THE RUSSIAN CINEMA MARKET: RESULTS FOR 2011

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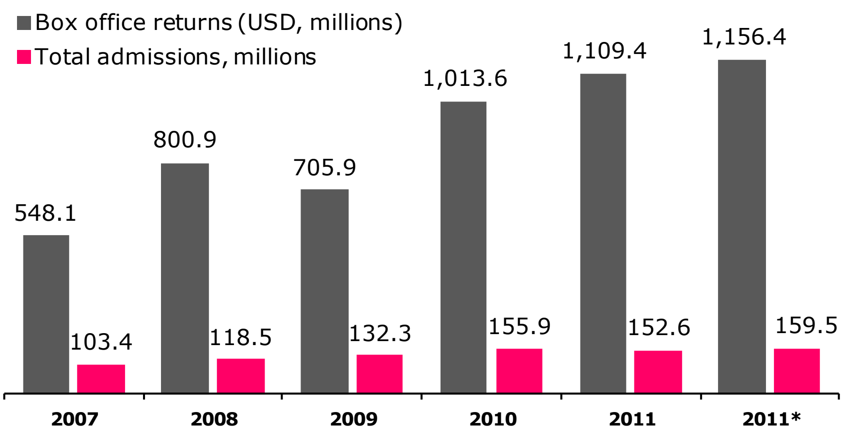
Film Distribution

In 2011, 356 new films hit Russian screens, including 34 domestic productions. Box office returns for the period between 1 January and 31 December amounted to USD 1.16 billion (RUB 34 billion), while total ticket sales exceeded 159 million.[1]

Admissions and box office returns in Russia

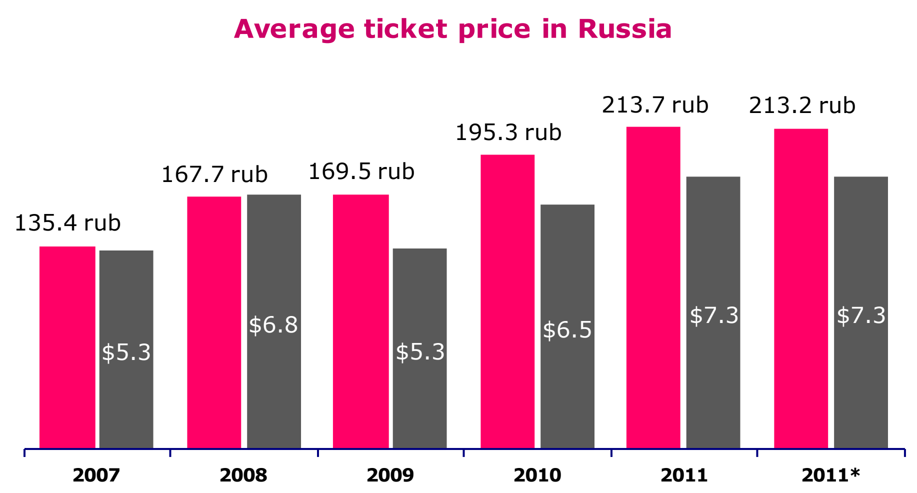


*Calendar year; other data refer to distribution year (from 1 December to 30 November)

Source: Russian Film Business Today magazine (CIS, excluding Ukraine), Russia's estimate by Nevafilm Research

The price of a cinema ticket rose to RUB 214 (USD 7.30), which was 12% higher than the 2010 price (RUB 195, or USD 6.50). However, the price increase rate in 2011 decreased from the 22% it demonstrated in 2010. The 3D mark-up charged by cinemas is shrinking. As a result, box office returns are growing at a lower rate than before: in 2011, Russia's box office returns rose by 9%, while in 2010 it had increased by 44%. Admissions actually dropped by 2% (in 2010, it had increased by 18%).

