



OBSERVATOIRE EUROPÉEN DE L'AUDIOVISUEL
EUROPEAN AUDIOVISUAL OBSERVATORY
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THE FILM INDUSTRY IN THE RUSSIAN FEDERATION

*Contient une synthèse en français
Enthält eine Zusammenfassung auf Deutsch*

A report for the
European Audiovisual Observatory

by Nevafilm



with contributions of
Movie Reseach (Univers-Consulting)
and
iKS-Consulting

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The Film Industry in the Russian Federation

Research by Nevafilm with contributions from Movie Research (Univers-Consulting) and iKS-Consulting for the European Audiovisual Observatory.

Director of Publication:

Dr Susanne Nikoltchev, Executive Director of the European Audiovisual Observatory

Supervising Editor:

Dr André Lange (European Audiovisual Observatory)

Chief Editors:

Oleg Berezin, Xenia Leontyeva

Chapters authors:

Executive summary	Xenia Leontyeva
Chapter 1	Maria Mukhina
Chapter 2	Alexander Luzhin, Alyena Goncharenko, Katerina Nazarova, Julia Triphonova
Chapter 3	Alexander Luzhin, Katerina Nazarova, Julia Triphonova
Chapter 4	Valery Kustov, Xenia Leontyeva
Chapter 5	Valery Kustov, Xenia Leontyeva
Chapter 6	Tatyana Gorskaya, Xenia Leontyeva, Kirill Tabachenko
Chapter 7	Ekaterina Makarevitch
Chapter 8	Xenia Leontyeva

Translation, editing and proofreading of the English text:

Eclectic Translations, info@eclectictranslations.co.uk

Publisher:

European Audiovisual Observatory

The reference version of the report is the English version, published on the European Audiovisual Observatory website – www.obs.coe.int.

The analyses presented in these articles are the authors' own opinions and cannot in any way be considered as representing the point of view of the European Audiovisual Observatory, its members or of the Council of Europe. Data compiled by external sources are quoted for the purpose of information. The authors of this report are unable to verify either their means of compilation or their pertinence.

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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 and St. Petersburg (**Nevafilm Studios**); is a Russian market leader in cinema design, film and digital cinema equipment supply and installation (**Nevafilm Cinemas**); became Russia's first digital cinema laboratory for digital mastering and comprehensive DCP creation (**Nevafilm Digital**); distributes alternative content for digital screens (**Nevafilm Emotion**); has undertaken independent monitoring of the Russian cinema market in the cinema exhibition domain since 2003; and is a regular partner of international research organizations providing data on the development of the Russian cinema market (**Nevafilm Research**).

33-2B Korablestroiteley Street, St. Petersburg, 199397, Russia

Phone: +7 812 449 70 70, Fax: +7 812 352 69 69

"Tsvetnoy, 30" Business Center, office 307, bld.1 30, Tsvetnoy Boulevard, 127051, Moscow, Russian Federation

Phone / Fax: +7 495 694 26 15

Email: research@nevafilm.ru

Website: <http://www.nevafilm.com>

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Univers-Consulting was founded in Moscow in 2001. The company currently provides management consulting services, including for the film industry, film industry research (**the Movie Research Project**), and neuromarketing (**the Neurotrend Project**).

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8a 1st Mozhaysky Tupik St. #1, Moscow, 121059, Russia

Phone/Fax: +7 495 661 03 55

Email: info@universconsulting.ru, info@movieresearch.ru

Website: <http://www.movieresearch.ru>

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39 Gilyarovskogo St. #3, Moscow, 129110, Russia

Phone: +7 495 505 10 50

Email: iks@iksmedia.ru

Website: <http://www.iks-consulting.ru/>

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76 Allée de la Robertsau – F – 67000 Strasbourg, France

Tel.: +33(0)3 90 21 60 00, Fax: +33(0)3 90 21 60 19

E-mail: obs@obs.coe.int

Web: <http://www.obs.coe.int>

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EXECUTIVE SUMMARY

Legislative framework

Currently, the Russian Federation has an established legislative framework defining the basis of copyright law and regulating the filmmaking sector. Over time, this framework is constantly being improved and expanded, allowing Russian filmmakers to meet new challenges.

The fundamentals of copyright law are defined in Part IV of the Russian Federation Civil Code, which came into force on 1 January 2008 and stipulates that in Russia, the authors of an audiovisual work are the screenwriter, the director, and the composer of music created specifically for the film.

Interaction between the state and the film industry is regulated by special law No. 126-FZ **'On State Support for Cinema in the Russian Federation'**, dated 22 August 1996, whose cornerstone provision is the definition of a **'national film'**. Only films that meet the criteria listed are eligible to receive state support for production, distribution, and exhibition (in the amount of up to 70% of the estimated cost). Producers of national films may also be exempt from VAT (18%) over the film's entire lifecycle, from production to distribution and other forms of sale.

Similar benefits are provided to businesses involved in public exhibition: cinemas in Russia do not pay VAT on revenue from ticket sales. Furthermore, for the purposes of facilitating the transition to digital technologies, since 2011, Russian cinemas have enjoyed zero percent customs duty on the import of digital film projectors.

When audiovisual works are exhibited or in any way distributed (in cinemas, on television, on discs, or via video on demand services), viewers are to be notified of the age category for which that work is intended. Labelling requirements for all information products in Russia were introduced by Federal Law No. 436-FZ **'On Protecting Children from Information Harmful to Their Health and Development'**, dated 22 December 2010.

The recently adopted **'anti-piracy law'**, Federal Law 187-FZ dated 2 July 2013, is also of great importance for the industry. It added to the Law **'On Information'** and to Part IV of the Civil Code provisions regarding the liability of information intermediaries for distributing unlicensed products online and set out rules for blocking websites by decision of the Moscow Municipal Court in the event that such products are found on their pages and the site owner refuses to remove them. As initially drafted, these rules relate solely to audiovisual products, but from 1 May 2015, they will extend to all types of works protected by copyright and associated rights, with the exception of photography. The State Duma is also debating amendments that would make it possible to permanently block websites against which the same rights holder files a lawsuit more than once and wins. In such cases, there are also provisions for out-of-court settlements, if the site owner responds within 24 hours to a demand from the rights holder and deletes the unlicensed content from his webpages.

State support of filmmaking

The federal executive agency responsible for filmmaking in Russia is the Ministry of Culture, which has a department dedicated to the film industry. It serves as the industry regulator (issuing national film certificates and the distribution certificates required to release films in cinemas and on video). It also provides financial support for production, distribution, and marketing. Since 2010, the Ministry of Culture has shared these support duties with the Federal Fund for Social and Economic Support to National Cinematography (the Cinema Fund).

From 2013, the respective responsibilities of the Ministry of Culture and the Cinema Fund for providing state support for film production were more clearly delineated. The former is responsible for subsidizing debut, **experimental, children's, and documentary films, while the latter finances commercial feature films and animated films made by independent producers and the so-called leaders of the Russian film industry.** Those leaders are selected every year according to strict criteria, including **audience assessments of each company's films, their artistic value, and a company's overall track record.**

The system for selecting projects seeking state support was also modified in 2013. Over the past two years, it has been based on public pitching sessions, for independent films as well as projects by the designated leaders of the national film industry.

The rules governing state support for documentaries were made more rigorous. In an attempt to increase quality and audience appeal, it was proposed that, as a prerequisite for receiving state support, the producers should be required to secure a pre-sale agreement for the film with a television channel whose coverage spans at least half of the regions of the Russian Federation. Later, however, only a requirement that the film be publicly shown on television (on either a terrestrial or satellite channel), in cinemas or clubs, online, or even just at film festivals, remained in the government resolution.

Overall, the 2013 reforms met with a favourable response from the film community. The procedure for distributing state funding for film production now seems systematic and logical. But there have also been **negative repercussions: the Cinema Fund's International Department was eliminated, which undermined the German–Russian Co-Development Fund and two joint film academies, with France and Italy, which were established in 2011–2012.** No legal successor on the Russian side has been announced.

Financing of film production and distribution through repayable Cinema Fund loans is the most important innovation of the past two years. In 2012, the first rules were approved for calculating the shares of revenue from films made with state support which were to be repaid by Russian film industry leaders. These ranged from 5% to 50% of receipts. But since 2013, those rules have become stricter, the budget acquiring a **line on "financing on the basis of fully repayable loans". In 2013, 63% of the Fund's budget went to grants, and only 12% to fully repayable loans.**

In 2014, those portions were 39% and 40%, respectively. That motivates Russian producers to create products for which there is more demand on the market and recoup their costs.

Film Production

Russian filmmaking, bolstered by reasonably stable state support, is developing rapidly. In 2012–2013, around 700 films were being made each year, of which 400 were documentaries, over 100 were animated pictures, and over 200 were full-length feature films, including those intended for cinema distribution (around 90 per year) and those intended for television broadcast, the video market, and online streaming.

The system now in place for providing state financing for film production has allowed production budgets to grow without an increase in government money allocated to support the film industry and has led to an increase in the number of successful films. The total budget for Russian feature films released in 2012 was RUB 8.3 billion, and RUB 10.8 billion in 2013. Meanwhile, the funding from the federal budget was RUB 2.3 billion and RUB 2 billion, respectively. While in 2010, there were 11 films with box office receipts exceeding their production budgets, in 2011 there were 15, and in 2012–2013 there were 20. Leading filmmakers who receive state support consistently bring in over 80% of box office receipts for Russian films distributed domestically. The number of films made is growing steadily, including films released without government support. Over the past few years, such companies as Bazelevs, CTB, Melnitsa Animation Studio, and Enjoy Movies have been among those grossing the highest at the box office. All of these companies are recognized as industry leaders and receive Cinema Fund support. However, the new terms for state support in the form of repayable loans may prove challenging even for them, because most Russian films do not recoup their costs at the box office.

The film production sphere also remains problematic. The closure of **the Cinema Fund's International Department** curtailed the growth in the number of co-productions made with foreign partners which had begun in 2012. Six such films came out in 2012, and only two in 2013.

Technical framework for film production

Russia's film production infrastructure is concentrated in Moscow and, to a lesser extent, in St. Petersburg.

As of mid-2014, there were over 20 actively operating film studios in the country, housing around 110 sound stages. The biggest are Mosfilm and Cinelab (in partnership with My Studio), which offer a full range of film production services for both the shooting and post-production phases. The majority of state-run film studios (with the exception of Mosfilm) have obsolete equipment. They are in need of modernization and an updated approach to business processes. Most of them do not provide services to outside organizations. In 2012 and 2013, steps were taken to modernize

two of the oldest studios – Gorky Film Studio and Lenfilm – but they are yet to be transformed into modern film factories.

Meanwhile, the private sector is growing. Moscow’s biggest studio, Amedia, boasts 16 sound stages and has recently been joined by another privately-owned giant, Glavkino, which has 10. In this competitive environment, Russian World Studios shut down its production base in Moscow in 2012 and focused on its operations at its St. Petersburg film studio, though abandoning plans to expand it. Notably, most studios with sound stages today are booked primarily by television projects, rather than cinema projects.

In addition to studios, a large number of film service companies operate on the market. The biggest (in terms of the range of services provided) is 29 February, which offers all types of shooting and post-production services, except film processing and film printing. Overall, with the transition to digital distribution nearly complete, film processing laboratories are being ousted by digital mastering and editing studios (there are already 14 such studios in Russia).

Cinema Exhibition

By 2014, 93% of Russian cinemas (1,010 out of 1,087) had digital screens, and of 3,466 commercial cinema screens, 2,974 were digital. As of the beginning of 2014, 75% of cinemas had a digital projector for every screen, and only 7% of cinemas had no digital screens. All films in 2014 were released in either digital or hybrid format. Only 9% of releases were also printed on celluloid. In 2014, the mass transition to new technologies will be completed. Russian exhibitors have managed the switch without large-scale assistance from VPF-type¹ schemes (only the biggest cinema chains were able to conclude such agreements, without publicizing the deals).

The expansion of film exhibition infrastructure in Russia is now moving in two directions: the transition to digital at community centres in small towns (with support from regional and municipal governments) and the opening of chain outlets in retail and entertainment centres. Small cities (with populations under 100,000) will continue to hold the most potential for the expansion of Russian cinema chains: over 70% of the population in such cities currently has no access to film exhibition services. Meanwhile, in many big cities, competition is quite intense (screen density in cities with populations over one million has reached 4.8 per 100,000 residents).

On the competitive exhibition market, while average admissions and box office receipts are declining, companies are trying to attract the attention of audiences by offering new concepts. For instance, in 2012–2014, IMAX, 4DX, D-Box, Auro and Atmos technologies started to spread across Russia, as well as chains offering luxury viewing experiences. That kind of segmentation will increase in coming years, helping cinemas and chains to stand out against their competitors.

¹ Virtual Print Fee (VPF)

There are over 553 players on the Russian film exhibition market, with chains making up only 17% of them (although they manage 73% of screens). The biggest cinema chains are Cinema Park, Formula Kino, and Karo Film. They have all recently gone through mergers, acquisitions, or changes in ownership. In 2011, Cinema Park acquired the KinoStar chain; in 2012, Formula Kino and Kronverk Cinema joined forces, while Karo Film was purchased from the Karo Group (a film production and distribution group) by the Baring Vostok and UFG Asset Management investment funds; in November 2014, the sale of Cinema Park was announced.

Distribution

The digital revolution in filmmaking around the world has allowed films to be screened at lower cost and has helped to increase the number of independent players on the Russian market experimenting with both wide and limited releases. But by 2014, digital distribution's ability to expand the Russian film business and increase distribution had been exhausted. In 2013, there were 490 films in Russian distribution, and in the first half of 2014, there were 220. Evidently, the time for experimenting has come to an end, and for certain of the oldest and strongest independent distributors, it has ended unsuccessfully. Cinema Without Frontiers and Carmen both left the market. The number of companies releasing alternative content programmes on the big screen is also shrinking. In 2014, only specialized companies were active in this segment. At the same time, the distinguishing feature of this type of distribution has become clearer: such projects have very long screen lives.

Digital technologies have also propelled the development of regional filmmaking, based on private investment and support from regional government budgets. The films being made, often in languages spoken locally in a particular region of Russia, are shown in regional cinemas and able to make a return on investment. The Sakha Republic (Yakutia) and Buryatia have the most highly developed local film industries, which attracted 132,000 cinemagoers to locally made films in those two republics and grossed RUB 27 million at the box office in 2013. Local films are being shown in more regions and enjoying more popularity among cinemagoers, motivating producers to consider exporting their films outside their republics of origin and even outside Russia. In the near future, we can expect that producers from Siberia and the Far East will move into culturally similar Asian markets, the bulk of such exports being commercial films.

Russian animation is also achieving greater export potential. One example was *The Snow Queen*, which was the most successful Russian film in EU distribution from 2011 to 2013. Nevertheless, Russia's main export to Europe remains art-house projects, which attract several times more viewers abroad than they do at home. The former Soviet countries and France continue to be the most important European markets for Russian releases.

The Russian domestic film distribution market stalled in 2011–2012: the number of tickets sold fell by 2% in 2011, with zero growth in 2012.

Growth then resumed, with 176 million admissions in 2013 (up 10% on 2012), and 91 million in the first half of 2014 (up 6% on the first half of 2013). To date, box office receipts have risen 10% every year, reaching RUB 42.3 billion in 2013 and RUB 23 billion in the first half of 2014. However, currency fluctuations (as can already be seen this year) will most likely result in a stagnation or even reduction in box office receipts, assessed in US dollars. There is also a danger that the growth of demand for films will halt. Cinema chains are expanding more slowly; the digital transition which spurred film distribution in recent years is almost complete; and the approaching demographic gap, with a shrinking of the 18–25 age group (who visit cinemas most frequently), is starting to have an effect on distribution.

Home video

Sales statistics for the Russian home video market have not been kept since *Videomagazine* shut down in 2011, but experts say that fewer films are being released on physical media. In 2010–2012, category A films on Blu-ray (BD) had average production runs of 5,000–10,000, but in 2014, that volume fell to 2,000–3,000. DVD production volumes were similarly reduced for the same category of release, from an average of 100,000 copies to between 30,000 and 40,000. The chief reason for the collapse of the market is a decrease in the number of sales outlets for discs in Russia. Several specialized sellers have either left the market or closed down stores, and big electronics chains are removing shelves holding DVDs and BDs, as are the hypermarkets that facilitated the rapid growth in disc sales in 2006–2007.

The number of titles released on DVD is not decreasing as quickly. Around 2,000 are released in Russia each year. The recently introduced **Blu-ray format has failed to achieve its predecessor's level of popularity** because it was the first to suffer from the decrease in mass disc sales by chain stores: the list of Blu-ray releases was cut by a third in 2014, from 300 to 200 titles.

The Russian licensed market for home video clearly gravitates towards feature films, but a different breakdown can be seen across DVDs **and BDs. DVDs focus more on children's programming and animation**, while BDs offer more blockbuster, high-budget fare, including TV series and documentary films. In the DVD segment, the balance between new releases (films made within the past two years) and films from the existing catalogue has been fairly even. On the other hand, since 2012, the Blu-ray market has showed a trend towards releasing fewer archive titles. In 2014, their share of releases decreased to 26%.

Every year, Russian producers account for a bigger slice of the home video market by the number of titles released, while films from other European countries are slipping down the ranks. This is due to video distributors, mostly those releasing independent and art-house films, **leaving the market. The majors' representation on the video market poses yet another problem. Russian distributors' contracts with Hollywood studios are expiring, and the new ones are being signed for shorter terms.**

There are currently around 20 video distributors in Russia, the biggest of which are VideoService, Noviy Disk, Lizard Cinema Trade, and CP Distribution. In the coming years, the entire market may shrink to 3–5 publishers, who will most likely concentrate on putting out new releases and expensive collectors' editions from famous film franchises.

Video on demand

Meanwhile, video on demand (VoD) is coming to replace home video released on physical media. VoD is growing very rapidly. In 2012, iKS Consulting estimated that video on demand sales in Russia totalled RUB 1.13 billion. In 2013, that figure grew to RUB 2.79 billion, and then to RUB 2.32 billion in just the first half of 2014.

Several factors have contributed to this trend. Smart TV is gaining better market penetration: in 2013, Russia had around 4.2 million televisions connected to the Internet. The legislative framework has been **reinforced, with the sector seeing positive results from the 'anti-piracy law'**. **Providers are expanding their libraries of HD and 3D content.** Customer loyalty is setting in, and people are getting used to using VoD services, and are therefore more willing to pay for content, especially in the form of subscriptions.

In 2013, online film streaming services claimed the largest share of the video on demand market (58%), followed by VoD operators and content stores (26% and 16%, respectively).

Therefore, online streaming services are the biggest players – five companies each hold more than 5% of the market (ivi.ru, Play (or Okko), Tvigle, Videomore, and Zoomby). IPTV operator Rostelecom and the Tricolor satellite service are likewise among the heavyweights. The iTunes Store also occupies a strong position in Russia. As of the first half of 2014, just one year after entering the Russian market, it earns 13% of video on demand revenues. Google Play, which appeared in Russia at around the same time, occupies only 3% of the market.

Television distribution

Another arena for film sales in Russia is television distribution, which has become a bigger and bigger concern for Russian producers and distributors in recent years, as it was one reason behind the closure of the biggest independent distributors (Cinema Without Frontiers and Carmen). The problem is that selling rights to show films on television has long been an important source of income for rights holders. But the financial situation of the biggest channels is rapidly deteriorating, due to shrinking audiences. The 2008–2009 financial crisis also led to reduced advertising revenue. As a result, television channels are buying far less cinematic content. According to TNS Russia, Channel One cut its film programming by 2.3 percentage points between 2010 and 2013, Rossiya 1 cut film content by 3.8 points, and NTV by 14. And although most channels from the second group of ten in the rankings for the period examined increased the share of films in the programming broadcast over their networks, their

earnings – and consequently the prices they offer for films – are unable to make up for losses rights holders are experiencing due to reduced purchasing by the leading channels, who not only make money on advertising, but also receive state subsidies.

The most feature film programming is seen on public channels like Zvezda (films made up over 47% of its programming in 2013), TV 3 (42%), and TV Centre (30%). But the potential audience figures for films broadcast on those channels are far from the highest, much like the ratings of the channels themselves.

The delay of the deadline for transitioning to digital broadcasting from 2015 to 2019 may further reduce the volumes of expensive content purchased by the leading television channels comprising the first multiplex, given that the terms for subsidizing their broadcast of digital and analogue signals have also changed. Members of the second multiplex, on the contrary, will save money thanks to the delay. They will not have to pay for broadcasting in both analogue and digital formats until 2018, because for now, they can broadcast only in analogue.

At the same time, non-terrestrial specialized channels in Russia are quickly gaining popularity, increasing their audiences, both potential (those subscribed to pay TV networks) and actual (those watching specific channels at least once per month), and expanding their range of offerings. Consequently, up until now, the non-**terrestrial channels' monetizing** potential has been expanding, enabling them to use more sources of financing to purchase content. But the adoption of Federal Law No. 270-FZ, dated 21 July 2014, which bans advertising by channels that offer only paid access, means that situation will change from 1 January 2015. It is highly likely that the prices offered by non-terrestrial channels for content will fall even farther in the light of their reduced means, though purchase volumes will not decline, because the advertising ban will force channels to increase subscription fees for their services, which means they will need to motivate viewers with higher quality offerings.

Yet another law that will have an impact on purchasing for television is the law limiting the share of foreign capital in media outlets (No. 305-FZ, dated 14 October 2014). This will affect CTC Media and the Disney Channel, which have significant shares of foreign capital and will be forced to reduce them to the prescribed 20%.

Conclusions

Since we published our last report in 2012, the Russian film industry has undergone several important changes.

The rules by which state support is granted to film production changed yet again, in a way that was largely welcomed by the industry due to the greater transparency of the principles for selecting projects. The system created in 2010 for offering financial support to leading studios has helped to strengthen the film production sector and increase the number of Russian films being made, without any significant increase in state support: producers with the official status of recognized leader have found it easier to attract additional investment. At the same time,

the new rules for government loans issued for film production and distribution will be a challenge for Russian producers.

One negative result of the reforms has been Russia's refusal to honour its obligations under recently created joint funds and film academies with France, Germany, and Italy, as well as a general reduction in attention to co-productions on the part of the state and, consequently, a decrease in such productions.

By 2014, the transition to digital distribution and exhibition technologies was almost complete. That process triggered a wave of experimentation with schedules: larger numbers of films, with greater print volumes, have started to be released on the big screen, even including some films from the 1990s, never before shown in Russian cinemas but which became legends during the video salon era. But the period of experimentation came to an end when it became clear that an increased number of films does not lead to increased admissions. Some distributors were forced to close up shop, for reasons including problems with the television market, where prices and purchases fell, and also on the home video market, where demand for physical media is plummeting fast. Cinemas that have failed to equip themselves for digital projection are going out of business due to the lack of celluloid copies in distribution.

Finally, Russian anti-piracy laws have been strengthened in the audiovisual sector, which has had the biggest impact on the video on demand segment. Audiences are turning more frequently to VoD services, which are replacing traditional home video: DVDs are being superseded by subscriptions to online services, and Blu-ray discs are being upstaged by HD versions of films available in content stores.

Overall, most of the changes on the market have been predictable in nature, following the path of global trends. The only unusual feature is the system for state support of film production, focused on the leading companies and on producing commercially successful Russian films. The overall inward focus of government policy in this country is well reflected in its treatment of film production, and also in the support for quotas for domestic film production, an idea that never leaves the agenda.

SYNTHÈSE DE L'ÉTUDE

Cadre législatif

La Fédération de Russie dispose d'un cadre législatif qui définit la base de la législation sur le droit d'auteur et régleme nte le secteur cinématographique. Au fil du temps, ce cadre est régulièrement amélioré et élargi afin de permettre aux cinéastes russes de relever les nouveaux défis auxquels ils sont confrontés.

Les principes fondamentaux de la législation sur le droit d'auteur sont définis dans la Partie IV du Code civil de la Fédération de Russie, entré en vigueur le 1^{er} janvier 2008, qui prévoit qu'en Russie, les auteurs d'une œuvre audiovisuelle sont le scénariste, le réalisateur et le compositeur de la musique créée spécialement pour le film en question.

Les relations entre l'État et l'industrie cinématographique sont régies par la loi spéciale n° 126-FZ du 22 août 1996 relative aux aides d'État en faveur du cinéma dans la Fédération de Russie et dont la principale disposition est la définition d'un « film national ». Seuls les films qui répondent aux critères énumérés peuvent bénéficier des aides de l'État à la production, à la distribution et à l'exploitation (pouvant atteindre 70 % du coût estimé). Les producteurs de films nationaux peuvent également être exonérés de TVA (18 %) sur l'ensemble du cycle de vie du film, de la production à la distribution et à d'autres formes de vente.

Des avantages similaires sont prévus pour les sociétés impliquées dans l'exploitation des films : en Russie, les cinémas sont exemptés de la TVA sur les recettes générées par les ventes de billets. En outre, afin de faciliter la transition vers le numérique, depuis 2011, les cinémas russes ne sont pas soumis aux droits de douane lorsqu'ils importent des projecteurs numériques.

Lorsque des œuvres cinématographiques ou audiovisuelles sont exploitées ou d'une quelconque façon distribuées (en salles, à la télévision, sur disque ou par l'intermédiaire de services de vidéo à la demande), les téléspectateurs doivent être informés de la catégorie d'âge à laquelle l'œuvre en question est destinée. Des exigences de classification applicables à tous les produits d'information en Russie ont été introduites par la loi fédérale n° 436-FZ du 22 décembre 2010 relative à la protection des enfants contre les informations préjudiciables à leur santé et à leur développement.

La loi fédérale 187-FZ du 2 juillet 2013, dite « loi anti-piratage », revêt également une grande importance pour l'industrie. Elle ajoute à la loi relative à l'information et à la Partie IV du Code civil des dispositions relatives à la responsabilité des intermédiaires de l'information eu égard à la distribution en ligne de produits dépourvus de licence et établit des règles permettant au Tribunal municipal de Moscou de bloquer un site web lorsque de tels produits figurent sur ses pages et que le propriétaire du site en question refuse de les supprimer. Dans leur formulation initiale, ces règles concernent uniquement les produits audiovisuels, mais à partir du 1^{er} mai 2015, elles s'étendront également à tous les types d'œuvres protégées par le droit d'auteur et les droits connexes, à l'exception de la

photographie. La Douma débat également d'amendements qui permettraient de bloquer de façon permanente les sites web contre lesquels le même ayant droit a engagé, à plusieurs reprises, des poursuites et a eu gain de cause. Dans de tels cas, des transactions extrajudiciaires sont également possibles si le propriétaire du site répond dans les 24 heures à une demande de l'ayant droit et supprime le contenu dépourvu de licence de ses pages web.

Aides d'État au cinéma

L'agence exécutive fédérale chargée du cinéma en Russie est le ministère de la Culture, qui dispose d'un service dédié à l'industrie cinématographique. Il joue le rôle de régulateur de l'industrie (délivrant les certificats de films nationaux et les certificats de distribution requis pour sortir les films en salles et en vidéo). Il accorde également une aide financière à la production, à la distribution et à la commercialisation. Depuis 2010, le ministère de la Culture partage ce rôle d'aide au financement avec le Fonds fédéral de soutien social et économique à la cinématographie nationale (le Fonds pour le cinéma).

Depuis 2013, les responsabilités respectives du ministère de la Culture et du Fonds pour le cinéma eu égard aux aides accordées par l'État à la production cinématographique sont plus clairement définies. Le premier est chargé de subventionner les premiers films ainsi que les films expérimentaux, pour enfants et documentaires, tandis que le second finance les longs métrages commerciaux et les films d'animation réalisés par des producteurs indépendants et les sociétés dites chefs de file de l'industrie cinématographique russe. Ces chefs de file sont sélectionnés chaque année selon des critères stricts, notamment l'évaluation du succès des films de chaque société, leur valeur artistique et les antécédents globaux de la société.

Le système de sélection des projets qui demandent le soutien de l'État a également été modifié en 2013. Depuis les deux dernières années, il repose sur des sessions publiques de *pitching*, aussi bien pour les films indépendants que pour les projets des chefs de file désignés de l'industrie cinématographique nationale.

Les règles régissant les aides accordées par l'État aux documentaires ont été renforcées. Dans une tentative visant à améliorer la qualité et l'attrait pour le public, il a été proposé que, comme condition préalable à l'octroi d'aides de l'État, les producteurs soient tenus de conclure un accord de pré-vente pour le film en question avec une chaîne de télévision dont la couverture s'étend sur au moins la moitié des régions de la Fédération de Russie. Toutefois, par la suite, seule l'exigence selon laquelle le film doit être diffusé publiquement à la télévision (sur une chaîne hertzienne ou par satellite), dans les cinémas ou les clubs, en ligne, ou même simplement lors de festivals du film, est restée dans la résolution adoptée par le gouvernement.

Dans l'ensemble, les réformes de 2013 ont rencontré un écho favorable auprès de la communauté cinématographique. La procédure de distribution des aides accordées par l'État à la production

cinématographique apparaît désormais systématique et logique. Mais elles ont également eu des répercussions négatives : le service International du Fonds pour le cinéma a été supprimé, ce qui a sapé le Fonds de co-développement germano-russe ainsi que deux écoles de cinéma qui avaient été créées en 2011-2012 avec la France et l'Italie. Aucun successeur légal n'a été annoncé du côté russe.

Le financement de la production et de la distribution des films au moyen de prêts remboursables octroyés par le Fonds pour le cinéma est l'innovation la plus importante de ces deux dernières années. Les premières règles de calcul des parts des recettes des films réalisés avec le soutien de l'État qui devaient être remboursées par les chefs de file de l'industrie cinématographique russe ont été approuvées en 2012. Ces parts représentaient de 5 à 50 % des recettes. Mais ces règles sont devenues plus strictes en 2013, le budget acquérant une ligne dédiée au « financement sur la base de prêts intégralement remboursables ». En 2013, 63 % du budget du Fonds est allé à des subventions, et seulement 12 % à des prêts entièrement remboursables. En 2014, ces proportions sont respectivement de 39 et 40 %. Les producteurs russes sont ainsi poussés à créer des produits pour lesquels il existe une plus forte demande sur le marché et à récupérer leurs investissements.

Production cinématographique

Le cinéma russe, soutenu par les aides relativement stables de l'État, se développe rapidement. En 2012-2013, environ 700 films ont été réalisés par an, dont 400 documentaires, plus de 100 films d'animation et plus de 200 longs métrages, y compris ceux destinés à la distribution en salles (environ 90 par an) et ceux destinés à la télédiffusion, au marché de la vidéo et à la diffusion en flux continu sur internet.

Le système désormais en place en matière de financement accordé par l'État à la production cinématographique a permis aux budgets de production de se développer sans augmenter les sommes allouées par l'État pour soutenir l'industrie cinématographique et a conduit à une augmentation du nombre de films à succès. Le budget total des longs métrages russes sortis en salles était de 8,3 milliards RUB en 2012 et de 10,8 milliards RUB en 2013. Dans le même temps, le financement provenant du budget fédéral s'élevait respectivement à 2,3 et à 2 milliards RUB. En 2010, 11 films ont vu leurs recettes au guichet dépasser leurs budgets de production. Ce nombre est passé à 15 en 2011 et à 20 en 2012-2013. Les principaux cinéastes, qui reçoivent de façon constante des aides de l'État, représentent généralement plus de 80 % des recettes au guichet pour les films russes distribués nationalement. Le nombre de films réalisés ne cesse d'augmenter, y compris ceux qui ne bénéficient pas d'aides du gouvernement. Ces dernières années, Bazelevs, CTB, Melnitsa Animation Studio et Enjoy Movies figurent parmi les sociétés ayant réalisé les plus grosses recettes au guichet. Toutes ces sociétés sont reconnues comme des chefs de file de l'industrie et reçoivent l'aide du Fonds pour le cinéma. Toutefois, les nouvelles modalités d'octroi des aides d'État, qui prennent désormais la forme de prêts remboursables, peuvent

constituer un défi même pour elles dans la mesure où les recettes au guichet de la plupart des films russes ne leur permettent pas de rentrer dans leurs frais.

La sphère de la production cinématographique demeure également problématique. La fermeture du service International du Fonds pour le cinéma a fortement réduit le nombre de coproductions réalisées avec des partenaires étrangers, lequel progressait depuis 2012. Six coproductions sont sorties en 2012, contre seulement deux en 2013.

Cadre technique de la production cinématographique

L'infrastructure de la production cinématographique russe est concentrée à Moscou et, dans une moindre mesure, à Saint-Pétersbourg.

A la mi-2014, le pays compte plus de 20 studios de cinéma actifs pour environ 110 plateaux de tournage insonorisés. Les plus importants sont Mosfilm et Cinelab (en partenariat avec My Studio) ; ils offrent une gamme complète de services de production cinématographique pour les phases de prise de vue et de post-production. La majorité des studios de cinéma gérés par l'État (à l'exception de Mosfilm) ont des équipements obsolètes. Ils doivent être modernisés et actualiser leur approche des processus opérationnels. La plupart d'entre eux ne proposent pas de services aux organismes externes. En 2012 et 2013, des mesures ont été prises pour moderniser deux des plus anciens studios – Gorki Film Studio et Lenfilm – mais ils n'ont pas encore été transformés en usines cinématographiques modernes.

Pendant ce temps, le secteur privé se développe. Le plus grand studio de Moscou, Amedia, dispose de 16 plateaux de tournage insonorisés et a récemment été rejoint par un autre géant privé, Glavkino, qui en compte 10. Dans cet environnement concurrentiel, Russian World Studios a fermé sa base de production à Moscou en 2012 et concentré ses activités dans son studio de cinéma de Saint-Pétersbourg, tout en renonçant à ses projets pour le développer. Il est intéressant de noter que la plupart des studios disposant de plateaux de tournage insonorisés sont principalement réservés par des projets pour la télévision, plutôt que par des projets destinés au cinéma.

En plus des studios, un grand nombre de sociétés de services cinématographiques est actif sur le marché. La plus importante (du point de vue de l'éventail des services offerts) est 29 February ; elle propose tous les types de services de prise de vue et de post-production, à l'exception du traitement et du tirage des films. De façon générale, la transition à la distribution numérique étant presque terminée, les laboratoires de traitement des films sont évincés par les studios de mastering et de montage numérique (la Russie compte déjà 14 de ces studios).

Exploitation en salles

En 2014, 93 % des cinémas russes (1 010 sur 1 087) disposent d'écrans numériques, et sur 3 466 salles de cinéma commerciales, 2 974

sont numériques. Début 2014, 75 % des cinémas disposent d'un projecteur numérique pour chaque écran, et seuls 7 % des cinémas n'ont aucune salle numérique. Tous les films sortis en 2014 ont été distribués au format numérique ou hybride, à peine 9 % d'entre eux étant également distribués en copies argentiques. En 2014, la transition de masse vers les nouvelles technologies se termine. Les exploitants russes ont réussi à effectuer ce passage sans bénéficier de l'aide à grande échelle des régimes de type VPF² (seules les plus grandes chaînes de cinéma ont pu conclure de tels accords, dont les modalités ne sont pas rendues publiques).

L'expansion de l'infrastructure des salles de cinéma en Russie suit désormais deux directions : la transition vers le numérique dans les centres communautaires des petites villes (avec l'aide des gouvernements régionaux et municipaux) et l'ouverture de chaînes dans les centres commerciaux et centres de loisirs. Les petites villes (comptant moins de 100 000 habitants) présentent toujours le plus grand potentiel en matière d'expansion des chaînes de cinéma russes : plus de 70 % de la population dans ces villes n'a actuellement pas accès aux salles de cinéma. Parallèlement, dans de nombreuses grandes villes, la concurrence est très intense (la densité d'écrans dans les villes de plus d'un million d'habitants atteint 4,8 pour 100 000 habitants).

Sur le marché concurrentiel de l'exploitation, alors que la fréquentation moyenne et les recettes au guichet reculent, les sociétés cherchent à attirer l'attention du public en proposant de nouveaux concepts. Par exemple, en 2012-2014, les technologies IMAX, 4DX, D-Box, Auro et Atmos ont commencé à se répandre à travers la Russie, ainsi que les chaînes proposant des expériences de projection de luxe. Ce genre de segmentation augmentera dans les prochaines années, aidant les cinémas et les chaînes à se démarquer de leurs concurrents.

Le marché russe de l'exploitation compte plus de 553 acteurs, les chaînes n'en représentant que 17 % (mais gérant 73 % des écrans). Les plus grandes chaînes de cinéma sont Cinema Park, Formula Kino et Karo Film. Elles ont récemment connu des fusions, acquisitions et autres changements de propriétaire. En 2011, Cinema Park a acheté la chaîne KinoStar ; en 2012, Formula Kino et Kronverk Cinema ont uni leurs forces, alors que Karo Film était achetée au groupe Karo (groupe de production et de distribution de films) par les fonds d'investissement Baring Vostok et UFG Asset Management ; en novembre 2014, la vente de Cinema Park a été annoncée.

Distribution

La révolution numérique que connaît l'industrie cinématographique dans le monde entier a permis aux films d'être projetés à moindre coût et a contribué à augmenter le nombre d'acteurs indépendants sur le marché russe expérimentant des sorties aussi bien à grande échelle qu'à une échelle plus limitée. Mais en 2014, la capacité de la distribution numérique

² Virtual Print Fee (VPF)

à développer l'industrie cinématographique russe et à élargir la distribution est épuisée. La distribution russe comptait 490 films en 2013 et 220 films au premier semestre 2014. De toute évidence, le temps de l'expérimentation a pris fin, et pour certains des distributeurs indépendants les plus anciens et les plus solides, il s'achève sans succès. Cinema Without Frontiers et Carmen ont quitté le marché. Le nombre de sociétés sortant du contenu alternatif sur grand écran est également en baisse. En 2014, seules des sociétés spécialisées sont actives sur ce segment. Dans le même temps, la particularité de ce type de distribution s'est affirmée : ces projets ont une très longue durée de vie à l'écran.

Les technologies numériques ont également favorisé le développement de la cinématographie régionale, basée sur les investissements privés et les aides des gouvernements régionaux. Les films réalisés, souvent dans des langues parlées localement dans une région de Russie, sont projetés dans des cinémas régionaux et parviennent à récupérer les sommes investies. Les Républiques de Sakha (Iakoutie) et de Bouriatie disposent des industries cinématographiques locales les plus développées : en 2013, au total, 132 000 spectateurs ont vu les films réalisés localement dans ces deux républiques et les recettes au guichet ont atteint 27 millions RUB. Les films locaux sont présentés dans de plus en plus de régions et jouissent d'une popularité croissante parmi les cinéphiles, ce qui pousse les producteurs à envisager d'exporter leurs films hors de leurs républiques d'origine, voire hors de la Russie. Dans un proche avenir, nous pouvons nous attendre à ce que les producteurs de Sibérie et d'Extrême-Orient se déplacent sur les marchés asiatiques culturellement similaires, la majeure partie de ces exportations concernant des films commerciaux.

L'animation russe renforce également son potentiel d'exportation. Citons, par exemple, *The Snow Queen* qui est le film russe distribué dans l'UE à avoir connu le plus de succès de 2011 à 2013. Néanmoins, le principal produit d'exportation de la Russie vers l'Europe reste les projets art et essai qui attirent beaucoup plus de spectateurs à l'étranger que dans leur pays. Les anciens pays soviétiques et la France continuent d'être les marchés européens les plus importants pour les sorties russes.

Le marché russe de la distribution cinématographique nationale a stagné en 2011-2012 : le nombre de billets vendus a diminué de 2 % en 2011, et la croissance a été nulle en 2012. La croissance a ensuite repris, avec 176 millions d'entrées en 2013 (+10 % par rapport à 2012), et 91 millions au premier semestre 2014 (en hausse de 6 % par rapport au premier semestre 2013). Jusqu'à présent, les recettes au guichet ont augmenté de 10 % par an, pour atteindre 42,3 milliards RUB en 2013 et 23 milliards RUB au premier semestre 2014. Cependant, les fluctuations monétaires (comme on peut déjà le voir cette année) entraîneront très probablement une stagnation, voire une diminution, des recettes au guichet en dollars américains. La croissance de la demande en films risque également de s'arrêter : les chaînes de cinéma se développent plus lentement ; la transition numérique qui a stimulé la distribution cinématographique ces dernières années est presque terminée ; et le déficit démographique qui approche, avec un rétrécissement du groupe

d'âge des 18-25 ans (celui qui va le plus au cinéma), commence à avoir un effet sur la distribution.

Vidéo

Les statistiques de ventes pour le marché russe de la vidéo ne sont plus gérées depuis l'arrêt de *Videomagazine* en 2011, mais les experts estiment que moins de films sortent sur support physique. En 2010-2012, les films de catégorie A sur Blu-ray (BD) étaient tirés en moyenne entre 5 000 et 10 000 exemplaires, mais ce volume est tombé à 2 000-3 000 exemplaires en 2014. Les volumes de production des DVD ont également diminué pour la même catégorie de sortie, d'une moyenne de 100 000 copies à une moyenne comprise entre 30 000 et 40 000 copies. La principale raison de l'effondrement du marché est la diminution du nombre de points de vente de disques en Russie. Plusieurs vendeurs spécialisés ont soit quitté le marché soit fermé des magasins, et les grandes chaînes d'électronique retirent les étagères consacrées aux DVD et BD, de même que les hypermarchés qui avaient favorisé la croissance rapide des ventes de disques en 2006-2007.

Le nombre de titres sortis sur DVD ne diminue pas aussi rapidement. Environ 2 000 titres sortent chaque année en Russie. Le format Blu-ray récemment introduit n'a pas réussi à atteindre le niveau de popularité de son prédécesseur car il a été le premier à souffrir de la baisse des ventes en masse de disques par les magasins de chaîne : la liste des sorties en Blu-ray a été réduite d'un tiers en 2014, passant de 300 à 200 titres.

Le marché russe sous licence de la vidéo s'oriente clairement vers les longs métrages, mais avec une répartition différente selon qu'il s'agit de DVD ou de BD. Les DVD se concentrent davantage sur l'animation et les programmes pour enfants, tandis que les BD comptent plus de superproductions, de films à gros budget, y compris les séries TV et les films documentaires. Sur le segment du DVD, la part des nouvelles sorties (films réalisés au cours des deux dernières années) et celle des films du catalogue existant est assez équilibrée. En revanche, depuis 2012, le marché du Blu-ray a montré une tendance à la sortie de moins de titres d'archive. En 2014, leur part des sorties a chuté à 26 %.

Chaque année, en nombre de titres sortis sur le marché de la vidéo à domicile, la part des producteurs russes progresse tandis que les films d'autres pays européens glissent vers le bas du classement. Cette situation est due au fait que les distributeurs de vidéo, principalement ceux sortant des films indépendants et des films art et essai, quittent le marché. La représentation des majors sur le marché de la vidéo pose encore un autre problème. Les contrats des distributeurs russes avec les studios d'Hollywood arrivent à échéance, et les nouveaux contrats sont signés pour des durées plus courtes. La Russie compte actuellement environ 20 distributeurs de vidéo, les principaux étant VideoService, Noviy Disk, Lizard Cinema Trade et CP Distribution. Dans les prochaines années, l'ensemble du marché pourrait se réduire à 3-5 éditeurs, qui se concentreront très probablement sur la publication de nouveaux films et de coûteuses éditions *collector* de célèbres franchises de films.

Vidéo à la demande

Dans le même temps, la vidéo à la demande (VoD) commence à remplacer la vidéo à domicile disponible sur support physique. La VoD se développe très rapidement. iKS Consulting estime que le volume des ventes pour la vidéo à la demande en Russie s'élevait à 1,13 milliard RUB en 2012. Ce chiffre est passé à 2,79 milliards RUB en 2013, et à 2,32 milliards RUB pour le seul premier semestre de 2014.

Cette progression est due à plusieurs facteurs. La Smart TV ou télévision connectée améliore sa pénétration du marché : en 2013, la Russie comptait environ 4,2 millions de téléviseurs connectés à internet. Le cadre législatif a été renforcé, le secteur estimant que la « loi anti-piratage » a des résultats positifs. Les fournisseurs élargissent leurs bibliothèques de contenu HD et 3D. La fidélité des clients s'installe, les gens s'habituent à utiliser les services de VoD et sont donc plus disposés à payer pour du contenu, en particulier sous la forme d'abonnements.

En 2013, les services de diffusion en flux continu de films revendiquaient la plus grande part du marché de la vidéo à la demande (58 %), suivis par les opérateurs de VoD et les magasins de contenu (respectivement, 26 % et 16 %).

Par conséquent, les services de diffusion en flux continu sont les acteurs principaux – cinq sociétés détenant chacune plus de 5 % du marché (ivi.ru, Play (ou Okko), Tvigle, Videomore et Zoomby). L'opérateur d'IPTV Rostelecom et le service par satellite Tricolor figurent également parmi les poids lourds. L'iTunes Store occupe aussi une position forte en Russie. Au premier semestre 2014, un an seulement après son entrée sur le marché russe, il représente 13 % des revenus de la vidéo à la demande. Google Play, apparu en Russie à peu près à la même époque, n'occupe que 3 % du marché.

Distribution télévisuelle

Un autre domaine lié à la vente de films en Russie est la distribution télévisuelle. Ces dernières années, elle est devenue un problème de plus en plus préoccupant pour les producteurs et les distributeurs russes ; elle est en effet l'une des raisons de la fermeture des principaux distributeurs indépendants (Cinema Without Frontiers et Carmen). Le problème est que la vente des droits de diffusion des films à la télévision est, depuis longtemps, une source importante de revenus pour les ayants droit. Mais, du fait du recul des audiences, la situation financière des grandes chaînes se détériore rapidement. La crise financière de 2008-2009 a également entraîné une diminution des recettes publicitaires. En conséquence, les chaînes de télévision achètent beaucoup moins de contenu cinématographique. Selon TNS Russia, entre 2010 et 2013, Channel One a réduit sa programmation de films de 2,3 points de pourcentage, Rossiya 1 de 3,8 points et NTV de 14 points. Et bien que la plupart des chaînes du second groupe de dix dans le classement pour la période examinée aient augmenté la part des films dans la programmation diffusée sur leurs

réseaux, leurs recettes - et par conséquent les sommes qu'elles paient pour les films - sont incapables de compenser les pertes que les ayants droit subissent en raison de la réduction du nombre d'achats par les grandes chaînes, qui non seulement gagnent de l'argent par la publicité, mais aussi reçoivent des subventions de l'État.

La plus importante programmation de longs métrages se trouve sur les chaînes publiques comme Zvezda (les films représentaient plus de 47 % de sa programmation en 2013), TV 3 (42 %), et TV Centre (30 %). Mais les chiffres d'audience potentiels pour les films diffusés sur ces chaînes sont loin d'être les plus élevés, comme les audiences des chaînes elles-mêmes.

Le report de la date limite fixée pour le passage à la radiodiffusion numérique (de 2015 à 2019) est susceptible de réduire encore davantage les volumes de contenu onéreux acheté par les principales chaînes de télévision composant le premier multiplex, étant donné que les conditions liées à la subvention de la radiodiffusion simultanée de signaux numériques et analogiques ont également changé. Les membres du second multiplex, au contraire, feront des économies grâce à ce report : comme, pour l'instant, ils peuvent diffuser uniquement en analogique, ils ne devront payer pour la diffusion simultanée en analogique et en numérique qu'à partir de 2018.

Dans le même temps, les chaînes spécialisées non hertziennes russes gagnent rapidement en popularité, augmentent leurs audiences, à la fois potentielles (à savoir les personnes abonnées aux réseaux de télévision payante) et réelles (celles regardant une chaîne donnée au moins une fois par mois), et élargissent leur gamme d'offres. Par conséquent, jusqu'à présent, le potentiel de monétisation des chaînes non hertziennes s'est développé, leur permettant d'utiliser davantage de sources de financement pour acheter du contenu. Mais l'adoption de la loi fédérale n°270-FZ, du 21 juillet 2014, qui interdit la publicité sur les chaînes à accès exclusivement payant, signifie que la situation changera à partir du 1^{er} janvier 2015. Il est très probable que les prix proposés pour du contenu par les chaînes non hertziennes diminueront encore davantage, compte tenu de leurs moyens limités et malgré la stabilité des volumes d'achat. En effet, l'interdiction de la publicité obligera les chaînes à augmenter le montant de l'abonnement à leurs services, ce qui signifie qu'elles devront attirer les spectateurs avec des offres de meilleure qualité.

Les achats de contenu pour la télévision seront également affectés par la loi limitant la part des capitaux étrangers dans les médias (n° 305-FZ, du 14 octobre 2014). Cette disposition affectera CTC Media et Disney Channel, dont la part de capitaux étrangers est importante et qui seront contraintes de la ramener au niveau prescrit de 20 %.

Conclusions

Depuis la publication de notre dernier rapport en 2012, l'industrie cinématographique russe a connu plusieurs changements importants.

Les règles réglementant l'octroi des aides de l'État à la production cinématographique ont été modifiées une fois de plus, d'une manière largement saluée par l'industrie en raison de la plus grande transparence des principes appliqués à la sélection des projets. Le système créé en 2010 pour octroyer un soutien financier aux grands studios a contribué à renforcer le secteur de la production cinématographique et à augmenter le nombre de films russes réalisés, sans augmentation significative des aides de l'État : les producteurs ayant le statut officiel de chef de file reconnu ont réussi plus facilement à attirer des investissements supplémentaires. Dans le même temps, les nouvelles règles réglementant les prêts d'État accordés à la production et à la distribution des films constitueront un défi pour les producteurs russes.

Un résultat négatif des réformes est le refus de la Russie d'honorer ses obligations eu égard au fonds et aux écoles de cinéma récemment créés conjointement avec la France, l'Allemagne et l'Italie, ainsi qu'une diminution générale de l'attention portée aux coproductions de la part de l'État et, par conséquent, le recul de leur nombre.

En 2014, la transition vers les technologies de distribution et d'exploitation numériques est presque achevée. Ce processus a déclenché une vague d'expérimentation avec les programmations : des films plus nombreux, tirés en un plus grand nombre de copies, ont commencé à sortir sur le grand écran, y compris certains films des années 1990, jamais projetés auparavant dans les cinémas russes, mais qui sont devenus des légendes à l'époque de la vidéo à domicile. Mais la période d'expérimentation a pris fin lorsqu'il est devenu évident que l'augmentation du nombre de films n'entraîne pas une augmentation du nombre d'entrées. Certains distributeurs ont été contraints de fermer boutique, pour des raisons incluant des problèmes avec le marché télévisuel, sur lequel les prix et le nombre d'achats ont chuté, et aussi sur le marché de la vidéo à domicile, sur lequel la demande de supports physiques est en chute libre. Les cinémas qui ne sont pas équipés en projecteurs numériques doivent fermer leurs portes car la distribution ne propose pratiquement plus de copies celluloid.

Enfin, les lois anti-piratage russes ont été renforcées dans le secteur audiovisuel, ce qui a eu une très forte incidence sur le segment de la vidéo à la demande. Le public se tourne de plus en plus vers les services de VoD, qui remplacent la vidéo à domicile traditionnelle : les DVD sont supplantés par les abonnements aux services en ligne, et les disques Blu-ray sont éclipsés par les versions HD de films disponibles dans les magasins de contenu.

Dans l'ensemble, la plupart des changements survenus sur le marché étaient prévisibles car ils s'inscrivent dans la lignée des tendances mondiales. La seule particularité notable est le système d'aides de l'État à la production cinématographique, axé sur les grandes sociétés et sur la production de films russes à succès commercial. Le repli sur soi général de la politique du gouvernement se retrouve parfaitement dans son traitement de la production cinématographique, ainsi que dans le soutien aux quotas favorisant la production cinématographique nationale, une idée qui reste toujours d'actualité.

ZUSAMMENFASSUNG

Rechtsrahmen

Der Rechtsrahmen für den Filmsektor in der Russischen Föderation besteht aus mehreren Gesetzen, unter anderem einem Gesetz über das Urheberrecht und Gesetzen zur Regulierung des Filmsektors. Dieser Rahmen wurde in den vergangenen Jahren immer wieder verbessert und **erweitert und ermöglicht es den russischen Filmmachern, sich neuen Herausforderungen zu stellen.**

Die grundlegenden Prinzipien des Urheberrechts werden in Teil IV des Zivilgesetzbuchs der Russischen Föderation definiert, der am 1. Januar 2008 in Kraft trat. Teil IV des Zivilgesetzbuchs legt unter anderem fest, welche Personen in Russland als Urheber eines audiovisuellen Werkes gelten: Drehbuchautoren, Regisseure, Filmmusikkomponisten.

Die Beziehungen zwischen dem Staat und der Filmindustrie werden durch ein besonderes Gesetz geregelt, das Gesetz Nr. 126-FZ „Über die staatliche Unterstützung für das Kino in der Russischen Föderation“ vom 22. August 1996, das vor allem definiert, was unter einem „nationalen Film“ zu verstehen ist. Nur Filme, die den im Gesetz genannten Kriterien entsprechen, haben Anspruch auf staatliche Förderung für die Produktion, den Verleih und die Aufführung von Filmen (die staatliche Förderung kann bis zu 70 % der geschätzten Kosten betragen). Die Produzenten nationaler Filme können auch von der Mehrwertsteuer befreit werden (18 %), und zwar für die gesamte Dauer des Filmlebenszyklus, von der Produktion über den Verleih bis hin zu anderen Formen der Verwertung.

Ähnliche Privilegien gelten für die öffentliche Aufführung von Filmen: Kinos in Russland zahlen keine Mehrwertsteuer auf Einnahmen aus dem Kinokartenverkauf. Außerdem ist die Einfuhr digitaler Filmprojektoren seit 2011 von Zollgebühren befreit, um den Übergang zu digitalen Technologien zu beschleunigen.

Bei der Vorführung audiovisueller Werke oder beim Verleih (im Kino, im Fernsehen, auf DVD oder über Video-on-Demand-Dienste) müssen die Zuschauer darüber informiert werden, ab welchem Alter der betreffende Film freigegeben ist. Die Pflicht zur Angabe der Altersfreigabe wurde durch das föderale Gesetz Nr. 436-FZ „zum Schutz von Kindern vor für ihre Gesundheit und ihre Entwicklung schädliche Informationen“ vom 22. Dezember 2010 für alle Informationsprodukte eingeführt.

Das vor kurzem verabschiedete föderale „Anti-Piraterie“-Gesetz Nr. 187-FZ zum Schutz des geistigen Eigentums vom 2. Juli 2013, ist ebenfalls von großer Bedeutung für die Filmindustrie. Dieses Gesetz hat das Informationsgesetz und Teil IV des Zivilgesetzbuchs durch Bestimmungen über die Haftung von Informationsvermittlern für die Verbreitung von nicht lizenzierten Produkten im Internet ergänzt und Regeln für die Sperrung von Webseiten nach Anordnung des Moskauer Stadtgerichts festgelegt, falls solche Produkte auf ihren Seiten gefunden wurden und der Herausgeber der Seite sich weigert, sie zu entfernen. In ihrer ursprünglichen Fassung beziehen sich diese Vorschriften ausschließlich auf audiovisuelle Produkte. Aber ab dem 1. Mai 2015

werden sie für alle Arten von Werken gelten, die durch das Urheberrecht und verwandte Schutzrechte geschützt sind. Nur Fotos bleiben weiterhin ausgenommen. Die Staatsduma diskutiert derzeit auch **über** weitere **Verschärfung des Gesetzes**, die eine **permanente Schließung von Webseiten ermöglichen würde**, wenn ein Rechteinhaber mehr als einmal die betreffende Webseite erfolgreich **verklagt hat**. **In solchen Fällen gibt es auch Bestimmungen für eine außergerichtliche Einigung**, wenn der Herausgeber der Webseite innerhalb von 24 Stunden auf eine Beschwerde eines Rechteinhabers reagiert und den nicht lizenzierten Inhalt von seiner **Webseite löscht**.

Staatliche Förderung der Filmproduktion

Die Bundesbehörde, die in Russland für die Filmproduktion zuständig ist, ist das Kulturministerium. **Es verfügt sogar über** eine Abteilung, die sich der Filmindustrie widmet. Diese Abteilung hat gleichzeitig die **Funktion einer Regulierungsbehörde (sie erteilt die Filmzertifizierungen sowie Aufführ- bzw Vertriebsgenehmigungen, ohne die ein Film weder im Kino gezeigt noch über Video verwertet werden darf)**. Sie stellt auch Filmemachern **finanzielle Unterstützung für die Produktion, den Vertrieb und die Vermarktung von Filmen zur Verfügung**. **Seit 2010 teilt sich das Kulturministerium diese Förderaufgaben mit dem Bundesfonds für soziale und wirtschaftliche Unterstützung der nationalen Kinoindustrie (dem Kinofonds)**.

2013 wurden die Zuständigkeiten des Kulturministeriums und des Kinofonds für die staatliche Unterstützung der Filmproduktion präziser voneinander abgegrenzt. Das Kulturministerium ist nun zuständig für die **Förderung von Debütfilmen, Experimental-, Kinder- und Dokumentarfilmen**. Der Kinofonds finanziert dagegen kommerzielle **Kinospielfilme und Animationsfilme unabhängiger Produzenten und Filme sogenannter führender Filmemacher**. Die **Filme, die staatliche Förderung erhalten, werden jedes Jahr nach strengen Kriterien ausgewählt**, u. a. nach Besucherzahlen, dem **künstlerischen Wert** und der Gesamterfolgsbilanz des Filmproduktionsunternehmens.

Das System für die Auswahl staatlich geförderter Filmprojekte wurde 2013 ebenfalls verändert. In den letzten beiden Jahren beruhte das **Verfahren auf öffentlichen „Auswahlsitzungen“**, und zwar sowohl für die **Filme unabhängiger Produzenten als auch für Projekte der anerkannten führenden russischen Filmproduzenten**.

Die Regeln für die staatliche Förderung von Dokumentarfilmen wurden **verschärft**. Um die **Qualität der Filme und die Attraktivität für die Kinobesucher zu verbessern**, war **zunächst vorgeschlagen worden, die staatliche Förderung von Vorverkaufsvereinbarungen mit einem Fernsehsender abhängig zu machen**, dessen Sendebereich mindestens die **Hälfte der Regionen der Russischen Föderation abdeckt**. **Später wurde diese Voraussetzung in einer Entschließung der Regierung abgemildert**, und heute schreibt die Regelung nur noch vor, dass **staatlich geförderte Filme öffentlich im Fernsehen (entweder über terrestrische Kanäle oder**

über Satellit) gezeigt werden müssen, in Kinos oder Filmclubs, im Internet oder aber auch nur auf Filmfestivals.

Insgesamt begrüßte die Filmindustrie die Reformen des Jahres 2013. Das Verfahren für die Verteilung der Mittel aus der staatlichen Filmförderung erscheint insgesamt systematisch und logisch. Aber es gab auch einige negative Auswirkungen: Die internationale Abteilung des Kinofonds wurde abgeschafft, und dies bedeutete das Aus für den Deutsch-Russischen Co-Development-Fonds und zwei gemeinsam mit Frankreich und Italien betriebenen Filmakademien, die 2011–2012 gegründet worden waren. Auf russischer Seite gibt es bisher noch keinen Rechtsnachfolger.

Die Finanzierung von Filmproduktion und **-verleih über rückzahlbare Kinofonds-Darlehen** ist die wichtigste Neuerung der letzten beiden Jahre in **der staatlichen Filmförderung. 2012 wurden die ersten Vorschriften für die Berechnung der Anteile an den Einnahmen aus staatlich geförderten Filmen verabschiedet, die von den führenden russischen Filmproduzenten zurückgezahlt werden müssen.** Diese Anteile reichen von 5 % bis 50 % der Einnahmen. **2013 wurden diese Vorschriften verschärft.** Inzwischen gibt es sogar eine Haushaltslinie über die „Finanzierung auf der Grundlage vollständig rückzahlbarer Kredite.“ 2013 wurden 63 % der Förderung über den Kinofonds in Form von Zuschüssen gewährt und nur 12 % als vollständig rückzahlbare Kredite. 2014 lagen diese Anteile bei 39 % bzw. 40 %. Diese Regelung soll für russische Filmemacher ein Anreiz sein, sich bei der Produktion ihrer Filme stärker an der Marktnachfrage zu orientieren, um einen Teil der Kosten wieder einzuspielen.

Filmproduktion

Die russische Filmproduktion **wächst** dank eines **verlässlichen** Polsters staatlicher **Förderung** rasant. **2012–2013 wurden jährlich rund 700 Filme** produziert. Davon waren 400 Dokumentarfilme, mehr als 100 Zeichentrickfilme und über 200 Spielfilme, einschließlich der Filme für den Filmverleih (etwa 90 pro Jahr) und für das Fernsehen, den Videomarkt und Online Streaming.

Das System der staatlichen Filmförderung hat zu einem Anstieg der Filmbudgets geführt, ohne dass die staatliche Förderung angehoben werden musste. Das Ergebnis ist eine Reihe überaus erfolgreicher Filme. Das Gesamtbudget für russische Spielfilme, die 2012 in die Kinos kamen, belief sich auf 8,3 Milliarden RUB und 2013 auf 10,8 Milliarden RUB. Die staatliche Förderung in diesen beiden Jahren betrug 2,3 Milliarden RUB bzw. 2 Milliarden RUB. 2010 gab es nur 11 Filme, deren Einspielergebnisse an den Kinokassen höher waren als ihre Produktionsbudgets – 2012–2013 war ihre Zahl immerhin auf 20 angewachsen. Mehr als 80 % der Einspielergebnisse für russische Filme, die auf dem heimischen Markt in die Kinos kommen, werden von den führenden Filmemachern erzielt, die staatliche Förderung erhalten. Die Zahl der produzierten Filme wächst kontinuierlich, auch die der Filme, die ohne staatliche Unterstützung gedreht werden. In den letzten Jahren zählten Unternehmen wie Bazelevs, CTB, Melnitsa Animation Studio und

Enjoy Movies zu den Filmproduktionsgesellschaften, die die höchsten Bruttoeinspielergebnisse erzielten. All diese Unternehmen gelten als führende Filmstudios und erhalten Unterstützung vom Kinofonds. Die neuen Bedingungen für die staatliche Unterstützung in Form rückzahlbarer Kredite könnten jedoch auch für diese Unternehmen zum Problem werden, da die meisten russischen Filme nicht einmal die Produktionskosten einspielen.

Problematisch ist jedoch auch die Einschränkung der internationalen Zusammenarbeit bei der Filmproduktion. Die Schließung der Internationalen Abteilung des Kinofonds hat dazu geführt, dass die Zahl der Koproduktionen mit ausländischen Partnern, die 2012 begonnen hatte, drastisch zurückgegangen ist. 2012 waren sechs Filme in Koproduktion gedreht worden, 2013 waren es nur noch zwei.

Technischer Rahmen für die Filmproduktion

Die russische Filmproduktion ist an wenigen Standorten konzentriert: in Moskau und (in geringerem Maße) St. Petersburg.

Mitte 2014 gab es in Russland mehr als 20 aktive Filmproduktionsgesellschaften mit rund 110 Studios. Die größten Filmproduzenten sind Mosfilm und Cinelab (in Partnerschaft mit My Studio). Sie bieten die **vollständige Palette** von Dienstleistungen für Produktion und Postproduktion von Filmen an. Die **Ausrüstung** der meisten staatlichen Filmstudios (mit Ausnahme von Mosfilm) ist veraltet. Sie **müssten dringend modernisiert** und ihre Arbeit **stärker** an betriebswirtschaftlichen Kriterien ausgerichtet werden. Die meisten dieser Studios bieten keine Dienstleistungen für **andere** Studios an. In den **Jahren 2012 und 2013** wurde mit der **Modernisierung der beiden ältesten** Filmstudios begonnen – dem Gorky-Filmstudio und Lenfilm –, aber noch sind sie nicht das, was man unter einer modernen Filmfabrik versteht.

Inzwischen wächst der private Filmsektor weiter. **Moskaus größte** Filmproduktionsgesellschaft, **Amedia**, **verfügt über 16** Filmstudios und hat sich vor kurzem mit einem anderen privaten Giganten zusammengeschlossen, Glavkino, das 10 Filmstudios betreibt. Angesichts des zunehmenden Wettbewerbs mussten die Russian World Studios 2012 ihren Moskauer Produktionsstandort **schließen** und **ihre Tätigkeit auf ihr** Filmstudio in St. Petersburg verlagern. **Pläne zur Expansion** mussten jedoch aufgegeben werden. Die meisten Filmgesellschaften mit eigenen Studios werden heute vor allem **für** Fernsehprojekte gebucht, weniger **für** Kinoprojekte.

Neben den Filmstudios gibt es auf dem Markt eine große Zahl von **Dienstleistungsunternehmen für die Filmbranche**. Das **größte** dieser Unternehmen (was den Umfang der **Dienstleistungen** betrifft) ist „**29. Februar**“, das bis auf Filmbearbeitung und –aufzeichnung alle Arten von Dienstleistungen anbietet, einschliesslich Dreh- und Postproduktion. Da **inzwischen der Übergang zur digitalen Technologie** in den Kinos fast abgeschlossen ist, werden die Filmbearbeitungsstudios zunehmend von digitalen Studios abgelöst (in Russland gibt es bereits 14 dieser Studios).

Filmtheater

2014 waren bereits 93 % aller russischen Kinos (1.010 von 1.087) digitalisiert, und in den 3.466 kommerziellen Kinos gab es bereits 2.974 digitale **Kinosäle**. Anfang 2014 hatten 75 % der Kinos einen digitalen **Kinoprojektor für jeden** Kinosaal, und nur 7 % der Kinos waren noch nicht mit digitaler Technik ausgestattet. 2014 wurden bereits alle Filme entweder digital oder in Hybrid-Format erstellt. Nur 9 % der Filme wurden auch noch auf Zelluloid gedruckt. 2014 wird die Umstellung auf die neue Technologie abgeschlossen sein. Russische Kinos haben die Umstellung **ohne umfangreiche Unterstützung über VPF-Regelungen³** geschafft (nur **die größten Kinoketten konnten solche Vereinbarungen abschließen**, haben diese jedoch nicht **öffentlich** gemacht).

Die Expansion der Kinoinfrastruktur in Russland geht in zwei Richtungen: Einerseits die Digitalisierung **von Leinwänden in Gemeindezentren kleiner Städte (mit Unterstützung durch regionale und kommunale Behörden)**, sowie andererseits die **Eröffnung neuer** - von Kinoketten betriebenen - Kinos in Einkaufs- und Freizeitzentren. Das **größte Potenzial** zur Expansion russischer Kinoketten bieten kleine **Städte** (mit weniger als 100.000 Einwohnern): Dort haben mehr als 70 % der **Bevölkerung keinen Zugang zu Filmtheatern. In vielen großen Städten** herrscht dagegen inzwischen ein starker Wettbewerb (die Kinosaaldichte **in Städten** mit mehr als 1 Million Einwohnern liegt inzwischen bei 4,8 je 100.000 Einwohner).

Angesichts sinkender Besucherzahlen und **rückläufiger** Einspielergebnisse versuchen die Kinobetreiber, durch neue Konzepte wieder mehr Besucher in die Kinos zu locken. So haben zum Beispiel Kinos in Russland in den Jahren 2012–2014 zunehmend neue Technologien eingesetzt, etwa IMAX, 4DX, D-Box, Auro und Atmos. Es gibt aber auch immer mehr Kinoketten, die ihren Besuchern **luxuriösen** Filmgenuss bieten. Diese Art der Differenzierung wird in den kommenden Jahren zunehmen und sowohl einzelnen Kinos als auch Kinoketten helfen, sich von Wettbewerbern abzuheben.

Auf dem russischen Filmtheatermarkt gibt es mehr als 553 **große** Kinobetreiber. Kinoketten machen lediglich 17 % aus (obwohl sie 73 % aller **Kinosäle betreiben**). **Die größten Kinoketten sind Cinema Park, Formula Kino und Karo Film.** In diesem Bereich hat es in letzter Zeit eine Reihe von Fusionen, **Übernahmen** oder Besitzerwechsel gegeben. 2011 hat Cinema Park die KinoStar-Kette gekauft; 2012 haben sich Kino-Formel und Kronverk Cinema zusammengeschlossen, Karo Film wurde von der Karo Group aufgekauft (eine Filmproduktions- und -vertriebsgruppe), die im Besitz der Baring Vostok und UFG Asset Management Investment-Fonds ist; im November 2014 wurde der Verkauf von Cinema Park **angekündigt**.

³ Virtual Print Fee (VPF)

Filmverleih

Die digitale Revolution bei der Filmproduktion überall auf der Welt hat zu einer Senkung der Produktions- und Vorführcosten für Filme geführt. Dies ist auch der Grund, warum auf dem russischen Markt unabhängige Verleiher mit „Wide-Release“ (Kinostart landesweit) und „Limited Release“ (nur in wenigen ausgewählten Kinos) experimentieren konnten. Aber 2014 war das Potenzial für die Expansion des russischen Films und für die Ausweitung des Filmverleihs offensichtlich erschöpft. 2013 gab es 490 Filme im russischen Filmverleih, in der ersten Hälfte 2014 waren es 220. Offensichtlich ist die Zeit des Experimentierens vorbei, und für einige der ältesten und stärksten unabhängigen Filmverleiher hat sie ein unrühmliches Ende gefunden. Cinema Without Frontiers und Carmen sind vom Markt verschwunden. Auch die Zahl der Unternehmen, die Programme mit alternativen Inhalten in den großen Kinos herausbringen, geht zurück. 2014 konnten sich in diesem Marktsegment nur einige wenige spezialisierte Verleiher behaupten. Gleichzeitig ist das unterscheidende Merkmal dieses Vertriebstyps klarer geworden: Solche Projekte haben ein sehr langes Kinoleben.

Digitale Technologien haben auch die Entwicklung der regionalen Filmproduktion angekurbelt, **unterstützt von** privaten Investoren und von Regionalregierungen. Regionale Filme - **die häufig in einer Sprache** gedreht werden, die nur in einer bestimmten Region Russlands gesprochen wird - werden in regionalen Kinos gezeigt und spielen in der Regel die Investitionen wieder ein. Die Republik Sacha (Jakutien) und die Republik Burjatien in Sibirien **verfügen über die am weitesten entwickelte** lokale Filmindustrie. 132.000 Kinobesucher haben 2013 diese lokalen Filme in den beiden Republiken gesehen, und die Filme haben im vergangenen Jahr 27 Millionen RUB an den Kinokassen eingespielt. Lokale Filme werden in immer mehr Regionen gezeigt, und sie werden bei den Kinobesuchern immer populärer. Der Erfolg **ist für die Filmproduzenten ein Ansporn**, ihre Filme auch in andere russische Republiken und sogar **außerhalb Russlands zu exportieren. In nächster Zukunft dürften** Filmproduzenten aus Sibirien und dem Fernen Osten Russlands auf kulturell verwandte asiatische **Märkte vordringen. Der größte Teil dieser** Filme sind kommerzielle Filme.

Auch russische Zeichentrickfilme entwickeln ein immer größeres Exportpotenzial. Ein besonders charakteristisches Beispiel ist *The Snow Queen*, der erfolgreichste russische Film, der zwischen 2011 und 2013 in der EU in den Filmverleih kam. Trotzdem sind die erfolgreichsten russischen Exportschlager nach wie vor Arthouse-Projekte. Sie locken in Europa sehr viel mehr Besucher in die Kinos als in Russland. Die **wichtigsten europäischen Märkte für diese russischen Filme** sind die **Länder der ehemaligen Sowjetrepubliken und Frankreich.**

Der einheimische russische Filmverleih stagnierte in den Jahren 2011–2012: Die Zahl der verkauften Eintrittskarten ging 2011 um 2 % **zurück**, Nach einem Nullwachstum 2012 zog das Wachstum 2013 wieder etwas an. Im Jahr 2013 verzeichnete der Markt 176 Millionen Kinobesuchern (ein Plus von 10 % **gegenüber 2012**) und in der ersten

Hälfte 2014 bereits 91 Millionen (+ 6 % gegenüber der ersten Hälfte 2013). Bis heute sind die Einnahmen an den Kinokassen **Jahr für Jahr um 10 %** gestiegen. 2013 erreichten sie 42,3 Milliarden RUB und in der **ersten Hälfte 2014 23** Milliarden RUB. Allerdings werden die **Einspielergebnisse wahrscheinlich aufgrund der Währungsschwankungen** (wie bereits dieses Jahr erkennbar) **stagnieren oder sogar zurückgehen** (Box-Office-Ergebnisse werden in US-Dollar bewertet). Es besteht auch die Gefahr, dass die Nachfrage nach Filmen **in den nächsten Jahren** zum Stillstand kommt. Die Expansion der Kinoketten hat sich bereits entschleunigt, **die digitale Umrüstung, die den Filmverleih in den letzten Jahren** angekurbelt hat, ist fast abgeschlossen, und der demographische Wandel – **der Rückgang der Gruppe der 18-25jährigen (das sind die häufigsten Kinogänger)** macht sich bereits beim Filmverleih bemerkbar.

Home-Video

Seit das *Videomagazine* 2011 die Veröffentlichung eingestellt hat, gibt es keine **Verkaufsstatistiken für den russischen Home-Video-Markt** mehr. Experten zufolge ist die Zahl der Filme auf physischen Medien erheblich **zurückgegangen**. 2010–2012 wurden in der Kategorie A durchschnittlich 5.000–10.000 Filme auf Blu-Ray (BDs) produziert, aber 2014 waren es nur noch 2.000–3.000. Die DVD-Produktion ist von durchschnittlich 100.000 Kopien auf 30.000 bis 40.000 **ähnlich stark zurückgegangen**. **Der Hauptgrund für den Zusammenbruch des Marktes** liegt im **Rückgang der Verkaufsstellen für CDs** in Russland. Viele **Fachgeschäfte** mussten **schließen**. **Große Elektronikmärkte** bauen zunehmend ihre DVD- und Blu-Ray-Regale ab, ebenso wie **die großen Warenhäuser**, die in den Jahren 2006-2007 das rasche Wachstum bei den **CD-Verkäufen erleichtert haben**.

Die Zahl der Titel auf DVD **geht allerdings nicht so stark zurück**. Jedes Jahr kommen in Russland etwa 2.000 Titel auf den Markt. Das vor kurzem **eingeführte Blu-Ray-Format** konnte nicht an **den Erfolg seines Vorgängers anknüpfen, da es als erstes unter dem Rückgang der Massen-Disc-Verkäufe** in Kaufhausketten gelitten hat: Die Liste der Blu-Ray-Titel ging 2014 von 300 auf 200 Titel und damit **um ein Drittel zurück**.

Der russische Markt für Home-Video wird eindeutig von Spielfilmen dominiert. **Allerdings lässt sich ein Unterschied zwischen DVDs und BDs feststellen**: Bei DVD liegt der Schwerpunkt eher auf Kinder- und Zeichentrickfilmen, bei Blu-Ray sind es dagegen eher Blockbuster, Filme im Hochpreissegment, **einschließlich Fernsehserien und Dokumentarfilmen**. Im DVD-Segment halten sich neue Kinofilme (Filme, die in den letzten beiden Jahren in die Kinos kamen) und **ältere Katalogtitel** in etwa die Waage. Auf der anderen Seite gibt auf dem Blu-Ray-Markt seit 2012 **der Rückgang der Archivtitel den Trend vor**. 2014 sank ihr Anteil auf 26 %.

Jedes Jahr nimmt der Anteil russischer Filme am Home-Video-Markt ein wenig zu, **während Filme aus anderen europäischen Ländern immer stärker zurückgehen**. Das liegt daran, dass Videoverleiher, vor allem **diejenigen, die unabhängige Filme und Arthouse-Filme** in ihrem Programm haben, vom Markt verschwinden. Die Dominanz der Hollywood-Majors auf

dem Home-Video-Markt ist ein weiteres Problem. **Die Verträge russischer Verleiher mit Hollywood-Studios laufen aus, und die neuen Verträge haben kürzere Laufzeiten. Es gibt in Russland derzeit etwa 20 Video-Verleiher. Die größten sind VideoService, Noviy Disk, Lizard Cinema Trade und CP Distribution. In den kommenden Jahren könnte der Markt weiter schrumpfen. Es ist nicht auszuschließen, dass nur noch 3–5 Unternehmen übrig bleiben werden. Diese werden sich dann wahrscheinlich darauf konzentrieren, neue Filme und teure Sammlerausgaben von berühmten Filmreihen auf den Markt zu bringen.**

Video on Demand

Inzwischen ersetzt Video-on-Demand (VoD) immer stärker Home-Video auf physischen Medien. VoD kann ein rasantes Wachstum in Russland aufweisen. **Für 2012 schätzte iKS Consulting die Umsätze von Video-on-Demand in Russland auf insgesamt 1,13 Milliarden RUB. Für 2013 waren es bereits 2,79 Milliarden RUB, und allein in der ersten Hälfte 2014 2,32 Milliarden RUB.**

Zu diesem rasanten Wachstum haben mehrere Faktoren beigetragen. Smart TV ist auch in Russland auf dem Vormarsch: 2013 gab es in Russland bereits **4,2 Millionen Fernsehgeräte mit Internetanschluss. Der Rechtsrahmen wurde verstärkt, und das Gesetz gegen Piraterie zeigt erste positive Resultate. Die Anbieter weiten ihre HD- und 3D-Angebote aus. Allmählich entwickelt sich Kundenbindung; die Menschen werden mit der Nutzung von VoD-Diensten vertraut und sind auch eher bereit, für Inhalte zu zahlen, vor allem für Abonnements.**

2013 entfiel der größte Anteil des VoD-Marktes auf Online-Streaming von Filmen (58 %), gefolgt von VoD-Anbietern und Content-Stores (26 % bzw. 16 %).

Der VoD-Markt in Russland wird von Online-Streaming-Diensten dominiert – **fünf Unternehmen** teilen sich jeweils mehr als 5 % des Marktes (ivi.ru, Play (oder Okko), Tvigle, Videomore, und Zoomby). IPTV-Anbieter Rostelecom und der Anbieter von Satellitenfernsehen Tricolor **zählen ebenfalls zu den Schwergewichten.** Eine sehr starke Position auf dem russischen Markt hat auch der **iTunes Store. In der ersten Hälfte des Jahres 2014, gerade einmal ein Jahr nach seinem Markteintritt in Russland, entfallen bereits 13 % der Video-on-Demand-Einnahmen auf dieses Unternehmen.** Der Marktanteil von Google Play, das in etwa zur selben Zeit auf den russischen Markt kam, liegt dagegen nur bei 3 %.

Fernsehen

Ein weiterer bedeutender Absatzmarkt für Kinofilme in Russland ist das Fernsehen. Doch gerade **das Fernsehen ist für russische Filmproduzenten und -verleiher in den letzten Jahren zu einem immer größeren Problem geworden. Dies ist einer der Gründe, warum die größten unabhängigen Verleiher (Cinema Without Frontiers und Carmen) schließen mussten. Das Problem liegt darin, dass der Verkauf von Filmrechten an das Fernsehen seit langem eine bedeutende**

Einnahmequelle für Rechteinhaber ist. Aber die finanzielle Situation der **größten Sender** hat sich in letzter Zeit gravierend verschlechtert, denn immer mehr Zuschauer kehrten den Sendern den Rücken. Außerdem hat die Finanzkrise der Jahre 2008–2009 zum Rückgang der Werbeeinnahmen geführt. Fernsehsender kaufen inzwischen sehr viel weniger Kinofilme. So hat Angaben von TNS Russland zufolge Kanal 1 sein Filmprogramm zwischen 2010 und 2013 um 2,3 **Prozentpunkte gekürzt**, Rossiya 1 um 3,8 und NTV sogar um 14. Und obwohl die meisten Sender aus der zweiten Gruppe der zehn in dem untersuchten Zeitraum **größten Sender** ihren **Anteil an Filmen am Fernsehprogramm erhöht haben**, können die Einnahmen – und auch die Preise, die sie für Filme anbieten – die Verluste, welche die Rechteinhaber aufgrund des Rückgangs der Einkäufe der führenden Fernsehsender verzeichnen, nicht ausgleichen. Dabei verdienen die führenden Fernsehsender nicht nur mit Werbeeinnahmen Geld, sondern erhalten auch staatliche Unterstützung.

Die meisten Kinofilme werden von **öffentlich-rechtlichen** Sendern wie Zvezda (Filme machen 2013 mehr als 47 % des Programms aus), TV 3 (42 %) und TV Centre (30 %) gezeigt. Aber gerade diese Sender haben nicht unbedingt die **höchsten Einschaltquoten**, und sie zählen auch nicht unbedingt zu den am besten bewerteten Sendern.

Die **Verschiebung der Frist für die Umstellung auf digitales Fernsehen von 2015 auf 2019** dürfte ebenfalls dazu beitragen, dass die führenden Fernsehsender, deren Programme über den ersten Multiplex übertragen werden, **weniger teure Inhalte kaufen**, da die Bedingungen für die Unterstützung ihrer Ausstrahlung digitaler und analoger Signale sich ebenfalls geändert haben. Die Sender, deren Programme über den zweiten Multiplex übertragen werden, werden dagegen durch die Verschiebung **Geld sparen**. Sie müssen nicht bis 2018 für die parallele **Übertragung in analogem und digitalem Format bezahlen**, weil sie im Augenblick **ohnehin nur analog senden können**.

Gleichzeitig gewinnen in Russland nicht-terrestrische Sender immer **mehr an Popularität**. Die Zahl ihrer Zuschauer wächst, und zwar nicht nur potentiell (Kunden, die ein Pay-TV-Abonnement abgeschlossen haben), sondern real (diejenigen, die spezielle Sender mindestens einmal pro Monat sehen), und sie weiten ihr Angebot aus. Das Potenzial der nicht-terrestrischen Sender, **neue Einnahmen zu erwirtschaften, wächst und ermöglicht ihnen, weitere Finanzierungsquellen für den Kauf von Inhalten zu nutzen**. Aber aufgrund der Verabschiedung von Gesetz Nr. 270-FZ vom 21. Juli 2014, das Pay-TV-Sendern Werbung untersagt, wird sich dies ab dem **1. Januar 2015 ändern**. Wahrscheinlich werden die Preise, die von nicht-terrestrischen Sendern für Inhalte angeboten werden, noch weiter fallen, da ihnen in Zukunft **weniger Mittel zur Verfügung stehen werden**, sie jedoch den Umfang ihrer **Filmkäufe nicht verringern werden**. Denn das **Werbeverbot** wird die Sender zwingen, ihre **Abonnementsgebühren für ihre Dienste zu erhöhen**, und das bedeutet, dass sie versuchen müssen, ihre Zuschauer mit **qualitativ höherwertigen Angeboten** zu halten.

Ein weiteres Gesetz, das sich auf den Anteil von Kinofilmen im Fernsehen auswirken wird, ist das Gesetz **über die Massenmedien**, das **ausländische Medienanteile drastisch begrenzt** (Nr. 305-FZ, vom 14.

Oktober 2014). Die Auswirkungen dieses Gesetzes werden vor allem CTC Media und der Disney-Kanal **zu spüren bekommen**, da sie erhebliche **Anteile an ausländischem Kapital haben und diesen Anteil auf die vorgeschriebenen 20 % reduzieren müssen**.

Schlussfolgerungen

Seit der Veröffentlichung unseres letzten Berichts 2012 hat es in der russischen Filmindustrie eine Reihe bedeutender **Veränderungen gegeben**.

Die Vorschriften für die staatliche Förderung der Filmproduktion wurden ein weiteres Mal geändert. Diese Änderungen wurden von der Filmbranche insgesamt begrüßt, da sie die Transparenz bei der Auswahl der geförderten Filmprojekte verbessern. Das 2010 eingeführte System für die Unterstützung führender Filmstudios hat dazu beigetragen, den russischen Filmsektor zu stärken und die Anzahl russischer Filme ohne Steigerung der staatlichen Unterstützung zu erhöhen: **Produzenten mit dem offiziellen Status eines führenden Filmproduktionsunternehmens finden es leichter, zusätzliche Investitionen zu mobilisieren. Gleichzeitig stellen die neuen Vorschriften für rückzahlbare staatliche Kredite für die Filmproduktion und den Filmverleih eine Herausforderung für russische Produzenten dar.**

Ein Nachteil der Reformen liegt jedoch in der Weigerung Russlands, seinen internationalen Verpflichtungen nachzukommen und die Tatsache, dass der vor kurzem geschaffene gemeinsame Entwicklungsfonds sowie die Filmakademien mit Frankreich, Deutschland und Italien vor dem Aus stehen. **Ein weiterer Nachteil ist die Vernachlässigung der Koproduktionen durch den Staat und der dadurch verursachte Rückgang der internationalen Koproduktionen.**

2014 ist die digitale Umrüstung für Filmverleih und Kinos fast abgeschlossen. Dieser Prozess hat eine Welle des Experimentierens mit **unterschiedlichen Formen des Kinostarts ausgelöst**: Mehr Filme, mit mehr **Kopien, wurde auf Großleinwänden gezeigt, darunter auch einige Filme aus den 1990er Jahren, die vorher niemals in russischen Kinos zu sehen, jedoch in der Zeit der Video-Salons zu einer Legende geworden waren.** Die Zeit des Experimentierens fand jedoch ein abruptes Ende, als klar wurde, dass eine Zunahme an Filmen nicht automatisch eine wachsende Besucherzahl bedeutet. **Einige Filmverleiher mussten schließen. Die Gründe lagen unter anderem auf dem Fernsehmarkt, wo sowohl die Preise als auch der Umfang der Filme, die von den Fernsehsendern eingekauft wurden, zurückgingen.** Aber auch auf dem Home-Video-Markt waren Ursachen zu finden, denn dort ging die Nachfrage nach physischen Medien **drastisch zurück. Kinos, die nicht rechtzeitig auf digitale Technologie umgestellt haben, müssen schließen, da es nicht mehr genügend Zelluloid-Kopien gibt.**

Das russische Gesetz gegen Piraterie wurde auf dem audiovisuellen **Sektor verschärft. Dies hatte die größte Auswirkung auf den Video-on-Demand-Sektor.** Fernsehzuschauer nutzen zunehmend VoD-Dienste, die **immer stärker das traditionelle Home-Video ersetzen: DVD werden durch**

Abonnements von Online-Diensten **abgelöst, und Blu-Rays** müssen immer mehr HD-Versionen von Filmen in Content-Stores weichen.

Im Großen und Ganzen waren die meisten Veränderungen vorhersehbar, da sie einem globalen Trend folgen. Der einzige **ungewöhnliche Faktor** ist das System der staatlichen Unterstützung der Filmproduktion, das sich auf die führenden Filmproduktionsunternehmen und auf die Produktion kommerziell erfolgreicher Filme konzentriert. Der nach innen gerichtete Schwerpunkt der russischen Regierungspolitik spiegelt sich auch in der Behandlung der Filmproduktion wider, ebenso in **der Unterstützung von Quoten für die heimische Filmproduktion**, ein Thema, das nicht von der Tagesordnung der russischen Politik wegzudenken ist.

CHAPTER 1. THE FILM INDUSTRY IN RUSSIA: INSTITUTIONAL FRAMEWORK

1.1. Legal and regulatory framework for the Russian film industry

1.1.1. Federal Law 'On State Support for Cinema in the Russian Federation'

The Federal Law 'On State Support for Cinema in the Russian Federation' (Federal Law No 126-FZ), adopted on 22 August 1996, remains to this day the main regulatory law governing the activities of executive agencies with regard to the film industry, as well as the procedure for cooperation between these agencies and film industry organizations in providing state support for film production, distribution, and promotion; film events aimed at promoting Russian cinema; and other measures intended to maintain and develop the film industry. The Law states that **cinema produced in the Russian Federation is "an integral component of culture and art, and must be protected and developed with help from the state"**, which includes: adopting laws and other regulations in the field of film production; private financing of the production, distribution, and screening of motion pictures; and covering the costs associated with the operation of the Consolidated Automated Information System (CAIS) which gathers data on films shown in cinemas, and which was introduced in its initial form in Russia on 1 May 2010.

The Russian Government tasks a federal executive agency, as well as executive agencies in the various regions of the Russian Federation, with providing this state support. In Resolution No. 590, dated 20 July 2011, the Russian Government approved the Statute of the Ministry of Culture of the Russian Federation, which was tasked with developing and implementing state policy in this area, as well as the legal and regulatory framework for the film industry. The role of the Russian Ministry of Culture includes developing and implementing new initiatives, and in particular, preparing amendments to current legislation to improve the effectiveness of government regulation; the Ministry performs these tasks in cooperation with the Russian Ministry of Economic Development and the Russian Ministry of Finance.

One of the key provisions of Federal Law No. 126-FZ is the definition **of the Russian 'national films' category, since state support for the production, distribution, and screening of films may only be granted to projects with this status, which also qualifies the filmmakers for tax breaks established by the law.** A film is deemed to be a national film where:

- the film's producer is a citizen of the Russian Federation or a legal entity duly registered within the Russian Federation
- a majority of the film's authors are citizens of the Russian Federation
- not more than 30% of the film's cast and crew (directors, directors of photography, camera operators, sound engineers, production

designers, costume designers, editors, and principal cast) are persons who do not hold citizenship of the Russian Federation

- the film is produced in Russian or one of the other languages of the peoples of the Russian Federation, except for cases when using a foreign language is an intrinsic part of the artistic concept
- at least 50% of the total estimated volume of work in producing, printing, distributing, and screening the film is performed by film organizations that are duly registered within the Russian Federation
- foreign investment in the production of the film does not exceed **50% of the film's estimated budget**

Film projects 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.

State financing for the production or distribution of a national film, as a rule, may not exceed 70% of its budgeted production or distribution cost. In certain exceptional cases, allowing for the artistic and cultural value of a film project, the federal executive body for the film industry, i.e. the Russian Ministry of Culture, may adopt a decision to finance up to **100% of a national film's estimated production** cost. The film will also receive financing to participate in category A international film festivals. In such cases, payment of up to 100% of the estimated cost of festival participation is permitted.

The Law also lays out the terms for the privatization of a film industry organization. The transfer of a state (or municipal) entity into private hands is only allowed if cinema-related functions remain the main type of activity of the privatized organization. At the same time, Federal Law No. 126-FZ prohibits the privatization of organizations that specialize in screening films for children or in general if they are the only such venue in their locality.

Between 2012 and 2014, Federal Law No. 126-FZ was amended on three occasions. Amendment No. 9, dated 12.11.2012 (no longer in effect), was based on the Federal Law 'On Amending the Russian Federation Code of Administrative Offences and Individual Legal Acts of **the Russian Federation**' (Federal Law No. 191-FZ), signed the same day. The amendment concerned Part 8 of Article 6.1 relating to the CAIS. The amendment to Federal Law No. 126-FZ was relatively modest (according to the new version, the Russian Government would now establish not only the process by which the CAIS functioned and the terms according to which the information it contained would be provided, but also the frequency with which the data in that system would be provided). However, the Russian Federation Code of Administrative Offences, for example, was amended to include an entire article dedicated to film **exhibitors' liability for violating the requirements governing the functioning** of the CAIS. Accordingly, the legislation stipulates an administrative fine ranging from RUB 100,000 to RUB 400,000 for the first instance in which an exhibitor that is offering paid screenings of a film in a cinema fails to provide the required information, provides incomplete information, or

knowingly provides incorrect information. The fine for a repeated violation ranges from RUB 400,000 to RUB 800,000.

Version No. 10 of Federal Law No. 126-FZ, dated 28.12.2013 (also no longer in effect), was triggered by the adoption of Federal Law No. 44 'On the Contract System for Purchase of Goods, Labour, and Services to Provide for State and Municipal Needs' on 5 April 2013, and by the need to refer to the new law in a number of articles of relevant legislation relating to state support. Thus, the amendments were mainly technical in nature.

Version No. 11, dated 05.05.2014 (currently in effect), was prepared on the basis of the Federal Law 'On Amendments to the Federal Law On the State Language of the Russian Federation and Individual Legal Acts of the Russian Federation Connected to Improving Legal Regulation of the Use of the Russian Language'. The changes concerned the definition of national film status, which can no longer be granted to a project in which "obscene language is used", and also added to the law Article 5.1, 'Film Distribution Licences', which stipulates that "the distribution within the Russian Federation of any film and/or the screening of a film without a distribution licence stipulating, in particular, the way the film is used, is not permitted, with the exception of the screening by broadcast, cable, or satellite television of films created for such purposes, and the screening at international film festivals taking place within the Russian Federation of films imported from abroad for such purposes." Violators may be held liable under Russian law. At the same time, a film distribution licence will not be issued if the film contains material that violates Russian legislation on terrorism and extremist activities; contains information about ways and means to manufacture and prepare narcotic drugs, psychotropic substances, or their precursors; contains materials promoting pornography or the cult of violence and cruelty; uses concealed messages or other technical means and methods to distribute information acting on the human subconscious and/or having a harmful effect on human health; or if the film contains obscene language. The procedures for issuing, declining to issue, and revoking a film distribution licence are established by the Russian Government, while the Russian Ministry of Culture provides state services to issue distribution licences for films created in Russia or obtained from abroad for distribution within Russia.

In August 2014, the Russian Ministry of Economic Development announced its intent to draft amendments to Federal Law No. 126-FZ whereby film production costs would include costs for civil liability insurance covering investment agreements for the production of national films. The Ministry believes that such a measure will encourage an increase in the flow of private investment to the film industry. One reason behind the drafting of this document was the frequent appeals from those involved in the industry calling for such a move. No date has yet been announced for this initiative to be put in place.

1.1.2. Laws on intellectual property, authors', and associated rights

On 1 January 2008, Part Four of the Russian Civil Code came into effect to replace the 9 July 1993 Russian Federation Law No. 5351-1 'On

Copyright and Related Rights', and that law still serves as the foundational law governing the legal aspects connected with the authorship, creation, and use of films as audiovisual works⁴. According to Article 1263, the director, the scriptwriter, and the composer of a musical work (with or without lyrics) composed specifically for a given film are recognized as the authors of that film. Meanwhile, the rights of the producer as the individual organizing the creation of a complex product, including several protected items of intellectual property, are defined by Article 1240 of the Code. The producer may obtain the right to use that intellectual property on the basis of contracts waiving exclusive rights or licensing agreements concluded by him with the holders of the exclusive rights to that intellectual property. The producer has the right, during any use of the film as an audiovisual work, to indicate his name or to demand that such an indication be made.

Separately, the Code stipulates the rights of the composer of music **for the film: "In cases of public use or of the broadcasting or cable transmission of an audiovisual work, the composer of a musical work (with or without lyrics) used in that audiovisual work retains the right to royalties for the indicated types of use of his musical composition."** To this day, this clause provokes a great deal of dispute and conflict within the sector, and there are frequent attempts to resolve these issues in court. According to Russian Government Decree No. 218, dated 21 March 1994, **'On the Minimum Royalty Rates for Certain Types of Use of Literature and Art', in film distribution, the minimum royalty for the use of music (with or without lyrics) during a commercial showing of an audiovisual work in a cinema or other public place is defined as 3%, or for a free viewing, 0.5% of the payer's total receipts. Funds are paid through an accredited organization: this function is currently being performed by the Russian Authors' Society (RAO). In August 2013, the RAO's state accreditation was extended for 10 years.** For many years now, those involved in the film industry – not just film exhibitors (represented by the non-commercial partnership Kinoalliance and individual cinemas), but also producers (represented by the Association of Film and Television Producers and the **Russian Producers' Guild**) – have been campaigning to reduce the minimum royalty rate for composers. As a result, in autumn 2011 the Government Council on the Development of the Russian Film Industry, headed at the time by then Russian Prime Minister Vladimir Putin, resolved that it would be necessary to reduce not just the royalty rate, but also the basis on which it is calculated, counting not total ticket sales, but only the half of receipts reserved for cinemas (the other half goes to the distributor and producers). In January 2013, the Russian Ministry of Culture drafted and distributed for inter-agency approval plans for a new Russian Government decree on minimum royalty rates for public performances of music. According to this document, royalties should total 1% of receipts from ticket sales. This decree has not yet been adopted, but in practical terms, since 2012 when it was announced at the Cinema

⁴ See also Lead Article in IRIS plus 2012-1, «Answers to Internet Piracy » on the Russian legal framework and its development:
www.obs.coe.int/documents/205595/865104/IRIS+plus+2012en1LA.pdf

Russia 2020 forum that the RAO had taken steps to reach a compromise with cinemas, the base rate has been reduced from 1.5% to 1.2%, and special rates for chain cinemas (1%) and new and rebuilt cinemas (0.5%) have also been introduced. In the future, the film community intends to achieve a reduction in rates to 0.3%. Nevertheless, not all exhibitors approve of the current situation in the sector, expressing their discontent by refusing to conclude contracts with the RAO. Experience shows that today, cinemas have two options for shaping their relationship with the RAO: either conclude a contract and pay the royalties, or go to court. In theory, there is also a third option, or more accurately, state, in which several venues find themselves **today: "We don't touch the RAO, and the RAO ignores us."** But that situation is unsustainable, and sooner or later film exhibitors will be forced to choose: a contract or court. There are ways of standing up to the RAO in court, but they only work in the early stages of court proceedings. In the final analysis, cinemas are not managing to get cases decided in their favour. Meanwhile, the RAO collects

On 6 August 2014, the Russian Federation Supreme Court of Arbitration (RF SCA) ceased operations after becoming part of a new Supreme Court of the Russian Federation. Its historical last plenum ruling **was, No. 51, dated 18.07.2014, 'On Certain Issues Arising When Reviewing Disputes Involving Organizations Collectively Managing Copyright and Associated Rights'**. Two points in that ruling are important for cinemas. Firstly, the RAO may only represent the interests of composers with whom that organization has a contract. It seems that no type of accreditation may be taken into account. Secondly, the RAO has apparently been deprived of any economic incentive to collect funds from cinemas, because the relevant amounts may only be awarded to a specific rights holder. This means that, theoretically, the RAO may not reserve any portion of the funds for itself.

It would seem that these new circumstances are of benefit to cinemas, and most of all to those who have not signed any contract with the RAO to pay royalties for the use of music included in audiovisual works, because now the RAO is likely to have more difficulty suing them on a non-**contractual basis. However, the SCA's plenum ruling has so far** had no effect whatsoever on current legislation, and until amendments are made to the Code at the governmental level, the problems that cinemas are experiencing regarding payments to composers will continue.

Furthermore, Article 1245 of the Code specifies that "authors, performers, and manufacturers of audio and audiovisual works have the right to remuneration for the free use of audio and audiovisual works exclusively for personal purposes." Such remuneration is compensatory in nature and is paid to the rights holder out of funds subject to payment by the producers and importers of equipment and media used for such purposes (CDs, DVDs, BDs, flash drives, etc.). Russian Government Resolution No. 829 'On Compensation for the Free Use of Audio and Audiovisual Works for Personal Purposes', dated 14 October 2010 and

⁵ Based on the article 'Nerashaemoye uRAOvnenie' ('Unresolved Equation'), published in the electronic version of *Booker's Bulletin*, No. 40 (463), 24 December 2012.

amended in 2012 and 2013, established that rate as 1% of the unit cost of equipment and media. Fees are collected by the Russian Union of Right-Holders (RUR), accredited by the Government of Russia. Fees for audiovisual works are distributed in the following proportions: 40% to the authors; 30% to the performers whose performance is recorded in the audiovisual works; and 30% to the manufacturers. The RUR can spend up to 15% of collected funds to meet its own needs. This compensatory fee is used as a weapon against audiovisual piracy. In early 2012, the Russian Government proposed to differentiate the copyright fee; however, a final decision regarding this issue has yet to be made due to difficulties in calculating damages incurred by authors as a result of private copying.

Article 1252 of the Code concerns the direct protection of exclusive intellectual property rights. This protection takes the form of claims lodged:

- for the recognition of rights – against a person who denies or otherwise fails to recognize rights, thereby infringing upon the interests of the rights holder
- for an injunction against actions that infringe upon rights or threaten such an infringement – against a person who has committed such an action or is preparing to do so
- for damages – against a person who unlawfully uses intellectual property or a means of identification without concluding an agreement with the rights holder (non-contractual use) or in any other way infringes upon exclusive rights and inflicts damage
- for seizure of physical media – against anyone who manufactures, imports, stores, transports, sells, otherwise distributes, or purchases such media in bad faith
- for publication of court rulings on infringements committed with indication of the actual rights holder – against anyone infringing upon exclusive rights

Instead of damages, the rights holder may demand that the person infringing on his exclusive rights pay compensation subject to collection should it be established that an actual legal violation occurred. In that case, the rights holder applying for remedy is not required to prove the size of the damages incurred. Article 1301 of the Code stipulates that the amount of compensation may be either a sum between RUB 10,000 and RUB 5 million (at the discretion of the court), or twice the cost of the copies of the work or twice the cost of the rights to use the work, determined using the price which would usually be assessed for the lawful use of the work in similar circumstances. The rights holder may demand that the violator pay compensatory damages for each instance of unlawful use of his intellectual property or means of identification, or else for the infringement committed as a whole.

