Nevafilm JSC
Korablestroiteley St., 33/2b
Saint-Petersburg
Russia, 199397
Phone: +7(812) 449 7070, fax: +7(812) 352 6969
http://www.nevafilm.ru

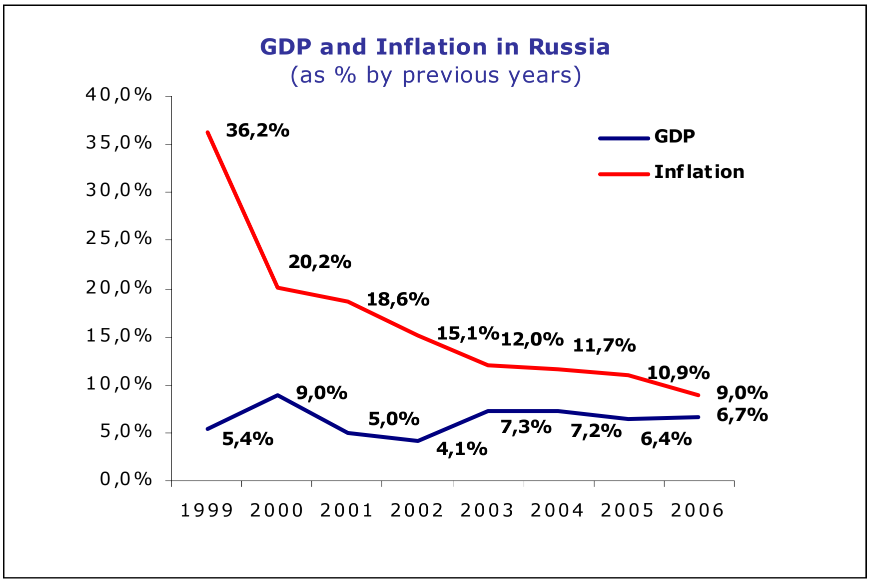
RUSSIAN CINEMA EXHIBITION MARKET OVERVIWE 2006

Oleg Berezin, Director General, Nevafilm Company,
Ksenya Leontyeva, Analyst, NEVAFILM *RESEARCH*®

Social and Economic Background

In 2006, Russia experienced higher output of goods and services, increases in real money income of population, considerable growth in fixed capital investment and slowing inflation.

In 2006 GDP increased 6.7% year on year, which is higher than the five-year average (6.1%) and indicative of sustained economic growth. Estimates show that economic growth in Russia in 2006 was 1.5 times faster than the world economic growth rates forecast by the IMF and World Bank. The growth rates of industry output were faster than the growth rates of employment and indicative of labor productivity increase.



Industrial output increased 3.9% in 2006 year on year. As was the case in last years, there are high growth rates in industrial production, which are largely due to the manufacturing sector.

Rapid growth in consumer and investor demand stimulated the expansion of production. As a result of sustained economic growth and the provision of more effective social guarantees by the government, real disposable money income continued to rise rapidly (by 10% in 2006). Real consumer expenses grew even faster and their growth was accompanied by a significant increase in bank credit to the household sector. The rates of growth in consumer spending in 2006 is estimated at 12%.

Economic stability cannot be achieved and maintained without reducing unemployment. As of the end of 2006, the total number of unemployed accounted for 6.9% of the economically active population (against 7.6% a year earlier). Total population of the country in 2006 is estimated 142.8 mln. people (143.5 in 2005).

To achieve financial stability inflation must be reduced and kept at a low level. Consumer prices rose 9.0% in 2006 (10.9% in 2005), the lowest inflation rate since 1991. National currency strenthening is the main factor of inflation slowing. Estimates show that the increase of nominal effective rate of the ruble has limited the core inflation's growth approximately by 0,2%.

In a whole, the key results of the Russian economy development in 2006 show that economic policy in the country maintained financial stability in 2006.

Key Economic Indicators 2005/2006

(as % of corresponding period of previous year)

	2005	2006
Gross Domestic Product	6,4	6,7
Industrial output index	104	103,9
Transport freight turnover	102,7	102,2
Fixed capital investment	110,7	113,5
Retail trade turnover	112	113
Consumer price index	110,9	109,7
Industrial producer price index	113,4	112,4
Real disposable money income	108,9	110
Spending on goods and services	110	112,1
Total number of unemployed (as % of economically active population)	7,6	6,9
Inflation	10,9	9,0
Commodity exports (US $ billion)	243,6	304,5
Commodity imports (US $ billion)	125,3	163,9
Official ruble/dollar exchange rate as of end of period (rubles per dollar)	28,78	26,33

Source: the Federal State Statistics Service, the Bank of Russia.

Cinema Market Overview

The year 2006 was quite productive for the national cinema industry. It began with a triumphal parade of the new national movies through the country screens – starting with the January release of *Daytime Watch*. Initially its release date generated a lot of doubt in the community of box office experts; eventually though that doubt appeared to have been quite groundless: on January 1 people kept lining up at box offices in the movie theaters, and all in all the *Daytime Watch* netted more than $30 mln in revenue from its CIS distribution. Later the market was rocked with such national hits as *The Rabble*, *Boomer. Release Two*, *Piter FM* and others: over the year the screens of CIS boosted 16 national movies into their "millionaire" status, that is, each brought more than $1 mln in box office. The total annual box office from the country distribution in 2006 reached $412 mln[1].

Year on year the Russian movies are gaining more and more success among the movie-goers. National film-makers keep increasing the output of commercial products (in contrast to the trend that reigned in the industry in the late 1990's when movies were mainly produced for the industry professionals, instead of for the viewers), and the budgets of the Russian-made movies keep growing. Film-makers start to contemplate expanding production sites within the Russian Federation. For example, together with the administration of the Krasnodar Area the Russian Word Studios Company is getting ready to offer film-makers a site for shooting on location that will become an alternative to the Yalta and Odessa film studios: according to the company plans, by 2010 there will emerge 17 modern film stages and a marine shooting site in Anapa.

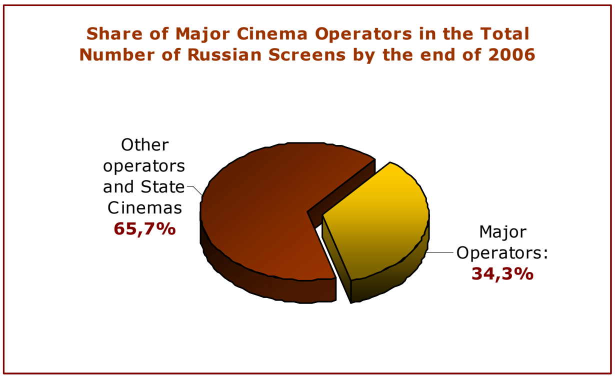
Increase in the scope of distribution on the Russian market, as well as the lowering of the market share of foreign movie products both stimulate the interest towards Russia on the part of foreign cinema business community. Last year such companies as *20 Century Fox – CIS, Buena Vista Sony Pictures Releasing* and *Disney Russia* have started operating on the Russian market directly.

At the same time the national distributors that are busy distributing Russian movies are also reaching for the new level of business operations – and a new level of competitive activity. On December 28, 2006 the opening of two the most expected Russian movies took place: *The Heat* by Rezo Gigineishvili and *The Wolfhound* by Nikolay Lebedev. Both releases were preceded and accompanied by exceptionally powerful advertising campaigns involving all modern media channels. The circulation claimed for both movies is at least 600 copies (compare that to the most successful hit of 2006, *The Daytime Watch* that had a circulation of 518 copies). Many market players consider such decision by the producers to be quite dubious, since the viewers are not yet ready to go to the cinema that often: one would need to do it twice over the wintertime holidays; however the producers themselves do not consider that a problem and assume that the modern Russian cinema market is already fit for 'healthy competition".

