## RUSSIAN FILM MARKET OVERVIEW: 2016 RESULTS

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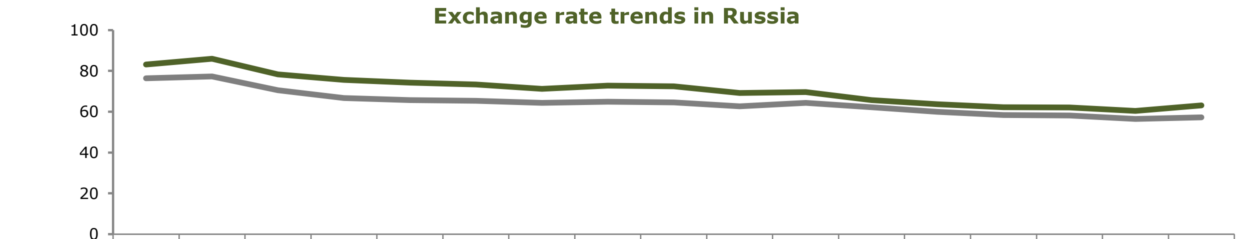
### Background to Development of the Cinema Market

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.




| | 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.

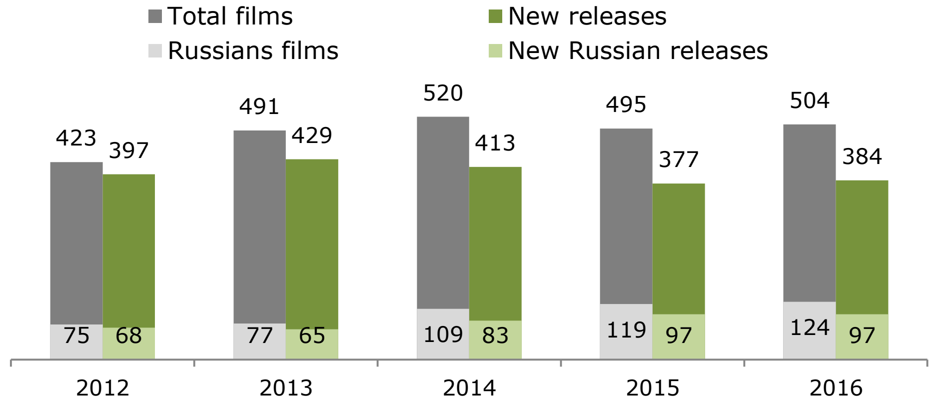
In addition, we finally have the practice of shifting the screening date in case a distribution certificate has already been issued for a film with a similar topic, genre or target audience. It is worth noting that the procedure includes negotiations among the interested players, and if an agreement 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).

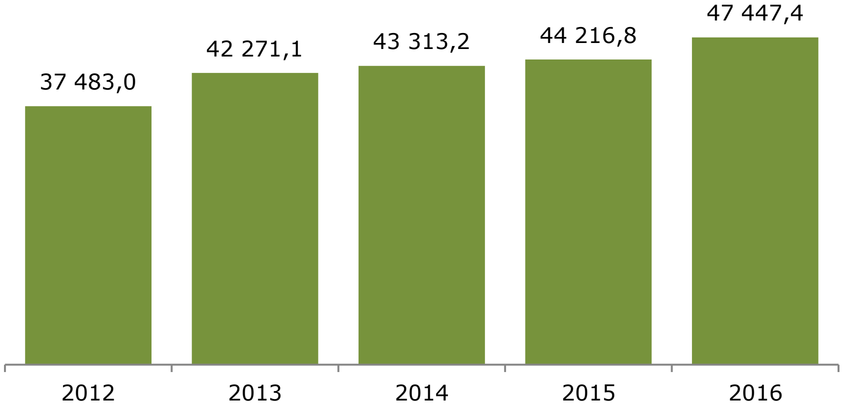
**Number of new releases and films in Russian distribution**



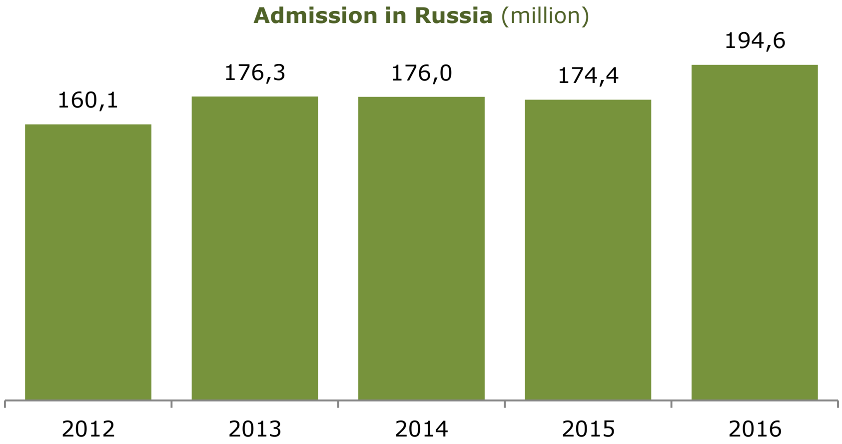

*Sources: Film Business Today, Booker's Bulletin, Russian Cinema Fund's Analytics, comScore, Nevafilm Research*

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).

**Box office receipts in Russia** (million RUB)



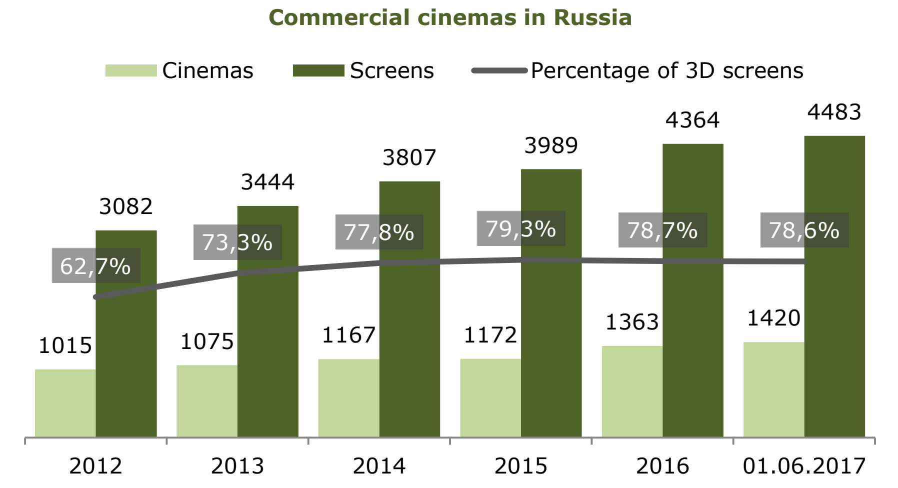

*Sources: Film Business Today, Booker's Bulletin, Russian Cinema Fund's Analytics, comScore, Nevafilm Research*




*Sources: Film Business Today, Booker's Bulletin, Russian Cinema Fund's Analytics, comScore, Nevafilm Research*

## 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 |

| 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 |
|---|---|---|---|---|---|---|
| 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 (*)*

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## Tables

## Charts (Figures)