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RUSSIAN FILM MARKET OVERVIEW. 2013 RESULTS

According to the data provided by the *European Audiovisual Observatory*, in 2013 Russia was the second European country in terms of cinema admissions. According to *IHS* our country ranks 9th in the world in terms of box office.

Top 10 countries by admissions (preliminary) - European rating

№	Country	Admissions (mln)	Gross Box office (mln)	Currency
1	France	192.8	n/a	EUR
2	Russia	173.5	41,873.9	RUB
3	UK	165.5	1,083.0	GBP
4	Germany	129.7	1,023.0	EUR
5	Italy	106.7	646.3	EUR
6	Spain	79.0	510.7	EUR
7	Turkey	50.4	505.3	TRY
8	Poland	36.3	665.2	PLN
9	Netherlands	30.8	249.4	EUR
10	Sweden	16.6	1,643.0	SEK

Source: EAO

Top 10 countries by gross box office (preliminary) - World rating

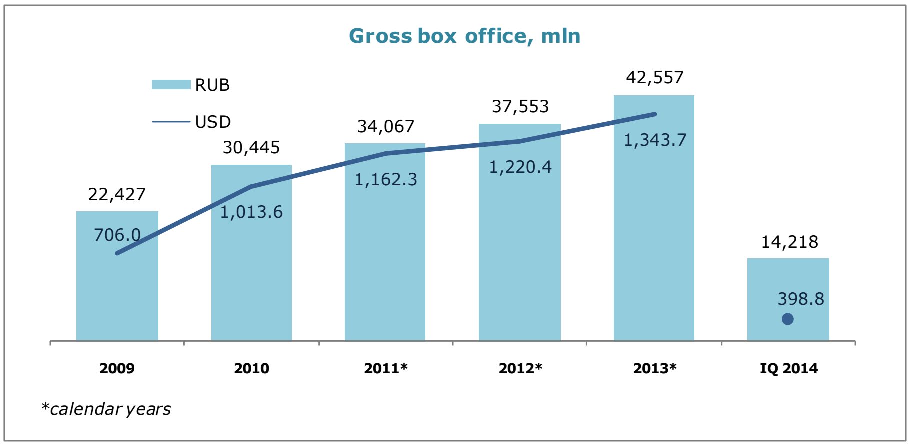
№	Country	Gross Box office (mln USD)	Admissions (mln)
1	USA	9,877.0	1,215.5
2	China	3,450.3	610.0
3	Japan	2,433.5	155.9
4	India	1,749.9	2,894.6
5	UK	1,716.9	165.5
6	France	1,675.7	192.8
7	South Korea	1,377.2	213.3
8	Germany	1,355.6	129.7
9	Russia	1,327.1	171.4
10	Australia	1,139.0	87.0

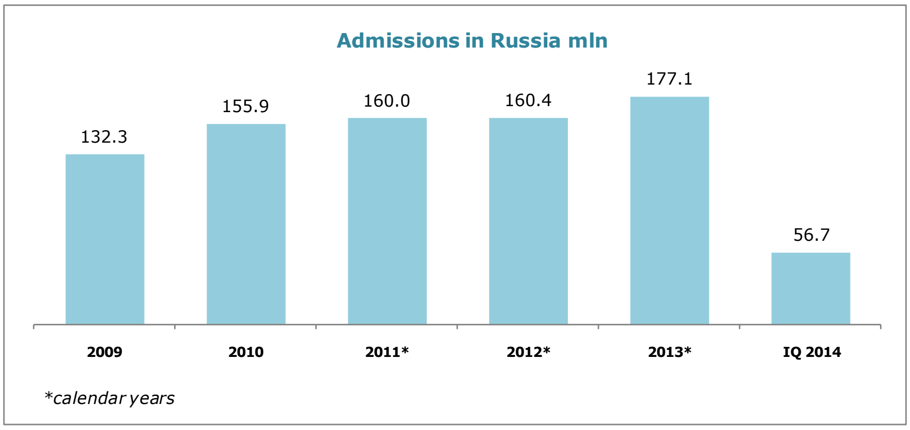
Source: IHS

Film distribution

According to *Nevafilm Research*[1], box office in Russia in 2013 amounted to 42.6 billion rubles (1.3 billion dollars), which is 13% more than in 2012 (10% growth in dollar terms). Cinema attendance growth appeared impressive as compared to the past few years of stagnation, and amounted to 10.4% (up to 177.1 million viewers).

