The Russian Legal On-Demand Video Services Market

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The Russian Legal On-Demand Video Services Market

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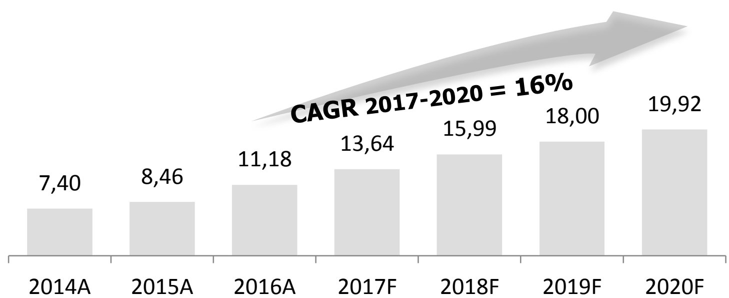
1. Executive Summary

In 2016, the total legal on-demand services market size reached Rub 11.18bn (Euro 150.3m), a 32% increase from 2015 (in Rub).

According to the estimates of J'son & Partners Consulting experts, the market is going to reach Rub 19.9bn by the end of 2020. In monetary terms, the compound average growth rate in 2017-2020 will reach 16%.

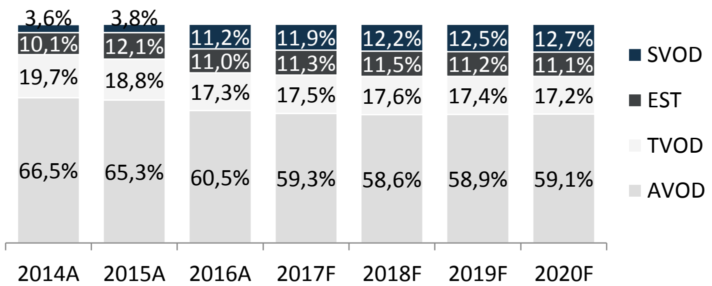
Figure 1: Russian Legal Video Services Market, Rub bn, 2014-2020



Source: J'son & Partners Consulting, company data

In 2016 AVOD remained the most widespread monetization model. Its share was 60.5%, decreasing slightly due to the rapid growth of the paid models. According to the J'son & Partners forecasts, AVOD will keep its absolute leading position on the market and will keep its 58-59% share until 2020.

Figure 2: Monetization Models, 2014-2020

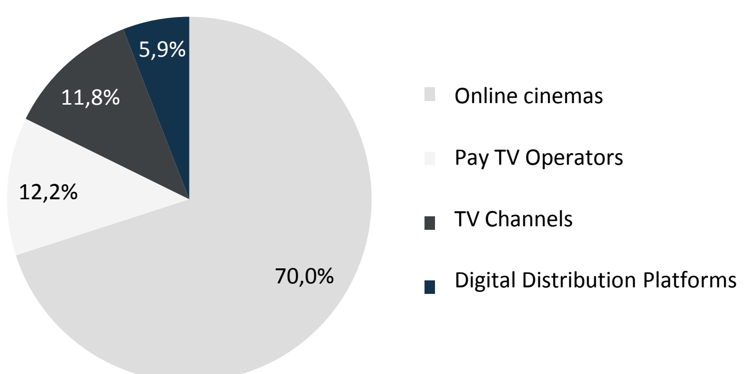


Source: J'son & Partners Consulting, company data

SVOD model exhibits an impressive growth in Russia – a 293% increase in comparison with 2015.

Online cinemas still remain the key market players in 2016, with 70% of gross revenue (Rub 7.83bn. ex. VAT). The operators moved to second place in comparison to 2015; VOD model revenue level reached Rub 1.37bn. TV channels earned 11.8% (Rub 1.32bn) and digital distribution models received 5.9% (Rub 660m).

Figure 3: Legal Video Services Market Revenue Structure by Type of Operator, 2016



Source: J'son & Partners Consulting, company data

2. Methodology

J'son & Partners Consulting is using the following sources of information in its calculations within this research:

- Financial documents, 2014-2015 investor and stockholder reports (for the period 2014–2016), news and press releases by TV channels, pay TV operators, distributors, production companies and online cinemas
- Interviews with market players
- Research and analytical agencies' data
- J'son & Partners Consulting market model

The "Source: J'son & Partners Consulting" note in this analysis report indicates that the data being used for any particular index calculation was acquired from the aforementioned sources and then processed by J'son & Partners Consulting techniques.

J'son & Partners Consulting reserves the right to reconsider any particular conclusion and estimation in case of radical changes of legal and market environment or acts of providence.

Segmentation

There are two major categories of video content consumption: linear and non-linear viewing. <u>The subject of this research is focused on open and closed non-linear viewing systems.</u>

Table 1. Marketing and Technological TV Classification

<table>
<tr><th>Clients Devices Types</th><th colspan="2">Linear Viewing</th><th colspan="3">Non Linear Viewing</th></tr>
<tr><td rowspan="4">TV</td><td>Cable TV</td><td rowspan="2">Analog terrestrial TV</td><td rowspan="6">VOD/PPV</td><td rowspan="6">Legal video services (SVOD, TVOD, EST)</td><td rowspan="6">Legal video services (AVOD)</td></tr>
<tr><td>Satellite TV</td></tr>
<tr><td>IPTV</td><td rowspan="2">Digital TV</td></tr>
<tr><td>Digital TV</td></tr>
<tr><td>PC, Laptops</td><td>IPTV</td><td>Web TV</td></tr>
<tr><td>Smartphones, Tablets</td><td>Mobile TV</td><td></td></tr>
</table>

Source: J'son & Partners Consulting

Linear Viewing is a video content view type with structured and uninterruptible broadcast, i.e. the end viewer is unable to choose the order in which the content is broadcast.

Non-Linear Viewing is a video content view type with content broadcasted per the end user's choice.

There are four key monetization models in the legal video services market:

TVOD (Transactional Video On Demand) – the user has the opportunity to watch content units for a limited period of time while "renting" the said content

SVOD (Subscription Video On Demand) – the user gains access to the content library for a certain amount of time on a subscription basis without the limitation of number of views

AVOD (Advertising Video On Demand) – the content playback is accompanied by a certain number of advertisements

EST (Electronic Sell Through) – the purchase of a digital copy of the content or an indefinite rent of the content.

Table 2. Key Features of Legal Video Services Monetization Models

	TVOD	SVOD	AVOD	EST
Business Model	Transaction Fee	Subscription Fee	Advertising	Transaction Fee
Content Access	Content Unit	Content Library	Content Library	Content Unit

Source: J'son & Partners Consulting

J'son & Partners Consulting experts qualify video on demand and pay-per-view services (VOD/PPV) in telecommunication service provider networks and legal video services as non-linear viewing.

VOD/PPV (video on demand / pay-per-view), is defined as the individual service delivery of TV programmes and movies to the consumer via digital cable, satellite and broadcast TV networks with the use of set-top box.

Four primary categories of such operators are active in the market:

"Online cinemas" serve as content aggregators that allow watching videos both through their websites and their applications for mobile platforms and Smart TV. These services are provided by YouTube, Rutube, TVzavr, ivi and others.

TV channels are broadcasters principally monetizing their content on the internet either on a fee basis or advertising model. Some examples are Channel One, TNT and CTC.

Pay TV operators that sell their VOD services on set-top boxes (STB). Some examples are Rostelecom, Akado and MTS.

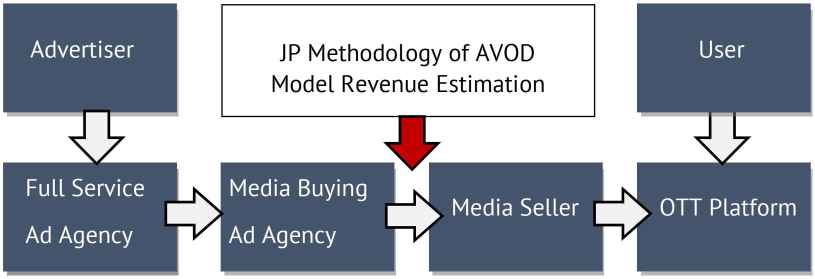
The digital distribution platform is typically owned by the companies who develop operating systems for different devices, and is installed as a component of the operating system. Moreover, until 2017 the digital distribution platforms in Russia (Google and iTunes) did not pay VAT and were in a different market situation from the other players.

Proceeds Estimation Methodology

The earnings of all players in this research are given after VAT.

The video service revenues from the advertising model of monetization (AVOD) are estimated on a basis of commissions charged by the seller agencies, such as GPMD (Gazprom-Media Digital), Imho Vi.

Methodology of AVOD Model Revenue Estimation



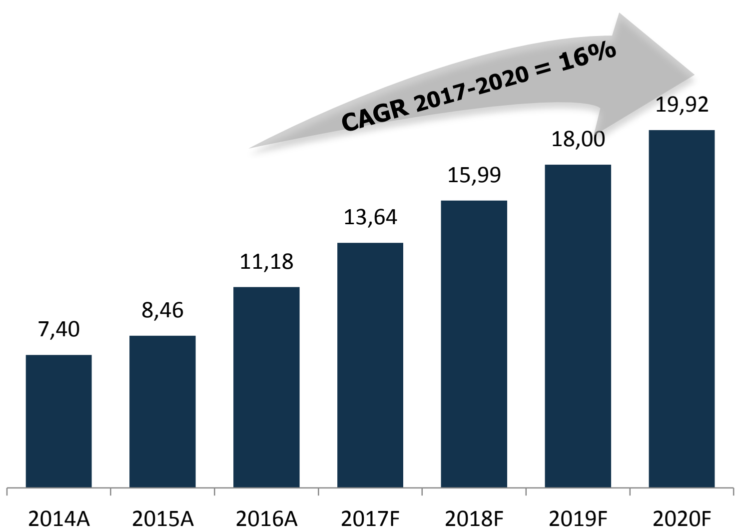
Source: J'son & Partners Consulting

The revenue in the AVOD model is estimated before the seller commission is subtracted. As a result, the revenue amounts stated in the research are larger than what actually remains after all payments and charges.

3. The Market

General legal video services market revenue reached Rub 11.18bn in 2016. The industry has shown a vigorous 32% growth since 2015. This development forced the experts, including J'son & Partners Consulting, to review the market development perspectives for the coming years. According to the forecast, the market will keep expanding during 2017-2020 with 16% growth rate, and will reach almost Rub 20bn by 2020.