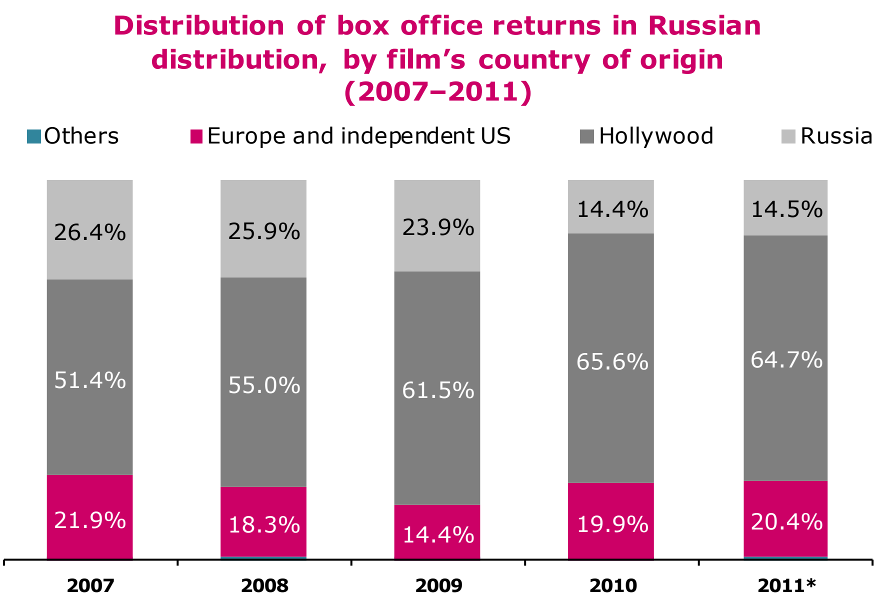
[1] In 2011, our permanent Russian film distribution statistics partner *Russian Film Business Today* magazine switched to calculating data based on the calendar year. This overview also presents data for the 2011 film distribution year and compares them to the numbers from previous film distribution years. In 2011, Russia's box office receipts comprised 94.7% of the CIS total, while Russia's admissions accounted for 92.4% (based on data collected by the WDSSPR, Twentieth Century Fox CIS, Karo Film, UPI, West, Kascad, and Volga).



*Calendar year; other data refer to distribution year (from 1 December to 30 November)

Source: Russian Film Business Today magazine, Nevafilm Research (calculated by dividing box office by admissions)

Box office receipts of Russian films totalled USD 162.7 million (RUB 4.9 billion), while the audience size was 23.7 million. The share of box office receipts collected by Russian films decreased to 12.8% (from 14.4% in 2010 and 25.0% in 2009). Russian film admission share was 14.1%, falling from 15.6% in 2010 and 25.9% in 2009. The main reason behind this trend is the declining number of Russian releases (64 in 2011, 72 in 2010, and 78 in 2009), as well as the continuing fallout of the 2008–2009 economic crisis, which has negatively affected the film industry.

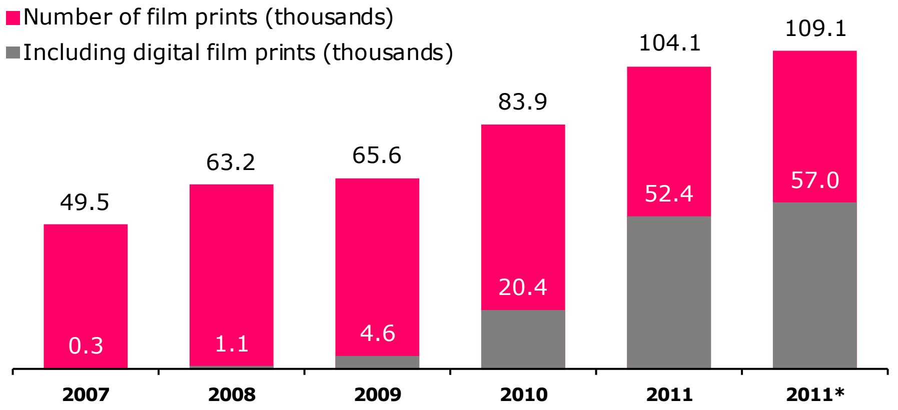


*Calendar year, Russia (excluding CIS)

