THE FILM INDUSTRY IN THE FEDERATION OF RUSSIA

A report for the

European Audiovisual Observatory

by

Nevafilm

with contributions from

RFilms

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Chapter 1.

THE FILM INDUSTRY IN RUSSIA: INSTITUTIONAL FRAMEWORK

1.1 AN OVERVIEW OF STATE POLICY GOVERNING RUSSIAN CINEMATOGRAPHY

1.1.1. The activities of federal authorities in cinematography

Regulation of cinematography at the federal level in the Russian Federation is the function of the Ministry of Culture. Its structure includes the Department of Cinematography, which consists of 5 units[1]. In its capacity of an executive authority, the Ministry of Culture supports the production and distribution of national films in the Russian Federation and organises various events, such as film festivals within Russia, weeks of Russian cinema abroad, presentation of the Russian film industry during international film festivals and film fairs (including participation of Russian films in the main international film festivals, organisation of stands and pavilions for Russian films during film fairs, etc.), international fairs and forums of co-produced films within Russia, special conferences and roundtables.

In addition, the Ministry of Culture:[2]

- issues distribution certificates for film products released for distribution across Russia (including film, DVD and video distribution, and TV broadcasting in every format)[3];
- issues 'national film' certificates[4];
- runs the joint State Registry of Cinema and Video Films[5];
- executes the functions of the state customer in budgeted target programmes, including support in the production and distribution of national films.

In the course of its reorganisation during 2008, the Ministry of Culture was merged with the Federal Agency for Culture and Cinematography (which had initially been formed in 2004 in the course of administrative reform of the structure of the Russian Government[6]). Thus the functions of developing and implementing state policies in cinematography were united once again under the umbrella of a single executive authority. The controlling and supervising functions exercised by the Federal Supervisory Service in Legislation on Protection of Cultural Heritage have however remained under a separate structure.

Developing and implementing new initiatives, such as budgeted target programmes, new mechanisms for financing the film industry, reorganisation of film industry bodies that remain under state control, and updating current legislation aimed at improving the efficiency of state regulation are

1 Regulations on the Department of Cinematography under the Ministry of Culture of the Russian Federation, Ministry of Culture, December 9, 2008, № 234.
2 As per the Regulations on the Ministry of Culture of the Russian Federation, approved by the Decree of the Government of the Russian Federation of May 29, 2008, № 406, and Regulations on the Department of Cinematography under the Ministry of Culture.
3 Obtaining a distribution certificate is mandatory for film products issued to distribution in the territory of Russia, as per Order of the Ministry of Culture of Russia of September 27, 2004, № 60.
4 Regulations on 'National Films', approved by Order of the Ministry of Culture of Russia of September 27, 2004, № 60.
5 The film is entered into the State Registry upon receiving its distribution certificate.
6 Decision of the Government of the Russian Federation of June 17, 2004, № 291.

all the functions of the Ministry of Culture, which works in co-operation with the Ministry of Economic Development and the Ministry of Finance. The state currently controls 15 film studios and a number of industrial, scientific, educational, design and project development organisations within the film industry. State policies with respect to these organisations are implemented by the Ministry of Culture and the Federal Agency on State Property Management (Rosimushchestvo), which reports to the Ministry of Economic Development. The Agency structure contains a separate Directorate of 'Non-industrial Organisations and Foreign Property' that supervises cinematography organisations.

Since the Ministry of Culture reports to the Government of the Russian Federation, the Government Central Office includes a separate Department of Culture and Social Affairs that supervises the execution of Government assignments and takes decisions on various issues should application be made directly to the Prime Minister. At present there is only one cinematographic organisation that reports directly to the Government – the State Film Fund of the Russian Federation, which receives and stores original materials of national films and regulation copies of foreign films that are released for distribution across Russia.

In December 2008, a Government Council on the Development of National Cinematography was organised[7], which is intended to become a permanent consulting body to generate proposals linked with the implementation of state policy in cinematography. The principal objectives of the Council are to review and draft proposals on the following:

- improving the effectiveness of state support in the production, distribution and exhibition of national film products and in managing federal property in the cinematography sector;
- providing support in the promotion and distribution of national film products abroad;
- promoting education, scientific research and implementation of innovation in cinematography;
- developing protective measures with respect to the Russian film industry.

The post of the Council Chair was taken by the Russian Federation Prime Minister, which emphasizes the high importance attributed to cinematography at state level. The Government Council will review strategic issues in film industry development, promoting the prompt adoption of concordant decisions at a 'super-agency' level.

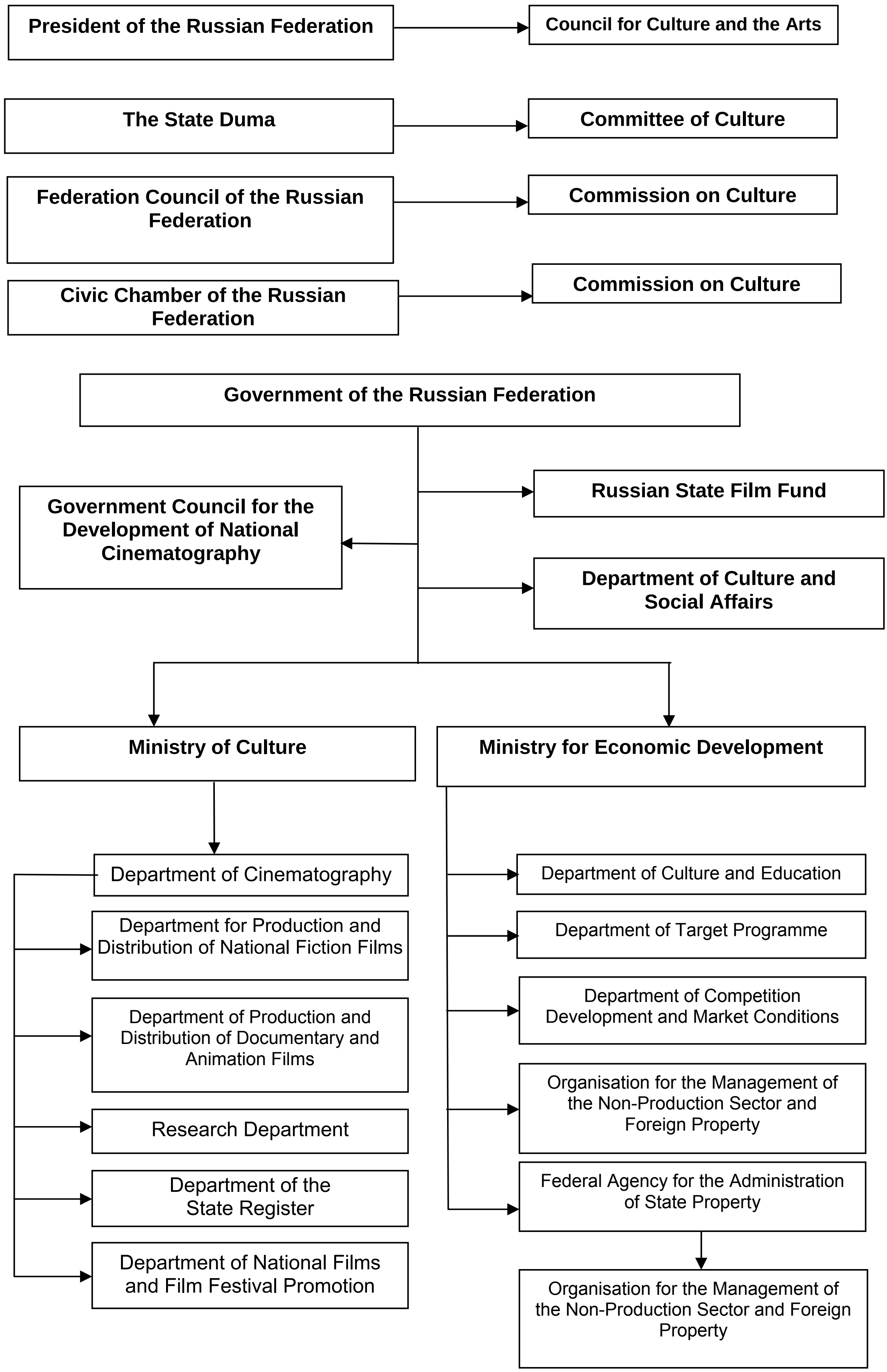
The activities of two departments of the Ministry of Economic Development are associated with state regulation of cinematography: the Department of Culture and Education and the Department for Competition Development and Market Conditions. The Department of Target Programmes conducts special appraisal of budgeted target programmes that supervises the adoption of the budgeted target programme aimed at promoting digital film exhibition, in particular.

[7] Regulations on the Governmental Council approved by the Decision of the Government of the Russian Federation of December 24, 2008, № 1006.

Cultural committees and commissions are also working within the structure of the State Duma, the Federation Council and the Public Chamber of the Russian Federation, which is chaired by Karen Shakhnazarov, Director of the Mosfilm studio.

Regional and municipal administrations have specific structural units (ministries, directorates and departments), responsible for developing and implementing policies in cultural fields. However, not all regions have such separate structures charged with implementating state policies in cinematography. Upon the disbanding of the Committees on Cinematography in the Republics of the former USSR, specialized ‘film & video associations’ (FVA) were formed to deal with film distribution and coordination of cinema management in their respective reporting areas. The majority of Russian regions still have such FVAs, although they no longer enjoy any measure of influence in the implementation of state policies in cinematography. They use the means allotted in regional budgets to purchase prints of nationally produced films and distribute them among the cinemas that still report to them. As a rule, they remain an important provider of films to fill the repertoire of the municipal cinemas only (most of them lack any modern film projection or cinema equipment) and which function as second- and third-tier screens. However, there are fewer and fewer such cinemas still operating.

Graphic 1.1.1 Structure of state cinematography authorities



1.1.2 The activities of regional and local authorities in cinematography

Given the federal state structure of Russia, regional and municipal authorities operate within the scope of their powers as specified by federal legislation[8] and also in accordance with regulatory legal acts adopted at regional and local levels.

Clause 2, Article 26.3 Chapter IV.1 of Federal Law №184-FZ[9] of the Russian Federation - General Principles for Deliniating Authority between the Federal State Authorities and the State Authorities of Russian Federation Subjects - gives an exhaustive list of the powers that regional authorities have over objects that are jointly managed, that such authorities execute on their own using regional budget funds. In specific cases, and following the routines prescribed by federal laws, such powers may also be additionally financed through the federal budget and federal off-budget funds, including pursuant to target programmes.

In accordance with the clauses of Article 26.3 of Federal Law №184-FZ, the powers of state authorities of subjects of the Russian Federation over jointly managed objects applicable to cinematography include the following:

- providing secondary vocational education (not including education obtained in federal training institutions, the list of which is approved by the Russian Federation Government);
- organising and supporting cultural institutions (including those in cinematography, but not including federal state institutions of culture and art, the list of which is approved by the Russian Federation Government);
- organising and implementing inter-municipal investment projects (including those in cinematography);
- international co-operation (including in cinematography), in accordance with Russian Federation legislation.

This rule clearly defines the scope within which regional authorities are free to adopt decisions acceptable for a specific territory and bear financial responsibility for their actions. It may be seen from the list presented that Russian Federation subjects have four types of authority in the field of cinematography.

Providing secondary vocational training that is relevant to organisations and employment needs (for example, projectionists) in cinematography is now of extreme importance for the industry. The shortage of technicians with the required level and type of training is felt in practically every region where cinematographic organisations function. Among the largest film industry institutions for secondary vocational training are those in Sergiev Posad, Sovetsk, Irkutsk and Rostov-on-Don.

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8 Federal Law of 06.10.2003, №131-FZ On General Principles of Organisation of the Local Authorities in the Russian Federation.

9 Federal Law of 06.10.1999, №184-FZ On General Principles of Organisation of the Legislative (Representative) and Executive Bodies of State Authority in the Subjects of the Russian Federation.

The second type of authority is formulated in a more abstract way and refers in its content to the existing network of cinematographic institutions in the care of the Russian Federation subjects. The description of that authority does not specify particular types of institutions of culture and the arts that may be found in regional care. Therefore the Russian Federation subjects retain some freedom in defining the type of cinematography institutions that may stay in their care and be financed from the regional budget. If one projects this authority exclusively on the existing network of such institutions, then the emergence of non-state bodies that offer the same set and scope of services as those funded from the state budget, will render the implementation of the authority in question meaningless. This statement refers fully to cinemas, part of which still remain as state or municipal bodies financed from the budget. At the same time, Russia today lacks a legally adopted and valid definition of a 'specialized' cinema that would receive budget support according to the repertoire that it offers. State and municipal screens lack any approved regulations on planning what they show. The situation may change with the adoption of definitions of 'state' and 'municipal' tasks that will make it possible to adopt requirements with respect to repertoire planning.

Securing authority in terms of the organisation of inter-municipal investment projects and participating in their implementation enables the Russian regions to stimulate the development of the film market in their territories. Such inter-municipal investment projects in cinematography may include: cinema construction, including multi-screen cinemas, aimed at servicing not only the residents of local settlements or urban districts, but also those of the nearby municipal regions; the construction of film studios, the operation of which will promote the growth of gross regional product and regional employment.

International cooperation in cinematography encompasses holding international film festivals, special events and exhibitions involving foreign cinematography organisations, stimulating the participation of regional film studios in joint film projects together with foreign companies etc. In particular, as part of this authority foreign film crews may be called upon to operate in the region, and specialized regional organisations may be established to assist in the development of film production within a given territory (a cinema commission). However, this option is not currently applied.

The provisions of Federal Law №131-FZ of 06.10.2003 specify the list of powers that fall under the exclusive charge of municipal authorities. In terms of the film industry, these include creating an environment for leisure provision and ensuring that local residents receive the services of cultural organisations.

Thus, policies for the provision of services by cinematography organisations, film projection being the first among them, should be implemented at the level of a local settlement or urban district. In an ideal scenario, defining conditions for the organisation of film exhibition should be in the exclusive care of the municipal authorities. Despite that, organising cinema exhibition in the Russian Federation is presently a joint responsibility of the federal and regional authorities, with its financing coming from regional budgets as well as from the federal budget where this is not in contradiction with Russian Federation legislation. This occurred due to lack of budget funds at a municipal level. Despite this Russian Federation subjects are responsible for supporting cinematography organisations in their regions; this includes fixed cinema theatres as well as the organisations providing mobile cinema exhibition.

Moscow is the most active region in executing its legal capacities in cinematography. The *Moskovskoe Kino* state enterprise supervises cinemas that are in municipal ownership, many of which are rented out. In 2007, the Moscow Government adopted the City Target Programme to produce national TV films in the city during 2008–2010. The total amount of financing injected into the programme is RUB 2,948,170,000. Since 2004, many regions in Russia implement their own programmes to promote the film industry; however these are mostly targeted at supporting film distribution rather than film making.

1.1.3 Review of the regulatory acts governing cinematographic activity

The principal legislative act regulating interaction between players in the film industry is Federal Law №126-FZ of August 22, 1996 On State Support for Cinematography in the Russian Federation. In the main, its provisions are devoted to various directions of state regulation of cinematography and they define the basic terms used in Russian regulatory legal documents as applicable to cinematography.

One of the key elements of Law №126-FZ is the definition of the category of films of 'Russian nationality'. A film is recognized to be 'of Russian nationality', in the following instances:

- the film producer is a citizen of the Russian Federation or a legal entity duly registered within the Russian Federation;
- the film's authors are citizens of the Russian Federation;
- the film cast and crew (assistant directors, director of photography, camerapersons, sound engineers, production designers, costume designers, editors and principle cast) includes not more than 30% of persons who do not hold citizenship of the Russian Federation;
- the film is produced in Russian or one of the other languages of the Russian Federation;
- at least 50% of the total estimated volume of work in producing the film, printing, distribution and exhibition is performed by film organisations that are duly registered within the Russian Federation;
- foreign investment in production of the film does not exceed 30% of the film's estimated budget.

A film produced in cooperation with foreign film organisations, following the clauses of the relevant international contracts and agreements of the Russian Federation, may also be considered ‘national’. Thus, the clauses of inter-governmental agreements on film co-production make it possible to recognise a joint film project as a ’national‘ film and claim state support.

The Russian Federation Government has currently introduced a bill amending Federal Law №126-FZ which revises some of the criteria for qualification as a ‘national‘ film:

- at least half the authors of the film have to be citizens of the Russian Federation;
- the film cast and crew (assistant directors, director of photography, camerapersons, sound engineers, production designers, costume designers, editors and principle cast) includes not more than 50% of persons who do not hold citizenship of the Russian Federation;
- the film is produced in Russian or one of the other languages of the Russian Federation, except for cases when using a foreign language is an unalienable part of the artistic design.

Adopting these amendments will expand the potential for foreign participation in producing Russian national films beyond the scope of official international agreements on film co-production.

The legally recognised authors of films as works of audio-visual art are[10]:

- the director;
- the scriptwriter;
- the composer of the music (either with or without text), especially composed for the given audio-visual work.

Within the scope of Russian legislation, audio-visual art works include film works and also all works expressed with means similar to filming (TV- and video-films and other similar works), irrespective of the technology used for their initial or ensuing recording.

The Russian Federation Tax Code provides for certain VAT immunities[11] (18% of the works/services price) for cinema services, works (services) in film production executed (rendered) by cinematography organisations and rights of use (including distribution and exhibition) of film products that have received certified national film status.

In addition to this, for cultural institutions, a term that includes cinemas, cultural and community centres, clubs and other organisations performing paid cinema screenings, a land tax benefit has been introduced, which is charged to the local budget and equals about 1.5% of the cadastre value of the plot of land on which the establishment stands.

[10] Item 2, Article 1263, Part 4 of the RF Civil Code.
[11] Sub-articles 20, 21 Item 2, Article 149, Part 2 of the RF Tax Code, approved by the Federal Law of 05.08.2000,c № 117-FZ.

1.1.4 Analysis of the system of state support for cinematography

State support for cinematography is implemented in line with the provisions of Law №126-FZ, which specifies the following directions of state support (budget financing) for cinematography:

- partial state financing of production, distribution and exhibition of national films, including production of national films for children and young people and national film debuts;
- preserving and developing cinematographic material and equipment;
- creating the conditions for distribution and exhibition of national films;
- implementing educational and scientific and technological programmes;
- holding film festivals and other events;
- showing national films at international film festivals and other international cultural events.

State policy in cinematography is based on the following principles:

- recognition of cinematography as a field of culture and art that requires the development of its creative, educational, production, technical, scientific and information bases as a prerequisite to its existence;
- responsibility of the state for sustaining and developing cinematography;
- ensuring the general public has access to film products;
- cooperation with foreign state authorities and international organisations in their respective areas of activity according to the prescribed order.

Over the last decade, the priorities in state regulation of cinematography have gradually changed, the principal reason being the general trends of administrative reform in Russia and the intensive development of the film industry itself.

In 2002 profit tax immunities were cancelled for organisations investing in cinematography, in line with the general approach of banning tax exemptions for certain industries, aimed at avoiding money laundering schemes. Simultaneously, to compensate for the financial resources thus withdrawn from the industry, allocations for direct state support of production and distribution of national films were increased (to RUB 1 billion in 2002). The administrative reform that commenced in Russia in 2004 aimed to reduce state participation in the economy by the mid-2000s, but these trends have not brought about any noticeable changes in the film industry. In 2002, the Russian Federation Government announced the need to secure state rights on film products generated with state support, so that the state gains revenues from distribution and other types of use of national films proportionate to state financing[12] However such a mechanism was never implemented in practice and state support is still provided free of any compensation.

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[12] Decree of the Government of the Russian Federation of September 18, 2002,. № 1299-r.

Today, the target programme mechanisms in the film industry have only been partially implemented (the Federal Target Programme *Culture of Russia* has been extended to 2011 and the indicators of its achievements updated), while no industry-specific state budgeted target programme related to cinematography has been adopted, either on Government or agency level.

In 2002 the Government also set the goal[13] of increasing the annual production rate to 100 features, 65 animation films and 330 non-feature national films a year by 2006, and to increase to 25% the share of nationally-produced films in the total number of films screened in the country's cinemas. In 2006 that milestone target was achieved: 105 full-length features, 459 non-feature and 65 animation films were produced with financial support by the state.

Table 1.1.1 Film releases with state financial support (2006–2008)

Film production	Number of films produced			Volume of financing (RUB x million)		
	2006	2007	2008	2006	2007	2008
Feature films (total)	105	78	101	1,658	1,821	1,970
Full-length	103	66	89			
News-reels	2	12	12			
Documentary films (total)	483	555	612	415	493	430
Full-length	79	62	56			
Short-length	404	493	556			
Animation films (total)	65	137	160	285	325	319
Full-length	7	1	3			
Short-length	58	136	157			
Film production total	629	770	873	2,359	2,641	2,740

Source: Russian Federation Ministry of Culture

After the rapid growth in state support during 2002–2003, the level of support stabilised during 2004–2007 with increases in line with inflation. Overall the last 6 years brought an increase in state support by a factor of more than 2.5. In 2008, RUB 2,740,800,000 was allocated from the federal budget to finance cinematography, a 4% increase on the amount allocated in 2007.

State financing of cinematography from the federal budget falls into two principal groups of expenses:

1. The Federal Target Programme (FTP) *Culture of Russia* (2006 – 2011);[14]
2. The target expenditure item State Support in Culture, Cinematography and Mass Media (non-programme expenses).

State support for film production is provided to 'national' films.[15]

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13 Decree of the Government of the Russian Federation of September 18, 2002,. № 1299-r.
14 Approved by the Decree of the Government of the Russian Federation of November 8, 2005, № 740.
15 Definition given in Federal Law № 126-FZ.

As a rule, **state support for the production of ‘national’ films** cannot exceed 70% of the production budget and must follow the prescribed format of the contract entered into with the producer. In certain exceptional cases, allowing for the artistic and cultural value of a film project, federal executive authorities in cinematography may adopt a decision on state financing of up to 100% of a ‘national’ film’s estimated production cost.

The first line of support for film production was aimed at films dealing with historical, military and patriotic subjects, the adaptation of Russian literary classics and at works treating topical social and moral issues. This type of film accounts for at least 25% of the total expenditure of the federal budget in state support of feature film production. The share of participation of the state in financing projects of this type amounts to up to 70% of their budget cost, up to RUB 29 million per single film (RUB 23 million on average).

The second line of state support for feature films involves the production of films that expand the genre range of nationally produced film works, cultivating the emergence of diverse genre forms that correspond to the preferences of the modern film audience. This category accounts for up to 30% of the total expenses of the federal budget in state support of feature film production. The average level of budget allocations per single film of this group is up to RUB 29 million.

The third line of state support for Russian feature films involves producing films for infants and children. This field accounts for more than 15% of the total annually allotted expenses of the federal budget on state support for feature films. Nevertheless, film works for children appreciably lack diversity in terms of genre, with musicals,, comedies, sci-fi films and absorbing fairy tales under-represented. These genres are among the most expensive to produce, requiring special technology and highly trained, experienced experts. It should therefore be noted that children’s films may receive state financial support to a level of 100% of their production cost.

The fourth line of state support for feature films involves supporting debut films and experimental works that enrich modern motion picture language and elevate the professional level of film producers. The average sum allotted by way of state support per single first film is around RUB 15 million, while an author’s own film gets RUB 24 million with the share of state participation reaching up to 100% of the film’s budget cost. This category of films accounts for at least 30% of the total volume of federal budget expenditure on state support for feature film production.

In addition, state support is made available for the production of feature-length animation films, which are prime candidates for theatrical distribution and are currently gaining recognition from viewers and a growing box office.

The version of Law №126-FZ currently in force envisages two mechanisms of state financing for cinematography, including mechanisms for selecting the recipients of such support:

· in the manner stipulated under Federal Law № 94-FZ of July 21, 2005, On Placing Orders to Supply Goods, Perform Works and Render Services for State and Municipal Needs;

· by providing subsidies from the federal budget in accordance with federal legislation on the federal budget for the respective financial year and planned period, adopted in accordance with regulatory legal acts of the Government of the Russian Federation.

The procedures stipulated by Federal Law № 94-FZ are universal and applicable to all sectors of the economy. A company claiming state financial support for a film project has to submit it to an open tender. This involves a certain contradiction, since the finished film or the activities for its promotion and distribution that will result from using state support are not acquired for state needs, but enter free circulation on the market. State support is thus aimed at facilitating creative processes in the film industry and at increasing the availability of films to the general public, though the legal and regulatory dispositions are not always entirely adapted to the particularities of state policy in relation to cinematography. As a result it is not always possible to account in full for the quality of the scenario and the general level of maturity of the project and to make them the principal criteria in the evaluation of film projects submitted for tender, since the subject-matter chosen and the price of executing the state contract appear to be criteria with more weight during the tender process.

Open tenders to select producers for implementing Russian national film projects with partial state financial support are split into several lots. Each lot has an initial (maximum) price set that may not be exceeded. That sum is the maximum financial support on the part of the state. The applicant may lower the proposed price of the contract execution at his/her own discretion. That gives the applicant a considerable advantage in the course of sizing up the tender, since 50% to 80% of the total valuation criteria is formed by the contract price.

One criterion in assessing a proposal on contract placement from a tender participant lies in evaluating the quality and artistic merits of the project submitted for participation in the tender and of its execution. These are assessed by an Expert Committee. The tasks of this Committee include a comprehensive assessment of projects submitted to the tender, taking into account:

1. Their social importance, including the affirmation of civil and moral ideals in society;
2. Their artistic and cultural value, the use of innovative film-making techniques and the promotion of new talent;
3. Promotion of films for young people and children;
4. Recognition of topicality and foreseen demand for the film among the Russian public.

According to informationfrominformation from the Russian Federation Ministry of Culture, the procedure for allocation and the amount of subsidies offered for 2010 will be specified in accordance with the adopted budget law. Budget subsidies under the version of Law №126 currently in force will be allocated to cinematography organisations engaged in producing and distributing national films.

The procedure for subsidy financing will be approved before the end of 2009. The use of such subsidies will make it possible to start financing major national film projects that promote high moral and spiritual values such as humanism and patriotism. The estimated volume of financing will amount to a maximum ofof RUB 200 million per project. If budget allocations for 2010 are increased to the level foreseen at the end of 2008, it is envisaged that up to 10 such projects will be financed (i.e., the total volume of support for the production of these films will amount to RUB 2 billion per year).

It is also planned to offer incentive payments to producers based on the results of distribution of their previous film, to a sum of up to 10% of that film's box office receipts, provided that the film has been seen by at least 1 million viewers. The producer will be free to channel such a 'bonus' subsidy into production of his/her next film. It is envisaged that the annual sum allocated under this provision will amount to RUB 300 million.

Subsidies will provide the basis for further financing of projects aimed at wide-scale theatrical distribution and also of various special category films, such as films demonstrating a mastery of innovative film language, debut films, innovative and experimental projects, youth films, etc. The total annual sum of subsidies may be up to RUB 4.3 billion, but will be less than this in 2010, since part of the amount will be channelled to completing the production of national films started in 2009.

The decision to finance major, socially important projects may, on the one hand, entail a reduction in the overall number of films supported by the state (due to the limited total volume of budget resources), and on the other hand, result in the emergence of big-budget film projects incapable of attracting large number of viewers and, consequently, of recouping investment in their production. An important element here is to provide a high level of film quality in combination with commercial potential, and this may be difficult to attain if the state intervenes directly in the content of the future film.

State support for the distribution of national films across the Russian Federation is assigned to a film distribution company (including printing, dubbing, advertising, etc). State financing for the distribution of a national film may not exceed 70% of its budgeted distribution cost.

State support of film events is channelled annually into four priority areas. The first is running events to promote nationally produced films. On average, about RUB 80 million are allocated to these activities each year. Every year numerous professional film prizes are awarded in Russia. Besides the *Nika* and *Zolotoy Orel [Golden Eagle]* national film awards and the *Bely Slon [White Elephant]* national film critics and film press prize, there is also the annual national *Laurel Branch* award for non-feature films and TV works, the *White Square* cinematic and artistic prize of the Guild of Film Cinematographers of the Cinematographers Union of Russia, the *Blockbuster* film- and video-business professional prize for the best performing films in Russian distribution and the *Zolotoy Dvizhok* prize for achievements in film advertising.

Second, there is the promotion of nationally produced films and their distribution to the country's screens. In 2008, support for prints and advertising was provided to 46 fiction features and 7 full-length animation films, and the total financial support totalled RUB 54 million.

The third priority focus of state support in film events is the organisation of international and major national film festivals. The sum allocated annually for these events amounts to approximately RUB 106.6 million

Every year more than 100 film festivals are held in Russia. Recently, there has been a upward trend in the number of special screenings, festivals and film weeks etc., - just 5 years ago there were half this number of film festivals.

According to data from the Guild of Film Producers of Russia, more than 50 festivals run international competitions, almost 40 have national competitions and about 10 festivals are rated viewers' events (non-competitive). The majority of national festivals convenes special non-competitive programmes and reviews where foreign films are often presented.

Table 1.1.2 Russian film festival classification by competition type

Festivals	Number
International film festivals	57
National film festivals	39
Non-competition festivals	10
Festivals of Russian cinema held abroad	3
Total	**109**

Source: The Russian Federation Ministry of Culture, RFilms

Two international film festivals in Russia are accredited by the International Federation of Film Producers Associations (FIAPF): the Moscow International Film Festival and the International *Poslanie k Cheloveku [Message to Man]* Film Festival (St. Petersburg).

The principle international film festival in the country, a category-A event, is held in Moscow at the end of July. The largest national film festival is the Open Russian Film Festival *Kinotavr*. It is held in Sochi every June since 1990 and it is considered not only the leading Russian film review, but a professional venue for film entrepreneurs of every kind. Another national festival at least as well known and authoritative is the *Okno v Evropu [Window to Europe]* Festival of Russian films, held annually in August in Vyborg. In contrast to the *Kinotavr* festival, it has a competition for non-feature films.

Other film festivals are run throughout the country, in Moscow, St. Petersburg, Vladivostok, Khanty-Mansiisk, Sochi, Kazan, Vyborg, Suzdal, Yaroslavl and many other cities.

Table 1.1.3 Russian film festival classification by competition type

Festival type	Number
Festivals of feature films	79
Festivals of documentary films	27
Festivals of animation films	3
Total	**109**

Source: The Russian Federation Ministry of Culture, RFilms

Film festivals in Russia are also split into those presenting all kinds of film works (features, non-features and animation), and specialized festivals with specific themes and aims. Among the specialized festivals, mention should be made of the national festival of animation – the Open Russian Festival of Animation Films, held in Suzdal at the end of February. Among the non-feature film festivals the *Rossiya* Festival of Documentaries in Yekaterinburg is an event worthy of note.

A number of festivals are run in Russia which present the film industries of other countries. These include the *Pacific Meridians* International Film Festival of Asia-Pacific countries, the *Baltic Debuts* Film Festival of debutant film makers from the Baltic States and northern Europe, the *Golden Mimbar* International Muslim Film Festival, the *Kinoshock* Open Film Festival of CIS countries, Latvia, Lithuania and Estonia and others.

There are also topical and genre-specific festivals dedicated to environmental, detective, comedy, sports and other types of film. Each year the country's central film archive depository (Gosfilmofond of Russia) holds the *Beliye Stolby [White Pillars]* festival of archive films.

Separate note should be made of the festivals that are held specially to showcase films by students and first films: the *Dukh Ognya [Spirit of Fire]* International Festival in Khanty-Mansiisk, the VGIK International Film Festival, the *Svyataya Anna [Saint Anna]* International Film Contest and the St. Petersburg *Nachalo [Beginning]* Open Festival of Films by Students of Creative Universities and Film Schools).

In 2007 and 2008, the *Zavtra [Tomorrow]* International Festival of Contemporary Cinema was held. The focus of this event is to support and promote new trends in contemporary cinema.

The fourth priority involves **information and promotional activities**. State financial support is provided for the publication of such magazines as *Iskusstvo Kino*, *Novye Filmy – Kinomekhanik*, *Kinostsenarii*, *Kinograf*, *Prokat*, *Kinovedcheskie Zapiski*, *Nash Prokat*, newspapers *Ekran i Stsena*, *SK- Novosti* and *Put' k Ekranu*, encyclopedias *Novejshaya Istoria Kino*, the bulletin of Russian cinematography and *Kinoprotsess* and the annual digest *Russkaya Kinematografia*, and for starting Internet-portals dedicated to nationally produced films.

Furthermore, in 2008, state support was provided for the organisation and holding of festivities dedicated to the 100th anniversary of Russian film production.

Since state support is one of the principal sources of financing for film production, together with the financing provided by television channels, it is important to note that the attitude to support among producers and the general public is ambiguous. Many market players comment privately that this type of involvement in film production by the state does not foster general market competition: it is often targeted merely to use up allotted budgets, rather than for distribution and return on investment.

1.2 THE SYSTEM OF PROFESSIONAL FILM EDUCATION IN RUSSIA

Each year more than a thousand cinematography students graduate from Russian universities plus more than 850 technicians with specialised secondary school training.

The growing need for professionally trained personnel and for new and improved training calls for an expansion of the production and training offer. It is estimated that there is a 30-35% shortfall in the number of professionals in the industry and this is prevalent both on the levels of the leading creative professionals and among second-tier specialists. The film industry is currently short of professional projectionists, lighting technicians, camera operators, assistant producers and assistants. More experts in special effects and computer graphics are also needed. [16]

Today there are 6 universities in the country that offer training in cinematography. The largest among them are concentrated in Moscow and St. Petersburg. The St. Petersburg State Film and TV University (SPbSMTVU) offers training in 12 cinematography professions, the All-Russian State University of Cinematography (ARSUC – VGIK) – in 8 professions; while other universities fall far behind in the number of courses on offer.

Of the universities that offer the largest number of funded scholarships for students, the SPbSMTVU stands apart with 537 places, followed by ARSUC, with 157.

The post-Soviet period has brought about a noticeable deterioration in the system of art-workshops in the top universities of Russia. The problem comes from difficulties in attracting contemporary, in-demand directors to hold lectures and run such workshops in these universities. A motivation system needs to be established that would enable leading creative figures from the film industry to return to universities and work there. It would help solve the problem of a shortage of creative talent, capable of producing films at a state-of-the-art level.

So far, specialized training institutions lack modern equipment and training aids that would reflect the current technical state of the film industry; nor do they dispose ofhighly qualified trainers who could update the contents of their courses in line with the latest developments. The problem for universities in acquiring modern equipment stems both from insufficient financing and from the

[16] Public report on the state of the Russian film industry, its capabilities and development prospects to 2015. Drawn up based on the results of the Conference-Forum of the cinematographic community - Russian Film Industry 2008: Announcing the Future, Moscow, August 25, 2008.

extremely confused system of tenders and approvals that has to be navigated to procure equipment for institutes of higher education.

In May 2009, by way of solving this problem and bridging the existing gap between professional education and current film production, RUB 4 billion was allocated to ARSUC from the federal budget. It was aimed at constructing a new 17-storey training block and for technical refurbishment of the training film studio and auditorium in the university's main training block.

Problems are also apparent in the secondary school system for the industry, which is maintained by the regional authorities. A lack of financing by regional budgets has resulted in a crisis in secondary-level professional cinematographic training in Russia.

At the same time the system of private professional cinematographic secondary schools and university training in Russia is undeveloped. As a rule, only a small number of major production companies in the country (Mosfilm Film Concern, the Sverdlovsk Film Studio, the Amedia Producing Centre, Higher Courses for Scriptwriters and Producers, the Ostankino TV School and others) have their own training courses for mid-level technicians. However, they are incapable of satisfying all the needs of Russian cinematography in terms of qualified production personnel.

1.3 ACTIVITIES OF STATE-OWNED CINEMATOGRAPHIC ORGANISATIONS

State support for film studios operating in Russia is presently provided indirectly, through financing production of national films by production companies. Some of the production companies that have received support use the facilities provided by Russian studios, thus increasing studios gross revenues and profits. There is, however, no direct state support of Russian studios from budget funds; the same applies to investment in building new studios and in attracting investors to such projects.

11 film studios are currently entirely in state ownership; in addition, the Ministry of Culture runs 4 film studios in the form of federal state unitary enterprises.

More than half of the state film studios (8) are situated in the Central and the Northwestern Federal districts: in Moscow and St. Petersburg.

The advantages and drawbacks of the state film studios are obvious. On the one hand, their producers have the experience, the wherewithal, sets, costumes, large floor space, traditions and brand name at their disposal, all accumulated over many years. One the other hand, they have to cope with the financial problems or the extreme conservatism of a system introduced in the years of a planned economy and complex vertical state superstructures.

Table 1.3.1 State-owned cinematography institutions

#	Film studio	Federal district of the Russian Federation	Total area (hectares)	Number of stages	Total area of stages (m^2)
1	West-Siberian Film Studio	Siberian	n/a	-	-
2	Kazan Film Studio	Privolzhsky	0.5	-	-
3	Lennauchfilm Studio	Northwestern	1.9	2	1,300
4	Lenfilm Studios	Northwestern	23	4	3,500
5	Nizhne-Volzhskaya Newsreel Studio	Privolzhsky	n/a	-	-
6	Rostov-on-Don Film Studio	Southern	0.2	-	-
7	Sverdlovsk Film Studio	Ural	2	2	700
8	North-Caucasus Newsreel Studio	Southern	0.5	-	-
9	St. Petersburg Documentary Film Studio	Northwestern	n/a	n/a	n/a
10	Gorky Central Film Studio of Youth and Children's Films	Central	3.2	5	3,200
11	Centre of National Film	Central	3.2	5	2,100
12	Mosfilm Film Concern (Unitary Enterprise)	Central	34.7	14	11,000
13	Badge of Honour Far-Eastern Studio of Newsreel (Unitary Enterprise)	Far-Eastern	-	-	-
14	Soyuzmulfilm Studio (Unitary Enterprise)	Central	-	-	-
15	Russian Central Film and Video Studio for Newsreels, Documentary and Educational films (State Enterprise)	Central	-	-	-

Source: The Russian Federation Ministry of Culture, RFilms, company data

The following features of the current situation in film studios that are state owned can be highlighted:

· in most cases, the stages of such studios are situated in downtown areas, making them attractive to investors that develop projects in residential and commercial real estate, but undermining their economic interest in developing film production capacity as this is generally less profitable;

· the Decree № 389 of the President of the Russian Federation of 04.02.2001, On Reorganisation of the Federal State Film Studios and Article 16 of Federal Law №126-FZ stipulate that a mandatory prerequisite for privatizing film industry organisations involves retaining their film industry profile as their principal type of activity;

· provisions of the same Presidential Decree charge the Russian Federation Government with retaining film production as the principal type of activity of federal state film studios while reorganising them into open joint stock companies and also during further management of state-owned stakes in these companies;

· when privatizing federal state film studios the Ministry of Property of Russia is charged to ensure compliance with the requirements of Russian Federation legislation while retaining film production as their principal type of activities.[17]

One of the principal tasks of the state has become retaining the profile of activities of film studios as the principal prerequisite for their possible further development and also using the organisational and legal schemes of public private partnerships (PPP) that permit the raising of investment and credit funds. To date no state Russian studios have yet attracted any private investors to become co-owners. It is possible that the first studios to implement the PPP scheme will be Lenfilm Studios (St. Petersburg) and the Sverdlovsk Film Studio (Yekaterinburg).

The Ministry of Culture of Russia plans to identify 'foundation' film studios for further development of film production in the Russian Federation: Mosfilm Film Concern, Lenfilm Studios; the Sverdlovsk Film Studio; the Gorky Central Film Studio of Youth and Children's Films Creative Production Association and the Centre of National Film. To promote the development of the foundation film studios it is planned to create an incentive by merging them with regional film studios that do not have similar strategic importance for the film industry.

The current need for the state to take part in the promotion of film studios is explained by the insufficient development of film-making infrastructures and lack of competitiveness of Russia as compared with other countries that attract film-producing companies to work on their soil.

Work is presently underway to reorganise film foundations that report to the Ministry of Culture of Russia[18] – they will be united in the film foundation of Souzmultfilm State Studio that will be renamed the Joint State Film Collection (a federal state unitary enterprise).

Other film industry organisations that are under state control include Moskinap that used to manufacture camera and projection equipment, the Moscow Design Bureau for Film Instrumentation (designing stereo cams, special film shooting equipment for underwater filming, etc.), Kinotekhnika (renting film equipment and film procurement), Giprokino (cinema design), the Film and Photo R&D Institute (NIKFI).

The Sovexportfilm Foreign Trade Company, which is wholly owned by the state, is currently fulfilling the function of representing nationally produced films abroad. In 2008 Sovexportfilm organised the opening of the Russian pavilion at the Cannes Film Festival and Market, the *Films of Russia* stands at both the Berlin and Cannes Film Markets, and weeks and days of Russian film in more than 10 countries of Europe, the Middle East, Asia and Latin America. Sovexportfilm focuses on organising special events to promote Russian films abroad and plans to expand its activities as a specialized

17 Item 3 of the Decree by the Government of the Russian Federation of 18.09.2002, №1299-r.
18 Decree by Rosimushchestvo of June 23, 2008, № 721-r and of October 21, 2008, № 1717-r.

cinematography organisation that represents the interests of nationally produced films in general (like the French export agency Unifrance and other similar bodies).

The state plans to restructure cinema bodies under its control to improve the efficiency of their operations and to manage federal assets. The probable outcome may be the reduction of the overall number of state organisations in the film industry owing to the closure of unprofitable organisations, those with no potential for development and those with no strategic value for the state.

1.4 STATE SUPPORT OF INTERNATIONAL COOPERATION AND CO-PRODUCTION

As part of its work to develop internationally Russia's film industry, the Ministry of Culture of the Russian Federation annually distributes about a thousand film prints for screening abroad and conducts about 1500 screenings of nationally produced films. It also organises Russia's participation in international film festivals. Every year Russian films take part in the programmes of the Karlovy Vary, Berlin, Cannes, Venice, Rotterdam and other international film festivals.

In order to promote Russian films and to foster international cooperation in cinematography, each year Sovexportfilm runs festivals and exhibitions of Russian films and Days or Weeks of Russian films abroad. In 2008, retrospectives of Russian films were also organised, dedicated to the 100th anniversary of Russian cinematography.

Furthermore, for two years in a row, Russia has presented its own pavilion at Cannes, while 2009 saw the first Moscow Co-production Forum, within the framework of the 31st Moscow International Film Festival.

To promote and strengthen international relations, negotiations with foreign countries are conducted each year. In 2008, meetings took place with representatives of the Philippines, of the Bavaria Film studio (Germany), of the International Film Festival in Rotterdam, and with representatives from Fujifilm (Japan). In addition, Russian-German consultations were conducted on an inter-governmental agreement for cooperation in the audio-visual field, while the first meeting took place of the Sub-Committee on Cooperation in Cinematography as part of the Russian-Chinese Commission on Humanitarian Cooperation.

As of 2008, treaties allowing for co-production with Russia are in force with Canada, Italy, Bulgaria and France. The circle of countries with which agreements and protocols on cooperation in the audio-visual sphere are in place is constantly expanding. Work is presently underway to sign intergovernmental agreements on co-production with Chile, Venezuela, India and also a protocol with Germany. In 2008, an intergovernmental agreement on co-production was signed with the countries of the CIS.

As far back as 1995, an intergovernmental agreement was signed between the Government of the Russian Federation and the Government of Canada on relations in the audio-visual sphere plus a Protocol between the two governments on audio-visual co-production.[19] The Agreement envisages that the Parties to it will encourage practical steps to expand mutual purchases and sales of audio-visual works by both countries and promote the widest possible admissions to these works by viewers in both countries.

An Agreement on Cooperation in Cinematography with the Russian Federation has been signed with Italy (2002)[20] and with Bulgaria (2004).[21] In accordance with the Agreement, films produced jointly with these countries may be considered national films.

An Agreement between the Government of the Russian Federation and the Government of the Republic of France on Cultural Cooperation was concluded in Paris in 1992. Presently France remains one of the few countries with which Russia enjoys continuous cooperation in film production. Producers from Russia and France are free to be guided by the Agreement on Cooperation in Cinematography between the Government of the USSR and the Government of the Republic of France, signed on July 8, 1967. The Ministry of Foreign Affairs of Russia has confirmed that the Agreement may be officially used as a legally valid document in the process of cooperation between the Russian and the French film industries.

In early 1994 Russia became a member of the European Convention on Cinematographic Co-production of 1992,[22] which opened the way for implementing tripartite film projects.

As of today, a decision in principle has been made on Russian participation in EURIMAGES,[23] the Council of Europe's support fund for co-production, distribution and exhibition, but the procedures necessary to put together the requisite materials and draw up the necesssary documents at the level of the Government of the Russian Federation are still underway. The Ministry of Culture and Mass Communications of the Russian Federation is charged, in co-ordination with the Ministry of Foreign Affairs, with managing the Russian Federation's participation in the activities of EURIMAGES[24] once the membership has been formalized.

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19 Approved by the Decree of the Government of the Russian Federation of April 15, 1995, №346 On Conclusion of the Agreement between the Government of the Russian Federation and the Government of Canada on Relations in the Audio-Visual Sphere.

20 Draft Agreement approved by the Decree of the Government of the Russian Federation of April 17, 2002, №247 On Signing the Agreement between the Government of the Russian Federation and the Government of the Republic of Italy on Cooperation in Cinematography.

21 Draft Agreement approved by the Decree of the Government of the Russian Federation of July 6, 2004, №339 On Concluding the Agreement between the Government of the Russian Federation and the Government of the Republic of Bulgaria on Cooperation in Cinematography.

