RUSSIAN CINEMA MARKET. RESULTS FOR 2012.

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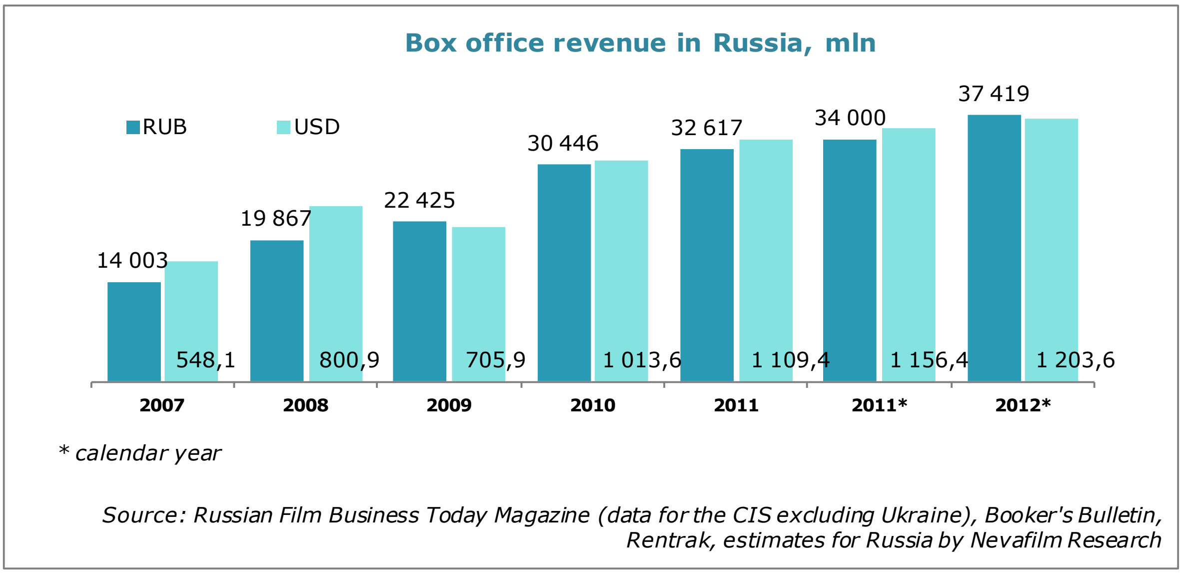
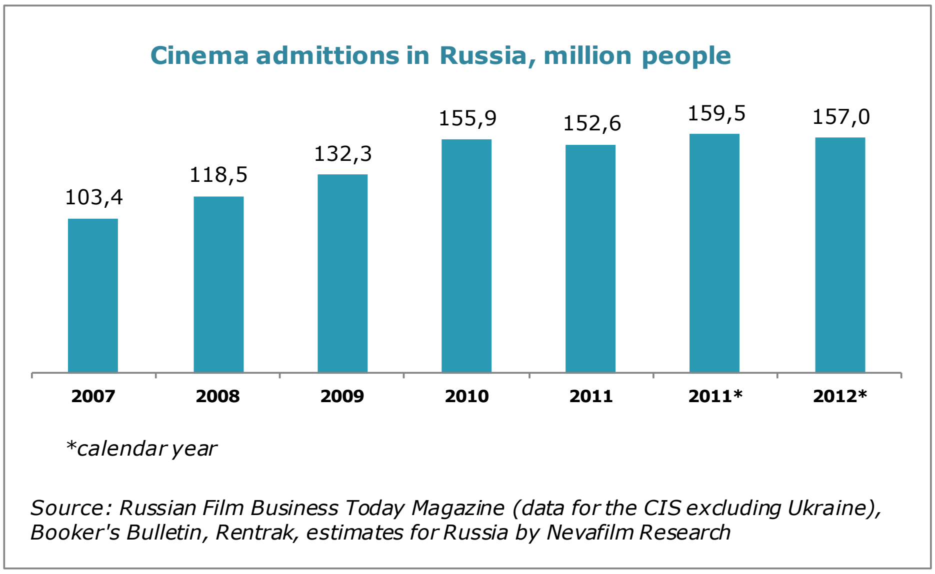
Film distribution

In 2012 the 451 new films were released in cinemas (out of a total of 524 films in distribution), 417 of them were released in digital or in a hybrid format. They constitute 92.5% of all the movies distributed in Russia (went up by 15.8 percent points compared to 2011 year). Share of the films released in digital format only for the past year amounted to 58% (twice the figure of 2011 – 25%). 69 3D-films were released (in 2011 – 58).

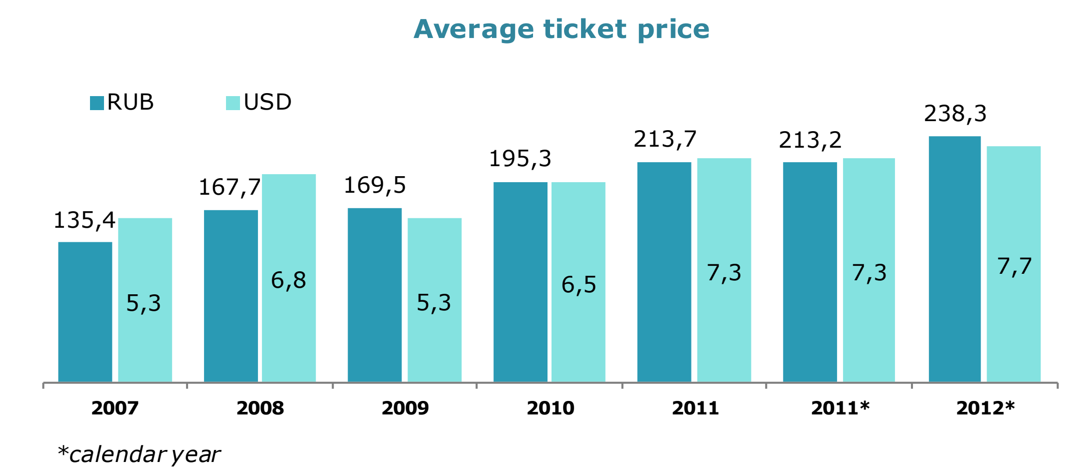
According to the Russian Film Business Today magazine and considering estimates made by of Nevafilm Research[1], the box office returns in 2012 on the Russian territory amounted to USD 1.2 billion (RUB 37.4 billion) – that's 4% more than in 2011 (10% more in RUB equivalent).