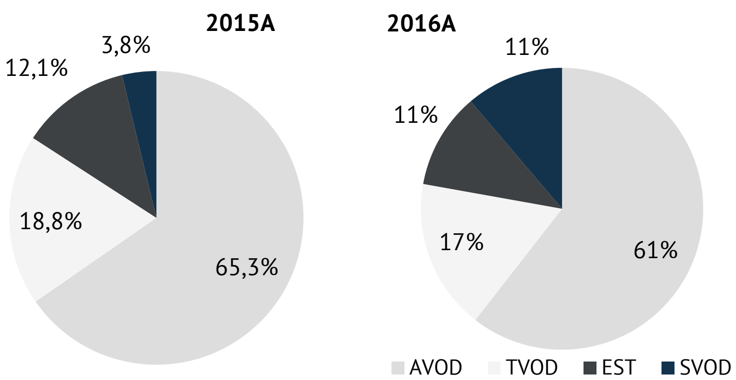
Figure 4: Russian Legal Video Services Market, Rub bn, 2014-2020



Source: J'son & Partners Consulting, company data

The market structure changed in 2016. AVOD is still the most popular monetization model, just as before, but market players are seeking opportunities to monetize via paid methods (operators develop distribution platforms; improve the service and payment methods). In 2016, AVOD share drastically decreased and was 60.5%. Subscription became the main beneficiary: its share increased from 3.8% to 11.2%, taking third place in the market structure and surpassing the EST segment.

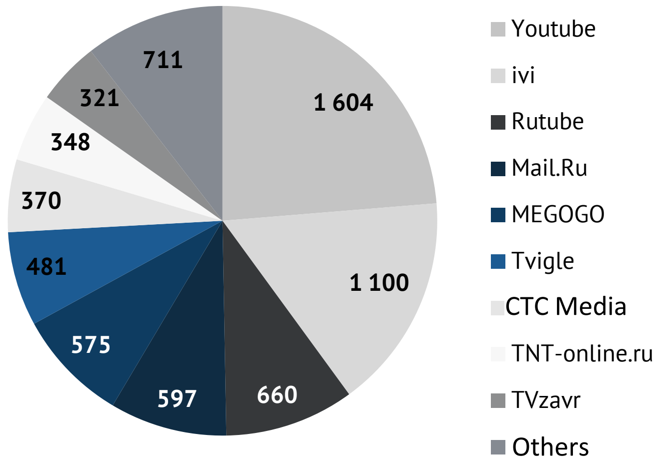
Figure 5: Market Structure by Monetization Models, 2014-2016



Source: J'son & Partners Consulting, company data

The AVOD model, clearly, will remain the market leader. J'son & Partners Consulting forecasts the decrease of its share at less than 1% per year. The revenue of AVOD operating companies is presented in Figure 6. YouTube and ivi are still among the leaders. Some other players, like Rutube, Mail.ru (Odnoklassniki, Vkontakte, Moi Mir), Megogo, Tvigle, CTC Media, TNT and TVzavr, have impressive results as well.

Figure 6: AVOD Companies Revenue, Rub m, 2016

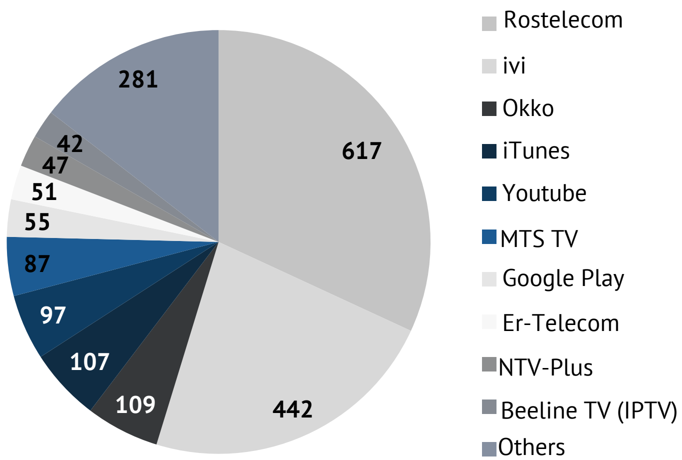


Source: J'son & Partners Consulting

Rostelecom, the largest Russian telecom operator, is a constant leader with a TVOD model that provides video content for IPTV subscribers. Officially, its revenue in the segment decreased, but this is explained by the fact that the official reporting data in 2015 includes the SVOD revenues in TVOD category. As of 2016, though, TVOD and SVOD reporting categories had been separated. Another major market leader, Tricolor, announced its online cinema launch in the end of 2016. For now, the service is provided for free in order to build the customer loyalty.

Companies using the TVOD model are presented in Figure 7. Rostelecom and ivi account for half of the revenues, as in 2015. However, this year it was caused by increased TVOD revenues of ivi. Okko is next in line. It has surpassed iTunes content rent revenues in Russia.

Figure 7: TVOD Companies Revenue, Rub m, 2016

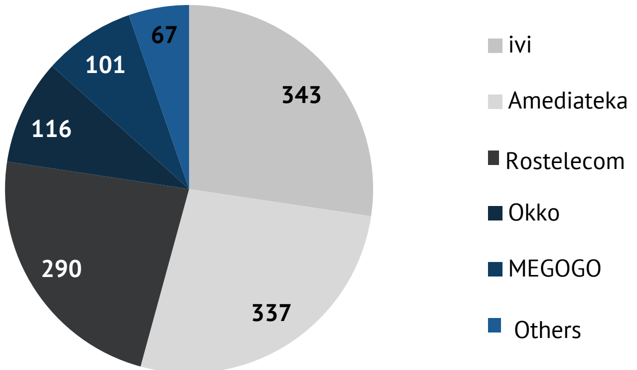


Source: J'son & Partners Consulting

An impressive growth in the Russian market was demonstrated by the SVOD monetization model in 2016 – 293% in comparison to 2015. There are several explanations for this. First, as was mentioned previously, Rostelecom started to account for SVOD revenues separately in its official reports. Secondly, the anti-piracy fight led to an increasing number of legal video service subscribers, primarily on Smart TV, as this service provides user-friendly payment methods, and big-screen viewing convenience. Last, but not least, is the fact that the companies began paying more attention to this segment. They expanded the range of services, enlarged their libraries and developed a variety of packages (e.g., not only monthly offers but also annual subscriptions).

Monetary indicators of market players in 2016 are shown in Figure 8.

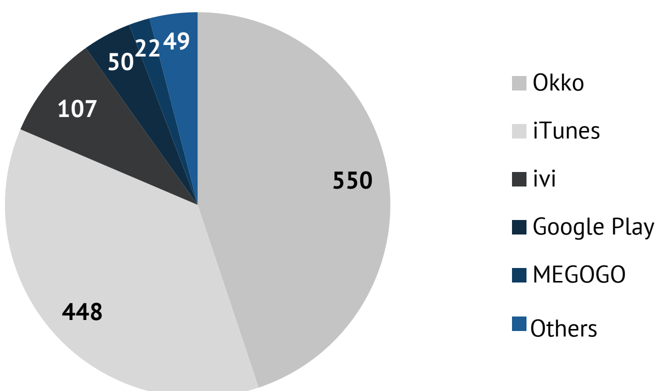
Figure 8: SVOD Companies Revenue, Rub m, 2016



Source: J'son & Partners Consulting

J'son & Partners Consulting expects no changes in growth rates of the EST segment. It will correlate to the rate of sale of mobile devices, an increasing switch to Smart TV platform, and changes in legislation, especially the introduction of a tax fee that will be imposed on digital distribution platforms. Companies like iTunes or Google can face decreased sales growth due to the price increase caused by addition of VAT. Market players' 2016 revenues are shown in Figure 9.

Figure 9: EST Companies Revenue, Rub m, 2016



Source: J'son & Partners Consulting

Market development forecast up to 2020 can be seen in Table 3.

AVOD segment depends on TV advertisement and mass media audience measurement. TNS global market research company recently changed its owner (British WPP sold the controlling share package in WCIOM Media), and it is listed now under a different name in Mediascope. The company's strategy is likely to be restructured in the near future. As a result, we can't be certain that Smart TV audience will be adequately researched any time soon. When it will happen, the equipment that was not measured previously will be accounted for, and the data will be offered to advertisement market. It may attract advertisers' budgets to online cinemas and channel apps, which will increase the AVOD market share. This factor was assessed by J'son & Partners Consulting in our estimate of the 2018-2019 numbers.

Table 3. Market Revenue, Rub m, 2014-2020

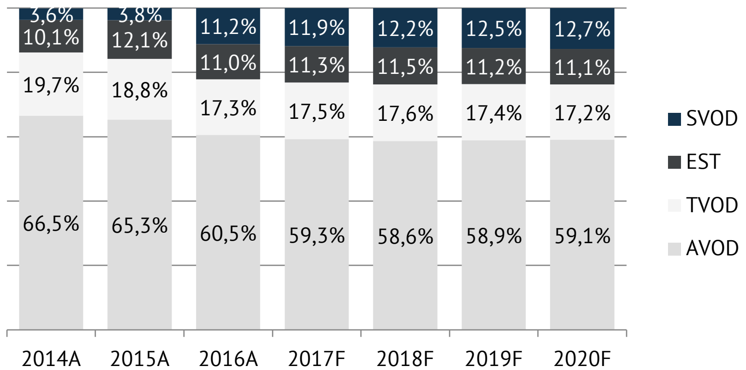
Monetization Model	2014	2015	2016	2017	2018	2019	2020
AVOD	4 922	5 530	6 766	8 086	9 380	10 599	11 765
EST	750	1 023	1 226	1 546	1 840	2 022	2 202
TVOD	1 459	1 592	1 933	2 389	2 819	3 132	3 426
SVOD	269	319	1 254	1 617	1 957	2 243	2 530
TOTAL	7 400	8 463	11 179	13 638	15 995	17 996	19 923

Source: J'son & Partners Consulting, company data

TV commercials determine the AVOD model growth rates. The National Advertising Agency (NAA) does not release any forecasts, but based on available dynamics data, it is possible to express careful optimism. According to the analysis, the possible forecast of AVOD growth rates is 14-15% until 2020.

TVOD and EST will have a 15-16% yearly growth during the same period of time, if the list of key market players does not change. Telecom operators will be the major contributors that will continue development of VOD services, available not only to their subscribers but on any device. In view of the continuous anti-piracy campaign, SVOD revenue will show the highest growth rates (18-20% yearly). All of this will bring the Russian market structure closer to the global one, as is demonstrated in Figure 10.

Figure 10: Market Structure by Monetization Models, 2014-2020



Source: J'son & Partners Consulting, company data

4. The Main Operators

All companies included in this research are divided into the following groups in accordance with legal video services market segmentation implemented in 2015.