22 Decree by the Government of the Russian Federation of January 24, 1994, № 26.

23 Decree by the Government of the Russian Federation of June 3, 2002, № 376 On the Russian Federation Joining the European Fund of Support of Joint Film Production and Distribution of Cinematographic and Audio-Visual Works (EURIMAGES).

24 www.coe.int/T/DG4/Eurimages/

Since 1993 the Russian Federation, represented by the Federal Agency for Press and Mass Communication has been a member of the European Audiovisual Observatory,[25] a partial agreement of the Council of Europe whose mission is to improve transparency in the European audiovisual sector by providing information services for professionals.

Co-operation in cinematography with countries of the former USSR has been actively developing since the mid-1990s. The programme of joint events in national cinematography was approved in 1994. A year later the Charter on Key Directions and Principles of Co-operation between CIS Member States in Cinematography was adopted. A model law On State Support for Cinematography was drawn up, while an Agreement on Co-operation in Cinematography with countries of the CIS is currently under development.

1.5 ACTIVITIES OF RUSSIAN CIVIL ORGANISATIONS IN CINEMATOGRAPHY

There are 29 public organisations and associations operating within the Russian film industry, with a total membership of 5,656 persons and 124 legal entities.

The largest organization of these in terms of the number of registered individual members is the Filmmakers' Union[26]. It is comprised of 13 guilds, including the Film Directors' Guild, the Film and TV Script Writers' (Screenwriters') Guild, the Russian Guild of Cinematographers (R.G.C.) and the Film Actors' Guild.

The total number of Union members is 5,000 persons, the average age of whom is 62.[27] Since 1997, the Chairman of the Filmmakers' Union Board is Nikita Mikhalkov, the film director heading the Tri Te film company. The Union is a self-governed all-Russian public organization based on individual membership that was founded to protect common interests and achieve goals set by creative professionals from the film and audio-visual industries and defined in by-laws.

The Guild of Producers of Russia[28] is a non-profit partnership founded in 1996 and is now a key independent association of Russian film producers. The Guild embraces 112 persons and 17 corporate entities.[29] In terms of the number of its corporate members, the Producers' Guild is one of the three largest. The principal focus of Guild activity lies in the representation and protection of the industry's interests in state bodies at both legislative and executive levels, the initiation of new bills to legislate the film industry, and regulation of relations with other professional communities.

In April 2009, a new President of the Guild of Producers of Russia was elected. He is Renat Davletjarov, the General Producer of the Interfest film company, which has released a number of

[25] www.obs.coe.int
[26] www.unikino.ru
[27] Movie Research Company
[28] www.kinoproducer.ru
[29] www.kinoproducer.ru/ru/about/

successful films in recent years, including *180 and Above*, *Lyubov-Morkov* [*Lovey Dovey*], *Indigo* and *Yulen'ka [Julie]*. Interfest is the organiser of the Russian Film Weeks in New York (since 2001), Paris (since 2003), and Berlin (since 2005). Since 2006, Mr. Davletjarov has headed the Kino-Yalta International Festival of Producer Movies in the Crimea (Ukraine). In 2007, he founded *Zavtra [Tomorrow],* the annual international festival of contemporary cinema.

The Guild of Producers of Russia is an official partner of the Cinema Production Service Exhibition, of the Day of Russian Cinema in Cannes, the Kino-Yalta Film Festival, the Rolan Bykov Fund Contest of Children's Film Scripts, the Eurasia International Film Festival, the Russian International Film Market, the professional Best Advertising Award and the *Zolotoy Dvizhok* event to promote Russian films and TV series.

Noteworthy among the recent initiatives of the Guild are a public statement during Parliamentary sessions at the Russian Federation State Duma in June 2009 on fighting Internet piracy, an activity particularly detrimental to producers of Russian films, and the Guild's intention to draft legal acts on liabilities for infringement of copyright of audio-visual works, to be submitted for due consideration by state authorities.

An all-Russian public organization, the Film Directors' Guild of Russia, formed in 1991, is also a partner in convening several cinema events, including the Stalker Film Festival, the Golden Phoenix All-Russian Film Festival of Acting Directors and the Kinodebut.ru Festival. The Guild brings together film directors, assistant directors, film editors and TV film directors of live-action, popular science and documentary films.

The Russian Guild of Cinematographers, an active public association in the film industry, presents the *Bely Kvadrat [White Square]* award each year for photography.

Russian guilds draft and adopt template agreements between the producer and the director, the producer and the script writer, and also between other market players in film production. In addition, they interact with corresponding foreign non-profit associations to develop international cooperation. For example, the Producers' Guild is a member of the International Federation of Associations of Film Producers (FIAPF), and the Guild of Cinematographers is a member of the European Federation of Cinematographers (IMAGO).

The largest organizations in terms of the number of corporate members are the Alliance of Independent Film Distributors (ANKO) and the Russian Anti-Piracy Organization.

The ANKO non-profit partnership was founded in 2001 on the initiative of the largest national film distributors. The tasks of the Alliance include:

· upgrading the system of film distribution in the regions of the Russian Federation, both via launching an adequate database and monitoring regional film and video markets;

· improving cinema reporting routines, detecting cases of unscrupulous reporting, and streamlining cinemas' workflow;

· optimising repertoire plans for its members;

· studying and summarizing instances of interaction between its members and organizations engaged in film distribution;

· organizing research and monitoring of the Russian film and video market and routine dissemination of their results among the market players;

· promoting a joint position on legislative issues and legal protection of interests of its members, solving taxation and customs issues related to professional activities;

· taking part in the activities of Russian and international film-industry organisations.

The ANKO[30] site has now become one of the most authoritative and trusted sources of data on the results of film screenings, published officially on behalf of film distributors in Russia. The Alliance is one of the organisers of the annual KinoEXPO Forum held in St. Petersburg (a forum and trade fair for representatives of the film distribution and exhibition branches).

Together with Mosfilm, Lenfilm, the Guild of Producers of Russia and the Kinoalyans Alliance of National Film Theatre Organisations, ANKO has become one of the co-founders of the Russian Union of Film Industrialists (RSKP), a non-profit organization. The principal tasks and goals of RSKP activities in its capacity as an industrial association are: promoting the development of the Russian film industry and forming efficient mechanisms to represent and protect the interests of film makers, distributors and exhibitors. According to information from the Ministry of Culture of Russia, the RSKP may be turned into a self-regulating organisation (SRO) that will represent the interests of the Russian film industry as a whole.

The Kinoalyans Alliance of National Film Theatre Organisations,[31] a non-profit partnership was started in 2004 to represent the interests of another group of players in the film industry: exhibitors. Kinoalyans is also the organiser of *Kinoexpo,* one of two leading trade fairs for the film distribution and exhibition branches. However, the partnership does not undertake any other notable initiatives.

Market experts assess the present effectiveness of activities of such public organizations as poor. This is primarily down to their weak activity in developing mechanisms of industry self-regulation.[32] Also, practically nothing is done to interact with state authorities and to develop the regulatory and legislative basis for the film industry.

30 www.np-anko.ru
31 www.kinoalliance.ru
32 On the basis of a poll of participants at the film industry Conference and Forum within the scope of the public study «Russian Film Industry».

The effects of the economic crisis have, however, stirred public organizations into activity. Thus, the Association of TV and Film Producers, declared as founded in 2008, has, despite the fact that the organisation has gained no legal status yet, started working to regulate wages for the services of various film industry professionals. During 2009, a bill was drafted and submitted for consideration to the Russian Federation Government, with the involvement of the Filmmakers' Union.The bill suggests establishing a Culture Promotion Fund and a Film Industry Development Fund. The sources of income for these Funds should be the manufacturers of data carriers (including CD and DVD disks) and hardware (including DVD-players) designed for personal playback of audio and audio-visual products, as well as the importers of such carriers and hardware. Evidently, such initiatives by public organizations need serious and meticulous elaboration, so only time will tell how efficient their activities will prove in the long run. Generally speaking, one cannot describe the role of public organizations in the Russian film industry as significant, since they affect but marginally the processes evolving in the industry and do not shape its future trends.

List of main public institutes in Russia by theme

Copyright:

Russian Authors' Association (RAO);

DVD Publishers' Association;

The Russian Anti-Piracy Organisation (RAPO).

Film distribution and exhibition:

National Association of Cinemas (NAC);

Alliance of Independent Film Distribution Companies (ANKO);

The Kinoalyans - Alliance of National Film Theatre Organisations.

TV:

Russian Television Academy;

Eurasian Television and Radio Academy;

International Academy of Television and Radio;

National Television and Radio Demonstration Association.

Film Industry:

Conference of the Cinematographer's Union;

Russian Union of Film-makers;

Cinematographer's Union of the Russian Federation:

- Actors' Guild,
- Sound Producers' Guild,
- Cinema Directing and Cinema Critics Guild,
- Guild of Cinematographers,
- Film Directors' Guild,
- Cinema Engineers' Guild,
- Cinema Composers' Guild,
- Guild of Documentary Film and Television,
- Guild of Film Production and Distribution Organisers,
- Cinema and Television Editors' Guild,

- Cinema and Television Script Writers' Guild,
- Cinema and Television Artists' Guild,
- Association of Animated Films,
- Association of Military Films;

Russian Popular Cinema Academy;

International Cinematographer's Union of Slavic and Orthodox Nations;

National Academy of Cinematographic Arts and Sciences of Russia;

NIKA Russian Academy of Cinematographic Arts;

Club of Young Producers;

Producers’ Guild of Russia;

Film and Broadcasting Union;

Film and Theatrical Actors’ Union;

Association of Film Sound Professionals;

Association of High-Definition Television and Digital Cinema.

Funds:

Valery Priemikhov Non-Commercial Beneficent Fund;

Maecenas of Russia Beneficent Fund;

The Rolan Bikov International Fund of Cinema and Television Development for Children and Young People;

The Patriotic Film Support Fund;

Regional public fund assistance to cinematography development;

The Andrey Konchalovsky Cinema and Television Support Fund;

The Eduard Sagalayev Fund.

Chapter 2.

FILM INDUSTRY: AN OVERVIEW

During the last few years all the sectors of the Russian film industry have displayed continuous growth, thus generating interest in the Russian market on the part of both national and foreign investors, from within and without the industry. These processes are a natural result of the steady recovery of the various branches of the Russian film industry, including film exhibition, distribution and production.

The first step in that progress was the 1996 opening of Kodak-Kinomir, the first Western-style cinema in Moscow; since then the screen network has expanded significantly in Russia, providing high-quality venues for film exhibition. In 1998 the film distribution sector in Russia revived to prove that it was possible to rekindle the interest in film-going among Russian viewers. This was largely thanks to the screening of *Titanic,* which filled cinemas across the country, obsolete as many of those cinemas were at that time. In 2004, national film producers succeeded in reorienting themselves to the production of commercial blockbusters. Thanks to wide advertising campaigns and support on the part of the leading federal TV channels, a fairly wide audience was attracted to cinemas (the film *Nochnoy Dozor [Night Watch]*, being the most prominent among them). Since 2005 investments also started pouring into the film production service sector and the recovery process of the infrastructure began, so that by 2008 the previously acute deficit in sound stages, film hardware, dubbing and editing services was more or less absorbed.

The global financial and economic crisis of 2009 had a negative impact on all aspects of the film industry in Russia: the volume of film and TV-film production, that used to be financed both from the federal budget and private investors and TV channels, fell; consolidation processes began among players in film production (production companies) and the distribution sector (including the advent of new vertically-integrated structures); projects to construct new film studio complexes across the country have halted; growth of the film exhibition market slowed and there was a transition from intensive development of screen networks (primarily directed at opening cinemas in new regions and cities) to predominantly extensive development (primarily on account of installing digital film projectors in already operating cinemas).

However, national film industry experts have divergent views of all these processes. Many talk of the beneficial effects of the crisis, as helping to improve the state of the industry. Weak players have left the market, as have surplus non-core investments; these used to stimulate continuous growth of film production costs in Russia and, in parallel, raised licensing prices for the exhibition of foreign films purchased by Russian companies during international film markets in recent years. In addition, the film-exhibition market in Russia had been growing mostly through the opening of new cinemas in larger cities (at least 1 million inhabitants), thus stimulating excessive market competition, while the smaller less-populous areas still suffered from a deficit.

Thus, 2009 is turning into a year of qualitative changes for the Russian film industry, and the results of these changes (either positive or negative) will become evident later. Meanwhile, 2008 marked a high-point for all aspects of the film industry in modern Russia: from the number of film and TV films produced, to box office receipts from film and video distribution and the rate of expansion of modern exhibition facilities.

A short review follows of specific aspects of the Russian film industry.

All film companies operating on the Russian **film production** market may be split into several categories, depending upon the functions they fulfill: film production companies; film studio complexes (with their own sound stages); companies renting out filming hardware to film crews and post-production centres.

Production companies (production centres that have their own film distribution units; production companies; state and private film studios; TV channels and major Hollywood studios). Between January 2006 and July 2009 these have invested more than RUB 61 billion in film and TV film production (averaging about RUB 17.5 billion per annum). Most of that money was invested in the production of TV films and series (52%), with about 40% going into film production.

The production of full-length TV films and theatrical films peaked in 2008 (158 and 106 titles, respectively). For 2009 a drop in the production of feature-length films is predicted: 41 films and 36 TV films were released during the first six months of the year. If the trend prevails, about 80 and 70 titles respectively can be expected by the year end.

The Russian market for TV-series and TV films still remains the industry leader in terms of the volume of investment, which has reached RUB 32 billion over the last 3.5 years, resulting in the production of 9,000-plus episodes of various series and more than 450 TV films. Such a figure is related, first of all, to increasing production costs in that sector (these grew by up to 30% per year prior to the crisis of 2009), and to the increase in the number of TV films produced over 2007–2008. However, 2009 highlighted a new trend, atypical for the market: the number of theatrical films produced exceeded the number of TV films. The television industry appeared to be more susceptible to various effects of the financial and economic crisis due to its shorter production cycle and its higher sensitivity to orders by TV channels to launch production.

The market for live-action films comes second in terms of the volume invested (about RUB 25 billion over the last 3.5 years). Production of the majority of films in Russia is largely financed by non-returnable investments that come primarily from the Ministry of Culture of the Russian Federation. (Among the 341 films produced between January 2006 and July 2009, 198 received state support. Note that during 2009, no new films benefiting from state support have gone into production; all budget financing was channelled into finishing projects already under way.) State support for live-action films averaged RUB 19 million per film. Since 2006 the country has displayed a stable upward trend in the number of films it produces. On average, Russia produces 100 full-length live-action films annually, while about 72 new films are released to theatrical distribution. The growth of film production over the period 2006–2008 has also provoked an increase in the cost of film making, owing mostly to increased wages for the members of film crews, since Russia lacks many such professionals. Overblown production budgets in combination with often weak box office takings of national films have resulted in the majority of Russian-made films failing to recoup their investments from theatrical exhibition, leading to financial losses for production companies. Prior to 2009 many such companies could count on gaining high additional revenues from other sources such as sales of DVD rights, TV sales, release of computer games and other associated goods. The financial and economic crisis has shrunk all such additional revenues streams available to producers, both reducing the volume of purchases of such rights, and dropping the level of prices on these markets.

The volume of investment into the production of full-length animation films released to screens between January 2006 and July 2009 (in all, there are 11 such films) amounted to about RUB 1 billion, while the volume of investment into short animation films may be estimated at RUB 1.3 billion. Most short animation films were produced with state support that generally covered about 70% of their total budget. Note that state support of full-length animation films covered only around 5% of their total production budgets.

The approximate volume of the investment market for non-live-action films since 2006 may be estimated at RUB 2.5 billion with the production of around 2,500 hours of programming. The principal customers for non-live-action films are the state and various TV channels (ordering mostly short documentaries and series). The principal outlet for documentaries is still TV-screening, so the main source of revenues for producers of documentaries remains selling distribution rights to TV channels. However the fall in the volume of orders on the part of TV channels and a drop in the pricing of distribution rights during 2009 are having a negative impact on the film production sector in Russia.

During 2006 - 2009 the principal players on the Russian film production market were:

· Media holdings (Gazprom-Media, ProfMedia, STS Media, Sistema-Mass-media and the All-Russian State TV and Radio Broadcasting Company);

· Production centres (CTB, since 2009 working in co-operation with the companies Krasnaya Strela [Red Arrow] and Profit, Central Partnership and Paradise);

· Independent production companies (about 300 in total, the largest among them being Real Dakota, Art Pictures Group and Studio Tri-Te);

· The state (the National Film Centre, the St. Petersburg Documentary Film Studio, Lennauchfilm and the Sverdlovsk Film Studio) and private film studios (Russian World Studios, Amedia and StarMedia);

· TV channels, as represented by their in-house units or subsidiaries focusing on the production of TV series (the Rossiya TV Channel with its Russian TV Novel project, NTV with NTV-Kino, STS with Kostafilm), documentaries (Channel One, Rossiya TV Channel and STS) and live-action films (Channel One with its Direktsiya Kino, Rossiya TV Channel , STS and others);

· Hollywood majors (Sony Pictures, Walt Disney Company, Universal Pictures, Fox International).

Besides production companies and film studio complexes that often play the role of production centres as well, other types of companies active in film production in Russia work exclusively to provide production infrastructure for the industry, plus services in renting equipment and supporting film shooting and post-production activities, while most production centres have no production capacities of their own.

The total volume of the film production services sector in Russia comprised RUB 15.9 billion over 2006–2008, RUB 8.6 billion of which was generated through the production of live-action films and RUB 7.3 billion through TV films and series. The principal types of services provided by studio complexes and service companies in Russia involve renting out sound stages and equipment (the cumulative volume of that segment of the market over the last 3 years has reached about RUB 5.4 billion), plus post-production services (film processing, lip-synching, etc., its cumulative volume estimated at RUB 5.0 billion). Producers have more than doubled their expenditure on film production services between 2006 through 2007 (from RUB 1.1 billion in 2006 to RUB 2.2 billion in 2008). This was due to the growing volume of film production in Russia, plus the rising production costs of the projects.

Of the 15 state film studio complexes, only seven are actually functioning, i.e. offering for rent their sound stages, plus a wide spectrum of film production services. On top of these, by 2008 Russia had 12 further private film studios offering sound stages and backlots together with various technical services. Moreover, the share of private film studios in the total number of sound stages offered exceeds 65%. Thus the state is no longer playing a dominant role on the market for film production services, although the influence of state studios in the industry is still significant.

The majority of Russian film studios are concentrated in Moscow and St. Petersburg, while in addition to these two cities film studios with their own production base (sound stages) are functioning in Yekaterinburg and Khanty-Mansiisk. The largest film studio in Russia is Mosfilm which retains its status as a state enterprise (it is recognized to be strategically important for the industry). It is the country's only full-cycle studio.

Starting large-scale non studio-based companies to support the process of film shooting with professional equipment and services available became a typical trend on the market of film production before the 2008 crisis. Russia currently numbers 275 companies providing various services to film producers. These include 34 rental companies offering technology and equipment for film shooting, 35 post-production studios, 48 computer graphics and special effects studios, etc. Service companies often tend to specialize in certain segments of film production.

The prices set for services offered to film crews in Russia are higher than the European average. This arises, firstly, from a combination of additional services that the national studios offer as a mandatory set of extras (such as technical personnel, auxiliary equipment, etc.). At the same time, the prices for basic services, such as renting sound stages, remain relatively low. Moreover, with the start of the recession in film production in the financial and economic crisis of 2008–2009, rental prices for equipment have adjusted but only insignificantly: e.g., rental rates for sound stages have dropped by approximately 10% only.

Post-production services still remain the weakest link in the Russian market of film production. For example, film processing and printing laboratories only function in Moscow (Mosfilm, Gorky Film Studio, Salamander, Cinelab, etc.). Dubbing services exist at practically all the film studios and in many companies, but those with Dolby-studio capabilities are much fewer (Mosfilm owns one of the largest dubbing studios in the country; others include Nevafilm, Lenfilm, Gorky Film Studio, Cinelab, Salamander, Izarus-Film, Central Productions International Group and Pifagor).

Computer graphics services are provided by six full-service companies: Mosfilm, Gorky Film Studio, Lenfilm, Sverdlovsk Film Studio, Media City and Creative Production Association (TTO). This area is poorly developed, but companies are currently trying to build up their experience and skills, many of them trying to purchase equipment and hire experts to open studios in computer graphics, animation and 3D-simulation. Generally speaking, a positive dynamic can be noted in the industry of producing visual effects. However, the Russian market for computer graphics is still desperately lacking in experienced personnel, and this significantly hampers further growth.

A new branch is developing in digital film distribution and film exhibition: the country already has four digital film laboratories (Nevafilm Digital, Salamander Mosfilm and Conveyor).

In 2006–2008, existing demand for modern film production capacities resulted in the emergence of numerous projects to construct film studios, with private investors playing an active role. However, under the conditions of the current recession in production, one of the main problems has become securing business for all these studios. If several such projects are to be implemented simultaneously, market supply may exceed demand: Russia is not producing so many films as to provide orders for more than one Russian Hollywood. Players on the film market speculate that a real demand exists for a single modern film studio in the south of the country. It should provide extensive opportunities for location shooting and for staging marine episodes. There may also be a need for a new modern film studio in central Russia.

Theatrical exhibition in Russia remains the principal exploitation platform for film works (the national video-market still produces low revenues due to the prevalence of piracy). That is why the exhibition infrastructure in the country remains so important for the film industry in general. Essentially, the history of the modern Russian film market began with the resurrection of that network in 1996. The main role on the market of film exhibition in Russia is played by modern cinemas, i.e. those that exhibit films regularly on a commercial basis using 35-mm film or digital projection techniques, with multi-channel sound in comfortable auditoria.

The number of modern cinema multiplexes in Russia is in constant progression, so that by July 1 2009, the country had 1,949 modern screens in 756 cinemas, 17% of such cinemas (8% of screens) with digital projection equipment. By 2009, annual growth in the number of modern screens had reached 20–30%. However, the rate of that growth is slowing down, due to both the gradual saturation of the market and the effects of the global financial and economic crisis.

The growth in the Russian exhibition branch was maintained lately by the expansion of major operators of exhibition circuits into the regions, as well as by development of the market in Retail and Entertainment Complexes (currently, more than half of modern screens in Russia (a quarter of all the cinemas) are situated in such retail and entertainment complexes – REC). By the end of 2008, most of the major regional centres in the country have reached a saturation level in terms of screen density per 100,000 citizens. Many cities of around a million inhabitants have come close to or even exceeded the screen density of the countries wealthiest and most populous regions– the Moscow agglomeration and St. Petersburg. As for smaller cities and towns, representatives of exhibition circuits recognize that further expansion of the market will not be profitable, if it is undertaken with private investment alone.

At the same time, this strong dependence of the exhibition branch in Russia on REC availability backfired in 2009. Due to the crisis, many projects for the construction of RECs were postponed or cancelled completely, and that resulted in a slower rate of launching new screens. This became particularly significant given that these shopping centres house the majority of *multiscreen* cinemas in the country. In general, however,he majority of operating cinemas in Russia are still single- or two-screen sites. However, such cinemas account for only 35% of the number of modern screens in the country. Meanwhile the less numerous miniplexes (3 to 7 screens) and multiplexes (8 screens and more) account for 65% of modern screens nationwide.

Despite all these effects, a slowing in the rate of launching new modern screens in 2009 does not mean a halt in development of the exhibition branch. That market has graduated from an extensive to an intensive mode of development with the proliferation of digital film exhibition. The first commercial digital screen meeting DCI requirements was launched in Russia in October 2006. According to data as of 1 July 2009, the number of digital screens in the country has grown by a factor of 5 to reach 161 screens between 2007 and mid-2009. Digital projectors are already installed in 17% of cinemas in Russia, covering 54 different cities. Practically all of them are fitted with systems to exhibit digital 3D-films. It is important to note that releasing films in the Digital 3D format serves as the key motivator in establishing new digital screens in Russia, since exhibitors expect higher payback from 3D runs. However, the rate of transition to digital film exhibition may slow down by the end of 2009 (after the release of James Cameron's *Avatar*): all companies and cinemas capable of purchasing expensive equipment for their premier screens will have made such purchases by then. Further progress towards digital film exhibition in Russia will be hampered by the lack of a common concept for the transition of all Russian cinemas to digital technologies of film exhibition. Such a concept should envisage support on the part of the state to film exhibitors or distributors in the form of Virtual Print Fee (VPF) or changes in the exhibition interest rate to the benefit of cinemas.

The Russian exhibition segment is very fragmented. It has about 450 players, including 73 exhibition chains and more than 370 independent cinemas. At the same time the market has about 30 cinema network companies, each managing at least ten screens. Fourteen among these are at the federal level (with each managing cinemas in several federal districts), seven are regional (each operates across the territory of several regions, while staying within one federal district) and eight more are local (operating within a single region of Russia).

As for the ranking of leading Russian chains, the topmost positions are securely occupied by ten companies, the largest federal screen networks among them: Karo Film (holding the lead since 2005), Cinema Park, Kinomax, Kronverk Cinema, KinoStar, InvestKinoProject, Paradise, as well as certain regional networks: Formula Kino, Premier-Zal and Luxor. The share of the top ten screen networks is just above 40% of the market of modern screens in Russia.

The exhibition infrastructure formed to date provides the basis for independent state film distribution in Russia**.** It started forming in the late 1980s – early 1990s. By 1991, the market saw the appearance of companies representing the Hollywood majors (East-West for MGM, United Artists, Paramount, Universal; Sovexportfilm–Kinoton for 20th Century Fox). However, the pirate video-market was simultaneously spreading through the country at an incredible rate and in May 1991 it resulted in the Motion Pictures Association of America (MPAA) announcing an embargo on exhibition of films by Hollywood majors in Russia. The consequences of that decision appeared catastrophic for legal film distribution in Russia. Not only American, but European films stopped coming to Russia. Pirate exhibition of 35-mm prints of extremely low quality had started, video-piracy was thriving as a cheaper, more profitable business. The embargo was lifted only in 1993 as a result of the struggle of legal Russian film distributors against it. However, by that time the system of film exhibition was already disintegrating, and cinemas started converting en masse to retail malls. By 1997, the level of film consumption in the country had dropped to its minimum of 0.25 per capita per annum. The recovery of the Russian film distribution branch started in the mid-1990s with rehabilitation of the infrastructure for film exhibition. Three main phases in the development of that market in Russia can be identified:

Phase I (1996–2002). Upgraded cinemas enjoying a monopoly position with respect to both film distributors and cinema-goers was typical for the recovering film market. Each screen complex fitted out with multi-channel sound and comfortable seats enjoyed enormous popularity with the public that was ready to pay any price for a ticket, while distributors were fighting desperately against each other for access to modern cinemas, trying to screen their films there.

It was during that particular phase that the Russian model of the exhibitor–distributor business relationship formed, according to which the gross box office is split 50/50 between the players on the distribution market. That model is still active in Russia along with other options: the minimum guaranteed exhibition payments and lump-sum sales of exhibition rights (sometimes offered together with film print). Also such important components of the modern system of film distribution emerged as regular film markets that are traditionally held in Russia every quarter of the year. The day of repertoire change was set on Thursdays (though some major films may have their first screenings on Wednesdays).

Phase II (2003–2007). The year 2003 marked the end the era of screen reconstruction: the main trend that was established during the new stage in development of the exhibition branch became constructing multi-screen cinemas as part of retail and entertainment complexes. This resulted in a sharp increase in the overall number of screens across the country. Competition strengthened among exhibitors, resulting in lower ticket prices; the deficit in the number of screens available reduced while the authority and role of the distributor significantly increased: cinemas started competing for better box office attractions and more advantageous screening conditions.

The second phase triggered the mass formation of major regional and federal screen networks. The lucrative business of film exhibition started attracting non-core market players – developers of trade centres who started launching screens at their sites and managing them themselves. Gradually the principal film markets of the two capitals of Russia, Moscow and St. Petersburg, approached saturation, as was demonstrated by more and more frequent cases of closure of modern cinemas that failed in competition. Operators of screen networks started thinking about expansion into the regions and by 2007 most major regional centres with a population in excess of 1 million residents had multi-screen cinemas operated by federal networking companies.

The year 2004 is considered to be a milestone for Russian film distribution. The release of the feature film *Nochnoy Dozor* [*Night Watch]* which took place on 27 June 2004 highlighted two new trends on the market:

- it was from this point that national films laid serious claim to leadership in Russian distribution; for the first time since the fall of the USSR, a Russian film topped box office ratings across the CIS, and in practical terms national features have remained constant leaders since then;
- generally, this step up in the popularity of Russian blockbusters and cinema admissions in general was stimulated by support for film exhibition by a national TV channel; in addition to continuous running of film ad reels, it provided long-term accompaniment of film screening through news features on its progress in the cinemas, topical programmes on the process of its production, interviews with actors and producers, talk-shows with their participation and so on.

Phase III (2008 onwards). The current stage of film market development in Russia is characterized by the domination of large market players over smaller scale independent ones. The ability of the former to exert pressure with a strong set of films in hand or with a wide screen network under their control gives larger companies the opportunity to disregard the opinion of their less influential counterparts. Releases by Hollywood majors and widely advertised Russian blockbusters enjoy higher demand from cinemas that are ready accomodate the distributor in various ways. Films proposed by independent distributors often have a very hard time obtaining screen space; distributors often have to cede to exhibitors in relation to the number of screenings and exhibition terms, and sometimes also in the percentage share of box office receipts. Such a situation infringes upon the rights of smaller exhibition and distribution companies, interfering with their income that they might otherwise count on if the parties would remain equal in their rights. It also prevents such companies from developing and expanding the network of independent players.

In 2008, attendance in Russian cinemas reached 118.4 million, with admissions growing at an annual rate of 15% during 2007–2008 for two main reasons:

· the expansion of cinema networks (between 2005 through 2008 the country saw about 20 new cities launching modern screens annually);

· revival of the custom of going to the cinema, lost during the 1990s. The level of film consumption in Russia has practically doubled since 2004 – from 0.5 to 0.9 per capita per annum. Calculating this figure based on the number of residents of cities that feature modern screens one arrives at an expected 1.7 visits a year for 2009.

Box office takings from Russian film distribution continues to grow at an even more impressive pace: at least 30% a year (in 2008 the volume of the film distribution market reached RUB 19.9 billion or USD 801 million). Despite the fact that the 2009 box office figures may, for the first time in the history of modern Russia, feature a negative growth in hard currency (due to devaluation of the RUB during late 2008 – early 2009), the RUB volume of the film distribution market will continue to grow.

The principal factor in the growth of gross box office receipts in Russia over the last few years has continued to be the increase in the average single ticket price in both its RUB and USD equivalent. In 2008 the average price of a single ticket reached 168 RUB (USD 6.80).

Annually, about 300 films are released on Russian screens , with the number of such releases growing over the last few years. However, that level remains pretty low: according to forecasts, not more than 350 films will be released in cinemas during 2009, the same as in the two previous years. The Russian market is dominated by US-produced films. They also collect most of the box office from film distribution (about 60% of the annual total box office). Since 2004, nationally produced films have gained a larger and larger share of the market, both in the number of titles and the volume of their box office receipts (at least 25%), winning over the US-film-viewing public in the process. As regards the distribution of European films in Russia, the leader in terms of the number of releases over the period in question is France, followed by Great Britain, Germany, and Spain. France is also the European leader at the box office from Russian film distribution (about 4% over 2004–2008).

Since 2006, films in digital format have been distributed in Russia;, their number is constantly growing in proportion to the number of digital screens. At the same time, most of the digital screens in Russia are fitted with equipment for 3D-exhibition and prefer dealing predominantly with 3D films, thus limiting the number of films in regular (2D) format that might otherwise have reached the screens.

It is interesting to note that film screens in Russia mostly specialize in screening features and animation films while running documentaries and short-length films is extremely hampered.

In all, as of 2009, the Russian distribution market has about 35 film distributors in operation. All the film distributors operating on the Russian market may be separated into groups, depending upon the type of content they handle:

- foreign companies – direct representatives of major Hollywood studios on the Russian market (Universal Pictures International, Buena Vista Sony Pictures Releasing, 20th Century Fox CIS);
- Russian companies – official representatives of the Hollywood majors (Karo Premier, Central Partnership);
- Independent distribution companies that deal predominantly in foreign and Russian-produced films to a wide audience (Paradise, Central Partnership, West, Luxor, Top Film Distribution, Cascade, Volga, Lizard Cinema Trade, Nashe Kino, Karoprokat);
- Independent film distribution companies working with narrow target groups: children's films (Panorama), art house (CP Classic, Kino bez Granits [Cinema without Frontiers], Russkiy Reportazh [Russian Reporting], InterCinema) and animation (Ruscico);
- Film makers (certain national producers that present and distribute their films on the market themselves – they often establish new distribution companies specifically to distribute a single film);
- Regional film and video rental organizations (FVROs) – essentially these are the remnants of the local cinema authorities from Soviet times that have lost most of their functions and currently remain custodians of film funds that support their screening on the regional network, mostly in obsolete theatres, village clubs and 'houses of culture' using portable film projectors and fixed installations.

Another channel for marketing audio-visual products in Russia is **video distribution.** However, the licensed video market in the country remains quite weak, even today, and the dynamics of its development are unstable due to the incessant struggle between licensed and pirate video products.

According to data from Screen Digest, 28.3 million Russian households owned a DVD-player in 2008 (equal to 58.8% of the households owning TV sets), and the forecast for 2009 is 31.1 million, representing 64.3% of households owning TV sets.

In 2008, the largest distributors on the Russian market for licensed DVDs released 1,893 titles, while 742 titles were released during the first half of 2009. This gives grounds to expect the total number of DVD releases by year end at a level of 1,600 titles, which is 15% lower than last year. Thus the global financial and economic crisis has affected negatively the number of disks released in Russia.

Sales of licensed DVDs in 2009 also slowed during the first six months of the year: according to data from *Videomagazine*, 38.6 million disks were sold as opposed to 83.8 million over the whole of 2008. If this level of DVD sales in Russia remains unchanged to year end, it may drop by 8% year on year based on 2009 results, while market growth over 2008 was 25%, and 61% - over 2007.

The average per capita consumption of licensed DVDs is also decreasing: its current annual average reaches 0.54 disk/year/person, which is also lower than last year (0.59) and testifies to the growing role of pirate video products in Russia. The Association of DVD Publishers assesses the share of pirate video products on the Russian DVD market at the level of 75–80% of the total volume of video sales.

The national market of licensed DVD sales is dominated by releases of catalogues by video distributors. In 2009, the share of new titles in DVD film distribution continued to fall. Among the types of video products released to DVD, feature films dominate, similar to the film distribution market. The structure of the Russian licensed DVD-market is clearly oriented to full-length feature films.

Since 2007, Blu-Ray format disks have been released in Russia - the first such disk was *Casino Royale*. In 2008, the number of releases in the new format grew to 94, while between January and August 2009 54 films were released on Blu-Ray disks; their number may exceed 130 by the end of the year. The number of Blu-Ray players in Russia is constantly growing: Screen Digest assesses the total number of Blu-Ray capable players for 2008 at a level of 145,100 (which amounted to 0.6% of households that own TV sets). The forecast for 2009 is 594,100 (1.2% of households with TV sets).

The Russian market for licensed DVDs numbers around 20 key players including:

· Representatives of the Hollywood majors (20th Century Fox CIS; Universal Pictures Russia; Walt Disney Company CIS; Videoservice);

· Russian companies specializing exclusively in national releases (Krupny Plan [Close-up] – in the collaboration with the companies Soyuz Video and Lizard Cinema Trade);

· Independent video distributors that offer a wide range of national and foreign releases (Paradise, CP Digital, Karmen Video, Lizard Cinema Trade, Nastroenie Video [Video Mood], Ruscico, West Video, Sigma Film, Soyuz Video, etc.).

Chapter 3.

DESCRIPTION AND ANALYSIS OF THE VARIOUS BRANCHES OF THE RUSSIAN FILM INDUSTRY

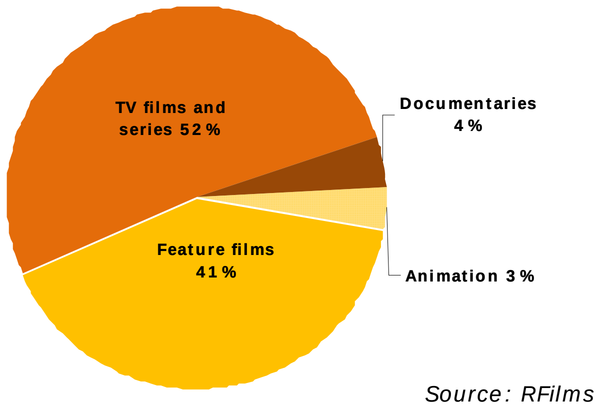
3.1 FILM PRODUCTION FOR CINEMA AND TV IN RUSSIA: PRODUCERS AND PRODUCTION COMPANIES

3.1.1 Branch structure

Market volume

The total volume of investment in film and TV production in the period between 1 January 2006 and 1 July 2009 exceeded RUB 62 billion.[33]

Graphic 3.1.1. Investment in film production by sector (from 01.01.2006 till 01.07.2009)



More than half of this was invested in the production of TV films and series, and about 41% was allocated to motion picture production. Despite the high level of average film budgets, film production shows lower overall investment volume than TV production principally due to a significantly smaller production volume.

During the period from 1 January 2006 to 1 July 2009 more than 1,200 feature film titles were produced in Russia,[34] including 339 films and 374 TV productions. The market leader in terms of production volume of full-length films is the documentary sector with 510 films produced.

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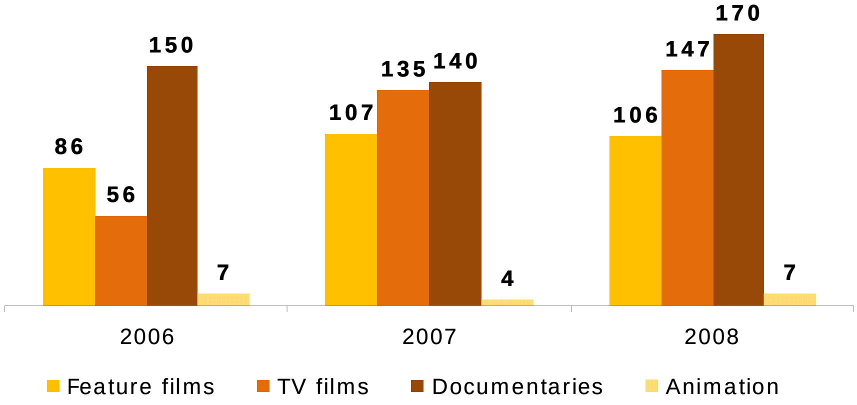
33 Calculations of total investments were conducted using, on the one hand, the budgets announced by production companies for film and TV films, plus data from the Russian Federation Ministry of Culture on average production budgets of films that have received state support – and, on the other hand, the number of hours of film and TV products produced.

34 According to Rfilms.

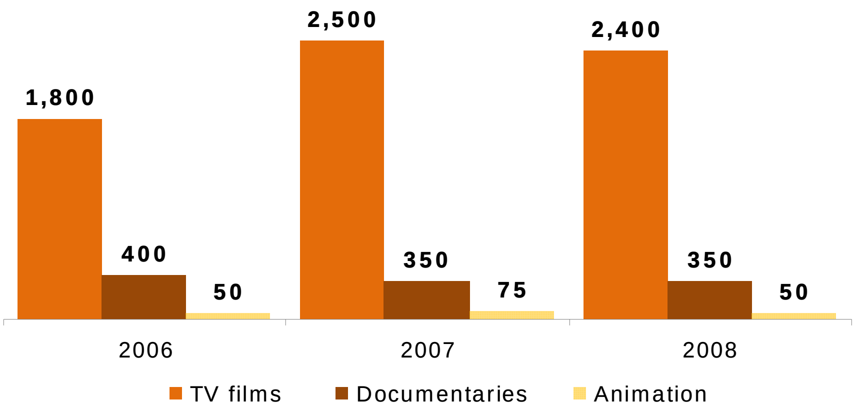
Graphic 3.1.2 Number of feature-length films



**All data as for full-lengh films for theatrical release and TV*
Source: The Russian Federation Ministry of Culture, RFilms, company data

The volume of series and short-film production over the same period totalled about 8,200 hours, which is more than four times greater than the volume for released feature films. Alongside the leader of this segment is the market of TV series.

Graphic 3.1.3 Production of short-length films and series, in hours



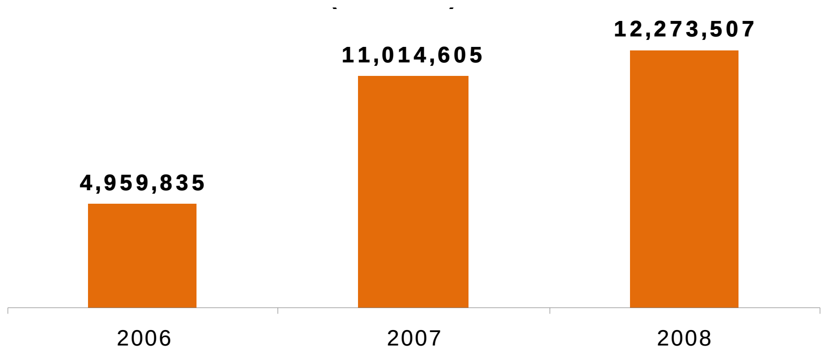
Source: The Russian Federation Ministry of Culture, RFilms, company data

The peak in production for feature TV and motion picture films was reached in 2008 (158 and 106 titles, respectively). The forecast for the production of feature films in 2009 shows a slump: 40 motion pictures and 36 TV films were produced during the first 6 months, and if these trends prevail it may result in the production of about 80 and 70 titles, respectively, over the full year. It is significant that, for the first time since 2006, the number of motion picture films exceeded the number of TV films: The TV industry has proved to be more susceptible to the effects of the economic crisis due to a shorter production cycle and higher sensitivity of TV-channels to order placement and product launch effects.

TV films and TV series market[35]

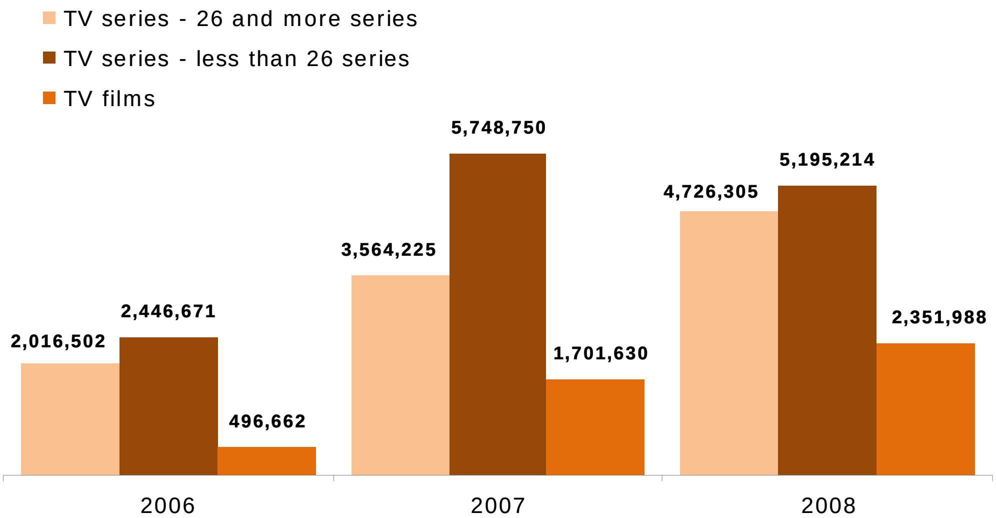
The leading segment in terms of the volume of investment in Russia is still the market for TV series and TV films. This is linked primarily to the growth of production costs in that sector as well as to growth in the number of TV films produced over 2007–2008. The total volume of investment over the period between 1 January 2006 and 1 July 2009 totalled about RUB 32 billion. Most of this investment went into the shorter series production segment.

Graphic 3.1.4 Investment in TV film and series production* (RUB '000)



*Calculations are based on analysis of the air time of 6 federal TV channels
Source: The Russian Federation Ministry of Culture, RFilms, company data

Graphic 3.1.5 Investment in TV film and series production* (RUB '000)



*Calculations are based on analysis of the air time of 6 federal TV channels
Source: The Russian Federation Ministry of Culture, RFilms, company data

In all, more than 9,000 episodes of TV series were produced since 2006, which averages around 2,100 hours per year. In 2008 there were 36 production companies in this segment, only 12 of them specializing in producing longer series (26 episodes and more).

35 To assess the scope of the market of TV- series data were analyzed on the release of premiere TV-series on 6 federal TV-channels: Channel One Russia, RossiyaTV Channel, NTV, TNT, STS, and REN TV. These TV-channels are buyers and frequently also customers for an overwhelming majority of Russian TV-series.

The first six months of 2009 saw no fall-back in the airing of first-run TV series on federal TV-channels; all in all, 1,482 episodes were aired over the period, comprising more than 60% of the total volume of premiere TV series from 2007–2008. However, these positive dynamics do not mean one can speak with confidence episodes of growth in the production of TV series, since TV-channels have quite a large library of films that have never been aired before.

Two companies hold the lead in the production of premiere series from 2006 to 1 July 2009 – Lean-M and Amedia. Each of them captures about 14% of the airtime given to premiere series on the federal channels. The 5 leading companies in the production of TV series for the federal TV-channels together hold 58% of the market. The Star Media, Lean-M and Amedia companies produce works of various genres and have the largest number of clients. TV-Alliance Media Group specializes in producing sitcoms, while the TV Creative Association specializes in producing longer TV series (more than 26 episodes).