[1] *In 2012 Russia's box office receipts comprised 95.5% of the CIS total, admissions– 91,4% (based on data collected by WDSSPR, Twentieth Century Fox CIS , Central partnership, Caro Premier/Caroprokat, UPI, Cascade, Volga).*

The price of a cinema ticket rose to RUB 238 (USD 7.7), which is 5.7% higher than it was in 2011 in USD and 11.8% in RUB (RUB 213 or USD 7.3): the ticket price increase rate in USD is decreasing (in 2011 rise in prices amounted to 11.8%, in 2010 – 21.9%). Rate of growth of the box office returns slowed down since the 3D mark-up charged by the cinemas started shrinking – in 2012 Russia's box office returns rose by 4.1%, while in 2011– by 9.5%.

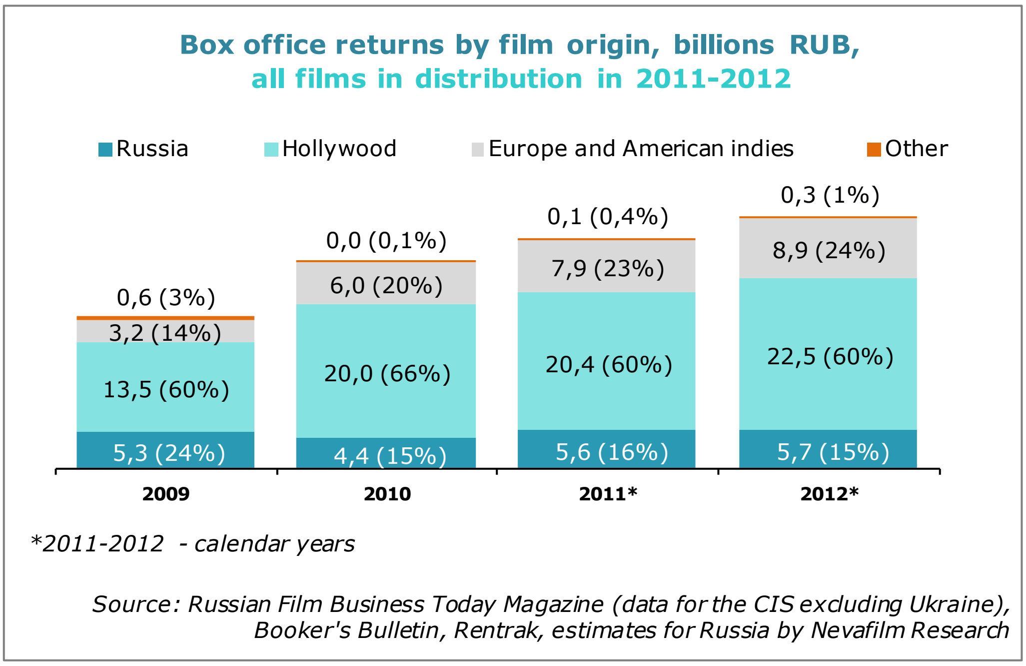


Source: Russian Film Business Today Magazine, Booker's Bulletin, Rentrak, Nevafilm Research

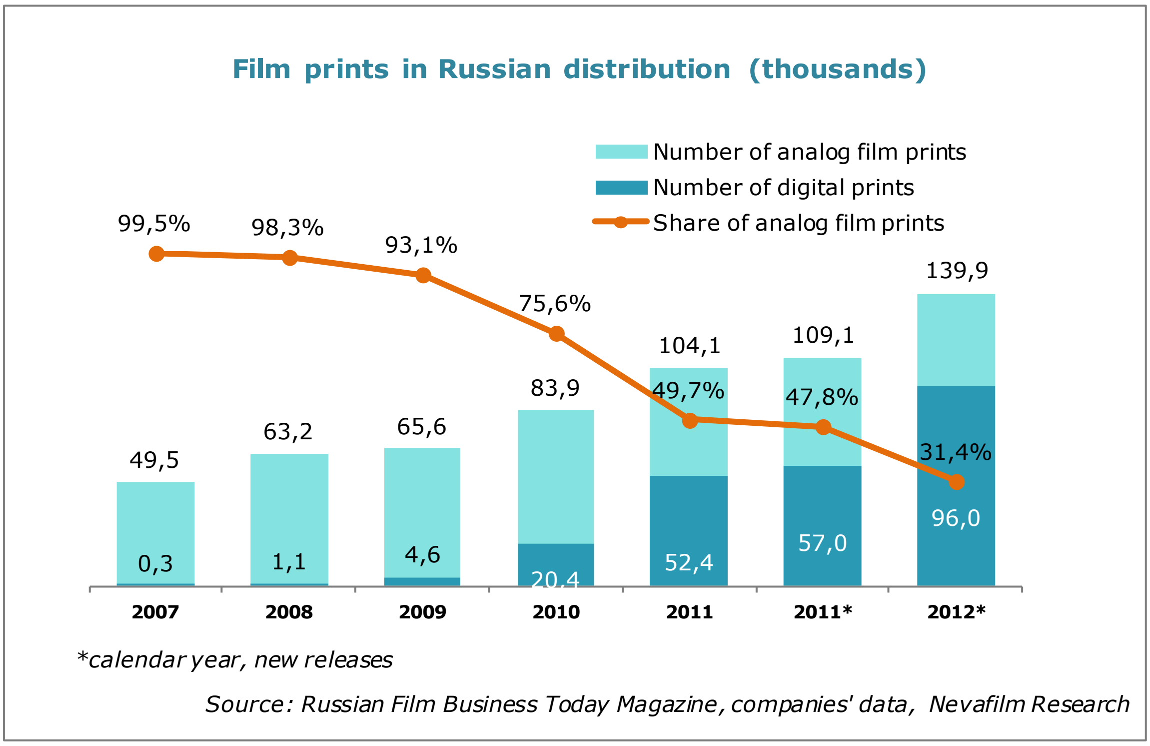
At the same time in 2012 increased the share of cinema tickets, purchased by CIS residents. Thus, the market leader – WDSSPR Company – had Russia accountable for 90.4% of the annual film admissions with the share of the box office returns at 93.7%. As a result of estimating the number of the cinema admissions in Russia and taking in consideration these data, we saw a drop in admissions in the country down to 157 million people compared to 159.5 million in 2011 (dropped by 1.6%).