Online Cinemas, which serve as content aggregators that allow watching videos either via websites or their applications for mobile platforms and Smart TV.

TV Channels, broadcasters who principally monetize their content on the Internet either on a fee-paid basis or via advertising model.

Pay TV operators, which sell their services of viewing paid video content via set-top boxes (STB) as VOD services or cinemas, through private lines.

Digital Distribution Platforms, i.e. video content aggregators that allow OTT viewing, access via mobile platforms and Smart TV.

Companies operating on the Russian market that were a part of this research are shown on Table 4. The total number of these companies has increased in comparison to 2015 due to the growing number of TV Channels.

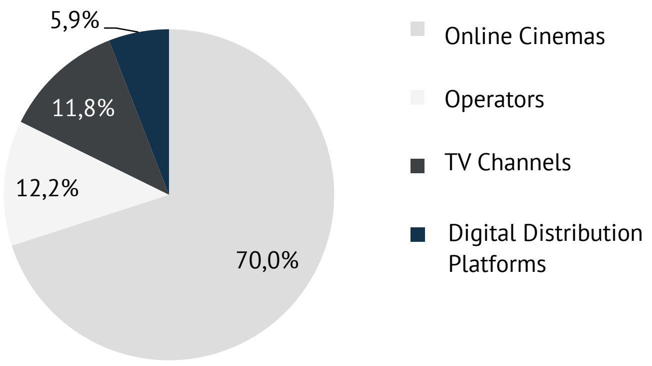
Table 4. Number of Researched Companies, 2016

Legal Video Service Market Segment	Number of Companies Studied
Online Cinemas	20
TV Channels	19
Operators	9
Digital Distribution Platforms	3
TOTAL	**51**

Source: J'son & Partners Consulting, company data

Figure 11 shows the market structure in 2016 by segments. Online cinemas collected 70% (Rub 7.83bn excl. VAT) of all revenues. In 2016, the operators increased their market share from 11.7% to 12.2% (up to Rub 1.37bn). This moves this sector to the number two position on the market. The TV Channels' share didn't change within the year (11.8%). They collected Rub 1.32bn for offline viewings. Digital distribution platforms revenue was Rub 662m (5.9% of the market, 1 p.p. decrease).

Figure 11: Legal Video Services Market Revenue Structure by Segments, 2016

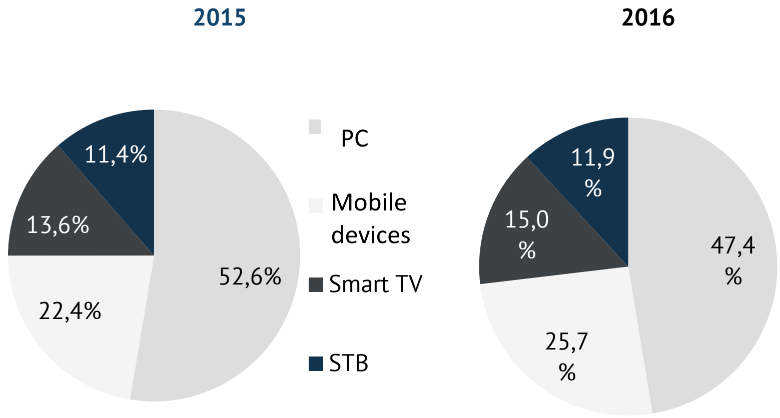


Source: J'son & Partners Consulting, company data

Figure 12 shows the revenue distribution of the legal video services market players by the content delivery device: Smart TV, PC, mobile devices and STB. The impact of mobile devices, Smart TV and STB operators has obviously increased due to the increase in the number of personal computers in 2016.

The main deterrent for mobile device revenue growth in AVOD is the lack of full-scale measurements of its audience in Russia. Mediascope is presenting such data only for cities with 700 000+ people. There are plans to start measurements that will cover the majority of the population, which will improve the advertisement revenues on mobile devices in the near future.

Figure 12: Market Revenue Structure by Distribution Devices, 2015-2016



Source: J'son & Partners Consulting, company data

The impact of Smart TV and set-top box operators (IPTV and digital cable TV) is growing due to the increasing number of its users.

4.1. Online Cinemas

Online cinema is the largest market segment in Russia. 20 companies were researched for this study, including Amediateka, AYYO, ivi, Mail.ru, Megogo, Okko, Rutube, Tvigle, TV1000Play, TVzavr, Zoomby, YouTube and Kinopoisk.

2016 was a successful year for online cinema operators. Gross revenues reached Rub 7.83bn (Euro 105m), a 33% growth in comparison to 2015. The adjusted forecast until 2020 expects market revenues at the level of Rub 13.8bn excl. VAT. Market players' shares by revenue in 2016 are provided in Figure 13.

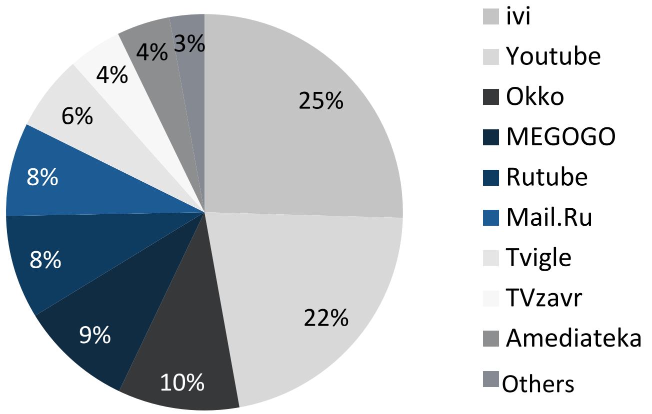
One major outcome of 2016 is the 50% increase in revenues of ivi by all monetization models, higher than YouTube revenues in Russia. According to

J'son and Partners Consulting, ivi revenue was Rub 1.992m, while YouTube made only Rub 1.701m[1].

Other market leaders showed the following revenue growth in comparison with 2015:

- Megogo - 71.5%
- TVzavr - 50% (announced that it will reach profitability by the end of the year)
- Mail.ru - 47%
- Tvigle - 16% (profitable for a second year in a row)

Figure 13: Market Players' Share in Online Cinemas Segment, 2016



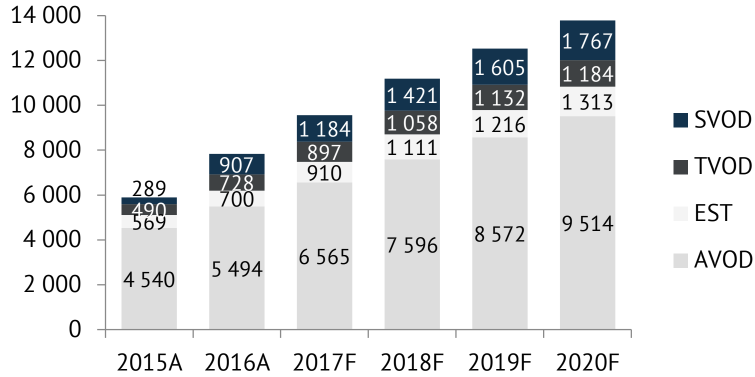
Source: J'son & Partners Consulting, company data

Online cinemas are using all available monetization models (Figure 14). AVOD is, and will remain, the primary revenue source. Subscription became the second most important model in 2016. Further growth will be much faster and the results, in absolute Ruble numbers, will be doubled by 2020.

[1] All revenue estimations are excluding VAT and advertising revenue is before any agency fees.

EST and TVOD revenues are also expected to increase, with the revenue impact at a level of 18%.

Figure 14: Online Cinemas Revenue Structure, Rub m, 2015-2020

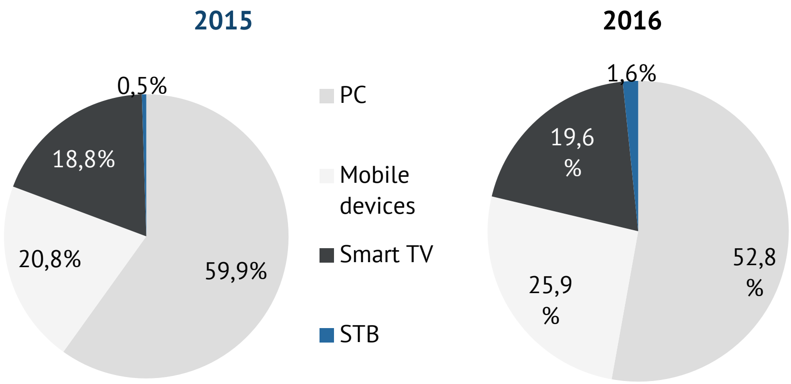


Source: J'son & Partners Consulting

Each market player has its particular revenue structure. There are companies with 100% AVOD revenues such as Rutube and Tvigle. TVzavr and YouTube are actively developing paid services with the AVOD share lowering accordingly. Okko offers only paid rent or video purchase, while Amediateka revenues primarily depend on subscription.

Revenue structure of online cinemas by content delivery platforms is presented in Figure 15.

Figure 15: Online Cinemas Revenue Structure by Distribution Devices, 2015-2016



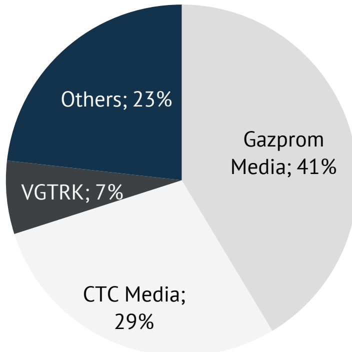
Source: J'son & Partners Consulting, company's data

General market tendencies are repeated here as well. The impact of the desktop PC is decreasing while the monetization of mobile audience is increasing. The increase of revenue from STB of pay TV is also noticeable. All main online cinema operators are developing connections with pay TV operators. They have the content and distribution rights, while the providers are seeking new ways to increase the monthly average subscription fees. As a result, for example, 29% of all Amediateka revenues are generated via partnership agreements with operators.

4.2. TV Channels

In 2016 TV channels made Rub 1.322bn (Euro 17.8m). on non-linear content viewing, which represents a 32% growth from 2015. The ubiquity of the Internet is profitable for TV channels. Despite the expense associated with application development, digital right clearances and delivery of video to the end users, the broadcasters incur no costs on the content itself. Total revenue allocation by TV holdings is presented in Figure 16.