Table 3.1.1 TOP 5 companies by number of produced for federal TV channels (2006–1 July 2009)*

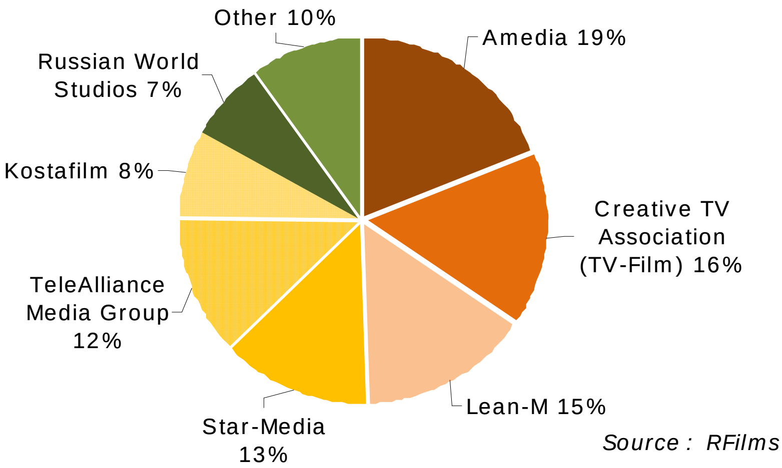
Company	Number of episodes	Market share
Amedia	1 246	14%
Lean-M	1 134	13%
Creative TV Association (TV-Film)	986	11%
Star-Media	960	11%
TeleAlliance Media Group	777	9%

**Data on 6 federal TV channels: Channel One Russia, Russia TV Channel, NTV, STS, REN TV and TNT Channel. One sitcom episode is equal to one half of a standard serial episode.*

Source: RFilms

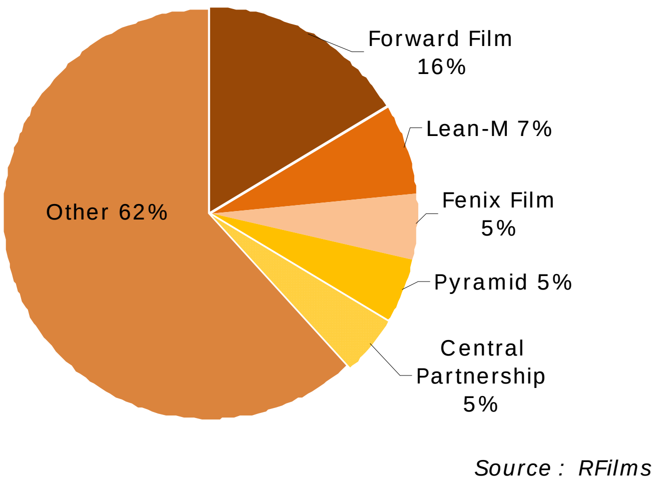
High market concentration can be observed in the segment producing longer TV series for the federal TV-channels. Seven leading companies control 90% of the segment. Moreover, there are only four companies on the Russian market capable of producing longer TV series broadcast an episode a day. These are Amedia, the Creative TV Association, Russian World Studios and Lean-M.

Graphic 3.1.6 Market shares of producers of long TV series -26 and more episodes (rate for the period from 01.01.2006 till 01.07.2009)



The market concentration in the segment of producing shorter TV series is low. The leader here is the *Forward Film* Company.

Graphic 3.1.7 Market shares of producers of short TV series - less than 26 episodes (rate for the period from 01.01.2006 till 01.07.2009)



The number of premiere TV films produced for the federal TV-channels since 2006 exceeds 450. The largest clients for TV films are the Central Partnership, Star Media, NTV TV Company, the All-Russian State TV and Radio Broadcasting Company companies, as well as the Government of Moscow. According to data from 2008, Russia counted more than 70 companies producing TV films, the largest among them being Star Media, MosTeleFilm and Russkoe.

Table 3.1.2 TOP 5 companies by number of TV films produced (2006–1 July 2009)

Company	Number of films	Market share
Star Media*	79	20%
Mostelefilm*	37	10%
Russkoe	29	7%
Pyramid	17	4%
Intra Film	16	4%

**Star Media and Mostelefilm - co-production of 22 films*
Source: The Russian Federation Ministry of Culture, Rfilms

According to estimates by market players, the cost of producing out TV produced products grew at the rate of about 30% a year between 2006 and 2008. However, in 2009 the cost of production dropped back to the level of 2006.[36]

Table 3.1.3 Average cost of TV production, USD

TV production	2006	2007	2008	01.07.2009
TV series – less than 26 episodes (per episode)	150,000	225,000	300,000	150,000
TV series – 26 and more episodes (per episode)	50,000	75,000	100,000	50,000
TV films (per film)	300,000	450,000	600,000	300,000

Source: Commersant Newspaper, Secret Firmy, The Russian Federation Ministry of Culture, Department of Competition policy of Moscow, RFilms, company data

In proportion with growing production costs, TV-channels increase or decrease purchase prices for TV works. For example, while the maximum purchase price of a single episode of a TV series on Channel One Russia and Rossiya TV Channel reached USD 700,000 in 2008, its maximum in 2009 never exceeded USD 400,000; the level of purchase prices on other federal TV-channels fluctuated between USD 100,000 and 200,000.

Note that since 2006 the share of TV series coproduced with foreign countries has been still quite small. Among the most well-known productions are mini-series *Voina I Mir [War and Peace]* (2007; production: Lux Vide (Italy), RaiFiction (Italy), Rossiya TV Channel, Eos Film (Germany), Pampa Production (France), Baltmedia Projektor (Poland) and Grupo Intereconomia (Poland)), as well as Chinese-Russian version of *A Zori Zdes Tikhie* TV film (2006; production – Central ChinaTelevision (CCTV)).

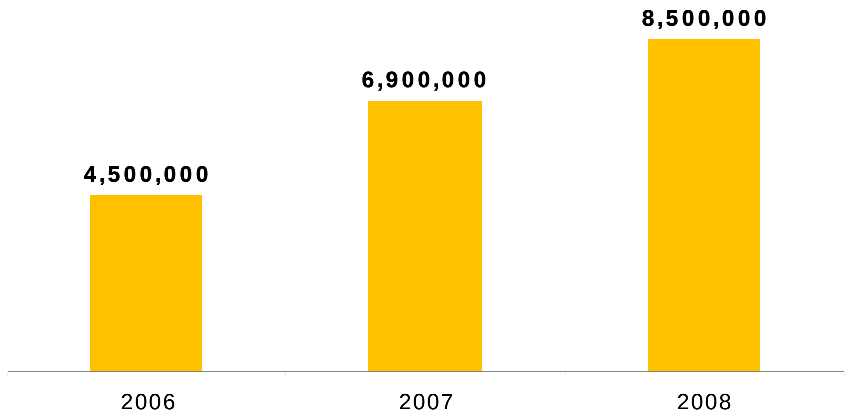
Feature film market

The feature film market comes second in terms of the volume of investment, reaching about RUB 25 billion over the period from 1 January 2006 to 1 July 2009. Production of most features was

[36] Olga Goncharova, Sergei Sobolev. *Offscreen crisis*. Kommersant Newspaper, 03.10.2008; Tatyana Komarova. *Double two.* Secret Firmy magazine № 6 (287) of 01.06.2009.

financed by way of non-repayable investment, chiefly by the funds of the Ministry of Culture of the Russian Federation (of 341 features produced 198 received state support). State support for feature films averaged RUB 19 million per film, but never more than RUB 29 million for production and RUB 5 million for distribution support. Along with this the volume of state support of companies with the highest production budgets, such as CTB, Central Partnership, Rossiya TV Channel and STS TV Channel, was up to 15% of estimated cost of the films produced during the period.

Graphic 3.1.8 Investment to film production* (RUB'000)



*Calculated on the basis of film production budgets
Source: The Russian Federation Ministry of Culture, Alliance of Independent Film Distribution Companies (ANKO), RFilms, company data

Since 2006 the country has seen a stable growth trend in the number of motion pictures produced; on average, 100 feature films are released in Russia annually,[37] while 72 news films are released to exhibition annually.

Table 3.1.4 Number of film licenses issued for the distribution of Russian feature films*

Description	2006	2007	2008	01.07.2009
Number of issued film licenses for distribution of new feature films released for theatrical distribution	86	107	106	40**
Number of films released for theatrical distribution	62	80	75	22

**Excluding full-length documentary and animation films*
***Including films to be released after 01.07.2009*
Source: The Russian Federation Ministry of Culture, Russian Film Business & Booker's Bulletin

In total, 250 companies were involved in feature film production between 1 January 2006 and 1 July 2009. Of these, 79 companies (32%) participated in producing two films and more, and only 23 among them (9%) in producing more than five films each, while 171 companies were involved in the production of just one film. In most cases these companies were established in order to produce one

[37] According to RFilm.

or several specific projects only. Thus only a few production companies are capable of producing a slate of films that allows them to compensate losses from failed projects at the expense of profitable ones.

Table 3.1.5 TOP production companies by volume of production budgets for Russian full-length feature films (2006-01.07.2009)

Company	Number of films	Total production budget (RUB x million)	Box office in Russian and CIS distribution (RUB x million)
Central Partnership	21	2,050	1,900
Rossiya TV Channel	13	1,700	1,500
CTB Film Company	14	1,320	760
STS TV Channel	8	1,200	1,600

Source: The Russian Federation Ministry of Culture, Alliance of Independent Film Distribution Companies (ANKO), Russian Film Business & Booker's Bulletin and company data

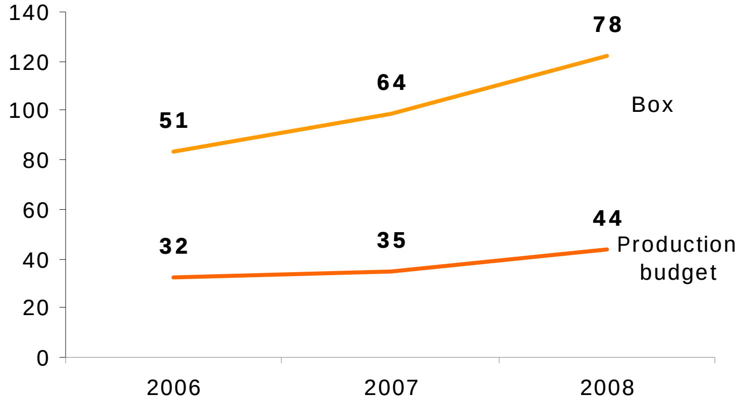
Table 3.1.6 Economic indicators of Russian film production and distribution

Indicators	2006	2007	2008	01.07.2009
Total film production budget (RUB x million)	4,531	6,873	8,486	5,045
Box office in Russia and CIS (RUB x million)	2,893	3,768	4,842	3,682
Average production budget per film (RUB x million)	51	64	78	126
Average box office per film in Russia and CIS (RUB x million)	32	35	44	92
Number of films with production budget over RUB 200 million	0	5	3	4
Number of films with production budget of RUB 100-200 million	7	8	10	6
Number of films with production budget under RUB 100 million	80	93	95	30

Source: The Russian Federation Ministry of Culture, Alliance of Independent Film Distribution Companies (ANKO), Russian Film Business & Booker's Bulletin and company data

The average production budget of a feature film in Russia since 2006 is about RUB 72 million. Most Russian films (233 titles or 68% of the total over the reference period) had a production budget between RUB 25 and 80 million. Between 2006 and July 2009 only 12 films boasted a budget in excess of RUB 200 million, and the largest number of such releases fell in 2007 (5 titles). In their turn, films with a production budget between RUB 100 and 200 million, those classed as having a moderate budget, which are designed for wide distribution so as to ensure a return on investment, were most numerous through 2008. Such a trend testified to a gradual strengthening of the market, and it should have prevailed through 2009 as well. Judging by results from the first 6 months of 2009, one may conclude that in this area the crisis had only a minor impact on the principal trends of industry development.

Graphic 3.1.9 Average box office and production budget per film*, 2006-2008 (RUB million)



* Calculated on the basis of film production budgets

Source: The Russian Federation Ministry of Culture, Alliance of Independent Film Distribution Companies (ANKO), Russian Film Business & Booker's Bulletin, RFilms, company data

Table 3.1.7 TOP 5 films by production budget volume (2006- 1 July 2009)

Title	Year	Production	Production budget (RUB x million)	Box office in Russia and CIS (RUB x million)
Inhabited Island 1, 2	2009	STS TV Channel/ Non-Stop Production/ Art Pictures Group	800	848
Taras Bulba	2009	Central Partnership/ Arc Film/Rossiya TV Channel	462	570
Mongol	2007	CTB Film Company /Andreevskiy Flag/Kinofabrika GmbH/X-Filme Creative Pool/Neftex	434	162
Admiral	2008	Channel One Russia, Film Direction, Dago Film Studio	396	875
Apocalypse Code	2007	Patriotic Cinema Support Foundation/ Svet Film Company	383	200

Source: The Russian Federation Ministry of Culture, Alliance of Independent Film Distribution Companies (ANKO), Russian Film Business & Booker's Bulletin, company data

Film production costs increased significantly during the period from 2006 to 2008. Market players believe that such a development was related primarily to an increase in wages for film crews. According to estimates by Russian producers,[38] the share of such remuneration had reached 60 to 70% of film production budgets prior to the crisis. At the end of 2008 the newly established Association of TV and Film Producers had attempted to regulate these wages. It adopted recommendations for lowering the wages of members of production crews by a factor of 3-3.5.[39] Thus the producers' community in Russia tries to use the crisis situation to restrain excessive wages in film production, although it is difficult to judge the results of such attempts so far: the volume of production of feature

[38] Expert poll taken during a study ofadministered to participants ofat the Conference-Forum of cinematographic community Russian Film Industry 2008: Announcing the Future, August 2008.

[39] Olga Goncharova. *There was written the pessimistic script for the actors*. Kommersant newspaper, 02.03.2009.

and TV films has seriously fallen in 2009. There are practically no new projects launched while producers work principally on finishing the films they started earlier, and information on the structure of production budgets (and, consequently, on the level of wages) is guarded even more closely than before.

Accounting for deductions made to cinemas based on screening results (50%) and for the minimum deductions to distribution companies (5% of gross box office takings based on screening results; its maximum level is assessed at 10% by experts from RFilms[40]), gross revenues of production companies over the period from 2006 to 1 July 2009 did not exceed RUB 6,800,000,000. Revenues of production companies whose films failed to recoup costs from cinema distribution, constituted, on average, 15% of total production costs. The average cinema distribution revenue per single national film did not exceed RUB 26 million over the period.

Total net losses of production companies based on the results of cinema exhibition, prior to deduction of advertising and promotional costs, and before tax, may be estimated at a level of RUB 18.7 billion (in case of maximum deductions to distributors equalling 10% of gross box office takings) to RUB 15.7 billion (disregarding deductions to film distributors).

Based on these figures, regardless of whether producers retain the ability to gain additional revenue from selling rights to release a film to DVD and for TV-runs, it may be concluded that most Russian film projects over the period from 2006 to 2009 were loss-making, since film producers receive their principal revenue from cinema exhibition. An exception to this rule is the exhibition of leading low-budget films (up to USD 6 million - predominantly comedies, such as *Zhara [The Heat]*, *Lyubov-Morkov [Lovey-Dovey], Piter FM*), *Lubov v bolshom gorode [Love in the City], Hitler Caput)*.

The price of rights to high-budget films (those with a production budget in excess of USD 6 million), including TV, DVD, computer games, accessories, etc., at best is from 10 to 20% of the production budget itself. Until the winter of 2008/2009, when the consequences of the financial crisis began to show, DVD distribution rights were sold for as high as USD 1 million for most successful films, with TV broadcasting rights in the USD 1.5–2 million range. Prices for selling film distribution rights abroad comprised an even smaller share of overall revenues. There are only a few examples of successful deals and they include *Volkodav [The Wolfhound]* the rights to which were sold for USD 1.5 million and *The Streetracers* (for USD 1 million).

[40] However, the total revenue of the group of companies increases due to deductions to the distributor if the producing company belongs to a vertically integrated structure that includes both film production and distribution. Companies such as Central Partnership, Paradise , and CTB number among the largest production companies that also have affiliated distribution departments.

Table 3.1.8 Extra revenue sources of producers from selected Russian films (2006-01.07.2009)

Title	TV rights, USD	DVD rights, USD	Production budget, USD	Share of TV and DVD rights in production budget
Volkodav [Wolfhound from the Tribe of Grey Dogs]	2,000,000	1,200,000	12,000,000	17%
Zhara [Heat, The]	1,000,000	1,200,000	1,700,000	59%
Boi s tenyu-2 [Shadow Boxing-2]	700,000	500,000	6,000,000	20%
Lyubov-Morkov [Lovey-Dovey]	700,000	1,000,000	1,500,000	113%
Apocalypse Code	1,500,000	1,200,000	15,000,000	18%
12	1,000,000	700,000	4,000,000	43%
Mongol	1,000,000	1,200,000	17,000,000	13%
Den Vyborov [Election Day]	1,000,000	1,000,000	3,000,000	67%
1612	1,000,000	1,000,000	12,000,000	17%
Sluga Gosudarev [Servant to the Sovereign]	700,000	n/a	7,000,000	10%

Source: CFO Russia, The Russian Federation Ministry of Culture, Alliance of Independent Film Distribution Companies (ANKO), Russian Film Business & Booker's Bulletin, company data

It appears impossible to assess producers' royalties from exhibiting Russian films abroad since the respective rights for most of these films have been sold, while the price and other terms and conditions of the deals have never been disclosed. The highest box office takings for the period since 2006 have been achieved by films produced in co-production with foreign countries, such as *Mongol* (produced by Sergei Bodrov Sr.) that earned more than USD 19 million from exhibition abroad and *The Tulip* (produced by Sergei Dvortsevoy) with more than USD 1 million.[41]

Yet another revenue stream for Russian producers is the Product Placement market that continues to expand. Information on Product Placement budgets is never disclosed by producers or advertisers. According to an assessment of market participants, the price of placing a product in a Russian film or TV series depends on the type and number of episodes involved and may vary from USD 40,000 to USD 1 million.[42] In 2007 experts valued the market for film Product Placement at about USD 15–20 million.[43] Of the films that have actively exploited Product Placement the following may be singled out: *Paragraph 78, Sluga Gosudarev [Servant to the Sovereign], Lyubov-Morkov [Lovey-Dovey], Apocalypse Code, Boi s tenyu-2 [Shadow Boxing-2], Ironiya Sudby. Prodolzheniye [Irony of Fate-2], The Streetracers* and *Dnevnoy Dozor [Day Watch].*

41 www.boxofficemojo.com
42 Zinaida Shumakova. 'Stop in the shot'. Business Guide № 95 (3912) of 04.06.2008.
43 Ekaterina Dudareva. 'Pessimistic script'. Kommersant newspaper, 05.02.2008.

Taking into account the lack of unbiased information about advertising and film production costs and about additional revenues earned film producers, it is quite difficult to draw conclusions regarding the profitability of companies participating in film production during the period from 2006 to 1 July 2009. However companies such as Channel One Russia, Monumental Pictures, Real Dakota, Comedy Club production, Bazelevs, Leopolis, Pygmalion Production are most probably profitable. Box office for CIS distribution of films produced by these companies has almost twice as large as the production budget. But if the box office of films in foreign distribution is taken into account, CTB company has a high probability of having recouped its costs too. Besides, taking into account published extra revenues, Central Partnership company, Rossiya TV Channel, STS TV Cannel, Profit company and Paradise producer center are not loss-making either: given the non-reimbursable state support the box office of their films in CIS distribution was equal or higher than the production budget.

At the end of 2008 a process of consolidation of market participants in Russian film production began. Thus, producers such as Sergei Gribkov (Top Line Group), Yusup Bakhshiev (Arnold and Gregor Production) and Arkadiy Danilov launched the United Film Makers. Together with its partners – Gorky Film Studio, Sverdlovsk Film Studio, Yalta Film Studio and VVP Alliance, the new company is developing eight projects.

In the opinion of market players,[44] the state of the market for film production by the end of 2008 could be characterized by the following factors:

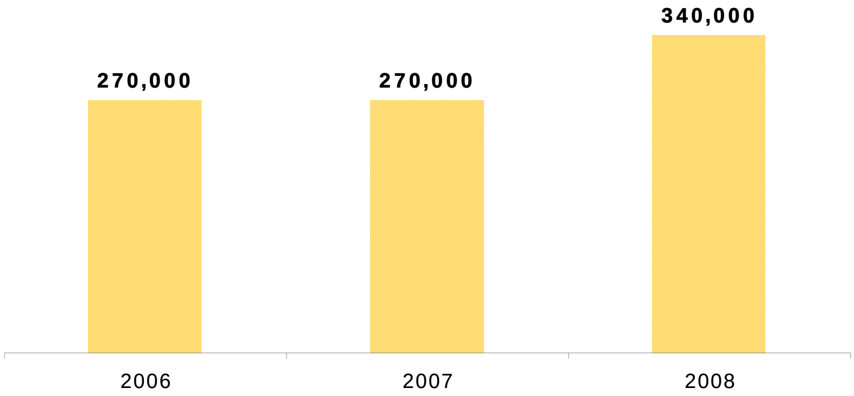
- poor quality of the feature films produced;
- low return on investment for film projects;
- high production costs;
- limited volume of external investment into film production;
- lack of a system for crediting and return financing of film projects;
- absence of recognizable brands of Russian film companies on the market;
- excessively optimistic assessment of the expected revenues from film projects.

The market for animated films

The volume of investment in producing feature-length animation films for theatrical distribution totalled about RUB 1 billion between 1 January 2006 and 1 July 2009. It is not possible to give an objective estimate of the volume of investment in producing short animation films due to differences in the technology of such production. According to data from the Russian Federation Ministry of Culture, the average cost of producing 1 hour of animation is RUB 6.5 million. Proceeding from this figure, the approximate volume of investment in the animation market over the period in question may be valued at RUB 1.3 billion. Therefore, the overall volume of investment in animation works in Russia since 2006 has reached about RUB 2.3 billion.

[44] Expert poll taken during a study of participants at the Conference-Forum of cinematographic community 'Russian Film Industry 2008: Announcing the Future', August 2008.

Graphic 3.1.10 Investment in the production of full-length animation films (RUB'000) released for theatrical distribution *



**Calculated on the basis of production budgets of full-length animation films released for theatrical distribution. The year of film production is equal to the year of film release.*

Source: The Russian Federation Ministry of Culture, Alliance of Independent Film Distribution Companies (ANKO), RFilms, company data

Between 2006 and 2009, 35 studios from 6 regions of Russia took part in producing animation films. The majority of short animation films was produced with to state support, totalling about 70% of the cumulative budget of animation films; at the same time feature animation films only received about 5% of their production budget in the form of such state support.

Table 3.1.9 Economic indicators of the Russian animation film market

Indicators	2006	2007	2008	01.07.2009
Total volume of state support (RUB'000)	285.8	326.0	319.5	134.4
Number of produced full-length films for theatrical distribution	2	3	5	1
Total budget of full-length film production (RUB'000)	165,000	335,000	335,000	90,000
Production volume of short-length films	50	75	50	25

Source: The Russian Federation Ministry of Culture, Alliance of Independent Film Distribution Companies (ANKO), Russian Film Business & Booker's Bulletin and company data

One of the key problems in Russian animation is an insufficient number of professionals. This lack of professionals shows in the production timelines and quality of such projects. In fact, no more than 10 feature animation projects may be worked on simultaneously in Russia. Meanwhile the wages of animation experts continue to rise annually, particularly in the field of 3D-technologies.[45]

In 2008 a number of companies announced plans to build animation schools and animation studios. In particular, it was announced that the *Melnitsa [The Mill]* animation studio, with a total floor space of 3,000 m^2 will be built in St. Petersburg.[46] *The Era Vodoleya [The Age of Aquarius]* company has plans to establish a school of animation. *Russian World Studios (RWS)* has announced the

45 Tatyana Komarova, Dmitri Tchernikov. Tale-Falsehood. *Secret Firmy* magazine № 23 (255) of 16.06.2008.
46 Resolution by the Government of St. Petersburg of 08.07.2008 No. 839.

opening of an animation department. However, due to the economic crisis, implementation of these plans may be postponed indefinitely.

The average production budget of a feature-length animation film in Russia is RUB 84 million. Of the 11 films released since 2006, only two have exceeded their production budget in CIS box office returns (once state support is deducted). Meanwhile, in 2009–2010 there are plans to release a further 12 feature-length animation projects.

Table 3.1.10 Leading studios by production budget volume for animated films released in 2006-01.07.2009

Animation studio	Released films	Total budget (RUB million)	Total box office in CIS distribution (RUB million)
Solnechniy Dom-DM Studio	2	305	178
Melnitsa Animation Film Studio	3	195	410
United Multimedia Projects Film Company	2	95	32

Source: Alliance of Independent Film Distribution Companies (ANKO), Russian Film Business & Booker's Bulletin

In animation series the project that has enjoyed the most success recently was the multi-episode children's animation series *Smeshariki [GoGoRiki]*, produced by Petersburg Studio of Computer Animation with the participation of the Master Film company. The target audience of the series is nursery, primary schoolchildren and their parents. As of 2009, the number of episodes totals 208, each of them 6.5 minutes long. The technology used is flash-animation. During its 5 years on the air the company and its partners have invested more than EUR 20 million in the *Smeshariki* brand. It is planned to invest about EUR 50 million in developing the project in Russia over the coming 5 years.[3] In 2007 the total turnover of the *Smeshariki* brand reached more than USD 100 million.[3] In 2008 an agreement was reached with 4Kids Entertainment - one of the leading US companies in promoting brands for children. The agreement envisages broadcast of the cartoon series by CW TV Channel that has 100% coverage of the US territory. The price to foreign purchasers of a single episode, including the rights to an unlimited number of broadcasts over 1–2 years is approximately USD 1,500.[47]

The principal competitor for the *Smeshariki* cartoon series is the less successful animation series *Luntik i Yego Druzya* [*Moonbaby and his Friends*], produced by the Melnitsa studio in cooperation with the Russia TV Channel. In all, 260 episodes are planned. As of 2008, 200 of them have been produced.

Of note is the Babich-Design Studio, belonging to the Star Media company, which, since 2006, has released two animation cycles using 3D computer graphics: *The Battle for Moscow* (overall running time of 5 hours) and *The History of the State of Russia* (overall running time 33 hours). Both cycles have been aired by the TV Centre TV Channel.

[47] According to data from GK Smeshariki.

Table 3.1.11 TOP 3 producers of short-length animation films and series by production volume (01.01.2006-01.07.2009)

Company	Production volume (hours)	Market share by production volume (%)
Babich-Design	44	22
Melnitsa Animation Film Studio	11	5
Peterburg Studio of Computer Animation	6	3

Source: The Russian Federation Ministry of Culture and company data

Documentary film market

There are no exact data on investments in non-feature films existing in Russia, since companies follow fundamentally different approaches in their production. According to data from the Russian Federation Ministry of Culture, the average cost of producing 1 hour of non-feature film amounts to about RUB 1 million. Proceeding from this figure, the tentative volume of investment in the market of non-feature films since 2006 may be put at RUB 2.5 billion.

As of today, both private film production companies and state film studios engage in the production of documentary films. The principal customers for documentary films are the state itself and TV-channels. Between 2006 and 1 January 2009 1,650 such films, fo which 197 full-length and 1,453 shorts, were produced with support from the Ministry of Culture, of which 82% were fully financed by the state. Companies from 21 subjects of the Russian Federation have taken part in producing these films and series. The share of non-feature films in the total volume of state financing for film production has averaged 20% since 2006.

Table 3.1.12 State support of documentary film production

Indicators	2006	2007	2008	01.07.2009
Total volume of state support of documentary film production (RUB million)	415.2	493.7	430.8	297.5
Production volume of full-length documentary films (number of titles)	150	140	170	50
Production volume of short-length documentary films and series (hours)	600	500	500	250

Source: The Russian Federation Ministry of Culture

The market leader in producing full-length non-fiction films is the St. Petersburg Studio of Documentary Films, which has produced 7 such films since 2006. Full-length documentaries that have enjoyed the most success are products by the Masterskaya [The Workshop] producer centre, such as *The Great Mystery of Water* (by Anastasiya Popova) and *Mould* (by Dmitry Vasiliev), which earned audience shares of more than 30% of Russian TV viewers.[48] Other successful projects include *Virginity* (by Vitaly Mansky) of the Vertov.Real Kino production company, its box office receipts totalling more than RUB 1.2 million. Apart from *Virginity*, two more Russian non-fiction features have

[48] Arina Borodina. 'The mould covered prime-time'. Kommersant newspaper, 04.02.2009.

made it to the wide screen since the beginning of 2006: *Green Theatre in Zemphira* (by Renata Litvinova, with box office takings of RUB 3,689,000) and *Oleg Kulik: A Challenge and a Provocation* (by Evgeny Mitta, with box office takings of RUB 86,000). In Russia author-produced documentaries are, for the most part, still extremely limited in their distribution, though they also take part in various festivals of non-fiction films, both national and international. Among such Russian festivals the Kinoteatr.doc film festival, The Laurel Branch National Competition in Non-Feature Film and TV-Films and the international Flaertiana non-feature festival are worthy of note.

The segment producing religious documentaries, specifically Russian Orthodox topics, is a specific activity worth highlighting. Production leaders in this segment are the Kanon film studio, the Orthodox Encyclopaedia film and TV company and the Russian Week Cultural Centre. According to data from the Ministry of Culture, the production volume of these studios totalled 1,187 hours since 2006.

Production costs for author-made documentaries vary from RUB 100,000 to RUB 1 million. For example, Kultura TV Channel places orders for documentaries with private studios at USD 15,000 an hour, on average. The cost of producing high-budget documentaries may exceed USD 500,000. The budget for the *Mould* project reached USD 620,000, according to information from Channel One Russia.[49] Among the other high-budget projects Virginity can be mentioned, its budget exceeding USD 200,000. Production costs for the Russian Travel Guide TV Channel vary from RUB 400,000 to RUB 2 million per 45-minute episode.

TV broadcasting remains the most widespread means of screening documentaries, despite the fact that non-feature films occupy an insignificant part of TV airtime as compared to feature films and TV series. Analysis of data on airtime figures from six national channels (Channel One Russia, Rossiya TV Channel, NTV, STS, RenTV, TNT) that together cover about 70% of the total TV audience, shows that the share of documentaries in the structure of TV airtime has increased between 2006 and 2008, now averaging 3%. Of note is the fact that audience interest in non-feature films is gradually increasing, and the ratings for documentaries have grown to become comparable with those of TV series and first-run films.[50] However, such mass audiences are only generated by subjects such as the private lives and fates of celebrities, the 'stars', while social, political, historical and popular science themed documentaries attract much lower audiences. With the development and increased penetration of cable TV, especially of channels specialising in exclusive documentary runs (such as *24 DOC, 24 TECHNO* and *The Russian Travel Guide*), one may expect increased interest in various genres of non-feature films on the part of the viewers and a corresponding increase in demand for production of documentaries from TV channels.

The principal source of revenues for the producers of documentaries lies with selling their broadcast rights to TV channels. The price of such rights varies from USD 200 to USD 60,000, as of

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[49] Internet portal Private Correspondent.

[50] Information and analytical bulletin Russian Cinematography 2008.

August 2009, and that price does not necessarily depend on whether it is an author-made or a high-budget film.

Table 3.1.13 Cost of purchase of rights to broadcast documentary films on selected Russian TV channels (08.2009)

TV channel	Object	Cost (USD)
Rossiya TV Channel	Film 44 min. length	15,000
Channel One Russia	Film 52 min. length	30,000-60,000
Kultura TV Channel	Film	up to 1,000
24DOC TV Channel	Film	200-500

Source: Kommersant Money[51]

Since 2006, the share of non-feature projects co-produced with foreign countries remains extremely low. Of the better-known examples we can mention *The Battle for Outer Space* TV series co-produced by Channel One Russia (Russia), BBC (Great Britain), The National Geographic (USA) and NDR (Germany), and *The Mother* co-produced by Parallax Pictures (Russia), Les Films Hors-Champ (Switzerland), Les Films d'ici (France) and TSR (Switzerland).

Short-length documentaries and series are mostly produced on order for TV channels. The leaders on this market are the Ostankino TV company, Nashe Kino Association, Nadezhda Studio, Novoe Vremya, Krylja Studio, KVART Video-Studio, Lennauchfilm Film Studio, Civilization TV Company, the Editorial Board of Rybolov Magazine, Fishka-Film, RosKino and Education at the Third Millennium regional public fund. Studios such as the Sverdlovsk Film Studio (STRANA, ZOV Studio and TEYA studio) and the Kazan Film Studio produce documentary series to order for the Ministry of Culture.

In terms of the number of short-length non-feature produced, the student film studio of VGIK (The All-Russian State University of Cinematography) is a leader, releasing dozens of documentaries by institute students each year.

Table 3.1.14 TOP 5 documentary series released on DVD (2006-01.07.2009)

Title	Number of episodes	Minutes	Production
Shock Power	20	3,900	Ostankino TV company
Second World War. Day by Day	96	2,496	Nadezhda Studio
Video supplement to *Rybolov* [fisherman] and *Rybolov-Elite* magazines	48	1,695	Rybolov Magazine editorial
XX Century Russian History	50	1,300	Novoe Vremya
Wings of Russia	18	936	Krilja Studio

Source: Company data

51 Dmitri Tikhomirov. Invencible documentary. *Kommersant Money*, №31 (736), 10.08.2009.

3.1.2 Principal players in film and TV production

The principle players in Russian film production during the period 2006 to 2009 are production centres, production companies, state and private film studios, TV channels, and major Hollywood studios.

Table 3.1.15 Players on the Russian film production market

Type	Leading players by production volume	Specialization
Film production centres (including theatrical distribution departments)	CTB, Central Partnership, Paradise and, since 2009, Krasnaya Strela [Red Arrow], Profit and Leopolis	films
Independent production companies	Real Dakota, Art Pictures Group, Studio Tri-Te, Koktebel, Michael Kalatozov's Fund, New People	films, TV films
State film studios	Centre of National Film, St. Petersburg Documentary Film Studio, Lennauchfilm	documentary and animation films
Private film studios	Russian World Studios, Amedia, Starmedia, Leopolis	TV series, animation
TV channels	Channel One Russia, Rossiya TV Channel, STS	TV series, documentary films
Hollywood studios	Sony Pictures	films, TV series

Source: Rfilms

Active development of the Russian film industry has resulted in the arrival of major financial and industrial groups in the film production segment, so that by 2009 a number of vertically integrated media holdings which include film production departments are in place. Among the largest are Gazprom Media**,** ProfMedia, STS Media, Sistema Masmedia, and the All-Russian State TV and Radio Company. Operating within a media holding offers additional advantages to a film production company in promoting its own film projects to TV, radio, printed media and the Internet, not to mention the possibility of raising finance from the media holding itself and its stockholders. For example, in 2008, GazPromBank provided a loan of USD 10 million for producing a new TV series to the NTV TV company, which is a part of the Gazprom Media holding.

Table 3.1.16 Russian Media Holdings

Media Holding (shareholders)	Film Production	Television	Other assets
Gazprom Media (Gazprom)	NTV-Kino Film Company. Participation in film production under the TNT brand	NTV, TNT, NTV Plus2 satellite TV company	Radio: EchoMSK, First Popular Radio, NEXT, City-FM, Relax-FM, Detskoe Radio [children's radio]
			Seven Days Publishing house Internet: RuTube
			Cinemas: Oktyabr (Moscow), Crystall-Palace (St. Petersburg)
ProfMedia (Interros)	Central Partnership, TriTe (partnership)	TV3, 2x2, MTV Russia, VH1 Russia	Radio: Autoradio, Energy, Humor FM, Radio Alla
			Afisha Publishing house
			Internet: Rambler Media
			Cinemas: Cinema Park network
STS Media (Alfa Group, Modern Times Group)	Participation in film production under STS, Kostafilm, Soho Media brand	STS, Domashniy, DTV	-
Sistema Masmedia (AFK Sistema)	World Russian Studios, Thema Production	STRIM TV company, Digital TV and Radio broadcasting, Kosmos-TV	-
All-Russia State Television and Radio Company	Participation in film production under Rossiya TV Channel brand	Rossiya TV Channel, Kultura, Sport, Bibigon, RTR-Planet, Euronews Russian-language edition	Radio: Radio Rossii, Mayak, Kultura
	Series production in the frame of Russian TV Novel project		
National Media Group (The Russia Bank, Severstal, Surgutneftegas, Sogas)	-	REN TV, Petersburg Channel 5 TV National Telecommunications Group of Companies (cable TV)	The newspaper Izvestiya

Source: RFilms

The largest financial and industrial groups are shareholders in media holdings. For example, ProfMedia is a part of Interros - one of the largest private investment companies in Russia. Gazprom Media belongs to Gazprom - one of the largest global companies. The principal shareholders of STS Media are Alpha Group – one of the largest financial and industrial consortiums in Russia - and the Swedish Modern Times Group. Sistema Masmedia is part of the AFK Sistema, the largest public diversified corporation in Russia and the CIS with shareholdings and controlling interests in companies operating in fast-growing service sectors of the economy. In their totality the companies belonging to AFK Sistema service more than 100 million consumers in Russia, the countries of the CIS and Europe.

TV channels

Today, TV channels are the principal producers of and customers for TV series, TV and feature documentaries. The largest TV companies include separate departments for producing TV series either within their structure (e.g., Rossiya TV Channel with its project of the Russian TV-Novel), or in a dedicated subsidiary (such as NTV-KINO for NTV and KostaFilm for STS). Also, practically every TV-channel has its own department for producing documentaries, the largest among them belonging to Channel One Russia, Rossiya TV Channel and REN-TV.

Between 2006 and 2009 TV channels remained the most successful players on the feature film market. The cumulative budget of Russian features produced with the participation of TV channels has, since 2006, reached RUB 3.7 billion and their total box office takings amounted to RUB 7 billion. Among the 20 most successful films in terms of producers' revenues from exhibition on Russian and CIS cinema screens between 1 January 2006 and 1 July 2009, 9 were produced with the involvement of TV channels. The decisive competitive edge of TV channels is their capability to provide maximum coverage of the target audience with film advertising and to air these advertisements using barter deals, thus cutting back on direct promotion. Leading TV channels as regards involvement in film production are Channel One Russia, Rossiya TV Channel and STS.

Table 3.1.17 TOP 20 films by producer revenue from theatrical distribution in Russia and CIS, excluding Ukraine (01.01.06-01.07.09)

Rank	Title	Year	Production	Production budget (RUB x million)	Producer revenue from distribution* (RUB x million)
1	Irony of Fate 2, The	2008	Channel One Russia, Bazelevs, Cinema Direction	124.0	489.2
2	Day Watch, The	2006	Channel One Russia, Bazelevs, Tabbak film company	114.0	367.6
3	Admiral, The	2008	Channel One Russia, Cinema Direction, DAGO	396.9	350.2
4	Inhabited Island 1, 2	2009	STS, Non-Stop Production, Art Pictures Group	800.0	339.6
5	Very Best Film	2008	EGO Production, Comedy Club production, TNT	74.4	269.7
6	Taras Bulba	2009	Central Partnership, Arc Film, Rossiya TV Channel	462.2	228.2
7	Wolfhound of the Grey Dog Clan	2007	Central Partnership	332.2	212.0
8	Lovey-Dovey 2	2009	Real Dakota	136.4	207.0
9	Hipsters	2009	Krasnaya Strela, Rekun Cinema, Rossiya TV Channel	372.1	195.0
10	Very Best Film 2	2009	Comedy Club production, Monumental Pictures	124.0	168.1
11	Heat, The	2007	STS, Art Pictures Group	43.4	165.0
12	Boomer 2	2006	CTB film company, Pigmalion Production	95.0	143.0
13	Love in Big City	2009	Leopolis film company	86.8	130.4
14	Lovey-Dovey	2007	Real Dakota	38.3	121.5
15	Shadow Boxing-2	2007	Central Partnership	153.3	117.1
16	Bastards	2006	Paradise Production	95.0	109.1
17	Hitler Kaput	2008	Leopolis film company	74.4	98.5
18	Piter FM	2006	STS, Profit	28.9	81.2
19	Apocalypse Code	2007	Patriotic Cinema Support Foundation, Svet Film Company	383.3	80.3
20	Paragraph 78 (part 1, 2)	2007	MB Productions, Star Magic, Stimul M Production, Way Film Company	255.5	80.2

*Producer revenue from distribution is calculated with deduction of the cinema's share equal to 50% of box office receipts, payments to distributor equal to a maximum level 10% of box office receipts, excluding P&A costs and state support received.

Source: Alliance of Independent Film Distribution Companies (ANKO), Russian Film Business & Booker's Bulletin, Rfilms

Channel One Russia has become a leader on the Russian film market in terms of gross box office receipts earned by its projects thanks to *Day Watch, Irony of Fate-2* and *Admiral*. These films occupy the top three positions in box office ratings since 2006. The principal partners of Channel One are the Baselevs film company and the *DAGO* film studio. Channel One has set up a special closed joint stock company, Cinema Direction [Direktsiya Kino], to produce its films.

Russia TV is the leading TV channel in terms of the number of films produced with its participation. However, the cumulative budget of the films produced exceeds the gross box office receipts. The channel's most successful films were *The Hipsters* [*Stilyagi*] and *Taras Bulba*, both released in 2009.

The STS TV Channel co-produced such films as *The Inhabited Island* and *The Heat*. In all, from 2006 to 2009 eight films were produced with the involvement of this TV channel. Its principal partner film companies are Art Pictures and Non-Stop Production. In 2009 Alexander Rodnyansky, a member of the Board of STS Media began organising his own AR Films company, with total investment in the first phase amounting to USD 20 million. The principal asset of the company will be its film library.[52]

Table 3.1.18 Participation of TV channels in film production, since 2006

TV channel	Number of films produced	Total film production budget (RUB x million)	Share of TV channel in overall film production investment (2006 - 1 July 2009)	Box office receipts of films produced (RUB x million)	Films' share in total box office takings of Russian films (2006-1 July 2009)
Rossiya TV Channel	13	1,700	6.8%	1,500	10%
STS	8	1,200	4.8%	1,600	11%
Channel One Russia	3	650	2.6%	3,000	20%
NTV	2	100	0.4%	180	1%
TNT	1	75	0.3%	675	4%
Total	**27**	**3,725**	**14.5%**	**6,979.8**	**46%**

Source: The Russian Federation Ministry of Culture, Alliance of Independent Film Distribution Companies (ANKO), Russian Film Business & Booker's Bulletin

Production centres

Up until 2009, Russia had 3 major production centres in operation that either owned or had within their structure separate centres owning or including distribution departments: CTB [STV], Central Partnership and Paradise. The cumulative production budget of feature films produced with the involvement of production centres since 2006 reached RUB 3.7 billion, while their total box office receipts amounted to RUB 3.2 billion.

Since 2009 the Profit company and the Krasnaya Strela *[Red Arrow]* film company which, together with CTB, established in 2009 a distribution company called Nashe Kino (Our Cinema) on the basis of the film exhibition group of the same name, may also be counted among the production centres. Similarly, Leopolis Holding launched Leopolis Distribution in mid-2009.

The competitive advantage of production centres is that they are simultaneously producers and distributors of their own projects. This generates additional revenue to the effect of up to 10% of box office takings from the screening of films and provides direct control over exhibition revenues, as part of them might be concealed by third party distribution companies. Currently these centres have

[52] Olga Goncharova. STS Media. Kommersant newspaper, 14.05.2009.

enormous potential. One of the leading parameters of their success lies with the formation of an optimal slate of projects in production and with a library of ready-made projects. Strategically, production centres target the release of one film a month.

Table 3.1.19 Participation of production centres in film production, since 2006

Company	Number of produced films	Total film production budget (RUB x million)	Share of production centre in overall film production investment (2006-01.07.2009)	Box office of produced films (RUB x millon)	Films' share in total box office receipts of Russian films (2006-01.07.2009)
Central Partnership	21	2,050	8%	1,900	12%
CTB film company	14	1,320	5%	760	5%
Paradise	5	370	1%	570	4%
Total	**40**	**3,740**	**15.0%**	**3,230**	**21%**

Source: The Russian Federation Ministry of Culture, Alliance of Independent Film Distribution Companies (ANKO), Russian Film Business & Booker's Bulletin

The Central Partnership film company was founded in 1996. Its principal area of activity involves the production and promotion of both feature films and TV series. It includes the Central Partnership Studio, the Central Partnership Sales House - a distributor of film and TV rights, and the VIDEO24.RU Internet-portal. Central Partnership owns one of the largest libraries of rights in Russia including more than 1,400 feature films and 4,000 hours of serials. Since January 2009, the company has been an official distributor of products by Paramount Pictures International in Russia and countries of the CIS (to the exclusion of the Ukraine). The Central Partnership film company is one of the largest customers for TV series.

The CTB [STV] film company was started in 1992. Its principal area of activity involves producing and promoting feature films. The film company is the founder of the Melnitsa animation studio, the leader on the Russian market for feature animation films, and also of the Nashe Kino distribution company.

Paradise Holding includes the Paradise Production Centre, the Paradise distribution company, and the Paradise Productions film company that manages the 5 Zvyozd [5 Stars] cinema network. The company focuses on the production and promotion of feature films. The two most successful projects by Paradise since 2006 are the films *Svolochi [The Bastards]* and *Derzkie Dni [The Bold Days].*

Independent production companies

Russia numbers more than 300 independent production companies, with most specialising in distinct types of production. Exceptions to this rule are the Pyramid and Comedy Club Production companies that are working actively on TV series simultaneously.