The article also lists the cases in which media may be declared counterfeit and which actions should be applied with respect to those media and to the organizations or individuals producing them. However, due to a significant decrease in sales, especially for DVDs, and with the

even more significant development of the Internet, the issue of protecting exclusive intellectual property rights online has become much more pressing in recent years. At the many meetings and conferences on this topic, film industry professionals have asserted that the war against pirated discs was lost in its time, and that they cannot now permit a similar defeat on the World Wide Web. Meanwhile, in Russia and around the world, torrent trackers are the main enemy online, as they allow users to share illegal products with each other. This was the determination made as a result of the 2 July 2013 adoption of Federal Law No. 187-FZ **'On Amendments to Specific Legislative Acts of the Russian Federation on the Protection of Intellectual Property Rights on Information and Telecommunications Networks'**, and of the appearance in the Code of Article 1253.1, relating to the liability of information intermediaries, who **are defined as "persons carrying out the transfer of material on an information and telecommunications network, including the Internet, persons providing the ability to post material or information necessary for it to be obtained using an information and telecommunications network, and persons providing the ability to access the material on that network."** According to the addition made, the information intermediary is liable for infringements of intellectual property rights in general, with the exception of two situations. Firstly, the intermediary is not liable if, when transferring the material to the information and telecommunications network, he:

- is not the initiator of that transfer and has not determined the recipient of that material
- has not changed the material while rendering communications services, with the exception of changes made to facilitate the technical process of transferring the material
- is not aware and had no reason to be aware that the use of the intellectual property or means of identification in question by the individual who initiated the transfer of the material containing the intellectual property or means of identification in question was unlawful

Secondly, the intermediary is not liable if, when providing the ability to post material on an information and telecommunications network, he:

- is not aware and had no reason to be aware that the use of the intellectual property or means of identification in question contained in such material was unlawful
- and, in the event that he receives a written notice from the rights holder regarding the infringement of intellectual property rights indicating the webpage and/or IP address at which such material has been placed, he takes necessary and sufficient measures in a timely manner to halt the infringement of intellectual property rights

According to Federal Law 187-FZ, in the event that the rights holder finds films distributed without his permission or another legal basis on an information and telecommunications network, including the Internet, the rights holder may submit documents to a court attesting the unlawful **presence of said films on the network and the complainant's rights to said**

films. Furthermore, based on a court order already in effect, the rights holder may petition the federal executive agency which exercises oversight and supervisory functions over the media, information technology, and communications to take measures to limit access to the information resources used to distribute such films. The federal agency shall, within three working days, identify the hosting provider or other person facilitating the hosting of such an information resource, serving the owner of the site, and send him notice in electronic form, in both Russian and English, that a violation has been identified, with a demand that he take measures to delete such information. The recipient of such a notice shall, within one working day, inform the owner of the information resource he services and notify him of the need to immediately delete the unlawfully hosted information and/or take measures to limit access to it. Within one working day of receipt of such notice, the owner of the information resource must delete such information. Should the owner of the information resource refuse or fail to act, access to that resource must be curtailed no later than at the end of three working days from the time the provider receives notice from the federal agency. If appropriate measures are not taken by the deadline indicated, the information will be sent via the system for cooperation with communications operators. They must also curtail access to the resource within 24 hours. If he is not later proven guilty of distributing pirated material, the site owner has the right to claim compensatory damages.

Not long before Federal Law No. 187-FZ was signed by President Vladimir Putin, the Russian Association for Electronic Communications published an open letter to the Russian President⁶, signed by representatives of the biggest Internet companies, calling for the draft law to be reconsidered on the grounds that the document **“contains within itself broad opportunities for abuse and for bad faith use in competition battles.”** **The letter states that the bill would “block Internet resources with no prior notice merely on the basis of a presumed violation, and such a rule poses a significant threat both to new legitimate services and to information intermediaries.”** **This initiative also does not take into account “the possibility of the lawful use of products protected by copyright without the permission of the rights holder, stipulated by civil law and international practice.”** **But the letter was not taken into consideration and the new rules protecting exclusive intellectual property rights on the Internet went into effect on 1 August 2013.** The Russian State Duma amended the law in November 2014 to extend the applicability of the new rules to all copyright and associated rights, except for the rights to photographic works and works obtained by means similar to photography. Those amendments are scheduled to enter into force on 1 May 2015.⁷

⁶ Open letter from the Internet industry regarding Bill No. 292521-6 ‘On Amendments to Specific Legislative Acts of the Russian Federation on the Protection of Intellectual Property Rights on Information and Telecommunications Networks’, <http://raec.ru/times/detail/2667/> (Russian only).

⁷ Federal Law ‘On Amendments to Federal Law “On Information, Information Technology and Protection of Information” and the Civil Procedural Code of the Russian Federation’ No. 364-FZ dated 24 November 2014.

1.1.3. Federal Law 'On Protecting Children from Information Harmful to their Health and Development'

Adopted relatively recently, at the end of 2010, Federal Law No. 436-FZ 'On Protecting Children from Information Harmful to Their Health and Development' has already passed through four versions, several of which have had a significant impact on the Russian film industry. For instance, according to amendments approved on 28 July 2012 by Federal Law No. 139-FZ 'On Amending the Federal Law on Protecting Children from Information Harmful to their Health and Development', which entered into force on 1 September 2012, all information products, including films, are subject to classification by age category:

- for children under six years of age
- for children six years of age and older
- for children twelve years of age and older
- for children sixteen years of age and older
- not for children

Information products are to be classified by manufacturers and/or distributors independently (including with the participation of one or more experts and/or expert organizations) before they are circulated within the Russian Federation. Information obtained as a result of classifying an information product must be indicated by its manufacturer or distributor in accompanying documentation, as well as on fliers, announcements, and event tickets. In cinemas, the age restriction symbol must also be shown before the start of a film screening.

Further amendments to Federal Law No. 436-FZ concerned the list of information that is prohibited or restricted for distribution to children. According to the latest version, information prohibited or restricted for distribution to children includes:

- information inciting children to commit actions that pose a threat to their lives and/or health, including harming their own health and suicide
- information capable of promoting in children a desire to use narcotic drugs, psychotropic and/or intoxicating substances, tobacco products, alcohol and alcohol-containing products, beer and beverages prepared using alcohol; or a desire to engage in gambling, prostitution, vagrancy, or begging
- information justifying or excusing the use of violence and/or cruelty or encouraging violent actions with respect to people or animals, except in cases stipulated by this Federal Law
- information contrary to family values, promoting non-traditional sexual relationships and cultivating disrespect towards parents and/or other family members
- information excusing unlawful behaviour
- information containing obscene language
- information containing material which is pornographic in nature
- information about a juvenile who is the victim of unlawful actions (or inaction), including his first, middle, or last name; a photo or video image of such a juvenile or of his parents and other lawful

representatives; the date of birth of such a juvenile; a sound recording of his voice; his place of residence or temporary location; the place where he studies or works; or other information directly or indirectly allowing such an individual to be identified

Information subject to restricted dissemination among children of certain age categories includes:

- information depicting in the form of images or describing cruelty, physical and/or psychological force, crime, or other antisocial actions
- information triggering fear, terror, or panic in children, including that provided in the form of images or descriptions in a form degrading to human dignity of violent death, illness, suicide, accident or catastrophe, and/or the consequences thereof
- information depicting in the form of images or describing sexual relations between a man and a woman
- information containing obscene words and expressions not included in the list of obscenities

However, despite the declared criteria by which each film receives its age restriction, some exceptional cases are still seen in Russia – for example, in 2013 the fairly harsh and gloomy *The Hobbit: An Unexpected Journey* and *Legenda No. 17 [Legend No. 17]*, which contains erotic scenes, both received the fairly lenient rating of 6+. Occasionally, individual projects are released in two versions, as happened with *The Expendables 3*. This measure was taken due to the entry into force on 1 June 2014 of individual clauses of the law relating to smoking.⁸ Despite the fact that no additional amendments had been made to Federal Law No. 436-FZ, the distributor apparently decided that in light of the constant attention focused on the topic, the mere desire to expand the age group of the potential audience to include young people over the age of 12 was **not enough, and he resorted to 'extreme' measures. The difference** between the versions distributed (12+ and 18+) consists of nine scenes in which the characters in the film smoke. In the 12+ version, the cigars actively being used by the characters are edited out. This version of the film also required replacing one joke referencing the presence of a cigar in the scene when the film was dubbed.

Two years after the entry into force of amendments to Federal Law No. 436-FZ which had an impact on film distribution, we can state that the industry has not yet fully adjusted to the new system, and for several items quite a few questions still remain, the answers to which must be reflected in legislation in years to come. There are still no clear regulations on the advertising of films rated 18+, for example, during television programmes and television broadcasts. Individual Russian distributors confirm that clips of such films may not be broadcast on television or radio between 4:00 and 23:00 local time, as stipulated by Article 13 of Federal

⁸ Federal Law No. 15-FZ 'On Protecting the Health of Citizens from the Impact of Environmental Tobacco Smoke and the Consequences of Tobacco Use', dated 23 February 2013.

Law No. 436-FZ, 'Additional Requirements for Distributing Information Products by Television and Radio Broadcast'. But in this case, the law speaks exclusively of the information products to which this strict rating is applied, that is, to films with an age restriction of 18+, while trailers used for advertising purposes may not contain any prohibited information. This is also mentioned in Article 13, Clause 5: "When placing advertisements or messages about the distribution by television or radio broadcast of an information product which children are prohibited from viewing, the use of fragments of that information product containing information harmful to the health and/or development of children is not permitted." It is another matter that there would be many films with an 18+ rating that could not be advertised if prohibited items were to be excluded from the clips. Over the past two years, cinemas showing trailers for films before the feature begins have been struggling with a similar problem. Copies of films with a permissive age rating are often accompanied by trailers for films for a more mature audience, and distributors strongly recommend that cinemas show them. Consequently, individual venues have received complaints from audience members unhappy with such packaging of information content. Moreover, Federal Law No. 436-FZ states that if several types of information products for children of various age categories are to be shown, the symbol shown must be that of the information product for children in the oldest age category. One of the latest examples of such a conflict is the showing of a trailer for the Russian comedy *Vypusknoi [Graduation Party]*, with an 18+ rating, before a screening of *Teenage Mutant Ninja Turtles*, which has a rating of 6+. This situation has not yet been resolved, but it is clear that unless the appropriate standards are established within the legislation, the industry will be forced into an extreme position: some players will choose self-censorship, while others will sometimes end up making some fairly absurd decisions.

Another example is a conflict which arose in Novosibirsk Region in spring 2014. Local cinemas which had shown *The Wolf of Wall Street* received notices from the regional administration of the Russian Federal Drug Control Service (FDCS) that they had committed administrative violations under the article of the Russian Code of Administrative Offences on propagandizing or illegally advertising narcotic drugs. The FDCS brought in employees from the Physiology and Fundamental Medicine Research Institute at the Siberian Division of the Russian Academy of Medicine as experts, who concluded that *The Wolf of Wall Street*, which had obtained a distribution licence from the Russian Ministry of Culture and received a 16+ rating, draws attention to drugs and ways to use them, and, moreover, idealizes narcotic substances. The Central District Court of Novosibirsk ruled that the cinemas in question had to pay a fine for propagandizing drugs. In late April, however, the Novosibirsk Regional Court considered an appeal from the cinema chains and handed down a ruling cancelling the fine.

1.1.4. Russian Federation tax and customs codes

One of the oldest tax breaks is that which exempts cinemas from paying value added taxes (VAT), today amounting to 18% of the price of labour or services, on sales of individual tickets or subscriptions, the format of which have been duly approved as a strict accountability reporting form (this applies to screenings of all films, whether or not they have national film status). This rule, along with the rescinding of VAT on labour or services in film production executed or offered by film companies, and on the usage rights (including distribution and screening) of film products that have been designated national films, was also defined by Clause 2.20, Article 149, Part 2 of the Russian Tax Code, confirmed in 2000. But when discussions began in 2012 about the need to introduce quotas for film screenings, a return of VAT on ticket sales for foreign films was considered as one option to support domestic film production and distribution.⁹ At the same time, experts recognize that changing the 0% VAT rate will automatically lead to a rise in ticket prices. That could be the reason why the discussion of this initiative has not yet resulted in concrete action.

According to Article 150, Part 2 of the Russian Tax Code, no VAT is applied on the import into Russian Federation territory or other territories under Russian jurisdiction of cinematographic works produced by specialized government organizations for the purpose of international non-commercial exchanges, i.e. for participation in film festivals and other events of that sort. In all other cases, when importing blank audiovisual media into the Russian Federation, the importer must pay a customs duty in the amount of 10% of the customs value of the film. Over the course of many years, this customs rule has been actively discussed in the film community, since it has had an impact on films with a limited distribution, for which this expense was an excessively large burden both in comparison with other expenses and in comparison with income. But now, this problem is almost no longer an issue due to the proliferation of digital film distribution and digital data communications via satellite and the Internet, when the film materials do not go through custom house.

In 2011, the Customs Union Commission lowered the customs duty on the import of digital projectors from 15% to 0%. This measure significantly simplified the transition, for cinema chains first and foremost, to digital exhibition formats. Today, the film community is hoping that proposals will be implemented regarding the customs-free import of digital film cameras (currently the rate is 4%), lenses (15%), and other cinema technology (including sound and screen equipment, seating, glasses for film viewing, servers, etc.).

Meanwhile, since spring 2013, we have been awaiting the adoption of two amendments to the Russian Tax Code. A bill aimed at reducing the amortization period for intangible assets in the film industry and

⁹ Increased distribution for Russian films – <http://www.kommersant.ru/doc/1891176> (Russian only); Cinemas to possibly be stripped of VAT benefits – http://www.vedomosti.ru/companies/news/4735801/nalog_na_russkoe_kino (Russian only).

optimizing expenses incurred in producing film trailers has been drafted and has passed several stages of approval. Currently, the time period for the useful life of a film is set at 10 years. However, the obsolescence period is three to five years on average, while the existing accounting rules for the revenue and expenditures involved in making and distributing **films do not take into account their actual 'lifecycle'**. Therefore, this bill would reduce the amortization period of intangible assets in the form of exclusive rights to audiovisual works, including films, to two years. The bill also provides for a profit tax exemption for costs incurred in making trailers. The current version of the Tax Code does not include costs for that type of advertising in the list of unregulated advertising expenses, so at present those costs may be counted as expenses only in an amount of up to 1% of receipts from sales.

In July 2014, the Russian Ministry of Economic Development drafted a Russian Government decree on reducing the regulatory time limit for use of photographic and film equipment from 7–10 years to 3–5 years. **This initiative was the result of the sector's active transition to digital** equipment, the depreciation period of which is much shorter than that of film equipment. Experts estimate that if this measure is adopted, film exhibitors will be able to save around RUB 180 million per year in profit taxes, with overall savings for all companies in the sector of around RUB 220 million.

In August 2014, the Russian Ministry of Finance put a bill before the government that would add a chapter on sales tax to the Russian Tax Code. According to media reports¹⁰, the document essentially repeated the rules on sales tax that were in effect in Russia before the tax was abolished in 2004. The regions were allowed to set their own tax rate, up to a limit of 3%. It was assumed that this initiative would enter into force on 1 January 2015 and would not affect the film industry, since taxes would not be collected, among other things, on services related to culture and the arts. Whatever the case, on 20 September, the initiative regarding the return of the sales tax was rejected and transformed into a proposal to offer the regions the ability to charge businesses fees for the right to engage in commerce and to provide food and beverage and taxi services, and to charge individual citizens tourism or resort fees.¹¹ Later, it was reported that Vladimir Putin supported provisions regarding a sales tax on Russian software.¹² The government then decided against this initiative, but the Ministry of Communications and Mass Media began examining the option of withdrawing VAT relief for developers.¹³ If such initiatives come into effect, this may impact the cost of automating certain services at Russian cinemas.

¹⁰Finance Ministry sends to Government draft bill introducing sales tax – <http://rbcdaily.ru/economy/562949992137733> (Russian only).

¹¹ Dmitry Medvedev confirms White House rejection of sales tax – <http://www.kommersant.ru/doc/2572038> (Russian only).

¹² President supports software sales tax – <http://www.kommersant.ru/doc/2574580> (Russian only).

¹³ Government decides against introduction of special 10% sales tax on software – <http://www.tv100.ru/news/v-pravitelstve-otkazalis-ot-idei-vvesti-specialnyj-nalog-s-prodazh-programmnogo-obespecheniya-v-razmere-10-101701/> (Russian only).

1.1.5. Federal Law 'On Insurance Contributions to the Russian Federation Pension Fund, Russian Federation Social Insurance Fund, and the Federal Mandatory Health Insurance Fund'

In August 2014, the Russian Government supported a bill drafted by the Ministry of Economic Development in 2013, amending Federal Law No. 212-FZ **'On Insurance Contributions to the Russian Federation Pension Fund, Russian Federation Social Insurance Fund, and the Federal Mandatory Health Insurance Fund', dated 24 July 2009.** According to those amendments, the 2015–2017 budget will most likely see a discount rate applied to social security contributions for Russian organizations involved in producing animated audiovisual products and/or rendering services (carrying out work) to create them. The film industry has approached officials with such a proposal on a number of occasions, arguing that the basic rate of 30% which is currently applied to most companies makes the production of animated films unprofitable and **reduces the sector's investment potential.** In the end, the Ministry of Economic Development agreed that the best option would be to set a rate of 14% in the 2013–2017 period, 21% in 2018, and 28% in 2019. Currently, similar discounts are enjoyed by IT companies, media outlets, several non-commercial organizations, and organizations working with the disabled. For now, the bill will formally make a difference to the lives of animators and similar individuals for the 2015–2017 period only. Experts believe, however, that there is a good chance that the discount regime will be retained even after 2017.¹⁴

1.1.6. Initiatives not implemented

Since 2012, there have been ongoing discussions in the Russian cinema world about the possibility of introducing protective measures with respect to domestic film production. Work began on drafting a federal law establishing a minimum number of national films as a proportion of total screenings at each cinema between 12:00 and 24:00 local time. The concept later changed form, and one of the most recent proposals was the initiative of United Russia State Duma Deputy Robert Schlegel, which would have required that domestic films in Russian distribution make up at least 50% of all screenings in each individual cinema. But in 2014, just as in 2012, the film community was categorically opposed to this kind of approach to promoting domestic production on the national market. **The opponents' chief argument was the fact that the Russian film industry is not in a position to provide such a volume of local films.** Whatever the case, at a February 2014 conference focusing on the work done in 2013, Russian Culture Minister Vladimir Medinsky responded that he still considered state regulation of the film distribution market to be necessary. In the summer, he said that if the figures for 2014

¹⁴ Based on the article 'Taxes Reduced for Cartoon Characters', published in *Kommersant* No. 145, 16 August 2014 (<http://www.kommersant.ru/doc/2547008> – Russian only).

demonstrated an increase in the share of Russian films, then the Ministry would not return to the question of introducing quotas.

On 16 September 2014, at a meeting of the expert council of the All-Russia People's Front, director Yuri Kara delivered a proposal to ban the exhibition of American films in Russian cinemas until the anti-Russian sanctions connected to the conflict in Ukraine are lifted. Director Stanislav Govorukhin, the Chairman of the Culture Committee and the Co-Chairman of the All-Russia People's Front, believes that the showing of American films in Russian cinemas should be restricted, while increasing the share in distribution of films shot in other countries. The Russian Culture Ministry spoke out against the idea of a ban on American films in Russia. **"The Ministry of Culture believes that the sanctions are not operating on a cultural level, and therefore it does not make sense to ban anything. Sanctions are effectively a remnant of the past. Measures to support Russian cinema may be necessary, but we need to approach that question very cautiously, taking into account opinions across the film community and the opinions of experts in that sector",** the Ministry's press service later stated.¹⁵ Whatever the situation, debates are continuing, which means that it is still too early to discount variations on quota initiatives.

In February 2013, the LDPR's Dmitry Litvintsev, a member of the Duma's Committee for Culture, came out with an initiative to ban the production of foreign films on Russian Federation territory. Furthermore, Litvintsev considered it necessary to introduce requirements relating to investment and the composition of the cast and crew for joint Russian-foreign productions (requiring at least 40% of creators and 60% of actors to hold Russian citizenship). That draft legislation has not yet advanced any further.

In July 2013, LDPR Duma Deputy Valery Seleznev proposed amending the law on advertising to almost completely ban showing commercial advertisements for products and services before film screenings. According to Mr. Seleznev, **"The showing of advertisements, except for public interest advertisements and film advertisements, before the start of a film screening shall not be permitted."**¹⁶ Explanatory comments attached to the bill emphasized that: **"Commercial advertising evokes displeasure. Not only are people forced to watch these advertisements in light of the fact that, as they wait for the film to start, all their attention is focused on the screen; worse, they have to pay to watch them, since they pay to get into the cinema. Such a situation is intolerable and demands intervention. Many citizens, hoping to avoid the dominance of advertising on television, purchase satellite and digital channel packages, since those do not show commercials."** Thus far, however, that initiative has not taken shape in any serious way, and so, by all appearances, cinemas are not threatened with the introduction of such measures any time soon.

¹⁵ Russian Culture Ministry against a ban on Russian distribution of American films – <http://itar-tass.com/kultura/1449245> (Russian only).

¹⁶ LDPR Deputy introduces bill in Duma to ban commercial advertising in cinemas – <http://itar-tass.com/kultura/628567> (Russian only).

Such proposals invariably send ripples of anxiety through the film community, and give rise to numerous heated discussions in the media. However, barely a single expert ever appears able to state with any certainty which of these initiatives pose a tangible threat to film distribution and are genuinely in the works, and which are merely announced for discussion, only to later sink without trace.

Perhaps the only exception to this is the issue surrounding quotas for international films in Russian distribution. The Ministry of Culture stated in December 2014 that this issue may reappear on the agenda in January 2015, when the figures for Russian distribution in 2014 are reviewed. According to preliminary data, domestic producers may have accounted for 17–18% of box office earnings, which will represent a decrease compared to 2013 (18.7%). That would mean that the growth in the share of Russian films anticipated by the Ministry of Culture did not come to pass, which would give officials grounds to demand the introduction of quotas.¹⁷

1.2. The activities of federal authorities in cinema

1.2.1. The Russian Federation Ministry of Culture

Administration by the Ministry

Russian Federation Government Decree No. 590 dated 20 July 2011 designated the Russian Ministry of Culture as the federal agency tasked with developing and implementing state policy, as well as the legal and regulatory framework, for the Russian film industry. On 21 May 2012, Vladimir Medinsky was appointed Russian Minister of Culture by order of the President. He replaced Alexander Avdeev, who had held the post since 2008. As is common in such circumstances, with the arrival of the new Minister, changes were also made to the rest of the team, and it took some time for the new staff to settle into post. Later, industry professionals came to see Medinsky as closely associated with initiatives to introduce quotas on foreign cinema, and with active efforts to implement priority areas for cultural development. These were formulated **in a ministerial report covering 2013 activities as “the development and protection of Russian cinema arts, while endowing the developmental foundations of the national film industry with the best traditions of the domestic schools of cinema and facilitating the use of cinema as a tool for exerting a positive influence on the mass consciousness, the education of the younger generation in the spirit of higher morality, humanism, patriotism, and tolerance.”**

On the basis of Order No. 892 of the Ministry of Culture of the Russian Federation, dated 16 August 2012, the Ministry of Culture includes a Department of Cinematography. The Department consists of five divisions: a division for cooperation with cinema organizations, a division for maintaining the state film register, a division for state support

¹⁷ Ksenia Boletskaya, 'Nothing Standing in the Way of the Hobbit' // *Vedomosti*, 11 December 2014

for the production of documentaries and animated Russian films, and a division for state support for the promotion and distribution of Russian films. Vyacheslav Telnov was appointed Head of the Department as far **back as 2011, even before Medinsky's arrival. At the end of 2013, the Department's** activities came under the direct supervision of the Minister of Culture.

Distribution certificates and national film status

Aside from facilitating state support for cinema organizations and drafting regulations, the Ministry is also authorized to issue distribution certificates for films, issue national film certificates, and maintain the joint State Registry of Cinema and Video Films. It serves as the state customer for state-funded, special-purpose programmes, including those supporting the production and distribution of national films.

In 2012, the Ministry issued 3,611 distribution certificates (1,726 for Russian audiovisual works in all types of video formats and 1,885 for foreign projects). In 2013, that number fell to 3,144 distribution certificates (1,575 for Russian audiovisual productions and 1,569 for foreign works). However, the number of national film certificates issued for production projects being launched, as well as for finished film and motion picture productions from past years in film archive collections at **the country's leading studios, remained practically the same: 2,674** certificates in 2012 versus 2,650 in 2013.

Budgetary funds for the support of cinema

For many years, the Russian Ministry of Culture alone provided state funding to the film sector, but since 2010, it has been sharing that responsibility with the Federal Fund for Social and Economic Support to National Cinematography (the Cinema Fund). The jurisdictional boundaries between those two organizations have changed over the last four years. By the end of 2013, the Ministry of Culture reported that their activities had finally been clearly delineated. In accordance with Russian Government Resolution No. 1397, dated 25 December 2012, organizations producing and distributing films for children and young people, debut, art-house and experimental national feature films, film periodicals, documentary and popular science films, and animated national films continue to receive state support from the Ministry of Culture. On the basis of the same decree, the Ministry provides subsidies to the Cinema Fund, taken from the funds allocated for cinema in the Russian federal budget.

The amount of state funds allocated to support cinema as a whole has varied in a noticeable cycle over the past decade. While in the 2004–2007 period, there was a consistent increase in the volume of financing – which grew in line with inflation – the following years saw a significant increase in state support, much as had happened in the 2002–2003 period. From 2007 to 2012, state support grew by more than a factor of 2. In 2012, the total funds allocated to cinema, as stated in the relevant

section of the federal budget, amounted to RUB 6.4 billion (up 38.4% compared to 2011). Of that, RUB 5.9 billion was designated for cultural institutions and events. In 2013, the volume of state support grew by another 6%, to a total of RUB 6.8 billion. The budget designated RUB 6.1 billion for cultural institutions and events. A reduction in state funding has been seen during 2014. The budget fixes the total funds allocated for cinema at RUB 6.07 billion. At the same time, some changes have taken place in the process for distributing budgetary allocations: distribution has become more precise and has begun to distinguish between cultural institutions and events.

One important target line item in the culture area, other than institutions and events, is the implementation of the Federal Target Programme (FTP) entitled Russian Culture (2012–2018).

Table 1. Volume of funding for FTP Russian Culture (2012–2018)

Development and support of cinema (millions of roubles)									
	2012–2018	Including							Expected results
		2012	2013	2014	2015	2016	2017	2018	
Support for Russian producers of cultural goods in the area of cinema	3618.3	462	462	462	596	662.1	512.1	462.1	Creating at least 70 feature (debut, children's, art-house), 321 non-feature, and 115 animated national films during the period 2012–2018
Including the federal budget – Russian Ministry of Culture	2727.3	360	360	342	461	512.1	362.1	312.1	
Including extra-budgetary sources	891	102	102	102	135	150	150	150	
Training staff for contemporary Russian cinema work – federal budget (Russian Ministry of Culture)	145	5	15.5	15.5	25	28	28	28	Training specialists urgently required by the film industry for the development of popular film production. Within seven years, 100 screenwriters, 50 directors, 80 animators, and 350 distributors will enter the cinema market
Expand access to cinema products and services for the Russian population	1280	130	130	130	260	260	210	160	Annually conduct at least 30 Russian and international film festivals in the Russian regions. Provide state support
Including the federal budget – Russian Ministry of Culture	950	100	100	95	200	200	150	100	

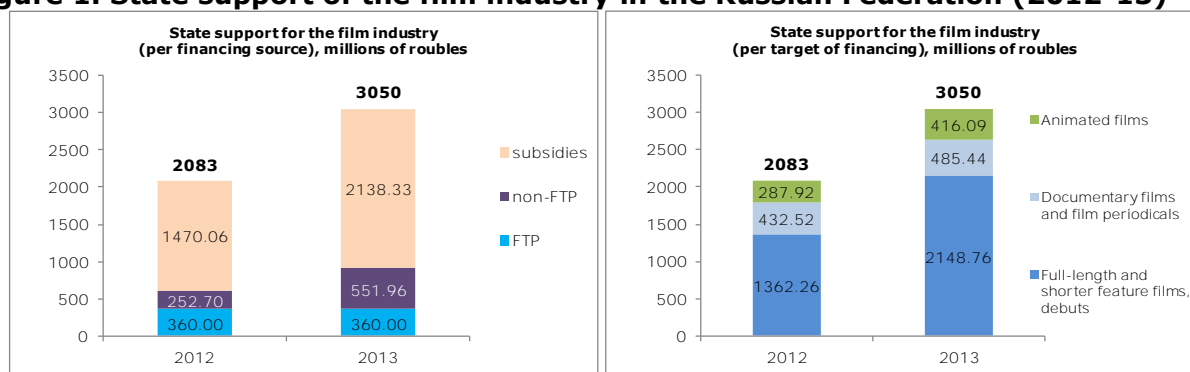
Development and support of cinema (millions of roubles)									
	2012–2018	Including							Expected results
		2012	2013	2014	2015	2016	2017	2018	
Including extra-budgetary sources	330	30	30	30	60	60	60	60	during the 2012–2018 period for the distribution of 104 full-length feature and animated national films
Support the promotion of Russian cinema in the global market	467	55	55	55	78	98	68	58	Promote domestic films in more overseas markets, creating a positive image for Russia abroad. Conduct 175 non-commercial film events abroad during the period 2012–2018. Participate in international film festivals for commercial promotion of domestic cinema in at least 10 countries every year
Including the federal budget – Russian Ministry of Culture	350	40	40	38	60	80	50	40	
Including extra-budgetary sources	117	15	15	15	18	18	18	18	
Total per section	5510.3	652	662.5	662.5	959	1048.1	818.1	708.1	
Including federal budget – Russian Culture Ministry	4172.3	505	515.5	515.5	746	820.1	590.1	480.1	
Including extra-budgetary sources	1338	147	147	147	213	228	228	228	

Source: Russian Federation Ministry of Culture

State financing of film production

The main task of the Ministry of Culture in the area of film has traditionally been increasing production of national films and ensuring they have a larger share of screen time in cinemas.

Figure 1. State support of the film industry in the Russian Federation (2012-13)



Source: Russian Federation Ministry of Culture

Table 2. Film and video products released, 2012–2013

Name	Number of films (change from previous year)	
	in 2012	in 2013
Feature films	35 (-16)	40 (+5)
<i>Including full-length films</i>	33 (-6)	39 (+6)
<i>Including film periodicals (such as Eralash)</i>	2 (-10)	1 (-1)
Documentary films (total)	447 (-36)	397 (-50)
<i>Including full-length films</i>	47 (+12)	35 (-12)
<i>Including short films and video periodicals</i>	400 (-48)	362 (-38)
Animated films (total)	130 (+24)	85 (-45)
<i>Including full-length films</i>	1 (-1)	4 (+3)
<i>Including short cinema and videos</i>	129 (+25)	81 (-48)
TOTAL	612 (-28)	521 (-91)
<i>Including full-length films</i>	81 (-5)	77 (-4)
<i>Including short films</i>	531 (-23)	444 (-87)

Source: Russian Federation Ministry of Culture

Department of Cinematography data show that from 2011 to 2013, there was a significant decrease in the number of finished cinema projects financed by the Ministry of Culture. But it is evident that the falling numbers mostly concerned projects not intended for wide distribution – that is, short and documentary films. The trend, despite the declared division of authority between the Ministry and the Cinema Fund (with the latter responsible for commercial projects), fits with the objective of “creating the conditions necessary to improve the quality of film production” (as the numbers of projects filmed decreased, the amount of resources for film production, on the contrary, grew). Furthermore, this trend also satisfies the need to create cinematic works in popular genres, applying the latest techniques and production technologies, which in turn should lead to an increase in loyalty on the part of Russian audiences to national products and thus a surge in demand for such products. And it is this last point (specifically, the share of receipts and audience numbers earned by domestic films in wide distribution) that has hounded officials for the past five years, if not longer. In response, they have held interminable discussions about quotas as a viable means to meet another Ministry objective, which is declared in reports on Ministry activities for 2012 and 2013 as “creating a preference for screening domestic films”.

With that said, in 2013 the agency also considered the need to make documentary films more popular. This led to the drafting of the Russian Federation Government Decree on Amending the Rules for Providing Subsidies from the Federal Budget in Support of Cinema, according to which companies receiving funds to produce documentaries would be obliged to “ensure the broadcast of the finished documentary film work on a national, must-carry, and publicly accessible television channel or a television channel which is accessible to over half of the regions of the Russian Federation.” The initiative provoked an extremely negative reaction among the documentary filmmaker community, which argued that its goals and objectives differed from that of modern Russian television, that its target audiences were different, and that implementing

that idea would make documentary filmmakers dependent on channel managers.¹⁸ In the end, the proposal was transformed into a requirement to “ensure the public screening of the finished documentary film work on a national or regional, must-carry, and publicly accessible television channel, and/or a satellite television network, the Internet, and/or in cinemas or film clubs, and/or participation in international or Russian film festivals.”

Debut directors were responsible for 13 of the entertainment projects in 2012, in accordance with the stated priority to encourage the influx of new creative talent in Russian filmmaking. Eight pictures fell into the category of films for children and young people. Interestingly enough, they included projects like *The Daughter [Doch]* (directed by Aleksandr Kasatkin and Natalia Nazarova), for example, which later received a distribution rating of 16+, and *The Mine (Shakhta)* (Directed by Nurbek Egen), which received an 18+ age rating. In 2013, out of 40 feature films, nine debuts and seven children’s projects were completed.

Pitch sessions

In 2013, for the first time, the Ministry of Culture tried out a procedure whereby projects seeking government funds for production were pitched during live sessions. In these pitch sessions, filmmakers were given a brief time slot to discuss their film, screen materials at various stages of readiness (presentations, trailers, excerpts), and answer questions. Participants were grouped as follows: special documentary projects (out of 21 funding applications, six were finally selected), documentary films (203 of 764 were selected), feature film debuts (10 of 44), children’s films (10 of 39), animated films (54 children’s and 15 art-house works out of a total of 122), art-house cinema (19 of 68 – 12 in the pre-production phase, four in the editing phase, and another three as backups), as well as distribution subsidies (six of 12). Almost immediately after this series of open presentations, the agency declared the new system to be effective. In August 2013, Vladimir Medinsky stated, “Overall, everything went well. Previously, decisions were made behind closed doors by a bureaucrat – it was ‘your application was accepted’ or ‘your application was denied’, with no comment, no explanation, nothing. We decided to try to agree on clear conditions and conduct the process with complete transparency – the pitches were broadcast live on the Internet and some of them on the Russia-24 channel. Notably, the upside of doing things publically surprised us: there was a total absence of scandal.”¹⁹ However, there was at least one controversial case that and caused the film community some agitation. When the art-house projects selected for 2013 Ministry of Culture financing were announced, director Aleksandr Mindadze’s film *Lovely Hans, Dear Peter*, produced by

¹⁸ See the open discussion on the Unified Portal for information about draft regulations being developed by federal executive bodies and the results of public discussion – http://regulation.gov.ru/project/11543.html?point=view_project&stage=2&stage_id=7227 (Russian only).

¹⁹ From an interview with *Kommersant*, 29 August 2013 – <http://www.kommersant.ru/doc/2265995> (Russian only).

Passenger Studio, was not on the final list. Members of the advisory board **did declare the film “one of the most vivid and expressive of those pitched during the live project presentations and certainly worthy of state financial support”, as stated in the special opinion attached to the session’s minutes.** The reason given for declining state funding for the project was that it did not pass an analysis by the military history and social psychology advisory boards, the makeup of which — unlike other advisory boards dedicated to other specific areas — is not divulged.²⁰ Cinematography Department Head Vyacheslav Telnov explained: **“This was a group decision, not the personal decision of Telnov or Medinsky. The experts examine projects for falsification of history. Everything is done with one date in mind: the 70-year anniversary of victory in World War II. And this film perhaps adopts not quite the perspective that World War II veterans would expect.” He added that the military history and social psychology boards held their sessions in parallel with the advisory board on feature films.** Telnov said that the experts studied not just Mindadze’s project, but all other applicants for state support which had a history theme. **“The first board consists of historians, and the other comprises social psychologists. Only 14 people sit on the first board, and all the experts have advanced degrees in history.”**²¹ The incident was later rectified: the required changes were made to the script and the film was recommended for state funding after all.

At a February 2014 press conference, Vladimir Medinsky reiterated that he considers the pitching system effective²², and in the summer of 2014 public project presentations started again, this time truly without incident. After considering the projects, the feature film advisory board recommended that 228 projects and the organizations representing them be added to the list of cinema organizations receiving subsidies in 2014. Another 48 projects were placed on a backup list. There are plans to allot RUB 400 million this year for feature films. Filmmakers submitted 80 applications to take part in those pitching sessions, and 41 scripts were selected for in-person presentations. The feature film advisory board approved 12 art-house and experimental film projects (with 16 as backups). The agency allotted RUB 140 million for the production of national films for children. After the public presentations, out of 34 applicants, four projects were judged worthy of state funding, with another four selected as backups. RUB 373 million has been allotted to support animation. The Ministry of Culture received 126 applications overall. The advisory board for animation chose 68 projects, of which 23 are art-house pictures and 45 are for children.

²⁰ Advisory board members in 2013:

<http://www.proficinema.ru/news/detail.php?ID=143209>. Advisory board members in 2014: <http://xn--j1adnq.xn--p1ai/dokumenty/order/detail.php?ID=449061> (both Russian only).

²¹ Culture Ministry rejects Mindadze project due to historical inaccuracy –

<http://ria.ru/culture/20130814/956263279.html> (Russian only).

²² Vladimir Medinsky discusses results of work to support Russian cinematography –

http://mkrf.ru/press-tsentri/novosti/ministerstvo/detail.php?ID=461815&phrase_id=3122868 (Russian only).

Distribution support

The Ministry of Culture supports film distribution in several ways. First, there are direct subsidies for releasing and promoting national films. For instance, in 2012, RUB 38.35 million was spent for these purposes, while in 2013 that number was RUB 35.0 million.

Second, the agency supports events “**which aim to promote Russian films**”, the list of which traditionally includes, for example, the Russian International Film Market (conducted three times per year), the Kino Expo International Convention and Trade Fair, national awards ceremonies including the Golden Eagle and Nika awards, and other events. In 2012, RUB 45.0 million was allotted for those purposes, and RUB 22.0 million in 2013.

Film festivals are financed separately (RUB 76.39 million in 2012 and RUB 244.0 million in 2013), with the Moscow International Film Festival supported in a separate category (RUB 120.0 million in 2012 and RUB 115.0 million in 2013). Events promoting national cinema abroad receive additional subsidies, as does the participation of Russian filmmakers in international film exhibitions.

Popularizing cinema

Aside from its regular activities, the Ministry of Culture has engaged in popularizing world cinema classics among Russian citizens, and especially among schoolchildren. In 2012, film director Nikita Mikhalkov proposed introducing lessons in secondary schools during which children would study one hundred of the best films ever made. **Mikhalkov’s idea** was supported by the Minister of Culture, who announced that his Ministry would soon develop a process for selecting films for a school subject called ‘**100 Best Films**’. **The list of possible films was subjected to public critique**, and was reworked several times. The list is now online, on the Kultura.rf portal.²³ In August 2014, the Ministry of Culture used the same portal to release a list of 100 foreign film classics recommended for viewing by Russian school children.²⁴ A total of 35 films are available for online viewing. These are films that have come into the public domain in the Russian Federation under current legislation, and which therefore have no restrictions on access for viewing. For the other 65 films, links are provided to resources offering paid viewing.

Finally, RUB 6.64 million (2012) and RUB 12.55 million (2013) were allocated to provide services for preparing and placing materials with a cinema theme in print publications – in other words, for supporting media outlets in the sector, which have traditionally included publications such as *Kinoprotsess*, *Mir Tekhniki Kino*, *Kinovedcheskie Zapiski*, *Iskusstvo Kino*, *Kinomechanic*, *Seans*, and others.

²³ 100 films for school children – <http://culture.ru/cinema/child-100>

²⁴ Foreign cinema classics – <http://culture.ru/cinema/foreign-classics>

1.2.2. Federal Fund for Social and Economic Support to National Cinematography

History

The non-commercial organization known in full as the Federal Fund for Social and Economic Support to National Cinematography, officially abbreviated to the Cinema Fund, was created in 1994 by the Russian Federation Committee for Cinematography in the run-up to the centenary of Russian and world cinema. On 16 January 1995, the Russian Federation Government issued a decree, according to which the newly created Fund was tasked with carrying out socio-economic programmes within the Russian film industry, providing financial support for Russian film production and distribution and for film industry employees, and attracting financing from Russian and foreign investors for the production and distribution of Russian films. But at that time, the organization did not carry much weight in the industry.

In November 2009, a meeting of the Government Council on the Development of the Russian Film Industry created a plan which included changes to the very principles underlying the allocation of state support. In order to implement these reforms, it became necessary to strengthen **the Fund's position, making it responsible** for distributing funds to specific filmmakers to create projects that were significant, primarily from the point of view of commercial potential. In the end, Russian Government **Decree No. 1215, 'On the Federal Fund for Social and Economic Support to National Cinematography', dated 31 December 2009, confirmed a new version of the Fund's Charter, significantly expanding its purview.** According to this document, the main tasks of the Fund are:

- to support social and economic programmes in the field of Russian cinema
- to provide financial support to organizations which produce, distribute, exhibit, and promote national films
- to attract financing from Russian and foreign investors for the production, distribution, and exhibition of national films
- to accumulate financial resources for the development of Russian cinema, including film production, the distribution, exhibition, and promotion of national films, and the organization of non-profit film events
- to support film experts, specialists, and entrepreneurs who work in the film industry

The mission of the Fund is primarily to support Russian cinema, to **shore up the country's film production infrastructure, to improve the quality and hence competitiveness of Russian films, and to popularize those films within the Russian Federation and abroad.** In pursuance of this mission, the Fund subsidizes and finances, in the form of loans, the creation and promotion of high-quality national films for mass audiences.

Cinema Fund activities, 2010–2012

According to initial plans, which were later somewhat amended, the Cinema Fund was supposed to declare certain production companies to be leaders in the Russian film industry and issue identical sums of money (RUB 250 million) to those studios for the creation of full-length feature films in collaboration with other, smaller companies. In doing so, the Fund would reinforce the film production infrastructure. Former Fund Executive **Director Sergei Tolstikov said, "We definitely need big companies on the market that plan out their activities and work systematically. They have packages of projects. When they have these qualities, these are the structural elements of the system."**²⁵ In March 2010, the Cinema Fund's Board of Trustees identified eight such leading companies. Central Partnership, CTB Film Company, Studio TRITE, Direktsiya Kino (a subsidiary of Channel One), Bazelevs, Art Pictures, Rekun, and Igor Tolstunov Production Company (PROFIT) all made it onto the list. The list of industry leaders was determined on the basis of a number of criteria, **including the popularity of the organization's projects, international festival awards, box office earnings, and television ratings.**

In the early days of the programme, the method for selecting the leaders of the Russian film industry caused some passionate debate among film industry insiders: this category had no legal definition, and the criteria used to declare production companies as industry leaders seemed subjective to many. Eventually, the Federal Antimonopoly Service of Russia (FAS) ruled that the industry leader selection process violated antimonopoly legislation. In 2010, in order to overcome this hurdle, the **Russian Government established criteria for determining 'Russian film production leaders'**.²⁶ These include:

- audience evaluation of titles released by the cinema organization, determined by cinema attendance and television ratings
- professional evaluation of titles released by the cinema organization, determined by film festival awards and industry honours received by the organization
- length of time the cinema organization has been active on the market and the number of titles it has released, as well as their circulation

The method for compiling the domestic film company ratings for 2011 was adjusted, and as a result, the time period for which maximum cinema attendance and television ratings figures were compiled was shortened from ten to five years, and the assessment came to focus on cinema organizations which served directly as film producers, rather than on film companies which doubled as production houses, as it had in 2010. By applying this new methodology, the list of Russian film industry leaders eligible to receive Cinema Fund financing was cut from eight to seven:

²⁵ From an interview published in the electronic preview issue of *Booker's Bulletin*, No. 22 (435), 8 June 2012.

²⁶ See Clause 7 of the 2011 Rules for Extending Federal Subsidies to Support Cinema, approved by Russian Government Resolution No. 1212, dated 31 December 2010.

Rekun Cinema, which had lost Valeriy Todorovskiy, the author of its most popular films (*Hipsters*, *Kandahar*, *Piranha [Okhota na Piranyu]*, and *Country of the Deaf [Strana glukhikh]*), fell to the tenth spot on the list. In addition, instead of Bazelevs, Timur Bekmambetov's projects were now financed by TABBAK.

In 2012, the process for selecting Russian film industry leaders was further adjusted and approved by Cinema Fund Decree No. 9, dated 28 April 2012. In part, the decree establishes that the 'cinema attendance' figures used to compile the Russian film industry leader rating must be drawn from the period beginning 1 January 2007 and ending 31 December 2011. Films are ranked in decreasing order based on attendance. First place receives 100 points; second place receives 90 points; and so forth, in ten-point increments. Each year's rating is based on the ten releases with the highest attendance. Figures are drawn from the Alliance of Independent Film Distribution Companies (ANKO), publications such as *Film Business Today* magazine and *Booker's Bulletin*, Rentrak, and the Central Data Processing Centre of the Ministry of Culture.

The 'television ratings' figures are also drawn from the same time period. Films with past theatrical distribution in Russia, which are currently being broadcast on television, are ranked in decreasing order based on television ratings. First place receives 50 points; second place receives 45 points; and so forth, in five-point increments. Each year's rating is based on the ten releases with the highest television ratings. Figures are drawn from TNS Russia data.

The 'professional evaluation of films released by the cinema organization' category consists of two independent indicators: 'film festival awards' and 'professional honours'. The evaluation period for each of these indicators is the same as for the other categories. In the 'film festival awards' category, organizations are awarded 100 points for receiving the top festival award, and 60 points for Best Director, Best Screenplay, Best Cinematography, Best Actor, and Best Actress awards. Points are also awarded for inclusion in the In Competition programmes of the Cannes Festival, Berlin Film Festival, and Venice Film Festival (30 points); for the top prize at the Moscow International Film Festival (50 points); and for inclusion in the Moscow Film Festival's In Competition programme (30 points). In the 'professional honours' category, Russian Oscars nominees receive 80 points, and Russian winners of the Oscar for Best Foreign Language Film receive 100 points; meanwhile, nominees for Russia's Golden Eagle and Nika awards receive 30 points, and winners receive 50 points. Figures are drawn from official festival and award websites.

The 'years on the market, number of releases, and circulation' category is divided into three indicators: 'years on the market', 'total number of releases and their circulation', and 'number of releases which received points in the "theatrical release attendance", "television ratings", and "professional evaluation, including film festival awards and professional honours" categories and their circulation'.

The first of these indicators is calculated for the period beginning with the state registration of the legal entity, and there is no defined end time.

Figures are drawn from the Unified State Register of Legal Entities. Organizations are awarded points based on the number of years they have been active in the market: 50 points for over ten years, 40 points for five to ten years, and 30 points for less than five years. The second indicator is calculated for the period of 1 January 2002 to 31 December 2011. Organizations receive 50 points for producing over ten titles, 40 points for producing six to ten titles, and 30 points for producing five titles or fewer. The rating takes into account only those films which have more than two distribution copies in circulation. Figures are drawn from *Film Business Today*, *Booker's Bulletin*, and Rentrak. The decree sets out no specific time period for the third indicator, but it obviously must coincide with the period established for the attendance and television ratings criteria, as well as the film festival and professional honours criteria. Sources for the figures used in the rating also coincide accordingly. If a cinema organization has produced fewer than three films which have received points in the audience evaluation (attendance and television ratings) and professional evaluation (festival awards and professional honours) categories, it cannot be included on the list of Russian film industry leaders.

In June 2012, when the Russian **Cinema Fund's Board of Trustees** defined the specific parameters of its budget, it also announced the new list of Russian film industry leaders. Previously declared major Russian studios Art Pictures, Direktsiya Kino, CTB, Studio TRITE, TABBAK, and Central Partnership continued to receive state financing. PROFIT gave way to Real-Dakota, and the group was joined by three new leaders known primarily for their festival successes: Koktebel Film Company, Non-Stop Production, and Rock Films. **"There are [...] companies that put out festival-grade cinema with unique artistic meaning. They also have packages of projects. The Ministry of Culture told us back in 2011 that we need to support these companies in some way. Now we have found a way to do so", commented Sergei Tolstikov on the decision.**²⁷ **"The resources there are smaller, naturally, but they do exist, so that these companies can produce bigger projects, and not always be stuck with a budget around USD 1–1.5 million. And we should be stimulating those companies so that they can diversify their projects. If they want to move into genre cinema, they should have that opportunity. When you give money to companies like that, it's possible they might look at their project in a new light, and take a step towards more popular forms of cinema. So the fact that these three companies were selected is a very big deal. It means the potential to cross over from one sphere of activity into another."** Overall, the leading studios received RUB 2.24 billion in subsidies in 2012, out of the RUB 3.8 billion the Fund had at its disposal.

Also in 2012, the payback mechanism was more clearly delineated. This had been discussed as an important issue as early as 2009, at the first session of the Government Council, and it was later reinforced in the updated Cinema Fund charter. For Russian film industry leaders, the following amounts were confirmed for deductions from revenue received

²⁷ From an interview published in the electronic preview issue of *Booker's Bulletin*, No. 22 (435), 8 June 2012.

from distribution and other forms of use of each film created with the **Fund's support (in proportion to the share it contributed towards the film's financing)**²⁸:

- up to 25% for subsidized comedies, animated features, and international co-productions
- 5% for other projects
- at least 50% in cases of subsidized distribution

Specific deductions were to be defined in individual agreements at the **discretion of the Cinema Fund's Board of Trustees. Agreements with cinema organizations receiving support from the Cinema Fund established the following procedure for determining the deduction: first, the Fund's share in the project is determined by dividing the subsidy amount by the film's total production and distribution budget. The resulting share is multiplied by the amount of revenue the cinema organization receives from theatrical distribution and other uses of subsidized films. Theatrical release revenue is defined as the difference between gross box office receipts, the cinema's share of the revenue, and the share taken by the distribution company (distributor). Money earned from the sale of DVD distribution rights; broadcast, satellite, and cable rights; Internet rights; and so on is then added to the revenue figure. The baseline repayment amount is determined by multiplying total revenue received from distribution and other uses of the film by the Cinema Fund's share in the budget. This baseline is then used to determine the percentage differentiated depending on the film's type, subject matter, and financing channel. Specific repayment conditions (such as a particular relationship with the distribution company) are defined in each individual agreement based on analysis by the Cinema Fund's Financial and Production Department.**

Cinema Fund structure and activities, 2013–2014

An audit of Cinema Fund activities by the Russian Federation Accounts Chamber, published in late December 2012, brought about the **start of the latest attempts to redesign the Fund's status and operations.** From 2010 to 2012, the Fund received over RUB 7 billion from the federal budget to support film, RUB 3.89 billion of which it invested in producing and distributing Russian films in 2011, and RUB 1.4 billion in 2011. In 2011, films supported by the Cinema Fund brought in RUB 4.1 billion, or 72.6% of box office earnings for Russian films, but returned less than RUB 100 million to the Fund. **"Not much was returned", admitted the Fund's Executive Director Sergei Tolstikov, but he also noted that art can and must be supported with no expectation of compensation, while business "requires more precise goal-setting, so producers need to return more, and then it will be clear which of them are most efficient."** On average, the

²⁸ See Clause 22 of the Procedure and Terms for providing funds for financing and/or compensation for expenses connected with the production, distribution, screening, and promotion of full-length feature and animated national films by leaders of the Russian film industry (confirmed by Cinema Fund Order No. 33, dated 9 June 2012).

Accounts Chamber calculated, 2% was returned. That, the agency wrote, **is "incommensurate" with the total amount the government spent on supporting film production and distribution.**²⁹ Soon afterwards, the Ministry of Culture supported demands by Vladislav Surkov, at the time still Deputy Prime Minister, to divide up the functions of the Fund and the Ministry. Surkov expressed that idea in November 2012 at a meeting on optimizing state support for Russian cinema. Those at the meeting discussed the falling share of screen time enjoyed by Russian cinema, and they drew connections between that fact and, first and foremost, ineffective work on the part of the Fund. As a result, on 29 January 2013, Sergei Tolstikov left the post of Executive Director. Appointed to replace **him was Anton Malyshev, previously an aide to the President's** Plenipotentiary Representative to the Central Federal District, who had produced several Russian films and was therefore well acquainted with the film industry. In February, the Board of Trustees also underwent some cardinal changes. Only Nikita Mikhalkov remained in his post. Presidential **advisor Vladimir Tolstoy came in to head the Fund's central body.** Coming to join Mikhalkov on the Board were three people directly involved in production: directors Stanislav Govorukhin, Karen Shakhnazarov, and Alexei Popogrebsky. The rest of the Board of Trustees was filled by high-ranking federal officials. In 2014, the Board changed again. In May, Prime Minister Dmitry Medvedev signed a Russian Federation Government Order appointing the following people to the Board: Pavel Zenkovich, Head of the Presidential Administration for Public Projects; Oleg Dobrodeev, General Director of Russia Television and Radio (VGTRK); Alexey Lavrov, Deputy Finance Minister; Mikhail Myagkov, Deputy Executive Director of the national Russian Military History Society; and Petr Skorospelov, **Director of the Russian Federation Government's Department of Culture.** Former Deputy Culture Minister Ivan Demidov, former Deputy Finance Minister Mikhail Kotyukov, and former Russian Federation Government Department of Culture Director Sergei Perov were all removed from the Board.

Russian Federation Government Order No. 1397 'On Rules for Providing Subsidies from the Federal Budget in Support of Cinema', dated 25 December 2012, defined the process for cooperation between the Ministry of Culture and the Cinema Fund and the plan for the allocation of subsidies by the first body to the second. As a result, in 2013 and 2014, the Ministry of Culture signed special agreements to subsidize the Fund, which is a non-profit organization, with RUB 3 billion of the total amount of funds allotted in the federal budget for cinema. Of that amount, in 2013 RUB 1.5 billion went to financing and/or reimbursing expenses connected with film production by the leading companies in the Russian film industry, through grants. In 2014, that amount was RUB 1.2 billion. In 2013, the Fund was able to provide RUB 400 million in grants to other cinema organizations and RUB 500 million in 2014. Funds for financing production, which are provided in the form of fully repayable loans,

²⁹ Accounts Chamber displeased with distribution of federal money to support cinema – http://www.vedomosti.ru/companies/news/7839181/schetnaya_palata_nedovolna_mehanizmom_raspredeleniya#ixzz3CKux5RSG (Russian only).

increased substantially. In 2013, RUB 350 million was allotted both for Russian majors and for other cinema organizations. In 2014, RUB 700 million was assigned to the leading players alone, with all other companies able to claim a share of another RUB 500 million. In 2013, there were RUB **150 million in subsidies to be repaid out of the films' earnings in proportion to the Fund's share of the budget; in 2014, the agreement did not include this option at all.** A single sum of RUB 100 million was allotted for financial support and/or compensation for expenses connected with the subsidizing of loan interest for the two preceding years.

At the same time, the Fund became more accountable to the Ministry of Culture and undertook to seek approval of any decisions not delegated to it by the agreement. In this manner, the Fund became a kind of economic agent of the Ministry, taking on the job of supporting projects with good commercial potential which were capable of later returning a portion of their profits to the Fund. It is thus the pursuance of this particular mechanism that is demonstrated by the redistribution of amounts from 2013 to 2014 and especially, by the projects chosen to receive support. Of the 26 projects by leading companies which received money from the Fund in 2013, 13 films were financed completely by grants, five completely by loans, two with an agreement to return a percentage of profits, and six under a combination of terms. In 2014, out of 27 projects, 12 managed to receive grants, seven were financed completely by loans, and eight were financed by a combination of terms. A similar situation occurred with projects by other studios. In 2013, out of **28 'non-leader' projects, five were subsidized by grants, eight completely by loans, and 15 under a combination of terms.** In 2014, 26 projects were chosen for subsidies, of which only two films were completely grant-financed. Nine films were financed fully by loans, and the remaining 15 projects were financed by a combination of terms. At the end of 2013, the Fund announced that the share of funds provided as loans had grown by a factor of 2.5 compared to the previous year and totalled 32.5%, and that the organization had allocated an additional RUB 201 million towards the production and distribution of film projects out of the money returned by film companies. At the end of 2012, the amount had been an extra RUB 127 million.³⁰

At the same time, the Cinema Fund also began selecting projects by holding pitch sessions, with both film industry leaders and other organizations delivering in-person presentations. The procedure for selecting projects to be pitched is as follows. First, the Board of Trustees determines which studios are Russian majors. These studios then submit applications for financing for specific projects, which are then presented **before the Fund's Expert Council. The Council carefully studies the projects and drafts recommendations for the Board of Trustees, which then chooses from among the recommended films those worthy of financing and determines how funds will be distributed.** Applications from other organizations hoping for production subsidies are first reviewed by

³⁰ Cinema Fund deals with list of non-major pictures
http://www.kinometro.ru/news/show/name/fond_kino_utverdil_nezavisimye_proekty
(Russian only).

the Screenplay Working Group, which recommends the best to deliver a presentation before the Expert Council. The Council then also assesses the potential of the films and drafts recommendations for the Board of Trustees, which is responsible for the final decision. For the second year in a row, the pitching sessions have been streamed online.³¹

The Cinema Fund's Screenplay Working Group and Expert Council were first created in 2013. Vladimir Khotinenko chairs the first group. He is a director, screenwriter, and head of the film direction faculty at VGIK. The Screenplay Group has a further 16 members, mostly screenwriters, but also directors, producers, and market analysts. The Expert Council, chaired by producer Leonid Vereshchagin, consists of 18 people representing almost all areas of the industry.

The criteria for selecting the leaders of the Russian film industry have remained practically unchanged since 2012. The only change was that the **time periods used to calculate the ranking for 'cinema attendance'** were shifted by one year. That is, in 2013, rankings were evaluated from 1 January 2008 to 31 December 2012, but in 2014 the time period was 1 January 2009 to 31 December 2013. In 2013, 13 studios were selected. Rekun Cinema returned to the list, while Enjoy Movies and Strela made it onto the list for the first time. In 2014, the list shrank again to nine organizations, with Strela, Real-Dakota, Rekun Cinema, and Rock Films falling off the list of Russian majors.

The leaders themselves, both those currently recognized as such and those not on the 2014 list, mostly admit that this status conveys financial advantages above all. The distribution of state support among the biggest production centres allows them to produce films with bigger-than-average budgets and also to work on a larger number of projects. Overall, many market players feel the current mechanism of distributing state funds for film production is systematic and logical.

1.2.3. Joint activities of the Russian Ministry of Culture and the Cinema Fund

Alongside the Cinema Fund's increasing dependence on Ministry decisions with respect to allocating state funds to support film production and distribution, 2013–2014 saw the two agencies cooperating in two areas: a screenwriting contest and modernizing the operations of the Unified Automated Information System (UAIS).

In 2010, steps had already been taken to limit double financing of projects using both Ministry and Fund resources. Today, the Fund may not finance a film production through grants if that project has already received money from the Ministry. However, such projects can receive additional production financing in the form of loans or receive funds for distribution, also as loans.

³¹ For example, 2014 project presentations by film industry leaders can be seen here: http://fond-kino.ru/upload/flv/pitching_23_06_2014_1.mp4 and http://fond-kino.ru/upload/flv/pitching_23_06_2014_2.mp4

Screenwriting contest

One of the Ministry of Culture's tasks in 2013 was to reinstate the practice of holding screenwriting contests on themes determined by the state. RUB 21 million in subsidies was allotted from federal budget funds for cinema to the Ministry of Culture in order to carry out this project. On **21 March 2013, the Ministry signed Order No. 265 'On Selecting a Film Organization to Receive Subsidies from the Federal Budget for Supporting Cinema for the Purpose of Promoting a Screenwriting Contest',** which laid out the principles for selecting an organization to carry out this task and a list of expenses which would require subsidizing. The contest began on 13 September 2013, and on 7 October the Ministry signed a corresponding agreement with the Cinema Fund. At that point, the Fund issued an Order **entitled 'On Selecting Extended Film Treatments for a Screenwriting Contest',** according to which applications were to be received by 1 November 2013.

The actual contest is conducted in two stages. During the first stage, submitted projects are sent to be reviewed by an Expert Jury in order to determine whether they correspond with the declared theme and to assess them in terms of creativity, artistic integrity, topicality, and **creative potential. Based on the Expert Jury's recommendations, the Fund** drafts a list of the most promising candidates to write screenplays (no more than 20 projects) and that list is then confirmed at a meeting of the Expert Jury. Then, with approval from the Ministry, the list of first-stage winners is confirmed, and commission agreements are signed with them. Remuneration for authors who are selected to write screenplays at this stage totals RUB 250,000. During the second stage, the screenplays written under those commission agreements are sent to the Expert Jury, which reviews them and makes recommendations resulting in a list of screenwriting contest winners (no more than 10 projects), which is then confirmed by the Expert Jury and the Ministry of Culture. Supplementary agreements are signed with the winners of the second stage for final revisions to their screenplays, taking all recommendations into account. Remuneration at this stage is RUB 750,000. When the work is complete, a certificate is signed to that effect, and the authors surrender the exclusive rights to their screenplays, which are transferred to the Cinema Fund as non-material assets.

The Cinema Fund's Expert Jury consists of nine editors, including the Chair, Sergei Lazaruk, who heads the film studies department at VGIK, and Aleksandr Borodyansky, a playwright and Honoured Artist of the Russian Federation.

A list of the 20 winners from the first stage was compiled on 21 November 2013. On 14 March 2014, the Cinema Fund announced the six winners of the second stage, who were also the overall winners of the first screenwriting contest. Of those six, one project – *Vratar galaktiki [The Galactic Goalkeeper]* – earned one of the Fund's grants for other organizations. On 27 March, the Cinema Fund announced that it would select additional extended film treatments, and on 23 April it announced the three winners of the first stage for the additional selection process,

each of whom went on to achieve success in the second stage as well. Overall, as of 2 June 2014, nine projects were involved in the first screenwriting contest.

The next screenwriting contest has not yet been announced. The **Cinema Fund's press service reports that it does not expect to announce one in 2014.**

Consolidated Automated Information System

Since 1 May 2010, the Russian Federation has had a Consolidated Automated Information System (CAIS) which contains cinema exhibition data, offering users summaries of attendance figures and gross box office receipts for individual films on the basis of cinema ticket sales data. However, while the mechanisms by which the CAIS would function were being drafted, cinema operators raised significant concerns over the manner in which they would provide data to the system operator. The main subjects of contention were the frequency at which data would have to be submitted and the ability to hire third parties to handle this process. Large cinema chains equipped with local ticket sales data compilation systems demanded that the submission be performed online using automated box office systems in order to prevent cinema administrators from falsifying data. Independent cinema operators, faced with purchasing and installing the hardware and software they would need in order to work with the CAIS, argued that the requirement for real-time data transmission would inevitably bankrupt them. In accordance with Russian Government Resolution No. 837, dated 18 October 2010, cinema operators were required to provide the system with information on each ticket sold at least once an hour. In addition, film exhibition organizations located in cities with populations under 100,000 and in rural communities were given a deadline: they were required to transition to online data submission by 1 January 2015.

Still, a majority of independent cinema operators simply ignored the requirement to submit information to the CAIS, since the legislation did not provide for any specific administrative accountability on the part of violators, and did not identify a duly authorized body with the necessary authority in this area. In response, on 26 October 2012, the State Duma introduced fines for film distributors who falsified screening data.

Federal Law No. 126-FZ stipulates that a federal executive body, namely the Russian Ministry of Culture, exercises ownership rights over the database system in the name of the Russian Federation, and that the Ministry also provides for the implementation and functioning of the system and for reporting violators. However, in 2013 discussion began about the need to share operating authority for the CAIS with the **Cinema Fund, changing the Ministry's status to that of state client representative.** This spring, the Cinema Fund won an open bidding process within the Ministry of Culture to modernize and operate the CAIS. The contract **transferring the system to the Fund was signed on 12 May 2014.** "Since then, we have been going through the process of accepting documents on the transfer of the system, doing some technical analysis, and starting to

implement the specifications that are in the government contract”, reported Fedor Sosnov, Head of the Fund’s Analytical Department, in September.³²

On 4 June 2014, the Cinema Fund held the first meeting of the CAIS Supervisory Board in Sochi. At that meeting, distributors and cinema representatives discussed the difficulties of working with the system, and the Fund mentioned the possibility of redesigning its approach to the development of the CAIS. The first order of business would be to settle on a government mechanism for recording statistics about paid public film screenings. Next would be to reshape the CAIS into an industry-specific tool for recording and processing information for analysis, followed by the creation of a unique, free, and open source of reliable analytical information for the film industry. The following were identified as the key shortcomings of the CAIS at its current stage of development:

- the system was developed without industry involvement
- the lack of sufficient information in the databases
- the absence of a quality assurance system for the information being processed
- the weak informational support for users and system participants
- the poor quality of the software used by exhibitors to transmit data to the CAIS

At that point, a total of 2,345 film exhibitors were registered in the CAIS, of which 1,070 (720 automated, accounting for 2,940 cinemas and 477,891 seats; 350 non-automated, accounting for 517 cinemas and 101,815 seats) were transmitting data, and 1,275 (159 automated and 1,116 non-automated) were still not doing so.

In September 2014, at a conference held as part of the Kino Expo forum, Fedor Sosnov reported on the three months of work that had been done. “Work is underway to improve the quality of the data in the CAIS and to correct mistakes in recording the information sent to the system (data duplication, empty reports, etc.). We are also working on expanding **the system’s user functionality. In terms of bringing the databases up to date**, part of the process is to re-establish contact with all exhibitors in the country. We are also coordinating the exhibitor data registered in the CAIS with the data held by regional divisions of the Ministry of Culture, distributors, and other organizations. When we first started working with the system, the difference between information about returns entered into the CAIS and other reporting systems was about 23% (that includes data for the CIS except for Ukraine, which is not included in the CAIS). After three months, the difference in returns in Russia between the CAIS and other systems is now around 9%. Soon we will know whether we will be **able to reach the same figures.**”

Meanwhile, the Ministry of Culture has started to actively inspect exhibitors to check whether they are submitting information to the CAIS and complying with Article 6.1 of Federal Law No. 126-FZ.

³² From comments made to the electronic issue of *Booker’s Bulletin* 37 (553), 19 September 2014.

1.2.4. The Government Council on the Development of the Russian Film Industry

In December 2008, a Government Council on the Development of the Russian Film Industry³³ was established. The Council is a permanent consulting body meant to generate proposals on the implementation of state policy in cinema. Its principal objectives are to review and draft proposals on the following:

- improving the effectiveness of state support for the production, distribution, and exhibition of Russian films and the management of federal assets in the film industry
- providing support for the promotion and distribution of Russian films abroad
- promoting education, scientific research, and innovation in the film industry
- developing protective measures with respect to the Russian film market

The Prime Minister of the Russian Federation serves as Chair of the Council, further emphasizing the importance placed on cinema at the highest level of government. The Government Council reviews strategic issues relating to the development of the film industry and promotes the prompt adoption of relevant decisions at a super-agency level. The composition of the Council last changed in February 2014 due to staffing changes in the government bodies whose representatives make up a significant portion of the Government Council.³⁴

1.3. The activities of regional and local authorities in the film industry

1.3.1. General situation

Given the federal state structure of Russia, regional and municipal authorities operate within the scope of their powers as specified by federal legislation³⁵, specifically, and also in accordance with regulations adopted at regional and local levels.

Clause 2, Article 26.3, Chapter IV.1 of Federal Law No. 184-FZ, '**General Principles for Delineating Authority between the Federal State Authorities and the State Authorities of the Constituent Entities of the Russian Federation**'³⁶, establishes an exhaustive list of the powers that regional authorities have over objects that are jointly managed, which are executed by such authorities independently using regional budgets. In specific cases, and following the procedures prescribed by federal laws,

³³ The status of the Government Council was confirmed by Russian Government Order No. 1006, dated 24 December 2008.

³⁴ Government Council members: <http://government.ru/department/195/> (Russian only).

³⁵ Federal Law No. 131-FZ '**On General Principles of Organization of Local Authorities in the Russian Federation**', dated 6 October 2003.

³⁶ Federal Law No. 184-FZ, '**On General Principles of Organization of the Legislative (Representative) and Executive Bodies of State Authority in the Constituent Entities of the Russian Federation**', dated 6 October 1999.

such powers may also be additionally financed through the federal budget and federal off-budget funds, including in line with target programmes.

In accordance with the provisions of Article 26.3 of Federal Law No. 184-FZ, the powers of state authorities in constituent entities of the Russian Federation over jointly managed objects which are applicable to the film industry include the following:

- providing secondary vocational education (not including education obtained in federal training institutions, a list of which is approved by the Russian Federation Government)
- organizing and supporting cultural institutions, including those in the cinema sector (but not including federal state institutions of culture and art, a list of which is approved by the Russian Federation Government)
- organizing and implementing inter-municipal investment projects (including cinema-related projects)
- international cooperation (including in cinema), in accordance with Russian Federation legislation

These provisions clearly define the scope within which regional authorities are free to adopt decisions appropriate for a specific region, and to bear financial responsibility for their actions.

1.3.2. Support for regional film production

Regional authority to conduct international cooperation in the film industry mostly encompasses holding international film festivals, special events, and exhibitions involving foreign cinema organizations. However, that authority may also include attracting foreign film crews to a region and creating cinema commissions – specialized regional organizations responsible for promoting the development of the film industry in a given region. The idea for Russian cinema commissions was born a few years ago. In 2009, a number of different companies simultaneously proposed projects of this kind. For example, the Cultural Foundation for Interregional Cinematography launched a website that includes a locations library spanning many Russian cities. The company also considered providing comprehensive services to film crews working in the **country's** regions. However, the foundation has yet to sign any major projects. The Ministry of Culture provided support to RFILMS to try to develop an Internet database of Russian film production locations and to release a number of analytical and reference materials focusing on film production **and the development of the country's production infrastructure. The company later continued to develop the project under the patronage of the Cinema Fund's International Department. However, all similar initiatives stalled some time later.**

The first regional film commission was launched in St. Petersburg³⁷ and served as an example of a non-profit public-private partnership between St. Petersburg State University of Cinema and Television and St. Petersburg-based film companies with years of experience in working with

³⁷ St. Petersburg film commission website: www.film-commission.ru.

foreign and Russian film crews (Globus Film, Corona Films, KS Management Company, Igor Shadhan Workshop, and AST). The commission operated with the support of the municipal administration. Vladivostok also has a film commission.³⁸ The local organization is a permanent member of the Asian Film Commissions Network, which brings together film commissions and film companies that provide professional assistance in film production. Perm also has a very active commission today.³⁹ The commission grew in 2014 with the support of Perm **Territory's Ministry of Culture and Permkino**. But overall, it is fair to say that film commissions in Russia, as an institution, are mostly underdeveloped. The same cannot be said about Russian film production in the regions.

Over the past three years, mostly in the national republics of the Russian Federation, local film production is gaining in popularity. Projects are being taken up in the form of local initiatives and they are attracting an audience. This phenomenon has been most impressive in the Republic of Sakha (Yakutia). The process began way back in 1992, when the local leadership ordered the creation of the Sakhafilm production company. "While the major film studios were suffering **from the economic collapse**", remembers Andrei Borisov, Minister of Culture and Spiritual Development **for the Republic of Sakha**, "we created a national film company, and later a film archive and sound stage. Aside from just shooting films, we also set ourselves a more complicated task – shoring up the infrastructure – and **we purchased large volumes of equipment.**"⁴⁰ At the Republic level, support began to be offered for staff training, with cinematographers from Yakutia able to study in Moscow and St. Petersburg. In 2002, local project ***Black Mask [Chernaya maska]*** was shown at the Central Cinema in the city of Yakutsk and took RUB 800,000, an impressive amount for a single screen. It was filmed on Betacam and screened by DVD. In 2004, the Almazfilm company appeared on the scene, releasing ***My Love [Lyubov' moya]***. The film had a budget of RUB 170,000, and made almost 250% of that amount in total receipts. Almazfilm also quickly released several franchise films: the crime comedy ***Run [Kuot]*** (2005), partially financed by Chinese investors, with a sequel that remains unfinished; and the horror film ***Death Path [Tropa smerti]*** (2006), which, along with its 2008 sequel, launched the Yakutian horror genre. The first part of ***Death Path [Tropa smerti]*** broke all box office records in the Republic, recouping its RUB 1 million budget in just its first week of distribution in Yakutsk. ***The Secret of Genghis Khan [Taina Chingiskhana]*** was also a breakthrough in Yakutian cinema, and was distributed not just within the Republic, but nationally as well. Over the past two years, a total of over 30 films by Yakutian filmmakers have been released locally, with a new Yakutian project appearing in the Republic's cinemas almost every month.

There have also been examples of successful local work in the Udmurtian Republic, the Republic of Tatarstan, the Republic of Bashkortostan, the Republic of Buryatia, and other regions of the Russian

³⁸ Vladivostok film commission website: www.vlfc.ru.

³⁹ Perm film commission website: www.filminperm.com.

⁴⁰ 'Specific features of national film distribution'. // *Film Distributor's Bulletin* No.12 (77)

Federation, mostly those where residents speak their own national language alongside Russian.

But purely Russian-speaking regions are also trying to do the same. For example, this is the second year running that the All-Russian Regional Film Forum, RegionKino, is being held in Ulyanovsk Region. Its chief goal is to create a forum where filmmakers can share their experiences, and to draw the attention of officials and cultural figures to issues affecting regional cinema. In 2014, representatives from the regional film industries in Tula, Yekaterinburg, Tyumen, Ufa, Kazan, Tver, Orenburg, Samara, Inza, St. Petersburg, and Moscow attended the event. While the forum **was in session, the city's cinemas showed over 40 films made by** forum participants. City residents were able to watch the films and discuss them with their creators in person. The forum resulted, in part, in initiatives to propose federal legislation to create a separate budgetary line item for local and municipal entities in Russia for film production; to define **'regional cinema' as a separate, distinct form of film production, primarily** for distribution within a specific region; and to consider possible forms of state support for that sort of project.

1.3.3. Support for the regional film exhibition market

The authority of regional governments to organize and support cultural institutions, including those involved in the film industry, is formulated in a rather abstract way, and refers to the existing network of cinema institutions managed by the constituent entities of the Russian Federation. The description of that authority does not specify the particular types of cultural and artistic institutions that may be under regional management. Regional and local authorities therefore retain some freedom in defining the type of cinema institutions that may remain under their care and be financed from the regional budget. If this authority is directed exclusively to the existing network of these institutions, then the emergence of non-state bodies that offer the same range of services as those funded from the state budget will render the implementation of the authority in question meaningless. This is the case for cinemas, some of which still remain state or municipal bodies financed from the budget. At the same time, there are currently no approved requirements governing what state and municipal cinemas show. This situation may change with the adoption of state and municipal roles that will make it possible to approve requirements with respect to programme planning.

The provisions of Federal Law No. 131-FZ, dated 6 October 2003, specify the list of powers that fall under the exclusive purview of municipal authorities. In terms of the film industry, these include creating an environment for providing leisure activities and ensuring that local residents have access to the services of cultural organizations. Thus, policies for the provision of services by cinema organizations (film projection being primary among them) can be implemented at the level of a local community or urban district. In an ideal scenario, defining the

conditions for the organization of film exhibition would be the exclusive remit of municipal authorities.

Moscow is the most active region in executing its legal authority with **regard to the film industry. For example, in February 2012, the capital's** administration took the decision to reconceptualize more than 60 municipally owned cinemas (Moscow Prefecture Joint Directorate for the Management of Cinema Chain Properties and Moscow Cinema Organization). The administration decided to open 15 sites to outside investors (under concession agreements) to carry out remodelling, reconstruction, and redevelopment. This was conditional on maintaining the film exhibition functions of these sites. Other cinemas are scheduled to remain in their present condition, leasing 30% of their space to food companies.⁴¹ **This strategy is being developed by the city's Department of Culture and Department of Property, along with Moscomarchitecture.** In autumn 2012, the Department of Culture took the decision to unify **Moscow's children's cinemas into a single cinema chain under the name Moscow Youth Cinema Arts Centre.**⁴²

Also at the end of 2013, the city started to sell off municipally owned cinemas. In December 2013, the city owned 78 cinemas, and Moscow decided to put 39 of them up for auction. This concerned ten cinemas at first⁴³; in summer 2014, the sales continued.⁴⁴

Since 2004, many regions in Russia have taken a page from the **capital's policy** and begun implementing their own film industry strategies targeted at supporting film distribution. Regional governments have especially stepped up their activities in connection with the transition to digital exhibition technologies: more and more municipal cinemas, especially those in small cities, are receiving financing for the purchase of digital film projectors and servers. For example, in July 2010, the administration of Krasnodar Territory approved a long-term (2011–2015) territorial target programme called **'Development of the Film Exhibition Infrastructure in Krasnodar Territory'**. **As part of this programme, the** administration has been providing RUB 205 million for the purchase of cinema equipment and audience seating in order to modernize cinemas belonging to municipal cultural organizations, as well as for the purchase of digital film exhibition equipment for the Kuban Kino chain of municipal cinemas.⁴⁵

⁴¹ Moscow Administration Addresses Fate of City Cinemas – <http://www.rbcdaily.ru/market/562949983640810> (Russian only).

⁴² **Unified Chain of Children's Cinemas to Be Created in Moscow** – <http://ria.ru/culture/20120827/731711887.html> (Russian only).

⁴³ Moscow Authorities Auction Off 10 Cinemas – <http://www.rbc.ru/rbcfreenews/20131206100509.shtml> (Russian only).

⁴⁴ Three Moscow Cinemas Up For Auction – <http://lenta.ru/news/2014/07/14/kinoteatryprodayut/> (Russian only).

⁴⁵ See the long-term territorial target programme, entitled **'Development of the Film-Exhibition Infrastructure in Krasnodar Territory, 2011–2015'** at <http://kultura.kubangov.ru/www/kultura.nsf/91ec8d66fd21aa2fc32570bf004b76c4/afcc472cb7a55da9c325781800235870!OpenDocument> (Russian only).

1.4. International cooperation

1.4.1. The legal basis for cinematic co-production in Russia

The legislative framework for co-productions between Russia and other countries consists of:

- The European Convention on Cinematographic Co-Production (1992). This document has been signed and ratified by over 40 Council of Europe member states. Russia ratified the European Convention on Cinematographic Co-Production in 1994, opening the way for tripartite film projects.
- Intergovernmental agreements on co-production. Currently, Russia has signed protocols on cinematic co-production with five other countries and with the CIS (see Table 3).

Table 3. Intergovernmental agreements on cinematic co-production with Russia

Country	Date of signature	Document name
France	08.07.1967	Agreement on Cooperation in Cinematography signed between the Government of the USSR and the Government of the French Republic ⁴⁶
	06.02.1992	Agreement between the Government of the Russian Federation and the Government of the French Republic on Cultural Cooperation
Canada	05.10.1995	Agreement between the Government of the Russian Federation and the Government of Canada Concerning Audiovisual Relations
Italy	28.11.2002	Agreement between the Government of the Russian Federation and the Government of the Italian Republic on Cooperation in Cinematography
Bulgaria	07.07.2004	Agreement between the Government of the Russian Federation and the Government of the Republic of Bulgaria on Cooperation in Cinematography
CIS	1994	Charter on Key Directions and Principles of Cooperation between CIS Member States in Cinematography
	14.11.2008	Agreement on Cinematic Co-Production
Germany	28.06.2011	Agreement between the Government of the Russian Federation and the Government of the Federal Republic of Germany on Cooperation in the Audiovisual Sphere

Work is presently underway to conclude intergovernmental agreements on cinematic co-production with Chile, Venezuela, India, and China. To that end, in September 2014, Vyacheslav Telnov, Director of the Russian Ministry of Culture Cinematography Department, met with Lian Ge, Deputy Director of the Cinematography Department at China's State Administration for

⁴⁶ The Russian MFA has confirmed that this Agreement may officially be used as a legal document in the process of cooperation between Russian and French filmmakers – see <http://www.fond-kino.ru/projects/20/38/> (Russian only).

Press, Publication, Radio, Film, and Television. At that meeting, aside from an agreement on co-production, the two officials discussed the possibility of educational exchanges between film schools in Russia and China, cooperation between cinema foundations, the provision of cinematic materials, the participation of films from both countries in **each other's film festivals, and cooperation in film distribution and exhibition**. Statistics show that Chinese audiences prefer large-scale, **spectacular films, especially on war and historical topics**. "Russian companies already have several projects in development that could be made as co-productions", Vyacheslav Telnov noted during the meeting. "This includes *Journey to China 3D [Puteshestvie v Kitai 3D]*,⁴⁷ *The Crew [Ekipazh]*, and several animation projects."⁴⁸

- Federal Law No. 126-FZ on State Support for Cinema in the Russian Federation, dated 22 August 1996. In order to expand opportunities for cinematic co-productions with countries that have no international agreements in place with Russia and are not members of the European Convention, on 1 May 2010 amendments were made to Federal Law No. 126-FZ pertaining to the criteria for recognizing a project as a national film, which has simplified co-production. Now, films produced in cooperation with other countries and designated as national films may both apply for state support and take advantage of VAT tax breaks.

1.4.2. Russian membership of international organizations

Since 1993, the Russian Federation, represented by the Federal Agency for Press and Mass Media, has been a member of the European Audiovisual Observatory⁴⁹, whose mission, set by the Council of Europe, is to improve transparency in the European audiovisual sector by providing information services for professionals.

Since 2010, the non-commercial partnership Kinoalliance, which brings together cinemas and cinema chains from across Russia, has represented Russian cinema operators at the International Union of Cinemas (UNIC), which promotes the interests of film exhibitors from thirty European countries.

After years of negotiations with the European Support Fund for Co-Production and Distribution of Creative Cinematographic and Audiovisual Works (Eurimages), Russia became an official member of the Fund on 1 March 2011. Three years later, as of 1 March 2014, the Fund had supported 10 feature co-productions involving Russia. Predominant among them have been projects in which Russia has had a majority share. Leonid Demchenko, Russia's national representative to Eurimages, believes that **this demonstrates how effective current cooperation is**. "This should facilitate the future activities of Russian producers as they search for

⁴⁷ The sequel to the highest-earning Russian project in 2014, *Viy 3D*.

⁴⁸ Russia and China agree to cooperate in the audiovisual sphere – <http://mkrf.ru/press-tsentr/novosti/ministerstvo/rossiya-i-kitay-dogovorilis-o-sotrudnichestve-v-audiovizualnoy-sfere> (Russian only).

⁴⁹ www.obs.coe.int

European partners who are willing to make smaller contributions to this sort of project”, Demchenko said.⁵⁰

Table 4. Russian co-productions supported by Eurimages (2011–2014)

2014	
No co-productions involving Russia supported as of 23 June 2014	
2013	
Majority share	<p>Two Women Dir. Vera Glagoleva (Russia) Allocated: EUR 260,000 Co-producers: Horosho Production (Russia) Jura Podnieka Studija (Latvia) Rezo Productions (France)</p> <p>Snake Bite [Ukus zmei] Dir. Teimuraz Butikashvili (Georgia), Fuad Ibragimbekov (Russia), Eldar Shengelalaia (Georgia) Allocated: EUR 190,000 Co-producers: Ibrus (Russia) Cinetech (Germany) Kinoskopik (Estonia) Eaux Vives (France)</p>
2012	
Majority share	<p>The Role Dir. Konstantin Lopushansky (Russia) Allocated: EUR 260,000 Co-producers: Proline Film/Lenfilm Studio (Russia) Belarusfilm (Belarus) Bufo (Finland)</p> <p>Moscow Never Sleeps Dir. Johnny O’Reilly (Ireland) Allocated: EUR 240,000 Co-producers: Snapshot Films East (Russia) Snapshot Film Ireland/Blinder Films (Ireland)</p> <p>I Won’t Come Back Dir. Ilmar Raag (Estonia) Allocated: EUR 210,000 Co-producers: CTB (Russia) Belarusfilm (Belarus) Helsinki Filmi (Finland) Amrion (Estonia)</p>
Minority share	<p>Cannibal Dir. Manuel Martín Cuenca (Spain) Allocated: EUR 250,000 Co-producers: La Loma Blanca P.C./Mod Producciones (Estonia) Libra Film Production (Romania) CTB (Russia)</p>

⁵⁰ Interview with Leonid Demchenko, 26 February 2014 – http://www.proficinema.ru/questions-problems/interviews/detail.php?ID=155526&spphrase_id=50721 (Russian only).

	Luminor (France)
	Epic [Epik] Dir. Pawel Pawlikowski (Poland) Allocated: EUR 550,000 (support cancelled 16.10.2012) Co-producers: 20 Steps Film (Germany) Epic Films (United Kingdom) Metrafilms (Russia) Haut et Court (France)
2011	
Majority share	My Little One [Moy malenkiy] Dir. Sergei Dvortsevov (Russia) Allocated: EUR 350,000 Co-producers: Kinodvor/Igor Tolstunov Production Company (PROFIT) (Russia) Pallas Films/Otter Films (Denmark)
Minority share	Aftermath Dir. Władysław Pasikowski (Poland) Allocated: EUR 260,000 Co-producers: Apple Film Production (Poland) Metrafilms (Russia) Attack Film (Slovakia)
	Chaika Dir. Miguel Ángel Jiménez (Spain) Allocated: EUR 210,000 Co-producers: Kinoskopik (Estonia) Cinetech (Germany) Ibrus (Russia) Eaux Vives (France)

It is worth noting that Russian director Aleksandr Sokurov's new documentary, *Francofonia: Le Louvre Under German Occupation*, also received support from Eurimages in 2013, although only France, Denmark, and the Netherlands are involved in the production of the film – Russia has not participated at all.

Since Russia began cooperating with the Fund, several films have received support for European distribution, including *Innocent Saturday* by Aleksandr Mindadze and *Euphoria* by Ivan Vyrypayev (distribution in Romania), *Elena* by Andrey Zvyagintsev (distribution in Hungary and France), and *How I Ended This Summer* by Alexei Popogrebsky (distribution in Hungary and Romania). Russian distributors, however, have very rarely applied for support to distribute European films in Russia.

The system for supporting Russian exhibitors who specialize in European films has seen some development. In autumn 2014, for example, according to NevaFilm Research data, the Eurimages/Europa Cinemas network in Russia included seven sites with 19 screens, located in Nizhny Novgorod (since 2006), Kaliningrad, Moscow, and St. Petersburg (since 2012), and Irkutsk and Yekaterinburg (since 2013).

1.4.3. International activities of Russian government agencies

Part of the remit of the Ministry of Culture is to present Russian cinema at international film festivals, during Russian film weeks in other countries, and during retrospectives of the work of Russian directors. To that end, 574 release prints of Russian films were provided to such events in 2013, and 1,176 screenings were held. A total of 622 filmmakers were sent abroad to take part in film events.

Furthermore, the Ministry supervises the activities of Roskino, which handles the promotion of Russian productions in foreign markets and markets Russian cinema abroad. Roskino was previously known as Sovexportfilm, but in 2011, the decision was taken to reorganize the agency. This resulted not only in a new name, but also in increased activity in the international arena, which had died down somewhat after the breakup of the USSR. In 2014, the organization celebrated its **ninetieth anniversary**. Roskino's Board of Directors includes Denis Molchanov, Deputy Chief of the Government Executive Office; Konstantin Ernst, General Director of Channel One; and Vasiliy Titov, First Deputy President and Chairman of the Management Board at VTB Bank. The **company's CEO** is Catherine Mtsitouridze, who is also Editor-in-Chief of the Russian edition of *Variety* magazine.

Roskino still promotes Russian films at international festivals (Cannes, Venice, Berlin, and Toronto), at film fairs (AFM in Los Angeles, EFM in Berlin, **Marché du Film and MIPCOM in Cannes**) and at awards ceremonies (the Oscars, the Golden Globes, the European Film Academy Awards); supports the distribution of Russian films abroad; and attracts investors and partners interested in working on co-productions with Russia.

In February 2012, Roskino opened a representative office in Los Angeles, the Russian Film Commission USA, and in 2014, the company opened an office in the United Kingdom.

Roskino has helped to organize the Russian Pavilion at Cannes since 2008, hosting large-scale meetings with Russian filmmakers, presentations of Russian films and studios, and topical round-table discussions and conferences. Every year, Roskino also has stands at other leading international film markets. In 2012, as part of the 34th Moscow International Film Festival, Roskino and the Russian Film Commission USA organized the first DOORS international mobile film market, which was attended by 35 American distributors, festival selectors, and representatives from leading media organizations. There were some attempts to have this film fair replace the Moscow Business Square forum, which still takes place as part of MIFF in June. But industry experts are concerned that neither event is scheduled at the best time, only a month or so after the large meetings of all filmmakers interested in international cooperation at Cannes, and at a time when studio bosses are travelling to the CineEurope convention in Barcelona. Also in June, Russian filmmakers hold a number of meetings relating to domestic business as part of the Kinotavr festival in Sochi and the Russian International Film Market that coincides with it.

In November 2012, following the DOORS event, Roskino and Gravitats Ventures announced that 12 Russian films would be exclusively available on the Hulu video streaming service. According to Roskino, the film ***Spy [Shpion]*** climbed into the platform's top ten just two weeks after it was made available to a broad audience. In July 2014, it was announced that Hulu would become the exclusive online platform in the US for Russian films and television series on a permanent basis. Russian content is available with English subtitles at <http://hulu.com/russian>.

The second DOORS international film market event was held in September 2013 in St. Petersburg, and in 2014 it was replaced by a huge international media forum which took place in St. Petersburg in October, with support from the city administration and the personal support of Governor Georgy Poltavchenko, and which brought together activity in three areas: film, TV, and new media.

At international festivals, Roskino usually presents projects in both the competitive and non-competitive programmes. For example, at the 63rd Berlin International Film Festival in 2013, Roskino sponsored the global premiere of a Russian film competing in the festival: Boris Khlebnikov's ***A Long and Happy Life***. In 2012, while presenting Sergei Loznitsa's ***In the Fog*** for competition at the 65th Cannes Film Festival, Roskino organized a promotional campaign for the film, and also arranged for members of the film crew to attend. The organization helped to **promote Taisia Igumentseva's short film *Road To [Doroga Na]***, which won the main prize in the Cinéfondation programme. Igumentseva returned to Cannes in 2013, when her full-length debut, ***Bite the Dust***, was included in the Official Selection. Roskino **also supported the premiere of Yury Bykov's film *The Major in the Critics' Week* competitive programme that year**. In 2014, Roskino officially presented the short film ***The Last [Posledniy]***, a Russian–Azerbaijani co-production, and **Andrey Zvyagnitsev's film *Leviathan***, which won the prize for Best Screenplay and was released in French cinemas on 24 September 2014.

The International Department of the Cinema Fund started operations on 1 January 2011, and competed with Roskino to a certain extent.⁵¹ But the department was closed in spring 2013. **"The Cinema Fund's priorities have changed", said Elena Romanova, who led the department. "Now the main task is to increase the share of domestic films distributed in Russia, so all activities not directly related to that task have been cut."** Furthermore, all international agreements reached during the **department's** two years in existence were also cancelled, including the creation of a joint film academy with Germany, France, and Italy; a film co-production fund with Germany; and an international film market in Moscow to be called Red Square Screenings. It was expected that all those agreements would be re-signed by the Minister of Culture, but that has not yet happened. Elena Romanova herself assumed that part of the **Ministry of Culture's everyday work would be passed on to the Open World**

⁵¹ For further details, see section 4.1.5 *International activities of the Cinema Fund* in the report *The Film Industry in the Russian Federation – 2012*. <http://www.obs.coe.int/documents/205595/552774/RU+Film+Industry+2012+Nevafilm+EN.pdf/2a99cc4b-6946-44c3-954e-accda3e942b2>

Fund she created, and she hoped to draw in private business to finance projects, but that has not yet occurred.⁵²

Currently, the Cinema Fund's international activities are focused exclusively on promoting Russian content abroad. In 2014, for example, the Cinema Fund, with support from the Ministry of Culture, hosted a joint Russian Cinema stand at eight leading international film forums, including EFM, Filmart, MIPTV, Marché du Film, and MIPCOM.

1.4.4. Support for co-productions

In recent years, especially since the dissolution of the Cinema Fund's International Department, direct support for co-productions with foreign countries has been reduced to a minimum. The sector has stopped keeping precise statistics about how many co-productions have been made or financed. During a topical round table held in August 2014 at the Window to Europe festival in Vyborg, the Cinema Fund's Executive Director, Anton Malyshev, commented: "It is difficult to talk about the effectiveness of supporting co-production as a separate area. We have some excellent examples... but in general, out of 18 projects that the Fund supported in this area five, unfortunately, did not get off the ground at all, even with money from the Russian side. So, even after a great deal of money had been allocated from the Russian side, the foreign co-producers somehow disappeared. Without finishing the project. The rest are still in progress. Some of the films have been completed, and some are still being worked on."⁵³ As a result, ever since the system for allocating government funds to film production was changed – ever since specific projects began to be financed directly – it has been possible to obtain government money for a film without any special emphasis on the fact that it is a co-production. **"After clarifying its role, the Fund moved away from the separate activity of supporting co-productions for the sake of developing co-production", Anton Malyshev explained. "But we have not imposed restrictions. If a film has a potential audience on the domestic market and has a foreign investor, a co-producer, we always welcome that." For instance, in 2013 Aleksandr Mindadze's film *Lovely Hans, Dear Peter* received support from the Fund, and also obtained funding from Germany. In 2014, the Cinema Fund heard a pitch for *Journey to China 3D [Puteshestvie v Kitai 3D]*. In the end, the project did not receive financing, but it already has partners in China.**

Nevertheless, that niche was bound to be filled, and in 2013, when direct financing for co-productions was halted, the Point of View (P.O.V.) fund emerged in St. Petersburg. Its main purpose is to offer financial, educational, and other forms of support to help develop cinematic co-productions involving Russian producers in the early stages of development. Projects supported by P.O.V. should have good potential for

⁵² **Cinema Fund's International Department shuts down –** <http://www.kinometro.ru/news/show/name/fond-kino-international-department> (Russian only).

⁵³ Transcript of the round table 'Co-Production: A Path to Global Markets' – <http://research.nevafilm.ru/presentations/conferences/kruglyi-stol-koprodukciya-puti-vyhoda-na-mirovye-rynki> (Russian only).

distribution and/or participation in international festivals. The support must be paid back if the film goes into production, with repayment due on the first day of shooting. Producers can request support of RUB 1 million, the maximum amount for a single project. Total financial support may not **exceed 80% of the producer's contribution to financing the development of the film.** In 2013, the fund's expert council, which includes producers who have proven success with co-productions, selected three pictures for P.O.V. funding, for a total of EUR 65,000. In 2014, the fund selected two projects: *Nobody Nowhere [Nikto nigde]* by producer Anastasia Pavlovich and *Thirtieth Love [Tridtsataya lyubov]* by producer Yulia Mishkinene. Each film received a grant of EUR 15,000.

1.4.5. Russia's accession to the WTO: consequences for the film industry

In August 2012, the Russian Federation officially became a full member of the World Trade Organization (WTO). On 23 July, the Russian Government informed the WTO Secretariat that Russia had completed all the internal procedures necessary for accession to the organization, including the ratification of the protocol signed in Geneva on 16 December **2011 on Russia's accession to the Marrakesh Agreement of 15 April 1994, under which the WTO was established.** Under the organization's rules, Russia became a member on 22 August, on the thirtieth day following the **notification outlined above.** Thus, the protocol on Russia's accession to the WTO came into force and Russia became the 156th member of the organization.⁵⁴

Negotiations on Russia's accession to the WTO began in 1995. However, this only became a full-scale process in 2000, when all aspects **of the country's accession to the organization were taken into consideration.**

The protection of intellectual property was one of the problematic **areas which had long hindered Russia's accession** to the WTO. Since 1997, the country has been on the Priority Watch List of the Office of the United States Trade Representative (the list includes a total of 13 countries with the highest levels of piracy). The International Intellectual Property Alliance considered one of the main problems of law enforcement in Russia to be the fact that it is almost entirely focused on the distribution of pirate copies on physical media, while the greatest threat is Internet piracy. In October 2011, the Prosecutor General filed an Internet piracy case against the founders of Interfilm.ru, seeking a record amount of damages for Russia: RUB 38 billion. The Russian Anti-Piracy Organization (RAPO) also defends the interests of foreign rights holders and major studios. The organization was created in November 1997 by the Motion Picture Association of America, in collaboration with major Russian public organizations, film studios, and video distributors. In particular, RAPO has contributed to amendments to existing anti-piracy legislation which have already been introduced or are in the process of being adopted. The legislation is now fully compliant with World Trade Organization

⁵⁴ See <http://www.rg.ru/sujet/139/> (Russian only).

requirements. RAPO reports that Russia currently ranks fifth among European countries in terms of piracy levels.

As a member of the WTO, Russia has an obligation to lower import duties, and to remove barriers preventing companies from accessing the market. These obligations also extend to the audiovisual and film industries. Overall, however, WTO accession has not had any significant consequences for the Russian film industry.

CHAPTER 2. THE RUSSIAN FILM INDUSTRY: PRODUCERS AND PRODUCTION COMPANIES

2.1. Branch structure

2.1.1. Methodological aspects

The starting material for analysing the state of the film industry in the Russian Federation was a list of films which finished production in 2012 and 2013, according to the State Film Registry, which is maintained by the Ministry of Culture. This list was compiled from data received from production companies and film studios and also collected from public information sources. The list does not include short films, since the information available on them is fragmented and incomplete.

Due to the closed nature of the market, information on the budgets and amounts of state support provided cannot be obtained for all projects. For films with insufficient data, an estimate of these indicators was made using average values for films of the same category where budgets and state funding are known.

The specific methodology used to determine the number of films should also be noted. When calculating the number of animated and documentary films, short, multi-episode projects were counted by number of titles and seasons, whereas Ministry of Culture documents include calculations based on the number of episodes. When ranking Russian film producers involved in co-productions, the budgets, state funding, and box office returns were listed in full for each producer.

2.1.2. General state of the market

An analysis of film production in the Russian Federation (for feature, documentary, and animated films) revealed that over 700 films are produced each year. In 2012, 250 full-length feature films, 440 documentaries, and 105 animated films were produced, while in 2013 there were 211 full-length feature films, 390 documentaries, and 112 animated films. These figures are higher than the corresponding data for 2010–2011 because the 2011–2012 analysis included films that were produced with the support of television channels, which later received distribution certificates and were distributed over various media and through online streaming services.

Table 5. Volume of film production in Russia (2010–2013)

Year	total films		features		documentaries		animated	
	overall	including with state support	overall	including with state support	overall	including with state support	overall	including with state support
2010	692	508	133	77	451	360	108	71
2011	662	507	103	45	481	426	78	36
2012	795	252	250	37	440	184	105	31
2013	713	319	211	37	390	227	112	55

Sources: Universe Consulting (the Movie Research project), Russian Federation Ministry of Culture, Nevafilm Research

Overall, film production volumes in Russia are stable, except in the case of animated productions, where volume is trending upwards.

2.1.3. Feature films

An analysis of the success of Russian films in cinemas in 2012 (by comparing box office receipts for the entire distribution period to production budgets for films released in the year being analysed) suggests a gradual increase in the number of successful projects. While in 2010, there were 11 films with box office receipts exceeding their production budgets, in 2011 there were 15, and in 2012 there were 20. The most successful films were *Three Heroes on Distant Shores* (Melnitsa Animation Studio and CTB); *Happy New Year, Mamas! [S novym godom, mamy!]*, *Mamas [Mamy]*, and *Nannies [Nyanki]* (Enjoy Movies); and *Soulless [DukhLess]* (Slovo Film Studio and Art Pictures). *Three Heroes on Distant Shores*, which earned RUB 950 million, was the second highest-earning film in Russian history. It should also be noted that one of the top ten most successful films was the small-budget picture *On Lake Baikal [Na Baykal]*, from Cinema+, with a budget of RUB 3.4 million, released in only 50 copies and earning in regional cinemas 2.8 times the amount of its production budget.

2013 was notable for the release of *Stalingrad*, the biggest Russian box office earner ever, which was released in IMAX format and earned RUB 1.7 billion in box office receipts. But the film was not one of the top ten most successful releases, with earnings only 1.4 times its budget. The most successful film was the motion picture *Bitter! [Gorko!]* (Bazelevs and Lunapark Productions), receipts for which totalled **over 16 times the film's production budget (the same as the previous year's leader, *Three Heroes on Distant Shores*)**. Other top-ranking successful films were *Yolki 3* (Bazelevs), *Prince Ivan and the Grey Wolf 2* (Melnitsa Animation Studio and CTB), and two films from Enjoy Movies: *What the Men Are Up To [Chto tvoryat muzhchiny]* and *The Double [Dubler]*. As in the previous year, there was one small-budget film among the top ten: *For Marx [Za Marksa]* (AD Studio), with box office earnings three times greater than its budget of RUB 100,000 for 20 copies. Overall in 2013, 19 films released in cinemas pulled in box office receipts greater than their production budgets.

The most successful production companies (whose films grossed highest at the box office) in 2012 were CTB, Enjoy Movies, and Melnitsa Animation Studio.

Table 6. Top ten Russian film producers by box office return totals in 2012

Rank	Company	Number of releases	Box office returns (million RUB)
1	CTB Film Company	4	1381,0
2	Enjoy Movies	5	1213,7
3	Melnitsa Animation Studio	1	989,7
4	Bazelevs	3	688,5
5	Kvartal Leopolis	2	462,0
6	Slovo Film Studio	1	414,3
7	Art Pictures	1	414,3
8	Glavkino	1	296,0
9	Triada Film	1	245,5
10	Wizart Film	1	244,8

Sources: Universe Consulting (the Movie Research project), Nevafilm Research

The leading Russian production companies in 2013 were Bazelevs, Non-Stop Production, and Art Pictures Studio.