[1] All the box office data are by the *Business Media* CJSC

At the same time the cinema exhibition market displays quite controversial trends: on the one hand active cinema openings in the country's regions, new players keep entering the market – "natives" emerging from the community of real estate, capital construction and shopping center managing companies, from other branches of entertainment industry, etc. Parallel to that, the market segment of network operators keeps strengthening: cinema networks expand the territories of their influence, diversify their activities while mastering the entertainment business and concession (like food-court in a shopping center). New vertically integrated industry structures emerge in the sphere of cinema industry: currently the country has several "full cycle" companies that embrace the industries of film-making, distribution and circulation (specifically the holdings by the *Paradise* and *Karo* companies and the growing "media-empire" of *Proph Media*).

By the end of 2006, ten largest network operators have already concentrated **34.3%** of the circulation market of the country (by the end of 2005 their respective share was 31%). It was also for the first time that a single Russian cinema network operator had the command of more than a hundred screens: the first company to break the coveted threshold was *Karo Film*, that outraced by far its nearest competitors – *Formula Kino* and *Kinomax*.



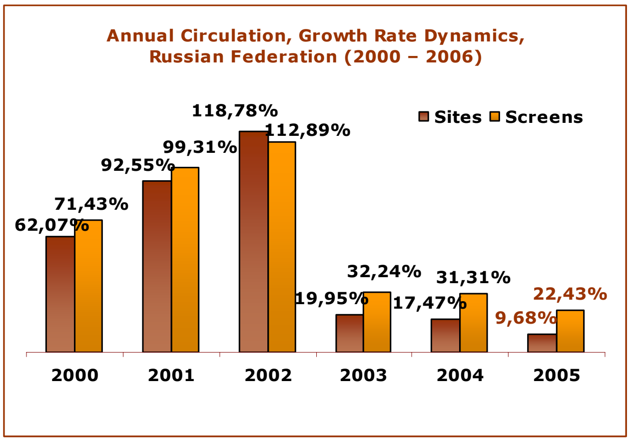
Top 10. All-Russian major Cinema Network Operators (as of December 31, 2006)

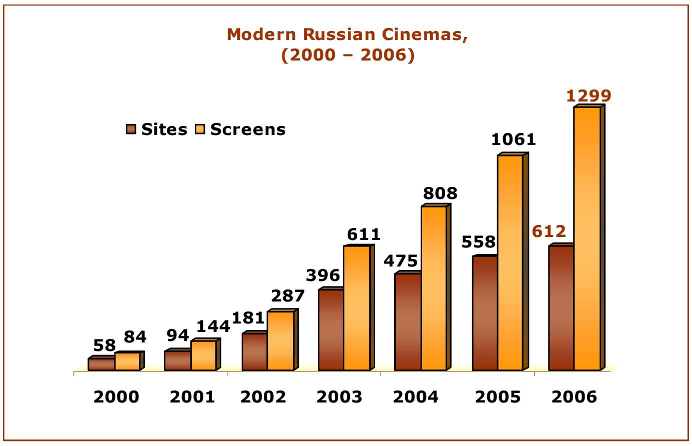
Position 2006	Position 2005	Network Operator	Sites	Screens	Seats	Market share by number of screens	Headquarters
1	1	Karo Film	25	114	22 643	8,8%	Moscow
2	3	Kinomax	19	60	12 507	4,6%	Moscow
3	2	Formula Kino	13	57	11 038	4,4%	Moscow
4	6	Cinema Park	6	49	9 936	3,8%	Moscow
5	4	Kronverk Cinema	8	43	6 764	3,3%	Saint-Petersburg
6	-	Roskino	9	30	4 664	2,3%	Moscow
7	10	Art Science Cinema	8	25	3 345	1,9%	Novosibirsk
8	-	Luxor	6	23	4 634	1,8%	Moscow
9	7	Rising Star Media	2	23	6 700	1,8%	Moscow
10	5	Paradise	5	22	3 748	1,7%	Moscow
Major Operators' Total			**101**	**446**	**85979**	**34,3%**	
Total in Russia			**612**	**1 299**	**310 380**	**100,0%**	

Meanwhile, one may consider the most contradictory feature of the development of modern movie circulation market to be that, against the impetuous progress of other branches of cinema industry, there is a drop in the rate of starting modern movie theaters in the country.

Rates of Constructing New Cinemas Keeps Slowing Down

31.12.2005 *– 558 sites / 1061 screens, average number of screens per cinema – 1.9*
(69 sites / 327 screens in shopping centers, average number of screens per cinema – 4.7)
31.12.2006 *– 612 sites / 1299 screens, average number of screens per cinema – 2.1*
(98 sites / 502 screens in shopping centers, average number of screens per cinema – 5.1)
Annual Screen Growth in 2006: +22.4%



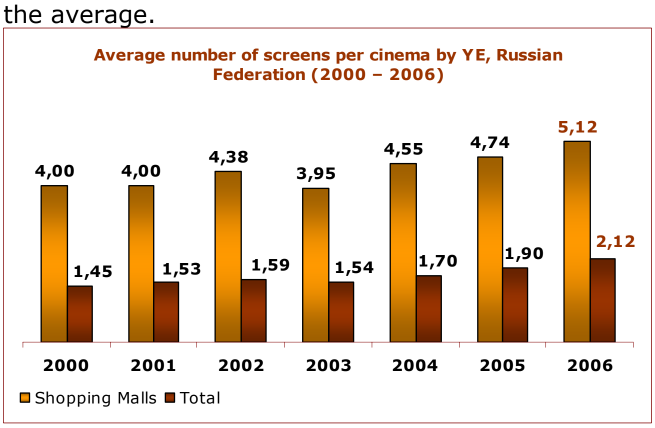


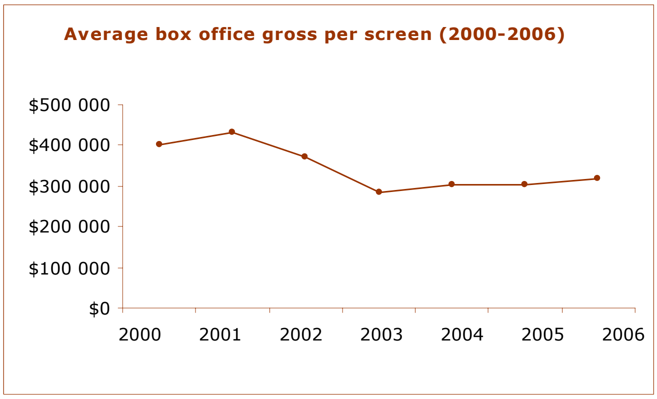
Estimating cinema market testifies to lower growth rates in the opening of new modern movie cinemas, both in relative (percentage) and absolute figures. According to the data of December 31 2006, there were **612** cinemas (**1299** screens) in the country. The growth of movie screen number constituted **22.4%**, which is 8.9% less than the growth rate for the cinema market from the last year; moreover, the increment of the newly opened cinemas was almost twice as low as that for 2005 (**9.7%).**

Note that the diagram of the "Annual Circulation, Growth Rate Dynamics, Russian Federation (2000 – 2006)" clearly demonstrates the following trend: prior to 2003 the rates of launching both new movie theaters and separate screens remained extremely high and only differed from each other insignificantly. However, starting from 2004, the annual increment of new screens has dropped considerably, while it was set off by the increased difference between the two rates: those for the movie theaters and the screens.

