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THE FILM INDUSTRY IN THE RUSSIAN FEDERATION

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European Audiovisual Observatory

by

Nevafilm

with contributions from

RFilms, Groteck

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Chapter 1

THE FILM INDUSTRY IN RUSSIA: INSTITUTIONAL FRAMEWORK[1]

[1] This chapter is prepared by RFilms, with contributions from the Ministry of Culture of the Russian Federation.

1.1 AN OVERVIEW OF STATE POLICY GOVERNING THE FILM INDUSTRY IN RUSSIA

1.1.1. The activities of federal authorities in the film industry

At the federal level, regulation of cinema in the Russian Federation is a function of the Ministry of Culture. Its structure includes a Department of Cinema, which consists of five units.[2] As 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 and Russian film weeks in other countries. It also provides support for the representation of the Russian film industry at international film festivals and film fairs (through Russian films taking part in major international film festivals, stands and pavilions for Russian films at film fairs, etc.), an international forum for film co-production in Russia, special conferences, and roundtable discussions.

In addition, the Ministry of Culture:[3]

- issues distribution certificates for film products released for distribution across Russia (including cinema, DVD and video distribution, and TV broadcasting in every format[4]);
- issues National Film certificates [for films where at least half of the actors are Russian citizens[5]];
- maintains the Central State Registry of Cinema and Video Films;[6]
- administers state subsidy programmes, including support for the production and distribution of National Films.

As part of its restructuring in 2008, the Ministry of Culture was merged with the Federal Agency for Culture and Cinema (which was initially formed in 2004 during reforms to the structure of the Russian Government[7]). Thus the functions of developing and implementing state policies for cinema were once again united under a single umbrella 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 national subsidy programmes, new mechanisms for financing the film industry, reorganisation of film industry bodies that remain under state supervision, and updating current legislation in order to improve the efficiency of state regulation, are all 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 Tertiary Industry and Foreign-owned Assets that supervises cinema-related 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 when they are submitted directly to the Prime Minister.

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2 Regulations on the Department of Cinema under the Ministry of Culture of the Russian Federation, Ministry of Culture, 9 December 2008, № 234.

3 In accordance with the Regulations on the Ministry of Culture of the Russian Federation, approved by the Decree of the Government of the Russian Federation of 29 May 2008, № 406, and Regulations on the Department of Cinema under the Ministry of Culture.

4 Obtaining a distribution certificate is mandatory for film products released for distribution on Russian territory, in accordance with Order of the Ministry of Culture of the Russian Federation of 27 September 2004, № 60.

5 Regulations on National Films, approved by Order of the Ministry of Culture of the Russian Federation of 27 September 2004, № 60.

6 The film is entered into the State Registry upon receiving its distribution certificate.

7 Resolution of the Government of the Russian Federation of 17 June 2004, № 291.

In December 2008, a Government Council for the Development of Russian Cinematography was established.[8] The Council is intended to become a permanent consulting body to generate proposals linked with the implementation of state policy on cinema. Its principal objectives are to review and draft proposals on the following:

- improving the effectiveness of state support in the production, distribution and exhibition of Russian film products and in managing federal property in the cinema sector;
- providing support in the promotion and distribution of Russian film products abroad;
- promoting education, scientific research and the implementation of new technologies in cinema;
- developing measures to safeguard the Russian film industry.

The Council is chaired by the Russian Federation Prime Minister Vladimir Putin, which emphasizes the high importance attributed to cinema at the state level. The Government Council reviews strategic issues in the development of the film industry, and promotes the timely adoption of concordant decisions at a supra-agency level.

The State Film Fund of the Russian Federation is overseen by state authorities. The fund receives and archives original materials of National Films and regulation copies of foreign films that are released for distribution across Russia.

The Federal Fund for the Social and Economic Support of National Cinematography also answers directly to the Russian Government. The fund was created in 1994 by the Russian Federation Committee for Cinematography in the run-up to the celebrations for the centenary of Russian and world cinema. In December 2009, Decree No.1215 of the Russian Federation Government "On the Federal Fund for Social and Economic Support of Russian Cinema" approved a new revised version of the fund's Constitution, significantly expanding its mandate. The mission of the Fund is primarily to support Russian cinema, to consolidate the structure for production of mainstream films, to improve their quality and hence competitiveness, and to promote National Films within the Russian Federation and abroad.

The principal objectives of the Fund are:

- to assist in implementing socio-economic programmes in Russian cinema;
- to provide financial support to organisations involved in the production, distribution, exhibition and promotion of National Films;
- to engage Russian and foreign investors in financing the production, distribution, exhibition and promotion of National Films;
- to accumulate financial assets (e.g. a proportion of box office returns from films supported by the Fund) for reinvestment in Russian cinema, including film production, distribution, exhibition and promotion of National Films, as well as supporting not-for-profit film events;
- to provide support for film technicians, specialists and entrepreneurs working in the film industry.

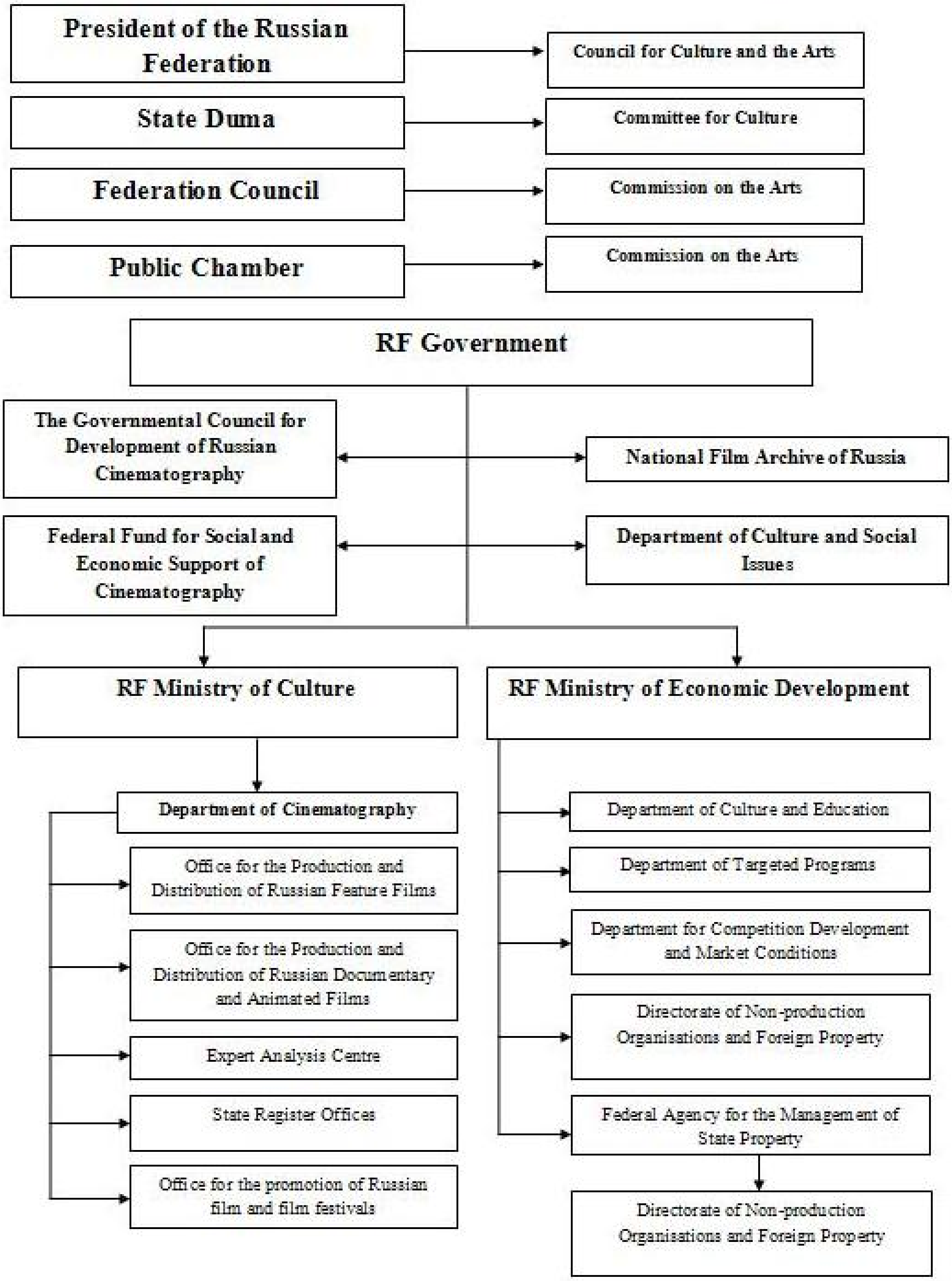
The activities of two departments of the Ministry of Economic Development also include the regulation of the film industry: The Department of Culture and Education and the Department for Competition Development and Market Conditions. The Department of Target Programmes conducts special appraisals of state target programmes that supervise, in particular, the adoption of the state target programme aimed at promoting digital film exhibition.

A number of cultural committees and commissions also work 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.

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

Regional and municipal administrations have specific structural units (ministries, directorates and departments), responsible for developing and implementing culture-related policies. However, not all regions have individual structural divisions charged with implementing state policies in cinema. After the disbanding of the Cinematography Committees in the Republics of the former USSR, specialized 'film & video associations' (FVA) were formed to co-ordinate film distribution and cinema management in their respective reporting areas. The majority of Russian regions still have such FVAs, although they no longer exert any influence upon the implementation of state policies in cinema. They use the funding allotted to them in regional budgets to purchase prints of Russian films and to distribute them among the cinemas that still operate under their auspices. As a rule, they remain an important supplier of films to municipal cinemas, most of which do not have modern film projection or cinema equipment and which function as second and third-tier screens. However, fewer and fewer of these cinemas remain in operation.

Graphic 1: Structure of state cinema authorities



1.1.2 The activities of regional and local authorities in the film industry

Given Russia's federal structure, regional and municipal authorities operate within the scope of powers specified by federal legislation and also in accordance with regulatory legal acts adopted at regional and local levels.[9]

Clause 2, Article 26.3 Chapter IV.1 of Federal Law No.184-FZ[10] of the Russian Federation – "General Principles for Delineating Authority between the Federal State Authorities and the State Authorities of Russian Federation Subjects" – gives a full list of the powers that regional authorities have over jointly-managed projects, which such authorities fund independently from regional budgets. In specific cases and according to the procedures set out in federal law, the powers indicated may draw on additional financing from the federal budget and federal off-budget funds, including in accordance with target programmes.

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

- providing secondary vocational education (excluding education obtained in federal training institutions, the list of which is approved by the Government of the Russian Federation);
- organizing and supporting cultural institutions, including cinema-related institutions (excluding federal institutions of culture and art, the list of which is approved by the Government of the Russian Federation);
- organizing and implementing inter-municipal investment projects (including cinema-related projects);
- international co-operation (including cinema-related projects), in accordance with Russian Federation legislation.

This rule clearly defines the scope within which regional authorities are free to adopt decisions acceptable for specific territories and to bear financial responsibility for their activity. The list above shows that Russian Federation subjects have four types of powers in the field of cinema.

Providing secondary vocational training for key film-industry professionals (for example, projectionists) is now of utmost importance for Russian cinema. The shortage of technicians with the required level and type of training is felt in almost every region where film-related organisations operate. Among the largest institutions for secondary vocational training in the film industry are those in Sergiev Posad, Sovetsk, Irkutsk and Rostov-on-Don.

The second power is formulated in a more abstract way and relates in terms of content to the existing network of cinematographic institutions under the jurisdiction of the regions of the Russian Federation. The description of this power does not specify particular types of cultural and arts institutions that may operate under regional jurisdiction. Therefore regional and local authorities retain some freedom in defining the type of cinema-related institutions that remain under their jurisdiction and are financed from the regional budget. If this power is applied exclusively to the existing network of institutions, then it is made redundant by the emergence of private organisations that offer the same range of services as state-financed ones. This is entirely the case with cinemas, some of which still remain state or municipal institutions financed by the taxpayer. Another issue is that in Russia the law does not currently accommodate the notion of a 'specialized' cinema that would receive budget support according to the kinds of films it shows. This means in effect that there are no approved regulations for state and municipal theatres regarding programming their repertoires. The situation may change with the implementation of 'state' and 'municipal' programmes that will make it possible to bring in requirements for repertoire planning.

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9 Federal Law "On General Principles of Organisation of the Local Authorities in the Russian Federation", of 6 October 2003, №131-FZ.

10 Federal Law of 06 October 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".

Securing the power to organise inter-municipal investment projects and participate in their implementation enables the Russian regions to stimulate the development of the film industry in their territories. Such inter-municipal investment projects in the film industry may include: cinema construction, including multiplex cinemas aimed at serving not only local settlements or suburbs, but also nearby municipal regions; the construction of film studios that will enrich the local economy and provide employment.

International cooperation in the filmmaking industry is understood to mean holding international film festivals, special events and exhibitions involving foreign cinema organisations, encouraging regional film studios to participate in joint film projects with foreign companies, and other similar schemes. In particular, this power allows for foreign film crews to be invited to work in the region, and specialized regional organisations (cinema commissions) may be established to assist in the development of film production within a given territory.

The provisions of Federal Law No.131-FZ of 06 October 2003 specify the list of powers that fall under the exclusive purview of municipal authorities. Provisions relating to the film industry include the creation of an environment for leisure and ensuring that local residents have access to cultural organisations.

Thus, policies for the provision of services by cinema-related organisations (primarily showing films) should be implemented at town-, city-, or district-level. Ideally, municipal authorities should have exclusive responsibility for creating the conditions for film exhibition. Despite that, film exhibition in the Russian Federation is in fact currently the joint responsibility of federal and regional authorities, with financing coming from regional budgets as well as from the federal budget (where this accords with Russian Federation legislation). This situation has arisen due to inadequate budget funds at the municipal level, which brought about a sort of social risk insurance: now Russian regions are responsible for supporting film-related organisations in their territory; this includes cinemas as well as organisations engaged in mobile film exhibition in provincial areas.

Moscow is the most active region in terms of executing its legal powers in relation to cinema. The Moskovskoe Kino state enterprise supervises municipally-owned cinemas, many of which it rents out. In 2007, the Moscow Government adopted the City Target Programme for 2008–2010 to produce Russian TV films in the city. In total, RUB 2,948.17 million has been invested in the programme. Since 2004, many regions in Russia have implemented their own programmes to promote the film industry, though these are mostly targeted at supporting film distribution rather than filmmaking.

1.1.3 Overview of the regulatory acts governing the film industry

The principal legislative act regulating interaction between players in the film industry is Federal Law No.126-FZ of 22 August 1996, “On State Support for Film in the Russian Federation”. Its provisions are primarily focused on various aspects of state regulation of cinema, and the definition of basic terms used in Russian regulatory legal documents in relation to cinema. One of the key elements of Law No.126-FZ is the definition of the category National Film. State support for film production in the Russian Federation is provided only for films that have received National Film status. National Film status carries with it the right to claim all forms of state support and VAT exemption. In 2009, Federal Law No. 126-F3 of 22 August 1996 “On state support for Cinema in the Russian Federation” was amended. This expands the possibilities in Russia for co-production with countries that do not have international agreements with the Russian Federation and are not members of the European Convention on Cinematographic Co-production. Thus, from 1 May 2010, in accordance with the amendments to the Russian Federation Federal Law No. 126-F3 of 22 August 1996, “On state support for cinema in the Russian Federation”, a film is recognised as “national” if:

1. the film producer is a citizen of the Russian Federation or a company legally registered within the Russian Federation;
2. the majority of the film’s authors are citizens of the Russian Federation;

3. at least 70% of the film's cast and crew (directors, directors of photography, cameramen, sound engineers, production designers, costume designers, editors and principal cast) are citizens of the Russian Federation;
4. 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 essential part of the artistic design;
5. 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 appropriately registered within the Russian Federation;
6. foreign investment in production of the film does not exceed 50% of the film's estimated budget.

Films produced in accordance with the Russian Federation's international agreements in collaboration with film producers who are foreign citizens, stateless persons or foreign legal entities may also be considered National Films.

The legally recognised authors of films as works of audio-visual art are:[11]

- the director;
- the scriptwriter;
- the composer of the music (with or without lyrics), composed specifically for the given audiovisual work.

Using the terminology of Russian legislation, audiovisual artworks include film works and also all works expressed by methods comparable to filming (such as TV- and video-films), irrespective of the technology used for their initial or subsequent recording.

The Russian Federation Tax Code provides certain VAT exemptions[12] (18% of the cost of works/service) for cinema services, works (services) in film production executed (rendered) by cinema-related organisations, and the usage (including distribution and exhibition) rights of film products that have received certified National Film status.

In addition to this, for cultural institutions (cinemas, cultural and community centres, clubs, and other organisations which charge for cinema admissions), 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.

In accordance with Federal Law No.308-FZ of 30 December 2009, "On placing orders for delivery of goods, work completed, services rendered for state and municipal needs" and other individual statutes of the Russian Federation, amendments were applied to federal laws No.126-F3 "On state support for cinema in the Russian Federation" of 22 August 1996 and No.94-F3 "On placing orders for delivery of goods, works, and services for state and municipal needs" of 21 July 2005. Provisions were also made for the state financing of cinema through subsidies.

In accordance with the enacted amendments, the financing can be made by a federal executive authority responsible for cinema by providing subsidies from the federal budget as a rule and on a discretionary basis; the subsidies are provided from the federal budget in accordance with federal budget legislation for the financial year and planning period in question, and are adopted in accordance with regulatory legal acts of the Government of the Russian Federation.

The provisions of Federal Law No. 94-F3 as applied to cinema contain a certain contradiction, since the finished film or the activities for its promotion and distribution, all of which are made possible through state support, are not acquired for state needs but rather enter free circulation on the market. State support is thus aimed at facilitating the creative process in the film industry and at increasing the

[11] Item 2, Article 1263, Part 4 of the Russian Federation Civil Code.
[12] Sub-articles 20 and 2 of Item 2, Article 149, Part 2 of the Russian Federation Tax Code, approved by the Federal Law of 05 August 2000, № 117-FZ.

availability of films to the general public, though the legal and regulatory base has not entirely adapted to the particularities of state policy in relation to cinema. A new mechanism for state financing of cinema was introduced in connection with this problem: subsidies. Subsidies will be provided as state grants in the form of partial and full state financing of the production and distribution of feature, documentary and animated National Films.

One further amendment made to federal law No.126-F3 “On state support for cinema in the Russian Federation” of 22 August 1996 was the resolution on the start of operation, as of 1 May 2010, of a single automated system for the intake, accumulation, accounting and processing of information on film exhibition in theatres on Russian Federation territory.[13]

In 2010, federal white papers regulating the following areas were being developed:

- support for the formation and development of a credit framework for filmmaking organisations during the production of films; investment spending on construction and reconstruction, acquisition and provision of equipment for film production and film exhibition;
- the creation of a state support system for insuring against risks during film production;
- creation of stimuli for the development of cinema infrastructure, including by introducing tax exemptions;
- creation of a mechanism for state stimulus of private patronage.

1.1.4 Analysis of the system of state support for cinema

State support for cinema is provided in accordance with the provisions of Law No.126-FZ, which specifies the following types of state support for cinema:

- partial state financing of the production, distribution and exhibition of National Films, including production of National Films for children and young people, and debut National Films;
- the preservation and development of cinematographic material and equipment;
- the creation of conditions for the distribution and exhibition of National Films;
- the implementation of educational, scientific and technological programmes;
- holding film festivals and other events;
- showing National Films at international film festivals and other international cultural events.

State policy for the film industry is based on the following principles:

- recognition of cinema as a field of culture and art that cannot survive without the development of its creative, educational, production, technical, scientific and information bases;
- state responsibility for sustaining and developing cinema;
- ensuring that the general public has access to film products;
- due co-operation with foreign state authorities and international organisations in their respective areas of activity.

The activity of the Ministry of Culture of the Russian Federation has in recent years been focused on resolving strategic problems in state regulation and support for the Russian film industry. Its main objectives are:

[13] However, during the drawing up of the Government Decree on implementing the system’s operation, certain contradictions arose in connection with the procedures for cinemas to provide information to the central information processing centre: following consultations with representatives of the film exhibition sphere, the Ministry of Culture of RF offered to allow cinemas to engage third-party organisations in executing this function (specifically, Rentrak, an international company already active in Russia), while the Ministry of Finance would not agree to this suggestion since the amendments to the Federal Law oblige cinemas to provide this information *without recourse to any intermediary.* As a result, the Decree on implementation of the system had still not been enacted as of August 2010, and its fate remains uncertain.

- the creation of a unified federal database of film exhibition in theatres, which allows the data on number of film viewers and box office takings to be made official and public;
- Restructuring of industry infrastructure using public-private partnership mechanisms for film production and film exhibition, and including the creation of a network of digital cinemas and multi-functional cultural centres in small and medium-sized cities (to be managed by private operators);
- Involving regional and municipal authorities in working towards reviving the cinema sector of the economy, attracting private and foreign investment, and using geographic, climatic, infrastructure- and personnel-related advantages to create a united cinematographic space on Russian Federation territory;
- Further improving the state support mechanism for the production and distribution of National Films, towards a more precise financing structure for film projects.

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

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

As a rule, **state support for the production of National Films** cannot exceed 70% of the production budget and must follow the established format of the contract concluded with the producer. In certain exceptional cases, with a view to the artistic and cultural value of a film project, federal executive authorities with responsibility for cinema may adopt a decision on state financing up to 100% of a National Film's estimated production cost.

State support for film production is provided to National Films,[15] and in the period from 2006 to 2009 support was focused on four main programmes:

The first line of support for film production is aimed at <u>films dealing with historical, military and patriotic subjects, adaptations of Russian literary classics, and works on topical, social, and moral issues</u>. 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 state participation 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 <u>production of films that expand the genre range of Russian-produced films, cultivating the emergence of diverse genre forms that correspond to the preferences of the modern film audience</u>. This category accounts for up to 30% of the total expenses of the federal budget for state support of feature film production. The average level of budget allocations per film of this group is up to RUB 29 million.

The third line of state support of Russian feature films is the <u>production of films for young children</u>. This accounts for more than 15% of the total annual federal budget for state support of feature films. Nevertheless, films for children noticeably 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 technicians. Therefore children's films may receive state financial support amounting to up to 100% of their production cost.

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

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[14] Approved by the Decree of the Government of the Russian Federation of 08 November, 2005, № 740.
[15] Definition given in Federal Law № 126-FZ.

In addition, state support is available for the production of feature-length animated films, which are prime candidates for theatrical distribution and are currently becoming more popular with audiences and seeing ever higher box office returns.

State financial support for film production was focused on supporting the production of films in acceptable volumes during a crisis period in the world and Russian economies; on the creation of varied and substantial thematic and genre-specific Russian film programmes; on the production of films bearing social value for a mass audience.

In feature films, following Russian cinematic traditions, the priority remained films for children and young adults, films dealing with contemporary life in Russia, films about Russia's military or historical past, film adaptations of literary classics, popular genre films and debut films from young talent. For animated films, the main efforts were focused on maintaining and developing the achievements of Russian animation, the creation of animated series and full-length films with notable creative and commercial potential. Among documentary and popular science films, primary attention is paid to historical chronicals on film (documentaries),, full-length reportage and scientific-educational productions dealing with topics relevant to contemporary life.

Over the last decade, the priorities in state regulation of cinema have been gradually modified, principally due to general trends in administrative reform in Russia and the intensive development of the film industry itself.

In 2002 tax breaks on profits were abolished for organisations investing in cinema, in accordance with the general trend towards removing tax exemptions for certain industries in an effort to guard against money-laundering schemes. At the same time, allocations for direct state support of production and distribution of National Films were increased (to RUB 1 billion in 2002) in order to compensate for the financial resources that had been withdrawn from the industry in terms of tax breaks. The administrative reform that began 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 Government announced the need to secure state rights on film products created with state support, so that the state could earn revenues from distribution and other uses of National Films proportionate to state financing.[16] However, this mechanism was never brought into practice and state support is still provided without any obligation to repay.

Today, the target programme mechanisms in the film industry have only been partially implemented (the Culture of Russia Federal Target Programme has been extended to 2011 and its performance measures have been updated), while no industry-specific state budgeted target programme relating to cinema has been adopted at government or agency level.

In 2002 the Government[17] also set the goal of increasing the annual production rate to 100 feature, 65 animation, and 330 documentary National Films a year by 2006, and to increase the number of nationally-produced films to 25% of the films screened in the country's cinemas. This multi-stage task was achieved in 2006: 105 full-length features, 459 documentaries, and 65 animated films were produced with financial support from the state.

After the rapid growth in state support during 2002–2003, increases in financing stabilised during 2004–2007: the rate of growth was in line with inflation. Overall, the past six years have shown an increase in state support by a factor of more than 2.5. In 2009, RUB 2,445 million was allocated from the federal budget to finance cinema – an 11% decrease from the previous year, owing to changes in the system of state financing of film production.

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

Table 1: Film releases with state financial support (2006–2009)

Film production	Number of films released				Volume of financing (million RUB)			
	2006	2007	2008	2009	2006	2007	2008	2009
Feature films (total)	105	78	101	78	1,658	1,821	1,970	1 689
Feature-length	103	66	89	66				
News-reels	2	12	12	12				
Documentary films (total)	483	555	612	326	415	493	430	413
Animated films (total)	65	137	160	151	285	325	319	342
Film production total:	629	770	873	555	2,359	2,641	2,740	2,445

Source: Ministry of Culture of the Russian Federation

In 2009, work on 78 full-length and short feature films, 326 documentary films and 151 animated films (two of which were full-length) was completed with state financial support.

In 2010, RUB 4.9 billion[18] was allocated for state support of film production; support will be provided through the Ministry of Culture of the Russian Federation and the newly recreated Federal Fund for the Social and Economic Support of National Cinematography:

- **The Ministry of Culture of the Russian Federation**

  Total budget: RUB 850 million.

  Recipients: companies engaged in the production and distribution of films for children and young people; debut, independent and experimental National Films; newsreels; documentary, scientific-educational and animated National Films.

  Funds are distributed on a competitive basis.

- **Federal Fund for Social and Economic Support to National Cinematography**

  Total budget: RUB 2.86 billion, of which RUB 2 billion for financing expenses connected with the production, distribution and exhibition of full-length national feature films by major Russian film producers.

These top companies in Russian film production were selected by the Fund's board of trustees. In 2010, they comprised eight film companies, each of which is to receive RUB 250 million (approximately EUR 6 million) from the fund. The major film producers include the companies:

- ✓ CTB (Sergei Selianov, producer).
- ✓ Direktsiya Kino (Anatoly Maksimov, producer).
- ✓ Studio Tri-Te (Nikita Mikhalkov, Leonid Vereshchagin, producers).
- ✓ Central Partnership (Ruben Dishdishian, Aram Movsesian, Sergei Danielian, producers).
- ✓ Igor Tolstunov Production Company (PROFIT).
- ✓ Art Pictures (Fyodor Bondarchuk, Dmitri Rudovsky, producers).
- ✓ Bazelevs (Timur Bekmambetov, producer).
- ✓ Rekun (Ilya Neretin, producer).

[18] Decision of the Government of the Russian Federation of 31 December 2009, № 1216.

Subsidies are distributed at the discretion of the Fund.

- RUB 710 million goes to financing expenses connected with the production and distribution of full-length National Films addressing socially relevant themes by major Russian film producers
- RUB 150 million is allocated for stimulus payments to support the production of full-length National Films by Russian film companies (leaders in Russian film production) known for making films that are artistically and socially relevant, and whose audience exceeds 1 million.

Around RUB 80 million is allotted annually for the **state support of cinema-related events**. Professional cinematic prizes are awarded every year in Russia as part of this programme. 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 Lavrovaia Vetv [Laurel Branch] award for non-feature film and TV works, the Bely Kvadrat [White Square] cinematic and artistic prize of the Guild of Film Cinematographers of the Filmmakers' Union of Russia, the Blockbuster film- and video-business professional prize for the best performing films in Russian distribution and the Zolotoy Dvizhok [Golden Engine] prize for achievements in film advertising.

Eighty five promotional events for Russian films were conducted with state financial support in 2009 in 50 regions of the Russian Federation. Viewing film festivals as an effective tool for encouraging and popularizing creative achievements in Russian and world cinema and the most promising directions for growth, in 2009 the Ministry of Culture provided state financial support amounting to nearly RUB 100 million on a competitive basis to the most significant Russian and international film festivals held on Russian Federation territory.

State support for the distribution of National Films across the Russian Federation is given to film distribution companies to fund prints, dubbing, advertising, etc. State financing for the distribution of a National Film may not exceed 70% of its budgeted distribution cost. In 2009, 46 feature films and two full-length animated films received state financial support totalling RUB 91 million towards the distribution and promotion of films on Russian screens, as well as their duplication and advertising.

State policy on film distribution in 2009 was primarily oriented toward finding a comprehensive solution to the problems of maintaining and developing Russian film distribution and the consolidation of the position of Russian cinema in Russian and world markets. The Ministry of Culture has determined several priorities for the development of state support for film distribution in 2010; these include improving the system of state support for endeavours to promote Russian cinema, optimizing budget spending, and planning and conducting events commemorating the 65th anniversary of victory in the Second World War.

As previously noted, another focus for state support is the **organisation of international and major Russian film festivals.** Every year more than 100 film festivals are held in Russia. Recently, there has been a rise in the number of special film exhibitions, festivals and film weeks etc. - just five years ago there were half as many film festivals. On average, the sum allocated annually for these events amounts to approximately RUB 105 million.

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 considered viewers' events (non-competitive). The majority of national festivals include special non-competitive programmes and reviews where foreign films are often presented.

Table 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: Ministry of Culture of the Russian Federation, 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 Message to Man International Film Festival held in St. Petersburg.

The main international film festival in the country, a high-profile event, is held in Moscow at the end of July. The largest national film festival, Kinotavr, has been held every June in Sochi since 1990, and is considered not only the leading Russian film exhibition but also a space for networking among film professionals. Another famous and authoritative national festival of Russian film is the Window to Europe festival, held annually in August (in Vyborg). In contrast to the Kinotavr festival, it has a competition for documentary films.

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

Film festivals in Russia are further divided between festivals featuring all types of film productions (feature films, non-feature films, animation) and specialised festivals with specific themes and focuses. Notable specialised festivals include the Open Russian Festival for animated films, held in Suzdal at the end of February. Among non-feature film festivals, the Russian Documentary Film Festival held in Ekaterinburg is a significant event.

Table 3: Russian film festival classification by competition type

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

Source: Ministry of Culture of the Russian Federation, RFilms

A number of festivals featuring international films are held in Russia. These include the Pacific Meridians International Film Festival for the Asia-Pacific region, the Baltic Debuts Film Festival for debuting filmmakers from the Baltic States and northern Europe, the Golden Minbar International Muslim Film Festival, the Kinoshock Open Film Festival of CIS countries, Latvia, Lithuania, Estonia, and others.

There are also topical and genre-specific festivals dedicated to environmental, detective, comedy, sport 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 showcase films by students and debut films: the Dukh Ognya [Spirit of Fire] International Festival in Khanty-Mansiysk, the VGIK International Film Festival, the Svyataya Anna [Saint Anna] International Film Contest and the Open St. Petersburg Festival Beginning (of films by students of art institutes and film schools).

In 2007, the Zavtra International Festival of Contemporary Cinema was held. This competition focused on films distinguished by creative individuality that also aimed for mainstream success.

State financial support is provided for the publication of magazines such as *Iskusstvo Kino*, *Novye Filmy – Kinomekhanik*, *Kinostsenarii*, *Kinograf*, *Prokat*, *Kinovedcheskie Zapiski*, *Nash Prokat*, the newspapers *Ekran i Stsena*, *SK- Novosti* and *Put k Ekranu*, the encyclopaedias *Novejshaya Istoria Kino*, the *Kinoprotsess* bulletin of Russian cinema and the annual digest *Russkaya Kinematografia*; and also for setting up Internet portals dedicated to nationally produced films.

As part of the **development of international connections in cinema**, in 2009 42 Russian films were shown at international film festivals with support from the Ministry of Culture, and 5,228 Russian films were screened abroad. In addition, the Moscow Co-production Forum was held for the first time in Russia in 2009. It was organised with support from the Ministry of Culture to contribute to the development of international cooperation and joint productions.

Finally, a series of measures to provide for the **centralised purchase of imported cinefilm stock** was put in place in 2009. The film stock purchased allowed for the production of feature and documentary films created with state financial support using high-quality cinema materials of the required quantities and types. Furthermore, cinefilm stock was provided for the duplication of films that received state financial support in distribution.

Table 4: Purchasing volumes for imported film stock in 2009 with state support (metres)

Type of film stock	Total	Kodak	Fuji
Colour negative film stock	486,170	320,860	165,310
Colour duplicate film stock	403,210	275,720	127,490
Colour positive film stock	11,463,120	7,200,440	4,262,680
TOTAL:	**12,352,500**	**7,797,020**	**4,555,480**

Source: Ministry of Culture of the Russian Federation, RFilms

Since state support is one of the principal sources of financing for film production, together with financing provided by television channels, it is important to note that the attitude to state support among producers and the general public is ambivalent. 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 focused merely on claiming money for production budgets, rather than on ensuring distribution and investment returns. These doubts became the basis for reforms to film support conducted in late 2009–early 2010 (creation of the Cinema Fund and changes to the principles and structure of film production financing in Russia). It will only be possible to fully evaluate the results of these innovations after several years have passed.

1.2 THE SYSTEM OF PROFESSIONAL FILM EDUCATION IN RUSSIA

Each year more than a thousand cinema students graduate from Russian universities, and more than 850 technicians with specialized secondary school training complete training at vocational high schools.

The growing need for professionally trained personnel and for new and improved training requires expansion of the production and training on offer. It is estimated that there is a 30-35% shortage of trained professionals, and this is prevalent both among leading creative professionals and second-tier specialists: the film industry is currently short of professional projectionists, lighting technicians, camera operators, assistant directors and assistants. More special effects and computer graphics experts are also needed.[19]

There are currently six universities in the country that offer cinema-related training. The largest are concentrated in Moscow and St. Petersburg. The St. Petersburg State Film and TV University (SPbSMTVU) offers training in 12 cinema-related professions, the All-Russian State Cinema University (ARSCU) in eight professions; while other universities offer far fewer courses.

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

The post-Soviet period has brought about a noticeable deterioration in the system of workshops in Russia's top universities. The problem comes from difficulties in attracting younger and sought-after directors to give lectures and run workshops in these universities. A system needs to be established that would encourage leading creative figures from the film industry to return to and teach in universities. This would help solve the problem of the shortage of creative, talented individuals capable of producing films of international standard.

So far, specialized training institutions lack up-to-date equipment and training aids that would reflect the current technical state of the film industry, as well as highly-qualified tutors capable of updating their course content in line with the latest developments. For universities, the problem with acquiring modern equipment stems both from insufficient financing and from the extremely confused system of tenders and approvals that must be navigated in order to acquire equipment for the institution.

In May 2009, in an effort to solve this problem and bridge the gap between professional education and current film production, RUB 4 billion was allocated to ARSCU from the federal budget. It was allocated for the construction of a new 17-storey classroom building and for technical refurbishment of the training film studio and auditorium at the university's main campus.

There are also problems related to cinema in the secondary school system, which is run 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, the Sverdlovsk Film Studio, Amedia, 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 the Russian film industry in terms of qualified production personnel.

1.3 ACTIVITIES OF STATE-OWNED CINEMA ORGANISATIONS

State support for film studios operating in Russia is currently provided indirectly, through financing the 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 support for Russian studios from the state budget; the same applies to investment in building new studios and in attracting investors to such projects.

11 film studios are currently entirely state-owned; in addition, the Ministry of Culture runs four film studios as federal state unitary enterprises.

[19] Public report on the state of the Russian film industry, its capabilities and prospects for development until 2015, drawn up based on the results of the Cinema Community Conference – "Russian Film Industry–2008: Future Outlook", Moscow, 25 August 2008.

Table 5: State-owned cinema institutions

No.	Film Studio	Russian Federation federal district	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	Central	34.7	14	11,000
13	Badge of Honour Far-Eastern Studio of Newsreel	Far-Eastern	-	-	-
14	Soyuzmultfilm Studio	Central	-	-	-
15	Russian Central Film and Video Studio for Newsreels, Documentary and Educational films	Central	-	-	-

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

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 studio system are obvious. On the one hand, their producers have the experience and the means in terms of sets, costumes, large floorspace, traditions and brand at their disposal, all accumulated over many years. On the other hand, they have to cope with either financial problems or the extreme conservatism of a system introduced in the years of a planned economy and complex vertical state superstructures.

The following aspects of the current situation for state-owned film studios are of note:

- in most cases, the stages of these studios are situated in city-centres, making them attractive to investors developing residential and commercial real-estate projects, but undermining their economic interest in developing film production capacity as this is generally less profitable;
- Decree No. 389 by the President of the Russian Federation of 04 February 2001 – On the Reorganisation of the Federal State Film Studios - and Article 16 of Federal Law No.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 this same Presidential Decree dictate that the Government retains film production as the principal type of activity of federal state film studios when restructuring them into open joint stock companies, as well as during future management of state-owned stakes in these companies;

- when privatizing federal state film studios, the Russian Ministry of Property must ensure that they comply with the requirements of Russian Federation legislation while retaining film production as their principal type of activity.[20]

One of the principal tasks of the state has become retaining the active profile of film studios as the principal prerequisite for their possible further development, as well as using the organisational and legal schemes of public private partnerships (PPP) that permit the raising of investment and credit funds. To date, no Russian state studios have attracted private investors to become co-owners. At the same time, as part of the reorganisation programme for cinema-related institutions under state supervision in 2009, in the interests of increasing the effectiveness of state property management and the development of these organisations' potential, a programme was conducted for the development of a restructuring plan for film industry organisations using PPP mechanisms (excluding the sale and reprofiling of the activity of these cinema-related organisations). According to this plan, five base film studios (Lenfilm, Mosfilm, Gorky Film Studio, Sverdlovsk Film Studio and the National Film Centre) would be selected from the 15 state film studios, and the remaining ten would be merged with them. Should a strategic investor be interested in a studio, the board could look into the possibility of a PPP arrangement, but with the condition that the state would maintain a stake of not less than 25% plus one share. So, for instance, in the case of Lenfilm, the Ministry of Culture is investigating RWS (Russian World Studios) as a potential private investor (RWS is a subsidiary of Sistema).

Russia's underdeveloped film-production infrastructure and lack of competitiveness in relation to other countries in attracting film production companies mean that state participation is essential in developing film studios. At present, state authorities are looking into the possible creation of a special research and production complex on separate premises using cinema organisations under state control, which would unite industrial enterprises, high-tech companies for editing, post-dubbing and special effects, business centres, exhibition spaces and auxiliary services.

Work is presently underway to restructure the film foundations that report to the Ministry of Culture[21] – they are being brought together around the Souzmultfilm Studio Film Fund, which has been rebranded the Consolidated State Film Collection.

Other film industry organisations under state supervision include Moskinap, which previously manufactured camera and projection equipment, the Moscow Design Bureau for Film Instrumentation (designing stereo cameras, specialised equipment for underwater filming, etc.), Kinotekhnika (film-equipment hire and cinefilm procurement), Giprokino (cinema design), and the Institute of Film and Photography Research (NIKFI).

Sovexportfilm, which is wholly owned by the state, is currently responsible for representing Russian-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 days and weeks of Russian film in more than ten countries in Europe, the Middle East, Asia and Latin America. Sovexportfilm specializes in organizing special events to promote Russian films abroad and plans to expand its activities as a specialised cinema organisation that represents the interests of nationally-produced films in general (much like the French export agency Unifrance and such bodies).

The state plans to restructure the cinematic bodies under its supervision to improve the efficiency of their operations and to manage federal assets. This may result in a reduction of the overall number of state cinematic enterprises, as unprofitable organisations, those with no potential for development, and those with no strategic value for the state are closed down.

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[20] Item 3 of the Decree by the Government of the Russian Federation of 18 September 2002, №1299-r.

[21] Decree by Rosimushchestvo of 23 June 2008, № 721-r and of 21 October 2008, № 1717-r.

1.4 STATE SUPPORT FOR INTERNATIONAL COOPERATION AND CO-PRODUCTION

As part of its work to develop Russia's film industry internationally, the Ministry of Culture annually distributes about a thousand film prints for film exhibition abroad and runs about 1,500 film exhibitions of nationally-produced films. It also manages 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 co-operation in cinema, each year Sovexportfilm runs festivals and exhibitions of Russian films and Days or Weeks of Russian Cinema abroad. In 2008 special retrospectives were also organised to celebrate the 100th anniversary of Russian cinema.

In addition, for the last three years Russia has presented its own pavilion at Cannes, and for the past two years the Moscow Co-production Forum has been held at the Moscow International Film Festival with support from the Ministry of Culture of the Russian Federation.

State support for joint film production projects in the Russian Federation is available for films that have received National Film status, which allows them to apply for all forms of state support and exempts them from VAT (see section 1.1.4 for details about state support).

The following joint film production projects are eligible for National Film status:

1. **Films made in collaboration with countries that have signed international agreements on joint film production with the Russian Federation.** At present, protocols on joint Russian film production have been signed with:

    - *Canada* – Agreement between the Government of the Russian Federation and the Government of Canada on Relations in the Audovisual Sphere, concluded 05 October 1995;
    - *Italy* – Agreement between the Government of the Russian Federation and the Government of the Republic of Italy on Cooperation in Cinema, concluded 28 November 2002;
    - *Bulgaria* – Agreement between the Government of the Russian Federation and the Government of the Republic of Bulgaria on Cooperation in Cinema, concluded 07 July 2004;
    - *France* – Agreement between the Government of the Russian Federation and the Government of the Republic of France on Cultural Cooperation, concluded 06 February 1992. Producers from Russia and France may continue to use as a framework the Agreement on Cooperation in Cinema signed between the Government of the USSR and the Government of the Republic of France on 08 July 1967. The Ministry of Foreign Affairs of Russia has confirmed that this Agreement may still be officially used as a legally binding agreement in the process of cooperation between the Russian and the French film industries;
    - *CIS countries* – An intergovernmental agreement on co-production was concluded 14 November 2008.

    The number of countries with which agreements and protocols on cooperation in the audiovisual sphere are in place is constantly expanding. Work is presently underway to sign intergovernmental agreements on co-production with Chile, Venezuela, India, and Germany.

2. **With government participants from the European Convention on Cinematographic Co-production** (1992). In early 1994 Russia ratified the European Convention on Cinematographic Co-production of 1992, which opened the way for implementing tripartite film projects.

3. **With other countries —** in the interest of expanding the opportunities for joint film production with countries that do not have international agreements with the Russian Federation and are not members of the European convention on joint film production, amendments were made as of 1

May 2010 to Federal Law No. 126-FZ of 22 August 1996, "On state support for cinema in the Russian Federation", touching upon the concept of National Film.[22]

At the time of writing, a key decision 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 necessary documents at Russian Government level are still underway. The Russian Ministry of Connection and Mass Communications has been charged, in co-ordination with the Ministry of Foreign Affairs, with managing the Russian Federation's participation in the activities of Eurimages[24] once membership has been formalised.

In 2009, the Friends of the German-Russian Film Academy association was formed, which aims to promote German-Russian cooperation in cinema and strengthen ties between German and Russian filmmakers in terms of the creation, production and financing of films. The association's headquarters is located in Cottbus, which hosts the International East European Film Festival every year. The association includes representatives of political authorities, film institutes, film funds and film companies of the German Bundeslaender, as well as from Berlin, Brandenburg and Saxony.

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] whose mission is defined by the Council of Europe as improving transparency in the European audiovisual sector by providing information services for professionals.

Cooperation in cinema with the countries of the former USSR has been actively developing since the mid-1990s. The programme of joint national cinema events was approved in 1994. A year later the Agreement on Cooperation in Cinema between CIS member states was adopted. A model law, "On State Support for Cinema", was drawn up, and in 2008 an intergovernmental agreement on co-production was signed with CIS countries.

In the interests of increased efficiency in promoting Russian films abroad and developing joint film production with foreign countries, intergovernmental agreements on joint film production with Germany, Chile, Argentina, China, India, the USA, South Korea, and Japan are set to be concluded in 2010. In terms of developing joint film production with foreign countries, particular attention is paid to developing a series of events geared towards encouraging foreign film companies to produce their films in the Russian Federation. At present, work is underway on the creation of a not-for-profit partnership, the Russian National Cinema Commission, an initiative of RFilms, Sistema Mass Media and other private companies, with consulting support from the Ministry of Culture of the Russian Federation. This organisation will act as a film commission at the national level, including representatives from the regions of the Russian Federation focused on promoting themselves as filming locations and attracting foreign film crews.

1.5 ACTIVITIES OF RUSSIAN CIVIL ORGANISATIONS IN CINEMATOGRAPHY

There are 30 public organisations operating within the Russian film industry, with a total membership of more than 5,500 individuals and 120 legal entities.

The Filmmakers' Union, founded in 1957 as the USSR Union of Cinema Workers, played a decisive role in the history of the emergence of public organisations related to cinema. The Union's goals are to protect social, authorial, allied and labour rights, intellectual property and the professional interests of its members, as well as to provide assistance in the creation and improvement of conditions for their creative activities. The Union has 5,000 members, with an average age of 62.[26] Since 1997, the

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[22] See section on "Review of the regulatory acts governing cinema-related activity".
[23] Decree by the Government of the Russian Federation of 3 June 2002, № 376, "On the Russian Federation Joining the European Support Fund for Co-production and Distribution of Cinematographic and Audiovisual Works (Eurimages)".
[24] www.coe.int/T/DG4/Eurimages/
[25] www.obs.coe.int
[26] Movie Research Company

Chairman of the Board of the Filmmakers' Union has been Nikita Mikhalkov, head of the Tri-Te film company. The Union is a self-governing, Russia-wide public organisation, based on individual membership and founded to protect common interests and achieve goals set by creative professionals from the film and audiovisual industries. The Russian Filmmakers' Union includes 13 guilds and one association, including the Guild of Film Directors, Guild of Cinematographers and others.

In spring 2010, a new public association named KinoSoyuz was created as a counterweight to the Filmmakers' Union. The reason for the creation of an alternative cinema union was extreme dissatisfaction with the current leadership of the Filmmakers' Union.

The Guild of Producers of Russia[27] is a not-for-profit partnership founded in 1996 and is now a key independent association of Russian film producers. The Guild has 115[28] individual members, which, according to the Guild's estimates, amounts to 90% of all film producers in Russia. In terms of the number of its corporate members, the Producers' Guild is one of the three largest in the industry. The principal focus of the Guild's activity lies in the representation and protection of industry interests in state bodies at both legislative and executive levels, the initiation of new bills to regulate the film industry, and the direction of relations with other professional communities. In April 2009, a new President of the Guild of Producers of Russia was elected, Renat Davletyarov, the General Producer of Interfest, which has released a number of successful films in recent years, including *180 and Above*, *Lovey-Dovey*, *Indigo* and *Yulenka*. Interfest runs the Russian Film Weeks in New York (since 2001), Paris (since 2003), and Berlin (since 2005). Since 2006, Mr. Davletyarov has headed the Kino-Yalta International Festival of Producer Movies in Crimea (Ukraine). In 2007, he founded Zavtra, an annual international festival of contemporary cinema. The Russian Guild of Producers is an official partner of the Cinema Production Service Exhibition, the Day of Russian Cinema in Cannes, the Kino-Yalta Film Festival, the Rolan Bykov Fund Children's Film Script Contest, the Eurasia International Film Festival, the Russian International Film Market, and the professional award for excellence in advertising and the promotion of Russian films and TV series, Zolotoy Dvizhok [Golden Engine]. One of the Guild's projects is the drafting of pro-forma contracts between producers and others involved in the film-making process to be made freely available on their website. Recent initiatives of the Guild include a public statement on fighting Internet piracy during Parliamentary sessions at the Russian Federation State Duma in June 2009. As piracy is an activity particularly detrimental to producers of Russian films, the Guild intends to draft laws on liabilities for infringement of copyright of audio-visual works, to be submitted for due consideration by state authorities. The Guild of Producers plays an active role in the various existing forms of dialogue with the government, for instance, during the Parliamentary Hearings in the State Duma on questions of cinema, the Guild wrote an open letter to the President on current problems in the film industry.

A Russia-wide public organisation, the Film Directors' Guild of Russia, formed in 1991, is also a partner in conducting several cinema events, including the Stalker Film Festival, the Golden Phoenix All-Russia 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 model agreements between producers and directors, producers and scriptwriters, and also between other market players in film production. In addition, they interact with similar not-for-profit associations abroad to develop international co-operation. For example, the Producers' Guild is a member of the International Federation of Film Producers' Associations (FIAPF), and the Guild of Cinematographers is a member of the European Federation of Cinematographers (IMAGO).

