling advertising time on the basis of weekly box-office receipts.

While the cinema advertising market is growing and new sales methods are being developed, the question of advert release monitoring remains unsolved. Of main concern are the fundamental deficiencies of the monitoring practices of InCinema and Screen Analytica. InCinema uses an automated system to track screenings at Formula Kino and Karo Film chains. Each film reel is equipped with a bar code, which is scanned when the reel is played. A similar system for the automated tracking of digital screenings has yet to be developed. Screen Analytica has a team of inspectors manually checking screens every week.

2010 saw a broadening network of IMAX screens and growing interest among advertisers in buying up cinema tickets for use as customer loyalty rewards. These new trends promise to continue in 2011.

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[2] This section was prepared in cooperation with Sergey Bolotin of Cinema 360.

IMAX's sweeping expansion in Russia drew viewers in numbers comparable to digital 3D shows. By the end of 2010, the country had 11 IMAX screens. This number is expected to reach 25 by 2012. However, full-fledged advertising in this market segment remains some time off.

Another important market trend was advertisers' demand for cinema tickets, which they utilized as part of their marketing campaigns. So far, cinemas are missing the flexibility of traditional advertising services. Cinema tickets are currently controlled by cinemas' exhibition, rather than marketing, departments. Today's advertisers want to be able to print "their own" tickets or vouchers, which would be valid in the given region rather than for a certain chain. They would distribute these tickets as part of promotional campaigns, and then pay the cinemas for each ticket used. The cinemas respond by requiring payments upfront, offering free weekday passes, and using restrictions set by distributors. Despite obvious inconsistencies, this trend shows great potential. Cinemas and advertisers have already managed to put their differences aside to collaborate on specific advertising campaigns and are striving to find a suitable compromise.

Source: AKAR

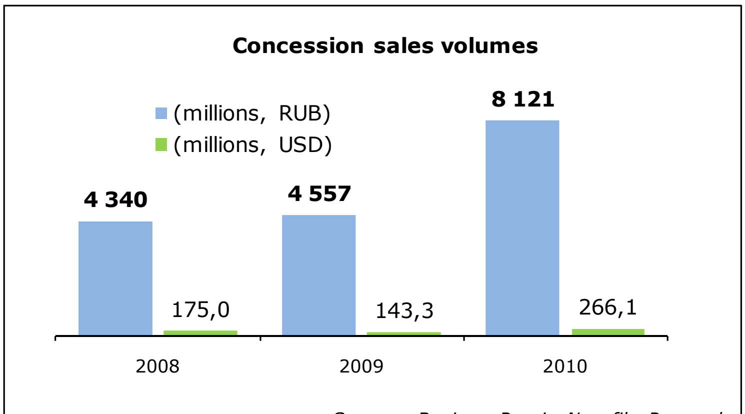
Concession [3]

The 2010 Russian cinema concession market saw two dominant trends: cost control aimed at improving concession stand profitability, and an increase in consumption of concession products as a result of an overall upsurge in cinema admissions.

The latter trend is doubtless driven by the expanding network of digital 3D screens, which contributed to the growth in Russian cinema audiences. Happily, worries that people paying more for expensive 3D film tickets would spend less at concession stands proved to be unfounded. So far, following a jump in ticket prices, film exhibitors have noticed no changes in demand for popcorn and soft drinks.

Last year's financial crisis forced cinemas to "tighten their belts" and take a close look at expenses. This resulted primarily in a growing market share of high-quality domestic concession products. Cinemas began offering Russian nacho chips, for example, replete with dip made from Russian cheese. Still, the overall assortment of products remained practically the same as demand for new things was buffered by new product packaging. Slush drinks were a good example of this approach. Other methods actively used by cinemas in 2010 were traditional concession inventory controls, campaigns against queues, and product presentation. These methods displayed steady progress in increasing profits.

The 2009 market showed the effect of the crisis. Concession returns in roubles rose as those in dollars plunged. 2010, in contrast, showed increasing returns both in roubles and in dollars, reaching RUB 8.1 billion (USD 266.1 million) based on Business Russia and Nevafilm Research estimates. Despite having the highest concession prices in Russia, Moscow cinemas showed 5-7% growth in concession sales, while St. Petersburg showed growth of 7-10%, and the regional capitals clocked in at 15%. Still, it's too soon to celebrate the end of Russia's concession stand market crisis. A poll conducted by Business Russia shows that the country's leading cinema chains don't expect the industry to fully recover until autumn 2011.