[1] In 2013 the Russian box office receipts are calculated as 94.5%, attendance – 92% of the CIS countries (based on the data from 5 distributors – *WDSSPR*, *XX Century Fox-CIS*, *Karo premier/Karoprokat*, *UPI* and *Volga Film*). During the 2012-2013 years the summarized data on the box office results was presented based on the three sources: *Film Business Today Magazine*, *Booker's Bulletin* and *Rentrak* (the lists of films and their box office results are compared and the maximum values are chosen).

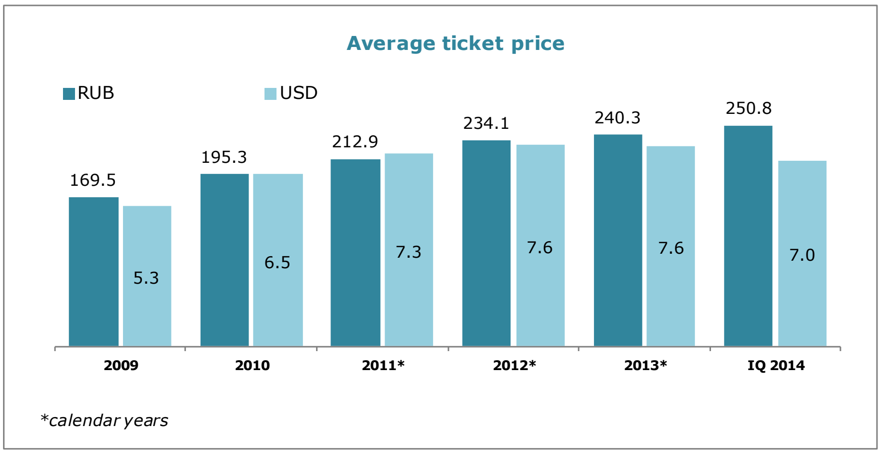




The reasons for such growth are rather obscure. It can be explained both by the quality of films in distribution (within the past year, many of them have been produced domestically, as, for example, *Stalingrad* and *Legend No. 17* which became the leaders among national movies), and the notorious market opacity, which implies unreliability of the previous statistic data. We believe that with the increasing number of cinemas covered by the federal consolidated automated information system (CAIS), statistics distortion at the lower level becomes rather insignificant, although if we talk about the distributor level, there is still room for manipulations.

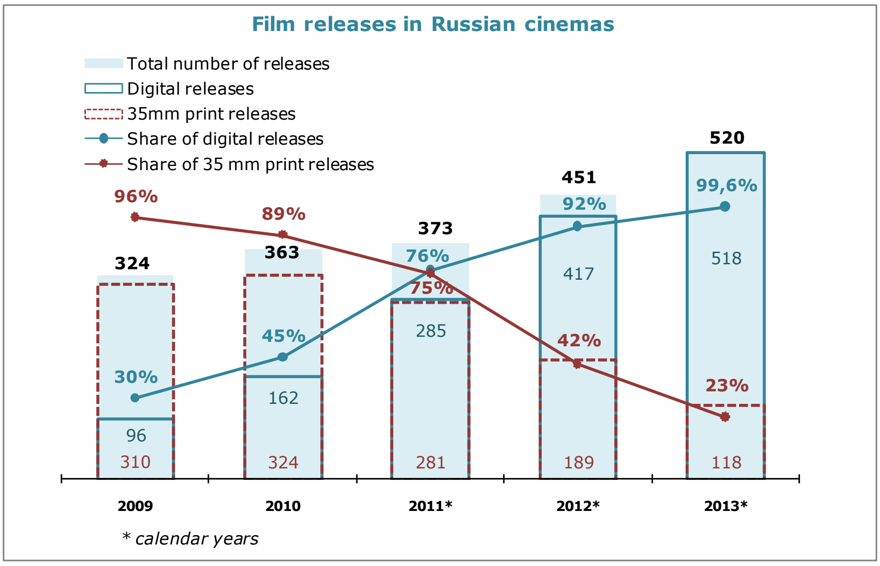
In the meantime there are no other objective reasons for such cinema attendance boom in Russia: cinema network is developing at a slower rate, and the share of population covered by the industry is barely increasing.