[27] www.kinoproducer.ru
[28] http://www.kinoproducer.ru/ru/about/

The Alliance of Independent Film Distribution Companies (ANKO), a not-for-profit partnership, was founded in 2001 on the initiative of the largest national film distributors. The Alliance's remit includes:

- upgrading the system of film distribution in Russian Federation regions, both through the creation of an appropriate database, and by monitoring regional film and video markets;
- improving theatre reporting routines, detecting cases of inaccurate reporting, and streamlining cinema workflows;
- optimizing repertoire planning for its members;
- studying and summarizing instances of interaction between its members and companies not exclusively involved in film distribution, but who do business with the industry;
- 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; legal protection of the 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 site[29] has now become one of the most authoritative and trusted sources of data on the results of film exhibitions, 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 distribution and exhibition branches). But due to disagreements that had arisen between major and independent distributors, in 2010 ANKO had difficulty electing a new president. The survival of this association of players who are very different in essence and in terms of market strength is thus now in question.

Together with Mosfilm, Lenfilm, the Russian Guild of Producers and the Kinoalliance Alliance of National Film Theatre Organisations, the Alliance of Independent Film Distribution Companies (ANKO) has become one of the co-founders of The Russian Union of Film Industrialists (RSKP), a not-for-profit organisation. The principal tasks and goals of RSKP as an industry association are: promoting the development of the Russian film industry and forming efficient mechanisms to represent and protect the interests of filmmakers, distributors and film theatre networks. According to information from the Ministry of Culture, 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 Kinoalliance Alliance of National Film Theatre Organisations, a not-for-profit partnership,[30] was started in 2004 to represent the interests of another group of players in the film industry: cinemas. Kinoalliance also organises KinoEXPO, one of two leading trade fairs for the fields of film distribution and exhibition.

In 2009, the National Association of Cinemas (NAC) was reconvened. In March 2010, the NAC reached an agreement on the foundation of a united cinema organisation based on Kinoalliance. NAC was transformed into a franchise of the United Organisation for the Ural, Siberian and Far Eastern federal districts; in this way the efforts of NAC and Kinoalliance were united towards creating a single agency to represent all of Russia's cinemas (and with prospects for including cinemas in the CIS as well).

But by April 2010, the creation of a new not-for-profit partnership was announced: Strategiya Kino [Strategy of Film], which according to the announcement by its organisers (regional film exhibition operators) "emerged to defend the interests of all participants in the process of the production, promotion and distribution of films and other audiovisual products". At present, this partnership is working to solve the problems of a defect in legislation relating to the use of intellectual property rights; more specifically, it is advocating the complete abolition of deductions to composers belonging to RAO (this constitutes the primary distinction from the position of Kinoalliance, which is working to decrease the rates of these required deductions from the current 3% of box office takings to 0.15-0.25%).

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29 www.np-anko.ru
30 www.kinoalliance.ru

Russian Authors' Association (RAO) is a not-for-profit public organisation created by authors towards the realisation and protection of intellectual property rights. The principal objectives of RAO are to manage authors' property rights on a collective basis in cases where their practical exercise on an individual basis is hindered; to assist authors in transferring rights for the use of a work of science, literature, and/or art on an individual basis; to represent the legal interests of authors in state and private publications and organisations, as well as abroad.

The Association of DVD Manufacturers was created in August 2002 in the interest of protecting rightsholders from copyright violations. The project was spearheaded by the largest Russian DVD manufacturers at the time – Twister, Lizard and others (8 organisations in all). The Association's mission is "to fight against 'piracy' as a means of increasing profits for rightsholders". The Association includes 16 enterprises and organisations. The Association of DVD Manufacturers works according to the principle of collaboration with all branches of government, engaging various subdivisions in their work, including: the Economic Crime Department (OBEP), divisions at district, city and ministerial levels. Confiscations of illegal products are conducted in collaboration with law enforcement agencies, which monitor confiscated materials during prosecution and the court process.

Market experts consider the current effectiveness of public organisations' activities to be unsatisfactory. This is primarily due to their limited success in developing self-regulatory mechanisms for the industry.[31] In addition, there has been little effort made to interact with state authorities and to participate in developing the regulatory and legislative basis for the film industry.

The effects of the economic crisis have, however, spurred some public organisations into activity. In June 2009, the Association of TV and Film Producers was registered; it brings together 18 companies engaged in the creation of film and TV films. The primary goal of the Association is to create the most favourable conditions possible for producers to do business. At present the first project announced is the creation of a civilised, structured system for relations with film and TV actors.

Obviously, many initiatives by public organisations need serious and meticulous elaboration, so only time will tell how efficient their activities will prove in the long run. Generally speaking, the role of public organisations in the Russian film industry cannot be described as significant, as they only have a marginal impact upon the processes going on in the industry and do not shape its future development trends. During the investigation "Public organisations in Russian cinema: towards increasing the effectiveness of their activity", commissioned by the Russian Ministry of Culture, the company Movie Research revealed the basic problems typical of public organisations in the Russian film industry:

1. duplication of organisations due to the absence of representatives expressing the united position of a specific professional group;
2. high dependency of public organisations on the state;
3. the feeling that it is impossible to change anything;
4. the lack of preparedness or awareness on the part of the general public regarding the development of the institutions of a civil society;
5. inadequate differentiation among public organisations due to the lack of protection of interests of certain film industry professions;
6. a special feature of the industry is creative individuals;
7. public organisations have a low level of transparency.

[31] Poll taken as part of a study of participants of the conference-forum of the cinema community 'Russian Film Industry-2008: Future Outlook'.

List of principal professional organisations in Russia by focus.

Copyright:

- Russian Authors' Association (RAO);
- DVD Publishers' Association;
- Russian Anti-Piracy Organisation (RAPO);
- Russian Rightsholders' Union (RRU).

Film distribution and exhibition:

- Alliance of Independent Film Distribution Companies (ANKO);
- National Association of Cinemas (NAC);
- Kinoalliance;
- Strategiya Kino not-for-profit partnership.

TV:

- Russian Television Academy;
- Eurasian Television and Radio Academy;
- International Academy of Television and Radio;
- National Television and Radio Demonstration Association.

Film Industry:

- Association of TV and Film Producers;
- Confederation of Cinematographers' Unions;
- Russian Union of Film-makers;
- RF Filmmakers' Union:
  - 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,
  - Make-up Artists' Guild,
  - Association of Animated Films;
- KinoSoyuz;
- Russian Popular Cinema Academy;
- International Cinematographer's Union of Slavic and Orthodox Nations;
- Russian National Academy of Cinematic Arts and Sciences;
- NIKA Russian Academy of Cinematographic Arts;
- Club of Young Producers;
- Producers' Guild of Russia;
- Stuntsmens' Union;
- Film and Broadcasting Union;
- Film and Theatrical Actors' Union;
- Association of Film Sound Professionals;
- Association of High-Definition Television and Digital Cinema.

Funds:

- Valeri Priyomykhov Non-profit Beneficent Fund;
- Maecenas of Russia Beneficent Fund;
- The Rolan Bykov International Fund of Cinema and Television Development for Children and Young People;
- The Patriotic Film Support Fund;
- Regional Public Fund for Assistance in the Development of Cinema;
- The Andrey Konchalovskiy Cinema and Television Support Fund;
- The Eduard Sagalayev Fund.

Chapter 2

FILM INDUSTRY: AN OVERVIEW

During the last few years all the branches of the Russian film industry have displayed continuous growth, generating interest in the Russian market from national and foreign investors both within and outside of the industry. This is a natural result of the steady recovery of the various parts of the industry, including film exhibition, distribution and production.

The first step in that process 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 it was the turn of the film distribution sector to revive, proving that it was possible to rekindle interest in film-going among Russian audiences. This was largely thanks to the release of *Titanic,* which packed out cinemas across the country, including those that had not been modernised. By 2004, Russian film producers had succeeded in reorienting themselves towards the production of commercial blockbusters. Thanks to large-scale advertising campaigns and support from leading nationwide TV channels, these films succeeded in attracting a wide audience to cinemas (the film *Night Watch: Nochnoi Dozor* was the best-known film of this type). From 2005 investment also started to filter through to the production services sector. The process of renewing infrastructure began, and by 2008 the acute shortage of sound stages, film hardware, dubbing and editing services had been overcome.

However, 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 financed from the federal budget, private investors, and TV channels alike, fell; consolidation processes began among players in film production and in the distribution sector (including the advent of new vertically-integrated structures); projects to construct new film studio complexes across the country halted; growth of the film exhibition market slowed and there was a transition from the “intensive” growth of screen networks (primarily directed at opening cinemas in new regions and cities) to a paradigm of “extensive” development (primarily by installing digital film projectors in existing cinemas).

Thus 2008, the year immediately preceding the onset of the financial crisis, marked a high-point for all aspects of the film industry in modern Russia: from the number of films and TV films produced, to box office receipts from film and video distribution and the rate of expansion of modern exhibition facilities. That said, the impact of the crisis has turned out to be less damaging than experts had feared. 2009 investment in cinema production was 12.6% greater than in 2008. Thanks to 3D releases, cinema ticket sales also grew by 11.7%, which allowed for money to be invested in making improvements to the quality of cinema exhibition: currently, almost half of Russia’s modern cinemas are fitted with digital projection facilities. In 2010, the construction sector has started to revive, and the number of new modern-style screens to open has also begun to rise. Sales of licensed DVDs, which fell as a result of the financial crisis, have also recovered. Furthermore, video-on-demand services in Russia have continued to develop, and in summer 2010, services offering viewers free, legal television content supported by integrated advertising have begun to flourish. This type of service is becoming a new source of income for distributors and producers, and is also a useful tool in the fight against online piracy.

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

All the companies operating in **Russian film production** 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.

Between 1 January 2006 and 1 July 2010, production companies (production centres with in-house film distribution divisions; production companies; state and private film studios; TV channels; and major Hollywood studios) invested more than RUB 73 billion in film and TV film production (averaging about RUB 18.4 billion per annum). Most of this money was invested in the production of TV films and series (52%), with 41% going into film production.

The production of full-length TV films and theatrical films peaked in 2008 (at 147 and 112 titles, respectively). In 2009, despite the effects of the financial crisis on the national economy and reduced levels of state subsidy (not a single new government-supported film project was launched, as all state funding was directed towards the completion of existing projects), the number of films produced fell only slightly, with 104 theatrical films reaching completion. At the same time, though, the number of TV films made in Russia fell dramatically, with only 76 films being made in the course of the year.

The Russian market for TV series and TV films still remains the industry leader in terms of investment, attracting RUB 38 billion over the last four years to finance the production of over 10,500 episodes of various series and of more than 450 TV films. Such high investment levels are a result of rising production costs in the sector (in the region of 30% per year, prior to the crisis of 2009), and of the increase in the number of TV films produced in 2007–2008. However, 2009 highlighted a new trend, atypical for the market: more films were produced for cinema than for TV. This was because the television industry proved to be more vulnerable to the effects of the financial crisis, due to its shorter production cycle and high dependency on commissions from TV channels.

The market for feature films comes second in terms of investment volume, coming to a total of approximately RUB 30 billion over the past four years. Most films produced in Russia are financed principally by grants. These come primarily from the Ministry of Culture of the Russian Federation: of the 417 films produced in the country since 2006, 279 received state support. State support for feature films averaged RUB 19 million per film. In the first half of 2010, 43 full-length feature films have been completed, of which 20 received support from the Ministry of Culture. It is also interesting to note that discounting *Burnt by the Sun 2*, for the first time in the Russian film industry's recent history, total gross returns exceeded total production budgets.

Between 2006 and 2009 approximately 300 companies were involved in feature film production. Of these, only one-third produced two or more films, and only 11 of them made more than seven films each. 2010 has seen changes in the way that the state supports cinema production: subsidies are now administered through the Cinema Fund, which was given a raft of new powers at the end of last year and has so far this year awarded RUB 250 million each to eight production companies (CTB, Direktsiya Kino, Tri-Te, Central Partnership, Profit, Bazelevs, Rekun and Art Pictures).

Total investment in the production of full-length animated films released between 1 January 2006 and 1 January 2009 (15 films in total) amounted to about RUB 1.4 billion, the same as investment into short animated films. Most short animated films were produced with state support, generally covering about 70% of their total budget. Note that state support of full-length animated films covered only around 5% of their total production budgets.

The approximate volume of investment in documentary films since 2006 can be estimated at RUB 2.8 billion, with the production of around 560 films. It should be noted that production levels fell sharply during the economic crisis, from 170 documentary films in 2008, to only 100 in 2009. This is connected to the fact that most documentary films are commissioned by the state and television channels (who usually request series and short documentaries). The principal outlet for documentaries is still TV, so the main source of revenues for documentary producers remains the sale of transmission rights to TV channels.

From 2006 to 2009, the principal players in the Russian film production sector were:

- Media holdings (Gazprom-Media, ProfMedia, STS Media, Sistema Mass Media, the All-Russian State TV and Radio Broadcasting Company, and the National Media Group);
- Production centres (CTB, Central Partnership, Paradise, and, since 2009, Krasnaya Strela [Red Arrow], Profit, Art Pictures, Karo Production);
- Independent production companies (there are only about 300 in total, the largest among them being Bazelevs, Real Dakota, and Studio Tri-Te);
- Hollywood majors (Sony Pictures, Walt Disney Company, Universal Pictures, Fox International);
- The state (the largest being the Centre of National Film, the St. Petersburg Documentary Film Studio, Lennauchfilm and the Sverdlovsk Film Studio) and private film studios (Russian World Studios, Amedia and Star-Media);

- TV channels, as represented by their in-house units or subsidiaries for the production of TV series (VGTRK (Rossiya TV channel), with its Russian Novels on Screen project, NTV with NTV-Kino, STS with Kostafilm), documentaries (Channel One, VGTRK (Rossiya TV channel) and STS) and feature films (Channel One with its Direktsiya Kino, VGTRK (Rossiya TV channel), STS and others);
- Aside from production companies and film studio complexes that often act as production centres, other types of companies active in film production in Russia work exclusively to provide production infrastructure for the industry. They offer **equipment rental and support for shooting and post-production**, whereas most production companies have no such capacities of their own.

The total volume of the film production services sector in Russia was RUB 22.6 billion from 2006 to 2009, RUB 12.8 billion of which was generated through the production of feature films and RUB 9.8 billion through TV films and series. The principal services provided by studio complexes and service companies in Russia are renting out sound stages and equipment (the total volume of that segment of the market over the past four years amounted to approximately RUB 7.7 billion), as well as post-production services (film processing, dubbing, etc.,) with a total volume estimated at RUB 7.2 billion. Producers doubled their expenditure on film production services from 2006 through 2009 (from RUB 1.1 billion in 2006 to RUB 2.3 billion in 2009). This was due to the growing volume of film production in Russia and the rising production costs of the projects.

Of the 15 state film studio complexes, only seven are actually functioning, i.e. renting out their sound stages and supplying a wide range of film production services. On top of these, by 2009 Russia had 12 more private film studios offering sound stages and location sets together with various technical services. Moreover, private film studios control more than 65% of the total number of sound stages available. Thus the state no longer plays 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. In addition, film studios with their own production base (sound stages) operate in Yekaterinburg and Khanty-Mansiysk. The largest film studio in Russia is Mosfilm which retains its status as a federal state enterprise (which means, in essence, that it is recognized to be strategically important for the industry). It is the country's only full-cycle studio.

A trend which had begun in 2008 before the crisis, was still visible in the film production services market in 2009: the launch of major companies providing professional equipment and services without stages. These private rental-houses, as a rule, offer a wider range of, and more advanced, shooting equipment than state studios. Russia currently has 276 companies providing various services to film producers. These include 34 rental companies offering technology and equipment for film shooting, 36 post-production studios, 48 computer graphics and special effects studios, and others.

Prices 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, and the like). At the same time, the prices for basic services, such as the rental of sound stages, remain relatively low. Since the start of the downturn in film production, due to the economic crisis of 2008–2009, rental rates for equipment have adjusted only slightly: rental rates for sound stages, for example, have dropped by only approximately 10%.

Post-production services remain the weakest link in the Russian production chain. For example, film processing and printing laboratories function only in Moscow (Mosfilm, Gorky Film Studio, Salamandra, Cinelab, etc.). Sound studios exist at almost all of the film studios and are run by many companies, but Dolby studios are much less common (Mosfilm, Nevafilm, Lenfilm, Gorky Film Studio, Cinelab, Salamandra, Izarus-Film, Central Productions International Group and Pifagor).

Computer graphics are provided by six full-service companies: Mosfilm, Gorky Film Studio, Lenfilm, Sverdlovsk Film Studio, Media City and the Creative Production Association. This area is poorly developed, but companies are currently attempting to build up their experience and skills, with many of them trying to purchase equipment and hire experts so they can open studios in computer graphics, animation, and 3D-simulation. Generally speaking, a positive dynamic has been observed in the visual effects sector. However the Russian computer graphics industry still suffers from a human resources shortage and this seriously inhibits its growth.

A new branch is developing in digital film distribution and film exhibition: the country already has six digital film laboratories (Nevafilm Digital, Salamandra, Mosfilm, Cinelab, Central Productions International Group, and Kinoproekt's DCP24).

In Russia, cinema exhibition remains the principal revenue stream for film works, as video distribution revenues are low due to the prevalence of piracy. Hence the exhibition infrastructure in the country remains very important for the film industry in general. Essentially, the modern Russian film market began with the resurrection of the exhibition network in 1996. The main role on the **film exhibition** market in Russia is played by modern cinemas, i.e. those that exhibit films regularly on a commercial basis using 35mm film or digital projection techniques, with multi-channel sound and in comfortable auditoria.

The number of modern cinema multiplexes in Russia is constantly growing, so that by 1 July 2010, the country had 2,243 modern screens in 828 cinemas, and 23% of the country's screens were fitted with digital projection equipment. By 2009, annual growth in the number of modern screens had reached 20–30%; however, according to results from last year, the market grew by only 12%, and by only 5% in the first half of 2010. The growth is slowing due both to gradual market saturation and to the effect of the global financial crisis.

The growth in the Russian exhibition sector has been maintained in recent times by the expansion of major operators of exhibition chains into the regions, as well as by development of the market in retail and entertainment complexes (currently, more than half of Russia's modern screens, a quarter of all cinemas, are located in such complexes). By the end of 2008, most of the major regional centres in the country had 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 country's wealthiest and most populous regions – the Moscow agglomeration and St. Petersburg. As for smaller cities and towns, exhibitors recognize that further expansion of the market will not be profitable if it is undertaken using private investment alone.

At the same time, the strong dependence of Russia's modern cinemas on retail real estate backfired in 2009. Due to the crisis, many projects for the construction of new retail complexes were postponed or cancelled outright, slowing the rate of the launch of new screens. This became particularly significant given that these shopping centres house the majority of Russia's *multiscreen* cinemas. In general, however, the majority of operating cinemas in Russia are still single or two-screen sites. This type of cinema accounts for only 32% 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 68% of modern screens nationwide.

Despite these changes, a slowdown in the opening of new modern screens in 2009 does not imply a halt in the development of the exhibition sector. Exhibition has moved from an "extensive" to an "intensive" mode of development with the proliferation of digital film exhibition. The first commercial digital screen to meet Digital Cinema Initiatives (DCI) requirements was launched in Russia in October 2006. Between 2007 and 1 July 2010, the number of digital screens in the country increased 17-fold, to reach 525 screens. Digital cinema projectors are already installed in 45% of cinemas in 137 cities across Russia and almost all of these installations are 3D-ready. 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 revenues from 3D runs. The main drivers of the digital revolution in 2009-2010 were the films *Avatar* (which led to more than 100 new digital screens being opened) and *Shrek Forever After* (the Russian premiere of which led to the installation of more than 80 3D screens). At present, it can be said that the digital film exhibition market is being driven by two main types of players: the major federal chains with their target programmes to equip all of their locations (primarily in large cities) with digital screens for 3D exhibition, and independent exhibitors in smaller cities, who are keen to install digital technology in order to access first-run copies of new blockbusters that they would not otherwise have access to on film.

The Russian cinema exhibition market is highly fragmented. It has about 480 players, including 82 exhibition chains and more than 400 independent cinemas. In addition, the sector includes about 30 chains that control at least ten screens each, 19 of them operating on a nationwide level (managing sites in several federal districts), seven on a regional level (operating in the territories of several regions within a single federal district) and 55 local networks (each functioning within a single region of Russia).

In the ranking of the top Russian cinema chains, ten companies have a comfortable lead, including the largest federal cinema chains: Karo Film (which has held the lead since 2005), Cinema Park, Kinomax, Kronverk Cinema, KinoStar, Luxor, Paradise, Monitor, as well as the local chains Premier-Zal and Formula Kino. The top ten cinema chains control just over 38% of the modern cinema screen market in Russia.

In addition to the existing cinema infrastructure in Russia, there is also a system of non-state **film distribution** which began to form in the late 1980s and 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, pirate video was 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 the 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 also European films stopped coming to Russia. Pirate exhibition of 35mm prints of extremely low quality began and video piracy thrived. The embargo was lifted only in 1993, thanks to the efforts of legal Russian film distributors. However, by that time the system of film exhibition was already disintegrating, and cinemas started to be converted *en masse* into retail malls. By 1997, the level of cinema attendance in the country had dropped to an all-time low of 0.25 visits 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:

<u>Phase I (1996–2002)</u>. This phase was characterised by a monopoly in the exhibition of films by modernised theatres, both among film distributors and cinemagoers. Each screen complex fitted out with multi-channel sound and comfortable seats enjoyed enormous popularity with a public ready to pay any price for a ticket, while distributors fought each other tooth and nail for the chance to show their films in modern cinemas.

It was during this phase that the Russian model of the exhibitor–distributor business relationship took shape. In this model gross box office takings are split 50/50 between the players. This system still operates in Russia alongside a number of other options such as minimum guaranteed exhibition payments and lump-sum sales of exhibition rights (sometimes offered together with the film print). Important components of the modern film distribution system, such as regular film markets (traditionally held in Russia every quarter), also emerged during this phase. Repertoire changeover was set for Thursdays (though some major films may have their opening performances on Wednesdays).

<u>Phase II (2003–2007)</u>. The year 2003 marked the end of the era of screen reconstruction: the main trend marking the new phase was the construction of 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 between exhibitors increased, resulting in lower ticket prices; the cinema shortage reduced, while the position of the distributor became even stronger: cinemas started competing for high-grossing films and more advantageous film exhibition conditions.

The second phase saw the mass formation of major regional and federal cinema chains. The lucrative business of film exhibition started attracting non-core market players – shopping centre developers who started launching screens at their sites under their own management. Gradually the principal film markets of Russia's two largest cities, Moscow and St. Petersburg, approached saturation, as demonstrated by increasingly frequent closures of modern cinemas that had fallen victim to stiff competition. The large chains started to consider expansion into the regions, and by 2007 most major regional centres with a population in excess of one million residents had multi-screen cinemas operated by nationwide cinema chains.

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

- it was from this point onwards that national films began to stake a 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;
- this increase in the popularity of Russian blockbusters and cinema admissions in general was stimulated by backing from a national TV channel; in addition to continuously showing film trailers, it supported the film in the longer term by running news features on its progress in the cinemas, topical programmes on its production, interviews with actors and producers, talk-shows with their participation and so on.

<u>Phase III (2008 onwards)</u>. The current stage of film market development in Russia is characterised by the domination of large market players over smaller scale independent ones. The ability of larger players to exert pressure through their strong film repertoire or large screen network allows them to disregard the opinions of their less influential counterparts. Releases by Hollywood majors and widely advertised Russian blockbusters enjoy heightened demand from cinemas, and they are prepared make a variety of concessions to the distributor. Films proposed by independent distributors often have a very hard time obtaining screen space; distributors often have to give in to exhibitors' demands over the number of film exhibitions and exhibition periods, and sometimes also over their share of box office receipts. Such a situation disadvantages smaller exhibition and distribution companies, reducing the income that they might otherwise have earned if the parties had been on a more equal footing, and inhibits the expansion of independent cinema chains.

In 2009, attendance in Russian cinemas reached 132.3 million tickets sold, with admissions constantly growing. This growth amounted to an annual rate of 14% during 2007–2009 for two main reasons:

- the expansion of cinema networks (between 2005 and 2008 the country saw about 20 new cities launching modern screens annually), and only in the "crisis" year of 2009 were new modern screens opened in fewer than 10 cities;
- the revival of the habit of cinema-going, lost during the 1990s. The level of film consumption in Russia has practically doubled since 2004 – from 0.5 to 0.9 visits per capita per annum. Recalculating this figure based on the number of residents of cities that feature modern screens, one arrives at 1.8 visits per annum for 2009.

Box office takings from Russian film distribution continue to grow at an even more impressive rate: at least 30% a year. In 2008 the volume of the film distribution market reached RUB 19.9 billion (USD 801 million). Despite the fact that the 2009 box office figures, for the first time in the history of modern Russia, showed negative growth in hard currency (due to devaluation of the rouble in late 2008 and early 2009), the rouble volume of the film distribution market continued to grow, if at a slower rate (currently 13%).

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 rouble and US dollar terms (with the exception of 2009, when, due to the devaluation of the rouble, the average dollar price decreased by 21% to reach USD 5.30 while the rouble price remained almost unchanged at RUB 171).

Around 300-350 films are released every year to Russian cinema screens, but 2009 saw an end to the trend of increasing numbers of releases, and in 2010 we predict that around 320 films will be shown in cinemas – a figure that has become typical. The Russian market is dominated by US-produced films, which also collect the highest share of revenues from cinema distribution (about 60% of the total annual box office). However, since 2004, Russian-produced films have been earning an ever larger share of the market, both in terms of the number of titles and of box office receipts (about 25%), stealing some of the market share from US-made films. 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, Spain, and Germany. France is also the European leader at the box office from Russian film distribution (about 3.7% over the period 2004–2009).

Since 2006, films in digital format have been distributed in Russia; they are becoming increasingly common, and the number of digital screens is also constantly growing. At the same time, most of the digital screens in Russia are fitted with equipment for 3D-exhibition and their operators prefer to show 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 film exhibition features and animated films, while documentaries and short-length films are rarely screened.

In all, as at 2010, the Russian distribution market has about 30 active film distributors. These may be separated into groups, depending upon the type of content they handle:

- foreign companies: direct representatives of major Hollywood studios (Universal Pictures International, Walt Disney Sony Pictures Releasing, 20th Century Fox-CIS);
- Russian companies: official representatives of the Hollywood majors (Karo Premier, Central Partnership);
- independent distributors that deal predominantly with foreign and Russian-produced films for a mainstream audience (Paradise, Central Partnership, West, Luxor, Top Film Distribution, Cascade Film, Volga, Lizard, Nashe Kino, Karoprokat, Art Pictures Media, Argumenty Kino, Profit Cinema International, P And I Films);
- independent film distribution companies working with narrow target groups: children's films (Panorama, Most-Media), arthouse (CP Classic, Kino bez Granits [Cinema Without Borders], Russian Reporting, InterCinema, Premium, LeopArt, Carmen/Caravella DDC, Soyuz Video), anime (Ruscico) and alternative content (Nevafilm Emotion);
- 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 organisations (FVROs) – essentially these are the remnants of the local cinema authorities from Soviet times that have lost most of their functions. They now act as custodians of film archives, supporting their distribution on the regional network, mostly in obsolete theatres, village clubs and community centres using portable film projectors and fixed installations.

Another platform for marketing audio-visual content 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*, 30.3 million Russian households owned a DVD-player in 2009 (equal to 62.8% of the households owning TV sets), and the forecast for 2010 is 33.8 million, representing 69.5% of households owning TV sets.

In 2009, the largest distributors on the Russian market for licensed DVDs released 1,550 titles, which is 19% lower than the year earlier. Thus the crisis would appear to have affected the number titles released on DVD in Russia. Sales of licensed DVDs also fell back in 2009: according to *Videomagazine*, 76.4 million discs were sold, as opposed to 83.8 million in 2008.

The average per capita consumption of licensed DVDs is also decreasing: in 2009 the annual average was 0.54 discs per year per person, which is 9% lower than the figure for the previous year (0.59) and testifies to the renewed role of pirated 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; it can be concluded that the turnover of the pirated DVD market for 2009 was somewhere between 134-141 million discs. However, the spread of broadband Internet in Russia has led to ever greater levels of piracy on the web, leaving sales of unlicensed video formats to pale into the background.

At the same time, since the end of 2009, there has been a resurgence in sales volumes for licensed DVDs, which demonstrates that the financial crisis is being gradually overcome.

The national market for licensed DVD sales is dominated by releases of catalogues by video distributors. Among the types of video products released to DVD, feature films dominate: much like on the film distribution market, the structure of the Russian licensed DVD-market is clearly oriented towards full-length feature films.

Since 2007, Blu-ray format discs have been released in Russia: the first such disc was *Casino Royale*. In 2008, the number of releases in the new format grew to 94, while in 2009 a total of 171 films were released on Blu-ray discs; their number may reach 200 by the end of 2010. The number of Blu-ray players in Russia is constantly growing: *Screen Digest* assesses the total number of Blu-ray capable players for 2009 at a level of 218,800 (which amounted to 0.45% of households that own TV sets). The forecast for 2010 is 426,500 (0.9% of households with TV sets).

The Russian market for licensed DVDs numbers around 30 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 Russian-made releases (Krupny Plan [Close-up] – in collaboration with Soyuz Video and Lizard Cinema Trade);
- independent video distributors that offer a wide range of Russian and foreign releases (Paradise Video, CP Digital, Karmen Video, Lizard Cinema Trade, Misteriya Zvuka [Mystery of Sound], Flagman Trade, Sigma Film, Soyuz Video, and others).

Since 2006 in Russia **Video on Demand** (VoD) has been developing as a new form of film distribution. 2006 and 2007 were euphoric years in Russia, due to the commercial prospects for VoD services through cable TV operator networks or fixed telephone network. In an environment of rapidly growing revenue from voice traffic and SMS, mobile operators were virtually indifferent to content services. But by 2008-2009 the cable TV operators had sobered, while mobile operators were enjoying rapid revenue growth from providing access to video content.

According to 2009 results, mobile operators generated USD 40 million for providing access to video content; more than 11 million mobile customers use the service on a regular basis. The volume of earnings from VoD services in Russian cable TV networks or fixed telephone networks makes up no more than USD 0.5 million; around 0.25 million subscribers have access to the service.

The customer base of most Russian cable TV operators gives no guarantee of high revenue from video-on-demand projects; furthermore, distribution of VoD in cable networks is prevented by the significant share of analogue equipment in the overall cable television system: fewer than 1 million subscribers in Russia have access to digital cable television.

Russian Internet providers offering VoD services only began to appear on the market in mid-2009, and rapid growth of these services was seen in spring-summer 2010: most of them offer the subscriber free content, profiting from advertisements placed in the video stream. Meanwhile, the primary method for consuming video content on the Russian Internet remains free downloading of films and music videos from pirate file-sharing networks.

Overall, the VoD market remains in an embryonic state because of the lack of high-quality, varied and accessible content, the high level of piracy and the meagre selection of services offered to subscribers by VoD service providers. Leading experts have a pessimistic outlook for the development prospects of VoD services in Russian cable TV networks and on the Internet.

Experts predict no significant growth of earnings in the cable TV segment over the next three years, even given the announced launch of a number of projects capable of increasing the number of subscribers with access to VoD services by several times. The growth of this part of the market will be further stymied by the consolidation and market domination of four nationwide players: the "big three" mobile operators, which have bought or already own shares in cable TV or fixed telephone (MTS, Megafon, Beeline) and the Svyazinvest holding (Rostelekom), which was set up by the Russian government to become a "national champion" in the field of multiservice telecommunications services, comparable to Deutsche Telekom in Germany.

No dramatic changes in the accessibility of downloaded films and music videos from pirate websites are expected either. On the contrary, with the increasing penetration of broadband Internet access in Russia's regions, the number of Internet users downloading films using torrents will only grow.

The only segment of the market where revenue from providing access to viewing video content can be expected to grow is the mobile segment. Annual earnings growth could reach 25% in the next three years. But subscribers will continue to demand primarily music videos and novelty clips as far as content is concerned.

Chapter 3

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

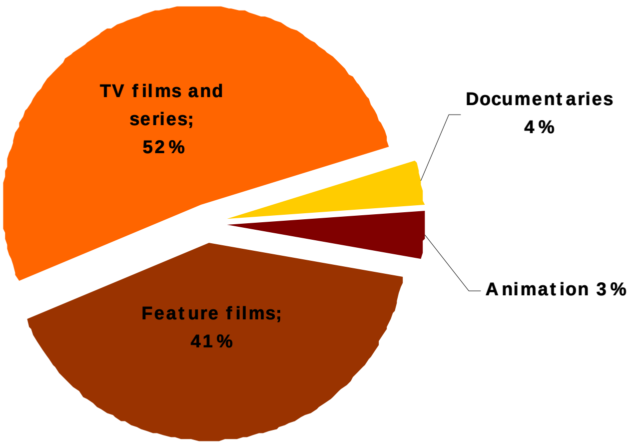
3.1 FILM AND TELEVISION PRODUCTION IN RUSSIA: PRODUCERS AND PRODUCTION COMPANIES[32]

3.1.1 Branch structure

Market volume

From 2006 to 2009 total investment in film and TV production exceeded RUB 73 billion.[33]

Graphic 2: Investment in film production by sector (2006-2009)



Source: RFilms

More than half of investment went to television production, while about 41% was allocated to feature films. Despite the fact that budgets for film are on average higher than for TV, film production showed lower overall investment volume than TV production, principally due to a significantly smaller production volume.

From 2006 to 2009 more than 1,400 feature films were produced in Russia,[34] including 417 films for cinema release and 414 TV productions. Documentaries comprised the largest number of full-length titles, with 560 films.

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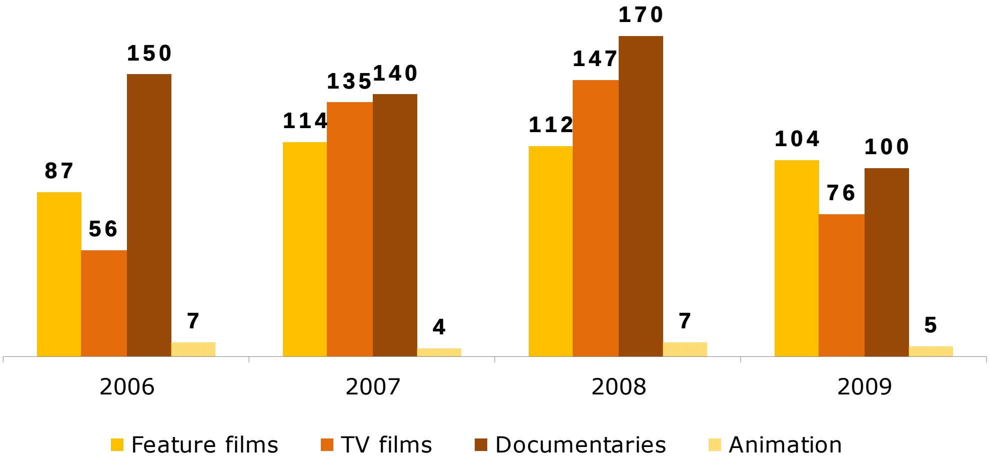
32 This section is prepared by RFilms.

33 Total investments were calculated based on the budgets for film and TV production published by production companies, combined with data from the Russian Ministry of Culture on the average production budgets of films receiving state support and on the number of hours of film and TV produced.

34 According to RFilms.

Graphic 3: Number of feature length films produced*

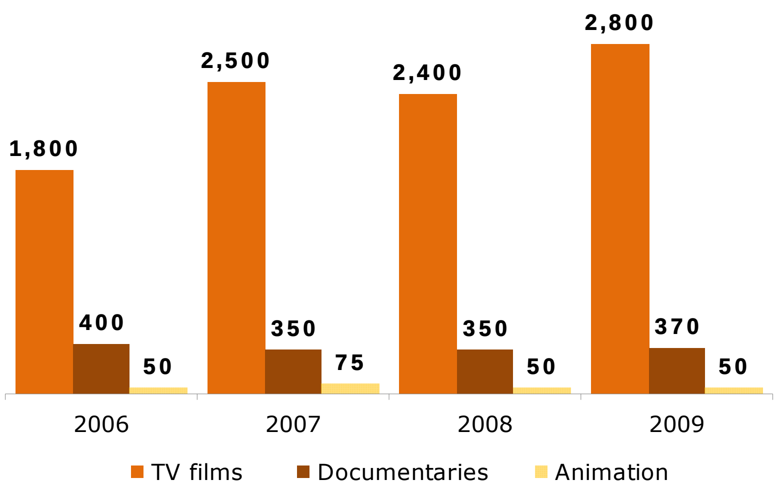


**All data as for full-lengh films for theatrical release and TV*

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

Over the same period, the number of completed series and short films totalled about 11,200 hours, which is more than four times the volume of released feature films. TV series led this market.

Graphic 4: Production of short-length films and series, in hours

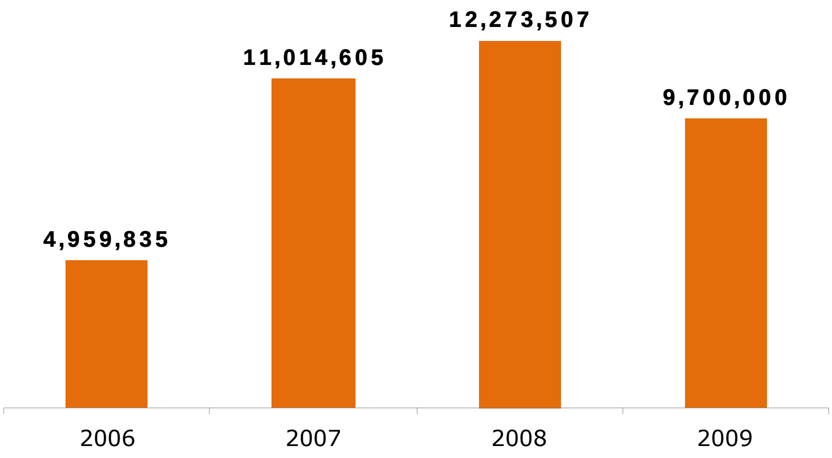


Source: The Russian Federation Ministry of Culture, RFilms, company data

TV films and TV series market[35]

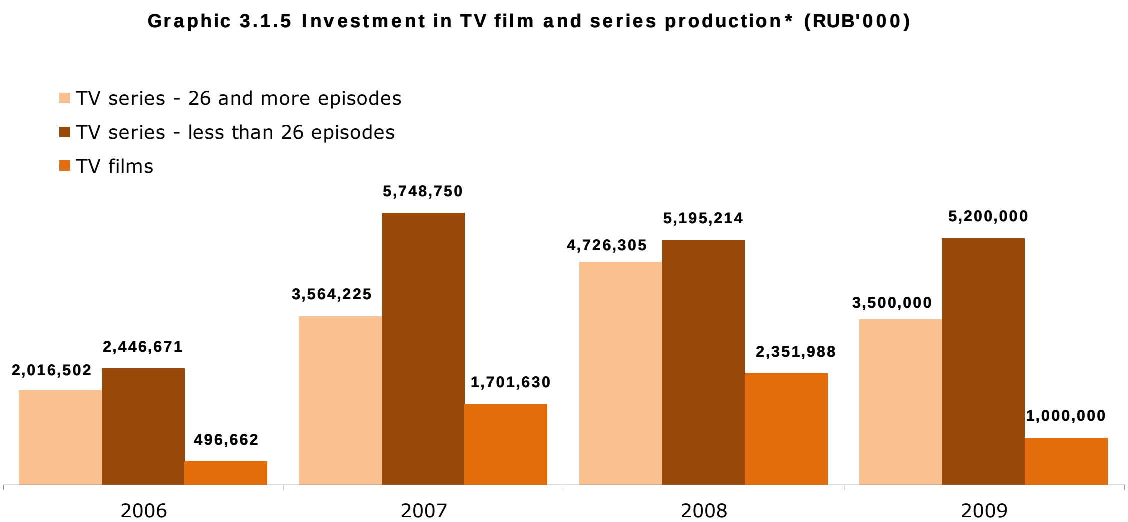
The leading market segment in terms of investment volumes in Russia is still television series and made-for-TV films. This is primarily due to the rising production costs in that sector, as well as the increase in the number of TV films produced in 2007–2008. Between 2006 and 2009 the total volume of investment came to about RUB 38 billion. Most of this investment went into the production of miniseries.

Graphic 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

Graphic 6: 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

[35] Analysis of the television market was based on data for series premieres on six state TV channels: Channel One, VGTRK (Rossiya TV channel), NTV, TNT, STS, and Ren TV. These TV channels are the clients for the majority of Russian television series production, and frequently commission new projects.

In all, from 2006 more than 10,500 episodes of TV were produced, which comes to about 2,400 hours per year. In 2008–2009 there were 36 production companies in this market, 12 specializing in producing longer series (of more than 26 episodes), and 36 specializing in shorter series (up to 26 episodes).

2009 saw no decline in the broadcast of series premieres on state-run television channels; all in all, 3,100 episodes were aired, 15% more than in 2007–2008. However, these positive dynamics do not necessarily reflect growth in television production, since TV channels have quite large libraries of previously unaired films. In 2009, overall investment in series premieres declined 12% from 2008 levels, to RUB 8.7 billion.

Two companies led in the production of first-run television shows from 2006-2008: Lean-M (Sony Pictures) and Amedia (Access Industries). They accounted for about 12% of series debuting on state-run TV channels. However, by 2009, Amedia decreased production by 70%, and the companies Tele-Alliance Media Group (Zodiak Television) and Costafilm (STS Media) became the leaders in producing series premieres.

The top five companies in the production of television series for the state TV channels accounted for more than 50% of the market from 2006 to 2009. Star-Media, Lean-M and Amedia produce works in various genres and have the largest number of clients. TeleAlliance Media Group specializes in the production of sitcoms, while the Creative Production Association specializes in producing longer TV series (more than 26 episodes).

Table 6: Top 5 companies in terms of number of episodes produced for state-run TV channels (2006 to 2009)*

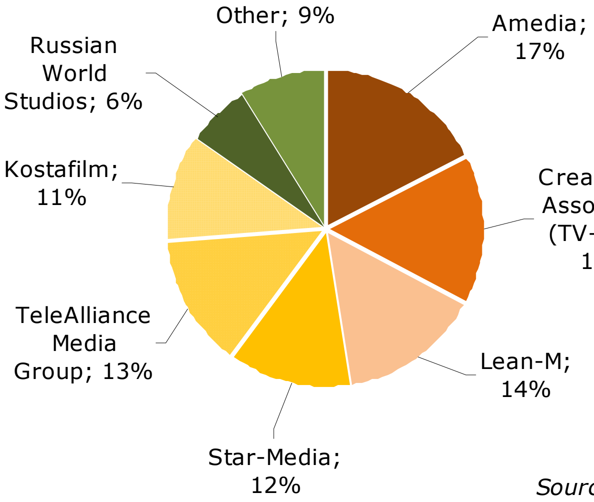
Company	Number of episodes	Market share
Lean-M	1247	12%
Amedia	1235	12%
Creative Production Association	1066	10%
Star-Media	988	9%
TeleAlliance Media Group	951	9%

**Data based on six state TV channels: Channel One, VGTRK (Rossiya TV channel), NTV, STS, Ren TV and TNT. One sitcom episode is equivalent to half of a standard serial episode.*

Source: RFilms

The production of longer TV series for the state television channels is a highly concentrated market. The top seven companies account for 90% of production in this segment. Moreover, there are only five companies capable of producing longer TV series that broadcast an episode a day. These are Amedia, Creative Production Association, Russian World Studios, MosTeleFilm and Lean-M.

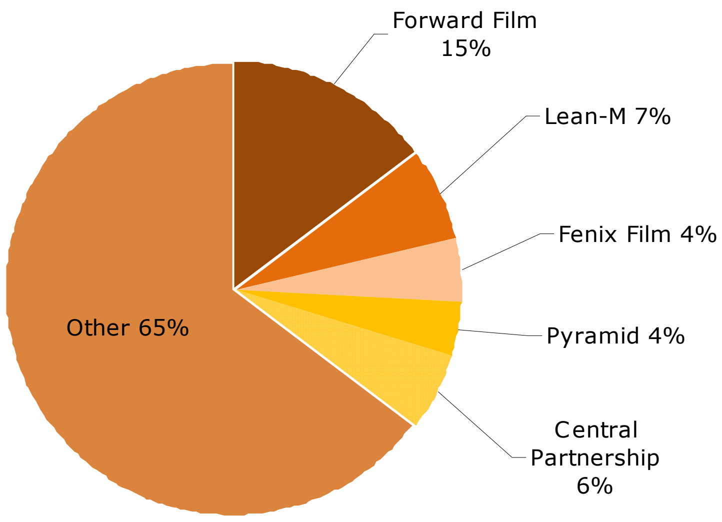
Graphic 7: Market shares of producers of long TV series > 26 episodes (rate for the period 2006-2009)



Source: RFilms

The market for the production of shorter TV series is less concentrated. The leader here is the Forward Film Company.

Graphic 8: Market shares of producers of short TV series < 26 episodes of short TV series (rate for the period 2006-2009)



Source: RFilms

Since 2006, more than 450 TV films have premiered on state-owned TV channels. The largest clients for TV films were Central Partnership, Star-Media, NTV, the All-Russian State Television and Radio Broadcasting Company, and the Moscow City Administration. In 2009, Russia had more than 70 companies producing television films, with Star-Media, MosTeleFilm and Russkoe being the largest.

Table 7: Top 5 companies in terms of number of TV films produced (2006 to 2009)

Company	Number of films	Market share
Star-Media*	89	20%
MosTeleFilm*	37	10%
Russkoe	37	7%
Pyramid	20	4%
Intra Film	16	4%

**Star-Media and MosTeleFilm co-produced 22 films*

Source: The Russian Federation Ministry of Culture, RFilms

According to estimates by market players, the cost of producing television productions rose by roughly 30% per year between 2006 and 2008. However, in 2009 the cost of production dropped back to 2006 levels.[36]

Table 8: Average cost of TV production in Russia in USD

Type of TV production	2006	2007	2008	2009
Short TV series (less than 26 episodes), cost per episode	150,000	225,000	300,000	150,000
Longer serials (26 episodes or longer), cost per episode	50,000	75,000	100,000	50,000
TV films, cost per film	300,000	450,000	600,000	300,000

Source: Kommersant: Sekret Firmy*, The Ministry of Culture of the Russian Federation, The Moscow City Competition Policy Department, RFilms, company data*

TV channels raise and lower purchase prices for television production in proportion with variations in the cost price. For example, while the maximum purchase price for a single episode of a TV series on Channel One and VGTRK (Rossiya TV channel) reached USD 700,000 in 2008, in 2009 it cost a maximum of USD 400,000; purchase prices on other federal TV channels fluctuated between USD 100,000 and 200,000. According to market players, while purchasing by large state-run TV channels came to about USD 600 million in 2007–2008, in 2009 it was less than USD 450 million.

Since 2006, the share of TV series produced in cooperation with foreign countries has remained extremely low. Among the best-known productions are the mini-series *War and Peace*, 2007, produced collaboratively by Lux Vide (Italy), RaiFiction (Italy), VGTRK (Rossiya TV channel), Eos Film (Germany), Pampa Production (France), Baltmedia Projektor (Poland) and Grupo Intereconomia (Poland), as well as the Chinese-Russian version of the television film *The Dawns Here Are Quiet* (2006), a production of China Central Television (CCTV).

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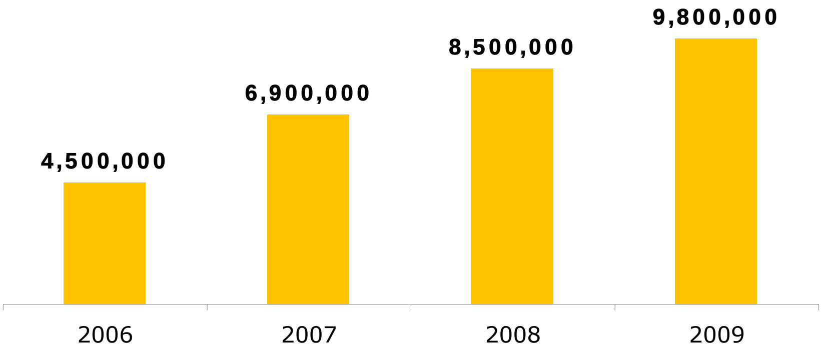
[36] Ольга Гончарова, Сергей Соболев, «Закадровый кризис», газета "*Коммерсантъ*" № 95 (3912) от 04.06.2008 [Olga Goncharova and Sergei Sobolev, "Offscreen Crisis", in *Kommersant* Issue № 95 (3912), from 04 June 2008]; «Топ-10 производителей коротких сериалов», газета *«Коммерсантъ»* № 179 (3996) от 03.10.2008 (источник: TNS Gallup Media) ["Top 10 producers of short series", in *Kommersant* Issue № 179 (3996), from 03 October 2008 (source: TNS Gallup Media)]; Татьяна Комарова, «Дубль два», журнал *«Коммерсантъ. Секрет Фирмы»* № 6 (287) от 01.06.2009 [Tatyana Komarova, "Take two", in *Kommersant: Sekret Firmy* Issue № 6 (287), from 1 June 2009].