Figure 16: Revenues Breakdown in TV Channels Segment by Holdings, 2016



Source: J'son & Partners Consulting

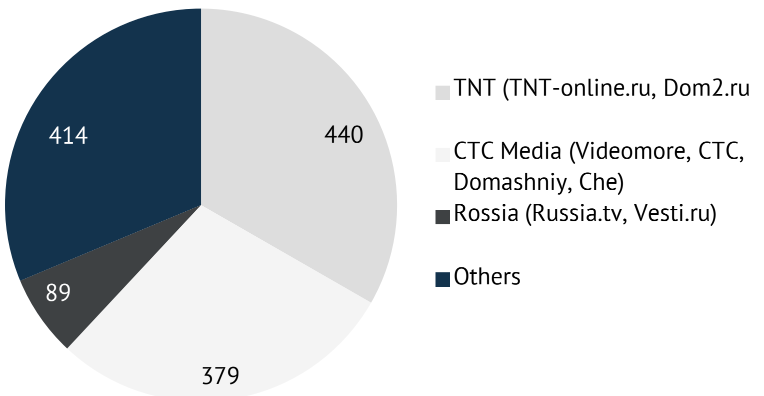
In 2016 advertising sales moved to online videos via social demographic targeting. This means that the advertisers, rather than paying for displaying their video ads, pay only for the ads delivered to their targeted audience. While such decision is fully reasonable, it leads to some problems:

- Foreign viewers have the major share of the TV channel audience. For some channels, the number of foreign viewers can reach 30-40%, which makes it impossible to sell this approach in Russia today. Cooperation with foreign sellers may be a solution, but only if such offers shall be in demand in each individual country.
- Advertisers that are the major source of the TV channel revenues require very focused targeting of the online video audience. For example, in high demand are 20 – 45 year old women or 35 - 54 year old men. Their numbers, however, are limited for each site, and it leads to a shortage of the necessary gear and excess of less popular ones.
- The problem of reaching the audience targeted by an advertising campaign only by using online videos have become more pronounced. Each service has a group of "core users" who contribute to the majority of views despite their limited numbers. Most subscribers watch movies or shows irregularly, which leads to difficulties with distributing the necessary number of videos to them.

In 2015, advertising was the source of 99% of all revenues, while in 2016 this number dropped to 96.3%. Nevertheless, advertising is still the main content monetization model for TV channels. The novelty that is being actively promoted by broadcasters is subscription, which allows users to watch new shows free of advertising. TV channels also support Smart TV apps, but at this time they do not publish the data about their audience size and the generated revenues.

Market leaders remained the same as in 2015: TNT and CTC Media (Figure 17).

Figure 17: On-demand Video Revenues of TV Channels, Rub m, 2016



Source: J'son & Partners Consulting

The project "Online Window" (that has been discussed since 2014 by National Media Group, Gazprom-Media, VGTRK and 1 Channel) can become the global solution in fighting piracy on the Internet. Here are some of its goals:

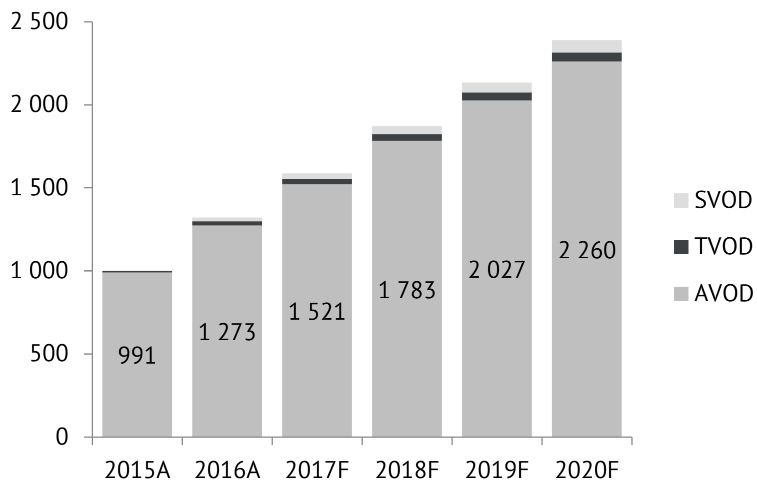
- Distribution of content owned by the TV channels from a single point and on one player. This means that all TV content outside of the designated site will be automatically considered pirated.
- Regulating rights on the distribution of video content by third party services will become simpler. Currently it is still possible to encounter a situation when a TV channel site cannot broadcast because it does not have the digital rights, while an online cinema – not necessarily a pirate - can.
- Decreasing costs of supporting the service and content distribution. Cost of CDN, servers, data storage, player development for all devices shall be split between all participants of the project. At the

moment, all TV holdings are paying all of these costs from their own budgets.

The core problem is to reach an agreement with foreign major players about digital rights on movies and shows. For third parties it is very difficult and costly, or almost impossible, to obtain such rights.

J'son and Partners Consulting forecast on TV channels revenue growth from online content monetization by 2020 is shown in Figure 18. Commercials are still the key revenue source, and the desktop PC audience will be the largest source of profit.

Figure 18: TV Channels Revenue by Monetization Models, Rub m, 2015-2020

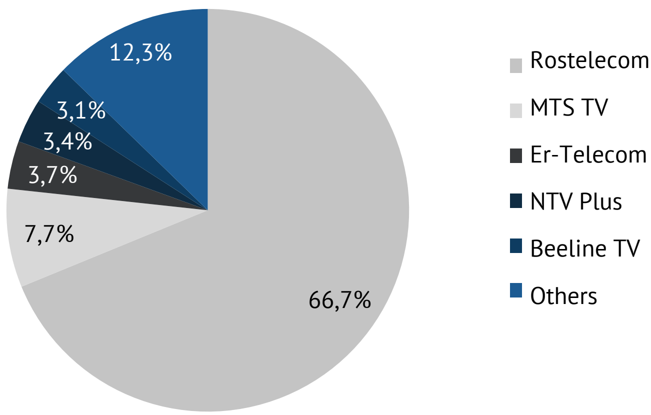


Source: J'son & Partners Consulting

4.3. Operators

In 2016 pay TV operators earned Rub 1.37bn (Euro 18.4m) on Video on Demand (+38% compared to the previous year). Distribution of VOD revenues for the market segment "Operators" (%) is presented in Figure 19.

Figure 19: Operators Revenue Structure in the Market Segment "Operators", 2016



Source: J'son & Partners Consulting

Video on Demand is one of the most requested services among subscribers.

J'son & Partners data indicates that pay TV networks revenue per user from VOD/PPV (Video on Demand / Pay Per View) in 2016 was on the average 100 Rub/month. The largest "landline" pay TV operators are actively developing their own VOD:

- Video services by Rostelecom are available on mobile devices, PC, Smart TV and STB. The main convenience feature is that the user pays for all viewed movies in one monthly bill
- In 2016 one of the oldest video services, Zabava.ru, was repositioned. Now it is a part of Interactive TV, and there is an automatic redirect to itv.rt.ru on their website
- MTS is expanding MTS TV to all available devices
- Megafon.TV by Megafon is available on Smart TV, tablets, smartphones and PC

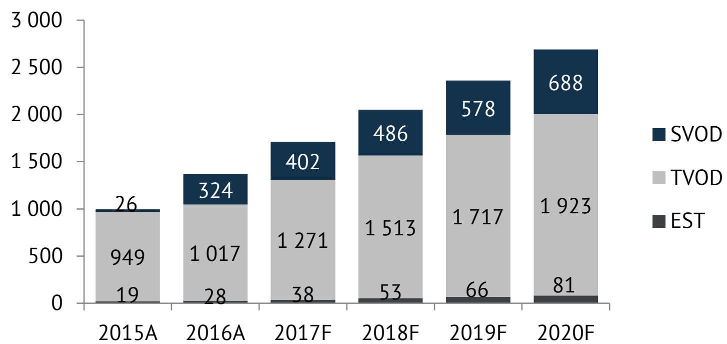
As was previously mentioned, since 2016 Rostelecom divides revenues from Video on Demand into 2 categories: TVOD and SVOD. This player's market share in 2016 decreased since 2015 from 73.6% to 66.7%, but its activity is still defining the market. In 2015 all revenues of the "renting the content unit" model gained 95.4% of all VOD revenues, while in 2016 revenues gained 74%. The subscription model took 2.6% of revenues in 2015 and 24% in 2016. Content sales still have 2% of VOD revenue, as they did in 2015.

Operators are actively developing OTT-services which are independent from the base network. Telecom company websites virtually became the de-facto online cinemas. For this reason the revenue structure by device has been changing yearly. Video on Demand 2016 revenue was distributed between content delivery platforms as follows (2015 data in parentheses):

- STB - 87.6% (94%)
- Mobile devices - 5.9% (3.5%)
- PC and Smart TV combined - 6.5% (2.5%)

The J'son and Partners Consulting forecast of Video on Demand revenues for pay TV operators until 2020 is shown in Figure 20. One-time viewing will continue to be the major source of the revenue. The development of subscription services will be profitable for copyright holders and content aggregators that have partnership relationship with the operators. Sales of content will grow in proportion with development of multiscreen service.

Figure 20: Operators Revenue by Monetization Models, Rub bn, 2015-2020



Source: J'son & Partners Consulting

Operators actively cooperate with copyright holders (TV Channels) and aggregators (Online Cinemas) in order to promote their services. For example, Megafon has a joint advertising campaign with Amediateka, utilizing TV and outdoor advertising. Additionally, this operator also conducted a special promotion for users and showed the new season of CTC TV series "Molodezhka" 7 days before the premiere showing. Viasat (TV 1000

Play brand) cooperates with MTS and ER-Telecom. This activity leads to increase in the number of subscribers, as well as their content awareness.

4.4. Digital Distribution Platforms

Google Play and iTunes were researched in the digital distribution platforms segment. These market players were selected for individual attention due to their position in the market.

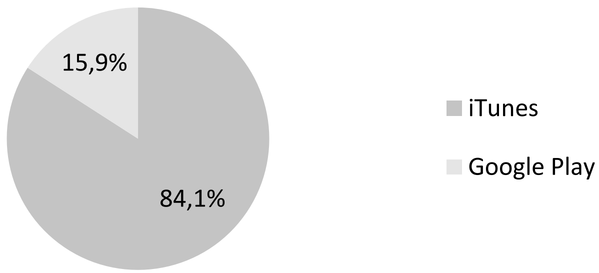
- These services are presented by the companies that had developed and are supporting their own operational systems that are being pre-installed on all new mobile devices.
- They enjoyed privileged status on the Russian market until 2017, as their services were offered VAT-free.

J'son & Partners Consulting estimate that revenue of digital distribution platforms in 2016 was Rub 660m, (Euro 8.9m) – a 14% growth in comparison to 2015. Users in this segment are divided into several, almost never overlapping, groups. Owners of Apple products (mobile and desktop devices) use iTunes. It is possible to purchase or rent video on Google Play from any PC, although until recently only Android-based mobile users were the key revenue source.