This diagram highlights the processes evolving in the Russian cinema market: 2003 rounded up the epoch of refurbishing old buildings of movie theaters inherited from the Soviet times (these used to be mostly single-screeners or miniplexes); the new era in the Russian cinema exhibition market had started back in 2004, when further market growth shifted to predominantly the construction of new multiscreen movie theaters, mainly housed by shopping and entertainment centers and multifunctional complexes. The growth in the numbers of new screens overran the growth in numbers of the new movie theaters and kept accelerating.

Year on year, the factor of the average number of screens per single movie theater keeps growing, and that effect is also due mainly to the shopping and entertainment centers, which house 4-5 screens, on the average.





The dynamics of key indicators, Russian Federation cinema networks, 2000-2006

Year	Screens	Box office, $ mln*,**	Attendance (mln)**	Average ticket price	Box office, per 1 screen, $	Change in box office, per 1 screen, %	Change of gross box office, %	Attendance change, %
2000	78	31,2	30,2	$1,03	400 288	-	-	-
2001	136	58,9	36,4	$1,62	433 202	8,22%	88,70%	17,0%
2002	271	101,1	40,5	$2,50	373 020	-13,89%	71,58%	10,1%
2003	606	172,0	68,0	$2,53	283 746	-23,93%	70,10%	40,4%
2004	797	242,5	76,5	$3,17	304 316	7,25%	41,05%	11,1%
2005	1 036	315,8	83,1*	$3,80	304 870	0,18%	30,22%	8,0%
2006	1 299	411,8	89,5*	$4,60	316 994	3,98%	30,37%	7,1%

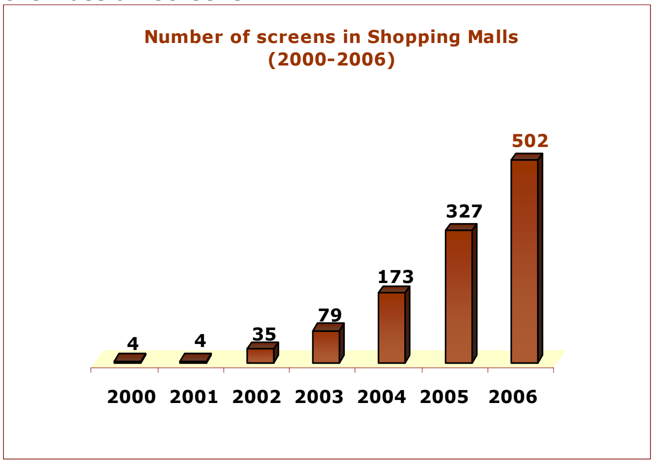
* Data for CIS provided by «Business Media» CJSC: movie theaters launched between December 1, last year to November 30, current year are included

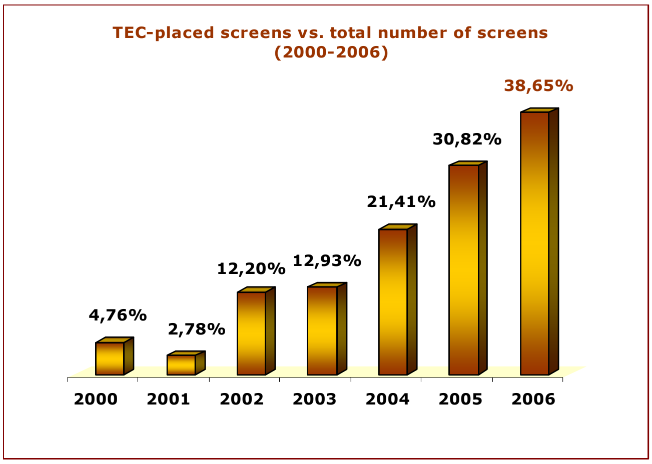
** Data for RF are calculated as 90,5% of CIS total

Box office for the Russian cinema market in 2006 has reached **$412 mln**, while the average box office per screen has reached about **$317 thousand** per movie theater. Thus, despite a significant increase of the gross total in box office collection (by 30.4%), separate screens have been feeling but quite an insignificant increase in their revenues for the second consecutive year (by 4% in 2006). The increase in the level of attendance per screen is also slowing down – it has only made **7.1%** this year. Thus the overall growth in the gross box office was basically due to the growth of the average ticket price which has averaged **$4.6** last year.

In 2006 **252** screens were opened in **63** new cinemas in Russia (compare that to 102 new cinemas with 276 screens launched in 2005). As for closing, 14 screens in 9 cinemas were closed during 2006.

As already noted above, the growth of multiscreen cinemas in the country is basically supported by openings of the new cinemas in the trade and entertainment centers (TEC); however, in 2006 the rate of such growth in the number of screens in TECs somewhat dwindles and yielded **53.5%** only (in 2005 the respective rate for new TEC screens was as high as 97.5%). All inall, by YE the TECs housed **38.7%** of all the Russian screens.





This phenomenon of the lowering share of cinemas newly opened in TECs is related, first and foremost to the spinning off tendency of building multifunctional entertainment malls that have no shopping component at all. Moreover, while such entertainment complexes opened during the elapsed year aim at pure leisure (such as the Volgograd *Hippopo*, the Vozhsk *Sputnik*, the Kazan *Port Cinema* that include discotheques, restaurants, game machines, bowling and pool units), many of the forthcoming projects of future years are planned to be built around the sports theme (aqua-parks, skating rinks, swimming pools, gyms, etc.) A new popular trend consists in having screens in the hotels complexes and placing business-centers.

Technologies

An important event of 2006 for Russian cinema exhibition market became the joining of country to the pool of countries that have started the digital revolution in cinema.

On October 2006 *Nevafilm* company has installed digital cinema equipment in the big auditorium of *Zanevsky Kaskad* cinema (Kronverk Cinema network) in Saint-Petersburg, which become the first routinely operating commercial digital screen in Russia. The set of equipment includes Christie CP2000S 2K digital projector, Christie Cine-IPM 2K Digital Cinema Image Processing Module, DoReMi DCP-2000 Digital Cinema player and Dolby DMA8 Digital Media Adapter). However, commerical use of that projector was not the first step in the cinema operation: on December 10, 2006 *Kronverk Cinema* convened a press-conference in its digital screen auditorium devoted to new capabilities of the digital cinema. There were demonstration of various examples, reels, fragments of various movies, as well as a 3D screening of *Monsters from the Abyss* movie. After that the cinema housed a show-tournament of the Intel Challenge Cup between the teams of computer gamers from Russia and Finland. It was broadcasted to the big screen in the hall. The success of that first digital screening was tremendous: almost 1 000 persons came to attend it. The screen hall could only seat 450 viewers; the rest had to watch the game from the cafe, where the action was also transmitted using a video projector. The Russian team won the contest and gained the first prize of $5 000 from the General Sponsor of the event – the *Intel* Company.

On December 12, 2006 the presentation of the second Russian digital screen took place: the Cinemeccanica CMC3 D2 digital projector was set up in the *Cinema Park* cinema located in *Grand Canyon*

TEC, also in St.-Petersburg. The *Cinema Park* organized a press-conference on that occasion, as well as a demo session on the capabilities of digital cinema, including the technologies of 3D screening with the use of "active" glasses.

The third digital screen in Russia was fitted out by mid-December in the *Illusium* cinema in Naberezhnye Chelny (Christie CP2000 digital projector and Doremi DCP2000 server).

