RUSSIAN FILM MARKET OVERVIEW. 2015 RESULTS

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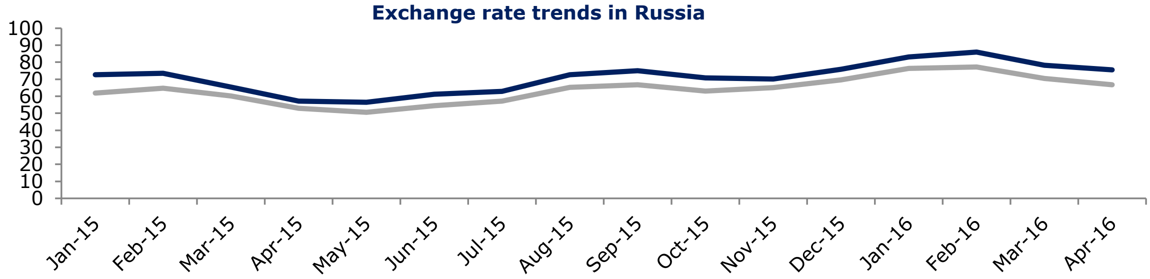
Background to development of the cinema market

The Russian economy is still in recession, which is impacting on both the welfare of the population and the national currency rate.

Exchange rate trends in Russia



	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16
USD	61.88	64.68	60.26	52.93	50.59	54.51	57.08	65.20	66.77	63.09	65.03	69.68	76.31	77.23	70.51	66.69
EUR	72.68	73.53	65.39	57.07	56.52	61.19	62.88	72.56	75.05	70.87	70.04	75.83	83.09	85.91	78.25	75.59

Source: Central Bank of Russia

Box office receipts in Russia in dollars are also decreasing due to the ongoing decline of the Russian ruble. Thus according to preliminary figures by IHS, in 2015 Russia lost its traditional ninth place and dropped to 12th place, being overtaken by Canada.

Table 1. Box office receipts by country in 2015, USD million
(preliminary figures)

No.	Country	Box office receipts (USD million)		
		2015	2014	Variance
1	USA	10,343.2	9,490.0	8%
2	China	7,085.5	4,832.1	32%
3	Great Britain	1,895.9	1,741.2	8%
4	Japan	1,793.9	1,955.9	-9%
5	India	1,580.7	1,714.0	-8%
6	South Korea	1,516.4	1,580.5	-4%
7	France	1,449.9	1,794.8	-24%
8	Germany	1,294.9	1,301.5	-1%
9	Australia	921.6	968.9	-5%
10	Mexico	840.7	840*	0%
11	Canada	786	1,009.6*	-28%
12	Russia	722.6	1,126.3	-56%

Sources: IHS, European Audiovisual Observatory (*)

However, cinema attendance around the world has placed Russia in seventh place two years in a row.

Table 2. Cinema attendance by country in 2015, million people
(preliminary figures)

No.	Country	Attendance (million)		
		2015	2014	Variance
1	India	2,071.9	1,937.2	7%
2	China	1,253.9	830.0	34%
3	USA	1,240.0	1,161.0	6%
4	Mexico	286.0	240*	16%
5	South Korea	217.3	215.1	1%
6	France	202.7	205.6	-1%
7	Russia	174.1	176.1	-1%

No.	Country	Attendance (million)		
		2015	2014	Variance
8	Great Britain	171.9	157.5	8%
9	Brazil	170.7	155.6*	9%
10	Japan	166.6	161.1	3%

Sources: IHS, European Audiovisual Observatory (*)

The year 2016 was named the Year of the Cinema in Russia. Although the budget of the Cinema Fund allocated to film production decreased slightly (from RUB 3 billion to RUB 2.8 billion), all the funds are provided to producers as grants. Furthermore, the second round of the competition among cinemas in small cities will take place this year, with RUB 1.5 billion to be allocated in addition to the RUB 700 million distributed among 143 screens at the end of 2015.

Such substantial support for cinema exhibition should result in an additional 450 screens in the circuit by the end of 2017, each obliged to over three years provide not less than 50% of screenings for Russian films each quarter. In 2016, the total amount of funds from the federal budget to cinema is expected to amount to RUB 7.6 billion, with the Ministry of Culture receiving around RUB 3.3 billion, although the proportion of these funds that will go to film production remains unclear.