Feature film market[37]

In the period from 2006 to 2009, the feature film market came in second in terms of investment, attracting around RUB 30 billion. Since 2006, 417 feature films were produced, an average of 104 films a year. Most film production was financed by grants, the majority coming from the Ministry of Culture of the Russian Federation. Since 2006, 279 films have received state funding. State support for feature films averaged RUB 19 million per film, but never exceeded RUB 29 million for production and RUB 5 million for distribution. In addition, during the period in question, overall government support for companies with the highest production budgets, such as CTB, Central Partnership, VGTRK (Rossiya TV channel), and STS, never exceeded 15% of the companies' total film production budget.

Graphic 9: Investment in 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

Between 2006 and 2009, approximately 300 companies were involved in feature film production. Of these, about 100 companies (33%) participated in the production of two or more films, and only 23 (7%) produced more than five films, while 200 companies produced just one film. **Since 2006, only eleven producers have released more than seven films, including:** Vadim Goriyanov, Sergey Danielyan, Ruben Dishdishian, Leonid Lebedev, Aram Movsesyan, Yuriy Moroz, Sergei Selyanov, Valeriy Todorovsky, Igor Tolstunov, Alexander Rodnyansky, and Sergei Shumakov.

[37] The analysis takes into account films with predominantly Russian capital investment approved for distribution by the Ministry of Culture of the Russian Federation between 2006 and 2009, as well as films that premiered in cinemas or in festivals between 2006 and 2009. The year of production was determined by the date of the film's premiere or the date that distribution was approved. Films' box office returns were determined based on data as at 1 July 2010, and so it should be borne in mind that figures for 2009 films are subject to change.

Table 9: Top 5 Russian companies in terms of gross production budget (2006–2009)

Company	Number of films	Total production budget (million RUB)	Box office takings for Russian and CIS distribution (million RUB)
Central Partnership	29	2,050	2,025
VGTRK (Rossiya TV channel)	13	1,700	1,500
CTB	14	1,320	760
STS	8	1,200	1,600
Art Pictures Studio	3	950	1,260

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

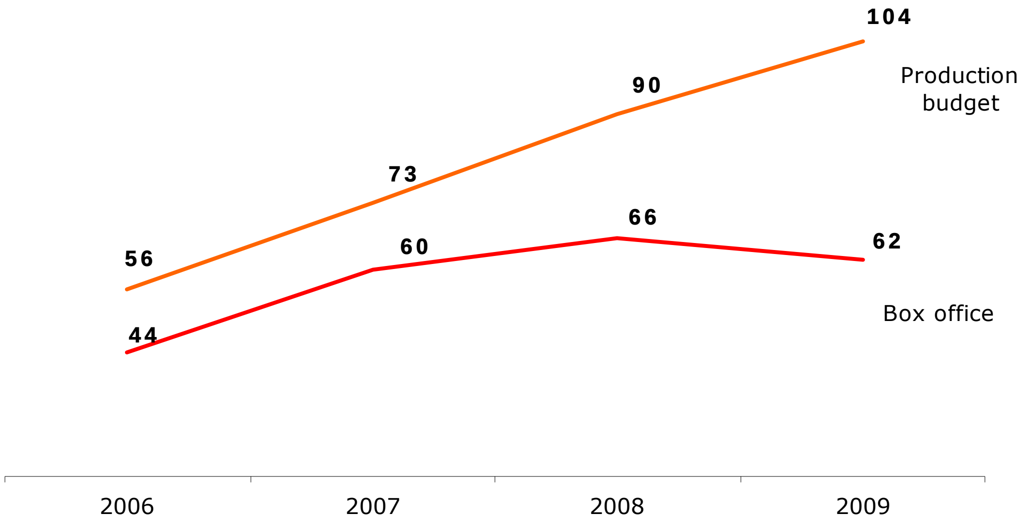
In all, since 2006 295 Russian-made films have been released for cinema distribution in Russia, with an average production budget of approximately RUB 81 million. The majority of these films (225 titles) had a production budget of less than RUB 100 million. From 2006 to 2009 only 18 films had a budget over RUB 200 million, the majority of which were released in 2009. In turn, most films with a production budget of RUB 100 to 200 million – that is, mid-budget films intended for broad distribution and aiming to break even – were produced in the period from 2008 to 2009.

Table 10: Economic indicators for Russian film production and cinema distribution, 2006-2009

Indicators	2006	2007	2008	2009
Total production budget (million RUB)	3,440	6,150	7,250	7,350
Box office in Russia and CIS (million RUB)	2,740	5,050	5,350	4,350
Average production budget per film (million RUB)	56	73	90	104
Average box office per film in Russia and the CIS (million RUB)	44	60	66	62
Number of films:	61	84	80	70
with a production budget over RUB 200 million.	0	5	5	8
with a production budget of RUB 100-200 million.	7	10	18	18
with production budget under RUB 100 million.	54	69	57	44

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

Graphic 10: Average box office and production budget per film*, 2006-2009 (RUB x million)



*Calculated on the basis of film production budgets
Source: The Russian Federation Ministry of Culture, Alliance of Independent FilmDistribution Companies (ANKO), Booker's Bulletin, *RFilms, company data*

Table 11: Top 5 films by production budget (2006–2009)

Title	Year	Production company	Production budget (million RUB)	Box office returns in Russia and CIS (million RUB)
Taras Bulba	2009	VGTRK (Rossiya TV channel), Central Partnership, Ark Film	516	570
Obitaemyy Ostrov [The Inhabited Island]	2008	STS, Non-Stop Production, Art Pictures Studio	450	644
Obitaemyy Ostrov. Svatka. [The Inhabited Island: Rebellion]	2009	STS, Non-Stop Production, Art Pictures Studio	450	204
Mongol	2007	CTB Film Company, Andreevsky Flag Film Company, Kinofabrika GmbH, X-Filme Creative Pool, Neftex	434	162
Tsar	2009	Pavel Lungin Studio, Profit Cinema International	420	149

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

Film production costs increased significantly during the period from 2006 to 2008. Market players believe this development was primarily due to increased wages for film crews. According to estimates by Russian producers,[38] before the financial crisis, labour costs made up 60 to 70% of film production budgets. At the end of 2008 the newly established Association of Film and TV Producers again attempted to regulate these wages. It adopted recommendations for lowering the wages of production

[38] A poll of participants at the August 2008 conference "Russian Film Industry-2008: Future Outlook".

crews by a factor of 3-3.5.[39] Thus the producers' community in Russia tried to use the crisis situation to restrain excessive wages in film production. However, in September 2009 the Federal Antimonopoly Service sent letters to 17 companies, all members of the Association, with a warning regarding "unacceptable collaborative actions" to establish a ceiling for pay scales — a violation of Russian antitrust laws.[40]

Taking into consideration the share paid to cinemas based on film exhibition revenue (50%) and the basic payments to distribution companies (5% of gross box office takings; experts from RFilms put its maximum level at 10%[41]), production companies' gross revenues for films released to cinemas between 2006 and 2009 did not exceed RUB 7.8 billion. On average, production companies, who do not break even, recoup only 20% of production expenses. Average profits from cinema distribution were in the region of RUB 26 million per Russian-made film over the period. Based on the results of cinema exhibition, production companies' total net losses, prior to deduction of advertising and promotional costs and before taxes, may be estimated at RUB 16 billion.

These figures show that, even where producers retained the ability to profit from selling rights for TV and DVD releases, most Russian film projects between 2006 and 2009 resulted in losses, since film producers receive their principal revenue from cinema exhibition. Low-budget (less than USD 6 million) films are an exception to this rule as they lead in terms of cinema distribution. In the main, these are comedies, such as *Zhara [The Heat]*, *Lubov-Morkov [Lovey-Dovey]*, *Piter FM*, *Love in the Big City*, and *Hitler's Kaput!*

The price of rights to high-budget films (those with a production budget greater than USD 6 million), including the rights to TV, DVD, computer games, merchandising, etc., is at best between 10 and 20% of the production budget itself. Until the winter of 2008-2009, when the financial crisis began to have a noticeable impact, DVD distribution rights sold for as high as USD 1 million for the most successful films, with TV broadcasting rights from USD 1.5–2 million. Prices for selling film distribution rights abroad comprised an even smaller share of overall revenues. There are only a few examples of successful deals, including *Wolfhound from the Tribe of Grey Dogs*, the rights to which sold for USD 1.5 million, and *Streetracers*, which sold for USD 1 million.

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39 «Тарификационная сетка актёров», газета «*Коммерсантъ*» № 36/П (4091) от 02.03.2009 (Источник: Ассоциация телевизионных и кинопродюсеров) ["Wage rates distribution" in *Kommersant* № 36/P (4091), 2 March 2008 (source: Association of Film and TV Producers)].

40 Ольга Гончарова, Анна Занина. «ФАС пересмотрела кино», «Коммерсантъ», № 181, 30 September 2009 [Olga Goncharova, Anna Zanina, "FAS Reviewed the Movies", in *Kommersant*, № 181, 30 September 2009].

41 However, if the producing company utilises a vertically integrated structure including both film production and distribution, the group's overall profits increase as no payment is made to an external distributor. Companies such as Central Partnership, the Paradise Group, and CTB are among the largest production companies with their own distribution arms.

Table 12: Additional sources of revenue for producers of selected Russian films (from 2006 to 1 July 2009)

Title	TV rights, USD	DVD rights, USD	Production budget, USD	Share of TV and DVD rights in production budget
Wolfhound from the Tribe of Grey Dogs	2,000,000	1,200,000	12,000,000	17%
Zhara [The Heat]	1,000,000	1,200,000	1,700,000	59%
Shadow Boxing 2	700,000	500,000	6,000,000	20%
Lubov-Morkov [Lovey-Dovey]	700,000	1,000,000	1,500,000	113%
Kod Apokalipsisa [The 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%
The Sovereign's Servant	700,000	n/a	7,000,000	10%

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

It is impossible to assess the royalties earned by producers from the distribution of Russian films abroad, as although the rights for most of these films have been sold, the price and the terms of the deals have never been disclosed. The most successful sales of international rights were for *Night Watch: Nochnoi Dozor* and *Day Watch* (USD 10 million), as well as *Mongol* (USD 7 million). On average, the rights for the most successful Russian films sold for less than USD 1.5 million. For example, *The Return* made USD 1.5 million, *9th Company* made USD 1.2 million, *Wolfhound from the Tribe of Grey Dogs* earned USD 1.5 million, and *Streetracers* USD 800,000.

The highest box office takings in 2006 were made by co-productions with foreign countries, such as *Mongol* (produced by Sergei Bodrov Sr.), which earned more than USD 19 million from exhibition abroad, and *Tulpan* (produced by Sergei Dvortsevoy) which brought in more than USD 1 million.[42] China has become a new market for the distribution of Russian films. In 2010, the film *Climber Girl* made USD 2.1 million in the Chinese market, while *We Are from the Future [My iz budushchego]* brought in USD 1.6 million.

Another revenue stream for Russian producers is the ever-expanding market for product placement. Information on product placement budgets is not disclosed by producers or advertisers. According to market players, the price of placing a product in a Russian film or TV series depends on the type and number of scenes involved and may vary from USD 40,000 to USD 1 million.[43] In 2007, experts valued the market for film product placement at about USD 15–20 million.[44] Of the films that have actively used product placement, the following may be singled out: *Paragraph 78*, *The Sovereign's Servant*, *Lubov-Morkov [Lovey-Dovey]*, *Kod Apokalipsisa [The Apocalypse Code]*, *Shadow Boxing 2*, *The Irony of Fate 2*, *Streetracers*, and *Day Watch*.

Given the lack of objective information about spending on advertising and promotion, or about film producers' additional revenue streams, it is rather difficult to draw conclusions regarding the profitability of film production companies operating between 2006 and 2009. However, it is possible to

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42 www.boxofficemojo.com

43 Зинаида Шумакова, «Стоп в кадре», приложение к газете "*Коммерсантъ*" № 95 (3912) от 04.06.2008 [Zinaida Shumakova, "Freeze Frame" a supplement to *Kommersant* issue № 95 (3912), from 4 June 2008].

44 Екатерина Дударева, «Пессимистичный сценарист», газета «*Коммерсантъ*» № 17 (3834) от 05.02.2008 [Ekaterina Dudareva, "The Pessimistic Screenwriter", in *Kommersant* issue № 17 (3834), from 5 Feb 2008].

state with a high degree of certainty that companies such as Channel One, Monumental Pictures, Real Dakota, Comedy Club Production, Bazelevs, Leopolis, and Pygmalion Production are profitable. Box office returns in Russia and CIS for these companies' films were more than twice as large as their production budgets. However, if we also take into account revenue from international distribution, then it is highly likely that CTB is also recouping its outlays.

If we include additional revenue streams in our calculations, then Central Partnership, VGTRK (Rossiya TV channel), STS, Igor Tolstunov Production Company (PROFIT), and Paradise Productions are all likely to be profitable as well. Given the fact that the Russian and CIS box office revenues of their films, combined with the government grants they received, amount to as much as, or more than, their production budgets.

At the end of 2008, the Russian film production market began to consolidate. Producers such as Sergei Gribkov (Top Line Production), Yusup Bakhshiev (Arnold and Gregor Production) and Arkadiy Danilov launched a production company called United Film Makers. Together with its partners – Gorky Film Studio, Sverdlovsk Film Studio, Yalta Film Studio and VVP Alliance – the new company has eight projects currently in production.

According to market players, by the end of 2008 the market for film production[45] could be characterised thus:

- feature films of poor quality;
- low returns on investment for film projects;
- high production costs;
- limited external investment in film production;
- a lack of credit or repayment financing framework for film projects;
- an absence of recognizable Russian film company brands on the market;
- overly optimistic assessments of anticipated revenues from film projects.

In the first half of 2010, the production of 43 feature-length films was completed in Russia. The gross production budget for these films amounted to RUB 4.4 billion. Twenty of these films were produced with the support of the Ministry of Culture of the Russian Federation. According to RFilms, federal support comprised around 10% of gross production budgets.

As at 1 July 2010, 20 Russian-made films produced in 2010 had been released to cinemas. Gross returns on these films were in the order of RUB 2.7 billion, an average of RUB 135 million per film, and the gross production budget came to RUB 2.5 billion, with an average of RUB 143 million per film. The production budget of studio Tri-Te's *Burnt by the Sun 2* came to more than RUB 1 billion, or 24% of the gross production budget for all Russian projects.

Discounting *Burnt by the Sun 2*, for the first time in the modern history of the Russian film industry, films' gross returns exceeded their gross production budget. A minimum of six films have a good chance of becoming profitable based on the results of cinema distribution.

The market for animated films

Investment in the production of feature-length animated films for cinema distribution reached about RUB 1.4 billion between 2006 and 2009. It is not possible to give an objective estimate of the levels of investment in the production of short animations as the production technologies are so different. According to data from the Ministry of Culture of the Russian Federation, the average cost of producing 1 hour of animation is RUB 6.5 million. Using this figure, the approximate volume of investment in short-length animations over the period in question may be placed at RUB 1.4 billion. Therefore, the overall volume of investment in animation works in Russia since 2006 can be placed at about RUB 2.8 billion.

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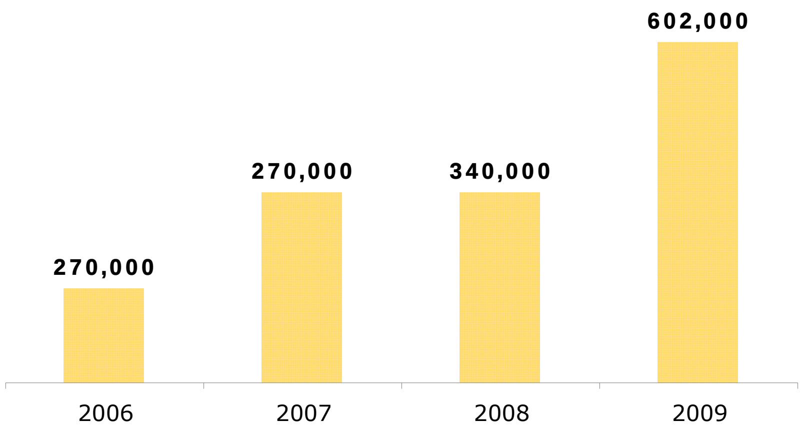
[45] A poll of participants at the August 2008 conference "Russian Film Industry-2008: Future Outlook".

Graphic 11: Investment in the production of full-length animated 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 considered 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 six regions of Russia were active in the production of animated films. Most short animated films were produced with state support, which came to about 70% of the cumulative budget of animated films; state support for feature-length animated films, meanwhile, only accounted for about 5% of their production budget.

Table 13: Economic indicators for the Russian animated film market

Indicators	2006	2007	2008	2009
Total volume of state support (thousands of RUB)	285	326	319	342
Number of feature-length films produced for cinema distribution	2	3	5	5
Total budget for full-length film production (thousands of RUB)	165,000	335,000	335,000	602,000
Volume of short-length films produced (min.)	50	75	50	50

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

One of the key problems in Russian animation is a shortage of experienced professionals. This is apparent in the production timelines and quality of projects. In fact, no more than 10 feature-length animation projects may be worked on at any one time in Russia. Meanwhile the wages of animation experts continue to rise annually, particularly in the field of 3D-technology.[46]

In 2008, a number of companies announced plans to build animation schools and animation studios. Of particular note, it was announced that the Melnitsa animation studio,[47] with a total floor space of 3,000 square meters, would be built in St. Petersburg. The company Era Vodoleia has plans to establish a school of animation. Russian World Studios (RWS) has announced its intention to open an

[46] Татьяна Комарова, Дмитрий Черников, «Сказка-ложь», журнал «Коммерсантъ: Секрет Фирмы» № 23 (255) от 16.06.2008 [Tatyana Komarova and Dmitri Chernikov, "Fairytale Falsehood", in *Kommersant: Sekret Firmy* № 23 (255), 16 June 2008].

[47] Resolution № 839 by the city government of St. Petersburg, dated 8 July 2008.

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

The average production budget of a feature-length animated film in Russia is RUB 95 million. Of the 11 films released since 2006, only four paid for their production budget in Russia-CIS box office returns once federal support was excluded from the calculations.

Table 14: Leading studios by production budget volume, for animated films released from 2006 to 2009

Animation studio	Number of films	Budget (million RUB)	Gross box office (million RUB)
Studio Solnechny DOM-DM	2	305	178
Melnitsa Animation Studio	3	195	410
United Multimedia Projects	2	95	32

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

Currently the most successful animation series is the long-running children's animation series *Smeshariki [GogoRiki in the US]*, produced by the Petersburg Studio of Computer Animation in cooperation with Master Film. The target demographic consists of preschool and primary schoolchildren and their parents. As of 2009, 208 episodes had been made, each one 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. Plans are to invest about EUR 50 million in developing the project in Russia over the next 5 years. In 2007, the total turnover of the Smeshariki brand reached more than USD 100 million. In 2008 an agreement was reached with 4Kids Entertainment, one of the leading US companies in promoting brands among children. The agreement includes plans for broadcast of the cartoon series by the CW Television Network, which has 100% coverage in the US. The price to foreign purchasers of a single episode, including the rights to an unlimited number of broadcasts over one to two years, is approximately USD 1,500.[48] It is also worth noting that the creators of Smeshariki, Anatoliy Prokhorov, Salavat Shaykhinurov, and Ilya Popov were honoured with a state prize for achievement in literature and the arts in 2008.[49]

The cartoon series' main competitor is the less successful animation series *Luntik and Friends*, produced by Melnitsa animation studio in cooperation with VGTRK (Rossiya TV channel). In all, 260 episodes of *Smeshariki* are planned. As of 2009, 200 of them had been produced.

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

Table 15: Leading producers of short animated films and series, in terms of production volume from 2006 to 2009.

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

Source: The Ministry of Culture of the Russian Federation and company data

48 According to data from Smeshariki Group.

49 «Создатели «Смешариков» удостоены государственных премий» http://www.lenta.ru/news/2009/06/09/prize/ ["Creators of Smeshariki Honoured with State Prize": http://www.lenta.ru/news/2009/06/09/prize/

Documentary film market

There are no exact data on investments in documentary filmmaking in Russia, since companies have fundamentally different approaches to their production. According to data from the Ministry of Culture of the Russian Federation, the average cost of producing 1 hour of documentary film is approximately RUB 1 million. Proceeding from this figure, investment in the documentary film market since 2006 can be gauged at around RUB 2.8 billion.

At present, 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 2009, 1,926 films were produced with support from the Ministry of Culture. Companies from 21 federal regions have been active in producing these films and series. Documentary films have accounted for about 20% of state financing for film production since 2006.

Table 16: State support of documentary film production

Indicators	2006	2007	2008	2009
Total volume of state support for documentary film production (millions of RUB)	415	493	430	413
Production volume (number of titles)	483	555	612	326

Source: The Ministry of Culture of the Russian Federation

The market leader in producing full-length non-fiction films is the Saint Petersburg Documentary Film Studio, which has produced seven such films since 2006. The most successful full-length documentaries were films produced by the Masterskaya Production Centre, including *Water* (dir. Anastasiya Popova) and *Mould* (dir. Dmitry Vasiliev), which earned audience shares of more than 30% among Russian TV viewers.[50] Other successful projects include *Virginity* (dir. Vitaly Mansky) of the Vertov Studio production company, with box office receipts totalling more than RUB 1.2 million.[51] Apart from *Virginity*, three more Russian non-fiction features have made it to the big screen since the beginning of 2006: *Zelyonyy teatr v Zemfire [*Zemfira's Green Theatre*]* (dir. Renata Litvinova, with box office takings of RUB 3,689,000[52]), *Oleg Kulik: Challenge And Provocation* (dir. Evgeny Mitta, with box office takings of RUB 86,000[53]) and *The Last Hero* [a special re-release of the 1994 tribute to Soviet rock legend Viktor Tsoi], with box office takings of RUB 2,310,000.[54] In Russia, independently-produced documentaries are, for the most part, still extremely limited in distribution, though they take part in various documentary film festivals, both nationally and internationally. Notable festivals include the Kinoteatr.doc film festival, the national documentary film and TV competition Lavrovaia Vetv, and the international documentary film festival Flahertiana.

The production of religious documentaries, specifically on topics related to Russian Orthodoxy, is a market segment worth highlighting. Production leaders in this area are the Kanon Film Studio, the Pravoslavnaia Entsiklopediya [Orthodox Encyclopaedia] Film & TV Company, and the Russian Week Cultural Centre. According to data from the Ministry of Culture, since 2006, these studios have made a total of 1,187 hours of film since 2006.

Production costs for independent documentaries vary from RUB 100,000 to RUB 1 million. For example, the television channel Kultura places orders for documentaries with private studios for an average rate of USD 15,000 an hour. The cost of producing high-budget documentaries may exceed

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50 «Самые популярные программы недели основных каналов», газета «Коммерсантъ» № 19 (4074) от 04.02.2009 (данные: TNS Russia) ["The Week's Most Popular Films on the Major Networks", in *Kommersant* № 19 (4074), 04 Feb 2009 (data: TNS Russia)].

51 Дмитрий Тихомиров. «Несокрушимое документальное», журнал «Коммерсантъ Деньги» 31 (736) от 10.08.2009 [Dmitri Tikhomirov, "The Invincible Documentary", in *Kommersant: Money* № 31 (736), 10 August 2009].

52 Данные «Кинобизнес Сегодня».Data from *Film Business Today*.

53 Данные производителя – компании «2ПлаN2». Data from the manufacturer: 2PlaN2.

54 Данные дистрибьютора – «Невафильм Emotion».Data from the distributor: Nevafilm Emotion.

USD 500,000. The budget for the film *Mould* reached USD 620,000, according to information from Channel One.[55] Also of note, the budget for *Virginity* was in excess of USD 200,000. Production costs for the television channel Russian Travel Guide vary from RUB 400,000 to RUB 2 million per 45-minute episode.

TV broadcasting remains the most widespread means of documentary film exhibition, despite the fact that documentary films make up a relatively insignificant proportion of TV airtime in comparison to feature films and TV series. Analysis of airtime figures from six national television channels (Channel One, VGTRK (Rossiya TV channel), NTV, STS, Ren TV, and TNT), which combined account for about 70% of the total TV audience, shows that the proportion of television airtime devoted to documentaries has increased between 2006 and 2008, now averaging 3%. It should be noted that audience interest in documentary films is gradually increasing, and ratings for documentaries are growing such that they are becoming comparable with those of TV premieres for films, and serials.[56] However, these mass audiences are only attracted by subjects such as the private lives of celebrities, while social, political, historical and popular science documentaries attract much smaller audiences. With the development and increased market penetration of cable TV, and especially of channels specialising exclusively in documentaries (such as 24 Doc, 24 Techno, and Russian Travel Guide), it might be anticipated that there will be increased viewer interest in various genres of factual films, and a corresponding increase in demand for documentaries on the part of television channels.

The principal revenue source for producers of documentaries is the sale of broadcast rights to TV channels. In 2009, these kinds of rights sold for anything from USD 200 to 60,000, and the price did not necessarily depend on whether a film was a low- or a high-budget production.

Table 17: Cost of broadcast rights to documentary films on selected Russian TV channels (2009)

TV channel	Type	Cost
VGTRK (Rossiya TV channel)	Film, 44 min.	USD 15,000
Channel One	Film, 52 min.	between USD 30,000-60,000
Kultura	Title	less than USD 1,000
24 Doc	Title	between USD 200-500

Source: Kommersant: Money[57]

Since 2006, the proportion of documentaries made as co-productions with foreign countries has remained extremely low. Better-known examples include *Space Race*, a TV series co-produced by Channel One (Russia), the BBC (Great Britain), National Geographic (USA) and NDR (Germany), as well as *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 commissioned by television channels. The leaders in this market are the Ostankino television network, Nashe Kino group, Nadezhda Studios, Novoye Vremya, Wings of Russia Studio, Kvart Studios, Lennauchfilm studios, the Tsivilizatsiia television network, *Fisherman* magazine, Fishka film, Rossfilm, and Education in the Third Millenium, an international social foundation.

Studios such as the Sverdlovsk Film Studio (comprising STRANA, Zov Studios and Teya studios) and the Kazan Film Studio produce documentary series commissioned by the Ministry of Culture.

[55] Chastnyi Korrespondent [Private Correspondent] Internet portal.
[56] Information and analytical bulletin *Russian Cinematography*, 2008.
[57] Дмитрий Тихомиров, «Несокрушимое документальное», журнал «Коммерсантъ Деньги» 31(736) от 10.08.2009 [Dmitri Tikhomirov, "The Invincible Documentary", in *Kommersant: Money* № 31 (736), 10 August 2009.

The student film studio at the Russian State University of Cinematography (VGIK) is one of the leading producers of short documentary films, releasing dozens of documentaries made by its students each year.

Table 18: Top 5 documentary series released on DVD (2006 to 2009)

Title	Number of episodes	Total minutes	Production
Udarnaya sila [Strike force]	20	3,900	Ostankino TV network
The Second World War: Day by Day	96	2,496	Nadezhda studios
Video supplement to *Fisherman* and *Elite Fisherman* magazines.	48	1,695	Editors of *Fisherman* Magazine
Russian 20th Century History	50	1,300	Novoye Vremya
Wings of Russia	18	936	Wings Studio

Source: Company data

3.1.2 Key players in film and TV production

Between 2006 and 2009, the main players in Russian film production were production centres, production companies, state and private film studios, TV channels, and major Hollywood studios.

Table 19: Players in the Russian film production market

Type	Leading players by production volume	Type of production
Film production centres (including cinema distribution subsidiaries)	CTB, Central Partnership, the Paradise Group, Red Arrow (from 2009), Igor Tolstunov Production Company (PROFIT), Art Pictures, Karo Production, Leopolis (until 2010)	Films
Independent production companies	Bazelevs, Real Dakota, Studio Tri-Te, the Mikhail Kalatozov Fund, New People, Slovo, Stella Studios, TVINDIE Film Production, Rok, ProLine Film, Nikola Film, AMA, United Multimedia Projects (UMP), Ugra-Film, studio Cherepakha, Cinebridge, Pyramid, and Comedy Club Production.	Films, TV films
State-owned film studios	The Centre of National Film, St. Petersburg Documentary Film Studio, Lennauchfilm	Documentaries, animated films
Private film studios	Russian World Studios, Amedia, Star-Media, Leopolis	TV series, TV films
TV channels	Channel One, VGTRK (Rossiya TV channel), STS	Feature films, TV series, documentary films
Major Hollywood studios	Sony Pictures, Fox International Productions	Films, TV series

Source: RFilms

The active development of the Russian film industry has resulted in the arrival of major financial and industrial players to film production, and by 2009, a number of vertically-integrated media holdings with their own film production departments had established themselves. Among the largest are Gazprom-Media, ProfMedia, STS Media, Sistema Mass-media, and the All-Russian State Television and Radio Broadcasting Company. Operating within a media holding offers particular advantages to a film production company in promoting its own film projects on television and radio, in the press, and online. It also opens up the possibility of raising capital from the media holding itself and its stockholders. For example, in 2008, Gazprombank provided a loan of USD 10 million to the NTV television company, which is a part of the Gazprom-Media holding, for the production of new television serials.

Table 20: Russian Media Holdings

Media Holding (shareholders)	Film Production	Television	Other assets
Gazprom-Media (Gazprom)	NTV Film Film production under the TNT brand	NTV, TNT, NTV Plus	Radio: Ekho Moskvy, Pervoe Populiarnoe Radio, Next, City-FM, Relax-FM, Detskoe Radio Seven Days Publishing house Internet: RuTube Cinemas: Oktyabr (Moscow), Crystal Palace (St. Petersburg)
ProfMedia (Interros)	Central Partnership	TV3, 2x2, MTV Russia, VH1 Russia	Radio: Autoradio, Energy, Humour FM, Radio Alla Afisha Publishing house Internet: Rambler Media Cinemas: Cinema Park chain
STS Media (Alfa Group, Modern Times Group)	Film production under the STS brand, Kostafilm, Soho Media	STS, Domashnii, DTV	-
Sistema Mass-media (AFK Sistema)	Russian World Studios, Thema Production	Stream TV, Digital TV and Radio broadcasting, Kosmos-TV	-
All-Russian State Television and Radio Broadcasting Company	Film production under the Rossiya brand. Series production as part of the Russian Novels on Screen project	VGTRK (Rossiya TV channel), Kultura, Sport, Bibigon, RTR-Planet, and Euronews, Russian-language edition	Radio: Radio Rossii, Mayak, Kultura
National Media Group (Rossiya Bank, Severstal, Surgutneftegas, Sogas)		Ren TV Channel 5 (St. Petersburg) National Telecommunications (cable TV)	The newspaper Izvestiya

Source: RFilms

Russia's 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 world's largest companies. The principal shareholders of STS Media are Alpha Group, one of the largest financial and industrial consortia in Russia, and the Swedish Modern Times Group. Sistema Mass-media is part of 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 throughout the economy. In all, the companies of AFK Sistema serve more than 100 million consumers in Russia, the countries of the CIS, and Europe.

TV channels

Today, TV channels are both the principal producers and main customers for TV series, documentaries, and feature films. The largest TV companies include separate departments for TV series production, either within their structure (e.g., VGTRK (Rossiya TV channel), with its Russian Novels on Screen project), or in a dedicated subsidiary (such as NTV-KINO for NTV, or KostaFilm for STS). Also, almost every TV-channel has its own documentary-production subsidiary, the largest belonging to Channel One, VGTRK (Rossiya TV channel), and Ren TV.

Between 2006 and 2009, TV channels remained the most successful players on the feature film market. The combined budget of Russian feature-films produced with the participation of TV channels from 2006 onwards came to a total of RUB 3.8 billion, and their total box office takings amounted to RUB 7.5 billion. From 2006 to 2009, of the 20 most successful films in terms of producers' revenues from cinema distribution in Russia and the CIS, nine 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, airing these advertisements using barter deals, and thus reducing direct promotion costs. The leading TV channels active in film production are Channel One, VGTRK (Rossiya TV channel), and STS.

Table 21: Top 20 films in terms of producer revenue from cinema distribution in Russia and CIS, excluding Ukraine (from 2006 to 2009)

No.	Title	Year	Production company	Production budget (millions of RUB)	Producer revenue from distribution* (millions of RUB)
1	The Irony of Fate 2	2008	Channel One, Bazelevs, Direktsiya Kino	124	489
2	Day Watch	2006	Channel One, Bazelevs, Tabbak film company	114	367
3	The Admiral	2008	Channel One, Direktsiya Kino, DAGO Studio	397	350
4	Samyy luchshiy film [The Best Movie]	2008	TNT, EGO Production, Comedy Club production,	75	269
5	Obitaemyy Ostrov [The Inhabited Island]	2008	STS, Non-Stop Production, Art Pictures studio	450	257
6	Black Lightning	2009	Bazelevs/Universal Studios	280	238
7	Taras Bulba	2009	VGTRK (Rossiya TV channel), Central Partnership, Ark Film	516	230
8	High Security Vacation [Kanikuly strogogo rezhima]	2009	Channel One, Buzz Production, Dago studio	140	221
9	Wolfhound from the Tribe of Grey Dogs	2007	Central Partnership	332	212
10	Lubov-Morkov 2 [Lovey-Dovey 2]	2009	Real Dakota, Interfest	94	207
11	Hipsters [Stilyagi]	2009	VGTRK (Rossiya TV channel), Red Arrow, Rekun-cinema	372	195
12	Samyy luchshiy film 2 [The Best Movie 2]	2009	Comedy Club Production Monumental Pictures	124	168
13	Zhara [The Heat]	2007	STS, Art Pictures Studio	43	165
14	Heaven on Earth	2006	CTB film company, Pygmalion Production	95	143
15	Love in the Big City	2009	Leopolis film company	86	130
16	The Book of Masters	2009	Walt Disney Motion Pictures	224	126
17	Lubov-Morkov [Lovey-Dovey]	2007	Real Dakota, Interfest	38.3	121
18	Shadow Boxing 2	2007	Central Partnership	153	117
19	Svolochi	2006	Paradise Production	95	109
20	Hitler's Kaput!	2008	Leopolis film company	74	98

*Producer revenue from distribution is calculated after payments to cinemas, equal to 50% of box office receipts, and a deduction for payments to distributors, equal to a maximum of 10% of box office receipts, excluding marketing costs and state support received.

Source: Alliance of Independent Film Distribution Companies (ANKO), Booker's Bulletin*, RFilms*

Thanks to *Day Watch, The Irony of Fate 2, and The Admiral*, Channel One has become a leader in the Russian film market in terms of gross box office receipts. These films occupy the top three positions in box office ratings since 2006. The principal partners of Channel One are the Bazelevs Film Company and Dago Film Studio. Channel One has set up a special closed joint stock company, Direktsiya Kino, to produce its films.

VGTRK (Rossiya TV channel) is the leading TV channel in terms of the number of films it has produced. However, these films' combined budgets exceed their gross box office receipts. The channel's most successful films were *Hipsters [Stilyagi]* and *Taras Bulba*, both released in 2009.

The TV Channel STS co-produced such films as *Obitaemyy Ostrov [The Inhabited Island]* and *Zhara [The Heat]*. In all, from 2006 to 2009 eight films were produced with the involvement of this TV channel. Its principal partners are Art Pictures and Non-Stop Production. In 2009, Alexander Rodnyansky, a member of the Board of STS Media set up his own company, AR Films, with total investment in the first phase coming to approximately USD 20 million. The principal asset of the company will be its film library.[58]

Table 22: TV channels' participation in film production from 2006 to 2009

TV channel	Number of films produced	Total film production budget (millions of RUB)	TV channel's share of investment in overall film production, 2006 to 2009	Box office receipts from films produced (millions of RUB)	Films' share of total box office receipts for Russian films 2006–2009
VGTRK (Rossiya TV channel)	13	1,700	5.7%	1,500	8%
STS	8	1,200	4%	1,600	9%
Channel One	4	750	2.5%	3,600	20%
NTV	2	100	0.3%	180	1%
TNT	1	75	0.2%	675	4%
Total	**28**	**3,825**	**13%**	**7,555**	**42%**

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

Production centres

Until 2009, there were three major production houses in operation in Russia that either owned or included distribution subsidiaries: CTB, Central Partnership and Paradise Group. Since 2006, the total production budget for feature films produced with the involvement of production centres reached RUB 4.3 billion, while their total box office receipts amounted to RUB 3.6 billion.

[58] Ольга Гончарова, «СТС Медиа», газета «Коммерсантъ» № 84 (4139) от 14.05.2009 [Olga Goncharova, "STS Media", in *Kommersant* № 84 (4139), 14 May 2009].

Table 23: Involvement of production centres in film production, (2006-2009)

Company	Number of films produced	Total budget for films produced (millions of RUB)	Production centre's share of overall investment in Russian film production	Box office receipts from films produced (millions of RUB)	Films' share of total box office receipts for Russian films
Central Partnership	29	2,500	8.4%	2,025	13%
CTB	14	1,300	4.3%	760	4%
Paradise	5	370	1.2%	570	3%
Total	**40**	**4,390**	**13.9%**	**3,630**	**20%**

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

From 2009 onwards, Igor Tolstunov Production Company (PROFIT), Red Arrow, Art Pictures Studio, and Karo Production can also be counted among these production centres. In 2009, Igor Tolstunov Production Company (PROFIT) and Red Arrow, together with CTB, set up the distribution firm Nashe Kino, building upon the existing film marketing group of the same name. In 2009, Fedor Bondarchuk and Dmitry Rudovsky founded the distribution company Art Pictures Media, which will handle cinema, TV and DVD distribution for films from Art Pictures Studio, as well as distributing films from independent studios in the West. Karo Production joined the film market in 2009. Karo Production is a daughter company of the distribution company Karoprokat, which contributed to the production of films like *The Family*, *Hooked*, and *Gentlemen Officers: Save the Emperor*, as well as *Viy. Vozvrashchenie [Viy: The Return]*, which is still in production. Similarly, Leopolis Holding launched Leopolis Distribution in mid-2009; however, after being in existence for one year, the sales department of the holding was closed 1 May 2010, and film exhibition rights for Leopolis' Russian and foreign films were sold to UPI, the Russian branch of Universal.

The competitive advantage of production centres is that they are simultaneously producers and distributors of their own projects. This generates additional revenue of up to 10% of box office receipts from the exhibition of films, and provides direct control over exhibition revenues, which could otherwise be partially concealed by external distributors. Currently these production centres have enormous potential. Much of their success depends on the formation of the best possible portfolio of projects in production and a library of ready-made projects. Strategically, production centres aim for the release of one film a month.

The Central Partnership film company was founded in 1996. Its principal activity involves the production and promotion of feature films and TV series. It includes the Central Partnership Studio and the Central Partnership Sales House, a distributor of film and TV rights. 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 the CIS (with the exclusion of Ukraine). The Central Partnership film company is one of the largest customers for TV series.

The CTB film company was formed 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 Russian market leader in feature-length animated films, as well as the Nashe Kino distribution company.

Paradise Holding includes the **Paradise Production Centre**, the Paradise distribution company, and the Paradise Productions film company, which manages the Piat zvezd [Five Stars] cinema chain. The company focuses on the production and promotion of feature-length films. Since 2006, the two most successful Paradise projects have been the films *Svolochi* and *Derzkie Dni*.

Independent production companies

Russia has more than 300 independent production companies, with most specialising in distinct types of production. Exceptions to this rule are Pyramid and Comedy Club Production, which work on TV series and feature films simultaneously.

The largest independent production companies are Bazelevs, Real Dakota, and Studio Tri-Te. Among the production companies independently producing features, the most notable are Koktebel, the Mikhail Kalatozov Foundation and New People.

As regards the documentary market, Masterskaya and Vertov are both prominent independent documentary film producers.

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

Major Hollywood studios

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: *Trackman* (2007), *V Ozhidanii Chuda* (2007), *First Love: It's the Music!*, 2009, and *Samiy luchshiy film 2 [The Best Movie 2],* 2009. Four more films are currently in production, http://www.film.ru/a-z.asp?year=2007 including a 2010 premiere – Aleksandr Atanesyan's *Close Enemy.* In 2007, Sony Pictures Television International acquired a 51% stake in Lean-M Production Centre, one of Russia's market leaders in TV serials.

In 2009, the Walt Disney Company, together with Tri-Te Studio, released its first Russian film, *Kniga masterov [The Book of Masters]*.

Universal Pictures has not yet entered the Russian market, but is producing a number of projects, including *Wanted* and *Black Lightning,* in conjunction with the Russian company Bazelevs Production.

In 2009, Fox International Productions, a branch of 20th Century Fox, co-produced such films as *Lubov-Morkov 3* [*Lovey-Dovey 3*] and *Alien Girl*. Also, together with Art Pictures, in 2009 Fox International Productions started work on *Evgeny Onegin*, which has 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 – *Working Girl* (with an estimated production budget of under USD 3.5 million) and *Man on Fire* (with an estimated production budget of under USD 6.5 million). The co-producer from the Russian side is Alexander Atanesyan.[59]

Private film studios

Russian World Studios, Amedia and Star-Media lead Russian studios actively producing film and TV. In principle, these companies focus on TV production, but at the same time each of them pursues several of their own projects in the film production market.

Russian World Studios (RWS) was formed at the end of 2007. The company is part of the Sistema Mass-media holding (AFK Sistema). Strategically, RWS aims to strengthen the position of Sistema Mass-media in the development of film and TV content, permitting AFK Sistema to become the market leader in pay-TV and Internet broadcasting. There are plans to distribute the content produced by RWS via AFK Sistema's telecom companies, such as MTS and Comstar, as well as on the digital and mobile platforms of Sistema Mass-media. RWS' strategic goal is to become one of Russia's major film studios.[60] In addition, RWS owns a library of films from the Thema Production company, the most well-

[59] «Голливуд по-русски», газета «Ведомости» №137 (2407) от 27.07.2009 ["Hollywood, Russian-style", in *Vedomosti* № 137, 27 July 2009].

[60] Юлия Семёркина, «Дело в шляпе», журнал «Секрет фирмы» № 20 (252) от 26.05.2008 [Yulia Semyorkina, "In the bag", in *Sekret Firmy* № 20 (252), 26 May 2008].

known of which include Woody Allen's *Match Point*, *In Transit* with John Malkovich, *Delirious* by Tom DiCillo, Werner Herzog's *Rescue Dawn*, and *Goodbye Bafana* with Joseph Fiennes. In 2009, RWS launched a programme to support Russian cinema – RWS Finance Film – with an investment of USD 20 million to go towards financing unfinished projects and films in pre-production.

Amedia is a leader in Russian TV-series production and incorporates 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 employees and suspended about 70 projects at various stages of production.[61] In the near future, the company plans to release its feature film *V Gostiakh u Skazki* [*At Skazki's Place*]. The company has also made an animation project – the cartoon series *UmaNetto*.

The Star-Media group is one of the most rapidly developing companies in the production and distribution of cinema features, TV films, telenovellas, and serials, as well as 3D-animated historical series. In 2009, Star-Media released its first two feature films *O, Luckyman!* and *The Weather Station*. In 2008 the library of rights held by Star-Media comprised more than 1,600 hours of content produced in-house, in various genres. Star-Media has its own studio for 3D-animation, Babich Design. 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 lion's share of film production at these studios is state-subsidised, so state film studios cannot be considered production companies *per se*. 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. However, in 2009-2010, an increase in film-production market activity is apparent on the part of government studios, which is a sign that the financial crisis has forced studios like Mosfilm and Gorky Film Studio to resort to producing in order to survive financially.

3.1.3 Investment in film production

Investors may provisionally be divided into the following groups:

- corporate and private investors;
- private investors–producers;
- strategic investors;
- investors from the West;
- co-producers from the West;
- financial organisations.

Corporate and private investors

Over the last three years, investors have played an increasingly proactive role in film production. Market players believe[62] that this situation has resulted in the market becoming overheated, with outlays for film production and promotion increasing, and wages rising rapidly. Meanwhile, the production of films has remained for the most part unprofitable. This, in combination with a lack of transparency in the market and the absence of reliable information on box officereceipts, has meant that the heightened expectations of potential investors have not been met. Films financed by private investors include *D-Day*, *Kod Apokalipsisa* [*The Apocalypse Code]*, *1612*, *By the Will of Chingis Khan*,

[61] Ольга Гончарова, «Штатное расписание», газета «Коммерсантъ» № 176 (3993) от 30.09.2008 [Olga Goncharova, "Staff Schedule", in *Kommersant* No 176 (3993), 30 September 2008].

[62] A poll of participants at the August 2008 conference "Russian Film Industry-2008: Future Outlook"

and *The Sovereign's Servant*, for which gross receipts from cinema exhibition represented on average 18% of the production budget. However, 2010 heralds a decrease in the number of new film releases with declared budgets of over RUB 200 million which would be impossible to finance without the involvement of major investors.

Table 24: Involvement of corporate and private investors in film production

Investor	Company	Business field	Projects
Alexander Lebedev	National Reserve Corporation	Finance, industry	Yuri's Day, Bumazhnyy Soldat [Paper Soldier]
Mikhail Bolotin, Albert Bakov	The Concern Tractor Plants	Industry	D-Day, 9th Company
Eugeniy Kogan	RiO	Gambling industry	The Sovereign's Servant
Alexey Adikaev	ID Group	Real Estate	Prorok: Missiia Piatogo Angela [Prophet: the Mission of the Fifth Angel]
Eduard Shifrin	Midland Group	Real Estate	Obitaemyy Ostrov [The Inhabited Island]
-	Renova Holding	Finance, industry	Kod Apokalipsisa [The Apocalypse Code], 1612, The Priest
-	Mail.ru	Internet	Viy. Vozvrashchenie [Viy: the Return]
-	Alrosa	Industry	By the Will of Chingis Khan

Source: RFilms

Private investor-producers

This category includes private investors that have either founded a production company or contributed capital to an existing one. Of note:

- Yaroslav Zhivov – producer from the Telesto Film Company, member of the board of Capitel, an international multi-profile investment and financial holding company, chairman of the board of CapitelEnergo, a production and engineering company, and chairman of the board of the holding company Monarch.
- Leonid Lebedev – producer for Krasnaya Strela [Red Arrow], representative of the legislative (representative) branch of the government of the Republic of Chuvashiya, and founder of Sintez;
- Oleg Chamin – founder of New One Production company, and shareholder of Retail Technologies (with 118 Nastroenie media stores in Moscow, St. Petersburg, and Samara), Nikitin, Style Records, Doberman Pictures, Why Not Lili, C-Media, Radio Centre, and Nastroenie Auto;
- Yuri Glotser – General Producer of BFG-Media, member of the board of the commercial bank BFG-Credit.

Co-producers from the West

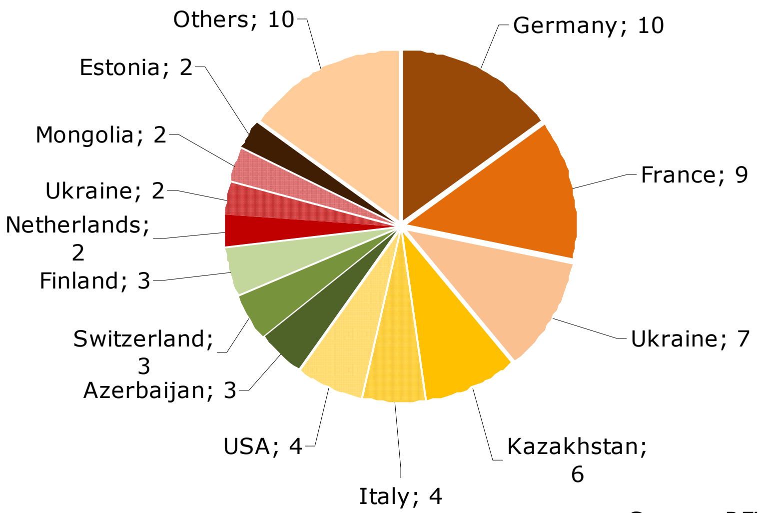
During the last three years there has been significant growth in the number of projects in co-production with Western countries. Between 2006 and 2009, there were 39 such projects. For these projects the total state support from the Russian side amounted to RUB 400 million (averaging RUB 10 million per film). The most active participants on the Russian side were the companies CTB, Filmokom, Nikola Film, Twindi and Proline Film. Rohfilm (Germany) was among the active co-producers from the West. An active role was also played by the Mitteldeutsche Medienförderung foundation (Germany), Centre National de la Cinématographie (France), Finnish Film Foundation (Finland) and Eurimages. Currently, more than 20 collaborative projects are in production.

Table 25: Indicators for co-production projects

Indicators	2006	2007	2008	2009
Number of films:	4	10	17	8
minority co-production	*2*	*3*	*6*	*5*
majority co-production	*2*	*7*	*11*	*3*
Total federal support (millions of RUB)	64	84	212	40

Source: RFilms, company data

Graphic 12: Participation of foreign countries in co-production (from 01.01.2006 till 01.07.2009)



Source: RFilms

Financial organisations

Russian banks remain extremely reticent to provide loans for film production 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 provided loans totalling approximately USD 70 million to companies in the film and TV industries. In 2008, prior to the start of the economic crisis, lending limits set for film industry companies were approaching USD 100 million.[63] Between 2008 and 2009, the Bank of Moscow was the leading bank in financing film companies, contributing to three projects: *Obitaemyiy Ostrov. Svatkha. [The Inhabited Island: Rebellion]*, *Tsar*, and *Taras Bulba*. The following banks also provided credit to Russian producers at various stages: InterCapitalBank, MFT-Bank, BFG-Credit, ExpoBank, SberBank, and GazPromBank. Banks also contribute to film production as sponsors; VTB bank sponsored films like *Burnt By the Sun 2* and *House of Sun*.