Source: Russian Film Business Today magazine, Nevafilm Research, imdb.com

In 2011, transition to digital technologies remained the main trend in the Russian film distribution market. The previous year proved to be critical for domestic distribution companies, forcing all players – from the majors to independent art house distributors – to adapt to the new realities and begin releasing films in digital format. In 2011, digital distribution began to yield real results. This was reflected primarily in a sharp increase in the number of prints in Russian distribution from 84,000 in 2010 to 104,000 in 2011 (a 24% increase). This growth was due mainly to a rise in the number of digital prints (from 20,400 to 52,400: an increase of more than 156%). While previous years saw an impressive digital print circulation increase of more than 300%, the number of digital prints was low. Currently, digital prints account for over 50% of circulation for the first time, while in 2010 this number was only 24%. In other words, half of Russia's distribution market is digital. More than 150 of the 356 new releases of the 2011 calendar year were available in hybrid format (on film and on digital media), while approximately 100 were exclusively digital releases.

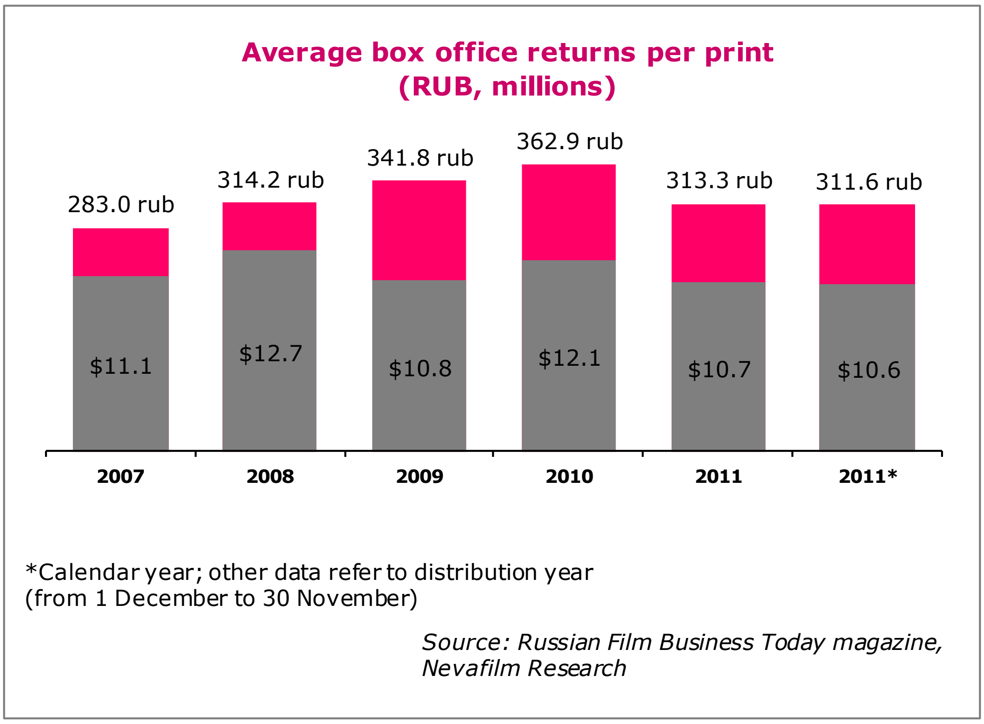
Number of prints released in Russian distribution (thousands)



*Calendar year; other data refer to distribution year (from 1 December to 30 November)