In 2012 there were 81 Russian movies in distribution, including 73 new releases. Box office receipts of Russian films in 2012 reached USD 184.8 million (RUB 5.7 billion) for all the movies in distribution, USD 142.1 million (USD 4.3 billion) for new releases, and the admissions – 25.5 million and 19.4 million accordingly.

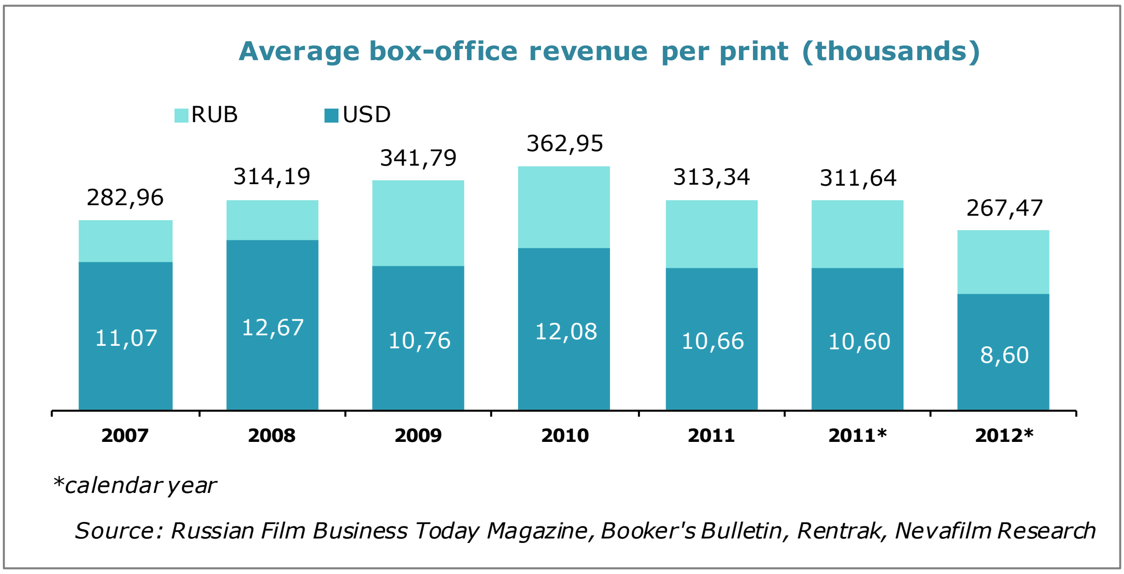
As for the box office receipts distribution by region of film production, the analysis of all the films in distribution in 2011-2012 is more optimistic for Russian movies. For example, in 2012 the share of box office receipts collected by Russian films was 15.2% of the gross box office returns and share of new releases – 12.3%. Overall there can be seen a decline in the share of Russian movies in the total box office.



Thanks to the digital distribution in Russia, the number of prints in distribution rose dramatically. For example, in 2012 its number increased by 28% compared to 2011. This occurred due to the expansion of the “digital prints” (their share was already 68% of all the copies in distribution). With the growth of the total number of prints, the number of analogue film prints decreased.