[63] According to Rosbank data.

Private companies also finance the film industry. To give an example, in 2007 the Forfilm company, whose principal shareholder is Russo-Asiatic Investment Company (RAINKO), granted a loan to the film company Slovo to produce the feature *Caravan.*[64]

Investment funds do not have wide-scale involvement in film production in Russia. In 2008, there were only two such funds active in Russia – First Media Fund, the first Russian film investment fund (with a presumed total investment of USD 23 million) and the closed share trust Kinofond (with an investment capability estimated at USD 10 million). However, Kinofond suspended its operations at the beginning of 2009, while First Media Fund has not to date financed a single film project.

[64] Moscow City Arbitration Court.

3.2 PRODUCTION FACILITIES: STUDIOS, EQUIPMENT RENTAL AND POST-PRODUCTION SERVICES[65]

3.2.1 Industry structure

Companies operating in film production in the Russian Federation may be split into several categories according to function:

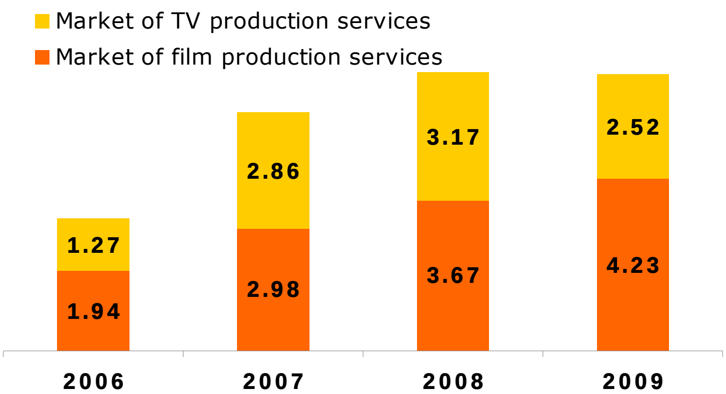
- production centres;
- film studio complexes (that own filming stages);
- service providers that rent out filming equipment to film crews;
- post-production centres.

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 generate significant revenues. The majority of production centres have no production capacity of their own. If they do organise the production process, they may lease these facilities themselves, or they may instead commission external production companies to make the films for them. These production companies will, in turn, rent stages and equipment, and procure services from film studios and service companies.

Market volume

According to data on budget breakdowns for film and TV production from the Ministry of Culture of the Russian Federation, and from a number of leading production companies, the combined proportion of expenses for renting stages, equipment, transport and production premises, post-production operations, and film set construction (taken together, these constitute the production services market of 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. Given knowledge of the total volume of investment in film and TV production in Russia, RFilms experts value the total **volume of the market of film and TV production** services for 2006 at RUB 3.2 billion, RUB 5.8 billion for 2007, RUB 6.8 billion for 2008, and RUB 6.7 billion for 2009. Film production services make up RUB 4.2 billion (63%) of this total, while production services for TV films and series account for approximately RUB 2.5 billion (37%). From 2006, the volumes of these markets grew unevenly but reasonably quickly until 2009, when the volume of the TV production services market fell by 20% and the film production services market increased by 15%.

Graphic 13: Development of total market volume of film and TV production services in Russia (RUB billions)



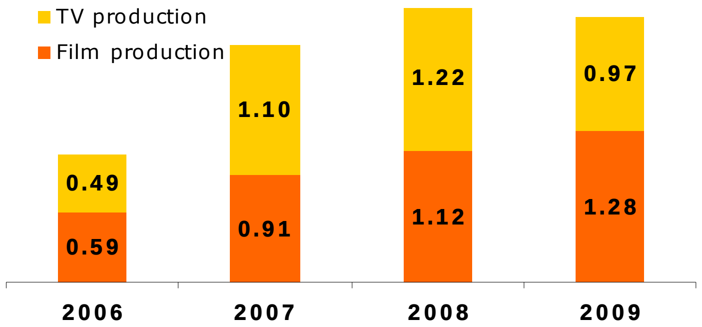
Source: The Russian Federation Ministry of Culture, company data, RFilms

[65] This section is prepared by RFilms.

The principal services offered by studio complexes and service companies in Russia include stage and equipment rental, as well as cutting and post-production services (film processing, dubbing etc.). Their combined share of the budgeted cost of film and TV films constituted about 30% in 2008.

The Russian **market for sound stages and equipment rental** amounted to RUB 1.1 billion in 2006, RUB 1.9 billion in 2007, RUB 2.4 billion in 2008, and RUB 2.3 billion in 2009. The past few years have seen the market share for this type of service grow at a faster rate in TV production than in film production, which reflects the increasing share of TV production in Russia as a whole. But in 2009, this trend changed as a result of a drop in the production of TV films due to the economic crisis. This led to a 20.5% drop in the sound stage and equipment rental market, making it smaller, in absolute terms, than the market for similar rentals for cinema film production.

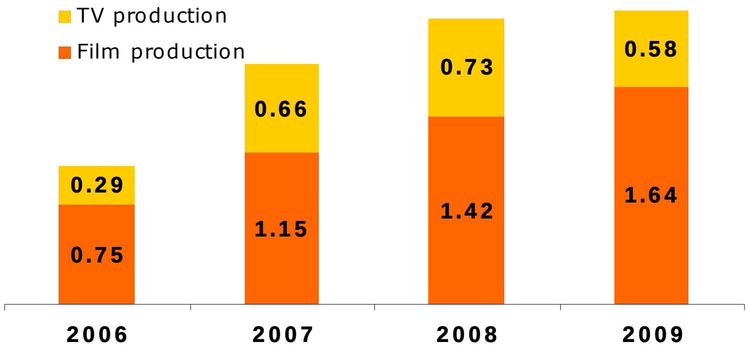
Graphic 14: Development of market volume of stages and equipment rent in Russia (RUB billion)



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

The **post-production services market** 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 and 2009. Film production services dominate the market (74% against 26% for TV production in 2009, 65% against 35% in 2008 and 2007, and 73% against 27% in 2006), which can be explained by the higher cost of film processing for feature films; TV production relies mostly on video.

Graphic 15: Development of market volume of post-production services in Russia (RUB billion)



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

Film studios

According to figures for 2009, only seven of the 15 state film studios occupy an area of 100 hectares or more and are actually functioning, i.e. renting out stage space and offering a wide range of film production services. They are Mosfilm (14 stages), Lenfilm Studios (four stages), Gorky Film Studio (five stages), Sverdlovsk Film Studio (two stages), the Centre of National Film (five stages), Lennauchfilm Film Studio (two stages) and the St. Petersburg Documentary Film Studio (one stage). Prominent private film studios include Russian World Studios (7 stages in Moscow and 6 stages in St. Petersburg), Media City (9 stages), My Studio and Territoriya Kino (with 7 stages each) and Creative TV Association (5 stages). Some private film studios also rent out only stage space with lighting equipment and some post-production services, having no equipment pool of their own available for rent; these include Magic Film, Donskaya 32, Tele City, Kinofabrika No. 2, and others.

Table 26: Overview of Russian film studios

No.	Studio	Location	Number of stages	Stage area (m^2)				Stage total area (m^2)	Number of location filming sites
				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	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)	Moscow	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	Ugra-Film	Khanty-Mansiysk	1	-	1	-	-	560	-
12	Kinofabrika No.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: Ministry of Culture of the Russian Federation, company data

In 2009, Russian film studios had more than 90 functioning sound stages in their film studios, with a total area of 66,000 m^2 (average stage floor space of 755 m^2).[66] Seventy-six of these were in Moscow (more than 80% of the total number), with a total floor area of over 57,000 m^2 (more than 85% of the total floor space of stages in Russia's film studios). At the same time, according to market commentators, the quality of these stages (in terms of ceiling height, soundproofing, internal infrastructure etc.) and services provided by film studios are still at a low level in comparison with Western and Eastern European film studios.[67]

The overwhelming majority of Russian film studios are concentrated in Moscow and St. Petersburg. State studios tend to be in city centres, while private studios and stages are generally situated on the sites of former industrial complexes and factories. Only a handful of functioning film studios with their own production bases (stages) exist outside Moscow and St. Petersburg: Yekaterinburg (the Urals, Sverdlovsk Film Studio), Khanty-Mansiysk (East Siberia, Ugra-Film). The Sverdlovsk Film Studio is state owned, while Ugra-Film cooperates actively with regional authorities and focuses mainly on producing TV programming for regional TV channels.

Investment in launching new studios has continued to increase over the past six 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 operating on the market.[68]

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 these (Media City, Russian World Studios) continue to operate successfully, expanding their scope of activity not only through the construction of new stages and purchasing of modern equipment, but also by acting as production companies and making their own film projects.

Private film studios (of which there are 59) make up more than 65% of all stages. Thus, the state no longer dominates the film production services market, 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 cinema features, since only nine of their 33 stages (27%) offer floor space in excess of 800 m^2, while out of the 59 private studios, 31, or about 52%, are of these dimensions. In addition, six of the nine large stages are on the premises of Mosfilm, the largest national studio. In all, there 16 stages with floor space exceeding 1000 m^2 in Russia today, all situated in Moscow.

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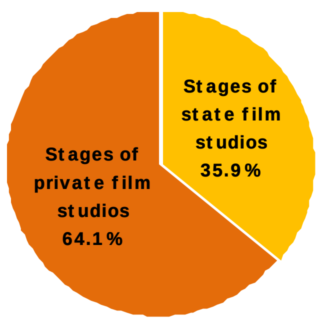
[66] Company data.
[67] Expert poll taken as part of a study of participants in the Cinema Community conference "Russian Film Industry–2008: Future Outlook", August 2008.
[68] Company data.

Table 27: Market shares of Russian film studios by number of stages and stage area size

No.	Film studio	Studio's share of total volume of Russian studios by number of stages (%)	Studio's share of 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	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 No.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	Ugra-Film	1.1%	0.8%
19	Way Film	1.1%	2.0%
	Total Private Film Studios:	**64.1%**	**66.6%**

Source: RFilms

Graphic 16: Shares of stage areas of state and private film studios (as at 01.07.2010)



Source: RFilms

Mosfilm, the largest film studio in Russia, while maintaining its status as a state enterprise (and recognized as a strategic asset for the industry), is the only full-cycle studio in the country. Currently the Mosfilm Concern is a model enterprise for the Russian cinematography industry (in terms of the space occupied, staffing, technical equipment and filming technologies). 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 Lenfilm, the Sverdlovsk Film Studio (except for film processing and film printing services) and the Gorky Film Studio (except for on-site audio recording equipment).

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 provide editing and recording/dubbing services, but none of these private film studios have the capacity to process and print film. These services are provided by specialized private service companies.

Table 28: Range of services provided by film studios and leading service companies

No.	Film Studios and Service Companies	Production								Post-production						
		stages	cameras	filming equipment	light	sound	transport	stage props	scenery	film processing	film editing	recording studio	computer graphics	telecine	film printing	digital mastering, DCP, KDM
	State film studios															
1	Mosfilm Film Concern	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
2	Lenfilm Studios	+	+	+	+	+	+	+	+		+	+	+	+		
3	Gorky Film Studio	+	+	+	+		+	+	+	+	+	+	+	+	+	
4	Sverdlovsk Film Studio	+	+	+	+	+	+	+	+		+	+	+	+		
5	Centre of National Film	+	+		+	+		+	+			+				
6	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	Ugra-Film	+	+	+	+	+	+				+	+				
13	Kinofabrika No.2	+							+							
14	Telemost	+	+		+	+					+	+	+			

No.	Film Studios and Service Companies	Production								Post-production						
		stages	cameras	filming equipment	light	sound	transport	stage props	scenery	film processing	film editing	recording studio	computer graphics	telecine	film printing	digital mastering, DCP, KDM
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	X-ray		+	+	+											
26	IMT Group		+	+	+											
27	Bogdan i Brigada			+	+											
28	AST		+	+												
29	Salamandra									+	+	+	+	+	+	+
30	Cinelex										+		+			
31	Cinemateka										+		+			
32	Nevafilm (Moscow, St. Petersburg, Kiev)											+				+
33	Central Productions International Group											+				+

Source: Company data

Table 29: Film studios and service companies by range of services provided

No.	Film Studios and Service Companies	Number of services offered
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 (RWS)	10
6	Izarus-Film	9
7	Ugra-Film	8
8	Telemost	7
8	Territoriya Kino	7
8	Centre of National Film	7
9	Salamandra	7
9	Lennauchfilm Film Studio	6
9	Way Film	6
9	Donskaya 32	6
10	Rentacam	4
10	Magic Film	4
11	X-ray	3
11	ITM Group	3
11	BS Graphics Production	3
12	Kinofabrika No.2	2
12	Bogdan i Brigada	2
12	AST	2
12	Cinelex	2
12	Cinemateka	2
12	Nevafilm	2
12	Central Productions International Group	2
13	My Studio	1
13	TeleCity	1

Source: Company data

Established prices for film crew services exceed the average European level, primarily due to a set of ‘extra’ services that the local studios add as a mandatory addition to their basic services (such as technical personnel, auxiliary equipment etc.). Prices for basic services like renting stage space remain relatively low.

The financial and economic crisis pushed rental prices for stage space down by about 10%. Discounts can be much greater if other services offered by the film studio are used as well. Current discounts on the rental of filming equipment and stages can reach 50%. Depending on the number of shooting shifts and the total cost of the full service package, discounts may vary between 10% and 40% at

Mosfilm, between 10% and 20% at Lenfilm, between 10% and 30% at Cinelab and between 15% and 50% at Russian World Studios.[69]

Service companies and rental houses

At the end of 2009, there were 276 companies on the market providing various film production services. They include 34 companies renting out technology and equipment for shooting, 36 post-production studios, 48 computer graphics and special effects companies and others.[70]

Table 30: Service companies in the Russian film production industry

Service	Number of companies in field
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
Talent 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

Trends which had begun in 2008 before the crisis could be observed in the film production services market in 2009: the launch of major companies providing professional equipment and services for filming without stages. These private rental-houses, as a rule, have a wider range of more advanced shooting equipment than state studios. For example, most of the modern equipment at the Gorky Film Studio is owned by independent private leasing partner companies.

The leader among service companies in terms of the range of services offered and equipment and technologies available remains Cinelab. It provides an equipment hire service, and post-production services ranging from film processing, editing, and colour correction through to duplication, including the making of digital copies. The leaders in film cams are Rentacam and the Shooting Equipment Agency owned by Sergei Astakhov (AST).

Undoubtedly, Russia has taken a great leap forward in terms of the technology available to its film industry over the last five to six years. Today, Russia can boast the most up-to-date film equipment,

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69 Company data.
70 The Ministry of Culture of the Russian Federation, company data.

but the problem of professional and integrated servicing for this equipment still remains. A current priority is attracting professionals and training in-house experts to provide these services.

Despite the fact that post-production services in Russia are developing at a brisk rate, results for 2009 showed that they remain the weakest link on the Russian film production services market – although new companies providing professional services using cutting-edge equipment and technologies are constantly emerging in this sector.

Post-production stage services

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

The **film processing** and **colour correction** market is also dominated by a small number of companies. Among the full service film studios are Mosfilm and the Gorky Film Studio. Several years ago, the latter joined United Multimedia Projects (UMP) in upgrading its processing workshop, having bought Digital Intermediate (DI) equipment. Major private companies offering DI services are Salamandra, Cinelab, Cinelex, and 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 services are provided by six full-service companies: Mosfilm, the Gorky Film Studio, Lenfilm, the Sverdlovsk Film Studio, Media City and the Creative TV Association. This area is still underdeveloped, but the companies involved are currently endeavouring to accumulate experience. Many focus on purchasing equipment and hiring experts to open new computer graphics, animation and 3D-simulation studios. In general, a positive dynamic has begun to take shape in the visual effects production sector. Thanks to Timur Bekmambetov's *Wanted*, Russian CG producers have been noticed and given proper credit in the West. *Wanted* had more than 1,000 segments of varying lengths featuring special computer effects; these were designed by CG artists from Russian studios including Bazelevs, Main Road, and Eyescream. However Russian computer graphics still suffer from a deficit in human resources and this noticeably inhibits growth. A new school for special computer effects, the ScreamSchool, founded in Moscow in September 2008, aims to solve this problem.

Developing the animation sector in Russia is one of the principal aims of the Centre of National Film. The Centre currently 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 models. The animation complex of the film studio occupies a floor space of about 1,500 m^2, and brings together 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, high-quality printing services are still offered by only a very limited number of companies, which often leads to waiting lists.

Virtually all the film studios and many companies have **sound studios**, but there are far fewer Dolby studios. Mosfilm owns one of the largest 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 Nevafilm (with production bases in Moscow, St. Petersburg and Kiev), the Central Productions International Group, Lenfilm, Gorky Film, Cinelab, and Salamandra.

Digital cinema laboratory services are provided by only a few companies, including Nevafilm, Central Productions International Group, Cinelab, Salamandra, Mosfilm, and Conveyor, and as of 2010, Kinoproekt's DCP24.

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.

3.2.2 Principal players on the film production services market

Film studios

Mosfilm
http://www.mosfilm.ru
Market share by number of stages: 15.2%
Year founded: 1920
Form of ownership: state (Federal State Unitary Enterprise)

Russian World Studios
http://www.rwstudios.ru
Market share by number of stages: 14.1%
Year founded: 1998
Form of ownership: private; Closed Joint Stock Company (Russian ZAO)

Media City
http://www.media-city.ru
Market share by number of stages: 9.8%
Year founded: 2004
Form of ownership: private; Closed Joint Stock Company (Russian ZAO)

Gorky Central Film Studio of Youth and Children's Films
http://www.gorkyfilm.ru
Market share by number of stages: 5.4%
Year founded: 1915
Form of ownership: Open Joint Stock Company (Russian OAO) with 100% state capital

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 (Russian OAO) with 100% state capital

Lenfilm Studio
http://www.lenfilm.ru
Market share by number of stages: 4.3%
Year founded: 1908
Form of ownership: Open Joint Stock Company (Russian OAO) with 100% state capital

Sverdlovsk Film Studio
http://www.uralsfs.ru
Market share by number of stages: 2.2%
Year founded: 1943
Form of ownership: Open Joint Stock Company (Russian OAO) with 100% state capital

Service companies

Cinelab
http://www.cinelab.ru
Range of services provided: 4

Year founded: 2001
Principal focus: film shooting equipment rental, film lab and post-production services.

Salamandra Creative Laboratory
http://www.salamandra.ru
Range of services provided: 9
Year founded: 1998
Principal focus: Modern technologies for film processing and digital image processing.

Rentacam
http://www.rentacam.ru
Range of services provided: 10
Year founded: 2004
Principal focus: equipment rental.

Nevafilm Company
http://www.nevafilm.ru
Range of services provided: 12
Year founded: 1992
Principal focus: 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.

3.2.3 Principal market trends and prospects for film production services in Russia

Principal market trends and issues

Market players identify a number of trends and issues related to the current state of **Russian film studios**:[71]

- Dilapidated production facilities at many film studios are incapable of working at full capacity;
- Film studios offer insufficiently modern equipment for rent, forcing companies to lease it from specialized providers;
- Not all film studios offer a full range of services;
- Russian film studios are competing with studios throughout Europe, and particularly in Eastern Europe. Their competitive advantage lies in a higher level of service, prices commensurate with quality, and the level of technical equipment.

Before the economic crisis, the demand for film studio services grew steadily, and large-scale projects were drawn up for technical upgrades and the launch of new studios. However, by early 2009 demand had fallen sharply. According to Mosfilm studio estimates, its facilities functioned at no more than 20 to 30% capacity in spring this year. As a result, most studio owners have, at least in the short term, lost impetus to invest in studio upgrades. Studios working principally in television have been less affected by this downturn. For example, in spring 2009 the Gorky Film Studio was working at 70 to 75%[72] capacity.

Nonetheless, the gloomy economic environment has increased competition between the film studios; equipment quality and level of services offered have now become key factors in attracting new clients. From this point of view, studios already operating in the marketplace appear to be interested in updating their equipment and in improving the quality of their services.

Experts link the prospects for development of the **rental market** in Russia with the development of insurance practices in film production and with the arrival of foreign players on the Russian market, although all the latest film technologies used elsewhere in Europe are already available on the

[71] Public report on the state of the Russian film industry, its capabilities and development prospects to 2015. Based on the conclusions of the Cinema Community conference "Russian Film Industry – 2008: Future Outlook", Moscow, 25 August 2008.
[72] Expert poll conducted in the course of the study.

Russian market. With the emergence of foreign players, competition will be intensified and the market as a whole will become more clearly structured and transparent.

Before the crisis, the principal aims of service companies were to foster growth and expand the range of equipment available. Conditions have changed, and companies find it difficult to survive alone in the market; there has therefore been movement towards associations and mergers. For example, Kodak, Rentacam and Salamandra have formed an alliance. Since each offers exclusive services in different parts of the film production chain, they have decided to offer significant discounts (starting from 50%) to projects that purchase the services of all three companies.

Post-production services are also developing fast in Russia. New companies continue to appear in 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. At the cinema community conference held in the summer of 2008, representatives of the film business noted that Russia currently does not have enough film laboratories capable of dealing with film processing and colour adjustment, Dolby studios, or print replication services.

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 premises, but also from selling large plots of land for commercial developments and residential real estate in the immediate vicinity of these film studios.

The recent boom in investment projects to create new film studios was stimulated primarily by market players' dissatisfaction with the level and price of the services on offer (most of these projects were initiated by production companies). Also, the market needed new technology and a way to compensate for the human resources deficit by training staff to operate in the harsh conditions of modern production.

It is difficult to find an affordable site with good transport access in Moscow where it would be viable 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 and St. Petersburg suburbs (with three and two planned projects respectively), plus one project each in the cities of Anapa, Novorossiysk and Nizhny Novgorod.

Russian World Studios (RWS) initially announced plans for the construction of two film studios simultaneously: one in St. Petersburg and another in Anapa. But given economic complications, RWS backed out of the Anapa project in 2009, and so the St. Petersburg project is currently the only one under active development. This is one of the few film studio construction projects in Europe that is still being actively pursued and developed in the current economic crisis. At present, the first stage of construction of the new facility in St. Petersburg has been finished, and there are plans to attract financing to develop a post-production centre.

The prevailing, inhospitable, financial and economic conditions have made it impossible to further many of the investment projects for introducing new film production capacity, rendering state studios all the more important (provided they implement their own plans for upgrades). Before the financial crisis in 2008, plans were announced to create eight new film studios. Due to the current economic situation, three of these eight projects have been frozen, four are at the document-preparation and investment-seeking stage, and only one is in active development.

Table 31: New film studio construction projects in Russia

No.	Studio	Location	Total area (hectares)	Infrastructure	Investment (USD million)	Development phase
1	Glavkino[73]	Moscow Region (Glukhovo)	8	Hotels, offices, shopping centre, workshops, garages	300	documentation registration
2	Russian World Studios' subsidiary – Russian World Studios St. Petersburg (second place)	St. Petersburg	48.1	Office-space, film exhibition room, multi-storey car park, 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	frozen
4	Solar	Novorossiysk	35	-	15	planning
5	Kinograd	Nizhny Novgorod	7.5	Hotel, parking	15-16	documentation registration
6	Telefabrika	St. Petersburg	7.5	Offices, hotel, shopping centre, underground car park	600	documentation registration
7	Anapafilm	Anapa	75	Hotel, cottages, shopping centre, business centre, film and concert hall	300	frozen
8	Mediapark[74]	Moscow Region (Konstantinovo)	140	Theme park, residential area	1,400	frozen

Source: Company and municipal authority data, press

With the temporary dip in production, it has become key to ensure sufficient order levels for studios and an adequate rate of recovery in production levels. If several construction projects enter their implementation stage simultaneously, supply may well begin to exceed demand: Russia is not producing films in sufficient volumes to support more than one 'Russian Hollywood'.

Total declared investments in the construction of film production complexes amount to approximately USD 2.9 billion. Almost 40 new stages are planned, with a total floor space of 358.6 hectares. These projects would therefore potentially increase the number of stages available by about 50%.

Over a three-year period, no more than ten new stages on sites covering a total area of about 50 hectares are expected to appear in Russia (calculated on the basis of the only project that is in active development); overall investment may total USD 250 million.

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[73] Ольга Гончарова, Халиль Аминов, ««Уралсиб» режиссирует «Главкино»», газета «Коммерсантъ» № 130/П (3947) от 28.07.2008 [Olga Goncharova and Halil Aminov, "Uralsib directs Glavkino", in *Kommersant* № 130/P (3947), 28 July 2008].

[74] Ольга Гончарова, Халиль Аминов, Ольга Сичкарь, «Евразия Сити» свернула кино, «Коммерсантъ», № 210 (4027), 19 November 2008. [Olga Goncharova, Khalil Aminov, Olga Sichkar, "Eurasia City turned film on its head", *Kommersant*, № 210 (4027), 19 November 2008].

Players in the film market consider there will be demand for a single modern film studio in the south of the country with broad capabilities for location shooting and the staging of marine scenes. There may also be a requirement for a new modern film studio in central Russia.[75] So far, the Yalta Film Studio in Ukraine acts as a hub for southern Russia. However, the unstable economic situation in Ukraine frequently blocks access to the studio. As far as a site in Moscow is concerned, due to the high cost of land and serious traffic problems, the city is increasingly becoming economically unfeasible for shooting. However, a new studio in a different city would be chosen ahead of the Moscow studios only if it offered the full array of services along with the necessary infrastructure (hotels, etc.). This is the central prerequisite for successful development of any new film studio.

[75] Public report on the state of the Russian film industry, its capabilities and development prospects to 2015. Based on the conclusions of the Cinema Community conference “Russian Film Industry – 2008: Future Outlook”, Moscow, 25 August 2008.

3.3 EXHIBITION[76]

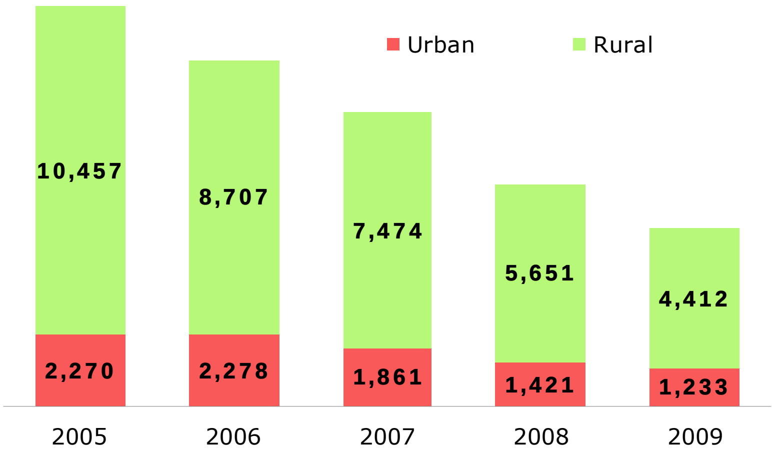
3.3.1 Industry structure

Modern cinema exhibition

The term 'modern cinema' is used here to mean a cinema that runs regular commercial film exhibitions using 35mm film or digital projection, and has multi-channel sound systems in comfortable auditoriums. The principal sources of revenue for the owners of such facilities are the showing itself and food and drink sales. Cinemas like these play a leading role in the modern film exhibition market in Russia.

In contrast, the definition of the principal market unit used in national statistics is that of the 'cinema unit' – a rather vague term for a cinema or a screen, whose meaning is interpreted freely by local cinema authorities reporting on the number of cinema units to the Ministry of Culture of the Russian Federation. According to official data, the country had 7,111 such cinema units in 2008 (1,421 of them in cities and 5,651 in rural areas). However, Nevafilm Research experts believe these rural cinema units play an extremely insignificant role in the overall market, as many are either not operational or run just a few film exhibitions a week at symbolic prices of RUB 5-10 per ticket. Furthermore, the number of truly modern urban screens can be determined by analysing the list of functioning urban cinemas provided by the Ministry of Culture. These urban screens – which number 865 in 360 cinemas – are included in the Nevafilm Research modern cinema database. It can thus be estimated that between 600 and 800 outdated screens are still functioning in Russian cities. These sites operate second or third-run repertoires, working with 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 venues ('motion picture apparatus') has continued to fall steadily over the last few years: 58% of rural and 46% of urban facilities of this type were shut down between 2004 and 2009.

Graphic 17: Development of cinema installations in Russia



Source : The Russian Federation Ministry of Culture

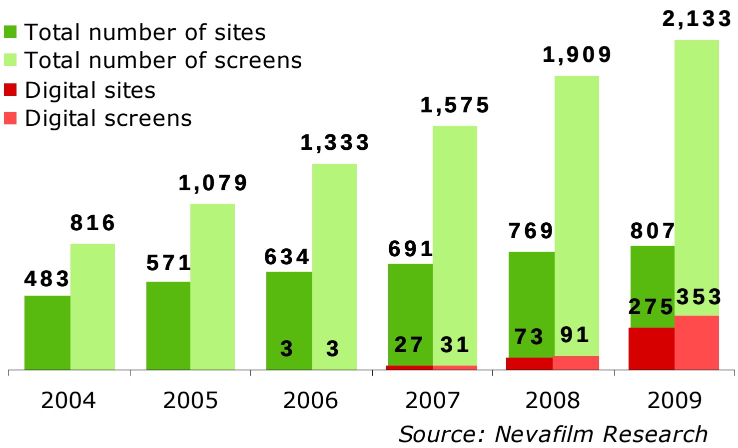
Drive-in cinemas are also excluded from the total number of modern cinema screens. This market segment has been developing in Russia since 2002, when the first Kinodrom was opened in Moscow. Currently there are at least 6 such sites (apart from the capital, drive-in cinemas function in Nizhny

[76] This section is prepared by Nevafilm Research.

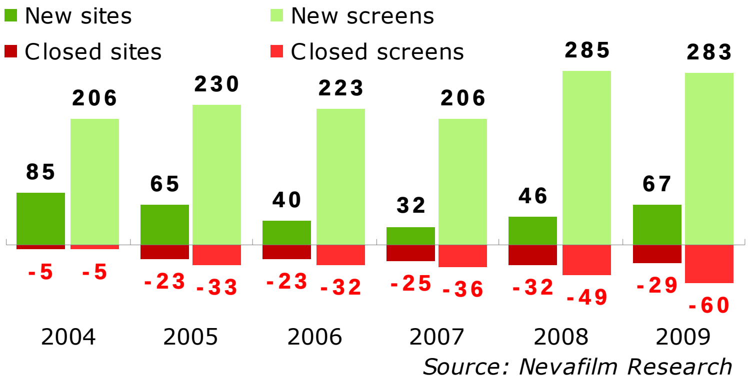
Novgorod, Perm, Naberezhnye Chelny, Kaliningrad and Omsk). Most of them are fitted with video-projection equipment and operate during the summer period only, and exhibit films a few weeks or months after their premieres. The Russian climate precludes the widespread development of this type of cinema, and also often leads to their closure.[77]

The modern cinema exhibition market as a whole in Russia continues to expand, despite slowed growth caused by gradual market saturation (especially in large cities), as well as the influence of the worldwide economic crisis, which brought about a sharp drop in the number of retail and entertainment complexes being built in 2009. According to Nevafilm Research, the country had 2,246 modern screens in 829 cinemas as at 1 July 2010, with 45% of these cinemas (23% of the total modern screen base) featuring digital projection facilities.

Graphic 18: Development of modern cinema sites and screens in Russia



Graphic 19: Cinema openings and closures in Russia



By 2009, the annual growth rate in the number of modern screens reached 20 to 30%; however, according to results from last year, the market grew by only 12%, and by only 5.3% in the first half of 2010. Recent growth in the Russian film 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 combined retail and entertainment complexes.

[77] 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.

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 around a million inhabitants have come close to, or even exceeded, the screen density of the country's wealthiest and most populous regions – the Moscow agglomeration[78] 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 32: Cinema (screen) density in cities with a population of at least 1 million, per 100,000 inhabitants, as at 1 July 2010 (Greater Moscow = 100%)

As at 1 July 2010	As at end 2009	City	Population (in thousands)	Number of cinemas	Number of screens	Number of screens per 100,000 inhabitants	% of Greater Moscow screen density
1	1	Yekaterinburg	1,332.3	16	75	5.63	134%
2	2	Kazan	1,130.7	11	54	4.78	114%
3	5	Novosibirsk	1,397.2	16	62	4.44	105%
4	3	St. Petersburg	4,581.9	43	199	4.34	103%
5	**4**	**Greater Moscow**	**11,529.8**	**114**	**485**	**4.21**	**100%**
6	5	Ufa	1,024.8	8	41	4.00	95%
7	8	Samara	1,134.7	8	42	3.70	88%
8	7	Chelyabinsk	1,093.7	8	33	3.02	72%
9	9	Rostov-on-Don	1,049.0	8	30	2.86	68%
10	10	Omsk	1,129.1	8	29	2.57	61%
11	11	Nizhny Novgorod	1,272.5	12	26	2.04	49%

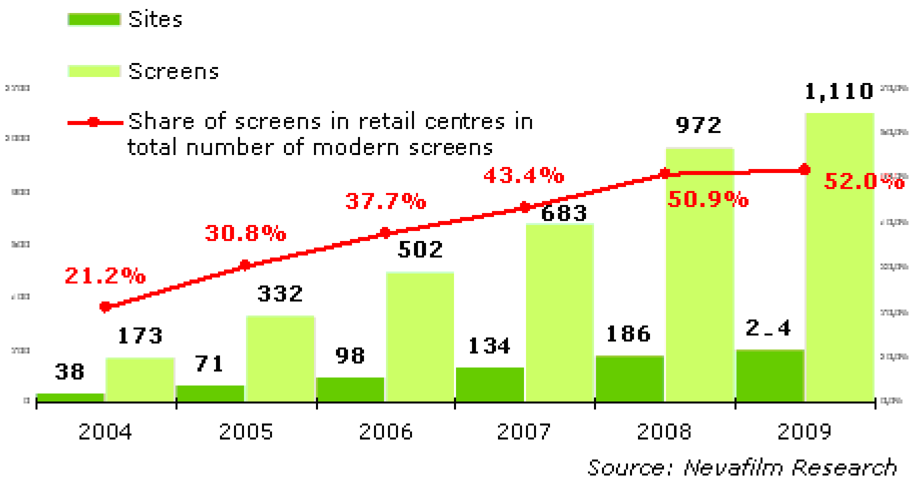
Source: Nevafilm Research

Film theatres in retail and entertainment complexes

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

[78] Nevafilm researchers concluded that confining calculations to the administrative borders of the territory of Moscow does not provide a wholly accurate view of the Moscow film-exhibition sector. The boundaries of Greater Moscow were therefore redrawn to include settlements immediately adjoining the Moscow ring road. Next, the number of residents of the Moscow urban area was calculated, and the number of screens 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 11.5 million as at 2009.

Graphic 20: **Cinema sites and screens located in retail centres**



The Karo 1 four-screen cinema, opened in 2000 in Moscow, was the first of these. These retail centres were also the location of choice for the first Russian multiplexes (the nine-screen Formula Kino cinema was opened in Moscow in 2002). Russia's first IMAX cinema (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 2004 alone, 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 2010 the two major urban areas (Moscow and St. Petersburg), as well as many other important urban cinema centres, have up to 70-80% of their screens located within retail centres.

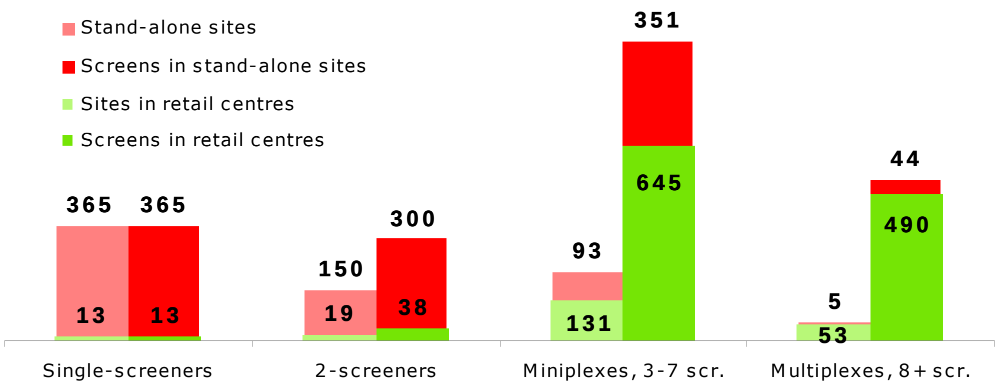
Table 33: Top 10 Russian cities by number of screens in retail centres (as at 1 July 2010)

No.	City	Number of cinemas in RECs	Number of screens in RECs	Percentage of total number of city cinemas located in RECs	Percentage of total number of screens located in RECs
1	Greater Moscow	48	331	42.1%	68.2%
2	St. Petersburg	25	160	58.1%	80.4%
3	Novosibirsk	5	42	31.3%	67.7%
4	Kazan	7	41	63.6%	75.9%
5	Yekaterinburg	6	40	37.5%	53.3%
6	Samara	5	37	62.5%	88.1%
7	Ufa	5	31	62.5%	75.6%
8	Volgograd	5	28	71.4%	87.5%
9	Togliatti	5	25	62.5%	89.3%
10	Krasnodar	4	25	44.4%	73.5%
Total for given cities		**115**	**760**	**47.9%**	**72.2%**
Total in Russia		**216**	**1,186**	**26.1%**	**52.9%**

Source: Nevafilm Research

However, the strong dependence of modern cinema screens on real estate had an adverse effect on growth during 2009. Due to the economic crisis, many projects for the construction of RECs were postponed or cancelled completely, which resulted in a slower rate of new screen launches. This became particularly significant given that these shopping centres house the majority of multiscreen cinemas in the country.

Graphic 21: Cinemas in retail centres and stand alone sites by number of screens (as of 01.07.2010)



Source: Nevafilm Research

Screens per cinema and multiplexes

The majority of functioning cinemas in Russia are still single or two-screen screen cinemas (46% and 20% respectively). Nonetheless these sites make up only 32% of the overall number of modern screens in the country. Meanwhile the less numerous miniplexes (three to seven screens – 27% of Russia's modern cinemas) and multiplexes (eight screens and more – 7% of cinemas) account for 68% of modern screens nationwide.

Table 34: Modern Russian cinemas by number of screens (as at 1 July 2010)

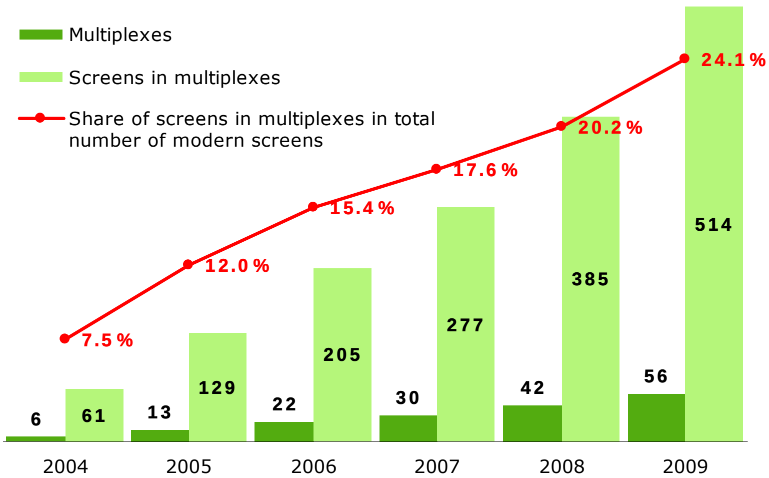
Number of screens in cinema	Number of cinemas	Number of screens	Market share by number of cinemas	Market share by number of screens
Single screen	**378**	**378**	**45.6%**	**16.8%**
2 screens	**169**	**338**	**20.4%**	**15.0%**
3 screens	66	198	8.0%	8.8%
4 screens	70	280	8.4%	12.5%
5 screens	32	160	3.9%	7.1%
6 screens	34	204	4.1%	9.1%
7 screens	22	154	2.7%	6.9%
Miniplexes (3–7 screens), total	**224**	**996**	**27.0%**	**44.3%**
8 screens	29	232	3.5%	10.3%
9 screens	13	117	1.6%	5.2%
10 screens	6	60	0.7%	2.7%
11 screens	2	22	0.2%	1.0%

Number of screens in cinema	Number of cinemas	Number of screens	Market share by number of cinemas	Market share by number of screens
12 screens	5	60	0.6%	2.7%
14 screens	2	28	0.2%	1.2%
15 screens	1	15	0.1%	0.7%
Multiplexes (8+screens), total	**58**	**534**	**7.0%**	**23.8%**
Total in Russia	**829**	**2,246**	**100.0%**	**100.0%**

Source: Nevafilm Research

The share of multiplexes in the total number of modern screens in Russia was until recently increasing at a rate of at least 3% per year, but by mid-2010 this figure had decreased for the first time (to 23.8%). This too can be explained by the economic crisis: while construction ceased on many projected retail and entertainment complexes with cinemas, free-standing cinemas (usually with just a few screens) continued to be reconstructed and modernised; openings of these cinemas began to drive the market in 2009-2010, which influenced the number of multiplexes in Russia.

Graphic 22: Multiplexes (8+ screens) in Russia



Source: Nevafilm Research

A high proportion of cinemas with eight and more screens are located in the Moscow Region (21 sites totalling 212 screens); St. Petersburg has only a third as many multiplexes (seven sites with 66 screens); among large regional cities, Yekaterinburg leads in terms of number of multiplexes (the city currently has four cinemas with eight and more screens – 36 screens in all); other large Russian cities (with a population of at least 500,000) have between one and three multiplexes.

Table 35: Russian multiplexes by city (as at 1 July 2010)

City	Population (thousands)	Number of cinemas	Number of screens
Greater Moscow	11,529.8	21	212
St. Petersburg	4,581.9	7	66
Yekaterinburg	1,332.3	4	36
Novosibirsk	1,397.2	3	30
Chelyabinsk	1,093.7	3	25
Samara	1,134.7	3	24
Kazan	1,130.7	2	17
Rostov-on-Don	1,049.0	2	17
Perm	985.8	2	17
Krasnodar	710.7	2	16
Ufa	1,024.8	1	9
Orenburg	524.4	1	9
Nizhny Novgorod	1,272.5	1	8
Omsk	1,129.1	1	8
Volgograd	981.9	1	8
Krasnoyarsk	947.8	1	8
Togliatti	720.3	1	8
Tyumen	570.3	1	8
Naberezhnye Chelny	507.9	1	8
Total multiplexes in Russia		**58**	**534**

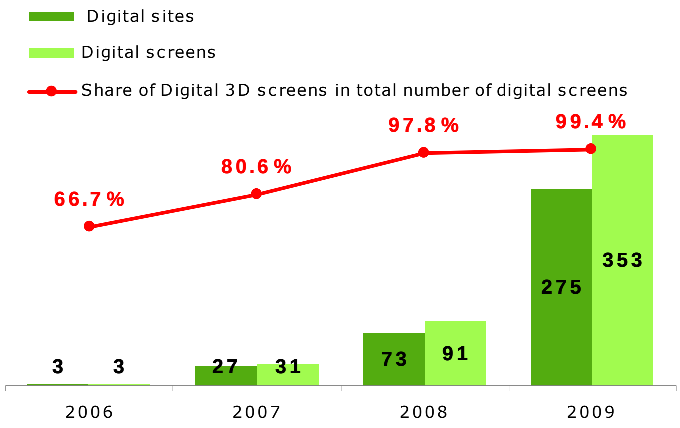
Source: Nevafilm Research

Digital cinema

The first commercial digital screen to meet Digital Cinema Initiatives (DCI) specifications was opened in October 2006 at the Zanevsky Kaskad cinema, part 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*). In autumn of the same year, the very first digital screen in Zanevsky Kaskad was used to hold a demonstration competition with the 'Counter Strike' computer game, including viewer participation.

Between 2007 and mid-2010, the number of digital screens in the country increased 17-fold, to reach 525 screens as at 1 July 2010. DLP Cinema projectors are already installed in almost half of the modern cinemas in 137 cities across Russia. Practically all of them are fitted with systems to exhibit digital 3D-films.

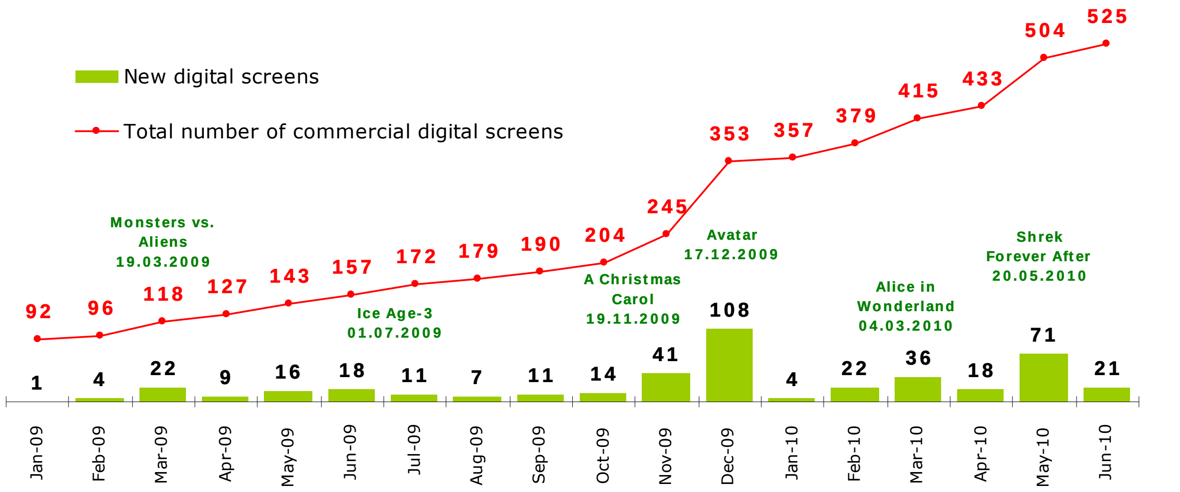
Graphic 23: Development of commercial digital cinema sites and screens in Russia



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 indicates that each new major 3D feature release has acted as a catalyst to encourage more and more exhibitors to enter the market; 3D films are popular with audiences and allow higher levels of ticket pricing. The main engines of the digital revolution in 2009–2010 were the films *Avatar* (which led to more than 100 new digital screens being opened) and *Shrek Forever After* (more than 80 3D screens were set up in Russia in preparation for the premiere).

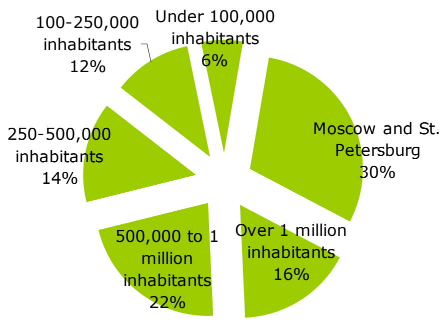
Graphic 24: Total number of digital cinema screens and new digital screen openings in Russia (2009-2010)



Source: Nevafilm Research

Most of Russia's digital screens are concentrated in Moscow and in St. Petersburg. However, the map of digitally-equipped cinemas in Russia also shows quite a number of small cities, with populations of less than 250,000, or even 100,000. Exhibitors in small cities are queuing up to set up digital facilities not only in order to show 3D films, but also so that they can receive premiere copies of 2D blockbusters which are otherwise not available to them on film.

Graphic 25: Digital screen distribution in Russia by type of city (01.07.2010)



Source: Nevafilm Research

The Cinema Park chain remains the market leader among companies currently converting their screens to digital projection. The company opened its first digital screen in December 2006 in St. Petersburg and now manages 48 such screens. Cinema Park was also the first and, until 2009, only company to adopt a systematic programme for transition to digital exhibition chain-wide. In March of 2009, however, Rising Star-Media launched a similar project for its KinoStar chain, based in Moscow and St. Petersburg. The cinema chains Luxor, Formula Kino and Paradise were also progressing towards setting up digital projection in **all** of their cinemas. Other leading operators on the modern film exhibition market, such as Karo Film, Kinomax and Kronverk Cinema, are all thus far pursuing a less system-wide transition to digital film projection.

At present, it can be said that the digital film exhibition market is being driven by two main types of players: the major federal chains with their target programmes to equip all of their locations (primarily in large cities) with digital screens for 3D exhibitions, and independent exhibitors that are aiming to improve their competitive advantage in smaller cities. But the potential growth of the digital cinema market in Russia depends on two parameters:

- the number of small cities (up to 500,000 inhabitants) still without digital screens, and the level of competition in these markets;
- the number of 3D releases in distribution that would promote expansion of the digital network of large cities (top cinema chains are not prepared to equip new screens until "two *Avatars* enter distribution at the same time").