Table 7. Top ten Russian film producers by box office return totals in 2013

Rank	Company	Number of releases	Box office returns (million RUB)
1	Bazelevs	3	2144,9
2	Non-Stop Production	2	1851,0
3	Art Pictures	2	1816,8
4	Nikita Mikhalkov's Studio TRITE	1	923,0
5	CTB Film Company	4	820,4
6	Lunapark Productions	1	811,0
7	Enjoy Movies	3	652,4
8	Melnitsa Animation Studio	1	632,1
9	Igor Tolstunov's Production Company	1	364,9
10	MG Media	1	204,3

Sources: Universe Consulting (the Movie Research project), Nevafilm Research

It should be noted that over the past four years, Bazelevs, CTB Film Company, and Melnitsa Animation Studio have always been in the top ten film production companies, while Enjoy Movies has been in the top ten for the past three years. Though earnings by the three leading companies in 2012 grew only a little in comparison with 2011, they grew significantly in 2013.

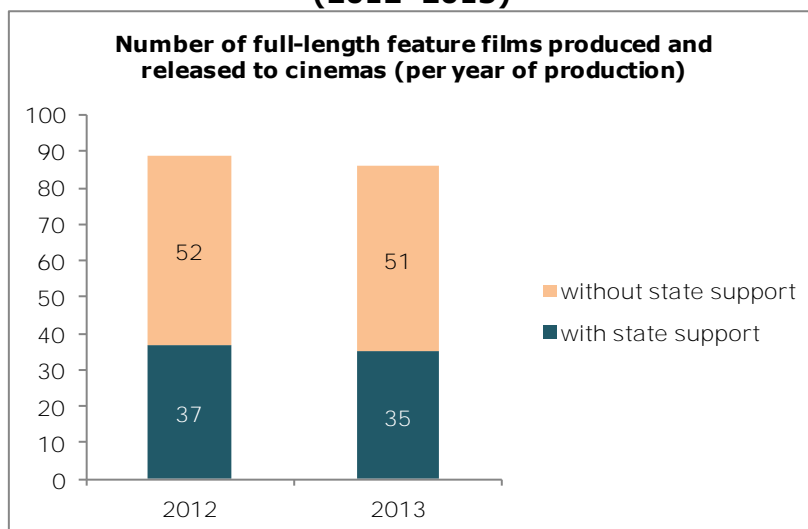
Accordingly, in recent years a group of leading film production companies has emerged whose films consistently earn more money in cinemas than their production budgets, but there are not many of them. Most Russian productions do not pay for themselves during their theatrical release.⁵⁵ **Producers' profits in this case are helped along by government support.**

Overall, 250 full-length feature films were produced in 2012 (for theatrical release, distribution over other media, and online viewing), 89 of which came out in cinemas between the start of 2012 and the middle of 2014. The total production budget of films released in cinemas was RUB 8.3 billion, and 37 films received state support totalling RUB 2.3 billion.

⁵⁵ Placed above the line (see Figure 4 and Figure 5) are films that have generated revenue for their producers. The income is calculated as the difference between box office receipts – **after the cinemas' (50%) and distributors' (7.5%) shares have been deducted** – and the **film's production budget. This calculation is approximate, since it is based on average values of remuneration to cinemas and distributors, without taking into account marketing cost or revenue from other uses of film copyrights.**

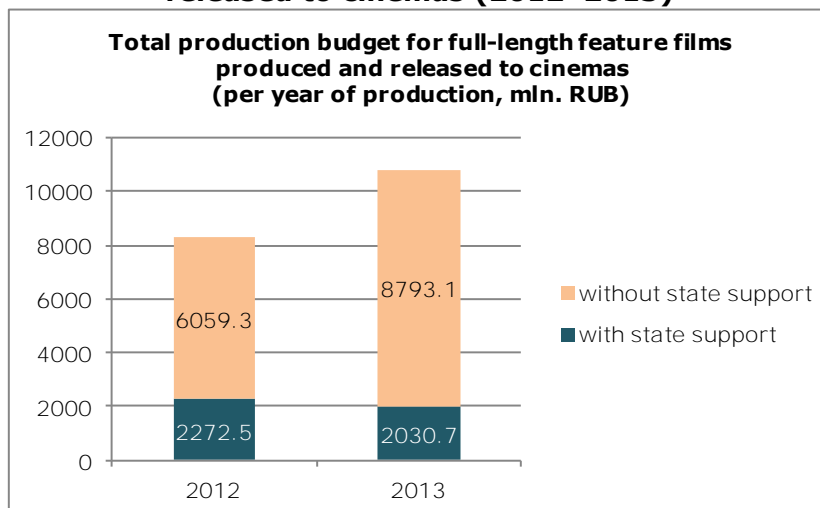
In 2013, production of 213 full-length feature films was completed. Eighty-six of these were released in cinemas. The total production budget of the films released in cinemas grew compared with 2012, to total RUB 10.8 billion. Of the films released in cinemas, 35 were made with state support, making use of a total of RUB 2.0 billion in production (this number is lower than the figure for films for which production was completed in 2012 because nine films, with total state support of RUB 0.3 billion, that finished production in 2013 have not yet been released).

Figure 2. Number of full-length feature films produced and released to cinemas (2012–2013)



Sources: Universe Consulting (the Movie Research project), Russian Federation Ministry of Culture, Nevafilm Research

Figure 3. Total production budget for full-length feature films produced and released to cinemas (2012–2013)



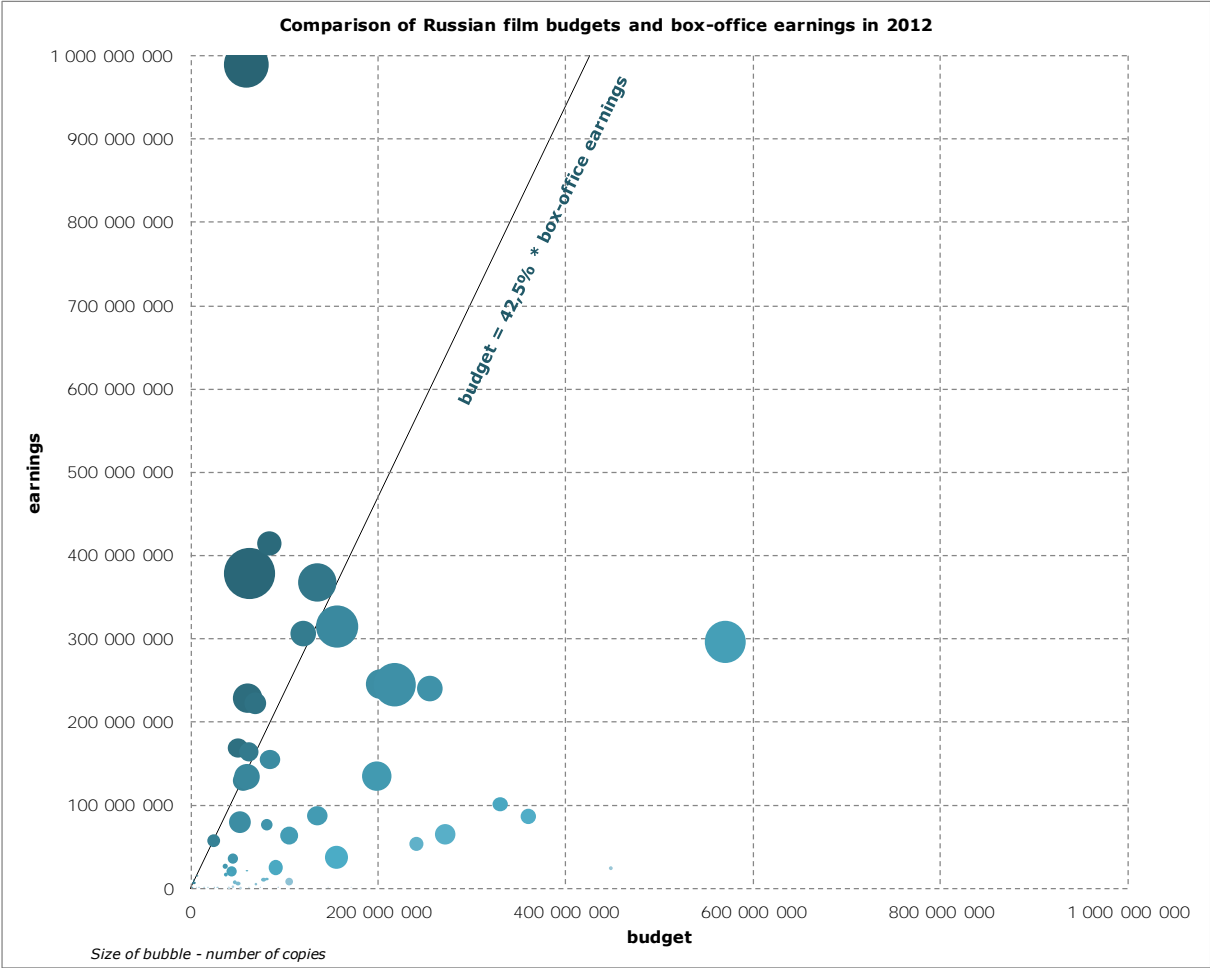
Sources: Universe Consulting (the Movie Research project), Russian Federation Ministry of Culture, Nevafilm Research

As in previous years, Russian producers are clearly not participating in joint productions with filmmakers from abroad in sufficient volumes. In 2012, for instance, six such films finished production, in partnership with filmmakers from the US, Kazakhstan, the Netherlands, Poland, Austria, Slovakia, and Germany. All of these films were released, but their total earnings were only RUB 128.9 million, with just one film, *Branded*,

responsible for RUB 125.0 million. In 2013, only two joint productions were completed, one of which was not released in cinemas. The second film (*Jack Ryan: Shadow Recruit*) earned USD 135.5 million at the box office worldwide, including RUB 122 million (USD 3.4 million) in Russia.

In 2012 and 2013, feature-length series commissioned by television companies continued to be released and distributed over various media and through online streaming services. Production was completed on 211 such series in 2012 (4,255 episodes) for a total length of 3,300 hours, while the volume of series production diminished somewhat in 2013, judging from an analysis of the films for which distribution certificates⁵⁶ were issued: 212 titles were released (3,015 episodes) for a total length of 2,300 hours.

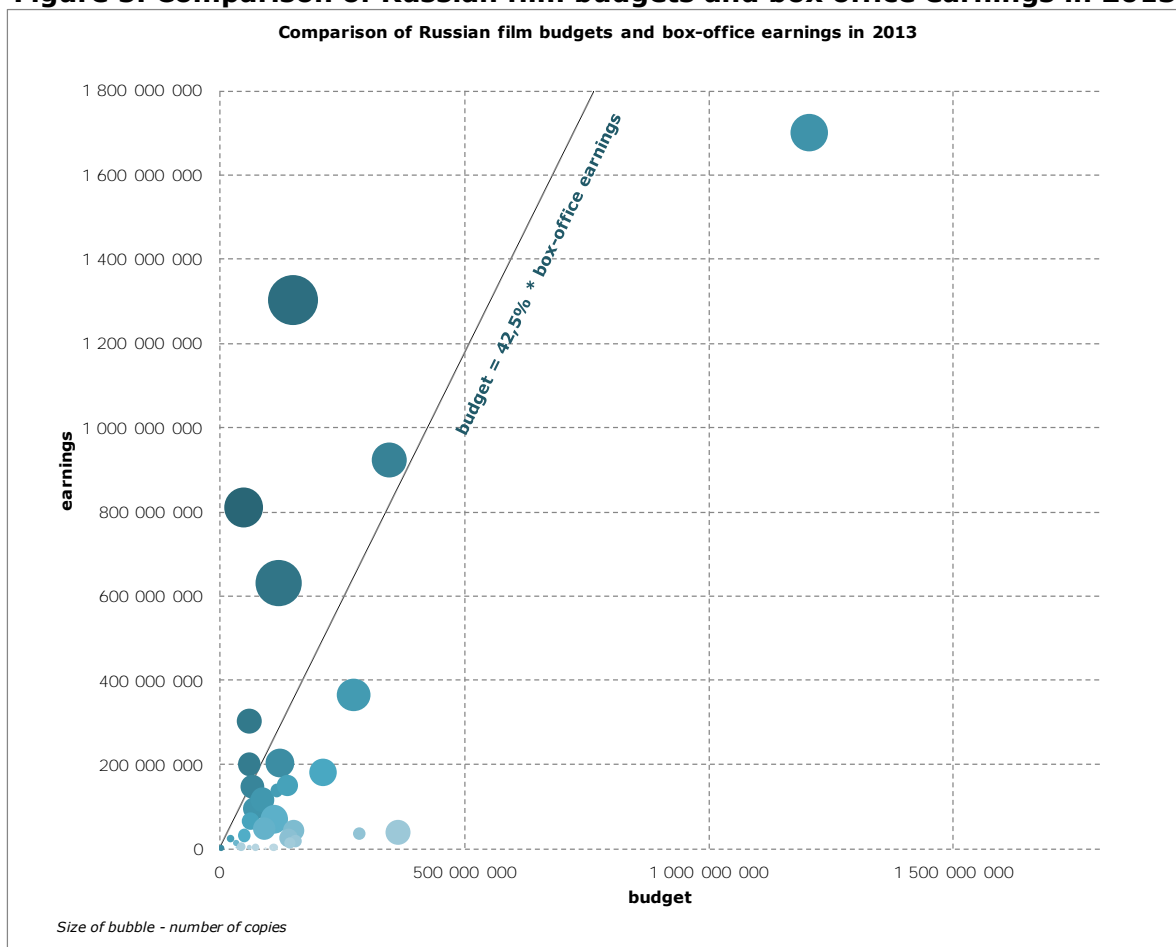
Figure 4. Comparison of Russian film budgets and box office earnings in 2012



Sources: Universe Consulting (the Movie Research project), Nevafilm Research

⁵⁶ Obtaining distribution certificates is not formally required in the case of films made for televised broadcasting. However, almost all of those films are later distributed through other channels and receive distribution certificates.

Figure 5. Comparison of Russian film budgets and box office earnings in 2013



Sources: Universe Consulting (the Movie Research project), Nevafilm Research

2.1.4. Animation

In 2012, production was completed on 105 animated films for a total length of 3,178 minutes, including series with a total of 433 episodes (regardless of the number of episodes, multi-episode television shows were counted as one title). Also produced (without receiving distribution certificates) were around 10.5 hours of animation to be shown on television and over four hours of animated films to be screened at festivals. Among the films produced, five were full length (*Buratino Returns [Vozvrashchenie Buratino]*, *Wings [Ot vinta!]*, *Adventures of the Good Soldier Svejk [Pokhozhdeniya bravogo soldata Shveika]*, *The Snow Queen*, and *Three Heroes on Distant Shores*). Of those released during the period in question, 31 films (including 116 episodes) were made with state support, and their total length was 1,171 minutes (36.8% of the total length of titles produced). Funds allocated by the Ministry of Culture for the production of these films totalled RUB 287.9 million, with RUB 618.9 million coming from the Cinema Fund.

The following companies produced the largest volume of animated content: Smeshariki (546 min.), Melnitsa Animation Studio (218 min.), and KinoAtis (170 min.).

**Table 8. Top 10 producers of animated films
(by volume of content produced) in 2012**

Producer/manufacturer	Length (min.)	Episodes	Titles
Smeshariki	546	55	9
Melnitsa Animation Studio	218	31	2
KinoAtis	170	34	1
Aeroplan	164	31	2
Masha i Medved (Masha and the Bear)	154	26	2
Tatarmultfilm	141	122	5
Animos Film Studio	115	4	4
Mirozdanie Film Company	113	11	2
VGIK-Debut Production Centre	102	20	10
Studiya Producerskogo Kino	97	9	3

Sources: Universe Consulting (the Movie Research project), Russian Federation Ministry of Culture

The volume of animation produced by Russian film companies continued to grow in 2013. During that year, production was completed on 112 titles (series are counted as one title) with a total length of 3,681 minutes, including series incorporating a total of 390 episodes. Also produced (without receiving distribution certificates) were over 12 hours of animation to be shown on television and around one hour to be screened at festivals. The reduction in the volume of films made for festival screenings (without receiving distribution certificates) can be explained by the fact that a larger number of such films are receiving distribution certificates so that they can be sold on various media. The number of full-length animated films released also increased to seven (*Space Dogs 2: Moon Adventures [Belka i Strelka. Lunnye prikliucheniya]*, *Prince Ivan and the Grey Wolf 2*, *King Solomon's Seal [Pechat Tsarya Solomona]*, *Parrot Club [Popugay Club]*, *The Secret of Sukhareva's Tower. The Warlock of Equilibrium [Taina Sukharevoi bashni. Charodei ravnovesiya]*, *How to Catch a Firebird's Feather [Kak poimat pero Zhar-ptitsy]*, and *Ku! Kin-dza-dza*). State support for production was received by 55 of the films released (by title; there were 135 episodes), for a total length of 1,512 minutes. Funding received by producers for work on these films totalled RUB 416.1 million from the Ministry of Culture and RUB 442.5 million from the Cinema Fund. This means that the total volume of state support for animated films completed in 2013 went down slightly in comparison with 2012. The change in the ratio of support rendered between the Ministry of Culture and the Cinema Fund is connected with the redistribution of authority between those two structures (changes are described in section 1.2.2. *Federal Fund for Social and Economic Support to National Cinematography*).

The leading animated content producers for 2013 were Smeshariki (582 min.), Master-Film Studio (307 min.), and Melnitsa Animation Studio (298 min.).

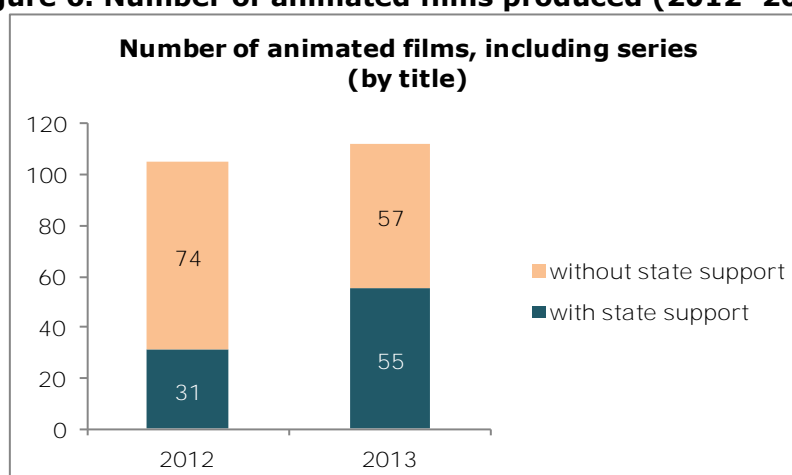
Table 9. Top 10 producers of animated films (by volume of content produced) in 2013

Producer/manufacturer	Length (min.)	Episodes	Titles
Smeshariki	582	53	6
MASTER-FILM STUDIO	307	26	10
Melnitsa Animation Studio	298	51	2
AA Studio	240	48	2
CTB Film Company	237	7	3
Moscow Animation Studio	156	7	2
Aeroplan	153	28	2
KinoAtis	143	13	3
Masha i Medved (Masha and the Bear)	108	17	2
A. Tatarsky's Pilot Animation Studio	108	8	8

Sources: Universe Consulting (the Movie Research project), Russian Federation Ministry of Culture

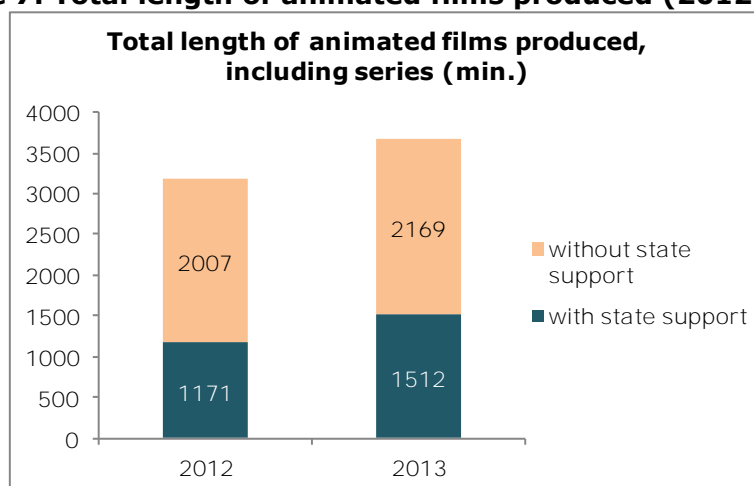
It should be noted that the effectiveness of state support of animated film production grew between films produced in 2012 and those produced in 2013. The percentage of films (per title) released with state support grew from 29.5% to 49%, and in terms of total length, that percentage went from 36.8% to 41.1%, with 16% growth in the total length of films supported by the state. Also noteworthy is the fact that this was achieved while the state's spending to support production of one minute of animated content fell, from RUB 0.77 million to RUB 0.57 million.

Figure 6. Number of animated films produced (2012–2013)



Sources: Universe Consulting (the Movie Research project), Russian Federation Ministry of Culture, Nevafilm Research

Figure 7. Total length of animated films produced (2012–2013)



Sources: Universe Consulting (the Movie Research project), Russian Federation Ministry of Culture

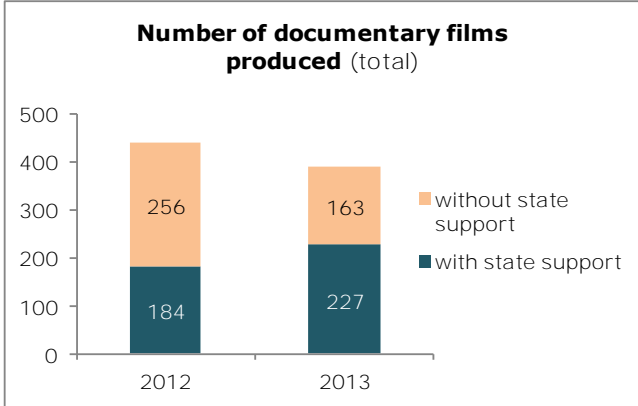
2.1.5. Documentary films

Due to a change in priorities with respect to state support of documentary films – with a shift in focus to putting out higher-quality content which is more in demand by audiences – there was a significant reduction during the period analysed in the numbers of films produced with state support in comparison with the 2010–2011 period. In 2012, 440 documentary films were produced (for a total length of 395.2 hours), of which 184 (total length of 133.1 hours) received state support totalling RUB 226.3 million. Among the films produced, 81 were full length, including 33 made with state support.

In 2013, production was completed on 390 documentaries (total length of 405.3 hours), of which 227 (167.7 hours) were made with state support totalling RUB 333.7 million. Of the films completing production this year, 87 were full-length, of which 44 received state support.

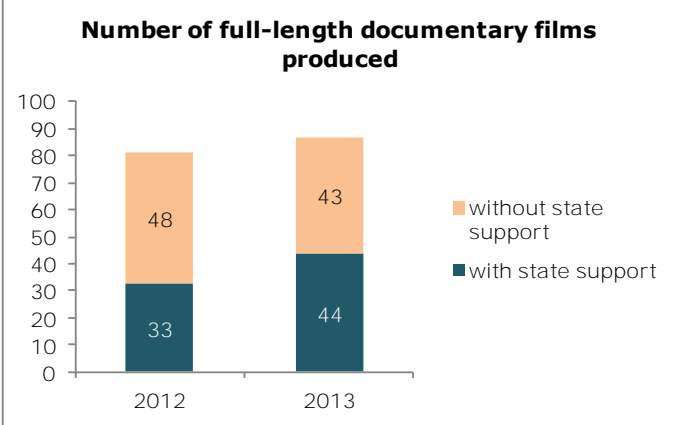
That means that in 2013, compared with 2012, there was slight (2.5%) growth in the total length of documentary films produced, while there was a 25.9% increase in the total length of films made with state support. The number of full-length documentaries supported by the state also grew by one third. In 2012, 18.3% of total state support went to the production of full-length documentary films completed that year; in 2013 that number grew to 27.6%.

Figure 8. Number of documentary films produced (2012–2013)



Sources: Universe Consulting (the Movie Research project), Russian Federation Ministry of Culture, Nevafilm Research

Figure 9. Number of full-length documentary films produced (2012–2013)



Sources: Universe Consulting (the Movie Research project), Russian Federation Ministry of Culture

Over these two years, 326 companies were involved in the production of documentaries, though 157 of those companies produced only one film during that period. However, given that films are counted by title, a small number of films produced does not mean that those companies should be regarded as unproductive. For example, several leaders in the producer ratings for length of content produced released just one or two titles per year, but these are multi-episode documentary films. At the same time, 31 producers released six or more films during these two years.

Table 10. Documentary film production companies per number of films released

Number of films released by a company	Number of companies that released the indicated number of films			Number of companies that released the indicated number of films with state support		
	2012	2013	Total for 2 years	2012	2013	Total for 2 years
1 film	113	124	157	65	69	79
2 films	62	46	73	42	36	52
3 films	21	15	35	5	9	22
4-5 films	14	20	30	3	14	18
6-10 films	9	4	24	1	0	11
over 10 films	1	1	7	0	0	1

Sources: Universe Consulting (the Movie Research project), Russian Federation Ministry of Culture

Table 11. Top 10 producers of documentary films per number of films released

Company	2012	2013	Total
Centre of National Film	19	8	27
Vne vremeni (Outside of Time) Culture and Ethnography Foundation	11	12	23
St. Petersburg Documentary Film Studio	7	8	15
DC Film	6	7	13
Nashe Kino Association	8	4	12
Orthodox Encyclopaedia Cultural Fund	10	1	11
KinoArtel	6	5	11
Presidential Programmes Directorate	5	5	10
Gold Medium	4	6	10
Tochka Zreniya (Point of View)	6	4	10

Note: Data on the Centre of National Film include its affiliate Lennauchfilm (produced 10 films in 2012 with a total length of 454 min.)

Sources: Universe Consulting (the Movie Research project), Russian Federation Ministry of Culture

Table 12. Top 10 producers of documentary films per length of films released (min.)

Company	2012	2013	Total
VIANZH PRODUCTION	0	3720	3720
Nashe Kino Association	1239	297	1536
VERSIYA Film Studio	768	747	1515
Cinema Prodakshn Production Centre	780	608	1388
Centre of National Film	867	367	1234
Aviator Productions	539	220	759
Orthodox Encyclopaedia Cultural Fund	713	39	752
VERSIYA Film Company	0	748	748
Leks Film Cinema Company	315	352	667
St. Petersburg Documentary Film Studio	283	364	647

Note: Data on the Centre of National Film include its affiliate Lennauchfilm (produced 10 films in 2012 with a total length of 454 min.)

Sources: Universe Consulting (the Movie Research project), Russian Federation Ministry of Culture

When analysing the top 10 producers according to length of films released, it must be kept in mind that only eight of the companies listed have large-volume orders from television companies in their portfolios, since the Centre of National Film and St. Petersburg Documentary Film Studio do not produce multi-episode films for television.

2.2. Principal players

2.2.1. Classification of Russian film producers

Those involved in the Russian film production market include producers and production companies, state and private film studios, and studios at institutions of higher education specializing in filmmaking. In all, as of the first half of 2014, there were around 450 film production companies active in the Russian market.

Table 13. Classification of film production companies

Type	Biggest representatives (total for 2012-2013)	Main market segments
Production companies designated by the Cinema Fund as leaders in the film production industry (2012–2013)	Bazelevs (TaBBaK), CTB Film Company, Art Pictures Studio, Nikita Mikhalkov's Studio TRITE, Direktsiya Kino, Central Partnership, Igor Tolstunov's Production Company, Enjoy Movies	Feature films
Independent production companies	Lunapark Productions, MG Media, Pavel Lungin Studio, Bulldozer Films Productions	Feature films
	Wizart Film, Melnitsa Animation Studio, Smeshariki, Master-Film Studio, AA Studio	Animated films
	Vne vremeni (Outside of Time) Culture and Ethnography Foundation, DC Film, Kinoartel, Magafilm Cinema Company	Documentary films
	Vianzh Productions, Nashe Kino Association, Versiya Film Studio, Cinema Prodakshn Production Centre	Documentary films for TV orders
State-owned film studios	Mosfilm, Lenfilm, Gorky Film Studio	Feature films
	The Centre of National Film, St. Petersburg Documentary Film Studio	Documentary films
Private film studios	Glavkino, Amedia, Russian World Studios (RWS)	Feature films
	Dalnevostochnaya Kinostudiya	Documentary films
Glavkino, Amedia, Russian World Studios (RWS)	The All-Russian State Institute of Cinematography (VGIK), St. Petersburg State University of Film and Television	Short films

2.2.2. Principal players in Russian film production with films in theatrical distribution

This list includes the Russian production companies whose films showed the best results in Russian distribution from 2010 to Q2 2013, as well as leading production companies which received support from the Cinema Fund for that period. The 'Number of films' heading indicates the number of the company's projects completed in the 2010–2013 period.

AR Films (Non-Stop Production)

Websites: <http://www.a-r-films.com>, <http://www.nonstop-kino.ru/>
Year founded: 2009 (AR Films), 2005 (Non-Stop Production)
Number of films in distribution: 5
Principal producer: Alexander Rodnyansky, Sergey Melkumov
Additional activities: theatrical distribution

Art Pictures

Website: <http://www.art-pictures.ru/en/>
Year founded: 1992
Number of films in distribution: 7
Principal producer: Fedor Bondarchuk, Dmitry Rudovskiy

Bazelevs (TABBAK)

Website: <http://www.bazelevs.ru/>
Year founded: 1994
Number of films in distribution: 8
Principal producer: Timur Bekmambetov
Additional activities: theatrical distribution

Central Partnership

Website: <http://www.centpart.ru/en>
Year founded: 1996
Number of films in distribution: 13
Additional activities: theatrical and TV distribution

Centre of National Film (CNF)

Website: <http://www.cnf.ru/>
Year founded: 1933
Number of films in distribution: 3
Principal producer: Vladimir Bazhin
Additional activities: film studio

CTB Film Company

Website: <http://ctb.ru/en/>
Year founded: 1992
Number of films in distribution: 20
Principal producer: Sergey Selianov
Additional activities: theatrical distribution

Direktsiya Kino

Website: <http://www.rusproducers.com/Page/13861>
Year founded: 2006
Number of films in distribution: 2
Principal producer: Anatoly Maksimov

Enjoy Movies

Website: <http://enjoy-movies.ru/>

Year founded: 2010
Number of films in distribution: 10
Principal producer: Georgiy Malkov

Glavkino

Website: <http://glavkino.ru>
Year founded: 2012
Number of films in distribution: 1 (*August. Eighth*)
Principal producer: Fedor Bondarchuk

Interfest (Real-Dakota)

Website: <http://www.interfest.ru/>
Year founded: 1975
Number of films in distribution: 8
Principal producer: Renat Davletyarov
Additional activities: organizing and holding international and Russian film festivals in Russia and abroad

Koktebel

Website: <http://www.koktebelfilm.ru/>
Year founded: 2003
Number of films in distribution: 3
Principal producer: Roman Borisevich

Leopolis

Website: <http://www.leopolis.ru/>
Year founded: 2007
Number of films in distribution: 6
Principal producer: Sergey Livnev, Lev Nikolau

Melnitsa Animation Studio

Website: <http://melnitsa.com/#/en/>
Year founded: mid-1990s
Number of films in distribution: 5
Principal producer: Sergey Selianov

Monumental Pictures

Website: <http://www.monumental-pictures.ru/>
Year founded: 2007
Number of films in distribution: 3
Principal producer: Michael Schlicht

Nikita Mikhalkov's Studio TRITE

Website: <http://www.trite.ru/>
Year founded: 1987
Number of films in distribution: 5
Principal producer: Nikita Mikhalkov, Leonid Vereshchagin

Paradise Productions

Website: <http://www.paradisegroup.ru/production/?lang=en>

Year founded: 2003

Number of films in distribution: 6

Principal producer: Gevorg Nersisyan

Additional activities: theatrical distribution, exhibition

PROFIT (Igor Tolstunov's Production Company)

Website: <http://www.profitkino.ru/>

Year founded: 1995

Number of films in distribution: 5

Principal producer: Igor Tolstunov

Rekun Cinema

Website: <http://www.racooncinema.com/>

Year founded: 1996

Number of films in distribution: 4

Principal producer: Ilya Neretin

Rock Films

Website: <http://rockfilm.ru/en/>

Year founded: 1991

Number of films in distribution: 11

Principal producer: Alexey Uchitel

2.3. Principal trends

The Russian film industry, provided with sufficiently stable state support, continued to make steady progress in the 2012–2013 period. Filmmakers declared to be the leaders in Russian film production (from the point of view of receiving state support) are consistently accounting for over 80% of box office receipts for Russian films distributed in this country, and the number of films they release is also growing steadily, as is the number of films being released with no government support. The state film production financing system currently in place has allowed production budgets to grow without an increase in state funds allocated to support the film industry, and has led to an increase in the number of films paying for themselves in distribution.

In the opinion of the authors of the reform, further evolution of the principles governing state support of cinema – especially the 2013 introduction of a financing system based on loans – should lead to a growing number of films that pay for themselves in distribution.

Co-productions remain a problematic area. During the period under review, changes that took place in the system for financing co-productions (the transfer of that function from the Cinema Fund to the Ministry of Culture) halted the growth in the number of films produced as joint projects with foreign partners that had started in 2012.

In late 2013, news came of the sale of ProfMedia Group to Gazprom-Media Holding. Similarly, there was a change in the ownership of Central

Partnership (CPS), which created Central Partnership Studio in 2012 to make its own films. Before that, Central Partnership, one of the biggest Russian distributors, had financed and distributed films and series, while contracting out production work. According to current plans, all CPS film production will be carried out by its own studio by 2017.

Companies connected with Alexander Rodnyansky continued to make progress on the international market. Following the acquisition of German film production and distribution company A-Company, a further step towards integration with the global film industry was taken when, in 2013, A-Company teamed up with New Myth and Toonz Entertainment to create the Epiphany fund, with USD 200 million in capital funding. The purpose of the fund is to create its own content and to work on the production of franchise films with Hollywood majors, with a focus on worldwide distribution.⁵⁷

Russian World Studios (RWS) also saw a change in ownership, with Sistema Mass Media (SMM) transferring a 49% share to RWS CEO Yuri Sapronov at the end of 2013. Sapronov received stock in the film company in exchange for his 12.5% share in SMM itself.

Crowdfunding projects to support the making of animated, documentary, and short films saw further development. Of particular significance for the industry is the crowdfunding project which is raising money for *Panfilov's 28 [28 Panfilovtsev]*. Work began on the film in 2013. By October 2014, more than RUB 22 million of the RUB 60 million required had been raised.

⁵⁷ A Company participated in the creation of the new fund – <http://cinemaplex.ru/2013/06/18/a-company-epiphany.html> (Russian only).

CHAPTER 3. FILM PRODUCTION INFRASTRUCTURE

3.1. Film studios

As of 2014, the production capacity of the Russian film industry includes over 100 sound stages. The five biggest film studios – Amedia, Mosfilm, Glavkino, CineLab (including My Studio), and the Centre of National Film (including its affiliate Lennauchfilm) – each own between 7 and 16 sound stages.

All the major film studios rent out their sound stages, and also offer services (either directly or through closely affiliated organizations) to provide their clients with the equipment they need during filming: cameras and other filming equipment, as well as sound and lighting equipment. Mosfilm, the oldest state-owned film studio, and the private studio Amedia, launched in 2004, own a wide variety of costumes and props. All the industry leaders also provide post-production services. In this area, there is frequent cooperation between private organizations. For instance, Kinofabrika No. 2 only rents out sound stages, while the companies Bogdan i Brigada and Rentacam, which are located nearby, provide various film services. CineLab capitalizes on the capacity of its distribution base with sound stages for filming located on the grounds of its partner, My Studio.

Table 14. Russian film studios in 2013 by number of sound stages

No.	Studio	Location	Number of sound stages	Number of sound stages of different sizes, m ²				Number of location sets	Number of chroma key studios
				under 400	400–800	800–1000	>1000		
1	Amedia	Moscow	16	3	8	3	2	1	1
2	Mosfilm	Moscow	12	3	3	3	3	3	1
3	Glavkino	Moscow	10	5	0	1	4	-	2
4	CineLab (My Studio)	Moscow	9	1	3	3	2	-	1
5	Centre of National Film and Lennauchfilm	Moscow	7	4	3	-	-	1	1
6	Russian World Studios	St. Petersburg	6	2	4	0	0	-	1
7	TV-Film (Novella)	Moscow	5	0	0	5	0	-	-
8	Gorky Film Studio	Moscow	5	0	4	0	1	-	-
9	Lenfilm	St. Petersburg	4	-	2	1	1	-	1
10	KINOLINIYA	Moscow	4	1	1	-	2	-	-
11	TeleCity	Moscow	4	-	1	1	2	-	-
12	Kinofabrika No. 2	Moscow	3	1	1	1	-	-	1
13	Magic Film	Moscow	3	-	2	1	-	-	1
14	ChromaKey. Center	Moscow	3	3	-	-	-	-	3
15	R-Studios	Moscow	2	2	-	-	-	-	2
16	A v kvadrate	Moscow	2	2	-	-	-	-	1
17	N. Minervin Krasnodar Film Studio	Krasnodar	2					-	-

No.	Studio	Location	Number of sound	Number of sound stages of different sizes, m ²				Number of	Number of
18	JV Production	Moscow	2	-	1	1	-	-	1
19	St. Petersburg Documentary Film Studio	St. Petersburg	2	2	-	-	-	-	1
20	Sverdlovsk Film Studios	Yekaterinburg	1	-	1	-	-	-	1
21	SL-Studio	Moscow	1	1	-	-	-	-	1
22	2Mint Studio	Moscow	1	1	-	-	-	-	1
23	WayFilm	Moscow	1	-	-	-	1	-	1
24	Nizhne-Volzhsckaya Newsreel Studio	Saratov	1					-	-
25	West-Siberian Film Studio	Novosibirsk	1						
26	Kazan Film Studio	Kazan	n/a						
27	North-Caucasus Newsreel Studio	Vladikavkaz	n/a						
28	Ugra-Film	Khanty-Mansiysk	n/a						
29	Dalnevostochnaya Kinostudiya	Khabarovsk	n/a						
30	Russian Central Film and Video Studio for Newsreels, Documentary and Educational Films	Moscow	n/a						
31	Badge of Honour Far-Eastern Studio for Newsreels	Khabarovsk	n/a						

3.1.1. State-owned studios

Many of the oldest state-owned film studios located outside contemporary film production centres (Moscow and St. Petersburg) have currently fallen on hard times. Large plots of land and many buildings previously used for motion picture production on film are no longer needed and are becoming unfit for use. Often, the existing sound stages at those studios require repairs, but due to a lack of internal or external funding sources, those repairs cannot be carried out. Most state-owned film studios that are managing to stay afloat and are still engaged in production in one way or another tend to specialize in documentary films, which do not require extensive production facilities, and they do not provide film production services to outside organizations.

Mosfilm remains the most successful state-owned film studio, filming its own feature films and series, and also providing a broad range of film production services to other companies.

In recent years, Russia's two oldest film studios have taken important steps towards future development. For instance, **Gorky Film Studio** is working to improve its own film production situation. In autumn 2013, a ten-year plan entitled 'Concept for Studio Development, 2013–2023' was adopted. As part of that project, the decision was made to create the **National Centre for Children's and Family Films, which would make use of the studio's production facilities.**⁵⁸ The Centre intends to concentrate on making socially significant films for children and young people with support from the state, the film industry, and private business.

Persistent losses and mounting debts at **Lenfilm**, the oldest Russian film studio, made it necessary to identify a concept for that studio's future development. In early autumn 2012, a public discussion was initiated on two possible ways to save the film company without simply shutting down the studio. The first concept for resurrecting the company proposed using Lenfilm as a foundation on which to build a modern, universal film production centre, which would require the studio to be reconstructed and re-equipped, at a cost to the federal budget of RUB 2 billion, which would not be reimbursed. The goal of the second concept was to transform the studio complex into a production centre which, aside from providing equipment and sound stages, would also attract projects, possibly with the support of the Cinema Fund.⁵⁹ That concept would require an investment of RUB 1.5 billion, most of which would be repaid.

A majority of the public council supported the second concept, which did not involve the kind of restrictions inherent in the first scenario's focus on original, children's, historic, and academic films.⁶⁰ One month after the path for Lenfilm's development was chosen, the government replaced the studio's management team. Eduard Pichugin (founder of the national cinema chains Kronverk Cinema and Kino City) took up post as the studio's General Director, and film director Fedor Bondarchuk came in as Chairman of the Board of Lenfilm Studios.⁶¹

One year later, according to Pichugin, the situation at Lenfilm had started to improve. The studio reduced its debt, two of the three films scheduled to be finished in 2010 (*Gift [Dar]*, also known as *My Grandmother is a Witch [Moya babushka vedma]*, and *Wings [Krylya]*) were completed, and new projects were in the works, three of which had qualified to receive state subsidies.⁶² Lenfilm and VTB Bank signed a contract that extends the studio a credit line of RUB 1.5 billion, which will be spent on repairing sound stages and other working premises, allowing the studio to start work on new projects. Modern film cameras, lighting equipment, and other required equipment will be purchased, instead of being hauled in from Moscow as was being done previously. The film

⁵⁸ Centre for Children's and Family Films to be created at Gorky Film Studio. // *ProfiCinema*. 20 September 2013.

⁵⁹ Lenfilm: What's the scenario? // *Rossiiskaya Gazeta*. 12 September 2012.

⁶⁰ Lenfilm of horrors // *Kommersant*. 26 November 2012.

⁶¹ Rosimushchestvo approves proposed Lenfilm management team // RIA Novosti. 12 October 2010.

⁶² Lenfilm General Director Eduard Pichugin: "The studio has paid off all its operating debts, is buying new equipment, and is sending employees to intern in Hollywood" // Interfax. 3 October 2013.

company plans to concentrate its entire complement of film production equipment at Lenfilm.

The development concept that was adopted stipulated that the rights to the Gold Collection of films would be returned to Lenfilm (these had previously been transferred to the Consolidated State Film Collection, which was then merged with the State Film Fund, Gosfilmofund), but this has not yet been resolved. The Gold Collection is the provisional name for a selection of around 100 of the most popular, in demand, and beloved motion pictures produced by the studio in the past, though there is discussion of returning the rights to all films made by Lenfilm before 2001, about 1,500 in total. Transferring to the studio the rights to its own films is an extremely important step in resurrecting the company, which has been stalled in large part due to legal complications. After all, the studio could have reconstructed and restored sound stages with the regular monetary income from televised screenings of those films. For comparison, Mosfilm head Karen Shakhnazarov says that royalties from **his studio's films now make up approximately 30% of all income, allowing that company to make a consistent profit.**⁶³

In 2011, a series of open letters to the Russian President helped to correct a similar situation at **Soyuzmultfilm**, and a collection of films was **transferred to that studio. At that time, Nikolai Makovsky was the studio's** Acting Director. **The studio's** debts are currently being substantially reduced, the studio is being reorganized and modernized, and plans are in place to move to new premises and continue improving production processes. Twelve films are currently in production at the studio, with 160 minutes of animation being readied for release in 2014.⁶⁴

In March 2014, screenwriter and producer Andrei Dobrunov was appointed Director of Soyuzmultfilm. The primary tasks assigned to him by the government are moving the studio into a new building, which first needs to be refitted both inside and out (remodelling work is scheduled to be finished by February 2015⁶⁵), and actively scaling up production.

Sverdlovsk Film Studios, a joint stock company fully owned by the state, is cooperating with the Strana Group to search for a new focus for its business. Aside from working to develop its film school, it has opened a film cluster known as Sverdlovsk Film Studios.

For over eight years now, efforts have been ongoing to sell a 100% package of shares in **North-Caucasus Newsreel Studio** (currently owned by the state) through auction, with subsequent reclassification of the studio. No buyers have been found, and the studio has essentially ceased to operate. Late in 2013, the governing plenum of the Cinematographers Union of Russia considered issues relating to the future of documentary filmmaking and decided it would be wise to resurrect the studio. The Union approached the Russian Government with that

⁶³ Lenfilm unable to gather collection // *Kommersant*. 26 May 2014.

⁶⁴ Soyuzmultfilm website – www.new.souzmult.ru/.

⁶⁵ **Soyuzmultfilm's new building to be remodelled by February 2015** // RIA Novosti. 28 March 2014.

request⁶⁶, but as yet, there is no clear information regarding what the future will hold for that studio.

3.1.2. Private studios

One of the biggest private film and television groups in Russia is **Glavkino**, which started operations in the first quarter of 2012. Glavkino's main activities include production and post-production. When the company was founded, it was planned that **40% of the studio's capacity** would be focused on cinema. But the rising number of digital channels and the need to include among their broadcasts new, original, and most importantly high-quality TV content has resulted in the current situation where nearly **90% of Glavkino's efforts go into television**.⁶⁷ The most popular TV channels in the country make use of the studio's services.

Development has resumed at **Russian World Studios** (RWS), part of the **Sistema Mass Media Group**, which manages Sistema's media assets. In August 2012, Sistema was forced to reject a merger with Lenfilm. It then shut down the RWS studio in Moscow. At the same time, the company renounced plans to build a second studio in St. Petersburg due to insufficient use of studio capacity and a declining number of orders. By 2014, RWS had overcome the crisis, and it has now expanded its offerings of post-production (including colour correction) and prop design services and has also increased the volume of camera, lighting, and video technology equipment it provides. **The studio's main focus is on filming for television**, but each year the studio hosts shooting for several feature films for theatrical distribution as well.

3.1.3. Plans for new studios

Active discussions are also underway regarding several plans to build new film studios in the regions. For instance, in **Ulyanovsk Region**, one of 50 investment projects taking shape in the social infrastructure realm is the setting up of a film studio on the banks of the Volga. Local company VolgaKino and its European partner have stepped forward as investors. Investors believe that Ulyanovsk Region is very well suited to the shooting of historical films: it has the boundless Volga landscapes, which are perfect stand-ins for ocean backdrops (the river is around 40 km across at its widest point), as well as picturesque steppes and forests.⁶⁸ Plans to build a film studio in **Kaluga Region** were also announced at the beginning of 2014 by Aleksei Nikitenko, head of the Ferzikovsky District administration. It is planned that the construction site will be located in the village of Dugna. Negotiations with unnamed Moscow investors have already brought success. Most of the shooting done there will be for films with historic or patriotic content.⁶⁹ The construction of a sound stage

⁶⁶ Proceedings of the 4th Governing Plenum of the Cinematographers Union of Russia. //Electronic resource <http://ascinemadoc.ru/vnimayu-chlenov-soyuza-kinematografistov-rossii/> (Russian only).

⁶⁷ **I'm betting on cinema // Dorogoe udovolstvie**. 31 January 2013.

⁶⁸ Film studio to be built in Ulyanovsk // **Rossiiskaya Gazeta**. 21 October 2013.

⁶⁹ Ferzikovfilm Studio to be built outside Kaluga // **Stroitelstvo**. 22 January 2014.

complex in **Moscow** by Russian–Ukrainian production and distribution company Star Media is at the pre-project stage. In summer 2014, **Moscow’s Urban Planning and Land Use Commission gave approval** for a 12,000 m² complex, which could become one of the largest in Russia; however those behind the project have yet to announce a start date for construction work.

It also should be noted that construction projects which have previously been discussed, and even started, to build regional studios in Kolomna, Konstantinovo, and Perm have been halted.

Table 15. Services provided by Russian film studio complexes

No.	Studio name	Location	Ownership	Production stage								Post-production stage						Total number of services	
				Sound stages	Cameras	Operating equipment	Light	Sound	Transport	Props	Set design	Film processing	Editing	Sound studio	Computer graphics	Television film equipment	Printing of film copies		Digital mastering, DCP, KDM
1	Mosfilm	Moscow	state	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	15
2	CineLab (My Studio)	Moscow	private	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	15
3	Gorky Film Studio	Moscow	state	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	14
4	Sverdlovsk Film Studios	Yekaterinburg	state	+	+	+	+	+	+	+	+	+	-	+	+	+	-	+	13
5	Centre of National Film and Lennauchfilm	Moscow	state	+	+	+	+	+	+	+	+	+	+	+	+	-	-	-	12
6	Russian World Studios	St. Petersburg	private	+	+	+	+	+	+	+	+	+	-	+	+	-	-	+	12
7	Lenfilm	St. Petersburg	state	+	+	+	+	+	+	+	+	+	-	+	+	-	-	-	12
8	Glavkino	Moscow	private	+	+	+	+	+	+	+	+	+	-	+	+	-	-	+	10
9	JV Production	Moscow	private	+	+	+	+	+	+	+	+	+	-	+	+	-	-	-	9
10	St. Petersburg Documentary Film Studio	St. Petersburg	state	+	+	+	+	+	-	+	+	-	-	+	-	-	-	-	9
11	R-Studios	Moscow	private	+	+	+	+	+	-	-	-	-	-	+	+	-	-	+	9
12	TV-Film (Novella)	Moscow	private	+	+	+	+	+	+	+	+	+	-	+	+	-	-	-	9
13	Amedia	Moscow	private	+	+	+	+	+	+	+	+	+	-	+	+	-	-	-	9
14	N. Minervin Krasnodar Film Studio	Krasnodar	private	+	+	+	+	+	-	-	-	-	-	+	+	-	-	-	9
15	A v kvadrate	Moscow	private	+	+	+	+	+	-	-	-	-	-	+	+	-	-	-	8
16	WayFilm	Moscow	private	+	+	+	+	+	+	+	+	+	-	+	-	-	-	-	8
17	Kinofabrika No. 2	Moscow	private	+	+	+	+	+	+	+	+	+	-	-	-	-	-	-	8
18	Nizhne-Volzhsкая Newsreel Studio	Saratov	state	+	+	+	-	+	-	-	-	-	-	+	+	-	-	-	7
19	Far-East Newsreel Studio	Khabarovsk	state	-	+	+	+	+	-	-	-	-	-	+	+	-	-	-	7
20	SL-Studio	Moscow	private	+	+	+	+	-	+	-	-	-	-	-	-	-	-	-	5
21	Chromakey.Center	Moscow	private	+	+	+	+	-	-	-	-	-	-	-	-	-	-	-	4
22	KINOLINIYA	Moscow	private	+	+	+	+	-	-	-	-	-	-	-	-	-	-	-	4
23	2Mint Studio	Moscow	private	+	-	-	+	+	-	-	-	-	-	-	-	-	-	-	3
24	Magic Film	Moscow	private	+	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1
25	West-Siberian Film Studio	Novosibirsk	state																
26	Kazan Film Studio	Kazan	state																
27	North-Caucasus Newsreel Studio	Vladikavkaz	state																
28	Dalnevostochnaya Kinostudiya	Khabarovsk	private																
29	TeleCity	Moscow	private																
30	Russian Central Film and Video Studio for Newsreels, Documentary and Educational Films	Moscow	state																
31	Ugra-Film	Khanty-Mansiysk	private																

3.2. Film service companies

Service companies are firms which provide film production services but do not have their own filming stages. They are all private and almost all are located in Moscow and St. Petersburg. One successful company, 29 February, is located in Yekaterinburg. Most service companies provide services during both the production and post-production stages. A quarter of all companies only rent out equipment needed for shooting.

The most widely represented services in the market are editing and computer graphics (provided by about 15 companies), as well as production and lighting equipment rentals (13 companies). Specialized vehicles (mobile lighting trailers with generators, makeup trailers, camera vehicles, etc.) can be rented from seven companies in Moscow and from Studio VEK in St. Petersburg.

Mastering and printing of digital copies in DCP format is provided by the digital laboratories DCP24, Nevafilm Digital, 29 February, Cinelex, ProDigi, Central Production International Films, and the company Conveyor. Mosfilm also has a special department that masters and remasters digital film prints (DSP/DCI). Several films with digital laboratories do not provide services commercially. The distributor Cinema Prestige, for example, uses its laboratory only for its own business.

Due to the film sector's transition to digital production, Salamandra, the biggest private film processing laboratory, was no longer able to compete and went out of business in early 2013.

The emergence of new theatrical sound formats has not passed Russia by either: by autumn 2014, there were already four sound studios in Russia providing dubbing services in Dolby Atmos format (Central Partnership Production, Central Production International Films, CineLab, and Nevafilm) and one in Barco Auro format (Nevafilm).

Aside from the services listed in the table, many service companies also work in other areas, including product placement, dubbing into Russian, casting, equipment sales, and, of course, producing their own films, series, and commercials.

Table 16. Services provided by Russian film service companies

No.	Service company name	Production stage					Post-production stage						Total number of services
		Cameras	Operating equipment	Light	Sound	Transport	Film processing	Film editing	Recording studio	Computer graphics	Printing of copies on film	Digital mastering, DCP, KDM	
1	29 February	+	+	+	+			+	+	+		+	8
2	RUmedia	+	+	+		+		+	+	+			7
3	Studio VEK	+	+	+		+		+	+	+			7
4	G-BRO	+	+	+				+		+			5
5	Cinelex							+	+	+		+	4
6	X-Ray	+	+	+		+							4
7	Bogdan i Brigada		+	+	+	+							4
8	Kinoprogramma XXI Vek (21st Century Cinema Programme)	+	+	+				+					4
9	Rentacam	+	+	+		+							4
10	Baselevs							+	+	+			3
11	HHG	+		+				+					3
12	PS TVC							+		+			3
13	Russian Film Group							+	+	+			3
14	AST	+	+	+									3
15	IMT Group		+	+		+							3
16	Nevafilm								+			+	3
17	Central Partnership Production							+	+	+			3
18	Central Production International Films								+			+	2
19	Midi Cinema (Melnitsa)								+	+			2
20	CineSoft							+		+			2
21	Conveyor										+	+	2
22	DCP24											+	1
23	ProDigi											+	1

3.3. Trends in the film production services market

As of mid-2014, there are around 110 sound stages in operation in Russia. The majority of state-run film studios (with the exception of Mosfilm) still have ageing equipment. They require modernization and an up-to-date approach to business processes. Therefore, many regional, state-owned film studios are occupied to varying degrees with their own productions (usually documentary films). They have very poor production facilities and do not provide services to third parties.

Attempts made in 2010–2011 to launch co-productions within the framework of public-private partnerships (in which modern complexes providing post-production services would be built on state studio sites, with the assistance of outside companies) were so unsuccessful that not a single partnership was ever legally established.

However, during the past two years, Glavkino (a modern production complex with 10 sound stages) was opened, and several smaller sound stage complexes were established.

Apart from studios, a large number of film service companies operating on the market do not have their own sound stages. The majority of them are located in Moscow and St. Petersburg. At the same time, digital mastering and digital replication studios have seriously begun to crowd out companies working with film prints recently, as a result of which one of the leading companies in colour correction and film printing services, Salamandra Laboratory, shut down.

The central problems in the sector remain the ageing film production base at the state-owned studios and the decision of large film studio complexes with high numbers of sound stages to focus increasingly on producing content for television. The market is also suffering from a lack of modern film stages outside Moscow and St. Petersburg, and insufficient numbers of qualified employees.

It should be noted that the boom in investment projects in the 2008–2010 period had practically no results. Many projects announced at that time have been stalled or dropped altogether.

3.4. Principal players on the production services market

3.4.1. Film studios

2Mint Studio

Website: <http://2mint.ru/index.php>

City: Moscow

Address: 6A/10 ul. Letnikovskaya

Email: rent@2mint.ru

Telephone: +7 (495) 509-20-56

Form of ownership: private

A Squared

Website: <http://a-2-a.ru/>

City: Moscow

Address: 12 Preobrazhenskaya pl.

Email: mail@a-2-a.ru

Telephone: +7 (495) 544-76-50

Form of ownership: private

Amedia (Media City)

Website: <http://amediastudio.ru/>

City: Moscow

Address: 5/3 ul. Novoostapovskaya

Email: mail@amediastudio.ru

Telephone: +7 495 744-16-16

Year founded: 2004

Form of ownership: private

Badge of Honour Far-Eastern Studio of Newsreel (Unitary Enterprise)

City: Khabarovsk

Address: 74 ul. Karla Marksa

Telephone: +7 (4212) 45-23-21; +7 (4212) 69-43-89

Year founded:

Form of ownership: state

Centre of National Film and Lennauchfilm

Websites: <http://www.cnf.ru>, <http://lennauchfilm.ru/>

City: Moscow, St. Petersburg

Address: 16 Valdayskiy proyezd, Moscow; 4 ul. Melnichnaya, St. Petersburg

Email: cnf@cnf.ru

Telephone: +7 (495) 455-92-13

Year founded: 1933

Form of ownership: state

ChromaKey.Center

Website: <http://chromakey.center/>

City: Moscow

Address: Office 503-2, 55/31 ul. Aviamotornaya, Lefortovo

Email: info@chromakey.center

Telephone: +7 (495) 999-53-90

Year founded: 2013

Form of ownership: private

CineLab Group (including My Studio)

Websites: <http://www.cinelab.ru>, (<http://www.kinodomms.ru/>)

City: Moscow

Address: 65/5 Leningradskoye shosse (12 ul. Podyemnaya)

Email: info@cinelab.ru (mystudio@inbox.ru)

Telephone: +7 (495) 626-11-77

((925) 500-2887, (925) 507-2945 – My Studio)

Year founded: 2001

Form of ownership: private

Dalnevostochnaya Kinostudiya

Website: <http://vk.com/dvkinost>

City: Khabarovsk

Address: 7 ul. Sanitarnaya, Office 212

Email: xyz64@mail.ru

Telephone: (4212) 746790, +7 (909) 844-6871

Year founded: 2007

Form of ownership: private

Glavkino

Website: <http://glavkino.ru>

City: Moscow

Address: Novorizhsky shosse, km 7
Email: info@glavkino.ru
Telephone: +7 (495) 225-58-83
Year founded: 2012 (first stage of construction completed)
Form of ownership: private

Gorky Central Film Studio for Youth and Children's Films

Website: <http://www.gorkyfilm.ru>
City: Moscow
Address: 8 ul. S. Eyzenshteyna
Email: secretary@gorkyfilm.ru
Telephone: +7 (499) 181-04-34 – switchboard
Year founded: 1915
Form of ownership: Open Joint Stock Company (Russian OAO) with 100% state capital

JV Production

Website: <http://www.jvpro.ru/>
City: Moscow
Address: 8 ul. Sergeya Eyzenshteyna
Email: dvoitenko@jvpro.ru; tgurov@jvpro.ru
Telephone: +7 (965) 362 53 55; +7 (903) 974 95 73
Form of ownership: private

Kazan Film Studio

City: Kazan
Address: 98 ul. Vosstaniya
Telephone: +7 (843) 542-28-20, 542-24-08, 212-55-36
Year founded: 1932
Form of ownership: state

Kinofabrika No. 2

City: Moscow
Address: 15/7 5th Donskoy pr.
Email: kinofabrika2@mail.ru
Telephone: +7 (903) 679-99-94, +7 (903) 977-64-52
Form of ownership: private

KINOLINIYA

Website: <http://kl-pro.ru/>
City: Moscow
Address: 59 ul. Kavkazsky bulvar
Email: simonovvy@rambler.ru
Telephone: +7(495) 971-18-93 (security), +7 (905) 533-52-52 (Dep. Dir. Albina Viktorovna)
Form of ownership: private

Lenfilm Studio

Website: <http://www.lenfilm.ru>

City: St. Petersburg
Address: 10 Kamenoostrovsky pr.
Email: info@lenfilm.ru
Telephone: +7 (812) 603-29-24
Year founded: 1918
Form of ownership: Open Joint Stock Company (Russian OAO) with 100% state capital

Magic Film

Website: <http://www.magicfilm.ru/>
City: Moscow
Address: 16 ul. Viktorenk
Email: studio@magicfilm.ru
Telephone: +7 (495) 974 79 94
Year founded: 2006
Form of ownership: private

Mosfilm Cinema Concern

Website: <http://www.mosfilm.ru>
City: Moscow
Address: 1 ul. Mosfilmovskaya
Email: referent@mosfilm.ru
Telephone: +7 (499) 143-9238; +7 (499) 143-9856; +7 (495) 705-9303
- front office
Year founded: 1920
Form of ownership: state

N. Minervin Krasnodar Film Studio

City: Krasnodar
Address: 279 ul. Severnaya, 1st floor
Email: wetka@inbox.ru
Telephone: +7 (961) 531-29-40
Form of ownership: private

Nizhne-Volzhsкая Newsreel Studio

City: Saratov
Address: 43 ul. Oktyabrskaya
Telephone: (8452) 23-22-82, 23-73-16, 23-73-38
Year founded:
Form of ownership: state

North-Caucasus Newsreel Studio

City: Vladikavkaz
Address: 5 Moskovskoye shosse
Form of ownership: state

Novella Group (TV-Film Creative Association)

Websites: <http://www.tto-novella.ru/>, <http://www.tv-film.tv/>
City: Moscow

Address: M. Kozhukhovskaya, Sintez Business Park, 2/21 ul. Ugreshskaya, 4th Floor.

Email: info@tto-novella.ru

Telephone: +7 (495) 647-13-13

Year founded: 2000

Form of ownership: private

R-Studios

Website: <http://r-studios.ru/>

City: Moscow

Address: 9 ul. Podyemnaya

Email: connect@r-studios.ru (sound stage service)

Telephone: +7 (916) 581-97-56 (Yekaterina Konovalova)

Form of ownership: private

Russian Central Film and Video Studio for Newsreels, Documentary and Educational Films

City: Moscow

Address: 11/1 Kulakov pereulok

Telephone: +7 (495) 686-13-09

Year founded: 1927

Form of ownership: state

Russian World Studios

Website: <http://rustudios.ru/>

City: St. Petersburg

Address: 9A ul. Generala Khruleva

Telephone: +7 (812) 600-03-01

Email: sales@rwstudio.com

Year founded: 1998

Form of ownership: private

SL-Studio

Website: <http://slstudio.spb.ru/>

City: Moscow

Address: 2 Irinovsky pr.

Telephone: +7 (911) 233-88-52, +7 (921) 943-26-73

Year founded:

Form of ownership: private

St. Petersburg Documentary Film Studio

Website: <http://www.cinedoc.ru>; <http://www.lendoc.ru/>;

<https://vk.com/lendoc>; <https://vk.com/auditoriaspace>

City: St. Petersburg

Year founded: 1932

Address: 12 nab. Kryukova kanala

Email: krukovkanal12@gmail.com

Telephone: +7 (812) 714-5312

Form of ownership: state

Sverdlovsk Film Studios

Website: <http://sverdlovskfilmstudios.com/>

City: Yekaterinburg

Address: 50 prospekt Lenina B, Zh, and D

Email: info@stranamedia.com

Telephone: +7 (343) 350-00-13

Year founded: 1943

Form of ownership: state

TeleCity

Website: <http://www.telealliance.ru>

City: Moscow

Address: 33 ul. Klary Tsetkin

Telephone: +7 (495) 617-03-25

Year founded: 2007

Form of ownership: private

Ugra-Film

City: Khanty-Mansiysk

Address: 4 ul. Gagarina

Year founded: 2003

Form of ownership: private

Way Film Company

Website: <http://www.waycompany.ru/>

City: Moscow

Address: 1/6 Partiyaniy pereulok

Email: way.pro@mail.ru, sintao77@gmail.com

Telephone: +7 (495) 785-04-51 (office)

Form of ownership: private

West-Siberian Film Studio

Website: <http://www.zskino.narod.ru/>

City: Novosibirsk

Address: 122 ul. Nemirovicha-Danchenko

Email: zskino@ngs.ru

Telephone: +7 (383) 346-12-10; +7 (383) 346-12-12

Form of ownership: state

3.4.2. Cinema service companies

29 February

Website: <http://29f.org>

Year founded: 2004

City: Yekaterinburg

Principal focus of activities:

Arrangement of film production for TV and cinema as well as animated films; computer graphics and special effects; arrangement and provision

of sound-stage and on-site filming; production of ads and video clips; editing and colouring work.

ACT (Film Facilities Agency Limited)

Website: <http://www.actfilm.ru/>

Year founded: 1999

City: St. Petersburg

Principal focus of activities:

Rental of filming equipment.

Bazelevs Group

Website: <http://www.bazelevs.ru/>

Year founded: 1994

City: Moscow

Principal focus of activities:

Full-cycle film production (producing, selection of outdoor locations for filming, casting, technical facilitation of filming in Russia and abroad), full spectrum of post-production services (editing, voice-overs, computer graphics and animation, special effects for film and video).

Bogdan i Brigada

Website: <http://www.bogdanibrigada.ru/>

Year founded: 2000

City: Moscow

Principal focus of activities:

Rental of filming equipment and transportation.

Central Partnership Production (NTV-Kino)

Website: <http://cp-pro.ru/>

Founded in: 2010

City: Moscow

Principal focus of activities:

Re-recording studio (including Dolby Atmos), dubbing, sound effects, editing, colour correction, CGI.

Central Production International Films

Website: <http://www.centralize-it.com/>, <http://www.centraisound.ru/>

Founded in: 1997

City: Moscow

Principal focus of activities:

Voice and sound recordings, editing, foley, sound design, 2.0 and 5.1 outputs, Atmos format, dubbing localization, subtitles, TV mastering, digital mastering, packaging, DCP replication, managing KDM.

Cinelex

Website: <http://cinelex.ru/>

City: Moscow

Principal focus of activities:

Editing of films, trailers, music videos, and advertising reels; computer graphics; colour correction; project design; sound studio.

CineSoft

Website: <http://www.cinesoft.ru>

Year founded: 2009

City: Moscow

Principal focus of activities:

Development of software for media content production and distribution.

Conveyer

Founded in: 2007

City: Moscow

Principal focus of activities:

Film processing, Digital Intermediate, 35mm duplication, digital mastering and duplication (DCP).

DCP24

Website: <https://www.dcp24.ru/>

Year founded: 2009

City: Moscow

Principal focus of activities:

Film mastering for digital exhibition, DCP replication, delivery of copies to cinemas, KDM.

G-BRO (formerly known as Cinematronic)

Website: <http://cinematronic.ru>

Year founded: 2003

City: St. Petersburg

Principal focus of activities:

Video production (advertising clips, presentation films, music videos); multi-camera shooting, online video broadcasting, equipment rental.

HHG Film Company

Website: <http://www.hhg.ru/>

Year founded: 1998

City: St. Petersburg

Principal focus of activities:

Commercial film and video production, arrangement and provision of services such as filming, editing, film promotion, organization of screenings, supporting student film, rental of film equipment, non-commercial and art activities.

International Movie Technic (IMT)

Website: <http://www.imt-group.ru/>

City: Moscow

Principal focus of activities:

Lighting and camera equipment rental.

Kinoprogramma XXI Vek (21st Century Cinema Programme)

Website: <http://www.kp21vek.ru/>

Year founded: 2000

City: Moscow

Principal focus of activities:

Film and video production (feature, documentary, and presentation films, advertising clips), editing, equipment rental.

Midi Cinema Tonstudio (part of Melnitsa Animation Studio)

Websites: <http://www.midicinema.ru/#>, <http://www.melnitsa.com>

Year founded: 1992

City: St. Petersburg

Principal focus of activities:

Voice and sound recordings, background editing, special effects creation and editing, TV dubbing, film dubbing, Dolby sound coding.

Nevafilm

Website: <http://www.nevafilm.com>

Year founded: 1992

City: St. Petersburg

Principal focus of activities:

Recording studios in St. Petersburg and Moscow. Sound recording, dubbing into Russian, Dolby, Atmos and Auro soundtrack convergence and coding, mastering, packaging, DCP replication, managing KDM.

ProDigi

Website: <http://www.prodigidcp.net/>

City: St. Petersburg

Principal focus of activities:

Creation of DCP packages (mastering), DCP remastering and replication, preparing clips and trailers, conversion of various video formats, preparing KDM, content delivery, work with torrents (investigating instances of a film, blocking), obtaining distribution licences.

PS TVC

Website: <http://pstvc.ru/>

Year founded: 1993

City: Moscow

Principal focus of activities:

Television advertising clips, music videos, editing, casting, adaptation of advertising clips, radio spots, corporate films, replication, animated images, computer graphics, DVD authoring.

Rentacam

Website: <http://www.rentacam.ru>

Year founded: 2004

City: Moscow

Principal focus of activities:

Film equipment rental.

RUmedia Film Company

Year founded: 2006

City: Moscow

Principal focus of activities:

Full-cycle film production and project execution (television series, television feature films, full-length feature films, advertising and music clips, television content for digital and cable channels). Post-production services.

Russian Film Group (RFG)

Website: <http://www.russianfilmgroup.ru/>

Year founded: 2000

City: Moscow

Principal focus of activities:

Production of feature and documentary films, TV programmes and animation, music and advertising clips; full complex of post-production services (editing, computer graphics, voice-overs); distribution, acquisition and sale of rights to film, TV, and video productions; informational support for PR projects.

Studio VEK

Website: <http://www.studiavek.ru/>

Year founded: 1994

City: St. Petersburg

Principal focus of activities:

Production and technical facilitation of films (feature films, documentaries, popular science films, ads, TV series, etc.).

X-Ray

Website: <http://www.xraycompany.ru/>

Year founded: 2009

City: Moscow

Principal focus of activities:

Providing a full set of services facilitating the filming process; equipment rental and sales.

CHAPTER 4. EXHIBITION

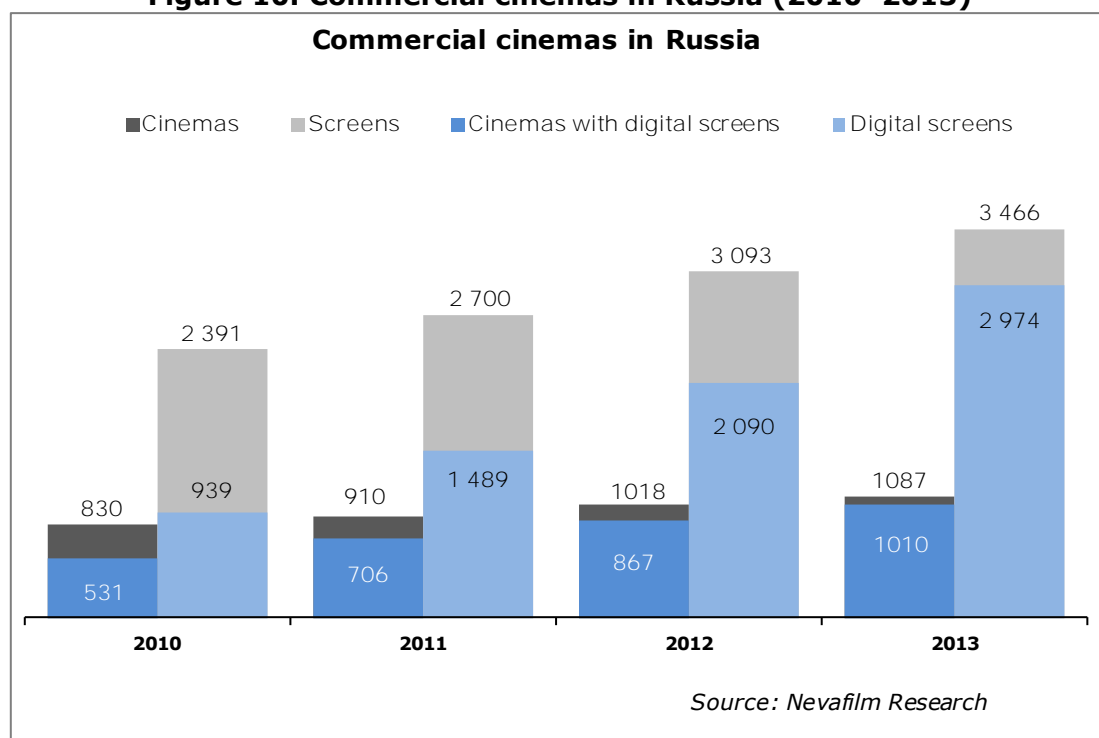
4.1. Industry structure

4.1.1. The modern cinema exhibition market

Until recently, we used the term 'modern cinemas' to describe cinemas offering regular commercial film screenings in comfortable auditoriums with multichannel sound. But as the industry has developed, the meaning of that term has become somewhat blurred, as digital projectors have been installed, for example, in restaurants and private clubs. Consequently, the most important aspect in defining cinemas which play a genuine role in the domestic market is their focus on obtaining their main income from film exhibition. **The term 'modern cinema' has been replaced by 'commercial cinema', and the criterion for selecting those cinemas to which it applies is that their main source of income must be film screening, in contrast with, for example, the restaurants mentioned above or film projection outfits in rural areas, where tickets are priced at RUB 10–20.**

The commercial cinema market in Russia continues to expand. According to Nevafilm Research, as of 1 January 2014, Russia had 3,466 commercial screens in 1,087 cinemas, with an average of 3.2 screens per cinema. 86% of screens featured digital equipment – 2,974 screens in total (in 1,010 or 93% of cinemas) – of which 2,488 had 3D capabilities (84% of digital screens).

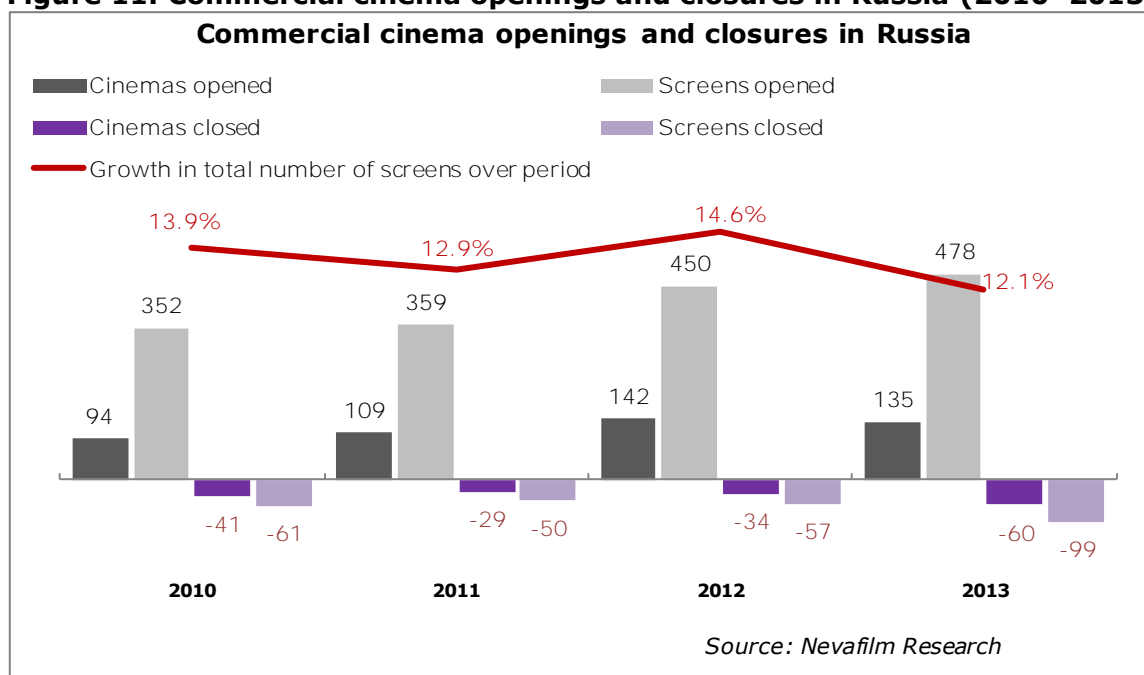
Figure 10. Commercial cinemas in Russia (2010–2013)



Recently, the number of cinema screens opening in Russia has been increasing every year, but there has also been a rise in the number of closures, meaning the pace of growth on the market is slowing. Before the

2008–2009 financial crisis, the growth rate was 20–30% per year. Currently, it is no higher than 12–15%, although most openings are usually in the second half of the year.

Figure 11. Commercial cinema openings and closures in Russia (2010–2013)



Drive-in cinemas are excluded from the total number of commercial cinemas. This market segment has been growing in Russia since 2001, when the first drive-in cinema, Fara, opened in St. Petersburg. Currently, the country has more than ten drive-in cinemas, located in Moscow, Nizhny Novgorod, Perm, Naberezhnye Chelny, Kaliningrad, Omsk, Khabarovsk, Samara, Izhevsk, and Gelendzhik. Most drive-ins are fitted with video projection equipment and operate only during the summer, screening films a few weeks or months after their premiere. But there are cinemas, such as Night Watch in Kaliningrad and Avtokinoteatr na Zaimke in Khabarovsk, which use high-quality digital equipment. Generally speaking, Russia's climate is an obstacle to the widespread development of drive-in cinemas.

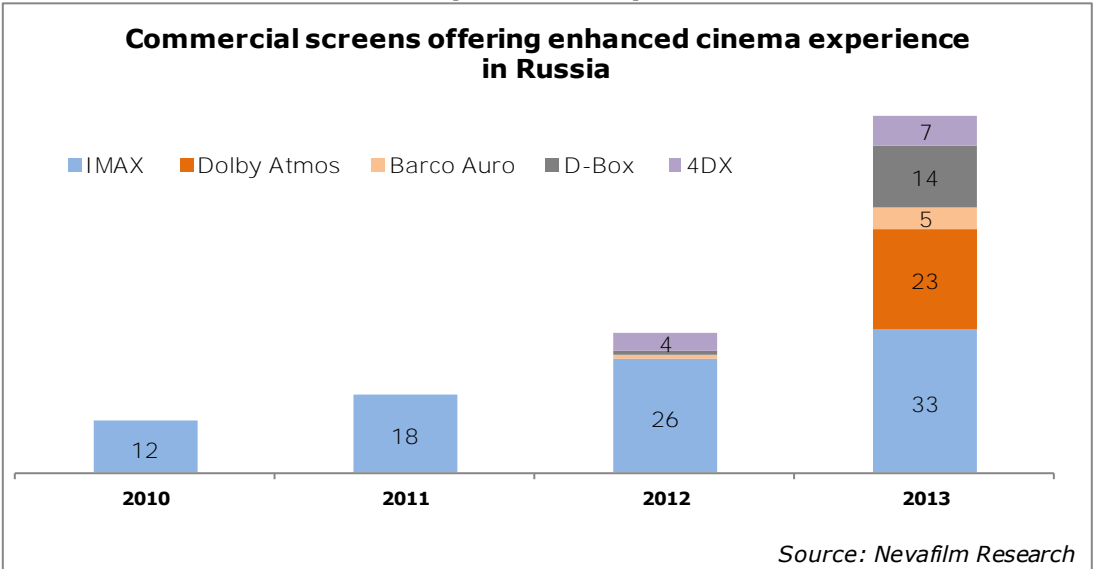
4.1.2. Enhanced cinema experience

In recent years, the enhanced cinema segment has been growing rapidly in Russia. Digital technology has enabled a significant increase in the number of IMAX screens, facilitated by an agreement between IMAX and Cinema Park, a leading Russian cinema chain, which has equipped half of its cinemas with IMAX screens (16 out of 30). The range of films on offer has also increased as the infrastructure has grown. In the first half of 2014, there were 19 IMAX films in distribution in Russia, compared with only 22 released in the whole of 2012.

The first screens featuring motion effects were introduced to Russia in 2012 (4DX, followed by D-Box in 2013), along with cutting-edge sound

systems such as Dolby Atmos and Barco Auro. In 2013, 22 films were released in D-Box format, 31 in 4DX, 19 in Dolby Atmos, and three in Barco Auro. As of mid-2014, Atmos (installed in cinemas owned by the Formula Kino, Luxor, and Cinema Star chains as well as a fairly large number of independent cinemas and other chains) and D-Box (found mostly in the Kinomax, Barguzin, and Luxor chains) led their respective segments of the enhanced cinema experience market.

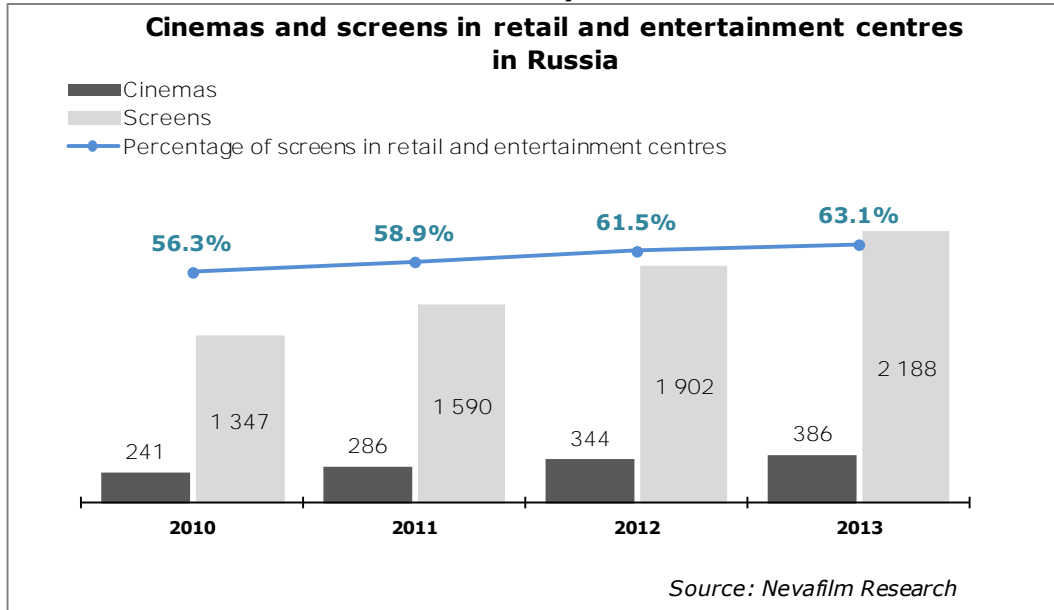
Figure 12. Commercial screens offering enhanced cinema experience in Russia (2010–2013)



4.1.3. Cinemas in retail and entertainment centres

Cinemas in retail and entertainment centres remain the leading segment of the film exhibition market in Russia. Today, there are 386 cinemas with 2,188 screens based at such centres, accounting for 63.1% of the country’s screens (almost double the number for 2010). Most of the newly opened screens in the country are located within retail and entertainment centres, which also house almost all of Russia’s multiplexes.

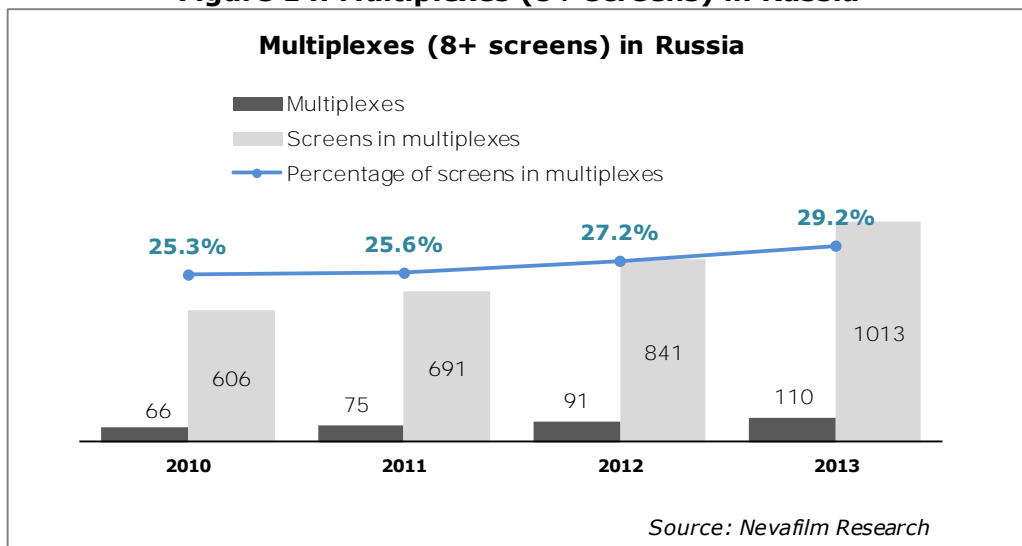
Figure 13. Cinemas and screens in retail and entertainment centres (2010-2013)



4.1.4. Screens per cinema and multiplexes

Since 2010, the share of total commercial screens in Russia located in multiplexes has risen by four percentage points, reaching 29% as of 1 January 2014. In 2014, the first megaplexes appeared in Russia, with the Krasnaya Presnya Cinema Centre in Moscow turning into a 22-screen complex. It is also worth noting that Russia's first VIP megaplex is set to open at the end of the year at the Four Seasons hotel in central Moscow. It will have at least 16 screens, 10 of which will be equipped with Dolby Atmos sound systems. In the second half of the year, the Karo 22 megaplex opened on the outskirts of the capital. Nevertheless, multiplexes' share of total screens in Russia is growing relatively slowly: the small number of multiscreens opening is balanced out by the many regional one-screen cinemas that are gaining commercial status thanks to the installation of digital equipment.

Figure 14. Multiplexes (8+ screens) in Russia



The most popular formats for Russian cinemas in terms of number of screens are venues with one, two, four, six, or eight screens, which each account for 10–13% of all screens. Interestingly enough, venues with odd numbers of screens are much less popular among film exhibitors than those with even numbers, with the only exception being the one-screen format. An analysis of cinemas by number of screens reveals that most Russian screens are located in miniplexes (cinemas with between two and seven screens). This format accounts for 59% of screens and 52% of cinemas.

Table 17. Modern Russian cinemas by number of screens (as of 1 January 2014)

Number of screens per cinema	Number of cinemas	Number of screens	Market share by number of cinemas	Market share by number of screens
1 screen	409	409	37.6%	11.8%
2 screens	217	434	20.0%	12.5%
3 screens	91	273	8.4%	7.9%
4 screens	101	404	9.3%	11.7%
5 screens	59	295	5.4%	8.5%
6 screens	62	372	5.7%	10.7%
7 screens	38	266	3.5%	7.7%
MINIPLEX Total	568	2044	52.3%	59.0%
8 screens	52	416	4.8%	12.0%
9 screens	26	234	2.4%	6.8%
10 screens	15	150	1.4%	4.3%
11 screens	8	88	0.7%	2.5%
12 screens	3	36	0.3%	1.0%
13 screens	2	26	0.2%	0.8%
14 screens	2	28	0.2%	0.8%
15 screens	1	15	0.1%	0.4%
20 screens	1	20	0.1%	0.6%
MULTIPLEX Total	110	1013	10.1%	29.2%
Total in Russia	1087	3466	100.0%	100.0%

Source: Nevafilm Research

Multiplexes continue to expand their reach over an ever greater area of the country. By 2014, multiplexes were operating in 33 Russian cities. They are being opened not just in cities with populations over 500,000, but also in smaller towns, although to a lesser extent – only 2% of all cities with a population under 500,000 in which there is any commercial film exhibition. Only one of the 15 Russian cities with a population of over a million – Volgograd – currently has no multiplex. At the eight-screen Cinema Park opened in 2008, two screens were combined to create one IMAX screen in 2011. As of beginning of 2014, the cities with the most multiplex screens as a proportion of their total screens were Chelyabinsk (67%), Novosibirsk (63%) and Samara (61%). **By that measure, Russia's** two largest cities – Moscow and St. Petersburg – are in ninth and eleventh place, respectively.

4.1.5. Share of population with access to film exhibition

By 2014, the number of towns and cities with commercial cinemas had reached 468 (at the end of 2012 there were 437). Screen density per 100,000 residents in towns with populations over 10,000 was 3.3. Screen density based on the population of the country as a whole is 2.4 commercial screens for every 100,000 residents; in 2012, the figure was 2.2.

Table 18. Russian urban population's access to modern cinema screens, as at 1 January 2014

City population*	Percentage of cities with commercial cinemas	Percentage of population with access to commercial film exhibition	Cinemas	Screens	Cinemas with digital screens	Digital screens	Screens per 100,000 residents in cities with cinemas
more than 1 million	100.0%	99.9%	314	1 618	292	1 382	4.83
500,000–1 million	100.0%	100.0%	129	506	124	410	4.01
250,000–500,000	95.1%	95.0%	157	519	152	461	3.89
100,000–250,000	87.2%	89.0%	148	352	140	312	2.82
10,000–100,000	28.6%	45.3%	313	444	280	386	3.41
Total for cities with cinemas	37.9%	82.5%	1 061	3 439	988	2 951	4.05
Total for all cities with populations over 10,000							3.34

* The table does not show cinemas and screens in towns with populations under 10,000: 27 screens in 26 cinemas in 26 towns.

Source: Nevafilm Research

There are modern cinemas in all cities with a population of more than 500,000. For cities with a population of 250,000–500,000, the situation is close to saturation: 95% of such cities have modern cinemas; as well as cities with a population of 100,000–250,000 (87%). The least-tapped segment of the cinema market in Russia remains cities with populations of fewer than 100,000 residents: over 70% of such cities do not yet have modern cinemas. However, private businesses may have difficulties recouping their investments in these areas by themselves. Recently, municipal governments in some regions (in Krasnodar Territory, for example) have been allocating funds to purchase digital projectors for cinemas in small towns and villages, helping that segment of the market to expand.

Among cities with populations over one million, Yekaterinburg and St. Petersburg are best catered for in terms of exhibition capacity, with a screen density per 100,000 residents almost 1.5 times that of the capital (Greater Moscow). It should be noted that screen density increased sharply in St. Petersburg in 2013, when the city saw an explosion of new retail and entertainment centres with cinemas.

Table 19. Cities with populations over 1 million ranked by number of commercial screens per 100,000 residents (as of 01.01.2014, Greater Moscow = 100%)

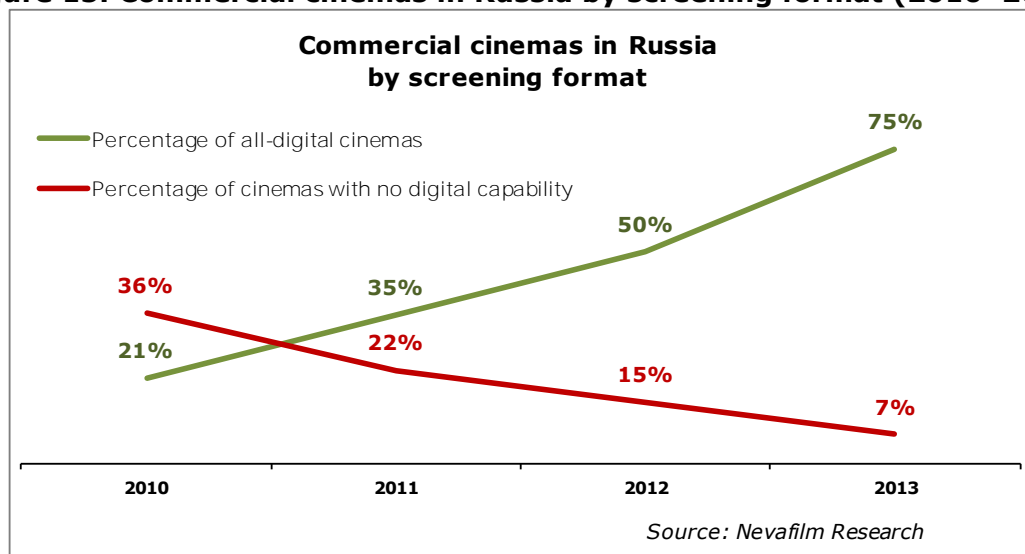
Rank, 01.01.14	Rank, 01.01.13	City	Population (in thousands)	Number of cinemas	Number of screens	Number of screens per 100,000 residents	% of Greater Moscow screen concentration
1	1	Yekaterinburg	1 396	18	95	6.8	151%
2	5	St. Petersburg	5 028	59	318	6.3	141%
3	2	Kazan	1 176	11	60	5.1	113%
4	10	Ufa	1 078	10	54	5	111%
5	9	Omsk	1 161	12	58	5	111%
6	3	Novosibirsk	1 524	13	76	5	111%
7	4	Voronezh	1 004	8	48	4.8	106%
8	11	Samara	1 172	8	54	4.6	102%
9	7	Greater Moscow	13 410	121	603	4.5	100%
10	6	Rostov-on-Don	1 104	9	47	4.3	95%
11	8	Chelyabinsk	1 156	10	49	4.2	94%
12	12	Nizhny Novgorod	1 260	13	51	4	90%
13	14	Volgograd	1 019	8	39	3.8	85%
14	15	Krasnoyarsk	1 016	8	34	3.3	74%
15	13	Perm	1 014	6	32	3.2	70%

Source: Nevafilm Research

4.1.6. Digital exhibition

The digitalization of cinema screens in Russia is winding down. By 1 January 2014, the number of cinemas where every screen has a digital projector had reached 812, and the number of screens in such cinemas was 2,380. That means that 75% of Russian commercial cinemas were completely digital. But there are still cinemas in the country that have no digital screens at all – 77 currently (97 screens), accounting for 7% of commercial cinemas.

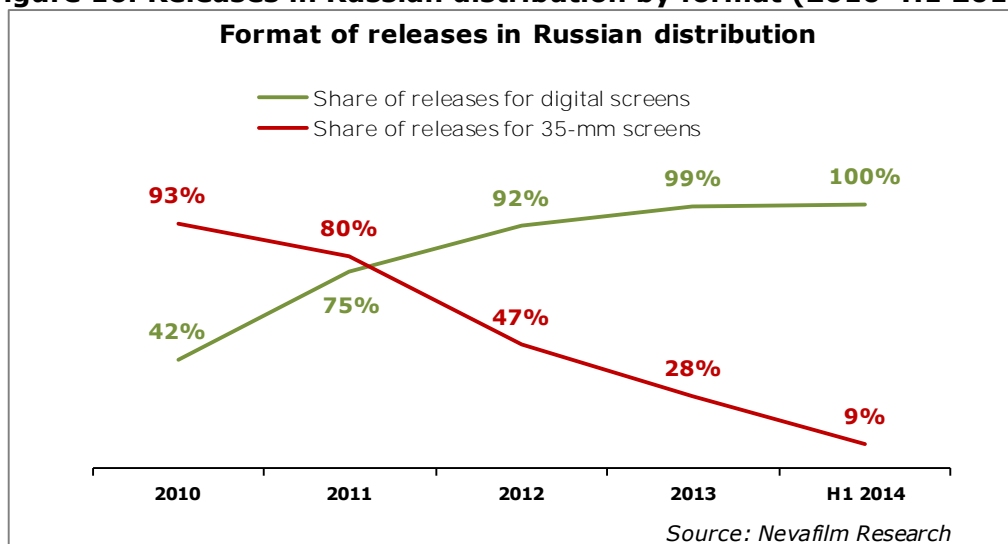
Figure 15. Commercial cinemas in Russia by screening format (2010–2013)



The main impetus behind the complete digitalization of cinemas has been that distributors are no longer releasing movies on film though in 2014, 35-mm prints are still being produced. In the first half of the year, 19 releases (9%) had a small print run on actual film (120 prints on average, with those films being distributed to an average of 940 screens). These were mainly Russian productions and films from independent distributors. It has been announced that several significant Russian projects will be released on film before early 2015.

But the majors are now turning away from film. The first to stop 35-mm distribution was Paramount Studios in mid-2013 (after *World War Z*), followed by Universal (after *The World's End*). WDSSPR's last releases on film in Russia were *Frozen* and *Captain Phillips*; while for Warner Bros., it was *The Hobbit: The Desolation of Smaug*. Lastly, in February 2014, 20th Century Fox transitioned to fully digital exhibition (after *The Secret Life of Walter Mitty* and *I, Frankenstein*).

Figure 16. Releases in Russian distribution by format (2010–H1 2014)



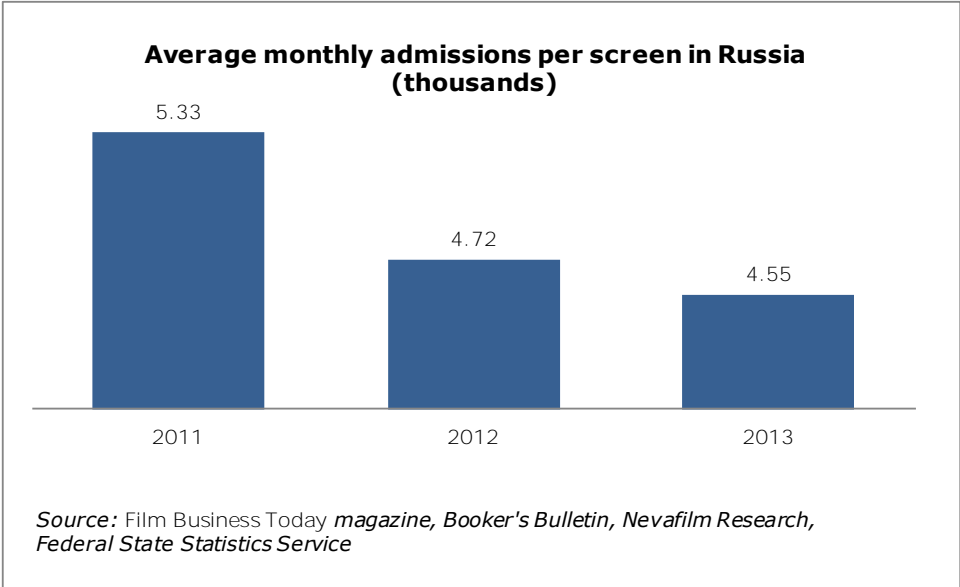
This leaves cinemas no choice but to go digital. In spring 2014, several chains, which manage the highest numbers of screens using the traditional film format, started to look for ways to transition to electronic exhibition. Premier Kinoprokat, the distribution arm of major cinema chain Premier-Zal, for example, considered expanding that area for distributing its own films, as well as those of other distributors, within its own network. But so far, that idea seems to have fallen through. A survey of independent companies which still sell rights for public film exhibition in Russia, conducted by Nevafilm Research in summer 2014, demonstrated that the companies polled have not expanded their activities in this area recently and are even making plans to move away from this kind of exhibition due to the low levels of protection for content on electronic media.

4.1.7. Box office returns and admissions per screen

The increase in the number of screens, admissions and, consequently, box office returns in Russia indicates that the sector is

growing. However, in an environment where, in general, the opening of a new screen no longer leads to an expansion in the market but instead to cannibalization of the incomes of existing cinemas, market conditions are becoming increasingly difficult for individual players. Average monthly admissions per screen⁷⁰ in 2011 were about 5,300, while the average over 2013 was only 4,550, 15% less than in 2011.

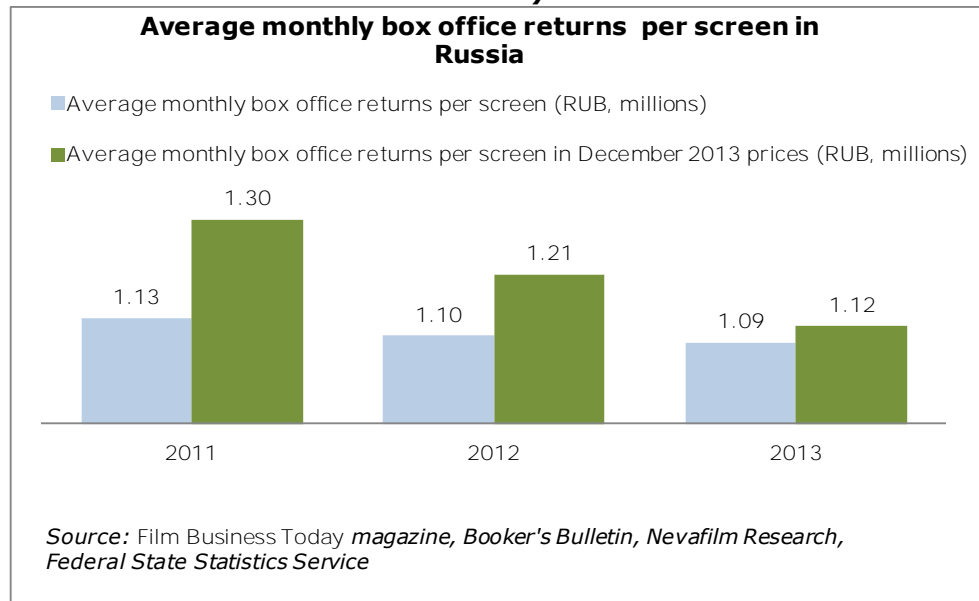
Figure 17. Average monthly admissions per screen in Russia (2011–2013)



Due to an increase in ticket prices, average monthly receipts per screen, at first glance, have fallen much less drastically: by only 4% from RUB 1.13 million to RUB 1.09 million. However, a comparison of discounted average monthly box office returns per screen shows that they declined at a rate very similar to the fall in average monthly admissions per screen: from RUB 1.37 million in 2011 (in December 2013 prices) to RUB 1.12 million (in the same prices) in 2013, or by 14%.

⁷⁰ To calculate average admissions and box office returns per screen, the average number of screens operating in the period being examined is used.

Figure 18. Average monthly box office returns per screen in Russia (2011–2013)



4.2. Key players

The Russian cinema exhibition market is highly fragmented, with more than 550 players, 17% of which are chains. The 96 cinema chains include 26 operating on a nationwide level (managing cinemas in several federal districts), 16 operating on a regional level (with cinemas in several regions but within a single federal district), and 54 local chains (each operating within a single Russian region). There are 457 independent cinemas on the market.

Nationwide cinema chains are a decisive force on the commercial cinema market in Russia, managing 53% of screens nationwide. In second place in terms of numbers of screens are independent market players (27% of screens). Local chains and especially independent cinemas are lagging behind bigger chains in equipping themselves for digital exhibition. The larger chains have now almost completed their transition to the new technologies.

Interestingly, there are clear and significant differences in the average numbers of screens per cinema, depending on operator type: national chains have an average of 4.83 screens, regional chains have an average of 4.2, and local chains and independent players have 2.24 and 2.05 screens, respectively. The Russian exhibition market is also seeing a number of mergers and acquisitions (both completed and still to take effect), which may lead to both a reduction in the number of players and to a decrease in the average number of screens per cinema in the large chains.

