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RUSSIAN CINEMA EXHIBITION MARKET – 2017

(main results of the research)

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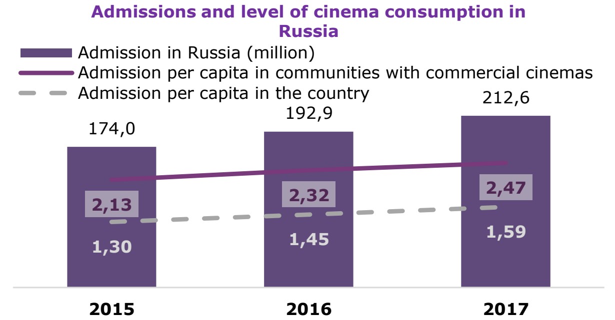
RECORD MARKET GROWTH

By the end of 2017, Russia was the largest market in Europe in terms of number of viewers; the country took 6th place worldwide, but the weak rouble does not allow the country to move up from 10th place in terms of box office takings. Visits and box office receipts in Russia broke all records in the country's recent history, amounting to 212.6 million viewers and 53.4 billion roubles (not including creative content and regional films). In cities which have a cinema, each habitant went there 2.5 times, and at national level, each person consumed the equivalent of 1.6 films in a year.



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

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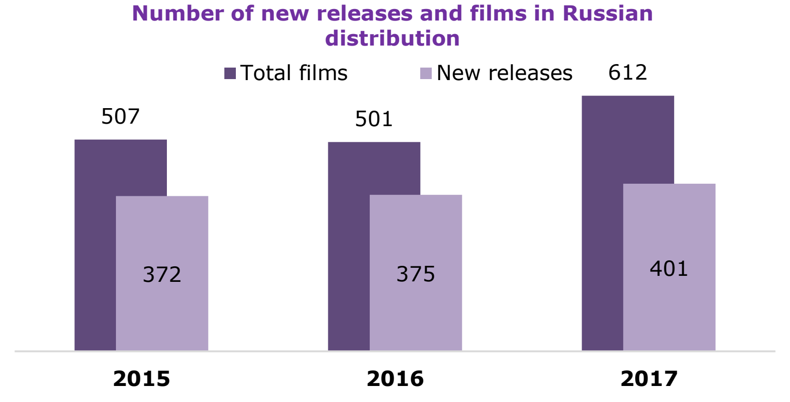
There was also a record number of films released, with the number of new releases reaching the 2013–2014 peak level, when entry threshold into the industry dropped sharply after the transition to digital rental.



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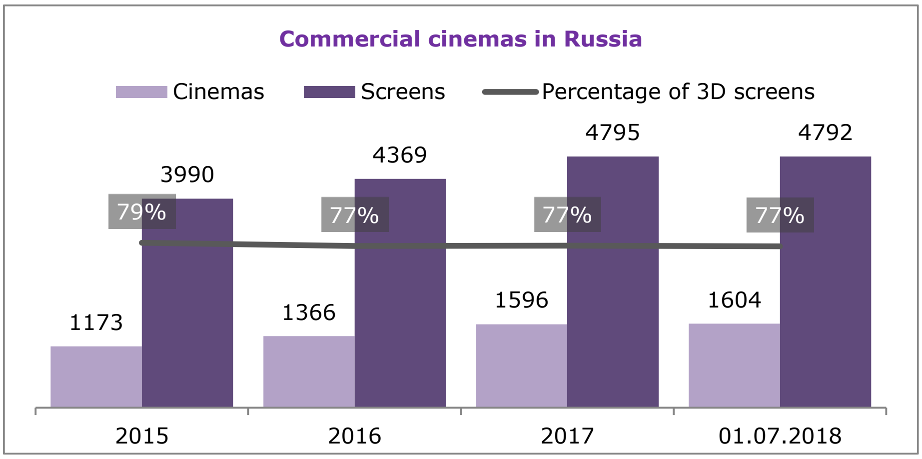
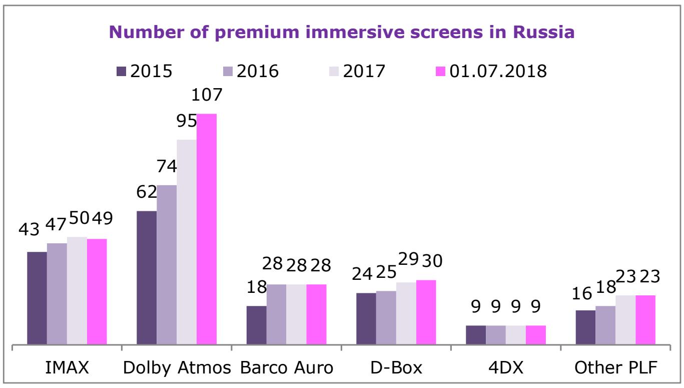
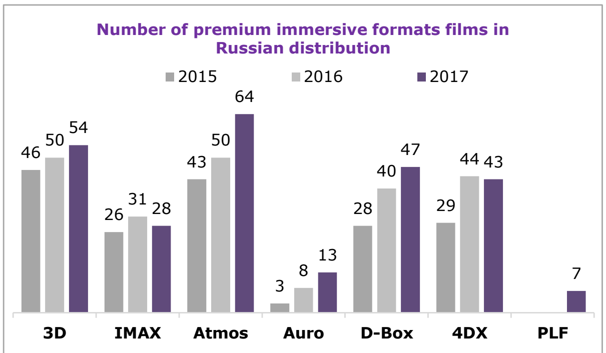
The cinema chain developing in market conditions is growing at the same level as in 2015 (+5% of screens). The additional number is a result of grants from the Cinema Fund;