On December 28 the first Russian digital sites all had premiere digital screenings of *Night in the Museum* from *20th Century Fox*.

In the coming year the installation of digital cinema equipment is planned by *Kronverk Cinema*, *Cinema Park*, *Karo Film* and *Formula Kino* networks.

However, its is not only the digital film screening technologies that are increasingly embraced by Russian exhibitors. There is a clear tendency among film distributors to aim at various technical innovations, tricks and attractions. Screens are fitted out with "four-dimensional" demonstration systems – SimEx 4D. The first such screen was opened in Kazan in February 2007 (the *Suvar* network), the second is to be opened in Saint-Petersburg in early 2007 (*Kronverk Cinema* in the *Rodeo Drive* TEC). The wide-frame and stereo IMAX systems are in high demand among the film screening experts: in 2006 the first regional IMAX theatre was launched in Kazan (*Suvar* network), while in 2007 similar theaters are planned to be opened in Perm, Saint-Petersburg and other cities.

Besides, systems that offer fast access to ticket sales for cinema goers are getting more and more popular. The practise of movie ticket booking and purchase via the Internet or cell phone is used for several years already. The novelty of this year is the electronic POS units installed at the ground floor of the shopping and entertainment complexes that house cinemas of the *Kinomax* network. Such terminals make it possible to "net" the audience long before the cinema goers reach the top floor of the complex where the screens themselves are found.

Finances

The orientation of cinema operators towards the latest technical innovations, and their plans to expand into the regions and CIS countries with their activities (for example, *Kinomax* company has announced its plans to enter the Kazakhstan market; *Kronverk Cinema* company is broadening the geographical span of its network to Murmansk and Magnitogorsk while also eyeing the CIS countries) have developed prerequisites for stronger demand of investments needed to further develop the networks.

As for the financial policies of the national cinema networks in 2006, they branched into several venues to attract extra finances to the industry: company stock floatation at stock exchange, additional placement of company securities, selling part of their assets or receiving credits.

In summer the *Kinomax* and *Kronverk Cinema* companies announced their intention to have their IPOs placed before the year 2008. Their example was followed by the *Karo* holding that has also expressed its desire to enter the stock market by the year 2008.

Before that, though, *Karo Film* plans to attract funds from the financial market for developing its network. On December 2006 the company initiated its IPO bonds placement to the effect of $26 mln on the stock exchange of the Moscow InterBank Currency Exchange with three years maturity.

Meanwhile, the very first company to have announced floating its securities, became the *Samokhval* shopping network: to build its trade and entertainment centers in the Greater Moscow[2] area and the closest Oblast cities, the network has initiated an open subscription to its three years maturity debut bonds of 1.5 bln Rubles emission on October 25 last year. In September the *Formula Kino* State Company had started negotiations on selling a large share holding in order to attract investments needed for the development of its regional cinema network. About 50% of assets of the *Formula Kino* network may eventually pass into the hands of the *Eurasia* investment and industrial group that is operating in various segments of real estate market.

In November 2006 the Federal Service of Financial Markets of the Russian Federation has registered an additional issue of common inscribed document-less stock of the *Cinema Park* company that was placed by way of a closed subscription. All in all, 1 381 548 shares to the sum of more than 116 mln Rubles were registered.

Moreover, in December 2006 the *Rising Star Media* company announced that one international financial corporation (IFC) provided it with a credit of $68 mln. The resources are aimed to implement new projects of constructing cinema centers of the *KinoStar* network in Moscow and Saint-Petersburg.

Thus we have already seven Russian cinema operators that started to attract outside investments.

Moscow (Greater Moscow[2])

31.12.2005 *– 93 cinemas / 294 screens, average number of screens per cinema – 3.2*
(22 cinemas / 145 screens in shopping centers, average number of screens per cinema– 6.6)
31.12.2006 *– 94 cinemas / 323 screens, average number of screens per cinema – 3.4*
(28 cinemas / 177 screens in shopping centers, average number of screens per cinema – 6.3)
Annual Screen Growth in 2006: +9.7%

In 2006 **35** screens (**8** cinemas) were opened in Moscow, **5** cinemas were closed. Of these latter three theaters have stopped operating due to objective causes: *MDM Kino on Hassocks* and *Cinema-Vesna* (both in Khimki) were closed due to economic reasons, while *Zaryadye* stopped functioning because the *Rossiya Hotel* that had used to house it, was razed to the ground. In the meantime, three modern cinemas – *Leningrad*, *Khudozhestvenny* and *Slava* – fell victim to the desire of the Moscow city authorities to bring the upgraded municipal screens under their control. Moreover the former directors of those movie theaters were fired, the agreements with lessees at whose expense the upgrades of those cinemas had initially been carried out were recognized illegal by reason of the impossibly low rental rates set for them, and the commercial screening of films in those cinemas was indefinitely upheld. Meanwhile, according to the statement by the management of the Property Department of the city of Moscow the operations of these movie theaters have only been temporally suspended and it was promised to bring them back into operation before the end of the current year. However, only one of these movie theaters, *Khudozhestvenny* was launched back into operation in December 2006, and it now houses the *Center of Russian Premieres*. Such events cannot but destabilize the situation in the Moscow screening market, and it undermines the trust of the lessees towards the lessors of the municipal real estate.

Overall, the Moscow region had **94** cinemas comprising **323** screens active by December 31, 2006. The screen penetration with respect to the region population was **2.8** screens per every 100 thousand of population. The annual growth in the number of screens in Moscow (the Moscow region at large) over 2006 was **9.7%**.

Modern Moscow screens vs. number of screens total
(as of December 31, 2006)

Screens per sites	Sites	Screens	Market share by number of screens
1-screeners	29	29	9,0%
2 screeners	18	36	11,1%
3 screeners	11	33	10,2%
4 screeners	13	52	16,1%
5 screeners	8	40	12,4%
6 screeners	6	36	11,1%
MINIPLEXES, total	**56**	**197**	**61,0%**
8 screeners	1	8	2,5%
9 screeners	3	27	8,4%
11 screeners	2	22	6,8%
12 screeners	2	24	7,4%
16 screeners	1	16	5,0%
MULTIPLEXES, total	**9**	**97**	**30,0%**
MOSCOW, GRAND TOTAL	**94**	**323**	**100,0%**

The analysis of distribution of Moscow (Greater Moscow) movie theaters vs. their number of screens demonstrates the stability of the market with respect to 2005. All the types of movie theaters in Moscow retain their positions compared to last year figures: the share of single-screeners has remained practically unchanged (from 9.6% by the end of 2005 to 9% by the YE of 2006); the share of miniplexes has lowered insignificantly (from 62.5% in 2005 to 61% in 2006); consecutively, the share of multiplexes has increased slightly (from 27.9% to 30%).

[2] The Nevafilm Research Department has concluded that limiting Moscow to within its administrative borders is inadequate for the task of presenting the Moscow screening market. Therefore, the company experts identified the borders of the Moscow region (Greater Moscow), that includes additionally all the settlements immediately adjacent to the Moscow Ring Road. Pursuing that approach they estimated the population of this Moscow megapolis and calculated the number of screens in it. Greater Moscow included the following towns of the immediate Moscow surroundings: Ljubertsy, Reutov, Mytishchi, Dolgoprudny, Khimki, Krasnogorsk, Odintsovo, Vidnoe, Dzerzhinsky, Kotelniki. The total population of the region for the year 2006 was calculated at 11 645,8 thousand.