The largest independent production companies are Real Dakota, Art Pictures Group, Studio TriTe (a partner of the ProfMedia holding, which acts predominantly as an independent producer for film production and only rarely uses its sister distribution company in the Central Partnership group for the distribution of its own films). Among the production companies independently producing features Koktebel, Mikhail Kalatozov Foundation and Novye Lyudi [New People] are worthy of note.

As regards the documentary segment, the Masterskaya production centre and the Vertov company are noteworthy and Real Films is a prominent independent producer of documentaries.

The largest producers of TV series are Phoenix Film, TV Creative Association and TV Alliance Media Group.

Hollywood major studios

There is at the moment no significant involvement of Western producers in the Russian production branch. The most active foreign company in Russia is Sony Pictures, which established Monumental Pictures in partnership with Paul Heth, Shari Redstone and Mikhail Shlikht. Monumental Pictures has already released 4 films in Russia: *Putevoi Obkhodchik [The Lineman, 2007], V Ozhidanii Chuda [Waiting for a Miracle, 2007], Pervaya Lyubov [The First Love, 2009], Samyi Luchshyi Film 2 [The Best Film 2, 2009]* and four further films are now in production. In 2007 Sony Pictures Television International acquired 51% of the share capital of the Lean-M Production Centre LLC, one of the leaders on the Russian market for TV serials.

In 2009, the Walt Disney Company together with TriTe Studio will release its first film project, *Kniga Masterov [The Book of Masters]* in Russia. Universal Pictures has not yet entered the Russian market, but implements a number of its projects, such as *Wanted* and *Black Lightning,* with the local company Bazelevs Production.

In 2009, Fox International, a division of 20th Century Fox, in collaboration with Art Pictures Group, released *Evgeny Onegin* (with a production budget of USD 2.5 million). In 2010 the company also plans to start work on remakes of two of its own films - *Business Woman* (with an estimated production budget of no more than USD 3.5 million) and *Man on Fire* (with an estimated production budget of no more than USD 6.5 million). The co-producer from the Russian side is Alexander Atanesyan.[53]

Private film studios

Russian World Studios, Amedia and Star Media are prominent among the Russian film studios actively producing film and TV projects. In principle, these companies focus on TV works, but at the same time each of them pursues some of its own projects on the film production market.

[53] 'Hollywood in Russia'. *Vedomosti* newspaper, 27.07.2009.

Russian World Studios (RWS) was started at the end of 2007. The company forms part of the Sistema Massmedia media holding (AFK Sistema). Strategically, RWS is aimed at strengthening the positions of Sistema Massmedia in developing film and TV content, with the aim of permitting AFK Sistema to become the market leader in pay-TV and Internet broadcasting. It is planned to distribute the content produced by RWS via the telecom companies of AFK Sistema, such as MTS and Comstar, as well as on the digital and mobile platforms of Sistema Massmedia. The strategic aim of RWS is to become a major company in Russia.[54] In addition, RWS owns a library of film titles from the Thema Production company, the most well known of which are *Match Point* by Woody Allen, *In Transit* with John Malkovich, *Delirious* by Tom DiCillo, *Rescue Dawn* by Werner Herzog and Bille August's *Goodbye Bafana*. In 2009, RWS launched a programme to support Russian cinema – RWS Finance Film - with a volume of USD 20 million, to go towards financing unfinished film projects, as well as projects in their pre-production stage.

Amedia is a leader in TV series production in Russia and includes the Media City film studio. Leonid Blavatnik, the co-owner of Access Industries, owns 63% of the company, with the other 37% belonging to Alexander Akopov. In 2007, sales of serial content by the company totalled USD 120 million. In mid-2008 as a result of the economic crisis, Amedia reduced its staff from 150 to 30 and suspended about 70 projects that were at different stages of production.[55] The company plans to release its feature film *V Gostyakh u Skazki [Visiting the Fairy Tale]* in the near future. The company has also implemented an animation project – the *UmaNetto* cartoon series.

The Star Media group of companies is one of the most rapidly developing groups in the production and distribution of theatrical features, TV films, novellas and series as well as 3D-animation programming. In 2009, Star Media will release its first two feature films *O, Schastlivchik! [Oh, Lucky One]* and *Khoroshaya Pogoda [Good Weather].* In 2008 the library of rights held by Star Media comprised more than 1,600 hours of finished content of different genres produced in-house. Star Media has its own Babich Design studio for 3D-animation. The company also plans to launch production of an animated feature *Pirates of Treasure Island*.

State film studios

State film studios hold a significant share of the market for the production of documentaries. The leaders among the state film studios are the Centre of National Film, St. Petersburg Documentary Film Studio, Lennauchfilm Studio and Sverdlovsk Film Studio. However, the principal film production activities at these studios receive state support so state film studios cannot be entirely considered as production companies. Exceptions to this are the Centre of National Film which produces feature and animation projects as well as documentaries and the Sverdlovsk Film Studio, which produces TV content.

54 Julia Semerkina. 'Business is in the hat'. *Secret of Firm* magazine, №20 (252) of26.05.2008.
55 Olga Goncharova. 'Staff list'. *Kommersant* newspaper, 30.09.2008.

3.1.3 Investment in film production

Investors may provisionally be separated into the following groups:

- corporate and private investors;
- private investors – producers;
- strategic investors;
- Western investors;
- Western co-producers;
- financial organisations.

Corporate and private investors

Over the last three years investors have played a significantly more active part in film production. Market players believe[56] that such a situation has resulted in the market becoming overheated, with expenses for film production and promotion increasing, and wages rising rapidly. Meanwhile, the production of films itself has remained mostly unprofitable. This, in combination with market opacity and the absence of reliable information on box office receipts, has meant that the exaggerated expectations of potential investors have proven largely unjustified. For example, films financed by private investors include *Day D*, *the Apocalypse Code, 1612, Ghengis Khan's Secret* and *Sluga Gosudarev [Servant of the Sovereign]*, for which the share of gross receipts from cinema distribution represented on average 18% of the production budget. Today, the influx of private investment into Russian cinema has dwindled significantly. Nevertheless, there are new films with declared budgets in excess of RUB 200 million, which will be impossible to finance without the involvement of major investors.

Table 3.1.20 Participation of corporate and private investors in film production

Private person	Company	Business field	Projects
Alexander Lebedev	National Reserve Company	Finance, industry	Yuriev Day, Paper Soldier
Mikhail Bolotin	Tractor Factories Concern	Industry	Day D
Eugeniy Kogan	Concern RiO	Gambling industry	Sluga Gosudarev
Alexey Adikaev	Mirax Group	Real Estate	Prophet: 5th Angel's Mission
Eduard Shifrin	Midland Group	Real Estate	Inhabited Island
-	Renova Holding	Finance, industry	Apocalypse Code, 1612
-	Mail.ru	Internet	Viy
-	Alrosa	Industry	Secret of Genghis Khan

Source: Rfilms

[56] Survey of participants at the Conference-Forum for the cinematographic community 'Russian Film Industry 2008: Announcing the Future', August 2008 [item 53 in the original]

Private investor-producers

This category includes private investors that have either founded a production company or entered into the capital of an existing one. Of note are:

- Yaroslav Zhirov – Producer of the Telesto Film Company, Member of the Board of Capitel, the international multi-profile investment and financial holding, Chairman of the Board of the Capitel-Energo production and engineering company, Chairman of the Board of the holding Monarch;
- Leonid Lebedev – Producer of the Krasnaya Strela [Red Arrow] film company, Representative of the legislative (representative) state authority of the Republic of Chuvashiya, founder of Corporatsiya Sintez CJSC;
- Oleg Chamin – founder of the New One Production company, stockholder of the companies: Retail Technologies, LLC (118 Nastroenie stores in Moscow, St. Petersburg, Samara); Nikitin Audiorecording Firm, LLC; Style Records, LLC; Kino bez Granits; Doberman Pictures; Why not Lili; C-Media and Radio Centre, LLC; Mood Auto;
- Yuri Glotser – General Producer of BFG-Media, Member of the Board of the BFG-Credit commercial bank.

Western co-producers

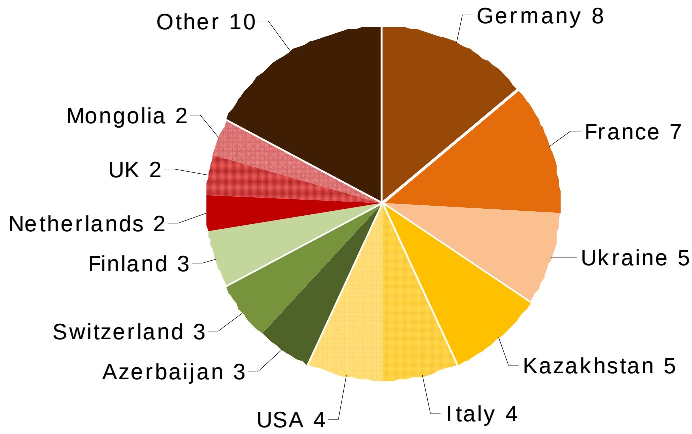
During the last three years there has been significant growth in the volume of projects undertaken in co-production with Western countries. Between 2006 and 2009, 36 such projects were implemented. For these projects the total amount of state support from Russia reached RUB 359.5 million (averaging RUB 18.9 million per film). The most active participants in such co-productions on the Russian side were the companies CTB [STV], Filmokom, Nikola Film, Twindi and Proline Film. Among the Western co-producers Rohfilm (Germany) is active. An active role was also played by the Mitteldeutsche Medienförderung foundation (Germany), Centre National de la Cinematographie (France), Finnish Film Foundation (Finland) and Eurimages. Currently 17 projects in co-production are at various stages of the production.

Table 3.1.21 Indicators for co-production projects

Indicators	2006	2007	2008	01.07.2009
Number of films, including:	4	10	17	5
minority co-production	*2*	*3*	*6*	*0*
majority co-production	*2*	*7*	*11*	*5*
State support volume (RUB million)	64	84	211	-

Source: RFilms, company data

Graphic 3.1.11 Participation of foreign countries in co-production (from 01.01.2006 up to 01.07.2009)



Source: RFilms

Financial organisations

Loans for film production by Russian banks remain extremely rare because of a lack of market transparency and the high risks involved. One of the leaders in this activity is Rosbank: between 2003 and 2007, the bank disbursed credits to the effect of about USD 70 million to companies that operate in the film and TV industry. In 2008, prior to the start of the economic crisis, lending limits set for film industry companies were approaching USD 100 million.[57] The following banks also provided credit to Russian producers at various stages: InterCapitalBank, MFT-Bank, BFG-Credit, Bank of Moscow, ExpoBank, SberBank and GazPromBank.

Private companies also take part in financing the film business. To give an example, the Forfilm company (the principal shareholder of the RAINKO company) has granted a loan to the Slovo [The Word] film company to produce a feature titled Caravan in 2007.[58]

The activity of investment funds in film production is not widespread in Russia. In 2008, there were only two such funds active in Russia – The First Russian Film Production Investment Fund - First Media Fund (with an assumed investment volume of USD 23 million) and The Closed Investment Trust Kinofond (with an assumed investment volume of USD 10 million). However, as of the beginning of 2009, Kinofond has suspended its operations, while First Media Fund never even started financing film projects.

57 According to data from RosBank.

58 Moscow Court of Arbitration.

3.2 PRODUCTION FACILITIES: STUDIOS, EQUIPMENT RENTAL AND POST-PRODUCTION SERVICES

3.2.1 Industry structure

Companies operating in film production across the Russian Federation may be split into several categories, depending upon the functions they fulfill:

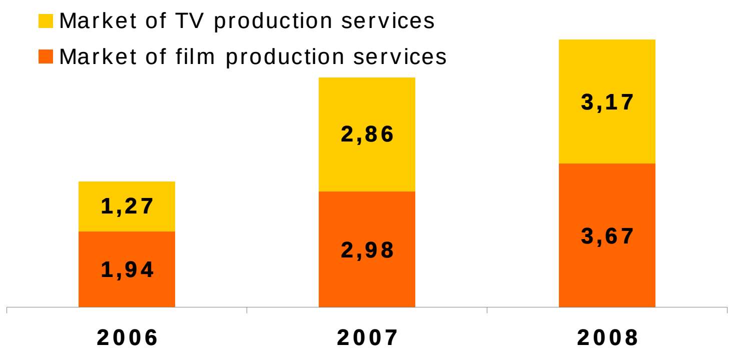
- production centres;
- film studio complexes (that own filming stages);
- service providers that rent out filming equipment to film crews (rental houses or service companies);
- post-production centres.

As a rule, major filming complexes (film studios) perform the functions of production centres as well, releasing several films a year, although this type of business activity does not necessarily generate significant revenues. The majority of production centres have no production capacity of their own. If they do organise the production process themselves, they may act as lessees on their own, or may place orders for producing films with production companies that will, in their turn, rent stages and equipment and purchase services from film studios and service companies.

Market volume

According to data from the Ministry of Culture of the Russian Federation and from a number of leading production companies on the structure of budget expenses for film and TV production, the cumulative share of expenses for renting stages, equipment, cutting and post dubbing operations, constructing film sets and renting transport and production premises (that is the different constituent parts of the market for production services in the Russian film industry) accounts on average for up to 43.2% of the total film production budget. For TV films that figure drops to about 26% of the total budget. Thus, as the total volume of investment in film and TV production in Russia is known, RFilms experts value the total volume of the market of film and TV production services for 2006 at around level of RUB 3.2 billion, at a level of RUB 5.8 billion for 2007, and at RUB 6.8 billion for 2008. At the same time, the share of film production services is RUB 3.67 billion (55%), while services in the production of TV films and series accounts for approximately RUB 3.17 billion (46%). In the last three years the volume of these markets grew at an uneven pace, although quite quickly.

Graphic 3.2.1 Development of the total market volume of film and TV production services in Russia, RUB billion

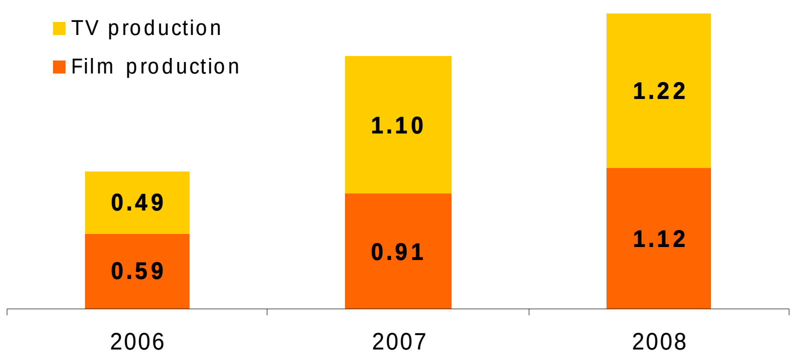


Source: The Russian Federation Ministry of Culture, companies' data, RFilms

The principal types of services that are offered by studio complexes and service companies in Russia involve leasing out stages and equipment, as well as services covering the cutting and post-dubbing period (film processing, dubbing etc.). Their cumulative share in the budgeted cost of film and TV films constitutes about 30%, as of 2008.

The volume of the Russian market for sound stages and equipment rental amounted to RUB 1.1 billion in 2006, RUB 2 billion in 2007, and RUB 2.3 billion in 2008. Moreover, the share of that particular type of service in TV production is growing at a faster rate than that in film production, which reflects the increasing share of TV production in Russia as a whole.

Graphic 3.2.2 Development of market volume of sound stage and equipment rental in Russia, RUB billion

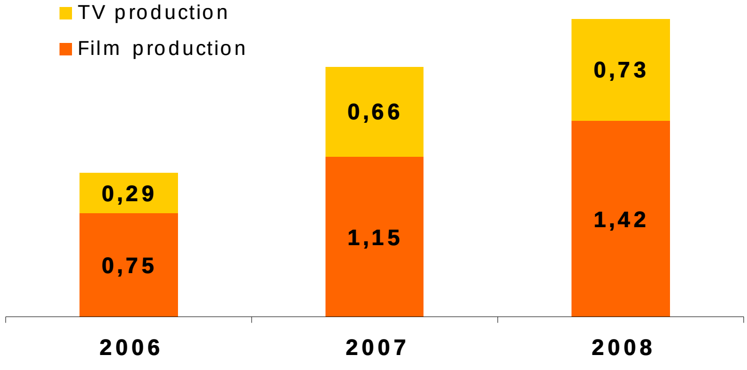


Source: The Russian Federation Ministry of Culture, company data, RFilms

The volume of the market of services for the cutting and post-dubbing period is traditionally smaller than that for stage and equipment rental: it was RUB 1 billion in 2006, RUB 1.8 billion in 2007, and RUB 2.2 billion in 2008. Services in film production dominate the market (65% against 35% in

2008 and 2007, and 73% against 27% in 2006), which may be explained by the high cost of film processing during principle photography; TV production relying mostly on video.

Graphic 3.2.3 Development of market volume of post-production services in Russia, RUB billion



Source: The Russian Federation Ministry of Culture, companies' data, RFilms

Film studios

Among the 15 state film studios only 7 occupy an area of 100 hectares or more and are actually functioning, i.e. renting out stage space and offering a wide range of services in film production. They are the Mosfilm Film Concern (14 stages), Lenfilm Studios (4 stages), Gorky Film Studio (5 stages), Sverdlovsk Film Studio (2 stages), the Centre of National Film (5 stages), Lennauchfilm Film Studio (2 stages) and the St. Petersburg Documentary Film Studio (1 stage). Prominent private film studios include the Russian World Studios (7 stages in Moscow and 6 stages in St. Petersburg), Media City (9 stages), My Studio and the Territoriya Kino (with 7 stages each) and the Creative TV Association (TV-Film - 5 stages). Some private film studios also rent out stage space together with lighting equipment only, or with specific services and post-production, having no equipment pool of their own available for rent; these include Magic Film, Donskaya 32, Territoriya Kino and others.

Table 3.2.1 Overview of Russian film studios

#	Film Studio	Location	Number of stages	Stage area (m²)				Stage total area (m²)	Number of backlots
				under 400	400-800	800-1000	>1000		
State film studios									
1	Mosfilm Cinema Concern	Moscow	14	4	4	3	3	10,596	3
2	Lenfilm Studios	St. Petersburg	4	-	2	2	-	3,500	-
3	Gorky Film Studio	Moscow	5	-	4	-	1	3,200	-
4	Sverdlovsk Film Studio	Yekaterinburg	2	-	2	-	-	1,087	-
5	Centre of National Film	Moscow	5	2	3	-	-	2,100	1
6	Film Studio Lennauchfilm	St. Petersburg	2	-	2	-	-	1,000	-
7	St. Petersburg Documentary Film Studio	St. Petersburg	1	1	-	-	-	250	-
	Total:		**33**	**7**	**17**	**5**	**4**	**21,733**	**4**
Private film studios									
8	Russian World Studios (Moscow)	Москва	7	1	-	6	-	3,668	1
	Russian World Studios (St. Petersburg)	St. Petersburg	6	2	-	4	-	2,200	-
9	Media City	Moscow	9	-	9	-	-	6,450	2
10	Creative TV Association (TV-Film)	Moscow	5	-	1	1	3	5,694	-
11	Yugra-Film	Khanty-Mansiysk	1	-	1	-	-	560	-
12	Kinofabrika №2	Moscow	4	1	2	-	1	2,500	-
13	Telemost	Moscow	2	-	1	1	-	1,700	-
14	TeleCity	Moscow	4	-	1	1	2	3,500	-
15	Way Film	Moscow	1	-	-	-	1	1,100	-
16	My Studio	Moscow	7	-	-	4	3	7,000	-
17	Magic Film	Moscow	3	-	2		1	3,000	-
18	Donskaya 32 (Pavilion Production)	Moscow	3	-	-	2	1	2,818	-
19	Territoriya Kino	Moscow	7	1	6	-	-	4,077	-
	Total:		**59**	**5**	**23**	**19**	**12**	**44,267**	**3**
	TOTAL:		**92**	**12**	**40**	**24**	**16**	**66,000**	**7**

Source: The Russian Federation Ministry of Culture, company data

As of the beginning of 2009, Russia had more than 90 functioning sound stages in its film studios, with a total area covering 66,000 m^2 (the average floor space of a stage being 755 m^2)[59]. 76 of these were in Moscow (more than 80% of the total number), representing a floor area of over 57,000 m^2 (which exceeds 85% of the total floor space of stages in Russian film studios). At the same time, according to market commentators, the quality parameters of these stages (ceiling height, sound

59 Company data.

proofing, internal infrastructure etc.) and services provided by film studios are still at a rather low level as compared to the film studios of Western and Eastern Europe.[60]

An overwhelming majority of Russian film studios is concentrated in Moscow and St. Petersburg. State studios tend to be in downtown areas, while private studios and stages are generally situated on the sites of former industrial complexes and factories. Outside Moscow and St. Petersburg only a limited number of functioning film studios that have their own production base (stages) exist: Yekaterinburg (the Urals, Sverdlovsk Film Studio), Khanty-Mansiisk (East Siberia, Yugra-Film). The Sverdlovsk Film Studio is state owned, while Yugra-Film is actively cooperating with the regional authorities and is mainly targeted at producing TV programming for regional TV channels.

The volume of investment into launching new studios has continued to increase over the last 5 years following the growth of the film distribution market. By 2008, there were already 12 private film studios offering stage and location filming capacities together with various technical services in operation on the market.[61]

The first new film studios emerged at the end of the 1990s. They were primarily aimed at producing TV series. However their technical base was capable of supporting the filming of feature films as well. Some of those (Media City, Russian World Studios) continue to operate successfully, expanding their scope of activities into both the construction of new stages and the purchase of modern equipment, but also acting as production companies and implementing their own film projects.

The share of private film studios in the total number of stages exceeds 65% (59 units). Thus the state no longer plays a dominant role on the market of services for film production, although the influence of state studios in the industry is still considerable. If the average floor space of a single stage is taken into account it would appear that state studios are less fit for producing theatrical features, since only 9 of their 33 stages (27%) offer floor space in excess of 800 m^2, while private studios have 31 such stages out of their 59, or about 52%. In addition, of the 9 large stages 6 are on the Mosfilm premises, the largest national studio. In all, Russia numbers today 16 stages with a floor space in excess of 1000 m^2, all situated in Moscow.

60 Expert poll taken as part of a study of participants of the Conference-Forum of the cinematographic community ‘Russian Film Industry 2008: Announcing the Future’, August 2008.

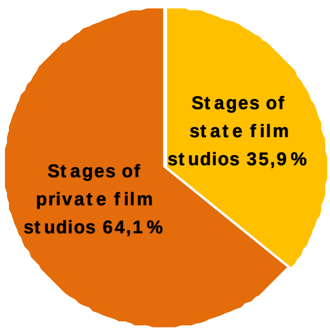
61 Company data[item 63 in the original]

Table 3.2.2 Market shares of Russian film studios by number of stages and stage area size

#	Film Studio	Studio's share in total volume of Russian studios by number of stages (%)	Studio's share in total volume of Russian studios by area of stages (%)
1	Mosfilm Cinema Concern	15.2%	16.0%
2	Gorky Film Studio	5.4%	5.0%
3	Centre of National Film	5.4%	3.0%
4	Lenfilm Studios	4.3%	5.0%
5	Sverdlovsk Film Studio	2.2%	2.0%
6	Film Studio Lennauchfilm	2.2%	2.0%
7	St. Petersburg Documentary Film Studio	1.2%	0.4%
Total State Film Studios		**35,9%**	**33.4%**
8	Media City	9.8%	9.8%
9	Territoriya Kino	7.6%	6.0%
10	My Studio	7.6%	10.6%
11	Russian World Studios (Moscow)	7.6%	5.6%
	Russian World Studios (St. Petersburg)	6.5%	3.3%
12	Creative TV Association (TV-Film)	5.4%	8.6%
13	Kinofabrika №2	4.3%	3.8%
14	TeleCity	4.3%	5.0%
15	Magic Film	3.3%	4.5%
16	Donskaya 32 (Pavilion Production)	3.3%	4.0%
17	Telemost	2.2%	2.6%
18	Yugra-Film	1.1%	0.8%
19	Way Film	1.1%	2.0%
Total Private Film Studios		**64.1%**	**66.6%**

Source: Rfilms

Graphic 3.2.4 Shares of stage areas of state and private film studios (as of 01.07.2009)



Source: RFilms

Mosfilm Film Concern, the largest film studio in Russia, while maintaining its status as a state enterprise (and is recognized as being a strategic asset for the industry), is at the same time the only full-cycle studio in the country. Currently the Mosfilm Concern is an industry-leading enterprise in Russian cinematography (in terms of the space occupied, staffing, level of technical equipment and the filming technologies implemented). Mosfilm produces, distributes and sells film, TV and video products, in other words it is also a production centre and a distribution company. A relatively full range of services are also offered by the Lenfilm Studios, the Sverdlovsk Film Studio (except for services in film processing and film printing) and the Gorky Film Studio (except for the site audio recording equipment). As regards documentaries, the most comprehensive range of services is provided by the St. Petersburg Documentary Film Studio.

The complete range of services needed for the shooting phase of film and TV production is offered by three private studios: the Russian World Studios in Moscow and St. Petersburg, Media City and Creative TV Association (TV-Film). All the major private studios also propose editing and recording/dubbing services, but none of the private film studios have the capacity to process and print film. These services are provided by specialized private service companies.

Table 3.2.3 Range of services provided by film studios and leading service companies

#	Film Studios and Service Companies	Production								Post-production						
		stages	cameras	operator equipment	light	sound	transport	stage props	scenery	film processing	film editing	tonstudio	computer graphics	telecine	film printing	digital mastering, DCP, KDM
State film studios																
1	Mosfilm Film Concern	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
2	Lenfilm Studios	+	+	+	+	+	+	+	+		+	+	+	+		
3	Fgorky Film Studio	+	+	+	+		+	+	+	+	+	+	+	+	+	
4	Sverdlovsk Film Studio	+	+	+	+	+	+	+	+		+	+	+	+		
5	Centre of National Film	+	+		+	+		+	+			+				
6	Film Studio Lennauchfilm	+	+		+	+			+			+				
7	St. Petersburg Documentary Film Studio	+	+	+	+	+	+	+	+		+		+			
Private film studios																
8	Russian World Studios (Moscow)	+	+	+	+	+	+	+	+		+	+				
9	Russian World Studios (St. Petersburg)	+	+	+	+	+	+	+	+		+	+				
10	Media City	+	+	+	+	+	+	+	+		+	+	+	+		
11	Creative TV Association (TV-Film)	+	+	+	+	+	+	+	+		+	+	+			
12	Yugra-Film	+	+	+	+	+	+				+	+				
13	Kinofabrika №2	+							+							

#	Film Studios and Service Companies	Production								Post-production						
		stages	cameras	operator equipment	light	sound	transport	stage props	scenery	film processing	film editing	tonstudio	computer graphics	telecine	film printing	digital mastering, DCP, KDM
14	Telemost	+	+		+	+					+	+	+			
15	Way Film	+			+			+	+		+		+			
16	Magic Film	+			+				+				+			
17	Donskaya 32 (Pavilion Production)	+			+				+		+	+	+			
18	Territoriya Kino	+		+	+			+	+		+	+				
19	My Studio	+														
20	TeleCity	+														
Service companies																
21	Cinelab		+	+	+		+			+	+	+	+	+	+	+
22	Izarus-Film		+	+	+	+	+	+			+	+	+			
23	BS Graphics Production		+								+		+			
24	Rentacam		+	+	+		+									
25	Xray		+	+	+											
26	IMT Group		+	+	+											
27	Bogdan and Brigada			+	+											
28	AST		+	+												
29	Salamander									+	+	+	+	+	+	
30	Cinelex										+		+			
31	Cinemateka										+		+			
32	Nevafilm (Moscow, St. Petersburg, Kiev)											+				+

Source: Company data

Table 3.2.4 Film studios and service companies by range of services provided

#	Film Studios and Service Companies	Number of provided services
1	Mosfilm Film Concern	14
2	Gorky Film Studio	13
3	Lenfilm Studios	12
3	Media City	12
3	Sverdlovsk Film Studio	12
4	Creative TV Association (TV-Film)	11
4	Cinelab	11
5	St. Petersburg Documentary Film Studio	10
5	Russian World Studios	10
6	Izarus-Film	9
7	Yugra-Film	8
8	Telemost	7
8	Territoriya Kino	7
8	Centre of National Film	7
9	Lennauchfilm Film Studio	6
9	Way Film	6
9	Donskaya 32	6
9	Salamander	6
10	Rentacam	4
10	Magic Film	4
11	X-ray	3
11	ITM Group	3
11	BS Graphics Production	3
12	Kinofabrika №2	2
12	Bogdan and Brigada	2
12	AST	2
12	Cinelex	2
12	Cinemateka	2
12	Nevafilm	2
13	My Studio	1
13	TeleCity	1

Source: Company data

Established prices for the services of film crews exceed the average European level, primarily owing to a set of 'extra' services that the local studios add as a mandatory appendix to their basic services (such as the services of technical personnel, auxiliary equipment etc.), while the prices for the basics, such as renting stage space, remain relatively low.

Table 3.2.5 Average basic rates for stage rental in Russia and at the Boyana film studios, Bulgaria (Spring 2009)

Stages	Average rent rate per shift, Russian stages (without rebates - RUB)	Average rent rate per shift, Boyana stages, (without rebates - EUR (RUB))
Stages with area up to 400 m^2	12,450	300 (13,200)
Stages with area 400–800 m^2	17,500	300 (13,200)
Stages with area 800–1000 m^2	26,430	500 (22,000)
Stages with area 1000+ m^2	25,730	800 (35,200)

Source: Company data

The average rate for renting stages of between 400 and 1000 m^2 in Russia is higher than the average rental price of a stage of the same floor space in East Europe by 24.8% (RUB 4,365 or EUR 99). Stages above 1000 m^2 are cheaper in Russia by about 26.9% (RUB 9,470 – EUR 215), on average. The price of renting smaller size stages (up to 400 m^2) in Russia is also lower than in Europe, although the difference is insignificant: 5.7% (EUR 17 – RUB 750).

Before the crisis of 2008, due to high cost of shooting in Russia, certain Russian projects went into production in other countries – in Ukraine, Belarus, the Czech Republic and others. Many recent box office hits on the Russian screen were produced outside Russia. For example, *The Irony of Fate 2*, *Skalolazka*, and *Viy* were filmed in Prague (at Barrandov Film Studio), *The 9th Company* – in Yalta (Crimea, the Ukraine, the Yalta Film Studio), while post-production of *Mongol* was performed in Germany and that of *The 9th Company* – in Finland. Currently the situation has changed, though only insignificantly. For example, *Utomlyonnye solntsem-2*, a high-budget project by Russian standards, is going through its assembly and dubbing stage in Prague.

The financial and economic crisis pushed rental prices for stage space down by about 10%. Discounts may go much further than that, provided other services offered by the film studio are used. Current discounts on the rental of filming equipment and stages may reach 50%. Depending upon the number of shooting shifts and the total cost of comprehensive services at Mosfilm, discounts may vary between 10% and 40%, those at Lenfilm – between 10% and 20%, at Cinelab – between 10% and 30% and at Russian World Studios between 15% and 50%. [62]

Service companies and rental houses

The market numbers 276 companies that provide various services to film makers. For example, at the beginning of 2009, there were 34 companies renting out technology and equipment for shooting, 36 post-production studios and 48 computer graphics / special effects companies.[63]

[62] Company data.
[63] The Russian Federation Ministry of Culture, company data.

Table 3.2.6 Service companies in the Russian film production industry

Service type	Number of profile companies
Equipment rental for film shooting	34
Post-production studios	36
Studios for computer graphics and special effects	48
Stage hire	17
Costume production and hire	13
Stage props production and hire	13
Wigs and make-up	8
Scenery construction studios	13
Animal hire	5
Transport hire	7
Actor agencies	20
Stunt services	8
Advertising agencies (specializing in promotional campaigns in cinema)	14
Festival and special event organisation	16
Marketing in cinemas	12
Film production insurance	5
Legal services	7
Total:	**276**

Source: Company data, Rfilms

Before the 2008 crisis, a specific trend typical of the film production sector was the establishment of large companies supporting the filming process with professional equipment and services but not proposing sound stage rental. These companies generally specialize in the provision of specific types of services. For example, companies such as X-ray and Rentacam rent camera and lighting equipment. Analyses of the offers of service companies conducted in the course of this study leads to the conclusion that private rental companies have more advanced film shooting equipment and a wider range of equipment than the state studios. For example, most of the modern equipment at the Gorky Film Studio is owned by independent private leasing company partners. The Mosfilm Film Concern has a large pool of modern equipment including cameras such as ARRI 435 XTREM, ARRI 235, ARRI 16 SR3; videocams Sony HDW-F900 and Digital Betacam, the Steadycam system, Da Vinci headpieces, light fixtures such as ARRI, Kino Flo, Dedolight, Cosmolight, Sachtler and DeSisti and site sound systems Aaton Cantar-X, Deva-IV Zaxcom, Fostex, Nagra, etc.

The leader among the service companies in terms of the range of services offered and equipment and technologies available is Cinelab. It provides both equipment for rent and services and post-production, starting from film processing, editing, colour correction and all the way to printing, including digital copies. The leaders in film cams are Rentacam and the Shooting Equipment Agency of Sergei Astakhov (AST) and these two also have the widest choice of film cameras. The companies Bogdan and Brigada, IMT Group and X-ray specialize in renting out lighting equipment and technology for cameramen.

Russia has taken a giant leap forward in terms of the technology available in its film industry over the last four to five years. Prior to the early 2000s the technical backwardness of the industry was evident: practically no new equipment had been bought since the late 1980s, while the technology available was hopelessly obsolete and physically worn out. Between 2005 and 2008 the deficit in the availability of modern production equipment and equipment for post-production, apparent at all the principle film studios (those managing their own stages), was in practise compensated for by service companies independent of the film studios. The problem of professional maintenance of this equipment is still extremely acute, but the equipment itself is already available on the market, so attracting maintenance professionals and training new experts will be the next task.

Despite the start of a downturn in film production due to the economic crisis of 2008–2009, rental rates for equipment have adjusted only insignificantly.

Table 3.2.7 Average basic rates of film equipment rent in Russia, spring 2009

Equipment	Average rent rate per shift (without rebates - RUB)
Set of ARRICAMLITE film camera with optics	69,225
Set of ARRIFLEX 235 film camera with optics	46,630
Set of ARRIFLEX 16SR3 film camera with optics	30,575
Cameraman cart Panther as a unit	8,330
Cameraman cart Magnum as a unit	8,910

Source: Company data

Rebates on renting film equipment in Russia vary from 10 and 50%, depending on the company, the operator and the level of use of other services by the leasing company; however there are no set tariffs and discounts. To compare, renting an ArricamLite film camera set with optics from the Bulgarian Boyana Film Studio costs EUR 2,346 (RUB 103,224), but there is a system of discounts in operation. If one rents that same set for a week, it will cost EUR 3,000 (RUB 132,000). Meanwhile paying on a day-by-day basis, the weekly sum will amount to EUR 14,076, in other words the weekly discount amounts to EUR 11,076. There is a similar situation when renting, for example, a full set Panther cameraman cart from the same Bulgarian film studio: a weekly discount would be EUR 608 (RUB 26,769), while renting it for a week would cost EUR 1,217 (RUB 53,539). The average rental price for the same cameraman cart in Russia would be RUB 49,980, i.e. RUB 3,559 cheaper.

Post-production stage services

Post-production services are the weakest link in the film production services available on the Russian market. To give an example, **printing** services are only offered by Mosfilm (with the use of Photomec and Debrie processing machines), the Gorky Film Studio (Photomec processing machines), Cinelab and Salamandra (ARRI Laser Speed Performance equipment). In 2008, Conveyor entered the market with the same services. It was the first company in Russia to offer a complex capable of providing full services in post-production, from producing the ‘master-print’ to delivering prints to cinemas. The company lab is equipped with high-speed processing machines by TFS (USA), colour analyzers and printers by Hollywood Film Co and BHP (USA).

The **film processing** and **colour correction** offers available are also the specialty of a small number of companies. Among the full service film studios are Mosfilm and the Gorky Film Studio. Several years ago the latter, together with United Multimedia Projects (UMP), performed an upgrade of its processing workshop, having bought digital intermediate (DI) equipment. Major private companies that offer services in DI are Salamandra, Cinelab, Cinelex, Cinemateka. Salamandra offers film to video telecine in single colour image plus colour correction using Thomson Spirit DataCine and Spirit 2K. Other TV and film suites are equipped with Pandora Pogle Evolution/PiXi and Da Vinci 2K Plus colour correction units.

Computer graphics are provided by six full service companies: Mosfilm, Gorky Film Studio, Lenfilm, Sverdlovsk Film Studio, Media City and Creative TV Association (TV-Film). This particular area is still underdeveloped, but currently the companies involved are endeavouring to accumulate experience. Many focus on purchasing equipment and hiring experts to open computer graphics, animation and 3D-simulation studios. In general a positive dynamic has begun to take shape in the visual effects production segment. Thanks to Timur Bekmambetov’s Wanted, Russian CG producers have been noticed and given proper credit in the West. Wanted featured more than 1,000 segments of varying lengths where special computer effects were used; these were designed by CG artists from Russian studios including Bazelevs, Main Road, and Eyescream. However Russian computer graphics still suffers from a deficit in human resources and this interferes noticeably with its growth. A new school for special computer effects, the ScreamSchool, established in Moscow in September 2008, aims to come to grips with that problem.

Developing the animation sector in Russia is one of the principal aims of the Centre of the National Film Studio. Currently the Centre maintains and develops a unique base for producing documentary, popular science and training films, as well as modern computer animation capable of competing with the best foreign examples. The animation complex of the film studio occupies a floor space of about 1,500 m^2, and concentrates state-of-the-art modern equipment and application software under one roof, to support the production of 3D and 2D-animation.

Demand for certain high-quality services often exceeds supply. For example, services in high quality printing are still offered by a very limited number of companies, as can be witnessed by the queues to use these facilities. **Sound studios** exist at practically all the film studios and are run by many companies, but Dolby studios are much less frequent. Mosfilm owns one of the major sound studios in the country offering all the types of sound recording required for film and video production in Dolby Stereo SR and Dolby Digital formats. Dolby studio services are also provided by the Nevafilm company (with production bases in Moscow, St. Petersburg and Kiev), Lenfilm, the Gorky Film Studio (4 sound studios for speech and general sound recording, 4 sound editing and stereo mixing studios, plus a Dolby Digital sound mixing studio equipped with a state-of-the-art Studer Vista 7 panel), Cinelab, Salamandra, Izarus-film, Central Productions International Group and Piphagor. The Salamandra lab uses an Optronix sound camera, model MWA LLK III to produce a reverse printer of the optical soundtrack, capable of recording real-time analogue and digital soundtracks in Dolby SR*D formats, as well as the Dolby CA10 sound processor by Dolby Laboratories Inc and the DTS code generator.

Services by **digital cinema laboratories** are provided by several companies, among which are Nevafilm (production of digital cinema prints, mastering, packaging, DCP replication, KDM control on the basis of the Digital Cinema Mastering Station DMS-2000 equipment by Doremi Cinema), Salamandra (the Cinevator digital mastering and film-recorder station**),** the Mosfilm concern that uses the DMS-2K-7 JPEG2000 station for mastering, and Conveyor company (the Qube Master Pro digital mastering station).

Russia also has film studios and companies that specialize predominantly in **producing TV content**. The largest among them are Media City and Russian World Studios. Technical equipment at the Media City filming complex includes a full set of equipment for the production of TV films and programmes. These are Sony HDW-F750P, Sony HDW-F900H videocams, HD discrete objectives, the HD studio instrument set (including 3 cams based on Sony HDC 950, plus three sound channels), an SD tape-free studio instrument set (3 cams based on Sony BVP-E30PH plus three sound channels), a Vinten Quattro pedestal (with a Visio 250 headpiece), sound and light equipment, a cutting, editing and sound complex MediaComposer Adrenaline, MediaComposer Adrenaline HD, Avid Symphony Nitris, AVID Xpress Pro HD, Pro Tools LE, Pro Tools HD, a sound studio etc.,... In 2008 a new post production complex was built including 28 assembly stations that operate using the AVID Network Unity technology.

The Russian World Studios technical pool features some of the very latest, state-of-the-art shooting equipment. State-of-the-art technologies in online sound recording, audio-dubbing, sound design and computer graphics, composing and colour correction, a draft and finishing assembly allow Russian World Studios to offer a full cycle of services in post-production with the capability to support several projects in parallel. The quality of post-production by Russian World Studios and its conformity to international standards in the production of audio and video materials are confirmed by certificates issued by Sony experts.

3.2.2 Principal players on the film production services market

Film studios

Mosfilm Film Concern FSUE (Federal State Unitary Enterprise)

http://www.mosfilm.ru
Market share by number of stages: 15.2%
Year founded: 1920
Form of ownership: state
Financial indicators of activity:

- Sales proceeds for 2008 – RUB 1,6 billion
- Net profit, 2008 - 0,3 billion RUB
- Investment in development, 2009 – RUB 46 million

Production capacity: A significant share of national film production is produced at Mosfilm. To illustrate, production and technical services are provided to 150 film and TV video projects annually. In addition, dubbing and replication of more than 60% of the films in foreign production is performed at the Mosfilm. Prior to the economic crisis of 2008, Mosfilm operated at 100% of its capacity. Over the last two to three years the studio has had a throughput of about 150 projects a year. Various series accounted for about sixty to seventy per cent of this total. About 50 films may be shooting simultaneously. In the current global economic situation, the production of most projects was suspended in the beginning of 2009. According to company data, the film concern is working at 90% capacity as of July 2009.

Russian World Studios CJSC

http://www.rwstudios.ru
Market share by number of stages: 14.1%
Year founded: 1998
Form of ownership: private
Financial indicators of activity:

- Sales proceeds for 2008 – RUB 1.4 billion
- Net profit, 2008 – RUB 0.3 billion

Production capacity: In 2008, the company produced more than 500 hours of TV and film products and plans to double the volume of its own production by the end of 2009. RWS is a dynamically developing film studio that supports the production of up to 30 projects a month by third-party production companies while successfully implementing its own projects, both TV series and full-length feature films.

Media City CJSC

http://www.media-city.ru
Market share by number of stages: 9.8%
Year founded: 2004
Form of ownership: private
Production capacity: The Media City film complex is a part of the Amedia group, one of the largest and best equipped film studios in Russia. It specializes in producing TV series and other TV products.
Amedia releases about 600 hours of TV products annually (in total, Russia produces about 1,500-1,600 hours of such products each year). The scope of production by the Amedia company reached USD 100 million/year, which corresponds to 800 hours of ready product. Production of a single episode in a series costs from USD 60,000 to 400,000. The capacity of the digital post-production studio is more than 1,000 minutes of airtime material a week.

Creative Production Association - Gorky Central Children and Youth Film Studio OJSC

http://www.gorkyfilm.ru
Market share by number of stages: 5.4%
Year founded: 1915
Form of ownership: Open Joint Stock Company with 100% state capital
Financial indicators of activity:

- Sales proceeds for 2008 - RUB 123 million (over 3 quarters of 2008)
- Net profit, 2008 - RUB 31 million (over 3 quarters of 2008)

Production capacity: The studios are capable of supporting a full production cycle for up to 20 full-length feature films a year.

Centre of National Film

http://www.cnf.ru
Market share by number of stages: 5.4%
Year founded: 1933
Form of ownership: Open Joint Stock Company with 100% state capital
Financial indicators of activity:

- Sales proceeds for 2008 - RUB 133 million
- Net profit, 2008 - RUB 4 million

Production capacity: the production volume of film and video products at the film studio reached RUB 71,570,000 over the course of 2007 (34 popular science, documentary, animation and feature films). By the summer of 2008, the stage capacity use exceeded 70%.

Lenfilm Studio OJSC

http://www.lenfilm.ru
Market share by number of stages: 4.3%
Year founded: 1908
Form of ownership: Open Joint Stock Company with 100% state capital
Production capacity: Technical facilities of the film studio and the available technical personnel enable the studio to produce 15 full-length feature films of its own a year while providing third-party film companies with services to produce up to 30 TV and 10-15 feature films and to perform film and video-dubbing and sound mixing for more than 100 films a year.

Sverdlovsk Film Studio PLC

http://www.uralsfs.ru
Market share by number of stages: 2.2%
Year founded: 1943
Form of ownership: Open Joint Stock Company with 100% state capital
Production capacity: The film studio has produced more than 210 feature and 1,550 documentary films, more than 4,500 popular science films and periodicals and about 100 animation cartoons. The Sverdlovsk Film Studio is currently entering the global market as a film factory — a technological film complex featuring modern equipment.
In 2008, the film studio produced 7 feature films (13 hours of content) and 8.8 hours of serial formats. Ten documentaries, 2 series (of 24 episodes), 2 feature films and 2 TV films may shoot simultaneously at the studios. In terms of the various production phases, the number of products that may be in parallel production is 20 documentaries, 2 series (24 episodes), 4 feature films and 2 TV films. In 2008, the studios worked at 80% of capacity, while in 2006 and in 2007 the load was 30% and 40%, respectively. The production potential for feature films is 18 hours, and that for series is 48 hours.

Service companies

Cinelab LLC

http://www.cinelab.ru
Range of services provided: 4
Year founded: 2001
Principal focus of activities: Renting out film shooting equipment, film lab services and post-production.
Material and technical offer:

- Cameras: ARRI 35 mm – 435, 235, Arricam Studio, Arricam Lite; ARRI 16 mm – Arriflex 416 plus.
- Optics: Ultra Prime IDS, Master Prime IDS, Cooke S4i, Ultra 16 mm, Angenieux Optimo 24-290, T-Rex, Shift&Tilt.
- Tripods: Sachtler.
- Tripod heads: Sachtler, OConnor.