Source: Russian Film Business Today magazine, Nevafilm Research

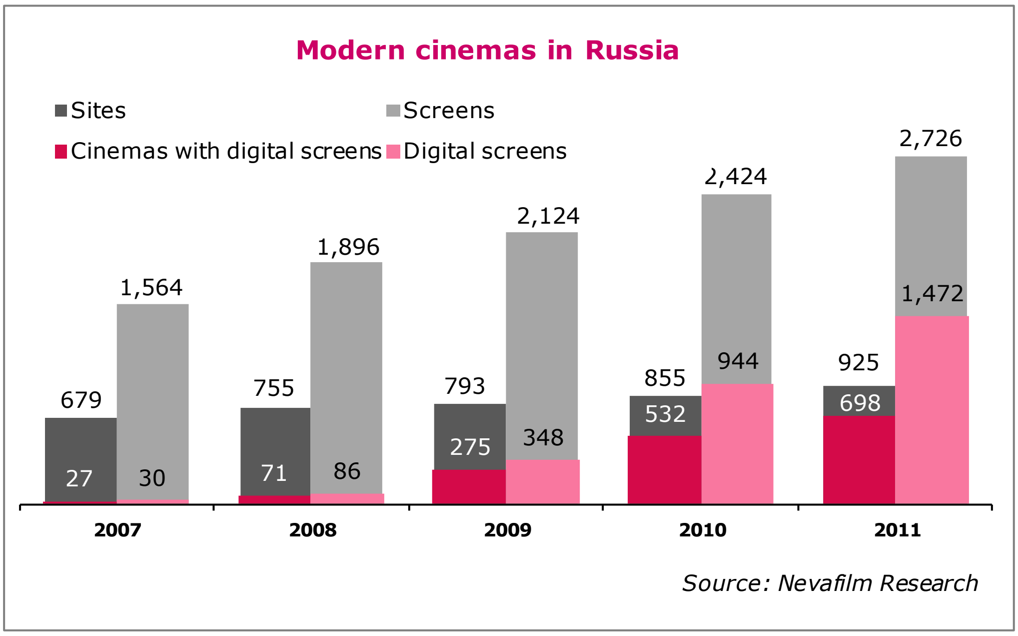
A curious result of these trends was a dip in the average box office returns in roubles and in admissions per screen, as well as per print. In 2011, returns per print in roubles fell by 14%, and admissions decreased by 21%. This is the first time the Russian film industry has experienced this kind of phenomenon. In other words, a decrease in duplication expenses borne out by distributors allows them to move painlessly towards increasing film circulation despite falling per-screen returns.



At the same time, this emerging situation cannot easily be classified as unambiguously positive, since film rotation in Russian cinemas is accelerating. For example, while a film spent an average of 53 days in distribution in 2009 and 57 days in 2010, in 2011 this number fell to 42 days. Last year, the average number of prints per screen (both as a whole across all screens and prints, and for digital only) evened out at 38 and 36 respectively. It follows that digital releases, including 3D films, cannot rely on lengthy distribution.

Film Exhibition Market

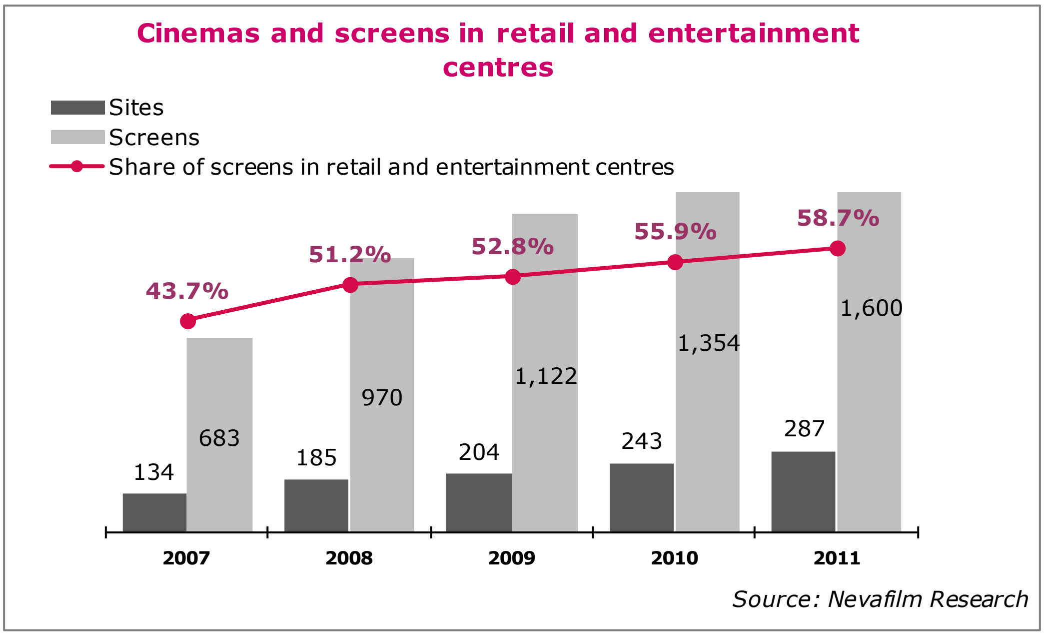
As at 31 December 2011, Russia had 2,726 modern screens in 925 cinemas, with an average of 2.9 screens per cinema. More than half (54%) of Russia's modern screens have already been equipped with digital projectors: 1,472 screens in 698 cinemas, 1,434 of which have 3D capabilities.