Major cinema operators vs. number of screens, Moscow
(as of December 31, 2006)

Position, 2006	Position, 2005	Network operator	Sites	Screens	Seats	Screens per sites, average	Market share by screens
1	1	Formula Kino	13	57	10 975	4,4	18%
2	2	Karo Film	13	49	12 373	3,8	15%
3	4	Rising Star Media	2	23	6 700	11,5	7%
4	6	Luxor	5	20	4 138	4,0	6%
5	5	EA-Cinema	2	19	2 523	9,5	6%
6	3	Paradise	4	17	2 548	4,3	5%
7	7	Cinema Park	2	15	2 039	7,5	5%
8	8	Tsentrfilm	6	14	3 513	2,3	4%
9	9	Kinomax	4	12	2 392	3,0	4%
10	10	West	3	9	2 105	3,0	3%
Cited operators, total			**54**	**235**	**49 306**	**4,4**	**73%**
Moscow, total			**94**	**323**	**70 307**	**3,4**	**100%**

As for the market share distribution among the major players, the situation on Moscow cinema market has somewhat changed since 2005: the *Paradise* holding has yielded its place in the leading networks trio to *Kino Star* after a 6-screen cinema in the *Rio* TEC has left its control; at the same time, the *Luxor* company managed to improve its rating after opening a 5-screen cinema *Luxor in Yasenevo* in August last year. It is also expected that *Karo Film* network will overtake its former partner on the Moscow movie market, the *Formula Kino* network in early 2007 thanks to opening the 8-screen cinema in *Ramstor on Vernadsky* shopping center.

Among the other new cinema sites in Moscow - the entrence of *Roskino* federal network onto the market of the capital: *XL 3* cinema in Mytishchi had started its operations in August; also in August the *Triumph* cinema was launched in the *Trioumfalny* TEC. The September debuts included the *Chas Kino* 4-screen cinema managed by the developer of the *Chas Pik* shopping complex and the *Vympel* children's screen belonging to the Committee on Culture of Moscow. Finally, November saw the 9-screen multiplex of the *Formula Kino* network in the *Evropeisky* TEC at the Kievsky Railway Terminal plaza opening its doors to the public. During the first six months of the year such cinemas as *Karo Film Mytishchi* in the *Krasny Kit* TEC and the second screen of the *Mossoviet* have also started their commercial operations. Meanwhile the *Mir* Cinema and Concert Hall at Tsvetnoy Boulevard that had also opened in 2006, has, by the YE stopped screening movies and switched over completely to concert activities.

Formula Kino Evropa
9-screen cinema in TEC *Evropeisky*

According to the known plans of cinema operators for the new year, the Greater Moscow area will have new projects started by the *Cinema Star, Paradise, Tsentrfilm, Formula Kino, Karo Film, EA Cinema*, *Cinema Park* and other cinema networks.

An event in the cultural life of the capital that may be called important is the renewal of screenings in the *Muzei Kino* (the Cinema Museum). To recap: in December 2005 *Muzei Kino* was evicted from the building of the *Kinotsentr at Krasnaya Presnya*; the principal funds of the Russian Cinematheque were moved to the warehouses of the *Mosfilm* Cinema Studio; the film collection was put on store at the premises of the R&D Institute of Cinema Industry. After searching for three months for a solution to the newly developed situation the museum management signed a partnership agreement on cooperation with the *Salut* children's movie theater. Starting from March, 2006 the night time screenings in this cinema are given over to the *Muzei Kino*; it had resumed running the classical and festival movies in Moscow since. However, such «homeless» spell in the life of one of the oldest movie theaters in Russia – and one that has an exceptionally rich collection of works by the masters of both the Russian and world cinematography – causes quite a perplexity as to the activities of the federal cinematorgraphic authorities of the Russian Federation.

Saint-Petersburg

31.12.2005 *– 23 cinemas / 88 screens, average number of screens per cinema – 3.8*
(10 cinemas / 58 screens in shopping centers, average number of screens per cinema – 5.8)
31.12.2006 *–27 cinemas / 116 screens, average number of screens per cinema – 4.3*
(15 cinemas / 89 screens in shopping centers, average number of screens per cinema – 5.9)
Annual Screen Growth in 2006: +26.7%

Karo film **5-screen cinema in the *Nevsky 2* TEC**

In 2006 **5** new cinemas (**31** screens) were opened in Saint-Petersburg: all of those are the projects of the major federal networks. In January 2006 a 4-screen cinema operating under the *Kinomax* trademark (going by a franchising agreement) opened its doors in the *Rumba* TEC, while the *Karo Film* company spent the months from March to September actively expanding its Saint-Petersburg network: during the year it opened its 9-screen cinema complex in the *Varshavsky Express* TEC, started 7-screen cinema in the *Continent* TEC and 5-screen cinema in the *Nevsky 2* TEC. The YE saw another cinema sstarted: it was the 6-screen project by *Kronverk Cinema* network in the *Rodeo Drive* TEC. Thus one may say the network segment of the market keeps expanding in Saint-Petersburg. The *Kronverk Cinema* network still remains the leader on the Saint-Petersburg screening market, with the 39 screens in 7 movie theaters that it controls.

Major cinema operators vs. number of screens, Saint-Petersburg (as of December 31, 2006)

Position, 2006	Position, 2005	Network operator	Sites	Screens	Seats	Screens per sites, average	Market share by screens
1	1	Kronverk Cinema	7	39	5 168	34%	34%
2	3	Karo Film	5	29	4 646	25%	25%
3	2	Cinema Park	1	9	2 346	8%	8%
4	4	Roskino	1	8	1 024	7%	7%
5	5	Mirage Cinema	2	6	1 318	5%	5%
6	6	Cinema Mir	1	6	795	5%	5%
7	-	Kinomax	1	4	822	3%	3%
8	7	Gasprom-Media	1	4	463	3%	3%
9	-	Jam Hall	2	2	366	2%	2%
10	-	Stack	1	2	275	2%	2%
Cited operators, total			**22**	**109**	**17 223**	**94%**	**94%**
Saint-Petersburg, total			**27**	**116**	**19 312**	**100%**	**100%**

One movie theater in Saint-Petersburg was closed during the year: low attendance had brought to termination the operations of the 3-screen *Pilot* cinema in the Muzhestva Square.

As of December 31, 2006 the city had **116** screens in **27** movie theaters functioning. The growth in the number of screens over the year reached **26.7%**.

Modern Saint-Petersburg movie theaters vs. number of screens (as of December 31, 2006)

Screens per movie theater	Sites	Screens	Market share by number of screens
1-screener	5	5	4,3%
2 screener	6	12	10,3%
4 screener	3	12	10,3%
5 screener	3	15	12,9%
6 screener	4	24	20,7%
7 screener	2	14	12,1%
MINIPLEXES, total	**18**	**77**	**66,4%**
8 screener	2	16	13,8%
9 screener	2	18	15,5%
MULTIPLEXES, total	**4**	**34**	**29,3%**
SAINT-PETERSBURG, GRAND TOTAL	**27**	**116**	**100,0%**

The share of single-screen cinemas in the Northern Capital keeps diminishing (from 6.9% in 2005 to 4.3% in 2006). They are giving way to multiplexes (compare their share of 28.7% in 2005 to 29.3% in 2006). However, the dominating market segment as yet belongs to miniplexes, their market share having slightly grown through the year (64.4% and 66.4% in 2005 and 2006, respectively).