Apple generates more revenues than Google, and does so with a substantially smaller audience. The difference between iTunes and Google Play revenues in 2016 did not change. Microsoft does not have any measurable revenues on the Russian legal video service market, as was the case last year, due to the lack of adaptation of Microsoft Movies & TV in Russia. The service was launched in the middle of 2015, but there has been no Russian language option, appropriate prices, or local content to date.

Market players and their 2016 revenues in Russia are shown in Figure 21.

Figure 21: Revenue Structure in the Digital Distribution Platforms Segment, 2016

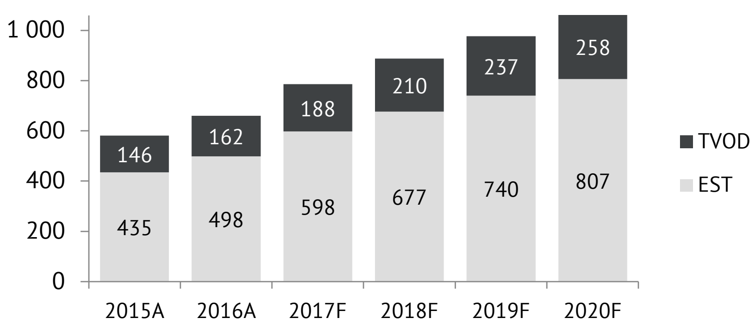


Source: J'son & Partners Consulting

The key distribution platform in this segment is mobile devices, with 94%; the remaining 6% is attributed to desktop computers and Smart TV.

J'son and Partners' forecast of the revenue growth of digital distribution platforms' by monetization models is shown in Figure 22. The forecast is based on the assumptions of continuing customer loyalty and some price increase on the content lease and purchase by foreign companies. The demand on content lease will grow faster due to the increasing availability of mobile internet.

Figure 22: Digital Platforms Revenue by Monetization Models, Rub bn, 2015-2020



Source: J'son & Partners Consulting

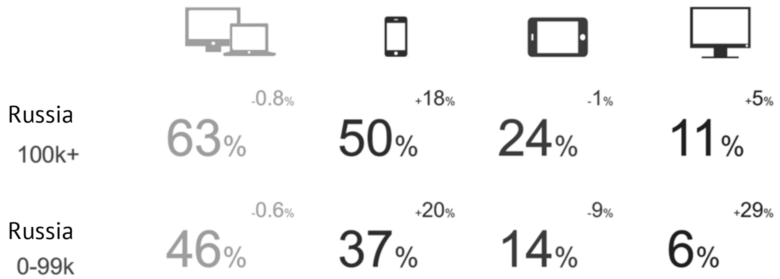
5. The Consumption

The challenge of standardizing measurement of Internet audience (and video viewing) via desktop PC, mobile devices and Smart TV has not yet been adequately solved. Therefore, below you will find the results of the studies done separately for each of these types of devices, as well as J'son & Partners Consulting data received via market players' survey.

According to Mediascope data, Internet audience in Russia from May to October 2016 has reached 86 mln. people, which accounts for 70% of the total population of Russia over the age of 12. This is a 4% growth over the same period in 2015. 17% of the population in cities with less than 99 000 inhabitants, and 12% of the population in cities of 100 000+ people are still not connected to the Internet. Potential growth is not high, as the rest of the audience is comprised of the elderly people.

The rate of internet penetration by devices is shown in Figure 23. The use of desktop PCs and laptops for Internet access is rather stable: 63% of population in cities with over 100 000 inhabitants and 46% in other urban areas. The major growth per year is attributed to the smartphone segment (+18% and +20%, accordingly). The number of tablets connected to the Internet in small cities has dropped, which can be attributed to the increasing purchases of big screen smartphones. The number of connected Smart TVs is relatively low, which explains why the growth seems significant.

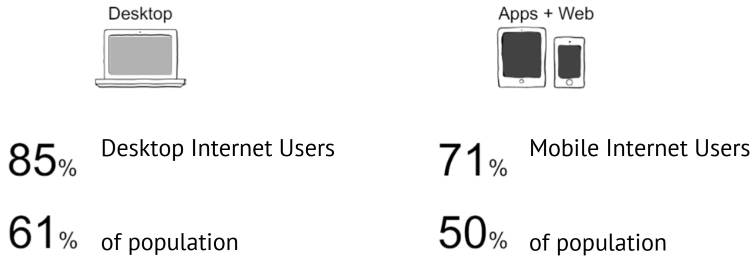
Figure 23: Internet Penetration Rate by Devices, % of Population, Russia



Source: TNS WEB-Index Establishment Study, May'16-October '16, growth to May'15-October'15, ages 12+, Monthly Reach, % of population

The average monthly coverage of studied video services on desktops and mobile devices for January 2017 is presented in Figure 24. Half of the inhabitants of large cities access the video services at least once a month. As is expected, the viewing measurements which include social networks will show higher indicators.

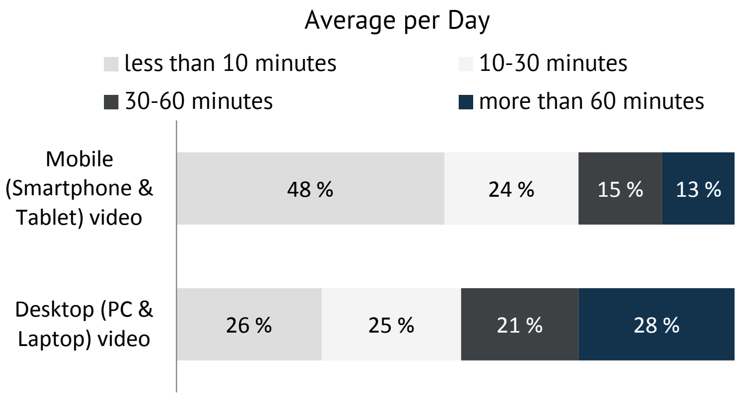
Figure 24: Video Sources Audience, Russia, Cities 700k+



Source: TNS WEB-Index Russia 700к, ages 12-64, monthly coverage, January 2017

Figure 25 shows the audience distribution by the length of viewing on mobile and stationary devices. Big screen viewing is more suitable for full-length video, while it is more convenient to watch short videos on mobile devices.

Figure 25: Duration of Video Viewing in the Internet, Russia, Cities 700+



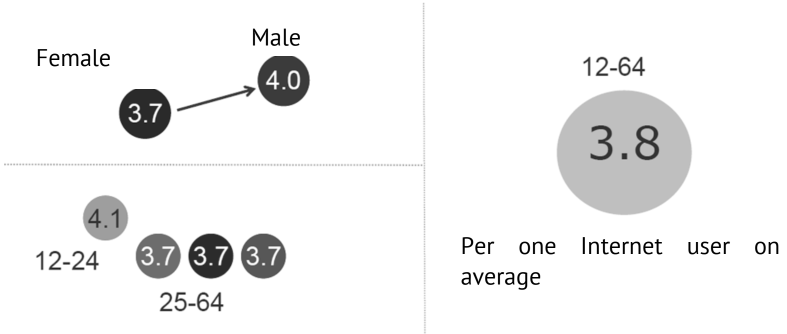
Source: TNS WEB-Index Russia 700к, ages 12-64, Monthly Reach, January 2017
% of users of video services for each type of device spending the indicated amount of time

5.1. Desktop Audience

The primary source for Internet access and video search in Russia today is desktop or laptop PC. The average viewing time for such users is 39 minutes per day. Mediascope data indicates that people in the age category of 45+ are the most frequent users. The revenue share of young adults (age 12-17) among the users of video services is almost the same for mobile and desktop devices.

Online cinema users do not tend to be as loyal, and male users tend to review more options while searching for the desired content. On average, each user visits 3.8 targeted sites per month. Young people (age 12-24) do so more often (4.1 times per month), while other age categories average 3.7 visits per month (Figure 26).

Figure 26: Number of On-Demand Video Services per User for Different Audience Groups by Month - Russia, Desktop



Source: TNS WEB-Index Russia, ages 12-64, August 2016

As is indicated in Table 5, search engines, social networks and video services are the top 3 online services by the frequency of visits. Russians tend to watch video and use social networks more frequently on weekends.

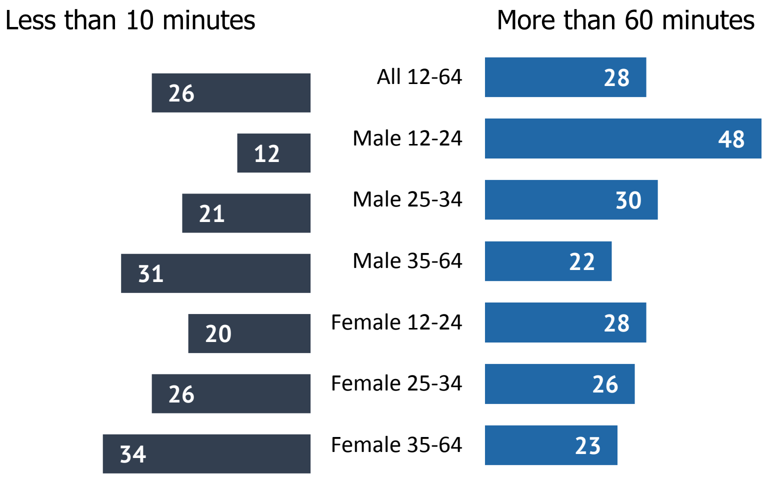
Table 5. Online Services with Highest Coverage, Russia, Desktop

	Monthly Reach		Duration of usage, minutes per day	
	Mln. people	%	weekdays	weekends
Search engines	55.5	53%	4	4
Social networks	53.3	51%	50	59
Video services	51.7	50%	45	56

Source: TNS WEB-Index Russia, ages 12-64, Monthly Reach, January 2017

In general, the duration of video viewing on PCs does not seem to be long. Only 28% of Russians watch full-length movies at least once per month. The leading category here is men in the age range of 12-24. Almost half of this group (48%) spend over 1 hour on viewing monthly. Russians in the age range of 35-64 watch mostly short-length videos, mainly up to 10 minutes (Figure 27).

Figure 27: Percentage of Video Users within Social-Demographic Group, Desktop



Source: TNS WEB-Index Russia, ages 12-64, January 2017

TNS has been measuring the desktop PC audience for a long time, and its research has become a market standard for this market segment. J'son & Partners Consulting conducted separate analysis of the number of online cinema and TV channel site users. The average monthly platform coverage (number of people who visit the online resource at least once per month) is a comparable indicator. Table 6 shows the dynamics of accumulated coverage of video services between 2013 and 2016, for December of each year.