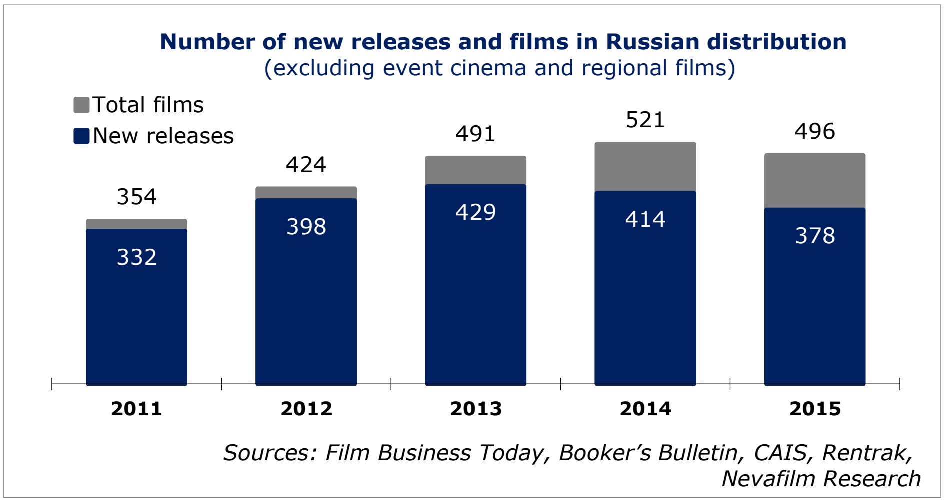
In 2015-2016, the list of leading companies receiving support for their projects from the Cinema Fund first and on preferential terms remains the same and consists of eight companies.

Table 3. Leaders of Russian film production (2013-2016)

Companies	2013	2014	2015	2016
Art Pictures Studio	x	x	x	x
Film Direction	x	x	x	x
CTB Film Company	x	x	x	x
Non-Stop Production	x	x	x	x
Igor Tolstunov's Production Company	x	x		
Real Dakota	x			
Rekun Cinema	x			
Strela	x			
Studio Trite	x	x	x	x
TABBAK	x	x	x	x
Rock Films	x			
Central Partnership	x	x	x	x
Enjoy Movies	x	x	x	x

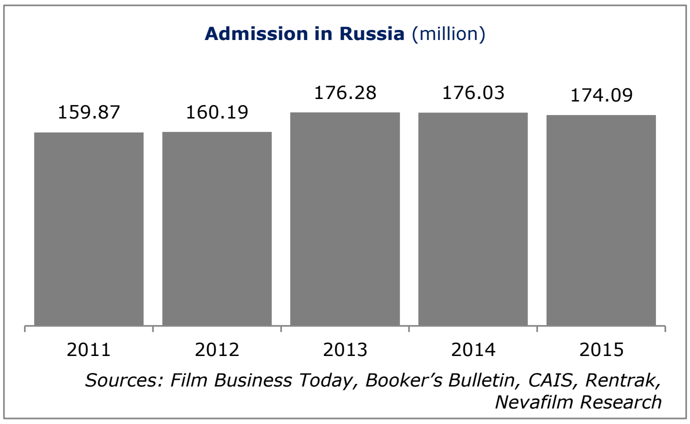
Film distribution

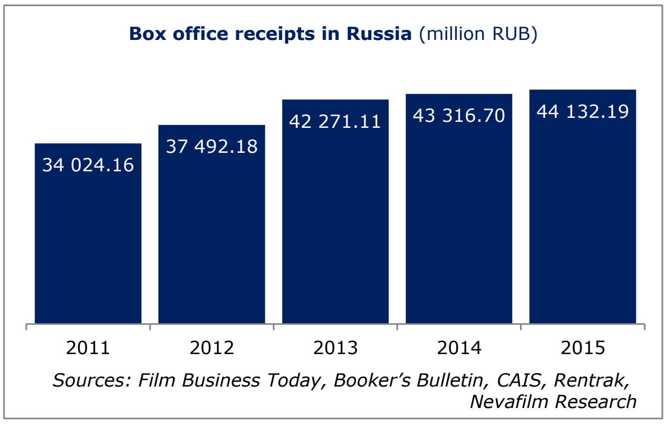
In 2015, the number of Russian films released (excluding event cinema and regional films) dropped to 378 (which is below the level of 2012) and, in addition, there was a decrease in the total number of distributed films to 497.