Table 20. Fragmentation of the film exhibition market in Russia by cinema operator type as of 1 January 2014

Operator type	Number of operators	Number of cinemas		Percentage of cinemas with digital screens	Number of screens		Percentage of digital screens	Market share by number of screens	Average screens per cinema
		Total	Cinemas with digital screens		Total	Digital			
Nationwide chains	26	383	376	98.2%	1,849	1,570	84.9%	53.3%	4.83
Regional chains	16	65	63	96.9%	273	246	90.1%	7.9%	4.20
Local chains	54	182	167	91.8%	408	345	84.6%	11.8%	2.24
Independent cinemas	457	457	404	88.4%	936	813	86.9%	27.0%	2.05
Total in Russia	553	1,087	1,010	92.9%	3,466	2,974	85.8%	100.0%	3.19

Source: Nevafilm Research

The major nationwide chains occupy stable positions as the leading Russian chains: Cinema Park, Formula Kino, Karo Film, Kinomax, Luxor, Premier-Zal, Cinema Star, and Monitor. The three biggest cinema chains control 20% of the screens in Russia, the top ten control 43%, and 17 operators control 50%.

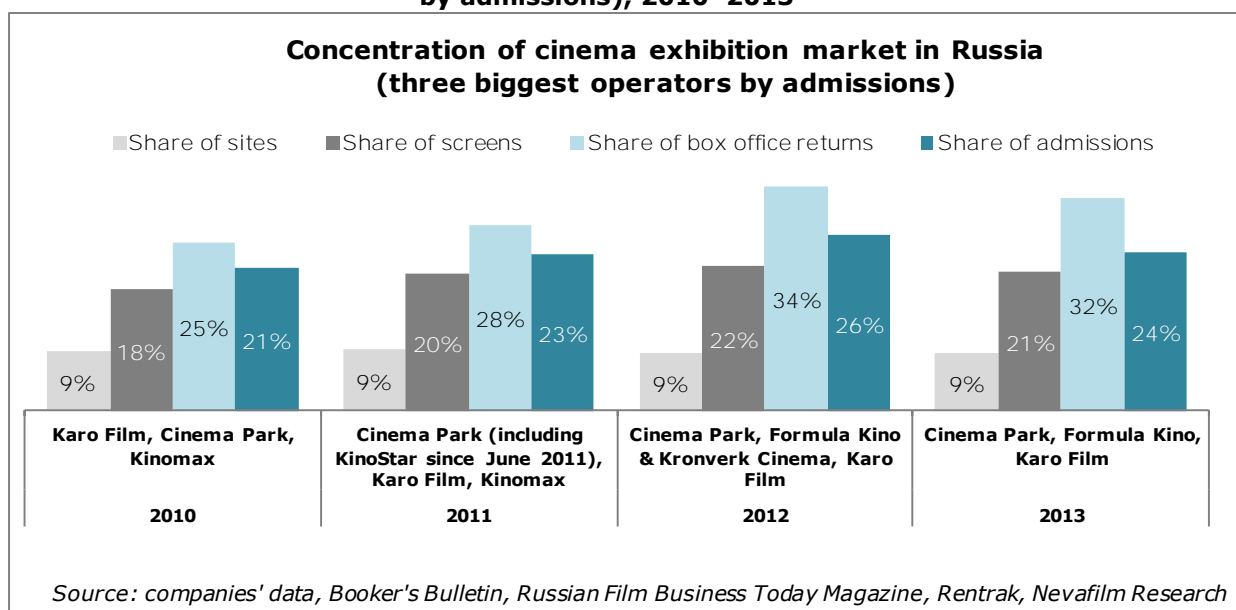
But not all companies in the top ten are equal in terms of their strength as market players. Some take on programming responsibilities for small, independent cinemas in the regions and/or manage them, without taking ownership of them. The biggest such companies are Premier-Zal (which manages 101 screens), Kinoformat (54 screens), and Monitor (11 screens). If only their own cinemas are taken into account, Premier-Zal and Kinoformat fall out of the top ten, but Pyat Zvezd and Mirage Cinema make the list.

Table 21. Major cinema chains in Russia as of 1 January 2014

No.	Cinema chain	Head office	Including franchises and cinemas to which programming services are provided					Only own cinemas		
			Number of cinemas	Number of screens	Number of digital cinemas	Number of digital screens	Market share	Number of cinemas	Number of screens	Market share
1	Cinema Park	Moscow	30	281	30	281	8.1%	30	281	8.1%
2	Formula Kino	Moscow	35	249	35	207	7.2%	35	249	7.2%
3	Karo Film	Moscow	29	192	29	192	5.5%	29	192	5.5%
4	Kinomax	Moscow	29	171	28	100	4.9%	24	153	4.4%
5	Luxor	Moscow	20	136	20	124	3.9%	20	136	3.9%
6	Premier-Zal	Yekaterinburg	88	125	84	115	3.6%	6	24	0.7%
7	Cinema Star	Moscow	20	100	20	80	2.9%	20	100	2.9%
8	Monitor	Krasnodar	23	88	23	75	2.5%	19	77	2.2%
9	Kinoformat	Moscow	12	66	12	43	1.9%	4	12	0.3%
10	Pyat Zvezd	Moscow	11	66	11	66	1.9%	11	66	1.9%
11	Mirage Cinema	St. Petersburg	10	62	10	62	1.8%	10	62	1.8%
12	Grand Cinema	Moscow	9	48	9	36	1.4%	9	48	1.4%
13	Mori Cinema	Moscow	7	48	7	38	1.4%	7	48	1.4%
14	Kinoplex	Moscow	7	46	7	12	1.3%	7	46	1.3%
15	Cinema 5	Cheboksary	5	30	5	30	0.9%	5	30	0.9%
16	Barguzin	Irkutsk	7	28	7	23	0.8%	7	28	0.8%
17	Art & Science Cinema Distribution	Novosibirsk	10	27	9	14	0.8%	10	27	0.8%
18	Kubankino	Krasnodar	22	26	22	25	0.8%	22	26	0.8%
19	Imperiya Grez	Nizhny Novgorod	7	26	7	24	0.8%	6	21	0.6%
20	KinoCity	Moscow	4	26	4	26	0.8%	4	26	0.8%

Source: Nevafilm Research

Figure 19. Concentration of cinema exhibition market in Russia (three biggest operators by admissions), 2010–2013



In terms of tickets sold, the market leaders, since 2012, have been Cinema Park, Formula Kino, and Karo Film, which together account for 24% of annual audiences in Russia. But market concentration dropped by

two percentage points in 2013 compared with 2012, though it remains higher than the 2010 figure (21%), which reflected the concentration of the market before two major cinema chain mergers: KinoStar with Cinema Park and Kronverk Cinema with Formula Kino.

4.3. Principal trends and prospects for development

- The main trend dominating the Russian market over the past five years has been the transition to digital film exhibition, now in its final stage. In the beginning of 2014 ninety-three **percent of the country's** cinemas have digital screens, and 75% are completely digital. The mass transition will be completed in 2014. Moreover, domestic exhibitors have not had to resort to large-scale assistance from distributors (only the biggest cinema chains were able to conclude VPF agreements, without publicizing the deals). In all probability, cinemas left by the wayside will be able to survive for some time **through public video screenings of children's, archive, or art-house** films, and by screening 35-mm prints from regional film archives. But it will not be long before distributors stop releasing films in unprotected electronic formats. By mid-2015, therefore, all non-digital cinemas will either be closed; will lose their commercial status, having made the full transition to screening films from archives; or will finally install digital exhibition equipment, in some cases using funds from municipal government budgets.
- Municipal governments began to play a role in bringing digital equipment to screens in small cities and even rural areas in 2013, and this trend is highly likely to continue until the end of 2015, but will not manifest itself on a mass scale because of budgetary problems in many regions of the country. As a result of the expanded infrastructure, film exhibition in Russia is now moving in two directions: the digitalization of cultural centres in small towns, and the opening of chain cinemas in retail and entertainment centres.
- Meanwhile, small cities (with populations under 100,000) will continue to hold the most potential for the expansion of Russian cinema chains; over 70% of their population currently has no access to film exhibition services. At the same time, investing in cinema construction in those areas is not very profitable, although plans for such cinema chains continue to surface (none of these plans, however, have yet been implemented).
- Current market growth is coming from bigger cities: during times of sanctions and economic tension, investors choose less risky options like the markets in capital cities, where residents have higher incomes and film consumption is higher. In 2013, most of the multiscreen cinemas that opened in retail and entertainment centres were in St. Petersburg.
- As a result of the oversaturation of the market in big Russian cities, increasing numbers of cinemas are closing, slowing the pace of growth of the cinema network as a whole. The steady reduction in average box office returns per screen signifies that the film exhibition market has reached an intensive stage of development, during which

there are ever fewer possibilities for expansion, and cinema owners and managers must place an ever greater emphasis on reducing expenses. This is in contrast to the extensive stage of development which began when the first commercial cinema opened in Russia in 1996 and was characterized by very rapid growth in numbers.

- Players on competitive markets are seeing audiences desert their cinemas in droves and are trying to attract their attention by offering new, interesting concepts in screens. For instance, from 2012 to 2014, IMAX, 4DX, D-Box, Auro, and Atmos technologies were introduced across Russia, and auditoriums offering greater comfort and standardized concepts began to spread within cinema chains (for example, Relax and Jolly – two different VIP concepts from the Cinema Park chain – and Moscow’s VIP megaplex). Other specialized **projects were also launched (for example, Muvik children’s screens in the Formula Kino chain and screens specializing in art-house films, for instance, in the Mirage Cinema chain)**. This kind of segmentation will increase in coming years, helping cinemas and chains to stand out from their competitors.
- As competition for audiences intensifies, and in a bid to reduce staff costs, cinemas will develop alternative means of selling tickets. The automation of this process already goes beyond installing ticket machines in cinema foyers or on the lower floors of the retail complexes in which they are located. Tickets are being sold online. In 2012, both the websites of the cinema chains themselves and sites dedicated to cinema in general (like Kinopoisk and Afisha), started offering users the ability to purchase tickets to films in nearby cinemas. The biggest Russian providers of ticket sales services are Rambler-Kassa and Kinokhod (their engines have been built into most cinema websites in Russia, including, since September 2014, major search engine Yandex). In 2013, online ticket sales represented 4.8% of all cinema tickets sold (as estimated by Nevafilm Research).
- Another consequence of market saturation in most big cities will be selectivity on the part of big nationwide players, against the backdrop of a worsening economic and political situation, when it comes to opening cinemas in new retail and entertainment centres in those cities, as a result of which the developers behind such projects will increasingly have to become cinema operators themselves. On the other hand, the big investments that were pouring into cinema from outside the industry until 2012 (readers may remember that investment funds were among the owners of the Karo Film and Formula Kino chains) require that cinema chains continue to expand to ensure that they can be sold off more profitably in the future. These are the conditions under which merger and acquisition deals between big companies have become more common (the acquisition of the KinoStar chain by Cinema Park and of Formula Kino by Kronverk Cinema; in spring 2014, the press also reported on plans to sell Cinema Park and Formula Kino; in November 2014, Interros, the owner of Cinema Park, announced its sale to companies owned by Senator Suleiman Kerimov). Still, the degree of concentration of

ticket sales in the top three companies fell for the first time in 2013, due to the increase in admissions in the regions, where these chains are not as well represented. It is likely that further consolidation among the leading players will help them to win back ticket sales in the regional market, although the strengthening of that market is becoming increasingly obvious.

CHAPTER 5. FILM DISTRIBUTION

5.1. Industry structure

5.1.1. Methodological aspects of gauging the theatrical distribution market in Russia

This section presents an analysis of the theatrical distribution market in Russia since 2011. Starting from that point, statistics have been given for the calendar year rather than the distribution year, which simplifies comparisons between periods.⁷¹

Data on film distribution in CIS countries (excluding Ukraine) is drawn from the publications *Film Business Today* and *Booker's Bulletin*, as well as Rentrak and the Consolidated Automated Information System (CAIS). Overlapping lists of films are combined; when there are discrepancies in values for numbers of prints, box office receipts, and tickets sold, the larger value is used for each film.

Nevafilm Research analyses figures for *Russian* film distribution as a percentage of the box office returns and admissions for the CIS as a whole (excluding Ukraine), which are printed in industry publications. These percentages are **calculated based on information from Russia's largest distributors** who estimate the average market share of their films in Russian distribution (excluding the CIS and Ukraine). In the period in question, the following trends were observed:

Table 22. Assessment of box office receipts and admissions for Russian cinemas
(percentage of CIS (excluding Ukraine) data printed in industry publications)

Year	Assessment of box office	Assessment of admissions	Contributing distributor data
2011	94.7%	92.4%	WDSSPR, 20th Century Fox CIS, Karo Film, UPI, West, Cascade, and Volga
2012	95.5%	91.4%	WDSSPR, Central Partnership, 20th Century Fox CIS, Karo Film, UPI, Volga, and Cascade
2013	94.6%	92.1%	WDSSPR, 20th Century Fox CIS, Karo Film, UPI, and Volga
H1 2014	93.9%	91.6%	WDSSPR, Central Partnership, 20th Century Fox CIS, UPI, Volga, and Exponenta

Source: Nevafilm Research

The analysis of distribution results for individual films, as well as for groups of films according to country of production, is based on cumulative data, not just Russian data.

Indicators for box office returns and admissions exclude the distribution of alternative content, which for the purposes of this study is taken to mean operas and ballets, concert films, documentaries and

⁷¹ For more detailed information about the 'distribution year' and also about problems collecting statistics on theatrical distribution in Russia, see the report The Film Industry in the Russian Federation: 2012, <http://publi.obs.coe.int/documents/205595/552774/RU+Film+Industry+2012+Nevafilm+EN.pdf/2a99cc4b-6946-44c3-954e-accda3e942b2>

scientific documentary films (including IMAX films), educational programmes, series, shorts' programmes, and live broadcasts in cinemas.

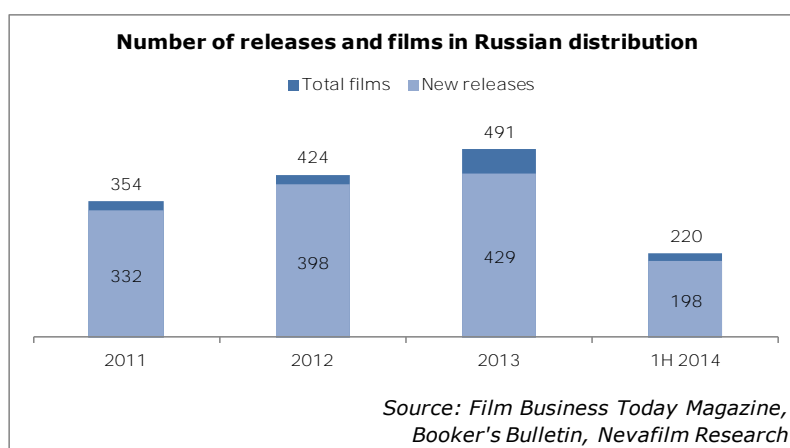
Furthermore, the overall analysis does not include regional films, i.e. **films made in Russia's regions** with or without the support of regional authorities, sometimes in the traditional language of that region, and shown most often in the cinemas of that region only. This market segment has been studied for the first time. It is not included in the area covered by the statistics from Russian industry publications or Rentrak, only by the CAIS, which at present does not cover 100% of cinemas and thus provides only a partial picture.

The distribution of alternative content and regional films is analysed in separate paragraphs in this chapter.

5.1.2. Film distribution market volume in Russia

The past three years have seen a sharp increase in the number of films released every year in Russian cinemas. In 2011, 332 films were released (a total of 354 films were in distribution, including releases from previous years) while in 2013, 429 were released (491 in distribution), a 29% increase. However, during the first half of 2014, the number of new releases was lower than for the same period in 2013: 198 releases (220 films in distribution) compared with 208 (a total of 242 in distribution). The sharp increase in previous years is linked to the development of digital film distribution, while the stagnation in 2014 is due to the fact that the digital transition period is coming to an end. It would seem that the potential for increasing the number of films released nationwide due to cheaper digital distribution is now exhausted.

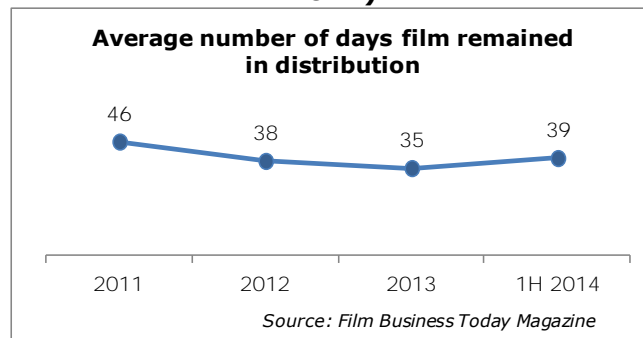
Figure 20. Number of new releases and films in Russian distribution (2011–H1 2014)



Meanwhile, this stagnation in the number of films released nationwide has had a positive impact on the average length of time films remain in distribution on the big screen. The growing number of releases had led to shorter screening periods in cinemas, from 46 days in 2011 to 35 days in 2013. In 2014, this figure rose again to 39 days. This is also evidence of a more mature market, in which cinemas strive to attract the attention of a

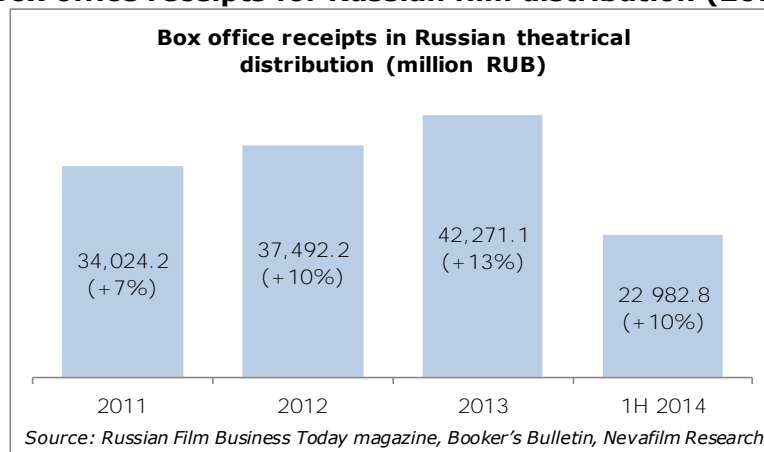
more mature audience which does not rush out to the cinema for every premiere and is more likely to rely on word-of-mouth recommendations.

Figure 21. Average number of days a film remains in distribution (2011–H1 2014)



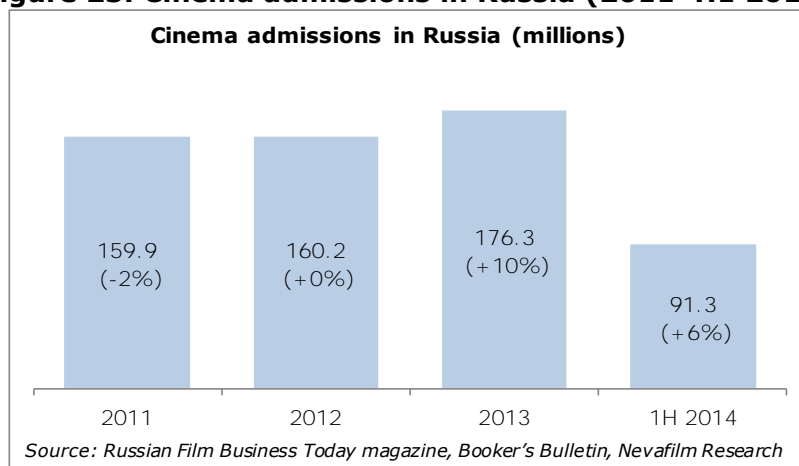
Box office receipts for Russian film distribution are experiencing stable growth of 10–13% per year. In 2011, box office receipts totalled RUB 34 billion, and in 2013 that figure was RUB 42 billion. In the first half of 2014, box office receipts reached RUB 23 billion (10% higher than in the first half of 2013), evidence that 2014 may set another record.

Figure 22. Box office receipts for Russian film distribution (2011–H1 2014)



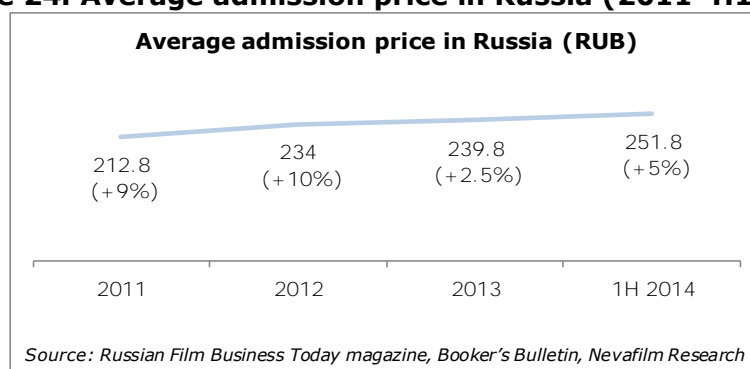
Cinema admissions figures are rising less consistently and generally more slowly than box office receipts. While total receipts in 2013 were 24.2% above those for 2011, admissions increased by only 10.2% (from 160 million tickets in 2011 to 176 million in 2013), with 2013 responsible for all of that growth. The first half of 2014 also saw 6% growth in admissions compared with the first half of 2013, to 91 million tickets.

Figure 23. Cinema admissions in Russia (2011–H1 2014)



The difference in growth rates for box office receipts and admissions is explained by price fluctuations: despite the fact that prices are constantly increasing, this growth may be either significant (+10% in 2012) or minor, and even below the level of inflation in the country (+2.4% in 2013). The average ticket price also rose in the first half of 2014, to RUB 252 (up 5% from 2013).

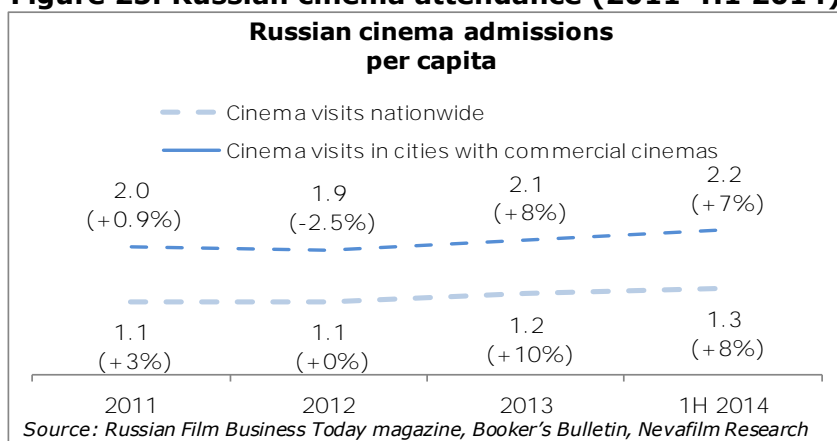
Figure 24. Average admission price in Russia (2011–H1 2014)



Cinema attendance in Russia continues to increase. In the country overall, it grew from 1.1 visits per capita in 2011 to 1.3 in 2014. In cities with commercial cinemas, attendance increased from 2.0 to 2.2 per capita.⁷² Here, we must note the reduction in cinema attendance in Russia in 2012, the result, we believe, of high ticket prices: from 2011 to 2012, prices rose faster than inflation (by 10–11%, while consumer prices rose 6–7%). One confirmation of this is the recovery of growth in attendance when price increases slowed in 2013 and 2014.

⁷² For comparison, according to European Audiovisual Observatory data, the 2013 cinema attendance rate was 1.8 times per year per capita in the European Union, 2.9 in France, 1.6 in Germany, 2.6 in the United Kingdom, and 4.0 in North America.

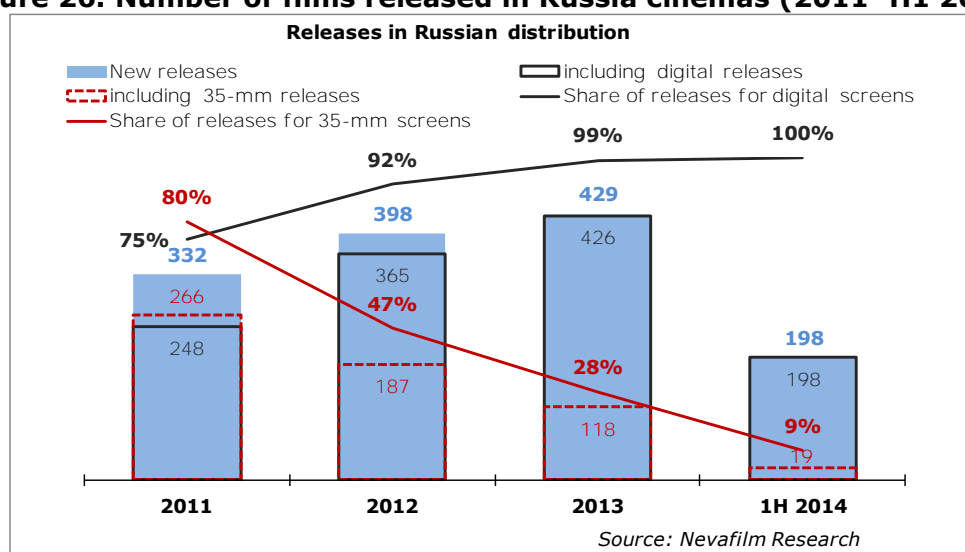
Figure 25. Russian cinema attendance (2011–H1 2014)



5.1.3. Film distribution format

The transition to digital technologies has been the chief trend in Russian film distribution over recent years, and it is currently in its final phase: all 198 releases in 2014 were in digital format and only 19 (9% of the total number) were distributed on film as well. In 2011, the situation was completely different, with film being the most popular distribution format: 80% of releases were distributed on film, while 75% of new films were released in digital format.

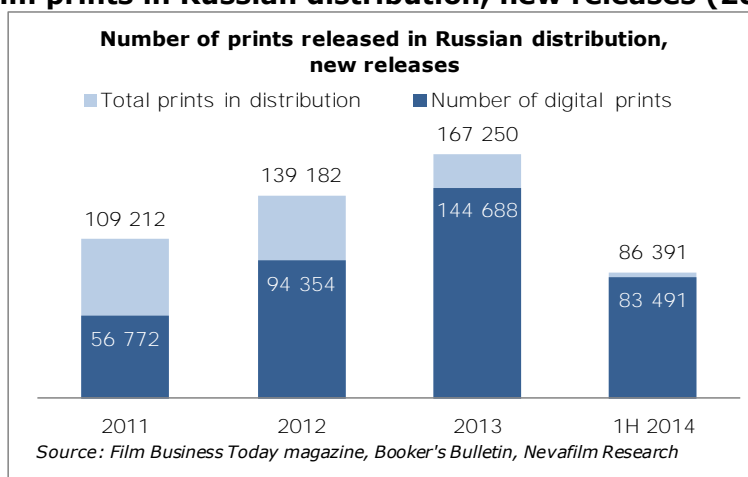
Figure 26. Number of films released in Russia cinemas (2011–H1 2014)



Hybrid releases in 2014 had a small print run on actual film (120 copies on average, with those films being distributed to an average of 940 screens). These were mainly Russian films and films from independent distributors. 'Digital prints'⁷³ had a 52% share of the Russian distribution market in 2011, and a 97% share in the first half of 2014.

⁷³ A 'digital print' is taken to mean the maximum simultaneous number of digital screens on which a film was shown.

Figure 27. Film prints in Russian distribution, new releases (2011–H1 2014)



5.1.4. Countries producing films released in the CIS film distribution market (excluding Ukraine)

For a long time, one of the main trends in the modern Russian film market was the release of films with bigger and bigger print runs, a phenomenon connected with **the country's expanding cinema network**. Since 2010, the transition to digital exhibition has helped to reinforce this trend, with bigger print runs for Hollywood releases especially noticeable, increasing from less than 700 in 2011 to over 1,000 screens per film in 2014 (in relative terms, this is an increase of 52%). Independent films, incidentally, are also significantly expanding their print runs thanks to digital technology. Films from European and North American producers have seen a 54% increase (from 184 prints per release in 2011 to 285 in 2014). For Russian producers, there has been a 47% increase (from 346 to 508) and for other countries, a 43% increase (from 89 to 128).

Meanwhile, average print runs in 2013 and 2014 have stabilized for nearly every type of film, except for European films and independent North American films: this category of releases is continuing to expand for now. This is further confirmation that Russian distributors have already exhausted the resources digital film exhibition technologies provide: the savings made on digital prints no longer allow distributors to profit from increased bookings of a particular film. Taking the example of films produced in Asia and the Pacific region, which traditionally have been very modestly represented in Russian distribution, it is evident that in 2013–2014, distributors actually reduced bookings of these releases due to their lack of popularity and profitability in Russia. Even this step did not help to avoid a fall in average receipts per print of this type of film. At the same time, not increasing the number of prints per release in 2014 helped Hollywood films to halt the fall in average box office receipts per print.

Figure 28. Average number of screens per film by country of production, (2011–H1 2014)

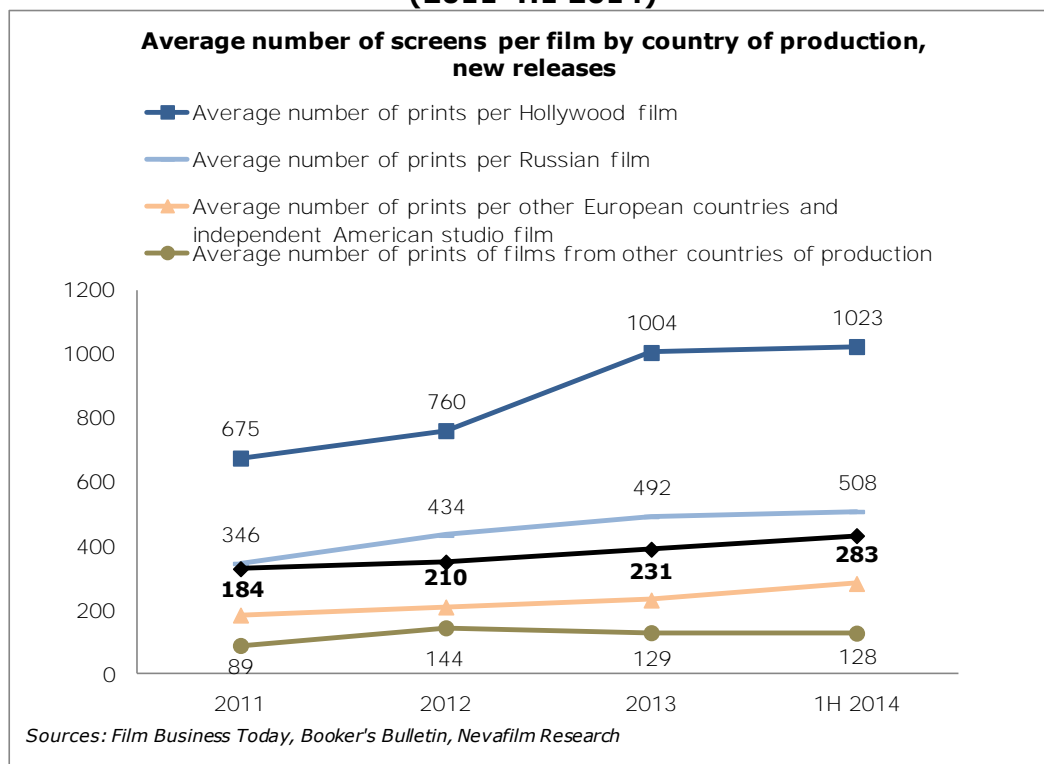
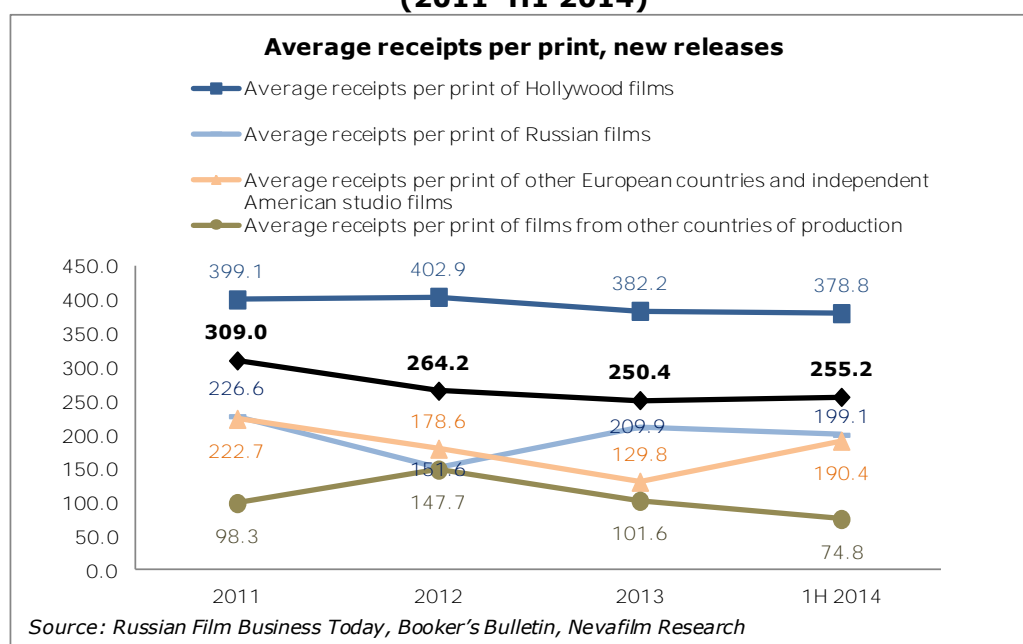


Figure 29. Average box office receipts per film print by country of production (2011–H1 2014)



An analysis of distribution data for the CIS (excluding Ukraine)⁷⁴ shows that for the past several years, other European countries (besides

⁷⁴ The following techniques were used to establish a film's country of production: films produced with Russia's participation are counted as Russian releases; films produced with the participation of at least one European country, and without Russian involvement, are counted as other European releases; films produced by the USA or Canada without the participation of Russia or European countries are counted as North American releases; the rest are counted as releases produced by another country.

Russia) and North America have shared the title of having the most films in Russian distribution. In 2013, 204 North American and 183 European films were in distribution, while in the first half of 2014, European films took the lead, with 88 films in distribution compared to 73 for the US and Canada. But North American films have no real competition when it comes to box office receipts, and none is likely to arise in the near future, even taking into account that their share of distribution has fallen from 66% in 2013 to 54% in the first half of 2014.

Figure 30. Number of films in distribution in the CIS (excluding Ukraine) by country of production (2011–H1 2014)

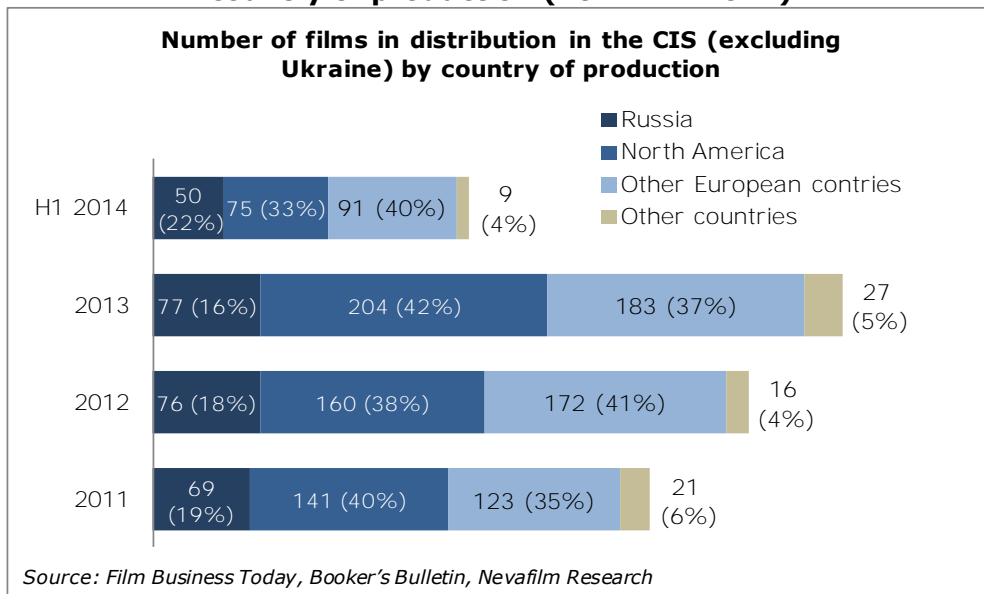
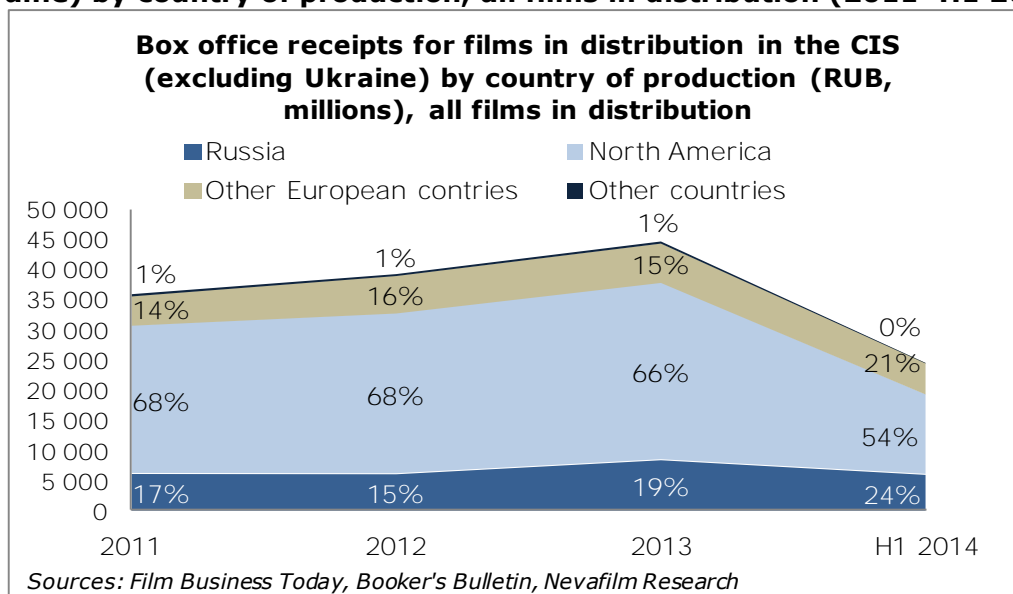


Figure 31. Box office receipts for films in distribution in the CIS (excluding Ukraine) by country of production, all films in distribution (2011–H1 2014)



Note that the increasing number of Russian productions in distribution is having an impact on the share of box office receipts and admissions attributable to Russian films. In 2013, both in the middle and at the end of the year, these figures were about 19%, and in 2014 they were close to

25%. Over one year (since mid-2013), the share of Russian releases may have doubled, but this has only led to a 1.4-fold increase in the share of tickets bought for Russian films in distribution. In other words, filmmakers were only able to retain their strong position due to the larger number of films; taken individually, the films showed poorer results in 2014.

Table 23. Market share of films in distribution in the CIS (excluding Ukraine) by country of production (2011–H1 2014)

Year	Russian films		North American films		Films from other European countries		Other	
	Number of releases	Gross box office (RUB millions)	Number of releases	Gross box office (RUB millions)	Number of releases	Gross box office (RUB millions)	Number of releases	Gross box office (RUB millions)
2011	69	6,073.9	141	24,524.0	123	4,948.5	21	374.3
	19.5%	16.9%	39.8%	68.3%	34.7%	13.8%	5.9%	1.0%
2011*	65	5,178.0	135	23,679.2	114	4,521.0	18	370.0
	19.6%	15.3%	40.7%	70.2%	34.3%	13.4%	5.4%	1.1%
2012	76	6,025.9	161	26,648.7	172	6,294.8	16	320.1
	17.9%	15.3%	37.9%	67.8%	40.5%	16.0%	3.8%	0.8%
2012*	69	4,533.3	154	25,711.2	161	6,245.9	15	320.0
	17.3%	12.3%	38.6%	69.8%	40.4%	17.0%	3.8%	0.9%
2013	77	8,353.7	204	29,379.0	183	6,582.9	27	354.5
	15.7%	18.7%	41.5%	65.8%	37.3%	14.7%	5.5%	0.8%
2013*	65	6,762.4	176	28,812.1	161	5,951.7	27	354.5
	15.2%	16.1%	41.0%	68.8%	37.5%	14.2%	6.3%	0.8%
H1 2014	50	5,926.9	73	13,224.9	88	5,260.0	9	86.0
	22.7%	24.2%	33.2%	54.0%	40.0%	21.5%	4.1%	0.4%
H1 2014*	45	4,548.9	64	12,417.1	80	5,225.8	9	86.0
	22.7%	20.4%	32.3%	55.7%	40.4%	23.5%	4.5%	0.4%

*new releases only

Source: European Audiovisual Observatory / LUMIERE database, imdb.com (for production country), Film Business Today, Booker's Bulletin, Nevafilm Research

Overall, it is primarily US and Russian films that make up the top 10 films every year in the CIS.

Table 24. Most popular films (by audience size) in the CIS (excluding Ukraine), 2011–H1 2014

Title	Distributor	Country of production	Release date	Admissions per year (millions)	Box office receipts (RUB millions)
2011					
<i>Pirates of the Caribbean: On Stranger Tides</i>	WDSSPR	US	18.05.2011	7.4	1,782.8
<i>Puss in Boots</i>	Central Partnership	US	27.10.2011	6.8	1,522.2
<i>Transformers 3: Dark of the Moon</i>	Central Partnership	US	29.06.2011	5.1	1,265.4
<i>The Twilight Saga: Breaking Dawn. Part 1</i>	West	US	17.11.2011	5.0	978.9
<i>Harry Potter and the Deathly Hallows: Part 2</i>	Karo Premier	GB INC / US	13.07.2011	4.6	1,050.7
<i>Kung Fu Panda 2</i>	Central Partnership	US	26.05.2011	4.5	899.3
<i>Fast Five</i>	UPI	US	28.04.2011	4.3	807.0

Title	Distributor	Country of production	Release date	Admissions per year (millions)	Box office receipts (RUB millions)
<i>Vysotsky. Thank God I'm Alive</i>	WDSSPR	RU	01.12.2011	4.2	842.9
<i>How Not to Rescue a Princess</i>	Nashe Kino	RU	30.12.2010	3.3	575.1
<i>Real Steel</i>	WDSSPR	US / IN	06.10.2011	3.3	627.6
2012					
<i>Ice Age 4: Continental Drift</i>	20th Century Fox CIS	US	12.07.2012	7.7	1,640.1
<i>Madagascar 3</i>	Central Partnership	US	07.06.2012	7.4	1,604.3
<i>The Twilight Saga: Breaking Dawn: Part 2</i>	West	US	15.11.2012	6.2	1,359.3
<i>The Avengers</i>	WDSSPR	US	03.05.2012	5.0	1,300.0
<i>Men in Black 3</i>	WDSSPR	US / AE	24.05.2012	4.6	1,200.0
<i>John Carter</i>	WDSSPR	US	08.03.2012	3.8	993.0
<i>Skyfall</i>	WDSSPR	GB / US	26.10.2012	3.2	787.5
<i>Ivan Tsarevich and the Grey Wolf</i>	Nashe Kino	RU	29.12.2011	3.2	663.6
<i>Battleship</i>	UPI	US	19.04.2012	3.1	649.0
<i>Sherlock Holmes: A Game of Shadows</i>	Karo Premier	US	29.12.2011	3.1	702.8
2013					
<i>Stalingrad</i>	WDSSPR	RU	10.10.2013	6.2	1,700.0
<i>Despicable Me 2</i>	UPI	US	15.08.2013	5.4	1,200.0
<i>Iron Man 3</i>	WDSSPR	US / CN	02.05.2013	5.2	1,400.0
<i>Fast & Furious 6</i>	UPI	US / ES	23.05.2013	5.0	1,071.6
<i>Thor: The Dark World</i>	WDSSPR	US	07.11.2013	4.3	1,200.0
<i>Legend No. 17 [Legenda No. 17]</i>	Central Partnership	RU	18.04.2013	4.2	923.0
<i>The Croods</i>	Twentieth Century Fox CIS	US	21.03.2013	4.2	880.0
<i>Bitter! [Gorko!]</i>	Bazelevs	RU	24.10.2013	3.7	811.0
<i>Monsters University</i>	WDSSPR	US	20.06.2013	3.5	677.6
<i>Frozen</i>	WDSSPR	US	12.12.2013	3.4	792.7
H1 2014					
<i>Maleficent</i>	WDSSPR	US/GB	29.05.2014	5.1	1,265.4
<i>Rio 2</i>	Twentieth Century Fox CIS	US	20.03.2014	4.5	965.8
<i>Viy</i>	UPI	RU / UA / CZ / DE / GB	30.01.2014	4.4	1,202.3
<i>Noah</i>	Central Partnership	US	27.03.2014	4.3	1,206.0
<i>How to Train Your Dragon 2</i>	Twentieth Century Fox CIS	US	12.06.2014	4.1	910.3
<i>Yolki 3</i>	Bazelevs	RU	26.12.2013	3.8	876.8
<i>X-Men: Days of Future Past</i>	Twentieth Century Fox CIS	US / GB	22.05.2014	3.1	776.4
<i>47 Ronin</i>	UPI	US	01.01.2014	3.0	862.3
<i>Transformers: Age of Extinction</i>	Central Partnership	US	26.06.2014	2.9	828.2
<i>The Amazing Spider-Man 2</i>	WDSSPR	US	24.04.2014	2.8	745.9

Source: European Audiovisual Observatory / LUMIERE database and imdb.com (for country of production), Film Business Today, Booker's Bulletin, Nevafilm Research

As for distribution of European films in Russia, France leads in terms of the number of new releases during the period 2011–2013 (132 films in three years), followed by the United Kingdom (74 films), Spain (42), Germany (41), and Italy (19). In terms of box office receipts in Russian distribution, the United Kingdom had the highest share (5% for the 2011–2013 period); overall, European Union countries collected around 12% of box office receipts in the CIS (excluding Ukraine) for the same period, with other European countries collecting only 0.1%.

Table 25. Number of European releases and films⁷⁵ in distribution in the CIS (excluding Ukraine) by country (2011–H1 2014)

Country	ISO code	Number of releases			Number of films in distribution		
		2011	2012	2013	2011	2012	2013
Austria	AT	0	2	2	0	2	3
Belgium	BE	2	3	3	2	3	3
Bulgaria	BG	1	0	0	1	0	0
UK	GB	20	14	34	22	14	38
Hungary	HU	1	1	0	1	1	0
Germany	DE	11	11	17	11	12	18
Denmark	DK	4	3	5	4	3	6
Ireland	IE	1	3	0	1	4	1
Spain	ES	10	14	17	10	15	17
Italy	IT	5	7	5	6	7	6
Latvia	LV	0	0	0	0	0	0
Luxembourg	LU	0	1	1	0	1	1
The Netherlands	NL	0	2	4	0	2	4
Poland	PL	1	0	2	1	0	2
Portugal	PT	0	1	0	0	1	0
Romania	RO	0	2	0	0	2	0
Finland	FI	0	4	1	1	4	2
France	FR	33	42	42	37	47	48
Czech Republic	CZ	0	1	1	0	1	1
Sweden	SE	2	4	2	2	4	2
Estonia	EE	0	0	1	0	0	1
Total, EU-28		91	115	137	99	123	153
Belarus	BY	0	0	0	0	0	0
Iceland	IS	0	0	0	0	0	1
Norway	NO	0	4	3	0	4	4
Serbia	RS	0	1	0	0	1	0
Ukraine	UA	1	1	0	1	1	0
Switzerland	CH	3	2	0	3	2	0
Total, other European countries		4	8	3	4	8	5
Incoming investment	INC	15	1	5	16	4	7
Total		110	124	145	119	135	165

Source: European Audiovisual Observatory / LUMIERE database and imdb.com (for country of production), Film Business Today, Booker's Bulletin, Nevafilm Research

⁷⁵ In cases of joint production, the country of production is considered that listed first in the Lumiere database (<http://lumiere.obs.coe.int>) or IMDb (<http://www.imdb.com>). If the US is listed along with a European country as a country of production, and the US is listed first, the film is still considered European, and the country of production is considered the country next in the list after the US. 'Incoming investment' accounts for all European films defined under the method described, produced with the help of incoming investment, according to the Lumiere database.

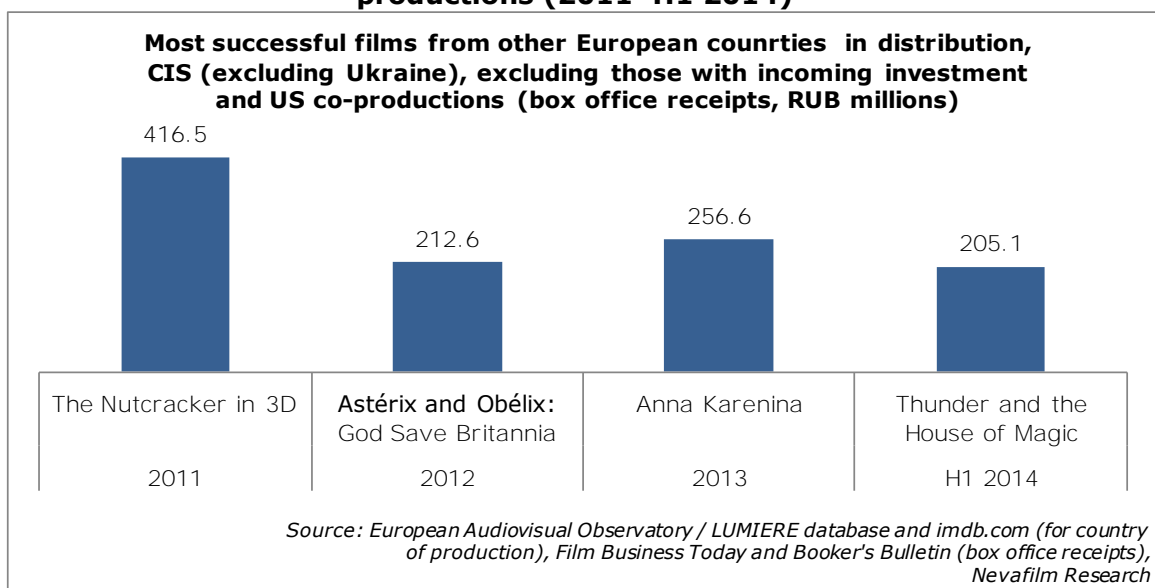
Table 26. Admissions and receipts for European films in distribution, CIS (excluding Ukraine) by country (2011–H1 2014)

Country	ISO code	Admissions, thousands			Gross box office receipts (RUB millions)		
		2011	2012	2013	2011	2012	2013
Austria	AT	0.0	9.5	7.9	0.0	2.0	1.7
Belgium	BE	252.5	458.7	93.6	49.0	85.7	22.3
Bulgaria	BG	9.0	0.0	0.0	1.8	0.0	0.0
United Kingdom	GB	5,001.5	6,984.6	13,940.5	1,039.1	1,678.8	3,527.2
Hungary	HU	226.0	1.6	0.0	39.1	0.4	0.0
Germany	DE	1,752.7	4,354.7	3,456.9	399.7	1,083.2	871.2
Denmark	DK	230.3	20.5	68.0	59.1	3.8	13.5
Ireland	IE	50.0	313.9	0.3	12.1	65.9	0.1
Spain	ES	873.6	1,584.9	6,076.3	203.1	337.4	1,306.6
Italy	IT	184.9	346.6	800.5	41.7	97.1	159.0
Latvia	LV	0.0	0.0	0.0	0.0	0.0	0.0
Luxembourg	LU	0.0	26.5	0.3	0.0	7.0	0.1
Netherlands	NL	0.0	3.7	79.8	0.0	0.5	15.1
Poland	PL	0.6	0.0	4.4	0.1	0.0	0.8
Portugal	PT	0.0	1.1	0.0	0.0	0.2	0.0
Romania	RO	0.0	23.9	0.0	0.0	4.5	0.0
Finland	FI	0.1	203.7	13.9	0.0	46.1	2.7
France	FR	5,055.4	6,805.3	2,544.8	1,051.2	1,566.9	555.8
Czech Republic	CZ	0.0	1.1	0.0	0.0	0.3	0.0
Sweden	SE	12.0	1,536.8	0.6	2.2	368.1	0.1
Estonia	EE	0.0	0.0	4.8	0.0	0.0	0.9
Total EU-28		13,648.6	22,677.3	27,092.6	2,898.3	5,347.8	6,477.1
Belarus	BY	0.0	0.0	0.0	0.0	0.0	0.0
Iceland	IS	0.0	0.0	0.0	0.0	0.0	0.0
Norway	NO	0.0	37.1	267.9	0.0	6.3	63.3
Serbia	RS	0.0	1.6	0.0	0.0	0.3	0.0
Ukraine	UA	1.7	0.5	0.0	0.3	0.1	0.0
Switzerland	CH	75.2	7.7	0.0	21.4	1.6	0.0
Total, other European countries		76.9	46.9	267.9	21.7	8.3	63.3
Incoming investment	INC	9,070.3	106.0	1,534.9	1,956.4	23.3	359.4
Total		22,795.9	22,830.1	28,895.4	4,876.4	5,379.4	6,899.8

Source: European Audiovisual Observatory / LUMIERE database and imdb.com (for country of production), Film Business Today, Booker's Bulletin, Nevafilm Research

The most successful European film in Russian distribution during the period studied (excluding incoming investment and/or co-productions with the US) was *The Nutcracker in 3D* (dir. A. Konchalovsky, 2009).

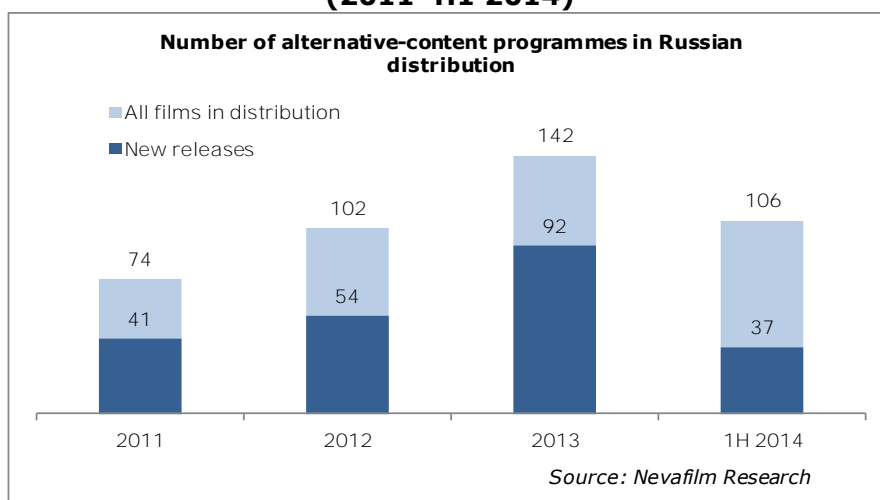
Figure 32. Most successful films from other European countries in distribution, CIS (excluding Ukraine), excluding those with incoming investment and US co-productions (2011–H1 2014)



5.1.5. Alternative content

Alternative content distribution is developing rapidly in Russia. The number of such releases reached 92 in 2013, although the length of time these projects remain on screens is the main thing that distinguishes this segment of the market: every year, one and a half to two times more alternative content is in distribution than is released. Cinemas are happy to include operas, plays, and concerts from previous years in their programmes and alternative content is being increasingly widely distributed: more and more cinemas are experimenting with such screenings, trying to attract new audiences and stand out in a competitive environment.

Figure 33. Number of alternative content programmes in Russian distribution (2011–H1 2014)



Nevafilm Research estimates that in 2013, alternative content had a 0.3% share of total box office receipts and a 0.2% share of admissions in

Russia.⁷⁶ Among Russian viewers, the most popular items in this category were documentary and concert films. The film *Metallica: Through the Never*, released by West, is currently the highest-earning film in this category in Russia. Impressive distribution results were demonstrated at a special event organized by the art society CoolConnections in honour of the fiftieth anniversary of the famous fantasy series *Dr. Who*. Screening began simultaneously with the broadcast of the episode on BBC One, and the film was ranked fourth in box office earnings for alternative content in Russia.

Table 27. Top 10 highest-earning alternative content releases in Russia, by box office receipts (2011–H1 2014)

Title	Distributor	Release date	Distribution year	Type	Prints	Gross box office (RUB millions)	Attendance, thousands
<i>Metallica: Through the Never</i>	West	26.09.2013	2013	concert	261	26.3	89.0
<i>Battle of the Year: The Dream Team</i>	WDSSPR	12.12.2013	2013	doc.	315	17.1	78.1
<i>Samsara</i>	Premier-Zal	04.04.2013	2013	doc.	45	15.0	72.2
<i>Doctor Who: The Day of the Doctor</i>	CoolConnections	23.11.2013	2013	series	110	15.0	35.0
<i>Frankenstein</i> (starring Benedict Cumberbatch)	CoolConnections	31.10.2013	2013, 2014	play	n/a	10.0*	18.0*
<i>One Direction: Where We Are</i>	WDSSPR	30.08.2013	2013	concert	97	7.1	28.0
<i>Marley</i>	Premium Film	06.09.2012	2012	concert	21	4.2	16.4
<i>Muse. Live in Rome</i>	Nevafilm Emotion	20.11.2013	2013, 2014	concert	95	3.3	28.0
<i>Hungarian Rhapsody: Queen Live in Budapest 1986</i>	Nevafilm Emotion	24.11.2012	2012	concert	66	3.3	11.8
<i>Justin Bieber's Believe</i>	Premium Film	26.12.2013	2013	concert	114	2.6	10.1

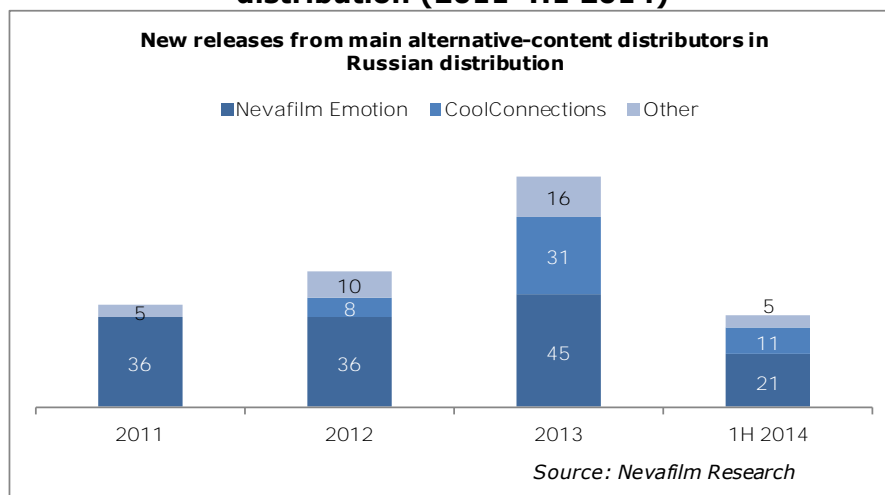
* data for 2013 only

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

Leading the alternative content segment in film distribution in Russia by number of releases are two companies that specialize in the genre: Nevafilm Emotion and CoolConnections, with a market share of 80–90% of all alternative content releases annually.

⁷⁶ For comparison, according to Media Salles data, in 2012, alternative content already accounted for 1% of total box office receipts in the United Kingdom. In 2013, the figure was 0.8% for France and 0.4% for Italy.

Figure 34. New releases from main alternative content distributors in Russian distribution (2011–H1 2014)



5.1.6. Distribution of regional films

Research methods

Both quantitative and qualitative methods were used to examine the development of regional cinema in Russia. First, public sources were used to build a database of regional films, which allowed us to make an initial sketch of the regions of the Russian Federation where full-length feature films are being made and released onto the big screen. The main sources of this information were the Offside festival for independent regional cinema⁷⁷; data from regional culture ministries and state-owned studios in **Russia's regions; cinema websites; and social network pages and Internet** forums where local films are discussed by viewers. Next, as part of its qualitative research, Nevafilm Research conducted interviews with officials from regional cultural administrations, the managers of cinemas which distribute local films, and the producers and directors of such films. Nevafilm also requested screening data from the main distributing cinemas and the CAIS in order to conduct a quantitative analysis.

Qualitative research results

According to an initial review of Russian regional cinema, and based on a survey of the main players on this market, it is clear that there is commercial cinema with a history of theatrical distribution in Karelia, Udmurtia, Chelyabinsk, Orenburg, Omsk, Novosibirsk, Krasnoyarsk, Irkutsk, Bashkortostan, Tatarstan, Buryatia, and Yakutia.

According to expert interviews, directors in all of these regions are making feature films; professional documentary filmmaking is also fairly popular. We only heard of animation being produced in Bashkortostan, Tatarstan, and Yakutia (this type of film production demands special production capabilities, and therefore flourishes more at state-supported

⁷⁷ For more information about the Offside festival see <http://2morrowfest.ru/category/movies/offside/> and <https://www.facebook.com/offsidefest> (both in Russian).

film studios). Local producers are working in various genres: horror, drama, action, and comedy (the most popular with the public).

In most cases, production companies and directors use their own production base when shooting (often this means just an ordinary video camera and a computer), but they also often turn to professional rental houses (these exist in Yakutia, Buryatia, Bashkortostan, Karelia, and Omsk) and state-owned studios (the Bashkortostan Film Studio and the Sakhafilm production company). Creative and technical experts tend to learn on the film set, but some regions also have specialized educational institutions and film departments, such as the East Siberian State Academy of Culture and Art in the Republic of Buryatia, the Faculty of Film Camerawork at Novosibirsk State Technical University, the Faculty of TV and Filmmaking at Kazan State University of Culture and Arts, and the Yakutsk branch of the St. Petersburg State University of Film and Television (in operation until 2011).

We should note that local film production is supported out of regional **government budgets in many of Russia's regions. The legal framework is** in place for this in Bashkortostan, Buryatia, Tatarstan, and Yakutia; in Belgorod, Kaluga, and Sverdlovsk regions; in Krasnodar and Krasnoyarsk territories; and in St. Petersburg and Moscow.⁷⁸ But in actual fact, Bashkortostan, Tatarstan, and Yakutia provide the most support for local film production; and only in Yakutia has cooperation between the regional government and the private sector led to the development of a fully-fledged industry. The Ministry of Culture and Spiritual Development of the Sakha Republic (Yakutia), thanks to the enthusiasm of Minister Andrei Borisov, does more than allocate funding to support the Sakhafilm studio and local filmmakers; since 2011 it has also been running an international festival of Arctic films, with a competitive programme open to works created in the Arctic region (Russia, the US, Canada, Finland, Sweden, Norway, Iceland, Denmark, and Greenland).⁷⁹

Overall, the most highly developed regional film markets today are in the Republic of Buryatia and the Sakha Republic (Yakutia). Both regions produced their first local films for distribution in the early 2000s, and a real film boom was underway in Yakutia by 2010, when the number of films released on the big screen approached 15–20 every year. Something similar had taken place in Buryatia by 2011, when around five films per year started coming out on the big screen. At first, budgets for local films were around RUB 100,000–300,000. Now, the average in Yakutia is as much as RUB 0.5–1 million, and in Buryatia it is even higher: RUB 1–3 million. In other regions, the main sources of film financing are the personal resources of the directors themselves, or local government budgets (by means of subsidies from regional ministries of culture), but in Buryatia and Yakutia the film business displays a much greater degree of professionalism. Despite significant support from the Ministry of Culture and Spiritual Development of the Sakha Republic, in both of these republics film production mainly uses funds borrowed by producers,

⁷⁸ See also section 1.3.2. Support for regional film production.

⁷⁹ For more about the Yakutsk International Film Festival, see <http://mirfest.ru/festivals/1418/#> (Russian only).

private investment, and producers' earnings from previous projects. In Yakutia, the experts we surveyed also mentioned reselling film rights and attracting foreign investment. Furthermore, at the regional level, cooperation with advertisers for product placement is common.

The most expensive films in Buryatia, according to our data, were *Pokhabovsk: The Other Side of Siberia [Pokhabovsk: Obratnaya storona sibiri]* (dir. Yury Yashnikov, 2013), *Steppe Games [Talyn naadan]* (dir. Bair Dyshenov, 2014), *Otkhonchik: First Love [Otkhonchik: Pervaya Lyubov]* (dir. Bair Dyshenov, 2013), and *Bulag: The Sacred Source [Bulag. Svyatoi istochnik]* (dir. Solbon Lygdenov, 2013). These had budgets of RUB 6–10 million, which is two or three times higher than most films shot in the republic. The biggest budgets in Yakutia are much lower, with the most expensive films in recent years being the drama *Seagull's Cry [Khopto Khahyyta]* (dir. Arkady Novikov, 2013) and the thrillers *Swamp [Kuta]* (dir. Stepan Burnashev, 2012) and *Runaway [Kuryeyekh]* (dir. Stepan Burnashev, 2014), all shot for RUB 700,000–800,000.

We should note that for public screening, digital formats are now widely used instead of the DVDs with which regional exhibition began (although sometimes lower than 2K standard), and the main exhibition venues are modern commercial cinemas which place their local films on the same level as Hollywood features: the same ticket price, number of showings, and distribution of earnings between rights holders and the exhibitor.

Aside from cinema screenings, producers make money from disc sales (this is the main way to monetize content after the big screen) and from film broadcasts by local television channels, where there is a demand for content in the local language (for instance, in Buryatia practically all locally produced films are shown on television). Some producers also use paid video on-demand services. However, posting films for free on the Internet remains a major, and unavoidable, means of popularizing local cinema production. All rights holders, sooner or later, post their films on the Web. This is also connected to the fact that they are not particularly concerned about the problem of video piracy, although producers do monitor content on torrent trackers and social networks while films are on release, to prevent them from being leaked early.

Quantitative research results

Overall, from 2011 to mid-2014, around 90 films were in regional distribution, although it is difficult to determine the release period and the size of the release for each of these films: some of them were on non-commercial release and/or released as part of film festivals. Nevertheless, it is possible to identify the cities and regions where local releases played some role. These include Vladivostok, Irkutsk, Petrozavodsk, Orenburg, Novosibirsk, and Omsk, and Buryatia, Udmurtia, and Yakutia. We can also track a general growth trend among local films in regional distribution from year to year.

Table 28. Number of regional films in local distribution (2011–H1 2014)

Region	2011	2012	2013	H1 2014	Total in region
Buryatia	2	4	7	3	16
Vladivostok	0	1	0	0	1
Irkutsk	0	0	0	1	1
Novosibirsk	1	1	0	3	5
Omsk	3	1	2	0	6
Orenburg	0	0	0	2	2
Petrozavodsk	0	1	0	0	1
Udmurtia	1	0	0	1	2
Yakutia	16	12	20	7	55
Total for period	23	20	29	17	89

Source: Nevafilm Research

Within the framework of this study, we were able to collect statistics on theatrical distribution data for regional films only in the republics of Yakutia and Buryatia, and not for all films (Buryatia has distribution data for 15 films, and Yakutia has data for 47). Nevertheless, since these two regions are the most highly developed in terms of a local film industry, **it is fair to say that they have the lion's share of box office receipts and admissions for regional films in Russia.**

An analysis of the data obtained shows that in the Republic of Buryatia, admissions for locally produced films are growing incrementally. In 2011, admissions totalled around 17,000, but by 2013 had grown to 58,000. Box office receipts are growing in a similar manner (from RUB 3.4 million in 2011 to RUB 10.5 million in 2013). Such even-paced growth is a result of the annual increase in the number of films, and is proof of increasing audience interest in local cinema. This is a growing market.

In Yakutia, which produces many more films, the situation is less stable and depends more on local hits. Moreover, in 2012, this region saw a fall in film production, as a result of which admissions and box office figures also decreased, from 52,000 and RUB 8.6 million in 2011 to 29,000 and RUB 5.5 million, respectively. However last year was a very successful one in Yakutia: local films drew in 74,000 cinemagoers and earned over RUB 16 million.

Nevertheless, overall, the results for even the most highly developed regional markets total less than 0.1% of admissions and box office receipts for the country as a whole. This is due to the small number of screens showing regional films. The main sales market in Yakutia comprises three **commercial cinemas in the republic's capital city; Buryatia** has four cinemas in Ulan-Ude.

Figure 35. Admissions to regional films in local distribution and as a percentage of nationwide admissions (2011–H1 2014)

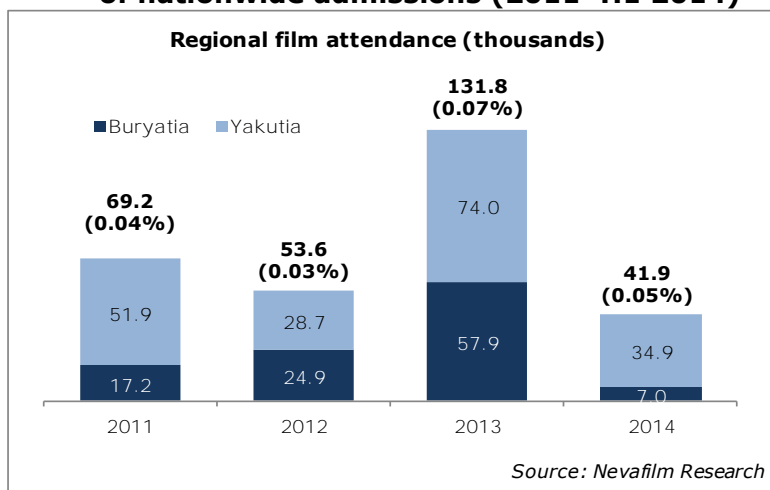
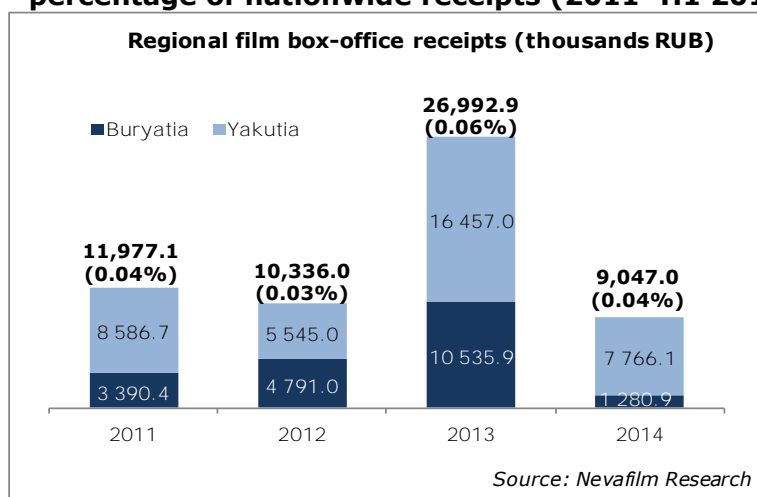


Figure 36. Box office receipts for regional films in local distribution and as a percentage of nationwide receipts (2011–H1 2014)



Despite the limited nature of regional distribution, film directors and producers in Buryatia and Yakutia have proven that their business model is viable. The republics now have their own 'stars', both for commercial and festival films. Directors such as Yevgeny Zamaliyev, Zargal Badmatsyrenov, Mikhail Kozlov, Roman Askhayev, Sergey Nikonov, and Yury Yashnikov in Buryatia; and Aleksey Yegorov, Dmitry Shadrin, Roman Dorofeyev, Eduard Novikov, Yevgeny Pivovarov, and Arkady Novikov in Yakutia, have each made over RUB 2 million in regional cinemas since 2011. Over that period, films by Bair Dyshenov, a Buryatia celebrity, earned RUB 1.5 million. His short films have won recognition at festivals in Berlin (in 2009 for *Buddha's Smile [Ulybka Buddy]*) and Cannes (in 2012 for *Mother's Order [Nakaz materi]*). Both films were distributed in the republic, and in 2013, the director successfully debuted his full-length film: *Otkhonchik: First Love [Otkhonchik: Pervaya Lyubov]*.

**Table 29. Top 10 box office earners, local production
in Republic of Buryatia, 2011–H1 2014**

Title	Release date	Directors	Producer	Gross box office (RUB thousands)	Admissions (thousands)
<i>Buuzy</i>	09.02.2013	Zargal Badmatsyrenov	Istangulov, S.P.	3,189.1	17.4
<i>Decided [Reshala]</i>	22.11.2012	Roman Askhayev, Yevgeny Zamaliyev	Fifth Element	3,104.9	16.1
<i>Pokhabovsk: The Other Side of Siberia [Pokhabovsk: Obratnaya storona sibir]</i>	31.10.2013	Yury Yashnikov	Wildsiberia Production	2,501.5	13.7
<i>On Lake Baikal [Na Baykal]</i>	19.10.2011	Mikhail Kozlov, Sergey Nikonov	Cinema +	2,510.2	12.6
<i>Otkhonchik: First Love [Otkhonchik: Pervaya Lyubov]</i>	21.03.2013	Bair Dyshenov	Buryatkin Studio	1,512.7	8.3
<i>On Lake Baikal 2: All aboard! [Na abordazh!]</i>	18.09.2012	Mikhail Kozlov	Cinema +	1,529.7	7.9
<i>Chainik 2</i>	14.11.2013	Alexander Kuzminov, Yevgeny Zamaliyev	Fifth Element	1,345.4	7.6
<i>The Barrier [Shlagbaum]</i>	19.09.2013	Dmitry Tuprin	MonUla Films	1,173.2	6.9
<i>ULAN UDANCE</i>	07.12.2011	Zargal Badmatsyrenov, Alexander Kuzminov, Yevgeny Zamaliyev	Republic of Buryatia KVN	880.2	4.6
<i>Bulag: The Sacred Source [Bulag. Svyatoi istochnik]</i>	27.06.2013	Solbon Lygdenov	MonUla Films	814.0	4.1

Source: Nevafilm Research

Table 30. Top 20 box office earners, local production in Republic of Sakha (Yakutia), 2011–H1 2014

Title	Release date	Directors	Producer	Gross box office (RUB thousands)	Admissions (thousands)
<i>Keskil 3: The Legacy [Keskil 3. Nasledstvo]</i>	22.08.2013	Aleksey Yegorov, Dmitry Shadrin	DETSAT	5,714.2	25.7
<i>Ayyy Uola</i>	23.01.2014	Eduard Novikov, K. Danilov	ART Doidu	4,795.2	22.0
<i>Erchim and Kim [Erchim uonna Kim]</i>	28.11.2013	Roman Dorofeyev	DETSAT	3,760.5	16.3
<i>Once [Arai biirde]</i>	14.04.2011	Roman Dorofeyev, Aleksey Yegorov	DETSAT	2,313.4	14.7
<i>Seagull's Cry [Khopto Khahyyta]</i>	24.10.2013	Arkady Novikov	MAGDIS	2,576.1	11.7
<i>Heroes. Battle for the Cup [Geroi. Bitva za kubok]</i>	20.10.2011	Vasily Bulatov, Yevgeny Pivovarov	SaidarPlus	1,736.4	10.1
<i>Heroes 2: Scorpion Tournament [Geroi 2: Turnir skorpionia]</i>	04.10.2012	Yevgeny Pivovarov	SaidarPlus	1,863.3	10.0
<i>White Day [Urun kun]</i>	01.12.2013	Mikhail Vasilyev-Lukachevsky	Sakhafilm	1,602.4	7.5
<i>August [Avgust]</i>	12.06.2014	Aleksey Yegorov, Dmitry Shadrin	DETSAT	1,594.5	6.8
<i>Jubilee [Yubilee]</i>	06.10.2011	Roman Dorofeyev, Dmitry Shadrin, Aleksey Yegorov	DETSAT	1,138.5	6.7
<i>Paranormal Yakutsk [Paranormalniy Yakutsk]</i>	06.09.2012	Konstantin Timofeyev	n/a	1,238.8	6.1
<i>Smile [Ulybnis]</i>	18.04.2013	Aleksey Yegorov, Roman Dorofeyev, Dmitry Shadrin	DETSAT	1,070.4	4.8
<i>Swamp [Kuta]</i>	01.11.2012	Stepan Burnashev	Burnashev, S.P.	958.5	4.6
<i>Taptal Khaarty</i>	31.03.2011	I. Tuima Barashkov	STAYST-film	593.3	3.7
<i>Runaway [Kuryeyekh]</i>	01.04.2014	Stepan Burnashev	Burnashev, S.P.	760.2	3.4
<i>Semenchik</i>	21.02.2012	M. Kalinina	ART Doidu	554.8	3.3
<i>Kihi ueybetekh ettutten</i>	10.03.2011	Arkady Novikov	MAGDIS	506.0	3.2
<i>The Lottery [Lotereya: D'ollookh tugen]</i>	01.12.2011	Ivan Toitonov	n/a	523.8	3.1
<i>Davlyat 3</i>	06.02.2014	P. Fedorov	Dolgunfilm	500.4	2.2
<i>Leaving the Fragrant Harbour [Pokidaya blagoukhayushchuyu gavan]</i>	24.03.2011	Suzanna Oorzhak	Dersu film	388.7	2.1

Source: Nevafilm Research

Finally, we should mention the major studios producing regional full-length films. These studios usually distribute such films too, agreeing the terms of exhibition with the cinemas themselves. They are all representatives of the two leading regional markets: Buryatia (Fifth Element, offering audiences a wide range of films from comedies to crime dramas, and Cinema +, which makes comedies) and Yakutia (DETSAT, also specializing in comedies, and ART Doidu, which mainly makes dramas).

Table 31. Top 10 regional film production companies in Russia in 2011–H1 2014

Company	Region	Number of films in distribution	Total box office receipts (RUB millions)
DETSAT	Yakutia	6	15.59
ART Doidu	Yakutia	4	5.51
Fifth Element	Buryatia	3	4.87
Cinema +	Buryatia	2	4.04
Istangulov, S.P.	Buryatia	2	3.76
SaidarPlus	Yakutia	2	3.60
MAGDIS	Yakutia	2	3.08
Wildsiberia Production	Buryatia	1	2.50
MonUla Films	Buryatia	2	1.99
Burnashev, S.P.	Yakutia	3	1.84

Source: Nevafilm Research

Today, regional cinema in Russia, especially in Yakutia and Buryatia, is a self-sufficient but still closed system: producers shoot films and start to make money for their next projects when they are released in local cinemas. Some collaboration between the republics can be observed (cinemas are willing to release films from neighbouring republics), and producers also try to cross the boundaries of their regions. There have already been precedents. Following local success, the Buryatian comedy *On Lake Baikal [Na Baykal]* was released nationwide; and the most famous film shot by Yakutian and Mongolian filmmakers was *By the Will of Genghis Khan*. Recently, though, producers from beyond the Urals have been aiming not just or quite so much at the Moscow market, but rather more at northern Kazakhstan and other Asian countries.

5.1.7. Distribution of Russian films in the EU

According to data from the European Audiovisual Observatory⁸⁰, of the 204 Russian films (including co-productions) released to the CIS market during 2011–2013, 57 were distributed in the 28 countries of the European Union.⁸¹ The number of Russian films on the EU market is growing every year. Prior to 2012, there were never more than 20 in any given year (this figure includes archive films made in the USSR).⁸² In 2012, the number of new Russian films on the EU market reached 25, rising to 39 in 2013. This is evidence of the growing export ambitions of Russian producers.

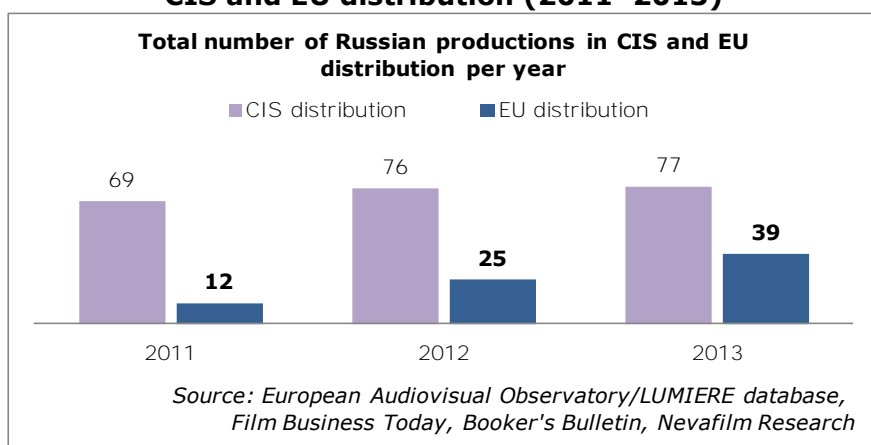
⁸⁰ LUMIERE database – <http://lumiere.obs.coe.int>

⁸¹ Nevafilm Research has examined all Russian productions that, according to the LUMIERE database, were released on the international market and that were in CIS distribution from 2011 through to the first half of 2014, and has analysed data on films released for EU distribution from 2011 to 2013. This methodology means that films that were shown during that period in EU cinemas but not in the CIS (because they had been released earlier on the domestic market) are not taken into consideration. In other words, this study constitutes a comparison of the distribution of new Russian films which, **in our view, is a better reflection of producers' export policies.**

⁸² See also Distribution of Russian Films in the EU (2007–2011) in the report The Film Industry in the Russian Federation: 2012,

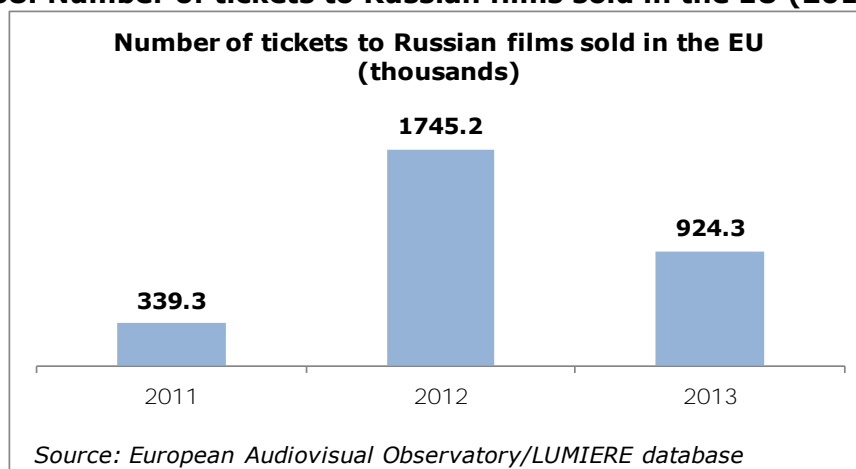
<http://publi.obs.coe.int/documents/205595/552774/RU+Film+Industry+2012+Nevafilm+EN.pdf/2a99cc4b-6946-44c3-954e-accda3e942b2>

Figure 37. Total number of Russian productions, including co-productions, in CIS and EU distribution (2011–2013)



At the same time, admissions for Russian films in the European Union remain modest, and depend on the release of US co-productions. For example, in 2012, the film *The Darkest Hour* added more than a million to the number of cinemagoers who saw Russian productions. Overall, Russian films account for less than 1% of total admissions in the EU (0.04% in 2011, 0.18% in 2012, and 0.1% in 2013).⁸³

Figure 38. Number of tickets to Russian films sold in the EU (2011–2013)



Russian films are released in their greatest numbers in post-Soviet countries, including Estonia, Latvia, Lithuania, and Poland. However, they attract the highest level of audience interest in France (which over three years has accounted for 19% of the tickets sold to Russian films in the EU), Poland (mainly thanks to the joint Russian–Polish production *Aftermath*, which in fact attracted 800 times more cinemagoers in Poland than in Russia), the United Kingdom, Italy, and Lithuania.

⁸³ According to data published by *Focus* magazine, issued by the European Audiovisual Observatory, admissions in the European Union in 2011 stood at 968 million, in 2012 – 946 million, and in 2013 – 907 million.

Table 32. Admissions for Russian films in the EU by country, 2011–2013

Country	ISO code	No. of films	Attendance (thousands)	Share of films	Share of admissions
France	FR	8	558.6	14%	19%
Poland	PL	13	517.2	23%	17%
United Kingdom	GB	10	270.2	18%	9%
Italy	IT	3	233.6	5%	8%
Lithuania	LT	21	214.3	37%	7%
Netherlands	NL	9	162.0	16%	5%
Estonia	EE	30	166.0	53%	6%
Spain	ES	4	155.7	7%	5%
Latvia	LV	21	124.8	37%	4%
Germany	DE	4	124.3	7%	4%
Hungary	HU	6	89.3	11%	3%
Austria	AT	8	61.1	14%	2%
Belgium	BE	2	54.8	4%	2%
Sweden	SE	4	48.9	7%	2%
Romania	RO	4	48.5	7%	2%
Bulgaria	BG	2	35.0	4%	1%
Portugal	PT	7	30.4	12%	1%
Czech Republic	CZ	5	28.0	9%	1%
Greece	GR	5	24.2	9%	1%
Croatia	HR	2	20.7	4%	1%
Finland	FI	3	12.7	5%	0%
Slovakia	SK	4	11.4	7%	0%
Slovenia	SI	2	8.8	4%	0%
Denmark	DK	1	8.4	2%	0%
Ireland	IE	-	-	-	-
Luxembourg	LU	-	-	-	-
Malta	MT	-	-	-	-
Cyprus	CY	-	-	-	-
EU total		57	3,008.7	100%	100%

Source: European Audiovisual Observatory/LUMIERE database

Not counting US co-productions (*The Darkest Hour* and *Machete Kills*), the art-house films *Faust* and *Elena* enjoyed the widest European distribution, with each shown in cinemas in more than 10 European Union countries. These were followed by the art-house films *In the Fog* (9 countries) and *Innocent Saturday* (5 countries). Each of these films earned two to four times more in Europe than on the domestic market. The most successful commercial film in Europe during that three-year period (2011–2013) was the animated fairy tale *The Snow Queen*, which attracted 137,000 cinemagoers in five EU countries (12% of the number of tickets it sold in the CIS).

Perhaps in 2014–2015, a new leader in Russian exports will emerge on the European (and even global) film market. Andrey Zvyagintsev's film *Leviathan*, which won the Best Screenplay award at the 2014 Cannes Film Festival, was named Best Film at the London Film Festival, was nominated for a European Film Award in the Best Film category, and has been selected as Russia's official Oscar entry in the Best Foreign Film category this year. The film is slated for Russia-wide release in February 2015, having encountered the need to be re-dubbed after amendments to Law No. 53-FZ 'On the state language of the Russian Federation' went into

effect on 1 July 2014, prohibiting the use of profanities on television and radio, in film distribution, and in public performances of works of art (see section 2.1.1.). In anticipation of its Oscars submission and in compliance with the formal procedures and the qualification requirements, the film had a week-long public run at a cinema in Russia. By now, distribution rights have been acquired by more than 50 countries, including the US, where it will be distributed by Sony Pictures Classics. On 13 November 2014, Leviathan opened in cinemas in the UK.

Table 33. Top 20 Russian productions in EU distribution (2011–2013)

#	Title	Country of production	EU distribution year	EU distribution countries	EU admissions (thousands)	CIS admissions (thousands)
1	<i>The Darkest Hour</i>	US/RU	2011, 2012	AT, BE, BG, CH, CZ, DE, DK, EE, ES, FI, FR, GB, GR, HR, HU, IT, LT, LV, NL, PL, PT, RO, SE, SK	1,018.0	934.2
2	<i>Machete Kills</i>	US/RU	2013	AT, BG, CZ, EE, FI, FR, GB, GR, HR, HU, IT, LT, NL, PL, PT, RO, SE, SI, SK	470.9	384.6
3	<i>Aftermath</i>	PL/RU	2012, 2013	PL	325.2	0.4
4	<i>Faust</i>	RU	2011, 2012, 2013	AT, CZ, DE, ES, FI, FR, GB, HU, IT, NL, PL, PT, RO, SE, SK	220.4	104.1
5	<i>Elena</i>	RU	2011, 2012, 2013	BE, ES, FR, GB, GR, HU, LV, NL, PL, PT, SE	204.0	100.3
6	<i>The Snow Queen</i>	RU	2012, 2013	EE, LT, LV, NL, PL	136.9	1,123.5
7	<i>Yolki 2</i>	RU	2011, 2012	EE, LT, LV	50.7	4,140.8
8	<i>Six Degrees of Celebration [Yolki]*</i>	RU	2010, 2011, 2012	EE, LT, LV	46.0	3,745.0
9	<i>Bitter! [Gorko!]</i>	RU	2013	EE, LT	43.7	3,705.3
10	<i>Vysotsky. Thank God I'm Alive</i>	RU	2011, 2012, 2013	AT, DE, EE, LV, PL	43.6	4,262.00
11	<i>In the Fog</i>	DE/NL/BY/RU/LV	2013	EE, FR, GB, GR, HU, NL, PL, PT, RO	36.1	7.3
12	<i>Innocent Saturday</i>	RU/DE/UA	2011	LV, AT, EE, LT, LV	33.8	16.2
13	<i>Lucky Trouble</i>	RU	2011	AT, EE, LT, LV	33.7	1,950.0
14	<i>What the Men Are Up To [Chto tvoryat muzhchiny]</i>	RU	2013	EE, LT	29.9	1,394.0
15	<i>The Jungle [Dzhungli]</i>	RU	2012	EE, LV	29.6	1,415.0
16	<i>Devil's Pass</i>	US/GB/RU	2013	CZ, GB, HU, LT, SK	28.9	717.4
17	<i>Yolki 3</i>	RU	2013	EE, LT	23.5	1,829.5
18	<i>Gentlemen of Fortune 2 [Dzhentlmen y, udachi!]</i>	RU	2012, 2013	EE, LT, LV	21.3	1,374.7
19	<i>Twilight Portrait</i>	RU	2012, 2013	FR, NL, PL	16.7	25.7
20	<i>Here's Carlson! [Tot eshchyo Karloson!]</i>	RU	2012	EE, LV	16.5	1,700.0

* includes distribution in 2010

Source: European Audiovisual Observatory/LUMIERE database, Film Business Today, Booker's Bulletin, Nevafilm Research

As we can see, the art-house character which has so clearly defined Russian exports remains their main feature. Russian blockbusters, which receive advertising support from the main national television channels, are more in demand on the domestic market, but festival projects with limited distribution in Russia attract bigger audiences in Europe.

5.2. Principal players

In all, as of mid-2014, about 35 companies are operating in the Russian film distribution sector (disregarding companies created to distribute a single film, those engaged in regional film production, and those specializing in alternative content). Distributors operating in Russia may be divided into groups depending upon the nature of the content they work with:

- direct representatives of major Hollywood studios on the Russian market (Universal Films International, Walt Disney Studios Sony Pictures Releasing, 20th Century Fox CIS)
- official representatives of Hollywood majors (Karo Premier for Warner Bros. films, Central Partnership with its Paramount package)
- independent distribution companies that release films with fairly wide distribution (over 100 copies): Nashe Kino, Paradise, A Company (releases films only in partnership with 20th Century Fox CIS), West, Volga, DreamTeam, Caravella DDC, Top Film Distribution, Luxor, A-One Films, Kinografiya, Premium Film, Cinema Prestige, Cascade Film, Exponenta, and Kinologistika
- independent distributors whose films are distributed on limited release (up to 80 screens): Arena, Russkiy Reportazh, Raketa Releasing, Reanimedia (Japanese animation), and Premier Kinoprokat
- independent film distributors working with very limited releases (up to 20 screens) – as a rule, these are art-house films for cinephiles or films with specific ethnic content: AKM, P&I Films, PROvzgliad, Cinema Without Frontiers, Krasnaya Shapka Films (Indian cinema), and UMS Film.

We should also note that the representatives of the film majors go beyond just Hollywood releases. They also release independent films, including Russian productions.

Furthermore, there are several vertically integrated holdings on the market: Paradise, Luxor, West, and Premier Kinoprokat all have their own cinema chains, while Central Partnership, Paradise, Bazelevs, and DreamTeam are also production companies. Several distributors are also the official representatives of Russian producers, although they are not part of the same holding; for example, Nashe Kino cooperates with CTB, and Enjoy Movies works with Karoprokat.

Table 34. Biggest film distributors in Russia by box office returns, ranked as of 1 July 2014*

#	Distributor	Box office returns (millions of RUB) and market share				No. of films in distribution and market share			
		2011	2012	2013	H1 2014	2011	2012	2013	H1 2014
1	20 th Century Fox CIS	3,379.8	5,092.8	6,415.9	4,727.7	18	19	30	15
		9.4%	13.0%	14.4%	19.3%	5.1%	4.5%	6.1%	6.7%
2	Central Partnership	8,904.8	5,355.1	5,967.9	4,377.7	38	33	33	21
		24.8%	13.6%	13.4%	17.9%	10.7%	7.8%	6.7%	9.3%
3	Karo Premier/ Karoprokat	4,221.7	5,664.2	6,905.9	3,921.9	24	30	22	15
		11.8%	14.4%	15.5%	16.0%	6.8%	7.1%	4.5%	6.7%
4	WDSSPR	9,112.4	9,719.5	11,682.1	3,917.5	31	31	39	11
		25.4%	24.8%	26.2%	16.0%	8.8%	7.3%	7.9%	4.9%
5	UPI	2,638.8	4,729.9	4,891.2	2,277.4	18	24	22	6
		7.3%	12.0%	10.9%	9.3%	5.1%	5.7%	4.5%	2.7%
6	Nashe Kino	1,817.7	1,326.9	2,059.6	1,065.8	13	11	25	14
		5.1%	3.4%	4.6%	4.3%	3.7%	2.6%	5.1%	6.2%
7	Paradise	2,191.9	1,364.4	1,814.3	950.5	25	28	28	12
		6.1%	3.5%	4.1%	3.9%	7.1%	6.6%	5.7%	5.3%
8	A Company (with 20 th Century Fox CIS)	-	516.1	480.3	912.5	-	1	6	5
		-	1.3%	1.1%	3.7%	-	0.2%	1.2%	2.2%
9	Bazelevs	950.5	581.5	1,827.2	876.8	2	5	9	1
		2.6%	1.5%	4.1%	3.6%	0.6%	1.2%	1.8%	0.4%
10	West	1,459.0	2,496.1	817.3	780.6	11	15	27	10
		4.1%	6.4%	1.8%	3.2%	3.1%	3.5%	5.5%	4.4%
11	Volga	256.8	773.9	961.7	364.7	11	12	16	10
		0.7%	2.0%	2.2%	1.5%	3.1%	2.8%	3.3%	4.4%
12	DreamTeam	-	-	-	352.7	-	-	-	6
		-	-	-	1.4%	-	-	-	2.7%
13	Caravella DDC	124.6	465.7	187.8	257.2	24	18	20	7
		0.3%	1.2%	0.4%	1.0%	6.8%	4.2%	4.1%	3.1%
14	Top Film Distribution	725.0	594.1	248.4	247.9	26	29	28	9
		2.0%	1.5%	0.6%	1.0%	7.3%	6.8%	5.7%	4.0%
15	Luxor	510.0	390.5	441.6	239.2	16	14	13	7
		1.4%	1.0%	1.0%	1.0%	4.5%	3.3%	2.6%	3.1%
16	A-One Films	-	-	9.0	124.5	-	-	9	4
		-	-	0.0%	0.5%	-	-	1.8%	1.8%
17	Kinografiya	-	-	4.0	96.7	-	-	4	7
		-	-	0.0%	0.4%	-	-	0.8%	3.1%

#	Distributor	Box office returns (millions of RUB) and market share				No. of films in distribution and market share			
		2011	2012	2013	H1 2014	2011	2012	2013	H1 2014
18	Premium Film	35.7	102.9	561.9	59.7	9	20	19	8
		0.1%	0.3%	1.3%	0.2%	2.5%	4.7%	3.9%	3.6%
19	Cinema Prestige	1.0	33.0	59.7	57.4	1	14	18	5
		0.0%	0.1%	0.1%	0.2%	0.3%	3.3%	3.7%	2.2%
20	Cascade Film	414.3	385.5	165.5	41.2	12	13	8	4
		1.2%	1.0%	0.4%	0.2%	3.4%	3.1%	1.6%	1.8%

*In cases of co-distribution, the numbers for films in distribution and box office returns relate to all companies participating in the partnership, as no information is available regarding each company's share.

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

5.3. Principal trends and prospects for development

- The digital revolution in the global film industry allowed films to be screened at lower cost and helped to increase the number of independent players on the Russian market experimenting with both wide and limited releases. But by 2014, the potential for digital technology to expand the Russian film industry and increase distribution figures had been exhausted. It has become evident that the time for experimentation is over, and for some of the oldest and strongest independent distributors, those experiments were unsuccessful. The second half of 2014 saw the departure from the market of Cinema Without Frontiers, which had been partially owned **by Alexander Rodnyansky's media corporation A.R.Films since 2010**, and which passed the rights to its film library on to A Company.⁸⁴ The same happened to Carmen Film, which first stopped releasing art-house films under the Alternative Cinema label, and then shut down the Caravella DDC brand. It is interesting to note that several projects shut down by distributors were actually returned to the rights holders without ever being released in Russian cinemas. The owners of Cinema Without Frontiers⁸⁵ and Caravella⁸⁶ agree that turning a profit from quality independent and art-house cinema in Russia has become impossible since the fall in both prices and purchasing on the part of broadcast television channels. The number of cinemas in the country willing to show complex films is not getting any larger, and Internet sales have not yet proven worthwhile due to high levels of video piracy. Similar problems may lead to further reductions in the ranks of film distribution companies and the consolidation of the Russian market.
- The number of companies releasing alternative content for the big screen is also shrinking. In 2014, only specialized companies were active in this segment. A particular aspect of this type of distribution has emerged ever more clearly: projects like these, especially those dedicated to classical music, have very long screen lives. They are continually appearing in new venues, and also returning to cinemas where they have already been shown, thereby helping audiences become accustomed to regular screenings of operas and ballets.
- Digital technologies have also given a boost to regional cinema. Local films are being released in more regions and enjoying greater popularity among cinemagoers, and producers are starting to think about exporting their films outside their home republics and even outside Russia. In the near future, we can expect that Russian producers from Siberia and the Far East will move onto markets in

⁸⁴ A. Dyakov. Cinema Without Frontiers: A Future of Bankruptcy? // <http://cinemaplex.ru/2014/10/22/kino-bankrotstvo.html> (Russian only)

⁸⁵ A. Dyakov. What Is Happening to Cinema Without Frontiers? A Tough Business for Independent Distributors // <http://cinemaplex.ru/2014/04/22/cinema-without-frontiers.html> (Russian only)

⁸⁶ Igor Lebedev: Exclusive Commentary on the Fate of Caravella DDC // <http://cinemaplex.ru/2014/07/06/igor-lebedev-comment.html> (Russian only)

the Asian countries that are culturally close to them; the bulk of such exports will be commercial films.

- **At the same time, Russia's main export to Europe will continue to be** art-house projects that attract modest audiences. The most important European markets for Russian productions will continue to be the former Soviet countries and France. This has been the case for many years now, and there is no reason to expect it to change in the near future.
- **Russia's domestic film distribution market has stalled, due to slowing** expansion by cinema chains and the completion of the transition to digital distribution. The rapid rise in admissions seen in past years will not be repeated, partly due to the slow growth in film consumption as the approaching demographic gap and falling number of 18-to-25-year-olds – those who visit cinemas most frequently – begins to impact film distribution.
- Furthermore, currency fluctuations will most likely result in the stagnation or even reduction of box office takings in dollar terms, perhaps as soon as the end of 2014. While international sanctions are in place and the economic situation in the country deteriorates, demand for film services will become more elastic. This may lead to lower ticket prices, the growth of which has slowed markedly, dropping below the rate of inflation.

All this means that Russian distributors and their foreign partners can expect difficult years ahead in the face of a stagnating market, falling demand (due to a shrinking youth audience), and the fact that digital distribution is no longer the driver for increased efficiency that it once was. Only the largest and most creative companies will survive in this competitive marketplace.

CHAPTER 6. THE HOME VIDEO MARKET

6.1. Industry structure

6.1.1. Methodological aspects

No official, systematic statistics concerning video for home viewing on physical media in Russia have ever been kept. In the light of the large market for pirate products, which developed back when the country began its transition to a market economy due to legislative shortcomings (the stalled accession to the Berne Convention and, later, the dissemination of 'sublicences'⁸⁷), this segment of the film industry has remained of little interest to producers or the government. As a result, there was never any suggestion of introducing an equivalent of the CAIS for the video market. Private companies have likewise failed to establish an open system of regular reporting on video and DVD sales. The only such attempt was made by *Videomagazine*, which up until 2011 published aggregate weekly figures for several big video distribution companies, but their reports did not cover the entire market. Several foreign companies have also engaged in market evaluation (IHS/Screen Digest, GFK), but their reports were commercial in nature and are not available for analysis as part of this study.

Therefore, the chief method of examining the market for home video on physical media in Russian is by analysing the lists of releases available in public sources. Traditionally, those lists were published by *Videomagazine*. Starting in 2008, the electronic weekly *Video Market Bulletin* offered some competition, but both publications had ceased to exist by early 2012. Currently, the only public source of data on the dates and distributors of releases in Russia is the Kinopoisk website (kinopoisk.ru). We used the information from this site to compile lists of DVD and Blu-ray (BD) releases for 2012–2014. The lists of the major distributors were additionally verified by Nevafilm Research through inquiring with the distributors directly. Based on the data collected, the lists of video releases for the period from 2011 to the first half of 2014 was analysed to determine the type of content, country of production, number of new releases, and distribution companies.

Furthermore, the study included expert interviews with Russian home video market players and content analysis of press reports to identify major trends and the prospects for development in this segment of the film sales market in Russia.