Table 6. Online Cinemas Audience by Desktop Devices

Online-Cinema	December 2013	December 2014	December 2015	December 2016
Youtube.com	43 777.1	47 482.7	43 564.3	44 399.4
Kinopoisk.ru	15 388.6	17 188.7	14 797.9	13 644.0
Megogo.net	6 293.7	9 297.4	6 096.6	6 592.6
Ivi	8 494.6	9 935.5	5 737.9	4 921.3
Rutube.ru	7 395.6	9 362.6	5 496.7	4 648.4
Tvigle.ru	4 194.1	1 060.6	4 582.6	n/a*
Zoomby.ru	9 841.3	9 405.7	3 287.9	n/a*
Tvzavr.ru	3 225.2	1 050.8	837.7	n/a*

Source: TNS, Russia, Web Index, Monthly Reach, thousand people, ages 12-64, Russia

In December 2016 YouTube remained the largest video service on the Russian Internet. About 13.9m people visited this site daily during the month; each watched an average of 44.4 pages (videos). The audience of Russian analogue – Rutube – in December 2016 was less than 4.6m people, with 300 000 visits per day and 4.4 videos per viewer. Kinopoisk attracted 13.6m people per month (Yandex did not yet determine the refocusing of this website), with 1.2m people visiting the site in average per day, viewing 5.1 pages.

Other measurable online cinemas are divided in two groups: platforms on which desktop audience is decreasing (the majority) and those with a stagnant audience. The difference may be explained by the policies of the companies. Many of them (such as ivi or Megog) are focusing on developing paid models that monetize better on mobile devices and Smart TV. The model allows the market players to increase their audience share in this segment. Others are trying to keep their desktop audience, as it is being fully measured now and it is easier to monetize under the advertising model.

The general desktop audience for TV channel websites is decreasing, although the number of viewed pages (videos) is constant and amounts to 2.5 per day. "Lost users" can be found on mobile devices. Mediascope has announced that is going to start measuring this audience in cities with 100k+ population in 2017.

Table 7. TV Channels Audience by Desktop Devices

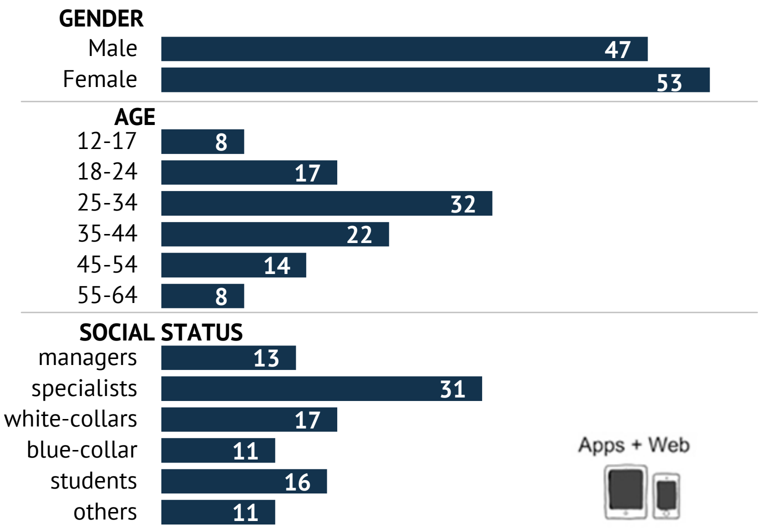
TV Channel	December 2013	December 2014	December 2015	December 2016
Vesti.ru	11 938.5	12 773.4	9 849.7	8 311.0
Tnt-online.ru	3 125.3	5 271.5	4 333.5	3 207.5
Tvc.ru	2 073.6	3 506.0	4 136.6	2 052.6
Russia.tv	1 959.6	3 824.1	2 945.9	2 313.8
TVrain.ru	2 849.4	3 204.9	2 743.1	2 553.0
Ctc.ru	3 142.3	2 163.0	1 601.1	1 666.0
Dom2.ru	1 994.4	1 646,5	1 421.3	622.7
Videomore.ru	2 312.2	1 158.7	833.3	1 027.6
Friday.ru	311.8	497.8	766.0	695.2
Domashniy.ru	34 338.0	798.1	426.8	362.9
JV.ru	435.5	503.4	417.4	n/a*
1tv.ru	6 868.4	7 377.9	n/a*	n/a*

Source: TNS, Russia, Web Index, Monthly Reach, thousand people, ages 12-64, Russia *
n/a – are not presented in TNS report.

5.2. Mobile Audience

According to TNS data, half of the population of large cities in Russia use video services via mobile devices at least once per month. The structure of this audience is shown in Figure 28. "White collar" group (managers, specialists, etc.) in the age of 25-44 dominates this structure.

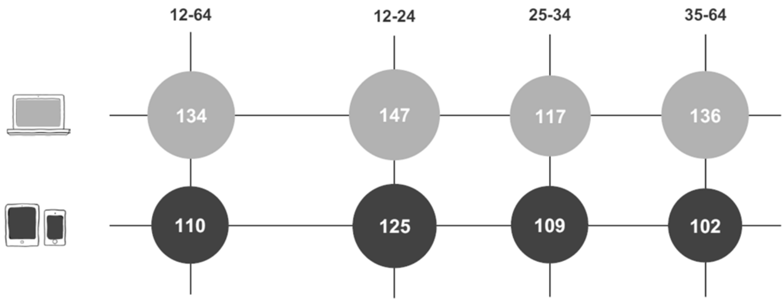
Figure 28: Video Services Audience Structure, Russia, Cities 700k+



Source: TNS WEB-Index Russia 700к, ages 12-64, January 2017, Monthly Reach

Time spent on the Internet on mobile devices is still on average lower than via desktop. This is applicable to all age groups (Figure 29) and this difference causes the reduction of video viewing time in comparison to the users of desktop computers.

Figure 29: Time Spent on the Internet, by Type of Devices, Russia, Cities 700k+



Source: TNS WEB-Index Russia 700k, ages 12-64, January 2017, Monthly Reach

Table 8 shows the data for all services that have been included in TNS research in Russian cities with population 700k+. The services are ranged by the "Total mobile monthly reach" indicator. Additionally, this table includes the following data:

- Total monthly mobile reach – general accumulated reach of web-version and app
- Monthly mobile reach – web-version reach
- Mobile daily reach – average per day total reach per month
- Average number of days per user per month – average number of days that user utilizes resource from mobile device

Not many platforms have a large enough audience for accurate measurement. The most popular is YouTube: 12.3m people have used this platform on smartphone or tablet in December 2016; 6.9m of them launched via browser; 9m – via the app. The resource has the most loyal audience – on average, each user visits it 8 days per month.

Yandex//TV (tv.yandex.ru) is the second most popular site. In the beginning of 2017 many national TV channels formed an agreement with Yandex//TV on streaming simulcast in addition to TV programming. This is expected to substantially increase the Yandex//TV audience in 2017. Mobile version of Vesti.ru is and Rutube have approximately the same number of visitors. But fans of "official" news use the service more often.

Table 8. Mobile Audience of Video Services, December 2016

Video Service	Total Mobile Monthly Reach, ths.	Mobile Monthly Reach Web, ths.	Mobile Daily Reach, ths.	Average Number of Days per User per Month
YouTube	12 345.0	6 963.0	3 669.0	8.0
tv.yandex.ru	1 674.0	1 674.0	205.0	3.3
Vesti.ru	1 106.4	1 098.8	76.3	2.3
Rutube	1 046.2	1 021.5	51.8	1.5
ivi	557.5	400.5	36.5	1.9
Tnt-online.ru	469.3	406.2	24.9	1.7
TVrain.ru	336.2	332.2	34.5	3.5
Russia.tv	258.1	249.1	*	1.3

Source: TNS WEB-Index Russia 700k, ages 12-64, December 2016

5.3. Smart TV Audience

According to J'son & Partners Consulting estimates, in 2016 Smart TV reached 13.8m devices in Russia. Sales volume increased slightly in comparison to 2015, but is substantially lower than in 2014. Forecast for 2020 indicates that sales will reach 4.1m units per year, bringing the total number in operation to 27.6m units.

Samsung statistics for 2016 show that the number of active Smart TV users is growing. The number of users of such TV sets connected to the Internet increased by 20% from 2015. LG indicates that 75% of Russian customers are connected to the Internet. These numbers correlate to data represented in TV Index research by TNS (in Russia, cities 100k+ population):

- 28.6% of all TV sets owners had Smart TV in 2015. 66.4% of them were connected to the Internet
- 31.3% of all TV sets owners had Smart TV in 2016. 69.3% of them were connected to the Internet

On average, Smart TV users launch 3 different apps per month. Up to 20% of such users are willing to pay for the content. The majority of this audience prefers movies and talk shows in Full HD quality. UltraHD and 4K standard will be appealing to them in the future.

Table 9. Long Content Viewing by Genres on Smart TV, Cities, 2015-2016

Content Genre	2015 Share %	2016 Share %
Foreign Feature Films	23	17
Domestic Feature Films	16	16
Foreign TV Series	9	15
Domestic TV Series	15	13
Entertainment Programmes, Talk Shows	13	12
Documentaries	-	8
Full-Length Animated Films	5	4
Public and Political Programmes	-	4
News	-	4
Cartoons and Cartoon series	7	3
Sport	-	3
Other	12	n/a

Source : TV by TV users' eyes, VI, urban population in Russia, 2015-2016, ages 15+
n/a – share of genre was not estimated in the reported year

The growth of the Smart TV audience (mostly paid) and changes in user preferences impacted this segment of popular content genres. Table 9 provides TV by TV Viewers Eyes data , conducted annually by Analytical Center Vi. In comparison to 2015, the Smart TV audience:

- Decreased demand for foreign feature films
- Increased interest in foreign TV series
- Decreased growth in cartoons and cartoon series

5.4. Average Monthly Number of Viewings

Audience coverage and average monthly number of viewings are two main factors in comparing audience volume. Both of these factors have their pros and cons, and it will be inaccurate to name someone a market leader only by one of these indicators. Coverage, on the one hand, shows the number of real people – users. Some sites, however, provide information solely about "unique users", which in this case is a browser, not a person. On the other hand, the number of viewings is high for resources that offer short video. As a result, this indicator is somewhat inaccurate in comparison to that for the UGC audience and professional full-length content.