by the middle of 2018, 456 cinema screens that received state support (out of 811) have already been opened.



The premium immersive cinema network is expanding; predominantly PLF (including IMAX and its competitors) and Dolby Atmos (both the number of screens and films is increasing).



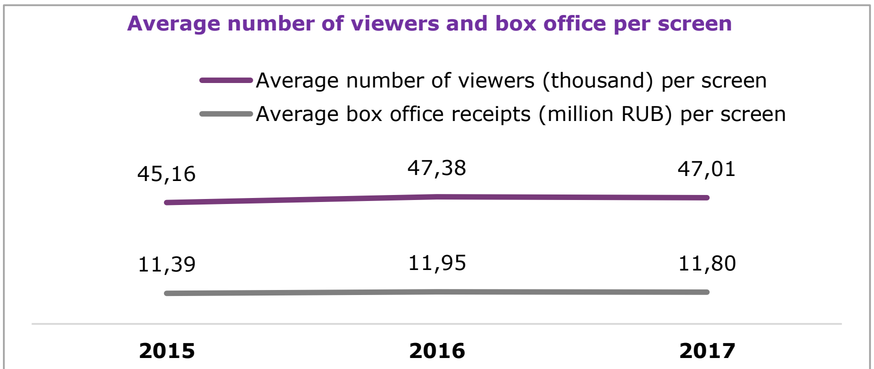


Sources: Booker's Bulletin, Nevafilm Research

NEGATIVE BACKGROUND OF MARKET DEVELOPMENT

The market is developing in unfavourable conditions, both economic and political: the real incomes of the population are declining, there are no institutional changes in the economy, and there is more pressure on the population and on business again after the March 2018 elections.

An increase in the number of sites brings increased competition and a decreased average occupancy per screening. The worst of this is seen at sites subsidised by the Cinema Fund, which often don't receive support in carrying out their operations and are already closing in 2018.



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The economic problems of individual cinema chains reached a critical level: on the market there is a crisis of non-payments between the distributor and exhibitor or between supplier of cinema equipment and exhibitor. The crisis leads to stricter conditions for cooperation between contractors and also to bankruptcy and the closure of cinemas (networks such as Kinoplex, Kinomechta, Luxor and smaller companies are leaving the market).

Major operators of cinema chains in Russia as of 1 January 2018 (including franchises and cinemas with film programme planning)