The cost of cinema attendance in Russia has stabilized: last year it reached 240 rubles (7.59 dollars), which in ruble terms is only 2.6% higher, and in dollar terms is 0.3% lower than in 2012 (236 rubles or 7.61 dollars). This was caused by several reasons, including lower share of 3D releases in distribution (their number remained flat against the backdrop of increasing of the total number of films screenings), but mainly it is the spreading practice of a dumping price policy adopted by new players in competitive markets of Russian cities.



In 2013, 520 new films were released (altogether on the country's screens 632 films were shown), 99.6% of them have been released either as a digital or a hybrid format.

The number of 35mm films is dropping drastically: the number of exclusively digital releases in 2013 increased up to 77% (as compared to 58% in 2012), while the share of 35mm releases decreased from 42% in 2012 to 23% in 2013. At the beginning of 2014, most distributors have confirmed their complete rejection of 35mm film releases. Thus, this year, due to the pressure from distributors, Russia will have to completely switch to digital distribution. Those movie theaters which did not manage to update their equipment in time will be forced to either quit the market or show films on household electronic media.

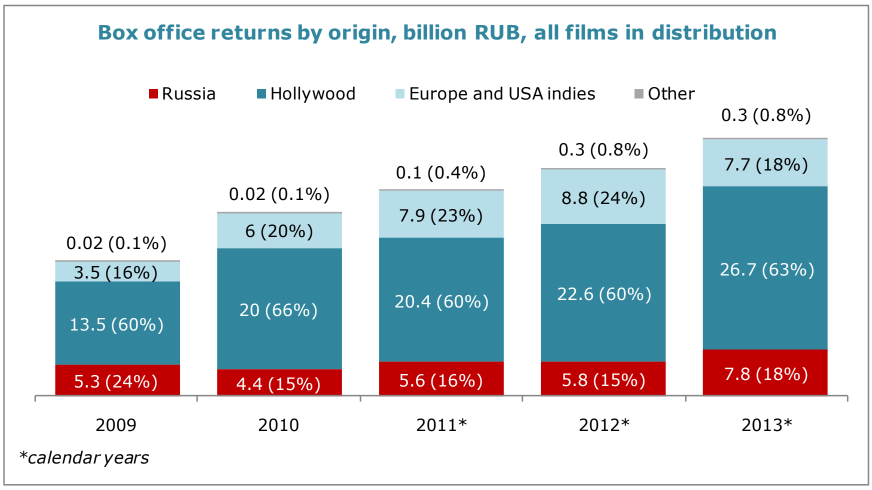


In 2013, 70 3D films were released, which is almost as many as in 2012 (69). Nevertheless, the share of 3D releases has continued decreasing: in 2013, this format accounted for 13.5% of all new releases as compared to 15.3% in 2012 and 17.7% in 2011. Meanwhile, in Russia the list of "amusement" cinema entertainment formats is expanding. Movement effects and new sound formats are becoming affordable for more viewers, and directors are releasing more films for them. Thus, in 2013 22 films in the D-Box format, 31 – in 4DX, 19 – in Dolby Atmos and 3 – in Barco Auro were released.