Nevertheless, viewing for different types of devices can be integrated, and this indicator may be used for comparison of the video services audience. J'son & Partners Consulting computed the results from its own research and from other research companies (see Table 10).

Table 10. Average Monthly Views Number by Devices, 2016

Service	Average Monthly Number of Viewings by Devices (thousand):					TOTAL
	Smart TV	STB	PC	Mobile Devices	Games Consoles	
ivi	104 626		52 313	36 813		193 752
1 Channel	3 990		79 800	49 210		133 000
Megogo	15 976	1 141	85 584	11 411		114 112
CTC Media	1 899		55 704	5 697		63 300
Tvigle	7 695	513	30 780	12 312		51 300
TVzavr	10 750		27 090	5 160		43 000
Rostelecom		1 735	200	65		2 000
Okko	1 200		218	15	68	1 500

Source: J'son & Partners Consulting

It is more accurate to provide data by average paid subscribers for services that earn their revenue from subscription, as shown in Table 11.

Table 11. Monthly Average Number of Subscribers by Devices 2016

Type	Service	Average Monthly Allocation of Paid Subscribers by Devices (thousand)					TOTAL
		Smart TV	STB	PC	Mobile Devices	Games Consoles	
Online-Cinema	Amediateka	30	76	14	80	0	200
Operators	Rostelecom		153				153
Operators	Beeline TV		17				17

Source: J'son & Partners Consulting

6. Content Overview

The content of legal video service libraries differs substantially, depending on monetization schemes. This chapter analyzes the content library structures of four market segments, taking into account the specifics of each.

Online Cinemas

Due to major differences in business models and video libraries, online cinemas are categorized into four groups:

- Free
- Paid
- Combined
- Mostly with UGC content

Free

The first group of services that use only the advertising revenue model includes online cinemas such as Zoomby and Tvigle. Of the two, Tvigle's library is the most diverse. Table 12 shows Tvigle's library content. Zoomby experienced difficulties in conducting business in 2016 and its future is under question.

The Tvigle Video Library includes movies and TV shows (mostly Russian), various specialty programmes, music movies and short videos, and children content. Its distinctive feature is the availability of several other types of content besides movies and series: hobbies, humor, Russian music, content for children, and Russian cinema. The vast selection provides a catalogue that is searchable in accordance with the users' preferences. In 2016, the service refocused on content produced in Russia (mainly TV series) and is planning to launch its in-house produced content in April 2017.

Table 12. Free Online Cinema Video Content Overview, 2016

Platform	Content, Unique Units	Library Content	Share of Foreign Content
Free			
Tvigle	30 000	Movies, series, music video or short video (hobby, humor), children's content	10%

Source: J'son & Partners Consulting

Paid

Okko and Amediateka provide paid content access. They do not have tens of thousands of items in their libraries, as their main priority is to provide the newest movies. In 2016 the revenue structure of these companies was as follows:

- 50% - premiere movie releases
- 30% - movies produced in 2015
- 20% - cinema library

Table 13. Paid Online Cinemas Content Overview, 2016

Platform	Content, Unique Units	Library Content	Share of Foreign Content
Paid			
Okko	6 500	Movies, series, children's content	85%
Amediateka	500	Movies, series, programme and shows	90%

Source: J'son & Partners Consulting

Okko's content library consists almost entirely of full-length movies from studios such as Disney, Warner, Fox, Sony, Universal, and Paramount as well as leading Russian studios. Amediateka's main feature is the subscription-based broadcast of TV series by HBO, Showtime, Starz and ABC simultaneously with the worldwide broadcasting of these shows. Two more options were added in 2016: "The Best TV Series by ABC Studios" and "Kino1TV". Users may subscribe to them separately or as a bundle.

Mixed (Combined) Services

Under this model, part of the content is accessible with commercials and the other part either via subscription or with payment per transaction (pay per view model). This approach combines a wide range of content with the ability to purchase popular and/or premier items.

Megogo offers different categories of content – movies, series, cartoons, programmes and shows, premiers, and music videos. Premiers are only accessible in "Premier" section, where user pays per content unit, and with an "M+" subscription. Service ivi offers movies, series, cartoons, programmes and music. Ivi+ provides premiers and action movies with a subscription or with payment per unit. There is a separate ivi.tv portal where channels are formed in accordance with user search history. TVzavr bundled its offer into several categories: movies, series, cartoons, children's content. It also offers different selections ("The best movies of 2015", "Romance movies" etc.) as well as different genres ("Retro", "Fairy tales", "Humor", "Drama"). Additionally, there is a special category "New to Us" with paid Russian and foreign premier content.

Table 14. Mixed Online Cinemas Video Content Overview, 2016

Platform	Content, Unique Units	Library Content	Share of Foreign Content
Mixed (Combined)			
MEGOGO	78 000	Movies, series shows, music videos	42%
ivi	12 544	Movies, series, children's content	49%
TVzavr	15 000	Movies, series, children's content	37%

Source: J'son & Partners Consulting

Free and paid/free platforms develop sub-services/portals (music, children's portals, anti-virus, games). For example, portals focused on children's content were launched by ivi and Tvigle. It is often possible to find special portal dedicated exclusively to news or music videos. In 2016 TVzavr added a "Games" section on its main page.

In order to differentiate from competitors, services are searching for new original "moves". Ivi produces its own content ("Nevesta"), while Megogo has launched multiscreen broadcasts of public cultural events (www.megogo.net/live) and streams over 200 TV channels.

Mostly UGC Content

Video hosting services, such as Rutube and YouTube, are filled with a variety of content, but UGC is the primary one. The total volume of these libraries are in the millions of titles. Rutube uses only a free (advertising) monetization model, while YouTube provides paid content with much higher quality. YouTube runs its "Cinema" service via agreements with the largest global production studios, such as Sony Pictures, Universal, Warner Brothers, Lionsgate Films, Magnolia Pictures, The Weinstein Company and Starz.

YouTube also offers YouTube channels which carry professional video as well as video supplied by bloggers. EPICSTARS estimated that there are 19 272 YouTube channels in the Russian segment. Table 15 shows the top 5 YouTube channels by total number of viewings, which includes mainly video blogs and content for children. These two categories have the highest number of views despite the limited amount of content.

Table 15. Top-5 YouTube Channels by Views, 2016

	Channel Name	Genre	Content, Unique Units	Years in operation	Monthly Average Views
1.	Masha and Bear	Cartoons	466	5.5	145 863
2.	Miss Katy	Child's Video Blog	607	2.3	129 940
3.	Mister Max	Child's Video Blog	696	2.4	116 405
4.	Get Movies	Films, Series	2 771	9	94 919
5.	Teremok TV	Cartoons	2 753	5	51 096

Source: EPICSTARS

TV Channels

These web services mostly broadcast TV programmes of their own TV channels. In 2016, however, web services began expanding their external content. CTC Media and TNT provide access to their series and programmes for free, whereas Channel 1 partially uses the paid monetization model. Kino1TV.ru has a paid online cinema with subscription or rental, and offers full-length movies and series with copyrights belonging to the company.

Table 16. TV Channel Video Content Overview, 2016

Platform	Content, Unique Units	Video Library Content	Share of Foreign Content
CTC Media	1 701	Movies, series, programmes and shows, children's content	37%
TNT-online.ru	1 600	Series, programmes and shows	90%
1TV.ru + Kino1TV.ru	180	Movies, series, programmes and shows	95%

Source: J'son & Partners Consulting

Operators

Operators combine subscription and paid video monetization models. Their approach to building a content library is therefore similar to paid online cinemas. Their options focus on full-length movies, usually premieres; under the subscription model they also offer series, cartoons, and entertainment programmes. The share of foreign content in video libraries is approximately 75 - 85%.

Table 17. Operators Video Content Overview, 2016

Platform	Content, Unique Units	Video Library Content
Beeline TV	5 000	Movies, series, children's content
Rostelecom	3 000	Movies, series, programmes and shows, children's content
Megafon TV	4 000	Movies, series, children's content

Source: J'son & Partners Consulting

Digital Distribution Platforms

This group of video services has tens thousands of content units in their video libraries. Apple (iTunes) and Google (Google Play) are signing contracts with all major studios and provide their subscribers with access to the best-selling movies. The core product is foreign content accessible on paid terms.

Table 18. Digital Distribution Platform Content Fulfillment, 2016

Platforms	Content, Unique Units	Types of Content	Video Library Content
iTunes	77 000	Video	Movies, series, programmes, shows, children's content
Google Play	n/a	Video	Movies, series, programmes, shows, children's content

Source: J'son & Partners Consulting.
** Estimation For iTunes is based on unique content units available for viewing in Russia*

7. Recent Changes in Regulation

Key legislative changes for 2016 represent the continuation of the trends established in 2015. Among these trends are the MCU Bill and anti-piracy campaign. Additionally, a requirement for distribution certificates, which allow permission to screen movies in online cinemas, was implemented as well.

Media Communication Union Law (MCU)

State Duma has approved the initial version of the law on the regulations of online cinemas in May 2017. The document is an amendment to the laws on information and communication that regulate the operation of online cinemas. Currently, the law essentially equalizes the owners of online cinemas with the mass media; foreign share in such services is limited to 20%. Video services will also have to be registered in the Roskomnadzor (Federal Supervision Agency for Information Technologies and Communications) list and approve the content prior to its upload to confirm that there are no violations of the Russian legislation.

However, these rules are not applied to companies whose activity is regulated by an international contract or by decision of the government commission controlling foreign investments. There is no clear vision as to which type of internet companies the new law is applicable. For example, it is still unclear whether YouTube is regulated by this law. After the implementation of paid online TV service (Unplugged) in 2017, the service should be under its legislative restrictions. Moreover, the video hosting is posting not only user content but also the professional type, and there is no method to distinguish one from another. The same fate is awaiting Yandex and Mail.ru, as they not only provide links to content but also show the content.

Anti-Piracy Campaign

Current anti-piracy law allows content copyright owners to temporarily block illegal sources. This occurs when the court proclaims the service in violation of intellectual rights at least twice. However in this case piracy websites can transfer their content to other domain zones where they create fully operational clones of the previous versions, or so called “mirror” sites.

The Ministry of Communication has developed another legislative initiative that offers blocking of such “mirror” sources. It proposed to implement a legal definition of “derivative site in the Internet space” and develop an out-of-court procedure for blocking access to such sites.

Another new legislative measure is for search services such as Yandex and Google to delete links to pirated sites (that had been temporary blocked) from their search lists. Search engines do currently delete such links under request of copyright owners. Nevertheless, copyright owners are not fully satisfied with this approach, as it takes a lot of time to delete the links, and in many cases the piracy sites have time to attract an audience by posting, for example, a Hollywood premiere.