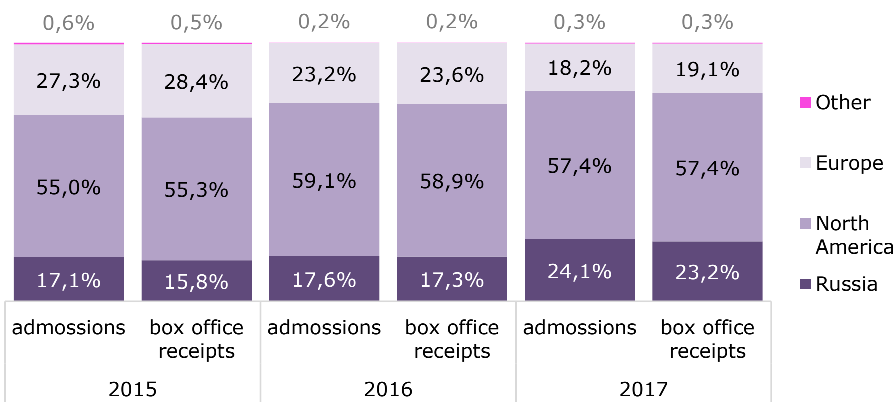
Ranking as of 1 January 2018	Ranking as of 1 January 2017	Operator	Number of sites	Number of screens	Market share by number of screens	Share in total admissions in Russia[1]	Head office
1	1–2	Joint cinema chain - Cinema Park and Formula Kino	76	631	13.2%	15.3%	Moscow
2	3	Premier-zal	232	327	6.8%	3.7%	Yekaterinburg
3	5	Kinomax	32	235	4.9%	6.8%	Moscow
4	4	KARO	29	234	4.9%	5%	Moscow
5	7	Mirage Cinema	22	151	3.1%	3.6%	St. Petersburg
6	6	Luxor	21	147	3.1%	3.7%	Moscow
7	8	Cinema Star	25	127	2.6%	2.3%	Moscow
8	10	Cinema 5	20	109	2.3%	n/a	Yoshkar-Ola
9	9	Monitor	28	104	2.2%	2.9%	Krasnodar
10	11	OptimaKino	32	88	1.8%	n/a	Moscow
Total for operators			**517**	**2,153**	**44.9%**	**-**	
Total in Russia			**1,596**	**4,795**	**100%**	**-**	

The first half of 2018 already showed a decline in all parameters: the number of operating cinema screens decreased (due to closures by firefighters – on 1 July 2018, there are 4,792 screens in 1,604 cinemas across Russia); admission rates dropped (according to data from Russian Film Business Today, by 7.8%) and box office takings dropped (in roubles by 7.5%, in dollars by 8.6%).

PREFERENCES FOR RUSSIAN FILMS AND THEIR SUCCESS

National filmmakers are seeing record levels of success in 2017–2018: Last year in the CIS countries, they gathered 56 million viewers and 13.4 billion roubles at the box office. The share of visits was 23%, and box office takings, 24%. According to the Russian Film Business Today magazine, the share of viewers for Russian films reached 38% in the first half of 2018 (for the first half of 2017, the figure was 19%).

Share of films released in Russia by region of production



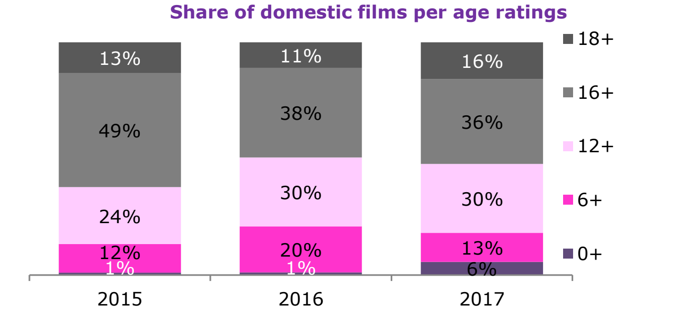
Sources: Russian Film Business Today, Booker's Bulletin, Russian Cinema Fund's Analytics, comScore, Nevafilm Research

[1] According to the analytical study "Russian Film Industry-2017" by the Cinema Fund and InterMedia news agency. M., 2018. P. 194.

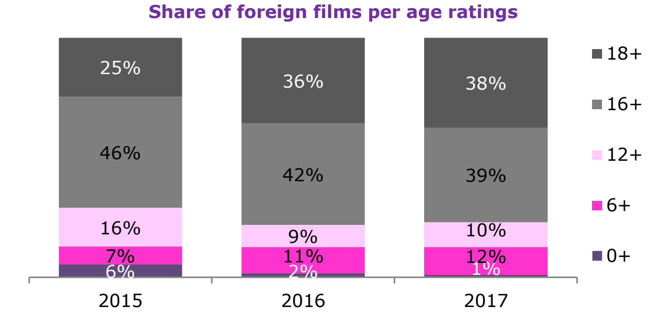
National films receive more screenings than in 2015–2016, but more and more viewers are coming to each screening; that is, the success for Russian producers was not only down to a more favourable picture, but also to their appeal to the audience. However, competition with American films remains: the number of screenings of such films is decreasing, but they are no less effective.