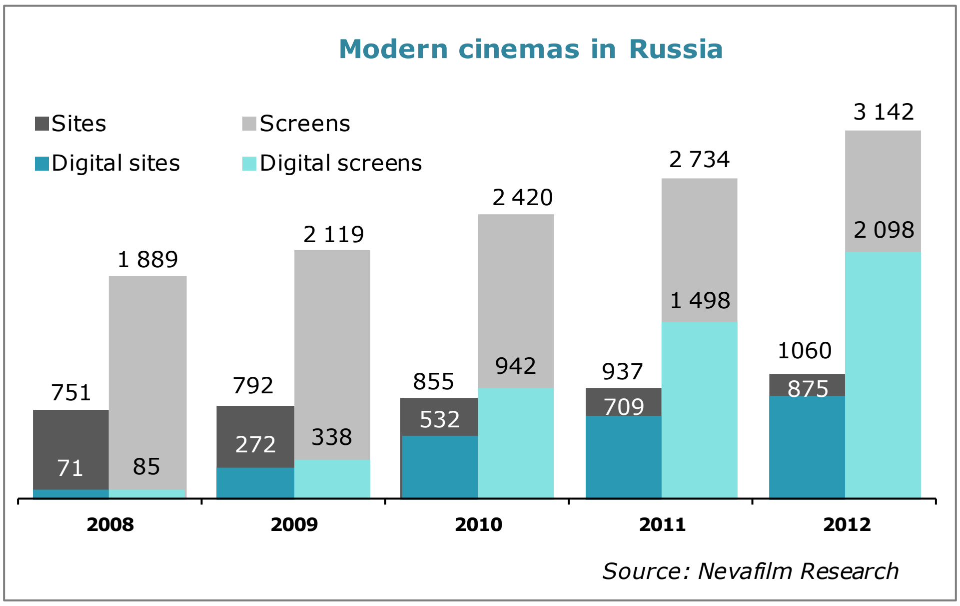
As a result of these trends, starting from 2011 there was a dip in the average box office returns in roubles and in admissions, not just per screen, but also per print. In 2012, returns per print fell by 18.8% in USD equivalent (14.2% in RUB), and admissions – by 23.2%. Decreased expenses borne out by distributors for duplication prints allow them to move painlessly towards increasing film circulation, despite falling per-screen returns.



Meanwhile, this emerging situation cannot be easily classified as unambiguously positive, since film rotation in Russian cinemas is accelerating. For example, if in 2009 one film spent in distribution on average 53 days, then in 2012 this number fell to 38 days.

Film exhibition

As on the 1st of January 2013, Russia had 3142 modern screens in 1060 cinemas (with an average of 3 screens per cinema). 67% of modern Russian screens have already been equipped with digital projectors – 2 098 screens (in 875 cinemas – 82.5%), among them 1966 (93.7%) have 3D capabilities.

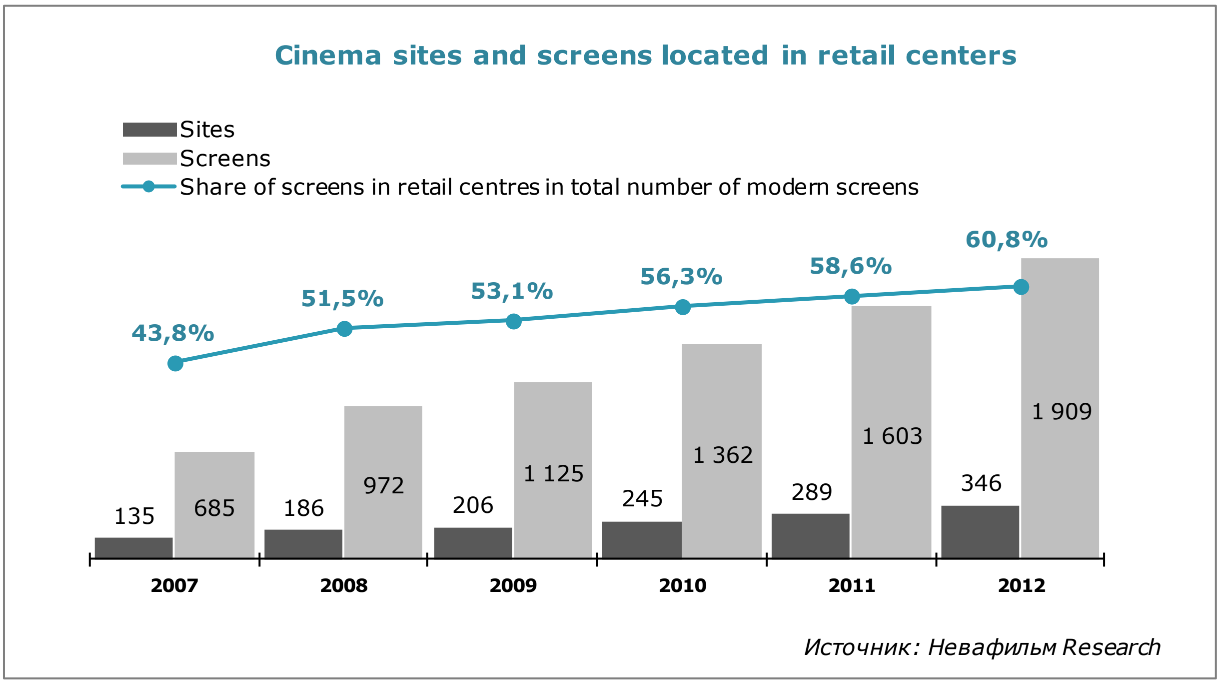


In 2012 the market set post crisis record on the number of modern cinemas and screens opening: in 151 cinemas 471 screens were opened. 28 cinemas closed down (63 screens). Overall, within the country the general number of modern screens had grown by 14.9% during the year (in 2011 it was 13%). If we look at the dynamics of upgrading the screens to digital format, then we can see that the number of openings since 2010 remains at the level of around 600 (in 2012 the number was 625), at the same time, the number of new cinemas with digital screens decreased slightly due to the gradual market saturation. The rate of growth of the number of digital screens in 2012 amounted to 40% (in 2011 it was 59%).