According to our estimates[1], box office receipts in Russia in 2015 amounted to RUB 44 billion, while the number of purchased tickets totalled 174.1 million. The ongoing decline of the Russian ruble compared to CIS currencies resulted in the Russian market's decreasing share in the sector statistics not only by attendance (a natural process as the cinema circuit expands in countries of the near abroad) but also by box office receipts. Based on results from 2015, Russia's share among CIS countries by attendance and box office receipts amounted to 91.5% and 91.7% respectively (2014: 92% and 93.5%).

Last year, the slowdown in the film distribution market was more evident than in 2014. Annual growth of box office receipts in 2014 amounted to 2.5%, while attendance remained flat, whereas at year-end 2015, box office receipts had grown by only 1.9%, while attendance dropped significantly by 1.1%.

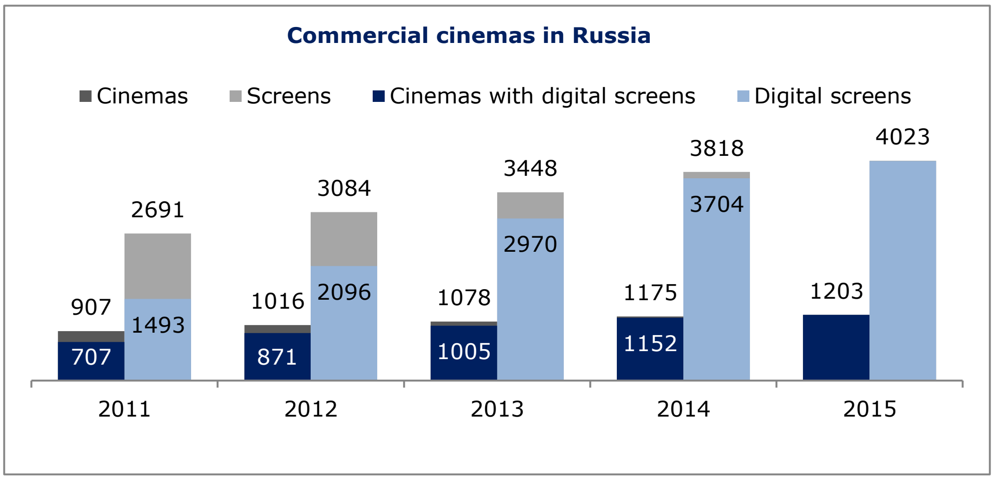




Cinema exhibition

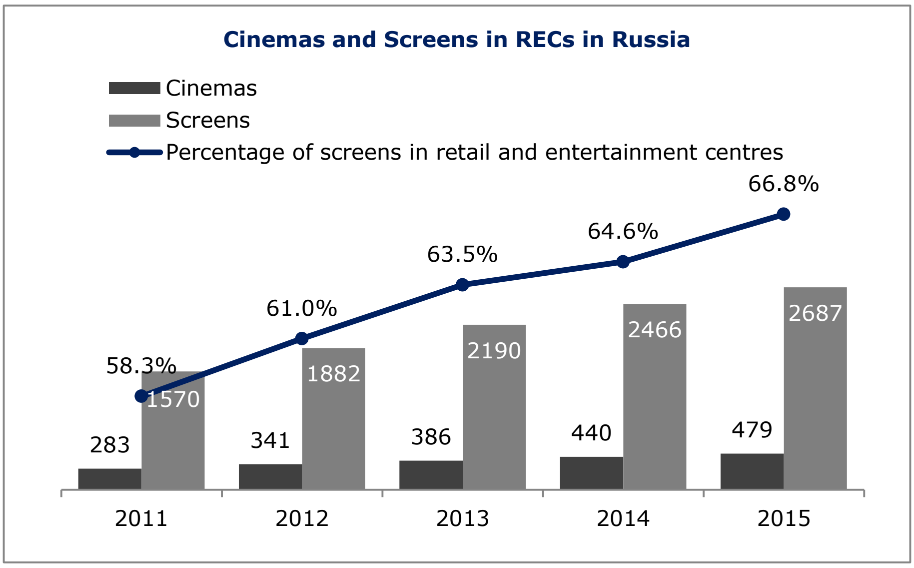
As of January 1, 2016, there were 4,023 commercial screens at 1,203 sites in Russia. The move to digital screening technologies was completed. Commencing January 1, 2016, Nevafilm excludes data on 35-mm film cinema screens that work with old motion pictures (*The Dawns Here Are Quiet* (*A Zori Zdes Tihie*), *Three Heroes. Horse Course* (*Tri Bogatyrya. Hod Konyom*)) or show DVD-films.