Salamandra Creative Laboratory Ltd

http://www.salamandra.ru
Range of services provided: 9
Year founded: 1998
Principal focus of activities: Modern technologies for film processing and digital image processing
Material and technical offer:

- **Cinevator 5** film-recorder**,** film lab equipment by Photomec, Calder and BHP,
- ColorMaster color analyzer,
- Telecine by Thomson Spirit Datacine and Spirit 2K,
- color correction units Pandora Pogle Evolution/PiXi and Da Vinci 2K Plus,
- sound camera by Optronix, model MWA LLK III,
- sound processor: Dolby CA10 by Dolby Laboratories Inc,
- DTS code generator,
- ARRI Laser Speed Performance instrument.

Rentacam LLC

http://www.rentacam.ru
Range of services provided: 10
Year founded: 2004
Principal focus of activities: Renting out equipment
Material and technical offer:

- Cameras: Arricam ST, Arricam LT 35mm, Arri 435 XTR 35mm, Arri 235 35mm, Arri 16 SR3, Arri 416, Betacam DVW 970, Weisscam, Photosonic 4ER.
- Optics: Cooke S4i, LDS Ultra Prime, Ultra Primes, Variable Prime, Master Prime, Angenieux Optimo 24-290 mm, Cooke 15-40 mm.
- Light fixtures: Arrimax 18/12, Arrisun (12, 6, 1.2, 2.5, 4 KW; 575 W), Studio (1, 2, 5, 10, 20 KW), Daylight Compact (12, 6, 4, 2.5, 1.2 KW; 575, 200 W), LT 150-200W with lens headpiece, etc.

Nevafilm Company JSC

http://www.nevafilm.ru
Range of services provided: 12
Year founded: 1992
Principal focus of activities: Sound studios in St. Petersburg, Moscow and Kiev, sound recording, dubbing into Russian and Ukrainian, Dolby soundtrack convergence and coding, production of digital cinema prints, mastering, packaging, DCP replication, managing film replay keys
Material and technical offer:

- mixing panels: Studer Vista 7, Euphonix MC-5;
- processors: Dolby DS4, Dolby CP65OSD, Dolby SP65+SA10, DTS Encoder DSE10;
- recording/replay workstations: Pyramix 5.1, Pyramix 6, Protools HD;
- microphones: Neumann U87;
- microphone processor: Focusrite ISA 430;
- processing by T.C. Electronics 6000, FireWorx, Lexicon 960D;
- digital convertors: Sphynx2;
- film projectors: Sondor Nova, Kinoton FP-30E, Christie CP2000ZX, Christie CP2000M;
- digital cinema print mastering workstation: Digital Cinema Mastering Station DMS-2000 by Doremi Cinema.

3.2.3 Principal market trends and perspectives in film production services

Principal market trends and issues

In the opinion of market players, a number of trends and issues related to the current state of **Russian film studios**[64] may be identified:

1. Out-of-date production facilities at many film studios are incapable of working at full capacity;
2. Film studios offer insufficient modern equipment for rent forcing companies to lease it from specialized providers;
3. Not all film studios offer full services;
4. National film studios are in competition with studios throughout Europe, in particular in Eastern Europe, whose competitive advantage lies in a higher level of service, the price of these services being commensurate with their level and the level of technology available.

Before the crisis, the demand for film studio services grew steadily, so projects were drawn up for technical upgrades and the launch of new studios. However by early 2009 demand had fallen off sharply. According to Mosfilm studio estimates, its facilities functioned at no more than 20 to 30% of capacity in spring this year. As a result most studio owners have lost one impetus, at least in the short term, encouraging them to invest in studio upgrades. Studios working principally for television have been less affected by this downturn. For example, during spring 2009, the Gorky Film Studio worked at 70 to 75% of capacity.[65]

Nonetheless, the gloomy economic environment has increased competition among the film studios; equipment quality and level of services offered have now become key in the attraction of new clientele. From that point of view, studios already working on the market appear to be interested in re-equipment and in improving the quality of their services.

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64 Public report on the state of the Russian film industry, its capabilities and development prospects to 2015. Drawn up on the basis of the results of the Conference-Forum of the cinematographic community ‘Russian Film Industry 2008: Announcing the Future’, Moscow, August 25, 2008.

65 Expert poll conducted in the course of the study.

As for the prospects of developing the **rental market** in Russia, commentators believe that though all the latest film technologies used elsewhere in Europe are already available on the Russian market, perspectives for the rental market are linked to the development of insurance practices in film production and to the arrival of foreign players on the Russian market. With the entrance of foreign players, competition will be intensified and the market will become more clearly structured and transparent as a whole.

Before the crisis caused industry turnover to fall, the principal aims of the service companies in the branch were fostering growth and expanding the range of equipment available. In this new environment companies find surviving alone on the market difficult and there has therefore been movement towards associations and mergers. For example, Kodak, Rentacam and Salamandra have organised an alliance. Since each offers exclusive services in separate segments of the film production chain, they have decided to offer significant discounts (starting from 50%) to projects that use the services of all three companies, which when taken together cover a wide spectrum of possibilities.

Post-production services are also developing fast in Russia. New companies continue to appear on the market all the time in this area of film production. They provide professional services with the use of state-of-the-art equipment and the latest technologies. In the course of the Conference-Forum of the cinematographic community held in the summer of 2008, representatives of the film business noted that Russia is currently short of film labs capable of dealing with film processing and colour adjustment, of Dolby studios and of services in print replication.

New film studio construction projects

During 2006–2008, existing demand for modern film production capacity resulted in the appearance of many projects for the construction of new film studios with the involvement of private investors. Typically, investors in this industry plan for a return on investment on these projects not only via the profit generated from renting out film studio space and selling some of the premises, but also from selling large commercial developments and residential real estate that is to be built in the immediate vicinity of these film studios.

The boom in recent years in projects to create new film studios was stimulated primarily by dissatisfaction on the market with the level and price of the services already offered (the majority of such projects were initiated by production companies). Also, the market needed new technology while the industry had to compensate for the deficit of human resources by training.

In Moscow it is difficult to find a site that has good transport access at an affordable price to start a new studio construction project from scratch. This forces developers to look for alternative solutions: the majority of the projects announced are planned for the Moscow (3 projects) and St.

Petersburg (2) suburbs, plus one project each in the cities of Anapa, Novorossiysk and Nizhni Novgorod.

Russian World Studios initially announced plans for the construction of two film studios simultaneously: one in St. Petersburg and another in Anapa. However, in view of the economic downturn, *RWS* exited the Anapa project and only the St. Petersburg project is now in active implementation. This is one of the few projects for building new film studios in Europe that is still actively pursued and developed in the current economic crisis. As of today, the first stage of capital construction of the new facility in St. Petersburg is finished, and the plan is to attract financing to develop a post-production centre there.

The negative financial and economic environment has made it impossible to further many of the investment projects for introducing new film production capacity, thus increasing the value of state studios, provided they implement their own plans for upgrades. Before 2008, plans to develop eight new film studios were announced. Due to the current economic situation, 2 of those 8 projects have been frozen, 3 are at the document preparation and investment-seeking stage, while the other 4 are at the active development stage.

Table 3.2.8 New film studio construction projects in Russia

#	Studio	Location	Total area (hectares)	Infrastructure	Invest-ment (USD million)	Development phase
1	Glavkino[66]	Moscow Region (Glukhovo)	8	Hotels, offices, trade centre, parkings, workshops	300	active
2	Russian World Studios' subsidiary - Russian World Studios St. Petersburg	St. Petersburg	48.1	Offices, screening room, multilevel parking, hotel, restaurant, concert hall, TV studio	250	active
3	Kinocity	Moscow Region (Dzerzhinsk)	2.5	Film school, congress centre (food-court, cinema), offices, film and concert hall	37-40	active
4	Solar	Novorossiisk	35	-	15	planning
5	Kinograd	Nizhnii Novgorod	7.5	Hotel, parking	15-16	documentation registration
6	Telefabrika	St. Petersburg	7.5	Offices, hotel, trade centre, underground parking	600	documentation registration
7	Anapafilm	Anapa	75	Hotel, cottages, trade centre, business centre, film and concert hall	300	stopped
8	Mediapark[67]	Moscow Region (Konstantinovo)	140	Theme park, residential area	1,400	stopped

Source: Company and municipal authority data, press

[66] Olga Goncharova, Halil Aminov. 'Uralsib directs Glavkino'. *Kommersant* newspaper, 28.07.2008.
[67] Olga Goncharova, Halil Aminov, Olga Sichkar. 'Eurasia City cuts back cinema'. *Kommersant* newspaper, 19.11.2008.

With the temporary slackening in production, one of the principal issues has become ensuring a sufficient level of occupation of studios. Much depends on the rate of recovery in the level of production. Clearly if several construction projects enter their implementation stage simultaneously, a situation may arise when market supply exceeds demand: Russia is not producing sufficient films to fill more than one 'Russian Hollywood'.

The total declared amount of investments in building film production complexes is approximately USD 2.9 billion. The number of stages planned is close to 40, while the total floor space of these complexes will reach 358.6 ha. These projects would therefore potentially increase the number of stages available by about 50%. Taking into account projects that are in active development, 20 new stages on sites totaling a cumulative area of 143.6 ha may be expected to appear in Russia within the next three years, for an investment corresponding to USD 1.2 billion.

Film market players believe that market demand in Russia calls for a single modern film studio in the south of the country, where the opportunities for location shooting are wider and where marine episodes can be shot, plus another new modern film studio in the central part of Russia.[68] So far, the role of such a southern film studio is played by the Yalta Film Studio in the Ukraine. However the unstable political situation in Ukraine precludes using the services of that studio on a regular basis. Due to the high cost of land and serious traffic problems, Moscow is increasingly becoming economically unfeasible for shooting. However, a new studio would be chosen ahead of those in Moscow only if it proposed the full cycle of services. That factor in particular is the principal prerequisite for normal development of any new film studio. It appears probable that the first new full-cycle studio will emerge in the Moscow Region. In this context, one actively advancing project is the Glavkino complex with an investment volume of about USD 300 million.

[68] Public report on the state of the Russian film industry, its capabilities and development prospects to 2015. Drafted on the basis of results of the Conference-Forum of the cinematographic community 'Russian Film Industry 2008: Announcing the Future', Moscow, August 25, 2008.

3.3 EXHIBITION

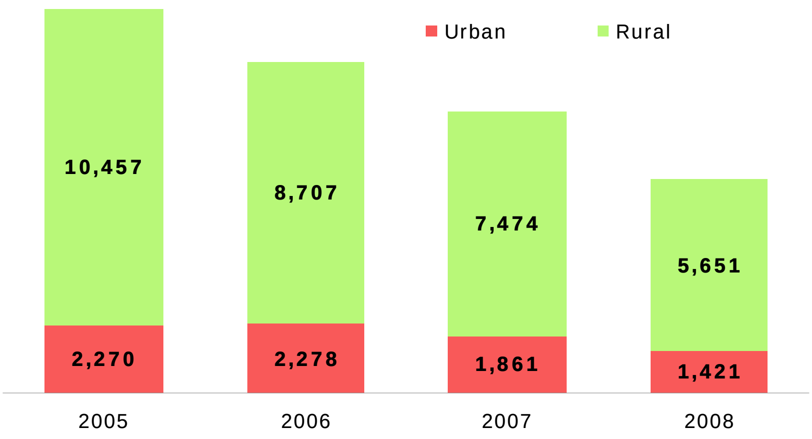
3.3.1 Industry Structure

Modern cinema exhibition

When speaking of a 'modern cinema' we refer here to a cinema site that runs regular commercial screenings using 35mm film or digital cinema projection in combination with multi-channel sound in comfortable auditoria. Exhibition itself and the takings of catering facilities within theaters are the principal sources of revenue for their owners. These are the cinemas that play the leading role in forming the modern exhibition market in Russia.

In contrast, the definition of the principal market unit used in national statistics is that of the *cinema installation (projector unit)* – a rather vague term for a theatre or a screen, whose meaning is interpreted freely by local cinema authorities reporting on the number of cinema installations to the Ministry of Culture of the Russian Federation. According to official data, the country had 7,111 cinema installations in 2008 (1,421 of them in cities and 5,651 in rural areas). However, Nevafilm Research experts believe these rural installations play an extremely insignificant role in the overall market, as many are either not operational or run just a few screenings a week at symbolic prices of RUB 5 to 10 per admission. The number of fully operational screens can be obtained from the list of functioning urban cinema sites provided by the Ministry of Culture and these urban screens are included in the Nevafilm Research cinema database. There are 865 such screens in 360 cinemas. Thus, the number of outdated screens still functioning in Russian cities can be estimated at between 600 and 800. These sites operate second or third-run repertoires, co-operating with the regional film and video rental agencies and film funds, and often use DVD projection. As a result they generate minimal revenues and play only a minor role in the real business of exhibition in Russia. The number of state-owned *cinema installations* has continued to fall steadily over the last few years: 46% of rural and 37% of urban units of this type were shut down between 2004 and 2008.

Graphic 3.3.1 Development of cinema installations in Russia



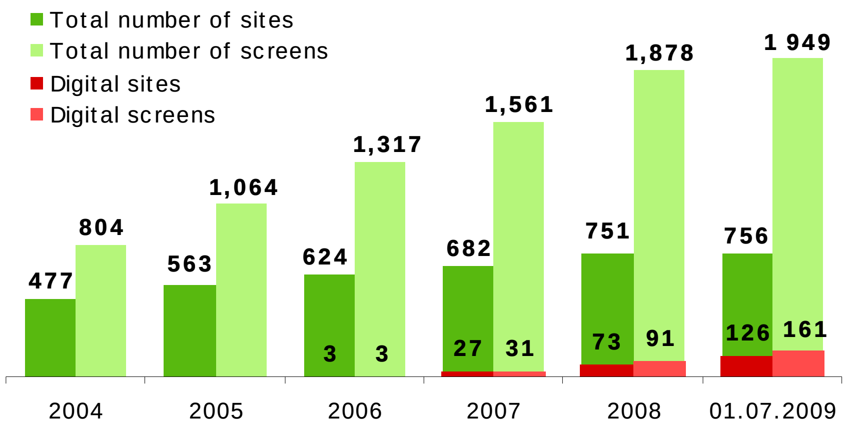
Source : The Russian Federation Ministry of Culture

Drive-in cinemas should also be excluded from the total of modern cinema screens. This market segment has been developing in Russia since 2002, when the first Kinodrom was opened in Moscow. Currently there are at least 6 such sites (apart from the capital, drive-in cinemas function in Nizhni Novgorod, Perm, Naberezhnye Chelny, and Kaliningrad). Most of them are fitted with video-projection equipment and operate during the summer period only, screening films a few weeks or months after their premieres. The Russian climate in general hampers widespread development of this type of screen, and indeed now and again results in their closure.[69]

Despite the increasing frequency of closures during 2008 and first-half 2009, the number of modern cineplexes in Russia continues to grow. The number of new cinema openings still outweighs closures. According to Nevafilm Research, the country had 1,949 modern screens in 756 sites as of 1 July 2009, 17% of sites (8% of the total modern screen base) with digital projection facilities.

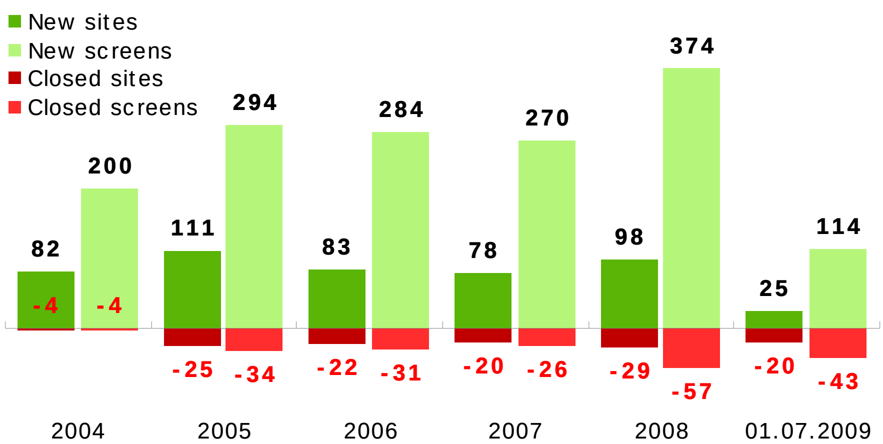
[69] In August 2009 the *Night Watch* drive-in cinema in Kaliningrad was fitted with digital projection equipment, opening new horizons for this type of business in Russia, since it allows drive-ins to screen first-run films and offer alternative content to viewers.

Graphic 3.3.2 Development of modern cinema sites and screens in Russia



Source : Nevafilm Research

Graphic 3.3.3 Cinema openings and closings in Russia



Source: Nevafilm Research

By 2009, the annual growth rate in the number of modern screens reached 20 to 30%; however growth is slowing due both to gradual market saturation and to the effect of the global financial and economic crisis.

Recent growth of the Russian exhibition market had been sustained by the expansion of major cinema network operators into the regions, as well as by the development of the market for retail and entertainment centres. By the end of 2008, however, most major regional centres had reached saturation in terms of screen density per 100,000 inhabitants. Many cities of a million inhabitants come close to or even exceed the screen density of the most affluent connurbations – the Moscow agglomeration[70] and St. Petersburg. Meanwhile, cities with populations of under 500,000 generate considerably less interest among exhibitors, so further expansion of the market into these new areas is unlikely.

Table 3.3.1 Screen density in cities with a population of at least 1 million (as of 01.07.2009)

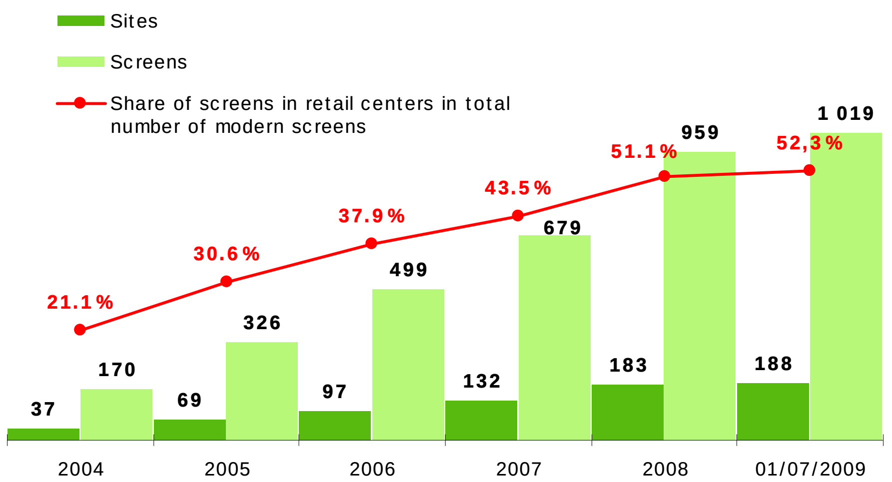
As at 01.07.09	As at end 2008	City	Population (inhabitants)	Sites	Screens	Screens per 100,000 inhabitants	% of Greater Moscow level
1	1	Kazan	1,120,200	12	56	5.00	130%
2	3	Yekaterinburg	1,323,000	14	55	4.16	108%
3	2	St. Petersburg	4,568,000	38	189	4.14	107%
4	4	Ufa	1,021,500	8	40	3.92	102%
5	**6**	**Greater Moscow**	**11,484,700**	**106**	**443**	**3.86**	**100%**
6	5	Novosibirsk	1,390,500	14	52	3.74	97%
7	7	Chelyabinsk	1,092,500	10	35	3.20	83%
8	8	Samara	1,135,400	7	34	2.99	78%
9	10	Nizhni Novgorod	1,274,700	11	25	1.96	51%
10	9	Omsk	1,131,100	6	22	1.95	50%
11	11	Rostov-on-Don	1,048,700	7	20	1.91	49%

Source: Nevafilm Research

Film theatres in retail and entertainment complexes

Currently a quarter of cinema sites and more than half of the modern cinema screens in Russia are situated in retail and entertainment centres (RECs).

Graphic 3.3.4 Cinema sites and screens located in retail centers



Source: Nevafilm Research

70 Nevafilm researchers concluded that following exactly the administrative borders of the territory of Moscow does not provide an entirely accurate view of the Moscow exhibition sector. The boundaries of Greater Moscow were therefore redefined to include settlements immediately adjoining the Moscow ring road. Next the number of residents of the Moscow agglomeration was calculated and the number of screens was recounted. Greater Moscow therefore here includes the neighbouring towns of Barvikha, Vidnoe, Dzerzhinsky, Dolgoprudny, Kotelniki, Krasnogorsk, Lyubertsy, Mytishchi, Odintsovo, Reutov, and Khimki. The total population of the region was 11,488,900 as of 2006.

The Karo 1 four-screen cinema, opened in 2000 in Moscow, was the first of these. These retail centres were also the locations of choice for the first Russian multiplexes (the first nine-screen Formula Kino theatre was opened in Moscow in 2002). Russia's first IMAX theatre (opened in 2003) was also established in a retail and entertainment complex. In certain cities the growth in modern exhibition facilities was almost fully accounted for by the expansion of screen networks in retail centres; for example, St. Petersburg saw a doubling of its capacity in the single year 2004 due to large scale openings by the Kronverk Cinema network which opened four multi-screen cinemas in various retail and entertainment complexes (with a total of 26 screens).

In 2009 the two major agglomerations (Moscow and St. Petersburg), as well as many other important urban centres, have up to 70 to 80% of their screens located within retail centres.

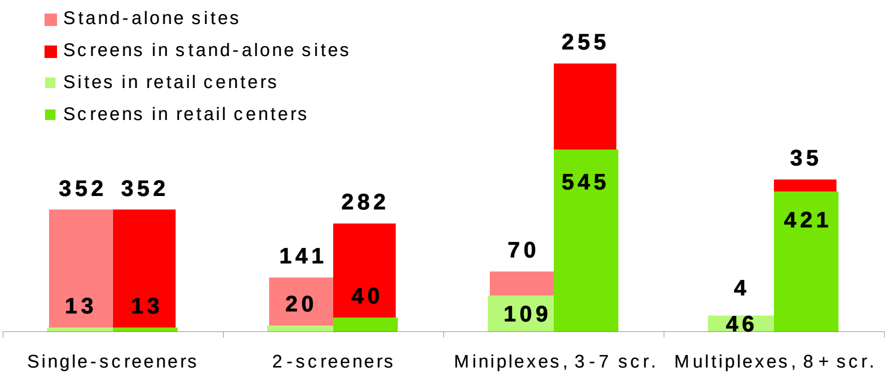
Table 3.3.2 Top 10 Russian cities by number of screens in retail centres (as of 01.07.2009)

#	City	Number of sites in retail centres	Number of screens in retail centres	Share of sites in retail centres in total number of sites	Share of screens in retail centres in total number of screens
1	Great Moscow	45	301	42.5%	67.9%
2	St. Petersburg	25	160	65.8%	84.7%
3	Kazan	7	41	58.3%	73.2%
4	Novosibirsk	4	34	28.6%	65.4%
5	Yekaterinburg	5	31	35.7%	56.4%
6	Ufa	5	31	62.5%	77.5%
7	Samara	4	29	57.1%	85.3%
8	Volgograd	5	28	71.4%	87.5%
9	Krasnodar	4	25	44.4%	73.5%
10	Tyumen	5	22	71.4%	78.6%
Total in these cities		**109**	**702**	**49.1%**	**72.9%**
Total in Russia		**188**	**1,019**	**24.9%**	**52.3%**

Source: Nevafilm Research

However, the strong dependence of modern cinema screens on retail real estate had an adverse effect on growth during 2009. With the economic crisis, projects for many new retail and entertainment complexes were either postponed or cancelled altogether, entailing a drop the rate of new screen openings.

Graphic 3.3.5 Cinemas in retail centers and stand-alone sites by number of screens (as of 01.07.2009)



Source : Nevafilm Research

Screens per cinema and multiplexes

The majority of functioning film theatres in Russia are still single or two-screen screen cinemas (48% and 21% of the cinemas, respectively). Nonetheless these sites total only 35% of the overall number of modern screens in the country. In contrast, miniplexes (3-7 screens, comprising 24% of modern theatres in Russia) and multiplexes (8 screens or more per theatre – 7% of the total) together account for 65% of modern screens.

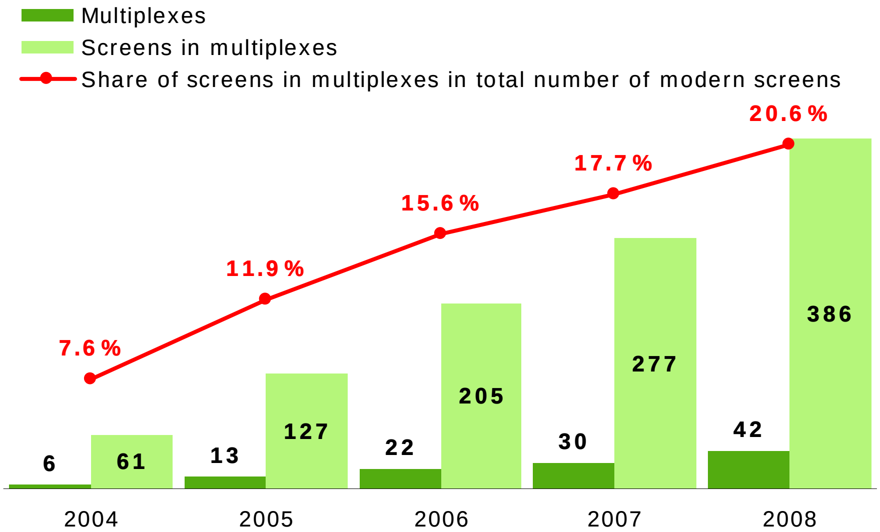
Table 3.3.3 Russian cinema sites by number of screens (as of 01.07.2009)

Number of screens in cinema	Sites	Screens	Market share by number of sites	Market share by number of screens
1-screener	**365**	**365**	**48.3%**	**18.7%**
2 screens	**161**	**322**	**21.3%**	**16.5%**
3 screens	50	150	6.6%	7.7%
4 screens	57	228	7.5%	11.7%
5 screens	26	130	3.4%	6.7%
6 screens	31	186	4.1%	9.5%
7 screens	16	112	2.1%	5.7%
Miniplexes (3–7 screens), total	**180**	**806**	**23.8%**	**41.4%**
8 screens	27	216	3.6%	11.1%
9 screens	10	90	1.3%	4.6%
10 screens	4	40	0.5%	2.1%
11 screens	3	33	0.4%	1.7%
12 screens	4	48	0.5%	2.5%
14 screens	1	14	0.1%	0.7%
15 screens	1	15	0.1%	0.8%
Multiplexes (8+screens), total	**50**	**456**	**6.6%**	**23.4%**
Russia, total	**756**	**1 949**	**100.0%**	**100.0%**

Source: Nevafilm Research

Note that the share of multiplexes in the total number of modern screens in Russia continues to increase at a rate of at least 3% per year.

Graphic 3.3.6 Multiplexes (8+ screens) in Russia



Source : Nevafilm Research

A high proportion of cinemas with eight screens and more are located in the Moscow Region (19 sites totalling 187 screens); St. Petersburg has only half that number of multiplexes (7 sites with 66 screens); elsewhere regions may only have 1 to 2 multiplexes in each of their major cities (those with a population of at least 500,000).

Table 3.3.4 Russian multiplexes by city size/population (as of 01.07.2009)

City	Population (thousands)	Sites	Screens
Greater Moscow	11,484.7	19	187
St. Petersburg	4,568.0	7	66
Chelyabinsk	1,092.5	3	25
Kazan	1,120.2	2	17
Novosibirsk	1,390.5	2	22
Yekaterinburg	1,323.0	2	17
Perm	987.2	2	17
Samara	1,135.4	2	16
Krasnodar	709.7	2	16
Ufa	1,021.5	1	9
Krasnoyarsk	936.4	1	8
Naberezhnye Chelny	506.1	1	8
Volgograd	983.9	1	8
Omsk	1,131.1	1	8
Rostov-on-Don	1,048.7	1	8
Togliatti	705.5	1	8
Tyumen	560.0	1	8
Nizhni Novgorod	1,274.7	1	8
Total multiplexes in Russia		**50**	**456**

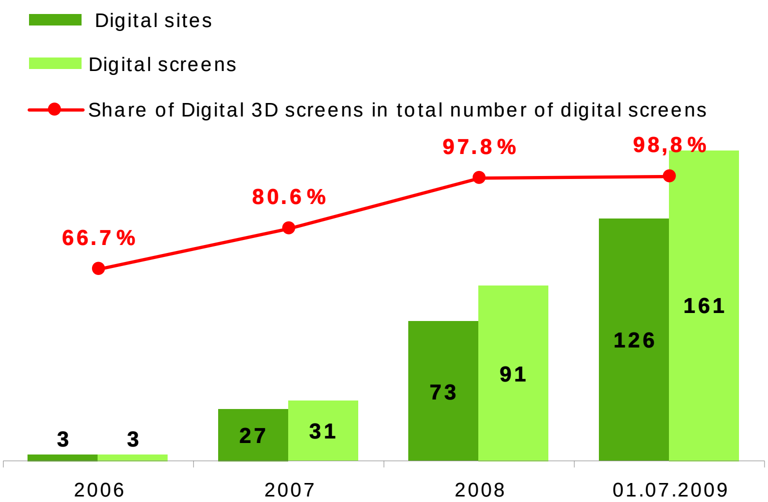
Source: Nevafilm Research

Digital cinema

The first commercial digital screen meeting Digital Cinema Initiatives (DCI) specifications was opened in October 2006 at the Zanevsky Kaskad cinema of the Kronverk Cinema network in St. Petersburg. By the end of 2006 three digital screens were in operation (two in St. Petersburg and one in Naberezhnye Chelny). The first run of a feature film on digital screens took place only in December 2006 (*Night at the Museum*). During the autumn of the same year the very first digital screen in Zanevsky Kaskad was used to organise a show contest in the Counter Strike computer game, with viewers in the theatre playing an active role.

Between 2007 and mid-2009, the number of digital screens in the country increased fivefold to reach 161 screens as of 1 July 2009 (with the release of *Ice Age: Dawn of the Dinosaurs* in Digital 3D format). DLP Cinema projectors are already installed in 17% of cinema sites in 54 cities across Russia and practically all of these installations include Digital 3D technology.

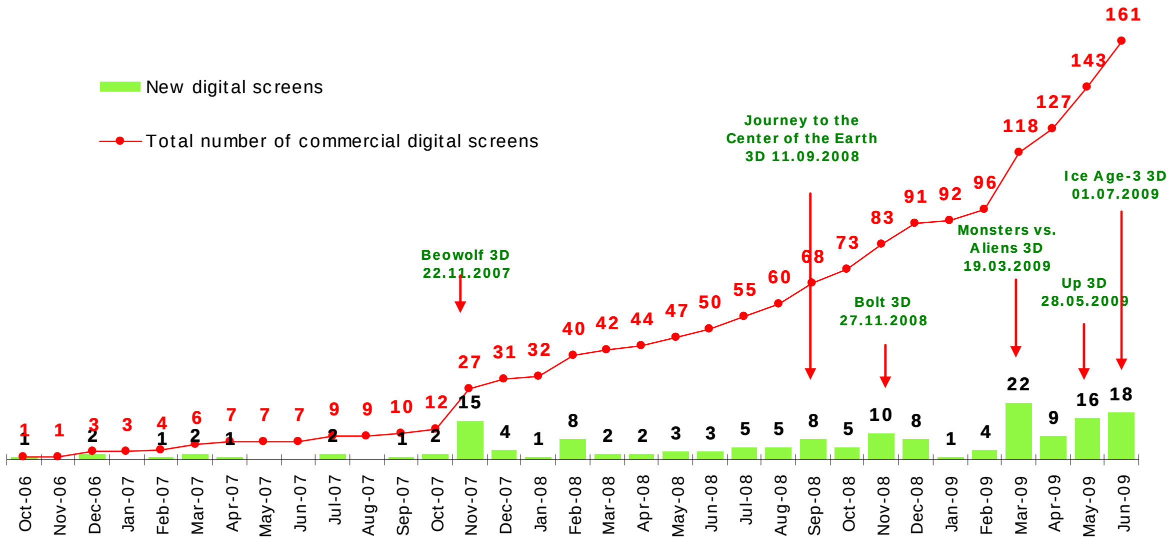
Graphic 3.3.7 Development of commercial digital cinema sites and screens in Russia



Source: Nevafilm Research

The release of features in Digital 3D format is the main driving force for the opening of new digital screens in Russia. Analysis of monthly data on the number of new digital screens shows that more and more exhibitors are motivated by screening new 3D releases; these features are popular with audiences and allow higher priced tickets.

Graphic 3.3.8 Total number of digital cinema screens and new digital screen openings in Russia



Source: Nevafilm Research

A quarter of all Russian digital screens are concentrated in Moscow, with 42 screens in 26 sites. St. Petersburg is the second Russian city for digital screens with 13 screens in 10 sites; 7 digital screens are operating in Ufa; Krasnoyarsk and Novosibirsk have five screens each; Krasnodar, Tyumen, Vladivostok and Voronezh – 4 screens each. The situation is however evolving rapidly and the digital screen base expands on a monthly basis.

The Cinema Park chain remains the market leader among companies currently converting their screens to digital projection. The company opened its first digital screen back as December 2006 in St. Petersburg and currently manages 29 screens with dual analogue and digital projection equipment. Cinema Park was also the first company to adopt a systematic programme for transition to digital exhibition across its entire chain: during 2007–2008 it fitted out two 3D-screens in each of its cineplexes. Up until 2009, this was the only comprehensive large-scale approach to transition in Russia. In March 2009, however, the Rising Star Media company launched a similar programme for its KinoStar circuit in Moscow and St. Petersburg and fitted out 1–2 screens in each of its cinemas, including a newly opened IMAX theatre. As of 1 July 2009 the chain had 12 digital screens functioning. The following circuits are all pursuing less systematic transition:

- Luxor (8 digital screens opened in 2007–2009);
- Kinomax (since 2007 it has been opening one digital screen in each new multi-screen site, bringing the total for the circuit to 6 digital screens as of 1 July 2009);
- Karo Film (opened 2 digital screens in its flagship premiere cinema complex at Oktyabr as far back as 2007. However, the company did not follow up immediately on this first initiative and only addressed the issue again in 2009, on the eve of numerous 3D-releases, fitting out 6 digital screens in Moscow and St. Petersburg in May 2009);

- Formula Kino (entered the digital era in 2009, having installed a set of 6 digital projectors in its flagship Moscow theatres).

Conversions to digital by major cinema chains, as well as those by minor regional companies and independent theatres, encouraged by the expectation of gain from the exhibition of 3D films, have sharply accelerated the rate of growth of the market for digital cinema exhibition in Russia. While Russian exhibition companies took almost 2 years (21 months) to open the first fifty digital screens, the second fifty took only 8 months and the third just three months.

At the same time, Nevafilm forecasts show that the rate of market growth may decelerate by the end of 2009, when all the companies and cinemas capable of purchasing expensive equipment for their flagship sites will have done so. At that stage the further development of digital exhibition in Russia will be impeded by the lack of any industry-wide consensus on a method of ensuring the transition of all Russian cinemas to digital cinema technology, a method that would presume either state support to exhibition companies or support from distributors (in the form either of a Virtual Print Fee (VPF) system or an exhibitor-friendly change in the rate of exhibition deductions).

However, exhibitors and distributors do not yet see eye-to-eye on introducing a nationwide system. According to a survey by Nevafilm Research in June 2009,[71] all exhibitors believed that a fair system for sharing the costs of the transition to digital exhibition needs to be introduced in Russia. At the same time, exhibitors that have already acquired digital projectors and experience in operating them insist that distributors must agree to changes in the split of box office receipts from digital exhibition; this would compensate not so much for the cost of purchase of the equipment, but for the spare projector lamps that have such a short life span. In addition, in the case of 3D-releases, the distribution company should also bear some of cost of depreciation of the stereo eyeglasses, since these have to be frequently replaced or written off due to theft - the majority of 3D-systems in Russia are based on reusable glasses from Dolby or XP; RealD systems have been installed only in screens of the KinoStar chain.

From the point of view of distributors, the situation in Russia with respect to VPF or other similar systems is totally different. Firstly, 41% of distributors surveyed knew nothing about VPF business models; 12% have heard something about it, and a further 47% actually understood the issues in discussion. Based on the explanations provided, half of the respondents, including the representatives of the Hollywood majors, stated their complete disagreement with the introduction of such a model in Russia. Among the reasons they indicated: high film release costs for distributors in general; the respondents' belief that upgrading motion-picture projection equipment remains a private commercial issue which exhibitors should deal with on their own; lack of trust between distributors and exhibitors with the former believing the latter might misuse some of the support received, might conceal data on film exhibition results or alter exhibition conditions, etc.). Only two representatives of distribution companies (12% of respondents) declared their unequivocal readiness to support cinemas in their transition to digital cinema. 18% of the distributors polled were ready to discuss

[71] As per data from a survey of 17 representatives of film distribution companies and 28 respresentatives of exhibitors by Nevafilm Research experts in June 2009.

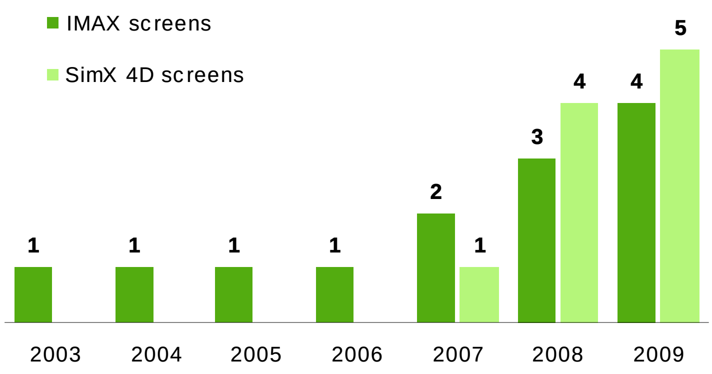
various options (with a preference for changes to the average rentals rather than for direct financial support). Finally 23% of distributors did not respond as they were completely unaware of any details of the proposed business model.

IMAX Screens, SimEx 4D

The first Russian Nescafe-IMAX screen opened back in 2003 in the Kinosfera miniplex in the outskirts of Moscow near the city ring road. For some time it remained the only one of its kind in the country, and the Cascade distribution company acquired prints of 3-D films from IMAX Corp. specifically for this purpose. The second IMAX screen opened in St. Petersburg in 2007 as part of the KinoStar City multiplex. In 2008, IMAX entered the regional market with the opening of a screen in the Grand Cinema five-screen complex (the Kazan Suvar chain). The year 2009 was marked by the commissioning of Russia's first digital IMAX screen which opened in a multiplex of the KinoStar chain in Moscow. At the same time, the IMAX Corporation has announced that several other screens equipped with IMAX digital cinema projectors[72] will appear in the country during the next few years. Nevafilm Research forecasts show that Russian cities will count at least 10 IMAX screens by the end of 2011 including Moscow, St. Petersburg, Kazan, Perm, Nizhni Novgorod, Novosibirsk and Sochi.

During 2008 the Russian exhibition sector also saw the start of active development by the SimX 4D company, which offers equipment and content for exhibiting short-length films with various physical effects (armchair rocking, wind, spray, etc.). Though the SimX 4D systems tend to be installed in entertainment complexes, exhibitors have increasingly decided to allocate one of their multiplex screens to such installations. In 2009 at least five such screens existed in modern cinemas (in St. Petersburg, Novosibirsk, Perm, Kazan and Khabarovsk).

Graphic 3.3.9 Development of IMAX and Sim X 4D screens in Russia



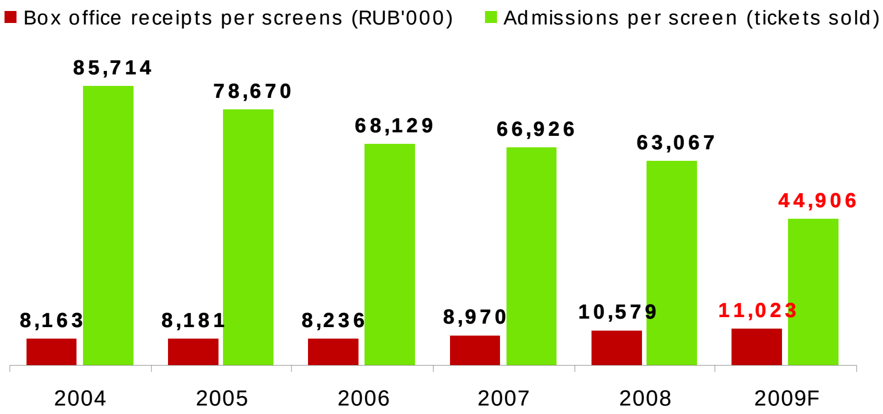
Source : Nevafilm Research

[72] 01.04.2008. 'IMAX Expands Network in Russia With Three New Locations': www.imax.com/corporate/pressReleases/

Box office receipts and admissions per screen

Up to the present day the growth in the number of modern cinemas and screens in Russia could be justified by the fact that box office figures per screen (in their rouble equivalent) had continued to grow steadily. Even in 2009[73], a year of crisis, results to date are above the level of 2008: between 1 December 2008 and 12 July 2009 the average box office receipt per screen was RUB 11 million, compared to RUB 10.6 million in 2008. At the same time the number of admissions per screen is dropping, which is an alarming signal for Russian exhibitors. Fewer and fewer new members of the public are going to the cinema, while regular viewers are simply redistributing themselves among the competing sites: in 2009 the average admissions per screen was 44.9 thousand spectators whereas the equivalent figure in 2008 was just over 63 thousand.

Graphic 3.3.10 Change in the average box office receipts and admissions per screen in Russia



Source: Film Business Today Magazine, Nevafilm Research
2009 data is a forecast based on results as of 12 July 2009

3.3.2 Principal trends and development prospects

Mergers and takeovers in the exhibition branch

Emerging trends of note in the exhibition branch are mergers and the takeovers of independent cinemas by operators of larger chains; these occur either through direct purchases or through the signing of programming agreements. The first trend would appear to be accelerating: since 2008, 60 screens in 24 sites have been transferred from one company to another. The first sale of a complete exhibition business took place in December 2007 when the Karo Film chain acquired the independent four-screen Matritsa cinema in Moscow. Karo Film went on to purchase another cinema in Nizhni Novgorod in 2008.

73 Annual average indicators of admission and box office receipts per screen in 2009 were calculated on the basis of total data over the period from December 2008 to mid-July 2009, divided by 12 months and multiplied by 7.5 months.

A milestone contract in mergers and acquisitions was the 2008 sale of the largest multiplex in Russia, the 16-screen Sezon Cinema megaplex in Moscow, to the St. Petersburg Kronverk Cinema chain. In addition, during 2009 Kronverk Cinema obtained management rights to two multi-screen cinemas in Novosibirsk that had previously belonged to the Art&Science Cinema Distribution (ASCD) chain. The reasons for this transfer were a drop in cinema admissions, high rents in the retail centres where the cinemas were located and the difficult financial situation of ASCD.[74] In 2008, the Cinema Invest Company expanded its screen network (with the involvement of the Bank of Moscow) through a merger with the largest Kazan screen network Suvar (3 sites/13 screens).[75]

In 2009, cinemas that had previously belonged to the Roskinoprokat national network (established by a Presidential Decree of 2001 on the development of screen networks in smaller cities and towns) came under the control of the Traktornye Zavody group, owned by Mikhail Bolotin and Albert Bakov, his partner. The newly formed company, Kinoexpert, shed Roskino's bad assets and as of 1 July 2009 has retained 8 cinemas (30 screens) in its network. The process of reforming the company is ongoing and the management envisages building a network of 200 to 250 screens. As a result the co-owners of Traktornye Zavody may become the largest investors among the new entrants in the exhibition branch.[76]

Exhibition in smaller Russian citites

With the expansion of the network of cinemas, the supply of modern screens for the country's population continues to grow: in 1 July 2008 the density of screens per 100,000 urban residents was 1.18, growing to 1.88 by 1 July 2009. However access to modern exhibition facilities for residents of smaller cities remains relatively poor. Screen density in cities with a population under 100,000 (and particularly in those with a population below 50,000) is still below 1.00.