Nevertheless, the market has not yet seen the players' interest in acquiring digital equipment diminish; a certain slowdown in growth in 2010 is due to a shortage of digital projectors, rather than a drop in demand from cinemas.

IMAX Screens, SimEx 4D

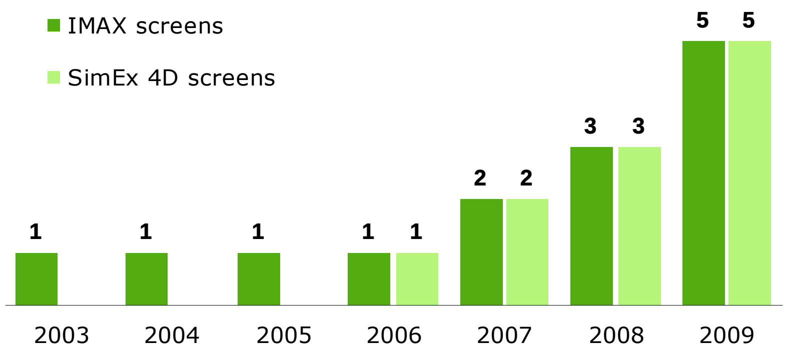
The first Russian Nescafe-IMAX screen opened in 2003 in the Kinosfera miniplex in Moscow. For some time it remained the only one of its kind in the country, and the Cascade distribution company acquired prints of 3D films from IMAX Corp. specifically to supply it. Today these screens are in operation in five Russian cinemas (located in Moscow, St. Petersburg, Perm and Ufa). In summer 2010 the IMAX company simultaneously announced that it had concluded several major deals in Russia: with the cinema chains Monitor (one screen in 2010),[79] Formula Kino (two screens in 2010),[80] Rising Star-Media (one screen by 2011)[81] and Cinema Park (14 screens by 2012).[82] Forecasts show

[79] **"IMAX Signs Theatre Deal in Russia" 06 May 2010**: http://www.imax.com/corporate/pressReleases/
[80] "IMAX Enters Partnership With Leading Russian Exhibitor", 1 July 2010: http://www.imax.com/corporate/pressReleases/
[81] "IMAX Signs Theatre Deal in Russia; Expands Partnership With Rising Star-Media With Additional Location in Moscow" 22 July 2010: http://www.imax.com/corporate/pressReleases/

that Russian cities including Moscow, St. Petersburg, Kazan, Perm, Nizhny Novgorod, Novosibirsk and Sochi will boast a total of at least 25 IMAX screens by the end of 2012.

During 2008 the Russian exhibition sector also saw the start of active technological developments by SimEx 4D, a company offering equipment and content for exhibiting short-length films with various physical effects (armchair rocking, wind, spray, etc.). Though the SimEx 4D systems tend to be installed in entertainment complexes, exhibitors have increasingly been allocating one of their multiplex screens to these installations. In 2010, there were at least five of these screens in modern cinemas (in St. Petersburg, Novosibirsk, Perm, Kazan and Khabarovsk).

Graphic 26: Development of IMAX and SimEx 4D screens in Russia

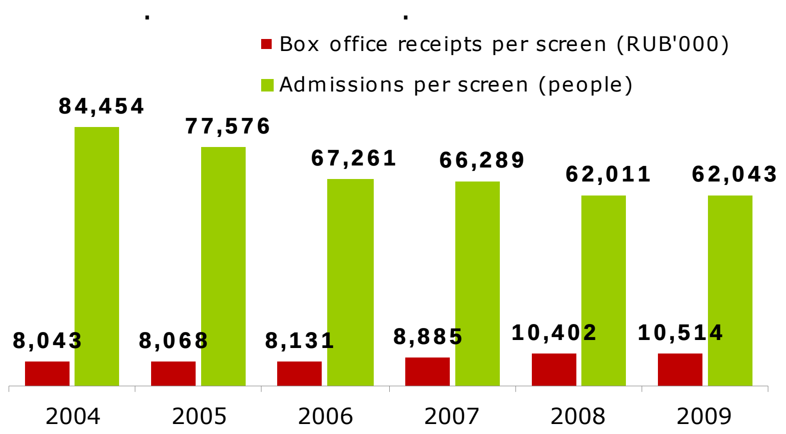


Source: Nevafilm Research

Box officereceipts and admissions per screen

The growth in the number of modern cinemas and screens in Russia can still be considered justifiable since box office takings per screen (in their rouble equivalent) have continued to grow steadily (even in crisis-hit 2009). Curiously, the perennially decreasing number of tickets sold per screen seems to have reversed (according to last year's figures). This is thanks to viewers' increased interest in 3D releases. In 2010, the growth trends for number of cinema tickets sold and box officereceipts per screen have continued.

Graphic 27: Change in the average box office receipts and admissions per screen in Russia



Source: Film Business Today, *Nevafilm Research*

[82] "IMAX Signs Deal With Russian Exhibitor Cinema Park for Up to 14 IMAX(R) Theatres" 27 July 2010: http://www.imax.com/corporate/pressReleases/

3.3.2 Principal trends and development prospects

Changes in cinema ownership

One of the trends visible in the modern film exhibition market is the takeover of independent cinemas by operators of larger chains, either through direct purchase or through the signing of programming agreements, as well as the major cinema chains' policy of closing down smaller branches they see as unviable. Since 2008, 110 screens at 40 cinemas have been transferred from one company to another, or have become independent.

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 Nizhny Novgorod in 2008.

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, in 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 financial difficulties on the part of ASCD.[83]

In 2008, Cinema Invest expanded its screen network (in collaboration with the Bank of Moscow) through a merger with Kazan's largest cinema network, Suvar, which boasts 13 screens at three sites.[84]

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 Traktorniye Zavody group, owned by Mikhail Bolotin and his business partner Albert Bakov. The newly-formed KinoExpert company planned to create a network of 200–250 screens.[85]

The sale of Rising Star Media to the Russian investment fund UFG Private Equity by the American company National Amusements Inc. in early 2010, was a significant event.

At the same time, in 2009 major film exhibitors began to offload their one-, two-, three- and even four-screen cinemas. In 2009–2010, this policy was followed by Karo Film, Formula Kino, TsentrFilm, KinoExpert, as well as Kinomax, which transferred certain of its regional locations to franchising agreements.

Exhibition in smaller Russian cities

With the expansion of the cinema network, the supply of modern screens for the Russian population continues to grow: as at 1 July 2009 the density of screens per 100,000 urban residents was 1.9, growing to 2.4 by 1 July 2010. 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 1.0.

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83 Станислав Соколов, ««Кронверк Синема» пошел на завоевание Сибири», «Коммерсант», 17.02.2009 [Stanislav Sokolov, "Kronverk Cinema Goes to Conquer Siberia", in *Kommersant*, 17 February 2009].

84 Ольга Гончарова, «Банк Москвы расставит киносеть», «Коммерсант», 29.06.2009 [Olga Goncharova, "Bank of Moscow Will Position Screen Network", in *Kommersant*, 29 June 2009].

85 Ольга Гончарова, Дмитрий Беликов, «Михаил Болотин показался на экранах», «Коммерсант», 18.02.2009 [Olga Goncharova and Dmitry Belikov, "Mikhail Bolotin Appeared on the Screens", in *Kommersant*, 18 February 2009].

Table 36: Availability of modern screens to the inhabitants of Russian cities (as at 1 July 2010)

City group by population	Number of cities	Total population of group	Share of urban population in city group	Share of cities with modern screens in city group	Number of cinemas	Number of screens	Share of modern screens out of total number of screens in Russia	Number of screens per 100,000 persons
over 1 million	11	25,654.9	26.8%	100.0%	242	1047	46.6%	4.08
500,000 to 1 million	24	15,388.0	16.1%	100.0%	140	448	19.9%	2.91
250,000-500,000	38	12,914.6	13.5%	100.0%	129	256	11.4%	1.98
100,000-250,000	91	14,127.1	14.8%	83.5%	128	252	11.2%	1.78
50,000-100,000	156	10,888.6	11.4%	56.4%	106	155	6.9%	1.42
20,000-50,000	354	11,580.3	12.1%	16.1%	58	61	2.7%	0.53
under 20,000	425	5,055.8	5.3%	6.1%	26	27	1.2%	0.53
Total in Russia	**1,099**	**95,609.4**	**100%**	**29%**	**829**	**2,246**	**100%**	**2.35**

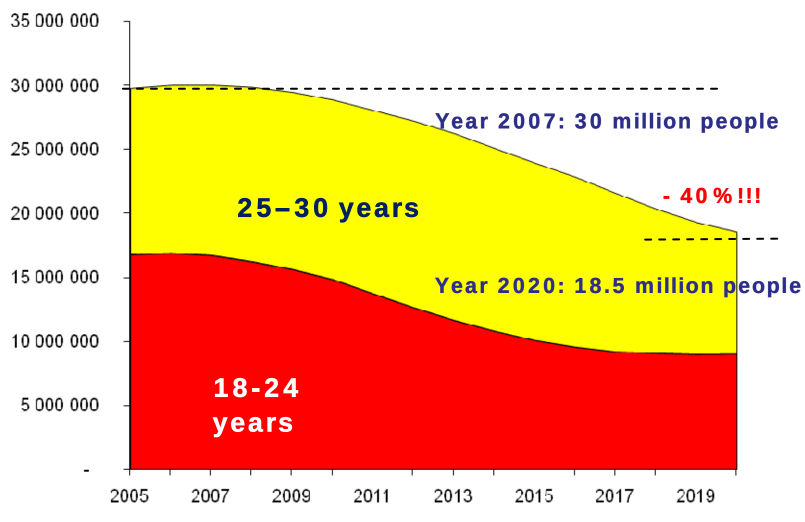
Source: Nevafilm Research

Meanwhile, cinema networks acknowledge that further expansion of the market to smaller cities and towns cannot be profitable if financed by private investment. This is mainly because there is no tradition of cinema-going among these populations. As a result, the time period required to recoup investments could be relatively long, which increases the level of risk. Nevertheless, a number of projects are underway to develop exhibition in the smaller cities of Russia. These are mostly based on public-private partnership arrangements 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 have received any official state funds with which to launch development.

Demographic characteristics of Russian film-goers

Since the late 1980s, Russia has been experiencing a demographic slump: by 2020 a stable downward trend in the birth rate, provoked by socioeconomic upheavals, will result in a reduction of almost 40% in the age bracket that currently provides the most active film audience (18–30 year olds).

Graphic 28: Demographic "pit":calculated by number of newborns, not taking into accountinfant mortality and migration



Source: Federal State Statistics Service, Nevafilm Research

Furthermore, the modern world and its people are changing rapidly. Yesterday's students have matured and are becoming far more demanding in terms of the quality of service and comfort offered during their leisure activities. Younger people are 'spoilt for choice' by the wide range of leisure activities of their modern, hi-tech world (TV, Internet, DVD, Blu-Ray, etc.), and are often dissatisfied with the limited repertoire and services offered by contemporary cinemas. Exhibitors are finding that competition from other media is becoming an ever more serious threat.

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

The transition 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 regions and opening new screens) to intensive ones (aimed at developing the business of existing screens). Exhibitors are implementing new techniques designed to rationalise business and improve management efficiency; to devise and improve loyalty programmes for cinema-goers; to expand the film exhibition repertoire using alternative content (based not only on routine film exhibitions, 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 require the 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 in particular (by installing VIP-zones and even dedicated VIP screens).

3.3.3 Principal players

The Russian exhibition sector is fairly fragmented. It has about 480 players, including 82 exhibition chains and more than 400 independent cinemas. In addition, the sector includes about 30 chains that control at least ten screens each, 19 of them operating on a nationwide level (managing sites in several federal districts), 8 on a regional level (operating in the territories of several regions within a single federal district each) and 55 local networks (each functioning within a single region of Russia).

Table 37: Fragmentation of exhibition in Russia (as at 1 July 2010)

Exhibitor level	Number of exhibitors	Number of cinemas	Number of screens	Market share by number of screens
Nationwide exhibitors	19	183	945	42%
Regional exhibitors	7	71	160	7%
Local exhibitors	56	173	425	19%
Independent exhibitors	402	402	716	32%
Total in Russia	**484**	**829**	**2,246**	**100%**

Source: Nevafilm Research

As for ranking 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, Luxor and Paradise, as well as three regional networks: Formula Kino, Premiere Zal and Monitor. The top ten chains own 38% of all modern screens and 40% of all digital screens in Russia. Today all 25 leading film exhibition companies in Russia have digital equipment in their cinemas.

Table 38: Key exhibitors in Russia (as at 1 July 2010) (including franchise contracted cinemas and cinemas with film booking)

No.	Group	Operator	Cinema network	Headquarters	Number of cinemas	Number of screens	Market share by number of screens	Digital screens
1	KARO Holding	Karo Film	Karo Film	Moscow	32	164	22	26
2	ProfMedia Holding	Cinema Park	Cinema Park	Moscow	16	133	16	48
3	-	Kinomax, Plazma Media (franchise)	Kinomax	Moscow	24	103	11	12
4	Eurasia Cinemas	Epos	Kronverk Cinema	St. Petersburg	16	102	7	7
5	UFG Private Equity	Rising Star-Media	KinoStar	Moscow	6	75	6	30
6	Luxor	Cinemamanagement	Luxor	Moscow	14	72	14	25
7	-	Formula Kino	Formula Kino	Moscow	11	62	12	19
8	-	Premier-Zal	Premier-Zal	Yekaterinburg	38	53	8	9
9	Paradise Holding	Paradise Production Cinema Company	Pyat Zvezd	Moscow	9	50	9	18
10	-	Monitor	Monitor	Krasnodar	16	45	8	13
11	Cafe Project	InvestKinoProject	Kinoplex	Moscow	6	41	2	2
12	Tashir	Kinopokaz strani	Cinema Star	Moscow	7	35	4	4
13	-	Art & Science Cinema Distribution	Art & Science Cinema Distribution	Novosibirsk	11	30	2	2
14	Traktorniye Zavody Holding	KinoExpert	KinoExpert (previously Roskino)	Moscow	8	27	5	6
15	-	Cinema Invest	Cinema Invest	St. Petersburg	5	27	5	6
16	DVI Holding	DVI Cinema	Svetofor-Cinema, Rolix	Moscow	6	24	4	5
17	-	Professional operation center	TsentrFilm	Moscow	8	23	2	2
18	West	West	West	Moscow	4	22	3	4
19	Sozvezdie Razvlecheniy	Planet of Entertainment	Kinomechta	Moscow	3	22	3	5
20	-	Very Velly	Very Velly	Perm	4	19	3	4
21	-	Mirage Cinema	Mirage Cinema	St. Petersburg	4	19	3	6
22	-	Atrium Kino	Atrium Kino	Omsk	2	15	2	2
23	-	Planeta Kino	Planeta Kino	Ufa	4	14	2	3
24	Megapolis Holding	Imperiya Igr	Megapolis	Chelyabinsk	2	14	2	2
25	-	Barguzin	Barguzin	Irkutsk	6	13	3	3

Source: Nevafilm Research

3.4 THEATRICAL DISTRIBUTION[86]

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 private distribution companies and cinemas (independent or chains) that interact with each other. 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).

In most cases, cinemas and distributors split box officereceipts 50/50 each way. However, other types of agreements between 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 exhibition and a further 50/50 split of box officereceipts once they reach a certain value. This 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 economic crisis, distribution companies have started using this arrangement more and more , especially with those cinemas that have failed to collect the expected box officetakings on the distributor's previous films, but which will still claim their right to first run.[87]

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 organisations (FVROs), instead of interacting directly with cinemas. FVROs frequently have their own film library left over from the times of the USSR and receive budget financing to replenish them. In these cases FVROs purchase film prints from distributors together with the right to exhibit them in cinemas in the region's cities. In addition, the system of fixed payments is used for video distribution of films (so-called 'public video') to electronic cinema networks.

Note that cinemas must now also pay royalties to the composers of soundtracks. These are collected by the Russian Authors' Association (RAO), which has insisted on royalties of 3% of gross box officetakings.[88] Since this regulation came into force, cinemas have been trying to resolve this issue with legislators, distribution companies and film producers, and to deprive 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 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 prolong 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 week of film exhibition.

Exhibition conditions for the first and second weeks of release (the number of film exhibitions and their time slots, the minimum ticket price, the validity of discounts and complementary tickets, etc.) play a critical role. For major releases, the distributor as a rule requires a 'full screen', i.e. the film is to run

[86] This section is prepared by Nevafilm Research.

[87] Note that these sorts of trends were a serious catalyst for cinemas in smaller Russian cities to acquire digital equipment, since distributors are much happier to provide even very small screens with cheaper digital copies of films during the first week of distribution. In this way, cinemas now have the opportunity to not only receive extra profits from showing 3D films, but also to become first-run exhibition sites.

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

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 vying for 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 *Wolfhound from the Tribe of Grey Dogs* (distributed by Central Partnership) and *Zhara [The Heat]* as a bundle with *Night at the Museum* (distributed by 20th Century Fox-CIS), the competition has intensified. At the end of 2007, a standoff between two Russian blockbusters was broken only by the triumphant release of *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 Premiere / Karoprokat, with the first releasing *Hipsters [Stilyagi]* while the second released two other Russian films: *Obitaemyy Ostrov [The Inhabited Island]* and *Lubov-Morkov 2 [Lovey-Dovey 2].* Distributors in this case went far beyond simply dictating the number of runs and weeks for film exhibition of their films; they insisted that one- or two-screen cinemas completely suspend co-operation with their competitors. Moreover, long after the run had ended, they continued to levy unofficial sanctions on cinemas that had refused to run their films through the New Year holiday.

In early 2010, the New Year holidays were no less intense: this year the battle raged between UPI's *Black Lightning* and Karo Premiere's *Sherlock Holmes*, while *Avatar* took the lion's share at the box office, reaching its peak during the third and fourth week after release. The upcoming New Year 2011 threatens to be an even tighter squeeze. This time around, several 3D projects will be clamouring for attention at the same time: seven 3D pictures are set to be released between 16 December 2010 and 06 January 2011, including *Throne: 3D Legacy* (WDSSPR) and *The Nutcracker and the Rat King 3D* (Central Partnership).

In general terms, the exhibition outlook is rather paradoxical, since an acute shortage of modern screens is combined with a shortage of films available for exhibition. As a result, the number of films on offer is shrinking while those same films are getting a shorter screen life. In other words, the distribution market is gradually becoming 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 are in great demand from cinemas, which are even prepared to offer various concessions to distribution companies (in the number of film performances, 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 give in to the demands of cinema networks regarding the number of runs, rental terms, and sometimes even in their share of box officereceipts. 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 terms of both distribution and exhibition, prevents them from generating the revenue they could earn if they were treated as equals, and blocks the development and expansion of networks of independent players. Audiences suffer as a result, as throughout Russia there is a limited selection of films and cinemas.

Measuring the theatrical distribution market in Russia – a methodological note

Traditionally the film distribution year in Russia starts on 1 December and ends on 30 November of the following year. This system was put in place in 1997, and since then records of box officereceipts 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 of film box officetakings 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 officedata has also been collected by another industry magazine, *Booker's Bulletin* (http://kinometro.ru/). Finally, box officestatistics are also obtained by the web magazine ProfiCinema (http://www.proficinema.ru/). However all available sources of information on Russian box officetakings suffer from 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 have abstained from such manipulations over the last few years);
- In turn, distributors often receive box officestatistics 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. Furthermore, the Unified Automated Federal Information System on Cinema Viewing Statistics (previously known as the Single Electronic Cinema Ticket System; henceforth Unified Information System) has still not been implemented. Many distributors suspect that cinemas manipulate this data;
- Data are compiled and published by film title, instead of by date, and this prevents accurate registering of exhibition results for a particular film over a given period of time;
- Distributors never break down their box officetakings by cities and regions of Russia, nor do they split them into the separate CIS countries covered by their distribution rights, with the exception of Ukraine.

Many market players expect a solution to the problem of accurate statistical reporting from the Unified Automated Federal Information System on Cinema Viewing Statistics set to be implemented in 2010. According to Federal Law No.375 "On enacting amendments to Federal Law ‘On state support for Russian Federation cinematography’", of 27 December 2009, all film exhibitors are obliged to provide data to the Unified Information System on every ticket sold; meanwhile, the purchase and running costs of the necessary equipment are the responsibility of the exhibitor. The operator of the Unified Information System is chosen on a competitive basis (this function has already been commissioned to the Main Informational-Computing Centre of the Ministry of Culture) and is financed using budget funds (in 2010 RUB 6.8 million were allocated for this purpose). The law came into force 1 May 2010, but not for the Unified Information System, since the conditions for data collection and the interval for submitting results are yet to be approved, which slows down the process of adopting the Government Decree on the practical implementation of the system. It should also be noted here that the Main Informational-Computing Centre has already reached an agreement with the Russian office of the Rentrak Corporation on collaborative data collection from cinema chains. The Rentrak Corporation, which entered the Russian market in late 2008, is currently engaged in collecting data on the distribution of films in Russian cinemas for major Russian distributors. The company collects data using both a call-centre and through online communication with the automated systems of certain cinema chains (including Cinema Park, KinoStar, Kronverk Cinema and Formula Kino).

Despite the complexity of obtaining information by analyzing box office statistics and cinema footfall in Russia, the volume of the Russian film distribution market can be surmised from the following assumptions:

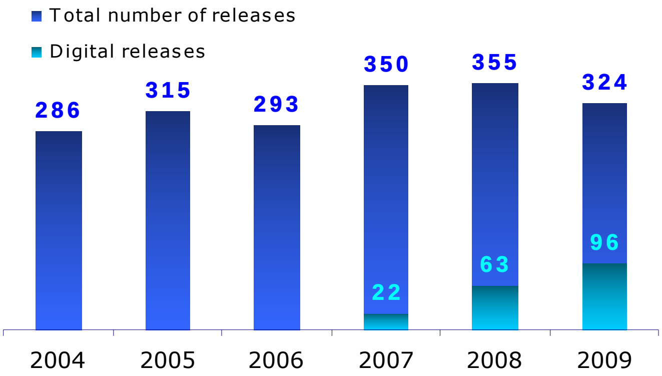
- Before 2004, *Film Business Today* made public the aggregate data for CIS countries, including Ukraine; specialists at Nevafilm Research estimated Russian box officetakings during this period at 85% of total revenues for CIS countries, and footfall (this indicator was previously not taken into account) as 90% of CIS total;
- From 2005 the statistics for Ukraine were given separately, and we estimate the data for the Russian market for 2005–2007 at 97% of CIS box officetakings (without Ukraine) and at 98% of the number of tickets sold;
- Using 2008-2009 totals, Nevafilm Research conducted a poll of Russia's largest distributors, which collectively occupy more than 80% of the film distribution market according to total box officetakings (the correlation of data between CIS countries and Russia was discovered by UPI, 20th Century Fox CIS, Karo Premiere, Karoprokat and WDSPR, Central Partnership and Nashe Kino). They estimate the weighted average share of the films released into Russian distribution (less CIS countries, besides Ukraine) was 95.6% of footfall in 2008 and 95.2% in 2009 and 95.6% of box office in 2008 and 95.9% in 2009; these data were used in estimating the total results for film distribution in Russia;

- Analysis of the results for distribution of individual films, as well as groups of films by country of origin and studio, can be conducted only on the basis of aggregate data: for 2004, for all CIS countries, for 2005–2009, for CIS countries excluding Ukraine.

Theatrical distribution market volume in Russia

Around 300–350 films are released every year to Russian cinema screens, but in 2009 the trend of increasing numbers of releases changed, and in 2010 we predict that around 320 films will be shown in cinemas.

Graphic 29: Film releases in Russian cinemas



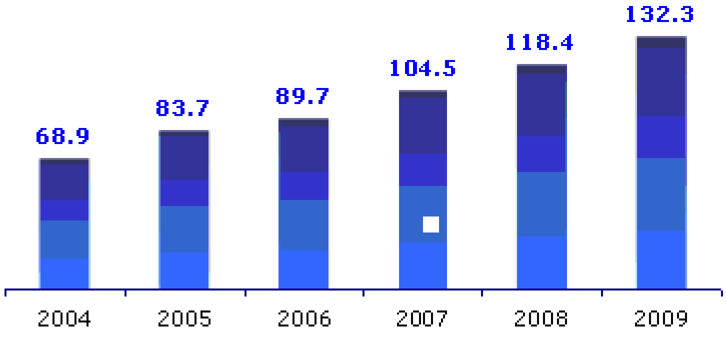
Source: Film Business Today *(total releases),*
Nevafilm Research (digital releases)

The reason for this limited repertoire is the fact that every major project arrives at an overwhelming majority of the country's cinemas on a 'first screen' basis, which severely limits on the number of runs and films that a one or two-screen cinema may put on its programme (given that as at 1 July 2010, 46% of cinemas in Russia were single-screen venues, while 20% 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 3D film screenings and exhibitors have a marked preference for exhibiting 3D films first. This limits the number of ordinary 2D films (arthouse, national, children's cartoons, etc.) that reach screens. And though 96 digital films were released to screens in 2009, most of them were Hollywood films and 3D pictures, primarily for wide release (all films with an overall run of more than 600 copies and 67% of films with a run from 300-600 copies). Yet, 15 out of 32 films with a narrower release came out only in digital format (including six alternative programmes from Nevafilm Emotion), and eight were 3D films. This means that it is ever more difficult for independent distributors to break through to the digital film exhibition market.

Features and animated films predominate on screens, and documentaries and short films are rarely shown: filmgoers are not in the habit of viewing such content in cinemas, except in the context of film exhibitions at children's summer camps or regional film and video rental organisations that run old films, USSR vintage children's cartoons or DVDs. 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: events like *Night of the Ad Eaters* or *Night of Animation*, special short films, 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 football matches), concerts, documentaries and popular science films on film screens in 3D format.

Graphic 30: Admissions in Russia (million people)

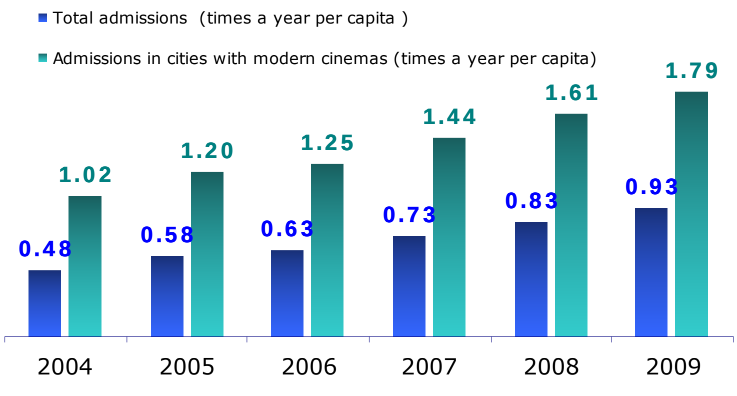


Source: Film Business Today *(CIS data, 2005-2008 excluding Ukraine), Nevafilm Research (Russia estimation: 2009 - 95.2%, 2008 - 95.6%, 2005-2007 - 98%, 2004 - 90% of CIS data)*

Cinema admissions in Russia are growing constantly, showing average growth of 14% per annum between 2007 and 2009, for two principal reasons:

- expansion of the screen base: between 2005 and 2008 new modern screens were opened in about 20 cities annually, and only in 2009, during the 'year of the crisis', were new modern screens opened in no more than 10 cities;
- 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 with modern screens, the figure comes to 1.8 visits a year for 2009.

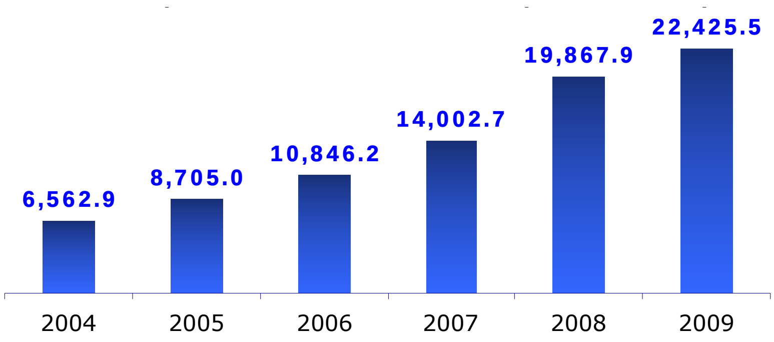
Graphic 31: Admissions per capita



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

Box officetakings from Russian film distribution continue to grow at an even more impressive pace: at least 30% a year. Despite the fact that the 2009 box officefigures may, for the first time in the history of modern Russia, demonstrate negative growth in hard currency (due to devaluation of the rouble during late 2008 – early 2009), the rouble volume of the film distribution market continued to grow, if at a slower rate (currently 13%).

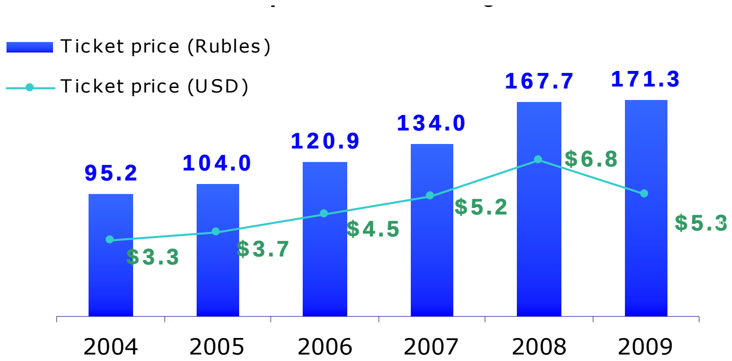
Graphic 32: Gross box office (RUB million)



Source: Film Business Today *(CIS data, 2005-2008 excluding Ukraine), Nevafilm Research (Russia estimation: 2009 - 95.2%, 2008 - 95.6%, 2005-2007 - 98%, 2004 - 90% of CIS data)*

The principal contributor to growth in gross box officetakings in Russia has remained the increase in the average ticket price, both in roubles and in its dollar equivalent (although the dollar ticket price equivalents reflect variations in the rouble/dollar exchange rate, particularly since the rouble's devaluation in 2009), while the average ticket price in USD decreased by 21%.

Graphic 33: Average ticket price



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

<u>**Highpoints in theatrical distribution in Russia from 2004 to 2009**</u>

The year 2004 is considered to be a milestone in Russian film distribution. The release of *Night Watch: Nochnoi Dozor* 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 officerankings across the CIS. From this point onwards, Russian films claimed an almost constant leading position in Russian distribution (with the exception of 2007 and 2009);
- the increase in the popularity of Russian features and higher cinema admissions generally were encouraged by the support given by the main TV channels to local feature production; in addition to showing film trailers on television, they provided longer-term support through news stories on films, topical programmes about films in production, interviews with actors and directors, talk-shows featuring actors and directors, and so on. Meanwhile, film distributors believe that these techniques, the use of which has since become normal for Russian blockbusters 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 in television advertising for such distributors. Only at the end of 2008 and in early 2009 did independent distributors, taking advantage of the fall in price of TV advertising, manage to regain the trust and attract the attention of TV viewers.

Table 39: Top-10 films by box office revenues in CIS distribution (excluding Ukraine from 2005)

Ranking	Title	Distributor	Country of origin	Number of screens	Gross Box Office (million RUB)	Box Office per screen (thousand RUB)
2004						
1	Night Watch: Nochnoi Dozor	Gemini	Russia	312	461.7	1,479.7
2	Lord of the Rings: The Return of the King	Karo Premier	USA, New Zealand, Germany	264	405.8	1,537.1
3	Troy	Karo Premier	USA, Malta, UK	267	354.5	1,327.7
4	The Day After Tomorrow	Gemini	USA	257	286.9	1,116.5
5	Spider-man 2	Cascade Film	USA	321	268.7	836.9
6	Van Helsing	Central Partnership	USA, Czech Republic	300	235.5	785.1
7	Harry Potter and the Prisoner of Azkaban	Karo Premier	UK, USA	269	224.7	835.4
8	I, Robot	Gemini	USA, Germany	303	173.1	571,400
9	King Arthur	Cascade Film	USA, UK, Ireland	210	167.7	798.4
10	Shrek 2	UIP	USA	294	165.7	563.5
2005						
1	9th Company	Gemini	Russia	361	668.4	1,851.5
2	Turetskiy gambit [The Turkish Gambit]	Gemini	Russia, Bulgaria	319	524.3	1,643.6
3	War of the Worlds	UIP	USA	345	288.2	835.4
4	Mr and Mrs Smith	Central Partnership	USA	300	246.9	822.9
5	Star Wars: Episode III - Revenge of the Sith	Gemini	USA	314	236.7	753.7
6	Alexander	Paradise	Germany, USA, Netherlands, France, UK	345	225.3	653.2
7	Madagascar	UIP	USA	288	214.9	746.1
8	The State Counsellor [Statskiy Sovetnik]	Karo Premier	Russia	316	210.8	667
9	Shadow Boxing	Central Partnership	Russia	274	203.8	743.9
10	Muzhskoy sezon. Barkhatnaya revolyutsiya [Law of Corruption]	Karoprokat	Russia	201	194.2	966.2

Ranking	Title	Distributor	Country of origin	Number of screens	Gross Box Office (million RUB)	Box Office per screen (thousand RUB)
2006						
1	Day Watch	Gemini	Russia	518	867.5	1,674.8
2	Pirates of the Caribbean: Dead Man's Chest	Cascade Film	USA	552	746.8	1,352.8
3	Ice age 2: The Meltdown	Gemini	USA	397	466.2	1,174.3
4	Heaven on Earth	Nashe Kino, Karoprokat	Russia	415	352.8	850.2
5	The Da Vinci Code	Cascade Film	USA	403	307.8	763.7
6	King Kong	UIP	New Zealand, USA, Germany	400	269.3	673.1
7	Svolochi	Paradise	Russia	355	262.2	738.5
8	Perfume: the Story of a Murderer	West	Germany, France, Spain, USA	310	251.5	811.1
9	Casino Royale	Cascade Film	USA, UK, Germany, Czech Republic	540	245.9	455.3
10	The Chronicles of Narnia	Cascade Film	USA, UK	304	219.8	723.0
2007						
1	Pirates of the Caribbean: At World's End	BVSPR	USA	703	788.2	1,121.3
2	Shrek 3	UPI	USA	596	597.6	1,002.6
3	Wolfhound from the Tribe of Grey Dogs	Central Partnership	Russia	601	511.4	850.9
4	Harry Potter and the Order of the Phoenix	Karo Premier	UK, USA	534	417.1	781.2
5	Zhara [The Heat]	Gemini	Russia	600	401.4	669.0
6	Transformers	UPI	USA	700	389.7	556.8
7	Spider-Man 3	BVSPR	USA	560	356.3	636.3
8	Night at the Museum	20th Century Fox CIS	USA, UK	455	331.9	729.4
9	Taxi-4	Central Partnership	France	466	308.0	660.9
10	Shadow Boxing 2	Central Partnership	Russia	583	300.8	515.9
2008						
1	The Irony of Fate 2	20th Century Fox CIS	Russia	914	1,238.3	1,354.8
2	Madagascar: Escape 2 Africa	UPI	USA	850	1,012.2	1,190.9
3	Admiral	20th Century Fox CIS	Russia	1107	835.9	755.1
4	The Mummy: The Tomb of the Dragon Emperor	UPI	USA, Germany	854	689.3	807.2
5	Samyy luchshiy film	Karoprokat	Russia	702	684.3	974.8

Ranking	Title	Distributor	Country of origin	Number of screens	Gross Box Office (million RUB)	Box Office per screen (thousand RUB)
	[The Best Movie]					
6	Wanted	UPI	USA, Germany	859	652.4	759.5
7	Hancock	BVSPR	USA	645	644.5	999.3
8	Kung Fu Panda	UPI	USA	821	517.9	630.8
9	Quantum of Solace	BVSPR	UK, USA	750	449.2	598.9
10	Indiana Jones and the Kingdom of the Crystal Skull	UPI	USA	811	422.8	521.3
2007						
1	Ice Age 3: Dawn of the Dinosaurs	20th Century Fox CIS	USA	1098	1,417.4	1,290.0
2	2012	BVSPR	USA, Canada	840	1,162.8	1,384.3
3	Obitaemyy Ostrov [The Inhabited Island]	Karoprokat	Russia	916	693.7	757.3
4	Harry Potter and the Order of the Phoenix	Karo Premier	UK, USA	915	595.7	651.1
5	Twilight Saga: New Moon	West	USA	680	591.4	869.7
6	Transformers: Revenge of the Fallen	Central Partnership	USA	913	577.2	632.2
7	Lubov-Morkov 2 [Lovey-Dovey 2]	Karoprokat	Russia	931	567.1	609.1
8	High Security Vacation [Kanikuly strogogo rezhima]	20th Century Fox CIS	Russia	1041	558.0	536.0
9	Taras Bulba	Central Partnership	Russia	648	541.3	835.4
10	Hipsters [Stilyagi]	Central Partnership	Russia	893	534.0	598.0

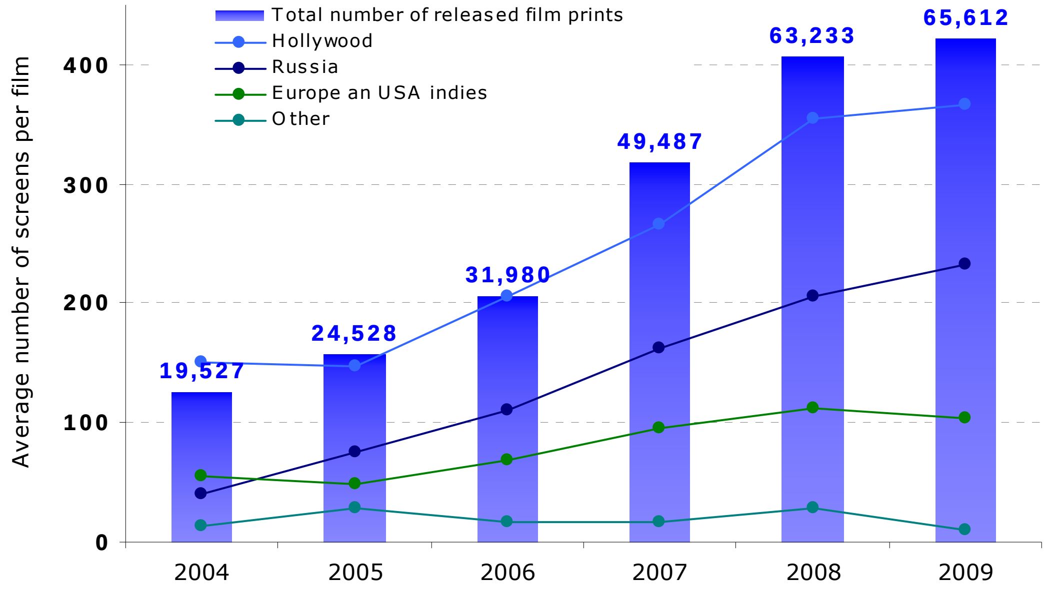
Source: Film Business Today

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 numbers 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 cinema exhibition, so that sales of rights to the film to video distributors or a TV channel can 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. Even the rising cost of making film prints (linked to the devaluation of the national currency in 2008–2009) did not seriously influence the practice of large-scale releases.

Note that the rise in the number of copies in distribution began in Russia in 2004 – because of increasingly wide circulation, primarily of Russian films (in 2004 the average number of prints per film was 40, in 2009 – 233), but also of Hollywood titles (151 prints in 2004 against 367 in 2009), while the number of prints of European and independent American films displayed slower growth (56 in 2004 vs. 103 in 2009). In contrast, the average number of prints for films from other countries has actually dropped (13 in 2004 vs. 10 in 2009).

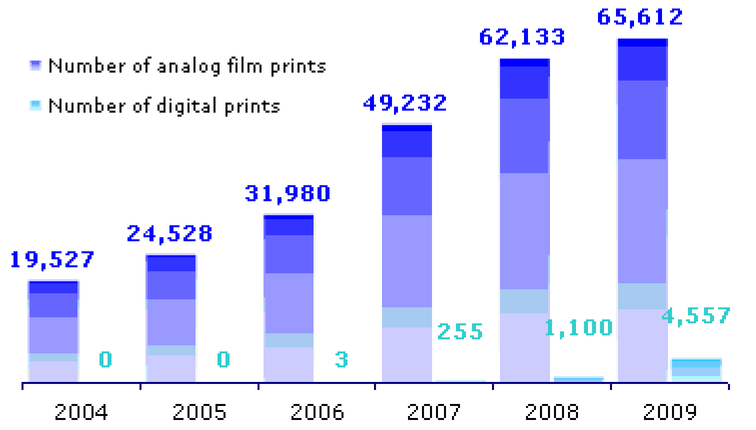
Graphic 34: Film prints and average number of screens per film



Source: Film Business Today

Digital format releases started in Russia in 2006, allowing distributors to save considerably on prints since 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 the advertising reels on the film, while producing a single digital cinema package (DCP) including hard disk turnover and delivery costs only about USD 120.

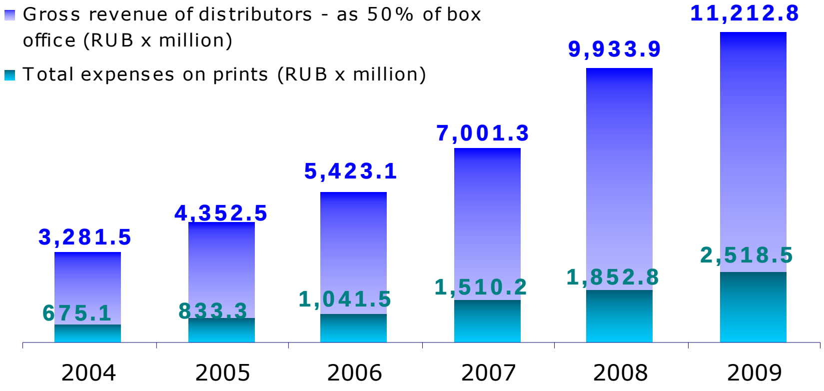
Graphic 35: Release of film prints in Russian distribution



Source: Film Business Today, *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 has remained stable at a level of approximately 20% of profit, or 10% of total box office receipts, for a number of years. Despite the growing market for digital distribution, its turnover currently remains insignificant and has no impact on this ratio (on the contrary, in 2009 distributor revenues for printing actually grew, due to rouble devaluation and the continuing growth of the number of copies per film).

Graphic 36: Revenue of Russian distributors vs expenses on film and digital print production



Source: Film Business Today, *Nevafilm Research*

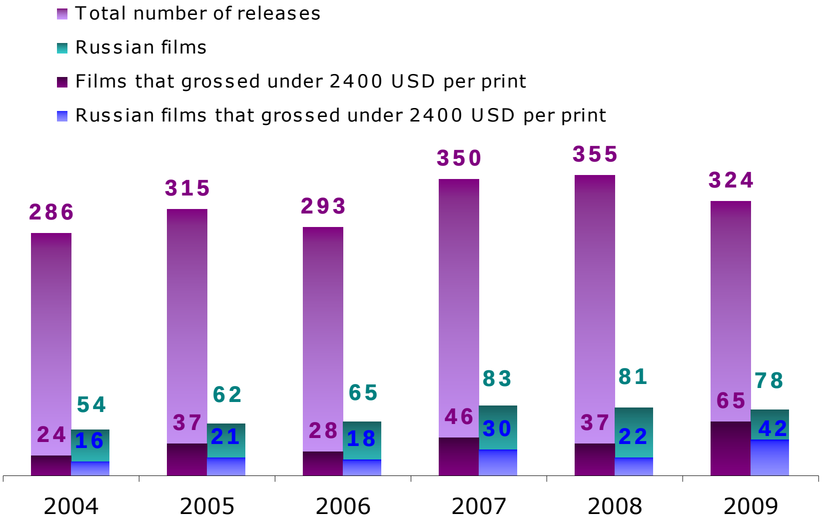
Advertising expenses vary widely from film to film, and distributors remain very reluctant to disclose these data. It is generally considered that the average advertising budget of a distribution company is around 10% of expected box office receipts.[89] Further objective analysis is, however, hampered 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 copy to printing and delivery costs. The results of this analysis demonstrate that more than 12% of releases over the period 2004–2009 failed to even return film exhibition costs, 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).[90] For Russian-made films, the share of films failing to recover their prints costs rises to 35%, and for 2009, this figure rises to 54%!

[89] Юлия Куликова, «Рекламный кинотрюк». Business Guide, № 97 (3673), 06.06.2007 [Yulia Kulikova, “Advertising SFX”, in *Business Guide*, № 97 (3673), 06 June 2007].

[90] Calculations disregarded data on digital exhibition, since the number of digital screens per film for 2006–2008 was not available; it was only estimated over the totality of digital releases for the period.

Graphic 37: Efficiency of Russian film distribution: recoupment of film printing and transportation

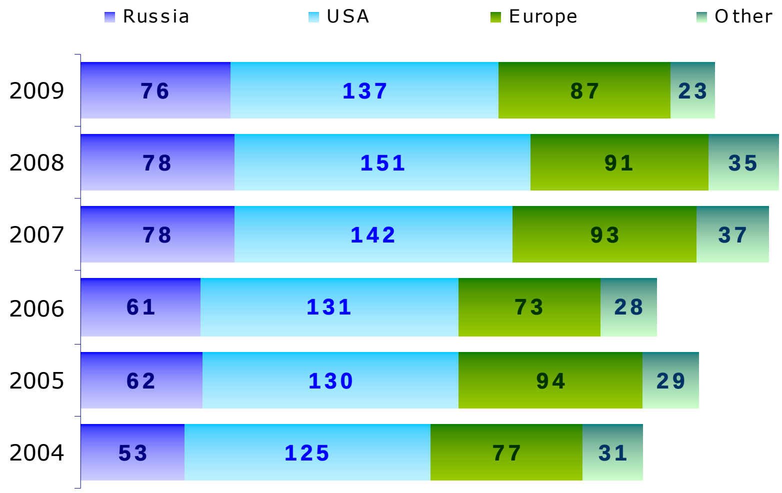


Source: Film Business Today, *Nevafilm Research*

Film releases by country of origin

Analysis of box office receipts of films released throughout 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.[91]

Graphic 38: Film releases by origin



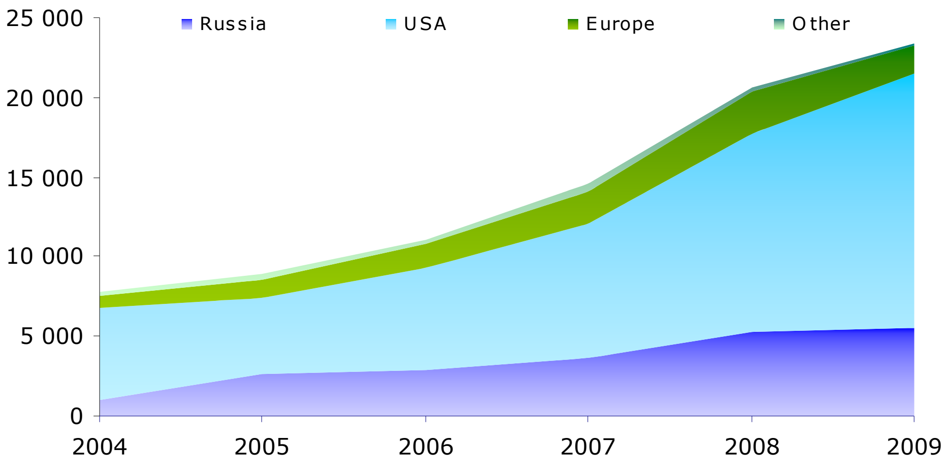
Source: Film Business Today, *Nevafilm Research*

These same films collect most of the film distribution revenue as well – around 60% of annual box office receipts (European films take an average 13% in Russia). However, since 2004, Russian-produced films have been earning an ever larger share of the market, both in terms of number of titles

[91] Calculations were done by using the definition of origine of films used by the European Audiovisual Observatory in its database LUMIERE (http://lumiere.obs.coe.int) or www.imdb.com in case of international co-production, only the country of the leading producer is taken into consideration.

and volume of box office receipts (at least 25%), stealing some of the market share for US-made films (although in 2009 the share of US-produced films in the total box office receipts for CIS countries once again increased – to 68%, cutting the shares for Russian and European films to 24% and 7% respectively).