Note that the Moscow authorities keep seizing control of the operations of city screens, while also planning to restructure 91 municipal movie theaters: the plan is to bring 28 of those into the *Moscow Cinema* State Unitary Enterprise; 39 of them are to be given to the *Joint Directorate for Managing the Property Complex of the Networks* State Unitary Enterprise, 11 will pass to the local prefectures, and the 13 remaining will be put on a property tender among the operating networks (all that is to be done in accordance with the Decree of the Government of Moscow # 124-PP "On Further Development of Cinema Screening in the City…" of 02.21.06). Meanwhile, the Saint-Petersburg authorities are not "idling" either. On November 1, 2006 the City Government has approved the "Concept of Reforming the State Cinema Network of Saint-Petersburg for 2006-2008", its aim being to optimize the activities of the city movie theaters and to provide high quality affordable screening services for the city population within the scope of social demand. It envisages upgrading, reconstructing and refurbishing 33 state movie theaters with the use of various sources of financing. According to preliminary information available, the city Committee on Culture will have remaining under its command 6 movie theaters for children (*Rodina, Voskhod, Zanevsky, Druzhba, Uran, Aurora* (Petrodvorets)); the *Aurora* movie theater will provide the base for starting a joint stock company with 100% city participation. The city district administrations will have 5 movie theaters given to them for operating them as cultural and entertainment centers; four other theaters will undergo re-profiling (into theatre and concert stages, a library center). It is suggested to lease the remaining halls out on a competitive basis or refurbish them at lessors' expense with an obligatory retaining of their screening function or organizing of cultural and social activities.

As for the commercial sphere, the plans for 2007 in Saint-Petersburg envisage opening new cinemas by such networks as the *Rising Star Media, Karo Film, Mirage Cinema, Kronverk Cinema* and *Formula Kino*, as well as some independent projects.

Regions

31.12.2005 *– 444 cinemas / 679 screens, average number of screens per cinema – 1.5*
(37 cinemas / 124 screens in shopping centers, average number of screens per cinema – 3.4)
31.12.2006 *– 491 cinemas / 860 screens, average number of screens per cinema – 1.8*
(55 cinemas /236 screens in shopping senters, average number of screens per cinema – 4.3)
Annual Screen Growth in 2006: + 26.7%

From January 2006 on, the regions of Russia had **186** screens in **50** cinemas opened. At the same time 3 movie theaters of 5 screens total have been closed; the basic cause for that development being temporary shutdown of the respective complexes for reconstruction and upgrading (the *Crystal* movie theater in Perm, the *Radezh* TEC in Volgograd). The annual growth in modern screens on the regional market of Russian Federation constituted **26.7%**, which is 3% lower than the respective rate from last year (29.4%: 80 cinemas of 160 screens in the absolute figures).

Modern cinema distribution among federal districts of Russia (including Moscow and St.-Petersburg, as of December 31, 2006)

Federal District (FD)	Sites	Screens	Market share by screens	Screen growth in 2006
Central FD	184	467	36%	12,8%
Volga Basin FD	102	219	17%	44,1%
North-West FD	65	172	13%	32,3%
Siberian FD	87	146	11%	19,7%
South FD	67	122	9%	25,8%
Urals FD	58	108	8%	22,7%
Far East FD	49	65	5%	12,1%
Total	**612**	**1299**	**100%**	**22,4%**

The Federal District of Russia most saturated with screens is still the Central FD – due to the Greater Moscow area that is the leader in the number and density of screens among all the cities in the country.

However, a swift acceleration in constructing movie theaters in Kazan through 2006 has brought the whole Volga Basin FD to second place among the country regions in its saturation with modern cinema screens. The elapsed year was the one of active penetration of the Kazan area by the networks; these were federal, local or the newly started ones. During the year the city had two cinemas open (of 10 screens total) by the *Suvar* republican network; beside the regular screens, both have various attractions installed (IMAX, SimEx 4D). In autumn the city also had 6 screens opened in a multifunctional complex by the *Korston* group of companies, as well as the networking projects by the *Kinomax* company (9 screens in the *Tandem* TEC), while *Karo Film* started its 6 screens in the *Koltso* TEC. The latter has also expanded its network in the Volga Basin FD opening two screens in the Samara *Moskovsky Megacomplex*, having thus upgraded it to the status of a multiplex. The *Roskino* cinema network has also strengthened its presence on the Volga Basin market: it opened its *Globus* single-screen cinema in Kirov. Among the other projects implemented in the region through the year is the movie theaters in Nizhny Novgorod (*Impulse* cinema) and in Kirov (*Smena* two-screener), plus the additional screens in the cinemas in Penza (*Sovremennik*) and in Balakovo (*Mir*). Other cinemas opened in December 2006 were the *Cinema Park* multiplex in Naberezhnye Chelny, 5 screens of the *Kinoplex* in Togliatti and a 6-screen cinema in the *Megapolis* Entertainment Center (operated by the *Imperiya Igr*) in Ufa. In the result, as assessed by the number of screens, the rate of increase of the screening market has exceeded 44% in the Volga Basin FD.

***Korston Hotel & Mall Kazan* (6 screens), GK *Korston*, Kazan**

The cinema market of the North-West FD has demonstrated a slightly lower rate of growth over the year 2006 (33,3% disregarding Saint-Petersburg). The most interesting regional project in the North-West became the opening of a 7-screen cinema center by the *Karo Film* network in the *Kaliningrad Plaza* TEC in November. Among the other launches one should mention the single-screeners *Bastion* in Kronshtadt and *Polyarny* in Apatity, as well as the second screen in the *Sovremennik* House of Culture in Snezhnogorsk. Another highly expected project from December 2006 became the launch of the *Kronverk Cinema* 4-screen cinema in Murmansk - the first regional project of that network.

The southern regions of the country also kept developing quite actively through the year: the rate of growth of the screening market has reached the figure of about 26% by YE. Three single-screeners were opened in the smaller cities of the Federal District (those with less than 100 thousand population): *Raduga* (Ghelendzhik), *Iskra* (Yessentuki) and *Beryozka* (Georghievsk) that all belong to a local *Monitor* network; also, several miniplexes were opened in the larger cities of the region: *Ostrov Sokrovishch* in Astrakhan (the *Roskino* network, 6 screens), 3 screens in the *Sputnik* Entertainment Center in Volzhsky (*Radezh* network), *Vavilonia* TEC in Rostov-on-Don (4 screens), as well as a 2-screener cinema *Bataysk-Cinema*. Beside that the district had the following cinemas opened: *Gipoppo* (a single screener in Volgograd), 4 additional screens in the *7 Stars* movie theater in Krasnodar and the first 4 screens of the *Kinotsentr* by the *Monitor* network in *Krasnaya Ploshchad* TEC in Krasnodar.

***Bataysk -Cinema* (2 screens), Bataysk**

Russian "millionaire" cities rating by the number of screens per 100 thousand population (Greater Moscow = 100%), as of December 31, 2006

Position, 2006	Position, 2005	City	Population, thousand	Screens	Screens per 100 thousand population	% of Greater Moscow
1	10	Kazan	1 112,70	45	4,04	146%
2	1	Grater Moscow	11 645,80	323	2,77	100%
3	3	Saint-Petersburg	4 580,60	116	2,53	91%
4	2	Yekaterinburg	1 308,40	32	2,45	88%
5	4	Novosibirsk	1 397,00	32	2,29	83%
6	9	Chelyabinsk	1 093,00	23	2,10	76%
7	11	Samara	1 143,30	24	2,10	76%
8	8	Ufa	1 029,60	20	1,94	70%
9	6	Rostov–on-Don	1 054,90	20	1,90	68%
10	5	Volgograd*	991,6	15	1,51	55%
11	7	Nizhny Novgorod	1 283,60	18	1,40	51%
12	12	Perm*	993,3	9	0,91	33%
13	13	Omsk	1 138,80	10	0,88	32%

** During 2005-2006 population below 1 000 000.*

Cinema Park **(8 screens) in *Goodwin* TEC, Tyumen**

The market of the Urals FD has grown by 22.7% during 2006. The most noticeable events in its development were the openings of the *Cinema Park* network cinemas in Tyumen (an eight-screener multiplex in the *Goodwin* TEC) and in Chelyabinsk (9 screens in the *Gorki* TEC). Also, the 2-screen *Mir* cinema in Surgut and the second screen of the *Tyumen Cinema House* opened their doors to the cinema-goers for the first time.