Table 3.3.5 Availability of modern screens (as of 01.07.2009)

City population group	Number of cities	Total population of group (people)	Share of urban popula-tion in city group	Share of cities with modern screens in city group	Sites	Screens	Share of modern screens in total number of screens in Russia	Number of screens per 100,000 persons
over 1 million	11	25,554,700	25%	100%	224	944	48%	3.69
500,000 to 1 million	24	15,360,600	15%	100%	126	374	19%	2.43
250-500,000	37	12,650,500	12%	100%	117	209	11%	1.65
100-250,000	94	14,445,000	14%	82%	121	215	11%	1.49
50-100,000	154	10,671,100	10%	49%	90	125	6%	1.17
20-50,000	355	11,598,700	11%	14%	53	56	3%	0.48
under 20,000	417	13,519,400	13%	6%	25	26	1%	0.19
Total in Russia	**1 092**	**103,800,000**	**100%**		**756**	**1 949**	**100%**	**1.88**

Source: Nevafilm Research

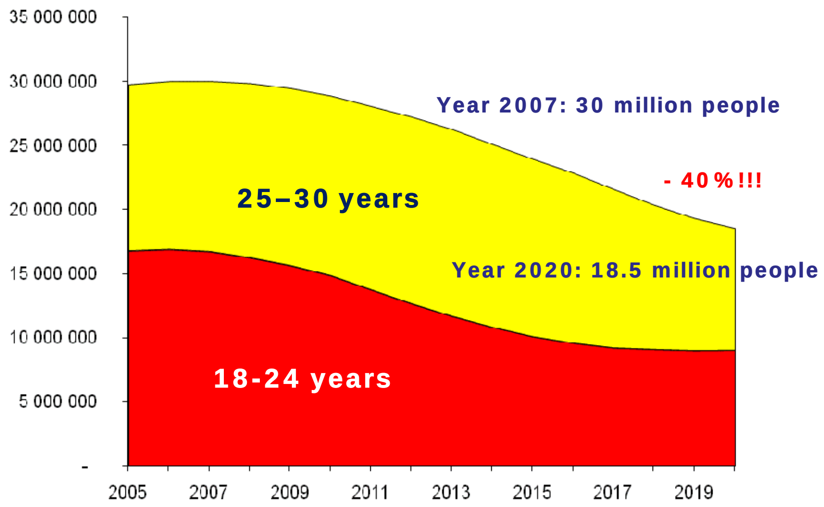
74 Stanislav Sokolov, 'Kronverk Cinema Goes to Conquer Siberia'. *Kommersant*, 17.02.2009.
75 Olga Goncharova. 'Bank of Moscow Will Position Screen Network'. *Kommersant*, 29.06.2009.
76 Olga Goncharova, Dmitry Belikov. 'Mikhail Bolotin Appeared on the Screens'. *Kommersant*, 18.02.2009.

Meanwhile exhibitors acknowledge that further expansion to areas with lower population densities will not be profitable on the basis of private investment, principally because there is no tradition of cinema-going among these populations. As a result the time period required to recover investment will be quite long, increasing substantially the risk. Nonetheless a number of projects to develop exhibition in the smaller cities of Russia are underway. These are mostly based on the principles of public-private partnerships for the development of film exhibition and presuppose the construction of cultural and entertainment centres in the regions. Note that as yet none of these projects has received any official state funds with which to launch development.

Demographic characteristics of Russian film-goers

Starting from the late 1980s, Russia has experienced a demographic slump: by 2020 a stable downward trend in the birth rate, provoked by socioeconomic upheavals, will result in a shrinkage of almost 40% in the age bracket that currently provides the most active film audience (18–30 years old).

Graphic 3.3.11 Demographic shortfall calculated by number of newborns, not taking into account infant mortality and migration



Source: Federal State Statistics Service, Nevafilm Research

Furthermore, the modern world and its inhabitants are changing swiftly. Yesterday's students are now mature and far more demanding in terms of quality of service and comfort offered during their leisure activities. Younger people are 'spoilt for choice' with the wide range of leisure activities offered by the modern, hi-tech world in which they live (TV, Internet, DVD, Blu-Ray, etc.), so are easily dissatisfied with the limited repertoire and services offered by contemporary cinemas. Exhibitors are finding that competition from other media is becoming increasingly acute.

To combat the encroaching threat of a reduction in the number of active film-goers and falling public interest in film generally, Russian cinemas are trying to expand the range of services on offer and improve the quality of services and screenings: digital projectors, VIP-screens and exclusive screenings (cinema billed as 'not for the masses') are becoming more and more popular.

Towards intensive methods of business development and competition

By the end of 2008, a trend had emerged in film exhibition of a switch from extensive business development methods (aimed primarily at entering new territories and opening new screens) to intensive ones (aimed at developing the business of existing screens). Exhibitors are applying new techniques designed to rationalise business and improve management efficiency (particularly topical during a crisis); to devise new and improve existing loyalty programmes; to expand the screening repertoire using alternative content (based not only on routine screenings, but on one-off events); to segment the audience into niche interest-groups and to introduce separate segment-specific approaches and techniques. Such changes may imply reconstruction and renovation of modern cinema complexes already in operation, including those opened just a few years ago and which are fully functional. The idea is to change the basic concepts of both cinemas in general and individual screens (VIP-zones and screen equipment) in particular.

Issues in contemporary exhibition in Russia

To conclude the description of principal trends in the development of the Russian exhibition branch, we would like to highlight a number of issues facing local exhibitors:[77]

· The economic problems of exhibition in Russia. These stem from: low income levels in the population as a whole (almost half the experts surveyed mentioned this factor); high levels of competition in cities where cinema chains are present (38% of respondents); low cinema admissions in the regions (25%); pricing policies that range from the need to keep ticket prices low in regional cinemas to demands by distributors to raise prices (25%); poor revenues from ancillary sources (13%);

· Small marketing budgets for regional film advertising campaigns. This remains the main problem in cinema deals with distribution companies (48% of respondents highlighted this point), plus a recent reduction in the number of prints in distribution (this problem is acute for 40% of the exhibitors polled). In addition, almost one third of exhibitors feel a certain pressure on repertoire from distributors. Toughening financial conditions for distribution worry 15% of respondents, while the effects of a memorandum issued in Moscow and dictating minimum ticket prices is a concern for another 11%;

· General deterioration of conditions provoked by the global economic crisis and its aggravation in Russia during 2009. Exhibitors have noted a worsening of conditions in a certain number of areas: a drop in admissions to medium-budget films (48% of respondents), a reduction in revenues from cinema bars and cafes (32%), a general drop in admissions (28%), and a reduction in film advertising in the regions, a reduction in placement of cinema advertising, and a shift of viewers towards cheaper matinee screenings (16% of responses in both cases).

[77] As per data compiled from a survey by Nevafilm Research of representatives of 17 film distribution companies and 28 exhibitors in June 2009.

3.3.3 Principal players

With more than 400 players, including 73 circuits and over 370 independent cinemas, the Russian exhibition sector is quite fragmented. In addition, the sector includes about 30 ‘shadow’ network companies that control at least ten screens each, 14 of them operating on a federal level (those that manage sites in several federal districts), 7 on a regional level (those that function in the territories of several regions within a single federal district each) and 8 local networks (each functioning within a single region of Russia).

Table 3.3.6 Fragmentation of exhibition in Russia (as of 01.07.2009)

Exhibitor level	Number of exhibitors	Sites	Screens	Market share by number of screens
Federal exhibitors	16	143	769	**39%**
Regional exhibitors	11	111	294	**15%**
Local exhibitors	46	128	273	**14%**
Independent exhibitors	374	374	613	**31%**
Total in Russia	**447**	**756**	**1 949**	**100%**

Source: Nevafilm Research

As for the rating of the top Russian cinema networks, ten companies have a comfortable lead, including the largest federal cinema networks: Karo Film (holds the lead since 2005), Cinema Park, Kinomax, Kronverk Cinema, KinoStar, InvestKinoProject and Paradise, as well as three regional networks: Formula Kino, Premier-Zal and Luxor. The top ten chains own just over 40% of the total number of modern screens in Russia.

Table 3.3.7 Key exhibitors in Russia (as of 01.07.2009)
(including franchise contracted cinemas and sites with film booking/repertoire planning)

#	Group	Operator	Cinema network	Headquarters	Sites	Screens	Market share by number of screens	Digital sites	Digital screens
1	Holding KARO	MC Karo Film LTD	Karo Film	Moscow	34	165	8.50%	7	8
2	Holding Prof-Media	Cinema Park JSC	Cinema Park	Moscow	14	117	6.00%	14	29
3	-	Kinomax LTD, Plazma Media JSC (franchise)	Kinomax	Moscow	24	100	5.10%	6	6
4	Eurasia Cinemas	Epos PLC	Kronverk Cinema	St. Petersburg	15	97	5.00%	2	2
5	American Multi-Cinema, Inc. (AMC)	Rising Star Media LTD	KinoStar	Moscow	6	74	3.80%	6	12
6	-	MC Formula Kino LTD	Formula Kino	Moscow	15	71	3.70%	3	6
7	-	Premier zal LTD	Premier-Zal	Yekaterinburg	42	54	2.80%	-	-

#	Group	Operator	Cinema network	Headquarters	Sites	Screens	Market share by number of screens	Digital sites	Digital screens
8	Holding Paradise	Paradise Production Cinema Company LTD	5 Zvezd	Moscow	8	42	2.20%	-	-
9	GC Luxor	Cinemamanagement JSC	Luxor	Moscow	10	41	2.10%	7	8
10	Cafe Project	InvestKinoProject LTD	Kinoplex	Moscow	5	34	1.70%	-	-
11	GC Tashir	Kinopokaz strani LTD	Cinema Star	Moscow	6	31	1.60%	1	1
12	-	Art&Science Cinema Distribution LTD	Art&Science Cinema Distribution	Novosibirsk	11	30	1.50%	1	1
13	Holding Traktornye Zavodi	Kinoexpert LTD	Kinoexpert (ex Roskino)	Moscow	8	28	1.40%	-	-
14	-	Monitor LTD	Monitor	Krasnodar	10	27	1.40%	2	2
15	-	Professional operation center LTD	TsentrFilm	Moscow	8	23	1.20%	-	-
16	GC Sozvezdie Razvlecheny	Planet of Entertainment JSC	Kinomechta	Moscow	3	21	1,10%	3	3
17	DVI Group	DVI Cinema LTD	Svetofor-Cinema, Rolix	Moscow	5	19	1.00%	-	-
18	-	Mirage Cinema LTD	Mirage Cinema	St. Petersburg	4	19	1.00%	1	1
19	-	Profit Cinema LTD	Cinema Invest	St. Petersburg	4	18	0.90%	1	1
20	GC West	West JSC	West	Moscow	4	16	0.80%		
21	-	Cinema LTD	Illuzion	Vladivostok	6	12	0.60%	4	5
22	MC Vesta	Planeta Kino LTD	Planeta Kino	Novokuznetsk	3	11	0.60%	-	-
23	-	Metelitsa-Baikal LTD	Metelitsa-Baikal	Irkutsk	6	10	0.50%	1	1
24	-	Barguzin LTD	Barguzin	Irkutsk	5	6	0.30%	1	1
25	-	Mir Kino Company LTD	Mir Kino	Blagoveshchensk	4	6	0.30%	2	2
				Total in Russia	**756**	**1,949**	**100.00%**	**126**	**161**

Source: Nevafilm Research

3.4 THEATRICAL DISTRIBUTION

3.4.1 Industry Structure

Film distribution in Russia today

Film distribution in Russia today is an industry independent from the state, consisting of a system of interacting private distribution companies and cinemas (independent or chains). An important role is also played by regular film markets that are traditionally held every quarter in Moscow (March and December), Sochi (June, as part of the Kinotavr film festival) and St. Petersburg (September, as part of the international Kino Expo convention).

The basic model for co-operation between cinemas and distributors is that of a 50/50 split of box office receipts. To date most distributors believe that, owing to its simplicity and universal nature, this model is the best possible current option for the Russian market and cannot be altered despite its individual weak points (for example, it remains unfair towards the distributor who bears the principal cost of attracting the viewer to the cinema with the help of advertising, while cinemas gain extra revenue from selling popcorn, running games machines and so on, which is not shared with the distributor).[78]

However, other types of agreements between the distributors and exhibitors exist: these include minimum guaranteed distribution payments and fixed price sales of exhibition rights (sometimes offered together with the film print). The system of minimum guarantees assumes an agreed advance that the cinema pays prior to commencing exhibition and a further 50/50 split of box office receipts once they reach a preset value. Such a type of contract is mostly applicable to new cinemas with which distributors have not yet established a working relationship. Here the distributor wants to ensure a guaranteed return on expenses they have incurred in prints and logistics. With the onset of the crisis, distribution companies have started using this arrangement more and more often, especially with those screens that have failed to collect the expected box office takings from previous titles from the distributor but which still claim their right to first run.

The option of a fixed price sale is used in similar cases and also when distributors operate via intermediaries, such as regional film and video rental organizations (FVROs), instead of interacting directly with cinemas. FVROs frequently have their own film funds left over from the times of the USSR and receive budget financing to replenish it. In these cases FVROs purchase film prints from distributors together with the right to exhibit them on the networks of municipal screens in the region. In addition, the system of fixed payments is used for video distribution of films (so-called 'public video') to electronic cinema networks.

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[78] As per data collected by Nevafilm Research in June 2009, by polling representatives of 17 film distribution companies and 28 screen networks, 60% of respondents rated the 50/50 system to be optimal; 12% claimed that distributors should get more (up to 60–65% of box office receipts) since they bear heavy advertising costs; 6% have agreed to share the burden of deductions to the Russian Authors Association with cinemas (currently it is 3% of box office receipts); the rest omitted that question.

Note that exhibitors must now also pay royalties to composers of soundtracks of national films. These are collected by the Russian Authors' Association (RAO), which has insisted that these be equal to 3% of gross box office takings.[79] Since this regulation came into force, cinemas have been trying to resolve this issue with legislators, distribution companies and film producers, and to divest composers of the right to extra remuneration or at least lower the rate to 1.5%, while sharing that burden with distributors. Though exhibitors are convinced that this additional remuneration is unfair with respect to other film authors, their efforts have so far come to nothing.

The traditional day of repertoire changeover in Russia is Thursday, although some major films may be released on Wednesdays. The advance to Wednesday has become more and more frequent, as exhibitors try to increase the length of the opening weekend, and is a cause for dissatisfaction among distributors who face difficulties in scheduling, as they are bound by their contractual commitments to exhibitors of other films still enjoying their first screening week.

Exhibition conditions for weeks 1 and 2 of release (the number of screenings and their time slots, the minimum ticket price, the validity of discounts and free passes, etc.) play a critical role. For major releases the distributor as a rule requires a 'full screen', i.e. the film is to run morning to night on one and the same screen (in case of multi-screen sites the distributor may require several screens). Rigid rental conditions often result in conflicts between distributors trying to slot into the best dates, such as the New Year holidays when blockbusters are released simultaneously or one after another. Since late 2006 when the New Year festivities were used to release *Volkodav* (*Wolfhound of the Grey Dog Clan* – distributed by Central Partnership) and *Zhara* (*The Heat*), in conjunction with *Night at the Museum* (distributed by 20th Century Fox-C.I.S.), the situation has become even more tense. A similar situation arose at the end of 2007 with a standoff between two Russian blockbusters, broken only by the triumphant release of *Ironiya Sudby. Prodolzhenie (The Irony of Fate 2*, distributed by 20th Century Fox-CIS), a sequel to the very popular TV film. New Year 2009 saw a battle between two distributors, Central Partnership and Karo Premier/Karoprokat, with the first releasing *Stilyagi (The Hipsters)* while the second released two further national films: *Neobitaemiy Ostrov (The Inhabited Island)* and *Lyubov-Morkov-2 (Lovey-Dovey-2).* Distributors in this case went far beyond simply dictating the number of runs and weeks for screening their films; they insisted that 1 or 2 screen sites completely suspend co-operation with their competitors. Moreover, long after the run had ended, they continued to levy unofficial sanctions on those exhibitors that had refused to run their films through the New Year holiday. Many players on the distribution market, predominantly independent distributors and smaller cinemas under serious pressure, highlight this issue of conflict among major distributors over prime release dates.[80]

In general terms, the exhibition outlook is rather paradoxical, as an acute deficit of modern screens is combined with a deficit of films available for exhibition. As a result, the offer of films is shrinking while those same films are getting a shorter screen life. In other words, the distribution market is gradually becoming

[79] Decree No. 218 by the Government of the Russian Federation dated 21 March 1994 On the Minimum Royalty Rates for Certain Types of Use of Literature and Art.

[80] As per data from a survey of representatives of 17 film distribution companies and 28 exhibitors conducted by Nevafilm Research in June 2009.

monopolised by major companies that can dictate their terms to minor players, be they independent distributors or exhibitors. Releases by major studios and widely-advertised Russian blockbusters enjoy increased demand at cinemas that are ready to offer various concessions to distribution companies (in the number of screenings, rental terms, number of prints per cinema, ticket price, payment terms etc.). Meanwhile, films from independent distributors can be very difficult to distribute to screens, and such distribution companies are often forced to cede to cinema networks in the number of runs, rental terms and sometimes even in their share of box office receipts. While large exhibition chains and distributors discuss the conditions of film distribution on equal terms, there remains less and less parity in negotiations as the gap in size and influence of the players grows. Such a situation erodes the rights of minor companies in both distribution and exhibition, interferes with their opportunities to generate revenue and prevents the development and expansion of networks of independent players. Audiences suffer as a result, as the available selection of films and screens where they might see them is limited across the entire country.

Measuring the theatrical distribution market in Russia – a methodological note

Traditionally the film distribution year in Russia starts on 1 December and ends on November 30 of the following year. This system was put in place from 1997 onward and since then records of box office receipts in the country have been maintained by the independent industry publication *Film Business Today Magazine* (http://www.kinobusiness.com/) by collecting data from distributors. A database on film box office from 2004 is also available on the site of the Alliance of Associations of Independent Film Distribution Companies (http://www.np-anko.ru/) which brings together the major Russian distributors. Since 2006 box office data is also collected by another industry magazine, *The Russian Film Business & Booker's Bulletin* (http://kinometro.ru/). Finally, box office statistics are also obtained by the web magazine *ProfiCinema* (http://www.proficinema.ru/). However all available sources of information on the box office in Russia include high error margins for a number of reasons:

- Data are collected exclusively on the basis of declarations by distributors, which leaves them open to distortion by distribution companies themselves; they may aim to boost their results over the competition (distributors themselves have admitted this motivating factor, although they claim to abstain from such manipulations over the last few years);
- In turn, distributors often receive box office statistics and cinema admission from the cinemas without any confirmation of the data from automatic electronic control systems, since the majority of screens which are not part of a chain do not have these systems installed; many distributors suspect that cinemas manipulate this data and highlight this problem as one of the principal ones on the market[81];
- Data are compiled and published by film title, instead of by date, and this prevents accurate registering of exhibition results for a particular film for a given date;

[81] As per data from a survey of 17 film distribution companies in June 2009: 47% of respondents noted the unreliability of statistics as one of the major problems in working with the cinemas; this is ranked in second place among the difficulties faced by distributors, next to arrears in distribution payments by the cinemas.

· Distributors never report their box office takings by cities and regions of Russia, nor do they split them into the separate countries of the CIS covered by their distribution rights, with the exception of Ukraine.

Many market players hope that the problem of reliability of statistics will be solved with the introduction of the Unified Automated Accounting Data System for film screening, which is due to appear in 2010 (as laid down in draft Federal Law No. 259698-5 On Amending Federal Law On State Support for the Film Industry in the Russian Federation in the recital concerning the upgrading the system of film production and screening. This draft Law was reviewed by the Council of the Russian Federation State Duma and Federation Council on 6 October 2009 (Protocol No 141, Article 92)).

The US tracking company Rentrak Corporation entered the Russian market in 2009, to set up a statistics centre for centralised data acquisition on box office receipts from each film distributed by the majors representatives in Russia. According to a press release on the company's website[82], agreements have been signed with Karo Premier (representing Warner Bros. Pictures International), Universal Pictures International, BVSPR (representing Walt Disney Motion Pictures International and Sony Pictures Releases International) and Central Partnership (representing Paramount Pictures International).

Despite the difficulty of obtaining reliable box office and admissions data for Russia and the problems in analysing the data that is available, an estimation of the volume of the Russian theatrical market can be made based on the following assumptions:

· Prior to 2004 the *Film Business Today Magazine* reported consolidated data for the countries of the CIS, including Ukraine; experts from Nevafilm Research assess the Russian Federation box office share from that period at 85% of the CIS total, and admissions for 2004 (this indicator was not previously calculated) at 90% of the CIS total;

· Since 2005 statistics for Ukraine are shown as a distinct series, and Nevafilm estimates that the Russian Federation share of revenues and admissions over the period 2005 to 2007 is 97% of box office takings for the CIS, minus Ukraine, and at 98% of the number of tickets sold;

· In order to analyse results for 2008, experts from Nevafilm Research surveyed the leading distributors in Russia (representing a market share of around 73% of box office receipts). UPI, 20th Century Fox–CIS, Karo Premier and Karoprokat, BVSPR co-operated, disclosing their CIS and Russian Federation data for the purposes of estimating the weighted average share of films released for Russian exhibition by those companies (minus CIS countries, to the exclusion of Ukraine); the share attributable to Russian Federation results came to 95.6% of admissions and 95.6% of box office receipts and these benchmarks were used to calculate Russian Federation exhibition data for 2008 and 2009;

· Title-by-title results, as well as analysis of films grouped by countries of origin and studios, are available for 2004 only on the basis of the cumulative CIS data (all CIS countries including the

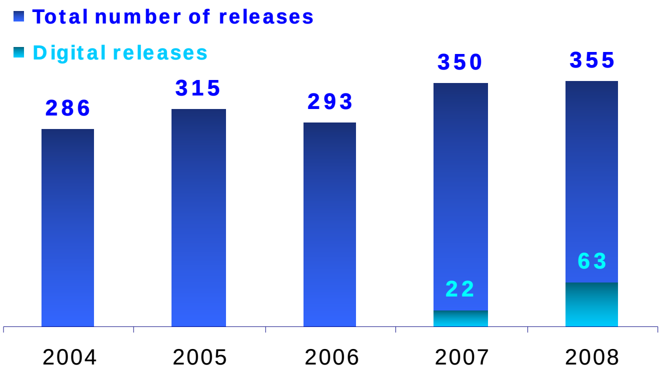
82 http://rentrak.com/section/corporate/newsroom/press_release_detail.html?release_no=837

Russian Federation and Ukraine). For the period 2005 to 2009 this kind of data is available as cumulative figures for the Russian Federation plus other CIS countries, excluding Ukraine.

Theatrical distribution market volume in Russia

Annually, about 300 films are released to Russian screens, with the number of releases rising slowly over the last few years. In absolute terms this is, however, a fairly low level: according to Nevafilm forecasts, no more than 350 films will be released in cinemas during 2009, the same as in the two previous years.

Graphic 3.4.1 Film releases in Russian cinemas



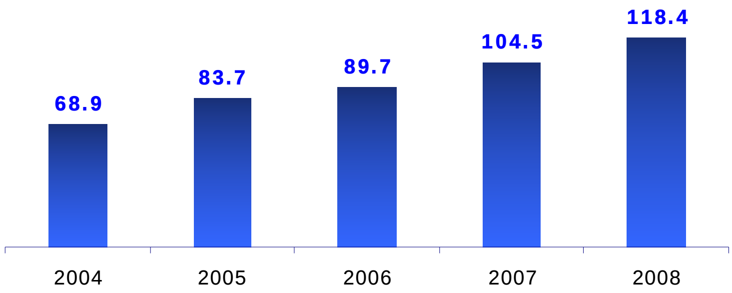
Source: Film Business Today Magazine (total releases), Nevafilm Research (digital releases)

The reason for this limited offer is the fact that every major project arrives on an overwhelming majority of the country's cinemas on a 'first screen' basis, entailing severe limitations on the number of runs and films that a one or two-screen cinema may put on its programme (given that as of 1 July 2009 48% of cinemas in Russia were single-screen venues, while 21% more were two-screen sites).

Since 2006 films have been released in digital format, with their number growing in proportion to the number of digital screens. At the same time, the majority of digital screens in Russia are fitted with equipment for digital 3D screenings and exhibitors have a marked preference for screening 3-D films first, thus limiting the number of other kinds films (art house, national, children's cartoons, etc.) in digital 2D format that can reach screens. However, according to Nevafilm Research, at least 100 digital releases are expected in 2009.

Features and animation films predominate on screens, and documentaries and shorts are rarely shown: film-goers are not in the habit of viewing such content in cinemas, except in the context of children's *cinema installations* in summer youth camps or regional film and video rental organizations where old films, USSR vintage children's cartoons or DVDs are run. By contrast, the practice of organizing special 'film events' has brought growing awareness and popularity to a wider diversity of genres over the last few years. *Night of the Ad Eaters*, *Night of Animation*, special shorts and animation programmes and festivals promote wider 'non-traditional' exhibition. With Russia entering the era of digital films, viewers also have the opportunity to view sports events (such as soccer matches), concerts, documentaries and popular science films on film screens in 3D format.

Graphic 3.4.2 Admissions in Russia (in millions)

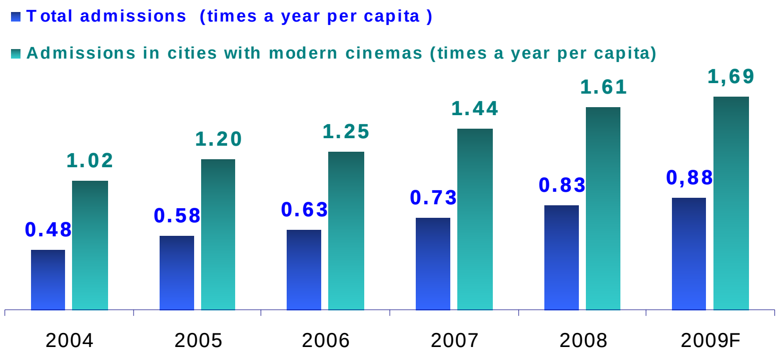


Source: Film Business Today Magazine (CIS data, 2005-2008 excluding Ukraine), Nevafilm Research (Russia estimation: 2008 - 95.6%, 2005-2007 - 98%, 2004 - 90% of CIS data)

Cinema admissions in Russia are growing constantly, showing growth of 15% per annum during 2007 and 2008, for two principle reasons:

- expansion of the screen base: between 2005 and 2008 new modern screens were opened in about 20 cities annually;
- revival of the cinema-going habit, lost during the 1990s. Admissions per capita have practically doubled since 2004 – from 0.5 to 0.9 per capita per annum. On the basis of the number of residents of cities that feature modern screens one arrives at an expected 1.7 visits a year for 2009[83]).

Graphic 3.4.3 Admissions per capita

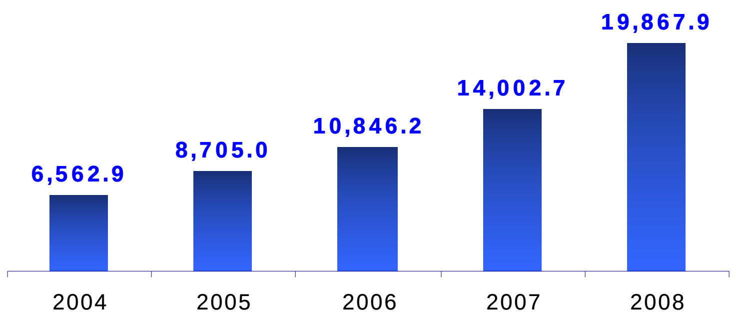


Source: Federal State Statistics Service, Film Business Today Magazine, Nevafilm Research (calculated as quotient = admissions/population)

[83] In 2009 the calculation of the annual average indicator of film consumption (in annual per capita admissions) was performed using total data from December 2008 to mid-July 2009, divided by 12 months and multiplied by 7.5 months.

Box office receipts from Russian distribution are growing at an even more spectacular rate: at least 30% a year. Although for the first time in the history of the modern Russia, 2009 box office takings may demonstrate negative growth in hard currency value owing to devaluation of the rouble during late 2008 - early 2009, the rouble volume of the distribution market will probably maintain its growth trend. To mid-July 2009, distributors revenues from cinemas were RUB 13.4 billion (USD 405.2 million).

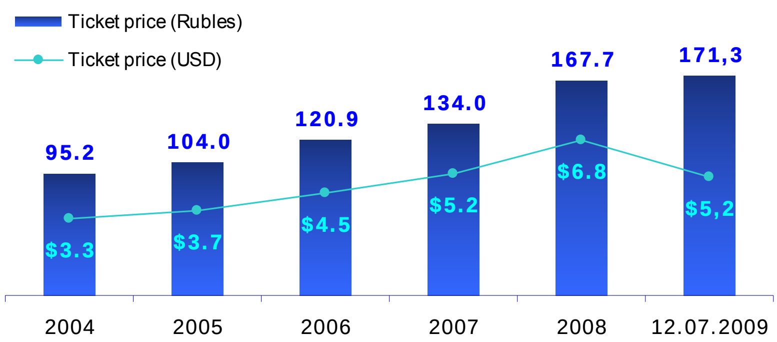
Graphic 3.4.4 Gross Box Office (RUB million)



Source: Film Business Today Magazine (CIS data, 2005-2008 excluding Ukraine), Nevafilm Research (Russia estimation: 2008- 96,5%, 2005-2007 - 97%, 2004 - 85% of CIS data)

The principal contributor to growth in gross box office takings in Russia has remained the increase in the average ticket price, both in its rouble and dollar equivalent (although the dollar ticket price equivalents reflect variations in the rouble/dollar exchange rate, particularly since the rouble's devaluation in 2009).

Graphic 3.4.5 Average Ticket Price



Source: Film Business Today Magazine, Nevafilm Research (calculated as quotient = box office/population)

Highpoints in theatrical distribution in Russia from 2004 to first half 2009

The year 2004 is considered to be a milestone in Russian film distribution. The release of *Nochnoy Dozor [The Night Watch]* on 27 June 2004 highlighted two new and important market trends:

- for the first time since the fall of the USSR a Russian film topped box office ratings across the CIS. From this point onwards national films claimed an almost constant (with the exception of 2007) leading position in Russian distribution;

- the increase in the popularity of Russian features and higher cinema admissions generally were encouraged by the support given by centrally broadcast TV channels to local feature production; in addition to continuous running of film ad reels, it provided long-term accompaniment of film exhibition through news features on results in cinemas, topical programmes on films in production, interviews with actors and producers, talk-shows with their participation and so on. Meanwhile, film distributors believe that these techniques, whose use has since become normal for big Russian features supported by TV channels, have seriously undermined the film advertising market. The small volume of TV advertising that distributors whose films do not benefit from TV support can afford has become practically invisible to audiences, resulting in a loss of effectiveness of television advertising. Only at the end of 2008 and in early 2009 did independent distributors, taking advantage of the fall in price of TV advertising, again manage to attract the attention of TV viewers.

Table 3.4.1 Top 10 films by box office in CIS distribution (2005–2008 CIS excluding Ukraine)

Rank	Title	Distributor	Country of origin	Number of prints	Gross Box Office (RUB x million)	Box Office per screen (RUB)
2004						
1	Nochnoy Dozor [Night Watch, The]	Gemini	Russia	312	461.7	1,479,700
2	Lord of the Rings: the Return of the King, The	Karo Premier	USA, New Zealand, Germany	264	405.8	1,537,100
3	Troy	Karo Premier	USA, Malta, UK	267	354.5	1,327,700
4	Day After Tomorrow, The	Gemini	USA	257	286.9	1,116,500
5	Spider-man 2	Cascade Film	USA	321	268.7	836,900
6	Van Helsing	Central Partnership	USA, Czech Republic	300	235.5	785,100
7	Harry Potter and the Prisoner of Azkaban	Karo Premier	UK, USA	269	224.7	835,400
8	I, Robot	Gemini	USA, Germany	303	173.1	571,400
9	King Arthur	Cascade Film	USA, UK, Ireland	210	167.7	798,400
10	Shrek 2	UIP	USA	294	165.7	563,500
2005						
1	9 Rota [9th Company, The]	Gemini	Russia	361	668.4	1,851,500
2	Turkish Gambit, The	Gemini	Russia, Bulgaria	319	524.3	1,643,600
3	War of the Worlds	UIP	USA	345	288.2	835,400
4	Mr and Mrs Smith	Central Partnership	USA	300	246.9	822,900
5	Star Wars: Episode III - Revenge of the Sith	Gemini	USA	314	236.7	753,700
6	Alexander	Paradise	Germany, USA, Netherlands, France, UK	345	225.3	653,200
7	Madagascar	UIP	USA	288	214.9	746,100
8	Sluga Gosudarev [State Counsellor, The]	Karo Premier	Russia	316	210.8	667,000
9	Boi s tenyu [Shadow Boxing]	Central Partnership	Russia	274	203.8	743,900
10	Men's Season. The Velvet Revolution	Karoprokat	Russia	201	194.2	966,200
2006						
1	Dnevnoy Dozor [Day Watch, The]	Gemini	Russia	518	867.5	1,674,800
2	Pirates of Caribbean 2, The	Cascade Film	USA	552	746.8	1,352,800
3	Ice age 2: The Meltdown	Gemini	USA	397	466.2	1,174,300
4	Boomer. Second Film	Nashe Kino, Karoprokat	Russia	415	352.8	850,200
5	Da Vinci Code, The	Cascade Film	USA	403	307.8	763,700
6	King Kong	UIP	New Zealand, USA, Germany	400	269.3	673,100

Rank	Title	Distributor	Country of origin	Number of prints	Gross Box Office (RUB x million)	Box Office per screen (RUB)
7	Stilyagi [Hipsters]	Paradise	Russia	355	262.2	738,500
8	Perfume: the Story of a Murderer	West	Germany, France, Spain, USA	310	251.5	811,100
9	Casino Royale	Cascade Film	USA, UK, Germany, Czech Republic	540	245.9	455,300
10	Chronicles of Narnia, The	Cascade Film	USA, UK	304	219.8	723,000
2007						
1	Pirates of the Caribbean: At World's End	BVSPR	USA	703	788.2	1,121,300
2	Shrek the Third	UPI	USA	596	597.6	1,002,600
3	Volkodav [Wolfhound from the Grey Dog Clan]	Central Partnership	Russia	601	511.4	850,900
4	Harry Potter and the Order of the Phoenix	Karo Premier	UK, USA	534	417.1	781,200
5	Zhara [Heat, The]	Gemini	Russia	600	401.4	669,000
6	Transformers	UPI	USA	700	389.7	556,800
7	Spider-Man 3	BVSPR	USA	560	356.3	636,300
8	Night at the Museum	20th Century Fox CIS	USA, UK	455	331.9	729,400
9	Taxi-4	Central Partnership	France	466	308.0	660,900
10	Boi s tenyu-2 [Shadow Boxing 2]	Central Partnership	Russia	583	300.8	515,900
2008						
1	Ironiya Sudby. Prodolzhenie [Irony of Fate 2, The]	20th Century Fox CIS	Russia	914	1,238.3	1,354,800
2	Madagascar: Escape 2 Africa	UPI	USA	850	1,012.2	1,190,900
3	Admiral, The	20th Century Fox CIS	Russia	1107	835.9	755,100
4	Mummy: Tomb of the Dragon Emperor, The	UPI	USA, Germany	854	689.3	807,200
5	Best Film, The	Karoprokat	Russia	702	684.3	974,800
6	Wanted	UPI	USA, Germany	859	652.4	759,500
7	Hancock	BVSPR	USA	645	644.5	999,300
8	Kung Fu Panda	UPI	USA	821	517.9	630,800
9	Quantum of Solace	BVSPR	UK, USA	750	449.2	598,900
10	Indiana Jones and the Kingdom of the Crystal Skull	UPI	USA	811	422.8	521,300

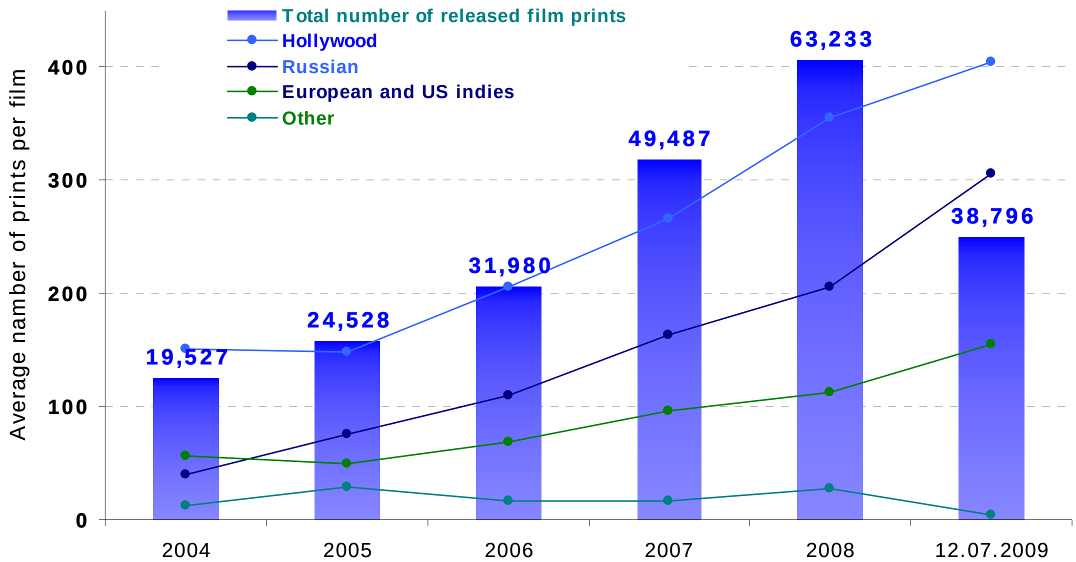
Source: Film Business Today Magazine

Assessing the effectiveness of the film distribution system in Russia

One of the main trends in contemporary Russian distribution is towards release of films in growing number of prints. The drive towards large-scale releases among the distribution companies may be interpreted as an attempt on their part to gain maximum box office receipts during the first weekend, before pirates copy the film and put it on the Internet; or to give greater weight to theatrical exhibition, so that sales of rights to the film to video distributors or a TV channel be made at a higher price. At the same time, wide circulation is not always justified by the quality of the title and the distributor may suffer losses as a result. Nevertheless, the practice of large-scale releases continued to be widely used until mid-2009, when the growing costs of prints (stemmed by devaluation of the national currency) forced distributors to consider reducing circulation and returning to a system of consecutive runs of available prints in cinemas with a varying level of 'premiering'.

The number of prints in distribution in Russia started rising from 2004 onwards. The cause was increasingly wide circulation, primarily of Russian films (in 2004 the average number of prints per film was 40, while by the middle of 2009 it had climbed to 306), but also of Hollywood titles (151 prints in 2004 against 405 in 2009), while the number of prints of European and independent US films displayed slower growth (56 in 2004 vs. 155 in 2009). In contrast, the average number of prints for films from other countries has actually dropped (13 in 2004 vs. 4 in 2009).

Graphic 3.4.6 Film prints and average number of prints per film

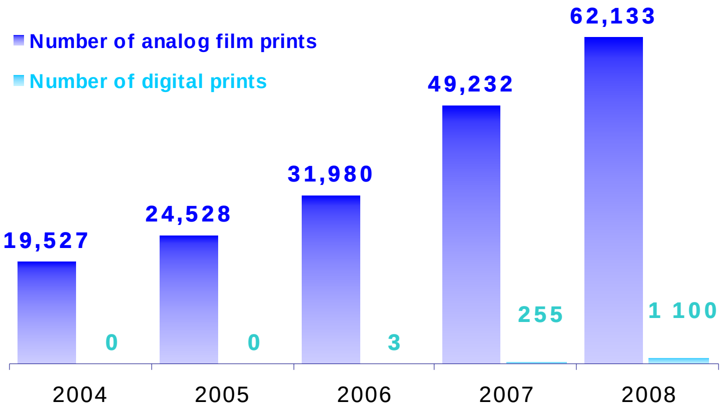


Source : Film Business Today Magazine

Digital format releases started in Russia in 2006 and this allows distributors to save considerably on prints given that there is as yet no system for sharing the costs of digital projection equipment between the exhibitors and distributors. Printing and delivering a single 35mm film print in

Russia costs about USD 1,200, including advertising reels on the film, while producing a single digital cinema package (DCP) including hard disk turnover and delivery costs only about USD 120.

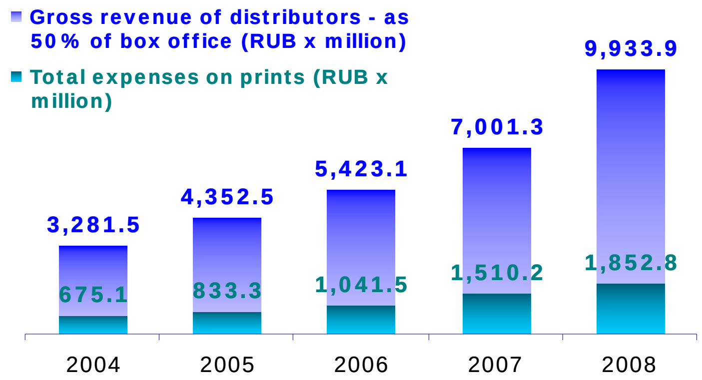
Graphic 3.4.7 Release of film prints in Russian distribution



Source : Film Business Today Magazine , Nevafilm Research

As a rule, distributor revenues amount to 50% of the cinema box office receipts, so these may be calculated and compared against the costs of printing copies and producing DCPs. Data compiled on the overall cost of prints shows that the share of print costs in total distributor revenues have remained stable at a level of 20% or at 10% of box office receipts over a number of years. Despite the growing market for digital distribution, its turnover currently remains insignificant and has no impact on this ratio.

Graphic 3.4.8 Revenue of Russian distributors vs expenses on film and digital print production

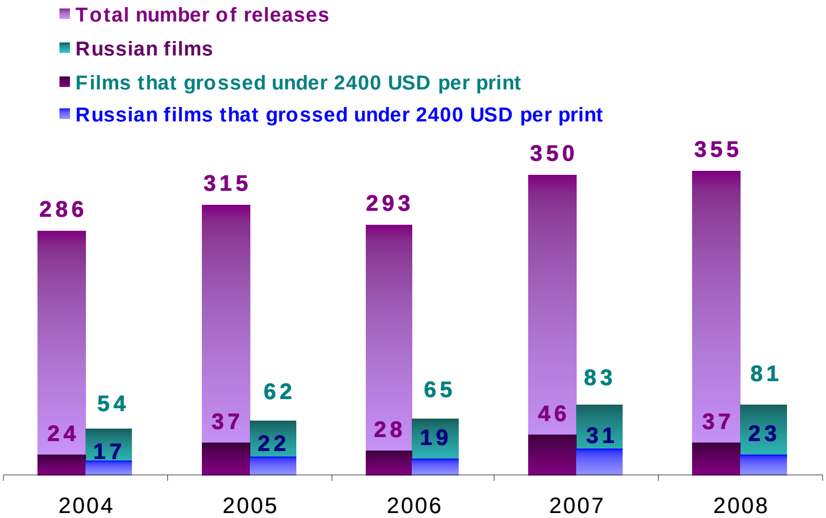


Source : Film Business Today Magazine, Nevafilm Research

Expenses on advertising costs vary widely depending on the film, and distributors remain very reluctant to disclose such data. It could be presumed that the advertising budget of a distribution company remains at an average of around 10% of expected box office receipts.[84] Further objective analysis is, however, hampered by a number of factors: firstly, no reliable data on film-by-film advertising expenses are available; second, forecasts of box office receipts offered by distributors may differ strongly from the actual results, preventing accurate assessment of the budgets of advertising campaigns on the basis of known box office receipts; third, it is difficult to factor in advertising from cross-promotion and promotion by the leading TV channels.

However, the effectiveness of exhibiting feature films in Russia may be analysed by comparing box office receipts per single copy to its printing and delivery costs. The results of this analysis demonstrate that more than 10% of releases fail to even return the costs of organizing their exhibition, meaning they collect under USD 2,400 per screen (bearing in mind that the distributor collects only half of the gross box office receipts returned and that USD 1,200 is needed to print and deliver a single 35 mm print).[85] For nationally produced films, the share of films failing to recover their prints costs rises to 30% and, for the first 6 months of film distribution during 2009,[86] the equivalent figure is 47%!

Graphic 3.4.9 Efficiency of Russian film distribution: recoupment of film printing and transportation



Source : Film Business Today Magazine , Nevafilm Research

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84 Yulia Kulikova. 'The Advertising Movie Gag'. *Business Guide*, №97 (3673) of 06.06.2007.

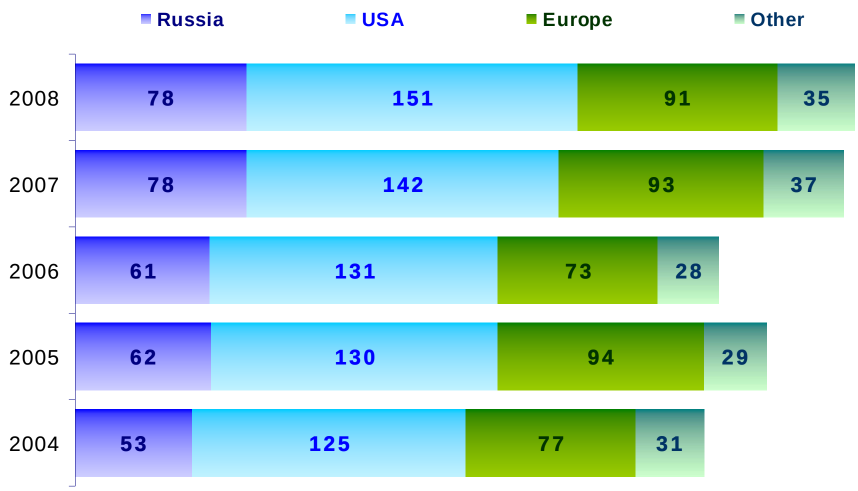
85 Calculations disregarded data on digital exhibition, since the number of digital screens per film was not available; it was only estimated over the totality of digital releases for the period.

86 The period from 1 December 2008 to 31 May 2009 is taken into account, making it possible to estimate the films that are no longer in distribution; most films released later still remained in circulation by the time of the survey (July 2009).

Film releases by country of origin

Analysis of films released over the CIS countries (data for 2004 includes Ukraine as well) shows that US-produced films dominate the Russian market in terms of the number of titles released.