It should also be noted that last year *Stalingrad*, which is the first Russian IMAX film, was released internationally. According to the data provided by IMAX Corporation, the film has brought in 211.4 million rubles being shown in movie theaters in Russia. The film was also distributed in the UK, China (1.6 million dollars) and the USA (0.5 million dollars). This is not the limit for Russian producers: in 2014, the makers of *Viy. The Return* have employed the new formats. The movie has been released in cinemas featuring 4DX and D-Box equipment.

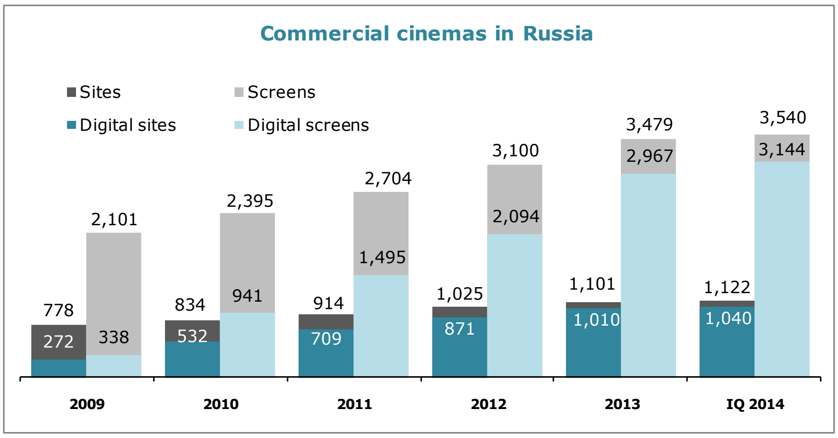
Distribution of creative content is gaining momentum as well: in 2013, 92 films were released compared to 53 in 2012. These were not only classical musical productions and popular artists' performances, but also special screenings of TV shows and unique documentary works.

In 2013, cinemas screened 88 Russian films, 73 of which were newly released. Russian films receipts in 2013 amounted to 7.8 billion rubles (244 million dollars) for all films in distribution, and 6.2 billion rubles (197 million dollars) for new releases. The number of viewers reached 32.5 million and 26.5 million, respectively.

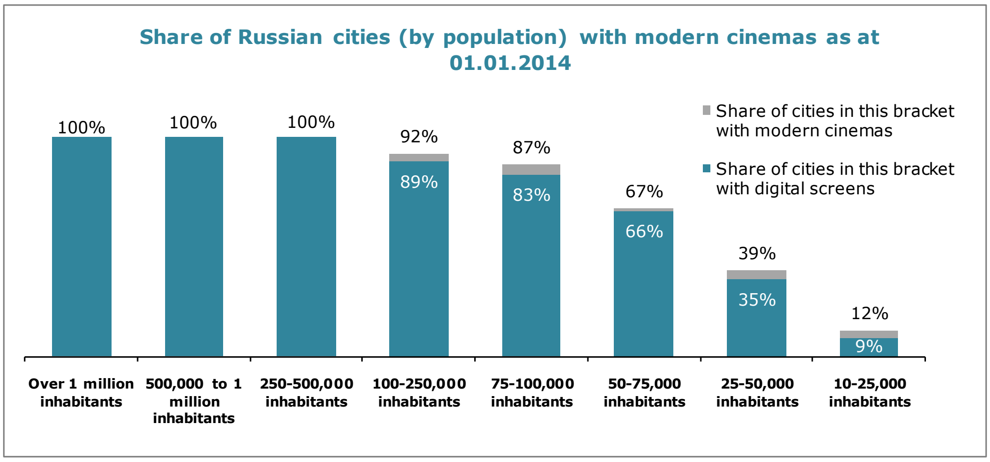


Cinema Exhibition

As of January 1, 2014, there were 3479 commercial screens in 1,101 cinemas (the average number of screens per site is 3.2). 85% of modern cinemas in the territory of Russia feature digital equipment, which amounts to 2,967 screens in total (in 1,010 movie theaters, which is 92%) 2,478 (84%) of which feature equipment for 3D screenings. The number of cinemas with a digital projector for each screen has reached 809 with 2,363 screens in them (74% of the total number of cinemas and 68% of the total number of screens).