[1] Based on data from the following distributors: 25th Floor Film, Bazelevs, UPI, WDSSPR, West, Volga Film, 20th Century Fox CIS, Karo Premiere/Karoprokat, Kinologistika, Luxor, Nashe Kino, Russkii Reportazh, Central Partnership, and Exponenta.



The number of commercial screens in the Russian cinema chain grew by 5.4% (the number of cinemas increased by only 2.3%), demonstrating the lowest level in the history of Russia's modern film distribution market. Within a year, 88 commercial cinemas opened 375 screens, while 60 cinemas (170 screens) were shut down.

In 2015, 78% of new screens were in retail and entertainment centres, which is 14% higher than in 2014. The total number of screens in RECs is continuing to increase and amounted to 66.8% at the year-end (2,687 screens in 479 retail centres).



At year-end 2015, the number of megaplexes in Russia increased to four. Cinema Center Solovey at Krasnaya Presna retains the position of largest cinema with its 23 screens. Karo Sky 17, with its 17 screens, added to the number of megaplexes when it opened in March last year.

Allocation of Commercial Cinemas in Russia by Number of Screens as of 1 January 2016

Number of screens per site	Number of sites	Number of screens	Market share by number of sites	Market share by number of screens
Single screen cinemas	446	446	37.1%	11.1%
Two screens	210	420	17.5%	10.4%
Miniplexes	628	2361	52.2%	58.7%
Multiplexes	125	1137	10.4%	28.3%
Megaplexes	4	79	0.3%	2.0%
Total in Russia	**1,203**	**4,023**	**100%**	**100%**

The number of screens supporting amusement cinema entertainment format continues to grow in Russia and globally. First of all, the Dolby Atmos cinema chain is expanding, with 62 screens at year-end 2015. The other multichannel sound system Barco Auro is less popular (amounting to only 18 screens), which is largely related to fewer films being released in that format. It should be noted that a premium sound system is often installed along with unique picture (big screen, bright projection) to become part of PLF screens, which are currently in high demand (see below).

Motion effects are very expensive for the audience and for cinemas. 4DX screens that are equipped with chairs with such a system are only used in the Cinema Park chain (currently 9 screens in Russia). Less expensive D-Box technology allows for installation of only one or two rows in a simple screen and avoids idle capacity in the absence of new releases, which makes it more popular. There are 25 D-Box screens in Russia in chains such as Barguzin, Kinomax, Luxor, and Cinema Star.

In 2014-2015 IHS, the world leader in film market surveys, published a series of articles devoted to the global spread of Premium Large Format (PLF) screens. By this term analysts imply a very wide range of cinema exhibition offers. Firstly, PLF venues are distinguished by a very large screen. Additionally, they can also be equipped with premium sound facilities and have an impeccable picture (that is why they more often use dual projectors and laser systems with 4K resolution). However, the main feature is that PLF screen cinemas should position themselves as a premium film-goer's experience, which is accompanied by a separate marketing strategy for these screens with compulsory assignment of their own brand.

The most obvious example of PLF screens is the IMAX brand, which is widespread in Russia and throughout the world. The first PLF screen in Russia was installed back in 2003 in the Nescafe IMAX cinema centre as part of the Kinosfera in Moscow miniplex. The development of the cinema market, followed by the emergence of digital technologies, broke Kinosfera's monopoly. Now the IMAX format has solidified its position in Russia, with 43 brand screens in the country by the end of 2015.