Methods of non-market regulation for films being released are becoming more and more fixed in Russia, creating more favourable conditions for national cinema; the changes to release dates and delays in issuing distribution licenses have become increasingly noticeable and significantly destabilise the market. The effectiveness of moving the release dates of films in order to help Russian films is controversial, and cases where a distribution license has been denied or withdrawn are in fact an open form of censorship, which is banned in the Constitution of the Russian Federation.

There is also pressure on foreign producers with regard to overstating the age ratings on their films; in 2017, 38% of foreign films were given an 18+ rating, compared to 16% of Russian films. The rating influences not only the viewer's decision to go and see the film (and whether or not to take children), but also on the film's reach: films with a 6+ rating start in 70% of cinemas on average, and films with an 18+ rating in just 32% of cinemas. At the same time, the maximum share of screenings is received by the major studios with foreign films mostly with a 16+ rating.



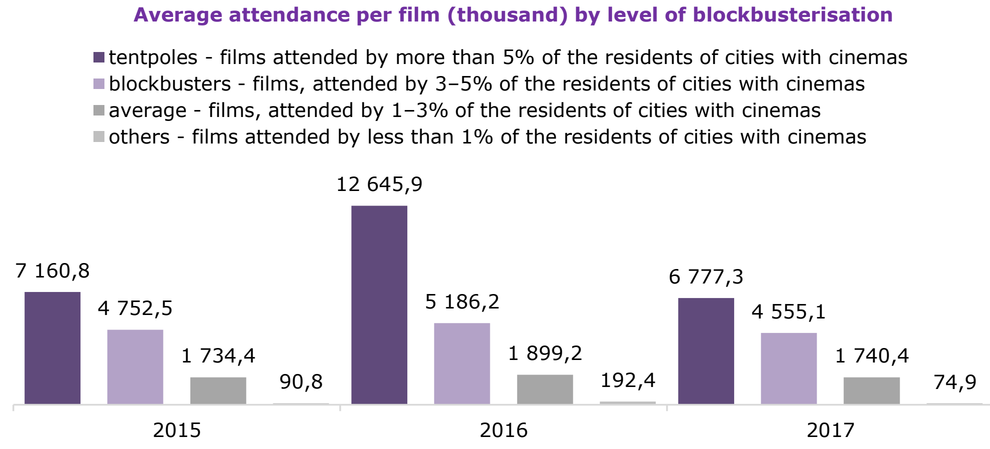
Sources: Gosregistre, Nevafilm Research



Sources: Gosregistre, Nevafilm Research

THE MARKET IS DRIVEN BY AVERAGE FILMS AND TRAILING CITIES

If the success of the Russian cinema exhibition market in 2016 was facilitated by tentpoles, which turned out to be much more than usual, then the main driver in 2017 were average films, which are watched by an average of 1% to 3% of urban residents who have access to modern cinemas. In terms of the number of cinemas and screens, they replaced outsiders, which are viewed on average by less than 1% of residents in towns and cities that have cinemas (mostly art house and art mainstream). The average films in 2017 are young films for the male audience, the deficit of which was acutely felt in 2016.



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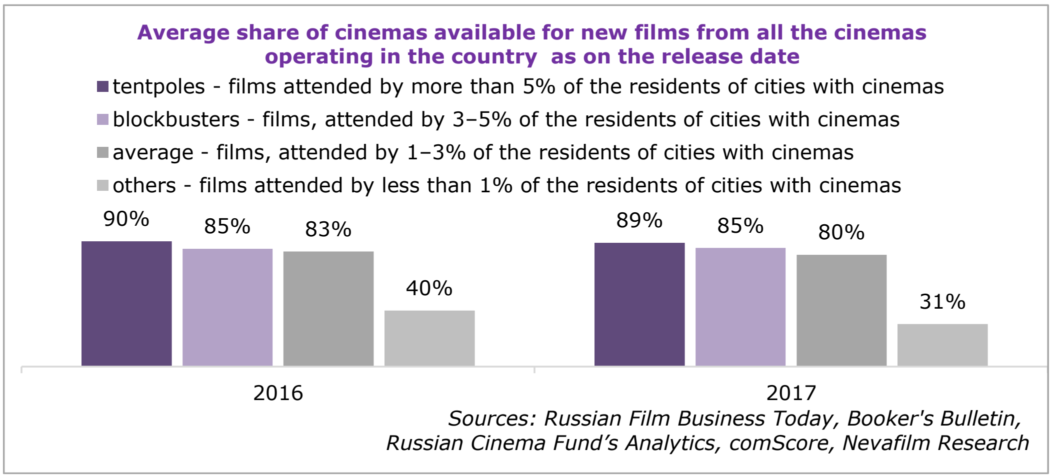


On the other hand, market volumes are also increasing due to the expansion of the cinema chain. At the same time, the increase in the number of subsidised screens in small towns still provides an insignificant number of viewers, though an increased number of applicants from large cities participating in the Cinema Fund competitions carries the prospect of increasing the share of subsidised sites to 10% of admissions in the future (compared to 1.8% for the results of 2017).