Sources: Business Russia, Nevafilm Research

[3] This section was prepared in cooperation with Iskander Aminov of Business Russia Group.

The film exhibition market in Greater Moscow

31 December 2009 – 112 cinemas / 474 screens
47 cinemas / 321 screens in shopping centres
54 cinemas / 84 digital screens

31 December 2010 – 118 cinemas / 530 screens
55 cinemas / 374 screens in shopping centres
81 cinemas / 212 digital screens

Over the course of 2010, 19 cinemas opened 62 new screens in Greater Moscow. Four cinemas (six screens) were closed. One cinema changed hands last year. The total number of screens in Greater Moscow grew by 11.8% in 2010, while the number of screens located in shopping centres increased 16.5%. 70.6% of the capital's screens are now located in shopping and entertainment complexes, a 2.8% increase over 2009.

At the end of 2010, the number of digital screens reached 212 (in 81 cinemas). Each of these digital screens is equipped for 3D projection. Over the course of the year, 128 new digital film projectors were installed in Moscow and 27 cinemas introduced their very first digital projectors. The number of digital screens across the Moscow region grew by 40%. Overall, more than 68% of modern screens have digital projectors, installed in 40% of Moscow's cinemas.

Greater Moscow - major cinema operators, by number of screens (as at 31 December 2010)

Rank in 2010	Rank in 2009	Cinema operator	Cinemas	Screens	Cinemas with digital screens	Digital screens	Market share by number of screens
1	1	Karo Film	17	90	14	32	17.0%
2	2	Formula Kino	11	62	11	34	11.7%
3	3	KinoStar	4	51	4	39	9.6%
4	5	Luxor	7	43	7	21	8.1%
5	4	Cinema Park	4	33	4	16	6.2%
6	7	Cinema Star	4	31	4	8	5.8%
7	6	Kronverk Cinema	4	30	3	8	5.7%
8	10	West	4	23	3	9	4.3%
9	8	Centerfilm	6	19	2	2	3.6%
10	7	Paradise	4	17	4	7	3.2%
Total for these cinema operators			**65**	**399**	**56**	**176**	**75.3%**
Total in Greater Moscow			**118**	**530**	**81**	**212**	**100.0%**

The St. Petersburg film exhibition market

31 December 2009 – 43 cinemas / 200 screens
25 cinemas / 160 screens in shopping centres
23 cinemas / 25 digital screens

31 December 2010 – 44 cinemas / 217 screens
26 cinemas / 174 screens in shopping centres
38 cinemas / 97 digital screens

Last year, 18 screens opened in St. Petersburg. Two of them were in brand new cinemas. One cinema closed. After a cooling-off period, construction of new shopping malls resumed. All cinemas built last year in the so-called "northern capital" are located in shopping centres. The overall increase in the number of modern screens in St. Petersburg reached 8.5% in 2010. The number of screens located inside shopping and entertainment complexes grew by almost 9%, which put their share of the total number of the city's screens at 80.2%.

The number of digital screens in 2010 reached 97 in 38 cinemas with only the Zanevsky Kaskad cinema lacking 3D projection equipment. Over the course of the year, 78 digital film projectors were installed in St. Petersburg. 18 cinemas debuted their first digital screens. The overall growth of this market segment reached 259%. 44% of St. Petersburg screens are now digital, and more than 86% of the city's cinemas offer digital projection.

A newcomer to the St. Petersburg market and only recently going nationwide, the Formula Kino chain immediately leapt to sixth place in St. Petersburg's cinema chain rankings.

St. Petersburg's major cinema operators, ranked by number of screens (as at 31 December 2010)

Rank in 2010	Rank in 2009	Cinema operator	Cinemas	Screens	Cinemas with digital screens	Digital screens	Market share by number of screens
1	1	Kronverk Cinema	8	48	7	18	22.1%
2	2	Karo Film	8	46	8	17	21.2%
3	3	KinoStar	2	24	2	18	11.1%
4	4	Mirage Cinema	5	22	5	12	10.1%
5	6	Cinema Park	1	10	1	4	4.6%
6	-	Formula Kino	1	10	1	7	4.6%
7	5	Cinema Mir	2	9	2	3	4.1%
8	7	Kinoexpert	1	8	1	3	3.7%
9	9	Mori Cinema	1	6	1	2	2.8%
10	8		1	6	1	2	2.8%
Total for these cinema operators			**30**	**189**	**29**	**86**	**87.1%**
Total in St. Petersburg			**44**	**217**	**38**	**97**	**100.0%**