6.1.2. Current market conditions

The history of the Russian home video market dates back to the 1990s. Major turning points, all of which have affected the market in a

⁸⁷ see also Section 3.5.1. Origins of the Home Video Market, in *The Film Industry in the Russian Federation 2012* – <http://www.obs.coe.int/documents/205595/552774/RU+Film+Industry+2012+Nevafilm+EN.pdf/2a99cc4b-6946-44c3-954e-accda3e942b2>

very negative way, included the 1998 default, the explosion of DVD piracy in 2002–2003, and the global financial crisis of 2008–2009, following which the video market entered a gradual decline. The main reasons for this were the ubiquitous rise of the Internet; the consequent explosion of online piracy, no longer dependent on physical media; and the rapid development of legitimate digital distribution channels.

Experts polled in the summer of 2014 agreed that after 2012, they noted an especially sharp decline in the home video market. While previously sales volumes had shrunk by 10–20% a year, after 2012 the decline amounted to 20–40% a year. The main reason for such a quick collapse of the market was the falling number of sales outlets for video discs in Russia. Several specialized chains have either left the market altogether or markedly scaled back the number of their stores, including Soyuz Video, Hit Zone, Nastroenie, and Purpurnyi Legion. Not only the major chains selling electronics, but also large supermarkets that had contributed to the quick growth in disc sales from 2006 to 2007, have since reduced or eliminated shelf space for DVDs and BDs. Now, chains like Auchan, O'key, and Lenta may not even stock discs in their new stores, while the volume and variety of films on offer are being reduced in the old ones, where they are being displayed in 'basket' assortments of miscellaneous discs sold at a single – usually discounted – price. The only food seller that still offers videos on physical media more or less consistently is the premium Azbuka Vkusa chain, with its specialized Stereo Delicacies brand, found in some of the company's supermarkets.

The decreasing number of sales outlets, combined with the shift towards a cheaper range of products, has hit Blu-ray discs the hardest. Video distributors have reduced production volumes. In 2010–2012, category A films on BD averaged 5,000 to 10,000 copies, but by 2014 that volume had plunged to 2,000–3,000. DVD production was similarly reduced: from 100,000 copies to an average of 30,000–40,000.

One other negative trend contributing to the shrinking of sales and manufacturing lies in **the declining interest in discs across Russia's** regions. In the regions, discs were primarily sold through supermarket chains, and these stores have lost interest in this product line over recent years. Several years ago, most distributors made sure to release 'regional' versions of films – for example, without bonus materials or the original soundtrack – for sale outside Moscow, but now demand and circulation for such products have noticeably decreased. The 1:3 ratio between sales volumes of bargain (regional) and full-price (complete) discs in 2010 had dropped to 1:1 by 2014. Broadband Internet access is becoming more widely available across the regions, and people are becoming more familiar with legal video on demand online services. There is a growing interest in both free and paid video-streaming apps and websites.⁸⁸

The shrinking of the market has caused some of the major DVD and BD manufacturers to go out of business. The spring of 2013 saw the closing of DVD Club, followed a year later by Laser Video Multimedia, **Russia's first BD manufacturer. Consequently, the country's biggest disc**

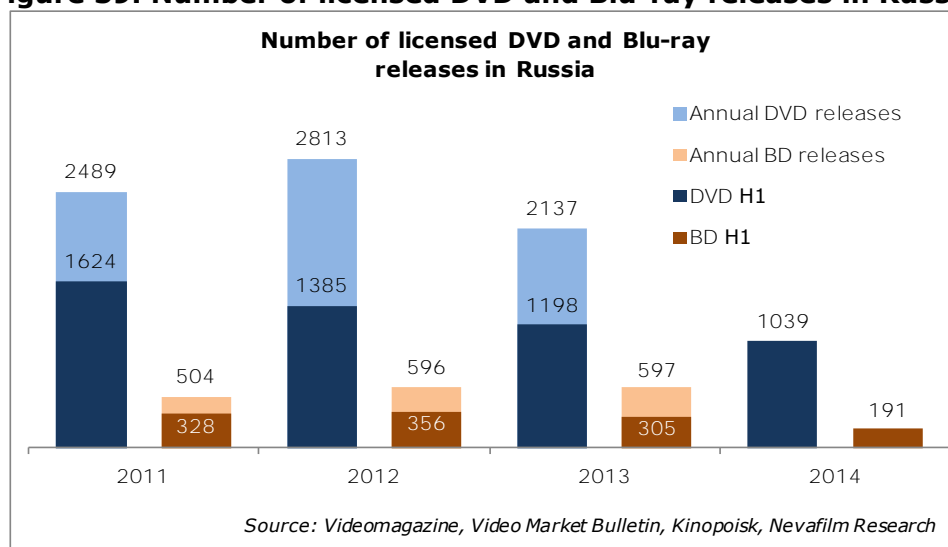
⁸⁸ This has also resulted in a sharp decrease in the circulation of pirated copies on physical media in Russia, which, according to experts, have all but disappeared.

manufacturer is currently Sony DADC, delivering to Blu-ray all the films by Hollywood heavyweights.

6.1.3 Market structure by number of releases

Taking stock of lists of video releases shows that, despite reduced production and sales volumes, the range of films offered to Russian consumers did not shrink as drastically in 2013–2014. In 2011, around 2,500 films were released on DVD and 500 on BD. In 2012, the number of releases increased to 2,800 and 600 respectively, whereas over the past two years, films released on DVD have averaged around 2,000 a year. Meanwhile, the number of titles released on BD decreased by a third in one year (from 300 to 200 in the first half of the year). Thus, the decrease in shelf space allotted to BDs at large supermarkets and hypermarkets has **shaped video distributors' choices when it comes to releases in that format**. Another factor influencing the number of BD releases in Russia in 2014 stems from a drop in activity by Sony Pictures, a representative of Hollywood studios, which temporarily halted its releases in May, while it acquired a new Russian distributor. The company did not resume its releasing activity until August, under the CP Distribution brand.

Figure 39. Number of licensed DVD and Blu-ray releases in Russia



As for the proportion of new releases, the DVD segment has been relatively stable. Distributors have stuck to a consistently equal ratio of new releases (films made within the past two years) to films from the existing catalogue. On the other hand, since 2012, the Blu-ray market has showed a trend towards releasing fewer archive titles. In this premium format, copyright holders increasingly prefer to release only the latest **films, still fresh in viewers' minds after their cinema runs. Whereas in 2011, new titles comprised 49% of BD releases, in the first half of 2014, this figure went up to 74%.**

Figure 40. Structure of the licensed Russian DVD market by new releases

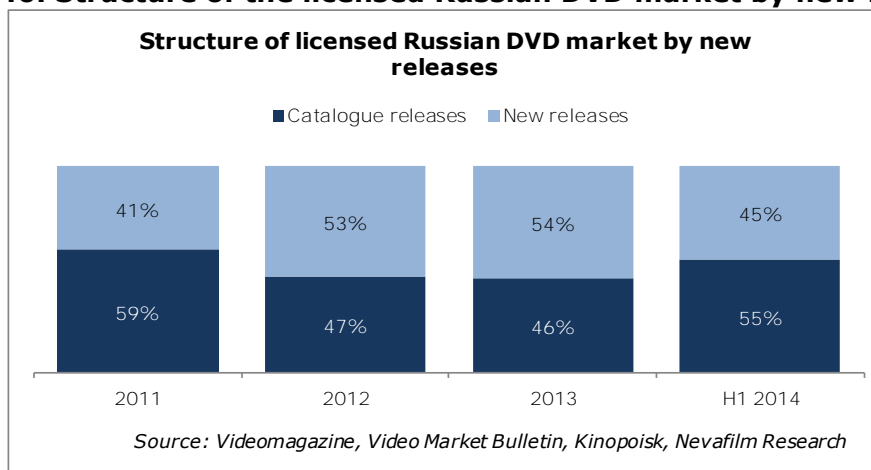
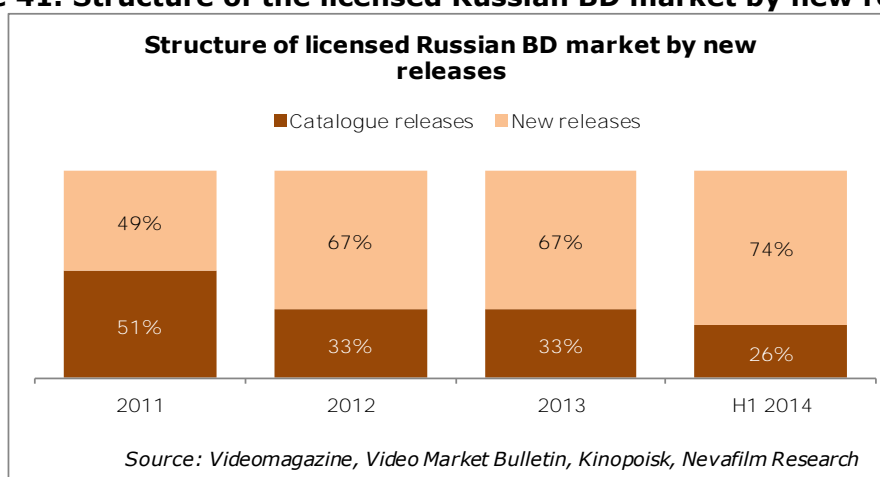


Figure 41. Structure of the licensed Russian BD market by new releases



Titles released on DVD and BD in Russia are predominantly feature films, with Blu-ray releases averaging 10 percentage points higher in this category (57–67% – depending on the year – and 67–84%, respectively). Animated films and series come in second in terms of numbers of titles released. Notably, their share of DVD releases in recent years has grown rapidly, from 15–20% to 30%, while on Blu-ray, it has remained constant at around 15–20%. It would seem that featured television series are on their way out. Releases peaked in 2012, when practically all Russian series broadcast over terrestrial television channels were released on DVD. Now, their share of all DVD releases is down to 2%. TV series occupy a slightly more prominent position on Blu-ray (4% in 2014). The BD format tends to select higher profile series compared to the DVD format, focusing mainly on big-budget foreign television productions (*Game of Thrones*, *Sherlock*, etc.). The share of documentary films and series (including educational and entertainment programmes and TV broadcasts) shows an interesting trend. While such films and series now account for fewer DVD releases (down from 13% in 2011 to 4% in 2013), they represent a higher proportion of BD releases (growing from 3% to 12% over the same time period).

Figure 42. Structure of the licensed Russian DVD market by type of release

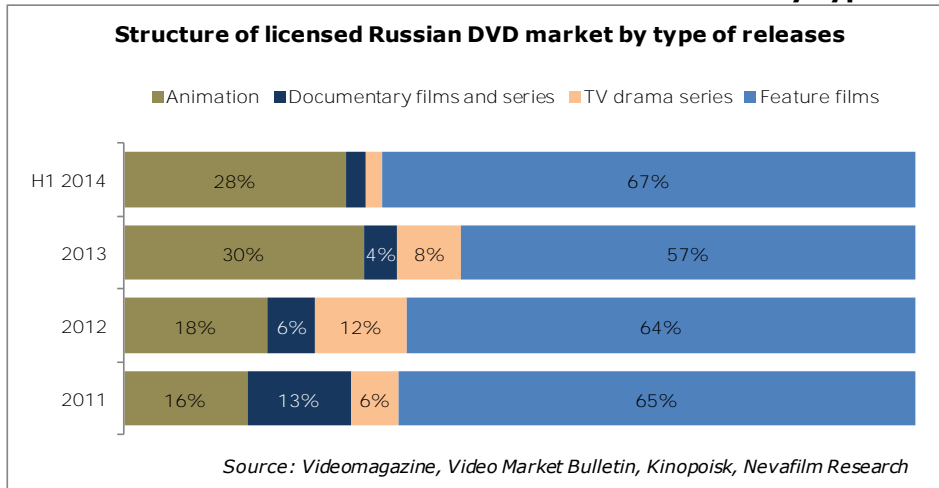
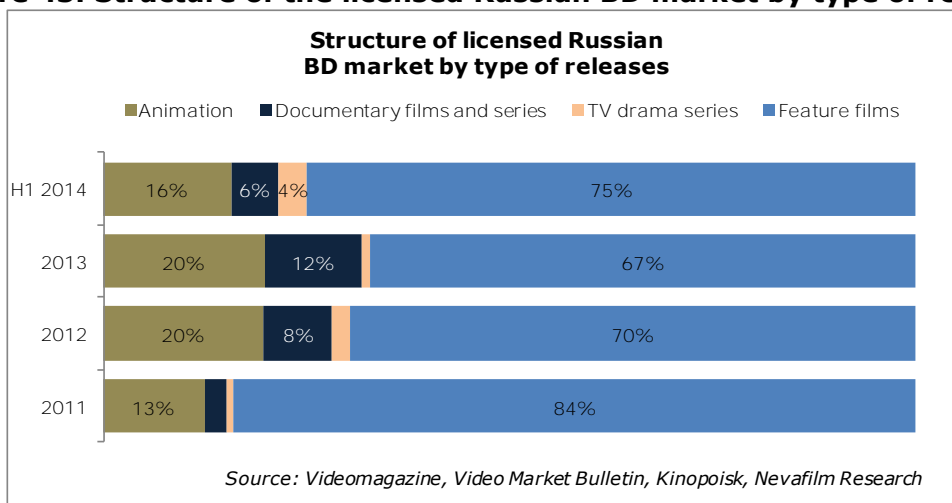


Figure 43. Structure of the licensed Russian BD market by type of release



Thus, the Russian licensed release market for home video clearly gravitates towards feature films, but with a different breakdown across DVDs and BDs. DVDs are focusing more on children’s programming and animation, while BDs offer more blockbuster high-budget fare, including TV series and documentary films.

The number of Russian releases as of the end of the first half of 2014 totalled 353 titles on DVD (34% of the total number of releases) and 34 on BD (18% of total releases). Every year, Russian producers take up a bigger share of the home video market by the number of titles released. Among foreign releases, the biggest share has traditionally belonged to North American productions, accounting for around 40% of DVDs and 50% of BDs. Usually, up to one third of titles released on video come from European countries, but in the first half of 2014, European DVD releases lost ground, their share falling to 19%. This has to do with the changes in the video manufacturers supplying the market. Carmen Video, one of the major suppliers of independent American and European cinema on the Russian market, has released no discs since April 2014. Cinema Prestige, specializing in art-house films, put out no releases between March and August 2014. Flagman Trade, a leader in recent years by numbers of releases, ceased its operations. Products from other countries, including

those from Asia, represent a minimal share of the Russian market: 4% of DVD and 2% of BD releases.

Figure 44. Structure of the licensed Russian DVD market by country of production (number of releases)

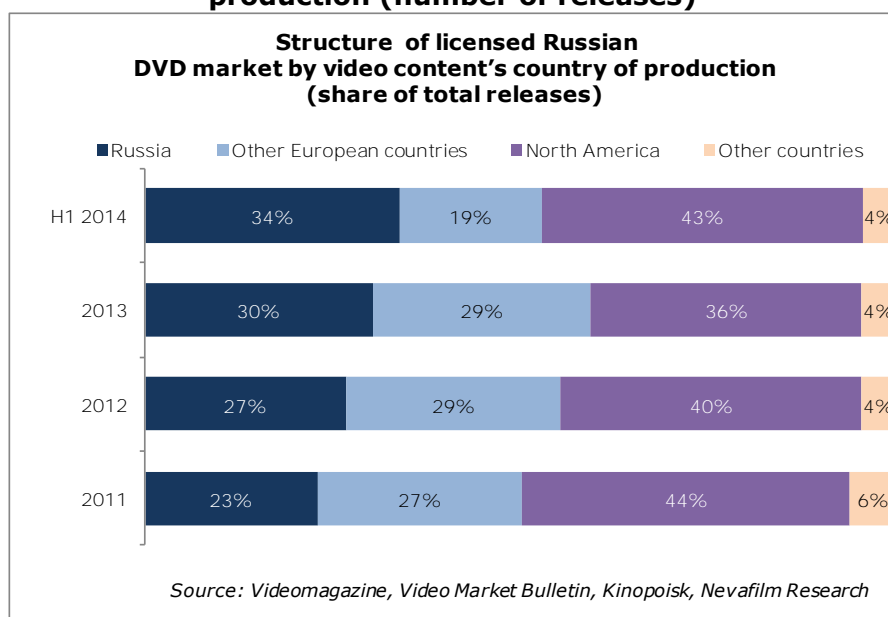
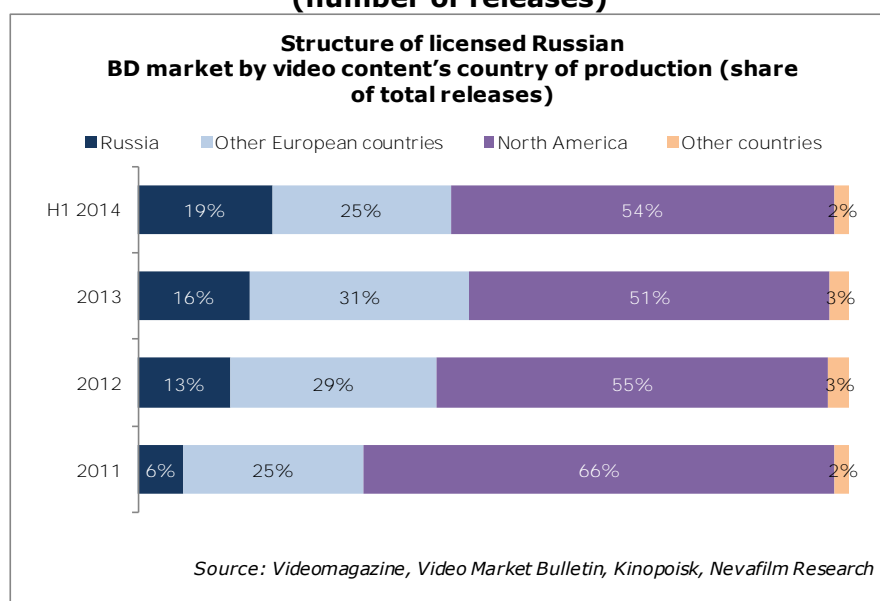


Figure 45. Structure of the licensed Russian BD market by country of production (number of releases)



As part of the war being waged by copyright holders and distributors against video piracy, for a while on the Russian market, there was a **gradual reduction in the time window between a film's premiere in cinemas and its release on video**. But after 2009, that situation started to **change: Hollywood studios started to refuse to issue 'cropped' versions of cinema releases within short windows**. Every year, this problem becomes less relevant in light of the overall decrease in disc sales. Now, films released via premium VOD services before their release on DVD and BD, or even while they are still being shown in cinemas, have taken centre stage. For instance, the Play paid service made this part of its strategy in

2013. It informs users by labelling such films in their library as 'now in cinemas'.

Currently, the average time window for films to be released on the Russian video market is 113 days, with Russian productions averaging a shorter period of only 89 days, compared to foreign films (121 days). The median size of the window before video release is 85 days. Median values for the window have grown particularly rapidly since 2012, mostly for foreign video releases, where it reached 96 days in 2014, almost twice the length of the window for Russian films (54 days).

Figure 46. Average time window between the premiere of a film in Russian cinemas and its release on DVD

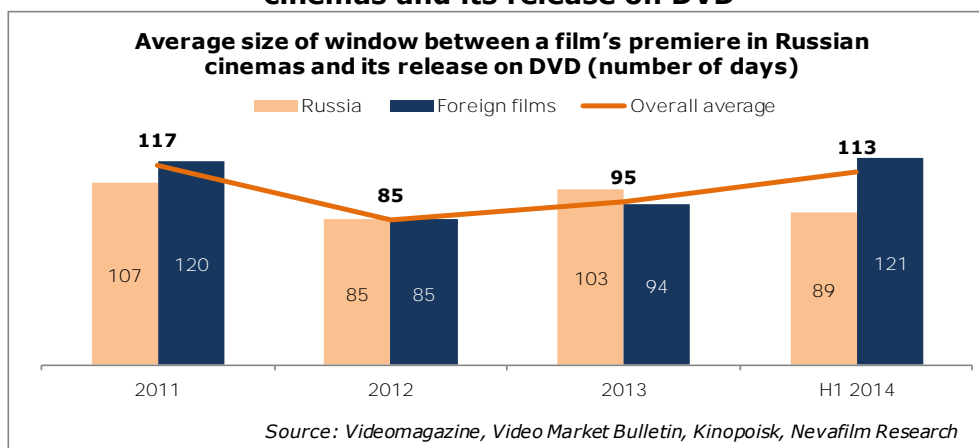
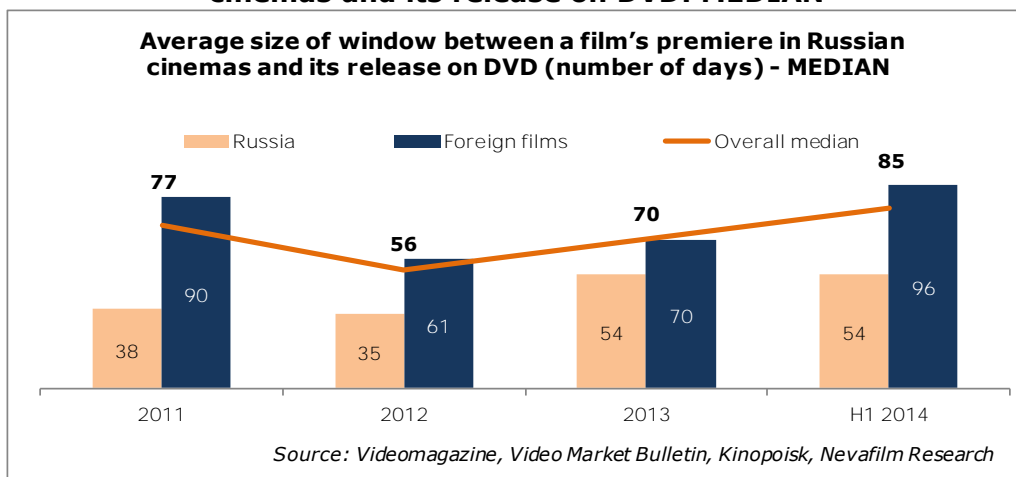


Figure 47. Average time window between the premiere of a film in Russian cinemas and its release on DVD: MEDIAN



6.2. Principal players

Overall, as of mid-2014, the Russian licensed video market numbered fewer than 20 players, including:

- direct representatives of the Hollywood majors (Twentieth Century Fox CIS has offered 20th Century Fox packages since 2004 and Universal packages since 2011)
- official representatives of the Hollywood majors, who also have large independent packages (Noviy Disk with Paramount since 2012; VideoService with Walt Disney Pictures since autumn 2012,

after the major closed down its office in Russia; Sony Pictures until May 2014; CP Distribution has represented Warner Bros. releases since 2011 and Sony Pictures releases since August 2014)

- independent video distributors offering a wide range of Russian and foreign releases (**Russkoe Schast'e, Lizard Cinema Trade, Misteriya Zvuka, Carmen Video, Paradise, Azimut, CD Land, Cinema Prestige, Volga, West Video, WWW.RECORDS, RUSCICO, Olimp-Tel, and Reanimedia**)

A look at trends in DVD releases by the top 15 companies in terms of total releases for 2011–H1 2014 reveals that the share of titles being released by those companies is growing rapidly every year. In 2011, video producers outside the top 15 provided around 17% of all releases, while in the first half of 2014, they accounted for merely 2% (see Figure 48).⁸⁹ Over the past three years, the leaders in this market have also changed. Traditionally, Noviy Disk and CP Distribution (including releases coming out under the Premium Film label) have held strong positions, while market share has increased for VideoService (after recovering the Disney contract), Lizard Cinema Trade, and CD Land (which have become the leaders in releasing independent films); Flagman Trade, Misteriya Zvuka, Carmen Video, and others had either reduced production or left the market by 2014.

The number of companies releasing BDs is even lower (around 15). The ten biggest in terms of releases for 2011–H1 2014 have retained a stable hold on their market positions. Companies outside the top ten release no more than 7% of all Blu-ray titles. The same three companies lead this segment: Noviy Disk, CP Distribution, and Lizard Cinema Trade (see Figure 49).

⁸⁹ In cases when a title is launched simultaneously by several distributors, the release is attributed to all companies involved, resulting in the sum of releases from all producers being larger than the total of all disc titles released.

Figure 48. Biggest DVD distributors' share of the Russian video market by number of releases (2011–H1 2014)

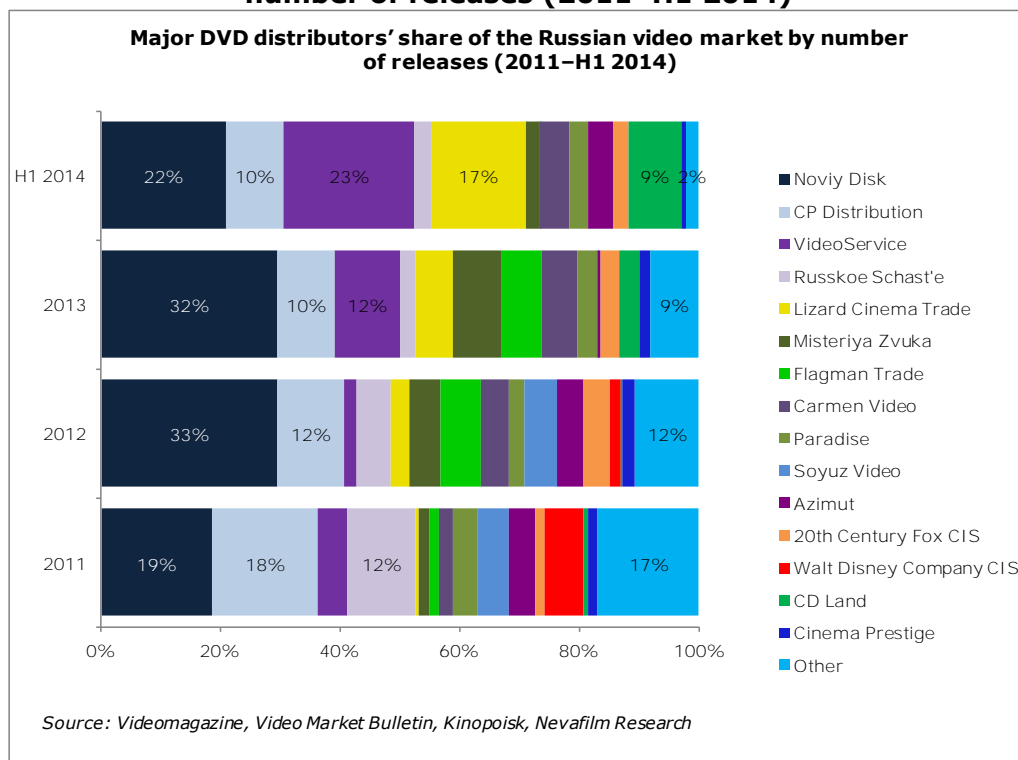
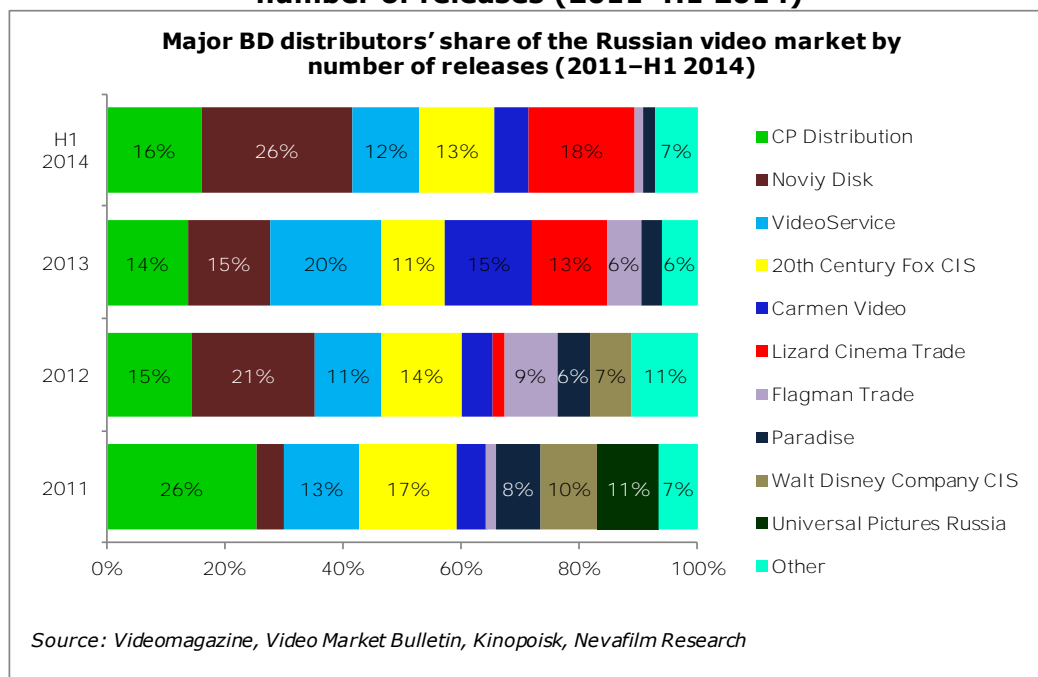


Figure 49. Biggest BD distributors' share of the Russian video market by number of releases (2011–H1 2014)



In terms of genre of DVD releases in the first half of 2014, the breakdown across the leading Russian distributors is as follows (see Table 35). Feature films were most broadly represented in the VideoService and Lizard Cinema Trade packages. Noviy Disk led the field in animated films and cartoon series releases. After Flagman Trade left the market and Misteriya Zvuka scaled back production in 2014, DVD releases of TV series

all but ceased. When Soyuz Video and DVD Magic closed down in 2013, documentary releases practically disappeared as well.

Table 35. Ranking of the biggest players on the Russian DVD distribution market, number and type of releases, first half of 2014

Rank	Publisher	Featured TV series	Animation	Feature films	Documentary films and series	Total releases	Market share by number of releases
1	VideoService	0	92	146	5	243	23.4%
2	Noviy Disk	0	155	73	4	232	22.3%
3	Lizard Cinema Trade	0	8	163	5	176	16.9%
4	CP Distribution	6	22	76	2	106	10.2%
5	CD Land	5	7	84	0	96	9.2%
6	Carmen Video	5	0	42	6	53	5.1%
7	Azimut	0	0	47	0	47	4.5%
8	Paradise	0	5	31	0	36	3.5%
9	Russkoe Schast'e	6	0	23	0	29	2.8%
10	20 th Century Fox CIS	0	8	20	1	29	2.8%
11	Misteriya Zvuka	3	0	21	2	26	2.5%
Total, H1 2014		22	293	700	24	1039	100.0%

Source: Kinopoisk, Nevafilm Research

Only two companies release featured television series on Blu-ray in Russia: Lizard Cinema Trade and CP Distribution. Carmen Video, which recently ceased operations, had been the leader in the BD documentary film segment. Noviy Disk releases the most animated and feature films.

Table 36. Ranking of the biggest players on the Russian BD distribution market, number and type of releases, first half of 2014

Rank	Publisher	Featured TV series	Animation	Feature films	Documentary films and series	Total releases	Market share by number of releases
1	Noviy Disk	0	12	36	2	50	26.2%
2	Lizard Cinema Trade	5	6	24	0	35	18.3%
3	CP Distribution	2	0	29	0	31	16.2%
4	20 th Century Fox CIS	0	1	24	0	25	13.1%
5	VideoService	0	6	14	2	22	11.5%
6	Carmen Video	0	0	4	7	11	5.8%
7	CD Land	0	1	6	0	7	3.7%
Total, H1 2014		7	30	143	11	191	100.0%

Source: Kinopoisk, Nevafilm Research

6.3. Prospects for the development of the video market

While sales volumes for home video on physical media are shrinking on the Russian market, the number of films released on DVD is not decreasing as quickly. Every year, around 2,000 titles come out on disc in Russia. Meanwhile, the recently introduced Blu-ray format has failed to achieve its predecessor's level of popularity, because it was the first to suffer from the reduction in mass disc sales by chain stores: the list of BD releases was cut by a third in 2014.

The number of players on the market is decreasing, not just because the demand for physical media is falling every year, but because of the compounded problems plaguing the distribution market. For instance, the closure of the Carmen Group, which included Carmen Video, Caravella DDC, and Alternative Cinema, was due not only to lower DVD and BD sales, but also to the reduced demand for independent films in cinemas, against a background of rising purchase prices on the international market.

The majors' representation on the video market poses yet another problem. Russian distributors' contracts with Hollywood studios are expiring, and the new ones are being signed for shorter terms. The issue of extending those contracts may prove crucial, because Russian companies are willing to pay less and less for packages offered by the majors, to the point where Hollywood may reject such terms and individual studios may leave the Russian video market altogether.

Overall, we believe that in the next few years, Russia can expect a consolidation of players on the market down to 3–5 video distributors, who, most likely, will concentrate on two areas: **1) new cinema releases and television (series) premieres and 2) expensive collectors' editions** from famous film franchises.

For now, the main challenge faced by the major players on the Russian video market is the search for new ways to market their products (for instance, VideoService is shoring up its connection with supermarkets, supplying them with discount DVD products for sale in **'baskets'**; **CP Distribution has signed a contract with the Russian postal service**) or even expansion into digital distribution (Noviy Disk is actively developing this route, partnering with iTunes).

CHAPTER 7. VIDEO ON DEMAND

7.1. Basic concepts, definitions, and research methodology

7.1.1. Basic concepts

Video on Demand (VoD) – a system enabling the individual delivery of television programmes and films to the subscriber. Subscribers may order films from the catalogue at any time, and the system often supports additional functions, such as rewinding, pausing, and bookmarking.

Several different technologies provide video on demand (VoD) services:

1. Films online (Internet Video on Demand, iVoD) – a way to watch feature films directly through the Internet. Online film streaming services operate using this model, as well as operators of pay TV, who provide VoD using IPTV;
2. Near Video on Demand (NVoD) – a **'virtual cinema' or 'rotating video' digital television service. In this format, pre-formatted content is broadcast according to a set schedule. This model is used by companies such as NTV+ and Akado, whose customers purchase viewings of a film at a specific time.**

Online film streaming services – video resources offering legal, professional video content for viewing on demand over the Internet using the OTT model.

VoD Operators – operators offering legal video content on demand **through their own managed network (the operator's data transmission network).**

Aggregator – a company that establishes multiple agreements with individual content and service providers, as well as with operators, to facilitate the process of delivering content to its users or subscribers.

Rights holder – the individual or legal entity who owns the rights to a particular body of content, e.g., to a film.

SVoD (Subscription Video on Demand) – a service providing access to video content on a subscription basis (monthly, etc.).

EST (Electronic Sell-Through) – a purchase of content that can be viewed multiple times with no time limitations.

AVoD (Advertising Video on Demand) – a service providing access to video content on the condition that the user views advertisements (free for the user).

TVoD (Transactional VoD) – a purchase of content for one-time viewing or short-term rental (as a rule, 48–72 hours).

7.1.2. Classification of VoD services

VoD services are classified according to various criteria:

Agreements with rights holders

- Legal video portals are video portals providing access to content

based on agreements with rights holders. The biggest legal video portals in Russia include ivi.ru, zoomby.ru, and tvigle.ru.

- **Illegal video portals ('pirate sites')** are portals providing access to video products without the permission of the rights holders. In terms of audience, the biggest portal where illegal videos are still posted is the social media network VKontakte.

Means of earning income

- Pay model – the model by which an online resource provides users with access to video content in exchange for payment (subscription, payments for one-time viewing, payments for downloading). Play operates according to this model, as do the VoD services of pay television operators (Rostelecom, VimpelCom, and others).
- Advertising model – a model for providing access to video content free of charge to the user. The video service earns income from ad placements. Some video resources operating exclusively on the advertising model are zoomby.ru, tvigle.ru, and videomore.ru.

Viewing method

- Streaming video – the user watches videos online, nothing is downloaded. In the pay model (TVoD), there is usually an option offered for delayed viewing under the terms for a short-term rental (as a rule, 48–72 hours). Streaming video accounts for the largest share of legal video content.
- Downloadable video, where the video file is first downloaded by the user to his device. Almost all downloadable video today involves pirate resources. Among the legal video services, Play and Stream, as well as Apple- and Google-owned online content stores, offer download capabilities.

Type of video content

- Video portals including user-generated content (UGC), i.e. content created by users (amateur films posted online; as a rule, copyright does not apply). The biggest portal with the largest volume of UGC in Russia is YouTube.
- Video portals with professional content protected by copyright. First and foremost in this category are films and series to which the video portal owns the rights (predominantly, this means content on platforms such as megogo, ivi.ru, Play, Zoomby, etc.). A few video services also offer original content they produce themselves (for example, Tvigle makes the *Versus* animated films). Furthermore, some online services play television broadcasts with a slight lag time (usually several hours), using so-called catch-up TV technology. Catch-up is primarily used by video portals on the official websites of television channels: 1tv.ru, ntv.ru, tnt-online, and others.
- Hybrid types. Today, many of the portals created as video hosting sites for UGC have crossed over to a hybrid model, offering UGC alongside professional video content. The Video International Analysis Centre (VIAC) reports that on the Rutube portal, licensed

video made up 95% of content at the start of 2014, while on YouTube, it accounted for around 45%. This trend also works in the opposite direction, with video portals specializing in professional video content offering UGC (Tvigle, for example).

Platform

The overwhelming majority of video services (all of the largest ones) currently offer the ability to view on all major device types – computers, mobile devices, and smart TVs.

- Personal computers (Web). The primary device. Viewing on a PC (desktops and laptops) is offered by all online services, without exception.
- Mobile devices (smartphones, tablets). All major online video services offer the ability to watch video content on mobile devices. However, many smaller video portals, such as drugoekino.ru, focus only on PC users.
- Smart TVs are televisions that can connect to the Internet. Among the built-in apps on smart TVs, online video services are certainly the most popular. Currently, apps for the largest video portals are available either on all models of smart TVs (ivi.ru) or on most of them (YouTube, Zoomby, Play, megogo, and others).

Signal delivery technology

- Managed network (operator VoD). Service is provided using the **operator's infrastructure for broadband or pay TV, meaning access to the video content is provided only to the operator's subscribers** (Rostelecom, VimpelCom, NTV Plus, etc.).
- Unmanaged network (OTT services). Service is available to all Internet users regardless of which broadband or pay TV operator they subscribe to.

7.1.3. Research methodology and calculation methods

This research is a comprehensive analysis of the VoD services market based on the following sources:

- data from market players
- results of a survey of market experts (VIAC , TNS, GfK, AdFox, smart TV equipment vendors)
- special statistical tools (Google Analytics, SimilarWeb, Alexa, SPARK, app store statistics, and others)
- generally accepted measurements relating to online video (TNS and comScore statistics)
- **surveys conducted by other companies (GfK's Omnibus)**
- press releases and other publicly available information

In assessing the volume of the VoD services market, a bottom-up estimation method was used, according to which the size of the whole market in value terms was calculated as the total revenue from providing VoD services earned by all the major market players. Data on the

commercial activities of VoD service providers was requested from all the key market players.

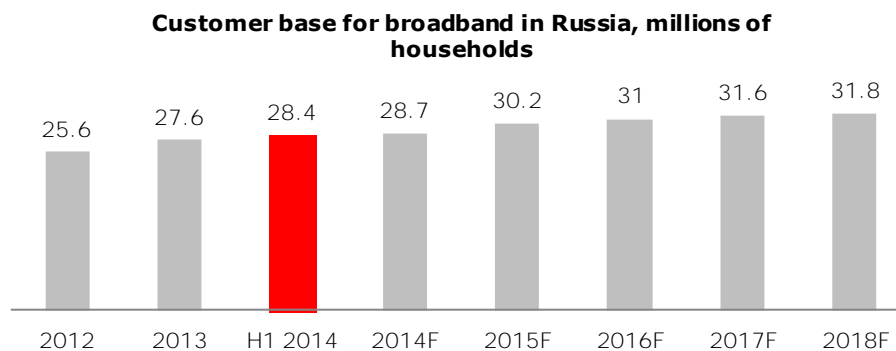
Where there was no information from a provider, iKS Consulting completed its own expert analysis of commercial activity indicators, based on data from statistical tools, overall market indicators, and the opinions of market experts, including competitors.

7.2. Volume and structure of the VoD market in the first half of 2014

7.2.1. Volume and structure of the market

The increasing popularity of video on demand in Russia was driven first of all by the increasing penetration of broadband Internet access.

Figure 50. Customer base for broadband in Russia (2012–2018F)

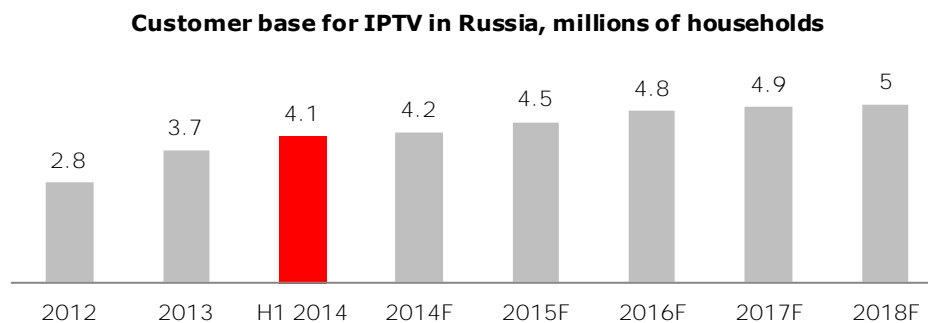


Source: iKS Consulting

While penetration is reaching its natural limit in the major cities, there is still room for growth in many smaller population centres. Consequently, users are expressing more frequent interest in VoD services.

Also steadily rising is the number of users accessing VoD through IPTV technology, which allows digital television and video services to be provided to customers who already have a broadband connection.

Figure 51. Customer base for IPTV in Russia (2012–2018F)



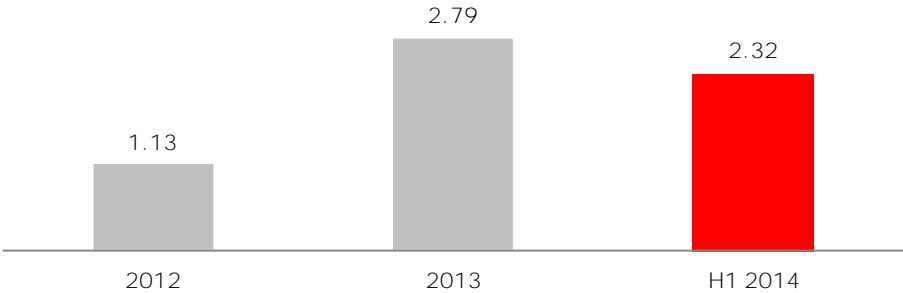
Source: iKS Consulting

The video on demand market is growing rapidly. According to iKS

Consulting, 2013 saw 147% growth compared with 2012, reaching a volume of almost RUB 2.8 billion over the year. In the first half of 2014, that volume was already 2.3 billion, suggesting that the growth rate remains high.

Figure 52. Video on demand market in Russia (2012–H1 2014)

Video on demand market in Russia, 2012–H1 2014, billions of RUB

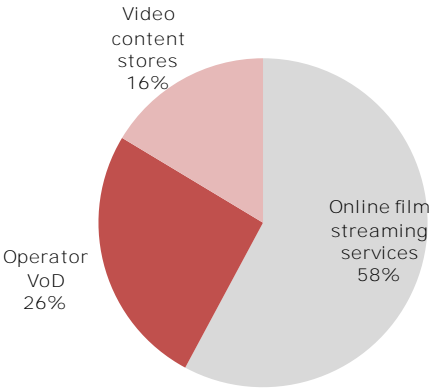


Source: iKS Consulting

In 2013, online film streaming services claimed the largest share of the video on demand market (58%), followed by VoD operators, and content stores (26% and 16% respectively).

Figure 53. Breakdown of revenue by service type (H1 2014)

Breakdown of revenue by service type, H1 2014

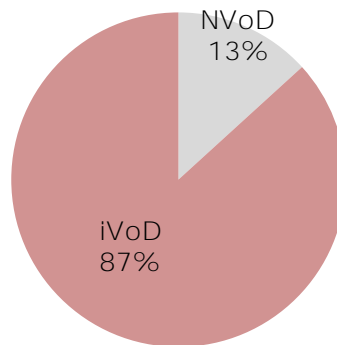


Source: iKS Consulting

An overwhelming share of the total revenue comes from iVoD, since both online film streaming services and most IPTV operators use this method of signal delivery. Two satellite operators (Tricolor and NTV+) account for the 13% share held by NVoD, along with those pay TV operators who provide access to ‘rotating’ video on demand (Akado, for example).

Figure 54. Breakdown of revenue by viewing method (2013)

Breakdown of revenue by viewing method, 2013

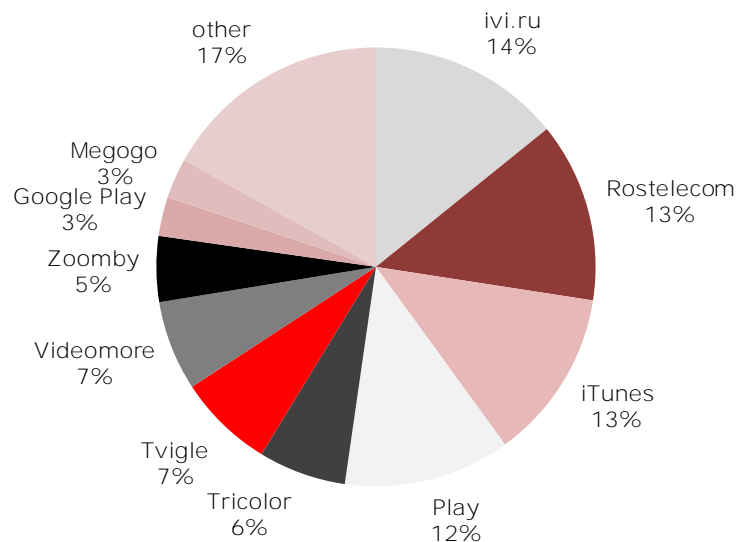


Source: iKS Consulting

According to iKS Consulting, the core group of the biggest VoD market players in Russia consists of online services. Among companies with a share greater than 5%, there are five online film streaming services, just one IPTV operator (Rostelecom), and one satellite operator (Tricolor). Both of those companies occupy leading positions in their own pay TV segments, leading competitors by a large margin in terms of customer base.

Figure 55. Breakdown of revenue for VoD services by player (H1 2014)

Breakdown of revenue for video on demand services by player, H1 2014



Source: iKS Consulting

The competitive environment in the VoD market is still just beginning to take shape, which gives the major market players room to experiment with their business models and the opportunity to occupy their own niches and thereby differentiate themselves from their competitors. Three online film streaming services (ivi.ru, Tvigle, and Play), one operator

(Rostelecom), and one content store (iTunes) make up the top five players in the Russian video on demand market.

7.3. Key players in Russia's video on demand market

7.3.1. Classification and business models

The market for video on demand is in the early stages of development, so it is still too soon to talk about which business models are most effective. Companies have seen success with both advertising and pay models. Many players today try to use both methods for monetizing their services.

They all devote a great deal of attention to content policy, while, however, choosing different strategies: some seek to gather an expansive library of extremely varied content, some focus on new releases, some offer exclusive content, while others create their own original content.

Another general factor is that operators try to attract audiences across all types of devices, with a presence on as many platforms as possible.

The Russian VoD market is taking shape based around the following groups of players:

Pay digital TV operators

The biggest player in the market is Rostelecom, which accounted for over 55% of the entire operator VoD market in the first half of 2014 on the revenue scale. Next in line are Tricolor, VimpelCom, and NTV+, which occupied 27%, 8%, and 4%, respectively (according to iKS Consulting estimates).

In 2013, the operator VoD market doubled with respect to the previous year, and all the major players experienced growth. This trend has been maintained into 2014. However, despite the fact that operator VoD revenue is growing quickly, it still contributes a very small share of **operators' overall income (7% from IPTV earnings on average).**

Major players in the broadband and IPTV services market are showing increasing interest in video on demand. Some large providers have long since set up their own online film streaming services:

- Rostelecom has Zabava
- Megafon has Trava
- MTS has Stream⁹⁰

In regions where circumstances have dictated poor penetration by broadband and IPTV – small settlements, rural villages, etc. – **satellite operators' services are extremely popular. In the absence of alternative sources of access to video on demand, and aiming to increase income from customers (average revenue per user – ARPU), satellite TV operators also offer VoD access in the form of supplementary packages. So far only two operators offer such services:**

⁹⁰ Stream functions as an independent project, but was originally developed by mobile provider MTS.

- Tricolor, with the Tricolor TV Cinema service: access is priced at RUB 500/year
- NTV Plus with its Kinodrom service: payment per film, priced at RUB 99

Online film streaming services

Online film streaming services distribute video content regardless of which operator the user is connected to using the Internet television concept. Data transmission is carried out without the mediation of the broadband operator, allowing the online streaming service to operate without investing in the required infrastructure.

Estimates from iKS Consulting allot 97% of the market to nine online film streaming services out of a total of more than 20 in 2013. Nevertheless,

Rostelecom is still trying to grow its business online by purchasing a bigger and more successful online film streaming service. Possible acquisitions include Now.ru, which iKS Consulting estimates occupied 4% of the online film streaming market in 2013.

Video content stores

The principal players in this market are two big international players: the iTunes Store and Google Play, which began selling video content in late 2012.

Both work with content under a combined model: films can either be downloaded or rented. Content comes in two quality options: standard (SD) and high definition (HD). Their libraries consist of live-action films and feature-length animated films. There are no shorter videos – series, music videos, short cartoons – in the libraries, due to the complexity of monetizing short videos using the EST and TVoD models; for instance, users are not prepared to pay for a 10-minute cartoon.

Table 37. Business models of the major Russian video on demand services

Service	Advertising model	Pay model		
	AVoD	TVoD	SVoD	EST
IVI.RU	Yes	Access to films online – RUB 99–299	Access to subscription RUB 299/mo.	RUB 39–399
PLAY (Okko)	No	Access to films online – RUB 39–399	Access to limited package of films: 1. for mobile devices – RUB 499/mo. 2. for smart TVs (not supported by all models) – RUB 499	RUB 39–399
TVIGLE	Yes	No	No	No
VIDEOMORE	Yes	No	Access to all content from partner ViaPlay RUB 395/mo., first month RUB 50	No
ZOOMBY	Yes	No	Access to serial content from partner Amediateka, RUB 299/mo.	No
AKADO	No	RUB 30–60	No	No
BEELINE	No	RUB 10–100	No	No
NTV+	No	RUB 99	No	No
ROSTELECOM	No	RUB 30–300	Subscription to thematic packages, RUB 150/mo.	No
TRICOLOR	No	No	RUB 500/year	No
iTunes	No	RUB 99–349	No	RUB 49–99
GOOGLE PLAY	No	RUB 49–349	No	RUB 49–109

Source: Company data

The biggest Russian online streaming services use various business models, offering their users not just one type of access to content, but a mixed model, in which various types of content are accessible free, by subscription, and by pay-per-view (PPV). Operator VoD is not characterized by this sort of variety, with only one IPTV operator (Rostelecom) and one satellite provider (Tricolor) offering subscriptions to their users. The other players provide access to films only via models requiring payment for each film (PPV), either by iVoD or NVoD.

7.3.2. Principal players on the VoD market

ivi.ru

Online streaming service ivi.ru was founded in early 2010. Its main investor is ru-NET. Over the past two years, ivi.ru has been energetically attracting investment from various funds (Baring Vostok, Frontier Ventures, ProfMedia, Tiger Global).

Judging by 2013 results, with an income of RUB 471 million, ivi.ru is the leader in the Russian marketplace for online film streaming services, and this trend is being maintained into 2014 (RUB 330 million in the first half of 2014).

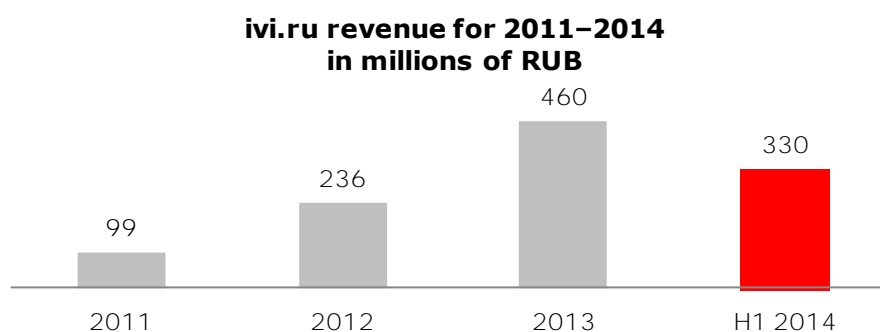
Its main business model for providing services is through advertising, **which accounts for 90% of the service's turnover. At the end of 2012, the pay model ivi+ was introduced, and in the second half of 2013 a pay model was launched for smart TV and mobile platforms. From early 2014, ivi.ru users were able to access videos via the EST model.**

The ivi.ru service has the most extensive film library, including over **70,000 titles. A children's channel, deti.ivu, is under development (9,000 titles), as well as a music channel (30,000 music videos).**

The project's success is being helped along by a highly developed partnership programme (for example, collaboration with providers like ER-Telecom).

The company has signed direct contracts with all the major Hollywood studios and with a large number of other foreign and Russian rights holders.

Figure 56. ivi.ru revenue for 2011–H1 2014



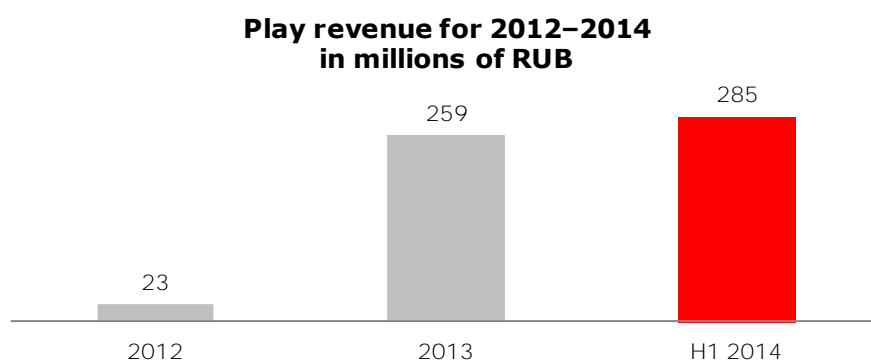
Source: iKS Consulting

Play (from September 2014 – Okko)

The online streaming service Play, which operated as Yota Play until 2012, first entered the market in 2011. Early on, the company was part of the Yota group, but it was left out of a merger deal between Yota and the mobile phone operator Megafon. The company has its own legal entity (More, 100% of the capital of which belongs to Blueshade Co. Ltd., registered in Cyprus).

In 2013, Play's income increased by a factor of 11, totalling RUB 259 million. According to company data, in the last two years revenue increased by 10–15% every month, and the ARPU is USD 20–30. In January 2014, the company was the first Russian online streaming service to become a profitable business.

Figure 57. Play revenue for 2012–H1 2014



Source: iKS Consulting

Currently, Play/Okko is the leader in the Russian market for video services operating on a pay model and competes not so much with Russian online film streaming services that use a similar model (AYYO, Amediateka, ivi+, Stream, etc.), as with the major content stores, iTunes and Google Play, as well as with Rostelecom's operator VoD service.

Play offers users a range of products: sales (EST), rentals (TVoD), and subscriptions (SVoD). The highest demand is for EST. The price per view ranges from RUB 39–399 depending on the type of rights involved, resolution (SD/HD/3D), how recent the film is, and other factors.

The service focuses primarily on users of smart televisions, smartphones and tablets, Blu-ray players, and, to a lesser extent, PC users. In a bid to determine the potential demand on the Web, Play set up its PlayLite service, offering access to 3,500 feature-length films from the Play catalogue on partner sites Kinopoisk.ru, Afisha@Mail.ru, and others.

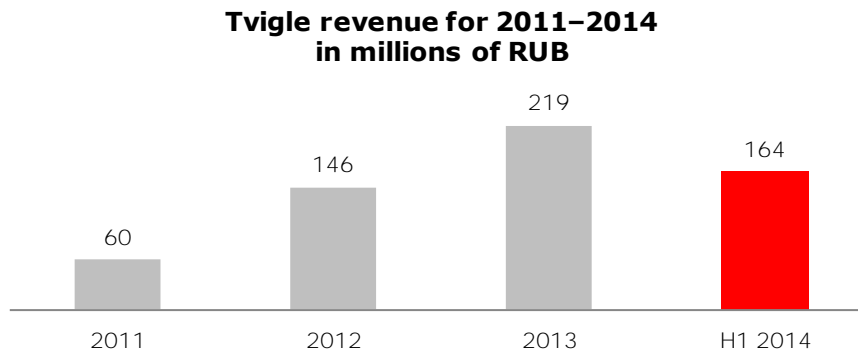
Play is positioning itself as a premium-class service offering maximum convenience and quality. For instance, Play was one of the first companies in Russia to introduce multiscreen capability (users can register up to five devices), HD and 3D formats, etc. Play also offers around-the-clock user support through its own call centre.

Tvigle

Launched in 2007, this company was one of the first Russian online film streaming services. Tvigle was created by a group of private investors in collaboration with the Allianz ROSNO insurance company's venture fund. In 2011, Tvigle stockholders brought in investment from Media3.

In 2013, the company's income multiplied by a factor of 1.5, totalling around RUB 219 million. The company is expected to grow by at least the same amount in 2014.

Figure 58. Tvigle revenue for 2011–H1 2014



Source: iKS Consulting

The company operates only on the advertising model. There were previous attempts to introduce subscriptions, but those were discontinued due to low demand, though there are plans to introduce the model again in the second half of 2014.

The Tvigle library contains around 26 million titles, more than half of which are 'short' content (under 15 minutes in length). Most of these are series and cartoons, so the company is positioning itself not as an online film streaming service, but more as Internet television.

The most popular content is foreign series. In particular, the company is the only one to show a range of series from the BBC, Fox, and Disney, including *The Walking Dead*, *Hannibal*, *Luther*, and *Misfits*. Most of them come out under a catch-up schedule a few hours after they are shown in the US or UK, dubbed into Russian. There is a noticeable spike in the number of visitors on days when new episodes are scheduled.

Tvigle stands out for its well-developed partnership network, which includes over 8,000 partner sites hosting the Tvigle player and accounting for almost 50% of video views.

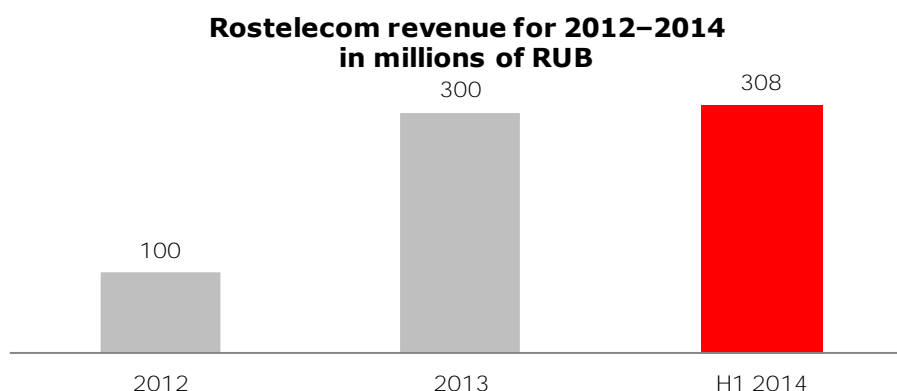
The company has an active working relationship with smart television manufacturers such as LG, Samsung, Sony, and Panasonic. Tvigle apps are also available through the set-top boxes of certain digital television providers, for example those of ER-Telecom. Tvigle Media says that around one million active devices have the Tvigle app for smart TV (counting app downloads with different IDs) and that 30 million videos are played each month. Tvigle is the only online film streaming service that works with the Xbox 360 (Microsoft), and PlayStation3 and PlayStation4 (Sony) games consoles.

Rostelecom

Rostelecom leads the Russian broadband and IPTV market. The total customer base for Rostelecom's Interactive Television was 2.53 million households, according to data for the first half of 2014.

The operator uses two models to provide content: subscriptions and one-time purchasing. Estimates from iKS Consulting place income from the Kinoprokat service using SVoD and PPV models at RUB 300 million in 2013 – more than triple the 2012 figure. In 2014, Rostelecom has been showing remarkable rates of growth – in the first quarter alone, revenue from video on demand exceeded the previous year's figures.

Figure 59. Rostelecom revenue for 2012–H1 2014



Source: iKS Consulting

Most of its income – 78% – comes from TVoD. Rostelecom owns one of the biggest catalogues held by any operator, encompassing over 2,500 **titles. Rostelecom’s catalogue also includes HD (over 50 titles) and even 3D content.** Aside from films and series, the company also offers software, music, and antivirus programs. The catalogue offers both new releases (some before they come out on DVD) and older films. The cost varies from RUB 30–300 depending on how new and popular the film is.

Several channels are available by subscription:

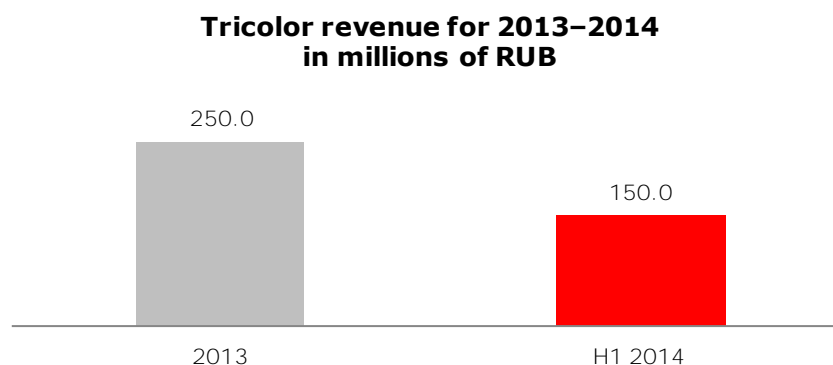
- NBC film package: RUB 150/month
- Disney film package: RUB 250/month
- Amedia Premium television channel series package: RUB 200/month
- content from the online film streaming service Viaplay: free with a subscription to the Viasat Premium channel package
- **a children’s channel: RUB 150/month**

In 2013, Rostelecom’s VoD audience tripled in size to around 6.5 million users. Most of that growth came from an energetic marketing policy and from increasing the IPTV base (including as a result of consolidation with other providers).

Tricolor

National Satellite Company (home of the Tricolor brand) is the biggest operator of pay satellite television in Russia, with a customer base of 10.56 million as of mid-2014.

Figure 60. Tricolor revenue for 2013–H1 2014



Source: iKS Consulting

Estimates by iKS Consulting place income from the Tricolor TV Cinema service at RUB 250 million for 2013.

The company began offering its customers the 'rotating' video service Tricolor TV Cinema at the end of 2011. Screenings begin every hour, and every day two new films are added to the schedule, with the entire line-up replaced within six days.

The service has grown thanks to the following factors:

- a large customer base
- the low cost of a package: RUB 500/year
- the large percentage of customers with no access to broadband (remote villages, private sectors within cities, rural settlements) to watch online video

Currently, around 500,000 customers use the service, and Tricolor plans to add another million by 2018. Its line-up consists of older Russian and foreign films; it shows no premieres.

iTunes Store

The Russian iTunes Store is operated by **Apple's Luxembourg-based iTunes Sàrl company. The store is a localized service for Russian users of Apple products, and its film catalogue contains over 2,700 titles.**

When a film is rented, it becomes accessible for viewing for 48 hours after it is first launched. It is also possible to pre-order a film that is currently unavailable for viewing.

Apple holds the rights only to the section of the store devoted to software for the iPhone, iPad, and iPod Touch. The rest of the content (music, video, etc.) is the property of the record companies and major film companies. Only content owners can decide in which **countries' stores** to make their products available. This explains the sometimes uneven distribution of video content in different countries, as well as, at times, its complete absence.

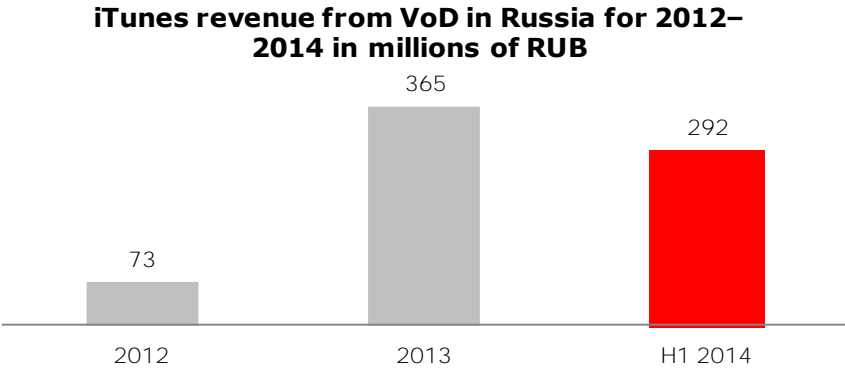
For example, Mosfilm, a leading company in the Russian film industry, has placed cult films such as *Love and Pigeons*, *Moscow Does Not Believe in Tears*, and *Ivan Vasilievich: Back to the Future* on iTunes. Furthermore, the Mosfilm app is available in both Russian and English, and certain films have English subtitles for foreign consumers.

The principal rights holders are Russian and foreign film companies (20th Century Fox, Central Partnership, Disney, Lenfilm, and Mosfilm). For

the reasons listed above, adding your own content is fairly difficult, and sometimes outright impossible. That is why content aggregators are frequently brought in for this purpose. But all the content aggregators on the list of companies recommended by Apple are located in Europe, which poses certain difficulties for the Russian video on demand market. First of all, this is because, officially, revenue from those postings pertains to the European market, not the Russian one. And, secondly, Russian legislation on storing personal data abroad is currently undergoing a series of critical changes, and it is difficult to predict which sectors will suffer most as a result of these initiatives.

According to iKS Consulting estimates, revenue from the iTunes service totalled RUB 365 million in 2013 (less than 13 months after it was launched). By the end of the first half of 2014, it had already reached RUB 255.5 million.

Figure 61. iTunes revenue from VoD in Russia for 2012–H1 2014



Source: iKS Consulting

In 2014, the iTunes Store plans to begin offering support for Android device users, offering them the option to purchase films. The service can also be used by owners of Windows and MacOS personal computers, or by using Apple TV on an ordinary television.

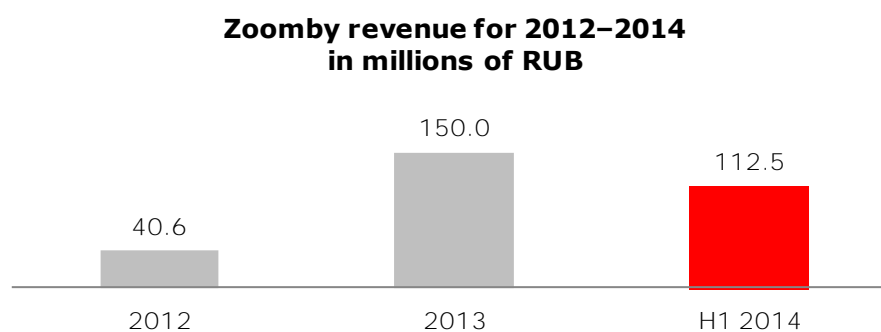
Partnership programmes also exist for posting links to content in the iTunes Store. Programme participants receive a commission for clicks on links to music, apps, and other content in the iTunes Store.

Zoomby

Zoomby was launched in 2010 by the WebMediaGroup holding company. Currently, the Leader-Innovations venture fund and Gazprombank are also shareholders in the project.

In 2013, the online film streaming service experienced considerable growth, with revenue from the video portal more than tripling.

Figure 62. Zoomby revenue for 2012–H1 2014



Source: SPARK-Interfax, estimate by iKS Consulting

Zoomby uses the advertising model and specializes in showing mostly **content from Russian television channels**. The company's plans include developing a pay model, which is now being tested for mobile platforms.

Zoomby's competitive advantage is its use of catch-up, allowing it to show television broadcasts and series almost immediately after they are broadcast on air. In 2013, views of catch-up video content grew by a factor of more than 10 in comparison with 2012.

The Zoomby catalogue contains over 81,600 video content titles. Russian series and television shows make up the bulk of the library (content from the channels Rossiya-1, Channel One, NTV, TV Centre, Sport, CTC, My Planet, and others); these account for the largest share of views, and the records for the numbers of views for a single title. For instance, in 2013, the series **Ash [Pepel]** drew 385,000 views in 24 hours.

Zoomby collaborates with all the major smart television manufacturers on the Russian market: Samsung, LG, Philips, Panasonic, Sony, Sharp, Bang & Olufsen, and others.

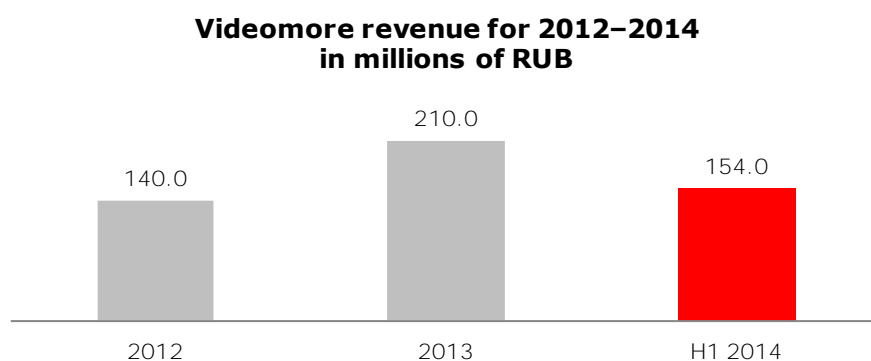
In 2013, Zoomby apps were installed on mobile devices 759,000 times.

Videomore.ru

The online film streaming service Videomore.ru, along with some popular entertainment television channels and other assets, is part of CTC Media, one of the biggest Russian media companies. Its library consists mainly of CTC Media content.

CTC Media's income from advertising on the Videomore.ru portal in 2013 was over RUB 200 million, according to iKS Consulting estimates, with growth of 150% compared with 2012.

Figure 63. Videomore revenue for 2012–H1 2014



Source: company data, estimates by iKS Consulting

Despite sound growth indicators, the company has decided to focus on direct development of the CTC and TNT channel websites.

Videomore.ru's business model is mostly advertising based, although the videomore.ru site also offers pay content through its partner portal Viaplay (a subsidiary of the Viasat group).

The company uses the broadest possible range of new advertising technologies, including not just commercials shown before the start and in the middle of the video being watched by the user, but also exclusive sponsorships (an advertiser is offered sole sponsorship of content relevant **to the brand's target audience**), **special projects (specially created pages on the website)**, contests, and branding of thematic playlists.

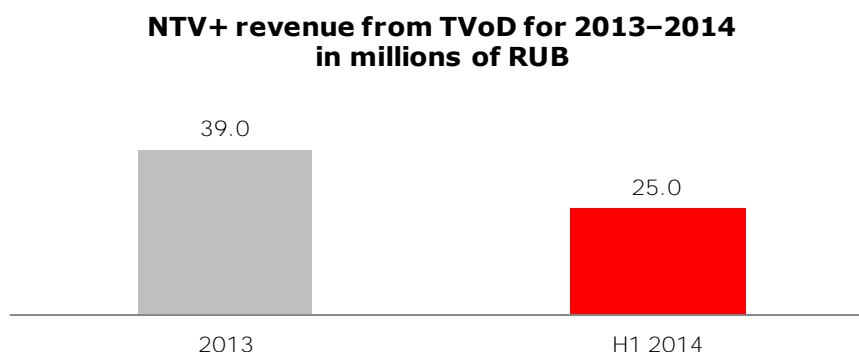
NTV+

NTV+ is the first satellite television company to have become, over 17 years ago, a leader in the Russian pay television market.

The company broadcasts throughout most of Russia and Ukraine. It currently has over 2 million viewers.

With RUB 39 million in income in 2013, NTV+ grew by a factor of 1.7 compared with 2012.

Figure 64. NTV+ revenue from TVoD for 2013–H1 2014



Source: estimates by iKS Consulting

NTV+ uses the TVoD model to deliver content. The operator uses a standardized payment system for content: each film costs RUB 99. But

there are various loyalty programmes and bonuses for repeat customers (for example, every tenth film is free).

One distinguishing feature of the company is that it develops its own content. Today, NTV+ produces 13 sports channels, 10 film channels, and a 3D format channel.

Google Play films

Russian Android users have been able to purchase and rent films since December 2012. The store is a localized service offered by Google Inc. in Russia.

In 2013, less than 13 months after it was launched, iKS Consulting estimates that the service brought in RUB 95 million.

Users can watch in standard quality or in HD. A rented film is accessible for one month, but only for 48 hours after the file is first launched.

Titles available to Russian audiences number 1,900. The catalogue contains only legal videos from major Hollywood studios, as well as from foreign and Russian rights holders and distributors. In this sense, Google naturally comes in second to online film streaming services and operator video on demand, and to its main competitor, the iTunes Store, which has greater room for growth in terms of increasing the number of titles in its store.

The main rights holders represented in Google Play are:

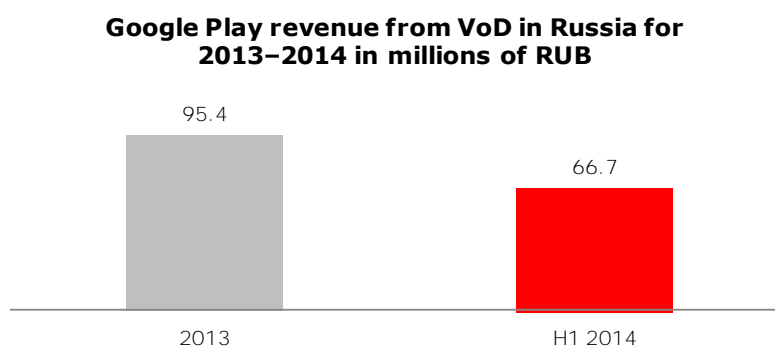
- 20th Century Fox
- Central Partnership
- Disney
- Paramount
- Sony
- Universal
- Warner Bros.
- X-Media Digital
- Lenfilm
- Mosfilm

Thematic selections available include new releases, comedies, animated films, Soviet film, recommended titles, etc.

Google Play does have a large number of practical advantages over its main competitor, the iTunes Store, which gives the content store greater potential. For example, compared with Apple, it is much simpler and faster to make content available (in the iTunes Store, the process for approving content is much more complex and takes much longer, and even after satisfying all conditions, the request may be denied with no reason given).

At the end of 2013, the Google Play films app also became accessible **to iTunes users, beating Google's main competitor to the punch** (iTunes plans to launch a similar option in 2014) and opening up a promising method for monetizing its services through iTunes users.

Figure 65. Google Play revenue from VoD in Russia for 2013–H1 2014



Source: estimates by iKS Consulting

7.4. Analysis of the pace of development in the sector, key trends, predictions, and prospects

7.4.1. Principal development trends and factors impacting the VoD market

The video on demand market is developing extremely rapidly, helped along by an array of factors. Principal among these are:

- **Growth** in smart TV penetration

Smart televisions are best equipped for viewing high-quality video. In 2013, according to iKS Consulting, smart TVs connected to the Internet numbered around 4.2 million.

The principal players in the VoD market are actively promoting their services for Samsung, LG, and other brands. The proportion of streamed video watched via smart TV is growing quickly: ivi.ru says that in 2012, smart TVs accounted for 23% of its total video views, while in 2013 it was 38%.

- A stronger legislative foundation

The Anti-Piracy Law has had a positive impact on the war against illegal distribution of videos online, though it does have several loopholes through which illegal content can still be distributed. Several legal players have already put forth suggestions for amendments.

- Increasing availability of HD and 3D content in libraries

There is now an expectation that HD and 3D content will be available, and therefore market players need to expand their libraries to meet demand.

- The creation of a loyal audience and a culture of use of VoD services

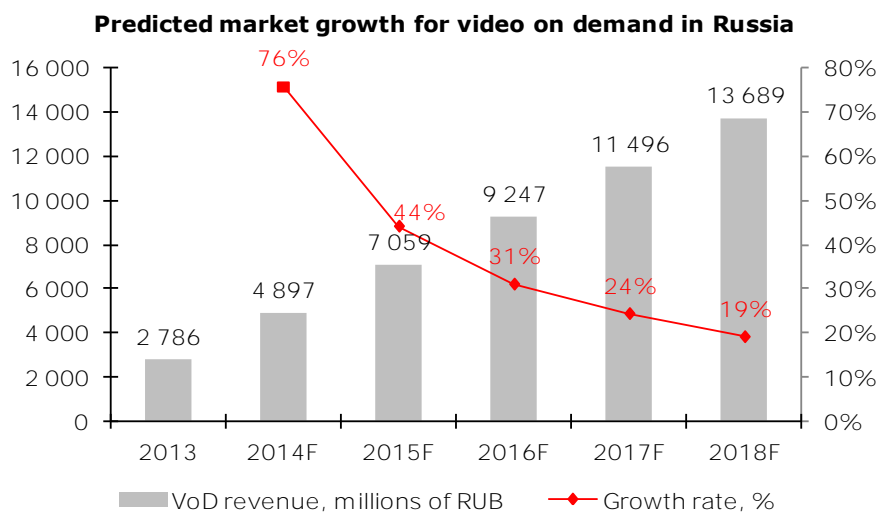
Currently, the pay model is still new to the Russian market, and there is still a fairly large contingent of players who are just starting to develop their own business models. Over time, they will secure their place in the market, which will lead to a greater willingness on behalf of users to subscribe.

7.4.2. Predictions for the development of the VoD market in Russia

Estimates from iKS Consulting state that revenue from video on demand services in Russia will total almost RUB 13.7 billion by 2018,

multiplying by a factor of 4.9 compared with 2013. The compound annual growth rate (CAGR) will be 39%.

Figure 66. Predicted market growth for video on demand in Russia (2013–2018F)



Source: iKS Consulting

The main prospects, possibilities, and risks for the development of the video on demand market in Russia are:

- An increase in Internet penetration

Without a doubt, the principal basis for the development of online video services has been the spread of the Internet, now used by billions of people, and the growth in the speed of Internet access, allowing the downloading of large video files and the viewing of streaming video online.

According to iKS Consulting estimates, fixed broadband Internet service penetration in Russian households reached 51% in H1 2014. The number of service subscribers was over 28.4 million (and in 2018, this is expected to grow to 31.8 million users).

Here, the main growth area and the main limitation for players on the video on demand market will be, simply, the penetration of Internet services, which, in Russia, is currently still below the average for developed countries (78%, according to ITU data).

- Increase in Internet access speed

Aside from greater penetration, an increase in data transmission speeds will doubtless be a driving factor for the online video market.

The most popular rate plans have a speed upwards of 2 Mbps. A majority of fixed broadband users connect at that speed today, which allows the viewing of online videos in standard format (SD). One third of users have access to speeds above 10 Mbps and can **therefore watch 'heavy content' in HD and 3D formats. This means** that demand is taking shape for higher speed rate plans for viewing heavy content.

- Development of the mobile Internet (increasing penetration and speeds)

Mobile access to the Internet is also increasing rapidly. In 2013, the population of Russian mobile Internet users grew by 10%, reaching 97.5 million. According to iKS Consulting, smartphone penetration at the end of 2013 was around 31%, and the number of tablet users grew to 3 million. This trend is generating demand for high-speed mobile Internet, which will allow any content to be viewed on consumer devices.

Today, 3G network coverage in Russia is available to 80% of the population. The average 3G speed is 2–3 Mbps, sufficient for viewing SD video. Next-generation LTE networks are being built quickly so that by 2019, this technology will be accessible to residents of all population centres with over 10,000 inhabitants. The average Internet access speed using this technology, 20 Mbps, allows the viewing of HD content.

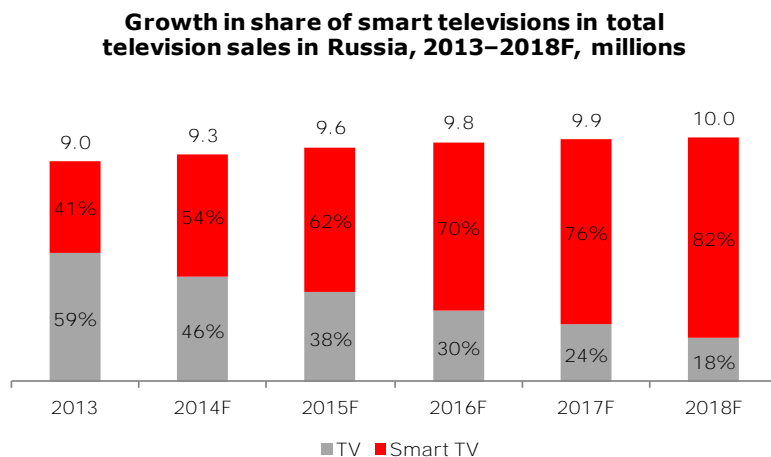
- Changes in video viewing format

The growing speed of Internet access is leading not just to larger audiences for online videos, but also to growth in the volume of video viewed, since faster access allows for online viewing and the viewing of HD content. Cisco reports that today, video makes up 53% of mobile traffic alone, and by 2018 that will increase to 69%, with the volume of mobile video traffic multiplying by a factor of 14. This will allow VoD services to be made available practically anywhere there is access to the mobile Internet and will completely change video watching habits (customers will no longer be tied to home Internet or the TV, instead using those services wherever it is most convenient), which will in turn give shape to a new culture of video **content consumption, which is provisionally being called 'video everywhere'**.

- Increasing penetration of smart TVs

Despite the fact that the first smart television models appeared on the Russian market only recently (in 2010), by the end of 2013 about 6.8 million of them had been sold. However, not all were connected to the Internet. Research by iKS Consulting demonstrates that in the big cities, 87% of those televisions were connected by the end of the year, while the average nationwide (according to VIAC) was only 55%. That means that smart television penetration was 12%, or 8% counting only the connected sets. However, that number will grow very rapidly in the coming years, given that by the end of 2013, almost half of all new television sales in Russia were models with smart TV functions.

Figure 67. Growth in share of smart television in total television sales in Russia (2013–2018F)



Source: iKS Consulting

- A strategic focus on developing cross-platform content

While the television screen remains the dominant platform for viewing video among the three major options (television, computer, and mobile device), the number of people using alternative platforms is growing every year. According to iKS Consulting data, on average, a resident of a major Russian city uses 2.4 devices, all of which are capable of showing television and video content: televisions, computers (desktop, tablet, or laptop), and smartphones. People use an average of two devices, even if only rarely, to watch videos. The study found no one who did not watch any video content at all.

This means that in the future, all the major players in the market will be emphasizing multiscreen services and offering access to their content through all consumer devices. Therefore, it is logical to assume that online film streaming services and operators will be trying to move into the smart TV niche, while the content stores have great potential for market development on mobile devices and tablets. Here the advantage lies with iTunes and Google Play, which have already made using content on any device extremely simple.

- Increasing content and expanding video libraries

Despite the fact that operators differ in their content policies for video on demand, content is already becoming an obvious competitive advantage, and this trend will continue in the future.

Many players include high-definition content in their catalogues. Today ivi, Zoomby, and TVzavr all have HD content (around 1,000 titles), as do Tvigle (500), Play, Rostelecom, and others. But the demand for that content is still limited due to often insufficient Internet access speeds.

Nevertheless, most players have plans to increase their numbers of HD films, and some of them have started including 3D films in their catalogues. Here, operator VoD players will most likely have an advantage, due to the fact that access speeds for home Internet are higher than those for mobile access or for HotSpot. This

means those players will be able to more reliably provide consumers with high-quality content and the technical means to watch it.

At the same time, the market will be developing towards an increase in the number of new releases and towards a smaller gap **between a film's big**-screen premiere and its release online. By making intelligent moves in this area, players will increase their competitive edge and gain an advantage not just in the video on demand market, but also over pirated content online.

- Protecting the interests of legal players

The principal obstacle to developing the Russian market for video on demand is the existence of a large number of pirate Internet resources that people can use to obtain access to illegal videos. These are torrent trackers (rutracker.org and others), video hosting sites (social network VKontakte, YouTube, and others), and file hosting sites (rapidshare.com, letitbit.net, and others).

It should be noted that VKontakte is taking certain steps to legalize content. For example, late in 2013, the company signed an agreement with the government media company Russia Television and Radio (VGTRK) to show videos. Another developing trend is the legalization of videos through agreements with online film streaming services, which already have agreements in place with rights holders. In both cases, the advertising business model is in place. It is fair to say that the groundwork has been laid to legalize content, but a great deal of work remains to be done and agreements must be reached with many rights holders.

There is now an organization called Internet-Video, which brings together the leading online film streaming services. That organization is consolidating its position on key issues concerning the turnover of audiovisual works online and in the future it will continue to protect the interests of legal players in the market. But Internet-Video does not represent operators and content stores, which constitute a significant share of the video on demand market. That is a large growth area for the market as a whole and for unifying the efforts of all players within it.

- Intensifying competition in the video on demand market

Because the video on demand market is still in its early stages, competitive battles are sure to intensify in the future. The top five companies will be the driving force in the market, but their business models will change slightly. Most likely, the players who are not emphasizing the pay model will start to direct their attention there (particularly ivi.ru), once changes to the law make that model more realistic. Also working in favour of the pay model is the fact that it allows for more efficient cooperation with rights holders and for new material to be released practically simultaneously with its distribution in cinemas. Companies such as iTunes and Play have already demonstrated the potential of pay models.

A further trend in the market will be consolidation. Already, for example, Rostelecom is expressing interest in small online film

streaming services, and several other pay TV operators are also planning to enter that market.

A third trend in the competitive environment is an increasing role for video content stores. The audience for those players is already used to buying content. Thanks to that habit, iTunes and Google are already seeing a great deal of success with their business models, but while their share of total market volume is currently 16%, in coming years that will increase to 18%.

Another prospect for development is the need for cross-platform solutions, in which there is already an interest. In the near future, major players will settle on a principal platform for their video services and will start developing multiscreen services. Content stores will doubtless lead the way in the smartphone and tablet sector, while players such as ivi.ru, Rostelecom, and Okko will dominate in the smart TV sector.

CHAPTER 8. TELEVISED FILM DISTRIBUTION

8.1. Terrestrial television

Terrestrial television has historically played the most noticeable role in the Russian television market because it is free to users. This means that state (government-financed) and commercial television channels make up the bulk of the terrestrial broadcasting system. Both earn most of their income from selling advertising airtime. Federal terrestrial channels have the largest distribution network, although most of them can **now only nominally be called 'terrestrial'**, since the technical means used to deliver a television signal are most often combined today, with the same groups of national Russian channels delivered to users in various cities, or even in various districts of the same cities (through the federal or local broadcast network, by satellite, or in a cable or IPTV operator package).

The list of federal television channels has been regularly reviewed by Roskomnadzor, the Federal Telecommunications, Information Technology, and Mass Communications watchdog, at the request of the Federal Antimonopoly Service, which works to ensure, among other things, that advertising law is being followed.⁹¹ The list was last updated in May 2014. It contained 22 television channels that broadcast on the territories of at least five regions of the Russian Federation: Channel One, Rossiya 1, Rossiya 2, Rossiya 24, Rossiya K, Channel Five, NTV, TV Centre, CTC, Domashniy, Peretz, U Channel, Disney, TV 3, Pyatnitsa, TNT, REN TV, Mir, **Zvezda, 2x2, RBC TV, and Karusel.**⁹²

For the purposes of this report, we have focused on channels that broadcast cinematic content (news channels, for example, are not included). We selected the 18 national and federal channels with the widest coverage which show this type of programming, and observed trends in audience share (using TNS Russia data) for 2007, 2010, and 2013.

Most noticeable in the comparison of these three periods is the rapid **fall in the total share held by the 'big three'.** The most serious losses were experienced by Channel One, whose share over six years shrank from 21% to less than 14%, and by Rossiya 1, whose share fell from 17% to less than 13%. At the same time, NTV managed to increase its ratings in 2010, and currently its audience share puts it on the same level as Rossiya 1.

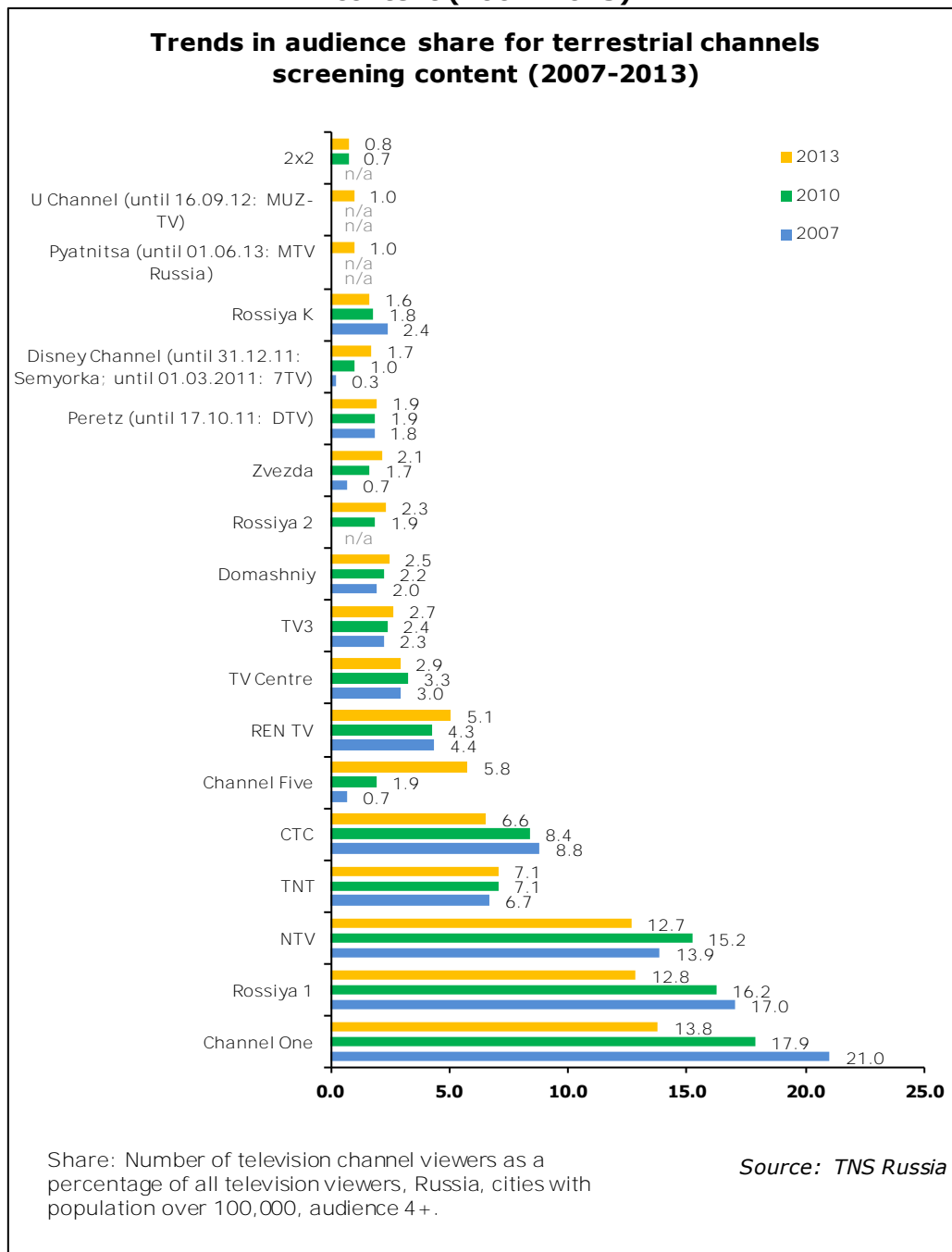
As they moved away from the main federal channels, audiences moved both to terrestrial competitors, many of which have undergone changes in concept lately and expanded their broadcast territory (Channel

⁹¹ Inspections by the Federal Antimonopoly Service were conducted in order to monitor the implementation of Law No. 354-FZ, dated 27.12.2009, which restricted a single seller to a maximum of 35% of the TV advertising market (the Gazprom Media holding company had lobbied for this law, aimed against the then leader, Video International, which controlled about 75% of TV advertising). It was revoked by Law No. 264-FZ, dated 21.07.2014.

⁹² See, for example, A. Afanasyeva and P. Belavin. 'Television advertising market gets out of control.' *Kommersant*. 16 June 2014.

Five, U Channel, Pyatnitsa, and Disney), and to non-terrestrial speciality channels.

Figure 68. Trends in audience share for terrestrial channels screening cinematic content (2007–2013)



The sale of rights to broadcast films on television was long an important source of income for Russian producers and distributors, both majors and independent companies. However, in the years following the financial crisis, the leading channels began to sharply reduce the volume of content they broadcast (and, subsequently, their purchases of content). For instance, TNS Russia data shows that on Channel One, the volume of content broadcast (for all types of content) dropped by 15% from 2010 to 2013. Rossiya 1 saw a 10% drop and NTV experienced almost a 7% drop. Similar reductions in the amount of content broadcast have been seen on

several other, less popular television channels: TV 3 reduced its volume of content by 10% over three years, 2x2 by 11%, Rossiya K by 6%, and CTC by 4%.

At the same time, TNT's success in maintaining its position among TV audiences (its share remains almost unchanged) is probably due largely to an increase in the content broadcast, with growth of almost 12% from 2010 to 2013. Channel Five increased the amount of content broadcast by 4% thanks to feature series (mostly Russian productions), and the volume of content on REN TV grew by 7%, in this case thanks to documentary series (also mostly Russian); both of those segments, along with cartoons, contributed to the increase in content shown on Domashniy by 17%, and on Zvezda by 4%, although the broadcast of cartoons here decreased.

But the most drastic changes in this period took place on the channels that underwent a change in concept. For instance, Rossiya 2, which had been a specialized sports channel until 2010, and which had maintained its dominance in sport, has been reducing the number of sports programmes it makes itself since summer 2013 and turned towards a more general entertainment format, increasing the volume of content broadcast by a factor of 2.2. The Disney Channel, which replaced Semyorka in January 2012, increased its content by 150%, mostly thanks to television series and Disney cartoons. Pyatnitsa, which replaced the Russian version of MTV in summer 2013, increased content by 79% thanks to the large number of popular foreign (mostly American) films and series on its network. And U Channel, which replaced Muz TV in September 2012, has begun showing 5.2 times more content – mostly foreign (including Latin American and Indian) romances and TV series, previously **scarcely featured in the music channel's programming.**

Table 38. Trends in volume of content on Russian terrestrial television channels by type of content (2010–2013)

		Films	TV series	Plays	Cartoons	Documentaries	Cartoon series	Documentary series	Total	Changes from 2010 to 2013
Channel One	2010	1,826.8	1,283.8	1.1	56.2	341.0	72.0	82.1	3,662.9	-15.2%
	2013	1,673.7	977.6	0.0	28.9	292.2	59.6	73.0	3,105.1	
Rossiya 1	2010	2,142.8	2,232.6	0.0	29.7	348.3	2.5	88.5	4,844.5	-10.5%
	2013	1,819.4	2,270.2	0.0	0.4	178.8	1.4	68.0	4,338.1	
NTV	2010	1,546.3	2,952.5	0.0	35.9	95.0	54.9	59.2	4,743.7	-6.7%
	2013	375.8	3,803.7	0.0	7.3	48.1	0.0	192.6	4,427.4	
TNT	2010	1,877.7	2,230.2	0.0	19.8	73.1	876.1	0.0	5,077.0	11.6%
	2013	1,983.1	3,023.0	0.0	45.0	51.2	545.3	18.8	5,666.3	
CTC	2010	2,271.2	2,773.0	0.0	240.5	19.3	833.7	0.0	6,137.7	-3.9%
	2013	2,456.3	2,233.0	0.0	639.0	24.6	537.4	8.0	5,898.3	
Channel Five	2010	3,569.6	371.5	8.1	144.3	1,617.6	3.9	623.3	6,338.4	4.1%
	2013	2,493.5	3,427.8	0.0	322.4	72.6	19.0	264.4	6,599.7	
REN TV	2010	1,760.5	1,841.2	0.0	23.6	935.7	11.7	288.4	4,861.1	7.0%
	2013	1,662.7	1,986.2	0.0	24.3	98.0	86.4	1,341.7	5,199.3	
TV Centre	2010	3,479.1	1,213.1	0.0	213.2	564.4	7.5	127.3	5,604.6	0.4%
	2013	2,529.7	2,049.9	1.5	67.0	594.5	4.9	377.5	5,625.1	
TV3	2010	2,528.5	3,076.1	0.0	185.6	848.9	444.1	609.5	7,692.8	-10.1%
	2013	3,634.0	1,083.5	0.0	872.8	179.3	34.5	1,110.4	6,914.6	
Domashniy	2010	2,158.4	2,936.7	5.6	0.3	307.3	72.6	182.4	5,663.3	16.9%
	2013	2,215.9	3,473.8	5.7	15.5	167.3	0.0	740.7	6,618.8	
Rossiya 2	2010	334.2	0.0	0.0	0.0	13.7	0.0	1,150.6	1,498.5	120.4%
	2013	1,422.9	460.3	0.0	0.0	279.2	0.0	1,139.6	3,302.0	
Zvezda	2010	4,321.3	1,700.9	0.0	145.5	486.4	9.9	726.6	7,390.7	3.9%
	2013	4,002.6	2,123.4	2.2	54.8	419.6	5.6	1,068.4	7,676.6	
Peretz (until 17.10.11: DTV)	2010	1,502.4	2,435.5	0.0	480.6	292.7	35.4	323.5	5,070.2	-26.5%
	2013	2,206.5	849.6	0.0	506.8	3.9	50.4	107.7	3,725.0	
Disney Channel (until 31.12.11: Semyorka; until 01.03.2011: 7TV)	2010	3,654.4	934.4	0.0	0.0	275.0	0.0	151.0	5,014.9	52.1%
	2013	1,422.8	2,866.8	0.0	414.6	0.0	2,925.1	0.0	7,629.2	
Rossiya K	2010	1,597.3	367.4	190.0	126.9	910.9	32.4	400.6	3,625.6	-5.9%
	2013	1,139.1	528.6	226.7	83.2	636.0	1.4	796.8	3,411.8	
Pyatnitsa (until 01.06.13: MTV Russia)	2010	90.9	1,030.6	0.0	9.4	0.0	596.5	0.0	1,727.4	78.8%
	2013	767.8	1,942.1	0.0	212.5	3.1	162.5	0.0	3,088.0	
U Channel (until 16.09.12: MUZ TV)	2010	25.0	264.0	0.0	256.1	0.0	85.1	0.0	630.2	420.3%
	2013	851.5	2,064.8	0.0	205.9	2.3	64.5	89.6	3,278.5	
2x2	2010	6.3	285.6	0.0	972.5	0.0	5,717.3	0.0	6,981.7	-10.9%
	2013	147.1	624.5	0.0	280.8	0.0	5,165.5	0.0	6,218.0	

Source: TNS Russia

Table 39. Specializations and qualitative characteristics of federal television channels' main content in 2014

	TV series	Films	Cartoons	Documentary films	Animated series	Documentary series
Channel One	daytime viewing: Russian dramas made for the channel; night-time viewing: features such as <i>Gorodskiy Pizhoni [City Slickers]</i> showcasing popular American series	daytime viewing: Soviet hits; night-time viewing: new foreign award-winners				
Rossiya 1	Russian dramas and crime series made for the channel	Russian dramas made for the channel; Soviet archive films				
NTV	Russian crime series made for the channel					
TNT	Russian comedies made for the channel	American comedies and action films			American children's productions	
CTC	Russian comedies made for the channel	popular foreign films, various genres	American children's productions		American children's productions	
Channel Five	Russian crime series made for the channel	Lenfilm archive films				
REN TV	Russian crime series made for the channel	foreign and domestic films, various genres				mystery and military investigations made for the channel
TV Centre	European detective series and Russian dramas made for the channel	Russian archive dramas		biographies (about Soviet actors) made for the channel		
TV3	Russian fantasy series made for the channel, US series	foreign fantasy, adventure, and thrillers				Russian and foreign mystery investigations
Domashniy	Russian and foreign dramas and detective series (USA, Europe, Turkey)	Russian dramas, including those made for the channel, Soviet archive films				celebrity life stories made for the channel
Rossiya 2	Russian crime series	Russian archive films				Russian popular science productions
Zvezda	Russian crime series	Russian archive films				Russian popular science productions
Peretz	Russian crime series, foreign fantasy series and erotica	Russian and foreign thrillers and action films				
Disney Channel	Disney series for children and young people	American fairy tales, comedies and dramas			Disney children's productions	
Rossiya K	foreign screen adaptations and detective series	Russian and foreign classics		Russian and foreign biographies and current affairs features		Russian and foreign biographies and popular science productions
Pyatnitsa	American dramas, fantasy and detective series; Russian comedies	American and European fantasy films				
U Channel	American, European and Brazilian dramas	American, European and Indian dramas				
2x2	American comedy hits		Soviet classics		Foreign adult series	

channel's main content category (TNS Russia statistics)

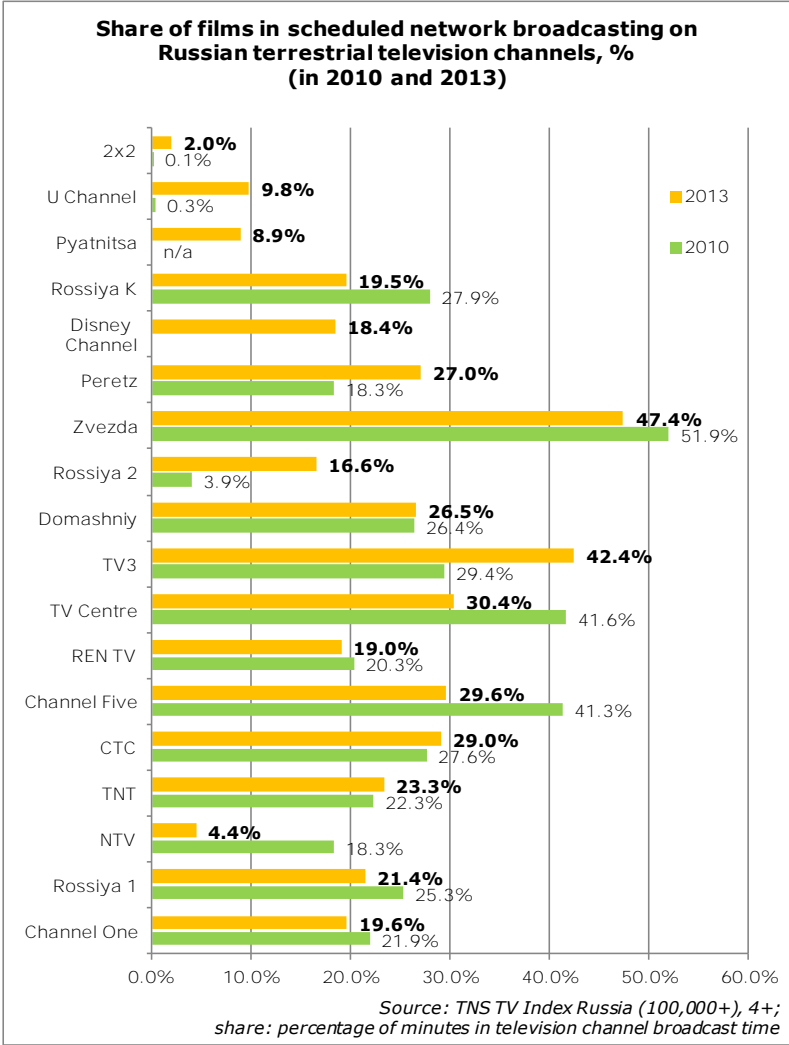
secondary category

tertiary category

Source: The terrestrial television channel network (Nevafilm Research analysis)

In terms of not just overall content screened on the channel, but the number of feature films broadcast specifically, Zvezda is the clear leader. The channel has always stood out for just that focus, with films exceeding 47% of its programming in 2013 (these are mainly Russian archive pictures – see Table 39). By 2013, TV 3 had taken second place, devoting over 42% of its airtime to films (showing popular American films with mystical or fantasy themes). In third place is TV Centre, where films (mostly Russian) account for only 30% of programming. We should note that CTC runs almost the same amount of feature film content (with foreign productions dominating), as does Channel 5 (which owns the full Lenfilm Studio archive collection).