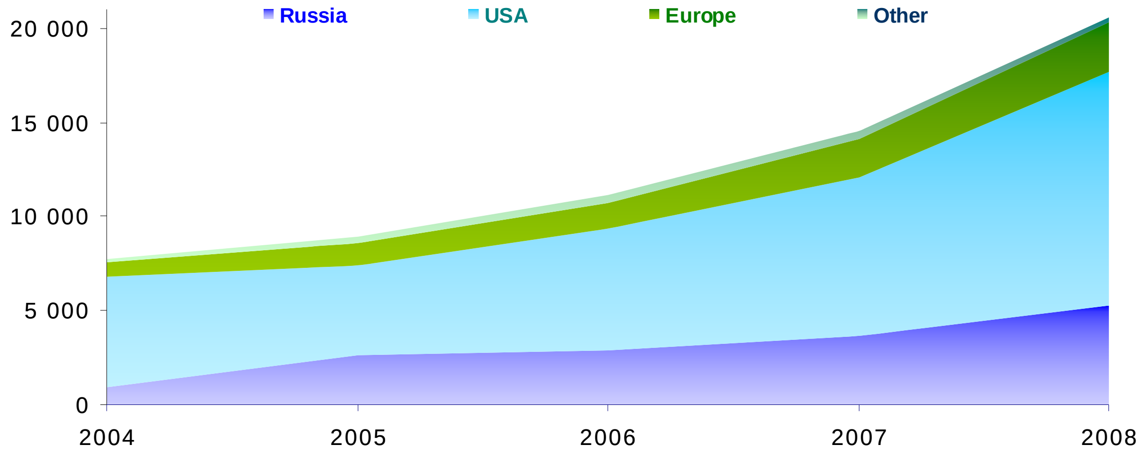
Graphic 3.4.10 Film releases by origin



Source: Film Business Today Magazine, Nevafilm Research.
For countries of origin, European Audiovisual Observatory / LUMIERE database, imdb.com

American films also dominate in terms of market share, earning about 60% of the annual takings. However, since 2004, nationally-produced films have earned a larger and larger share of the market, both in terms of number of titles and volume of box office receipts (at least 25%), winning over the US-film-viewing public in the process.

Graphic 3.4.11 Box office by film origin (RUB million)



Source: Film Business Today Magazine, Nevafilm Research.
For countries of origin, European Audiovisual Observatory / LUMIERE database, imdb.com

Table 3.4.2 Market shares by origin of films distributed in the CIS (2005–2008 excluding Ukraine)

Year	Russian films		US films		European films		Other	
	Number of releases	Box office receipts	Number of releases	Box office receipts	Number of releases	Box office receipts	Number of releases	Box office receipts
2004	53	948.8	125	5828.2	77	781.0	31	175.3
	18.5%	12.3%	43.7%	75.4%	26.9%	10.1%	10.8%	2.3%
2005	62	2618.2	130	4820.1	94	1155.0	29	306.6
	19.7%	29.4%	41.3%	54.2%	29.8%	13.0%	9.2%	3.4%
2006	61	2889.1	131	6435.8	73	1418.2	28	353.9
	20.8%	26.0%	44.7%	58.0%	24.9%	12.8%	9.6%	3.2%
2007	78	3644.6	142	8409.0	93	2024.4	37	441.5
	22.3%	25.1%	40.6%	57.9%	26.6%	13.9%	10.6%	3.0%
2008	78	5289.3	151	12384.7	91	2663.4	35	215.0
	22.0%	25.7%	42.5%	60.3%	25.6%	13.0%	9.9%	1.0%

Source: Film Business Today Magazine, Nevafilm Research.
Film countries of origin from European Audiovisual Observatory / LUMIERE database and ImdB

As regards the distribution of specifically European movies in Russia, the leader in the number of releases over the period in question is France, followed by Great Britain, Germany, and Spain. France is the box office leader among these European films (about 4% over 2004 to 2008); in all, the EU countries have generated about 7% of total Russian box office receipts during 2004 to 2008, while other European countries only accounted for 0.1%. The share of box office receipts from films produced in Europe with US investment (so-called 'incoming films') remains quite high: 4.5% of total box office receipts from Russian film distribution over the period 2004 to 2008. At the same time, the total number of such films released was quite small, just 26 (1.6% of the total releases over the same period).

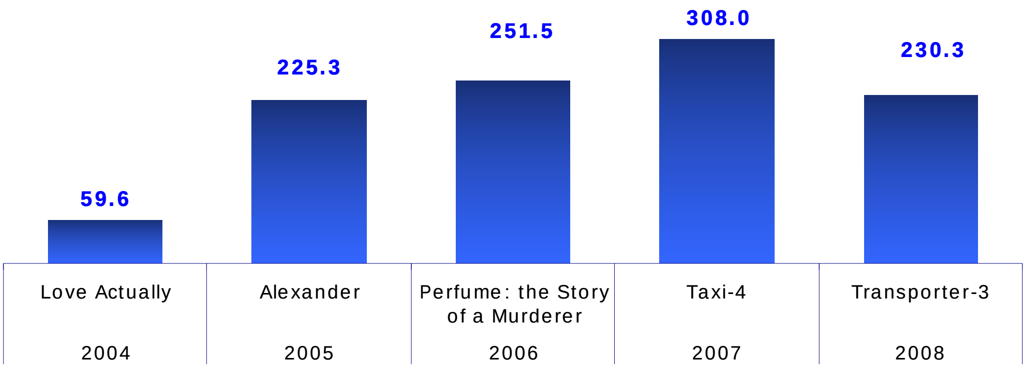
Table 3.4.3 Theatrical distribution of European films in Russia (2004–2008)

Country	Number of releases	Share of total number of releases in Russia 2004–2008	Box office receipts	Share of total box office in Russia 2004–2008
Austria	4	0.3%	1.7	0.0%
Belgium	7	0.4%	110.2	0.2%
Great Britain	57	3.6%	1 080.8	1.8%
Hungary	2	0.1%	1.0	0.0%
Germany	31	1.9%	270.4	0.5%
Deutschland	11	0.7%	70.3	0.1%
Ireland	2	0.1%	16.2	0.0%
Spain	30	1.9%	195.0	0.3%
Italy	16	1.0%	30.8	0.1%
Netherlands	6	0.4%	11.9	0.0%
Romania	3	0.2%	4.7	0.0%
Finland	4	0.3%	32.0	0.1%
France	135	8.4%	2 273.8	3.8%
Czech Republic	1	0.1%	2.2	0.0%
Sweden	4	0.3%	3.1	0.0%
Total EU	**314**	**19.6%**	**4 106.9**	**6.8%**
Macedonia	0	0.0%	0.0	0.0%
Norway	3	0.2%	3.5	0.0%
Serbia (since June 2006)	1	0.1%	8.3	0.0%
Serbia and Montenegro	1	0.1%	0.1	0.0%
Turkey	2	0.1%	0.6	0.0%
Ukraine	5	0.3%	12.2	0.0%
Switzerland	2	0.1%	30.4	0.1%
Yugoslavia	1	0.1%	0.0	0.0%
Total other European countries	**15**	**0.9%**	**55.1**	**0.1%**
Incoming financing	26	1.6%	2 690.2	4.5%
TOTAL EUROPE	**355**	**22.2%**	**6 852.2**	**11.4%**

Source: , Film Business Today Magazine, Nevafilm Research.
For film origins, European Audiovisual Observatory / LUMIERE database and imdb.com

The most popular European film in Russian theatrical distribution for the period in question is the French film Taxi 4 (2007), which came ninth in the box office ranking for the year.

Graphic 3.4.12 Top European films in Russian theatrical distribution (Box Office receipts in RUB million)



Source: Film Business Today Magazine, imdb.com, Nevafilm Research
For film origins, European Audiovisual Observatory / LUMIERE database, imdb.com

3.4.2 Principal trends and development prospects

TV channels

TV channels have played an important role on the Russian film market since 2004, when, as well as getting involved in the production of national features, Channel One Russia started using its airtime to provide wide advertising support to projects it was involved in during their distribution. From 2005, TV channels as STS and Rossiya TV Channel began to use airtime in a similar way. In 2007 these were joined by NTV and, in 2008 by TNT. As a rule, the higher the perceived box office potential of the feature, the larger the TV campaign, and the greater the interest of the TV channel in its successful run, particularly if it has taken part in the film production itself.

As a result, since 2004, Russian films supported to varying degrees by television interests have featured annually in the top ten. In all, over the period from December 2003 to July 2009 more than 40 national films (11% of all the releases by Russian producers or 2.4% of all the first releases over the period) have received free TV air time. Meanwhile, the number of supported releases has increased sharply during 2009: 9 films out of 34 (26.5%) received free airtime on TV channels possibly as a result of a drive by Russian producers to optimize advertising expenses during the crisis via various agreements with the TV channels.

Table 3.4.4 Russian films officially supported in distribution by TV channels

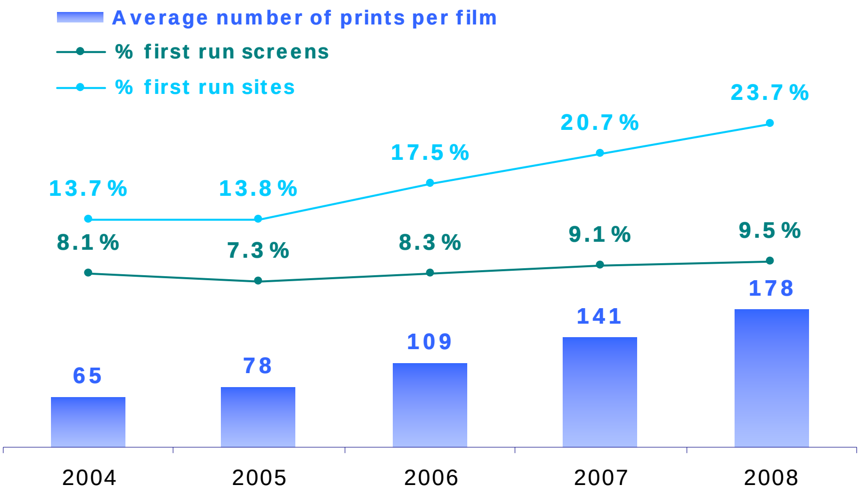
Rank	Title	TV Channel	Box office receipts (RUB million)
2004			
1	Nochnoy Dozor [Night Watch, The]	Channel One Russia	461.7
22	72 metres	Channel One Russia	76.1
25	Voditel dlya Very [Driver for Vera]	Channel One Russia	75.8
95	Papochka [Daddy]	Channel One Russia	20.2
116	Neznaika and Barabas	Channel One Russia	13.8
2005			
1	9 Rota [9th Company, The]	STS Channel	668.4
2	Turkish Gambit, The	Channel One Russia	524.3
8	Sluga Gosudarev [State Counsellor, The]	Channel One Russia	210.8
14	Lichnyi Nomer [Countdown, The]	Channel One Russia	129.1
47	Perviy Posle Boga [First After God, The]	Rossiya TV Channel	50.5
131	Fool, The	Rossiya TV Channel	11.3
2006			
1	Dnevnoy Dozor [Day Watch, The]	Channel One Russia	867.5
12	Piter FM	STS Channel	198.9
16	Ohota na Piranyu [Hunting For Piranha]	Rossiya TV Channel	169.2
38	Ostrov [Island, The]	Rossiya TV Channel	70.4
182	Bolshaya Lubov [Big Love, The]	Rossiya TV Channel	5.2
2007			
3	Volkodav [Wolfhound From the Grey Dog Clan]	Channel One Russia, HTB	511.4
5	Zhara [Heat, The]	STS Channel	401.4
11	Lubov-Morkov [Lovey-Dovey]	Channel One Russia	297.4
18	Apocalypse Code	Channel One Russia	205.3
68	Konservy [Pickles]	Rossiya TV Channel	52.9
84	Vice	Rossiya TV Channel	36.3
130	Odna Lubov na million [One Love in a Million]	NTV	20.1
197	Russian Game, The	Rossiya TV Channel	6.1
2008			
1	Ironiya Sudby. Prodolzhenie [Irony of Fate 2, The]	Channel One Russia	1 238.30
3	Admiral, The	Channel One Russia	835.9
5	Samiy Luchshyi Film [Best Film, The]	THT (Comedy Club)	684.3
28	My iz buduschego [We Are From the Future]	Rossiya TV Channel	204.1
32	There is Nothing Kings Cannot Do	NTV	184.9
76	1814	STS Channel	61.8
93	Real Dad	Rossiya TV Channel	46.5
147	Kamennaya Bashka [Stone Head, The]	NTV	22
158	Swings	Rossiya TV Channel	18.5
2009			
2	Neobitaemiy Ostrov [Inhabited Island. Part One, The]	STS Channel	723.7
3	Lubov-Morkov-2 [Lovey-Dovey 2]	Channel One Russia	591.5
5	Taras Bulba	Rossiya TV Channel	564.8
6	Stilyagi [Hipsters]	Rossiya TV Channel, Channel One Russia	557.1
11	Samiy Luchshyi Film-2 [Very Best Film 2, The]	TNT Channel (Comedy Club)	420.7
21	Neobitaemiy Ostrov. Shvatka [Inhabited Island: The Battle]	STS Channel	201.1
42	Pro Fedota-Streltsa [About Fedot the Shooter]	Channel One Russia	85.7
49	Pervaya Lubov [First Love]	STS Channel	63.5
81	Goryachie novosti [Newsmakers, The]	RBC-TB, Akado (product placement)	22.2

Source: Film Business Today Magazine, interviews with distributors

Second run screens

In 2008 the average film release in Russian distribution was on 178 prints, covering about 9.5% of modern screens or 24% of the country's cinemas. However, if only major releases (for example, the top 20 features by total annual box office receipts) are taken into account, the average release in 2008 was more than 700 prints per film, with each film therefore occupying around 38% of screens or 94% of functioning modern cinemas! This testifies to the absence of a second-run screen system in Russia: practically all the cinemas in the country are qualified as first-run screens by the main distributors, and prints that have run in them for 2–3 weeks cannot subsequently be used in second tier screens, since there are simply none that qualify.

Graphic 3.4.13 Average number of prints per film vs number of modern sites and screens

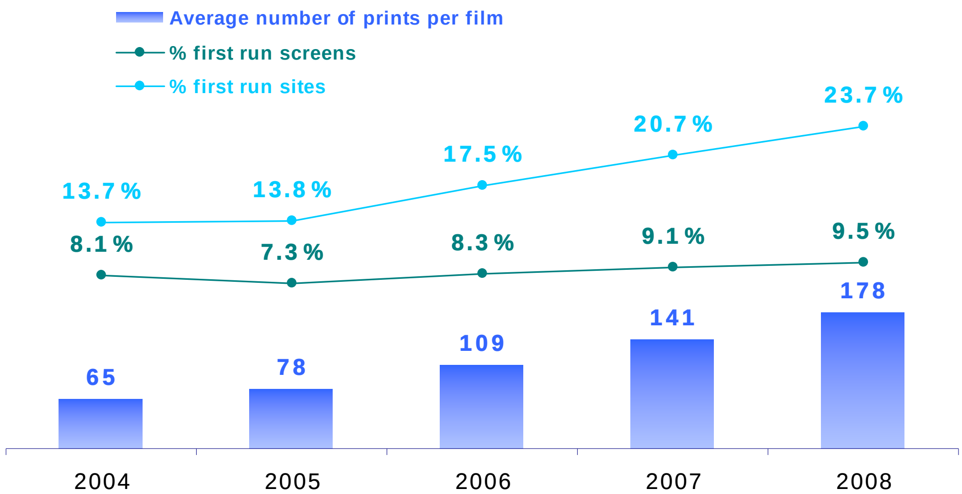


Source : Film Business Today Magazine, Nevafilm Research

Nevertheless, successive devaluations of the rouble at the end of 2008, precipitated by the global economic crisis and a drop in oil prices, has seriously affected the cost of prints, forcing many distributors to start considering cutbacks in the scale of their releases. In a survey of film distribution companies in June 2009, only one company claimed not to work with second-run screens; 13 distributors confirmed that their films do indeed run on second tier screens, while two more noted that lately the first-run screen network has been shrinking while the second run screen network expands.[87]

[87] As per data from a survey of representatives of 17 film distribution companies and 28 exhibitors by Nevafilm Research in June 2009.

Graphic 3.4.14 Average number of prints per film calculated on the basis of top 20 films in Russian distribution vs number of modern sites and screens



Source: Film Business Today Magazine, Nevafilm Research

Approaches to second-run screen exhibition differ among distribution companies. Although the leading criteria for selecting premier first-run screens is their box office receipts from previously run films and lack of debts outstanding from those preceding runs, the main distributors maintain higher requirements for minimum box office takings, compared to independent companies, and in 2009 these requirements have become even more strict. At the same time niche distributors, such as those working with art house titles, have always maintained long runs in Russia, and first-run screens for these distributors are screens enjoying a certain reputation in their cities. As a rule, these are also the only screens programming this type of film in the area, so that the sequence of running films on one screen or another (cinema, city) is of no importance. The choice of screens therefore tends to be made on the basis of criteria such as optimizing logistics or repertoire programming, etc. As for mediocre films, fated to fill screen time in multi-screen sites, the comment by market players was that second runs are not for them: they are 'disposable products'.[88]

Art house film distribution

Russia lacks a network of specialized art house cinemas; in most cities audiences have no tradition of viewing this type of work. As a result, art house works are generally shown only on large screens in cities with over a million inhabitants (primarily Moscow and St. Petersburg, as well as Yekaterinburg, Rostov-on-Don, Nizhni Novgorod, Samara and certain others). A phenomenon of 'limited release' has therefore developed, consisting of the small scale release of narrowly targeted films (1 to 20 prints). These continue to travel around the country over a long period of time (some features run for a year or even longer, such as *Paris, I Love You,* the record-holder for limited release in the CIS, which took more than USD 1 million with ten copies in 2007).

[88] As per data from a survey of representatives of 17 film distribution companies and 28 exhibitors by Nevafilm Research in June 2009.

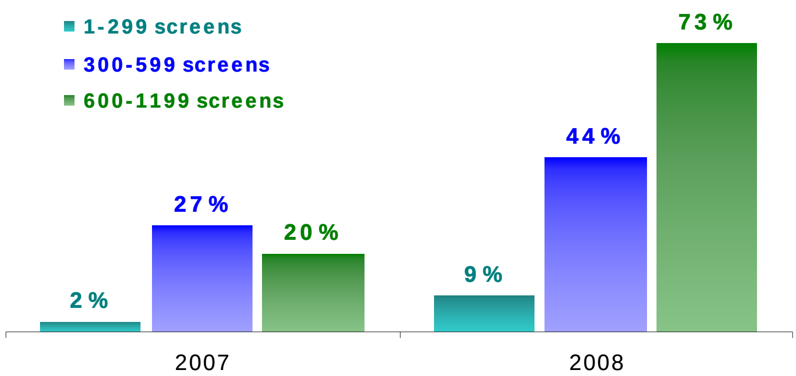
In addition, limited release films are often released on DVD (provided the distributor holds the necessary rights), which facilitates a reduction in print and delivery expenses but makes such films vulnerable to pirates.

From 2007 onwards major players on the exhibition market began showing an interest in art house titles, and this has helped such films to expand their presence in Russian distribution. Traditionally art house films are well represented in the programming of the Five Stars cinema chain. The InvestKinoProject chain started the Kolizey art house film club using one of its screens in the Kinoplex in Togliatti in 2007; the Moscow Formula Kino chain opened a special art screen in its Gorizont (2007) and Europa (2008) sites. A similar screen was launched at the Moscow Oktyabr cinema (it became a test site for the Karo Film network); by the end of 2008, Cinema Park started released a whole collection of films under the brand ‘Cinema: with and without rules’ in Chelyabinsk, Novosibirsk and Tyumen.

Digital distribution

The development of digital distribution in Russia has followed a somewhat different pattern from that in Western Europe: 99% of digital screens in the country are fitted with 3D technology, giving them the advantage of being able to screen 3-D content. In addition, large distributors wanting to economise on print costs for sought-after blockbusters insist, as a rule, on exhibiting their films in digital format, and even hold back 35mm prints from cinemas that have digital screens. As a result, films on narrow release tend not to get the benefit of digital distribution. Thus, all the films released to on 600+ screens in 2009 were also released in digital format, while only 17% of average and small releases (1 to 299 screens) were distributed in digital prints.

Graphic 3.4.15 Share of digital releases depending on distribution scale



Source : Film Business Today Magazine , Nevafilm Research

Since 2008, when the first direct broadcasts of soccer matches to digital screens took place during the European Championships, alternative techniques for digital distribution have been developed. Experiments have also been undertaken with other types of alternative digital content such as recorded concerts: in 2008, three such films were released (*Green Theatre in Zemphira*, *U2 3D* and *Rolling Stones: Shine a Light*). However, these first concerts were exhibited on the big screen using a traditional run (2–3 weeks) and as a result for audiences they were indistinguishable from ordinary features.

Nevertheless, some special first-time cinema events took place in 2009 as unique actions in the presentation of alternative content on digital screens. This effort is being developed by Nevafilm Emotion, the distribution branch of the Nevafilm Company, whose subsidiary Nevafilm Research authored this report. On April 21, 2009 the company promoted the participation of 35 cities across the country in the global *Iron Maiden Day*, with the *Flight 666* documentary run on 42 digital screens. Next, on May 26, working together with *More2Screen, Nevafilm Emotion* presented the concert *Tribute to Pavarotti: One Amazing Weekend in Petra* (30 digital screens in 23 cities), and on August 15 an All-Russian cinema event, *KINOaktsiya*, was held in commemoration of Viktor Tsoi, a cult Russian musician, accompanied by special screenings of the documentary *The Last Hero. 20 Years On* in 34 digital theatres (in 30 cities of Russia and Khazakhstan). Starting from the autumn of 2009, Nevafilm Emotion is preparing to exhibit a series of opera and ballet shows in Russian digital cinemas: during 2009–2010, viewers will have a chance to see operas from La Scala on the big screen.

Public projection on video

For many years, alongside digital and 35mm projection systems, there has been a market for the public exhibition of films on video (DVD) in Russia. This tradition dates back to the 1990s when video salons, supported by the state on local and regional levels, and screening films using TV equipment and video media (cassettes), proliferated. The 1998 Russian financial crisis[89] had a drastic effect on the domestic video market, putting an end to the growth of these facilities. However, inexpensive and convenient video exhibition soon found a second wind with the spread of DVD technology. Electronic screens are currently in operation across Russia and the CIS countries and, although no statistics on DVD-screens are available, according to distributors, such screens are extremely widespread in unmodernised municipal cinemas, at regional film and video rental organizations, as well as in drive-in cinemas (though these are not that numerous in Russia – no more than 10). What is more, many modern cinemas that handle art house content own video projectors to run films; video projection is often a side business for various clubs and cafés that organize non-commercial showings of various retrospectives, festivals, etc.

Video screenings in Russia are mostly handled by independent distribution companies (the practice of DVD exhibition is widespread in CIS countries such as Ukraine, Belarus and Kazakhstan), by distributors working with art house features, and by companies distributing children's film

[89] The Russian financial crisis (also called 'Ruble crisis') hit Russia on 17 August 1998. It was triggered by the Asian financial crisis, which started in July 1997. During the ensuing decline in world commodity prices, countries heavily dependent on the export of raw materials were among those most severely hit. Petroleum, natural gas, metals, and timber accounted for more than 80% of Russian exports, leaving the country vulnerable to swings in world prices. Oil was also a major source of government tax revenue. Consequently the default on state securities was declared in Russia, the national currency fell heavily and the imported goods became inaccessible to citizens for a long time.

programming (both fiction features and animation). The technique enables them to achieve a wider distribution network, from nightclubs (art house products) to children's summer camps and schools (animation features). A survey of Russian distributors[90] shows that more than half of the distributors polled handle video for public projection, while 35% do not (as a rule, these are major distributors, representatives of the Hollywood studios, or independent distributors that do not obtain rights for public DVD-video exhibition). Another 12% of respondents currently have no experience of working with public video projection, but plan to enter this market, as they receive regular offers from interested exhibitors.

As a rule, the conditions for releasing films for public exhibition are as follows: video films are released after those on 35mm prints (2–4 weeks later), and the rights to show them on DVD are sold by the distribution company at a fixed price and for a fixed term.

Video piracy

The widespread use of public projection on video is not the main cause for the emergence of piracy in audio-visual products in Russia: films released for distribution exclusively on DVD are generally intended for a limited target audience. Widely-advertised blockbusters excite much stronger interest and demand from video pirates and counterfeits often hit the open market and the Internet at the same time as their cinema release.

Despite the fact that all distributors (and exhibitors) recognize the detrimental effects of widespread piracy in Russia, many do not believe that anything can be done in the current climate to overcome the problem. They are ready to accept it as an inevitable evil, a habitual element of the environment. Distribution companies note that the effect of piracy becomes even worse with niche films, including art house projects (youth films do not appear to be very vulnerable to video piracy). Furthermore, Russian piracy has a distinctive feature: in the regions the threat comes mainly from the sales of counterfeit DVDs (with a wide range of products available, often with several films crammed onto a single disk), while Moscow and St. Petersburg are more prone to Internet piracy due to the higher penetration of broadband Internet.[91]

Windows for release of films to video

To conclude discussion of the impact of video on distribution in Russia, we note that the last few years has seen a reduction of the time lag before releasing licensed DVDs, as one of the measures to fight audio-visual piracy. Russia has no regulation on the length of the window to release of films in home video format. It is defined independently by each distributor and depends on many factors. For several years now major companies have been releasing their DVDs in Russia much earlier than in the USA. 30% of distributors keep their windows as narrow as 4 to 6 weeks, while another 25%

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[90] As per data from a survey of representatives of 17 film distribution companies and 28 exhibitors by experts of Nevafilm Research in June 2009.

[91] Ibid.

remark that the average gap between the initial film release and its video release is 2 to 3 months in their practice. A further quarter of respondents claim a window of 3 to 6 months, and only 6% of the respondents polled suggested a window of a year and more.

As a rule, blockbusters have the shortest windows while art house films, having wide second-run screen networks and longer distribution periods, are released on video somewhat later. In addition, the time gap for the video release of films by independent distribution companies is conditioned by the availability of the relevant rights to the distributor (if these rights remain with its foreign partner, the Russian film distribution company tries to negotiate the delay with which rights to video distribution in the CIS will be sold) and also by the opportunity to resell such rights to a DVD publisher (many art house distributors are not involved in the release of films on video and are limited in this regard by the fact that their titles are of interest to exhibitors screening on video).

At the same time, in the opinion of the majority of market players the trend towards a shrinking window for video release (some national features are released on licensed DVDs just 2 weeks after their release to the wide screen!) does not affect the theatrical distribution. The reason is the generally short lifespan of films in Russia: the majority of them remain in wide distribution for 2 to 3 weeks at most, so that releasing the same films on DVD 4 weeks later does not affect box office receipts in any way. Half of exhibitors polled confirmed this - they also noted that the market for licensed video is more or less inexistant in the regions; the leading role there is played by pirates who offer counterfeit products well in advance of licensed videos and win viewers from the cinemas much earlier.

However, distribution companies also note that with the recent reduction in the number of prints per release and the expansion of the system of second-run screenings in 2009, narrow windows may become more and more dangerous for smaller non-premier cinemas. Major screen networks that have the capabilities to continue screening films in their multi-screen sites for a long period are also unhappy with the early release of licensed DVDs; in their opinion it reduces the distribution life of many features. In all, 25% of the exhibitors polled claimed a negative effect of short windows on distribution.[92]

Problems of the distribution sector

In concluding the description of key trends in the development of the Russian distribution sector, we note a number of problems faced by national distributors:

- a range of difficulties common to many distribution companies in Russia such as **complex customs regulations** (in particular, the need to obtain a customs import certificate for the physical importer of the film and to pay customs duties that penalise in particular art house features, but which also cause anomalies in the development of digital exhibition) – mentioned by a quarter of distributors; **piracy** (20% of exhibitors polled); the **high cost** of **purchasing the license** to distribute a Russian film to the international market, high **production costs for prints**, **difficulties in logistics, lack of**

[92] Ibid.

state support for art house films (benefits are available for running international festivals in the country, but the limited exhibition on 1 or 2 prints or on DVD of more challenging art house films does not qualify for the simplified customs regulations that are provided for festival exhibition), as well as distinct **competitive edge** of releases falling on holidays (New Year, 8th March – International Women's Day, etc.) – each earning about 10% of answers by the respondents;

- without doubt the main problem for distribution companies when working with exhibitors is **arrears in distribution payments** (these were noted by 80% of distributors). In these circumstances the only possibility of recovering one's money is to include a blockbuster in the next package offered by the distribution company: the threat to withhold it makes recovery of accumulated debts possible. In a context of crisis distributors have become more and more concerned with possible defaults and are tightening up the financial terms of their contracts with exhibitors to prevent these. The reaction is a wave of dissatisfaction and the switchover of many sites to the second run screens. It is interesting to note, nonetheless, that only half the respondents among the distribution companies surveyed admitted to having arrears in their distribution payments. In addition, more than half of the distributors complain that **reporting by the cinemas is unreliable**, doctored, delayed, conceals changes in exhibition conditions, etc. **Violations of contract conditions** are not that rare in Russian practice either: cinemas take releases by distributors off the screen, cut back the number of screenings without agreeing the matter with distributors (20% of respondants noted this problem). There have also been incidents of **pirate distribution**: in particular, cinemas and clubs started offering audiences a new form of entertainment, the so-called 'Film Nights' when a night-time run merges a number of films united by a common topic or producer; projection is most often from DVD and exhibitors may 'forget' to agree such a run with the rights holders;
- finally, owing to the global economic crisis and its aggravation in Russia, distributors have noted a deterioration in the following areas of the distribution business in 2009: **growing payment arrears** (50% of respondents), a **drop in film admissions** (for mediocre titles mostly – 20%), **stronger competition for screens** (10%) and a **reduction of film purchase prices offered by TV channels** (this problem has a particular effect on art house distributors since their titles have always recovered their costs almost exclusively from the sale of TV rights) – noted by 10% of respondants (representatives of independent distribution companies).

3.4.3. Principal players

Distributor operating in Russia may be divided into groups depending upon the nature of the content in which they deal:

- foreign companies – direct representatives of major Hollywood studios on the Russian market (*Universal Pictures International, Buena Vista Sony Pictures Releasing, 20th Century Fox-CIS*);
- Russian companies – official representatives of the Hollywood majors (*Karo Premier, Central Partnership*);

· independent (mainstream) distributors that deal predominantly in foreign and Russian-produced films for a wide audience (*Paradise, Central Partnership, West, Luxor, Top Film Distribution, Cascade Film, Volga, Lizard Cinema Trade, Nashe Kino, Karoprokat*);

· independent film distribution companies working with narrow target groups: children's films (*Panorama*), art house (*CP Classic, Kino bez Granits, Russian Reporting, InterCinema*) and animation (*Ruscico*);

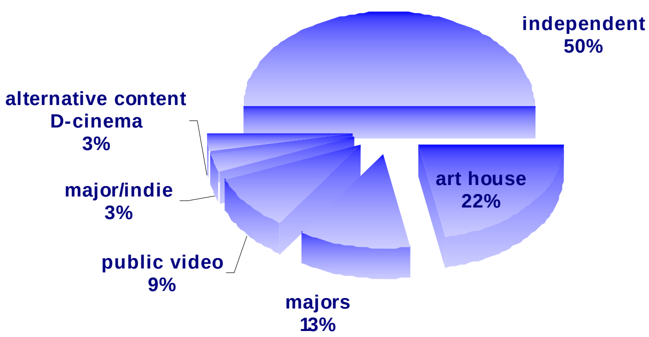
· film producers (certain national producers that distribute and exhibit their films themselves; they often establish new dedicated distribution companies for a single feature);

· regional film and video rental organizations (FVROs) – essentially these are the remnants of the local cinema authorities from Soviet times that have lost most of their functions and currently remain custodians of film funds that support exhibition in the regional cinema network, mostly in obsolete theatres, village clubs and 'houses of culture' using portable film projectors and fixed installations.

In all, as of 2009, about 35 companies are operating in the Russian film distribution sector (disregarding FVROs and companies launched for the exhibition of a single film). The majority of companies represented on the market are independent distributors (16), 7 work with art house films, 4 represent Hollywood majors (although their lineups are usually not limited to films from the majors), 3 offer films for public video distribution only, one combines representing a major and an activity as a large independent distributor (Central Partnership), and the other only works with alternative digital content (Nevafilm Emotion).

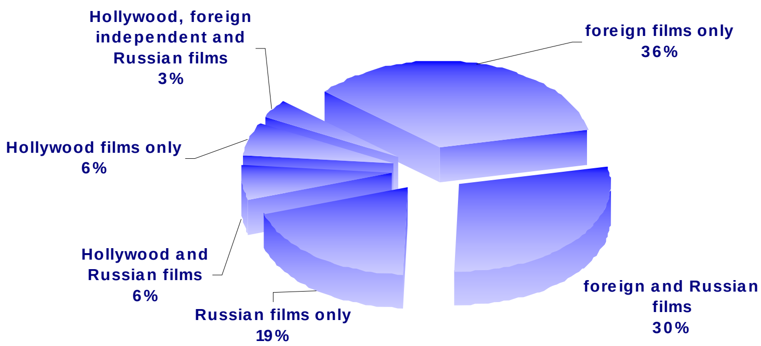
In terms of the countries of origin of the films handled, distribution companies may be classified as follows: 11 work with foreign films only; 9 with both foreign and Russian features; 6 handle only Russian content; 2 companies each work with Hollywood films or Hollywood and Russian blockbusters; another offers a combination of Hollywood features with independent foreign and Russian films.

Graphic 3.4.16 Russian distributors by company type and content specialization



Source: Film Business Today Magazine, Catalogue of the 78th Russian International Film Market, Nevafilm Research

Graphic 3.4.17 Russian distributors by origin of releases



Source: Film Business Today Magazine, Catalogue of the 78th Russian International Film Market, Nevafilm Research

The structure of the companies working in Russian distribution changes constantly. The direct entry of Hollywood studios onto the Russian market results in changes of status, focus of work and sometimes even in the closure of companies that used to represent the interests of those studios. In 2004, the East-West company – the oldest player on the Russian film market, opened back in 1989 and which used to run films by practically all the majors in Russia, lost its Hollywood partners after the opening of the Russian office of UIP. Upon receipt of a proposal from this major, the company management decided to transfer its employees to the new company, folding the activities of East-West. In 2006, a new representative office of 20th Century Fox appeared in Russia that acquired employees from its former partner, the Gemini Company, which gradually closed down its operations and shut in 2008. Cascade, which used to distribute films by Columbia and Disney between 1998 and 2006, lost its Hollywood content when the Russian office of Buena Vista Sony Pictures Releasing opened and was forced to look for new ways to operate: using its many years of experience in dealing in IMAX features, the company began offering stereo features for digital 3-D screening on the Russian market, in addition to the independent Russian and foreign films.

Interest on the part of national producers in improving results from the exhibition of their films forces them to start their own film distribution units (many such producers believe strongly that the distributors they hire pay less attention to their films than to foreign ones and undermine their box office success). An example is the Leopolis production company, which made a triumphant debut with features such as *Hitler Kaput!* and *Love in the City*, and opened a distribution company in the summer of 2009. Not only does it aim to distribute its own production, but also offers cinemas a package of features purchased from the international film markets. Moreover, it is assumed that the company will release both mainstream and art house works within the framework of its specialized division LeopArt. Another event on the Russian market during the summer of 2009 was the merger of three of the most experienced Russian film production companies: CTB [STV] Film Company, Krasnaya Strela [Red Arrow] and Profit under the distribution company brand of Nashe Kino [Our Cinema]. Nashe Kino had been the distributor for CTB features for many years previously. Such a merger demonstrates producers' efforts to gain more control over the exhibition of their films and to improve results.

The structure of the independent market players is also changing constantly, especially in art house exhibition. Due to difficulties provoked by the global financial crisis, the beginning of the 2009 film distribution year saw the Pyramid distribution company, that used to release 10–20 art films a year and collect up to 2% of box office receipts across the CIS, exit the market: the company's reasons for ceasing operations were the high cost of licenses for film exhibition and the lack of interest in such features on the part of the Russian audience. However, this kind of obstacle has never discouraged the appearance of new independent distributors ready to work with films aimed at a narrow audience of film connoisseurs. In 2009 the following companies appeared: Volga (a representative of the US distribution company Film Depot Inc. which staked its claim with the successful run of the award-winning *Slumdog Millionaire*), Argumenty Kino (an association of Russian producers of national art house films), LeopArt (a division of the Leopolis company), Art Pictures Studio, P&I Films and others.

Table 3.4.5 Main film distributors in Russia*

Rank 12/07/09	Distributor	Box office (RUB x million) and market share						Number of releases and market share					
		2004	2005	2006	2007	2008	12.07.2009	2004	2005	2006	2007	2008	12.07.2009
1	Central Partnership, CP Classic	929.9	1032.8	852.8	2215.0	1600.2	3217.1	44	48	41	47	37	24
		12.0%	*10.5%*	*6.9%*	*15.3%*	*7.8%*	*23.1%*	*15.4%*	*15.2%*	*14.0%*	*13.4%*	*10.4%*	*14.1%*
2	Karo Premier, Karoprokat	1575.4	1285.1	1544.0	2527.5	3239.4	2919.8	20	27	27	31	31	17
		20.4%	*13.0%*	*12.5%*	*17.5%*	*15.7%*	*21.0%*	*7.0%*	*8.6%*	*9.2%*	*8.9%*	*8.7%*	*10.0%*
3	Buena Vista Sony Pictures Releasing, Walt Disney Russia (2006)	-	-	0.7	2149.6	3008.7	2893.8	-	-	1	14	21	16
		-	*-*	*0.0%*	*14.9%*	*14.6%*	*20.8%*	*-*	*-*	*0.3%*	*4.0%*	*5.9%*	*9.4%*
4	20th Century Fox, Gemini	1512.5	2186.4	2890.8	2047.4	3842.4	2597.3	20	23	37	34	20	10
		19.6%	*22.1%*	*23.4%*	*14.2%*	*18.7%*	*18.7%*	*7.0%*	*7.3%*	*12.6%*	*9.7%*	*5.6%*	*5.9%*
5	UPI, UIP (2004-2006)	762.0	1475.5	1455.3	2425.4	5058.3	1007.8	14	22	22	21	21	13
		9.9%	*14.9%*	*11.8%*	*16.8%*	*24.6%*	*7.2%*	*4.9%*	*7.0%*	*7.5%*	*6.0%*	*5.9%*	*7.6%*
6	Paradise	448.2	540.4	662.4	1002.9	943.1	420.4	25	25	31	37	29	13
		5.8%	*5.5%*	*5.4%*	*6.9%*	*4.6%*	*3.0%*	*8.7%*	*7.9%*	*10.6%*	*10.6%*	*8.2%*	*7.6%*
7	Volga	-	-	-	-	-	144.0	-	-	-	-	-	4
		-	*-*	*-*	*-*	*-*	*1.0%*	*-*	*-*	*-*	*-*	*-*	*2.4%*
8	Profit Cinema International	-	-	-	-	6.0	143.6	-	-	-	-	1	2
		-	*-*	*-*	*-*	*0.0%*	*1.0%*	*-*	*-*	*-*	*-*	*0.3%*	*1.2%*
9	West	492.8	360.9	533.1	650.1	602.2	123.2	15	20	22	22	18	7
		6.4%	*3.7%*	*4.3%*	*4.5%*	*2.9%*	*0.9%*	*5.2%*	*6.3%*	*7.5%*	*6.3%*	*5.1%*	*4.1%*
10	Luxor	70.2	64.0	81.2	211.6	366.7	118.2	7	10	6	12	13	5
		0.9%	*0.6%*	*0.7%*	*1.5%*	*1.8%*	*0.8%*	*2.4%*	*3.2%*	*2.0%*	*3.4%*	*3.7%*	*2.9%*
11	Nashe Kino	98.7	201.6	724.1	533.7	578.9	114.0	4	5	10	9	14	3
		1.3%	*2.0%*	*5.9%*	*3.7%*	*2.8%*	*0.8%*	*1.4%*	*1.6%*	*3.4%*	*2.6%*	*3.9%*	*1.8%*

Rank 12/07/09	Distributor	Box office (RUB x million) and market share						Number of releases and market share					
		2004	2005	2006	2007	2008	12.07.2009	2004	2005	2006	2007	2008	12.07.2009
12	Top Film Distribution	-	-	-	37.8	519.7	78.8	-	-	-	7	21	5
		-	*-*	*-*	*0.3%*	*2.5%*	*0.6%*	*-*	*-*	*-*	*2.0%*	*5.9%*	*2.9%*
13	Cascade Film	1408.7	1319.2	2585.6	491.6	527.9	48.7	26	29	20	16	23	4
		18.2%	*13.4%*	*20.9%*	*3.4%*	*2.6%*	*0.3%*	*9.1%*	*9.2%*	*6.8%*	*4.6%*	*6.5%*	*2.4%*
14	Kino bez Granits, Nastroenie Kino	39.3	15.4	10.0	19.8	37.6	42.9	16	19	10	22	31	18
		0.5%	*0.2%*	*0.1%*	*0.1%*	*0.2%*	*0.3%*	*5.6%*	*6.0%*	*3.4%*	*6.3%*	*8.7%*	*10.6%*
15	Premium	-	-	-	2.9	104.9	34.7	-	-	-	3	12	4
		-	*-*	*-*	*0.0%*	*0.5%*	*0.2%*	*-*	*-*	*-*	*0.9%*	*3.4%*	*2.4%*
16	Lizard Cinema Trade	75.1	59.2	86.5	295.7	41.9	22.4	7	6	8	12	10	1
		1.0%	*0.6%*	*0.7%*	*2.0%*	*0.2%*	*0.2%*	*2.4%*	*1.9%*	*2.7%*	*3.4%*	*2.8%*	*0.6%*
17	Panorama	4.4	8.7	3.2	22.8	41.4	13.3	4	5	1	7	5	2
		0.1%	*0.1%*	*0.0%*	*0.2%*	*0.2%*	*0.1%*	*1.4%*	*1.6%*	*0.3%*	*2.0%*	*1.4%*	*1.2%*
18	Russian Reporting	0.3	3.9	1.6	5.4	11.1	11.3	2	8	6	9	11	8
		0.0%	*0.0%*	*0.0%*	*0.0%*	*0.1%*	*0.1%*	*0.7%*	*2.5%*	*2.0%*	*2.6%*	*3.1%*	*4.7%*
19	Intercinema	4.7	20.3	3.3	11.9	5.6	3.1	7	7	3	4	5	3
		0.1%	*0.2%*	*0.0%*	*0.1%*	*0.0%*	*0.0%*	*2.4%*	*2.2%*	*1.0%*	*1.1%*	*1.4%*	*1.8%*
20	Ruscico	1.3	5.1	0.2	36.2	6.6	1.1	2	4	2	8	7	2
		0.0%	*0.1%*	*0.0%*	*0.3%*	*0.0%*	*0.0%*	*0.7%*	*1.3%*	*0.7%*	*2.3%*	*2.0%*	*1.2%*
CIS total (2005–2009 excluding Ukraine)		**7721.1**	**9880.2**	**12348.7**	**14435.8**	**20588.5**	**13914.8**	**286**	**315**	**293**	**350**	**355**	**170**

*In cases of co-distribution, data on the number of release and box office relates to all participating companies in partnership as no information is available about each company's share.

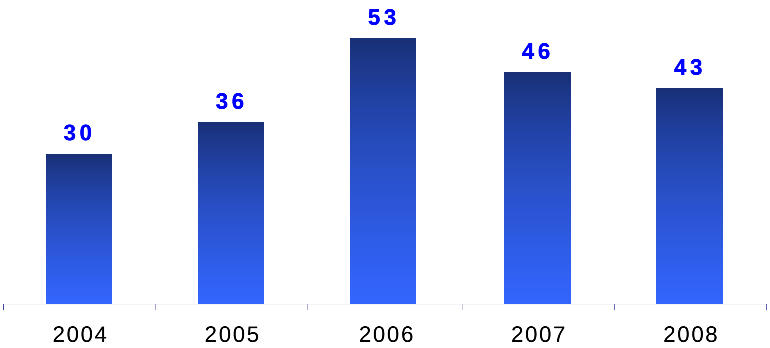
Source: Film Business Today Magazine

3.4.4. Cross-border distribution of Russian films

Despite the growing success of national producers in the CIS, Russian films circulate poorly on the international cinema market.

According to data from the European Audiovisual Observatory, 115 Russian films were distributed in the rest of Europe during the period 2004 to 2008. During the same period 332 Russian films were released on the national market.

Graphic 3.4.18 Number of Russian films in distribution in the European Union

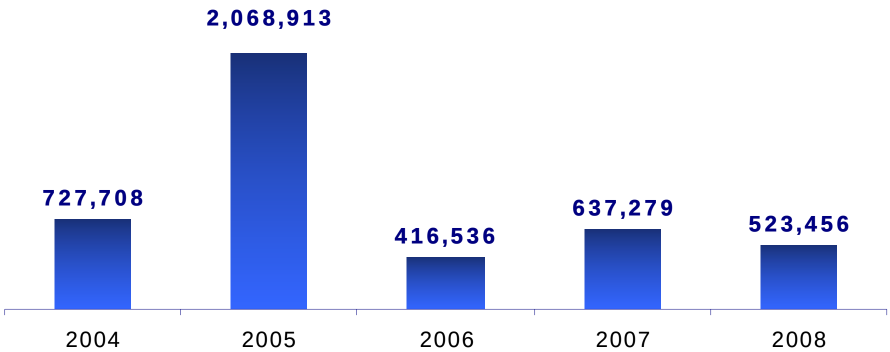


Source : European Audiovisual Observatory / LUMIERE database

In addition, the market share by admissions of these films in the European Union was very low at less than 0.25 % of total cinema tickets sold in the EU.