Cinema Park **(8 screens) in *Goodwin* TEC, Tyumen**

TOP 20. Russian regions by the number of screens, as of December 31, 2006

Position, 2006	Position, 2005	Region	Sites	Screens	Market share by screens
1	1	Greater Moscow	94	323	24,9%
2	2	Saint-Petersburg	27	116	8,9%
3	15	Republic of Tatarstan	18	61	4,7%
4	3	Moscow Oblast	31	51	3,9%
5	5	Samara Oblast	18	44	3,4%
6	4	Sverdlovsk Oblast	19	42	3,2%
7	8	Krasnodar Kraj	21	39	3,0%
8	7	Novosibirsk Oblast	15	34	2,6%
9	12	Rostov Oblast	15	29	2,2%
10	14	Chelyabinsk Oblast	16	29	2,2%
11	13	Republic of Bashkortostan	9	28	2,2%
12	6	Krasnoyarsk Kraj	16	25	1,9%
13	10-11	Khabarovsk Kraj	19	25	1,9%
14	16	Kemerovo Oblast	13	25	1,9%
15	9	Nizhny Novgorod Oblast	14	23	1,8%
16	17	Volgograd Oblast	8	20	1,5%
17	10-11	Tyumen Oblast	8	20	1,5%
18	18	Irkutsk Oblast	14	17	1,3%
19	19	Perm Oblast	9	15	1,2%
20	10-11	Primorsky Kraj	10	14	1,1%
Total			**612**	**1299**	**100%**

The market of the Central FD (apart from the Greater Moscow) has grown by 20% by the YE, as compared to the level of last year. The events that became most notable in the region during the year were the opening of the *Solaris* cinema in Lipetsk (the second project by the Kinomir local circuit of 3 screens), a reconstructed 3-screen *Sovremennik* cinema in the city of Electrostal, Moscow region, as well as 5 completed screens for the upgraded *Spartak* cinema in Voronezh. The rest of screens were opened in smaller cities and towns of the region (those with the population below 100 thousand): 5 cinemas (of 6 screens total) in the Moscow region and cities bordering the Moscow Oblast. The most expected December inauguration in the Central District was the presentation of the 5-screen *5 Stars* cinema complex by the *Paradise* network in Shchyolkovo; also in December, the *Luch* single-screener in Yelets, a town by Lipetsk, and the fourth screen of the *Rusich* movie theater in Belgorod have thrown their doors open to the public, the latter fitted out with stereo projection equipment.

***5 Stars*, *Paradise*, Shchyolkovo**

Spartak **(6 screens), *Viplast*, Voronezh**

Speaking about the cinema market of the Central FD one should also comment on the plans by the Moscow authorities to develop the municipal cinema network. In July 2006 the Government of the Moscow Oblast developed a program of reorganizing the municipal movie theaters. The principal investors were selected for the task: the *Mosoblfilm* enterprise belonging to the authorities and a private company named *Mosoblkinovideoservis*, they plan to reconstruct up to 10 municipal movie theaters each. According to the prerequisites for taking part in the program, *Mosoblkinovideoservis* is taking these movie theaters into a 49 year lease. The first theater that is supposed to be reconstructed will be the one in Pavlov Posad. *Mosoblfilm* has already acquired four movie theaters from the auctions of the municipal formations in Shatura, Roshal, Pushkin and Chekhov. By the end of 2008 *Mosoblfilm* plans to buy out and restore about 25 such theaters. The project will be financed from the Oblast budget.

TOP 15. Russian cities by the number of screens, as of December 31, 2006

Position, 2006	Position, 2005	City	Sites	Screens	Market share by screens
1	1	Greater Moscow	94	323	24,9%
2	2	Saint-Petersburg	27	116	8,9%
3	10	Kazan	12	45	3,5%
4	3	Yekaterinburg	11	32	2,5%
5	4	Novosibirsk	14	32	2,5%
6	11	Samara	8	24	1,8%
7	8	Chelyabinsk	10	23	1,8%
8	-	Krasnodar	6	21	1,6%
9	7	Rostov-on-Don	9	20	1,5%
10	12	Ufa	6	20	1,5%
11	9	Togliatti	9	19	1,5%
12	5	Nizhny Novgorod	11	18	1,4%
13	-	Tyumen	6	18	1,4%
14	6	Volgograd	5	15	1,2%
15	-	Novokuznetsk	6	14	1,1%
Total			**612**	**1299**	**100%**

As for the Siberian FD, it had 7 cinemas opened during the last year. The main event in the Siberian cinema market occurred in the end of December, 2006 when the *Art Science Cinema* circuit opened the *Seventh Heaven* 7-screen miniplex in the *Kalina* TEC in Novosibirsk. In December 4 new screens of the *Kinomax* network in Tomsk (the former *Rodina* movie theater) and 5 screens of the *Pobeda* cinema in Novosibirsk were also opened. Among the other Siberian premieres there are 3 screens of *Planeta Kino* in Kemerovo (the *Art Science Cinema* circuit), 4 sreens of the *Galaktika* in Omsk, 1 screen of the *Roskino* network in the *Kosmos* cinema, also in Omsk. The overall growth of the screen market in Siberia reached 19,7% by YE.

The Far East came up with five new cinemas during the last year: these are a two-screen *Hollywood* cinema complex in the Khabarovsk business-center; one screen in the *Komsomolets* 'youth' cinema and concert complex in Yuzhno-Sakhalinsk, one screen in the *Palana* cinema in the Kamchatka Oblast and two single-screen cinemas - *October* in Neryungri and *Avrora* in Spassk-Dalny (the *Illyuzion* network).

The major network operators in the regions are the *Kinomax* and *Karo Film*, both networks control more than 4% of the "out-of-capital" distribution market. However, according to their development plans, *Kinomax* may, as early as next year, overtake its principal competitor significantly, by way of opening about 6-screen cinema complexes in Voronezh, Yekaterinburg, Izgevsk, Rostov-on-Don, Chelyabinsk and Yaroslavl. Meanwhile *Karo* plans to focus on the capital cities during the coming year.

The second position in the rating of the regional networks belongs to the Urals operator, *Art Science Cinema* (Novosibirsk), and also to the federal *Cinema Park* network that have concentrated the control of about 3% of the movie theater market in the regions in their hands. As for the next year in general, other federal networks (both those operating and new ones) that have quite a number of regional projects in their plans, should gain impressive position on the regional market. Thus the *Cinema Park* company is getting prepared additionally to open a new multiplex in Naberezhnye Chelny as well as more than 40 new screens in Ufa, Perm, Novosibirsk, Krasnoyarsk and Volgograd. Meanwhile *Art Science Cinema* is planning to open just a single movie theater (12 screens in the *Kontinent Kino* in Novosibirsk) next year.