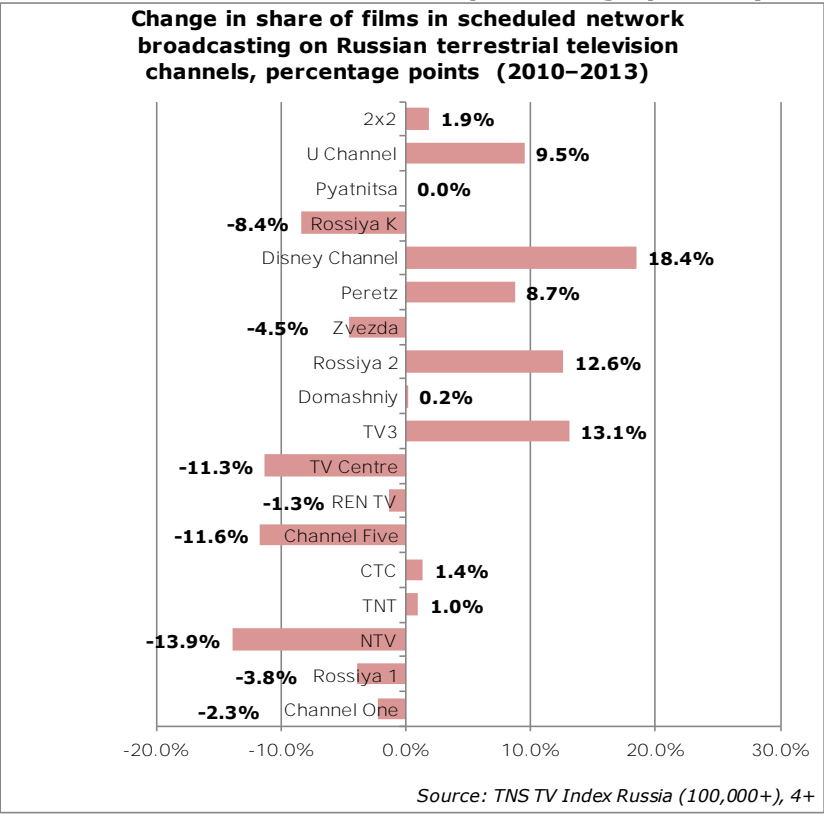
Figure 69. Share of films in scheduled network broadcasting on Russian terrestrial television channels, % (in 2010 and 2013)



Just as many channels have changed concepts in recent years, similar changes are also underway with respect to the volumes of feature films being broadcast by federal terrestrial television channels. These processes, which began some time ago (during the global financial crisis of 2008 and 2009), present the greatest danger to Russian film producers and distributors from the channels with the highest ratings. For instance, in the 2010–2013 period, the share of film programming on Channel One went down by 2.3 percentage points, with reductions by 3.8 percentage

points on Rossiya 1 and an almost catastrophic 14 percentage-point reduction on NTV; a slightly smaller reduction (around 11 percentage points) was observed on Channel Five and TV Centre. Film programming remains relatively stable on TNT, CTC, and REN TV. Although a majority of channels in the second group of ten in the rankings increased their share of film programming during the period examined, their income, and therefore the prices they offer for films, cannot compensate for the losses experienced by rights holders due to the reduced purchasing by the leading television companies, which earn money from advertising but also receive grants from the state (the biggest subsidies are granted to the Russia Television and Radio (VGTRK) holding – the channels Rossiya 1, Rossiya 2, Rossiya K, and Rossiya 24; the international, multilingual news channel Russia Today, Channel One, NTV, Channel Five, TV Centre, Zvezda, and Mir).⁹³

Figure 70. Change in share of films in scheduled network broadcasting on Russian terrestrial television channels, percentage points (2010–2013)



The further development of the territorial television system in Russia is linked to the Concept for Transition to Digital Television and Radio Broadcasting, according to which the composition of the first multiplex was determined in 2009 (10 national free television channels⁹⁴), with a

⁹³ See the detailed study by KVG Research for the European Audiovisual Observatory, 'TV Market and Video On Demand in the Russian Federation', December 2013, pp. 32–34 – <http://www.obs.coe.int/documents/205595/552774/RU+TV+and+VoD+2013+KVG+Research+EN.pdf/5fbb076c-868e-423a-bfed-dca8b66cac43>.

⁹⁴ Channel One, Rossiya 1, Rossiya 2, Rossiya 24, Rossiya K, NTV, Channel Five, Karusel, TV Centre, and Russian Public Television.

second group identified in 2012 and 2013.⁹⁵ Both were to be put into operation throughout Russia in 2015, although the first, broadcast of which is financed by the state, is already operating in most regions of the country. The members of the second multiplex are to pay for digital broadcasting themselves (to the order of RUB 1 billion per year). The concept assumed that analogue broadcasting would be shut off sometime between 2015 and 2018.

However, by the summer of 2014, it had become clear that the deadline for transitioning to digital television and radio broadcasting in Russia was not going to be met, and subsequently the shut-off of analogue stations was postponed until 2019, and the launch of the second digital multiplex until 2018. At the same time, changes were also made to the terms governing the subsidies granted to the members of the first multiplex: whereas, up to 2015, they have been receiving subsidies for digital broadcasting, they will henceforth have to finance this area from their own funds, while the government will take on the subsidizing of continued analogue broadcasting for the channels in the first multiplex.⁹⁶

These changes may impact the volume of resources that the publicly accessible television channels in the first multiplex are able to devote to quality content, including cinematic content. Members of the second multiplex, on the other hand, will save money thanks to the postponement. They will not have to pay for broadcasting in either analogue or digital formats until 2018, because for now, they can broadcast only in analogue.

8.2. Non-terrestrial television

Non-terrestrial television channels in Russia include both Russian and foreign channels (adapted and non-adapted), which broadcast within the Russian Federation via cable, satellite, and IPTV networks without using terrestrial broadcasting stations.

However, pay television operators play an important role in Russia, because they offer consumers packages of pay television channels and various additional services (telephone, Internet, interactive services, etc.), and also enhance the system of traditional analogue television **broadcasting. The number of additional pay TV channels in an operator's package is frequently becoming a secondary option in Russia; only in recent years has the pay television market started to develop in the country along the lines of the scenario in the West, when the number of non-terrestrial channels started to grow.**⁹⁷

According to iKS Consulting, by the end of 2013, the number of pay television subscribers in Russia had reached 34.6 million households, an 11% increase for the year. The largest companies providing paid access services to non-terrestrial television on the Russian market were Tricolor

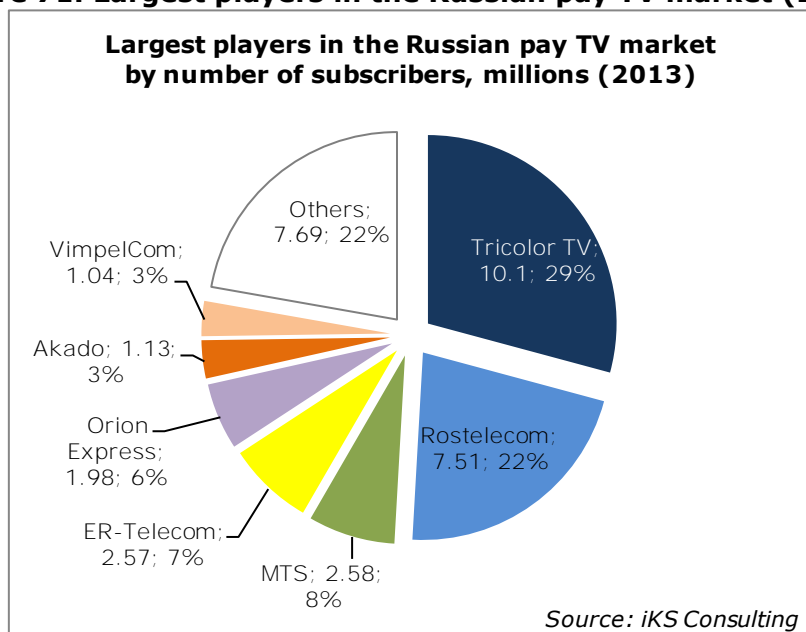
⁹⁵Ren TV, CTC, Domashniy, TV 3, Spas, Sport Plus, Zvezda, Mir, TNT, and U Channel

⁹⁶ K. Boletskaya. 'State budget saves on Russian television and radio networks.' *Vedomosti*. 20 August 2014.

⁹⁷ Russian television: industry and business. Video International Analysis Centre, Moscow, 2010.

TV and Rostelecom, with 10 million and 7.5 million subscribers, respectively – over half the market.⁹⁸

Figure 71. Largest players in the Russian pay TV market (2013)



Already, more than half of those who subscribe to pay television services take advantage of digital broadcasting. According to iKS Consulting data, from 2012 to 2013, the share of such users increased from 46% to 55%, an increase facilitated by connections to satellite and Internet television. Cable is still the leading pay television segment (51% of connected households); satellite TV operators had 38% of the market at the end of last year; and IPTV companies bring up the rear with 11% of pay television subscribers.⁹⁹

According to KVG Research, the nine biggest operators (including Megafon and NTV Plus) provide Russian subscribers with around 400 channels, including about 50 in HD.¹⁰⁰

Of special note among the country's non-terrestrial channels are channels which specialize in feature films and TV series (Russian productions and foreign content adapted for Russian viewers). KVG Research estimates their share of pay TV operator offerings at 12%. TV Index Plus PM, a project to measure the audience of specialized channels, run by TNS Russia, calculates that there are around 30 such channels, led by TV 1000 Russkoye Kino and TV 1000 (both from Viasat), and Dom Kino (part of the digital TV family from Channel One). It is important to note that over the past three years, their average monthly audience has more than doubled. In 2010, the average number of people who watched the

⁹⁸ V. Noviy. 'MTS falls out of the top three.' *Kommersant*. 21 April 2014.

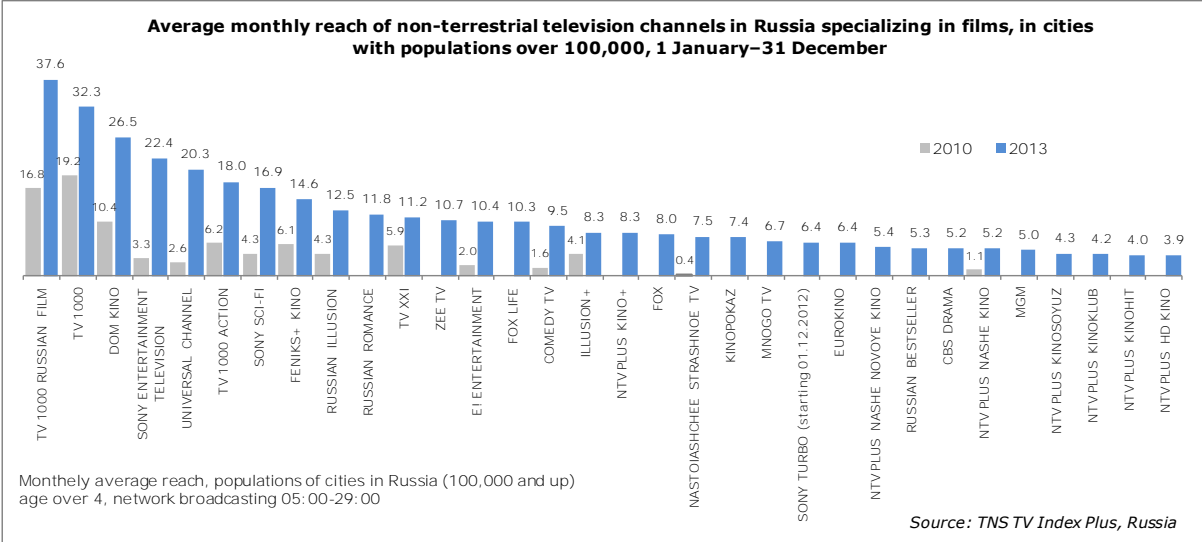
⁹⁹ A. Afanasyeva, V. Kodachigov. 'Russian cable television market starts to grow for the first time.' *Vedomosti*. 22 January 2014.

¹⁰⁰ See the detailed study by KVG Research for the European Audiovisual Observatory, 'TV Market and Video On Demand in the Russian Federation', December 2013, pp. 50–51 –

<http://www.obs.coe.int/documents/205595/552774/RU+TV+and+VoD+2013+KVG+Research+EN.pdf/5fbb076c-868e-423a-bfed-dca8b66cac43>.

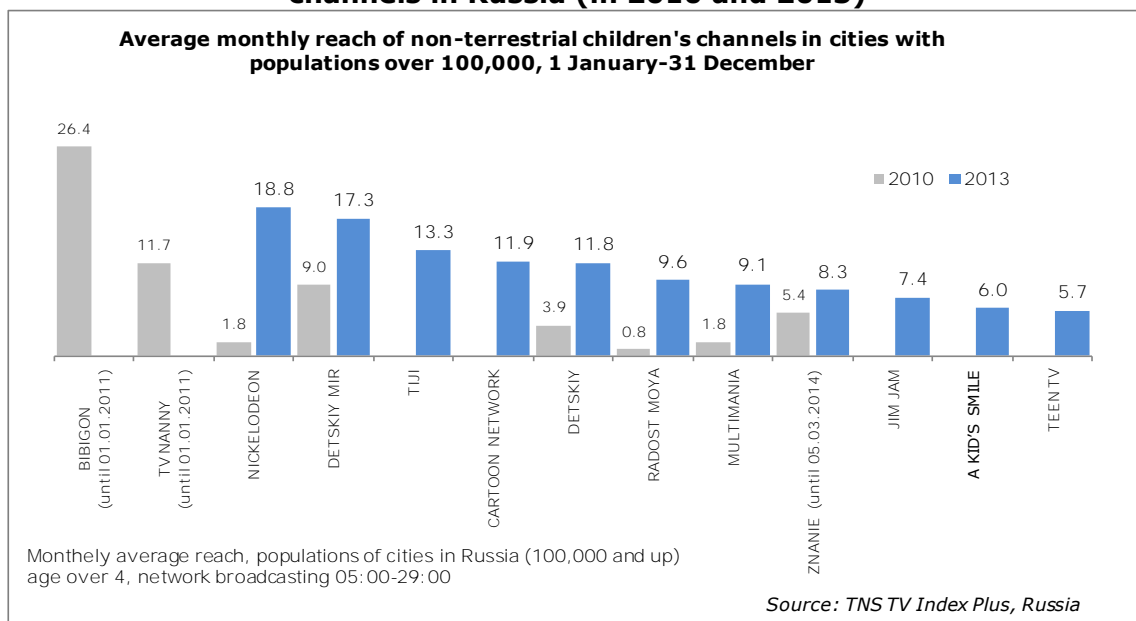
first two channels at least once per month was over 10 or 12 million, with that figure reaching 20 to 25 million in 2013. At the same time, the average monthly audience reach of the most popular non-terrestrial film channels in cities with populations over 100,000 rose from 18–19% to 32–37%.

Figure 72. Average monthly audience reach of non-terrestrial television channels in Russia specializing in films (in 2010 and 2013)



Aside from specialized film channels for a broad audience, the main consumers of cinematic content are children’s non-terrestrial television channels, the largest of which, until the end of 2010, were Bibgon, produced by Russia Television and Radio group, and TV Nanny (from the Channel One digital television group). They formed the foundation for a unified children’s terrestrial channel, Karusel, which is now part of the first multiplex of digital broadcasting and is a terrestrial channel. By 2013, the biggest non-terrestrial channels for children were Nickelodeon and Detskiy Mir, with an average monthly audience reach of 17–19% (totalling 11–13 million viewers per month). At the same time, the range of specialized pay TV channels for children on the Russian market is expanding. In 2012, KVG Research estimated that such channels had a 5.5% share of the total range offered by pay TV operators.

Figure 73. Average monthly audience reach of non-terrestrial children's channels in Russia (in 2010 and 2013)



This means that non-terrestrial specialized channels in Russia are enjoying increased popularity: their audience numbers are growing, both potential (those subscribed to pay TV networks) and actual (those watching specific channels at least once per month), and their range of offerings is expanding. Consequently, the potential for monetizing non-terrestrial channels has also been expanding, meaning there are also more sources of financing that they can use to purchase content. Aside from fees for subscription and connection to operator packages,¹⁰¹ television channels have had the opportunity to increase their advertising income. That situation will soon change, because on 1 January 2015, pay TV channels in Russia will be forbidden by law to sell advertising.¹⁰²

According to the Video International Analysis Centre, before 2010, advertising revenues accounted for 65–75% of the budgets of all television channels (both terrestrial and non-terrestrial). And although that source is important for terrestrial channels in particular, the pay TV segment has not been subject to individual provisions of the law on advertising, particularly concerning limitations on the advertising of alcoholic beverages. That has allowed non-terrestrial channels in Russia to earn additional income from advertising activities (and not just from beer makers on air from 22.00 to 7.00 local time, but also from the makers of stronger alcoholic beverages). As a result, between 2006 and 2009, the

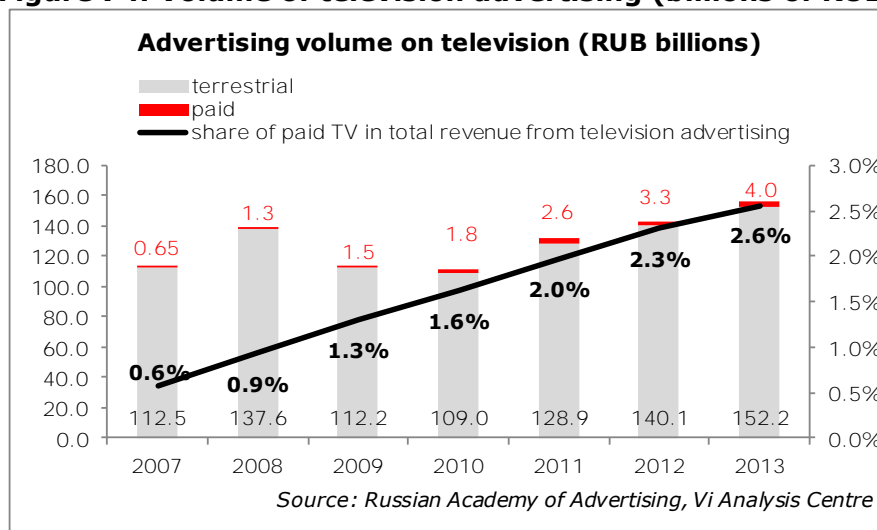
¹⁰¹ There are two patterns in Russia by which operators and non-terrestrial television channels cooperate. In the case of popular channels, the operator pays; channels less attractive to audiences that want to join a package and expand their audience base to attract advertisers pay the operators.

¹⁰² According to Federal Law No. 270-FZ, 'On Amendments to Article 14 of the Federal Law on Advertising', dated 21 July 2014, a ban will be introduced in Russia on the distribution of advertisements by channels accessible only on a paid basis.

advertising income earned by non-terrestrial television rose from 5% to 24%.¹⁰³

Between 2010 and 2013, the advertising income of specialized pay television channels grew from RUB 1.8 billion to RUB 4 billion per year, while their share of the total advertising income for television rose from 1.6% to 2.6%.

Figure 74. Volume of television advertising (billions of RUB)



Significant changes in this area led to difficulties in the social and political realm in 2014. In January, the independent news channel Dozhd conducted an on-air poll about the Siege of Leningrad. Many considered the staging of the poll to be unethical. Government and media-sector officials reacted extremely negatively: the poll was deleted from the **channel's website, and the management was forced to make a public apology.** But that was not the end of the incident. The issue was put to the Russian Cable Television Association (RCTA), whose President spoke in **favour of dropping Dozhd from the cable operators' packages.**¹⁰⁴ His call was heeded, and soon the channel was indeed dropped – from the 25 biggest operators, including Tricolor TV, Akado, Dom.ru, NTV Plus, Beeline, and Rostelecom. **As a result, Dozhd's audience shrank from 17.5 million to 2.5 million viewers in the course of just a few days**¹⁰⁵, dealing a **serious blow to the channel's advertising income.** In March, the channel conducted a week-long marathon called 'Support Dozhd!' to collect funds **to continue the team's work for another two months.** In parallel, discussions were being held about a return to cable operator packages, although this has still not resulted in a restoration of the status quo from the start of the year. Starting in July, the channel transitioned to new subscription terms, with a significant cost increase, due to the fact that all

¹⁰³ Russian television: industry and business. Video International Analysis Centre, Moscow, 2010.

¹⁰⁴ K. Kitayeva. 'RCTA decide to teach Dozhd a lesson.' *RBC Daily*. 29 January 2014.

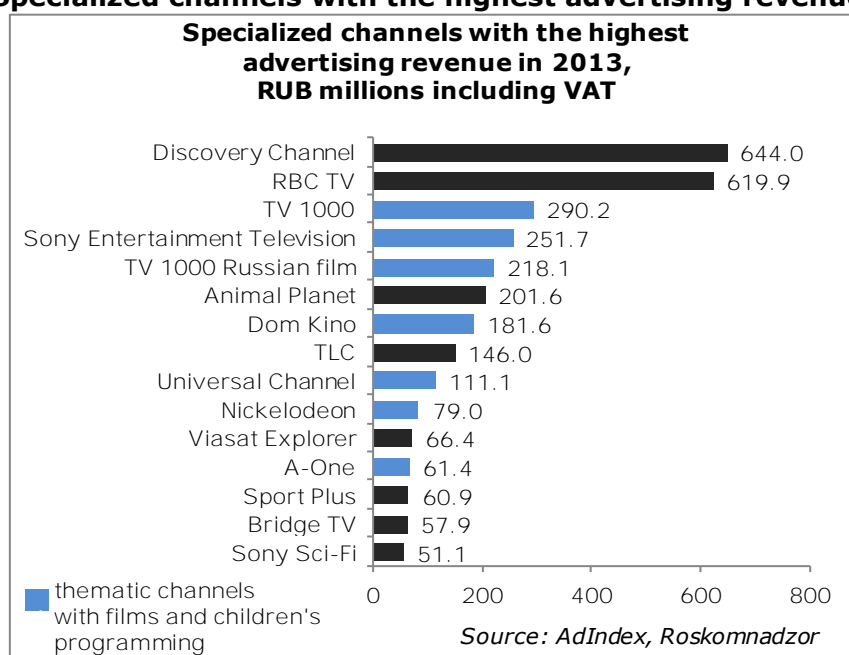
¹⁰⁵ See the press conference with General Director Natalia Sindeyeva and channel co-investor Alexander Vinokurov from 4 February 2014 – http://tvrain.ru/articles/dozhd_ne_zakryvaetsja_reklamodateli_ne_begut_dozhd_predlag_aet_operatoram_svoj_signal_besplatno_glavnye_otvety_i_voprosy_ekstrennoj_press_ko_nferentsii-361971/ (Russian only).

non-terrestrial pay television channels will be legally banned from placing advertisements on their broadcasting networks starting in 2015.

That federal law was adopted in Russia on 21 July 2014, and there is every reason to believe that its adoption is directly connected with the story of Dozhd recounted above. The situation has been further exacerbated in light of the growing tensions between Russia and the West over the Ukrainian political crisis.

However, the adoption of Law No. 270-FZ affects not just news channels, but all pay television channels, which in recent years had been able to reach a mutual understanding with advertisers. Now, the pay channels that are most popular with audiences and the most in demand by advertisers will be forced to reduce that growing line item in their budgetary income. Even RCTA representatives expressed apprehension about the law, sure that it would have the biggest impact on Russian producers of specialized television, who are more dependent on advertising revenue, not on foreign channels that have been adapted for Russian audiences. Fees for subscribers will increase, but not by enough to compensate for television producers' losses.¹⁰⁶ Growth in the pay television market will also slow down.

Figure 75. Specialized channels with the highest advertising revenues in 2013¹⁰⁷



8.3. Trends and prospects for the development of televised distribution in Russia

For 2014, the following prospects for development in the market for televised distribution of cinematic content in Russia can be noted, based on the latest trends in this area:

¹⁰⁶ A. Yakoreva. 'Fewer channels which are good and different.' // *Kommersant-Dengi*. 7 July 2014.

¹⁰⁷ S. Sobolev. 'Discovery and TV 1000 forced to reject advertisements on the Russian airwaves.' // *RBC Daily*. 15 July 2014.

- reduced demand by the biggest federal television channels due to the dispersion and shrinking size of their audience and, as a consequence, lower prices for cinematic content for terrestrial broadcasting
- lower prices for content purchases by non-terrestrial television channels produced in Russia, due to their reduced monetary resources after the introduction on 1 January 2015 of the ban on advertising on pay television channels
- growing demand for genre-specific content based on narrower specializations by terrestrial channels, including for time slots within one channel (for example, night-time on Channel One), as well as on the availability of funds among channels in the second echelon (second multiplex group) due to the transition to digital content being postponed until 2018
- growing demand for high-quality and specialized content by non-terrestrial channels, which, under the advertising ban, will be forced to increase subscription fees for their services, meaning they will need to motivate viewers with higher-quality offerings

In addition, television distribution of film content may be affected by two recently passed laws:

- The elimination of restrictions for a single seller on the advertising market immediately led to a unification of the country's largest media holdings (Gazprom Media, Russia Television and Radio, Channel One, and National Media Group) in order to sell advertising through a single seller, a company named New Vi, which had partnered up with the current market leader, Vi, (Video International); only one player on the TV **market, CTC Media, will be engaging** in independent advertising sales. It is expected that the consolidated company will mobilize in its holding more than 80% of all television advertising, about 60% of all radio advertising and 40% of media advertising online. **As a result, the TV companies' revenue will depend not so much on the advertising seller as on the quality of produced and purchased content.**¹⁰⁸ Thus, the level of competition between the TV stations for best content may grow.
- The law on limiting the share of foreign capital in media companies (No. 305-FZ, dated 14.10.2014) stipulates that from 1 January 2016, foreign control over Russian media shall be reduced to no more than a 20% share. Immediately after the **law was passed, CTC Media (CTC Channel, Domashny Channel, Peretz), Russia's largest media holding**, trading on the NASDAQ stock exchange, lost more than 22% of its share value because the Swedish-based MTG Group currently figures among the **holding's main shareholders**, while another block of shares is owned by Telcrest, a Cypriot company run by Yuri Kovalchuk and his partners, and 36% of all shares are in free float (mostly

¹⁰⁸ K. Boletskaya 'Mobilized Advertising' // *Vedomosti*. 06.10.2014.

held by foreign funds).¹⁰⁹ Thus, the holding company must retrieve over half of its shares from foreign control. The Disney Channel has encountered similar problems, due to the fact that since 2011, 49% of its shares have belonged to the US-based Walt Disney Company.¹¹⁰ All of this may affect the ability of these TV channels to acquire content.

¹⁰⁹ K. Boletskaya 'CTC Requests Exception' // *Vedomosti*. 10.10.2014.

¹¹⁰ Walt Disney to write off up to USD 300 million of investments in Russian television - <https://meduza.io/news/2014/11/24/walt-disney-spishet-do-300-mln-investitsiy-v-rossiyskoe-televidenie> (Russian only).

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76 Allée de la Robertsau – 67000 Strasbourg, France
Tel.: +33(0)3 90 21 60 00, Fax: +33(0)3 90 21 60 19
E-mail: info.obs@coe.int, Website: <http://www.obs.coe.int>



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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 and St. Petersburg (**Nevafilm Studios**); is a Russian market leader in cinema design, film and digital cinema equipment supply and installation (**Nevafilm Cinemas**); became Russia's first digital cinema laboratory for digital mastering and comprehensive DCP creation (**Nevafilm Digital**); distributes alternative content for digital screens (**Nevafilm Emotion**); has undertaken independent monitoring of the Russian cinema market in the cinema exhibition domain since 2003; and is a regular partner of international research organizations providing data on the development of the Russian cinema market (**Nevafilm Research**).

33-2B Korablestroiteley Street, St. Petersburg,
199397, Russia
Phone: +7 812 449 70 70, Fax: +7 812 352 69 69
"Tsvetnoy, 30" Business Center, office 307, bld.1 30,
Tsvetnoy Boulevard, 127051, Moscow, Russian Federation
Phone / Fax: +7 495 694 26 15
Email: research@nevafilm.ru,
Website: <http://www.nevafilm.com>



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A report by KVG Research for the European Audiovisual Observatory



COUNCIL OF EUROPE



CONSEIL DE L'EUROPE

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TV Market and Video on Demand in the Russian Federation

A report by KVG for the European Audiovisual Observatory

DECEMBER 2013

Director of publication:

Dr. Susanne Nikoltchev, Executive Director, European Audiovisual Observatory

Supervising editor:

Dr. André Lange, Head of Department for Information on Markets and Financing, European Audiovisual Observatory

Research group:

Aleksey Lisov, CEO of KVG Research

Research director:

Anastasia Vasilieva, KVG Research Chief Strategy Officer

Consultants:

Anna Balashova, newspaper correspondent for Kommersant, department for consumer markets, telecommunication group

Ksenia Boletskaya, media department editor for Vedomosti

Sergey Sobolev, newspaper correspondent for Kommersant, department for consumer rights, media and FMCG groups

Analysts and managers of KVG Research:

Anastasia Demidova, Daria Evdokimova, Daria Naumenko, Ekaterina Pupkova, Anna Khakhamovich

Publisher:

European Audiovisual Observatory

76 Allée de la Robertsau – F – 67000 Strasbourg, France

Tel.: +33(0)3 90 21 60 00, Fax: +33(0)3 90 21 60 19

E-mail: obs@obs.coe.int , URL: <http://www.obs.coe.int>

KVG Research

L'va Tolstogo 8/2, Moscow, Russia

Tel.: +7 (499) 246 3354, +7 (499) 246 2920

E-mail: info@kvgresearch.ru , URL: <http://www.kvgresearch.ru/>

KVG Research express gratitude to the TNS group of research companies for information provided.

The reference version of the report is the English version, published on the European Audiovisual Observatory website – www.obs.coe.int.

The analyses presented in these articles are the authors' own opinions and cannot in any way be considered as representing the point of view of the European Audiovisual Observatory, its members or the Council of Europe. Data compiled by external sources are quoted for the purpose of information. The authors of this report are unable to verify either their means of compilation or their pertinence.

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Executive Summary

This report produced by KVG Research was commissioned by the European Audiovisual Observatory (Council of Europe, Strasbourg). Its main objective is to analyze the origin of the content broadcast by the main Russian TV channels.

The importance of the federal channels

The dominance of terrestrial channels has always been one of the main characteristics of Russian television. Due to the federal broadcasting system being founded and supplied by the state, the leading channels are able to be broadcast all over the country. In total in 2012, according to the data of the Federal Antimonopoly Service, there existed 21 federal TV channels. These are: Channel One, Russia 1, Russia 2, Russia 24, Russia K, NTV, Petersburg - Channel 5, TVC, CTC, Peretz, Domashniy, U, Disney Channel, TV3, MTV, TNT, REN TV, Mir, Zvezda, 2x2 and RBC TV. All of them have their own terrestrial frequency, except RBC TV which only joined this list in 2012. Almost 50% of federal channels belong to the must-carry package. In 2012 this list contained: Channel One, Russia 1, Russia 2, Russia 24, Russia K, NTV, Petersburg - Channel 5, Public Television of Russia and Karusel. This means that all TV operators had to include these channels into the must-carry package and broadcast them to consumers for free. 90% of Russian TV viewers watch federal channels regularly.

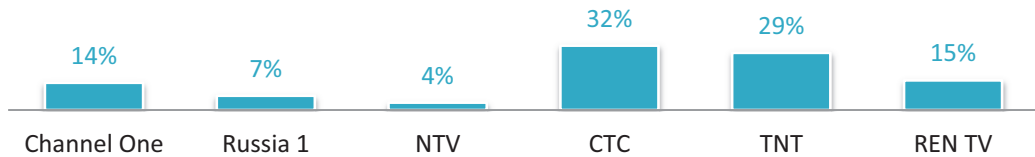
According to research by the Russian Association of Communication Agencies in 2012 advertising revenues of channels increased by 9% to RUB 143.2BN (VAT not included). As much as RUB 139.9 BN was earned by terrestrial broadcasters and the other RUB 3.31BN by production companies and distributors of thematic channels broadcast via cable networks and satellite. In total, TV as a segment used to dominate in terms of the whole advertising market. For the six most significant players (Channel One, Russia 1, NTV, CTC, TNT and REN TV), their advertising volume share on the terrestrial TV amounted to 70% in 2012. Moreover, the most significant purchases of premiere TV and cinema content in Russia was also attributed to these channels.

Analysis of the origin of the content broadcast by the federal channels

As for the breakdown of national domestic and foreign content broadcast by the leading channels compared to the total broadcasting time, it should be mentioned that this aspect has remained constant for the last 2 years in terms of both the total volume and individual channels. In 2012, according to the data of KVG Research, the national content broadcast by the TV channels which were analyzed corresponded to 77% of the total content broadcast whereas the foreign content was 23%. In absolute terms, in 2012 the volume of foreign content corresponded to over 10,000 hours or about

12,000 titles. Only 11% of the foreign broadcasts consisted of premiere content. To put this in perspective, in 2012 the volume of premiere content for the national content corresponded to 43%.

DISTRIBUTION OF THE PREMIERE FOREIGN CONTENT
(by the total air time)

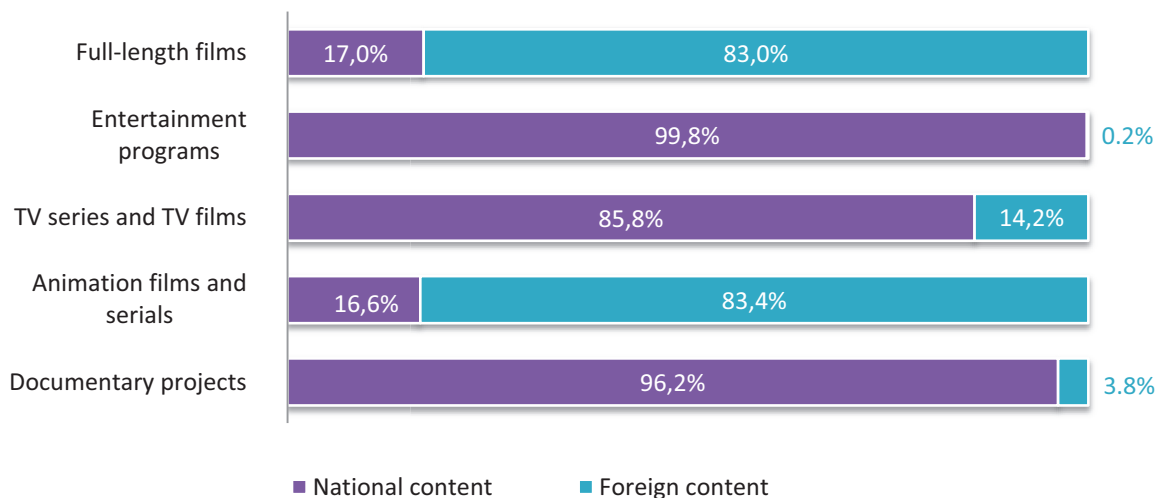


Source: KVG Research, TVRETE
TV Channels: Channel One, Russia 1, NTV, CTC, TNT, REN TV

Two TV channels, *CTC* (45%) and *TNT* (41%), aired a variety of foreign content most actively. These TV channels still keep offering foreign full-length films, TV series and animation projects to their audiences. The share of foreign projects aired by *NTV* equaled 5% and contained mainly films and TV series which were as a rule broadcast at night. As for share of the national content on air, *Russia 1* ranks 2nd with 90%, followed by *Channel One* (81%), which is ahead of *REN TV* by 1% (*REN TV* obtained 80%).

Russian production companies cannot currently compete with foreign players in two areas: full-length films, of which 83% are foreign projects; and animated films and series, of which 83.4% are foreign products.

BREAKDOWN OF THE NATIONAL AND FOREIGN CONTENT
(by the total air time of content type) FOR 2012



Source: KVG Research, TVRETE
TV Channels: Channel One, Russia 1, NTV, CTC, TNT, REN TV

In 2012 71% of all foreign TV projects broadcast by the leading Russian terrestrial TV channels came from the USA, causing its dominating position as for this criterion. Great Britain ranked 2nd, having achieved 6% of all unique project titles, followed by France with 5%. Other countries accounted for between 1-3% out of the whole of terrestrial broadcasts in terms of the period analyzed. Over 40 other countries were listed among the remaining 5% (which appears as 'others'), containing, in particular, Spain, Belgium, Sweden, Denmark, Czech Republic and Hungary.

As a rule, Russian TV channels broadcast foreign content at night or early in the morning. This phenomenon is a characteristic of Russian TV. From midnight until 5 a.m. the share of foreign content transmissions reaches its peak and equals 42% in total, of which 59% is content from European countries. The share of the Russian content decreases until midnight and falls in the end to 15%.

Additional broadcasting platforms for TV and cinema content which are actively developed in Russia enable foreign companies to profit using other sales channels. In summer 2013 there existed about 60 online VOD resources which contained licensed content. According to the data of KVG Research, 52% of all resources have both national and foreign content in their libraries. 45% of all resources deal only with national content, 88% of which contain video platforms affiliated with TV channels. iTunes by Apple appeared in Russia at the beginning of 2012. Smart TV turned out to be a real breakthrough in recent years in Russia. Over 50% of all applications offered by the stores are Russian speaking. The most significant Russian online video platforms are: *tvigle.ru*, *ivi.ru*, *megogo.ru*, *now.ru*, *videomore.ru*, *zoomby.ru*, *play.ru* and others, as well as applications of Russian TV channels (*Channel One*, *CTC*, *Domashniy*, *Peretz*, *Dozhd* and *RBC*). 35% of all resources are English speaking and are dominated by information, music and educational content.

FOREWORD

Television is still the most significant sector of the Russian advertising market. In 2012 its share equaled RUB 143.2BN, of which RUB 139.9BN was obtained by terrestrial broadcasters. In order to preserve the status of the most available and efficient media, Russian TV channels cannot disregard various international trends in TV development which refer to the development and aggregation of content as well as adjustment of the audience to the non-linear way of watching TV. In losing the young audience, TV channels have become more and more active in mastering new platforms and technologies. Most of them broadcast news, entertainment programs, TV series, documentaries and other programmes which they possess the rights for. The Internet audience gets exclusive content however it mainly consists of repeats or TV series and programs which have been taken off the air due to poor ratings. Most Russian terrestrial TV channels have branded pages on YouTube, Vkontakte and iTunes as well as applications within the iTunes Store, Google Play and SMART TV.

Although Russian broadcasters are still trying to use new platforms as a “second screen” to substitute the “first” one and solve defined marketing problems, the attitude of the channels towards the content has already begun to change. Russian production companies notice that since 2012 TV channels have begun to accumulate digital rights for TV projects and strengthened their reaction against illegal placement of Internet content which they possess. The obtainment of additional profit sources began to influence business models of some Russian producers of TV series and entertainment programs. But as national content makes up the dominating purchase share of the six leading Russian channels, Russian players do not actively work at additional income sources, unlike foreign companies which occupied 23% out of the total broadcast time of the six leaders in 2012. Therewith, many of them manage the library of rights in Russia, using online VOD, Pay TV, licensing of consumer rights, creation of games, selling rights for adaptation and many others.

Audio and video production is nowadays not only a part of live streaming, instead of that it is turning into a self-sufficient multiplatform product which can fully entertain the audience. The new conception of business processes causes new requirements in terms of expertise and analytics. That is why this research focuses on the component of TV as well as new broadcasting platforms of TV content and alternative methods of its monetization.

1. THE REGULATORY FRAMEWORK¹

1.1. Broadcasting Regulation

The Federal Law “On the mass media” № 2124-1 from December 27 1991² and the Federal Law “On advertising” №38-FZ from March 3 2006³ belong to the main legislative acts which regulate the activities of the TV sphere in Russia.

The FZ “On mass media” introduces basic terms and definitions which are included into the legal institution of mass information, which involves the channel’s and the broadcaster’s basic principles of the freedom of media, such as impermissibility of censorship and misuse of freedom of mass information; determines the status of TV broadcasters in Russia, policies of issuance of broadcasting licences and performing of TV broadcasting in Russia (TV broadcasting without appropriate permission leads to administrative liability – Resolution of Federal Anti-Monopoly Service of Volga-Vyatka region from September 9 2007); assures the system of mass information distribution, the relationship between the mass media towards organisations and citizens as well as liability for breaching the resolution on mass media.

It is important to mention the regulations documented in the FZ “On mass media” which contain information about founding TV channels, radio channels, TV programs, radio programs, video programs and organisations (legal bodies) which perform broadcasting dealing with foreign legal bodies as well as Russian legal bodies with foreign participation whose share (investment) of foreign participation in equity (share) capital equals or exceeds 50%; citizens of the Russian Federation with dual citizenship as well as the innovation of the year 2011, documenting that the President of the Russian Federation confirms the register of all-Russian must-carry public TV channels and radio channels broadcast for general public without charging consumer fees for viewing or listening.

In 2012 there were no significant changes introduced into the FZ “On the mass media”.

The following register of all-Russian must-carry public TV channels and radio channels has been confirmed by the President of the Russian Federation since 2009 and acts currently in the edition of the Resolution of the President of the Russian Federation №456 from April 17 2012⁴:

№	CHANNEL	
1	Channel One	Open joint-stock company Channel One
2	TV channel Russia (Russia 1)	Federal state unitary enterprise All-Russia State TV and Radio Broadcasting Company

¹ This chapter is provided for background information and was not supervised by the Legal information Department of the European Audiovisual Observatory. For updates on legal information related to the audiovisual sector in the Russian Federation, you may refer to the European Audiovisual Observatory website. See: <http://www.obs.coe.int/country/russian-federation/legal>

² Newspaper *Rossiyskaya Gazeta* [Russian Newspaper], N 32, from February 8, 1992

³ Newspaper *Rossiyskaya Gazeta* [Russian Newspaper], N 51, from March 15, 2006

⁴ Legislation Bulletin of the Russian Federation, from April 23, 2012, N 17, Art. 1915

No	CHANNEL	
3	TV channel Russia-2 (Russia 2)	Federal state unitary enterprise All-Russia State TV and Radio Broadcasting Company
4	TV company NTV	Open joint-stock company, TV company NTV
5	St Petersburg – 5 Channel	Open joint-stock company TV and radio company Petersburg
6	TV channel Russia – Kultura (Russia K)	Federal state unitary enterprise All-Russia State TV and Radio Broadcasting Company
7	Russian information channel Russia 24	Federal state unitary enterprise All-Russia State TV and Radio Broadcasting Company
8	TV channel for children and young people Karusel	Closed joint-stock company Karusel
9	TV channel Public Russian TV	Independent non-profit organization Public TV of Russia

Consumers have a right to obtain must-carry public TV channels without paying fees for signal reception and broadcasting of such channels (Resolution of Federal Anti-Monopoly Service of East Siberian District from November 9 2012 with regard to case № A33-4149/2012).

The same resolution points out that the federal unitary enterprise Russian TV and Radio Broadcasting Network acts as a communication service provider, performing analogue and digital terrestrial broadcasting of all-Russia must-carry public TV channels and radio channels all over the Russian Federation.

The resolution of the President of the Russian Federation from June 24 2009 №715 “On All-Russia compulsory public TV channels and radio channels”⁵ does not cover services of terrestrial broadcasting of all-Russia must-carry public TV channels and radio channels by other communication service providers. (But see the *Federal State Unitary Enterprise Russian TV and Radio Broadcasting Network* Resolution of Federal Anti-Monopoly Service of Moscow district from November 22 2011 with regard to case N A40-5753/11-147-62).

For the purpose of the FZ “On mass media”, the Government of the Russian Federation enacted the regulation “On Licensure of TV and radio broadcasting” № 1025 from December 8 2011⁶.

1.2. Regulation of Advertising

The FZ “On advertising” №38-FZ from March 13 2006 regulates the system of advertising placement in TV production: forbids distribution of some certain types of advertising (hidden advertising, advertising of tobacco and tobacco products) and on some days (eg days of mourning) limits advertising of certain products (medical drugs, BAAs, military goods, paper security) and certain

⁵ *Rossiyskaya Gazeta* [Russian Newspaper], N 114, from June 25, 2009

⁶ *Rossiyskaya Gazeta* [Russian Newspaper], N 284, from December 16, 2011

activities (games, based on risk, Wagering, financial service, as well as service of annuity agreements and mediation activity); controls the rules of sponsor integration into TV programmes and confirms the order which prioritized position of subject are allocated in distribution of TV advertising on federal TV channels (federal TV channels are not entitled to conclude agreements on service of advertising distribution with the subject, occupying the prioritized position in the branch of distribution of TV advertising, which means the positions with a share of over 35% on TV advertising market).

The FZ “On advertising” standardizes the term “federal TV channel”, which means an organisation performing terrestrial broadcasting on the territory of more than five subjects of the Russian Federation. Furthermore, the FZ “On advertising” limits advertising placement in TV programmes for children and educational programs, allowing its demonstration at the beginning of the program and at the end of it, as well as determines acceptable duration of an advertising spot in accordance with the runtime of the program.

At the same time, the restraints defined by the FZ “On advertising” in relation to the advertising of certain products during TV programs are not valid in particular in the case of advertisements shown during TV programs on TV channels which are available only on a fee paid basis using decoding technical devices (Resolution of 9th Arbitration Court of Appeal from November 1. 2010 № 09AP-23107/2010 with regard to case № A40-47152/10-148-277).

Amendments were introduced into the FZ “On advertising” in 2012 forbidding the advertising of alcoholic products in printed periodical publications and on the Internet.

1.3. The Register of Federal Channels

As for federal TV channels, in 2010 the Federal Supervision Agency for Information Technologies and Communications, at the request of the Federal Anti-Monopoly Service, determined a range of such TV channels, containing 15 broadcasters, valid for that time. Later, the register was increased by four further TV channels. Since 2010 the Federal Anti-Monopoly Service has announced this register annually, according to the information provided by the Federal Supervision Agency for Information Technologies and Communications and broadcasters themselves. Last time (October 2012) this register consisted of 17 TV companies:

No	CHANNEL
1	OJSC Channel One (Channel One)
2	FGUP Russian State Television & Radio Company (TV Channel Russia (Russia-1), TV Channel Russia-2 (Russia-2), Russian Information TV Channel Russia-24 (Russia-24) and TV Channel Russia-Kultura (Russia-K))
3	OJSC TV and Radio Company Petersburg (Petersburg-5 Channel)
4	OJSC TV Company NTV (TV Company NTV)
5	OJSC TV Centre

№	CHANNEL
6	CJSC CTC-Region (First animation CTC. Domashny)
7	TV Channel Peretz (former TV Daryal/DTV)
8	TV Channel U (former MUZ – TV)
9	Channel Disney (former 7TV)
10	LLC TV Channel TV3
11	MTV: Music Television
12	OJSC TNT Broadcasting Network
13	TV Channel REN TV
14	International TV and Radio Company Mir
15	TV Channel Zvezda
16	TV Channel 2x2
17	RBC-TV

1.4. Other Documents Regulating TV Content

Beside the Law “On advertising” and the Law “On the mass media”, there exist other legislative acts in Russia which influence the content of terrestrial TV channels.

In 2010 another FZ from December 29 2010 №436-FZ “On protection of children against information harming to their health and development”⁷ was introduced. This law refers to the protection of children against information which is harmful to their health and development, evokes a wish to consume psychotropic and narcotic substances, causes violence and denies family values.

In addition, this law classifies the information produced for children, including the information broadcast on TV, into categories in accordance with age groups and determines demands and restraints for distribution of information produced in each category.

The law also states that in certain cases programs and films which are not appropriate for children should be marked with special labels.

The changes put into the FZ “On advertisement” in 2012 specify the rating for categories of material by means of the symbol of information production and (or) text warning to limit distribution of material among children; intensifies demands towards accessibility of information spread by means of information telecommunication networks, including the Internet, in places or programs available for

⁷ *Rossiyskaya Gazeta* [Russian Newspaper], N 297, December 31, 2010

children; changes demands towards expertise of information production in particular any related party may contest the expert findings in a judicial proceeding, as well as document the obligation to place information over performed expertise on the Internet.

The FZ “On Coverage of activities of the state government in the state mass media” №7-FZ from January 13 1995⁸ documents that: the state federal audio and visual mass media shall provide consumers with the resulting TV and radio programs in full; on not less than one all-Russia TV channel and one all-Russia radio channel; in a timely manner convenient for TV viewers or radio listeners, and no later than 24 hours after the most important political events, the register of which is established by the law, as well as the state audio visual mass media; composing program policies should involve comprehensive and objective information in other journalistic, information and information-analytical programs, sharing with TV viewers and radio listeners information about activities of federal public authorities, main principles of state structure of the Russian Federation, main strategies of external and internal policy, activities of the President of the Russian Federation, position of deputy units in the State Duma, deputies of the Federation Council and deputies of the State Duma and adjustments of cases solved in a judicial proceeding.

In 2012 there were no additional amendments in terms of this law.

The FZ “On equality guarantees for parliament parties, covering their activity by state public TV channels and radio channels” №95-FZ from May 12 2009⁹ documents equality principles of information distribution about each parliamentary party, publicity of state control, editor independence of creativity and professional independence of public TV channels while covering activities of parliament parties and comprehensive and objective information sharing with TV viewers and radio listeners on activities of parliament parties, as well as establishes the order of control, providing each parliamentary party with equality guarantees when covering their activity by state public TV channels and radio channels.

In 2012 there were no additional amendments in terms of this law.

On April 17 2012 the President of the Russian Federation ordained Resolution №455 “On public television in the Russian Federation”¹⁰ for the purpose of prompt, reliable and comprehensive information sharing for all citizens of the Russian Federation about current events in terms of internal and external politics, culture, education, science, the religious sphere and others. This resolution set in effect the TV channel Public TV of Russia, obligated the Administration of the President of the Russian Federation, on the basis of suggestions from Russian citizens and Russian legal bodies, to set up within three months a so-called Public TV Council; obligated the Government of Russia to set up the independent non-profit organisation Public TV of Russia, performing the functions of establisher, editor and broadcaster of the TV channel; and obligated the Ministry of Defence to work on the question of using distribution networks of the TV channel *National TV company Zvezda* to broadcast programs of the TV channel *Public TV of Russia*.

On September 21 2009 the Government of Russia established Resolution № 1349-r which confirmed the Federal Target Program “Development of TV and Radio Broadcasting in the Russian Federation

⁸ *Rossiyskaya Gazeta* [Russian Newspaper], N 9-10, from January 14, 1995

⁹ *Rossiyskaya Gazeta* [Russian Newspaper], N 87, from May 15, 2009

¹⁰ *Rossiyskaya Gazeta* [Russian Newspaper], N 86, from April 19, 2012

within the years 2009-2015”¹¹. The program contains the case for the program-targeted method; possible implementation variants of the program; approximate time frames and problem adjustment stages by means of program-targeted method; suggestions on basic set up trends of the program (building of terrestrial digital TV networks; development of terrestrial radio broadcasting; enlargement of satellite grouping, payment of telecommunication service for distribution of must-carry TV and radio channels during the preliminary period; creation of a system to turn the format of archived materials of historical, scientific, social, economic, political and cultural value into digital, including its adaptation and classification; clarification campaign, suggestions on amount and sources of financing for the program; suggestions on state customers and developers of the program).

1.5. Public Bodies Involved in the Regulation of Broadcasting

1.5.1 Government of the Russian Federation¹²

The Government of the Russian Federation:

- governs work of federal ministries and other federal bodies of executive power and controls their activities
- organizes internal and external politics of the Russian Federation;
- regulates social and economic spheres;
- provides solidarity of system of executive power in the Russian Federation, directs and controls the activity of its bodies;
- forms federal target programs and cares for their appropriate implementation;
- implements granted right to exercise legislative initiative.

1.5.2. Ministry of Communications and Mass Media of the Russian Federation¹³

This is a federal body of executive power executing functions for development and implementation of state politics and statutory regulation in the IT sphere (including information technologies while forming state information resources and providing access to them), telecommunication (including usage and conversion of radio-frequency spectrum), postal communication, mass communication and mass media including electronic, for example: development of the Internet, systems of television broadcasting (including digital) and radio broadcasting and new technologies in this area, press, editorial and publishing activities, processing of personal data, control of state property and rendering of services in IT, including use of IT to form state information resources and to provide access to them, as well as performance and realisation of state politics for protection of children against information deemed harmful to their health and (or) development.

¹¹ Legislation Bulletin of the Russian Federation, from September 28, 2009, N 39, Art. 4638

¹² Legislation Bulletin of the Russian Federation, from December 22, 1997, N 51, Art. 5712

¹³ Legislation Bulletin of the Russian Federation, from June 9, 2008, N 23, Art. 2708

The following shall fall within its authorities:

- determine an information production symbol at the beginning of broadcasts as well as at each continuation of the broadcast (after advertisement breaks and (or) other information);
- provide the whole of the state population with socially important TV programs on national and regional levels;
- develop principles of organisation and implementation of produced and permitted for terrestrial broadcasting TV programs, phonograms and other audio and visual productions, belonging to the federal property (except cinema films).

1.5.3. Federal Anti-Monopoly Service of the Russian Federation¹⁴

The Federal Anti-Monopoly Service has authority for state control of statutory compliance of the Russian Federation on advertising, including:

- to monitor, investigate and address breaches of legislation of the Russian Federation on advertising by physical and legal bodies;
- take legal proceedings and review cases, dealing with breaches of the legislation of the Russian Federation on advertising.

1.5.4. Federal Supervision Agency for Information Technologies and Communications (Roskomnadzor)¹⁵

The Roskomnadzor is a federal body of executive power, executing functions of control and monitoring in the sphere of mass media information, including electronic and mass communication, information technologies and communication, functions of control and monitoring for accordance of processing of personal data with standards of legislation of the Russian Federation in the sphere of personal data and functions for the organisation of activity of radio frequency services.

The following fall within its authority:

- provide state control of statutory compliance of the Russian Federation in the sphere of mass media and mass communication, TV broadcasting and radio broadcasting;
- provide state control of submission of policies relating to child protection against information harmful to their health and (or) development – for the purpose of compliance with legislation of the Russian Federation on child protection against information harmful to their health and (or) development towards production and broadcasting by mass media, broadcasting of TV channels, radio Channels TV programs and radio programs;
- perform licensure of the activity, including control of compliance with license conditions and demands concerning TV and radio broadcasting by license holders¹⁶;
- establish registers holding data about communication providers performing the broadcasting of the TV channel or radio channel according to the contract with the broadcaster of those TV channel or radio channel and about subjects, distributing TV channel, radio channel in their

¹⁴ Rossiyskaya Gazeta [Russian Newspaper], N 162, from July 31, 2004

¹⁵ Legislation Bulletin of the Russian Federation, from March 19, 2007, N 12, Art. 1374

¹⁶ A register of broadcasting companies with TV or radio licence is available on the Roskomnadzor website: <http://rkn.gov.ru/mass-communications/reestr/teleradio/>

straight extension according to the contract with broadcaster or of those TV channel or radio channel by license-holders to the licensing authority;

- establish processes and recording of licence register for TV broadcasting and radio broadcasting by licensing authority;
- establish processes for data submission about the broadcaster used for TV channels and (or) radio channels according to a contract, by communication provider to licensing authority;
- work upon discovering new radio frequency channels and development of the radio frequency spectrum and orbital slots for satellites in order to enable TV broadcasting and radio broadcasting;
- confirm statement about Federal content commission for TV broadcasting and radio broadcasting and its formation, organisation and maintenance of its activity.

1.5.5. Federal Press and Mass Communications Agency (Rospechat)¹⁷

The Rospechat operates in accordance with legislation of the Russian Federation upon control of accomplished and permitted for broadcasting TV programs, and radio programs phonograms as well as other audio and visual productions, which belong to the federal property (except cinema films).

1.5.6. Federal Communication Agency (Rossvyaz)¹⁸

The Rossvyaz is a federal body of executive power which executes functions for managing state property and rendering state services in the sphere of telecommunication and postal communication, including creation, development and implementation of communication networks, satellite communication networks, systems of television broadcasting and radio broadcasting.

1.6. The New Law Against Piracy

On August 2 2013 Federal Law № 187-FZ “On Amending Separate Legislative Acts of the Russian Federation Concerning the Questions of Protection of Intellectual Rights in Information and Telecommunication Networks”¹⁹ came into effect. Early in the development stage it acquired the by-name “Anti-Piracy Law”.

It should be mentioned that even before the Law was introduced, the current legislation of the Russian Federation had foreseen liabilities in case of infringement of copyrights or neighbouring rights: by means of civil legislation (Article 1251, 1252, 1253 of Civil Code of the Russian Federation), application of punishment, imposed in administrative proceedings (Article 7.12 of Administrative Offences Code of the Russian Federation) and in criminal investigation proceedings (Article 146 of Criminal Code of the Russian Federation) as well as the application of injunctive measures.

The most important novation introduced by the Anti-Piracy Law is the statutory definition of “information intermediary” and the corresponding liability for infringing copyrights and neighbouring rights comes into force (Article 1253.1 of Civil Code of the Russian Federation).

¹⁷ *Rossiyskaya Gazeta* [Russian Newspaper], N 130, from June 22, 2004

¹⁸ *Rossiyskaya Gazeta* [Russian Newspaper], N 143, July 7, 2004

¹⁹ *Rossiyskaya Gazeta* [Russian Newspaper], N 148, from July 10, 2013

The term “information intermediary” stands for: an entity that carries out the transmission of content on information and telecommunication networks including on the internet; an entity that enables the distribution of the content by use of information and telecommunication networks (or distribution of information required to obtain such content); an entity that enables the access to the content in such networks.

Obviously those entities might include web site owners (which means the entity which independently and at its own convenience determines arrangements for the use of the web site on the Internet, including the arrangement for placing information on such a web site) and hosting providers (entities, rendering services for providing computing capacity to place information in the information system which is permanently connected to the Internet). All other entities which can infringe the copyrights, namely the ones placing information and the ones obtaining it, are not classified as information intermediaries and cannot be made liable on grounds of the Anti-Piracy Law. This nevertheless does not mean that they (at least the ones who place the information) escape liability as it can be based on grounds of the regulations referring to the civil, administrative or criminal legislation mentioned above.

According to the new law, the information intermediary shall be liable for copyright infringement if fault is proved taking into account special provisions on exceptions. Factors required for the exemption from liability differ depending on whether an information intermediary actually transmitted the infringing content on the internet or enabled such content distribution. In the first case, information intermediaries can be exempted from liability if the following conditions are met:

1. they did not initiate the transmission of the content and did not determine the receiver of the content;
2. they did not modify the content while providing services, save for the changes necessary by the technical process of transmission;
3. they did not know, or ought not to know, that the use of the results of intellectual activity by the entity who had initiated the transmission of the content was unlawful (paragraph 2 of Article 1253.1 of the Civil Code of the Russian Federation).

Information intermediaries who enable content distribution over the internet can be exempted from liability if the information intermediary:

1. did not know, or ought not to know, that the use of the results of intellectual activity by an entity that initiated the transmission of the content in question was unlawful;
2. in case of receipt of the right holder’s written application about the violation of intellectual property rights promptly did not take necessary and reasonable measures to stop the infringement of intellectual property rights.

Whereas the first two provisions which cause the liability of the information intermediary performing the transmission of the content can be handled unambiguously, the third provision as well as the provisions of incurrance of liability of the information intermediary who places the content are likely to provoke a dispute, as the mentioned terms contain currently controversially interpreted definitions.

First of all, the following question should be answered: is a content placement assumed to be lawful (which means until the opposite is proven) or is it necessary for the one who placed the content to provide corresponding proof that he/ she is the copyright holder in order to accept it as such. For now, practical application of the Law works in favour of the first interpretation. However, sooner or later,

the Supreme Arbitration Court of the Russian Federation will publish its explanatory statements which will provide the official line in terms of this question and it is not a given that it would be like the current precedents (the general tendency of upgrading of penalties for infringing the copyrights appear prominent in this case). Secondly, the Civil Legislation (Anti-Piracy Law refers to this Legislation), unlike the Administrative Legislation and the Criminal Legislation, has assumption of innocence at its disposal (according to Paragraph 2, Article 401 of Civil Code of the Russian Federation absence of fault can be proven by the entity breaching the liability).

Then how can an entity which considers itself to be the right holder and lodges an application to the information intermediary to cease infringement of his/her rights prove its rights? As for many types of intellectual property, the rights of the right holding entity can be easily proven if such a right is registered. However according to Paragraph 4. Article 1259 of the Civil Code of the Russian Federation, no registration of the work or maintenance of any other official arrangements are required in order to initiate, maintain or protect the copyrights, and as the Article 1253 of the Civil Code of the Russian Federation does not define the type of the content underlying the protection, it can be applied to any type but video production (which comes into effect as soon as the Law has been introduced), which will obviously evoke certain complications and controversial situations about the question of the eligibilities, which will be regulated only by Court.

The second important innovation introduced by the Anti-Piracy Law involved the amended statements introduced into the Civil Procedure Code of the Russian Federation under which the Moscow city court shall have the exclusive jurisdiction to consider, as the court of first instance, cases concerning violation of exclusive rights in films made available online and which already have undergone preliminary interim measures (Paragraph 3 of Article 26 of the Civil Procedure Code of the Russian Federation). The deletion of unlawfully uploaded information and/ or limitation of its access belongs to these measures.

The conditions of the application of such measures are as follows: filing an application to the Moscow city court in a written or electronic format; statement of unlawful content placement and confirmation of rights for the content by the applicant; implementation by ROSKOMNADZOR, which on grounds of the application of the potential right holder and order of enforcement issued by the Moscow city court, demands to erase the unlawfully placed content or to limit access to it via the hosting provider, and in the event of refusal takes measures via the communications service provider to limit access to the information resource or to the content placed there. In the case of the action being filed within 15 days after issuance of the order, the Moscow city court can issue an order for preliminary injunctions. If the legal proceedings are not initiated within the prescribed period, the order for preliminary injunctions shall be vacated.

Both the reasonableness and coherence of the introduction of the institution of limitation measures evokes some questions. First of all, limitation measures are applied in cases where neither the rights of the potential right holder are proven, nor any lawsuits have been filed which means a claim regarding application of liability. Thereby, such a situation might appear that there exists no acted file (in this case the entity whose rights were limited should file a lawsuit in order to undo the damage), whereas there exists no explanation as far as the last case is concerned. Secondly, how can information blocking on the web site help the potential right holder, being performed 15 days before the lawsuit is filed if he/she can file a lawsuit at once referring to protection of his/ her infringed rights, attaching a request for application of injunctions? Thirdly, as known, injunctive remedies are

used by the Court if non-acting of injunctive remedies might make the enforcement of the court judgement more complicated or even impossible (Article 139 of Civil Procedure Code of the Russian Federation). How can information blocking on the web site before filing a lawsuit trouble the enforcement of the court judgement at all, especially if there is no lawsuit filed?

The Anti-Piracy Law was approved by a convincing majority of the deputies of the State Duma, although some deputies, for example Dmitry Gudkov, publicly announced their disapproval.²⁰

The biggest internet platforms (*Mail.ru Group, Yandex, United Company Afisha-Rambler-SUP, Google Russia, RU-CENTER, Hosting Centre, Foundation for Assistance for Internet Technologies and Infrastructure Development (hereafter FAITID), Wikimedia Russia, OZON.RU, The Russian Association for Electronic Communications (hereafter RAEC), Association of Webpublishers*) approached with an open letter, expressing their active disapproval with the Anti-Piracy Law:

“This draft law sets significant opportunities for misusing and unfair competition. The draft law does not take into account the legal use of objects of copyrights without permission of the right holders which is foreseen by the Civil Legislation and international practice. The draft law does not take into account the opportunities, which get opened-up by the Internet in order to get revenue from online actions using lawful content. The assumed goal of anti-piracy measures by means of the existing text of the draft law will not be reached: modern technologies will enable pirates, if necessary, to avoid the blockings. As for the legal resources, first of all, for mass media, which do not use any unlawful technical tools, this draft law represent a serious threat to their normal activities.²¹”

On August 1 many internet companies arranged a protest action (internet strike), implementing stubs with black pictures and comments expressing their opinion towards the law on their web sites. The web site *RuTakedown* was also launched on August 1, which monitors the execution of the law, in particular law cases, user requests and publishes lists of blocked web sites.

As for the application of the Anti-Piracy Law, it is still rather controversial.

Within the first month after the Law came into effect, 19 lawsuits were received from 11 companies. The Moscow city courts granted a judgement to 14 lawsuits²². According to mass media, where the application for an injunction was refused remedies were dealt with formally. In these cases either the applicant did not provide the court with enough proof confirming that he/she is a right holder or did not name the infringer.

Currently, another law draft was introduced to the State Duma under consideration, according to which the validity of the Anti-Piracy Law shall be expanded not only for films and TV series but for all types of object of copyrights and neighbouring rights: literature and music, as well as software. Apart from that the authors of the draft law suggest that they should add another clause to the law whereby the right holder must submit claims to the web site owner and hosting provider not later than two days before referring to the court in order to apply limitation measures.²³

²⁰ <http://dgudkov.livejournal.com/264885.html>

²¹ <http://raec.ru/times/detail/2667/>

²² <http://www.kommersant.ru/doc/2265578?isSearch=True>

²³ <http://www.kommersant.ru/doc/2282424?isSearch=True>

2. STRUCTURE AND CHARACTERISTICS OF THE TV MARKET IN RUSSIA

2.1 The Categorisation of TV Channels

Russian TV channels can be classified in several different ways. Traditionally, broadcasters come under either: terrestrial TV channels, those using radio frequencies and repeater stations installed on TV towers for signal transmission; and non-terrestrial channels distributed by cable-satellite platforms (which is the most popular way, and the way in which more than 90% of viewers watch non-terrestrial television); MMDS (Multichannel Multipoint Distribution Service, a method of terrestrial distribution often assimilated to cable distribution) and IPTV (television by means of DSL networks). Unlike many European countries and the USA, Russian television has always been dominated by terrestrial distribution instead of cable distribution.

2.1.2. The Federal Channels

Due to the federal system of broadcasting being set up and operated by the State, the most significant channels can broadcast on the entire territory of Russia. However, this distribution cannot be simply called terrestrial TV as, because of signal distortions, the inhabitants of cities as a rule obtain even federal channels by means of cable, whereas among inhabitants of small towns the reception dish is getting more and more popular.

In total in 2012, according to the data of the Federal Anti-Monopoly Service, 21 federal channels broadcast in Russia. These are: *Channel One, Russia 1, Russia 2, Russia 24, Russia K, NTV, St. Petersburg TV, TV Centre, CTC, Peretz, Domashniy, U, Disney, TV3, MTV Russia, TNT, REN TV, Mir, Zvezda, 2x2 and RBC TV*²⁴. All of these channels have their own terrestrial frequency except for *RBC TV* which joined the list as recently as 2012. Nearly 90% of Russian viewers regularly watch these channels.

In accordance with Russian legislation, a channel is recognised as being federal if it broadcasts in at least five regions of the country. However federal channels have special constraints: they must not work with media advertising market operators who control more than 35% of the national or regional advertising markets.

Almost 50% of the federal channels belong to the must-carry broadcasting stations. In 2012 this list contained: *Channel One, Russia 1, Russia 2, Russia 24, Russia K, NTV, St. Petersburg TV, Public TV of Russia and Karusel*. This means that all television operators should include these channels into the basic must-carry package and broadcast them for free (for consumers).

Apart from that, the government indemnifies several of these channels for the costs incurred as a result of broadcasting content which the state considers to be important. These are channels which belong to *All-Russia State Television and Radio Broadcasting Company, Channel One, NTV and St.*

²⁴ http://www.fas.gov.ru/fas-news/fas-news_33600.html

Petersburg TV, provided that they broadcast to towns with populations of fewer than 100,000 people, which enhances the market position of federal terrestrial channels even more.

TERRESTRIAL FEDERAL TV CHANNELS IN 2012

TV CHANNELS	COMPANY WHICH PROVIDES THE TV CHANNEL	MEDIA GROUP THE COMPANY BELONGS TO	COMPANY STATUTE	YEAR OF LAUNCH	TARGET AUDIENCE
CHANNEL ONE	Open Joint-Stock company Channel One	National Media Group	private	1995	All 14-59
RUSSIA 1	State TV Broadcasting Company TV Channel Russia	Federal State Unitary Enterprise All-Russia State Television and Radio Company	state	1991	All 25 +
NTV	Open Joint-Stock company NTV Television company	Gazprom-Media Holding	private	2004	All 18+
CTC	Closed Joint-Stock Company Network of Television Stations	CTC MEDIA	private	1996	All 6-54
TNT	Open Joint-Stock Company TNT Broadcasting Network	Gazprom-Media Holding	private	1998	All 14-44
REN TV	LLC Accept	National Media Group	private	1991	All 25-59
CHANNEL FIVE	Open Joint-Stock Company Television and Radio Company Petersburg	National Media Group	private	2006	All 25-59
DOMASHNIY	Closed Joint-Stock company The New Channel	CTC MEDIA	private	2005	Women 25-59
PERETZ	Closed Joint-Stock Company TV Daryal	CTC MEDIA	private	2011	All 25-59
RUSSIA 2	State TV broadcasting company TV channel Russia	Federal State Unitary Enterprise All Russia State Television and Radio Company	state	2010	Men 25+
RUSSIA K	State TV broadcasting company TV channel Russia	Federal State Unitary Enterprise All Russia State Television and Radio Company	state	1997	All 25+

TV CHANNELS	COMPANY WHICH PROVIDES THE TV CHANNEL	MEDIA GROUP THE COMPANY BELONGS TO	COMPANY STATUTE	YEAR OF LAUNCH	TARGET AUDIENCE
RUSSIA 24	State TV broadcasting company TV channel Russia	Federal State Unitary Enterprise All Russia State Television and Radio company	state	2006	Men 25+
ZVEZDA TV	Open Joint-Stock company Television and Radio Company of Armed Forces Zvezda	Television and Radio Company of Armed Forces Zvezda	state ²⁵	2005	Men 29+
DISNEY CHANNEL	LLC 7 TV	UTH Russia	private	2011	All 6-44
U CHANNEL	Closed Joint-stock company TV Service	UTH Russia	private	2012	All 11-34
MTV	Open Joint-Stock company MTV TV Channel	ProfMedia	private	2013	All 14-44
TV-3	LLCTV3 TV Channel	ProfMedia	private	1994	All 25-59
TV CENTER	Open Joint-Stock company TV Center Television and Radio Company	TV Centre Television and Radio Company	state ²⁶	1997	All 18+
2X2	LLC Television and Radio Company 2X2	ProfMedia	private	2002	All 11-34

2.2 Audience of the Federal Channels

Channel One, Russia 1 and *NTV* are the main Russian channels. They are the most popular channels amongst the population of Russia, therefore they are often used in order to bring information of national importance to the attention of the public.

Due to a sudden expansion in the number of TV channels in Russia in recent years, these “big three” have been getting more and more competitors which, little by little, have taken their audiences. As a result, the terrestrial position of the “big three” has remarkably declined over the last 10 years; this trend can be clearly seen over the last three years. Whereas these three channels were controlling almost 60% of the terrestrial audience in 2005 and 50% in 2010, currently only 41% viewers watch them on a regular basis. *Channel One* and *Russia 1* have suffered the most significant losses, as their shares have decreased by almost 50%, although *NTV*, up to the year 2011, had been building up its

²⁵ TV channel belongs to the category of state companies as it belongs to the Ministry of Defense of the Russian Federation

²⁶ TV channel belongs to the category of state companies as it belongs to the Moscow Government

audience and has begun to lose it over the last years. Nevertheless, the share of this channel, unlike *Russia 1* and *Channel One*, is higher than it used to be in 2005. No wonder that last year *NTV* for the first time audience figures beat those of the irreplaceable leader *Channel One* and became the most popular channel in the country. Although it failed to maintain this position and ranked 3rd in the results of the television season 2012/2013 which ended in May.

The fragmentation of audiences affects not only the “big three” channels but also the smaller ones. Over the last several years, *TNT* (which belongs to *Gazprom-Media Holding* along with *NTV*) was the only TV channel among the leading five channels which had increased its viewers. However since 2012 it has been losing its audience too. The decrease of the audience of another channel among the Top 5 channels, namely *CTC*, as it is recognised by its own management, should also be associated with the trend to audience fragmentation.

AVERAGE DAILY MEDIA PARAMETERS OF TERRESTRIAL TV CHANNELS
FOR THE PERIOD 2008-2012 (%)

TV CHANNELS	2008		2009		2010		2011		2012	
	Rtg%	Share	Rtg%	Share	Rtg%	Share	Rtg%	Share	Rtg%	Share
CHANNEL ONE	3.1	20.8	2.9	18.9	2.7	17.9	2.5	16.8	2.2	13.7
RUSSIA 1	2.6	17.2	2.6	17.1	2.5	16.3	2.3	15.3	2.1	13.3
NTV	2.0	13.2	2.1	13.9	2.3	15.2	2.1	14.3	2.2	14.0
CTC	1.3	8.8	1.3	8.8	1.3	8.4	1.1	7.5	1.1	6.7
TNT	1.1	7.2	1.1	6.9	1.1	7.1	1.1	7.6	1.2	7.6
REN TV	0.7	4.5	0.7	4.9	0.7	4.3	0.7	4.4	0.8	5.2

Source: TNS, 2008-2012, Russia (cities 100 000+), 4+

At the end of 2012, for the first time in the whole period of TV audience measurement, *Channel One* lost its lead to the TV channel *NTV*, based on the media data which equaled 13.7% to 14.0%.

A certain audience loss could be observed for four out of the six TV channels compared to 2011. The audience loss of *Channel One* amounted to 3.1% and was therefore the most significant one compared to the other TV channels which were analyzed. The audience loss of *NTV* was 0.3% and turned out to be the least significant one. The TV channel *Russia 1* had to deal with an audience loss of 2% in 2012, ranking 3rd and reducing the gap on *Channel One* by a fractional part of the corresponding value.

TNT preserved its position from 2011 which resulted in the TV channel, with 7.6%, to be ahead of *CTC* with 6.7% as a result of an audience loss of 0.8% from a year before.

The only TV channel which managed not only to preserve but also to increase its audience was *REN TV*, possessing 5.2% of the audience share in 2012, compared to 4.4% in 2011.

AVERAGE DAILY MEDIA PARAMETERS OF TERRESTRIAL CHANNELS
FOR THE TIME PERIOD 2011-2012 AS FOR THEIR TARGET AUDIENCES, %

TV CHANNELS	TARGET AUDIENCE	2011		2012	
		Rtg%	Share	Rtg%	Share
CHANNEL ONE	14-59	2.2	16.0	1.9	12.8
RUSSIA 1	25+	2.8	16.6	2.6	14.4
NTV	18+	2.4	15.0	2.5	14.7
CTC*	10-45	1.4	11.8	1.3	10.7
TNT	14-44	1.4	12.6	1.7	13.2
REN TV	25-59	0.8	5.1	1.0	5.9

Source: TNS, 2011-2012, Russia (cities 100 000+)

*This table considers the target audience of CTC which the TV channel went over to in 2013

2.3. Media Holdings and Financial Indicators of TV Channels

The changes in audience figures influenced the economic position of TV channels very differently. The share of *Channel One* on the advertising market has stayed almost constant over the last four years; this channel continues to earn more than anyone else on the Russian market. *Channel One* also preserved its leading position for the year 2012: it obtained 20.67% of the whole advertising investments on TV. Nevertheless, there is a certain decline of advertising sales revenue which took place at the same time and therefore should be mentioned: in comparison with the results of 2011, in absolute terms the investment declined by 2%. As of year-end 2012, *NTV* ranked 2nd, obtaining a market share of 16.32% (which demonstrates in absolute terms a sales revenue increase by 9%). *Russia 1* ranked 3rd with 13.5% of the market share (which is a sales revenue increase by 1% in absolute terms). *CTC* ranked 4th with 12.95% (increased revenue by 6%) and *TNT* ranked 5th, obtaining 11.43% of the market share (which shows a sales revenue increase by 22%).

The Russian terrestrial TV market is characterised by its concentration: 17 channels of 21 belong to large media holdings.

MEDIA HOLDINGS IN 2012

COMPANY	COMPANY MANAGER	FOUNDERS AND THEIR CAPITAL SHARE	TV CHANNELS WHICH BELONG TO THE HOLDING AND THE ONES CONTROLLED BY THE HOLDING
All-Russia State Television and Radio Broadcasting Company (VGTRK)	Oleg Dobrodeev	Government of the Russian Federation (100%)	Russia 1, Russia 2, Russia 24, Russia K
CTC Media	Boris Podolsky	Modern Times Group (37.94%) and National Media Group (25.2%). Rest of the shares are listed on the stock market (36.86%) (September 2012 bank ROSSIYA purchased 8% of the shares)	CTC, Domashniy, Peretz
Gazprom-Media Holding	Nikolay Senkevich	Gazprombank with main shareholders OJSC Gazprom (41.73%) and NPF GAZFOND (46.92%)	NTV, TNT
ProfMedia	Rafael Akopov	100% of company belong to Interros	TV3, 2x2, MTV Russia
National Media Group (NMG)	Alexander Ordzhonikidze	Bank ROSSIYA (18.9 %), Severstal-group (26.2 %), Surgutneftegaz (26.2 %), SOGAZ (21.2 %), RTL Group (7.5 %)	St. Petersburg TV (72.4%); REN TV (68%) Channel One (25%) Acts at a co-owner of CTC Media (25.2 %) – CTC, Domashniy, Peretz
UTH Russia	Dmitry Sergeev	Belongs to stakeholders of Alisher Usmanov and group Media-1 TV of Ivan Tavrin	Channel U Channel Disney (51% - UTH Russia; 49% - Disney Co)

2.3.1. VGTRK

Federal Unitary Enterprise (hereafter FGUP) *All-Russia State Television & Radio Company* (hereafter *VGTRK*) acts as the main state media holding. It is entirely controlled by the state. *VGTRK* possesses four channels namely *Russia 1*, *Russia 2*, *Russia 24* and *Russia K*. Apart from that, the state holding regulates the terrestrial channel *Moscow 24* on behalf of the City of Moscow. In the near future it should also get control over the news channel of the Moscow region. The company also possesses eight thematic channels. Lastly, *VGTRK* owns the children's channel *Karusel* together with *Channel One*. According to its own evaluation, *VGTRK* is the largest European company in terms of volume of TV content production. Oleg Dobrodeev is the CEO of this company and Anton Zlatopolskiy is his first deputy director. Another key member of this company is the second deputy director Dmitriy Mednikov who deals with development of news broadcasting and thematic channels.

Because of the nature of the Russian legislation, *VGTRK* as a FGUP reveals little information about its financial activities. In 2012 sales revenue of the company rose by 5.5% to RUB 25.9BN (according to the Russian Accounting Standards, the company itself names this value "cost of sales"), whereas its costs rose by 14.6% to RUB 32,8BN. FGUP made up the difference, first of all, by means of special grants from the federal budget and other sources. In reports of *VGTRK*, grants are put down as "other incomes", which last year corresponded to RUB 20.3BN. The holding does not present details on its costs.

2.3.2. Gazprom-Media Holding

Officially, *Gazprom-Media Holding* is the most significant private media company in Russia. Its only owner is *Gazprombank*, whose shareholders consist of the company *Gazprom* which is controlled by the state, state corporation *Vnesheconombank* and *GAZFOND*. This non-profit fund is regulated by the company and controlled by the bank *ROSSIYA* which belongs to Yury Kovalchuk. For this reason, *Gazprom-Media Holding* should be considered as a quasi-state holding. As already said, the Holding owns two TV channels, namely *TNV* and *TNT*. Alexey Miller, the CEO of *Gazprom*, is also the chairman of board of directors at *Gazprom-Media Holding*. The CEO of *Gazprom-Media Holding* is Nikolay Senkevich, the CEO of *NTV* is Vladimir Kulistikov. As for *TNT*, its former CEO Roman Petrenko, who in fact had built the channel from the ground up, was replaced at the beginning of this year by Igor Goikhberg. Petrenko became the chairman of board of directors of the channel. Sergey Piskarev, who is the CEO of the sales house *Gazprom-Media Holding*, is responsible for advertising sales.

Sales revenue of *Gazprom-Media Holding* for 2012 was RUB 52.3BN: 11.5% more than the previous year according to the reports of *Gazprombank*, in compliance with IFRS. The most significant part of this sum (80%) was gained through advertising placement on TV channels, radio stations, web portals and magazines. The operating costs of *Gazprom-Media Holding* rose more slowly in 2012 than its sales revenue (plus 7.8%). As a consequence, its operating profit increased by 25% to RUB 12.4BN²⁷.

Sales revenue of *NTV* increased by 8.8% last year to RUB 22.1BN, with 94.5% of this sum being generated through advertising placement. *NTV* earned about RUB 1BN more through selling its content to other broadcasters. The support for this channel (which came from the budget) amounted to almost RUB 710BN, incl. RUB 9.5BN for the production of the programme *Professiya Reportyor* [Profession Reporter], RUB 15BN for *Chestniy Ponedel'nik* [Honest Monday] and RUB 6.8BN for the

²⁷ <http://www.media-atlas.ru/news/?id=32741>

programme *Smort* [Inspection]. During the same period the costs of the channel rose by 4.2% to RUB 17.1BN. The channel does not go into details of its costs in the corresponding report²⁸.

Last year the sales revenue of *TNT* rose faster than the sales revenue of *NTV*. It increased almost by 25% to RUB 13.4BN. Its costs increased by 10.3% to RUB 6.4BN. As a result, the operating profit of *TNT* ("sales profit" in the report) increased by 150% to RUB 5.3BN. It is the highest profitability among the leading Russian channels in the last year. The expenses for the purchased content corresponded to RUB 6.2BN, which is 36% lower than in 2011. Nearly one-third of the costs (RUB 2.1BN) were due to *Comedy Club Production*. *TNT* broadcast terrestrially RUB 4.2BN worth of content which is a little more than in the year 2011 (RUB 3.9BN)²⁹.

2.3.3. National Media Group

The private company *National Media Group* belongs to the bank ROSSIYA (which owns 18.9% of the shares of NMG and controls 21.1% by means of SOGAZ). The shareholders of this company include *Surgutneftegaz* and *Severstal* (26.2 shares each), as well as RTL Group (7.5%).

National Media Group owns 25% of shares of *Channel One*, 72.4% of shares of *St. Petersburg TV* and 68% of shares of *REN TV*. In addition, the company controls 25.3% of shares of *CTC Media*, together with its joint-stock bank ROSSIYA and its partners. In autumn 2013 another cable channel named *LifeNews* will be launched. According to the newspaper *Vedomosti*, *NMG* is a co-owner of this project.

In 2012 the sales revenue of NMG rose by 23% to RUB 12.1BN, its operating profit increased by 37% to RUB 1.5BN and its net profit increased by more than 200% to RUB 756BN. The company does not reveal any figures of single assets, but we can assume that it was the channel *St. Petersburg TV* which contributed to such a significant enhancement, as its audience rose remarkably during 2012. *St. Petersburg TV* also receives grants for signal distribution.

Apart from *NHG*, the state itself acts as the most significant shareholder at *OJSC Channel One*, which possesses the control stake. Other shares belong to the establishments of Roman Abramowitsch. Konstantin Ernst is the CEO of the company, Alexander Faifman is the general producer of the channel and Peter Shepin is its financial manager.

Last year was not very successful for *Channel One* in terms of advertising sales. In the end, the sales revenue of the channel almost did not change at all (its increase was no more than 0.7%) and amounted to RUB 29.1BN. The company gained 99% of this sum from advertising. The costs of *Channel One* rose by 13.3% to RUB 32BN³⁰. *Channel One* was able to cover the difference between revenue and costs due to the state budget it receives. It received almost RUB 3.5BN as a subsidy for distribution of signal in cities with populations under 100,000 people. The company further received RUB 34.7M to arrange the Eurovision contest and another sum of RUB 8M to purchase new equipment. It is not possible to report on programming costs given the company's reports.

2.3.4. CTC Media

CTC Media is just about the only traditional public media company in Russia. Its shares are listed in the stock-house of New York. Other public internet companies in Russia are *Yandex*, *Mail.ru Group* and

²⁸ Accounting reports data of the company 2012

²⁹ Accounting reports data of the company 2012

³⁰ Accounting reports data of the company 2012

RBC. Last year the value of *CTC Media* fluctuated between \$1.1BN and \$1.9BN. The shareholders of the company are *Swedish Modern Times Group* (37.9% of shares) and *Cyprus Telcrest*, controlled by the bank ROSSIYA. Other shares are free-floating.

In 2012 the sales revenue of the company increased by 5% to \$805M (or by 10%, if evaluating in RUB). The advertising sales revenue of the company in Russia increased by 9%, if evaluating in RUB. *CTC Media* possesses three channels: *CTC* itself, *Domashniy* and *Peretz*³¹.

CTC is the company's main channel. Its sales revenue did not change for 2012 and corresponded to \$580M (evaluation in RUB, increased by almost 7%). First of all, it can be explained by the fact that the channel had been losing its audience throughout the year and started to increase it in spring 2013. The sales revenue of *Domashniy* increased by 7.3% to \$117.5M, whereas the sales revenue of *Peretz* increased by 23% to \$117.5M.

CTC Media, as a public company, shares detailed information about its costs. Thus in 2012 for buying and producing content the company spent \$313M; the most significant part of this sum fell to the share of *CTC* (\$221M). The fastest increase in costs was demonstrated for the content of *Domashniy* (plus 18.3%, evaluating in RUB, to plus 14.4%, evaluating in RUB for *CTC*). It is interesting to compare the content costs of *CTC* and *TNT* as the closest competitors. For 2012 *CTC* spent 45.2% of its sales revenue on purchasing new TV programs, shows, TV series and movies, whereas *TNT* spent 46%. However, *CTC* showed content for as much as 38.2% of sales revenue, whereas *TNT* managed only 31.3%. That is how we can conclude that last year *TNT* was a more generous purchaser of content rights, but a worse "spender" of them than *CTC*, and the corresponding profit from them turned out to be better. Remember that *TNT* had a rising audience last year unlike *CTC*.

2.3.5. ProfMedia

ProfMedia is another media company which owns three federal channels, namely *MTV Russia*, *TV3* and *2x2*. The consolidated sales revenue of the company has risen by 12% to RUB 15.9BN. Its profitability in terms of its EBITDA has risen by 53% and amounts to RUB 4.1BN³².

The only owner of the company is the company *Interros* owned by Vladimir Potanin. The President of *ProfMedia* is Olga Paskina and the president of the TV department is Nikolay Kartosia. The company does not reveal the statistics of channels separately. Their total sales revenue increased last year by 26% to RUB 7.1BN and its EBITDA almost doubled to RUB 1.5BN. That is the highest increase of sales revenue among those federal channels which their reports publish. The source in *ProfMedia* explained this to the newspaper *Vedomosti* as being due to the increase in audience numbers of the channel *TV3* and efficient advertising sales (which can be seen as increase of affinity).

2.3.6. UTH Russia

UTH Russia regulates three channels: *U* and *Disney* which are terrestrial channels, and *MUZ TV* which is a cable channel. The companies *Media One*, belonging to Ivan Tavrín, and *Af Media Holding* owned by Alisher Usmanov, possess 50% each of UTH Russia. The CEO of UTH Russia is Andrey Dimitrov, the CEO of the channel *U* is Ruben Aganesyan, and the CEO of the *Disney Channel* is Yan Kukhalskiy.

³¹ <http://top.rbc.ru/economics/06/03/2013/848162.shtml>

³² <http://www.profmedia.ru/news/1788/>

The sales revenue of *UTH RUSSIA* rose by 14.8% to RUB 4.45BN in 2012 and its OIBDA increased by 16% to RUB 1.5BN³³.

2.4. State Support for Television Companies

The state still plays a significant part in the formation and development of the TV industry in Russia. It supports the TV industry in Russia in several different ways, providing subsidies for the development of activities of television companies and for single projects whether TV films, TV series or TV programs.

The Federal Press and Mass Communications Agency of Russia acts as the main institution which distributes state resources for the development of the TV industry. However other departments or institutions such as the Ministry of Culture of the Russian Federation, the Ministry of Defence and the Ministry of Emergency Situations often provide financial support for the activities of TV companies. State departments support both state and private TV companies.

The Federal Law of the Russian Federation from November 30 2011 № 371-FZ “On federal budget for the year 2012 and preliminary for the years 2013 and 2014” states that the amount distributed for support of TV and radio companies in 2012 equalled RUB 61.69BN. RUB 16.79BN was allocated in terms of the Federal target program “Development of TV and radio broadcasting of the Russian Federation within the years 2009—2015” (in 2011, this submission corresponded to RUB 44.8BN).

The most significant financial support in 2012, as in the previous year, went to *VGTRK* and equalled RUB 19.14BN (in the previous year, RUB 18.9BN). The purpose of the resources provided to *VGTRK* included financial support of its activities as well as coverage of its costs related to the production of programs, getting it on air and supporting activities in order to broadcast the product to viewers and radio listeners, maintenance of international activities and maintenance of foreign correspondent stations.

Independent non-profit organisation *TV-News* (TV channel *Russia Today*) received RUB 11.01BN for setting up and broadcasting channels in English, Arabic and Spanish, coverage of costs relating to the production of programs, its placement on air and maintenance of events, in order to broadcast the product to viewers and radio listeners, maintenance of international activities and maintenance of foreign correspondent stations.

TV Channel *Zvezda*, which was the basis for the creation of Public TV, received RUB 1.5BN as it had done the previous year.

The FGUP *Television Center Ostankino* obtained RUB 1.07BN in order to undertake major repairs to utility equipment and technical modernization of capital equipment. The *Autonomous Non-Commercial Organization* (hereafter ANO) *Sports Broadcasting* obtained RUB 3.49BN in order to build and maintain the transportable broadcasting studio in Sochi.

Channel One, *NTV* and *TV Company St. Petersburg* got more than RUB 5.04BN (in 2012, RUB 4.7BN). The purpose of these resources was to pay for the distribution and broadcast services provided by

³³ <http://www.kommersant.ru/doc/2120475>

FSUE *Russian TV and Radio Communication Agency*³⁴ to cities with populations of less than 100,000 people,

Apart from that, *VGTRK*, *NTV*, *Channel One* and *RIA News* have shared the resources for the coverage of the Olympic Games 2012 in London which amounts to RUB 3.45BN.

Besides supporting single TV enterprises, *Rospechat* arranges an annual contest to subsidise socially important TV programs. The projects to be supported by subsidies are drawn from the applications by a special expert council. For example, in 2011 143 TV projects obtained state support totalling RUB 668.4M. In 2012 224 projects received budget resources, which totalled RUB 719.5M.

Both federal channels, such as *Russia 1*, *Russia 2*, *Channel One*, *NTV* and *TV Centre Kultura*, and regional channels received such subsidies. *VGTRK* received the most resources, totalling RUB 60.9M. After *VGTRK* comes *MTRK MIR* (RUB 52M), *Channel One* (RUB 33.7M) and *NTV* (RUB 31.3M).

Using the financial support, *NTV* broadcast 32 episodes of *Smotr* a program about the Russian army (RUB 6.7M), 29 episodes of *Profession Reporter* (RUB 9.5M) and 15 episodes of *Chestni Ponedelnik*. The last project finished in July 2013.

The TV channel *Dozhd* [Rain] received money for the cycle of social marketing *Vse raznie – vse ravny* [Everybody is different. Everybody is equal]. Seven video slots cost RUB 1.3M. The TV program *Knigi* [Books] received a subsidy in the amount of RUB 2M.

Channel One got a TV program *Umniki i umnitzi* [Wise guys and wise girls] and a social talk-show *Zhdi menya* [Wait for me] financed. In addition, TV projects *Spokoynoy nochi, malishi* [Good night, you little ones] (*Russia 1*), *Chernie Diri Belie Pyatna* [Black holes. White spots], *Provincialnie muzei Rossii* [Provincial museums of Russia], *Romantika romansa* [Romantic of Romance] (*Russia K*), *Den' aista* [The Day of Stork], *Marsh-brosok* [Forced March], *ABVGD'ka* [ABC] (*TV Centre*), *V mire zhivotnih* [In the world of animals] (*Russia 2*) and *Samiy umniy kadet* [The smartest cadet] (*CTC*) were among the programs which obtained financial support from the state³⁵.

Apart from *Rospechat*, the Ministry of Culture of the Russian Federation supports single broadcast projects, mainly feature and animation films.

In 2012 the Expert Council of the Ministry of Culture gave some financial resources to create 10 films for children and young people, 9 independent and experimental films, 5 projects of debut directors and 3 films which were at the final stage.

Among the independent film projects, the following ones should be pointed out: the new movie of Aleksey Fedorchenko, a screen version of Denis Osokin's *Angeli i revoliuziya* [Angels and revolution], *Igra v pravdu* [Play me the truth] by Victor Shamirov, *Poezdka k materi* [Visit of mother] by Michail Kosirev, *Snegurochka* [Snowmate] by Dmitri Svetozarov, *Beliy yagel* [White moss] by Vladimir Tumaev, *Klass korrekzii* [Correction class] by Olga Kaptur, *Chestno* [Honestly] by Vladimir Shegolkov, the comedy *Provinciali* [Provincials] by Roman Karimov, Michail Ugarov and his debut work *Bratya Ch* [Brothers Ch], *Shveyzar* [The Doorman] the first work of cameraman Michail Krichman as a director and *Tyajoliy sluchay* [Hard case] by script writer Konstantin Murzenko were granted financial support.

³⁴ <http://www.fapmc.ru/rospechat/activities/pokazateli/otchety/item1806-1/main/custom/00/0/file.pdf>

³⁵ <http://www.fapmc.ru/mobile/statements/support/recipientsofstate/item1940/main/custom/00/0/file.pdf>

The applications of Bakura Bakuradze *General* [General], Vladimir Kott *Obshaga na krovi* [Alphabet in blood], Grigory Konstantinopolskiy *Russkiy bes* [Russian devil] and Sergey Solovyev *Ivan Turgenev. Metaphisica lyubvi* [Ivan Turgenev. Metaphysics of love] did not receive any financial support. The expert council decided to support films which had already been shot and were at the end stage of production, among them drama *Alaverdi* by Maria Saakyan, *Judas Iskariot* by Andrey Bogatirev (an adaptation of the namesake novel by Leonid Andreev), *Zerkala* [Mirrors] by Maria Migunova and Yuri Arabov, an almanac consisting of four novels about Marina Zvetaeva. The experts made their decisions having examined 138 applications.

2.5. TV Advertising

2.5.1. Advertising investments

In 2012, according to the Russian Association of Communication Agencies the income generated by TV channels through advertising increased by 9% to RUB 143.2BN (VAT not included). Of this, RUB 139.9BN funded terrestrial broadcasting whereas the rest (RUB 3.31BN) went back to the production companies and distributors of thematic channels transmitted by cable networks or satellite. In total, TV has been the dominating segment of the whole advertising market. As of the year-end 2012 its share by total expenditure equalled 48%, according to the Association. In the pre-crisis year 2007, this figure came to 44%. In 2009, which was the least advantageous for the whole advertising branch, it amounted to almost 52%.

THE VOLUME OF THE MARKET OF MARKETING COMMUNICATIONS IN RUSSIA IN 2012

MEDIA	ADVERTISING REVENUE IN 2012 (RUB BN, VAT NOT INCLUDED)	GROWTH BY THE YEAR 2012 (%)
TV	143.2	9
<i>which includes terrestrial broadcasting</i>	139.9	9
<i>Cable-satellite broadcasting</i>	3.3	27
Radio	14.6	23
Press	41.2	2
<i>which includes newspapers</i>	9.5	8
<i>Magazines</i>	20.1	1
<i>Advertising information publications</i>	11.6	-1
Outdoor Advertising	37.7	10
Internet	56.3	35

MEDIA	ADVERTISING REVENUE IN 2012 (RUB BN, VAT NOT INCLUDED)	GROWTH BY THE YEAR 2012 (%)
<i>which includes media advertising *</i>	17.9	17
<i>Contextually targeted advertising**</i>	38.4	45
Other media	4.9	14
<i>which includes indoor-advertising***</i>	3.8	13
<i>Advertising in cinema</i>	1.1	18
TOTAL segment ATL	297.8	13
TOTAL segment BTL	80.4	18

* Banners. Pop-up windows and other similar formats as well as network video advertising.

** Commercial links among search results or within specialized resources.

*** Advertisement inside buildings eg business centres, shops, airports etc.

Source: Russian Association of Communication Agencies

2.5.2. Advertising investments on television

It is very simple to explain the interest of media advertising market operators towards TV as it is the most available and efficient media. In 2012 it cost the federal TV channels RUB 115 to maintain 1,000 contacts with viewers aged over 18 living in cities with populations of over 100,000 people, according to the agency Initiative. The same 1,000 contacts with the same audience using outdoor advertising cost only RUB 30. As for the radio, this value amounted to RUB 105, whereas daily newspapers cost as much as RUB 166. At the same time, magazines were RUB 187 and the Internet RUB 214.

Advertising on television takes the form of a video, which enables a coherent story to be told, whereas outdoor advertising is, as a rule, limited to a poster showing a static picture, or an audio message on the radio. That is why outdoor and radio advertising traditionally come off worse than television, based on the level of creativity possible and, consequently, influence on the consumer.

As a result, TV is the key advertising medium for the manufacturers of everyday products. In 2012, according to the data of the Analytical Centre *Video International*, the category "Food" was evaluated as the most significant product category on TV as advertisers increased their budgets by 10% to RUB 18.6BN. The category "Medicine and Pharmacy" follows second with RUB 15.7BN (which increased by 28% from 2011): consumer healthcare goods, allowed for common advertising, are viewed as articles of daily necessity. The third largest category "Perfumery and Beauty Products", disposing a budget of RUB 13.2BN (which decreased by 3%), once again represents manufacturers of everyday products. Referring to the Top 20 product categories, these also appear: "Home Care" (RUB 4.8BN, which decreased by 7%), "Personal-Care Products" (RUB 3.4BN; which decreased by 7%), "Refreshment Drinks" (RUB 3BN; which increased by 27%), "Juices" (RUB 1.9BN; which increased by 11%) and "Beer" (RUB 1.8BN; which decreased by 40%, as beer advertising on TV has been prohibited since July 23).

It is rather natural that the manufacturers of everyday products rank as dominating among the basic media advertising market operators on TV. Among the leading ten most important contractors of TV advertising, according to the industry publication *AdIndex*, only one media advertising market operator refers to another category, namely MTS, possessing RUB 3.5BN in 2012, ranks No. 10. To enable a more comprehensive comparison, it would be helpful to cite as example the TV advertising budget of the rank leader *Procter & Gamble*, which corresponds to almost RUB 6.6BN. Moreover, it should be mentioned that, whereas MTS spends 78% of its total advertising budget on TV advertising, *Procter & Gamble* spends 88% of its advertising budget on TV advertising.

When analysing the positions of the most significant advertising agencies on TV, it is clear that the success of *PepsiCo* was the most important development of 2012. As of year-end 2012 the American corporation ranks 4th, having at its disposal RUB 5.6BN, whereas in 2011 it ranked 17th with RUB 1.8BN. It is, nevertheless, quite simple to understand how this happened: in 2011 *PepsiCo* achieved a takeover deal over *Wimm-Bil-Dann* and consolidated media buying. The budget of the Russian manufacturer of juice and dairy products had always been more significant compared to the budget of the American corporation: in 2011 *Wimm-Bil-Dann* spent RUB 2.5BN on advertising, ranking 10th among media advertising market operators.