Graphic 39: Box office by film origin (RUB million)



Source: Film Business Today, *Nevafilm Research*

Table 40: Market shares by origin of films distributed in the CIS (2005–2009 excluding Ukraine)

Year	Russian films		US films		European films		Other	
	Number of releases	Box office receipts (million RUB)	Number of releases	Box office receipts (million RUB)	Number of releases	Box office receipts (million RUB)	Number of releases	Box office receipts (million RUB)
2004	53	948.8	125	5,828.2	77	781.0	31	175.3
	18.5%	12.3%	43.7%	75.4%	26.9%	10.1%	10.8%	2.3%
2005	62	2,618.2	130	4,820.1	94	1,155.0	29	306.6
	19.7%	29.4%	41.3%	54.2%	29.8%	13.0%	9.2%	3.4%
2006	61	2,889.1	131	6,435.8	73	1,418.2	28	353.9
	20.8%	26.0%	44.7%	58.0%	24.9%	12.8%	9.6%	3.2%
2007	78	3,644.6	142	8,409.0	93	2,024.4	37	441.5
	22.3%	25.1%	40.6%	57.9%	26.6%	13.9%	10.6%	3.0%
2008	78	5,289.3	151	12,384.7	91	2,663.4	35	215.0
	22.0%	25.7%	42.5%	60.3%	25.6%	13.0%	9.9%	1.0%
2009	76	5,581.4	137	15,931.1	87	1,712.1	23	161.1
	23.5%	23.9%	42.4%	68.1%	26.9%	7.3%	7.1%	0.7%

Film Business Today, *Nevafilm Research*

As regards the distribution of European movies in Russia, France led the number of releases over the period in question, followed by Great Britain, Spain and Germany. France is the box office leader among these European films (about 3.7% from 2004 to 2009); in all, the EU countries generated about 7% of total Russian box office receipts during 2004 to 2009, 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: 4.9% of total box office receipts from Russian film distribution over the period 2004 to 2009. At the same time, the total number of such films released was quite small, just 32 (1.7% of the total releases over the same period).

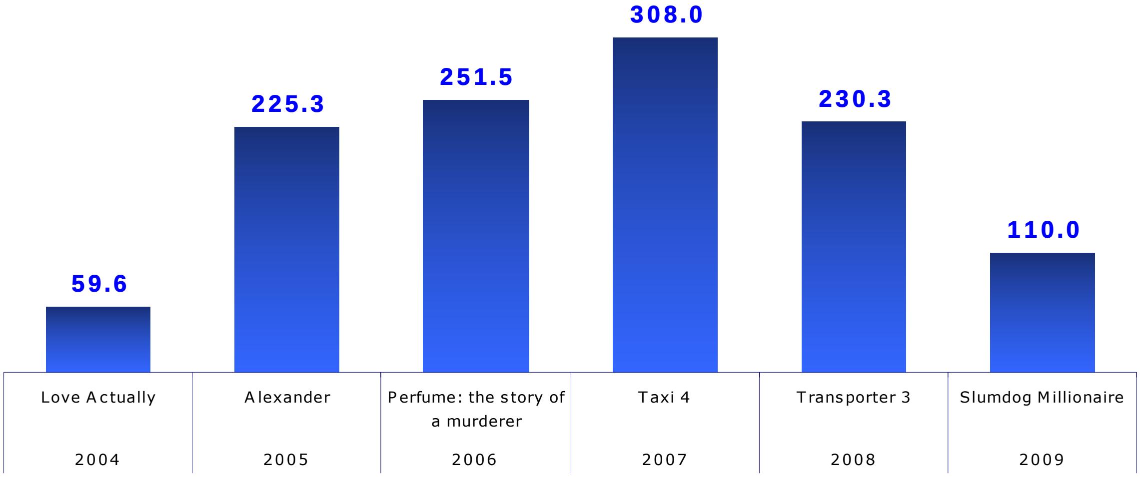
Table 41: Cinema distribution of European films in Russia (2004–2009)

Country of origin	Number of releases	Share of total number of releases in Russia	Box office (million RUB)	Share of total box office in Russia
Austria	6	0.3%	2.6	0.0%
Belgium	8	0.4%	130.8	0.2%
Great Britain	73	3.8%	1,524.5	1.8%
Hungary	4	0.2%	13.6	0.0%
Germany	42	2.2%	356.7	0.4%
Denmark	12	0.6%	94.0	0.1%
Ireland	2	0.1%	19.1	0.0%
Spain	34	1.8%	380.9	0.5%
Italy	20	1.0%	48.0	0.1%
The Netherlands	7	0.4%	14.6	0.0%
Portugal	1	0.1%	0.6	0.0%
Romania	3	0.2%	5.5	0.0%
Finland	6	0.3%	75.7	0.1%
France	164	8.5%	3,010.7	3.7%
Czech Republic	1	0.1%	2.6	0.0%
Sweden	5	0.3%	4.7	0.0%
Estonia	1	0.1%	3.2	0.0%
Total EU	**389**	**20.2%**	**5,687.9**	**6.9%**
The former Yugoslav Republic of Macedonia	0	0.0%	0.0	0.0%
Bulgaria	1	0.1%	0.9	0.0%
Iceland	1	0.1%	0.9	0.0%
Norway	5	0.3%	7.6	0.0%
Serbia (since June 2006)	1	0.1%	9.8%	0.0%
Serbia and Montenegro	1	0.1%	0.1	0.0%
Turkey	3	0.2%	1.4	0.0%
Ukraine	6	0.3%	19.6	0.0%
Yugoslavia	1	0.1%	0.0	0.0%
Switzerland	2	0.1%	35.9	0.0%
Total other European countries	**21**	**1.1%**	**76.2**	**0.1%**
Incoming financing	32	1.7%	4,033	4.9%
Total Europe	**442**	**23.0%**	**9,797.1**	**11.9%**

Source: Film Business Today, *Nevafilm Research*

The most popular European film in Russian cinema 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 40: Top European films in Russia theatrical distribution (box office receipts in RUB million)



Source: European Audiovisual Observatory / LUMIERE database, Film Business Today, *imdb.com, Nevafilm Research*

3.4.2 Principal trends and development prospects

TV channels

TV channels have played an important role in 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 broad advertising support to projects it was involved in during their distribution. From 2005, TV channels such as STS and VGTRK (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 November 2009 more than 40 Russian films (10.5% of all the releases by Russian producers or 2.2% of all the first releases over the period) have received free TV airtime.

Table 42: Russian films officially supported in distribution by TV channels

Rank	Title	TV Channel	Box office receipts (million RUB)
2004			
1	Night Watch: Nochnoi Dozor	Channel One	461.7
22	72 meters	Channel One Russia	76.1
25	Driver for Vera	Channel One	75.8
95	Daddy	Channel One	20.2
116	Neznaika i Barrabass	Channel One	13.8
2005			
1	9th Company	STS	668.4
2	Turetskiy gambit [The Turkish Gambit]	Channel One	524.3
8	The State Counsellor [Statskiy Sovetnik]	Channel One	210.8

Rank	Title	TV Channel	Box office receipts (million RUB)
14	Countdown [Lichnyy Nomer]	Channel One	129.1
47	Pervyy posle Boga [The First After God]	VGTRK (Rossiya TV channel)	50.5
131	Dura	VGTRK (Rossiya TV channel)	11.3
2006			
1	Day Watch	Channel One	867.5
12	Piter FM	STS	198.9
16	Okhota na Piranyu	VGTRK (Rossiya TV channel)	169.2
38	The Island [Ostrov]	VGTRK (Rossiya TV channel)	70.4
182	Bolshaya lyubov	VGTRK (Rossiya TV channel)	5.2
2007			
3	Wolfhound from the Tribe of Grey Dogs	Channel One, NTV	511.4
5	Zhara [The Heat]	STS	401.4
11	Lubov-Morkov [Lovey-Dovey]	Channel One	297.4
18	Kod Apokalipsisa [The Apocalypse Code]	Channel One	205.3
68	Konservy	VGTRK (Rossiya TV channel)	52.9
84	Tiski [Vice]	VGTRK (Rossiya TV channel)	**36.3**
130	Odna lyubov na million	NTV	20.1
197	The Russian Game [Russkaya Igra]	VGTRK (Rossiya TV channel)	6.1
2008			
1	The Irony of Fate 2	Channel One	1,238.3
3	Admiral	Channel One	835.9
5	Samyy luchshiy film [The Best Movie]	TNT (Comedy Club)	684.3
28	We Are From the Future [My iz Budushchego]	VGTRK (Rossiya TV channel)	204.1
32	Vsyo Mogut Koroli [There is Nothing Kings Cannot Do]	NTV	184.9
76	1814	STS	61.8
93	Realnyy Papa [A Real Dad]	VGTRK (Rossiya TV channel)	46.5
147	Kamennaya Bashka [The Stone Head]	NTV	22
158	Kacheli	VGTRK (Rossiya TV channel)	18.5
2009			
3	Obitaemyy Ostrov [The Inhabited Island]	STS	693.7
7	Lubov-Morkov 2 [Lovey-Dovey 2]	Channel One	567.1
8	High Security Vacation [Kanikuly strogogo rezhima]	Channel One	558.0
9	Taras Bulba	VGTRK (Rossiya TV channel)	541.3
10	Hipsters [Stilyagi]	VGTRK (Rossiya TV channel), Channel One	534.0
17	Samyy luchshiy film 2 [The Best Movie 2]	TNT (Comedy Club)	408.1
34	Obitaemyy Ostrov. Svatka. [The Inhabited Island: Rebellion]	STS	192.9
68	The Tale of Fedot, the Shooter	Channel One	82.2
88	First Love: It's the Music!	STS	56.4%
147	The Newsmakers [Goryachie Novosti]	RBC-TV, Akado (product placement)	19.9

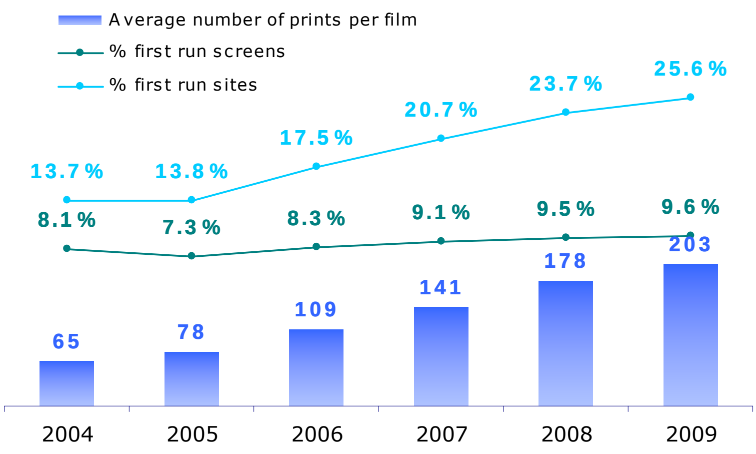
Source: Film Business Today, *ProfiCinema, interviews with distributors*

Second run screens

At the end of 2008, devaluation of the rouble precipitated by the global economic crisis and a drop in oil prices seriously affected the cost of prints, forcing distributors to start considering cutting back 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 recently, the first-run screen network has been shrinking while the second-run screen network expands.[92]

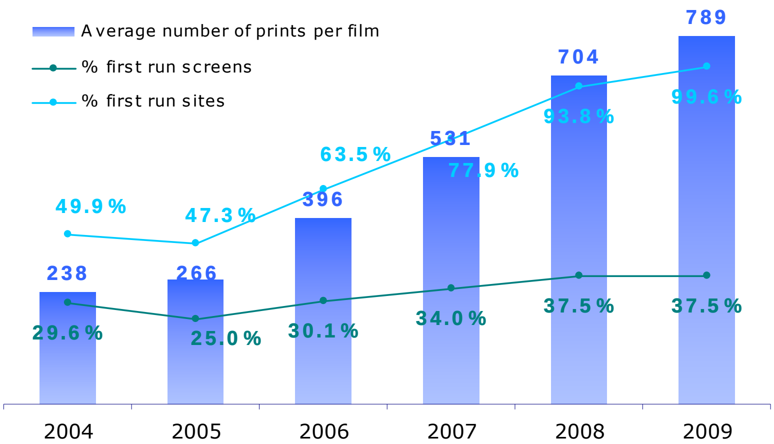
However, according to data from 2009, the second-run screen market continued to decline. In 2009 the average film release in Russian distribution was 203 prints, covering about 9.6% of modern screens or 26% of the country's cinemas. However, if only major releases (for example, the top 20 features by total annual box office receipts) are taken into account, the average release in 2009 was more than 790 prints per film, with each film therefore occupying around 38% of screens or 100% 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 41: Average number of prints per film vs number of modern sites and screens



Source: Film Business Today, *Nevafilm Research*

Graphic 42: Average number of prints per film calculated on the basis of top 28 films in Russian distribution vs number of modern sites and screens



Source: Film Business Today, *Nevafilm Research*

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[92] According to data from a survey of representatives of 17 film distribution companies and 28 exhibitors by experts of Nevafilm Research in June 2009.

Art house film distribution

Russia lacks specialized arthouse cinemas; in most cities audiences have no tradition of viewing this type of film. As a result, arthouse films are only generally shown on the big screen in cities with over a million inhabitants (primarily Moscow and St. Petersburg, as well as Yekaterinburg, Rostov-on-Don, Nizhny 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 travel around the country over a long period of time (some features run for a year or even longer, such as *Paris, je t'aime* [Paris, I love you], the record-holder for limited release in the CIS, which took in more than USD 1 million with ten copies in 2007). The film *Atonement* achieved similar results in 2008 (though with 49 prints), but in 2009 not a single limited release film managed to achieve this kind of success (the best results came from *Antichrist*, which made USD 347,000 on 10 copies).

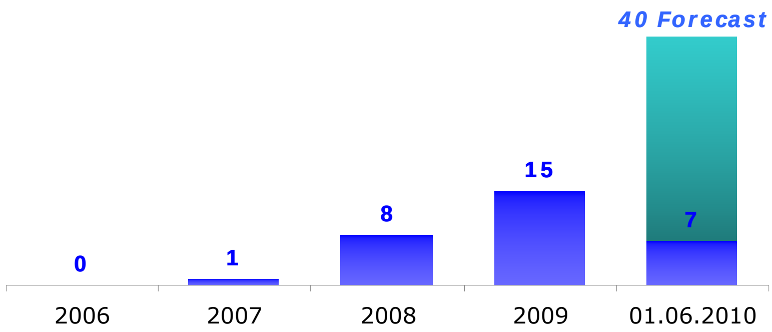
In addition, limited release films are often released on DVD (provided the distributor holds the necessary rights), which facilitates a reduction in print and delivery expenses but makes these films vulnerable to pirates.

At the same time, beginning in 2007, major players in the exhibition market began showing an interest in arthouse titles, and this has helped these films to expand their presence in Russian distribution. Traditionally arthouse films are well represented in the programming of the Five Stars cinema chain. The InvestKinoProject chain started the Kolizey arthouse film club using one of its screens at 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); at the end of 2008, Cinema Park released a whole collection of films under the brand Cinema With and Without Rules in Chelyabinsk, Novosibirsk and Tiumen. The chain also regularly conducts various festivals (Future Short is held no fewer than three times a year, and film exhibitions of the now-established Incorrect Cinema festival will be held in Russian regions in October-November 2010).

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 3D content. The first digital 3D release in Russia was *Beowulf* in late 2007; there were eight such films in 2008, fifteen in 2009 and by the end of the current year Russian digital screens will have seen up to 40 3D premieres! This means that 3D films have every chance of fully occupying the repertoires of cinemas with digital screens by the end of the year; meanwhile, one digital screen may already be insufficient for exhibiting all the 3D films being released. This situation causes difficulties for independent distributors wishing to release their films in digital formats.

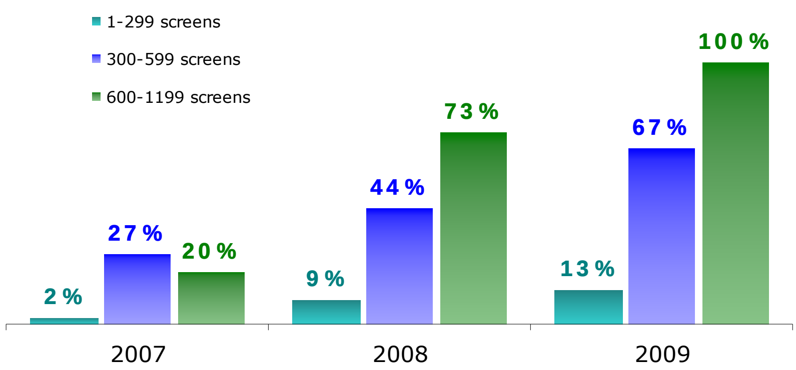
Graphic 43: Number of 3D releases



Source: Film Business Today, *Nevafilm Research*

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 break through to digital distribution in Russia. Thus, all the films released to over 600 screens in 2009 were also released in digital format, while only 13% of average and small releases (1 to 299 screens) were distributed in digital prints.

Graphic 44: Share of digital releases depending on distribution scale

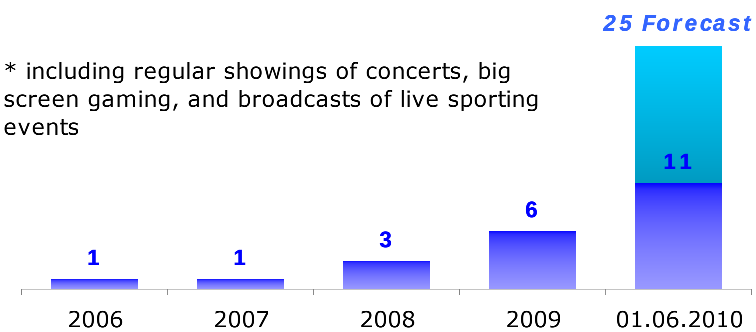


Source: Film Business Today, *Nevafilm Research*

Since 2008, when the first direct broadcasts of football matches to digital screens took place during the European Championships, alternative techniques for digital distribution have been developing. Experiments have also been undertaken with other types of alternative digital content such as recorded concerts: in 2008, three such films were released (*Zelyonyy teatr v Zemfire [Zemfira's Green Theatre], 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 one-time broadcasts of alternative content on digital screens. This effort is being developed by Nevafilm Emotion, the distribution branch of Nevafilm. On 21 April 2009 the company enabled 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 came the *Tribute to Luciano Pavarotti: One Amazing Weekend in Petra*, and the Russia-wide cinema event in memory of Viktor Tsoy, *Last Hero: 20 years later*. Beginning in autumn 2009, Nevafilm Emotion began regular film exhibitions of La Scala opera performances, as well as concerts, documentary films and film events. By the end of 2010 the number of alternative content programs for digital screens in Russia may reach 25 releases.

Graphic 45: Number of alternative content programmes on Russian digital screens *



Source: Film Business Today, *Nevafilm Research*

Public 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 proliferation of video salons in the 1990s; supported by the state at local and regional level, they screened films using TV equipment and video cassettes. The 1998[93] Russian financial crisis had a drastic effect on the domestic video market, putting an end to the growth of these facilities. However, inexpensive and convenient video exhibition was revived by 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 organisations, as well as in drive-in cinemas (though these are not that numerous in Russia – there are no more than 10). Furthermore, many modern cinemas that handle arthouse content own video projectors to run films; video projection is often a side business for various clubs and cafés that organise non-commercial showings of various retrospectives, festivals, etc.

Video film 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 arthouse features, and by companies distributing children's film programming (both feature films and animation). The technique enables them to achieve a wider distribution network, from nightclubs (arthouse products) to children's summer camps and schools (animated features).[94]

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 provoke much greater interest and demand from video pirates, and counterfeits often hit the open market and the Internet at the same time as the film is released in cinemas.

Despite the fact that all distributors (and cinemas) recognise 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 typical environmental factor. Distribution companies note that the effect of piracy becomes even worse with niche films, including arthouse projects. 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 access.[95]

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[93] The Russian financial crisis (or "default") 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. As a result of the crisis, a default on state securities was declared, the national currency fell heavily and imported goods became unaffordable for normal people for a long time.

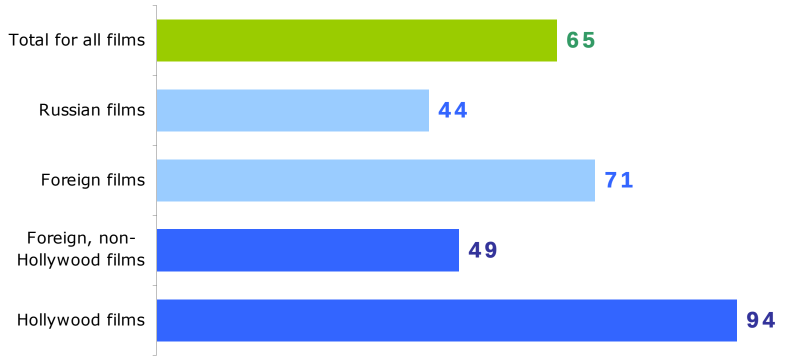
[94] According to data from a survey of representatives of 17 film distribution companies and 28 exhibitors carried out by Nevafilm Research in June 2009.

[95] item

Windows for release of films to video

In conclusion on the impact of video on distribution in Russia, the last few years have 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 films in home video format. It is defined independently by each distributor and depends on many factors. As a rule, blockbusters have the shortest windows while arthouse films, having wide second-run screen networks and longer distribution periods, are released on video somewhat later. By comparing the dates for DVD- and cinema distribution releases in mid-2010, we were able to reveal the following patterns: on average, films are released on video two months after their premiere in cinemas; for Russian films, the size of the window ranges between 14 to 105 days, while for foreign films – from 21-210 (up to 145 for Hollywood films and up to 210 for films from independent foreign studios).

Graphic 46: Average number of days before DVD release in Russia for 2010



Source : Film Businesss Today, Videomagazine, *Nevafilm Research*

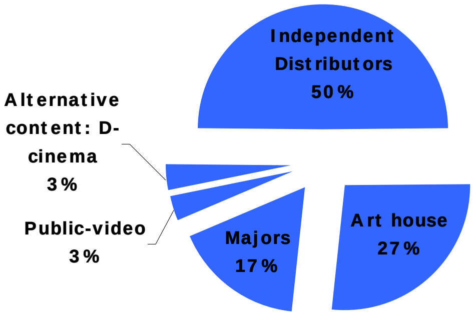
3.4.3 Principal players

Distributors operating in the Russian market may be divided into groups by content-type:

- foreign companies directly representing major Hollywood studios in the Russian market (Universal Pictures International, Walt Disney Sony Pictures Releasing, 20th Century Fox-CIS);
- Russian companies officially representing the Hollywood majors (*Karo Premier, Central Partnership*);
- independent (mainstream) distributors that deal predominantly in foreign and Russian-produced films for a mainstream audience (Paradise, Central Partnership, West, Luxor, Top Film Distribution, Cascade Film, Volga, Nashe Kino, Karoprokat, Art Pictures Media, Argumenty Kino, Profit Cinema International, P And I Films);
- independent film distribution companies working with narrow target groups: children's films (Panorama, Most-Media), arthouse (CP Classic, Kino bez Granits [Cinema Without Borders], Russian Reporting, InterCinema, Premium, LeopArt, Carmen/Caravella DDC, Soyuz Video), anime (Ruscico) and alternative content (Nevafilm Emotion);
- film producers (several Russian producers that distribute and exhibit their films themselves; they often establish new distribution companies dedicated to a single feature);
- regional film and video rental organisations (FVROs) – essentially these are the remnants of the local Soviet-era cinema authorities. They have lost most of their functions and currently remain custodians of film funds that support exhibition in the regional cinema network, mostly in obsolete cinemas, village clubs and community centres using portable film projectors and fixed installations.

In all, as at 2010, about 30 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 (15), eight work with arthouse films, five represent Hollywood majors (although their line-ups are usually not limited to films from the majors), one offers films for public video distribution only (although other companies work with public film exhibitions as well), and one works exclusively with alternative digital content.

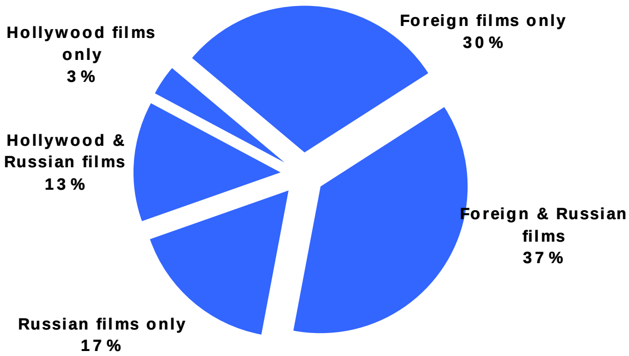
Graphic 47: Russian distributors by company type and content specialisation



Source: Film Business Today, *Catalogue of 82 Russian International Film Market, Nevafilm Research*

In terms of the countries of origin of the films handled, distribution companies may be classified as follows: nine work with foreign films only; 11 with both foreign and Russian features; five handle only Russian content; one company works exclusively with Hollywood films, and four others offer a combination of Hollywood features with independent foreign and Russian films.

Graphic 48: Russian distributors by origin of releases



Source: Film Business Today, *Catalogue of 82 Russian International Film Market, Nevafilm Research*

There is a constant turnover of companies working in the Russian distribution market. The direct entry of Hollywood studios onto the Russian market resulted 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, which opened back in 1989 and used to run films by practically all the majors in Russia – lost its Hollywood partners after the opening of the Russian office of United International Pictures (UIP). The company management decided to accept an offer from UIP 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 closed in 2008. Cascade, which distributed films from Columbia and Disney between 1998 and 2006, lost its Hollywood content when the Russian office of Buena Vista Sony Pictures Releasing (now Walt Disney 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 3D film exhibition on the Russian market.

Interest on the part of national producers in improving results from the exhibition of their films forced 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). So, in summer 2009 the three most experienced Russian film producers – CTB, Krasnaya Strela [Red Arrow] and Profit – united under the distribution company brand name Nashe Kino, which had previously distributed CTB films for many years. From autumn 2009, Russian producers Fyodor Bondarchuk and Dmitry Rudovsky have also entered the distribution business with their company, Art Pictures Media, which has a full rights package both for Russian films (Art Pictures Studio), and films from independent foreign producers. In addition, in 2009 the production centre Leopolis began testing its strength in the field of film distribution; it distributes its own films as well as packages of films bought up at international cinema markets. A specialised arthouse division, LeopArt, was created within the company (however, in May 2010 the company folded its distribution activity and in June it announced the sale of its rights library to the Russian office of UPI; meanwhile, the arthouse division was set apart as an independent distribution structure).

Independent market players are also changing constantly, especially in arthouse distribution. Some market players have been forced to leave the market entirely: in 2009, the Pyramid and Lizard companies ceased their distribution activity. The recent crisis-related developments had their effects on yet another important video market player, the Nastroenie company. From 2007, this chain of multi-media stores also controlled half of one of the largest Russian arthouse distributors, Kino bez Granits [Cinema without Borders]. The company also launched the Nastroenie Kino brand in mid-2008, under which it released mainstream films to cinemas. However, in March 2010 51% of the Kino bez Granits [Cinema without Borders] shares were sold to Aleksandr Rodniansky's company, AR Films, which planned to use the KBG and Nastroenie film package (more than 700 pictures) to create a paid television channel devoted to independent films in late 2010.

Despite the world economic crisis, new independent distributors keep appearing on the Russian market; 2009 saw the appearance of new distributors including: Volga (representing the American distributor Film Depot Inc.), Argumenty Kino (an association of Russian producers engaged in making arthouse Russian films), P And I Films, and Nevafilm Emotion, which began working with alternative content for digital screens. In May 2010, the Russian market even saw the emergence of a company that announced it would focus primarily on 3D digital releases (including documentaries); however, at present Caravella DDC is also working with a film package from Carmen Video, which decided to leave the film distribution market in 2010 and concentrate on video distribution. It is also curious that this year Soyuz Video, which traditionally worked only with public film exhibitions of arthouse films, decided to release features on film (though in limited quantities).

Table 43: Major film distributors in Russia*

Ranking on 26 July 2010	Distributor	Box office (million RUB) and market share					Number of releases and market share				
		2006	2007	2008	2009	26 July 2010	2006	2007	2008	2009	26 July 2010
1	Central Partnership / CP Classic	852.8	2,215	1,600.2	3,828.3	5,569.8	41	47	37	42	24
		6.9%	*15.3%*	*7.8%*	*16.4%*	*26.7%*	*14.0%*	*13.4%*	*10.4%*	*13.0%*	*11.0%*
2	20th Century Fox CIS	2,890.8	2,047.4	3,842.4	3,481.0	4,549.3	37	34	20	14	12
		23.4%	*14.2%*	*18.7%*	*14.9%*	*21.8%*	*12.6%*	*9.7%*	*5.6%*	*4.3%*	*5.5%*
3	WDSPR, BVSPR (2007–2009), Walt Disney Russia (2006)	0.7	2,149.6	3,008.7	6,441.5	3,315.3	1	14	21	32	12
		0.0%	*14.9%*	*14.6%*	*27.5%*	*15.9%*	*0.3%*	*4.0%*	*5.9%*	*9.9%*	*5.5%*
4	Karo Premier / Karoprokat	1,544.0	2,527.5	3,239.4	4,383,3	2,457.3	27	31	31	31	16
		12.5%	*17.5%*	*15.7%*	*18.7%*	*11.8%*	*9.2%*	*8.9%*	*8.7%*	*9.6%*	*7.3%*
5	UPI, UIP (2006)	1,455.3	2,425.4	5,058.3	1,772.1	1,671.4	22	21	21	19	9
		11.8%	*16.8%*	*24.6%*	*7.6%*	*8,0%*	*7.5%*	*6.0%*	*5.9%*	*5.9%*	*4.1%*
6	WEST	533.1	650.1	602.2	867.4	969.6	22	22	18	11	10
		4.3%	*4.5%*	*2.9%*	*3.7%*	*4.7%*	*7.5%*	*6.3%*	*5.1%*	*3.4%*	*4.6%*
7	Paradise	662.4	1,002.9	943.1	828.8	619.7	31	37	29	28	16
		5.4%	*6.9%*	*4.6%*	*3.5%*	*3.0%*	*10.6%*	*10.6%*	*8.2%*	*8.6%*	*7.3%*
8	Leopolis / LeopArt	-	-	-	54.1	536.6	-	-	-	3	9
		-	*-*	*-*	*0.2%*	*2.6%*	*-*	*-*	*-*	*0.9%*	*4.1%*
9	Cascade Film	2,585.6	491.6	527.9	180.4	376.0	20	16	23	10	10
		20.9%	*3.4%*	*2.6%*	*0.8%*	*1.8%*	*6.8%*	*4.6%*	*6.5%*	*3.1%*	*4.6%*
10	Luxor	81.2	211.6	366.7	252.8	283.5	6	12	13	10	10
		0.7%	*1.5%*	*1.8%*	*1.1%*	*1.4%*	*2.0%*	*3.4%*	*3.7%*	*3.1%*	*4.6%*
11	Volga	-	-	-	298.4	191.8	-	-	-	10	11
		-	*-*	*-*	*1.3%*	*0.9%*	*-*	*-*	*-*	*3.1%*	*5.0%*
12	Top Film Distribution	-	37.8	519.7	372.6	122.2	-	7	21	15	5
		-	*0.3%*	*2.5%*	*1.6%*	*0.6%*	*-*	*2.0%*	*5.9%*	*4.6%*	*2.3%*
13	Argument Kino	-	-	-	4.0	45.6	-	-	-	4	4
		-	*-*	*-*	*0.0%*	*0.2%*	*-*	*-*	*-*	*1.2%*	*1.8%*
14	Nashe Kino	724.1	533.7	578.9	328.3	43.7	10	9	14	9	4
		5.9%	*3.7%*	*2.8%*	*1.4%*	*0.2%*	*3.4%*	*2.6%*	*3.9%*	*2.8%*	*1.8%*
15	Premium	-	2.9	104.9	55,5	31,8	-	3	12	11	9
		-	*0.0%*	*0.5%*	*0.2%*	*0.2%*	*-*	*0.9%*	*3.4%*	*3.4%*	*4.1%*

Ranking on 26 July 2010	Distributor	Box office (million RUB) and market share					Number of releases and market share				
		2006	2007	2008	2009	26 July 2010	2006	2007	2008	2009	26 July 2010
16	Art Pictures Studio	-	-	-	-	25.3	-	-	-	-	3
		-	-	-	-	*0.1%*	-	-	-	-	*1.4%*
17	Kino bez Granits, KBG/Nastroenie Kino (2008–2009)	10.0	19.8	37.6	49.5	8.5	10	22	31	23	13
		0.1%	*0.1%*	*0.2%*	*0.2%*	*0.0%*	*3.4%*	*6.3%*	*8.7%*	*7.1%*	*5.9%*
18	Russian Reporting	1.6	5.4	11.1	18.5	6.4	6	9	11	14	9
		0.0%	*0.0%*	*0.1%*	*0.1%*	*0.0%*	*2.0%*	*2.6%*	*3.1%*	*4.3%*	*4.1%*
19	Panorama	3.2	22.8	41.4	15.3	4.0	1	7	5	4	1
		0.0%	*0.2%*	*0.2%*	*0.1%*	*0.0%*	*0.3%*	*2.0%*	*1.4%*	*1.2%*	*0.5%*
20	Nevafilm Emotion	-	-	-	5.0	3.0	-	-	-	7	14
		-	-	-	*0.0%*	*0.0%*	-	-	-	*2.2%*	*6.4%*
CIS total (excluding Ukraine)		**12,348.7**	**14,435.8**	**20,588.5**	**23,386.8**	**20,828.7**	**293**	**350**	**355**	**324**	**219**

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

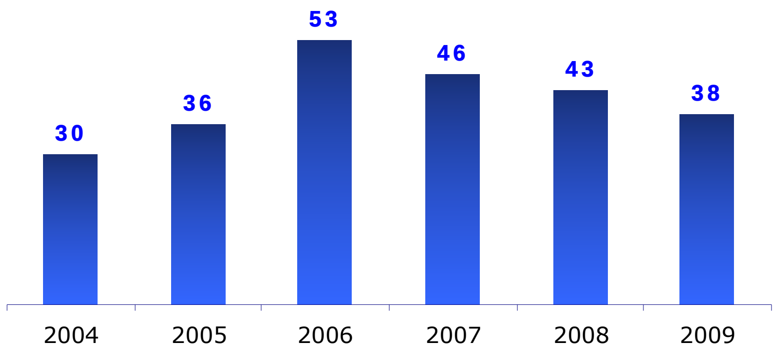
Source: Film Business Today

3.4.4. Distribution of Russian Films Abroad

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

According to data from the European Audiovisual Observatory, 130 Russian films were distributed in the rest of Europe during the period 2004-2009. During the same period 408 Russian films were released in the national market.

Graphic 49: Number of Russian films in distribution in the European Union

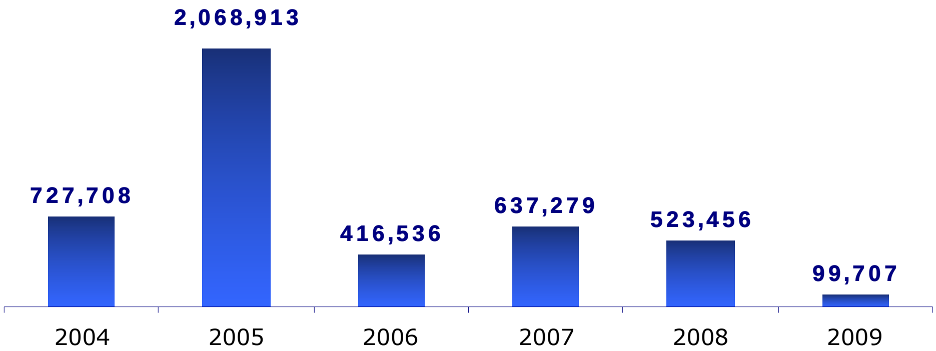


Source: European Audiovisual Observatory / LUMIERE database

In addition, anccording to the same source, the market share of these films in the European Union was very low (about 0.08% of total cinema tickets sold in the EU).

The best year for Russian producers in cross-border exhibition was 2005, mostly due to the successful run of *Night Watch: Nochnoi Dozor* across Europe. Overall ticket sales for the film reached 1.7 million. According to our estimates, *Night Watch: Nochnoi Dozor* collected the equivalent of 39.9% of its Russian admissions on the European market, and that result has not to date been beaten by any Russian blockbuster, despite their enormous box office success at home.

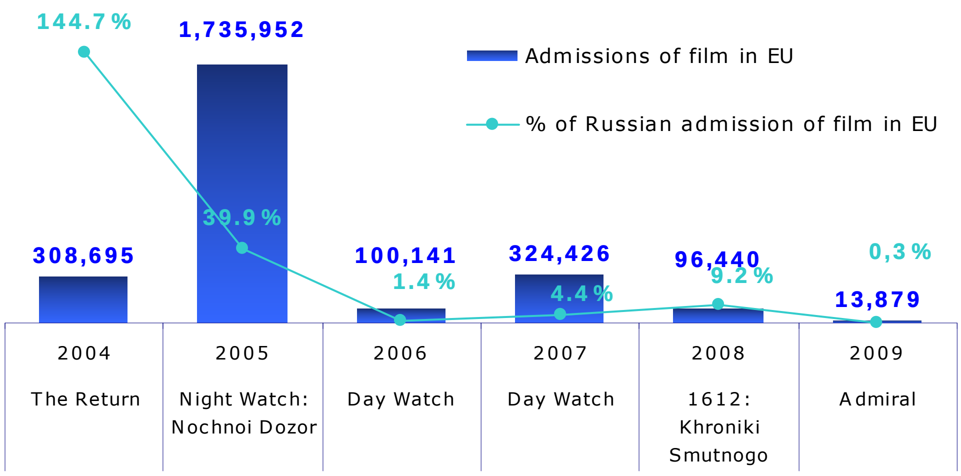
Graphic 50: Admissions of Russian films in distribution in the European Union (tickets sold)



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 in 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 2009, it is evident that popular films like *The 9th Company, Day Watch, Zhara [The Heat], The Irony of Fate 2, 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. *Night Watch: Nochnoi 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 *Fifty-Fifty* (produced by Gulshat Omarova), *Ya lyublyu tebya* (by Olga Stolpovskaya and Dmitry Troitsky), *4* (by Ilya Khrzhanovsky), *The Sun and Alexandra* (by Alexander Sokurov), and *The Italian* (by Andrey Kravchuk), an Oscar nominee in the 'Best Foreign Film' nomination, have performed significantly better than in Russia. The art house film *The Return* directed by Andrey Zvyagintsev, became the best performing Russian film in Europe during 2004.

Graphic 51: Top Russian films in distribution in the European Union



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

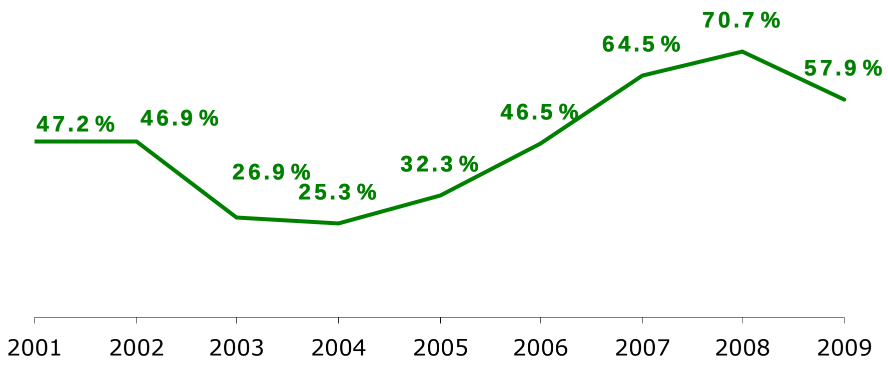
3.5 DVD DISTRIBUTION[96]

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 cinema sector. According to data provided by *Videomagazine* and *Film Business Today,* the number of video units sold from 2001 to 2009 remains, on average, less than 50% of the number of cinema admissions nationwide for the same period(366.7 million VHS and DVDs against 736.6 million cinema tickets). However, that ratio does not remain constant, since cinema attendance in Russia is generally growing, while the performance of the national video market is unstable. While the share of DVD sales compared to cinema ticket sales 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 during 2009 (to 57.9%).

Graphic 52: Share of licensed video sales against number of cinema admissions (2001-2009)



Source: Videomagazine*,* Film Business Today*, Nevafilm Research*

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

- **1990–1992**
  Prior to the fall of the USSR, the number of VCRs in households in the Russian Federation was very low. The costly technology was largely not affordable for the average 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 (nomenklatura), and symbolised an element of freedom in that they permitted a peek through 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 products condemned as 'anti-Soviet' or 'pornographic', terms which in fact covered quite a wide range of fairly innocent scenes. This did, however, lay the foundation for the further development of the country's market for licensed video. In 1986, under the auspices of the USSR's 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 advent of perestroika in the USSR, various forms of entrepreneurship in video exhibition started to

[96] This section is prepared by Nevafilm Research.

emerge: both private and state film exhibition rooms equipped with videotape recorders and TV sets appeared (operating under the management of regional film and video distribution organisations), offering motion pictures for film exhibition from video libraries. The issue of licensing the video products was of no relevance for these 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 Russian Federation, however, the number of videotape recorders in households started to grow quickly and the popularity of video film exhibition rooms waned;[97]

- **1993–1995**

  The penetration of home video technology resulted in the transformation of most video film exhibition rooms and video salons into video rental outlets. Consumers were offered more and more pirated video products; recording two films 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 began to represent Warner Bros. Studios. [98] Growth in income and the lower cost of video cassettes promoted both a transition to retail trade in cassettes of feature films and the shutdown of video rental outlets;[99]
- **1996–1997**

  The market for licensed products grew dramatically. 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.[100] A unique practice of license sales became widespread; in essence, it allowed any company or individual 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 black-market factories, 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 an increase in the production of licensed products. However, excessive supply generated by the distribution of 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;[101]
- **1998–2001**

  The financial crisis of 1998 dealt a serious blow to the development of licensed video products, reducing the number of companies operating in the market by a factor of 5 (the principal cause being that licensed video cassettes made from imported components became unaffordable for most citizens, the dollar exchange rate having skyrocketed from RUB 6.2 / USD 1 in August 1998 to RUB 20.7 / USD 1 in December). The video market was overwhelmed by a wave of mutual defaults on payments that resulted in the bankruptcies of a whole swathe 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 to change: from 1998 Video-CDs[102] began to flood the market, and in 1999 the first legally

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97 "On the History of Video Business in Russia" online article: http://www.close-up.ru/articles/detail.php?AID=7252

98 «Российский видеорынок все больше легализуется», «Коммерсантъ Власть», № 8 (70), 08.03.1994, [The Russian Videomarket Becomes More and More Legal", *Kommersant Vlast*, № 8 (70), 08 March 1994]

99 "On the History of Video Business in Russia" online article: http://www.close-up.ru/articles/detail.php?AID=7252

100 Wikipedia, "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

101 "On the History of Video Business in Russia" – http://www.close-up.ru/articles/detail.php?AID=7252

102 Wikipedia, "Motion pictures by Russian distributors" – See note 100

digitised film in DVD format was released on the market (*Die Hard 3: Revenge*).[103] DVDs were much more expensive than video cassettes at over 870 roubles per disk, as compared to 220 roubles per licensed video cassette.[104] According to data from the Russian State Statistics Agency, the average monthly nominal salary in Russia was only 1,051.50 roubles in 1998; this attests to the inaccessibility of licensed video cassettes and disks for the majority of the population. As a result, the video distribution network was resurrected throughout the country[105] and remained in place until 2005. Gradually, with the recovery of the economy and growth in disposable income, sales of licensed videos began to rise;

- **2002–2003**
  The next blow was delivered to the licensed video market in Russia by the fast growth in the number of pirated DVDs sold: licensed disks were still import-only, 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 throughout Russia, since such locations were off-limits for law enforcement (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 complete eradication). 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 pirated cassettes that were thus quickly forced off the market;
- **2004–2006**
  The first Russian plants pressing licensed DVDs appeared (the first one was the DVD Club in 2004), which brought about a drop in both wholesale and retail prices for licensed disks: while a retail licensed disk could be bought for 600 roubles at the beginning of 2004, in 2005 that figure had already dropped to 300–400 roubles (the price of a pirated disk remained at around 250 roubles).[106] At this same time, DVD-players were becoming cheaper. 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 DVDs and, in 2006, the share of VHS became negligible.[107] 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, 20th Century Fox opened an office in Russia, to support the initiatives of other studios (Universal and Sony Pictures). They recommended dropping the retail price for DVDs from RUB 299 to 199 (some library editions appeared for as little as RUB 99 per disk – for example, *Garfield* by 20th Century Fox CIS – while pirated versions were selling for RUB 100). 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 film exhibition in cinemas).[108] 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[109] with growing interest in such products by non-specialised hypermarkets that dedicated additional space to selling video. These included Auchan, Metro, Real, Lenta, O'key, 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;

103 Interview with Andrei Posadsky, president of the Association of DVD Publishers, in *Kinomechanic* № 26, 2010 (electronic version).

104 Виктор Назаров, «Приключения электроники». «Коммерсантъ Деньги», №47 (351), 28.11.2001 [Victor Nazarov, "Electronic adventures", in *Kommersant: Dengi*, № 47 (351), 28 November 2001].

105 Виктор Назаров, «Приключения электроники». «Коммерсантъ Деньги», № 47 (351), 28.11.2001 [Victor Nazarov, "Electronic adventures", in *Kommersant: Dengi*, № 47 (351), 28 November 2001.

106 According to data from Nevafilm Research.

107 According to data from *Videomagazine.*

108 http://www.tvcenter.ru/all-tv/V-2006-g-prodazhi-licenzionnyh-DVD-v-Rossii-vyrosli-vdvoe-do-42-mln-diskov/

109 itemhttp://www.tvcenter.ru/all-tv/V-2006-g-prodazhi-licenzionnyh-DVD-v-Rossii-vyrosli-vdvoe-do-42-mln-diskov/

- **2007–2008**
  The growth in sales of licensed DVDs continued, as pirated DVDs continued to be squeezed out by shrinking windows , 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, which released *Casino Royale* for Sony Pictures in April 2007). In 2008 the first Russian manufacturer of Blu-Ray disks appeared: the Russian company Lazer Video Multimedia opened a production line for Blu-Ray disks at its plant. In a single year the company put out 15 releases, not only commercially-successful new releases, but also TV series not otherwise distributed. On the negative side, expansion of broadband Internet during the period resulted in the rapid growth of Internet piracy, affecting sales of both licensed and pirated DVDs, particularly in Moscow and St. Petersburg;
- **2009–2010**
  In 2009, video sales plummeted due to the global economic crisis. The sales downturn in Russia was a direct result of the general deterioration in consumer spending power, the return of pirated DVD sales through large specialized networks, and further penetration of broadband Internet in the Russian regions. 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 RUB 300 in 2008 to RUB 400 in 2009[110]) while catalogue editions became cheaper (Universal Pictures Russia announced a large-scale mark-down of library titles in May 2009[111]). At the same time, majors are offering Blu-Ray disks at an average of RUB 800, although changes are afoot here as well: in June 2009, 20th Century Fox CIS offered releases from its library at RUB 450, generating violent reactions from other players of the Blu-Ray market. In autumn 2009, most of the major companies began to lower prices and to offer special deals to retail customers. The lowest prices were established by the distributors CP Digital and Flagman Trade (RUB 312/350 per Blu-Ray disk respectively). Prices for West Video, Lizard Cinema Trade and Paradise Video were lowered to around RUB 500-600 per disk. The trend towards reducing the price of the new format could also be observed among Russian representatives of majors; following 20th Century Fox CIS, Videoservice (which releases Sony Pictures films in Russia) dropped its prices to RUB 1000 per disk. However, Universal Pictures Russia and the Walt Disney Company CIS left prices at their previous level (RUB 1,200-1,400[112]). Meanwhile, in 2009 there were already two plants duplicating Blu-Ray disks – DVD Club and Lazer Video Multimedia, with the latter also carrying out mastering for disks in the new format.

Number of DVD players in households

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 of all households with TV sets had DVD players as well. The market penetration of DVD players was affected by their falling prices, which made the players affordable and led to a fall in the price of licensed disks.

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

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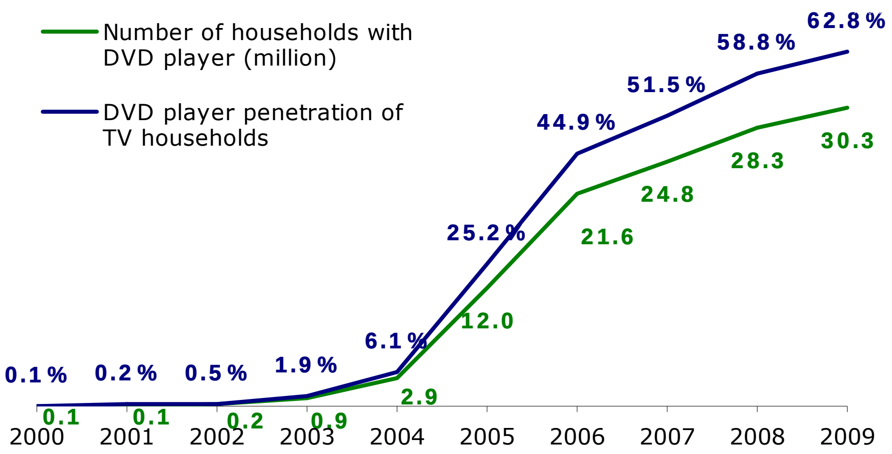
110 According to data from Nevafilm Research.
111 http://www.uprpress.ru/
112 According to data from *Video Market Bulletin*.