Moscow represents the largest market in the country, providing 25% of box office takings. Last year it generated a faster growth in film admissions than an increase in the number of screens. In St. Petersburg, the number of admissions and screens is growing at a uniform rate. The greatest increase in the number of visits and openings of new screens is noted in cities where there has been a shortage of screens for a long time.

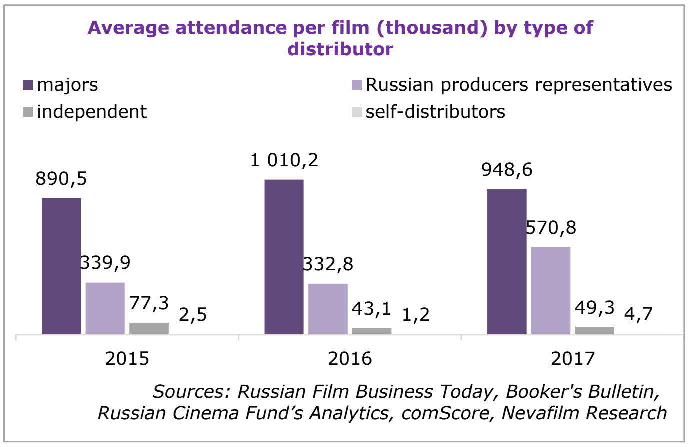
Cinema market share by federal districts in Russia as of 1 January 2018

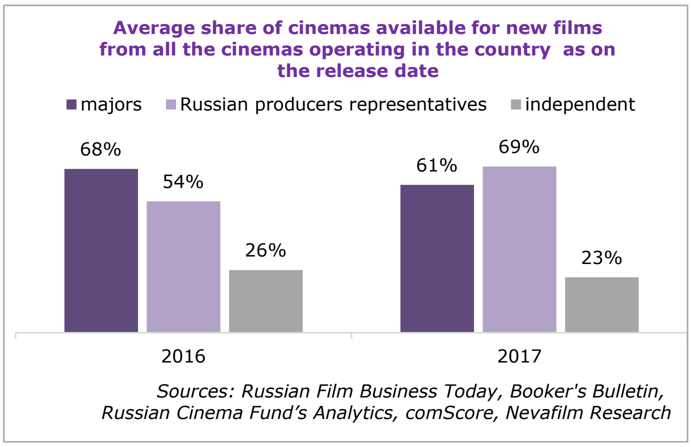
Federal district	Number of sites	Number of screens	Density of screens per 100,000 inhabitants	Market share by number of screens	Market share by attendance*	Market share by box office receipts*
St. Petersburg	66	375	7.1	7.8%	8.6%	9.1%
North-West Federal District (excluding St. Petersburg)	124	295	6	6.2%	5.2%	4.6%
Greater Moscow	135	806	5.9	16.8%	18.2%	25.3%
Far Eastern Federal District	113	207	5.1	4.3%	4%	4.3%
Ural Federal District	152	447	5	9.3%	8.7%	7.7%
Central Federal District (without Greater Moscow)	264	695	4.7	14.5%	14.1%	12.8%
Siberian Federal District	229	581	4.6	12.1%	11%	9.5%
Southern Federal District	169	429	4.4	8.9%	10.7%	10.1%
Volga Federal District	276	821	4.4	17.1%	16.7%	14%
North Caucasian Federal District	68	139	3.4	2.9%	2.8%	2.5%