Another M&A deal among manufacturers of everyday products which proved itself as important, influencing the ranking of the most significant advertisements, took place in 2011 as the English-Dutch company *Unilever* purchased the Russian *Kalina*. *Unilever* as it appears as one of the most significant TV media advertising market operators: in 2011, according to *AdIndex*, it ranked 6th, possessing a budget of RUB 3.4BN. *Kalina* acted as one of several home media advertising market operators with a TV advertising budget, which became the 3rd ranked advertiser with a budget of RUB 5.7BN, following *Procter & Gamble* and *Mars Inc.*

Certain changes within the advertising agency market should also be seen as a consequence of consolidation of some key players. As of year-end 2012, the agency *OMD Optimum Media*, consolidating purchases of *PepsiCo* and *Wimm-Bil-Dann*, ranked 1st as the leading large professional buyer of advertisement. In 2011, this agency occupied merely the 3rd position. At the same time the agency *Havas Media* who supply *Unilever*, as of year-end 2012, on the contrary, ranked just 3rd, losing the leading position of the previous year. The agency *Starcom*, having *Procter & Gamble* as a key customer, ranked 2nd. This company also consolidated its purchases of TV advertisement with *Teva Pharmaceuticals* in terms of a strategic global partnership in 2012. That is how *Teva* with its TV advertisement budget over RUB 1BN became a client of *Starcom*.

Such purchase consolidations are highly practiced by other large media advertising market operators. That is how the Swiss *Nestle*, the French *L'Oreal*, the French *Renault*, the Japanese *Nissan*, the Russian *VimpelCom* and *Euroset* purchase TV advertisement, by consolidating operations. Taking these consolidations into account, it becomes clear that the alliance of *Nestle-L'Oreal* comes off merely a little worse than *Procter & Gamble* or *Teva*, judging by its total budget: RUB 7.636BN to RUB 7.655.9BN.

LEADING MEDIA ADVERTISING MARKET OPERATORS IN RUSSIA IN 2012

RANKING	COMPANY	ADVERTISING BUDGET (RUB M, VAT INCLUDED)				
		2012*				
		TELEVISION				
		Federal	Regional	Thematical	Sponsorship	In total
1	Procter & Gamble	6 272.1	111.6	119.7	83.2	6 586.6
2	Mars Inc.	5 408.6	177.3	124.2	14.9	5 725.0
3	Unilever	5 408.3	74.9	101.1	54.9	5 639.1
4	PepsiCo	4 675.8	622.3	93.7	180.3	5 572.2
5	Henkel	3 769.0	98.0	71.9	29.2	3 968.1
6	Nestle	2 798.0	913.7	83.5	46.7	3 841.9
7	L'Oreal	3 294.1	395.7	77.3	27.4	3 794.5
8	Reckitt Benckiser	3 521.0	60.3	78.4	55.6	3 715.2
9	Danone	3 466.3	6.7	66.5	9.0	3 548.5
10	MTS	2 385.1	1 004.0	88.4	24.2	3 501.7
11	Novartis	3 348.2	0.3	50.6	42.4	3 441.5
12	Mondelez International**	3 270.1	0.0	44.8	27.5	3 342.4
13	MegaFon	2 162.4	423.0	77.7	196.4	2 859.6
14	Ferrero	1 067.4	1 628.8	23.9	22.7	2 742.7
15	Coca-Cola Co.	2 168.0	0.0	31.4	51.5	2 250.9
16	Johnson & Johnson	1 979.2	64.6	19.8	28.3	2 091.8
17	VimpelCom	1 817.4	88.2	82.3	0.0	1 987.9
18	Sberbank	1 738.6	77.3	36.8	65.4	1 918.1
19	Pharmstandard	1 586.0	1.9	15.0	124.7	1 727.6

RANKING	COMPANY	ADVERTISING BUDGET (RUB M, VAT INCLUDED)				
		2012*				
		TELEVISION				
		Federal	Regional	Thematical	Sponsorship	In total
20	Volkswagen	1 559.6	5.3	119.5	16.7	1 701.1
21	Berlin-Chemie Menarini	1 088.3	0.0	0.0	543.6	1 631.9
22	Evalar	1 520.9	0.3	11.6	57.2	1 590.1
23	Sanofi Aventis	1 505.1	15.5	26.8	31.5	1 578.9
24	M.Video	1 420.9	32.8	19.4	0.0	1 473.0
25	General Motors	1 402.1	7.4	31.7	19.3	1 460.6
26	Beiersdorf	1 358.6	0.0	19.3	33.0	1 410.9
27	Baltika	1 215.0	93.9	5.7	0.0	1 314.6
28	Bayer	1 264.7	3.4	17.9	25.9	1 311.9
29	Colgate- Palmolive	1 132.8	0.0	86.9	5.6	1 225.2
30	Orimi Trade	1 138.5	0.2	24.7	23.4	1 186.9
31	Sport Master	1 095.9	29.6	34.4	0.0	1 160.0
32	McDonald's	1 099.3	0.4	16.5	15.3	1 131.4
33	Teva	1 046.8	0.2	15.0	6.4	1 068.3
34	Eldorado	992.0	28.5	21.7	19.0	1 061.2
35	X5 Retail Group	0.0	1 011.1	7.3	2.7	1 021.1
36	Nissan	783.3	27.2	168.9	0.0	979.5
37	GlaxoSmithKline	610.1	316.5	0.1	22.6	949.2
38	PSA Peugeot Citroen	742.2	38.6	82.3	4.8	868.0
39	Tele2	0.0	863.5	0.0	0.0	863.5

RANKING	COMPANY	ADVERTISING BUDGET (RUB M, VAT INCLUDED)				
		2012*				
		TELEVISION				
		Federal	Regional	Thematical	Sponsorship	In total
40	VTB	814.8	5.1	4.5	13.5	837.9
41	Hyundai	749.2	7.2	27.6	36.4	820.4
42	Ford Motor Co.	757.9	3.9	31.8	8.7	802.3
43	LVMH	724.1	0.0	36.7	24.9	785.7
44	Svyaznoy	645.3	93.3	20.4	8.4	767.5
45	Rostelcom	211.1	536.0	2.4	3.4	752.8
46	Samsung Electronics	690.5	0.3	39.9	19.2	749.9
47	Kia Motors	661.0	9.8	22.4	35.1	728.3
48	Toyota	618.5	9.2	70.4	22.8	721.0
49	Renault	559.5	5.8	32.3	0.0	597.6
50	Metro Group	0.0	505.7	0.6	0.0	506.3

*While calculating the budgets for 2012, the procedure was improved, that is why the comparison with the indicators of the year 2011 is not correct.

**Formerly Kraft Foods.

Source: AdIndex

2.5.3. Buying Audience

For the TV channels themselves, 2012 saw significant changes relating to target audiences which determines terrestrial advertising. Immediately, 12 broadcasters moved over to new audiences. Where some channels performed insignificant changes (for example, since 2012 *Peretz* and *TV3* have aimed themselves at viewers aged between 25 and 59 years, instead of the life stage 25-54 as they had previously), other important broadcasters took measures which can be called radical. *Channel One*, which traditionally broadcast to all Russians aged over 18 years, announced that from then on it would mainly broadcast for the young audience (14-59 years). On the contrary, its main competitor, the channel *Russia 1*, announced that its target audience consisted of Russians aged over 25 years. The leading broadcaster among the young audience, namely the channel *TNT*, refused to broadcast for children, limiting its target audience from all viewers between 6-54 years to those aged between 14-44 years.

It is remarkable that these massive audience changes were initiated by the channel *CTC*. In 2011 *CTC* was losing viewers within its target audience (all Russians between 6 and 54 years). This led the top-management of *CTC-Media* to announce that children were not a priority for their leading channel and that from the year 2012 onwards, the channel would cater for viewers aged between 14-44 years. The figures for *CTC* turned out to be a little better in terms of this audience. But in autumn 2011, when TV sales houses took up detailed negotiations with advertisers and their agencies on deals for the following year, the management of *CTC-Media* refused to switch to the new audience. As a consequence, throughout 2012 the channel was selling advertising taking into account only its old audience, and performed the actual audience change in 2013, including viewers aged between 10 and 45 years as its target audience. All in all, *CTC-Media* did not risk taking any more radical measures.

The decline of the target audience for the channel should lead to a reduction of advertising space, which gets compensated by its rising costs. Still, if the broadcaster really restructures its whole broadcasting program policy according to the new audience, then reducing the advertising space becomes optional instead of necessary: if the channel involves more viewers within its new target audience, then the amount of advertising space might even get bigger.

Thus, as of year-end 2011, the average daily share of *TNT* in its old target audience (viewers between 6-54 years) equalled 10.4%, according to the data of TNS Russia. As of year-end 2012 and referring to the new target audience (viewers between 14 and 44 years) it rose to 13.2%. This turn was caused not only by involving more viewers within the year but also the ones who enable the channel to earn money. In 2011, referring to the new target audience, the daily average share of *TNT* equals 12.6%. That is why, in 2012 the released advertising maintenance accessories on *TNT* on air on the federal level increased, according to the consulting company *Media Logics*, by 31% up to 160.3 thousand rating points (unit of measure in terms of advertising sales which represents the number of viewers who have seen the advertisement). Consequently, possible sale amount of *TNT* coming from advertising placement on air on federal level, according to the agency *Kwendi Media Audit* increased by 20% to RUB 12.1BN (VAT not included but commission fees of distributor included).

ADVERTISEMENT REVENUE OF CHANNELS IN 2012

BROADCASTER	TARGET AUDIENCE	APPROXIMATE COSTS OF ONE RATING POINT ** (RUB, THOUSANDS, VAT INCLUDED)	POSSIBLE REVENUE FROM PLACEMENT ON AIR ON FEDERAL LEVEL (RUB BN, VAT AND COMMISSION FEES OF DISTRIBUTOR INCLUDED)		CHANGES OF TOTAL ADVERTISEMENT REVENUE BY THE YEAR 2011 (%)
			Only direct advertising	Advertising and commercial continuity	
<i>Channels, supplied by the group Video International</i>		91.711	45.448	48.154	6
Channel One	Russians between 14 and 59 years	143.147	24.564	26.587	-4
National Media Group		64.176	9.341	9.560	19
REN TV	Russians between 25 and 59 years	78.739	6.338	6.448	2
St.Petersburg TV	Russians between 25 and 59 years	46.157	3.003	3.112	81
ProfMedia		66.946	7.154	7.405	32
TV 3	Russians between 25 and 59 years	65.649	4.079	4.179	29
MTV Russia	Russians between 14 and 34 years	78.642	1.936	2.020	34
2x2	Russians between 11 and 34 years	56.641	1.139	1.206	40
UTH RUSSIA		61.348	4.389	4.602	21

BROADCASTER	TARGET AUDIENCE	APPROXIMATE COSTS OF ONE RATING POINT ** (RUB, THOUSANDS, VAT INCLUDED)	POSSIBLE REVENUE FROM PLACEMENT ON AIR ON FEDERAL LEVEL (RUB BN, VAT AND COMMISSION FEES OF DISTRIBUTOR INCLUDED)		CHANGES OF TOTAL ADVERTISEMENT REVENUE BY THE YEAR 2011 (%)
			Only direct advertising	Advertising and commercial continuity	
U Channel***	Russians between 11 and 34 years	77.962	2.519	2.638	23
Disney Channel	Russians between 6 and 44 years	47.664	1.870	1.964	19
<i>Channels consulted by the group Video International</i>		78.940	38.783	42.206	7
CTC Media		94.900	21.022	22.649	9
CTC	Russians between 6 and 54 years	118.175	15.252	16.662	6
Domashniy	Women between 25 and 59 years	59.515	3.258	3.385	10
Peretz	Russians between 25-59 years	66.612	2.512	2.602	29
Russian State Television & Radio Company		65.835	17.761	19.557	4
Russia 1	Russians elder than 25 years	70.775	16.041	17.369	1
Russia 2	Men elder than 25 years	39.876	1.720	2.188	46

BROADCASTER	TARGET AUDIENCE	APPROXIMATE COSTS OF ONE RATING POINT ** (RUB, THOUSANDS, VAT INCLUDED)	POSSIBLE REVENUE FROM PLACEMENT ON AIR ON FEDERAL LEVEL (RUB BN, VAT AND COMMISSION FEES OF DISTRIBUTOR INCLUDED)		CHANGES OF TOTAL ADVERTISEMENT REVENUE BY THE YEAR 2011 (%)
			Only direct advertising	Advertising and commercial continuity	
Channels supplied by Gazprom-Media Holding and Alkazar		73.820	35.263	37.588	14
Gazprom-Media		77.725	33.419	35.684	14
NTV	Russians elder than 18 years	70.642	19.383	20.986	9
TNT	Russians between 14 and 44 years	90.214	14.036	14.698	22
TVCentre	Russians elder than 18 years	38.635	1.844	1.904	1
Channels independent from mail distributors		18.953	0.655	0.664	39
Zvezda TV****	Russians elder than 29 years	18.953	0.655	0.664	39
All Channels, in total		80.148	120.149	128.612	9

* Audience according to which advertising is sold. In 2012, 12 TV channels changed their target audience at the same time.

** Standard unit in terms of selling advertising. It represents the amount of viewers who have seen the advertisement.

*** In September 2012 the U Channel was renamed to U.

**** Since 2013 advertising broadcast by Zvezda has been sold by the alliance Gazprom-Media Holding and Alkazar.

Source: Kwendi Media Audit

In 2012 another issue became evident. *Channel One* was losing its viewers in both the old and new target audiences. In 2011 the daily average share of the broadcaster in the old audience (all viewers aged over 18 years) equalled, according to the data of TNS Russia, 17.4% and in the new audience (viewers between 14 and 59 years) 14.3%. As of year-end 2012, this fell to 16% and 12.8% respectively. That is why it is rather essential that the number of advertising maintenance accessories released by Channel One on air on the federal level, according to *Media Logics*, fell by 32% to 181.8 thousand rating points. The decrease in the channel's potential revenue from the sale of advertisements broadcast on the federal level is established by *Kwendi Media Audit* as 4% to RUB 21.8BN. It is worth mentioning that in terms of revenue *Channel One* preserves its leading position among all TV channels.

Apart from revenues in terms of absolute figures there is another, no less important, fact namely how successfully each broadcaster monetizes its audience. To estimate that, the special parameter named "power ratio", is used. This represents the proportion of the channel in terms of the whole TV advertising market among all viewers elder than 4 years. If this power ratio equals or exceeds 1, the channel, to put it simply, earns money by each viewer. If the indicator is less than 1, then the channel by contrast, monetizes its audience awfully weakly. For year-end 2012, 7 broadcasters appeared unsuccessful in this regard, namely *Zvezda*, *St. Petersburg TV*, *TV Centre*, *Disney*, *Russia 2*, *Peretz* and *REN TV*, according to the calculations of *Kwendi Media Audit*. The highest power ratio, namely 2.09 units, could be observed by analysing the performance of MTV (the channel *PYATNITSA!* has taken over its broadcast frequency).

In the context of disposition between sales houses in 2012, no significant changes could be distinguished. The largest advertising distributor, namely the group *Video International*, supplied 8 federal broadcasters and rendered a so-called consulting service to 5 other broadcasters. Such separation is caused by the amendments of the law "On Advertisement", which took effect in January 2011, limiting the share of sales houses in "distribution of TV advertising" by 35% of all advertising budgets for the federal TV channels which have broadcast within the previous 2 years. Nevertheless despite legal constraints, in 2012 the group *Video International* renewed the expiring contracts with channels of the companies *ProfMedia* (*TV-3*, *Pyatniza* and *2x2*) and *UTH RUSSIA* (*U* and *Disney*) for another 5 years. The alliance *Gazprom-Media Holding* and *Alkazar* were distributing advertising on behalf of three channels: *NTV*, *TNT* and *TV Center*. Only the channel *Zvezda* stayed independent from all main sales houses and did not join the alliance until 2013.

2.6. Switch to Digital Broadcasting

Until quite recently, terrestrial TV in Russia had been developed unsteadily. In 2009, according to the statistics, 98.8% of the population of Russia could obtain one TV channel. 96.57% could obtain two TV channels and 73.2% had access to three TV channels. 56.1% could watch four TV channels and only 33% had five TV channels.

About 1.5M people who live in roughly 10,000 settlements of the Russian Federation, did not have any access to TV-broadcasting³⁶. This problem should be solved by the federal targeted program (hereafter

³⁶ The Federal Targeted Program "TV and radio broadcasting development within 2009-2015."

FTP) “Television and radio broadcasting development within 2009-2015”, which was embraced in 2009. According to this program, by 2015 100% of the population should be able to obtain the first multiplex (range of channels, broadcasting on the same frequency), which according to the Resolution of the President №715-10 should contain all-Russia compulsory public TV channels. These channels belong to the “must-carry package” on the territory of Russia and are free of charge for consumers. The FTP intends to build at least two multiplexes. The second multiplex (10 other channels) should be available for 97.6% of Russians.

The main transmission company for analogue TV, and the only transmission company providing digital TV in Russia, is the *Federal State Unitary Enterprise Russian TV and Radio Broadcasting Network* (hereafter *FGUP RTRN* or *RTRN*). The enterprise possesses 4956 stations of the digital network of the first multiplex. The network of the second multiplex utilises the network of the first one, namely its terrestrial lots, technologic buildings, antennas, mast structures, power delivery systems and monitoring control systems.

RTRN has a contract with regard to communication service with TV broadcasters. The conditions and financial aspects of this contract are commercial-in-confidence, however *CTC Media* estimated the distribution costs of three channels to be as much as roughly \$25M yearly³⁷. As of the year-end of 2012 the revenue of *RTRN* equalled RUB 21.887BN, including RUB 19.844BN from the exploitation of the network of the analogue broadcasting, whereas RUB 2.043BN corresponded to the state subsidies for the costs substitution, bound to the terrestrial broadcasting of all-Russia must-carry public TV and radio channels. Until 2012 the state used to provide *RTRN* with subsidies in terms of the distribution of the first channel multiplex in cities with populations of under 100,000 people, whereas within the years 2012-2015, according to the FTP, it referred to all settlements. The total amount of subsidies according to the FTP is RUB 16BN.

The structure of the second multiplex was determined in terms of a contest at the end of 2012. The channels themselves should pay for the distribution services. According to the conditions of the contest, in 2013 every channel has to pay about RUB 300M to *RTRN*. In 2014 the sum will be roughly RUB 600M, whereas from 2015 onwards, it will increase to RUB 944M, which means about \$30M yearly. Still, *CTC-Media* which was the first to announce the contract agreement with *RTRN* in March 2013, informed that it would pay for each of its two channels as little as RUB 107.8M or about \$3.6M, in 2013. *RTRN* will have determined its stakes for the next period by October 1 2013. *CTC-Media* believes that from 2015 onwards, they might correspond to as much as \$26M. At the same time, the channels will have to pay for the analogue broadcasting too. According to the FTP, the analogue TV broadcasting may be switched off in every region once 95% of the population of the region have purchased TV sets to obtain digital signals.

Due to the huge territories of Russia on one hand and low population density on the other hand, terrestrial TV remained the most general method of TV broadcasting. However, there is currently no data on the amount of consumers of terrestrial TV broadcasts. *RTRN* is currently working on the methods of such an evaluation.

Currently, there are eight regions where digital terrestrial TV has not yet been introduced, namely the Republic of Mordovia, the Republic of Bashkortostan, the Republic of Chuvash, the Oryol Region, the

³⁷ “Multiplex covers the vacancy”, newspaper *Kommersant* from July 29, 2013, <http://kommersant.ru/doc/2243493>

Penza Region, the Saratov Region, the Krasnoyarsk Territory and the Yamalo-Nenets Autonomous District. On the assumption of the fact that these subjects of the Russian Federation were, all in all, inhabited by 16.6419M people on January 1 2013³⁸, it can be concluded that digital TV broadcasts to 88.4% of the population of Russia. The amount of households in the named areas by the end of 2010 (the latest data) amounted to 5.4M people, that is how the digital TV broadcasts for 90% of Russian households (in total, according to the data of the Federal State Statistics Service (hereafter *Rosstat*) there were 54.56M such households).

2.7. Terrestrial TV Channels' Frequency Spectrum

Terrestrial analogue TV is distributed through the channels 1-12 (VCT. 48.5-230 MHz) in VHF band 21-60 VCT (310-710 MHz). One channel occupies 8 MHz for Digital TV and gets distributed on the same channels as the analogue TV. One multiplex also occupies 8 MHz. It was expected that the switch to digital TV would free up some frequencies to enable the further development of new broadcasters and other technologies, referred to as a "digital dividend". However, the frequencies situation is only getting more complicated: it is necessary to find some frequencies to broadcast multiplexes whilst continuing to broadcast analogue channel versions.

The frequencies which used to be occupied by TV transmission, are actively submitted to the operators of LTE (technologies of mobile connection of the 4th generation), in accordance with radio frequencies. In 2011 the State Committee for Radio Frequency Allocations (hereafter *GKRCH*) requested the Federal Supervision Agency for Information Technologies and Communications arrange a contest for four complexes of frequencies to develop LTE in the range of 790-862 MHz (61-69 VCT). The competition took place in summer 2012. The winners will also be able to get the frequencies 720-750 MHz and 761-791 MHz and others in the range of 694-862 MHz (49-69 VCT), while fulfilling the responsibilities for financing and arranging organisation and technical events on a licenced territory, which foresees a possibility of common use of certain RF bandwidths or of its release, including conversions of RF spectrum, refarming, redirection of radio frequencies among users and other actions in order to release frequency resource³⁹. Adopting some certain decision, the regulator takes into account that in 2015 the International Telecommunication Unit (hereafter *ITU*) intends to establish this spectral region to develop a dynamic radio communication for the territory which contains Russia.

In early April 2013 the Ministry of Communications published a project about the use of radio frequencies. According to this project, it suggests that it would be reasonable to rebuild the ranges 703-733 MHz и 758-788 MHz. in order to structure the networks of LTE FDD. Referring to this point, the National Radio Broadcasters Association (hereafter *NAT*) asked the Minister of Telecommunications Nikolay Nikiforov and the prime-minister Dmitry Medvedev not to make changes about the plan of the radio frequency use. In their opinion, this endangers the entire implementation of the FTP, which foresees the usage of this range in order to distribute TV channels: elimination of frequencies causes the fact that it becomes impossible to introduce HD TV and build additional

³⁸ Russian annual abstract of statistics 2012, http://www.gks.ru/bgd/regl/b12_13/Main.htm

³⁹ Attachment №4 to the decision of the State Committee of Radio Frequencies, from September 2011, №11.12.02

multiplexes which are necessary for the development of the regional TV and high-definition TV⁴⁰. At the time of this research, there was no final decision for any changes in terms of this project.

The channels 21-61 are allocated for the multiplexes. Thereby, within the lot of the channels 49-61, 15% acquisitions were accomplished for the first multiplex, whereas the second multiplex got as much as 30% acquisitions. Certain projects about the third multiplex, containing a TV channel in the format of HDTV are already ready for implementation. However, the situation about frequencies is more complicated in this case: currently, only about 50% of channels belong to the must-carry package, whereas the remaining 50% will become available only after the analogue TV has been switched off. *RTRN* is presently preparing a program in order to switch off the analogue TV. In frames of the project of the resolution “On establishment of the order to abolish terrestrial analogue TV broadcasting in the Russian Federation” introduced in September by the government, there appeared another new criterion to determine when analogue TV should be switched off. It reflects the amount of households whose only way to obtain a TV signal is by the analogue format and amounts to less than 5% out of all households. That is why *RTRN* will not take into account the households which do not use terrestrial TV. The suggested date for switching off the analogue TV signal appears in the document and is given as July 1 2018.

It is impossible to switch on all TV channels which belong to multiplexes in the format of HD. One multiplex can hold 10 normal TV channels or four HD channels, which means in order to switch on 20 TV channels using this format it is necessary to use five multiplexes. However, even after the frequency has been released, it will still not be possible in certain regions to switch on more than three multiplexes.

2.8. Development of Multiplex

According to the resolution of the President of the Russian Federation, *Channel One, Russia 1, Russia 2, Russia K, Russia 24, NTV, St. Petersburg TV* and *Karusel* became parts of the first multiplex. In 2012 *Public TV of Russia (PTR)* joined them. In March 2011 it was decided to give up the space of three radio stations of the *All-Russia State Television and Radio Broadcasting Company*, which appeared in the original list, in favour of a regional TV channel. In April 2013 the President of Russia Vladimir Putin signed a resolution which added the *Moscow Channel TV Centre* to the must-carry package.

The structure of the second multiplex was determined by the contest at the end of 2012. TV Centre became one of the winners. At the end of July 2013, the Federal Supervision Agency for Information Technologies and Communications published conditions of the contest for the position occupied by the channel. The results will be known on September 25 2013 in *ProfMedia* (two channels – *Pyatniza* and *TV-3*), *Komsomolskaya Pravda*, *O2TV* as well as orthodox channel *Spas* of the Moscow patriarchy of the Russian Orthodox Church⁴¹. 19 channels participated in the last contest.

Originally the FTP foresaw the structure of the third multiplex as being available to the majority of the Russian population for free. However later, another statement was included by the FTP, assuming that

⁴⁰ “TV of high density”, newspaper *Kommersant*, №74 from April 26, 2013, <http://www.kommersant.ru/doc/2179179?isSearch=True>

⁴¹ “Multiplex covers the vacancy”, newspaper *Kommersant*, from July 29, 2013, <http://www.kommersant.ru/doc/2243493?isSearch=True>

“by the end of the implementation of the program, 97.6% of the population of Russia should be able to obtain 20 free-to-air TV channels”, which means two multiplexes. However, the intentions as to the structure of the third multiplex have been reserved. Currently, it is supposed that it will be formed by four municipal TV channels and one channel in the format of high definition TV. Several contests for the third multiplex are planned separately for every settlement. Participating companies have rights to attract TV and radio broadcasting organisations of federal distribution, which were involved neither into communication partnerships as communication partners nor into the structure of the second multiplex. Not long ago, *All-Russia State Television and Radio Broadcasting Company* decided to create one regional channel for the third multiplex in every region.

Another weak point of the program was the necessity to maintain the analogue broadcasting together with the digital broadcasting until the significant part of the population of the region has bought TV sets which can receive digital signals. The FTP, which was implemented during the crisis (within the years 2008-2009), did not plan any subsidies for the population of Russia with set-top boxes. The situation got even more complicated after the switch of the broadcasting standards. Originally, the program foresaw that the digital TV in Russia would develop as DVB-T. However in September 2011 they switched to DVB-T2. According to the comments of officials, this can make it possible to increase the amount of broadcast information and improve its quality, as well as expand the range of offerings, rendered on the base of terrestrial networks. In spring 2012, broadcasting on DVB-T2 started in Kasan, Moscow and St. Petersburg. A few users actually lost the ability to watch TV as their TV sets could not receive the signals in their new form. TV sets and special set-top boxes supporting DVB-T2 were at that time not available through retailers of household goods. Out of 4605 TV set models available through *Yandex.Market*, as few as only six supported DVB-T2⁴². The format of compression, MPEG-4 chosen by the creators of the FTP, originally attracted criticism as during 2008-2009 when the program had to be established, TV sets and TV set-top boxes with compression format MPEG-2 had the best distribution. At the same time, MPEG-4 enabled many channels to be put into one multiplex. Little by little, all problems about users’ technical needs were solved.

STRUCTURE OF THE FIRST MULTIPLEX

	CHANNEL	TV GROUP
1	Channel One	Channel One, World network
2	Russia 1	All-Russia State Television and Radio Broadcasting Company
3	Russia 2	All-Russia State Television and Radio Broadcasting Company
3	NTV	Gazprom-Media Holding
5	St. Petersburg TV	National Media Group
6	Russia K	All-Russia State Television and Radio Broadcasting Company
7	Russia 24	All-Russia State Television and Radio Broadcasting Company

⁴² “Digital TV began with hashes”, newspaper *Kommersant* from March 26, 2012, <http://www.kommersant.ru/doc/1901126>

	CHANNEL	TV GROUP
8	Karusel	OJSC Channel One. World Network. All-Russia State Television and Radio Broadcasting Company
9	OTR	--
10	TV Centre	TV Centre Television and Radio Company

STRUCTURE OF THE SECOND MULTIPLEX

	CHANNEL	TV GROUP
1	REN TV	National Media Group
2	CTC	CTC Media
3	Domashny	CTC Media
3	Sport	All-Russia State Television and Radio Broadcasting Company
5	Sport Plus	NTV plus, Gazprom-Media Holding
6	Zvezda	--
7	MIR	--
8	TNT	Gazprom-Media Holding
9	U	UTH RUSSIA
10	*	

* Will determine summarizing the results.

2.9. Regional Television

The operating system of regional television in Russia in 2012 is preserved in its previous form. Regional broadcasters tend to have licenses to broadcast in their regions, and their relationship with the federal channels are mutually beneficial: the federal channels have an opportunity to broadcast in a particular region, broadcasters both fill their viewing schedule with federal programs and have time slots to broadcast local news, programs and advertising. According to the president of the National Association of Broadcasters, Eduard Sagalaev, there are more than 50 local channels with full private broadcasting in Russia.⁴³

⁴³ http://www.vedomosti.ru/politics/news/11389991/knopka_sderzhek_i_protivovesov

According to RACA the volume of regional advertising, in other words advertising on local and federal channels, remained at the previous year's level and amounted to 22% of the total television advertising in 2012.

The most discussed topic of the last two years has been the participation of regional channels in realization of the digitalization program in Russia, for which a place in two first multiplexes was not found, although it was previously assumed that ROSKOMNADZOR would hold a competition for local channels in the first multiplex in each region. A competition for participation in the third multiplex which should include municipal (regional) channels has not yet been held.⁴⁴ At the same time, in accordance with the Resolution of the President of the Russian Federation №367 of April 20 2013,⁴⁵ the creation and launch of a regional public TV channel in each subject of the Russian Federation will be implemented by VGTRK, which has the right to involve for this purpose regional and municipal broadcasting organizations, as well as regional and municipal TV channels (TV programs). In particular, this decision can be explained, as VGTRK which has a strong presence in each region is able to fill the ether with quality content, unlike the vast majority of local TV channels.

2.10. The Pay TV Market

Currently, apart from *RTRN*, terrestrial federal channels are distributed by operators of Pay TV: cable, satellite and IPTV operators. There is no register of operators of Pay TV. The register of the Federal Supervision Agency for Information Technologies and Communications contains over 13,000 applications for Pay TV, 2,515 applications for the services of communication for the purpose of terrestrial cable broadcasting and 5,336 applications for communication services for the purpose of terrestrial broadcasting. However it is not possible to draw any conclusions from this data, as one company might have several applications and it might be represented by several legal bodies in the range. Apart from that the register might contain old, and therefore irrelevant, information. Evaluation and classification of operators of Pay TV becomes more complicated as in the same household the inhabitants might watch TV using different methods at the same time, and one operator can render a service using different technologies.

According to the data of the research centre *iKS-Consulting*, as of year-end 2012, over 30.3M users of Pay TV were registered on the territory of Russia. Over 70% of the market was occupied by five players: *National Satellite Company (NSC. brand Tricolor TV*, 29% of the market, and taking into consideration only paying users), *Rostelecom* (22%), *MTS* (10%), *Air-Telecom* (8%) and *Akado* (4%).

NSC entered the market comparatively recently in mid-2000, but due to its chosen business model (it offers a basic package of terrestrial channels free of charge) it very quickly won a significant subscriber database. *NSC* has begun to promote the paid package since May 2007 and has since introduced other additional paid-for services, namely HD channels. As of year-end 2012, the subscriber base of *NSC* was 11.9M households. According to this indicator, the operator ranked No.1 in Europe, outranking the British *BskyB*.

⁴⁴ http://rtrs.ru/press_center/news/14751/

⁴⁵ Newspaper Rossiyskaya Gazeta [Russian Newspaper], N 87, 22.04.2013

The next player *Rostelecom* also built up its subscriber database by means of social subscribers. At the beginning of 2011, the company purchased *National TV Communications (NTK)*, which owned the biggest operators of the cable TV in Moscow and St. Petersburg, *Mostelecom*, and Telecompany *St. Petersburg cable TV*. The general model of these companies consists of subscribers of so called extended social packages of the channels. The brand *Onlime* (digital TV in Moscow) switched from *NTK* to *Rostelecom* after *Rostelecom* acquired *Svyazinvest*. IPTV, a project of its daughter companies, switched too.

THE MAIN PAY TV OPERATORS

OPERATOR	BRAND	YEAR OF FOUNDATION	BROADCASTING METHOD	NUMBER OF HOUSEHOLDS; M	NUMBER OF USERS IN 2012; M PEOPLE	ARPU IN 2012. RUB
National Satellite Company	Tricolor TV, HD platform	2005	SAT	54***	11.9	726
Rostelecom	Rostelecom	1993	CAB. IPTV	16.4**	6.6	117
MTS	MTS, Komstar, StreamTV, Multinex, TVT	1993	CAB	11.7	2.938	n.a.
ER-Telecom Holding	Dom.ru	2001	CAB	8.4	2.26	194
Akado	Akado Telecom	1995	CAB	over 3	1.24	110-450 *****
Orion Express	Continent TV, Vostochniy Express, Telekarta	2005	SAT	54***	1.05	70-260 *****
Vimpelcom	Beeline TV	1992	IPTV	n.a.	0.875	n.a.
Megafon	NetbyNet	1993	IPTV	2.6	0.7 ****	n.a.
NTV plus	NTV plus	1996	SAT.IPTV	54***	0.6	376

* Taking into account National Telecommunications and other “daughter companies”.

** Number of households connected to fiber-optic network, where the service of IPTV is available.

*** The company renders services of satellite TV.

**** Roughly 700K users FTTB (Internet, TV, telephony).

***** Depends on projects. The company does not reveal the total ARPU.

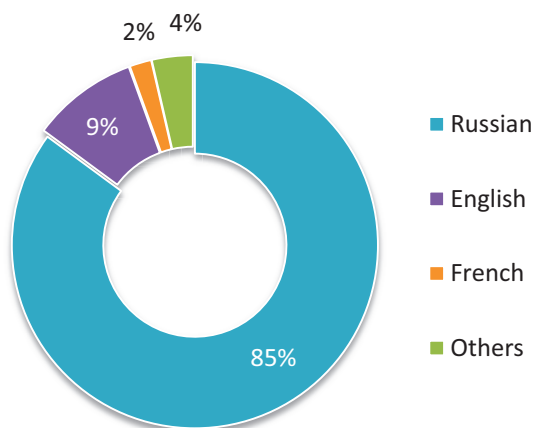
MTS is also developing several technologies such as cable, analogue and digital TV, and IPTV. The company was actively purchasing operators of Pay TV, which includes the acquisition of such big players as *Komstar-OTS* and *Multregion*. Therewith, the consolidation process on the market of Pay TV has not yet been accomplished. Among big assets put up for sale the group of companies *Akado* should also be mentioned. In 2010 negotiations about the purchase were led by *Zentrtelecom* (since April 1 2011 appended to *Rostelecom*, one year later to the one of the biggest mobile operators of Russia *MegaFon*). Lately, *Air-Telecom* and *MTS* joined the contenders.

2.11. The Offer of TV Channels on Pay TV Platforms

In total, according to the data of KVG Research, nine operators of Pay TV who were analyzed (*National Satellite Company*, *Rostelecom*, *MTS*, *ER-Telecom Holding*, *Akado*, *Orion Express*, *Vimpelcom*, *MegaFon* and *NTV plus*) own about 400 unique channels, among them approximately 50 are high definition (HD) channels. 85% of these TV channels use Russian as the language of broadcasting.

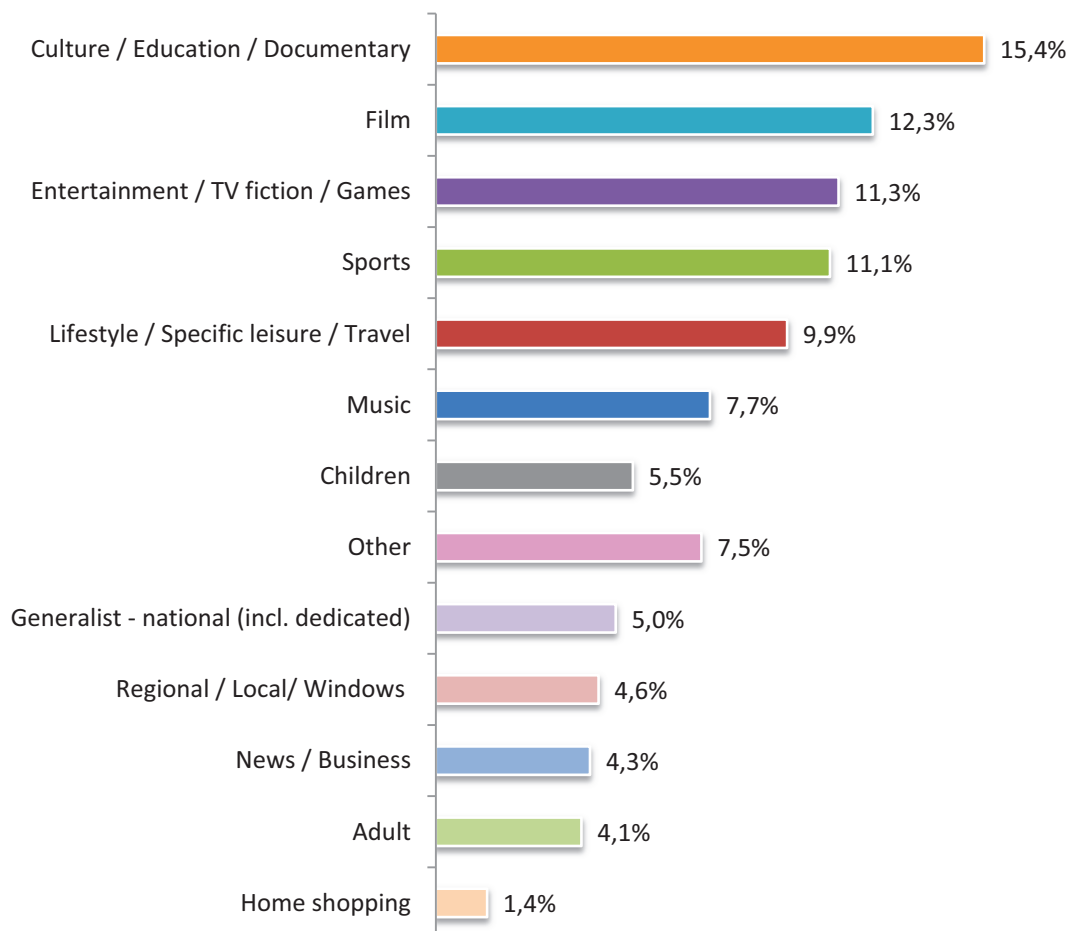
In relation to genre, the most significant amount of unique TV channels (15.4%) refers to documentary and education, while 12.3% are channels transmitting films, followed by entertainment and sports TV channels.

BREAKDOWN OF PAY TV CHANNELS BY LANGUAGE OF BROADCASTING
(by the amount of titles)



Source: KVG Research, 2012

GENRE DISTRIBUTION OF TV CHANNELS FOR PAY TV
(by the amount of titles)



Source: KVG Research, 2012

2.12. Mobile TV

Mobile TV services in Russia are provided by three leading mobile service providers: *MTS* (as of year-end 2012, 71.2M mobile users), *Megafon* (62.6M) and *Vimpelcom* (56.11M). *MTS* calls this service Mobile TV, whereas *Megafon* and *Vimpelcom* refer to it as Video-portal. However, this service is not very popular: only 500,000 of *Megafon* users use the service, which is 0.8% of its total mobile users (other companies do not share this data).

In Russia, several attempts to develop mobile TV in the format of standard DVB-H have been made, but have turned out not to be successful. During 2007-2009, in Moscow three networks using the DVB-HB format were implemented by the following companies: Digital TV and Radio Broadcasting (its “daughter company” is *System Mass Media*, which affiliated with *MTS*), *Dominanta* (which used to be a “daughter” of *Vimpelcom*) and *Kentavr* (which belonged to *Yota Group*). However, during the testing of the network, it turned out that they experienced difficulty in broadcasting many of the channels belonging to the *Mostelecom* network. The communication providers themselves were not really

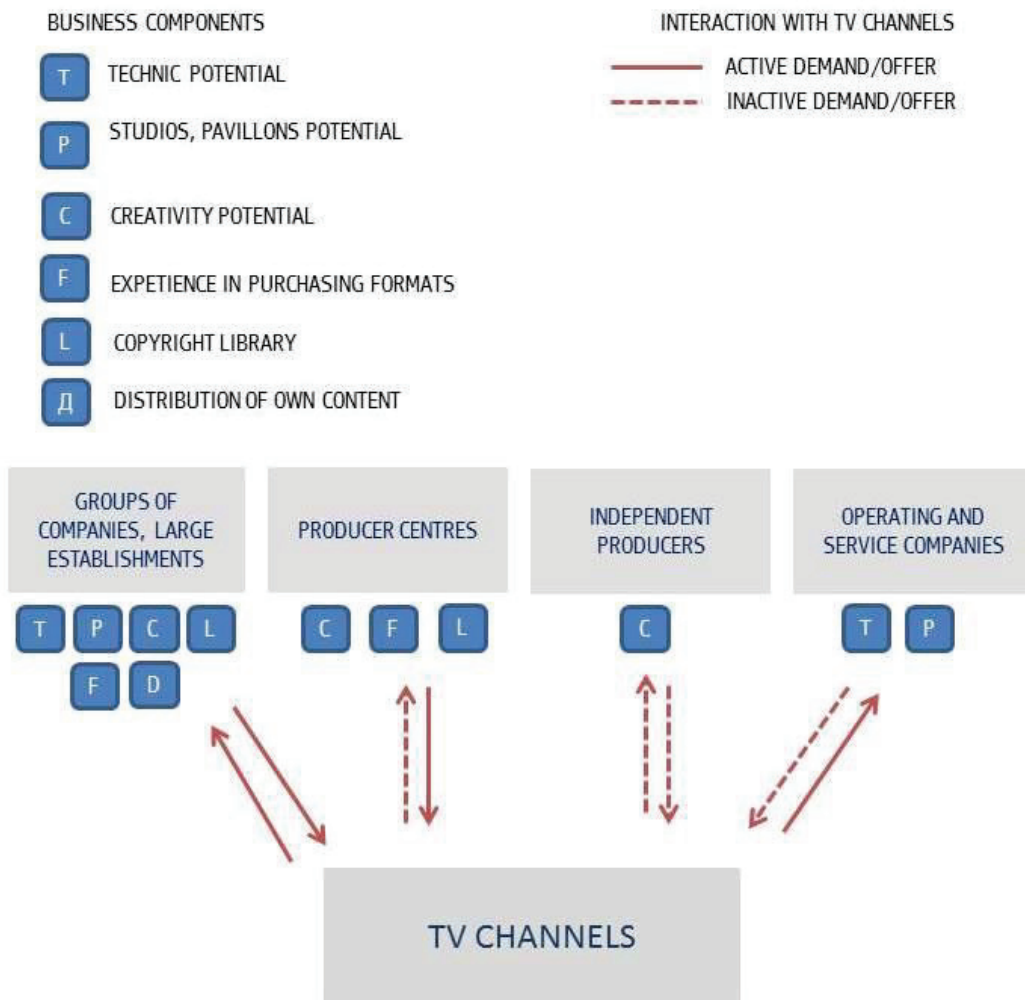
interested in the development of the standard, as due to the lack of the necessary equipment supporting DVB – H the potential success of the technology was questionable.

3. Structure of the Russian TV Production Market

3.1. Typology of Production Companies

On the Russian market of TV production, four main types of TV content production companies with the most remarkable performance can be distinguished. First of all, these are big companies which proved their market position a long time ago, or groups of companies which possess a vertically integrated business. They have all the necessary technical and creative components at their disposal and are able to render all services. In most cases, these companies hold long-term relationships with channels and they try to diversify their risks, performing their production in various genres or for different TV channels; sometimes they even follow both directions.

SEGMENTATION OF PRODUCERS OF THE TV CONTENT*



* TV content contains animation and feature forms and genres of TV products.

Source: KVG Research

The second type of companies is those consisting of production centres which do not have their own technical base but rely on their creative and organisational components. As a rule, these companies

establish good relations with TV channels and are willing to manage the period of pre-production, preferring to give away the production itself to technical or service companies. Therewith, many production centres are interested in setting up their copyright library and they try to purchase foreign formats very actively.

The third player is represented by independent producers whose business is grounded on one-off projects. Some technical and service companies, which possess all necessary production equipment and sometimes even studios, occupy a significant part of the market. They are often contact persons for TV channels to produce certain projects upon internal story layouts. These companies work for production centres and independent projects. In some cases, they even grow to significant market participants of full circle.

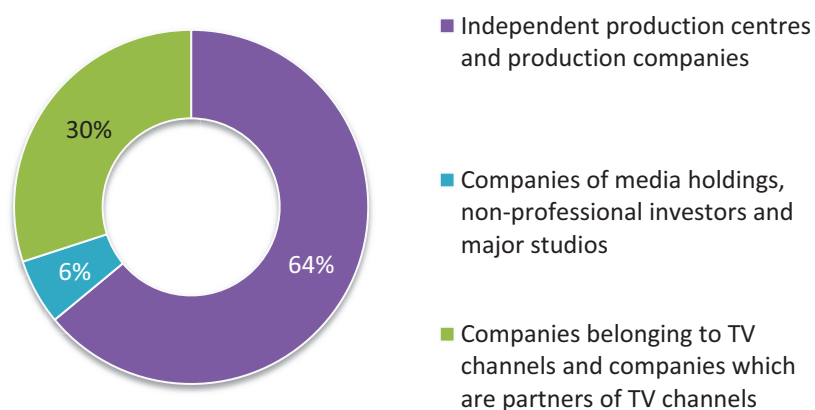
Operating and service companies which have all necessary equipment, sometimes even their own studios, occupy a significant market share and represent the fourth player. Sometimes TV channels ask them to produce projects according to developed scripts. Apart from that, these companies are involved in production for production centers and independent producers. Sometimes they turn into big players of the full service market.

3.2. Segmentation of Russian TV Content Production Companies

All in all, in 2012, six leading terrestrial TV channels of Russia (*Channel One, Russia 1, NTV, CTC, TNT* and *REN TV*) were associated with nearly 370 production companies producing premiere content. Most of them (64%) came to independent production centres and production companies.

30% of TV production companies can be called TV channel companies or are partners of TV channels, which means that they produce one or several projects exclusively for one TV channel over a few years.

SEGMENTATION OF RUSSIAN TV CONTENT PRODUCTION COMPANIES IN 2012



Source: KVG Research, 2012

6% of production companies producing content for the six leading TV channels belong to either media holdings, companies owned by non-professional investors or production centres which belong to major foreign studios.

3.3. Interrelations of Russian Production Companies and TV Channels

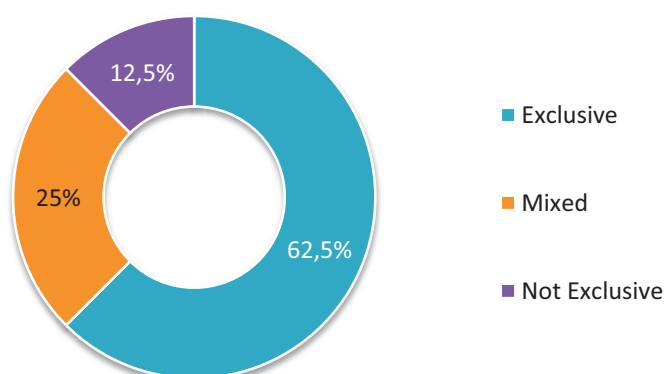
For a long time, six leading TV channels, namely *Channel One*, *Russia 1*, *NTV*, *CTC*, *TNT* and *REN TV* were the most active purchasers of premiere TV series, TV films, feature films, animation programs and documentary projects. However within the last three years some other channels, namely *St. Petersburg TV*, *TV Centre*, *Peretz*, *Domashniy*, *U*, *TV3* and *MTV* have begun to perform actively, producing TV content themselves.

Due to different historic and economic factors in how the Russian market of production companies was built up, most participants did not have a proven sales pattern of previous products and lacked the ability to finance their projects on their own. The parallel intention of some Russian TV channels to accumulate the maximum amount of rights for purchased premiere projects made producers try to set up their products mainly upon certain requests of certain TV channels.

Many production companies (62.5%) work with the six leading Russian TV channels, rendering their content to TV channels and providing them with exclusive rights. That means that 100% of all rights for the provided content belong to the channel for the whole time of their validity wherever the content is broadcast. Alternatively, the production companies sometimes work with channels according to the mixed scheme (25%), which means that in accordance with content type and the TV channel which buys the product, the corresponding content can either be rendered with exclusive rights or for some limited period of time and for a limited number of screenings.

Only 12.5% of production companies sell their content without the exclusive basis but either for a definite limited period of time or for some certain limited period with limited number of screenings.

CONDITIONS FOR TRANSFER OF CONTENT RIGHTS IN 2012



Source: KVG Research, 2012

The margin of production companies depends on various factors:

- content type itself – as a rule, TV series achieve a much higher margin than TV films and the sum seldom depends on the number of episodes. Therefore taking the number of episodes into account, a longer TV series gains a lower margin;
- conditions for transfer of content rights – production companies get the highest margin in cases where the content rights are rendered for the whole period of their validity and all over the world. Certainly in this case the margin can reach its maximum amount;
- in certain cases, if production of some products represents a so called image project for the production company, the corresponding margin might equal zero, which means that the production company only manages to reach break-even. Some respondents commented that their margin was negative if the production company kept all the rights and they intended to cover the corresponding losses and make profit on other territories and platforms.

In total, for the overall market the average margin production of production companies producing series in 2012 was 15-17%, according to the data of *KVG Research*.

3.4. Russian Formats on Foreign Markets

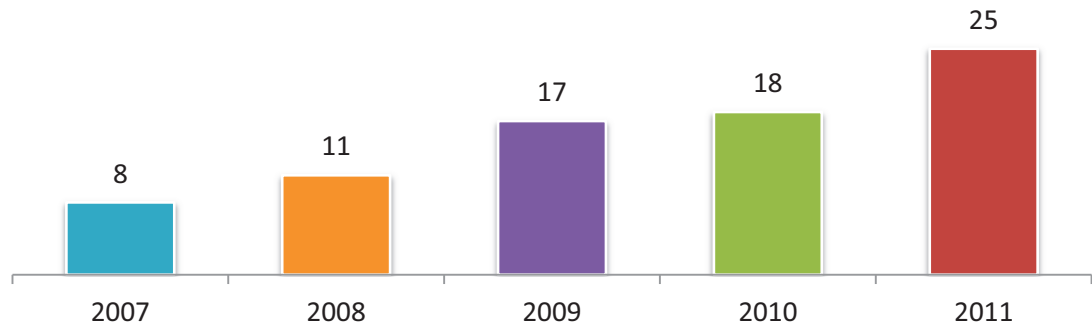
During the 2000s foreign markets began to adapt Russian formats. The first adapted versions of Russian TV projects were Armenian and Israeli productions of *Shto? Gde? Kogda?* [What? Where? When?], which went on air on TV channels *Armenia TV* and *Israel Plus* in 2002.

For a long time, these programs were the only adaptations of Russian formats on air on foreign TV channels. By 2007 they were joined by the Azerbaijani version of *Shto? Gde? Kogda?*, Kazakhstani version of *Zhdi menya* [Wait for me] on air on *Channel One Eurasia*, the program *Duel* according to the format of *K baryeru* [Duel] on air on *TRK Ukraine*, as well as *Comedy Club Ukraine* and *Zhdi menya Ukraine* on air on *Channel Inter*.

From 2007 until 2010, the amount of adapted Russian formats on air on foreign TV channels was increasing gradually due to many versions of two projects - *Zhdi menya* and *Shto? Gde? Kogda?* - in different countries of the CIS and the Baltic States. Out of 31 projects adapted according to Russian formats which went on air in the countries of the CIS within 2007-2011, 16 projects represent adaptations of the formats *Zhdi menya* and *Shto? Gde? Kogda?*, broadcast in Ukraine, Kazakhstan, the Republic of Moldavia and other CIS countries.

Throughout five years, the states of the CIS used to be the main territory where adaptations of Russian formats were broadcast. Over 75% of Russian adaptations were broadcast by TV channels on these territories, namely 29% came to Ukraine and 26% to Kazakhstan. In the Baltic States, such as Latvia, Lithuania and Estonia, only one project was broadcast. That was a local version of the program *Zhdi menya*.

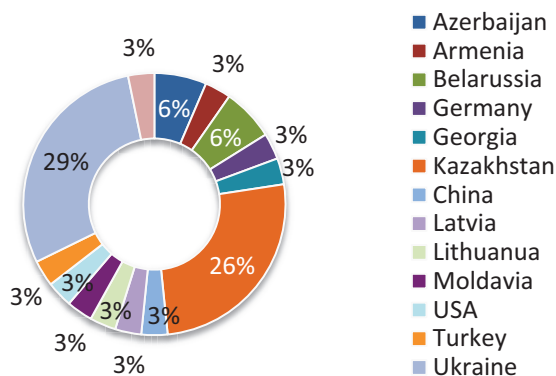
ADAPTATIONS OF RUSSIAN FORMATS ON AIR ON FOREIGN TV CHANNELS FROM 2007 UNTIL 2011



Source: KVG Research, 2007-2011

Only certain adaptations of Russian formats were broadcast in Western Europe, America and Asia. Since the 2000s, only three projects have been broadcast there: *Million Dollar Mind Game* set according to the format of *Shto? Gde? Kogda?* has been broadcast on the American channel ABC; *KaySinTzu* performed according to the format *Smeshariki* went on air on the Chinese channel CCTV and *Ein Haus voller Töchter* was scheduled for the German channel *Das Vierte*, according to the format of the original Russian sitcom *Papini dochki* [Dad's daughters].

RUSSIAN ADAPTATIONS IN THE WORLD BETWEEN THE YEARS 2007-2011 (by titles)



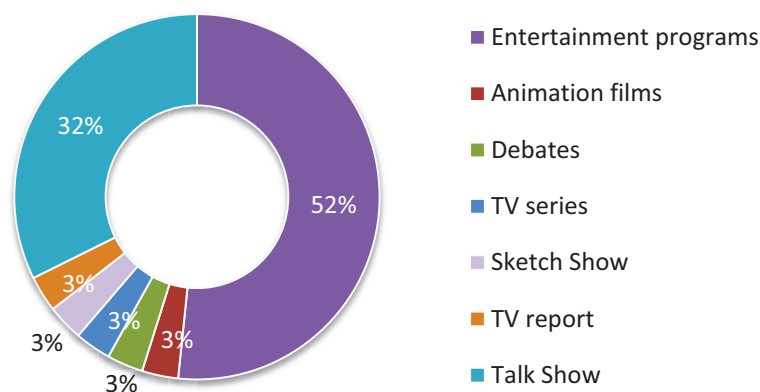
Source: KVG Research, 2007-2011

Among the most popular Russian formats, entertainment programs and talk shows make up 80% of adaptations. In the main export countries of Russian formats, Ukraine and Kazakhstan, an increasing national content can be observed within the last years. Thereby, a significant part of the population is represented by Russian native speakers; the legislation permits broadcasting of a certain volume of the content on air in Russian.

For example, as the Ukrainian law “On TV and radio broadcasting” states, the broadcasting volume in foreign languages may make 35% of the total volume of the daily broadcasting on Ukrainian TV channels.

In Kazakhstan, the law “On languages in the Republic Kazakhstan” also allows broadcasting in foreign languages. But the volume of TV programs in the state language within each six hour time period, counting from midnight local time, must not be smaller than the total volume of programs in other languages. That is how it is more profitable for these countries not to adapt Russian formats but to buy ready made content.

GENRE STRUCTURE OF RUSSIAN ADAPTATIONS BETWEEN THE YEARS 2007-2011 (by titles)



Source: KVG Research, 2007-2011

3.5. Foreign TV Distribution Companies on the Russian Market

From 2005 to 2012, some of the world's largest international production companies began to actively penetrate the Russian national content market. In those years, five purchase deals were accomplished, as international players acquired Russian production companies.

3.5.1. Zodiak Media

Swedish *Zodiak Media* entered the Russian market in 2005. *Zodiak Television* which is part of the holding company, bought 34% of *TeleALLIANCE Media Group* which was founded by Alexander Levin formerly general producer at *NTV* – one of Russia’s largest television channels. In 2007 the company increased its share in *TeleALLIANCE* to 51%, with the option plan.

At present, two companies are part of *TeleALLIANCE* holding: *TeleFORMAT*, specialising in production of television shows (*Federal’niy Sudya* [Federal Judge] on *Channel One*), as well as documentary drama and documentaries, and *TeleROMAN*, mainly focusing on television serials (*Obruchalnoe Kolzo* [Wedding Ring] and *Ponyat. Prostit* [Accept. Forgive] on *Channel One*).

In 2006 *Zodiak Media* continued its expansion into the Russian market by acquiring a controlling interest of *Dixi Media*, headed by producer Yefim Lubinsky and specialising in the production of TV series. One of this company's most popular projects was *Glukhar* [Capercaillie] which first aired on *NTV* in 2008. In 2007 *Zodiak Media* entered the Ukrainian market via *Dixi Media*. In Ukraine, *Dixi*

Media acquired 75% of *YS* which is the major Ukrainian production studio, specialising in entertainment shows, television series and feature films.

Finally, in 2010 *Zodiak Television* created a new company in Russia under its own international *Mastiff* brand. Its projects are adapted for *Zodiak Media's* formats as well as other companies' formats. Moreover, *Mastiff* is *Zodiak Media's* formats distributor in Russia. The company is headed by producer Anton Goreslavsky who in 2012 became a shareholder and obtained 25% of the company.

3.5.2. Sony Pictures Television International

In 2006, another international market player entered Russia, namely *Sony Pictures Television International* (hereafter *SPTI*). It acquired a controlling interest of 51% of *LEAN-M Productions Ltd*, famous for its original television series *Soldati* [Soldiers] for *REN TV* and a number of other TV series and sitcoms for major television channels.

At the time that the deal was signed, shares in *LEAN-M* were distributed equally among the three founders: producers Vyacheslav Murugov, Timur Weinstein and Oleg Osipov. The company value was estimated at \$25-30M⁴⁶.

However in 2008 Vyacheslav Murugov, one of *LEAN-M's* co-founders, became General Manager of *CTC* and decided to sell his shares to *SPTI* in 2009, claiming he wanted to avoid a conflict of interest (*LEAN-M* were cooperating with *CTC* among others at that time). Thus, *SPTI* increased its share in the Russian company up to 67%.

Two years later, the two other shareholders, Timur Weinstein and Oleg Osipov, sold their shares. At present, *SPTI* owns 100% of *LEAN-M*. Besides *LEAN-M*, *SPTI* has a separate country head office, responsible for the format and final product distribution.

3.5.3. Endemol

Endemol entered the Russian market in 2010, becoming a partner with former *LEAN-M's* head Timur Weinstein. Timur Weinstein had quit his General Producer job at *LEAN-M* back in 2009, two years before he sold his shares. This was due to him wishing to focus on his own business within *WeiT Media*.

WeiT Media was founded in 2009 and a year later Timur Weinstein became partners with *Endemol*, acquiring a controlling interest in the company. The value of the 51% of *WeiT Media* was estimated at \$25-30M⁴⁷.

At present, this production company focuses on original shows, as well as adaptations of various projects created by *Endemol* and other Russian companies. It also distributes *Endemol's* format within Russia and the CIS.

3.5.4. BBC Worldwide and Talpa Media

In 2009 *BBC Worldwide* was planning to enter Russia's television production market. It was considering acquisition of a block of shares (25-30%) of the Russian *MIR REALITY PRODUCTION*, producer of *Zvany Uzhin* [A Dinner Party], *Drugaya Jizn* [Another Life] and *Pravila S'ema* [Rental Rules].

⁴⁶ "Sony Pictures fit into the Russian format", newspaper *Kommersant*, from April 9, 2006

⁴⁷ "WeiT Media merged with Endemol", newspaper *RBC daily*, from March 2, 2010

This deal was due to become part of BBC's strategy of establishing a number of own companies in several countries including India, Australia and the US. However the British Parliament Committee suggested that BBC stop investing in overseas production and should favourable market conditions occur they should leave the already invested projects, so the deal was never signed.

However *MIR REALITY PRODUCTION* became a distributor of *BBC Worldwide* in Russia and its partner in producing new television projects based on BBC's formats.

A year later *REALITY WORLD PRODUCTION* signed a deal with *Talpa Media*, which acquired 25% of the company. The *REALITY WORLD PRODUCTION* share in the company was estimated at \$2-6.5M⁴⁸.

3.5.5. FremantleMedia

FremantleMedia attempted to enter the market independently without a local television production partner in this period. In 2007 it opened its Russian office and produced *Zapretnaya Lyubov* [Forbidden Love] TV series for *REN TV*. However it never aired and was the first and the last Russian made project for *FremantleMedia*⁴⁹.

3.5.6. Walt Disney Company

In 2006 the *Walt Disney Company* opened its Russian office for its CIS branch focusing on all activities in Russia and the CIS, including sales of the final product and formats, as well as the broadcast of the *Disney Channel*, launched in 2011.

The company attempted to launch the channel back in 2008. Back then the *Walt Disney Company* planned to launch a television channel on cable networks in Moscow and broadcast frequencies in the regions. It tried to negotiate a deal to buy shares in *Media 1 Holding*, managing 30 television stations in Russia. Ivan Tavrín was the company's chief executive. The Federal Antimonopoly Service refused to approve the deal, so it fell through and the channel was not launched.

In 2010 however, the head of *Media 1* Ivan Tavrín, and the owner of the *AF Television Holding* (*Semyorka* and *MUZ* channels) Alisher Usmanov pooled their assets together into the new *UTH Russia*, established on an equal footing. In 2011 the *Walt Disney Company* bought 49% of the *Semyorka Channel* from *UTH Russia*, and the *Disney Channel* was launched using its frequency. The deal value was estimated at \$300M⁵⁰.

3.5.7. HBO

In 2012 *HBO* and the Russian company *Amedia* together with *Access Industries* began to discuss conditions of partnership. This led to the establishment of a common company which had to launch a new channel branded as *HBO* by the end of 2012. As a result, as announced in May 2013 *Amedia* performed the project on its own, having received exclusive rights for distribution of *HBO* TV series in Russia, including *Igra prestolov* [Game of Thrones], *Sluzhba novostey* [Newsroom], *Devochki* [Girls], *Nastoyashaya krov* [True Blood], *Podpolnaya Imperiya* [Boardwalk Empire].

⁴⁸ "The Dutch discovered the Reality World", newspaper *Kommersant*, from May 21, 2010

⁴⁹ "Fremantle series", newspaper *RBC daily*, from February 14, 2007

⁵⁰ "Disney got a channel", newspaper *Kommersant*, from October 28, 2011

4. ANALYSIS OF FREE TO AIR CHANNELS SCHEDULES

4.1. Introduction

The following research chapter contains the analysis of the main features of the TV content market in Russia which has been an underexplored segment within the chain *TV channel – TV product Production Company – Audience – Media Advertising Market Operator*. The aim of the research was to undertake a detailed analysis of the content of the six leading Russian TV channels: *Channel One, Russia 1, NTV, CTC, TNT* and *REN TV* within the period January 1 2012 to December 31 2012.

The research places emphasis on the analysis of the foreign content, distinguishing European projects. *KVG Research* focused on such parameters as share of foreign and Russian content, total performance of each analyzed TV channel, as well as shared distribution of rerun and premiere content, its type and genre breakdowns and many others.

Actual broadcast time of all six TV channels was taken as a basis, thereby, own methodology of *KVG Research* were applied: level-structured database of *TV RETE*, which enables to backtrack information within different time intervals as for different categorisation level up to niche segments or single broadcast projects.

4.2. Methodology: Definition of Criteria

4.2.1. Premiere and Rerun Content

In the report, “premiere content” shall be regarded as content broadcast for the first time on all relevant terrestrial channels. Information programs which, although traditionally aired on most analysed TV channels, are technically considered to be premiere, are discussed only at the very beginning of the report, according to total broadcast volume and its classification. The programs which were broadcast on several TV channels at the same time, such as *Novogodnee Obrashhenie Prezidenta Rossiyskoy Federazii* [the President of the Russian Federation’s New Year Speech], broadcasting of religious events and others, were not analysed in terms of the field of research focusing on premiere content. Live transmissions, including sports events, concerts, awards and other types of TV non-produced content were not taken into consideration in terms of the given research either.

The rerun content shall be regarded as content which is broadcast more than once.

4.2.2. Original and Adapted Content

Adapted content involves projects which were produced for the Russian TV channels. In addition, the corresponding rights for them are officially purchased. All data for the adapted projects is confirmed by at least one transaction party: the right holder, the format purchaser or the adaptation producer in Russia.

Original content includes TV products produced as screen versions, or according to certain other criteria, developed on the territory of Russia and produced only by Russian companies, whether they are the TV channels themselves, independent production companies or independent producers.

4.2.3. Identification of the producer

The producer shall be regarded as a company which produced one or other premiere content or took part in its development, provided it is named within the titles. If no company is mentioned within the titles, KVG Research states the name of the TV channel as the project producer.

4.2.4. Differentiation of Categories and Types of TV Content

KVG Research points out the following types of TV content: TV series, TV films, education programs, talk shows, documentary projects, programs for children, feature films, information programs, news, morning entertainment programs, sports events and concerts.

The main categories were subject to additional internal classification by genre.

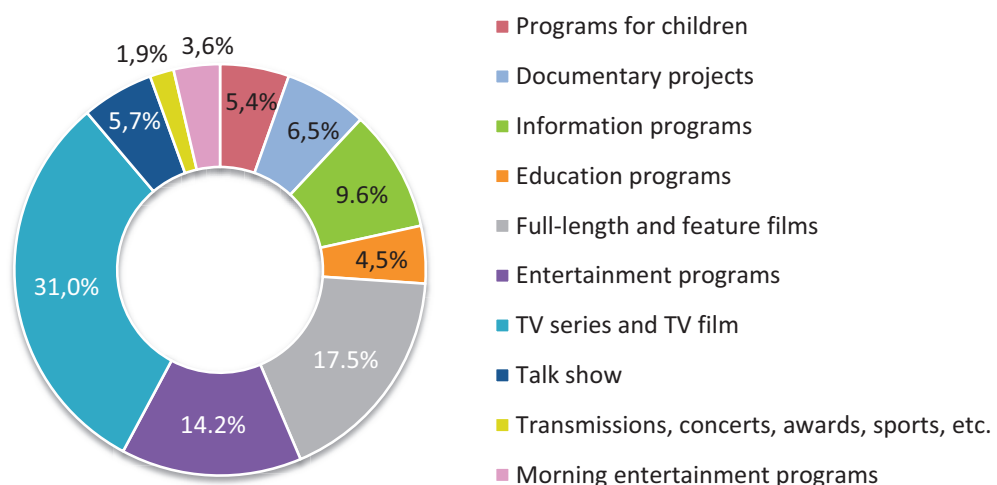
4.3. Total Volume of TV Transmissions

In 2012, 44 thousand hours of TV content was aired, broadcast on the six leading Russian TV channels (*Channel One, Russia 1, NTV, CTC, TNT and REN TV*).

Russian and foreign TV series made up 31% of all transmissions. Full-length feature films ranked 2nd by popularity, corresponding to 17.5%, which amounts to 7.7 thousand hours. Over 70% of this content type (and almost the whole foreign content) is broadcast on channels *CTC, TNT* and *REN TV*. Entertainment programs ranked 3rd by volume (14.2%). The talk show as a content type is regarded separately, demonstrating in 2012 a breakdown of 5.7%. Nearly 1,300 hours of this content type (almost 50% of it) was broadcast on *Channel One*.

The total breakdown of information programs, news as well as morning information and entertainment programs, equalled 14% in 2012. Channels *CTC* and *TNT* do not broadcast this content type at all.

ALL TRANSMISSIONS (by the total air time), FOR 2012

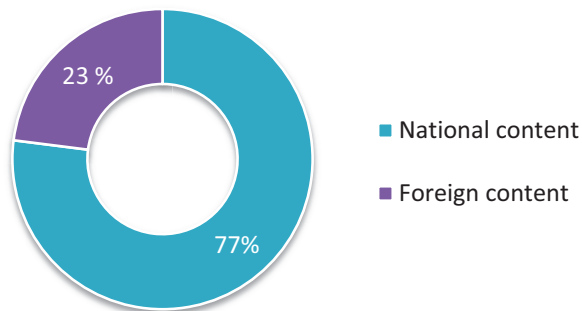


Source: KVG Research. TVRETE
TV Channels: *Chanel One, Russia 1, NTV, CTC, TNT, REN TV*

4.4. Distribution of the Total Russian and Foreign Content

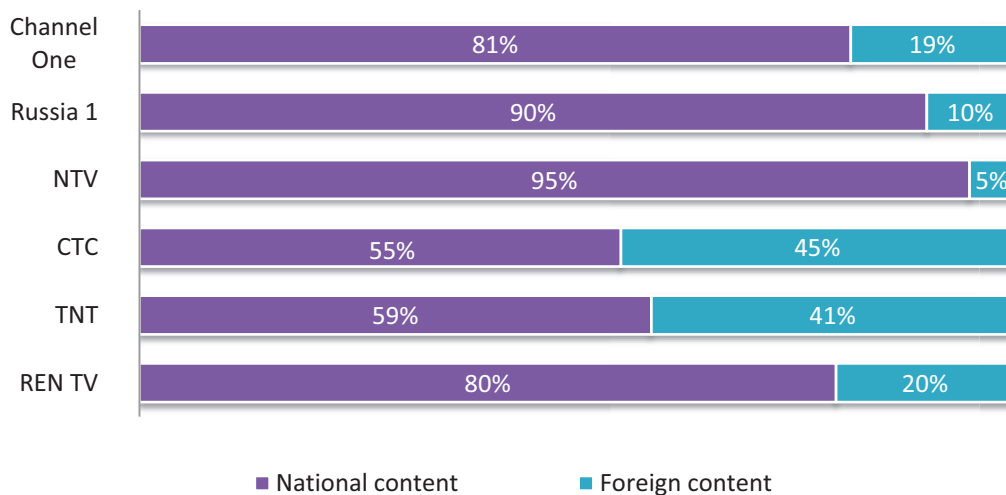
The breakdown of the national content on air in 2012 for the analysed TV channels has not changed in comparison with the year 2011 and equalled 77%, where the foreign content amounted to 23%. The national content shall be regarded as the content produced in Russia, the USSR or in terms of a co-production with Russia or the USSR. Within the last several years, the breakdown of the national and foreign content has remained relatively stable as a whole and for individual channels.

BREAKDOWN OF THE NATIONAL AND FOREIGN CONTENT
(by the total air time)



Source: KVG Research, TVRETE
TV channels: Channel One, Russia 1, NTV, CTC, TNT, REN TV

BREAKDOWN OF THE NATIONAL AND THE FOREIGN CONTENT
(by the total air time of each channel)



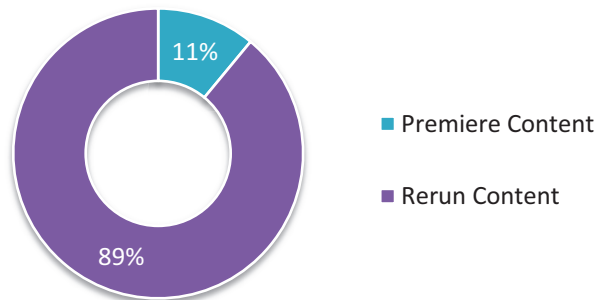
Source: KVG Research, TVRETE
TV Channels: Channel One, Russia 1, NTV, CTC, TNT, REN TV

Two TV channels, CTC (45%) and TNT (41%), broadcast foreign content most actively. They offer foreign feature films, TV series and animation films to their TV viewers. The register of foreign projects on NTV amounts to 5% of all transmissions and is represented mainly by films and TV series which are broadcast, as a rule, at night. Russia 1 (90%) ranks 2nd by the share of the national aired content, following NTV, whereas Channel One (81%) ranks 3rd, advancing REN TV (80%) by only 1%.

4.5. Breakdown of Premiere Content and Rerun Content as for the Foreign Content

In total, in 2012 in terms of the analysed channels, over 10,000 hours (which corresponds to roughly 12,000 titles) were broadcast, which involved documentary projects, TV series, TV films, full-length films and animation series produced abroad. However, only 11% of them were premiere content.

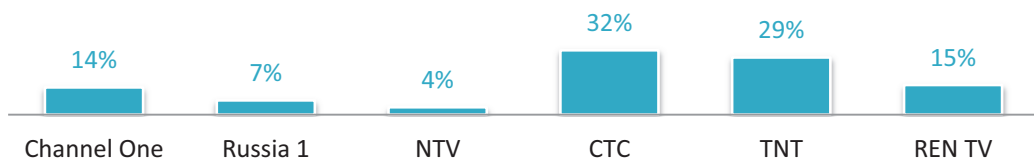
BREAKDOWN OF PREMIERE CONTENT AND RERUN CONTENT AMONG THE FOREIGN CONTENT (by the total air)



Source: KVG Research, TVRETE
 TV Channels: Channel One, Russia 1, NTV, CTC, TNT, REN TV

The most significant breakdown of the premiere content in terms of the whole transmission volume was achieved by the TV channel CTC (32%). As a rule, it included full-length films and comedy TV series. TNT (29%) ranked 2nd, demonstrating just about the same situation as for the premiere type. However, according to the genre broadcast on the TV channel, not only comedy but also mystic and fantasy TV series dominate there. TV channel REN TV (15%) broadcasts a significant amount of foreign premiere content, which in 2012 featured *Games of Thrones* as well as *Walking Dead*. Channel One keeps on competing for the latest series, being at the same time the most popular on the foreign TV, among which the following shall be pointed out: *Californication*, *The Kennedys*, *Elementary*, *Body of Proof* and others.

DISTRIBUTION OF THE PREMIERE FOREIGN CONTENT (by the total air time)



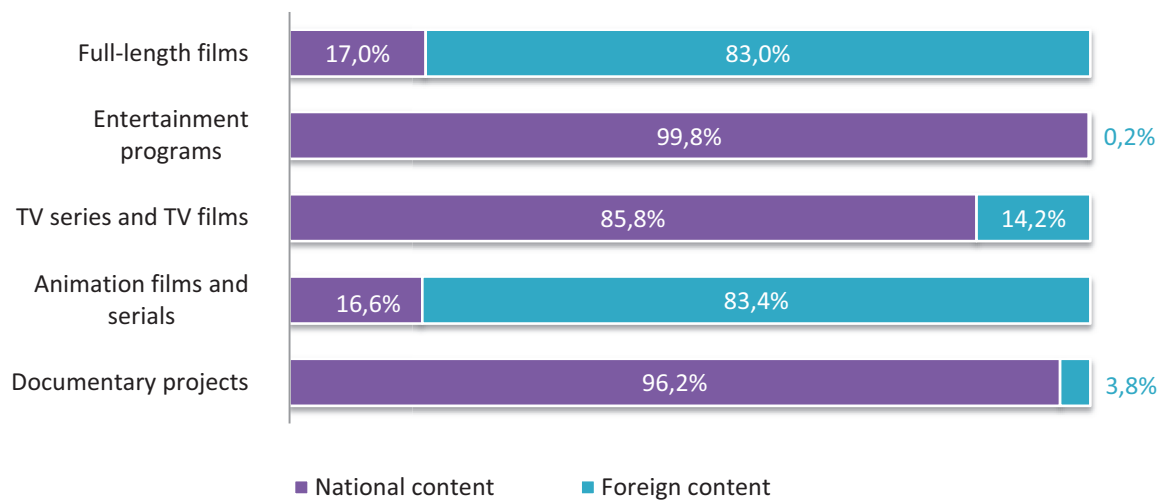
Source: KVG Research, TVRETE
 TV Channels: Channel One, Russia 1, NTV, CTC, TNT, REN TV

4.6. Comparison of Transmissions of the National and the Foreign Content by Their Types

Analysing single types of the TV content broadcast by the six leading Russian TV channels, it becomes evident that full-length films (83%) as well as programs for children, including animation films and animation series (83.4%), demonstrate the most significant share of all foreign transmissions. In numerical terms, it corresponds to over 6,000 hours and 2,000 titles of full-length films as well as 2,000 hours and 120 animation films and series. Foreign TV series and TV films are also purchased by the leading Russian TV channels, with a broadcast share of 14.2%, in the year 2012. Therewith, we should note that the category “TV films” in this case also contains the projects broadcast on the channel *REN TV* after midnight, being dominated by “adult films”. *REN TV* is the only TV channel out of the six concerned, which purchased and broadcast this content type within the analysed period of time.

Another significant part of foreign TV films refers to TV products from Ukraine. Traditionally, these are projects containing 1-4 episodes produced only for TV broadcasting. Moreover, most of them are broadcast in Russia as premiere content. In 2012 over 90% of TV films produced in Ukraine were broadcast on the TV channel *Russia 1*, which is one of the main purchasers of the Russian-speaking content produced by Ukraine in terms of the analysed TV channels.

BREAKDOWN OF THE NATIONAL AND FOREIGN CONTENT
(by the total air time of content type) FOR 2012



Source: KVG Research, TVRETE
TV Channels: Channel One, Russia 1, NTV, CTC, TNT, REN TV

4.6.1. Full-Length Films

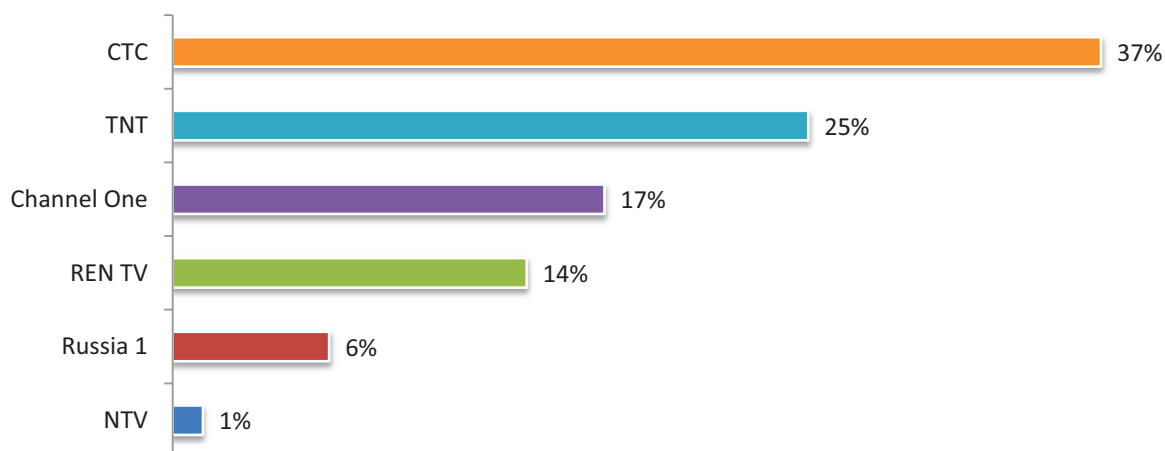
Such a significant volume of full-length films of foreign production is due to the high popularity of this content type among Russian viewers. Consequently it is one of few foreign products to be actively placed by the Russian TV channels during the prime time. The six leading Russian TV channels analysed are the main purchasers of the premiere displays of full-length films on Russian television. Thus, in 2012 they offered in total about 250 premiere screenings; 30% of them were latest releases, produced

between 2011-2012. Among them we should point out such blockbusters as *Pirates of the Caribbean: On Stranger Tides*, *The Twilight Saga: Breaking Dawn*, *Mission Impossible – 4*, *Mirror Mirror*, *Anonymous*, *Scream 4*, *Kung Fu Panda 2*, *Thor*, *Transformers 3*, *Dark of the Moon*, *The Lincoln Lawyer*, *Largo Winch II* and many others.

The most significant broadcast volume of foreign full-length films are attributed to the TV channels *CTC* (37%) and *TNT* (25%), which position themselves as entertainment channels. These TV channels prefer the genres of comedy, action film, adventure film and thriller. Then there comes *Channel One* (17%), which specifically selects full-length films for broadcasting and places among the evening transmissions not only blockbusters but also screens film festival projects through the program *Zakryty Pokaz* [Private Screening], enabling people to watch and discuss the most shocking, ambiguous and sensational films of the season. The program *Zakryty Pokaz* is how in 2012 *Channel One* managed to show the film *Melancholia* by Lars von Trier.

TV channels *Russia 1* and *NTV* almost never purchase such content type, with it amounting to only 6% and 1% out of total air time. Both channels broadcast, as a rule, re-run full-length films mainly at night. This is due to the particularities of the scheduling of these channels: within the prime time they try to place TV films (1-4 episodes) and TV series of their own production.

BREAKDOWN OF FULL-LENGTH FILMS OF FOREIGN CONTENT
WITHIN RUSSIAN TV CHANNELS (by the total air time)

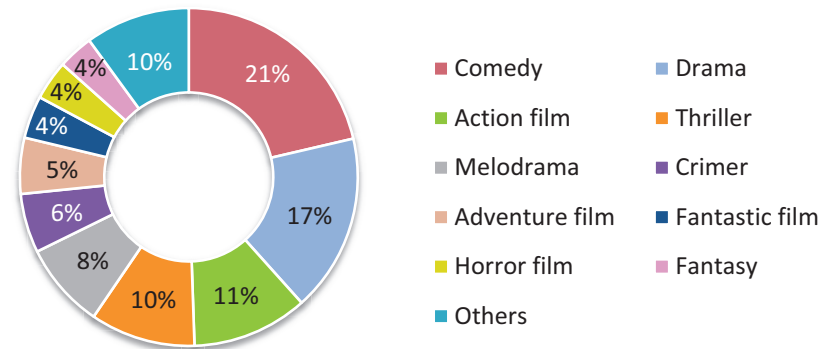


Source: KVG Research, TV RETE

TV Channels: *Channel One*, *Russia 1*, *NTV*, *CTC*, *TNT*, *REN TV*

As for the genre of the films, most are comedy (21%), followed by drama (11%). *Channel One* should be mentioned in this context, as it displayed over 100 projects of this genre. Action films, thrillers and crime together account for 27% of all unique titles within the analysed TV channels. The share of romance films (also known as melodrama) corresponds to 8%, whereas such genres as fantasy films actively broadcast on *TNT* and *CTC* are represented by this value in total. Other genres make up 10% and consists of 15 genres among which we should point out family, detective, war and history films.

BREAKDOWN OF FOREIGN FULL-LENGTH FILMS
(by the total number of unique titles), AS FOR 2012

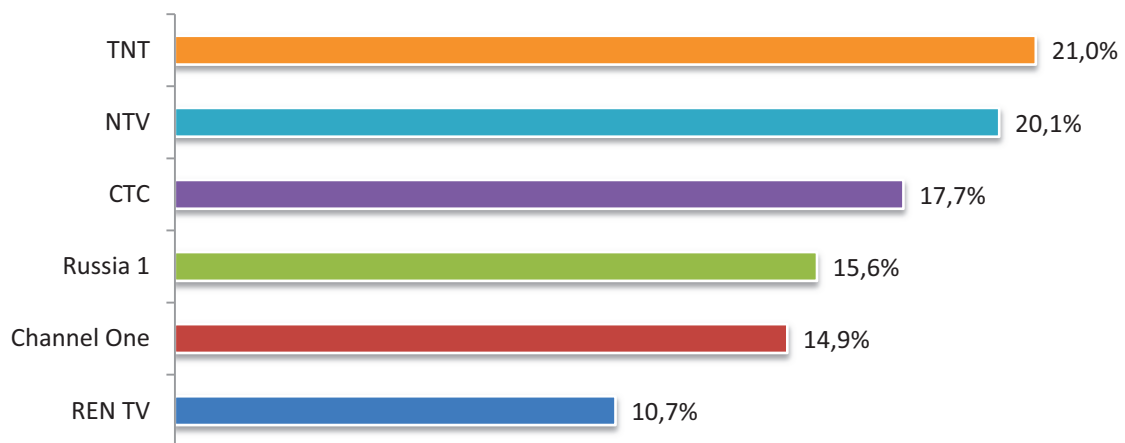


Source: KVG Research, TVRETE
TV Channels: Channel One, Russia 1, NTV, CTC, TNT, REN TV

4.6.2. TV Series

In 2012 all six leading Russian TV channels broadcast TV series of foreign production, the volume of which was over 1,400 hours. The most significant breakdown by the total air time fell to TV channels TNT (21%) and NTV (20%), while REN TV ranked most poorly (11%).

BREAKDOWN OF TV SERIES OF FOREIGN PRODUCTION WITHIN RUSSIAN TV CHANNELS (by the total air time)



Source: KVG Research, TVRETE
TV Channels: Channel One, Russia 1, NTV, CTC, TNT, REN TV

The channel TNT achieved the highest position due to 13 TV series: *V*, *iCarly*, *Big Time Rush*, *The Middle*, *Better Off Ted*, *Friends*, *Eastweek*, *Yesterday's Jam*, *The Team Unites*, *The Troop*, *Undercover*, *Time Trax* and *The Twilight Zone* which were broadcast by the TV channel in the morning or at night.

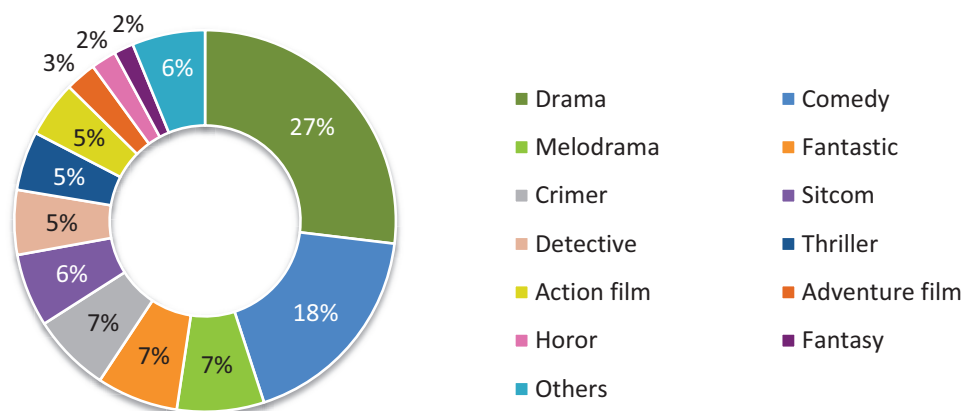
Unlike TNT, NTV does not offer such a wide variety of titles, preferring to broadcast old and new seasons of long and successful projects, for example *Two and a Half Men*, *Without a Trace*, *Cold Case*, *ER* and *One Tree Hill*.

The TV channel *CTC* preferred foreign TV series among its transmissions, as well as comedy and fantasy ones. However, it was the drama series which featured most on *CTC*, for example *Hawthorn*, *Boardwalk Empire*, *Fatmagul'un Sucu Ne* [No-fault guilty] and *Strong Medicine*.

Russia 1 broadcasts foreign TV series produced by two countries: Ukraine and the USA (16%). We should mention that while the Ukrainian TV series air during the prime time, the American series, among them *The Bill Engvall Show*, *Gossip Girl*, *Law & Order* and *Chuck*, are aired in the night time.

The breakdown of *Channel One* corresponds to 15% of total air time. It demonstrated the most significant amount of broadcast projects: within the year 2012 *Channel One* broadcast 17 projects, approximately 50% of which were dramas and melodramas. The TV channel has a special night slot for premiere TV series (starting at midnight and ending by 2am) and a special brand *City Slickers*. As the broadcasters themselves comment, this project is aimed at an audience which is “rather dissatisfied with the modern TV”. In total, there were over 200 hours of foreign TV series broadcast on the channel, among which about 30% appeared as premiere TV series. The titles of these are: *24*, *Terra Nova*, *White Collar*, *The Borgias*, *The Deep End*, *Grimm*, *Detroit 1-8-7*, *Californication*, *Zhensky Doktor* [Women’s Doctor], *House of Lies*, *Missing*, *Touch*, *The X Files*, *Body of Proof*, *The Killing*, *Farforovaya Svad’ba* [Chin Wedding] and *Elementary*.

BREAKDOWN OF FOREIGN TV SERIES
(by the total amount of unique titles), FOR 2012



Source: KVG Research, TVRETE

TV Channels: *Channel One*, *Russia 1*, *NTV*, *CTC*, *TNT*, *REN TV*

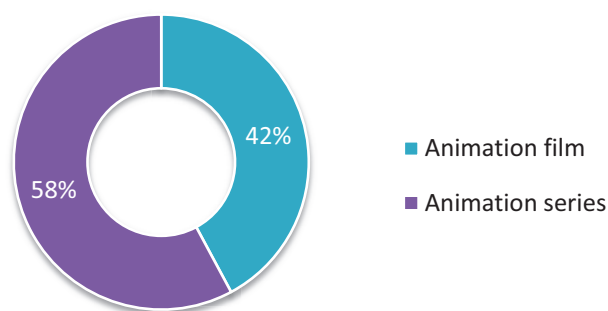
The breakdown of the TV channel *REN TV* equals 11%. The TV channel broadcasts different TV series, namely the American *Game of Thrones* and Belgian crimer *Matroesjka's* and *Matroesjka's 2* about a criminal organization which annually exports young women from the countries of the former USSR, making them strip at night clubs in Antwerp.

REN TV often broadcasts mystic or horror projects, such as *Exile on Main St*, *Terminator: The Sarah Connor Chronicles* and *Walking Dead*.

4.6.3. Programs for Children

Programs for children, according to the classification of *KVG Research*, should be divided into animation films and series, and educational programs for children. Animated full-length films are treated as full-length films.

BREAKDOWN OF FOREIGN CONTENT FOR CHILDREN
(by the amount of titles)



Source: *KVG Research, TVRETE*

TV Channels: *Channel One, Russia 1, NTV, CTC, TNT, REN TV*

Foreign animation films and animation series dominate by the broadcast volume on Russian TV, corresponding to about 2,000 hours of air time and 120 broadcasts containing animation films (42%) and animation series (58%).

The library of animation films which were produced in the USSR contains over 1,500 titles and cannot really compete with foreign animation content. Thereby, Russian channels must annually buy rights for those animation films. Until the mid-2000s, Russian animation was represented only by single projects and occupied an irrelevant part in the schedules. Its share has begun to increase since 2004-2005, as some episodes of the first Russian animation series *Smeshariki* and *Luntik* were directed and aired.

As for foreign animation content, the channel *TNT* is the dominating one, having already shown 53.3% animation films and series of all transmitted on the six analysed TV channels. In absolute terms, it means over 1,500 content hours and about 20 titles, among which are such projects as *Ben 10: Alien Force*, *Bakugan*, *Sponge Bob Square Pants*, *Pokemon*, *Tom & Jerry*, *My Life as a Teenage Robot* and others.

The TV channel *TNT* is followed by *CTC* with its share of 35%, with over 50 unique project titles within 2012, including different episodes of the animation series about the Great Dane *Scooby-Doo*, Disney animation series *Aladdin*, *Ultimate Spider-Man*, *Dungeons & Dragons*, *Pop Pixie*, *Goof Troop*, *Jumanju*, *Winx Club*, *Pinky*, *Elmyra & the Brain*, *Sonic X*, *Tom & Jerry* and others.

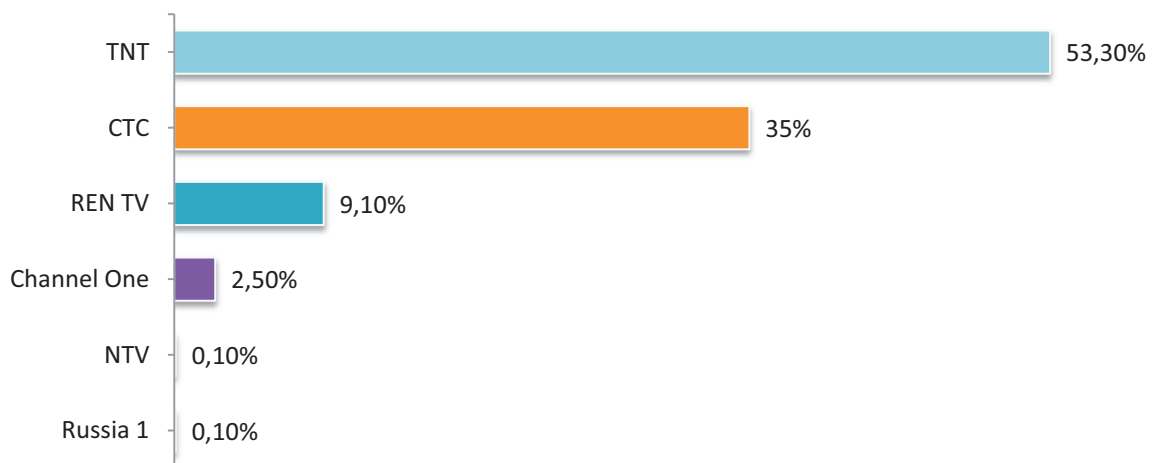
REN TV (9.1%) broadcasts foreign animation series too. Besides *Tom & Jerry* and *Scooby Doo*, *REN TV* broadcasts *Batman: the Brave and the Bold*, *Taz-Mania*, *The Looney Tunes Show* and others.

On *Channel One*, occupying 2.5% by the total broadcast volume, the most significant share of the transmitted animation content for children belongs to *Disney*, which has had a licensed contract with

Channel One since 2007, in terms of which the channel obtains the right for the premiere TV display of all new animation and feature films by the *Walt Disney Company*. Apart from that, *Channel One* broadcasts the program *The Wonderful World of Disney*.

The breakdown of the foreign animation content on *Russia 1* is rather insignificant, corresponding to 0.1%. *Russia 1* is the only TV channel among all of the analysed channels which has a daily prime time education program for children, namely *Spokoynoy Nochi Malishi* [Good Night You Little Ones], which has broadcast on *Russia 1* since 2001. However, the content of the TV channel *Russia 1* consists mainly of Russian animation projects.

BREAKDOWN OF ANIMATION FILMS AND SERIES OF FOREIGN PRODUCTION WITHIN
RUSSIAN TV CHANNELS (by the total air time)

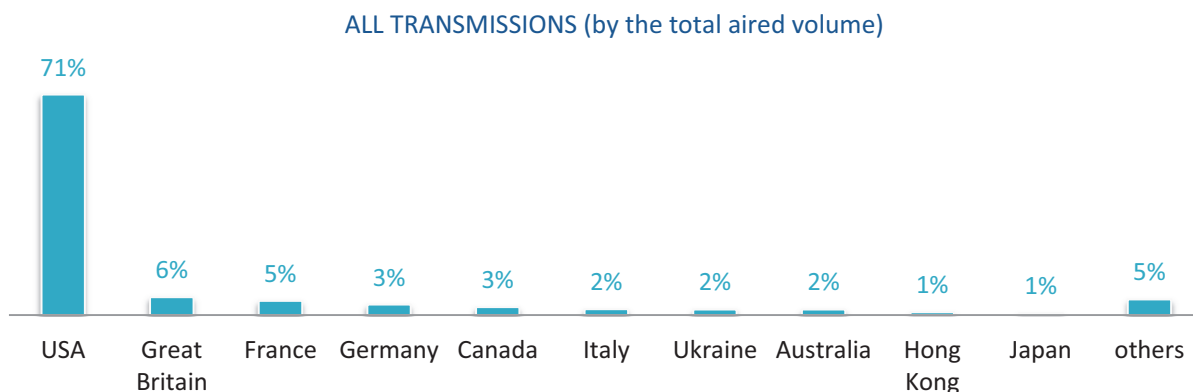


Source KVG Research, TV RETE

TV Channels: Channel One, Russia 1, NTV, CTC, TNT, REN TV

4.7. Breakdown of Foreign Content by the Countries of Production

For the six leading terrestrial TV channels, the majority of TV projects broadcast within 2012 were produced in the USA (71%). This includes full-length and TV films, and TV series. Great Britain ranks 2nd, reflecting 5% of all unique project titles, followed by France (5%). Other countries occupy between 1% to 3% of the total broadcasts during the analysed period. Over 40 other countries together make up 5%, involving such countries as Spain, Belgium, Sweden, Denmark, The Czech Republic and Hungary.



Source: KVG Research, TV RETE

TVChannels: ChannelOne, Russia 1, NTV, CTC, TNT, REN TV

The content of foreign production is placed within different Russian channels in a different way. This is how *Channel One* presents full-length and TV projects of all six leading channels. The most significant proportion of the projects, namely 33%, which amounts to about 40 full-length and documentary films, was produced in France. Among the premiere full-length films, films such as *Un balcon sur la mer*, *Bienvenue à bord*, *Les aventures extraordinaires d'Adèle Blanc-Sec*, *Entre les Murs*, *L'heure d'été*, *Le marquis 2*, *Potiche* and *Rien à déclarer* amongst others should be mentioned.

The most significant share of British films and TV series referred to *Channel One* (30%), which broadcast about 30 British full-length films during 2012. These were produced either independently or in a coproduction with other countries. Several documentary projects were produced mainly by the BBC. In 2012 *Channel One* also became the first foreign TV channel to broadcast the second season of the British TV series *Sherlock*. Its three episodes were displayed one by one on January 2, 9 and 16; one day after they premiered on the *BBC Channel*.

As for projects produced in America, *Channel One* ranks worse than *CTC* (31%). *REN TV* ranks the poorest, preferring Italian projects (over 40%) as a rule including films of erotic content.

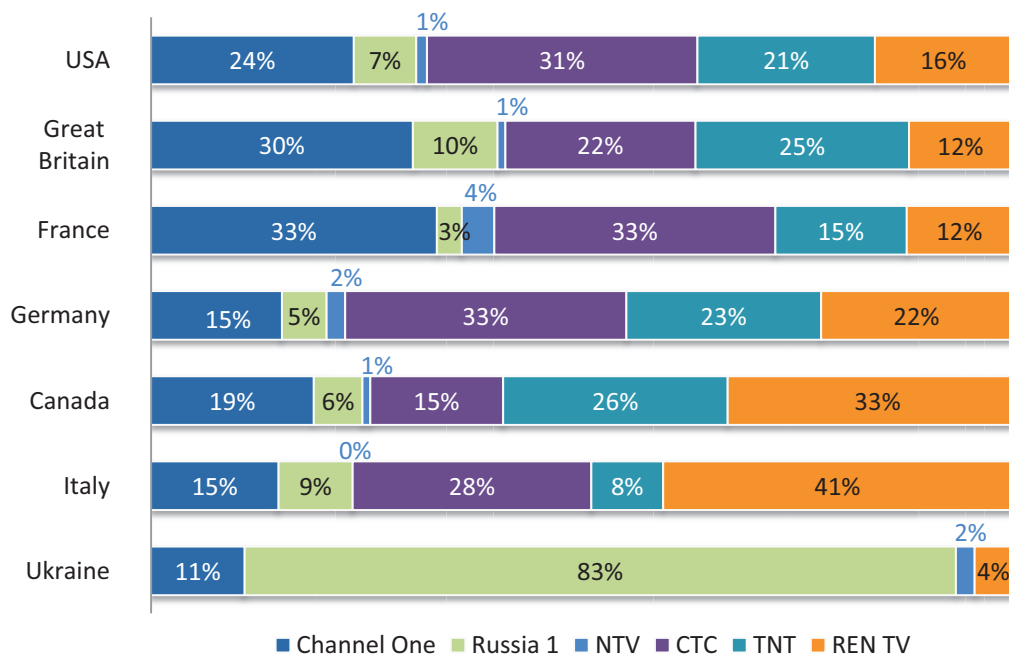
The TV channel *CTC*, as the most significant broadcaster of foreign content among the six analysed TV channels, also broadcast multinational content in 2012. Although in absolute terms 80% out of over 3,300 hours of foreign content of the TV channel corresponded to content produced in the USA, *CTC* broadcast French, German and British full-length and TV products, too. In particular, the TV channel transmitted all four films from the film franchise about *Astérix et Obélix* and the trilogy about *Arthur* by Luc Besson. All in all, in 2012 *CTC* showed many projects of the French director, writer and producer

Luc Besson, including *Wasabi*, *Taxi*, *Taxi 4*, *The Fifth Element*, *Banlieue 13*, *I love you Phillip Morris* and others.

NTV is not very active in terms of broadcasting foreign content. Its breakdown by transmission volume among the leading countries fluctuates between 1% and 4%.

A special place in terms of the products broadcast by the Russian TV channels belongs to Ukrainian films and TV series. Due to historical conditions as well as similarities about language and culture, the production businesses of Ukraine and Russia are connected with each other. Many TV channels and production companies produce TV series and TV films for both markets at the same time, calculating production costs and margin according to supply and demand of the market participants of both countries. Thereby, while two or three years ago most projects were performed as a coproduction of the two countries in order to decrease production costs, it has since become a trend to strengthen and to enlarge the Ukrainian production companies and consequently to produce projects independently, for both markets. In 2012 the TV channel *Russia 1* ranked as the most significant purchaser of Ukrainian content, which corresponded to 83% of Ukrainian projects.