The rate of growth of the modern film venue market in absolute terms is obviously stabilizing: 97 new cinemas (352 screens) were built in the course of 2011, while 2010 saw 96 new cinemas (351 screens). Twenty-seven cinemas with 50 screens closed down in 2011, which was a negligible decrease from the previous year's 34 cinemas with 51 screens.

For the first time, the upgrade of screens to digital format saw a falling trend: 9% fewer screens were upgraded in 2011 than in 2010 (547 screens in 178 cinemas versus 601 screens in 261 cinemas). This is largely related to the fact that in 2010, the main reason for the transition to digital was the success of the film *Avatar*. Thus, in 2011, the Russian modern film exhibition market, including the digital sector, entered the saturation stage. It can be predicted with a high level of certainty that further growth will be slowing down and will depend on external factors rather than the market's own internal development trends: technological advancements, increasing incomes, or various federal decisions which affect Russia's film exhibition market.

Cinemas located in retail and entertainment centres still occupy the leading position among new cinemas: in both 2010 and 2011, 43% of new cinemas and nearly 70% of new screens were located in such centres. The retail and entertainment complex sector is currently undergoing a period of post-crisis boom. The share of screens located in shopping centres is also growing. By the end of 2011, it reached 59% (1,600 screens in 287 centres).



The total number of cinema operators and cinema chains in the Russian market reached 523 in 2011. Less than 16% of these (83 companies) are chains. Overall, market players have upgraded more than half of their screens to digital. More than 80% of cinemas belonging to all types of chains and 63% of independently operated film venues have digital screens. Today, independent cinema complexes without digital equipment are considered to be part of a risk group: once distributors stop offering film prints of their releases, these cinemas will no longer be able to exhibit films and will be forced to close.

Fragmentation of the film exhibition market in Russia by type of cinema operator (data as at 1 January 2012)

Operator type	Number of operators		Number of cinemas	Screens	Cinemas with digital screens	Digital screens	Share of cinemas with digital screens	Share of digital screens	Market share by number of screens	Market share by number of digital screens
	Overall	Digital								
Nationwide chains	19	19	268	1,325	245	686	91.4%	51.8%	48.6%	46.6%
Regional chains	11	10	47	160	39	97	83.0%	60.6%	5.9%	6.6%
Local chains	53	52	170	393	136	223	80.0%	56.7%	14.4%	15.1%
Independent cinemas	440	279	440	848	278	466	63.2%	55.0%	31.1%	31.7%
Total in Russia	**523**	**360**	**925**	**2,726**	**698**	**1,472**	**75.5%**	**54.0%**	**100.0%**	**100.0%**