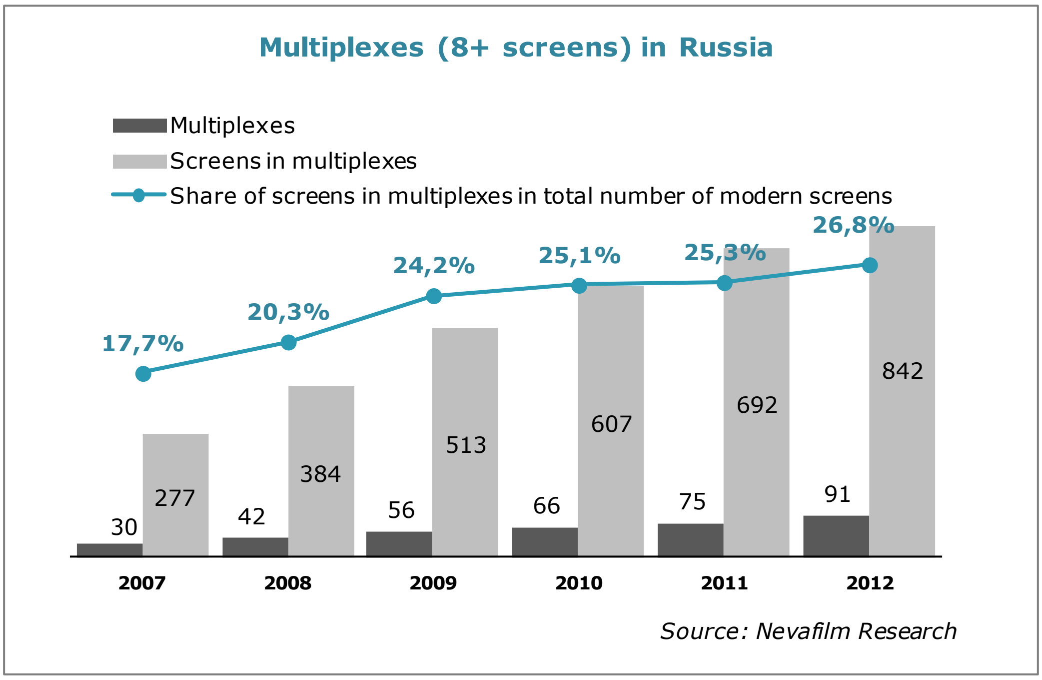
The difference in the growth dynamics of the modern and digital screens is explained by the fact that the digital market in particular is rapidly moving towards saturation: today 83% of the modern cinemas already have digital screens. Deployment of this technology is what moves the modern cinema market ahead. In 2012 87% of all new cinemas were digital originally and around 20% of them were municipal sites, which, thanks to the regional financing, were able to revive screening (mainly in the minor cities of Russia). Likewise, there is a process of "legalising" DVD screens, which also switch to the digital technologies. Saying that, often we don't talk about building new cinemas, but rather about modernising the existing ones (as it took place once in the beginning of 2000s)

Therefore, the development of the Russian cinema market has moved on to the new technological path, which brought opportunities for the expansion of Russian cinema chains. At the same time, this growth resources are not limitless – digital cinema exhibition market is moving towards "the late followers" stage and currently feeds on realization of "delayed demand" for the modern cinema exhibition technologies: those, who could exist on analogue film projectors before, working as a second-third screen, now make a quality jump from the 19th century right into the 21st. But the number of such sites is limited.

The total share of cinemas based in retail and entertainment centres continues to grow and amounted to 60.8% at the end of 2012 (1909 screens in 346 shopping centres) This market has recovered from crisis and it is in the dynamic development stage, it grows faster than the total market as a whole: when the general number of screens and cinemas increased during the year by 13% and 15% accordingly, the yearly increase in the number of screens and cinemas in retail and entertainment centres amounted to 19.7% and 19.1%



Screens' share in multiplexes (cinemas with 8 and more screens) in total number of modern screens in Russia in 2012 increased to 26.8%, and the share of multiplexes in total number of cinemas amounted to 9% (in the beginning of 2012 – 8%).

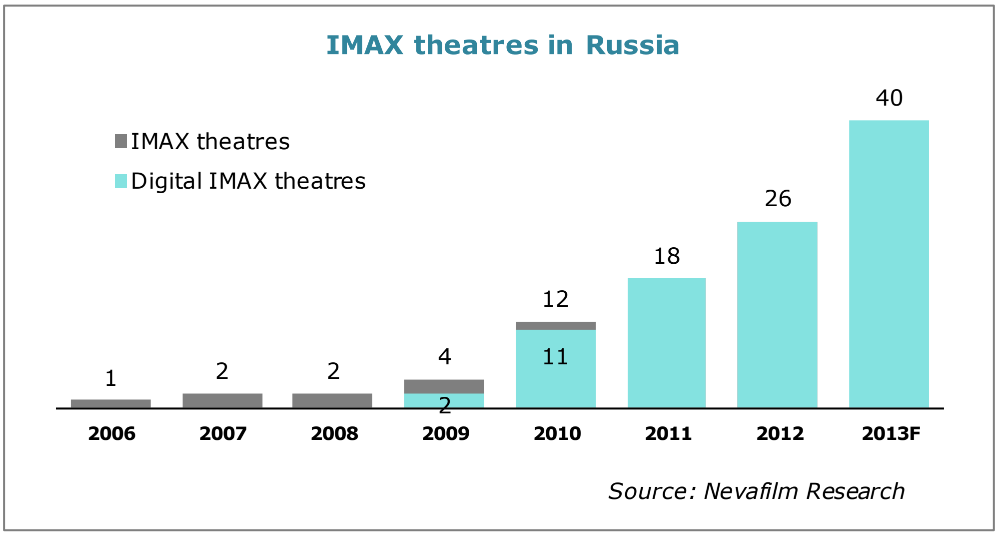


Miniplexes dominate in Russia by the number of cinemas and screens (49.5% and 59% accordingly). The single-screen cinemas account for 42% of all cinemas and 14% of screens, multiplexes account for 8.6% and 26.8% accordingly. In 2012 there was a slight reduction in share of single-screen cinemas and miniplexes with the growth of share of multiplexes.