** According to data from comScore*

CRISIS OF INDEPENDENT CINEMA

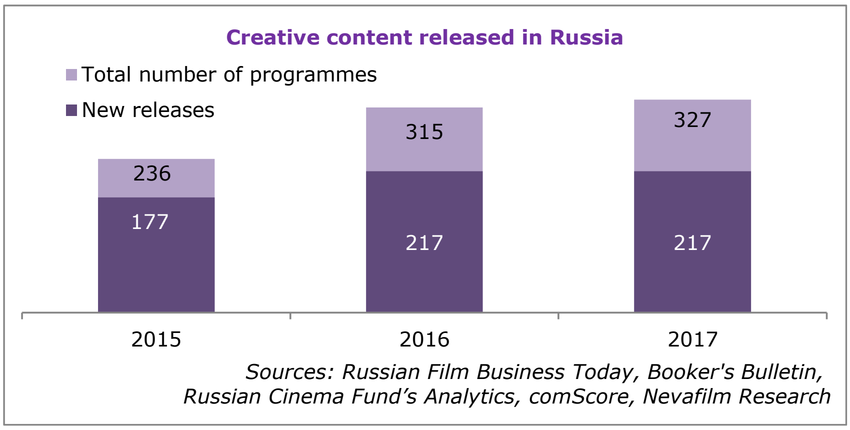
In the Russian distribution, the crisis continues for independent cinema. In 2017, 250 films were released by independent distributors (62% of all new films on screens) and collected just 7% of box office takings and admissions (in 2015, 11%, and in 2016, only 5%). At the same time, the receipts per independent film fell by 36% to the 2015 level. This decline occurs against the background of a reduction in the number of cinemas showing each individual film, which is evidence that cinemas are diversifying their repertoire as they try to stand out from the competition. However, it seems that cinemas do not take risks seriously and rely on proven genres and names; most screenings are still given to major films across all sites.



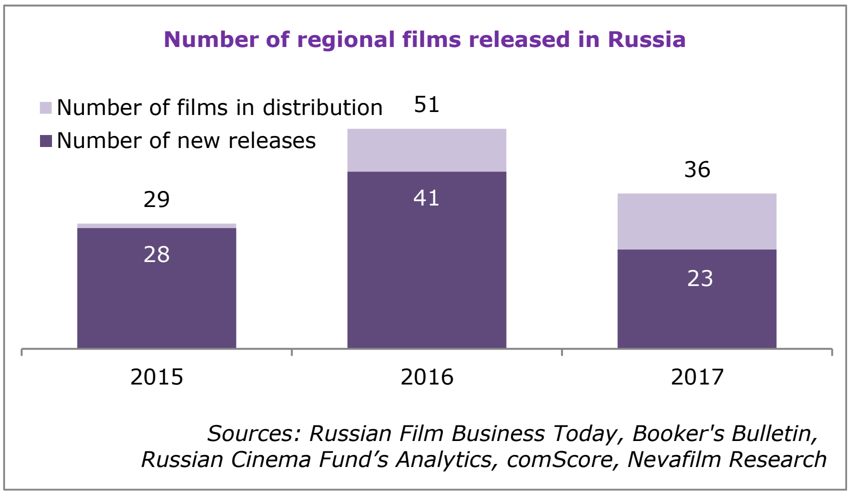


Russian producers reduce the diversity of their repertoire; their products become homogenised and made to satisfy the needs of the mass audience. Thus, more blockbusters, comedies, youth and family films are released each year, and fewer serious and art films. Undoubtedly, the goals and objectives of the Cinema Fund that support commercial projects are a contributing factor in this.

In the sphere of creative content, there is also a crisis emerging; the number of programmes released remains at the 2016–2017 level, but their genres are changing significantly. The number of live broadcasts and operas is decreasing, and they are being replaced by screenings of old films and documentaries. The number of short programmes is also decreasing, with the exception of animation programmes, for which competition is growing. This market segment declined by 15% over the year, and its share in the overall film distribution in Russia is half that of other countries.



Commercialisation affects regional filmmakers as well; in 2017, they released less dramas and action films, and more comedies, youth and family films. At the same time, the refusal of cinema chains to bet on risky independent projects extends to regional films; only one appeared among the wide range of films released in Russia, and the fall in admissions and box office receipts in the segment doubled. Even for market leader Yakutia, the number of releases and released films decreased.



The suggested methods for developing regional cinematography at both federal and local levels are developed in isolation from real world experience, so they do not lead to a real increase in local film production or improve its quality. Reports by the Cinema Fund on the 11 operating film commissions and 4 regions that issue rebates are not supported by the monitoring on the Internet, where only 6 sites of Russian film commissions are active (http://filminsiberia.ru/, http://primoryefilm.ru/, https://www.cinema39.ru/, http://kinokomissiya-no.ru, http://filmmoscow.ru/, https://ulkul.ru/news/culture/kinokomissiya-ulyanovskoy-oblasti.html), and provides information on 3 current schemes of fiscal incentives (in the Kaliningrad and Ulyanovsk regions and the Primorsky krai).