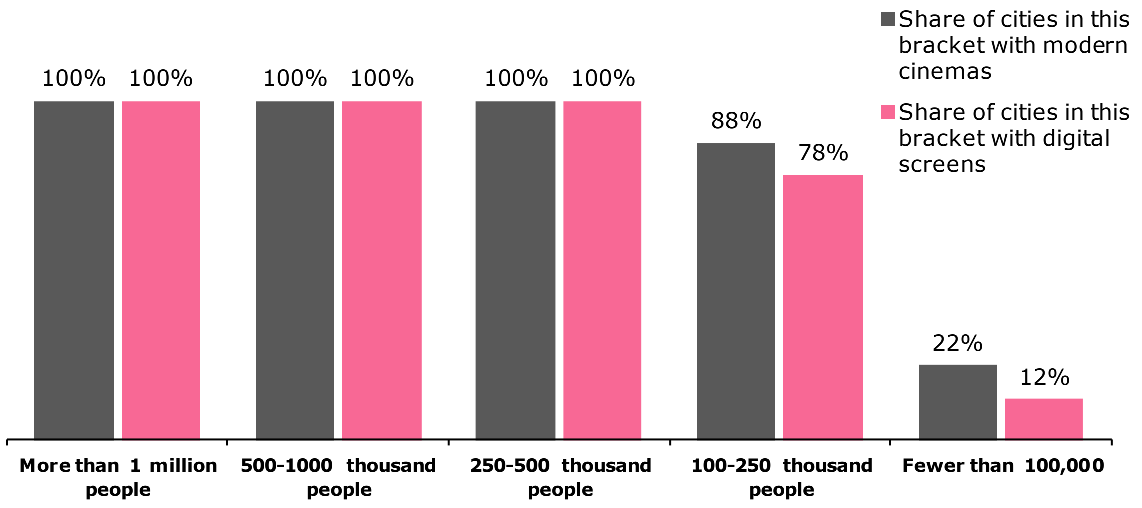
Russia's modern screen market is still dominated by the miniplex segment (cinemas with two to seven screens) which accounts for 51% of the market's cinemas and 61% of its screens. At the same time, miniplexes are predominantly two-screen venues (20% of cinemas and 14% of screens). Together with one-screen cinemas (another 41% of cinemas and 14% of screens), they have proven to be least adapted to competition with multi-screen complexes. When a more powerful competitor opens nearby, they either leave the market (close down) or go into other niche markets not open to large cinema chains (art film distribution, alternative content, or film clubs). Market players realize the low competitive power of small cinemas and are increasingly reluctant to open one- and two-screen venues. At the same time, this format often proves to be the best suited to small towns, where they can operate part-time. However, this business model often shows a negative profitability trend, which means that the opening of new cinemas of this type in small towns cannot drive market growth without the help of the municipal authorities.

Russian cinemas by number of screens (as at 1 January 2012)

Number of screens per cinema	Number of cinemas	Number of screens	Market share by number of cinemas	Market share by number of screens
1 screen	**381**	**381**	**41.2%**	**14.0%**
2 screens	187	374	20.2%	13.7%
3 screens	77	231	8.3%	8.5%
4 screens	85	340	9.2%	12.5%
5 screens	44	220	4.8%	8.1%
6 screens	45	270	4.9%	9.9%
7 screens	31	217	3.4%	8.0%
MINIPLEX Total	**469**	**1,652**	**50.7%**	**60.6%**
8 screens	33	264	3.6%	9.7%
9 screens	20	180	2.2%	6.6%
10 screens	9	90	1.0%	3.3%
11 screens	5	55	0.5%	2.0%
12 screens	4	48	0.4%	1.8%
13 screens	1	13	0.1%	0.5%
14 screens	2	28	0.2%	1.0%
15 screens	1	15	0.1%	0.6%
MULTIPLEX Total	**75**	**693**	**8.1%**	**25.4%**
Total in Russia	**925**	**2,726**	**100.0%**	**100.0%**

The number of towns with modern cinemas has reached 369 (an increase from 333 in 2010). It should be stressed that all cities with populations over 250,000 are equipped for modern film exhibition to varying degrees. At the same time, the living standard of small town residents is growing at an extremely low rate. Over the last five years (since 2006), the share of towns with populations between 100,000 and 250,000 which are equipped for modern film exhibition has grown by less than a quarter (from 72% to 88%). Exhibitors are making much better inroads in towns with populations under 100,000: in the same period, the share of towns of this size with cinemas more than doubled (from 10% to 22%). Regardless of the rate at which the number of cinemas in small towns grew, the total number of towns of this size is very high (nearly 940 across Russia), and they can only be fully equipped with modern cinemas with the full cooperation of local authorities.

Share of Russian cities (by population) with modern cinemas as at 1 January 2012



Source: Nevafilm Research

In general, access to modern screens among the population is growing, having reached 1.9 screens per 100,000 people (compared to 1.7 screens per 100,000 in 2010). Taking into account populations of cities which have modern cinemas, the average screen density in Russia reached 3.3 per 100,000 in 2011 (compared to 3.2 in 2009).