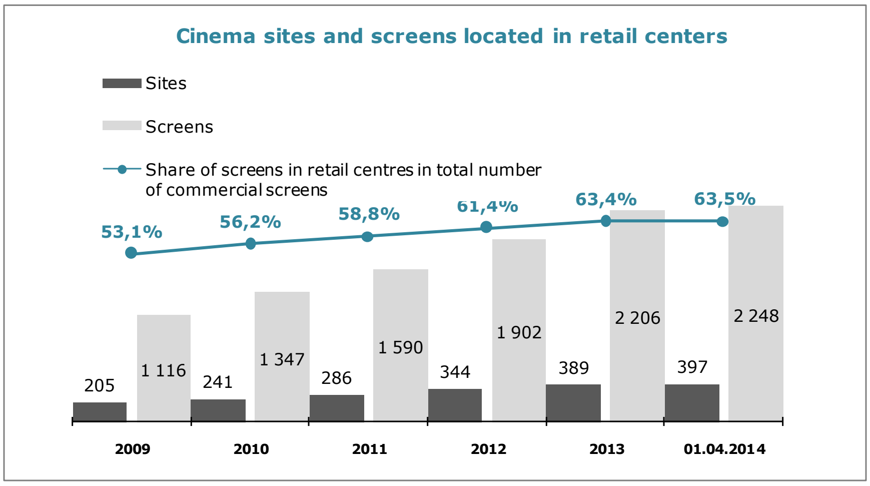


The number of localities equipped with modern cinemas by the end of 2013 amounted to 475 (as compared to 440 at the beginning of the year) with digital screens functioning in 431 localities.



In general, the number of modern screens in localities with population over 10,000 has increased up to 3.4 screens per 100,000 inhabitants in 2013 as compared to 3 in 2012. In terms of the number of inhabitants of all localities with modern cinemas, the indicator amounts to 4.1 as compared to 3.8 of the last year.

The number of screens located in retail centers by the end of 2013 amounted to 63% (2,206 screens in 389 malls). Meanwhile, most new cinemas are opened at shopping centers (71%, same as in the last year).

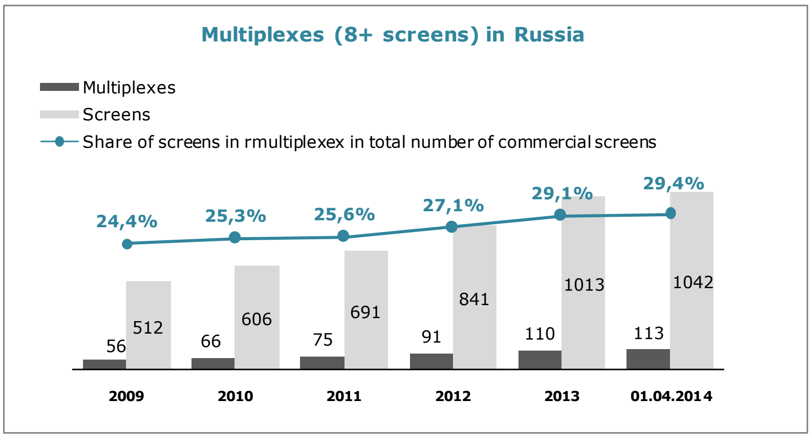


Miniplexes (sites with 2-7 screens) continue dominating in the Russian market with 52% of all cinemas and 59% of all screens. However, in 2013 the share of screens in such cinemas has declined by 1 pp. in comparison with 2012. Among miniplexes, two-screen ones are prevalent (20% of cinemas and 13% of screens).