Graphic 53: Spread of DVD players in Russia (2001-2009)



Source : Screen Digest

Market volume for licensed DVDs

Statistics for DVD sales in Russia have been compiled by the industry publication *Videomagazine* since 2003, 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 in the market and transaction numbers exclusively. Despite the fact that many estimates of the average price of DVDs in Russia and of the monetary value of the market appear in the media and in various studies, the estimates vary so widely that it appears practically impossible to reliably estimate the turnover of the country's licensed video market.[113] Furthermore, estimates of the capacity of the licensed market are also influenced by the sales volumes for unlicensed video production. Consequently, here we will only be considering the market for licensed DVDs, as expressed in the number of disks sold.

In all, according to data from *Videomagazine* and *Video Market Bulletin,*[114] in 2008 the major distributors released 1911 titles to the Russian licensed DVD market, but 19% fewer in 2009 – only 1550 releases. Thus the economic crisis appears to have affected the number of titles released on video in Russia.

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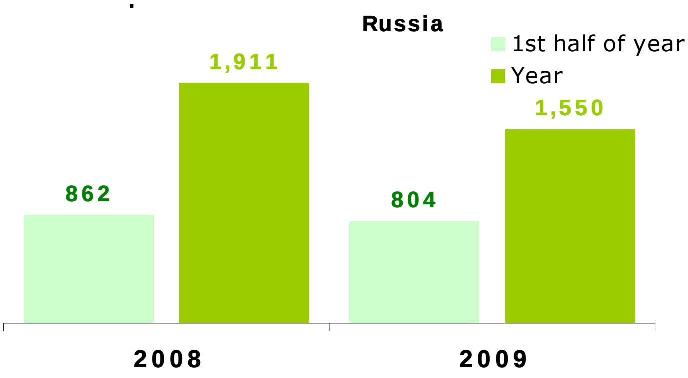
[113] Even *Screen Digest,* which publishes estimates of the global volume of video sales, declines to offer a monetary estimate of the turnover of black market trade – "World video spending stabilises", November 2008, issue № 446.

[114] Lists of video releases to the Russian market are traditionally published by *Videomagazine*. In spring 2008, the Metropolitan E.R.A. began to track video releases in its electronic publication, *Video Market Bulletin*. Comparative analysis of these two sources indicated that the lists of releases show some discrepancies, both in terms of the number of titles and the publishing companies listed therein – since the data in the lists is published based on the information provided by the video distributors themselves. Nevafilm Research estimates a 30% discrepancy between the lists of releases in *Videomagazine* and *Video Market Bulletin*. This index was used to adjust the data on the number of video releases to the Russian market in 2009.

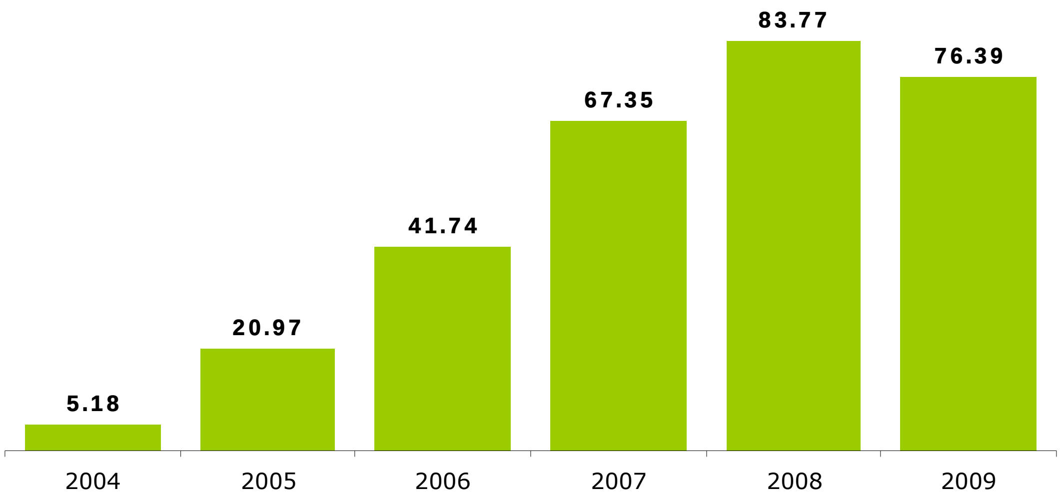
Graphic 54: Number of licensed DVD releases in Russia



Source: Videomagazine, *Nevafilm Research (estimates for 2009)*

Sales of licensed DVDs also fell back during the first six months of 2009: according to *Videomagazine*, 76.4 million disks were sold as opposed to 83.8 million over the whole of 2008. Thus, according to 2009 results, the overall level of DVD sales in Russia fell for the first time – by 9%, against a background of 25% growth in 2008 and 61% in 2007.

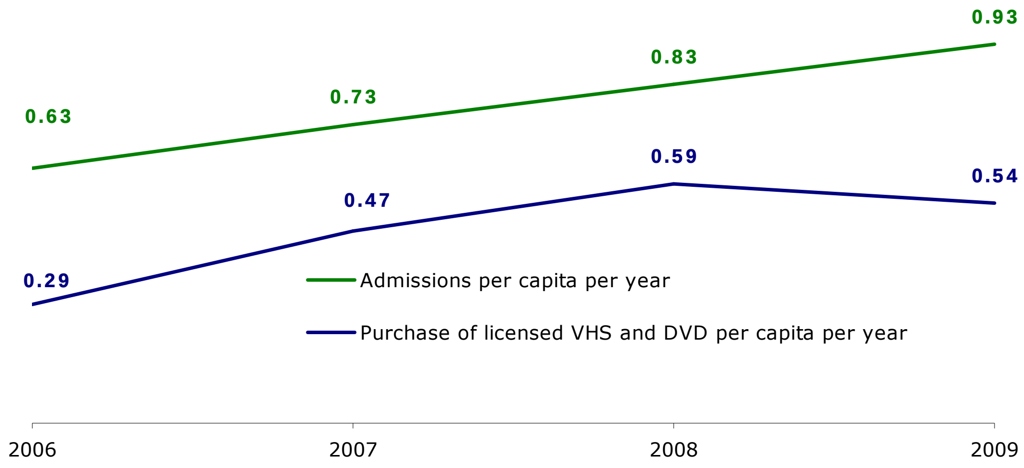
Graphic 55: Volume of licensed DVD retail in Russia In million units (2004-2009)



Source: Videomagazine

The average per capita consumption of licensed DVD disks is also decreasing: in 2009 the average was 0.54 disks per year per person, which is 9% lower than the 2008 level. This attests to the growing role of pirated video products in Russia. It is also interesting that in comparison 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, unlike cinema admissions, is falling quickly.

Graphic 56: Level of video and cinema consumption in Russia (2006-2009)

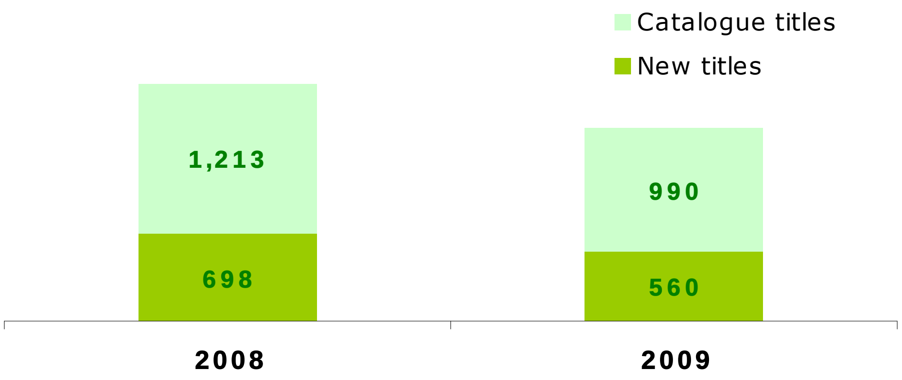


Source: Videomagazine, Film Business Today, *Nevafilm Research*

Market structure by age of release

Analysis of data on releases by Russian video distributors over 2008–2009 shows that the Russian market is dominated by releases from the film distribution catalogues (defined as films produced before 2007 for 2008 releases, and before 2008 for 2009). At the same time the share of new titles (the production of which was finished in 2008 and 2009) released to DVD compared to 2008 showed virtually no change, remaining at approximately 36%.

Graphic 57: Licensed DVD market by newness of releases

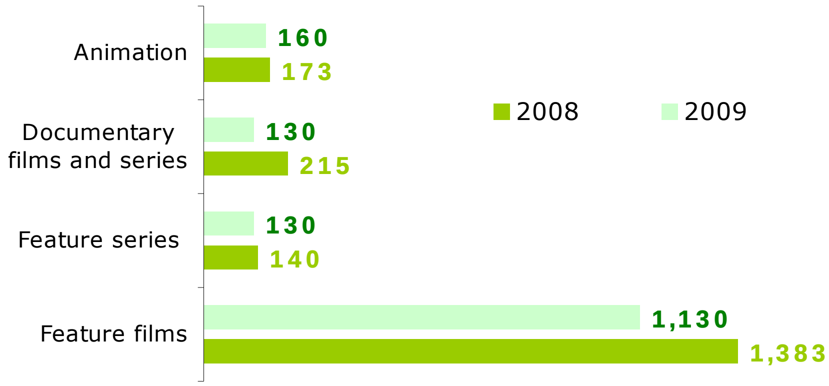


Source: Videomagazine, *Nevafilm Research (estimates for 2009)*

Releases by product type

Feature films dominate (72–73%) among the types of video products released to DVD in Russia. Feature TV series make up 7–8% of the market; documentary films and series accounted for 11% of the market in 2008 and 8% in 2009 (educational and entertainment programmes were included in this group); animation accounted for 9% in 2008 and 10% in 2009. Thus the structure of the Russian licensed DVD market is strongly feature-film oriented.

Graphic 58: Licensed DVD market by type



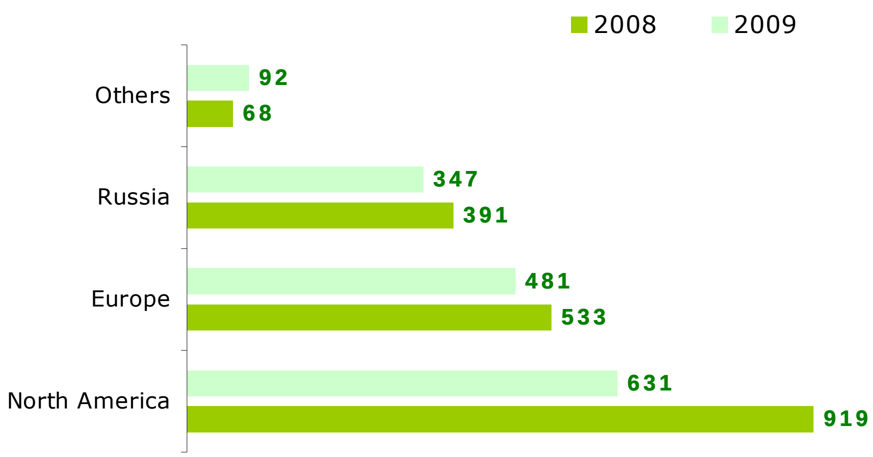
Source: Videomagazine, *Nevafilm Research (estimates for 2009)*

Leading companies to release feature films to DVD in Russia are CP Digital, Paradise Video and Carmen Video. Television serials are put out on video in Russia mainly by CP Digital, Walt Disney Company CIS and Lizard Cinema Trade. Soyuz Video is by far the leader in releasing documentary serials; it is also the main provider of animation on licensed DVD (second place in the ranking for distributors putting out animated films and animation series on video is divided between the major distributors Universal Pictures Russia and Walt Disney Company CIS).

DVD market structure by origin of titles

Russian-made releases made up 20.5% of the licensed video market in 2008 and 22.4% in 2009. Among foreign releases, North American titles predominate (40.7% of releases in 2009, 48.1% in 2008), but at 31%, the share of European titles is also significant (based on results for 2009 [27.9% in 2008]). But the share of releases from other countries, including the Asia region (not including co-production) is relatively low – in 2008 it was only 3.5%. However, in 2009 the share of releases from this region grew to 5.9%.

Graphic 59: Licensed DVD market by origin of video production (number of releases)



Source: Videomagazine, *Nevafilm Research (estimates for 2009)*

Licensed DVD market leaders in Russia

Videomagazine has been compiling a ranking of distributors operating on the licensed DVD market in Russia since 2006, using a points scale that takes into account film title sales by each company and the number of disks sold over the respective week.[115]

The market leaders in the ranking remained unchanged over the period from 2006 to 2009. 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 in the Russian market). The second spot is held by CP Digital (the exclusive distributor of products by the Russian Central Partnership company, except films by Paramount). During 2006 and 2007 the third position in this list was occupied by VideoService, but in 2008 20th Century Fox CIS knocked it out of the leading trio. The success of 20th Century Fox in the Russian DVD market stems from a reorganisation 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 44: Top 10 DVD distributors by retail volume (2006-2009)

No.	Leading distributors			
	2006	2007	2008	2009
1	Universal Pictures Russia	Universal Pictures Russia	Universal Pictures Russia	Universal Pictures Russia
2	CP Digital	CP Digital	CP Digital	CP Digital
3	VideoService	VideoService	20th Century Fox CIS	VideoService
4	VOX Video	20th Century Fox CIS	VideoService	20th Century Fox CIS
5	20th Century Fox-CIS.	VOX Video	Music Trade	Flagman Trade
6	Soyuz Video	Soyuz Video	Paradise-VS	Walt Disney Company CIS
7	Twister Digital Video	Paradise Digital	Soyuz Video	West Video
8	Lizard Cinema Trade	West Video	VOX Video	Paradise Video
9	Pervaya Videokompaniya [First Video Company]	Lizard Cinema Trade	Misteriya Zvuka [The Mystery of Sound]	Misteriya Zvuka [The Mystery of Sound]
10	West Video	Misteriya Zvuka [The Mystery of Sound]	Nastroenie Video [Mood Video]	Soyuz Video

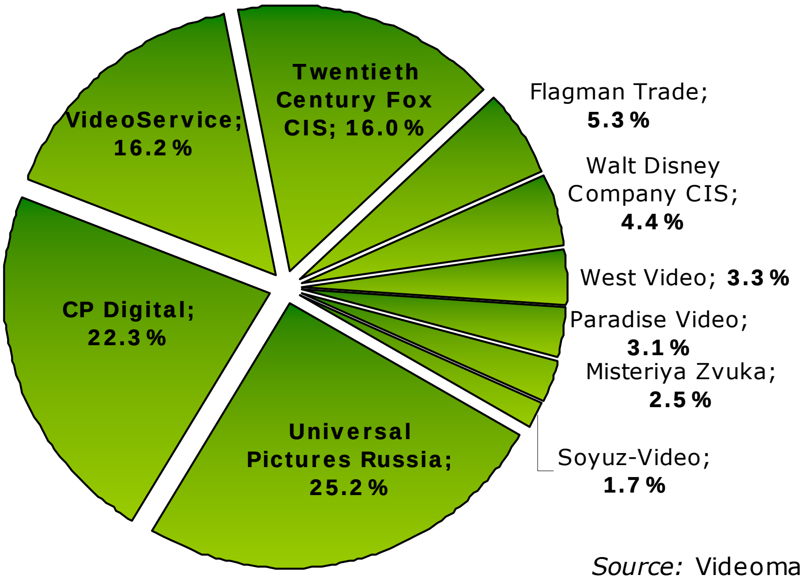
Source: Videomagazine

In 2009, *Videomagazine* changed the way it rated the Russian licensed DVD market; the ranking was now conducted on the basis of the share of each distributor in the overall volume of sales. Thus, in 2009 Videoservice once again found itself ranked third among the ten leaders, while 20th Century Fox CIS dropped to fourth place. The new companies Flagman Trade and Walt Disney, which appeared in the Russian video market in 2009, managed to take fifth and sixth place respectively among the ten top distributors. The rankings for Paradise Video (previously Paradise Digital and Paradise VS) and Soyuz Video decreased: these distributors lost two and three positions respectively, while the latter now occupies tenth place in the list of leading companies. The return of West Video to the top ten

[115] "Video in Russia: 2006 results": http://www.kinobusiness.com/content/view/74/91/

companies should also be noted; according to 2009 totals, it took seventh place. The leaders remained unchanged: Universal Pictures Russia was in first place with 25.5% of the overall sales volume, and CP Digital took second place with 22.3%.

Graphic 60: Leaders in the Russian DVD distribution market by market share in 2009



Source: Videomagazine

Fourteen releases by Universal Pictures Russia number among the 50 top titles from 2009, while CP Digital had ten; third in the ranking was VideoService with eight releases.

Table 45: Leading distributors by DVD retail volume (2006–2009)

No.	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
2009		
1	Universal Pictures Russia	14
2	CP Digital	10
3	VideoService	8

Source: Videomagazine

Traditionally, the ten top-selling disks include no fewer than three Russian films; there were five in 2008 and four in 2009. The rest of the top ten is formed exclusively by US motion pictures or US - European productions. All titles in the list are newly released and widely advertised blockbusters.

Table 46: Top 10 licensed DVD titles by sales in Russia (2006–2009)

No.	Title	Origin of production	DVD distributor in Russia
2006			
1	Garfield: A Tail of Two Kitties	USA, UK	20th Century Fox CIS
2	The Fast and the Furious: Tokyo Drift	USA, Germany	Universal Pictures Russia
3	Day Watch	Russia	Pervaya Videokompaniya [First Video Company]
4	Piter FM	Russia	VOX Video
5	Ice Age 2: The Meltdown	USA	20th Century Fox CIS
6	Crank	UK, USA	Central Partnership, VOX Video
7	Pirates of the Caribbean: Dead Man's Chest	USA	VideoService
8	Svolochi	Russia	VOX Video
9	Dobrynya Nikitich and Zmey Gorynych	Russia	Soyuz Video
10	The Departed	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	Paragraph 78: Film Two	Russia	Central Partnership, CP Digital
5	Casino Royale	USA, UK, Germany, Czech Republic	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	The Mummy: Tomb of the Dragon Emperor	Germany, USA	Universal Pictures Russia
2	The 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	We are from the Future [My iz Budushego]	Russia	VOX Video
8	Hancock	USA	VideoService
9	What Happens in Vegas	USA	20th Century Fox CIS

No.	Title	Origin of production	DVD distributor in Russia
10	Hellboy II: The Golden Army	USA, Germany	Universal Pictures Russia
	2009		
1	Taras Bulba	Russia	CP Digital
2	Twilight	USA	West Video
3	Angels and Demons	USA	VideoService
4	Ice Age 3: Dawn Of The Dinosaurs	USA	20th Century Fox CIS
5	Hipsters [Stilyagi]	Russia	CP Digital
6	X-Men: Wolverine	USA	20th Century Fox CIS
7	Night in the Museum-2	USA, Canada	20th Century Fox CIS
8	High Security Vacation [Kanikuly strogogo rezhima]	Russia	Flagman Trade
9	Australia	USA, Australia, UK	20th Century Fox CIS
10	Obitaemyy Ostrov [The Inhabited Island]	Russia	CP Digital

Source: Videomagazine, *imdb.com*

3.5.2 Principal trends

Recovery of licensed video sales

After the fall shown in trends for 2008 and the first half of 2009 (confirmed by market participants' observationsthat sales volumes had dropped on average by 25% and were nearing 2007 levels),[116] the number of licensed disks sold once again began to rise from the end of last year. Over the period of February-May 2010, the level of DVD sales reached 2008 indicators; the subsequent summer drop can be explained by the traditional seasonal factor, which actually turned out to be less substantial in 2010 than in 2008-2009. Thus, it can be concluded that overall, the effects of the economic crisis on the Russian licensed DVD market were overcome this year.

Graphic 61: Annual volume of video retail in Russia, thousand units (2008-2010)

Source: Videomagazine

[116] Ольга Гончарова, Ирина Парфентьева, «Пираты раскрутили диски», «Коммерсант», 19.03.2009 [Olga Goncharova, Irina Parfentieva, "The Pirates have Spun the Disks", *Kommersant*, 19 March 2009].

Video piracy

The market for DVD sales in Russia dates from 1999, and since the disks themselves and the devices that could play them were quite expensive at first, this market was beyond the field of vision of video pirates working with video cassettes. But by 2002 the situation had changed dramatically – thanks to the appearance of Chinese DVD players for sale, pirates immediately switched to the new format and occupied 97% of the market. At that moment, the major DVD publishers created their own association, aimed at fighting physical piracy in the audio-visual sphere.[117] In addition, the non-profit organisation RAPO (representing the interests of the Hollywood majors) had been actively fighting piracy since 1997. The main tasks of these associations were to uncover illegal activity (at all levels of the chain – from production, primarily recording in cinemas, duplicating and distributing unlicensed disks), as well as to conduct special training sessions for members of law enforcement agencies on the detection and identification of pirated products .

As a result of this sort of anti-piracy activity, and thanks to a toughening-up of criminal liability for distribution of counterfeit goods and increased police raiding – in conjunction with the beginning of Russia's accession negotiations with the WTO – by 2008, distinct progress had been made in the fight against piracy in Russia.[118] In spring 2009, the Association of DVD Publishers estimated the share of pirated products on the Russian DVD market at approximately 75–80% of the total volume of video sales.[119] The Aventa-Info company, which specialises in intellectual property rights, makes a similar estimate: according to data from mid-2009, the share of counterfeit audio-visual disks amounted to around 85% of the total volume of goods represented on the market.[120] Proceeding from these estimates and the known level of legal sales, it can be concluded that the turnover of the pirated DVD market for 2009 was somewhere between 134-141 million disks.

Interestingly, the appearance of the Blu-Ray format on the market was accompanied by the immediate availability of pirated disks. However, according to RAPO data, pirates are not selling genuine Blu-Ray disks, but rather two counterfeit versions: BD-R blanks without original menus, or DVD9s printed on ordinary DVDs and playable on computers (where special coders are present) and PlayStation 3 consoles.[121]

At the same time, the spread of broadband Internet in Russia has led to ever greater levels of piracy on the web, leaving sales of unlicensed video formats to pale into the background. This means that the methods for protecting audio-visual products have to change as well: even today, the main efforts in the fight against the production and distribution of pirated DVDs and Blu-Ray disks are still being made by RAPO alone, while other anti-piracy organisations offer protection services for Internet-based content; there are even some commercial companies that specialise in providing this service (for more details, see section 3.6).

Blu-ray

Films have been released in Russia in Blu-Ray format since 2007: the first was Sony Pictures' *Casino Royale*, released in April 2007 by VideoService. In 2008, the number of releases in the new format grew to 94, and in 2009 already 171 Blu-Ray films were released; from January to July 2010, there were 74 Blu-Ray films released in Russia (versus 54 during the first half of 2009), which attests to the further growth of the market and the advancement of the new format.

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117 Interview with Andrei Posadsky, president of the Association of DVD Publishers, in *Kinomechanic* № 26, 2010 (electronic version).

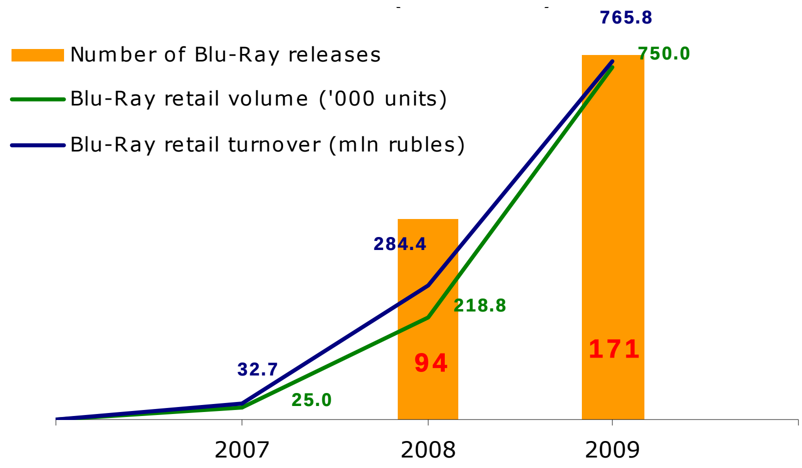
118 Роман Дорохов, «Пираты спрятались», «Ведомости», 16.05.2008 [Roman Dorokhov, "The Pirates have Gone into Hiding", in *Vedomosti*, 16 May 2008].

119 Ольга Гончарова, Ирина Парфентьева, «Пираты раскрутили диски», «Коммерсант», 19.03.2009 [Olga Goncharova and Irina Parfentieva, 'The Pirates have Spun the Discs', in *Kommersant*, 19 March 2009].

120 Иван Петров, «Без знака качества», «РБК Daily», 21.08.2009 [Ivan Petrov, "No seal of quality", in *RBC Daily*, 21 August 2009].

121 "Russian Anti-Piracy Organisation: The Crisis is Not Hindering Our Work", Krupny Plan [Close-up] website, 25 March 2009.

Graphic 62: Volume of Blu-Ray detail in Russia, thousand units (2007-2009)



Source: Screen Digest, Videomagazine, *Informkino*

In 2009 and the first half of 2010, Universal Pictures Russia, 20th Century Fox CIS and CP Digital maintained their leading positions for Blu-Ray releases on the Russian market (collectively, they account for more than 60% of the overall release volume). VideoService, which releases Sony Pictures films in Russia, and the Walt Disney Company CIS, which appeared on the market in 2009 close the list of the five leading companies in terms of Blu-Ray releases (according to totals for the first half of 2010). Thus, the leading position in this segment of the video market is still held by representatives of the majors. The share of independent Russian distributors is less than 20% of the total volume of films released on Blu-Ray.

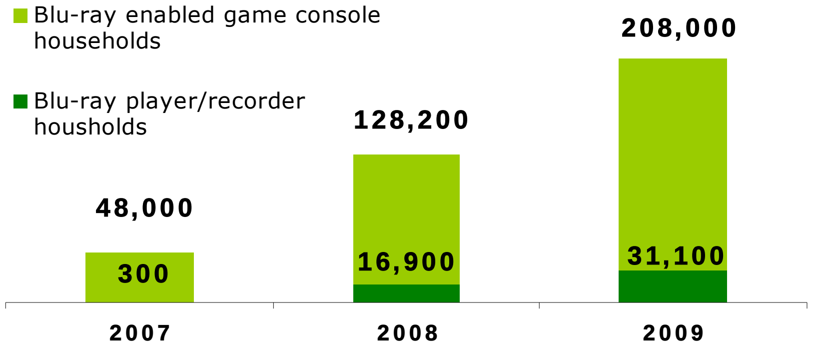
Table 47: Blu-Ray disc releases in Russia in 2009–2010

No.	Company	Number of Blu-Ray releases		2010 Share
		2009	1 January – 1 July 2010	
1	Universal Pictures Russia	70	24	32%
2	CP Digital	20	14	19%
3	20th Century Fox CIS	42	10	14%
4	VideoService	6	6	8%
5	Walt Disney Company CIS	12	6	8%
6	Paradise Video	7	5	7%
7	Noviy Disk [New Disk]	-	4	5%
8	Misteriya Zvuka [Mystery of Sound]	4	2	3%
9	Soyuz Video	5	2	3%
10	Flagman Trade	-	1	1%
11	West Video	1	-	-
12	Monolit	1	-	-
	Total:	**171**	**74**	**100%**

Source: Videomagazine, Video Market Bulletin

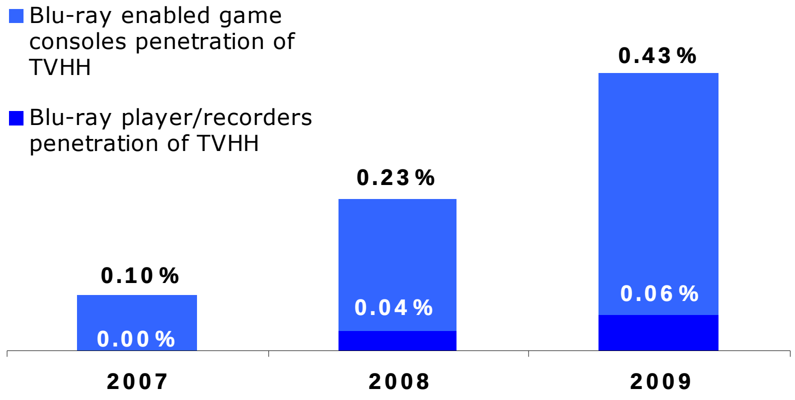
The number of Blu-Ray players in Russia is growing constantly. And, while in 2007 and 2008 the Blu-Ray format was predominantly marketed as Blu-Ray-enabled games consoles, in 2009 special Blu-Ray players/recorders became more popular.

Graphic 63: Blu-Ray player/recorder and game console households inRussia (2007-2009)



Source: Screen Digest

Graphic 64: Penetration of Blu-Ray units in Russia (2007-2009)



Source: Screen Digest

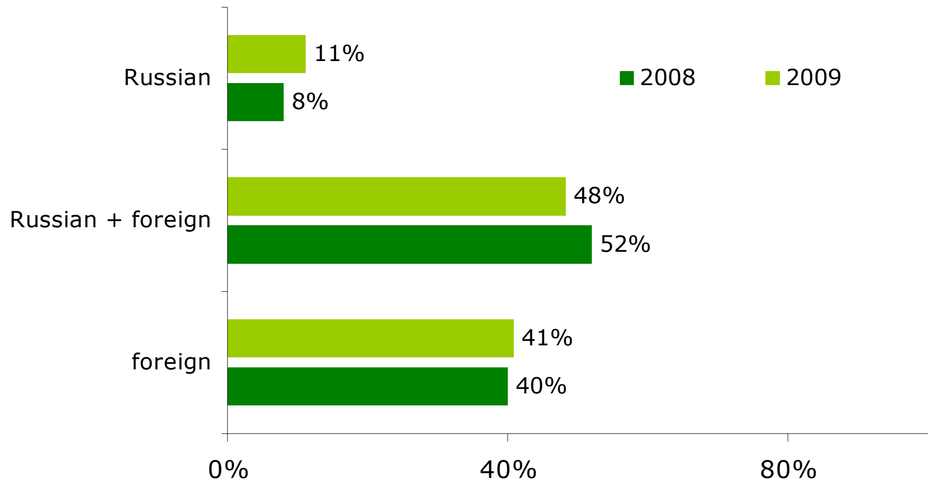
3.5.3 Principal players

Overall, the Russian licensed DVD market numbers fewer than 30 players, including:

- representatives of the Hollywood majors (20th Century Fox-CIS – 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 CIS – in the market since January 2009; VideoService – in the market since 1992 and representing the interests of Sony Pictures since 1997; also represented Walt Disney Pictures between 2002 and 2008);
- Russian companies that specialise exclusively in Russian releases (Krupny Plan [Close-up] manages releases from the catalogues of the Russian film studios Mosfilm, Soyuzmultfilm, Lenfilm and Gorky Film Studio in collaboration with the companies Soyuz Video and Lizard Cinema Trade);
- Independent video distributors that offer a wide range of Russian and foreign releases (Paradise Video, CP Digital, Karmen Video, Lizard Cinema Trade, Misteriya Zvuka [Mystery of Sound], Flagman Trade, 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: three companies work with Russian video content, 13 handle foreign films exclusively, while 11 handle both foreign and Russian films.

Graphic 65: Russian video distributors by origin of released video production



Source: Videomagazine, Video Market Bulletin

Table 48: Ranking of Russian DVD distribution market players by number of releases in 2009

No.	Distributor	Number of releases between 1 January and 31 December 2009					
		Feature films	Feature series	Documentary films and series	Animation	Total	Distributor's share
1	Soyuz Video	86	2	100	48	**235**	15.3%
2	CP Digital	164	42	5	9	**220**	14.3%
3	Paradise VS (Paradise Video)	159	0	27	10	**196**	12.8%
4	Carmen Video	123	12	5	3	**143**	9.3%
5	Universal Pictures Russia	94	9	0	29	**132**	8.6%
6	Nastroenie Video [Mood Video]	101	0	0	0	**101**	6.6%
7	Walt Disney Company CIS	32	17	0	29	**78**	5.1%
8	Sigma Film	71	1	0	0	**73**	4.7%
9	VideoService	51	8	7	3	**68**	4.5%
10	Lizard Cinema Trade	45	13	0	4	**61**	4.0%
11	Krupny Plan [Close-up]	29	3	0	10	**41**	2.7%
12	Cinema Prestige	33	1	1	4	**39**	2.5%
13	Flagman Trade	21	3	0	1	**25**	1.6%
14	Misteriya Zvuka [Mystery of Sound]	13	2	2	8	**25**	1.6%
15	20th Century Fox CIS	14	0	2	3	**19**	1.3%
16	Music Trade	11	5	0	3	**19**	1.2%
17	Amalgama Company	13	0	0	0	**13**	0.8%
18	Ruscico	13	0	0	0	**13**	0.8%
19	Bely Slon [White Elephant]	7	0	1	0	**8**	0.5%
20	Videoimpulse	5	0	0	0	**5**	0.3%
21	Luxor	5	0	0	0	**5**	0.3%
22	Russkiy Reportazh [Russian Reporting]	5	0	0	0	**5**	0.3%
23	Pervaya Videokompaniya [First Video Company]	0	1	3	0	**4**	0.3%
24	West Video	4	0	0	0	**4**	0.3%
25	Reanimedia	0	0	0	2	**2**	0.1%
26	Noviy Disk [New Disk]	0	0	0	1	**1**	0.1%
27	Film-Prestige	1	0	0	0	**1**	0.1%

Source: Videomagazine*,* Video Market Bulletin*, Nevafilm Research (2009 estimates)* [122]

[122] Number of releases by company adjusted on the basis of a comparison of the *Videomagazine* and *Video Market Bulletin* lists.

3.6 VIDEO ON DEMAND SERVICES IN RUSSIA[123]

3.6.1 Structure of the VoD market

Origins

The first VoD service in the Russian market began operation on 07 September 2006. The service was made available through Sistema Mass-Media, a subsidiary of Sistema, using the Stream-TV brand via IPTV over ADSL technology. At first, VoD services were provided using the PPV (pay-per-view) business model. The viewer would choose a convenient viewing time from the suggested schedule and, having paid USD 1.95, could watch one of the available films. Then the service was transformed: the subscriber was now able to watch the film at any convenient time; pause, rewind, and repeat viewing functions became accessible; the service began to be offered as part of the 'Platinum' premium package (unlimited Internet and access to video content). The company invested USD 700,000 in implementing the VoD system.

Two months after the launch of Stream TV, another major Moscow paid-television operator – ComCor-TV, a subsidiary of Renova Media – offered its subscribers near-VoD. ComCor provides digital television services and Internet access through its subsidiary Akado. The 'Home Cinema' service provided subscribers with the opportunity to order films by telephone; the cost to view a film was RUB 60-70.

In 2006-2007, nearly all the paid television operators in Russia began developing business plans for implementing VoD services. Marketing directors of companies on the paid television market projected that VoD services would be a large-scale phenomenon by 2008.[124] Operators of Russia-wide paid television networks (excluding satellite TV companies) were going by statistics from Stream-TV; in 2007, nearly 30% of its subscribers were using VoD services at least once a month. That is, paid TV operators were counting on a potential VoD monthly audience of 4 million users (as at the end of 2007 – 30% of the 13.5 million paid cable TV subscribers in Russia), or on revenue of around USD 96 million per year (about USD 2 for a film per month, multiplied by 4 million users, multiplied by 12 months).

Sistema Mass-Media (the Stream-TV brand) was even more optimistic about the service's potential. They calculated that up to 50% of paid TV subscribers would order VoD services at least once a month. Other companies were less optimistic and assumed that no more than 5-10% of subscribers would use the VoD service. They explained their assessment by the fact that the majority of viewers prefer to watch new releases on the big screen (in cinemas), or to rent videos on DVD for prices lower than USD 1/day.

In 2008, market analysts expected an explosive increase in announcements on the launch of VoD projects in Russia. Nevertheless, they were quite cautious in estimating the timeframe for returns on investments: most of them assumed that the VoD projects launched in Russia in 2007 would begin to pay themselves off no earlier than 2010.[125]

Over the course of 2007-2008, the following federal and regional paid television operators announced and launched test runs of VoD services:

- **Stream-TV** - as of November 2007, ceased providing unlimited access to VoD services and shifted subscribers to a pay-per-view system;
- **Akado** - announced the launch of Full VoD at the close of 2008, while continuing to offer its home cinema near-VoD services;

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123 This section is prepared by Groteck.
124 According to data from the "Digital Television in Russia" study conducted by Groteck at the request of the European Audiovisual Observatory in 2007-2008.
125 Item

- **ER-Telecom Holding** - began providing VoD services in 2007 to subscribers to their digital TV service (the Divan-TV brand). According to predictions from the company's finance department, it was planned that by 2012-2013 the share from VoD service provision would reach 15% of the company's overall revenue;
- **National Cable Networks,** with a subscriber base of over 4 million, were planning to have their subsidiary Mostelecom enter the VoD market in 2009, with the intention that it become the largest VoD player in Russia;
- **Multiregion** announced pilot projects in two major Russian cities for 2008. Following their completion, it was planned to launch VoD services into full-scale commercial operation in the company’s networks in cities throughout Russia;
- **Corbina Telecom** (now Beeline TV) - in 2008, Corbina announced its intention to provide access to both films and other video content;
- **Central Telegraph** (a subsidiary of Svyazinvest, the Russian fixed-line telephone service monopolist), which provides Internet access and digital TV services in Moscow and the surrounding area under the QWERTY brand, launched a test-run of its VoD service in 2008, providing the service as a bonus to subscribers of the QWERTY.NET+TV package.

VoD services were also actively implemented by the Svyazinvest regional subsidiaries **Southern Telecommunications Company**, which provides digital TV services under the DiSel TV brand in Russia's Southern federal district, and **Northwestern Telecom**, which provides digital TV services under the Avangard TV brand in the Northwestern federal district. At the time, regional companies were focusing on the service's accessibility and its competition with video rental prices. In 2007, Southern Communications Company (STC), for instance, offered the right to watch one film for USD 0.8 for 12 hours.

One more regional paid television operator, well-known throughout Russia, began offering VoD services at the time, in 2007: the Krasnoyarsk-based telecommunications operator Norilsk Telecom. This company, unlike the others, positioned its VoD service at the premium end of the market: one viewing cost USD 4 (compared to USD 2 with most of the federal and Moscow operators).

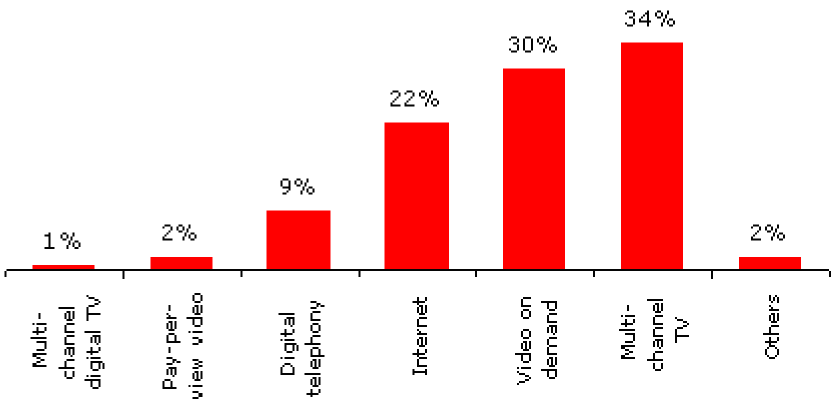
Faith in VoD's commercial potential was so high in 2007-2008 that a number of "minor" cable TV market players announced the launches of their projects:

- the **Infoline** company (brand name SMILE), the leading provider of broadband and multiservice services in the Moscow region;
- the Moscow-based operator **Vimcom TV**, part of the Vimcom group (developed a VoD system of on-demand services for tourists staying in Moscow hotels);
- the **Webflix.ru** company announced the launch of a new service at the end of 2007: on-line viewing of films on demand.

The general euphoria over VoD in 2007 even took hold of the expert community. The majority of experts considered paid video services to have the greatest potential for increasing multiservice network operator revenue.

However, by the end of 2008 the euphoria had passed for both the cable television market players and the experts; it was time to come back down to earth.

Graphic 66: Most promising areas for service providers



Source : Report 'Digital TV in Russia', conducted by Groteck for European Audiovisual Observatory 2007–2008

Current conditions

One of the main characteristics of the Russian VoD market today is the service's lack of distinct parameters. Market players and experts have not yet arrived at a consensus as to what video on demand actually is. Understood in a strict sense, as accepted in this research, **VoD indicates access to films, film clips, individual programmes or live coverage of individual events (both cultural and sporting) with payment for each viewing.** That is, classic video-on-demand services do not assume subscription to channels, and also do not include viewing free content (where the operator receives profit from traffic alone).[126] In this sense, the part of the mobile operators' revenue that comes from providing access to video content (which is payment for traffic), and the part that is generated from viewings of free video content can also not be included in the overall market volume. However, at present reporting by research companies and the market players themselves does not allow for the clear division of earnings from the actual VoD service and the payment for traffic during the customer's use of this service.

One more rather important point: Revenue received from customers of the "mobile" segment of video-on-demand services is distributed amongst a large chain of participants in the creation and provision of the service. At least two parties in the process are recipients of funds – the content aggregators and the mobile network operators. Additionally those responsible for selecting content pass part of their profits to the creators of the video content as well.

In the cable TV segment, there is, on the contrary, no VoD service production chain. Every operator offering VoD services is obliged to come to an independent agreement with content providers when forming its film library. Hence the meagre offerings (the libraries mainly feature Soviet films, cartoons or serials shown on direct-broadcast television several years back). New films recently featured in cinemas and other exclusive content are thus far largely inaccessible to cable TV operators.

And finally, the Russian VoD market in the cable TV segment is experiencing colossal pressure from two gigantic forces that are distributing a tremendous range of high-quality films for free in Russia. On the one hand, these are the direct-broadcasting channels that have enough resources to purchase films and serials from Russian and foreign majors; they return the invested funds through sales of advertising time during broadcasts of "blockbusters". On the other hand, there are the Russian file-sharing networks, which carry no expenses for purchase of content when uploading contraband

[126] At the same time, free VoD services have recently begun to enjoy wide distribution in Russia. The services allow users to view full-length films and serials, basing their business model on receiving revenue from advertisements placed in the body of the content (i.e. which the viewer is required to watch). In this case, advertising earnings are not considered profit for the operator from the traffic acquired by the user, and are shared with the holder of the content copyright.

copies onto the web, and which provide broadband access users with virtually unlimited opportunities to download almost any video content for free.

The sole competitive niche available for VoD on Russian cable TV networks could be exclusive, ultra high-quality content, which could not be viewed on direct-broadcast TV (or on channels offered by the cable operators themselves) and which would require very lengthy searches in file-sharing networks. The potential user would probably appreciate the quality and be prepared to pay for the convenience. The existing VoD model in the cable TV operators' networks, essentially staking everything on the model "pay us for the same thing that you can get elsewhere for free", is hardly able to bring profits to the operators or to promote rapid development of the market.

3.6.2 Technological state of infrastructure for development of the VoD market

The basic channels today for delivering video signal to Russian customers are:

- direct-broadcast analogue television broadcasting;
- direct broadcasting in digital format (DVB-T), as represented by pilot projects of the Federal target programme for the transition to digital direct broadcasting, planned for the period to 2015;
- cable television in analogue format;
- cable television in digital format (via copper, fibre-optic and coaxial networks using DOCSIS);
- fixed telephone line (xDSL, Ethernet/MetroEthernet technologies, including with activation of IPTV capabilities);
- satellite television in satellite operators' networks;
- "wireless cable" - paid television using MMDS technology (operators will be forced to cease operations as part of the programme to free up frequencies for Russia's transition to digital broadcasting in 2015);
- distribution of video content in mobile operators' networks and mobile TV (via GPRS/EDGE and 3G networks, and also experimental broadcasting in the DVB-H format);
- digital broadcasting and distribution of video content over the Internet.

The necessary technological conditions for providing video-on-demand services are:

- high bandwidth, allowing for various content to be made available in streaming mode to a large number of users (rather than only pre-formed programme packages, identical for all users);
- the presence of a powerful return channel that will allow interactive viewing mode (that will provide not only for ordering films/video clips, but also pause, slow, rewind and fast-forward functions);
- the presence of possibilities for additional services accessible to the user (activation / deactivation of dubbing, choice of subtitle language, etc.).

Furthermore, the operator must invest in sufficiently powerful IT infrastructure, including storage servers and video content processing, various service platforms (bundles), systems for coding/decoding content, up-to-date billing and inter-platform software (MIDDLEWARE) that must take all elements of the system into account, including:

- user portal;
- the provision of basic and additional services;
- management of the entire distribution chain;
- security;
- user registration;
- content management and distribution.

It is clear that there are only four video signal distribution media suitable for providing full-fledged VoD services:

- cable TV operator networks;

- fixed telephone line networks (xDSL in IPTV mode)
- Internet provider networks;
- mobile operator networks.

All the networks without return channels (or whose return channels are too weak) must necessarily be excluded from the list of networks suitable for providing VoD services. We will devote individual attention to the condition of operator networks in Russia for each of the three VoD Ready segments.

Cable television network operators and telecommunication operators

The Russian cable television market is unusual in that the overwhelming majority of subscribers are still signed up for analogue television (via outdated distribution networks left to cable TV operators from Soviet times). Analysts have yet to reach consensus as to what share of the market is occupied by digital television in the total cable television volume in Russia. According to data from J'son & Partners Consulting, in 2009 only 0.12 million Russian households were connected to digital cable television networks. Experts in the field believe that this number is nearly ten times higher – up to 1 million subscribers. This assessment seems more realistic, and so we will be using the estimate of 1 million digital cable TV subscribers in further calculations.

The expert community cannot agree as to which technologies are preferable for providing VoD services in Russia, either. Some believe that the DOCSIS and xDSL technologies used by quite a large number of major operators allow for the deployment of fully-fledged, commercially viable VoD projects. Others – and there are increasingly more of these experts – consider that only IPTV over Ethernet provides the operator with the possibilities to deploy full VoD services for a large customer base.

Internet provider networks

The majority of users must be provided with broadband access to the Internet via a separate line for full and complete transmission of video images. Meanwhile, according to data from J'son & Partners Consulting, the average level of broadband Internet access penetration across Russia was 26.5% of all households in 2009. That is, today nearly three quarters of the country's population does not have access with the speed and bandwidth that would hypothetically allow for the use of VoD services in streaming mode (without downloading to the computer).

Mobile operator networks

More than 80% of the mobile communications customer base in Russia is controlled by the so-called "big three" operators: MTS, Vympelkom (provides service under the Beeline brand) and Megafon.

At present, coverage and bandwidth in Russia are such that mobile operators can provide those services most in demand uninterruptedly and with high-quality: voice communication, SMS and MMS.

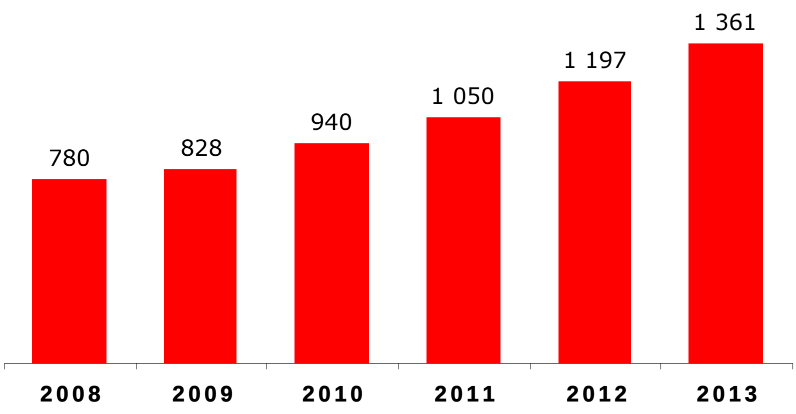
All the operators provide GSM (2G) standard services. However, experts argue that this standard's capabilities do not allow for the transmission of quality video content to a large number of users. In order to implement full-fledged VoD services using mobile channels, there must be a shift to next-generation networks. Work on building these networks in Russia began in 2008. The mobile operators opted for 3G networks.

3.6.3 Assessment of VoD market volume

Pay television

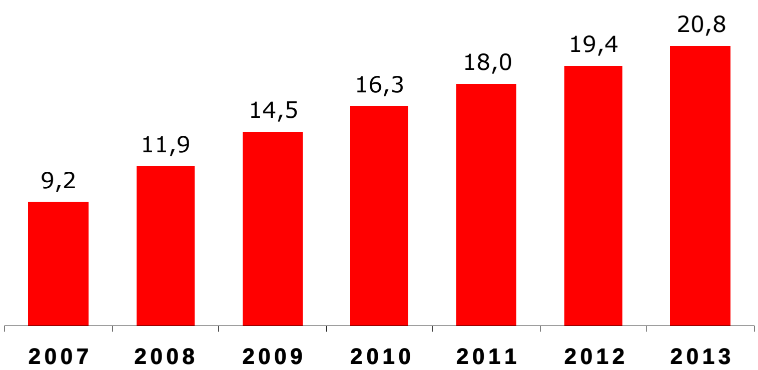
According to data from J'son & Partners Consulting, the revenue of the Russian paid television market in 2009 was USD 828 million, with an expected rise to USD 940 million in 2010; in 2011, the revenue of this market could exceed USD 1 billion.