The best year for Russian producers in cross-border exhibition was 2004, mostly due to the successful run of *Nochnoy Dozor [The Night Watch]* across Europe. Overall ticket sales for the film reached 1.7 million. According to our estimates, *Nochnoy Dozor* collected the equivalent of 39.9% of its Russian admissions on the European market, and that result has never been beaten by any Russian blockbuster in subsequent years, despite their enormous box office success at home.

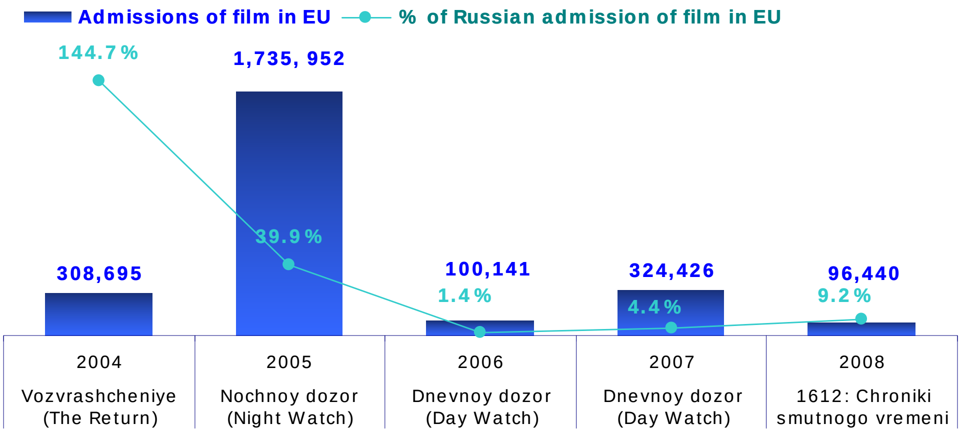
Graphic 3.4.19 Admissions to Russian films in distribution in the European Union (tickets sold)



Source : European Audiovisual Observatory / LUMIERE database

The main feature of Russian film export is its strong art house orientation: while Russian blockbusters with strong advertising support on the part of the principal federal TV channels are extremely popular on the national market, the majority of viewers in Europe are attracted by Russian films that were either on limited release in Russia or even went direct to video. If one looks at the results of certain national features in Europe and the USA from 2004 to 2008, it is evident that popular films as *9 Rota [The 9th Company], Dnevnoy Dozor [The Day Watch], Zhara [The Heat], Ironiya Sudby. Prodolzhenie [Irony of Fate 2], The Admiral* and others, each with more than 1 million viewers in Russia, performed poorly on the international market with admissions in Europe of less than 10% of their Russian results. *Nochnoy Dozor* was the only exception to this. At the same time, experimental and art house titles neglected by Russian audiences seem to be in demand abroad. During their European distribution such films as *Shiza* (produced by Gulshat Omarova), *You I Love* (by Olga Stolpovskaya and Dmitry Troitsky), *4* (by Ilya Khrzhanovsky), *Solntse [Sun]* and *Aleksandra* (by Alexander Sokurov), and *Italianetz* (by Andrey Kravchuk), an Oscar nominee in the 'Best Foreign Film' nomination, have performed significantly better than in Russia. The art house film *Vozvraschenie [The Return]* directed by Andrey Zvyzgintcev, became the best performing Russian film in Europe during 2004.

Graphic 3.4.20 Top Russian films in distribution in the European Union



Source: European Audiovisual Observatory / LUMIERE database, ANKO, Film Business Today Magazine, kinopoisk.ru

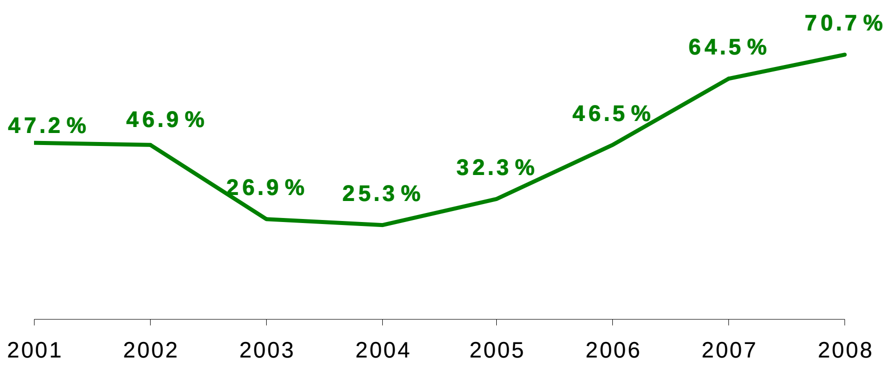
3.5 DVD DISTRIBUTION

3.5.1 Industry structure

The Russian market for licensed video

The market for licensed video in Russia remains very weak in comparison to the theatrical sector. According to data provided by *Videomagazine* and *Film Business Today Magazine*, the number of video units sold from 2001 to mid-2009 remains less than 50% of the number of cinema admissions nationwide for the same period, on average (328.9 million VHS and DVDs against 672.9 million film tickets). However, that ratio does not remain constant, since cinema attendance in Russia is generally growing, while the progression of the national video market is unstable. While the share of DVD sales to cinema tickets sold more than doubled between 2005 and 2008 (from 32.3% to 70.7%), it fell back somewhat over the period from 2003 to 2004, and as well during 2009 (to 56.6%).

Graphic 3.5.1 Share of licensed video sales compared to cinema admissions



Source : Videomagazine, Film Business Today Magazine, Nevafilm Research

The causes of instability in the development of the legal video market are linked to the constant struggle between licensed and pirate video products in Russia; a struggle whose roots lie back in the Soviet past. The following stages of development of the video market in the country can be identified:

- 1991–1993 – Prior to the fall of the USSR, the number of videotape recorders in households in the Russian Federation was very low. The costly technology was barely affordable to the mass consumer, and video cassettes with foreign films were usually copied at home by the few Soviet citizens who could make regular trips abroad; such copies were generally circulated among the privileged top brass, often belonging to the political establishment, the *nomenklatura,* and symbolized an element of freedom in that they permitted a peek over the Iron Curtain. At that time the fight against unlawful film video cassettes concentrated not on prosecuting the illegal use of copyright works, but on convictions for copying and storing 'anti-Soviet' or 'pornographic' products, which actually covered quite a wide range of fairly innocent episodes. This did, however, lay the foundations for the further development of the country's market for licensed video. In 1986, under the auspices of the USSR Goskino, an enterprise had been created for industrial copying and distributing of films on VHS — the Videofilm All-Union Creative and Production Association. Moreover, with the start of Perestroika in the USSR, various forms of entrepreneurship in video exhibition started emerging: both private and state screening rooms equipped with videotape recorders and TV sets appeared (they operated under the management of the regional organizations in film and video distribution) offering motion pictures for screening from video libraries (the issue of licensing such video products was of no relevance for such enterprises since the country had not yet joined the Bern Convention, the Law on Copyright and Adjoining Rights had not been adopted and production, distribution and exhibition of motion pictures were absolutely free and not controlled by any law). During the first years of the existence of the Russian Federation, the number of videotape recorders in households started to grow quickly and the popularity of video screening rooms waned;[93]

- 1993–1995 – the penetration of home video technology resulted in the transformation of most video screening rooms and video salons into video rental outlets. Consumers were offered more and more pirate video products, recording two motion picture titles onto a single cassette became ever more popular. At the same time the Hollywood majors first appeared on the Russian market: in 1994 Varus Video became the representative of Warner Bros. Studio[94]. Growth in the population's income and the fall in the cost of video cassettes both worked to promote a transition to retail trade in cassettes of feature films and the shutdown of video rental outlets;[95]

- 1996–1998 – the growth in the market for licensed products was tumultuous: by the end of 1996, the country had more than 40 video distributors; the increase in the number of licensed titles on the video market reached 500% in a single year[96]. A unique practice of license sales became widespread, in essence it involved the opportunity for any legal entity or natural person to purchase (from a company holding a set of video rights) a polygraph set (a cardboard slip box and a front sticker with the title of the film), plus a master-cassette in S–VHS or Betacam or even a common VHS format for further copying. This practice seriously complicated the struggle against video piracy in Russia, since it triggered the advent of an entire network of shady plants, distributors and retailers of video products: these camouflaged huge turnovers in 'pirate copies' with small volumes of 'licensed' cassettes. From 1 January 1997 the introduction of criminal liability for copyright violations precipitated a wave of production of licensed products. However, excessive supply generated by the distribution of

93 As per the article 'On the History of the Video Business in Russia' – http://www.close-up.ru/articles/detail.php?AID=7252
94 *Vlast* magazine, № 8 (70) of 08.03.1994.
95 As per the article 'On the History of Video Business in Russia' – http://www.close-up.ru/articles/detail.php?AID=7252
96 As per Wikipedia article 'Motion pictures by Russian distributors' http://ru.wikipedia.org/wiki/%D0%A4%D0%B8%D0%BB%D1%8C%D0%BC%D1%8B_%D1%80%D0%BE%D1%81%D1%81%D0%B8%D0%B9%D1%81%D0%BA%D0%B8%D1%85_%D0%B4%D0%B8%D1%81%D1%82%D1%80%D0%B8%D0%B1%D1%8C%D1%8E%D1%82%D0%BE%D1%80%D0%BE%D0%B2

sub-licenses, prevented video distributors from recouping their investment in copyright purchases, even with lavish advertising. In turn this resulted in another spiral of video piracy, with new features; the production of video cassettes simulating licensed products became widespread;[97]

· 1998–2002 – the financial crisis of 1998 had a serious impact on the development of licensed video products, reducing the number of companies operating on the market by a factor of 5 (the principal cause being that licensed video cassettes produced with the use of imported components became unaffordable for most citizens: the dollar exchange rate having skyrocketed from 6.2 RUB / 1 USD in August 1998 to 20.7 RUB / 1 USD in December). The video market was overwhelmed by a wave of mutual defaults on payments that resulted in the bankruptcies of a multitude of video distributors. As a result, the number of titles entering the market during 1999 fell by a factor of almost 3 year-on-year. The formats used also started changing: from 1998 video-CDs began to flood the market and DVDs followed from 2000[98]. Initially these were much more expensive than video cassettes, over 870 roubles per disk, as compared to 220 roubles per licensed video cassette[99]. According to data by the Russian State Statistics Agency, the average monthly nominal salary in Russia only reached 1,051.50 roubles, based on the results for 1998, which testified to the inaccessibility of licensed video cassettes and disks for the majority of the population. Consequently, the network of video distribution was resurrected throughout the country[100] and remained in place until 2005. Gradually, with the recovery of the economy and growth in disposal income the sales of licensed videos began to rise;

· 2002–2003 – a new blow was delivered to the licensed video market in Russia by the fast growth in the number of pirate DVDs sold: licensed disks remained imported, since the country had no official pressing plants. At the same time illegal disks were produced on an extremely wide scale – first homemade and then mass manufactured at military enterprises in the country as these were off-limits for law enforcers (such production lines exist in Russia even now: the media reports now and again about their closure in one city or other, although there is no talk of a complete clampdown). Non-licensed DVDs in Russia usually had several motion pictures (two to ten) burned onto a single blank and thus seriously undermined not only the licensed DVDs and video cassettes, but even pirate cassettes that were thus quickly forced off the market;

· 2004–2006 – the first Russian plants pressing licensed DVDs appeared (the very first one being the DVD Club in 2004), entailing a drop in both wholesale and retail prices for licensed disks: while a retail licensed disk could be bought for 600 roubles in the beginning of 2004, in 2005 that figure had already dropped to 300–400 roubles (the price of a pirate disk remained at around 250

97 As per the article ‘On the History of the Video Business in Russia’ – http://www.close-up.ru/articles/detail.php?AID=7252

98 As per Wikipedia article on ‘Motion pictures by Russian distributors’ http://ru.wikipedia.org/wiki/%D0%A4%D0%B8%D0%BB%D1%8C%D0%BC%D1%8B_%D1%80%D0%BE%D1%81%D1%81%D0%B8%D0%B9%D1%81%D0%BA%D0%B8%D1%85_%D0%B4%D0%B8%D1%81%D1%82%D1%80%D0%B8%D0%B1%D1%8C%D1%8E%D1%82%D0%BE%D1%80%D0%BE%D0%B2

99 V. Nazarov. ‘Adventures of Electronika.’ *Deng*i magazine, № 47 (351), 28.11.2001.

100 Ibid.

roubles)[101]. In parallel with this DVD-players were becoming cheaper and the DVD format was forcing VHS cassettes off the market. While in 2004 the ratio between the formats on the licensed markets was 70% to 30% in favour of video cassettes, in 2005 it had switched to 22% vs. 78% in favour of the DVDs and, in 2006, the share of VHS became negligible[102]. Anti-piracy measures taken during the same period also played an important role. During the autumn of 2005 the Hollywood majors Warner Home Video and Universal Pictures International announced their readiness to place special DVD releases on the Russian market at reduced wholesale prices. In 2006, a direct line representation office was opened in Russia for 20th Century Fox that supported the initiatives of other studios (Universal and Sony Pictures), and the recommended retail price for DVDs dropped to 99 roubles per disk (for example, *Garfield* by 20th Century Fox C.I.S.). At the same time the pirate version of these titles were sold for 100 roubles. Simultaneously, the national representatives of the US studios shrank the window for release to video of new films on distribution (special Russian editions were released just four weeks after the first screening in cinemas).[103] As a result, the sales of licensed DVDs in Russia during 2005–2006 grew rapidly, as these measures made the disks much more affordable. This in turn stimulated the expansion of the retail sales network[104] with growing interest in such products by non-specialized hypermarkets which dedicated additional space to selling video. These included Auchan, Metro, Real, Lenta, O'kay, as well as discounters such as Pyatyorochka, Kopeika and others. This had a decisive effect on the growth of volumes of licensed video sales in Russia during 2007;

- 2007–2008 – the growth in sales of licensed DVDs continued, as pirate DVDs were squeezed by shrinking windows to release of licensed DVDs, price reductions and stricter measures in the fight against video piracy on the part of law enforcement agencies. In 2007, the first Russian Blu-ray disk appeared (the pioneer was the VideoService company that released *Casino Royale* for Sony Pictures in April 2007). On the negative side, expansion of broadband Internet during the period resulted in the rapid growth of Internet piracy, affecting both licensed and pirated supports, particularly in Moscow and St. Petersburg;

- 2009 saw a dip in the video market, affected by the global economic crisis. Concretely, the sales downturn in Russia was a result of the general deterioration in consumer spending power, the return of pirate DVD sales through large specialized networks and further penetration of broadband Internet. The fall in demand provoked a review of pricing, with a premium now attached to new releases (the average retail price of licensed DVDs with new motion pictures grew from 300 roubles in 2008 to 400 roubles in 2009[105]) while catalogue editions became cheaper (Universal Pictures Russia announced a large-scale mark-down of library titles in May)[106]. At the same time, majors are offering Blu-ray disks at an average of 800 roubles, although changes are also in the pipeline: in June, 20th

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101 According to data by Nevafilm Research.
102 According to data published by *Videomagazine.*
103 http://www.tvcenter.ru/all-tv/V-2006-g-prodazhi-licenzionnyh-DVD-v-Rossii-vyrosli-vdvoe-do-42-Mln-diskov/
104 Ibid.
105 According to data from Nevafilm Research.
106 http://www.uprpress.ru/

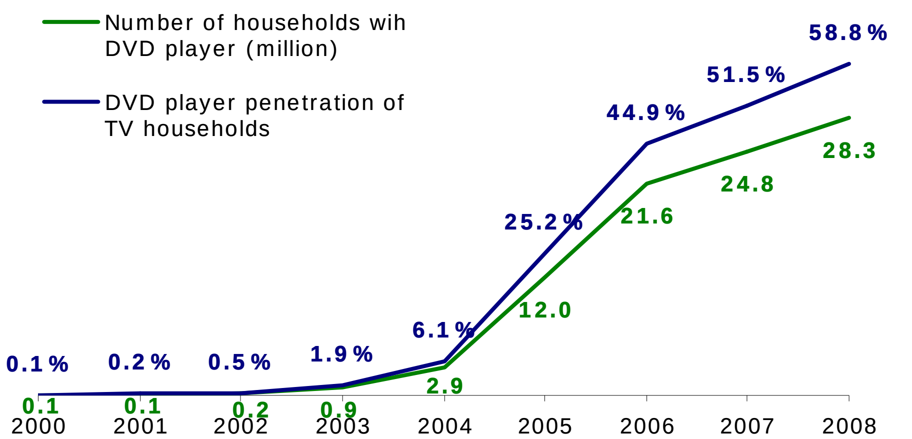
Century Fox C.I.S. offered releases from its library at 450 roubles, generating ambiguous reactions from other players not yet ready for price undercutting of the new format. In 2009, practically all the Russian representatives of the majors have released special publications of most new films 4 to 6 weeks after their cinema premieres. For example, in April 2009 a short window was set for motion pictures of *Paramount*[107] - only the *Walt Disney Company CIS* currently maintains a window of 3 to 6 months.

Household equipment in DVD players

The number of households with DVD players in Russia increased dramatically after 2004, but decelerated as early as 2007, due to gradual market saturation. At this stage, according to data from *Screen Digest,* more than half all households with TV sets had DVD players as well. The dynamic of penetration of DVD players was affected by their falling prices, which made the players affordable for the mass consumer and entailed a drop in the price of licensed disks as well.

In addition to DVD players plugged into TV sets, there are also specialized portable sets and computer drives, and these significantly increases the number of households that have a capability to view DVDs, but no detailed assessment of the volume of that market in Russia has ever been conducted.

Graphic 3.5.2 Spread of DVD players in Russia



Source : Screen Digest

Market volume for licensed DVDs

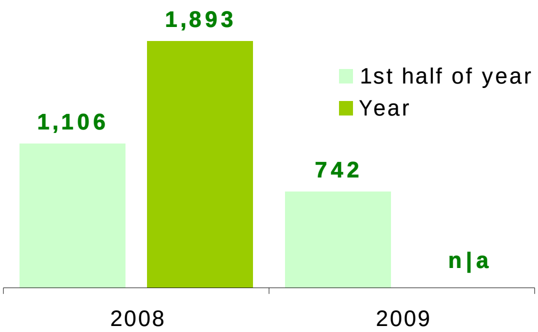
Statistics for DVD sales in Russia are compiled by industry publication *Videomagazine* since 2004, when the size of the market for the format became comparable with the market for VHS. However, the statistics collected cover only the leading players on the market and transaction

[107] http://www.uprpress.ru/

numbers exclusively. Despite that, numerous estimates of the average price of DVDs in Russia and of the monetary value of the market appear in the media and in as various studies. However the various estimates vary so widely that it appears practically impossible to reliably estimate the turnover of the country's licensed video market[108]. Sales of non-licensed video products cannot be estimated either, and this prevents any general understanding of the overall volume of the Russian video market. In consequence we will only consider here only the market for licensed DVDs, as expressed in the number of disks sold.

In all, the largest distributors of licensed DVDs released 1,893 titles during 2008, with 742 titles released through the first half of 2009, according to data from *Videomagazine* and the *Russian Film Business & Booker's Bulletin*. The forecast for the total number of DVD releases over the whole of 2009 is 1,600 titles, 15% lower than last year. Thus the crisis would appear to have affected the number titles released on video in Russia.

Graphic 3.5.3 Number of licensed DVD releases in Russia

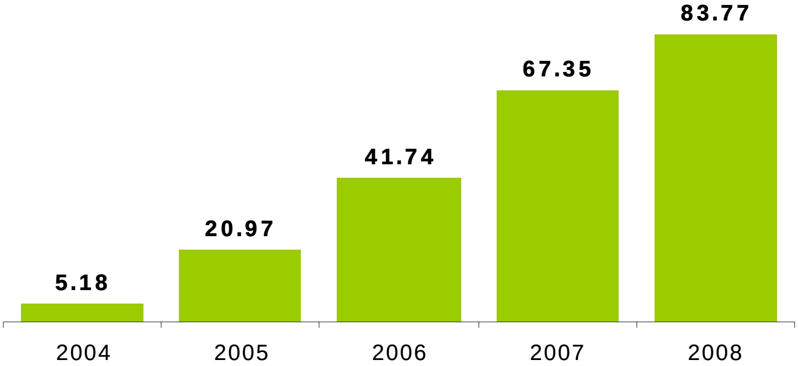


Source: Videomagazine, Russian Film Business & Booker's Bulletin

Sales of licensed DVDs also fell back during the first six months of 2009: according to *Videomagazine*, 38.6 million disks were sold as opposed to 83.8 million over the whole of 2008. If the level of DVD sales in Russia remains unchanged to year end, full year results will fall by 8% year-on-year, against a background of 25% growth in 2008 and 61% as compared to 2007.

[108] Even *Screen Digest* which publishes estimates of the global volume of video sales declines to offer a monetary estimate of turnover by the 'grey' markets – 'World video spending stabilises', November 2008, Issue number 446.

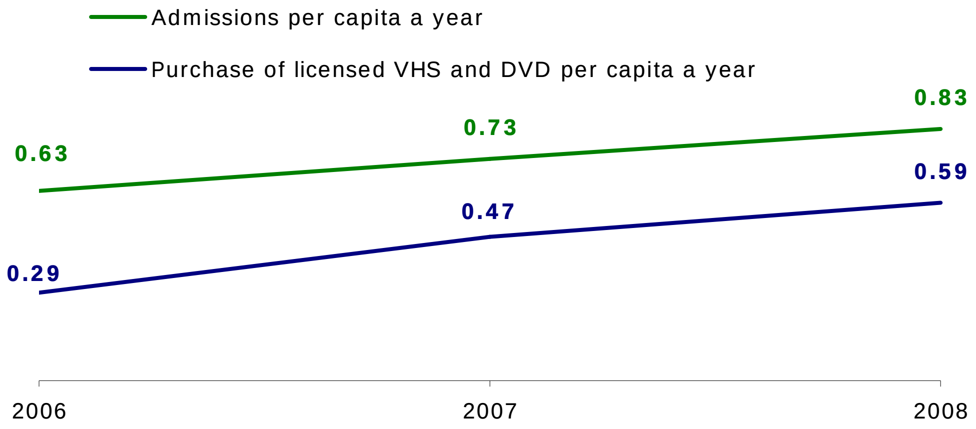
Graphic 3.5.4 Volume of licensed DVD retail in Russia, million units



Source: Videomagazine

The average per capita consumption of licensed DVD disks is also decreasing: its current annual average reaches 0.54 disks per year per person, which is lower than in 2008 and testifies to renewed growth in interest in pirate video products in Russia. Interestingly, as compared to the level of film viewing (measured by cinema admissions per capita per year) purchases of licensed DVDs also appears underdeveloped: this video market indicator is practically two times lower than the film market figure and shows a widening gap with cinema admissions, which appears confirmed in 2009.

Graphic 3.5.5 Level of video and cinema consumption in Russia



Source: Videomagazine, Film Business Today Magazine, Nevafilm Research

Market structure by age of release

Analysis of data on releases by the Russian video distributors during 2008–2009 shows that the national market is dominated by releases from the film distribution catalogues (films, produced earlier than 2007 – for release in 2008, earlier than 2008 – for release in 2009). At the same time the share of new titles (the production of which was finished in 2008 and 2009) released to DVD is falling (26% for 8 months of 2009 against 36% of video releases in 2008).

Graphic 3.5.6 Licensed DVD market by age of releases (2008)

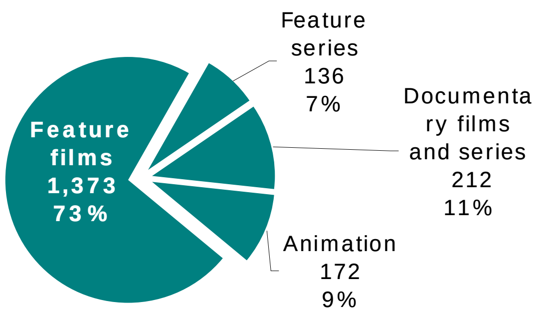
Source: Videomagazine

Note that the premiere releases come mainly from companies such as VideoService, Universal Pictures Russia, Walt Disney Company CIS, Sigma Film and CP Digital. For these companies 40-60% of releases are new titles, on theatrical release in the current or previous year, while the leaders in the release of catalogue titles are Soyuz Video and Paradise-VS, each of which released over 100 catalogue titles in 2009.

Releases by product type

Among the types of video products released on DVD, feature films dominate, representing 73% of the overall number of titles released during 2008, and 70% in 2009 (over 8 months). Feature TV series comprised 7% of the market, both last year and this year, and documentary films and series 11% in 2008 and 13% in 2009. Animation accounted for 9% of titles released last year and 10% in 2009. Thus the structure of the Russian licensed DVD market is feature-film oriented.

Graphic 3.5.7 Licensed DVD market by type (titles released - 2008)



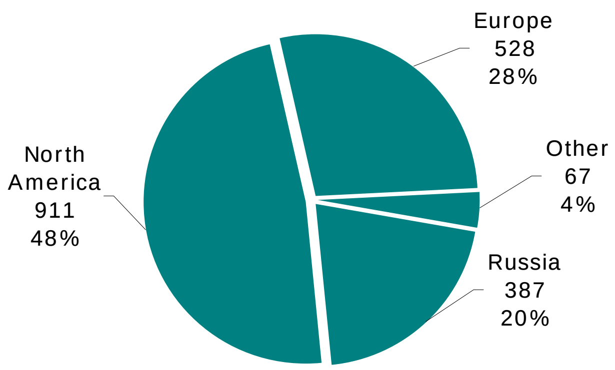
Source: Videomagazine

Leaders in the release of feature films to DVD in Russia are CP Digital, Soyuz Video and Paradise-VS. For feature TV series the leading companies are CP Digital and Carmen Video. Soyuz Video is the most active in releasing documentaries and is also the main provider of animation.

Market structure by origin of titles

The share of national releases on the Russian licensed video market in 2008 was 20.4% and the corresponding figure for the first 8 months of 2009 was 25%. Among foreign releases North American titles predominate (42.7% of releases in 2009, 48.1% in 2008), but the share of European countries is also significant at 28% based on results for January-August 2009 (27.9% in 2008).

Graphic 3.5.8 Licensed DVD market by origin of video production (number of releases), 2008



Source: Videomagazine

Leaders on the licensed DVD market in Russia

A ranking of distributors operating on the licensed DVD market in Russia has been compiled by *Videomagazine* since 2006 using a points scale that takes into account for film titles sales by each company and the number of disks sold over the respective week[109]. Note that the market leaders in the ranking remained unchanged over the period from 2006 to 2008. The top position in terms of number of DVDs sold is held consistently by Universal Pictures Russia (representing the Hollywood majors Paramount, Universal and Warner Bros, as well as the French Canal Plus studio on the Russian market). The second spot is held by CP Digital (the exclusive distributor of products by the Russian Central Partnership company, to the exclusion of motion pictures by Paramount). During 2006 and 2007 the third position in this list was occupied by VideoService, but in 2008 20th Century Fox C.I.S. has knocked it out of the leading trio. The success of 20th Century Fox on the Russian DVD market stems from a reorganization of its activities in Russia in 2006, when the major entered the Russian market directly and ceased using its previous local partner, Gemini Film International, as an intermediary.

Table 3.5.1 Top 10 DVD distributors by retail volume (2006-2008)

#	2006	2007	2008
1	Universal Pictures Russia	Universal Pictures Russia	Universal Pictures Russia
2	CP Digital	CP Digital	CP Digital
3	VideoService	VideoService	20th Century Fox-CIS.
4	VOX Video	20th Century Fox-CIS.	VideoService
5	20th Century Fox-CIS.	VOX Video	Music Trade
6	Soyuz Video	Soyuz Video	Paradise-VS
7	Twister Digital Video	Paradise Digital	Soyuz Video
8	Lizard Cinema Trade	West Video	VOX Video
9	Pervaya Videokompaniya	Lizard Cinema Trade	Misteriya Zvuka
10	West Video	Misteriya Zvuka	Nastroenie Video

Source: Videomagazine

109 'Video in Russia: 2006 results', http://www.kinobusiness.com/content/view/74/91/

Eighteen releases by Universal Pictures Russia number among the 50 top titles from 2008, while CP Digital had ten; third in the ranking was 20th Century Fox-C.I.S. with 7 releases.

Table 3.5.2 Leading distributors by DVD retail volume (2006–2008)

#	Distributor	Number of releases included in Top 50 DVD best sellers
	2006	
1	Universal Pictures Russia	12
2	CP Digital	6
3	VideoService	8
	2007	
1	Universal Pictures Russia	13
2	CP Digital	11
3	VideoService	8
	2008	
1	Universal Pictures Russia	18
2	CP Digital	10
3	20th Century Fox-CIS	7

Source: Videomagazine

The top ten best selling disks traditionally include at least three Russian films, while the list for 2008 boasted five 5 national productions. The rest of the top ten is formed exclusively by US motion pictures or joint US and European productions and all titles in the list are newly released and widely advertised blockbusters.

Table 3.5.3 Top 10 licensed DVD titles by sales in Russia (2006–2008)

#	Title	Origin of production	DVD distributor in Russia
2006			
1	Garfield: A Tail of Two Kitties	USA, UK	20th Century Fox CIS
2	Fast and the Furious: Tokyo Drift, The	USA, Germany	Universal Pictures Russia
3	Dnevnoy Dozor [Day Watch, The]	Russia	Pervaya Videokompaniya
4	Piter FM	Russia	VOX Video
5	Ice Age: The Meltdown	USA	20th Century Fox CIS
6	Crank	UK, USA	Central Partnershp, VOX Video
7	Pirates of the Caribbean: Dead Man's Chest	USA	VideoService
8	Stilyagi [Hipsters]	Russia	VOX Video
9	Dobrynya Nikitich and Zmey Gorynych	Russia	Soyuz Video
10	Departed, The	USA, Hong-Kong	Central Partnership, CP Digital
2007			
1	300	USA	Universal Pictures Russia
2	12	Russia	CP Digital
3	Harry Potter and the Order of the Phoenix	UK, USA	Universal Pictures Russia
4	Paragraf 78, Punkt 1	Russia	Central Partnership, CP Digital
5	Casino Royale	USA, UK, Germany, Czechia	VideoService
6	Ghost Rider	USA, Australia	VideoService
7	Night at the Museum	USA, UK	20th Century Fox CIS
8	Apocalypto	USA	Central Partnership, CP Digital
9	Lubov-Morkov [Lovey-Dovey]	Russia	VOX Video
10	Mongol	Kazakhstan, Russia, Mongolia, Germany	Soyuz Video
2008			
1	Mummy: Tomb of the Dragon Emperor, The	Germany, USA	Universal Pictures Russia
2	Ironiya Sudby. Prodolzhenie [Irony of Fate 2]	Russia	Music Trade
3	Apostle	Russia	CP Digital
4	Wanted	USA, Germany	Universal Pictures Russia
5	Admiral	Russia	Music Trade
6	Ilya Muromets and Solovey Razboinik	Russia	Soyuz Video
7	My iz Buduschego [We are from the Future]	Russia	VOX Video
8	Hancock	USA	VideoService
9	What Happens in Vegas	USA	20th Century Fox CIS
10	Hellboy II: The Golden Army	USA, Germany	Universal Pictures Russia

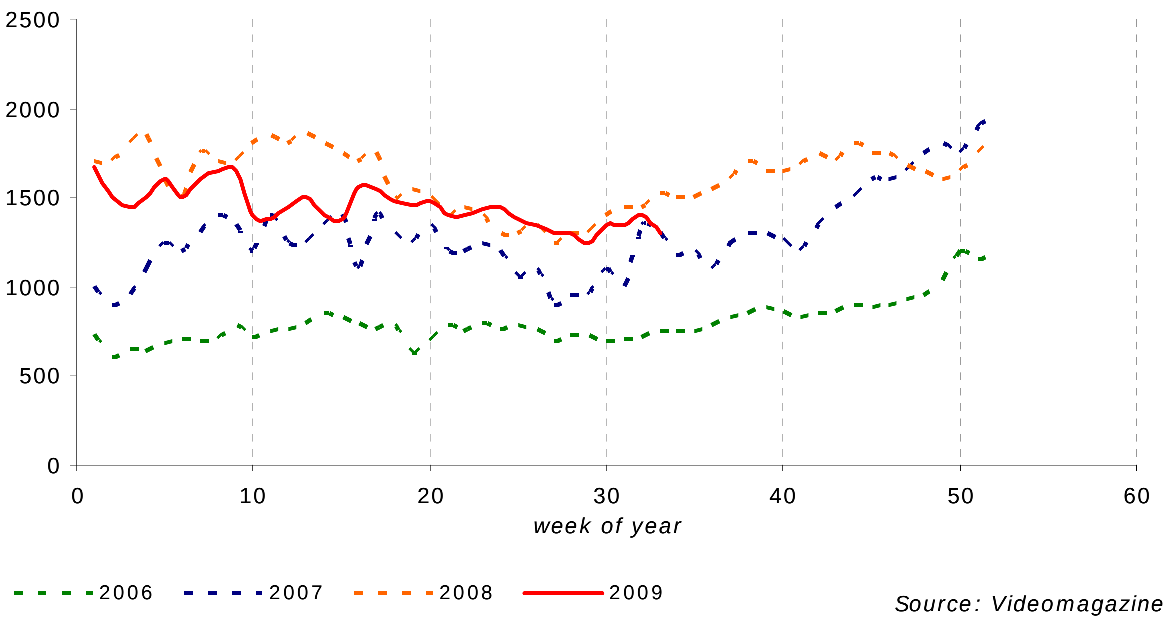
Source: Videomagazine, imdb.com

3.5.2 Principal trends

<u>Falling sales in licensed video</u>

Since the beginning of 2009, the principal trend on the licensed video market in Russia has been a downturn in sales. This is confirmed not only by market players who claim that sales have dropped on average by 25% and have fallen close to the level of 2007[110] but also by the data compiled by *Videomagazine.* Between January and July 2009 7.3% fewer legal disks were bought than during the same period last year (43,950,000 units as opposed to 47,410,000 in 2008). The most pronounced drops were observed in March (-18.1%) and April (-13.8%).

Graphic 3.5.9 Annual volume of video retail in Russia, thousand units (2006-2009)



In conditions of economic crisis and rouble devaluation such trends have a strong negative influence on legal disk manufacturers, since their revenues are defined by rouble income, while their expenses are dollar based (including consumables and royalties). It is worth remembering that back in 1998 such a conjunction resulted in the total collapse of the video market in Russia.

<u>Video piracy</u>

Against the background of falling sales of licensed videos in Russia, video piracy is once again coming to the fore: the Association of DVD Publishers estimates the share of pirate products on the

[110] Olga Goncharova, Irina Parfenova. 'Pirates have spun the disks'. *Kommersant*,19.03.2009.

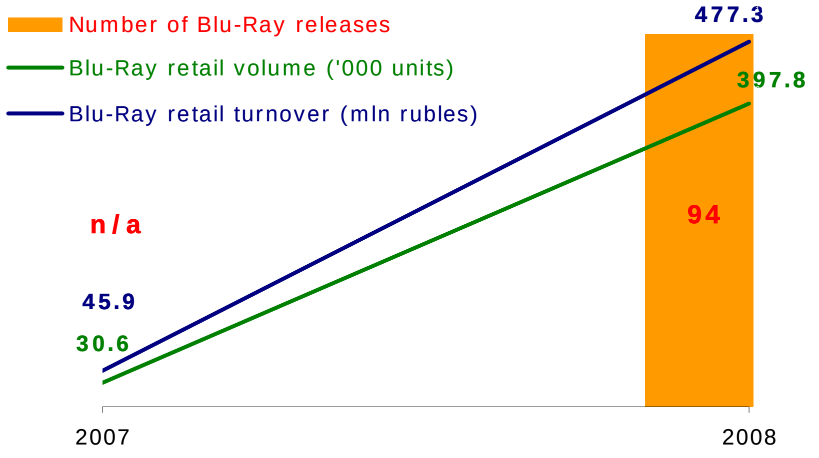
Russian DVD market at a level of 75–80% of the total volume of video sales[111]. From 2006 onwards, the 'pirate' retail market for DVDs saw falling sales (at a rate of approximately 30–35% a year), due to active penetration of broadband Internet access and the expansion of file-sharing – the principal resources used by pirates.

Video distributors hope for a change in the situation on the 'black market' for DVDs with increasing penetration in Russia of video products in HD format (Blu-ray): such motion pictures are stored as extremely large files which makes downloading them from the Internet difficult. However, new film titles of HD quality can also be found on torrents in 2009.

Blu-ray

Since 2007, films has been released in Russia in Blu-ray format: the first such release was Sony Pictures *Casino Royale*, released in April 2007 by the VideoService company. In 2008, the number of releases in the new format rose to 94, while January to August 2009 saw 54 film releases on Blu-ray disks; their number may exceed 130 by the end of the year.

Graphic 3.5.10 Volume of Blu-ray disc retail in Russia, thousand units (2007-2008)



Source: Screen Digest, Videomagazine, Informkino

According to *Videomagazine* and *Russian Film Business & Booker's Bulletin* results, the US majors are the most active in releasing disks of this type in 2009 - Sony Pictures (represented by VideoService in Russia), Universal Pictures Russia (video releases of Paramount, Universal and Warner Bros.), 20th Century Fox-C.I.S. and Walt Disney.

[111] Ibid.

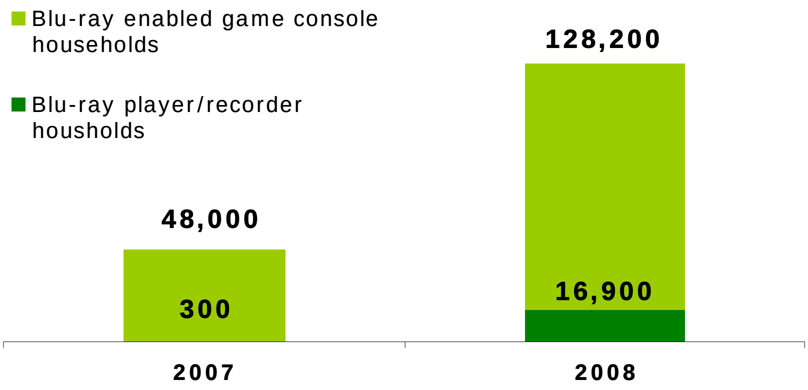
Table 3.5.4 Blu-ray disc releases in Russia in 2009

#	Company	Number of Blu-ray releases		Share (2009F)
		01.01-01.09.09	2009F	
1	Universal Pictures Russia	13	37	28%
2	VideoService	12	37	28%
3	20th Century Fox-CIS	9	23	18%
4	Walt Disney Company CIS	7	15	12%
5	Soyuz-Video	5	9	7%
6	Paradise-VS	5	5	4%
7	CP-Digital	1	2	2%
8	West Video	1	1	1%
9	Monolit	1	1	1%
	Total:	**54**	**130**	**100%**

Source: Videomagazine, Film Business Today magazine, Russian Film Business & Booker's Bulletin

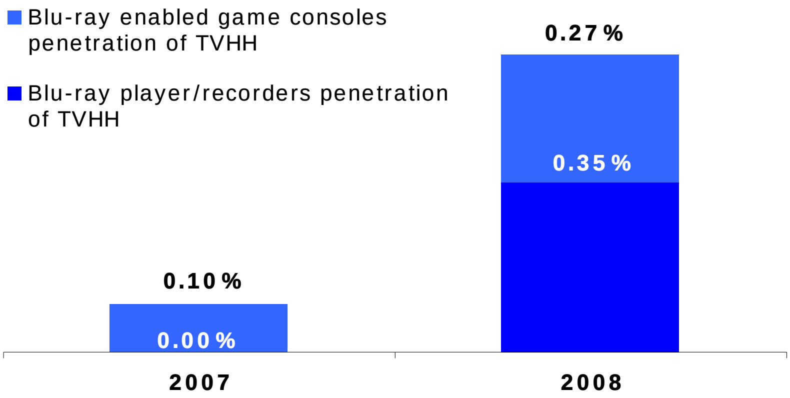
The number of Blu-ray players in Russia is growing constantly. And, if in 2007 and 2008 the Blu-ray format was predominantly marketed as Blu-ray enabled games consoles, then in 2009 dedicated Blu-ray players/recorders are becoming popular. According to forecasts, by the end of 2009 there will be 594,100 Blu-ray units, and the level of their penetration of TV households will reach 1.2%.

Graphic 3.5.11 Blu-ray player/recorder and games console housholds in Russia (2007-2008)



Source: Screen Digest

Graphic 3.5.12 Penetration of Blu-ray units in Russia (2007-2008)



Source: Screen Digest

3.5.3 Principal players

Overall, the Russian licensed DVD market numbers about 20 players, including:

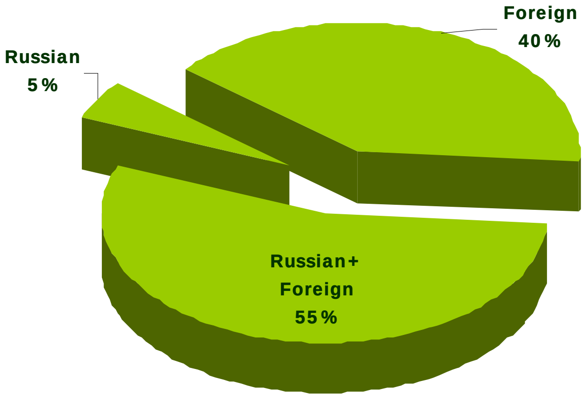
- representatives of the Hollywood majors (20th Century Fox-C.I.S. – on the market since 2004; Universal Pictures Russia – representing the interests of Warner Bros., Universal, Paramount and Studio Canal on the Russian market since 2005; Walt Disney Company C.I.S. – on the market since January 2009; VideoService – on the market since 1992 and representing the interests of Sony Pictures since 1997; had also represented Walt Disney Pictures between 2002 and 2008);

- Russian companies that specialize exclusively in national releases (Krupny Plan – catalogues of the Russian film studios Mosfilm, Soyuzmultfilm, Lenfilm and Gorky Film Studio);

- independent video distributors that offer a wide range of national and foreign releases (Paradise, CP Digital, Carmen Video, Lizard Cinema Trade, Nastroenie Video, Ruscico, West Video, Sigma Film, Soyuz Video, etc.).

As for the countries of origin of the titles released, Russian video distributors may be split into the following groups: only one company works with Russian video content, more than 10 handle foreign films exclusively, while 8 handle both foreign and Russian films.

Graphic 3.5.13 Russian video distributors by origin of titles released



Source: Videomagazine, Russian Film Business & Booker's Bulletin

Table 3.5.5 Players on the Russian DVD distribution market by number of releases in 2009

#	Company	Titles released in 01.01-01.09.2009					
		Feature films	Feature series	Documentary films and series	Animation	Total	Distributor's share
1	Soyuz Video	68		111	42	**221**	18.9%
2	CP Digital	125	27	4	6	**162**	13.9%
3	Paradise-VS	124		16	3	**143**	12.2%
4	Nastroenie Video	97	1			**98**	8.4%
5	Universal Pictures Russia	63	6		11	**80**	6.8%
6	Carmen Video	59	12	3	1	**75**	6.4%
7	20th Century Fox-CIS	64			5	**69**	5.9%
8	Lizard Cinema Trade	40	8		18	**66**	5.6%
9	Sigma Film	61				**61**	5.2%
10	VideoService	34	4	3	7	**48**	4.1%
11	Pervaya Videokompaniya	18	8	8		**34**	2.9%
12	Walt Disney Company CIS	15	8		9	**32**	2.7%
13	Ruscico	27		1		**28**	2.4%
14	Music Trade	10	2		3	**15**	1.3%
15	Flagman Trade	3	4	3	5	**15**	1.3%
16	Cinema Pristige	11				**11**	0.9%
17	Misteriya Zvuka	4				**4**	0.3%
18	Amalgama Company	3				**3**	0.3%
19	Reanimedia				2	**2**	0.2%
20	West Video	2				**2**	0.2%
	Total	**828**	**80**	**149**	**112**	**1169**	**100.0%**

Source: Videomagazine, Russian Film Business & Booker's Bulletin

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Research companies

Nevafilm JSC

The company Nevafilm was founded in 1992 and has a wide range of experience in the film industry. The group has modern sound and dubbing studios in Moscow, St. Petersburg and Kiev (***Nevafilm Studios***); is a leader on the Russian market in cinema design, film and digital cinema equipment supply and installation (***Nevafilm Cinemas***); became Russia's first digital cinema laboratory for digital mastering and comprehensive DCP creation (***Nevafilm Digital***); distributes alternative content for digital screens (***Nevafilm Emotion***); has undertaken independent monitoring of the Russian cinema market in the cinema exhibition domain since 2003, and is a regular partner of international research organizations providing data on the development of the Russian cinema market (***Nevafilm Research***).

RFilms (Invest Collegium Ltd)

RFilms specializes in research in the field of film industry financing and public administration. Since 2008, the company has carried out projects aimed to promote Russia on the international film production market, develop cooperation between Russian and international film producers though co-production, and attract foreign filmmakers to shoot in Russia. The company organizes the annual Moscow Co-production Forum as part of the Moscow International Film Festival.

The European Audiovisual Observatory

Set up in December 1992, the European Audiovisual Observatory's mission is to gather and distribute information on the audiovisual industry in Europe. The Observatory is a European public service body comprised of 36 member states and the European Community, represented by the European Commission. It operates within the legal framework of the Council of Europe and works alongside a number of partner and professional organisations from within the industry and with a network of correspondents. In addition to contributions to conferences, other major activities are the publication of a Yearbook, newsletters and reports, the compilation and management of databases and the provision of information through the Observatory's Internet site (http://www.obs.coe.int).