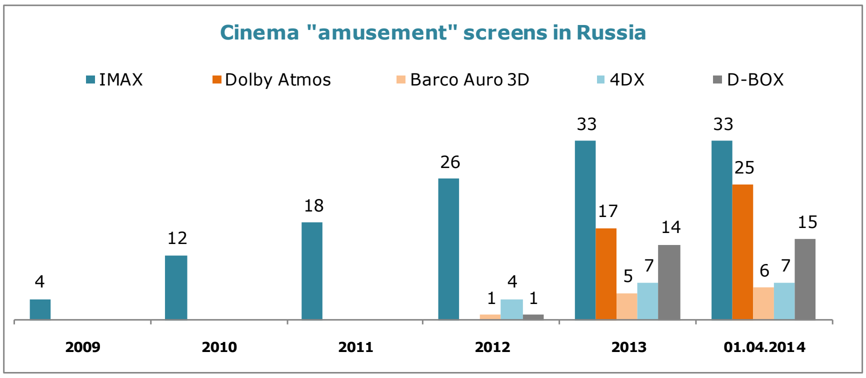
Russian cinemas by number of screens as at 01.01.2014

Number of screens in cinema	Number of sites	Number of screens	Market share by number of sites	Change of the market share by number of sites by 01.01.2013	Market share by number of screens	Change of the market share by number of screens by 01.01.2013
1 screen	**422**	**422**	**38.3%**	**-1.6%**	**12.1%**	**-1.1%**
2 screens	220	440	20.0%	-0.6%	12.6%	-1.0%
3 screens	89	267	8.1%	0.2%	7.7%	-0.2%
4 screens	101	404	9.2%	-0.4%	11.6%	-1.0%
5 screens	59	295	5.4%	0.5%	8.5%	0.4%
6 screens	62	372	5.6%	0.6%	10.7%	0.6%
7 screens	38	266	3.5%	0.2%	7.6%	0.2%
MINIPLEX total	**569**	**2,044**	**51.7%**	**0.5%**	**58.8%**	**-0.9%**
8 screens	52	416	4.7%	0.4%	12.0%	0.6%
9 screens	26	234	2.4%	0.5%	6.7%	1.2%
10 screens	15	150	1.4%	0.0%	4.3%	-0.2%
11 screens	8	88	0.7%	0.2%	2.5%	0.8%
12 screens	3	36	0.3%	0.0%	1.0%	-0.1%
13 screens	2	26	0.2%	0.0%	0.7%	-0.1%
14 screens	2	28	0.2%	0.0%	0.8%	-0.1%
15 screens	1	15	0.1%	0.0%	0.4%	-0.1%
20 screens	1	20	0.1%	-	0.6%	-
MULTIPLX total	**110**	**1,013**	**10.0%**	**1.1%**	**29.1%**	**2.0%**
Total in Russia	**1,101**	**3,479**	**100.0%**		**100.0%**	

In 2013, the share of screens in multiplexes (sites with 8 screens and more) in the total number of modern screens in Russia has increased by 2 pp. as compared to 2012 and amounted to 29%, while the multiplexes share in the total number of cinemas amounted to 10% (8.9% in 2012).



As of the end of 2013, in Russia there were 33 IMAX theatres: in 2013 they were opened in cinemas of *Cinema Park* chain in Kaliningrad, Naberezhnye Chelny and Chelyabinsk, *Formula Kino* chain in St Petersburg (two screens), *Kinomax* in Tomsk and *Mori Cinema* in Mytishchi. Besides, since late 2012 *Cinema Park* chain has been equipping its theaters with 4DX screens, and *Kinomax*, *Luxor* and *Barguzin* chains with D-Box screens. The use of new Dolby Atmos and Barco Auro 3D sound systems has also been expanding.