Even so, IMAX has long since lost its monopolist position in the Russian market. Back in 2010 its competitor in film format was the branded SuperD screen of the Kinostar de Lux chain, which opened in a multiplex in Khimki (Greater Moscow) with the screening of the film *2012*. The screen is still operating there in digital format as part of the Cinema Park cinema circuit, which bought Kinostar de Lux in 2011. In late 2013 the Kinomax federal cinema chain in Ufa opened a PLF screen under the brand name of LUXE and in early 2014 the regional company Barguzin named its premium format in Irkutsk as Invision. To date these three brands (in three cinemas) are the only ones in Russia that have been developed directly by exhibitors.

Meanwhile, an active player on the Russian market since 2014 has been the RealD company. Over the past year, the number of its LUXE: a RealD experience screens almost doubled, including 11 cinema screens in KARO (8), Cinema Park, Kinomax and Mori Cinema chains.

By the end of 2015, Cinema Park, Formula Kino, and KARO remain leaders in the Russian market with more than 200 screens and more than 5% of the market each.

Major Operators of Cinema Chains in Russia as of 1 January 2016

(including franchises and cinemas with film programme planning)

Ranking as of 1 January 2016	Ranking as of 1 January 2015	Network Operator	Number of sites	Number of screens	Market share by number of screens	Head office
1	1	Cinema Park	33	307	7.6%	Moscow
2	2	Formula Kino	34	255	6.3%	Moscow
3	3	KARO	29	228	5.7%	Moscow
4	4	Kinomax	30	206	5.1%	Moscow
5	5	Premierzal	104	169	4.2%	Yekaterinburg
6	6	Luxor	23	159	4.0%	Moscow
7	9	Mirage Cinema	19	130	3.2%	St. Petersburg

Ranking as of 1 January 2016	Ranking as of 1 January 2015	Network Operator	Number of sites	Number of screens	Market share by number of screens	Head office
8	7	Cinema Star	24	127	3.2%	Moscow
9	8	Monitor	26	98	2.4%	Krasnodar
10	10	5 Zvezd	11	66	1.6%	Moscow
Total for operators			**333**	**1,745**	**43.4%**	
Total in Russia			**1,203**	**4,023**	**100%**	

At year-end 2015, there were 516 towns with commercial cinemas, with 481 of them located in towns with a population of more than 10,000 people. There are commercial cinemas in all towns with a population of more than 250,000 people, as well as in more than 90% of towns with a population from 75,000 up to 250,000 people and in the majority of towns with a population exceeding 50,000 people.

Greater Moscow is the leader among Russian regions, with 18.7% of commercial cinemas located there and, according to Rentrak, this region traditionally brings in more than a quarter of all box office receipts owing to higher ticket prices.

Allocation of Commercial Cinemas in federal districts in Russia as of 1 January 2016

Federal district	Number of sites	Number of screens	Market share by number of screens	Market share by admission*	Market share by box office receipts*	Average ticket price (RUB)*
Moscow Region	132	754	18.7%	18.9%	26.7%	359.18
Volga Federal District	179	638	15.9%	16.9%	14.1%	211.33
Central Federal District (excluding Greater Moscow)	191	577	14.3%	14.0%	12.6%	228.26
Siberian Federal District	153	457	11.4%	11.1%	9.4%	215.79
Ural Federal District	125	380	9.4%	8.2%	7.5%	231.36
St. Petersburg	63	356	8.8%	9.1%	9.2%	254.30
Southern Federal District	118	331	8.2%	9.3%	8.7%	238.32
North-West Federal District (excluding St. Petersburg)	95	237	5.9%	4.7%	4.1%	220.93
Far Eastern Federal District	91	163	4.1%	4.4%	4.5%	259.86
North Caucasian Federal District	41	94	2.3%	2.1%	2.0%	236.96
Crimean Federal District	15	36	0.9%	1.3%	1.1%	207.11
Total in Russia	**1,203**	**4,023**	**100%**	**100%**	**100%**	

Sources: Nevafilm Research, Rentrak/comScore (*)

The complete *Overview of the Russian Cinema Market 2015* report is available to order
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Content of Report

Tables

Charts (figures)