Graphic 67: Revenue from pay-TV in millions of USD (2008-2013)



Source : J'son & Partners Consulting

Graphic 68: Pay-TV subscriber base in millions of households (2008-2013, conservative figures)



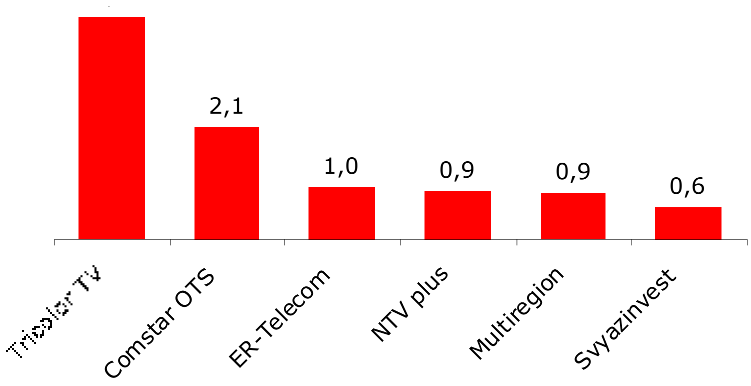
Source : J'son & Partners Consulting

The same source reports that the fundamental customer base for paid television in Russia is controlled by the so-called "big six":

- Tricolor (satellite television operator);
- Comstar-OTS (provides services under the Stream-TV brand, as well as via IPTV over ADSL technology and analogue cable TV networks);
- ER Telecom (specialises mainly in analogue television);
- Multiregion (specialises mainly in analogue television);
- NTV plus (satellite television operator);
- OAO Svyazinvest (communications operator, has a monopoly on local non-mobile telephone communications) as represented by its regional subsidiaries.

All together, they control more than 66% of the customer base, which constituted 14.5 million households in 2009 (from a total 49 million), according to J'son & Partners Consulting.

Graphic 69: Largest Russian pay-TV holdings (millions of subscribers)



Source : J'son & Partners Consulting

Another researcher of the Russian paid television market, iKS Consulting, calculates that in 2009 there were 19 million paid television subscribers (up 16% from 2008), and puts the market size at USD 0.9 billion (up 18% over 2008). iKS also disagrees with J'son & Partners regarding the major players on the paid TV market: according to the former, 35% of the entire paid TV customer base in Russia falls into the share of the following five operators:

- Tricolor (satellite television): a household customer base of 4,260,000;
- National Telecommunications (National Cable Systems – cable TV): 3,260,000 household customer base;
- Comstar (including AKADO – IPTV, cable TV): 1,760,000 household customer base;
- ER Telecom (cable TV): 970,000 household customer base;
- Multiregion (cable TV): 855,000 household customer base.

But we must give a proviso: since the aim of this research is not to give a precise assessment of the volume of the paid television market in Russia or the number of subscribers, we are giving the contradictory data of these two research companies for two reasons: first, they give a general impression of the order magnitudes of paid TV operators' revenue and the number of connected households; second, they show the general state of data on the Russian paid TV market and the degree to which the major players are open (or rather closed) in relation to their customer base and their revenue, which naturally influences the accuracy of the estimates.

In assessing the paid TV customer base in Russia, we are inclined to agree with the iKS data – at least for the reason that the in-depth "Digital Television in Russia" study conducted by Groteck by request of the European Audiovisual Observatory in 2007-2008 recorded 13.5 million paid cable TV subscribers in Russia as at 1 April 2007. It is unlikely that, given the current growth rate, over the past three years the paid TV customer base in Russia grew by only 1 million. Still, in subsequent calculations we will be using the more conservative figures from J'son & Partners on the operators' customer base and total revenue of the paid TV market, due to the accessibility of other statistics through the same company; we will make all necessary adjustments in the final estimates of market volume.

In June 2010, Groteck conducted a poll among the major players in the Russian paid cable television market, which showed the following results:

1. commercial VoD services in Russia today are provided by 5-10 cable TV operators;
2. the total volume of the customer base of operators providing VoD services in their networks is from 200,000 (expert estimate) to 300,000 paid TV subscribers (according to company data);

3. there are large differences in the data on use of VoD services among the different operators: from 5% to 30% of subscribers ordering one film viewing, at least once a month;
4. nevertheless, experts believe it is possible to base market calculations on a figure of 10,000-20,000 viewings-on-demand per month in Russia;
5. at an average price of USD 2 per film viewing, the annual revenue for the VoD market in Russia constitutes, in our estimate, from USD 240,000 to 480,000;
6. revenue from VoD services remains nearly indistinguishable from the overall intake of the operators from the subscribers: from 0.5-1% of total earnings.

Experts note that VoD services in Russia are currently provided mainly by cable TV operators using IPTV networks.

Table 49: Customer base of telecommunication operators providing services using IPTV technology

Operator	Number of subscribers, thousands of households
Stream-TV	128
DiSeL-TV (Southern Telecommunications Company, a subsidiary of Svyazinvest)	30
Beeline TV (previously Corbina Telecom, bought by Vympelkom and providing mobile services under the Beeline brand)	30+
TVi (Dalsvyaz, a subsidiary of Svyazinvest)	Around 81
QWERTY (Central Telegraph, a subsidiary of Svyazinvest)	14
Twist (Sibirtelecom, a subsidiary of Svyazinvest)	Around 15
Avangard TV (Northwestern Telecom, a subsidiary of Svyazinvest)	15

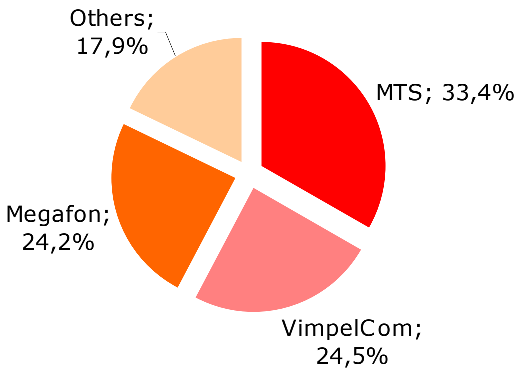
Source: J'son & Partners Consulting

Hence, the total number of IPTV subscribers (completely digital cable television) constitutes around 350,000 households in Russia. Adding to this Akado's 350,000 digital television subscribers (provided via DOCSIS technology) and around another 300,000 digital television subscribers of small operators with a 20,000+ customer base in Russia's regions, we get a more or less accurate picture of the number of households with access to digital paid television: that same 1 million households across Russia that was mentioned above. However, we should not forget that the operators are not currently providing all of these subscribers with VoD services.

Mobile

The total number of nominal mobile customers (by number of SIM cards sold) in Russia as at 31 December 2009, according to the report by AC&M Consulting, was 207,910,000, with the level of mobile diffusion in the country having reached 143.2%. The mobile communications market is divided as follows: MTS has 69,340,000 nominal customers in Russia, Vympelkom (Beeline) has 50,880,000, Megafon has 50,220,000, and the remaining companies have around 37,500,000 nominal customers.

Graphic 70: Russian mobile market by operator (as at end 2009)

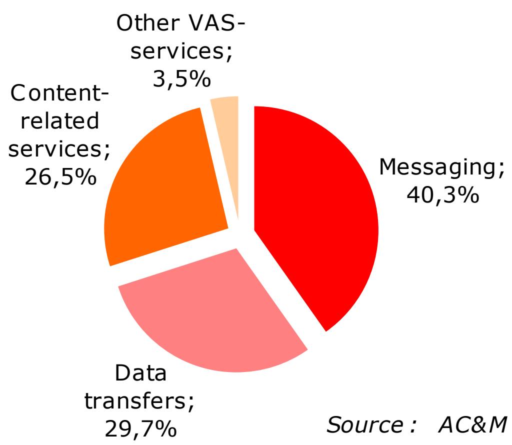


Source : AC&M Consulting

But the real level of mobile diffusion in Russia, according to market experts, has remained unchanged for many years now, fixed at 81% in Russian regions and 75% in Moscow (this kind of data is put forth by, for instance, the investment finance company Metropol). That is, around 120 million Russian citizens are actual mobile users (out of 141,900,000 residents, according to Rosstat data for 2009).

Overall earnings for Russian mobile operators are estimated at close to USD 20 billion, with revenue from non-voice services (according to AC&M Consulting data) constituting USD 3.88 billion (a 27% increase from the previous year), out of which more than USD 1 billion were earnings from content services.

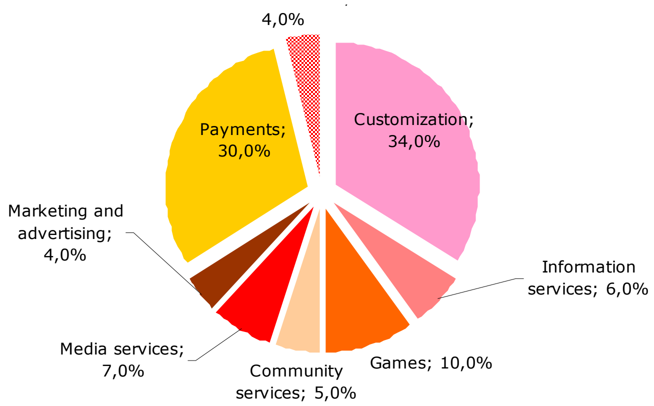
Graphic 71: Breakdown Russian mobile operators' revenue from VAS



Source : AC&M Consulting

The share of actual video services in the overall volume of non-voice services from Russian mobile operators was 4% in 2009.

Graphic 72: Mobile content market in Russia (2009)



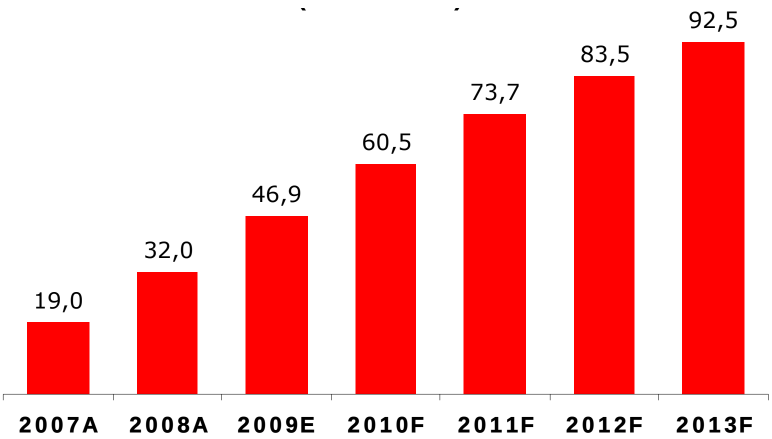
Источник: i-Free

Thus the sales volume for video content on-demand in Russian mobile networks can be estimated at USD 40 million per year.

Internet

In 2009 the number of home users of broadband Internet access in Russia reached 13.2 million, according to iKS Consulting data; 3 million of them were in Moscow and 1.2 million in St. Petersburg. iKS notes that growth in the number of private broadband users constituted 3.5 million from the 2008 level and was largely due to the regions, which were responsible for 79% of new users. Meanwhie, the Moscow market has become considerably slower: the city's customer base has only grown by 17% in the past year, with a total broadband takeup level of 71% at the close of 2009. The size of the Russian broadband market in value terms came to more than USD 1.5 billion in 2009.

Graphic 73: Volume of high-speed home Internet connections in Russia, in billions of RUB (2007-2013)



Source : J'son & Partners Consulting

In 2006 (at the start of a rapid increase in the number of Russian households with broadband connections), there was a great number of predictions of the coming revenue from sales of digital content to Internet users. However, these predictions did not materialise: in fact, the Russian Internet became the main source for distribution of free digital content. That is, it can be confidently stated that Russia so far has no paid Internet access to video content accessible to a broad audience. Most regions lack the technological capability to use this service (insufficient level of broadband provision and slow speeds). In those Russian cities where broadband access is at the necessary levels, Internet users prefer to search for free content on pirate websites.

People are now coming to understand that broadband access operators must join forces with copyright holders to combat the torrents (file-sharing networks) that provide free access to virtually any video content. However, the most forward-thinking experts believe that Internet providers will not participate in this initiative, since torrents are one of the main motivations (if not *the* main motivation) for users to sign up for broadband Internet access and upgrade to ever more expensive packages with ever faster speeds.

Assessment of overall market volume

Experts uniformly acknowledge the **Stream-TV** network as the uncontested leader. VoD services are accessible to all 128,000 of the company's declared non-analogue television subscribers. The next leader in VoD commercialisation is **OAO Dalsvyaz**, which provides VoD services to 81,000 **TVi** digital television subscribers in Russian's Far Eastern federal district. **Beeline TV**, with 30 000 users, and **QWERTY**, with 14 000, close the list of universally-recognised players on the Russian VoD market. In addition, experts also make mention of **IskraTelecom** (Moscow) and **Ufanet** (Bashkortostan), each of which boasts a customer base of approximately 20,000 households. Thus, the total number of customers with access to VoD services today is indeed somewhere between 200,000 and 300,000.

These expert estimates are given further confirmation by David Dishdishian, director of the new media department at Central Partnership (one of the top content providers in Russia). His company has contracts for supplying content for VoD services with 90% of the major operators: he "feels" that there are around 250,000 VoD subscribers in Russia, with 70-80% of them in Moscow.

In summary, the probable volume of the Russian VoD market:

1. **Calculations for number of viewings:**
   - volume of the customer base with access to VoD services = 200,000 - 300,000 households;
   - overall number of viewings-on-demand for this base = 10,000 – 20,000 per month;
   - average price of viewing = around USD 2;
   - resulting market volume = **USD 0.24 - 0.48 million**
2. **Calculations for share of VoD services in operators' overall earnings:**
   - share of revenue from VoD services in the overall earnings of the operator providing the service = no more than 1%;
   - operators providing VoD services control no more than 1.7% of the customer base (approximately 0.25 million out of 14.5 million subscribers); consequently, they can claim approximately the same percent of revenue from the total market volume = no less than USD 15 million (1.7% of USD 828 million);
   - according to these calculations, Russian operators' annual earnings volume from VoD services likely do not exceed USD 0.15 million. Bearing in mind that digital television operators with VoD services in their portfolio have a subscriber fee 2-3 times higher than similar operators and correspondingly receive a significantly larger volume of gross returns, their revenue from VoD services can be estimated at between **USD 0.3-0.45 million**.

So, the most probable size of Russian cable/telephone TV operators' revenue from VoD services in 2009 did not exceed **USD 0.5 million**. Experts note that the number in question should be less than USD 0.5 million (but not, for instance, less than USD 0.3 million), in light of the influence of the following factors:

- the earning power of VoD services for some of the operators mentioned is significantly higher than the expert assessment of 1% of total earnings;
- there are a number of regional operators that do not advertise VoD services to subscribers, fearing demands from copyright holders for payment of royalties.

On the other hand, experts also do not consider it possible to raise their assessment of market revenue, believing that some of the operators count their earnings from pre- and near-VoD services as part of their revenue from VoD service provision overall. There is information to indicate that VoD services are loss-making for some operators.

Be that as it may, for Russian cable television operators today, the VoD service remains more of an image-making and marketing project than a serious source of revenue.

3.6.4 Primary video-on-demand services in Russia

Overall, the selection of paid services on the Russian VoD market is extremely limited. However, at present two principally different business models for this service have already taken shape:

- user charge – payment is levied on the consumer; the copyright holder receives royalties; there are variations on this;
- payment per unit – acquisition of right-to-view (domain) of one unit of content;
- subscription – unlimited access to content over the course of a specific period of time (with customer subscription to premium rates for non-direct broadcast TV);
- advertiser charge – the service is free to the user who "agrees" to watch an advertisement along with the chosen content; the channel operator receives proceeds from the advertiser and divides it with the copyright holder.

Paid VoD services

The main services in the paid cable television segment are:

- paid film viewings (in one way or another, up to 50% of the main operators' revenue still comes from x-rated films) – full VoD;
- paid access to sport broadcasts in HD-format (for instance, in 2010 Akado purchased exclusive rights to broadcast the World Cup in Moscow in HD, acknowledging, however, that this was more of a PR move on the part of the company than a profit-making venture) – full VoD;
- catch-up viewing of films and programmes service (virtual VCR) – pre-VoD;
- virtual cinema (viewing a certain selection of films over a period of time determined by the cable TV operator) – near-VoD.

Cable TV operators admit that they have yet to prove the significant advantages of VoD services to users in their networks (to formulate a value proposition). As a result, they cannot compete for the potential film consumer's money with either black-market DVD sellers, torrents, or cinemas (new releases) and sports bars (sport broadcasts).

The main services **in the mobile communications segment** are:

- access to viewing the basic direct-broadcast channels (for a subscriber's fee; Megafon, the third largest mobile operator in Russia, continues to very actively develop this service);
- paid downloads of video content (with payment for each viewing – the main share of operators' revenue from this service still comes from music clips);
- a quite weighty contribution to the revenue of mobile operators is made by "novelty clips" – distributed by various content providers via the pay-per-view model – and user content conveyed from one subscriber to another (content is free, revenue comes from payment for traffic).

In 2010 mobile operators began experiments with more personalised services for subscribers. For instance, a "Best Football Moments World Cup 2010" service appeared, with content provided by the VGTRK (Rossiya 2 TV channel). The service can be accessed through the networks of the three Russian mobile operators (MTS, Vympelkom/Beeline, Megafon). The service thus far is provided for free (the subscriber pays only for data traffic), but market analysts believe that this kind of video service could have a great commercial future – due to the wholly evident value of the service, which it makes sense to pay for.

Free VoD services[127]

This kind of VoD service is typical for the **Internet** and began to develop in Russia in September 2008, when the Rambler Cinema project was launched as part of the new so-called media strategy, oriented towards increasing advertising (banners, pop-up windows etc.). The project lasted until 1 March 2009.

The peak of free VoD services on the Internet came during 2009-2010. The largest players in the market at present are:

- Technoinvest (Tvigle.ru): free VoD services have been accessible through this social networking site since summer 2009, and it has signed its first contract with the Lenfilm Video company;
- Digital Access (Ivi.ru): began operation 26 February 2010, has a catalogue of the Central Partnership, Amedia, Soyuzmultfilm, 2B Studio and RWS companies' rights, as well as the TV channels TNT, STS, MTV, Muz-TV, Channel One, the TV company Stream and the international TV channels World Fashion Channel, BBC etc.;
- TVzavr launched the Tvzavr.ru website, and collaborates with Central Partnership;
- in June 2010, the website Zoomby.ru appeared, having won the rights to libraries of programmes and serials from TV channels and distributors (Central Partnership, Amedia, Cinema without Borders, Top Film, VGTRK, Ren-TV, Channel 5, STS Media, TVZ, Zvezda, TNT, Muz-TV).

Meanwhile, in Russia most transactions between copyright holders and Internet portals are dependent on the up-front payment of a minimum guarantee (of an undisclosed sum) and the subsequent sharing of revenue from advertising income, with 30-50% payment to the copyright holder. Meanwhile, transactions without initial fixed payments are also quite widespread: these contracts are very attractive to Internet portals as they lower the risk to them. However, distributors and producers are not always prepared to agree to such conditions, since they see them as price "dumping" on the new market.

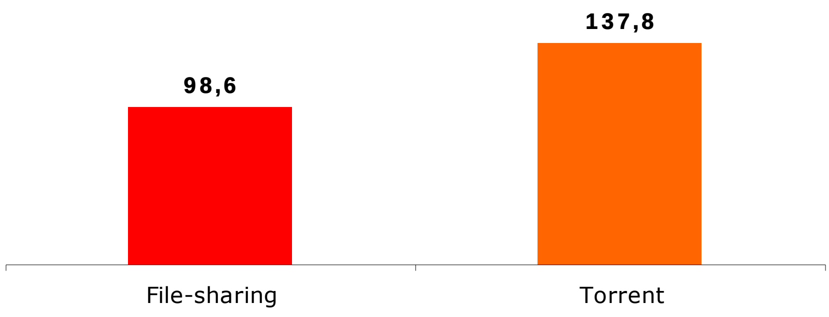
3.6.5 Estimation of the level of Internet piracy in Russia[128]

The complexity of the interrelationship between rightsholders and VoD service providers in Russia is intensified further by the problem of Internet piracy, which has become the main threat for both cinemas and film distributors, as well as for video distributors and producers themselves.

According to data from Internet Copyright Management,[129] the most popular source for access to non-licensed audio-visual products is social networks that allow films to be watched online; the second most popular source is downloads from file-sharing hosts; third is peer sites (torrents and peer-to-peer networks); the least popular is sites that sell illegal copies of films via SMS.

[127] This section is prepared by Nevafilm *Research*.
[128] This section is prepared by Nevafilm Research in collaboration with Internet Copyright Management.
[129] http://www.ruprotect.com

Graphic 74: Popularity of 'pirate' resources within the .ru domain (average rating of top 10 sites according to *Alexa Traffic Rank in Russia*)



Source : Internet Copyright Management, Alexa

One of the most 'dangerous' Internet services in Russia today (for rightsholders) is the vkontakte.ru social network (the site makes it possible to upload any content for free access and online viewing, which in combination with the site's popularity[130] makes it the leader for free viewings). Despite the fact that the management of vkontakte.ru cooperates with law enforcement agencies and provides them with administrative rights to block pirated content placed on the portal, rightsholders still go to court from time to time with claims against this, the most popular social networking site on the Russian Internet. These attempts remained unsuccessful for a long time. In April, the St. Petersburg and Leningrad Oblast court of arbitration rejected a suit from VGTRK against Vkontakte regarding the illegal placement of the films *Hunt for Piranhas* and *Island* on the site; the court ruled that if the terms & conditions of the site prohibit the placement of pirated content, then the site was doing enough to protect the rightsholders and responsibility lay on the user;[131] VGTRK brought a similar suit against the mail.ru portal, but the matter was settled amicably out of court.[132] Nevertheless, by summer 2010 the courts began to take the side of the rightsholders: the St. Petersburg court of appeals decided that Vkontakte had violated VGTRK copyright to the film *Hunt for Piranhas* and fined the holding RUB 1 million.[133] At the same time, during spring-summer 2010 the social networks themselves took a step towards the 'legalisation' of video content on their web pages: social networking sites (vkontakte.ru, my.mail.ru, mirtesen.ru) began selling legal content from the video.ru portal (the DVN company, Digital Video Network) in March, backed by a platform developed by the Videoliubitel company;[134] while in July content from the ivi.ru portal (Digital Access) became accessible *for free* (accompanied by ads) in social networks (vkontakte.ru and my.mail.ru) as a special service.[135]

The second most popular pirate site is the biggest file-sharing resource (torrent tracker) in the Russian Internet, rutracker.org,[136] which replaced torrents.ru[137] after access to the latter was blocked in

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130 In July 2010 there were 82.5 million registered Vkontakte users. According to data from the TNS Web Index, in May 2010 19.5 million Russians used the site, which corresponds to 44.7% of all Internet users in the country (ages 12-54), and there are more than 10 million users who visit the site daily.

131 Анастасия Голицына, Ксения Болецкая, ««В контакте» не виновата», «Ведомости», 28.04.10 [Anastasia Golitsyna, Ksenia Boletskaya, "Vkontakte is not to blame", in *Vedomosti,* 28 April 2010].

132 Инна Ерохина, Анна Занина, «Авторские права запутались в социальных сетях», «Коммерсант», 14.04.10 [Inna Erokhina, Anna Zanina, "Copyrights tangled up in social networks", in *Kommersant*, 14 April 2010].

133 Анастасия Голицына, ««В контакте» проиграла», «Ведомости», 20.07.10 [Anastasia Golitsyna, "Vkontakte Loses Out", in *Vedomosti,* 20 July 2010].

134 Александр Малахов, «В сетях нашелся «Видеолюбитель»», «Коммерсант», 15.03.10 [Aleksandr Malakhov, "Videoliubitel shows up in the networks", in *Kommersant*, 15 March 2010].

135 Александр Малахов, «Социальные сети легализуют видео», «Коммерсант», 23.07.10 [Aleksandr Malakhov, "Social networks legalise video", *Kommersant*, 23 July 2010].

136 According to data from LiveInternet, there were 7.8 million visitors to the rutracker.org site in July 2010, and the number of daily users for May-July reached 0.98 million (http://www.liveinternet.ru/stat/rutracker.org/index.html?id=8;period=month;total=no).
According to data from Alexa, rutracker.org occupies 14th place in terms of traffic in the rating for Russian Internet sites.

February 2010. This happened in response to demands from law enforcement agencies based on a criminal proceeding for the portal's violation of copyright. The site moved the same day to the domain rutracker.org and began redirecting all inquiries there.[138]

After the main Russian torrents, come file-sharing sites like depositfiles.com,[139] letitbit.net[140] etc., which combined occupy the second most popular position among channels for illegal Internet access to video content.

Examples of SMS sites dealing in illegal audio-visual products through mobile phone payments include such active resources as: abcmovie.net, aakino.ru, film99.ru, 5ic.ru, kinomall.ru, bezlimitvideo.com etc.

Several options for earning lie at the foundation of the business model for all pirate Internet resources:

- social networking sites make money from selling additional services and advertising space, revenue from which grows in proportion to the number of users – the presence of video materials on the site makes it possible to increase the number of resource users, as well as the amount of time they spend on the site;
- torrents also earn from placing contextual and banner advertisements;
- file-sharing systems turn a profit by offering users paid accounts that allow them to acquire monthly subscriptions for fast downloads of any content from the file archives;
- finally, sites that sell films using payment via SMS receive profit directly from users (however, these systems are not only less popular, but also the most vulnerable to actions from rightsholders. In September 2009, upon the request of the Direktsiya Kino production company, the 'Big Three' mobile operators (MTS, Vympelkom and Megafon) disconnected the short numbers used for paying for pirated copies of certain films, after which the Infosec group announced the development of a special search algorithm aimed at uncovering similar pirate resources within just a few hours after their appearance on the Internet).[141]

The main target for Internet video piracy in Russia is new film releases enjoying broad advertising promotion at the time of their release to theatre screens – users are primarily interested in blockbusters. Meanwhile, a cam version of the film usually appears on the web on the day of the film's premiere in theatres, and sometimes even earlier (a month or a week ahead of its release in Russia) – this depends on when the picture is released abroad. For Russian-produced films, in about thirty percent of cases a DVDrip copy may appear before the official film release (for instance, this happened with the films *The Priest, Nasha Masha i Volshebnyj Oreh, High Security Vacation [Kanikuly strogogo rezhima]*. Obviously, the popularity rating for 'stealing' a film depends on the degree of anticipation: AA-category films[142] (the most anticipated films) appear on the Internet with a 100% probability over a period of 1-2 days after the official premiere; A-category[143] (less box office and less anticipated) – with a 90-100% probability over a period of up to 7 days; B-category films[144] (all remaining films) – with a probability of less than 90% over a period of up to 7 days.

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137 The torrents.ru website lasted for six years in the Russian Internet and counted around 4 million active users at the moment it was closed, with more than 824 000 file distributions registered on the tracker for a total size of more than 1 petabyte; interestingly, the site would close distributions upon request from the rightsholders. (Виталий Петлевой, Александр Кленин, «Кина не будет», «РБК Daily», 19.02.10 [Vitaly Petlevoy and Aleksandr Klenin, "Film canceled", in *RBC Daily*, 19 February 2010]).

138 Олег Сальманов, «Torrents.ru эмигрировал», «Ведомости», 19.02.10 [Oleg Salmanov, "Torrents.ru emigrated", in *Vedomosti*, 19 February 2010].

139 According to data from Alexa, depositfiles.com occupies 24th place in the ratings for Internet traffic on the Russian Internet.

140 According to data from TNS Web Index, the audience for letitbit.net in May 2010 was 8.7 million – 19.8% of the total number of Internet users in Russia (ages 12-54), with around 0.8 million users visiting the site daily. Alexa data on Internet traffic places letitbit.net as 29th.

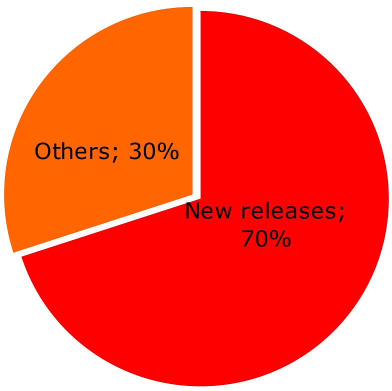
141 Антон Бурсак, Александр Кленин, ««Большая тройка» отключила пиратов», «РБК Daily», 22.09.09 [Anton Bursak and Aleksandr Klenin, "'The Big Three' disconnect pirates", in *RBC Daily*, 22 September 2009.

142 For instance, Avatar, Shrek Forever After, The Twilight Saga: Eclipse.

143 Island of the Damned, A-Team, Book of Eli

144 Tsar, Gainsbourg, Hooligan Love, Agora

Graphic 75: Internet piracy targets in Russia

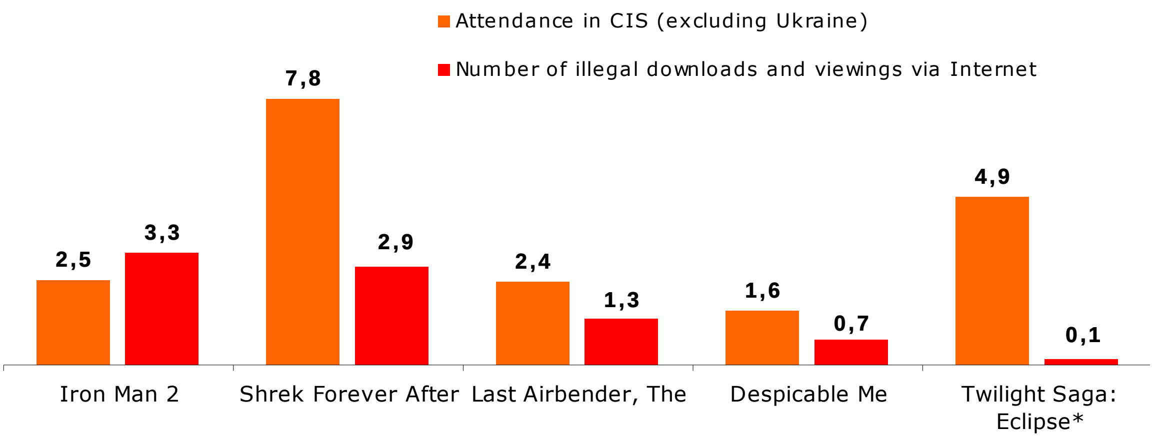


Source: Internet Copyright Management

The last several years have seen a well-oiled mechanism for localising foreign content fall into place: several teams of translators, narrators and technicians are active in the market. The most active of these 'release groups' are: Elektri4ka (uniongang.tv), which specialise in arthouse films; Puz.karapuz (puzkarapuz.ru), for children's films and animations; Kinozal.tv (kinozal.tv) and Releaselab (relizlab.com), for all films; and Lostfilm (lostfilm.tv) for serials. Similar release groups work doing film dubbing for DVD manufacturers as well as for the Internet.

At the same time, it is currently impossible to assess the damage created by downloading films from pirate resources and file-sharing networks in Russia, since there are no generally accepted methods for reckoning rightsholders' losses (one cannot simply multiply the number of downloads by the average price of a cinema ticket or DVD – very few of the users downloading films are 'lost customers', as many of them would never purchase a film legally under any circumstances). Nevertheless, the extent of the Internet piracy problem can be projected based on the correlation between cinema attendance for certain films and the volumes of illegal downloads and viewings on the web of the same films (based on content protection companies' monitoring of content from the date of release to the end of July 2010).

Graphic 76: Ratio of ticket sales and Internet downloads / views in Russia for several films (in millions)



*film was protected during exhibition period

Source: Internet Copyright Management, Film Business Today

Alongside this, Russia has seen the development of commercial activity aimed at defending content from non-sanctioned Internet use. These services began to develop in 2007 (the first on the market was the now-defunct Video24 company) and are available through several companies (Internet Copyright Management counts no fewer than 4-5 serious players on this market, including: Web Control,[145] Web Sheriff,[146] Russian Shield,[147] Association of DVD Publishers): they are all engaged in actively monitoring the Russian Internet and taking measures to prevent illegal activity, as well as conducting anti-piracy measures on physical media. However, there is also quite a number of companies offering formal legal protection, which lowers rightsholders' faith in the above-mentioned services and forces them to create their own internal departments for defending their content from Internet piracy. At the same time, distributors now prefer more and more to use professional protection during the period their major releases are in cinemas, as well as when the films are released on DVD; although this service is not yet very popular (from 2008 through spring 2010, methodical monitoring of pirated copies and their destruction had been conducted for only 35 films in Russia).[148] As a rule, major DVD distributors have their own divisions for protection of content on the Internet.

The protection period most distributors have recourse to is one month following the release of a film to theatres or on DVD. The protection process consists of the following stages:

- first step – monitoring of Russian-language Internet space;
- second step – filing demands for deletion of files, closing torrent distributions and the termination of online-broadcasts;
- third step – monitoring and deletion of any replaced content;
- operations with SMS-sites and search results are undertaken separately.

As a result of these actions, pirated copies are largely removed from the web during the protection period (the majority of torrents, file archives and social networks respond to the rightsholders' appeals and delete the indicated links and files; no more than 5% of sites refuse to cooperate). For this reason, those users who are inclined to viewing films in theatres, once denied the possibility of finding a film on the Internet, will go to the theatre. Users accustomed to viewing films on their computers, meanwhile, will wait for the end of the protection period.

As concerns the role of law enforcement agencies in the struggle with Internet piracy – the first steps are being taken only now. There has been precedent of genuine punishment, but it is of a public and formal nature. For instance, the high-profile termination of sites like torrents.ru in February 2010 or interfilm.ru[149] : both sites moved to .org domains and continued functioning (the former at rutracker.org and the latter at bithouse.org). Similar cases occurred with the ifolder.ru and filehoster.ru torrents, which were prosecuted in March-April 2010 on charges of distribution of child pornography. The former prosecution afterwards resumed operations as "the identity of the offender was established"; the latter was not working as of July 2010, since the file-sharer's equipment was confiscated by the Ministry of Internal Affairs (MIA) for "unknown reasons".[150]

Interestingly, after these cases in May 2010 hosting providers signed a charter for a secure Internet,[151] which makes provision for resistance to the distribution of illicit information: hosters are prepared to check sites hosted on their servers themselves and to delete illicit publications (including child

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145 http://www.web-control.ru

146 http://www.websheriff.ru

147 http://rsnw.ru

148 Ксения Болецкая, «Пираты на миллион», «Ведомости», 05.03.10 [Ksenia Boletskaya, "Pirates for a million", in *Vedomosti,* 05 March 2010].

149 A criminal case was brought against the site's founders, Ivan and Irina Podorozhny, in spring 2009 by request of the Russian Antipiracy Organisation (RAPO); the Podorozhnys were accused of making dozens of top films available in the Internet without permission from the rightsholders; as they were responsible for their own translations and amateur dubbing, they were considered a 'release group'. In July, Russian MIA investigative team members conducted searches on more than 20 'active users' of the domain. (Анастасия Голицына, «Уголовный файлообмен», «Ведомости», 13.07.10 [Anastasia Golitsyna, "Criminal file-sharing", in *Vedomosti.* 13 July 2010]).

150 Игорь Бахарев, «Порнография прикрывает хостеров», Gazeta.ru, 27.04.10 [Igor Bakharev, "Pornography shelters hosters", in *Gazeta.ru*, 27 April 10].

151 http://hostdeclaration.ru

pornography, bootlegged materials or exhortations to extremism).[152] At present the charter has been signed by Hosting-Centre, SpaceWeb, PeterHost, Registra R01, RU-CENTER, Oversan-Skalaksi, Agava, ALA Telecom, ColoCAT, RUSONYX, Best Holding, Total Software, HOLM.RU, FirstVDS, Quarta and H1; the HostObzor project, Friendly Runet, ISPsystem and the Association of DVD Publishers share the principles of the declaration; furthermore, as of 08 July 2010 the charter was supported by the RF State Duma. At the same time, the activity of protection organisations in Russia is currently quite fragmented – individual commercial companies work only in the interests of their clients and do not cooperate with one another or with RAPO (which represents the interests of Hollywood majors), which decreases the overall effectiveness of anti-piracy efforts.

Overall, the owners of illegal audio-visual production are thinking more and more seriously about methods of ‘protection’ from law-enforcement agencies, and it is becoming increasingly more difficult to hold them responsible. Meanwhile, the basic legislation in Russia is intended only to combat the manufacturers and distributors of pirated copies of audio-visual production. There is thus far no special law for the Internet: there are only general formulations that ‘defenders’ of content try to apply in their work, but the process is complicated by a lack of understanding as to what the Internet is and how it works, on behalf of the judges, police forces and investigators. The evidence base for violations of copyright has changed little since Soviet times and is not appropriate for work in the Internet environment. And so, in order to hold the owners of pirating sites criminally responsible, a complex procedure of collecting and recording evidence must be undertaken, which includes receiving in notarised form a certified reference purchase (or downloading) of illegal content, as well as documentation from the domain registrar and other documents. Once he/she has all these materials, the rightsholder must send the offending party a pre-trial notice, after which the pirate resource may block access to the bootlegged film; otherwise the legal owner of the content may take them to court. And most often the true punishment for violation of copyright falls only on the lowest-level participants in the chain, who are caught ‘red-handed’ with cameras in cinemas – rather than the site owners, who make the profits and are accomplished at evading punishment. Furthermore, law enforcement agencies are limited by the laws and by the territory of their home country, while on the Internet there are no borders: a domain can be registered in Russia or Ukraine, but have its server physically located in Poland or Germany. So without coordinated efforts by world law and order bodies, it is impossible to achieve success in the struggle against Internet piracy – especially given the rapid spread of technology for broadband access to the worldwide web.

3.6.6 Conclusions regarding the current state of the VoD market in Russia

Based on the preceding analysis, the following conclusions can be drawn concerning the current state of the VoD services market in Russia:

- the primary revenue from providing video content on demand comes from the mobile segment – more than USD 40 million per year;
- the general range of services is thus far quite limited;
- the paid viewing of films on demand in cable television networks is limited by several factors:
    - the lack of technological preparedness of most cable TV networks for the provision of VoD services;
    - the small volume of most cable TV market players’ customer base, which means it is impossible to count on a return of investments or a strong position in negotiations with content providers;
    - the unlimited accessibility of uploaded Internet versions of the latest releases of Russian and foreign films for free and illegal downloading and viewing;
    - the powerlessness of the state, copyright holders and the operators themselves in the fight against file-sharing sites (torrents);

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[152] Анастасия Голицына, «Провайдеры против порно», «Ведомости», 25.05.10 [Anastasia Golitsyna, “Providers against porno”, in *Vedomosti*, 25 May 2010].

- the absence of clearly formulated advantages to the customer that might encourage him/her to use VoD services in cable TV networks;

- given the current volume of revenue from VoD services in cable TV networks (less than USD 0.5 million), serious investment in infrastructure projects for the roll-out of full-scale service systems costing tens of millions of dollars is difficult to envisage;
- the problem of the market remains the absence of nationwide specialised content aggregators capable of creating large archives of legal content and thereafter sharing the revenue from paid access to video content with cable television operators. However, given the low volume of cable TV users' use of VoD services (fewer than 20,000 downloads per month), the emergence of such aggregators is also unlikely;
- the rapid development in 2010 of Internet services offering legal access to free content and making money by placing advertisements in the body of the suggested video materials has been slowed down due to the content providers' lack of trust in new media. They see the new media as providing insufficient protection of videos from unsanctioned use and not guaranteeing a stable level of revenue (the lack of minimum guarantees when VoD service providers are buying rights has an especially painful effect on development of the market).

3.6.7 Trends and predictions

Representatives of the leading cable television, broadband and mobile operators expect no revolutionary changes in the Russian VoD market over the next 3-5 years and predict the following trends:

- revenue growth from providing access to video content on mobile operators' networks will continue at a rate of more than 25% a year for the next 3 years, but the share of video content in overall revenue from sales of mobile content will not increase, and neither will the selection of services available to the subscriber;
- the customer base for VoD service users on the cable TV operators' networks will double by mid-2011; this will happen thanks to the launch of the VoD service on the Akado digital network with its 350,000-strong customer base (currently it operates on a pay-per-view model). A comparable rise in earnings, however, is not expected: over the next 3 years, the market will be in a state of stagnation;
- the situation with revenue from VoD on Russian cable operators' networks will not be substantially changed by the launch of VoD services on the networks of Mostelecom (a major Russian cable TV operator with a customer base of around 3 million households). Most likely, for the next three years the service will be offered as part of a bonus;
- experts expect fundamental changes to the Russian market for paid access to film viewings on cable TV networks to occur once the process of market consolidation comes to an end; this will lead to the emergence of digital television operators with a customer base of greater than 1 million subscribers. These operators will be able to invest in full-scale VoD systems, as well as in the development and aggressive promotion of the services.

Main obstacles to development of the VoD market in Russia

There are two points of view concerning the significance of the main obstacles to development of VoD services in Russia. The first is held for the most part by small cable TV operators (with digital television subscribers making up no more than 20,000 households). The second is held by the large operators (with customer bases of more than 100,000). These two groups rank the obstacles they face in a diametrically opposing fashion:

Table 50: Main obstacles to development of the VoD market in Russia (a larger number indicates greater significance of the factor)

Rank for the group of small cable TV operators (20,000)	Rank for the group of large cable TV operators (100,000)	Factors with negative impact on the development of the VoD market in Russia
5	1	High level of piracy: accessibility of free new film releases on the web or for a nominal fee from sellers of illegal disks.
4	2	Policies of rightsholders who do not wish settle for a viewing fee and demand "crippling" down-payments for the right to include a film in an operator's library.
3	3	The lack of specialised and high-quality content, which subscribers cannot download for free from the web and for which they will be happy to pay.
2	4	The small number of subscribers proves an obstacle to investment in infrastructure and advertising for the service, since the predicted revenue leaves no hope for recoupment.
1	5	The outdated infrastructure (both network infrastructure and service management infrastructure) of most Russian operators prevents them from implementing VoD services.

Source: Groteck

The results of interviews with representatives of companies operating on the cable television market can be interpreted in the following fashion.

Technological and infrastructure-based limitations for providing VoD services are largely insignificant for a small customer base as far as digital access networks and cable television are concerned. Operators with a customer base of less than 20,000 can provide VoD services without substantial investment in the integration of internal infrastructure. Correspondingly, technological limitations do not play a noticeable role for small-scale operators. At the other end of the spectrum, with customer bases of more than 100,000, investments in the tens of millions of dollars are necessary (not counting expenses for purchase of content). When calculating recoupment times for these investments, operators begin to realise that the investments can be recouped in a reasonable timeframe when the customer base is larger than 1 million households.

The price policies of content providers (especially major film distributors) simply do not work for small-scale operators: price tags of millions of dollars for the rights to a single film are prohibitive for them. With a customer base of a million (or several million), however, the cost per subscriber begins to look less disproportionate. Furthermore, in such situations the rightsholders' policies could be significantly modified: for instance, offering paid television operators the right to purchase content immediately after a film's run in cinemas. This makes sense in terms of fighting piracy, since VoD operators concerned for their profits will use all possible means to protect such expensive content from illegal downloading and copying.

It should be noted that small-scale and large-scale cable TV operators alike anticipate the emergence of major players on the Russian VoD market in the very near future. Smaller operators believe that investment projects will arise to finance the creation of large content aggregators which will purchase films from major distributors and provide viewing rights to cable network subscribers. In this case the operator would receive its share of the profits only as the network owner. Larger operators believe that only the appearance of operators with million-strong customer bases will enable the development of the VoD market and make the service lucrative for all three parties in the creation and use of the service: the rightsholder, the operator and the subscriber.

There is one more important consideration. Both large and small operators are beginning to understand that the Russian business model that has formed over the past 20 years (founded on the sale of packages of widely-available content from direct broadcasting channels, with the addition of some high-demand cable and satellite TV content and a small proportion of exclusive content to distinguish the service from its competitors) has reached the end of its lifespan. An ever increasing number of operators are starting to think about shifting their business paradigm towards personalised television – where subscribers can put together a packet of the channels they need and also access "non-channel" content. This non-channel content would be programming such as individual sporting or cultural events, educational and training programmes, or specialised children's content, accessible in the form of a library rather than fixed channels.

Prospects for the development of VoD in Russia

Russian television viewing figures are the primary factor pushing cable TV operators to modify their business model and transform the services their subscribers have access to. The majority of Russian television viewers watch, on average, no more than 3.5 channels, that is to say, the average three-person Russian household requires a subscription of a maximum 11 channels – all of the other (60, 90, 140…) channels included in the packages offered by the operators naturally irritate subscribers as an "imposed" service.

A significant section of the Russian audience stridently rejects television as a central source of information and entertainment. In particular, in 2009 Levada Centre presented data from the Russian Television and Youth study, which established that the number of Russian citizens who do not watch any television at all has more than doubled over the past 15 years (for all age groups besides the very oldest):

Table 51: Which of the following judgments is closest to yours? (% of age group)

Claims	Overall for the sample		15-24		25-39		40-54		55 and older	
	1992	2007	1992	2007	1992	2007	1992	2007	1992	2007
I watch almost no television	6	13	6	17	7	18	4	10	7	8
I only watch specific programmes	76	68	73	63	71	61	79	70	77	75
I watch everything that comes on television	8	11	8	12	8	11	8	10	9	11
The television is almost always on, even if no one is watching	11	7	13	6	14	10	10	9	6	5
Uncertain of response	<1	1	<1	2	<1	1	<1	1	<1	1

Source: Yurii Levada Research Centre (Levada Centre)

According to data from independent experts, young Russians in large cities have virtually abandoned television in favour of accessing news online and on the radio (while travelling in cars), and video content over file-sharing and social networking sites. Statistics from television networks show that the young urban population actively rejects watching sport programming on TV at home, instead choosing to support their favourite teams in sports bars. Experts believe that the main audience for direct broadcasting channels (which make up the foundation of cable television operator packages) in

Russia today is the older age group (55+). All other age groups have virtually abandoned viewing popular channels in favour of the selective viewing of individual programmes.

Correspondingly, cable television needs to become more personalised, more varied in content, and more service-oriented for the subscriber. It should move towards providing a wide spectrum of services like “catch-up viewing”, “ad-free viewing”, and various on-demand services including access to individual programmes without having to subscribe to the channel.

Viewers’ increasingly sophisticated demands for content constitute yet another important factor. There has been a sharp rise in demand for niche content catering for the hobbies of the Russian middle class – a key target group for the promotion of VoD services on cable television networks.

Some of the other factors which may positively influencedevelopment of video-on-demand services in Russia include:

- the movement away from analogue cable television;
- the consolidation of assets in the cable television sphere and the appearance of four nationwide players with customer bases of more than 1 million households each (with a corresponding strengthening position in business relations with rightsholders);
- operators’ rejection of the compulsory “package” business model with its obligatory inclusion of federal direct broadcasting channels in favour of a “content supermarket”, where the customer can subscribe to individual channels and purchase the right to view individual programmes on-demand;
- the appearance of Russian-produced high-quality niche television content;
- the appearance of a self-regulating organisation that will unite paid television operators and content providers and offer genuine resistance to the illegal distribution of content in the Russian Internet sector, while simultaneously making quality content for paid viewing on cable TV networks and on the Internet more affordable (provided that the state play an active role in passing stricter copyright-protection laws and increase the effectiveness of law-enforcement agencies in this area).

Finally, we must separately address the ambivalence of leading market players towards the influence on the VoD market of the rapid roll-out of broadband Internet access in Russian regions. On the one hand, all market participants recognise the positive influence of the growth in demand for broadband access on the development prospects of the VoD market. This positive influence lies in the fact that large companies will further their expansion in the regions and modernise outdated networks, while those operators continuing to provide analogue television on outdated networks will soon leave the market. The process of digitizing cable television will thereby gain momentum, which will automatically lead to a huge increase in potential consumers of VoD services, and thus strengthen operators’ positions in negotiations with rightsholders and investors.

On the other hand, all of the key players are aware of the fact that given the existing state of copyright protection in Russia, an increase in the number of broadband multiservice network subscribers will automatically mean a vast increase in the number of Russians downloading free video content through torrents. This would mean a significant decrease in the potential number of consumers of VoD services over paid cable television networks.

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Research companies

Nevafilm

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 organisations providing data on the development of the Russian cinema market (***Nevafilm Research***).

RFilms (Invest Collegium)

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 in 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.

GROTECK Business Media

Since 1992 GROTECK Business Media offers marketing services for promotion of companies, their products and services in all regions of the Russian Federation, as well as CIS. The company also assists state and commercial organisations in campaigns, aimed at strengthening the image of their countries abroad. Among services available to foreign companies looking to do business in Russia, GROTECK offers distributor sourcing, branch office opening, market research, advertising, promo, & PR campaigns. GROTECK's whole range of professional printed and online editions, oriented at all key market sectors: security and communications, broadcasting, construction, IT etc., are also available to clients.

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).