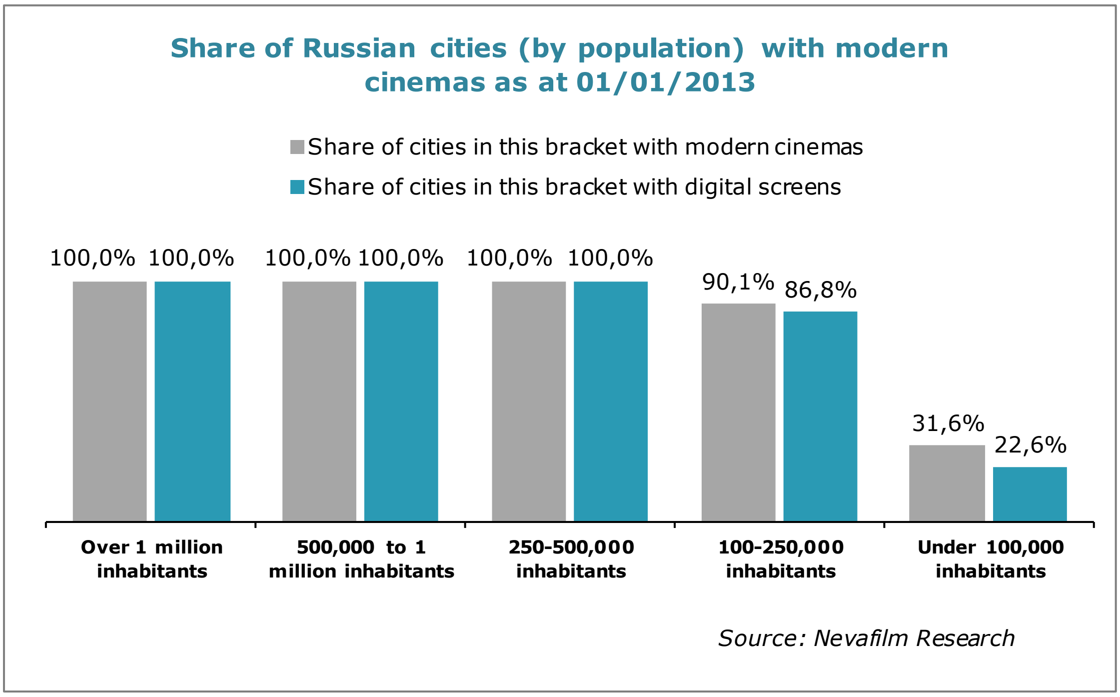
Russian cinemas by number of screens (as at 01.01.2013)

Number of screens per cinema	Number of cinemas	Number of screens	Market share by number of cinemas	Difference in the share of cinemas by 01.01.2012	Market share by number of screens	Difference in the share of screens by 01.01.2012
1 screen	**444**	**444**	**41,9%**	**-0,06%**	**14,1%**	**-0,2%**
2 screens	208	416	19,6%	-0,4%	13,2%	-0,5%
3 screens	83	249	7,8%	-0,4%	7,9%	-0,5%
4 screens	97	388	9,2%	0,08%	12,3%	-0,1%
5 screens	52	260	4,9%	0,3%	8,3%	0,4%
6 screens	52	312	4,9%	0,1%	9,9%	0,1%
7 screens	33	231	3,1%	-0,2%	7,4%	-0,6%
MINIPLEX Total	**525**	**1856**	**49,5%**	**-0,5%**	**59,1%**	**-1,2%**
8 screens	43	344	4,1%	0,5%	10,9%	1,3%
9 screens	20	180	1,9%	-0,2%	5,7%	-0,9%
10 screens	14	140	1,3%	0,4%	4,5%	1,2%
11 screens	5	55	0,5%	-0,2%	1,8%	-0,7%
12 screens	3	36	0,3%	-0,04%	1,1%	-0,2%
13 screens	2	26	0,2%	0,1%	0,8%	0,4%
14 screens	2	28	0,2%	-0,02%	0,9%	-0,1%
15 screens	1	15	0,1%	-0,01%	0,5%	-0,1%
18 screens	1	18	0,1%	-	-	-
MINIPLEX Total	**91**	**842**	**8,6%**	**0,6%**	**26,8%**	**1,5%**
Total in Russia	**1060**	**3142**	**100,0%**		**100,0%**	

By the start of 2013 26 IMAX cinemas operated in Russia. New cinemas were opened by chains Cinema park in Nizhniy Novgorod, Surgut and Ulyanovsk, Kinomax in Astrakhan and Ryazan, Formula kino in Syktyvkar, Luxor in Sochi and Monitor in Anapa. By the end of 2013 the number of IMAX cinemas may amount to 40.



The number of towns with modern cinemas grows and at the 2012 year end reached 451 (at the start of 2012 the number was 369). On average, access to modern film exhibition reached 3.2 screens per 100,000 inhabitants. There are modern cinemas (including cinemas with digital screens) in all cities with the population over 250,000 people as well as in 90% of the cities with the population between 100,000 and 250,000 people. Share of the small towns without modern cinemas slowly but surely decreases and currently amounts to 68%. At the same time, the number of towns from this group, which have cinemas with digital screens, almost doubled during the year –from 112 up to 211.



As a whole in Russia the average level of modern screens supply reached 2.2 screens per 100,000 people (in 2011 the figure was 1.9) and in terms of number of people living in cities with modern cinemas – 3.8 (at the end of 2011 it was 3.3).