In Russia for the past year the monopolization of the cinema exhibition domain has increased by 1.1 pp. – ten biggest operators own 42.5% of the modern screens. By the end of 2013, *Cinema Park* company was the biggest chain operator. The second was *Formula Kino* that started rebranding its *Kronverk* movie theaters last year. The third was *Karo Film*, and *Kinomax* and *Luxor* still occupy high positions as well.

TOP10. Major Cinema Network Operators in Russia as of 01.01.2014
(by number of screens, including franchises and repertory cinemas)

# 01.01.14	# 01.01.13	Network operator	Number of sites	Number of screens	Number of digital sites	Number of digital screens	Share of digital sites in total number of network's sites	Share of digital screens in total number of network's screens	Market share by number of screens	Head office
1	1	Cinema Park	30	281	30	281	100%	100%	8.1%	Moscow
2	2	Formula Kino	35	249	35	207	100%	83%	7.2%	Moscow
3	3	Karo Film	29	192	29	192	100%	100%	5.5%	Moscow
4	4	Kinomax	29	171	28	99	97%	58%	4.9%	Moscow
5	5	Luxor	20	136	20	123	100%	90%	3.9%	Moscow
6	6	Premier-Zal	91	128	84	115	92%	90%	3.7%	Yekaterinburg
7	7	Cinema Star	20	100	20	78	100%	78%	2.9%	Moscow
8	9	Monitor	23	88	23	74	100%	84%	2.5%	Krasnodar
9	10	Kinoformat	12	66	12	43	100%	65%	1.9%	Moscow
10	8	5 Zvezd	11	66	11	66	100%	100%	1.9%	Moscow
Total for these operators			**300**	**1,477**	**292**	**1,278**	**97%**	**87%**	**42.5%**	
Overall in Russia			**1,101**	**3,479**	**1,010**	**2,967**	**92%**	**85%**	**100%**	

Crimea's cinema market

Given the recent political situation of modern Russia, we have decided to supplement our overview with the description of the Crimea cinema market. This market is becoming a part of the Russian cinema market.

In late March 2014, the Crimean Peninsula had 14 modern cinemas in operation (with 31 screens), most of which are fully equipped for digital screening.

Most Crimean cinemas are independent. Although, there is a small regional chain *YaltaKino* that includes two single-screen sites in Yalta. Besides, there are theaters of the two biggest Ukrainian cinema chains: *Multiplex* and *Planeta Kino IMAX*.

Modern cinema exhibition is available only in seven cities of the region. The cities mostly provided with cinema services are Simferopol, Sevastopol and Yalta. In general, only 1.3 million of 2.4 million Crimea inhabitants have access to modern movie theaters (1.3 screens per 100,000 citizens).

Given the level of cinema service market in the region, we assess that film consumption in Crimea does not exceed 0.8 times a year per capita (or 1.4 times a year for the cities with modern movie theaters). However, it is too early to judge what position in the film market the new subject of the Russian Federation will take, as legal disputes about film distribution on the territory in question remain unresolved. If the rumors about major Hollywood companies intending to boycott the peninsula come true, the Crimean theaters are doomed for a dull future. Besides, the willingness of Ukrainian cinema chains to work in Crimea under new conditions (with Russian distributors and within the ruble zone) is still questionable.

Russian cinema market development trends

With the appointment of the new Minister of Culture in 2013, and the change in the Russia's foreign policy course at the beginning of 2014, the state policy in the cinema domain has been adopting a more obvious direction towards isolation from the world, as evidenced by the reduction of international cooperation programs and the resumption of talks on the establishment of quotas for distribution in Russia.