Availability of modern screens to urban populations of the Russian Federation (as at 1 January 2012)

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%	270	1,270	226	656	4.49
500,000–1 million people	100.0%	100.0%	100.0%	145	513	125	272	3.16
250,000–500,000 people	100.0%	100.0%	100.0%	144	360	115	214	2.62
100,000–250,000 people	87.5%	78.1%	88.3%	142	291	116	187	2.03
Fewer than 100,000 people	22.1%	12.0%	33.8%	224	292	116	143	1.04
Total in Russian cities (population: 95,609,400)	**33.2%**	**23.9%**	**81.0%**	**925**	**2,726**	**698**	**1,472**	**2.71**
Overall in cities with cinemas (population: 76,299,000)								**3.34**
Overall in Russia (population: 141,800,000)								**1.91**

Dozens of major cinema networks have undergone changes in the past year. Due to the merger of Cinema Park and KinoStar, the leading position in Russia's film exhibition market has changed hands. It should also be noted that at the end of 2010, the KinoExpert cinema chain owned by the Traktornye Zavody Group was acquired by Vnesheconombank, thereby increasing the size of the Kino-City cinema chain. Another large deal was announced in early 2012: the investment subdivision of the Alfa Group Consortium, which owns the Kronverk Cinema chain, bought 55.66% of the Formula Kino chain. In the future, the company plans to consolidate the two chains, which currently operate as two separate market entities. This will not be the last time a cinema changes hands on the Russian film exhibition market. At least one other major deal is expected in 2012, driven by changes in the ownership structure of one of the largest market players.

Top 10. Largest cinema chain operators in Russia, as at 1 January 2012
(by number of screens, including franchises and repertory cinemas)

Rank as at 1 January 2012	Rank as at 1 January 2011	Cinema chain operator	Number of cinemas	Number of screens	Cinemas with digital screens	Digital screens	Percentage of cinemas with digital screens in the chain	Percentage of digital screens in the chain	Market share by number of screens	Head office
1	2	Cinema Park	26	243	26	169	100%	70%	8.9%	Moscow
2	1	Karo Film	34	182	31	98	91%	54%	6.7%	Moscow
3	3	Kinomax	26	134	24	48	92%	36%	4.9%	Moscow
4	4	Kronverk Cinema	16	108	16	46	100%	43%	4.0%	Moscow
5	5	Luxor	17	97	17	66	100%	68%	3.6%	Moscow
6	7	Formula Kino	14	88	14	51	100%	58%	3.2%	Moscow
7	8	Premier-Zal	46	60	31	35	67%	58%	2.2%	Ekaterinburg
8	11	Monitor	17	57	15	29	88%	51%	2.1%	Krasnodar
9	10	Cinema Star	11	54	11	15	100%	28%	2.0%	Moscow
10	9	Paradise	9	50	9	25	100%	50%	1.8%	Moscow
Total for these cinema operators			**216**	**1,073**	**194**	**582**	**90%**	**54%**	**39.4%**	
Total in Russia			**925**	**2,726**	**698**	**1,472**	**75%**	**54%**	**100%**	

The film exhibition market in the Moscow region

01 January 2011 – 116 cinemas/527 screens
55 cinemas/375 screens in retail and entertainment centres
81 cinemas/212 digital screens
01 January 2012 – 119 cinemas/556 screens
60 cinemas/409 screens in retail and entertainment centres
100 cinemas/303 screens

Over the course of 2011, eight cinemas (with 23 screens) opened in the Moscow region, as well as 15 new screens in existing cinema complexes. Five cinemas (nine screens) were closed. The total number of screens in the Moscow region grew by 5.5% in 2011, while the number of screens located in shopping centres increased by 9.1%. The amount of screens located in retail and entertainment centres in the capital is now 73.6%, a 2.4% increase since the end of 2010.

At the end of 2011, the number of digital screens reached 303 (in 100 cinemas). Almost all of these digital screens are equipped for 3D projection. Over the course of the year, 96 new digital film projectors were installed in Moscow, and 21 cinemas introduced their very first digital projectors. The overall growth of this market segment reached 43%. Overall, 55% of Moscow's modern screens installed in 84% of the city's cinemas have digital projectors.