Availability of modern screens to urban populations of the Russian Federation на 01.01.2013

City population bracket	Number of cities with cinemas	Share of cities in this bracket with modern cinemas	Share of cities in this bracket with digital cinemas	Share of population with access to modern film exhibition	Cinemas	Screens	Cinemas with digital screens	Digital screens	Number of screens per 1,000 inhabitants
More than 1 million people	15	100,0%	100,0%	100,0%	301	1470	264	920	4,50
500,000-1 million people	21	100,0%	100,0%	100,0%	133	479	118	308	3,83
250,000-500,000 people	38	100,0%	100,0%	100,0%	157	435	137	319	3,35
100,000-250,000 people	82	90,1%	86,8%	90,3%	146	332	131	260	2,37
Fewer than 100,000 people	295	31,6%	22,6%	47,4%	323	426	225	291	1,57
Total in Russian cities (population - 99 264)	**451**	**41,0%**	**33,1%**	**84,3%**	**1060**	**3142**	**875**	**2 098**	**3,17**
Overall in cities with cinemas (population - 83 667,9)									**3,76**
Overall in Russia (population - 143 056)									**2,20**

Source: Nevafilm Research

More and more new cinema operators and cinema chains come to the cinema exhibition market – in 2012 their total number reached 580 (524 in 2011), of which 15.7% are chains (91 companies). All market players upgraded more than 60% of their screens with digital equipment. At the same time, in all types of chains on average 90% of cinemas have digital screens, and in the independent cinemas this indicator rose up to 72% (63% in 2011)

Nationwide cinema chains and independent cinemas remain the two decisive forces in the modern cinema exhibition market in Russia (operate 49% and 30% of the screens accordingly).

The degree of monopolization of the cinema exhibition sector by the number of screens in Russia in 2012 grew by 2 percent points (ten largest operators own 41.4% of the modern screens compared to 39.4% at the beginning of 2012)

At the 2012 year end the first place took the chain Cinema park. The second place belongs to Formula kino, which merged with the Kronverk cinema. As a result, Karo film"dropped to the third place. Kinomax and Luxor remain at the top positions. The chains' Premier-Zal, Cinema star and Five stars ratings rose too. The top-10 includes chain Kinoformat, which incorporates cinemas of the chains Entertainment planet, Rolix and Svetofor.

TOP 10. Largest cinema chain operators in Russia, as at 01.01.2013

(by number of screens, including franchises and repertory cinemas)

Rank as at 01.01.13	Rank as at 01.01.12	Cinema chain operator	Number of cinemas	Number of screens	Cinemas with digital screens	Digital screens	Percentage of cinemas with digital screens in the chain	Percentage of digital screens in the chain	Market share by number of screens	Head office
1	1	Cinema Park	29	272	29	206	100%	76%	8,7%	Moscow
2	6	Formula Kino	34	230	34	155	100%	67%	7,3%	Moscow
3	2	Karo Film	29	180	28	117	97%	65%	5,7%	Moscow
4	3	Kinomax	27	153	26	60	96%	39%	4,9%	Moscow
5	5	Luxor	17	104	17	73	100%	70%	3,3%	Moscow
6	7	Premier-Zal	65	88	55	67	85%	76%	2,8%	Yekaterinburg
7	9	Cinema Star	17	82	17	35	100%	43%	2,6%	Moscow
8	10	Pyat Zvezd	11	66	11	37	100%	56%	2,1%	Moscow
9	8	Monitor	18	64	18	46	100%	72%	2,0%	Krasnodar
10	11	Kinoformat	12	62	12	33	100%	53%	2,0%	Moscow

Rank as at 01.01.13	Rank as at 01.01.12	Cinema chain operator	Number of cinemas	Number of screens	Cinemas with digital screens	Digital screens	Percentage of cinemas with digital screens in the chain	Percentage of digital screens in the chain	Market share by number of screens	Head office
Total for these cinema operators			**259**	**1 301**	**247**	**829**	**95%**	**64%**	**41,4%**	
Total in Russia			**1 060**	**3 142**	**875**	**2 098**	**83%**	**67%**	**100,0%**	

The biggest deal was the announced in November 2012 purchase by Paul Heth and investment funds Baring Vostok, UFG Asset Management"and the Russian direct investment fund (RDIF) of the controlling interest in the Karo film chain. Paul Heth became the CEO of the chain. New owners promise to invest USD 100 million in the company over the next three years.

Besides, the investment subdivision of the Alfa-group A1 in December began the consolidation of Konverk cinema and Formula kino chains under the brand of the latter: it is assumed, that all the new cinemas will carry its name, whereas the renaming of the existing multiplexes is not being planned.

Five Russian cinemas became a part of the Eurimages/Europa Cinemas chain, established by the European cinema support fund Eurimages: cinemas 35 mm and Pioneer (Moscow), Chayka (Saint Petersburg), Orlenok (Nizhniy Novgorod) and Zarya (Kaliningrad). The first cinemas upgraded under this programme were 33 mm in Moscow and Pioneer in Saratov, where Dcinex has installed the digital cinema equipment.

The Greater Moscow

01.01.2012 – 120 cinemas/ 559 screens
60 cinemas / 410 screens in retail and entertainment centres
102 cinemas/ 305 digital screens
01.01.2013 – 119 cinemas / 587 screens
64 cinemas/ 437 screens in retail and entertainment centres
104 cinemas/ 397 digital screens

During the course of 2012, eight cinemas (with 31 screens) were opened in the Greater Moscow, as well as 14 new screens - in existing cinema complexes. The total number of screens in the Greater Moscow grew by 5% in 2012, while the number of screens located in shopping centres increased by 6.6%. At the same time, the share of the screens located in retail and entertainment complexes in the capital now amounts to 74.4%, which is higher by 1.1 percent point than the indicator at the end of 2011. The number of the digital screens in the Moscow region increased by 30% over the past year and reached 397 (in 104 cinemas). Overall, already 68% of the modern Moscow cinemas have digital projectors, installed in 87% of the city's cinemas. 26 screens are not equipped for the 3D projection. During the course of the year 102 digital cinema projectors were installed in Moscow (including the 8 cinemas where it was installed for the very first time). 5 cinemas opened with digital screens. All of the digital screens, with one exception, were opened by cinema chains.