Tensions in the cinema market are accompanied by the instability of state support for the film industry, ever changing rules for the game, constant reforms in the domain, and changes in the management of the Ministry of Culture of the Russian Federation and the Russian Cinema Fund. In the meantime, in 2013 we have witnessed an increased pressure from law enforcement authorities mainly in regards to movie theaters. A number of high-profile cases were resolved not in favor of distributors. They were forbidden to prevent viewers from bringing their own food and drinks into movie theaters (in Yekaterinburg, Verkhnyaya Pyshma, Zlatoust and other cities), to set "excessively high prices for movie tickets" (in Stavropol); and were even imposed a fine for "drug use promotion" in *The Wolf of Wall Street* film that has a distribution certificate issued by the Ministry of Culture of the Russian Federation (in Novosibirsk). Obviously, the distributors have nothing to match these decisions – with no effective organization to unite them (*Kinoalliance* could have become such an organization) their business is becoming more risky.

Movie theaters operating in highly competitive markets are increasingly resorting to price changes as a competition tool. Though the attendance price growth is slower than the inflation level, movie theaters might soon face profitability problems. Lower price might help them attract more viewers, which is not so obvious though: a sharp increase in cinema attendance in 2013 could have been caused by the success of such Russian projects as *Stalingrad*, *Legend No. 17*, and *Gorko!).* However, more viewers means higher load on the movie theater equipment (and its deterioration) and more work for movie theater's employees, which is not always offset by an increase in revenues.

The ongoing expansion of Russian movie releases has its negative effects: sometimes there are no screens for movie screenings for a long time, and smaller releases have to compete fiercely with blockbusters. While middle-segment releases (genre-specific, mainstream films) have the room to increase their box office, art projects become on-demand movies (*La vie d'Adèle*) and alternative content. Movie theaters are becoming more inclined to make experiments with this kind of events, which resulted in box office of creative content programs having reached 0.3% by the end of 2013. This figure is comparable to the level of certain European countries where it ranges from 0.3% to 1% of the total box office.

The transition to digital cinema in Russia will be completed in 2014. According to the result at the end of the last year, our country has managed to keep up with the world and European level – 85% of screens are equipped with digital projection. Russian distributors have managed to do it without the help of such schemes as VPF (only major cinema chains have managed to make such agreements which had not been publicly displayed). In addition to projectors, movie theaters are more actively employing new sound formats and movement effects. Although, only the latter allows increasing ticket prices – the price of Atmos and Auro screenings in Russia is approximately the same as the regular one. Introduction of new technologies is not limited to movie theater walls; – each year online ticket sales are becoming more and more popular in the Russian cinema industry. By the end of 2013 the share of tickets sold online amounted to 4.8% and is estimated to grow.

In general, the expansion of the cinema industry in Russia is slowing down because there are less vacant segments: the industry has covered all cities with population over 250,000 and almost all cities with population between 100,000 and 250,000 people. When it comes to cities with population less than 100,000, the main responsibility lies on the shoulders of local authorities that are now investing into digitalization of recreation centers, but their efforts are insufficient to keep modern viewers' attention for a long term perspective. The number of shutdowns in the country in 2013 reached a maximum since the late 1990s. Investors are likely to put their trust in federal chains and separate independent projects at the local level, whereas cases of small regional chains expansion are more and more rare in recent years. As a result the players of the Russian cinema market tend to unite – their number decreases each year due to mergers among both small companies and leading chains. At the same time, the level of ownership of three biggest companies fell down in terms of ticket sales – the reason for this is higher cinema attendance in regions where these chains are not present. Probably, further consolidation of the leaders will allow them to win back from the regional market, though the strengthening of the latter is more likely.

Meanwhile, Moscow and St Petersburg markets remain the biggest segment of the Russian cinema industry, accounting together for 45% of the country's box office. Nevertheless, fast growth of the number of theaters in these cities may result in overheating, and it is reasonable to expect a decline in the number of modern movie theaters in the nearest time, mainly in St Petersburg.

Finally, the Crimean market is going to become a secret box for Russia. It used to account for a quite inconsiderable part of our country's market (1%), but at the moment it is in an uncertain state. However, with Crimea joining Russia, two powerful Ukrainian players have appeared in our market – *Multiplex* and *Planeta Kino IMAX*, but their future is uncertain.