The draft law was reviewed and accepted by State Duma in the first reading.

Distribution Certificates

As of February 27, 2016, the Ministry of Culture of Russian Federation required all online cinemas to obtain distribution certificates for broadcasting movies, similar to those that were previously required only for offline cinemas. The new rules do not apply to TV channels, their online versions and online shops that sell movies. The Ministry of Culture specifies that distribution certificates are being issued for three types of movie use: demonstration in brick-and-mortar cinema halls, demonstration on physical devices, and demonstration by other technical means.

The distribution of movies by TV sources (including online versions of TV channels) is not directly included in this definition. Movies downloaded on user devices are not considered as movie “demonstrations” in accordance to this law. Demonstration via VOD service falls under the definition, but ministry officials state that obtaining distribution certificate will be required if the applicant intends to show a movie that does not already have such a document. Online cinemas don’t have to obtain these distribution certificates on all units of their catalogues, as the new rules apply only to movies produced after 21 December 2016.

The cost of compliance with the new law on distribution certificates can be significant. First, services are publishing large amounts of content that is being created for online distribution. Second, different types of rights can be owned by different legal entities (broadcasting, TVOD and SVOD distribution), and it might not be always possible to acquire them. Lastly, there are some types of videos that might not need Internet broadcast distribution certificates, such as series, documentaries and other non-full-length products.

8. Key Trends

8.1. Recent Developments

A few of the legal video services market tendencies from 2015 are still applicable in Russia, including the following:

- The blockage of pirated sources. This directly affects the behavior of most users and as a result supports the increase of revenue by paid monetization models
- An increase in cooperation of online cinemas with telecom operators. Russian operator Tricolor, which has the largest number of pay TV subscribers, launched the VOD service in cooperation with TVzavr in November 2016

There are some new factors that will influence the market in the future. In 2016 J'son and Partners Consulting emphasized the following:

- Government attention to the industry
- Increasing demand for paid content
- Continuous expansion of Russian online cinemas on the global market.

Increasing Government Attention to the Industry

In 2016 the most discussed topic at specialized conferences was “OTT is a non-regulated sphere”. It was partially correct; there are no special restrictions imposed on online cinemas, for example.

The establishment of Media Communication Union (MCU) was announced in February 2014. Formally, this is a nonprofit organization that develops proposals on industry development strategy and legislation improvements that will establish the principles of content distribution and its protection from piracy as well as promote general quality standards. In reality, MCU is a consortium of several of the largest communications operators and media holdings, many of which are either under direct government control (VGTRK or Rostelecom) or close to this stage (National media group, CTC Media, Gazprom-Media).

As a result, in the reported year the key topic was regarding excessive regulations. MCU prepared amendments to the current legislation in the area of online cinema management. The new law essentially equalized the owners of online cinemas with the mass media and decreased the share of foreign capital participation. Online cinemas and internet companies expressed their objections to the published text of the proposed legislation; Government Expert Council had provided a negative review of the draft bill. Nevertheless, despite the protests, the bill was delivered to State Duma almost without any amendments.

To expect foreign investments in Russian online cinemas in such terms is not realistic. It is also impossible to make full launches of foreign service. Below are two prime examples:

- In the middle of 2016 LeEco, a Chinese company, expressed its desire to launch in the Russian market by purchasing a local player or by launching its own platform. LeEco's representatives held several meetings with a variety of large companies and headhunted leading experts, announcing large investments in the content and devices. However, by the end of the year, the company almost closed its operation in Russia, due to the risks associated with the MCU bill.

- The official launch of Amazon Prime in Russia on 14 December 2016 does not change the total picture (programming is in English language, only a few movies have Russian subtitles, payment is in USD). By the same model, Netflix launched the service in Russia in the beginning of 2016. However, it announced only one purchase of domestic (Russian) movie within 11 months. No other changes happened to the Russian version of Netflix.

Increasing Demand for Paid Content

The key trend of the last year was an increasing revenue in paid TV content. The average market figure saw an increase of 50.4% compared to 2015. By comparison, the advertising model revenues increased only by 22.4%. This was primarily due to the increasing number of subscribers of paid TV services (purchase and rent of content, subscription).

Pay TV in the IPTV segment and digital cable TV subscriber bases continue to increase in Russia. By offering new services to subscribers, operators promote newly available types of services. VOD is the most relevant format for linear TV viewing. Operators like Rostelecom offer their clients the opportunity to watch movies at their leisure, and to pay for them via one TV and Internet bill at the end of each month. Small operators offer access to online cinemas ad-free within their TV subscription plans.

Online cinemas actively attract paid users. According to the available data, the number of such users doubled on average. New foreign feature films and subscriptions to children's content are in the highest demand. TV channels offer subscription for ad-free viewing of shows and series, with an option for ad viewing before the broadcast. Sometimes, new series are available for payment one week before their premier showing on TV.

Further Expansion of Russian Online Cinemas in the International Market

2016 was proclaimed as "The Year of Russian Cinema". This slogan was used by TVzavr.ru when it launched the Russian Cinema app in 248 countries. It is available on Smart TV, mobile devices and Ruskino.net. By the end of 2016, it had 3 million users. Monthly subscription outside Russia costs $4 or 4 EUR, depending on the country.

By the end of 2015, ivi.ru allowed access to CIS countries. Online cinema became the largest service by the audience size in these countries, including Russia. International expansion was carried out via ivi.tv portal. The company plans to launch in the United States and European countries, where they will focus on distribution of domestic movies. The ivi.tv app will also be launched for different platforms – smartphones, tablets, PCs and Smart TV. Smart TV is considered to be the main platform for video content distribution abroad.

Tvigle has been operating in neighboring countries for a long time and is developing its prospects in Baltics. There are currently some restrictions for users in different countries. For example, in Belarus and Kazakhstan only 20% of content is available, due to lack of copyrights.

Since 2012, Megogo operates not only in Ukraine (domestic market for the company) but also in Russia, Baltic and CIS countries. The company stated that the number of unique subscribers in 2016 was 43.2 mln. users, with 29.2 mln. in Russia and 9 mln. in Ukraine.

8.2. Key Market Trends

Online cinemas are expected to remain the key market players and will continue the development and expansion on all of their distribution platforms. They will also increase the cooperation with operators who are interested in getting ready-made products in the form of a content library. Online cinemas announce their profitability more frequently (ivi in 2014, Tvigle in 2015, TVzavr in 2016).

TV channels will boost their revenue by increasing their online audience and by implementing changes in their structure, as well as by applying paid monetization models. The expansion of paid content distribution channels by provision of additional services, such as catch-up, will be an addition to TV service revenues for telecom operators.

Telecom operators will continue developing VOD services. Large market players will do so independently (example of Tricolor TV cooperation with online cinemas is a temporary exception to the rule). Small and mid-size operators will operate on a revenue-share model with online cinemas.

Digital distribution platforms will offer new user friendly interfaces and will likely increase prices in order to cover the VAT expenses.

Increasing Number of Commercials in Video

AVOD revenues are growing in the Russian market. Changes in the market (monopolization of commercial sales on TV within a single seller) can result in a deficit of TV inventories which will be compensated by in-video commercials.

New Monetization Models

In addition to the conventional models, in the near future we might witness the emergence of new ways of making profits by online cinemas. For example, paying for ad-free service has become a key source of revenue to video services that sell ads.

8.3. Key Trends in Distribution Devices

Increase in The Number of Smart TV Applications and Content, Improvement and Simplification of Functionality

Smart TVs are becoming increasingly perfected devices. They are not likely to replace traditional TV sets in the immediate future, but they are the most secure sources for the monetization of legal digital content.

Increasing Number of IPTV and Digital TV Subscribers

The IPTV subscriber base in Russia is one of the fastest growing pay TV segments, judged by the results of 2016. Cable operators are actively trying to switch their users from analogue to digital cable TV. Satellite providers now promote new hybrid set-top boxes with Internet access. All of these factors will increase the number of pay TV subscribers who are using a video-on demand service.

Cross-Platform / MultiScreen

This feature is defined as the simultaneous or consequent consumption of different (or the same) content by the same user via several devices of different categories, such as: PC (laptop), mobile devices, Smart TV, set-top boxes. Users actively exploit the opportunity not to interrupt their content viewing due to the presence of several (five for now) devices at their disposal. For instance, they may start watching the content on Smart TV and finish doing so via any mobile device in any other place. This trend affects the technical requirements for organization of legal video services.

8.4. Key Trends in Content and User Interaction

The content policy of a portal depends largely on business model logic, as well as the behavior of the viewers. For the pay-per-transaction model, it is more important to have popular content items, while exclusivity and novelty are logical competitive strengths of the commercial model. The advertisement-based revenue model bases its success on the ability to match the taste of the broad range of its target audience.

HD - "De Facto" Standard, Experiments with 4K

HD content is one of the primary movers of paid monetization models. This format is becoming a de facto standard for particular video genres. OTT services analyze users' demands for Ultra-HD. Key deterrents on the way of 4K standard implementation are:

- Lack of 4K Cable box and low forecasts of its growth
- Lack of the content (maximum 30 items in online cinema libraries)
- Requirements to the internet channel carrying capacity (bandwidth)

In-House Content Production

Online cinemas are striving to produce proprietary content. Their main goal is to differentiate themselves from the competitors; since as the standard video library increases, the difference between the services disappears for the users.

Further Development of Advisory Services

2015 saw the development of user recommendation systems by several services (Nemo TV, ivi, Megogo, MOYO et c.). This trend continues in 2016. Some players chose to offer extra content items which the user may view directly after the end of the previous one. Some developed "channels", which are individually formed for each user, on a basis of viewing history analysis. The primary purpose of these changes is to simplify the problem of choice and to keep the user on the screen for as long as possible.

Development of a Content Ecosystem

Technology trends often play an important role in the development of trends in the content sphere by providing and expanding the opportunities of content delivery or by setting specific conditions for market players. Multimedia info-communication, based on the inclusion of all other content forms in user communication, is becoming an important user interface requirement. It is also essential that every content item page provides an opportunity to share the link via social networks. The combination of socialization elements and adaptive systems with recommendations and interaction inspire users to gather around the resource, thus forming a fully functioning ecosystem.

Increasing Number of Legal Content on the Internet

This trend was mostly formed by the Antipiracy Law. In order to avoid access blockage, owners of semi-legal sources have to cooperate with copyright owners to get their permission to use the content or place the player in it.

Linear TV Integration into Online Cinemas

Online cinemas also provide the opportunity to view linear TV. The content of this feature will grow as the demand for video-on-demand increases.

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