The third place in the leaders row (with a market share of about 2%) is held by four regional operators, two of them managed from Moscow (*Roskino* and *InvestKinoProekt*), while two others are local (*Monitor* in Krasnodar and *Premjer Zal* in Yekaterinburg. For the first time that we rate *Premjer Zal* among the leaders, due to the fact that it manages many more screens than it owns; in our opinion drafting the screening plan for the cinema is similar to running a franchise agreement (which we accounted for while calculating the number of screens in the network), since it presumes a common style in programming the repertoire, and hence – the style of offering cinema services.

In 2007 the *Kinoplex* cinema network plans to open at least two new 6-screen cinemas in Volzhsky and Yekaterinburg, while the *Roskino* company hopes to finish reconstructing cinemas in Vladikavkaz, Karachaevsk, Kirov, Meleuz and Omsk.

Three more networks have the command of 1,5% to 1% of the regional cinema market each; these are *Planeta Kino* (Ufa), *Suvar* (Kazan) and *Imperia Igr* (Chelyabinsk).

Major network operators in Russian regions
(outside Greater Moscow and Saint-Petersburg), as of December 31, 2006

Position, 2006	Network operator	Sites in regions	Screens in regions	Regional market share by screens	Central office
1	Kinomax	14	44	5,1%	Moscow
2	Karo Film	7	36	4,2%	Moscow
3	Art Science Cinema	8	25	2,9%	Novosibirsk
4	Cinema Park	3	25	2,9%	Moscow
5	Premjer Zal	15	21	2,4%	Yekaterinburg
6	Monitor	8	21	2,4%	Krasnodar
7	InvestKinoProekt	3	19	2,2%	Moscow
8	Roskino	7	16	1,9%	Moscow
9	Planeta Kino	4	13	1,5%	Ufa
10	Suvar	3	13	1,5%	Kazan
11	Imperia Igr	2	10	1,2%	Chelyabinsk
Regions total for these operators		**74**	**243**	**28,2%**	
Regions grand total, RF		**491**	**860**	**100,0%**	

Other network operators in the regions have individually insignificant market shares (below 1%). However even the new year may bring about significant changes in their positioning across the country. To name a few, the *Rusky Kinoprokat* company that is developing the *Kinodom* network of cinemas in entertainment complexes of the brand name of *Kino and Domino* has impressive scale projects in expanding its regional network (the year 2007 has openings earmarked for Chelyabinsk, Ufa, Togliatti, Pyatigorsk and Penza). Plans of somewhat lower scale for 2007 belong to such operators as the *Tashir* State Company (*Cinema Star* cinemas in Yaroslavl and Ivanovo), *EA Cinema* (Yekaterinburg and Naberzhnye Chelny), *Paradise* (Kostroma and Kursk), *Korston* (Yoshkar-Ola) and *Kronverk Cinema*; also to local networks – *Mir Kino* (Kursk), *Imperia Gryoz* (Arzamas), *Illyuzion* (Vladivostok), *DVI Cinema* and *Diamant Cinema* (Volgograd); as well as new operators who come from different areas of entertainment business, such as *Planeta Razvlechenii* (the *Kinomechta* cinemas in Kazan and Izhevsk) and *City Bowling* (Kaliningrad).

Modern screens penetration in Russian Federation, as of December 31, 2006

City groups by population	% of cities having movie theaters	Sites	Screens	%% of modern screens RF total	Screens per cinema, average	Total population in city group (thousand) (as of 01.01.06)	Screens per 100 thousand population
Over 1 mln	100,0%	200	645	50%	3,23	25 567,0	2,52
500-1000 thousand	100,0%	104	214	16%	2,06	14 903,2	1,44
250-500 thousand	100,0%	108	172	13%	1,59	13 694,0	1,26
100-250 thousand	72,3%	103	153	12%	1,49	14 292,8	1,07
50-100 thousand	32,7%	59	73	6%	1,24	10 680,8	0,68
20-50 thousand	9,3%	25	28	2%	1,12	11 998,8	0,23
Under 20 thousand	3,1%	13	14	1%	1,08	44 067,0	0,03
RF total	**21,8%**	**612**	**1299**	**100,0%**	**2,12**	**142 800,0**	**0,91**

As for the geographical coverage of cities with modern screens, we may clearly identify the outer boundary of the penetration zone where the services of high quality screening are provided to the population: it cuts off the cities under 100 thousand population. That is the threshold at which the absolute number of modern screens available in those cities drops off by a factor of more than two.

Eleven millionaire-cities that concentrate more than 18% of the country population house more than half of all the modern screens in Russia. Cities that range from 100 thousand to one million in their population (30% of the total population of Russian Federation) have about 40% of Russian cinema screens. At the same time smaller settlements (such that have less than 100 thousand population) and amass more than half of the total population of the country may only boast having 9% of all the modern screens.

Therefore, geography-wise the Russian cinema market is quite far from being saturated.

Principal trends in the market development

Summing up the preliminary results of progress of Russian cinema exhibition market in 2006, we may note the following principal trends that we believe will find their further development through 2007.

1. The Russian cinema networks tend to expand their range of influence. In the course of that process the interests of operators reach both "laterally": the geographical coverage of federal networks becomes wider and wider; and "in depth": the companies manage new spheres of business in the entertainment and leisure industry. It is also interesting to note a new trend: instead of opening stand-alone cinemas across the whole of Russia some networks try to organize their strong centralized representative offices in separate regions, exploiting to the maximum the effect of "operation scope": thus they save on the managerial and – most important – advertising expenses of the network in the region. Such a strategy was selected in particular by *Karo Film* company that is actively penetrating the market of Saint-Petersburg in the North-West; *InvestKinoProekt* in Volgograd Oblast has similar plans too.
2. Due to the growth of the number of cinemas within the limited city area (most of the operators prefer to expand in major cities which results in concentration of the screening market) the competition among the operators gets stronger. To attract patrons, cinemas tend to develop streamlined common concepts of entertainment and put unique offerings of cinema services on the market. That promotes introduction of various technical innovations (such as cinema attractions, digital projection technologies, etc.). However, such technologies are only affordable to major companies. Meanwhile smaller scale networks and independent movie theaters will be forced to turn to exploiting non-capital intensive competition techniques in the near future: narrowly specialized repertoires (art-house, cartoons, documentaries, etc.); expanded choice of movies; wider practices of second screen movie demonstrations which as yet remain quite a rarity among the modern screens.
3. The need to attract additional means in order to develop the networks will prompt major national operators to become more active on the national and international financial and stock markets.
4. Finally, the beginning of "digital era" in the Russian screening industry should find its further development in 2007. However, the rate of proliferation of digital technologies in our country will strongly depend on how efficient screen operators functioning across Russia will act with respect to the digital content offered for demonstration on screen.

Conclusion

The country map keeps featuring a lot of "blank spots" (several regions still lack even a single modern screen). Besides, the market of major cities (500 thousand population and above) in the actively developing regions, as well as the market of millionaire cities has quite a high potential in boosting the volume of services offered by screening industry; meanwhile most minor cities and towns (to the exclusion of southern health resorts, satellite towns of Greater Moscow and its adjacent areas) still miss any attention of screen developers.

Parallel to all that, network operators are getting ready for the next stage of cinema market development. Despite the fact that new standard projects of future screens in shopping and entertainment complexes will keep appearing, that new stage will be connected with stronger competition on the market. This will result in longer payback periods for these projects and also in larger investments needed. The struggle between the operators of movie theaters will more and more shift to competition outside the price range and will concentrate on specialized offers in cinema services.