The St. Petersburg film exhibition market

01 January 2011 – 46 cinemas/219 screens
26 cinemas/174 screens in shopping centres
38 cinemas/96 digital screens
01 January 2012 – 46 cinemas/227 screens
27 cinemas/184 screens in retail and entertainment centres
40 cinemas/123 digital screens

Last year, 11 screens opened in St. Petersburg (including in one brand-new cinema). The two-screen Coliseum Cinema closed down by the Karo Film chain was put up for sale.

In 2011, the rate of film exhibition market growth slowed down compared to the previous year. However, new retail centres continued to be commissioned. The reopening of Kronverk Cinema's five-screen Academ Park after its renovation was of particular note. This event signalled the beginning of a new trend on the film exhibition market, not only in St. Petersburg, but across Russia as well. This trend is linked to the start of renovations undertaken by many retail and entertainment centres opened several years ago and changes in the layout of each renovated retail centre, which will most likely also lead to renovations of cinemas located on their premises.

Over the past year, the number of IMAX cinemas in St. Petersburg also increased. Currently, the city has three such theatres, all of them under the management of major federal operators.

The overall increase in the number of modern screens in St. Petersburg reached 3.7% in 2011. The number of screens located inside retail and entertainment centres grew by 5.7%, which put their share of the total number of the city's screens at 81.1%.

At the end of 2011, the number of digital screens reached 123 in 40 cinemas. Four screens are not equipped for 3D projection. Over the course of the year, 23 digital film projectors were installed in St. Petersburg. Three cinemas introduced their very first digital projectors. The overall growth of this market segment reached 28%. The amount of screens in St. Petersburg which are now digital is 54% of the total. The amount of cinemas in the city which are digital is 87%.

The Regions

01 January 2011 – 693 cinemas/1,678 screens
162 cinemas/805 screens in retail and entertainments centres
413 cinemas/636 digital screens
01 January 2012 – 760 cinemas/1,943 screens
192 cinemas/986 screens in RECs
558 cinemas/1,046 digital screens

Over the course of 2011, 303 new screens opened in the Russian regions, including screens in 88 brand new cinemas. Meanwhile, 38 screens in 21 cinemas were closed. The regional film exhibition market grew by 15.8% in 2011, which was a small increase compared to the last year's numbers. Meanwhile, the growth in the number of screens located in retail and entertainment centres reached 22.5%, putting the total share of screens located in regional retail and entertainment complexes at 50.7%.

At the same time, 423 regional screens were upgraded to digital projection in the course of the year. One hundred and fifty-four cinemas unveiled their first digital screens. Therefore, the total growth of this market segment reached 64.5%.

However, at the close of 2011, 33 regional cinemas were not equipped with 3D projectors. This number is 11 times higher than in 2010, when only three digital screens did not feature 3D equipment. Although some of the theatres plan to buy additional equipment in the future, it is possible to see Russia's digital film exhibition trends begin to change from total orientation toward 3D releases to using other features of the digital format.

Principal Trends

- In 2011, Russian distributors felt the effects of the transition to digital, which allowed them to painlessly increase the number of screens showing their releases while receiving lower profits from each screen. However, the time each film remains in distribution has shrunk, not only in 35-mm, but on digital screens as well. Now, digital releases, including 3D films, are no longer guaranteed lengthy distribution in Russia.
- The effectiveness of 3D releases is also decreasing: they no longer attract the same viewership, the number of 3D film exhibitions is falling, and ticket price mark-ups are shrinking, all of which are resulting in a slowdown in the growth of box office returns.
- Cinemas are also no longer focusing exclusively on 3D releases, and are beginning to equip their screens with digital projectors without 3D capabilities.
- Meanwhile, Russia's modern and digital cinema market entered the saturation stage in 2011, and its further growth will depend on external factors.

- One such factor is post-crisis recovery in retail and entertainment centre construction, which house the majority of the country’s new screens. In addition, renovations undertaken by many such centres which opened several years ago, and changes in the layout of each renovated retail centre will lead to renovations of cinemas located on their premises.
- Finally, the merger and takeover processes in Russia’s film exhibition sphere are accelerating as buyouts and sales of major cinema chains become a reality.