Saint Petersburg

01.01 2012 – 46 cinemas/ 228 screens
27 cinemas / 184 screens in retail and entertainment centres
41 cinemas/ 126 digital screens
01.01.2013 – 48 cinemas / 238 screens
28 cinemas / 189 screens in retail and entertainment centres
43 cinemas/ 162 digital screens

Last year 23 screens were opened in Saint Petersburg (including in the four brand new cinemas). The overall increase in the number of the modern cinemas in Saint Petersburg reached 4.4% in 2012 - there were 238 screens in 48 cinemas in the city. Thus the number of screens located in retail and entertainment centres grew by 2.7 percent points which put their share of the total number of the city's screens at 79.4%. The number of digital screens reached 162 in 43 cinemas during the course of 2012. The general growth of the digital cinema exhibition market in Northern capital over the year was 28.6%. Therefore, the digital screens share today already amounts to 68% of the total number of the Peterburg's screens (90% of the city's cinemas). 14 screens are not equipped for the 3D projection. During the course of a year, 41 digital projectors were installed in the Northern capital (in four cinemas - for the first time). 5 cinemas opened with digital screens. Almost all of the digital screens were opened by cinema chains.

The Russian regions

01.01.2012 –	771 cinemas/ 1947 screens
	202 cinemas / 1009 screens in retail and entertainment centres
	566 cinemas/ 1067 digital screens
01.01.2013 –	**893 cinemas / 2317 screens**
	254 cinemas / 1283 screens in retail and entertainment centres
	728 cinemas/ 1539 digital screens

During the course of the 2012, 403 screens were opened in Russian regions (including in 139 brand new cinemas). Meanwhile, 32 screens in 17 cinemas were closed; among them nine cinemas (18 screens) stopped operating completely and four cinemas (six screens) suspended work to carry out renovations. The regional film exhibition market grew by 19% in 2012, which was a 3 percent points increase compared to the similar indicator in the previous year; at the same time the increase in the number of screens in retail and entertainment centres amounted to 27%. As a result, the share of screens located in regional retail and entertainment centres reached 55.4%.

At the same time, 482 regional screens were upgraded to digital projection in the course of the year (169 cinemas opened its first digital screens). Therefore, the total market segment growth amounted to 44.2%. 9 regional digital screens closed down in 2012 (including in 6 cinemas).

At the close of 2012, there are 91 digital screens for 2D films only in the Russian regions (48 regional cinemas have no 3D screen at all). Although some plan to buy the additional equipment in the future, we can talk about continuing change of the digital screening concept in Russia – from the total 3D screening orientation to the use of other capabilities of the digital technology.

Principal Trends

- The number of films dramatically increased in the cinema exhibition market in 2012 (due to the increase in the independent American and European production films), 93% of which are issued in digital or hybrid formats. The negative consequence of this is a decrease in the screen life of the films, in 2012 it got 4 more days shorter (38 days on average)
- At the same time, the positive effect of digitalisation is the increase in the box office receipts from the mainstream movies, rather than the big Hollywood blockbusters or from the niche segment of the art films. This facilitates increase in the effectiveness of the film distribution (and film production) as filming costs of such movies and the rights on the international market as a rule are cheaper.
- During the world credit crunch (2008-2010) Russian cinema market almost did not suffer: the RUB box office returns kept rising, even thought the disposable income of the population was falling. At the same time, there was an increase in the real salaries and employment, as well as the level of consumption of products and services by the population in Russian economy last year. Meanwhile, in 2012 the consumption of film exhibition fell down in the country. Cinema admissions decreased as a whole and, although the box office receipts kept rising, the revenue per screen also fell. In our opinion, this was also driven by expensive cinema tickets - their price during last year increased by 11.8%, which is almost double the inflation of the consumption prices (6.6%). This trends are reflected in the revenues of the cinema bars, which do not grow on the individual cinema level for a number of years (having bought expensive tickets, viewers save on popcorn), as a result, cinema managers have to put serious efforts into optimization of the cinema bars operations.

Twice accelerated over the past year revenue growth from cinema advertising cannot compensate for these losses.

- Sharp decrease in 3D interest by cinema goers, especially in large cities, forces cinemas to turn to more interesting innovations. In 2012 a mass opening of 4DX an D-BOX screens was added to the IMAX expansion in the Russian market. The Cinema park chain became a pioneer with 4DX and according the monthly published accounting on its website sets its prices even higher, than IMAX. At the same time, the share of the 2D screens in Russia grows.
- Large deals for the merges and sales of Russian cinema chains indicate a growing interest to the cinema exhibition market from the non-core investors. And this entails an interest from the foreign investments. The next stage could be (if the political risks don't increase) the opening of the foreign chains in Russia (from the West as well as from the East). The increased presence of the European organisation Europa Cinemas in Russia can be considered the first sign of these processes.
- Finally, one more 2012 trend, contradicting macro-economical situation, was increase in the number of new cinema openings. Against the background of slowing growth and investments in Russia, the number of the screens opened in retail and entertainment centres increased. It can be explained, however, by the compensation effect - the constructions were restored after being frozen during the crisis. The full transition to the digital technology in cinemas is expected in 2015; when already in 2014 all the cinemas will have digital screens.