The Regions

31 December 2009 – 648 cinemas / 1,459 screens
133 cinemas / 642 screens in shopping centres
196 cinemas / 239 digital screens

31 December 2010 – 703 cinemas / 1,683 screens
161 cinemas / 797 screens in shopping centres
410 cinemas / 632 digital screens

Between 01 January and 31 December 2010, 251 new screens in 73 cinemas opened throughout Russia's regions, while 27 screens in 18 cinemas were shuttered. The regional film exhibition market grew by 15.4% in 2010 – more than 11.6% in 2009, but less than 24% in 2008. Meanwhile, the number of screens located in shopping and entertainment complexes reached 24.1%, putting the total share of screens located in regional retail and entertainment complexes at 47.4%. At the same time, 215 cinemas outside the capital installed 395 digital projectors, for an overall market segment leap of 164.8%. All but three regional digital screens play 3D films.

Distribution of modern cinemas by federal district (as of 31 December 2010)

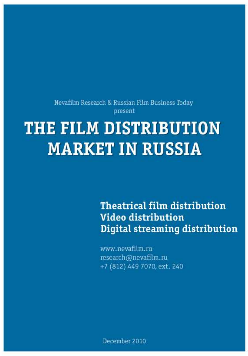
District	Cinemas	Screens	Cinemas with digital screens	Digital screens	Market share by number of screens
Greater Moscow area	***118***	***530***	***81***	***212***	***21.8%***
Volga FD	145	434	90	144	17.9%
Central FD (excluding Greater Moscow)	137	334	86	135	13.7%
Siberian FD	117	276	62	102	11.4%
Urals FD	96	229	49	78	9.4%
St. Petersburg	***44***	***217***	***38***	***97***	***8.9%***
Southern FD	67	179	47	79	7.4%
Far Eastern FD	60	93	31	39	3.8%
North-West FD (excluding St. Petersburg)	50	87	29	34	3.6%
North Caucasus FD	31	51	16	21	2.1%
Total in Russia	**865**	**2,430**	**529**	**941**	**100.0%**

Nevafilm

Nevafilm was founded in 1992 and has a wide range of experience in the film industry. The group has modern sound and dubbing studios in Moscow and St. Petersburg (***Nevafilm Studios***); is a leader on the Russian market in cinema design, film and digital cinema equipment supply and installation (***Nevafilm Cinemas***); became Russia's first digital cinema laboratory for digital mastering and comprehensive DCP creation (***Nevafilm Digital***); distributes alternative content for digital screens (***Nevafilm Emotion***); has undertaken independent monitoring of the Russian cinema market in the cinema exhibition domain since 2003, and is a regular partner of international research organizations providing data on the development of the Russian cinema market (***Nevafilm Research***).

Selling your film in Russia?

Get the low-down: how to, who to, and how much to sell it for in the latest report by Nevafilm Research & Russian Film Business Today



THE FILM DISTRIBUTION MARKET IN RUSSIA

Contents:

- THEATRICAL DISTRIBUTION AND CINEMA EXHIBITION
- LICENSED HOME VIDEO
- NON-PHYSICAL DISTRIBUTION

How to go about selling a film in Russia

Russia, with its population of 141 million, is a sizeable market per se – but it also consists of:

Over 850 modern cinemas (with almost 2500 screens) spread over 320 towns and cities, with a population of 75.2 million. Of those screens, more than 900 are digital. There are 30 distributors on the market, and around 500 film exhibitors;

82 million Russians who own DVD players, and 600 000 who own Blu-Ray players. Every second person in the country buys at least one licensed DVD per year, while pirate disc sales are four times higher. Nevertheless, there are 60 video distributors in Russia, and over 40 large chain retailers;

140.5 million people who have analogue televisions at home, with over 30 000 hours of film exhibition on air annually (80 hours' worth in every 24 hour period!). Films are frequently shown across 20 federal channels, while popular film shows draw audiences of anything from 500 000 to 5 million viewers;

72 million people who consume other, non-analogue television services; no less than 30 cable and satellite TV channels specialize in film exhibition, with each of them drawing monthly audiences of anything from 100 000 to 7 million viewers;

Over 30 VoD services (both paid and unpaid) available to the 35 million people who have broadband internet, and the 11 million subscribers of cable, telecoms, and satellite companies.

The Film Distribution Market in Russia - the latest report by Nevafilm Research. Featuring key players, services available, legal issues, and socio-economic trends: your ultimate guide to the Russian film market.