BREAKDOWN OF FOREIGN CONTENT BY THE COUNTRIES OF PRODUCTION
(by all unique titles) AS FOR 2012



Source: KVG Research, TVRETE
TV Channels: Channel One, Russia 1, NTV, CTC, TNT, REN TV

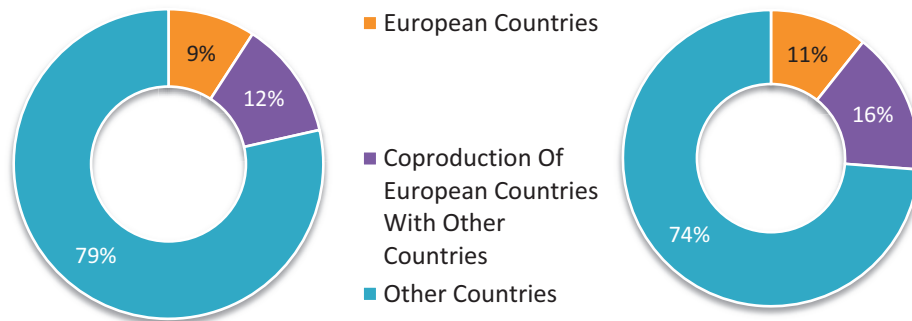
4.8. Content of the Countries Originating From the European Union

In 2012 more than 650 unique titles of TV projects were broadcast on the six leading Russian TV channels. All of these projects were produced by 28 European countries either on their own or as a coproduction with the USA, Australia, Canada, Japan and other countries. In total, approximately 1,000 hours of TV content produced by European countries went on air.

SHARE OF THE EUROPEAN CONTENT COMPARED TO THE TOTAL FOREIGN CONTENT

(by the total broadcast time)

(by unique titles)

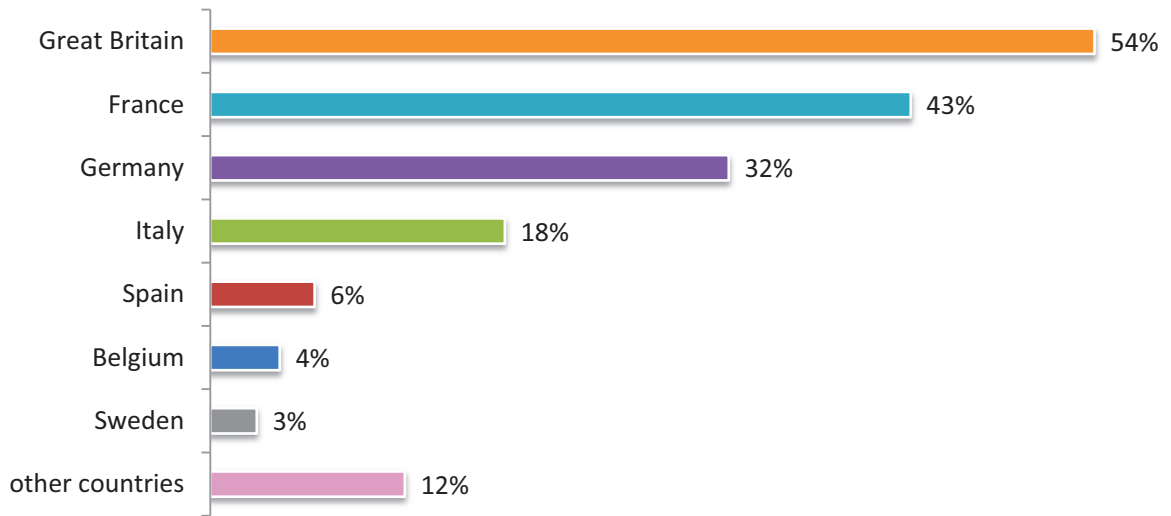


Source: KVG Research, TV RETE

TV channels: Channel One, Russia 1, NTV, CTC, TNT, REN TV

While analyzing only European content, it becomes obvious that the leading positions on Russian TV judging by the number of broadcasts belong to Great Britain (54%), followed by France (43%), Germany (32%), Italy (18%), Spain (6%), Belgium (4%) and Sweden (3%). A further 12% includes countries such as Ireland, Czech Republic, Denmark, Hungary, Poland, Luxembourg, Netherlands, Norway, Austria, and Malta.

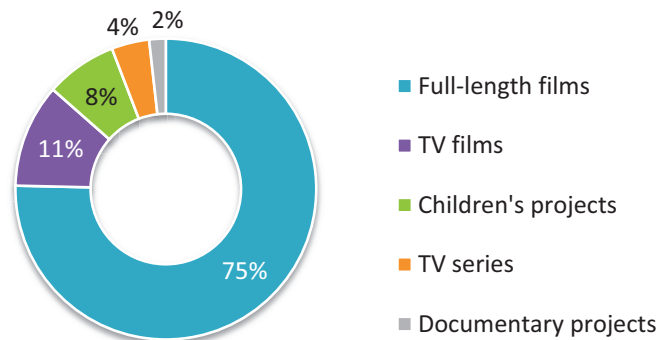
BREAKDOWN OF THE EUROPEAN CONTENT BY COUNTRIES OF PRODUCTION
(by number of titles)



Source: KVG Research, TV RETE
TV channels: Channel One, Russia 1, NTV, CTC, TNT, REN TV

As for the content type, the dominating position by broadcasting time is occupied by full-length films, which amounted to 75%. In 2012 more than 1,600 hours of full-length films produced in European countries on their own, or as a coproduction with other countries, were broadcast on the 6 channels which were analyzed. The broadcasting time of only European cinema projects equals a little less than 1,000 hours.

BREAKDOWN OF EUROPEAN CONTENT TYPES AS WELL AS COPRODUCTION WITH EUROPEAN COUNTRIES
(out the total broadcasting time), IN 2012



Source: KVG Research, TVRETE
TVchannels: Channel One, Russia 1, NTV, CTC, TNT, REN TV

TOP 15 EUROPEAN PRODUCTION COMPANIES BY BROADCASTING HOURS
FOR THE SIX LEADING RUSSIAN CHANNELS *

№	COMPANY	CHRONO (HOURS)
1	Canal+	274
2	TF1 Films Production	155
3	Ciné+	109
4	EuropaCorp	103
5	British Broadcasting Corporation (BBC)	93
8	StudioCanal	66
6	Working Title Films	63
7	Centre National de la Cinématographie (CNC)	62
9	France 2 Cinéma	54
10	Scott Free Productions	53
11	Pathé	49
12	Heyday Films	47
13	Wild Bunch	43
14	Constantin Film	42
15	Apipoulai	38

*TOP is drawn up out of TV content broadcasting hours based on the actual broadcasting time for the year 2012. The number of project hours gets assigned to every production company which participated in its production. TOP does not only represent the volume of all first performances but contains hours of products which occur double as for several different companies.

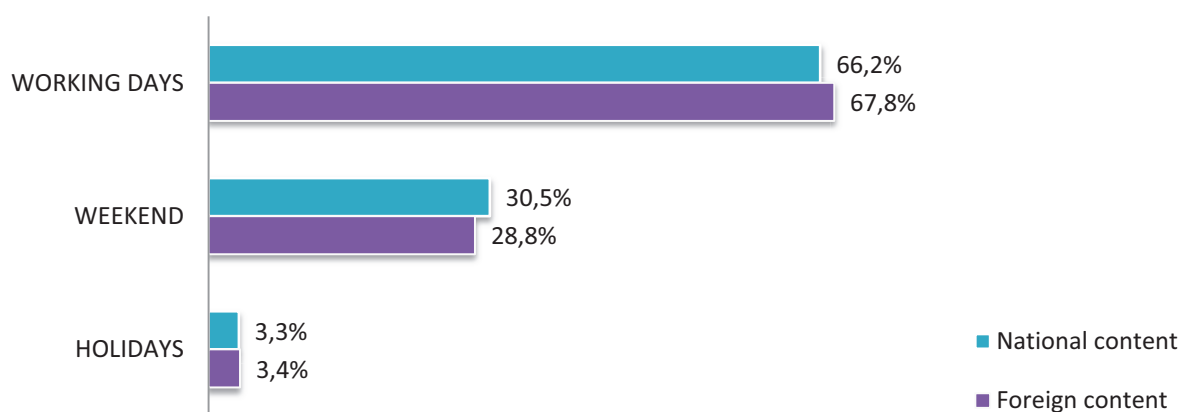
*Source: KVG Research, TV RETE, 2012
Channels: Channel One, Russia 1, NTV, CTC, TNT, REN TV*

4.9. Broadcast Characteristics of National, Foreign and European Content

Russian channels transmit foreign content as a rule at night, which is after midnight, and early in the morning, starting at 5 am and ending at 9 am, while the share of the national transmissions, as a rule, decreases from midnight and reaches 15%.

The figures below indicate that *Channel One*, *Russia 1* and *NTV* broadcast the national content, including TV series, full-length films, entertainment and education programs, talk shows, documentaries and programs for children, without referring to the morning information and entertainment programs.

BREAKDOWN OF NATIONAL AND FOREIGN CONTENT BY DAY TYPE
(by the total air time)



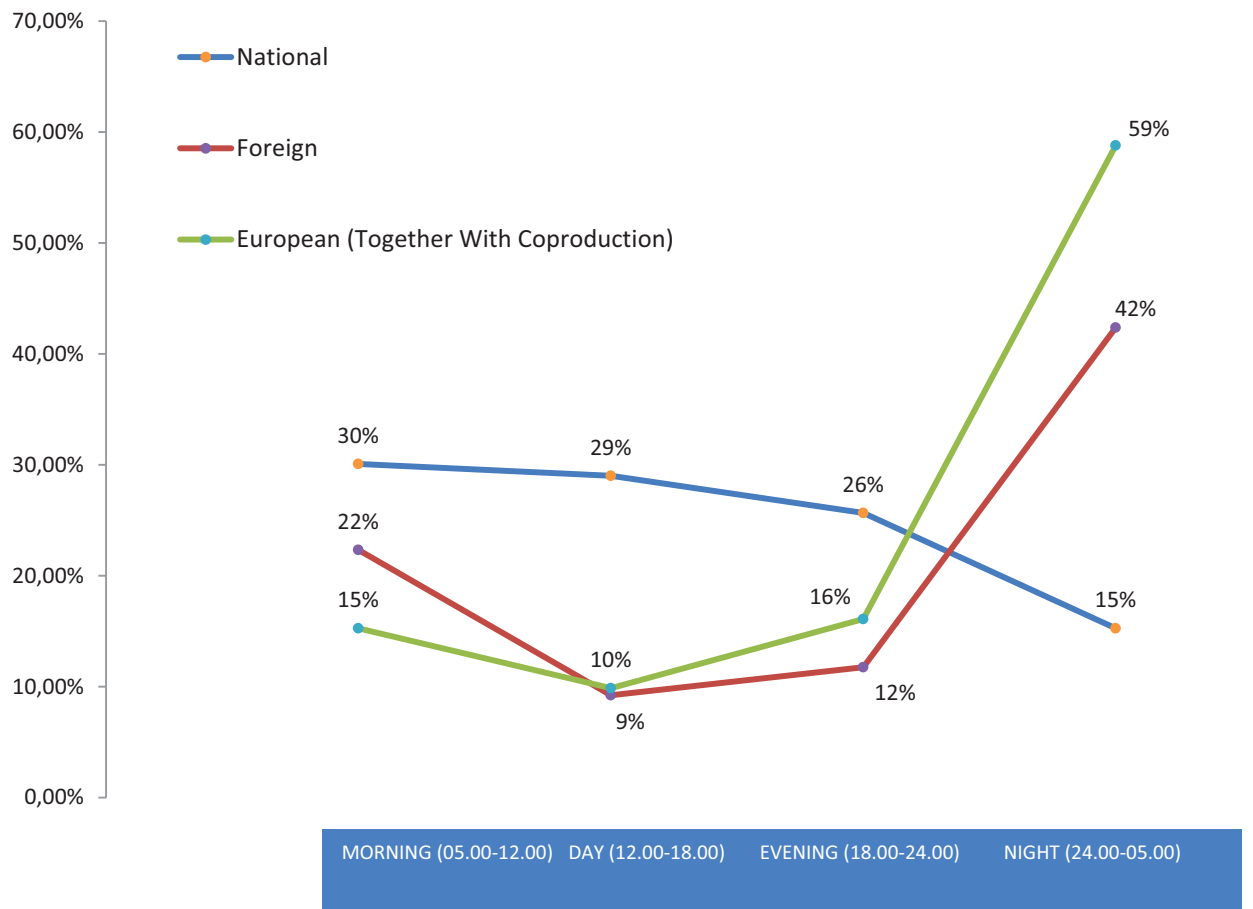
Source: KVG Research, TV RETE

TVChannels: *ChannelOne*, *Russia 1*, *NTV*, *CTC*, *TNT*, *REN TV*

The share of foreign transmissions from 5 am until midday in 2012 corresponded to 22%, of which about 65% were animation films and TV series transmitted on *Channel One* at the weekend, whereas as for *CTC*, *TNT* and *REN TV* both working days and weekends should be taken into consideration. Within the daytime on working days, the TV channels prefer to broadcast Russian content, consisting of day-time talk shows and TV series, produced mainly as “reality reconstruction”.

In the evening, the share of the foreign content starts to increase, which is caused by the fact that the late prime time is devoted by such Russian TV channels as *CTC* and *TNT* to foreign and European full-length films. At night, the share of transmissions of foreign content reaches its peak and corresponds to 42% of total broadcasts, of which 59% is European projects. It is the night time when Russian TV channels prefer to broadcast American and European TV series which, as already mentioned, are present on all Russian TV channels.

BROADCASTING OF NATIONAL, FOREIGN AND WEST EUROPEAN CONTENT BY TIME PERIODS, FOR 2012



Source: KVG Research, TVRETE

TV Channels: Channel One, Russia 1, NTV, CTC, TNT, REN TV

4.10. The Most Popular Foreign and European Projects in 2012

TOP 5 MOST POPULAR EUROPEAN PROJECTS IN 2012

TITLE	DATE	WEEK DAY	CHANNEL	RANKING (%)	SHARE (%)	CONTENT TYPE	COUNTRY
The Nutcracker	January 6, 2012	Friday	CHANNEL ONE	4.7	12.1	full-length film	Great Britain, Hungary
Putin, Russia and the West	February 26, 2012	Sunday	NTV	4.5	17.2	documentary project	Great Britain
Sherlock Holmes	January 9, 2012	Monday	CHANNEL ONE	4.3	12.5	TV film	Great Britain
Ronal-Barbaren	July 1, 2012	Sunday	CTC	3.6	11.5	full-length film	Denmark
Taxi 2	October 17, 2012	Wednesday	TNT	3.6	10.3	full-length film	France

Source: TNS, 2012, Russia (cities 100 000+), 4+

TOP 10 MOST POPULAR FOREIGN PROJECTS IN 2012

PROJECT	DAY	WEEK DAY	CHANNEL	RANKING (%)	SHARE (%)	CONTENT TYPE	COUNTRY
Snayper 2. Tungus [Shooter 2. Tungus]	09.05. 2012	Wednesday	CHANNEL ONE	11.1	33.8	TV film	Belarus
Svaty – 4 [Match-makers 4]	07.01. 2012	Saturday	RUSSIA 1	7.9	23.6	TV series	Ukraine
Pirates of the Caribbean: On Stranger Tides	25.03. 2012	Sunday	CHANNEL ONE	7.8	21.3	full-length film	USA
Scared Shrekless	02.01. 2012	Monday	CTC	7.2	18.4	short-length animated film	USA
Lyublyu, potomu chto Lyublyu [Faults are Thick where Love is Thin]	23.12. 2012	Sunday	RUSSIA 1	7.1	18.4	TV film	Ukraine
Lesnoe ozero [Forest Lake]	29.01. 2012	Sunday	RUSSIA 1	6.9	18.5	TV film	Ukraine

PROJECT	DAY	WEEK DAY	CHANNEL	RANKING (%)	SHARE (%)	CONTENT TYPE	COUNTRY
Shrek 2	03.01.2012	Tuesday	CTC	6.8	17.7	full-length animated film	USA
Shrek Forever After	01.01.2012	Sunday	CHANNEL ONE	6.7	21.8	full-length animated film	USA
Novogodnie Svaty [Match-makers. New Year]	01.01.2012	Sunday	RUSSIA 1	6.5	23.4	TV film	Ukraine
Pretty Woman	09.03.2012	Friday	CHANNEL ONE	6.3	18	full-length film	USA

Source: TNS, 2012, Russia (cities 100 000+), 4+

TOP 5 MOST POPULAR FOREIGN PROJECTS CHANNEL BY CHANNEL

PROJECT	DAY	WEEK DAY	CHANNEL	RANKING (%)	SHARE (%)	CONTENT TYPE	COUNTRY
CHANNEL ONE							
Snayper 2. Tungus [Shooter 2. Tungus]	09.05.2012	Wednesday	CHANNEL ONE	11.1	33.8	TV film	Belarus
Pirates of the Caribbean: On Stranger Tides	25.03.2012	Sunday	CHANNEL ONE	7.8	21.3	full-length film	USA
Shrek Forever After	01.01.2012	Sunday	CHANNEL ONE	6.7	21.8	full-length animated film	USA
Pretty Woman	09.03.2012	Friday	CHANNEL ONE	6.3	18	full-length film	USA
Home Alone 2: Lost in New York	02.01.2012	Monday	CHANNEL ONE	5.8	21.2	full-length film	USA
RUSSIA 1							
Svaty – 4 [Match-makers 4]	07.01.2012	Saturday	RUSSIA 1	7.9	23.6	TV series	Ukraine
Lyublyu, Potomu chto Lyublyu [Faults are Thick where Love is Thin]	23.12.2012	Sunday	RUSSIA 1	7.1	18.4	TV film	Ukraine
Lesnoe ozero [Forest Lake]	29.01.2012	Sunday	RUSSIA 1	6.9	18.5	TV film	Ukraine

PROJECT	DAY	WEEK DAY	CHANNEL	RANKING (%)	SHARE (%)	CONTENT TYPE	COUNTRY
Novogodnie Svaty [Match-makers. New Year]	01.01.2012	Sunday	RUSSIA 1	6.5	23.4	TV film	Ukraine
Udivi Menya [Make Me Monder]	22.01.2012	Sunday	RUSSIA 1	6.1	16	TV film	Ukraine
NTV							
Putin, Rossiya i Zapad	26.02.2012	Sunday	NTV	4.5	17.2	documentary project	Great Britain
If Tomorrow Comes	09.01.2012	Monday	NTV	3.7	11.6	TV film	USA
Overboard	07.01.2012	Saturday	NTV	3.2	12.5	full-length film	USA
I am Putin. A portrait	07.05.2012	Monday	NTV	3.2	10.7	Documentary project	Germany
Wanted	07.10.2012	Sunday	NTV	2.2	12.8	full-length film	USA, Germany
CTC							
Scared Shrekless	02.01.2012	Monday	CTC	7.2	18.4	Short-length animated film	USA
Shrek 2	03.01.2012	Tuesday	CTC	6.8	17.7	full-length animated film	USA
Kung Fu Panda Holiday Special	04.01.2012	Wednesday	CTC	6.2	15.7	full-length animated film	USA
Shrek 3	04.01.2012	Wednesday	CTC	6.2	15.5	full-length animated film	USA
Shrek	02.01.2012	Monday	CTC	6.1	16.2	full-length animated film	USA
TNT							
Harry Potter and the Chamber of Secrets	11.11.2012	Sunday	TNT	5.1	12.8	full-length film	Great Britain, Germany, USA
Harry Potter and the Goblet of Fire	18.11.2012	Sunday	TNT	5	13.1	full-length film	Great Britain, USA
Harry Potter and the Half-Blood Prince	25.11.2012	Sunday	TNT	5	12.6	full-length film	Great Britain, USA

PROJECT	DAY	WEEK DAY	CHANNEL	RANKING (%)	SHARE (%)	CONTENT TYPE	COUNTRY
Journey to the center of the earth	21.10.2012	Sunday	TNT	4.3	10.9	full-length film	USA
The lord of the rings: the return of the king	15.12.2012	Saturday	TNT	4	11.4	full-length film	NewZealand, USA, Germany
REN TV							
Exit Wounds	13.05.2012	Sunday	REN TV	2.6	7.9	full-length film	USA, Australia
Final Destination 3	15.07.2012	Sunday	REN TV	2.5	8.2	full-length film	Germany, USA, Canada
The Mechanic	29.01.2012	Sunday	REN TV	2.5	6.2	full-length film	USA
The Green Mile	08.04.2012	Sunday	REN TV	2.4	6.9	full-length film	USA
The Keeper	12.02.2012	Sunday	REN TV	2.4	6.7	full-length film	USA

Source: TNS, 2012, Russia (cities 100 000+), 4+

5. VIDEO ON DEMAND

5.1. VOD from Operators of Pay TV

Among the nine biggest operators of Pay TV, who provide services to over 90% of users in Russia, there are four companies which offer the service of Video on Demand. These are: *Rostelecom*, *MTS*, *Vimpelcom*, and *MegaFon*. These operators do not release information about the number of users who take advantage of the service, nor any details about their relationship with copyright holders. According to the estimations of a market participant, the audience of VOD corresponds to roughly 5-7% of the subscriber base of Pay TV. However, it is impossible to estimate any absolute figure, as some VOD players permit access only up to a certain part of their subscriber bases (no definite numbers get disclosed), whereas *MegaFon* does not reveal the number of the users taking advantage of Pay TV.

VOD FROM OPERATORS OF PAY TV

OPERATOR	BRAND	VOD	VOD SERVICE	BROADCASTING METHOD
National satellite company	Tricolor TV, HD platform	-	-	SAT
Rostelecom	Rostelecom	available for the users of Interactive TV Rostelecom (IPTV)	Videoprokat	CAB, IPTV
MTS	MTS, Komstar, StreamTV, Multinex, TVT	available only for users in Moscow	Video po zaprosu	CAB
ER-Telecom Holding	Dom.ru	-	-	CAB
Akado	Akado Telecom	-	-	CAB
Orion Express	Continent TV, Vostochnyi Express, Telekarta	-	-	SAT
Vimpelcom	Beeline TV	yes	Videoprokat	IPTV
Megafon	NetbyNet	yes	Videoprokat	IPTV
NTV plus	NTV plus	-	-	SAT, IPTV

Rostelecom calls its service *Videoprokat* [video hire shop]. In its library, different content totalling as much as 3,000 hours of films, TV series, animated films and TV programs can be found. This service has begun to develop actively since June 2012 as the implementation of the united federal decision replaced various decisions of interregional communication companies (*Mega Regional Telecom*, hereafter *MRT*, which were integrated into *Rostelecom* in April 2012). The service adjusts its features to its own users of the Pay TV company. You can order films within the menu of your TV set-top box and its price varies from RUB 50 up to RUB 150. Apart from that, by paying RUB 150 on a monthly basis the user can subscribe to *Picture Box* (the best films and TV series of *NBC Universal*, 35 films of which 7 are updated every week) and *Detsky Club* [Children's Club] (over 50 popular films and animation films which are updated weekly).

Rostelecom is developing its interactive portal *Zabava.ru*, too. It will enable the company to sell its VOD content to external users. In the portal's library, apart from the "video" section, the user will find TV-online, music, books, games and software. The user can access the portal by means of any technical device which is connected to the Internet. The user can buy a film for RUB 50-150, whereas one season of a TV series costs RUB 150. The introduction of online-VOD in *Rostelecom* is in response to demand from some target categories of subscribers for an alternative way to watch licenced content in high quality using a personal computer or a tablet. For example, those people who have stopped watching TV or the younger generation who are more active on the Internet belong to the audience mentioned above.

Rostelecom has united contracts with copyright holders which enable the company to offer its content by means of both sources: on the IPTV platform and on *Zabava.ru*. As a rule, the company purchases rights for the transactional model, although there exists some certain content which is operated by subscription. Currently another model, namely the download one, is entering the market.

Rostelecom does not compete for content. In the company its managers say that it does not make any particular sense to get exclusive rights for the public display of one film or another. The company tries to purchase films as soon as they leave cinemas or within a set time, which should be as short as possible. A company representative commented that the day of the DVD release itself should be considered as the standard time value for VOD, that is the way the largest Hollywood studios usually work, which at the same time have contractual relations with *Rostelecom*. However currently some of them are willing to start rendering Pay TV services. For example, *Walt Disney Company* opened a premium window for the film *Iron Man 3*, which took place two weeks before the official DVD release. Other films such as *Gagarin: pervy v kosmose* [Gagarin: The First in Space], *Pena dney* [The Foam of the Days] and *Igra v pravdu* [Truth as a Game] were also released in this way.

In Moscow, *MTS* provides another service called *Video po zaprosu* [Video on demand]. In its library various films of such film studios as *Disney*, *Warner*, *Fox* and others can be found. There are four types of films which are categorised according to their release year, rating etc.: *Kino50* [Films 50], *Kino 75* [Films 75], *Kino 90* [Films 90] and *Kino 150* [Films 150]. The films are available for 48 hours after the purchase. You can order a film using the operating panel of the TV set top-boxes.

In the regions of *MTS*, based on DVB-C technology, the users of Pay TV have access to two channels which function according to the model of Pay Per Month (hereafter PPM): the user subscribes to certain channels for a month and can get access to films broadcast on these channels. Such a subscription cost RUB 50. In both VOD and PPM *MTS* uses the scheme of revenue sharing but it does

not disclose any proportions. For these projects, as well as for the portal *Stream*, the content gets aggregated by the company *Stream*, which is an affiliate of *MTS*.

The similar service of *Vimpelcom* is called *Videoprokat* [Video hire shop]. Depending on the genre and the category of the film, one viewing might cost from RUB 15 to RUB 100. The user can choose and order films using the interactive menu of the TV set top-box. As a rule, the film is available for 48 hours. The company does not disclose any details of its relationships with the copyright holders but comments that it determines its strategy on an individual basis.

The similarly-named service of *Megafon* offers films for RUB 50-99. The user can choose and order them by means of the menu and it will be available for 48 hours after the payment. The service was introduced mid-2013. *Megafon* operates using the content aggregators' method of revenue sharing. At the same time, *Megafon* provides its clients with access to online VOD. The management of the company explain that they do not consider such platforms to be competitors as the market for legal content will be growing. First of all, the changes to the legislation will contribute to such a development.

Another two companies among the leading operators of Pay TV in Russia, namely *Akado* and *NTV plus*, have PPV services which work according to the model of VOD but have a difference: paying a certain sum of money, the user can watch a selected film only at a certain time, which has more in common with a cinema. "Shows" get repeated all day long to enable the user to choose the most convenient time for them.

Akado offers services named *KinozalAkado* [Cinemahall Akado] and *Kinozal 13* [Cinemahall 13]. *Kinozal Akado* offers a schedule of more than 10 films, every day the user can order a viewing for a certain time, according to the schedule. Between 3-6 films are on air at the same time, with a show time of every 30-60 minutes. It costs RUB 60 to order one screening. The user can order a screening within their personal account on the website of the operator by SMS or by phone. *Kinozal 13* has the same structure as *Kinozal Akado* but it has different content. Whereas the first one offers so called mass movies, the second one contains alternative ones. On the daily schedule there are nearly 10 movies, with two movies being shown at the same time. As of year-end 2012, about 30% of the subscriber base of the digital TV *Akado* in Moscow, which is 105,000 subscribers, were registered as users of these services.

At *Akado*, managers explain that the main barrier to the introduction of a full VOD service is the cost of the video library and the liabilities relating to financial assurance. The PPV model foresees revenue sharing according to the content ordered by the viewer. In terms of VOD, the operator should afford a prepayment for the rights and then generate income through the service via the subscribers. Apart from that, the introduction of PPV reduces the operator's operating costs in comparison to VOD.

Akado does not compete for content, commenting that cinemas still preserve their precedence about showing films, whereas TV channels concentrate on and specialize in TV series.

NTV plus calls its service *Kinodrom*. Five films are broadcast at the same time; the choice is formed on the basis of the latest films which have recently been released on DVD in Russia. The first show on each channel begins every day between 6am- 7am Moscow time. Every following show begins within 10 minutes after the previous show has ended. It costs the user RUB 99 to watch one film. It is possible to order films via the web site of the company, SMS messages or by phone.

The managers of the company explain that they prefer the PPV service, as this model is more accessible and many more users can take advantage of it. By comparison few users possess VOD equipment. As of year-end 2012 the audience of *Kinodrom* corresponded to 3.5% of the subscriber base of *NTV plus* which equalled 18-30K people. The operator does not compete for content, believing that the volume of content does not attract additional users or money as unlawful copies are so widely available.

Market players admit that investments in VOD represent long-term investments: it is necessary to invest money in the platform and software. As a rule, vendors take money for both, which depends on the amount of operator subscribers. Then, it is necessary to purchase content and invest in marketing in order to promote the service. It is easier to agree on a partnership with online VOD, however in this case the operators risk becoming just a conduit for data delivery if the platform does not offer good film channels. It is recommended to integrate various film portals, but in this case it will be very hard to earn by selling film channels - *NTV plus* agreed.

5.2. Online VOD

5.2.1. Main Players

The market for legal video content in Russia has begun to develop since the years 2008-2009. The period is marked by the establishment of many VOD resources. Among them are: *stream.ru*, *tvzavr.ru*, *zoomby.ru* and *ivi.ru* which have become the leading platforms of VOD. Since 2009-2010 most of the TV channels have started to use web sites as video platforms, placing recordings of TV programs, films and sitcoms there. All in all, according to the data of KVG Research, in summer 2013, there existed roughly 60 online VOD resources with licenced content in Russia, nearly 50% of which represented online platforms of Russian TV channels or their affiliates (eg. daughter companies and single project web sites).

MAIN PLAYERS OF ONLINE VOD

NAME	OWNER OF THE RESOURCE OR OF THE COPYRIGHT FOR THE RESOURCE	LAUNCH DATE	BUSINESS MODEL	CONTENT TYPES	MONTHLY AUDIENCE (TNS WEB INDEX, JULY 2013), THOUSAND, PEOPLE
1tv.ru	Channel One	1996	advertising	documentary projects, educational projects, entertainment programs, talk shows	4966.4
2x2tv.ru	ProfMedia TV, TV Channel 2x2	2007	advertising	animated films, entertainment programs	233.4

NAME	OWNER OF THE RESOURCE OR OF THE COPYRIGHT FOR THE RESOURCE	LAUNCH DATE	BUSINESS MODEL	CONTENT TYPES	MONTHLY AUDIENCE (TNS WEB INDEX, JULY 2013), THOUSAND, PEOPLE
5-tv.ru	OJSC TV and Radio Company St. Petersburg		advertising	documentary projects, information programs	n.a.
amediateka.ru	LLC A serial	2013	subscription	TV series, feature films	n.a.
ayyo.ru	Ayyo	2012	pay-per-view	feature films	n.a.
cccp.tv	Uravo, State TV and Radio Fund of the Russian Federation	2009	advertising	programs for children, documentary projects, information programs, educational programs, entertainment programs, concerts, sports programs	n.a.
cinema.mosfilm.ru	KinoConcern Mosfilm	2011	advertising	feature films	n.a.
clipyou.ru	UTB Holding, ClipYou	2011	advertising	video spots	430.8
ctc.ru	TV channels CTC, CJSC TV channel CTC, CJSC CTC		advertising	entertainment programs, TV series	706.7
disney.ru	Disney	2008	pay-per-view	animated films	930.4
dom2.ru	Gazprom-Media Holding, TV company TNT	2004	advertising	reality show	1843.5
domashniy.ru	CTC Media	2011	advertising	documentary projects, entertainment programs, TV series, feature films	1713.2
drugoekino.ru	Group of companies Carmen, DRUGOE KINO	2002	pay-per-view	feature films (arthouse)	n.a.
friday.ru	ProfMedia TV, TV channel PYATNITSA!	2013	advertising	entertainment programs	432.9
getmovies.ru	X Media Digital	2004	advertising, pay-per-view	programs for children, documentaries, animated films, educational programs, feature films	n.a.

NAME	OWNER OF THE RESOURCE OR OF THE COPYRIGHT FOR THE RESOURCE	LAUNCH DATE	BUSINESS MODEL	CONTENT TYPES	MONTHLY AUDIENCE (TNS WEB INDEX, JULY 2013), THOUSAND, PEOPLE
ivi.ru	LLC Ivi.ru. ProfMedia	2010	advertising, subscription, pay-per-view	programs for children, documentary projects, concerts, educational program, entertainment programs, TV series, feature films, sports programs	7589.7
Jv.ru	LLC ZhiviMedia	2009	Advertising, subscription	educational programs	410.1
kvn.ru	Uravo. LLC TTO Amik	2010	advertising	concerts, entertainment programs	n.a.
megogo.net	Megogo	2011	advertising. subscription	videospots, documentaries, animated films, news, entertainment programs, TV series, feature films	3797.1
mirtv.ru	MIR TV		advertising	documentaries, information programs	n.a.
molodejj.tv	Yellow. Black and White and Red Square	2009	Advertising	interview, entertainment programs, TV series, feature films	800.8
msn.com	Microsoft	2007	advertising	video spots, information and publicist programs	n.a.
muz-tv.ru	MUZ TV	2012	advertising	entertainment programs	316.5
myvi.ru	Movie	2006	advertising	animatedfilms, feature films	n.a.
newstube.ru	NewsTube	2012	advertising	documentary projects, news	1597.7
now.ru	NOW.RU FutureNow!	2010	advertising, pay-per-view, subscription	documentary projects, educational programs, entertainment programs, TV series, feature films	n.a.
ntv.ru	Gazprom-Media Holding, TV Company NTV	1998	advertising	documentary projects, news, educational programs, entertainment programs, TV series	n.a.
ntvplus.ru	OJSC NTV-PLUS	2010	pay-per-view. subscription	sports, feature films	n.a.
peretz.ru	CTC Media, TV channel Peretz	2011	advertising	entertainment programs, user content	n.a.
pik-tv.com	LLC PIK TV	2009	advertising	video spots, entertainment programs	328.9

NAME	OWNER OF THE RESOURCE OR OF THE COPYRIGHT FOR THE RESOURCE	LAUNCH DATE	BUSINESS MODEL	CONTENT TYPES	MONTHLY AUDIENCE (TNS WEB INDEX, JULY 2013), THOUSAND, PEOPLE
planeta-online.tv	CJSC TV company ADF TV (1996-2013) Internet portal PLANETA ONLINE	2009	advertising	videospots, educational programs and animated films	3074.3
pulter.ru	Pulter	2008	advertising	programs for children, documentary projects, TV series, feature films	n.a.
rbctv.ru	RBC Business Information Space		advertising	information and analytics programs, news	371.5
ren-tv.com	National Media Group REN TV	n/a	advertising	documentary projects, information analysis programs, entertainment programs, feature films	n.a.
russia.tv	State Internet Channel Russia	2006	advertising	concerts, animation films, educational programs, TV series, feature films	1525.6
rutube	Gazprom-Media Holding, Rutube	2006	advertising	video spots, educational programs, usercontent, TV series, feature films, animation films	5255.6
smotri.com	Media Mir	2007	advertising, subscription	video spots, educational programs, user content, TV series, feature films, animation films	3632.5
stream.ru	LLC Stream, MTS	2009	pay-per-view, subscription	animated films, TV series, feature films	n.a.
svoy.ru	GC Svyaznoy	2011	advertising, pay-per-view	videospots, animated films, news, educational programs, TV series, feature films	2693.2
tnt-online.ru	Gazprom-Media Holding TV channel TNT	2004	advertising	entertainment programs, TV series	2073.1
trava.ru	MegaFon, Trava.RU	2009	pay-per-view	video spots, feature films, TV series, animated films, educational films, concerts,	371.3
tv3.ru	ProfMedia TV, TV3 Channel LLC	n/a	advertising	TV series, culture programs	n.a.
tvcenter.ru	TV Center	2009	advertising	documentary projects, concerts, information and analytic programs, educational programs, talk shows	1210.7

NAME	OWNER OF THE RESOURCE OR OF THE COPYRIGHT FOR THE RESOURCE	LAUNCH DATE	BUSINESS MODEL	CONTENT TYPES	MONTHLY AUDIENCE (TNS WEB INDEX, JULY 2013), THOUSAND, PEOPLE
tvigle.ru	Twigle Media	2007	advertising, pay-per-view	programs for children, documentary programs, information programs, concerts, TV series, entertainment programs, educational programs, user content, feature films	2818.4
tvrain.ru	TV channel Dozhd	2010	advertising, subscription	educational programs, entertainment programs, talk shows	2930.6
tvzavr.ru	LLCTVZavr	2010	advertising, subscription	video spots, documentary projects, animated films, educational films, entertainment programs, TV series, sports, feature films	2684.4
tvzvezda.ru	OJSC TRK VSRF Zvezda	2005	advertising	documentary projects	n.a.
uravo.tv	URAVO Group	2008	advertising	programs for children, documentary projects, feature films	n.a.
u-tv.ru	UTH Russia. U	2013	advertising	entertainment programs, news of show business	n.a.
viaplay.ru	LLC Viasat Global	2012	subscription	documentary projects, educational programs, TV series, feature films, entertainment programs	n.a.
video.mail.ru	Mail.ru Group	2006	advertising	video spots, documentary projects, concerts, animated films, news, educational programs, user content, entertainment programs, reality show, TV series, sports, talk show, feature films	n.a.
video.ru	Video.ru	2008	pay-per-view, subscription	user content, TV series, feature films	n.a.
videomore.ru	CTC Media	2010	advertising	documentary projects, educational programs, entertainment shows, TV series, TV games, feature films	1185,2
vk.com	Vkontakte	2007	advertising	video spots, documentary projects, animated films, educational programs, entertainment programs, TV series, sport, feature films, user content	51213,1
yotaplay.ru (playfamily.ru)	LLC More	2013	pay-per-view	TV series, feature films	n.a.

NAME	OWNER OF THE RESOURCE OR OF THE COPYRIGHT FOR THE RESOURCE	LAUNCH DATE	BUSINESS MODEL	CONTENT TYPES	MONTHLY AUDIENCE (TNS WEB INDEX, JULY 2013), THOUSAND, PEOPLE
youtube.com	Google	2005	advertising	video spots, documentary projects, animated films, TV programs, educational programs, users content, entertainment programs, feature films	42038.8
zabava.ru	OJSC Rostelecom	2011	advertising, pay-per-view	animated films, educational programs, TV series, feature films	n.a.
zoomby.ru	OJSC Web TV	2010	advertising	animated films, educational programs, entertainment programs, TV series, feature films, news, sports	8922.9

Source: KVG Research, TNS Web Index

According to the latest data of the media research company TNS Russia, *Zoomby.ru* ranked as the leading film online VOD service, in terms of its reach. The audience of this resource corresponded to 8.9M Russians in July 2013. It is followed by *ivi.ru* (7.6M), *megogo.net* (3.8M), *Tvigle.ru* (2.8M), *TVZavr.ru* (2.7M) and *Videomore.ru* (1.1M).

RANKING OF LEGAL ONLINE CINEMAS OF RUNET. TNS WEB INDEX. JUNE-JULY 2013

№	WEBSITE	WEBSITE AUDIENCE IN JUNE 2013. 12-64. RF 0+. THOUSAND PEOPLE	WEBSITE AUDIENCE IN JULY 2013. 12-64. RF 0+. THOUSAND PEOPLE
1	Zoomby.ru	8399.8	8922.9
2	Ivi.ru	7784.4	7589.7
3	Megogo.net	3724.5	3797.1
4	Tvigle.ru	7044.8	2818.4
5	TVZavr.ru	2731.2	2684.4
6	Videomore.ru	1192.8	1185.2

Source: TNS Web Index

Many online VOD services possessing content libraries, develop partner networks. Online services provide their partners with a ready-made option to broadcast video content and display video advertising on their web sites free of charge and draw interest from advertising placement. Among the leading market players, *Tvigle.ru* is most active in this context (its partner network amounts to nearly 100 companies) as well as *Videomore.ru* (nearly 30 platforms).

Looking at the audience of the video content shown by the online services, another rather different situation can be seen; *Tvigle.ru* ranks 1st whereas *Videomore.ru* ranks 2nd.

The total amount of content offered by six leading web sites corresponds, according to their own data, to over 170,000 units. In terms of these video portals you can find both foreign and Russian content: TV series, films, TV programs, entertainment shows, programs for children, music videos and concerts.

For example, *Tvigle.ru* asserts itself as entertainment Internet TV for educated viewers. The video portal offers multi-genre films, TV series, programs and video spots for free. This service also enables its users to upload their own content, while *Tvigle Media* who own the resource produce its own TV series, animated films and programs.

In 2010 the company *CTC Media* launched another popular video resource, namely *Videomore.ru*. Originally *CTC Media* made its own content available via the portal, whereas in 2012 *CTC Media* and *National Media Group* reached an agreement about their partnership in terms of the project *Videomore.ru*, which made it possible to watch the content of *REN TV* and *St. Petersburg TV* on the portal.

The video portal *Zoomby* contains films, TV series, video spots, sports programs, TV programs, news and animated films. It is possible to follow the broadcasting of some leading channels using the Catch Up TV service. According to the data of the resource, 40% of the video content placed on the web site is unique, which means it is not available through other video portals.

On the platform *ivi.ru*, viewers can enjoy the content of the leading Russian and foreign production companies: *BBC*, *National Geographic*, *Mosfilm*, *Lenfilm*, *Central Partnership*, *Gorky Film Studio* and many others. In 2012 *ivi.ru* began to work together with leading Hollywood film companies: *20thCenturyFox*, *WaltDisney*, *SonyPictures*, *Warner Bros Paramount Pictures* and *NBC Universal*. That is why the portal switched to a new business model and made certain types of the offered content fee-based for the viewer.

The Ukrainian *megogo.net*, possessing a library of 6,000 films, animated films, TV series, TV shows and concerts, has content at its disposal which is rather similar to the above mentioned resources. The service was established in 2011 and is available to viewers all over the world. Additionally in 2013 the video resource pulled together a special project for deaf and hard-of-hearing viewers, adding roughly 800 products with Russian subtitles.

TVZavr.ru offers a significant choice of films, TV series and programs for children. *Tvzavr.ru* was among the first Russian online cinemas which launched platforms outside of Russia, announcing in 2012 similar web sites available in Kazakhstan and Belarus.

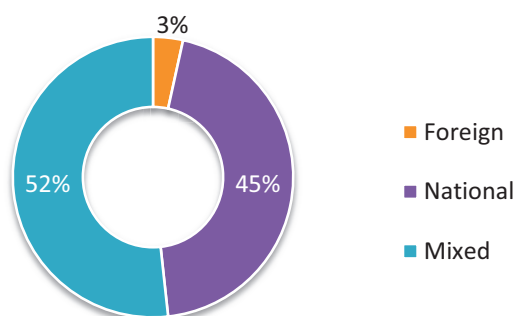
AUDIENCE OF VIDEO SPOTS PROVIDED BY LEGAL ONLINE SERVICES OF RUNET.
TNS WEB INDEX. JUNE-JULY 2013

№	WEBSITE	AUDIENCE OF VIDEO SPOTS IN JUNE 2013. 12-64. RF 100 THOUSAND + THOUSAND PEOPLE	AUDIENCE OF VIDEO SPOTS IN JULY 2013. 12-64. RF 100K + THOUSAND PEOPLE
1	Tvigle.ru	8040.4	6502.2
2	Videomore.ru	4021.2	4263.8
3	Zoomby.ru	3710.4	3669.3
4	Ivi.ru	3263.6	3125.4
5	Megogo.net	912.4	921.5
6	TVZavr.ru	No data	No data

Source: TNS Web Index

According to the data of *KVG Research*, 52% of all resources have both national and foreign content in their libraries. 45% of resources emphasize native projects, among them 88% correspond to video platforms affiliated with TV channels. According to the data of *zoomby.ru*, the most popular for their users are Russian TV series, which accounted for 27% of the total number of views. Only 3% of the sites provides users with foreign content.

BREAKDOWN OF ONLINE VIDEO RESOURCES BY CONTENT
(by the quantity of titles)



Source: KVG Research

5.3. Market Volume of the Internet Advertising Market and Monetization Methods

According to data of Russian Association of Communication Agencies, the Russian market of internet advertising increased in 2012 by 35% to RUB 56.3BN, which corresponded to 18.9% of the total advertising market volume in Russia, being 3.1% higher than in 2011. According to forecasts of the agency *Carat* (part of the group *Aegis Media*), in 2013 the expenditure of advertisers on the Internet will increase from 19% to 22%. In 3-4 years Internet advertising will occupy more than one-third of the advertising market in Russia.

In total, according to the estimations of *Gazprom-Media Digital*, in 2012 the revenue of platforms from video advertising in terms of *RuNet* achieved RUB 1.6BN. As a comparison, video spots on air cost RUB 140BN.⁵¹ Of all video platforms it is only *Videomore* whose financial results are available officially: its revenue for 2012 amounted to \$3.4M.

As it was before, AVOD (advertising), SVOD (subscription) and TVOD (Pay Per View, thereafter PPV) are the main monetization methods of video platforms in Russia. Also such models as DTO (download to own) and EST (electronic sell through) can be found in Russia. Both models are characterised by content downloading and the ability to watch it offline. The first model enables viewers to download content forever, the second one implies the viewer can only watch it for a certain – agreed - period of time.

According to the data of *KVG Research* out of 58 online video services offering licensed VOD, 37 services work according to the advertising model. 10 others act according to subscription or payment for view and 11 function according to the mixed business model; among them the leading Russian online services *ivi.ru*, *megogo.net*, *tvigle.ru* and others. Moreover, the market participants assume that it is the advertising business model which is the way forward.

Thereby, as market participants note, little by little many services switch to the mixed revenue model: the combination of advertising and paid revenue. This is partly caused by demands of foreign right holders, who give last seasons of their successful projects only if online platforms place the content according to the model TVOD. As a rule, there exist three general schemes in this case: a flat fee where the platform pays a fixed sum of money to the right holder for agreed content, a scheme of revenue sharing from advertising or subscription, or the combined scheme which involves payment of a minimum guarantee for the content and the division of revenue afterwards.

Most of online video market participants think that Russia will preserve the advertising business model as the main one, which refers to the tradition to consume the whole audio and video production. Russian viewers are accustomed to getting expensive premium content on the 21st terrestrial Russian TV channel absolutely free of charge.

⁵¹ "Passing by TV", newspaper *Vedomosti*, from March 12, 2013

5.4. iTunes and Google Play in Russia

The Apple Store *iTunes* opened in Russia at the beginning of 2012. Various music, films and books as well as applications for cell phones are available within the store. Within the section “Films” the user can purchase or “rent” a film. If the user decides to rent a film, he or she has 30 days to watch it by means of any Apple device (iPad, iPhone, iPod, Apple TV). The price of the film depends on its release date and quality and corresponds to 79, 129, 149, 199, 229, 249 or 349 RUB for purchase, and 49, 69 or 99 RUB for rental.

Within the library of iTunes, the user will find a large amount of content by the following production companies: *Central Partnership*, *Art Pictures Studio*, *Kremlin Films*, *Smeshariki*, *Racoon Cinema*, *Leopolis*, *Studio Trite*, *PJSC DIREKTSIYA KINO*, *Gorky Film Studio*, *Lenfilm*, *Disney* and others. *Central Partnership* was one of the first companies to cooperate with Apple. At the end of 2011 a contract was agreed between the two companies which enabled the distribution of films within AppStore as well as to involve application editors represented by the publishing house *Novaya Kniga* [New Book] (trade name *Aikino*) and the company *Slang Production*. AppStore is a section of iTunes where mobile applications are displayed. It had already been available to Russian users several years before the whole store was opened.

For example within AppStore *Slang Production* launched a special application for the *Central Partnership* comedy entitled *Svadba po obmenu* [Exchange Married], whereas *Aikino* launched a British TV series about King Arthur *Kamelot* [Camelot] (*Central Partnership* holds distribution rights for these TV series, in Russia). *Aikino* released the TV series as special applications, whereas *Slang Production* sold them through the application AppsFilmz. The corresponding price amounted to \$1.99-3.99.

Apart from that, the publishing house sold the Russian films *PiraMMMida* [The PiraMMMida] and *Gop-stop* [Gop-stop] by the company *Leopolos* through the AppStore as well as foreign films, although the company used to act as a distributor itself. Single films were sold through AppStore by the studio *Bazelevs*, too.

Selling films and TV series through AppStore, the store gets 30% of revenue and the rest is divided between the editor of the application (who bears the costs for its production) and the right holder. The right holder therefore received less than 50% of sales revenue⁵².

At the beginning of 2012, *Central Partnership* was the first company among Russian companies to sell its films through iTunes. The films, including *Dva dnya* [Two Days], *1612* [1612], *Boy s tenyu* [Battle against the shadow], *Paragraf-78* [Paragraph-78], *Pyat nevest* [Five Brides], *Stilyagi* [Hipsters] and others appeared within iTunes in the USA, Canada, Australia, New Zealand, Ireland, Great Britain and some European countries as well. The Russian speaking population outside Russia was expected to be the main target audience of these films. According to the data of the film studio, the countries where iTunes is available were inhabited by approximately 6M former or actual citizens of Russia. Apart from

⁵² “Central Partnership will show at AppStore” newspaper, *Vedomosti*, from December 9, 2011, http://www.vedomosti.ru/newspaper/article/272597/cpsh_pokazhet_v_appstore

that, *Central Partnership* assumed that the local population could be interested in Russian films, too. The films were distributed in Russian language with subtitles and cost \$1.25-12⁵³.

Film trading on Google Play started in Russia on December 11 2012. Licenses were signed with leading film studios among them *NBC Universal, Paramount Pictures, Sony Pictures Home Entertainment and Twentieth Century Fox*, as well as Russian film studios and distributors such as *PiraMMMida* and *X-Media Digital*. Within Google Play the user can buy (although not always) and rent films. On average it costs RUB 49-69 to rent a film, whereas the user must pay on average RUB 199-299 if he or she prefers to buy it.⁵⁴ It is possible to watch purchased (or rented) films online, having downloaded the application *Google Play Filmi* [Google Play Films].

Russian market players comment that today it is too early to talk about significant sales volume by means of iTunes and Google Play. However, in a year or two this business area can become very promising as already now most Russian full-length film production companies take this sales model into account in their business plan. Russian films are sold through iTunes more actively than on Google Play. Thus, according to estimations of the players, the revenue of right holders coming from film sales on the Russian Google Play are 5-7 times lower than as for the sales on the local iTunes version. Thereby, placing premiere film content on iTunes can earn the right holder several thousand dollars. The development of this market segment is troubled by restraints which refer to the content type: at the moment, Russian right holders can only sell films but not TV content. Russian production and distribution companies say that the video placement period, if performed by iTunes and Google Play themselves, can take up to one or two months which influences sales.

Thereby, as market participants notice, little by little many services switch to the mixed revenue model: a combination of advertising and paid revenue. This is partly caused by demands of foreign right holders, who give last seasons of their successful projects only if online platforms place the content, according to the model TVOD. As a rule, there exist three general schemes for this case: flat fee if the platform pays a fixed sum of money to the right holder for some certain content; scheme of revenue sharing from advertising or subscription as well as combined scheme, which includes payment of minimum guarantee for the content and division of revenue afterwards.

Most of online video market participants think that Russia will preserve the advertising business model as the main one, which refers to the tradition to consume the whole audio and video production. Russian viewers are accustomed to get expensive premium content on the 21st terrestrial Russian TV absolutely free of charge.

5.5. Catch Up TV

The service of Catch Up TV began to develop in Russia recently which is mainly due to the increased online activity of the largest Russian copyright holders, in this case corresponding to the TV broadcasting channels. As of year-end 2012, the user could find video content within almost all online-resources of broadcasting channels. Whereas two or three years ago it only referred to news or single

⁵³ "Russian films will be broadcast on iTunes», newspaper *Vedomosti*, from February 2012, http://www.vedomosti.ru/newspaper/article/275971/russkoe_kino_pokazhut_v_itunes

⁵⁴ "Films and books will appear on the Russian Google Play", *lenta.ru*, from December 11, 2012 <http://lenta.ru/news/2012/12/11/gplay/>

projects, many of which belonged to archives, recently the channels began to upload Catch Up TV series, documentaries and other TV products which they possessed all rights for. The content of *Russia.TV*, which belongs to *VGTRK*, amounts to over 20,000 titles among which the user can find news, information programs, TV series, music, entertainment programs and documentary projects. The episodes appear on the web site almost immediately after they are broadcast. After a period of time they are not deleted but are moved to the library of the resource. This also takes place on other web sites of the channel. For example, the website of *Channel One* has a video archive of over 51,000 titles and contains programs which have run on *Channel One* within the last few years. The web site library is updated according to the premiere releases on the channel.

In opinion of professional online video resources, the portal *Zoomby.ru* (controlled by *OJSC WebTV*, which is included into the internet holding *WebMediaGroup*) and *Videomore.ru* (*CTC Media*) belong to the leading ones, as for the development of Catch Up TV. In this context, *Zoomby* should be associated with channels *Russia 1*, *Russia 24*, *Moya planeta [My planet]*, *Sport 1*, *Russia K*, *TV Center*, *CTC*, *NTV* and *Fenix Kino (FenixplusTV)*. On average, *Zoomby* uploads 800 units of video content onto its Catch Up service every month.

The resource *Videomore.ru* uploads some TV series and programs in terms of its Catch Up service, referring not only to TV channels which belong to the holding *CTC Media* (*CTC*, *Domashniy*, *Peretz*), but also *REN TV* and *St. Petersburg TV*. These programs do not have any constraints in terms of their sales life. According to *Videomore.ru*, TV advertising is removed and replaced by video slots from advertisers linked to the resource itself. If the content belongs to foreign right holders, the service of catch up stops being so comprehensive: for example, in summer 2012, media company *CTC Media* announced that it would acquire rights to show the final season of *House M.D.* through its online service *Videomore.ru*, which displayed the video through the Catch Up service right after it had been broadcast on channel *Domashniy*. The user could watch the episode for four days after the broadcast before it was deleted from the resource. The Catch Up TV service was also available through the applications *Zoomby* and *Videomore* via TV sets supporting Smart TV.

Some other independent players of the online video market also offer the service of Catch Up TV, however, it is not as far-reaching as *Zoomby.ru* or *Videomore.ru* and refers mainly to foreign productions. For example, the company *Tvigle Media* is one of the few others which are trying to agree on the smallest time window after the premiere in the USA / in Europe. Among the most successful cases, displays of such TV series as *Walking Dead* can be taken as an example; every new episode of which used to be shown on the video resource as soon as one day after the premiere in the USA, already translated into Russian. Also, the company has already agreed to show season 4 of this TV serie, by means of the Catch Up TV service. *Tvigle* was also successful in negotiations with *BBC Worldwide* about providing Russian users with the opportunity to watch the premiere season 4 of the TV series *Misfits* at the end of October 2012, almost right after its broadcast on *Channel 4*.

The company *Ivi.ru* also offers Catch Up TV only for certain projects. In May 2013 this online service showed the *Sony Sci-Fi* TV channel's TV series *Hannibal* right after it was broadcast in the USA. In July 2013, it offered the original Spanish version of the TV series *Angel and Demon* and the mystic detective drama *Full Moon*. According to *Ivi.ru*, the most popular and awaited TV series available through the Catch Up service are available to their viewers for a longer time, for example the TV series of *CTC Kitchen* or Russian TV series *Angel and Demon*, whereas some others, which depends on the conditions of the right holders, disappear more quickly (as a rule, a month later).

Illegal web sites compete with legal platforms with online video. For example, popular American TV series of channels such as *FOX* (*House M.D.*, *Bones*, *The Simpsons* etc.), *ABC* (*Lost*, *Desperate Housewives*, *Modern Family* etc.), *HBO* (*Sex and the City*, *Boardwalk Empire*, *True Blood* etc.), *Showtime* (*Californication*, *The Borgias*, *Homeland* etc.) and others, in total over 100 titles get uploaded on *Turbofilm.tv*. Thereby, the participants of the Russian market of online video notice that Catch Up services help to compete with piracy. Reducing the time interval between TV and online broadcasts enables content to be made available for viewers, getting ahead of pirates, and gathering very large audiences. That is how, according to the data of *Tvigle Media*, season 2 and season 3 of *Walking Dead*, uploaded through Catch Up TV, obtained 20M views. The only difficulty, according to *Tvigle*, involves agreements with right holders, as not everybody understands the real value of publishing content quickly on legal platforms on the Internet in Russia.

Experts notice that Russian TV viewers and Internet users are not really aware of the main differences between TV content and non-TV content. Therefore, it is necessary to have a good and varied library of content containing different genres, to maintain the interest of users. Nevertheless, many of them rather appreciate broadcasting of TV content. In total, according to *KVG Research*, almost 50% of Russian online video resources have the service of Catch Up TV – on a constant or a one-off basis – at their disposal, including the online versions of broadcasting channels, too.

Apart from the portals, operators of Pay TV pull services similar to catch up in terms of functionality, to offer services which enable its viewers to watch programs immediately after they have been broadcast. For example *Vimpelcom* offers the service *Zapis efira* [Broadcast recording], whereas *MTS* calls its service *POVTOR-TV* [REPEAT-TV]. However, as a rule, they are implemented using PVR (personal video recorder) or DVR (digital video recorder) technology. In this case TV play station operates as a video recorder.

5.6. VOD on Smart TV

Within the last few years the technology of Smart TV has been getting more and more popular among Russian people. According to the research *OnLife* undertaken by the company *SynovateComcon*, 21.4% of active Russian Internet users took advantage of Smart TV technology at least once within three months, 67.6% of those even more often than once a week. According to the information of *ivi*, which is of one of the leading companies in the area of legal online video, over 1.2M users of its application Smart TV, being at the same time inhabitants of Russia, watched over 35M videos per month. The monthly amount of views by means of Smart TV as for another leading market player, namely the company *Tvigle*, corresponds to 15M. The total amount of views through applications of *CTC Media* (*Videomore*, *CTC*, *Domashniy*, *Peretz*), amounts on average to 10-12M monthly, depending on the season.

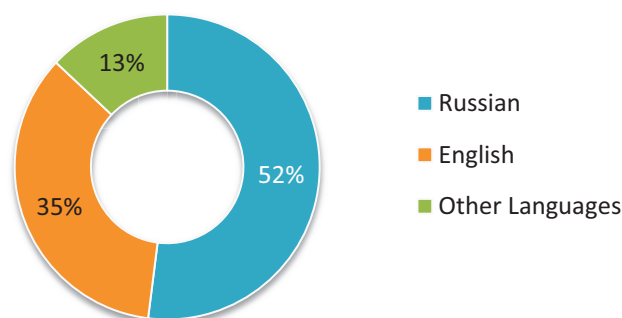
There exists no universal list of TV sets supporting Smart TV which are available on the Russian market. Within the *Yandex.Market* service which aggregates information of several Internet shops, you can find several models of TV set by the following manufacturers: Philips, Samsung, LG, Sony, Panasonic, Sharp, Toshiba and Supra. Within the first six months of 2013, the amount of TV sets they managed to sell in Russia was 2.5 times bigger than within the same period of time in 2012. According to *GfK Rus*, Russia ranked No.3 all over the world as far as sales of Smart TV are concerned, after China and Brazil, in comparison to the previous year, as it ranked No.5 (*GfK Rus* does not take the US market

into consideration). According to the evaluations of *M.video*, almost 40% of TV sets bought in 2013 in Russia support the function of Smart TV.⁵⁵

Almost all vendors have their own branded stores, where they more or less offer applications with the service of VOD. As some players of the online video market notice, the services of VOD acts as sale drivers for devices, that is why it should not be complicated to develop partnerships, as far as the strategy is concerned. The main targets about the partnership refer to the area of technical devices. According to the data of *KVG Research*, LG Smart TV occupies the leading position, in terms of the amount of such applications, as it offers roughly 90 national and foreign resources with audio visual products. It is followed by Sony Entertainment Network and Samsung Apps, whose catalogues contain over 30 applications with video content. The amount of VOD applications offered by Philips (AppGallery), Panasonic (VieraConnect) or Toshiba (ToshibaPlaces) fluctuates between 15 and 25.

Over 50% of all applications offered through professional stores by TV manufacturers use Russian as their base language. Their main part belongs to the leading Russian online video platforms: *tvigle.ru*, *ivi.ru*, *megogo.ru*, *now.ru*, *videomore.ru*, *zoomby.ru*, *play.ru* and others as well as applications of Russian channels (*Channel One*, *CTC*, *Domashny*, *Peretz*, *Dozhd* and *RBC*). 35% of the resources are English speaking; they predominantly contain informative, musical and educational content.

BREAKDOWN OF VOD APPLICATIONS FOR SMART TV, REFERRING TO LANGUAGE



Source: *KVG Research*, June 2013

All in all, as far as video types are concerned, 44% of applications have a varied, multigenre content: TV series, films, entertainment programs, documentary projects and many others. 13% of applications specialize exclusively in showing films and sitcoms and just as much on informative programs and news.

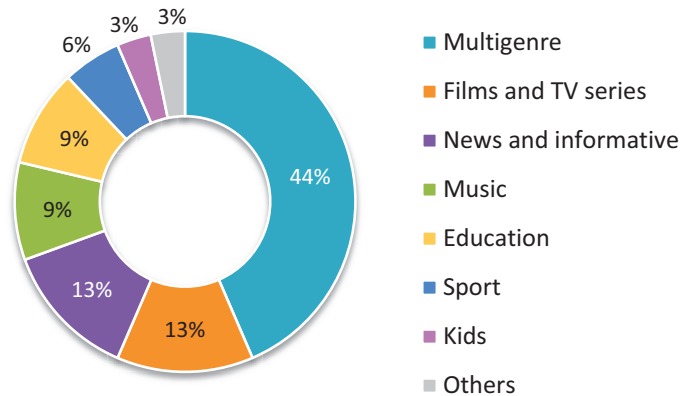
The revenue scheme of VOD applications for Smart TV is, all in all, similar to the scheme of online ones and consists of advertising, subscription and PPV elements. Currently, according to the data of *KVG Research*, 70% of the resources offering audio visual content for Smart TV are free of charge for the viewer. 12% are charge-based and 18% represent a mixed business model which in most cases means, in the context of Russian companies, that those who wish to shall pay a certain amount of money for

⁵⁵ "The population of Russia begin to enjoy Smart TV", newspaper *Vedomosti*, from July 18, 2013

the additional premium content. The price for example for one viewing of a feature film starts at RUB 29.

Video resource applications might differ from their online version with regard to both their content and the corresponding monetization. At *Tvige Media*, the management comments that while developing Smart TV it is important to take into account the size of the screen and, as a consequence, alternative consumption forms by viewers. On Smart TV, as distinct from online services, it is the long content which runs better. Still, *ivi* does not give access to pay-content in its applications for Smart TV, but as representatives of *ivi* notice, it is not a difference which is to explain from the technical point of view but the prioritization. *ivi* is mainly a free of charge resource that is why its applications were developed first of all for free of charge content. Little by little, the company intends to introduce the option to pay for the content; then the service *ivi+* will be available on Smart TV, too.

BREAKDOWN OF VOD APPLICATIONS FOR SMART TV,
REFERRING TO CONTENT TYPE



Source: KVG Research, June 2013

All in all, according to the comments of the market participants, Smart TV is currently a significant strategic direction, troubled so far by the lack of instrumentation system which makes real profits from this business complicated. Online cinemas predict that the main amount of money will arrive after the research organization by such leading companies as TNS, whose data are relied on by the most of advertising agencies and advertisers.

5.7. The Home Video Market in Russia

In 2012, market development tendencies in home video which first appeared within the last two years, was still present. First of all, it should be mentioned that the DVD format had been losing its popularity. According to the data of *Nevafilm Research*, for the year-end of 2012 – beginning of 2013,

only 4.4% cinema visitors and 5.8% internet users announced that they usually watch films using DVDs, whereas in the year 2011 these shares amounted to respectively 9.7% and 11.1%.⁵⁶

According to the research of *GfK*, in 2012 DVD sales had fallen by 18.7% to RUB 2.3BN. The decrease in popularity of DVDs caused a knock-on effect for DVD-player sales which in monetary terms corresponded to a decrease of 20%. The chain store *M.Video*'s research finds that in 2012 sales of DVDs and Blu-ray discs in Russia were 37% less in terms of revenue and 14.6% less in terms of volume compared to 2011.

That is why the online store *M.video* has started to retail other digital content, namely software, audio and video records. *M.video* media direction manager Nikita Tikhvinskiy interprets retailers interest for this content as a response to consumer refusal to buy content on material data storage devices, including CD and DVD. If the digital content sales model turns out to be easy to accomplish, the turnover of *M.video* will be boosted which will contribute to the general anti-piracy measures.⁵⁷

In this context, we should also mention the Blu-ray disc sector which all in all shows positive dynamics. In 2012 *Gfk* reported a sales increase for Blu-ray discs by 15.8% to RUB 0.5BN. Apart from that, according to the estimation of the President of the film studio *Amedia* Alexander Akopov⁵⁸, the Russian market for Blu-ray discs could equal approximately \$50M in 2012, in monetary terms. As explained by the market player, the popularity of Blu-ray is also pushed by the increase in the number of 3D releases in cinemas as well as the opportunity to watch films in this format by means of set-top boxes. Eugene Rogachevskiy, manager of entertainment direction of the chain store *Media Markt* comments that the popularity of the Blu-ray format grows simultaneously with the price decrease of discs and the corresponding players: the user can often purchase the latest formats for the same price as usual DVDs.

The fall in demand for DVD is also experienced by distributors of pirate goods too. In 2012 the antipiracy association *Russkiy sshit* [Russian Shield] registered that various unlicensed content was sold for as much as approximately RUB 108M to RUB 144M, whereas in 2011 this statistic was RUB 144M to RUB 168M. The number of vendors which used to trade unlicensed discs was reduced, too: in 2011, 1,600-2,000 of such vendors were be registered in Moscow, whereas in 2012, only approximately 800 were still active in the Russian capital. However, the demand for unlicensed Blu-ray discs is still high: according to certain estimations, 80% of the total turnover accrues to unlicensed production, while its profitability can reach 500%.

In total, the decrease in demand for DVD and Blu-ray formats was caused by the increasing popularity of digital distribution of video content. In this case, both official and unlicensed sales and distribution of video production are concerned. It is obvious that the conflict between distributors of legal content and pirates, which is still present on the market of material data store devices, is now growing in terms of the digital distribution and the Internet.

⁵⁶ "Without discs", Ksenia Boletskaya, newspaper *Vedomosti*, from March 15, 2013, http://www.vedomosti.ru/newspaper/article/414021/bez_diskov#ixzz2jUDBmK3U

⁵⁷ "M.video begins to deal with digital content", Roman Dorokhov, newspaper *Vedomosti*, <http://www.vedomosti.ru/tech/news/17485611/mvideo-dobavila-cifru#ixzz2jUE647aU>

⁵⁸ "A ray of light for pirates", Valeriy Kodachikov, newspaper *Vedomosti*, http://www.vedomosti.ru/newspaper/article/410491/luch_sveta_dlya_piratov#ixzz2jUEdJB00

ANNEXES

1. Professional Associations for the TV Market

NAME	ACTIVITIES	CONTACT INFORMATION
Professional Associations		
Russian Association of Communication Agencies (RACA)	Voluntary associations of legal entities which are commercial organizations, performing professional activities in the sphere of advertising and commercial communication.	Address: Suschevsky Val str. 16, bld. 5, off. 1100. 127018 Moscow Phone number/fax: +7 (495) 662 39 88 akarussia.ru e-mail: akar@akarussia.ru
Association of Directors of Communications and Corporate Media in Russia	The only one branch association in Russia which unites communication and corporate media directors and is a founder of unique media contests and awards.	Address: Pravdi str. 24, bld. 4, off. 218 127137 Moscow Correspondence: 141014, Mytishchi-14, p/o 34 Phone number: +7 (495) 741 49 34 corpmedia.ru e-mail: akmr@medianews.ru
Association of Russian producers and consumers of radio relay communication	Non-profit organization for promotion of Russian radio relay communication systems.	Address: Butlerov str. 15, off. 243 117342 Moscow Phone number/fax: +7 (495) 334 46 55 aporrs.ru e-mail: info@aporrs.ru
HD Union	Non-profit organization, founded to consolidate all active players of the HD market and distribute HD TV and digital films on the Russian and international markets.	Phone number: +7 (495) 781 20 61 hdunion.ru e-mail: info@hdunion.ru
Association of regional communication operators	The association was founded to coordinate the entrepreneurial activity, provision and protection of common property interests of its members as for mobile wireless telephony (cellular telephony) and other types of communication.	Address: Suschevsky Val str. 27, bld. 2, off. 2.21 127018 Moscow Phone number: +7 (499) 922 49 52 rrto.ru e-mail: info@rrto.ru

NAME	ACTIVITIES	CONTACT INFORMATION
Cable Television Association of Russia	Voluntary association of organizations which are legal entities, founded in order to develop cable TV and systems of broadband wireless communication, coordinate the entrepreneurial activity and common aims as well as provide and protect common property interests.	Address (location): Neglinnaya str. 17, bld. 2 127051 Moscow Postal address: Neglinnaya Str. 17, bld. 2 127051 Moscow Phone number: +7 (495) 665 9 -72, +7 (495) 772 45 06 aktr.ru e-mail: info@aktr.ru
Association of Film and TV Producers	Consolidation of aims of Russian producers, aimed to strengthen economic, legal and professional basis of the branch performance and further development of the Russian film and TV industry.	rusproducers.com e-mail: ap_kit@mail.ru
Association of Cable TV and Teleinformation Networks Operators	The Association was founded by cable operators in order to protect their common interests and teamwork with TV companies (content providers) and equipment suppliers.	macatel.ru
Media Committee	The Committee has to satisfy the public's need to obtain true and complete information with regard to TV broadcasting, development of quality standards for the measuring systems for TV and radio audience as well as determination and interpretation systems as for the fact that a TV or a radio program or an advertising spot went on air; apart from that, the committee has to protect consumer and user rights from abuses or inappropriate services by means of professional expertise of measuring systems of TV and radio audience.	Address: Pyatnitskaya str. 25, bld. 1 115326 Moscow Phone number/fax: +7 (095) 953 90 30, 953 90 32 mediakomitet.ru E-mail: info@mediakomitet.ru
Media Union	Media Union cooperates with the mass media and independent journalists in Russia; It helps to implement the liberty of speech and press; It contributes to strengthening of social protection of journalists.	Address: Media Soyuz Zubovsky Boulevard 4 119034 Moscow Phone number: +7 (495) 637 38 32(48) mediasoyuz.ru e-mail: ms@mediasoyuz.ru
The National Association of Broadcasters (NAB)	It coordinates activities of TV and radio companies by dealing with setting up and distributing TV and radio programs on the territory of Russia and other activities which deal with TV and radio broadcasting.	Address: Neglinnaya str. 15, bld. 1 127051 Moscow Phone number: +7(495) 651 08 36 Fax: +7(495) 651 08 35 nat.ru e-mail: nat@nat.ru

NAME	ACTIVITIES	CONTACT INFORMATION
Animated Film Association		Address: Vasilievskaya str., 13 Moscow Phone number: +7 (499) 254 21 00 animator.ru
Academies, Research Studies Institutions and Funds		
Fund Russian Academy of Motion Picture Arts and Sciences		Address: 109240 Moscow Nikoloyamskaya str. 26, bld. 1, floor 3 Phone number: +7 (495) 502 99 36 Fax: +7 (495) 502 99 34 tefi.ru e-mail: tefi@tefi.ru
Eurasian Academy of Television and Radio	Every possible support to develop and strengthen international partnership of the media communities among Eurasian countries.	Address: 107078 Moscow Basmannaya str. 12, bld. 1 Phone number: +7 (495) 783 39 90 Fax: +7 (495) 783 39 92 (ext. 113) eatr.ru e-mail: ruzin@eatr.ru, info@eatr.ru, eatr@eatr.ru
Federal State Institution "State Fund of Television and Radio programs" (Gosteleradiofond)	Unique collection of film, video and audio records.	Legal Address: Pyatnitskaya str. 25, bld. 1 115326 Moscow Actual and postal address: 107078 Moscow Novaya Basmannaya str. 19, bld. 1, p/o box 384 Phone number/fax: +7 (499) 265 74 95; +7 (499) 261 29 82 gtrf.ru, гтрф.рф, гостелерадиофонд.рф e-mail: gtrf@gtrf.ru

NAME	ACTIVITIES	CONTACT INFORMATION
MIP Academy – Institute of Advanced Training for Specialists of Broadcasting	The only education institution in this sphere. During 40 years of its work, over 60 thousand specialists have taken an advanced training course and are able to top up their qualifications there.	Address: Oktyabrskaya str. 105, bld. 2 Moscow 127521 Phone number: +7 (495) 689 41 85 Fax: +7 (495) 689 45 75. Teletype: 207954/2 PATb ipk.ru e-mail: rtv@ipk.ru – Institute of Advanced Training for Specialists of Broadcasting info@ipk.ru – information department
International Academy of Television and Radio (IATR)	Non-governmental organization, aiming to enlarge and enhance creative interaction and exchange among broadcasting specialists, regardless of political and geographical boundaries.	Address: Ozerkovskaya emb. 52, bld. 1 115054 Moscow Phone number: +7 (495) 647 60 60 Fax: +7 (495) 647 60 59 interatr.org e-mail: off.@interatr.org
Moscow Scientific Research Television Institute	One of the leading companies in the TV industry specializing in elaborate TV equipment.	Address: Golyanovskaya str. 7a, bld. 1 105094 Moscow Reception phone number: +7 (499) 763 45 42 Fax: +7 (499) 763 44 81 mniti.ru e-mail: mniti@mniti.ru
The Minz Radio-technical Institute	One of the leading companies dealing with the development of complex radio-technical systems.	Address: 8. Marta str. 10, bld. 1 127083 Moscow Phone number: +7 (495) 612 99 76 rti-mints.ru e-mail: info@rti-mints.ru
Russian Academy of Radio (RAR)	The main target is to unite the attempts of broadcasters to develop the Russian radio industry and strengthen its influence within the media sphere.	Address: Pyatnitskaya str. 25, bld. 1, off. 339 115035 Moscow Phone number: + 7(495) 950 62 63; 950 66 55 radioacademy.ru
The Bonch-Bruевич Saint-Petersburg State University of Telecommunications	Fundamental University in the sphere of communications and TV communication.	Address: Reki Moiki emb. 61 191186 St. Petersburg Phone number: +7 (812) 326 31 50 sut.ru e-mail: rector@sut.ru

NAME	ACTIVITIES	CONTACT INFORMATION
Federal State Unitary Enterprise Radio Research and Development Institute (NIIR)	The system institute of the Ministry of Communication and Media of the Russian Federation as for the sphere of development of radio communication systems, satellite and terrestrial systems of TV and audio broadcasting and development of radio technologies.	Address: Kazakova str. 16 105064 Moscow Phone number: +7 (499) 261 36 94 Fax: +7 (499) 261 00 90 niir.ru e-mail: info@niir.ru
Television Research Institute	Multi-industry specialized company of military-industrial complex, developing unique scientific and technical products for the most significant areas of TV and electro-optic equipment.	Address: Politechnicheskaya str. 22 194021 St. Petersburg Phone number: +7 (812) 297 41 67; fax: 552 25 51 niitv.ru e-mail: niitv@niitv.ru
State Specialized Design Institute of Radio and Television	The Institute performs the whole complex of design works: engineer and exploratory works, process and structural design and costing. The biggest unique broadcasting objects, radio-relay communication lines, systems of satellite communication, special facilities etc.	Address: Nikoloyamskoy per. 3A 109004 Moscow Phone number: +7 (495) 915 71 28 Fax: +7 (495) 915 20 21 gspirtv.ru e-mail: gsipi@gspirtv.ru
Analytical Centre of Video International	The Centre is a unique research institution on the Russian market, where: <ul style="list-style-type: none"> - various information about international and Russian media and advertising environment is collected and systematized; - original research projects are implemented; - analysis and expert research of property, trends and prospects of the advertising market is carried out; - scientifically proven forecast of development of the media industry and advertising market etc. is developed. 	Address: Gorbunov str. 2, bld. 204 121596 Moscow Phone number: +7 (495) 737 87 44 Fax: +7 (495) 737 87 09 acvi.ru e-mail: acvi@vitpc.com
J'son & Partners Consulting	Leading international consulting company specialized in telecommunication, media, IT and innovation technology markets in Russia, the CIS and Central Asia.	Address: Armyansky per. 11/2a 101990 Moscow Phone number: +7 (495) 625 72 45, +7 (495) 623 55 01, +7 (495) 627 09 05, +7 (495) 625 91 77 json.ru

NAME	ACTIVITIES	CONTACT INFORMATION
ComScore	Leading internet technology company that provides analytics for a digital world.	Address: Begovaya str. 3, bld. 1 1252849 Moscow Receptionist: +7 (499) 277 14 93 comscore.com e-mail: russia@comscore.com
KVG Research	Part of the group of companies Key Vision Group, which specializes in marketing research in the media sphere. The main focus area of KVG Research is to analyze the TV market and its main players.	Address: Leo Tolstoy str. 8, bld. 2 119034 Moscow Phone number: +7 (499) 246 33 54, +7 (499) 246 29 20 keyvisiongroup.ru e-mail: info@kvgresearch.ru
NEVAFILM	Research department of the company Nevafilm in the sphere of Russian cinemas. The department focuses its work on the research of markets in Moscow, St. Petersburg and other Russian regions and conducts research of cinema markets of the CIS and international trends in cinema development.	Address in St. Petersburg: 199397 St. Petersburg, Korablestroiteli str. 33/2 B Phone number: +7 (812) 449 70 70, fax: +7 (812) 352 69 69 Address in Moscow: 127051 Moscow Tsvetnoy Boulevard 30, bld. 1 Business-centre "Tsvetnoy 30", Floor 3, off. 307 Phone number/ fax: +7 (495) 694 26 15 e-mail: research.nevafilm.ru
Sociological Research Companies		
Synovate Comcon	Specializes in research of consumer preferences and motivations, segmentation and search of new market possibilities, testing of advertising ideas, conceptions of brands, products and packaging as well as media research.	Address: 115280 Moscow Masterkov str. 4 Phone number: +7 (495) 502 98 98 Fax: +7 (495) 502 98 99 www.comcon-2.com
GfK RUS	The Institute of Marketing Research GfK RUS is a daughter company of the internationally leading research company GfK Group.	Address: 109428 Moscow Ryazansky prostp. 8a Phone number: +7 (495) 937 72 22 Fax: +7 (495) 937 72 33 gfk.ru e-mail: mail@gfk.ru

NAME	ACTIVITIES	CONTACT INFORMATION
Russian Public Opinion Research Center	Multi-industry full service research company.	Address: 119072 Moscow Bolotnaya emb. 7, bld. 1 Phone number/fax: +7 (495) 748 08 07 wciom.ru e-mail: web@wciom.com
TNS	Performs full range of work as for media metrics monitoring of advertising and marketing research.	Address: 127018 Moscow Dvintsev Str. 12, bld. 1 Phone number: +7 (495) 935 87 18 Fax: +7 (495) 626 52 28 tns-global.ru e-mail: tns@tns-global.ru

2. Main TV Companies and Production Companies in Russia

Art Pictures Vision	101000 Moscow Kolpachniy lane 6, bld. 5, off. 22	+7 (499) 143 49 04	art-pictures.ru
Comedy Club Production	129090 Moscow Messhanskaya str. 7/21, bld. 4	+7 (495) 543 88 88	comedyclub.ru
Dixi Media	125040 Moscow Raskovoy str. 16/18	+7 (495) 612 25 30	dixi.tv
DT Production	119034 Moscow 1-y Zachatyevskiy lane 15	+7 (495) 777 08 21	dtproduction.ru
Intra Communications	197198 St. Petersburg Zverinskaya str. 7/9, off. 12	+7 (812) 718 41 30	intratv.net
Masterskaya Movie Company	129594 Moscow 12-y Maryinoy Roshchi proezd. 8, bld. 2	+7 (495) 771 68 04	masterskaya.tv
Star Media	109382 Moscow Nijniye Polya str. 31, bld.1	+7 (495) 356 54 00	starmediafilm.ru
Story First Production	125254 Moscow Leningradskiy prosp. 31A	+7 (495) 785 63 33	ctcmedia.ru
United Multimedia Projects	129226 Moscow Sergeya Eyzenshteyna str. 8	+7 (499) 181 16 42, +7 (495) 449 13 13	umpstudio.com
W Media [WestcotMedia]	129301 Moscow Kasatkina str. 11	+7 (495) 658 59 71	wmedia.ru
Yellow, Black and White Production	125254 Moscow Leningradskiy prosp. 31AC1 business center "Monarkh", floor 31	+7 (495) 517 92 46	ybw-group.ru
ARS company.ru [ARS]	125047 Moscow Aleksandra Nevskogo str. 19-25	+7 (495) 613 44 87	ars-company.ru
ArtLine	1252012 Moscow Vyborgskaya str. 16, bld. 1	+7 (495) 927 01 77	
WeiT Media	129110 Moscow Mira prosp. 71, bld. 5	+7 (495) 981 19 14	weitmedia.com
Russian World Studios RWS [Vsemirnie Russkie Studii]	129110 Moscow Sshepkina str. 51/4, bld. 1	+7 (495) 229 63 73	rwstudios.ru

Galileo Media	125183 Moscow Gnerala Rychagova str.21		galileo-tv.ru
"Gamma-Production" Ltd. [GK GAMMA]	197110 St. Petersburg Krestovskiy prosp. 23 A	+7 (812) 235 07 00	gamma-production.ru
GoodStoryMedia	115088 Moscow Novoostapovskaya str. 5, bld. 3	+7 (495) 542 43 32	
United Media Group [Edinaya Media Gruppa]	129090 Moscow Bolshaya Spasskaya str. 13, bld. 1	+7 (495) 680 37 47	
KEFIR PRODUCTION	107078 Moscow Novaya Basmannaya str. 23, bld. 2	+7 (495) 651 95 99	kefir-prod.ru
Rumedia Film company [Kinokompaniya Rumedia]	125167 Moscow Viktorenko str. 11, bld. 36, off. 5	+7 (495) 592 86 79	ru-media.com
AMEDIA Film company [Kinokompaniya AMEDIA]	115088 Moscow Novoostapovskaya str. 5, bld. 3	+7 (495) 744 17 17	amediafilm.com
Pyramid Film Company [Kinokompaniya Piramida]	125080 Moscow Surikova str. 24	+7 (495) 258 80 74	pyramidfilm.ru
Russkoe Film Company [Kinokompaniya Russkoe]	115088 Moscow Ugreshskaya str. 2, bld. 76, off. 106	+7 (495) 933 95 98	russkoe-kino.ru
TVINDIE Film Production [Kinokompaniya Tvindi]	101000 Moscow Pokrovkastr. 9, bld.1	+7 (495) 625 70 58	tvindie.ru
Kinoprom Distribution [Kinoprom]	352630 Belorechensk Mira str. 75, floor 4, off. 3	+7 (964) 897 11 99	kinoprom.net
Versya Film Studiya [Kinostudia Versiya]	119590 Moscow Dovzhenko str. 12	+7 (985) 786 08 55	
Red Square [Krasniy Kvadrat]	127427 Moscow Akademika Koroleva str. 12	+7 (495) 646 34 64	red-red.ru
Mars Media Entertainment [Mars Media]	119034 Moscow 1-y Zachatyevskiy lane 15	+7 (495) 777 08 20	marsme.ru
Mastiff Zodiak Media Company [Mastiff]	119911 Moscow Timura Frunze str. 11, bld. 44	+7 (495) 514 22 98	
MB Group	125124 Moscow Pravdi str. 24, bld. 11	+7 (499) 257 30 31	mb-group.ru
Mir Reality Production	115088 Moscow Novoostapovskaya str. 5, bld. 3	+7 (495) 542 43 32	mirreality.ru

Mostelefilm	109382 Moscow Nizhniye polya str. 31	+7 (495) 609 69 81, +7 (495) 609 69 82	mostelefilm.ru
NTV-Kino [NTV-Kino]	129226 Moscow Sergeya Eyzenshteyna str. 8, bld. 1, floor 3, block 3, off. 503	+7 (499) 602 38 38	ntvkino.ru
United Media [Ob'edinennie media]	115516 Moscow Luganskayastr. 4, bld. 1	+7 (495) 745 39 82	
Prime Cinema	127427 Moscow Akademika Koroleva str. 21	+7 (495) 994 49 77	prc.tv
Group of Companies "PRIOR" [PRIOR Production]	125040 Moscow Leningradskiy prosp. 26, bld. 1, floor 3	+7 (495) 276 09 20, +7 (495) 614 91 18	priorgroup.ru
Sreda Production Company [Prodyuserskaya kompaniya "Sreda"]	115088 Moscow Novoostapovskaya str. 5, bld. 3	+7 (495) 542 43 33	sredatv.ru
Production Company Mediaprofsoyuz [Prodyuserskaya kompaniya Mediaprofsoyuz]	129226 Moscow Sergeya Eyzenshteyna str. 8, off. 223-225	+7 (499) 181 22 36	mediaps.ru
LEAN-M Production Company [Prodyuserskiy Tsentr LEAN-M]	127106 Moscow Gostinichnaya str. 5, bld. 10	+7 (495) 775 37 70	lean-m.ru
Sergey Zhigunov's Production Company [Prodyuserskiy Tsentr Sergeya Zhigunova]	129164 Moscow Mira prosp. 124, bld. 8, app. 236	+7 (499) 143 07 55	
IGOR TOLSTUNOV'S PRODUCTION COMPANY PROFIT [Profit]	119991 Moscow Mosfilmovskaya str. 1	+7 (495) 937 71 92	profitkino.ru
Production Company Profi M [PC Profi M]	127427 Moscow Akademika Koroleva str. 21	+7 (495) 782 12 49	
Association Nashe Kino [ROO Assotsiatsiya Nashe Kino]	125993 Moscow Pravdi str. 24, bld. 4	+7(495) 649 85 60, +7(495) 988 61 35	as-nashekino.ru
2V Studio [Studia 2V]	121552 Moscow Ostrovnyaya str. 1	+7 (495) 234 52 76	studio2v.ru

AnkorStudio [StudiyaAnkor]	127059 Moscow Berezhkovskaya emb. 20, bld. 33	+7 (495) 645 17 02	ankor-studio.ru
Yuriy Belenkiy's Studio Harmony [Studiya Garmoniya]	115114 Moscow Derbenevskaya str. 20, bld.26	+7 (495) 775 97 27	garmonia.tv
Film Studio Green-Film [Studiya Green Film]	197101 St. Petersburg Mifa str. 3, office 411	+7 (812) 644 42 01	green-film.ru
Ivan Usachev's Production Centre [Studiya Ivana Usacheva]	129515 Moscow Hovanskaya str. 6, app. 199	+7 (985) 773 51 94	
Production centre Pro100film [Studiya PRO100 Film]	127055 Moscow Obraztsova str. 14	+7 (495) 681 40 29	priorgroup.ru/ prostofilm
Studio Russian Project [Studiya Russkiy Projekt]	121069 Moscow Povarskaya str. 26, app. 44	+7 (499) 143 95 35	
TeleALLIANCE	101000 Moscow Lubyanskiy proezd 19, bld. 2	+7 (495) 232 31 39	telealliance.ru
VID TV company [Telekompaniya VID]	127000 Moscow Akademika Koroleva str. 12	+7 (495) 254 32 55	
Ostankino TV company [Telekompaniya Ostankino]	127000 Moscow Akademika Koroleva str. 12	+7 (495) 617 91 92	tv-ostankino.ru
TRIIKS MEDIA FILM COMPANY [Triiksmedia]	197101 St. Petersburg Mira str. 15	+7 (812) 456 55 13	3xmedia.ru
Favorit-Film	121596 Moscow Tolbukhina str. 13, bld. 2	+7 (495) 748 43- 92	favoritfilm.ru
Format TV	119034 Moscow Zubovskiy boulevard. 22/39	+7 (499) 245 63 05, +7 (495) 245 49 79	formattv.ru
CENTRAL PARTNERSHIP Film Company [Tsentral Partnership]	119034 Moscow Ostozhenka str. 17-19	+7 (495) 777 49 61	centpart.ru

3. Main Russian Professional TV Events (Markets, Festivals, Awards)

EVENT	DATE AS FOR 2013	VENUE	DESCRIPTION	WEBSITE
International exhibition and forum CSTB'2013	29 – 31 January	Moscow	The exhibition covers all modern formats and trends of television and telecommunication technologies: digital, cable, satellite and terrestrial television; IPTV, OTT; mobile TV, HDTV; 3DTV; TV content; mobile multimedia communication lines; multiservice networks; satellite communication lines.	cstb.ru
National Award in the field of digital TV "Bolshaya Tsifra-2013"	30 January	Moscow	National Award "Bolshaya Tsifra – 2013" is carried out by four nomination categories: Operating Company; Equipment and Technologies for Digital TV and radio broadcasting; New Russian Television and Foreign Television in Russia.	bigdigit.ru
Open Russian Festival of Animated Film	27 February – 4 March	Suzdal	The Open Russian Festival of Animated Film first appeared in 1996. Among the applicants there were movies released within the previous three years, representing not only feature films but also advertising spots, video clips and title sequences. Besides usual awards, another ranking of movies was arranged in terms of the festival; all guests of the festival could vote. This voting became a tradition and has been preserved until now. Since 2002, the festival has taken place in the City of Suzdal, which is situated in the Vladimir Region. Annually, over 1500 professionals from 40 Russian studios, students of specialized schools and admirers of animation visit the festival.	suzdalfest.ru
III International Forum "CONNECTED TV & VIDEO. Internet TV · Smart TV · Mobile TV"	5 March	Moscow	Over 300 representatives of the business community and government authorities, leading operators, ISP-providers, producers and aggregators of TV and video content, right holders, TV channels, studios, broadcasters, cable networks, advertisers, advertising agencies and vendors, as well as manufacturers and suppliers of equipment, staff and program solutions, system integrators, representatives of startups and investment funds visit this forum.	connectedtv-forum.com

EVENT	DATE AS FOR 2013	VENUE	DESCRIPTION	WEBSITE
Award of Association of Producers	17 March	Moscow	The contest was arranged among Russian TV films and TV series, broadcast in the year 2012.	festme.com
IV International Conference “Digital broadcasting and new ways of video content delivery. Interactive services in modern networks Digital & Connected TV Russia 2013”	26 March	Moscow	The international conference “Digital broadcasting and new ways of video content delivery. Interactive services in modern networks Digital & Connected TV Russia 2013” is an important event for players of the Pay TV market which takes place supported by key international TV-organizations and specialized governmental institutions.	comnews-conferences.ru
FilmAward “Nika-2013”	2 April	Moscow	“Nika” stands the National Award of the National Academy of Motion Picture Arts and Sciences of Russia. It is one of the main film awards in Russia, the CIS and the Baltic states. Every winner in every category gets a statuette of the winged goddess Nike.	kino-nika.com
XIV annual FORUM of multiple service operators “MULTISERVICE -2013”	12-18 April	Yekaterinburg, leisurebase “Ivolga”	The highly topical program covers the problems of current legal issues, managerial decisions and development prospects. The event is mainly set up by panel discussions.	latel.ru
Panel discussion “Digital broadcasting: prospects for the development of television in regions”	17 April	Nizhny Novgorod		nat.ru
Festival of socially relevant television programs and TV films “Geroy	1 - 4 May	Moscow – Tver’ – Uglich – Mishkin – Moscow	The main aim of the Festival is to draw the attention of television and production companies to creation of programs and films referring to genuine human values. “Hero of our time” is an attempt to portray a contemporary who could be	nat.ru

EVENT	DATE AS FOR 2013	VENUE	DESCRIPTION	WEBSITE
nashego vremeni” [Hero of Our Time]			interesting because of his character, life philosophy, attitude to various changes, who characterizes Russia of the 21 st century, developing rather dynamically, and, which is the most important point, because of his own role in these changes.	
MIPAcademy Moscow DO – international forum and education program	12 – 13 May	Moscow	In terms of the forum of the education program MIPAcademy Moscow DO, international experts teach Russian specialists to set up transmedia content, manage the transmedia process, promote the content for the international market and protect their copyright.	mipacademy.ru
International Broadcast Content Market MOSCOW TELESHOW	14 – 16 May	Moscow	The International Broadcast Content Market MOSCOW TELESHOW is the only one for Russian Market of films and programs for terrestrial, cable and satellite television and video. Among the market players there are production centers, TV channels, Russian and foreign TV studios, distributor companies, producers of TV and video production, companies, which deal with copyright protection and licensure, representatives of the mass media.	teleshov.ru
V Conference MediaBrand	28 – 29 May	Moscow	The conference is devoted to the following: branding, promotion and design of electronic media. Furthermore, the phenomenon “SOCIAL TV”, “Everything about launching of cable channels”, “The most interesting promotion tricks”, “STATE OF DESIGN”, “How to turn foreign content into your own” and other important topics and tendencies will be discussed in terms of the conference.	mediabrand.me
XVI All-Russia Forum “Telecommunication Development in Russia”	28 – 31 May	Sochi	This year’s forum is expected to cover relevant questions of the development of the telecommunication branch, technological innovations and tendencies, in particular, implementation and modernization of information and telecommunication infrastructure, private-state partnership while carrying out of telecommunication projects, solutions and technologies for overcoming digital inequality and prospective trends as for telecommunication lines.	expo-telecom.ru

EVENT	DATE AS FOR 2013	VENUE	DESCRIPTION	WEBSITE
Children's Television Festival	6 – 8 June	Moscow	In terms of the Festival, guests are able to talk to well-known film directors, journalists and experts, as well as to take part in workshops devoted to teaching and working with software and technical equipment used to produce television content.	fapmc.ru
International Children Festival "Vkluchaysya!" [Get Switched on!]	6 – 8 June	Moscow	The Festival "Vkluchaysya!" is a contest of TV programs and films for children and young people, produced in studios, where children under 18 participate actively, and TV companies, producing programs for children. The program of the Festival involves meetings with well-known TV figures, experience exchange among representatives of children studios, open show of applications, sent to the festival.	nat.ru
XVI Multi-regional festival of military-patriotic television and radio programs "Shhit rossii" [The Shield of Russia]	9 – 12 June	Perm	The Festival is devoted to anniversaries of the most important victories during the Great Patriotic War, which are the battle of Stalingrad, blockade running of Leningrad and the tank battle in the field of Prochorovka.	
International Innovation Forum rASIA.com	24 – 25 June	Moscow	Chief executives of Russian and foreign telecommunication companies participate in this forum. TELL Forum features presentations of the leading specialists, who are at the same time global world leaders.	rasia.com
Moscow Business Square at the Moscow International Film Festival	24 – 26 June	Moscow	Moscow Business Square is one of the biggest international business platforms for film professionals within the former Soviet Union, taking place at the Moscow International Film Festival since 2009. The main initiative of Moscow Business Square is Moscow Co-production Forum. The Forum is an efficient platform for development of film co-production between Russia and the rest of the world. In 2012, the event was visited by over 400 producers, distributors and other specialists from over 30 countries. In 2012, five panel discussions and one workshop were arranged within the business program of Moscow Business Square.	miffbs.ru

EVENT	DATE AS FOR 2013	VENUE	DESCRIPTION	WEBSITE
All-Russian festival of regional mass media “Moya Provintsiya” [My Province]	25 – 28 July	Sayanogorsk	The Festival is intended for cities of the Russian Federation and aims to create content within the local television, radio and press, which attracts attention to Russian regions. This year the category “Moya Provintsiya” was added to the already present ones – it should be won by a film, a program or a story with a run time of 20 minutes which tells about the appeal of a certain region for investors or tourists.	myprovince.ru
All-Russia Festival “Voice of Eurasia”	28 August	Ufa	The main target of the festival is to look for and display outstanding works devoted to ethnography and culturology, new names, original director conceptions producing creative projects of this style.	ufa.rfn.ru
Mediaforum “Enisej.RF – 2013”	2 – 14 September	Krasnoyarsk	The Mediaforum has become a platform where representatives of the mass media and journalistic community, management of state institutions and local self-government of the Krasnoyarsk Territory and regions of the Siberian Federal District exchange experience and discuss current questions of the media scene.	медиафорум-енисей.рф
5th International Sport Movies and TV Festival	10 – 13 September	Samara Region	The International Sport Movies and TV Festival has been arranged since 2009 in different Russian cities. The target of the Festival is to popularize healthy lifestyles, develop the feature and documentary film industry devoted to sports, and confirm the image of Russia as a great sports nation. The festival intends to contribute to establishing close connections between sports journalists, film directors, actors and people who assist in order to produce such sports films which would be a remarkable fact of the film industry.	sportmovies.tv.ru
XV International Convention and Trade Fair “Kino Expo”	15 – 19 September	St.Petersburg	The annual International Professional Forum of Film Industry involves cinemas, film distribution and film production. “Kino Expo” belongs to the three biggest world conventions of film industry. It is the centre of business communication of representatives of Russian and international film business and the main annual event for the film industry of Russia, the CIS and the Baltic countries.	kinoexpo.ru

EVENT	DATE AS FOR 2013	VENUE	DESCRIPTION	WEBSITE
X Television Films and Programs Festival “Berega” [Banks]	18 – 20 September	Tarusa	The Festival is arranged to attract attention of journalistic community of electronic mass media to preserve and develop cultural, national, moral and family traditions of Russian regions, to raise patriotic and civil self-consciousness of growing up generation.	kaluga.rfn.ru
International Television Festival “TEFI – Commonwealth”	20 – 23 September	Odessa	The Fund “Russian Academy of Cinema Arts and Sciences” and the Intergovernmental Foundation for Educational, Scientific and Cultural Cooperation (MFGS) founded the festival in 2011. October 19-20 2011 in Kiev the First International Television Festival “TEFI-Ccommonwealth” was held. The second festival takes place in Astana on 14-16 October. 54 works on the topic of “People, years, life” were sent by the participants to the fund “ART”, in order to take part in the festival. As a result of selection, 20 works by 15 TV companies from 10 countries were included into the festival program: Azerbaijan, Armenia, Georgia, Kazakhstan, Moldova, Russia, Tajikistan, Uzbekistan, Belarus and Ukraine. On September 16 a Great Closing Ceremony took place where 10 out of 20 participating programs were awarded special prizes.	tefi.ru
Dutch Cinema Week	23 – 29 September	Moscow	The program presents the latest trends in Dutch cinematography to the Moscow audience. Moscow citizens and guests of the Russian capital will have an opportunity to watch seven Dutch films.	arbat-moskino.ru
VIII International Multimedia Festival “Zhivoe Slovo - 2013” [Living Word]	26 – 28 September	Nizhni Novgorod	The target of the festival is to attract attention of representatives of the mass media to the form of the journalistic expression and to boost the standard of education of information distribution.	zhivoeslovo.ru
ManhattanShortFilmFestival 2013	29 September - 6 October	St.Petersburg	This year, it should be voted not only for the best film but also for the best lead actor. In the program of 2013 the following countries will take part: Australia, France, Finland, USA, Ireland and England.	domkino.spb.ru

EVENT	DATE AS FOR 2013	VENUE	DESCRIPTION	WEBSITE
Conference “Mediabusiness: Territory Digital”	2 October	Moscow	In terms of the conference, such topics as the modern situation within the national media market, its potential and development forecasts will be discussed.	vedomosti.ru
VII Open “Kunaki” Festival of Cinema and Author’ Programs	15 – 20 October	Cherkessk	The Festival is unique for the South of Russia, providing not only regional producers of documentary films and television programs but also directors and authors from many other regions of Russia and neighboring countries, with a platform for communication and creativity competition.	miradox.ru
SatComRus 2013	16 – 17 October	Moscow	The event is divided into 3 blocks, which are: <ul style="list-style-type: none"> • Global block (devoted to industry-wide tendencies all over the world); • Regional block (devoted to the business in the Russian branch of the satellite communication); • Technological block (devoted to promotion of new technologies to the world-wide market). 	satcomrus.net
Children Television Festival	5 – 7 November	Ivanovo	The Children Television Festival is arranged with participation of creative teams of children and professional children TV communities, pupils, who actively perform in terms of the terrestrial broadcasting.	probumerang.tv
National Award in the Sphere of Satellite, Cable and Internet Television “Golden Ray”	7 November	Moscow	The national award in the Sphere of Satellite, Cable and Internet Television “Golden Ray” was established by the National Association of Broadcasters supported by the European Award Hot Bird TV Awards. The first awarding ceremony took place October, 15 at the film studio “Mosfilm”. “Golden Ray” is an annual national award among non-terrestrial thematic TV channels broadcast on the territory of Russia in Russian language by means of satellite, cable and Internet operators. In 2012 over 70 cable, satellite and IT channels applied for the competition. All in all, 95 applications by 13 announced nominations were accepted, among which two new nominations were introduced: “Educational TV channel” and “Social Programs”.	golden-ray.tv

EVENT	DATE AS FOR 2013	VENUE	DESCRIPTION	WEBSITE
Workshop “Management of TV channel work”	18 –22 November	St.Petersburg	The course is devoted to the contemporary tendencies of the development of TV channels broadcasting in Russia, organization of human resources and processes. Also, a case-study to develop a business plan of a TV project is foreseen. The problem of the legal groundwork of the TV channel activity will be analyzed, separately.	cntiproggress.ru
“Moscow International TV Film Festival Profession – Journalist”	18 – 25 November	Moscow	The Festival consists of two sections and contains both displays of documentary films, TV programs, reports and stories broadcast within 2011-2013 in terms of competition and information.	journfest.ru
All-Russia TV Contest “TEFI – Region”	30 November, 3 December	Yekaterinburg	All-Russia TV contest “TEFI-Region” has taken place since 2005. The Award was established by the Fund of the Russian Television with the aim to encourage the most significant works and professionals of the Russian regional television. Regional broadcasters and producers broadcasting on the territory of the subjects of the Russian Federation take part in the competition. Satellite, cable TV channels and TV channels of Internet TV, broadcasting on the whole territory of Russia belong to the exception. In 2012 535 applications by 157 television companies from 76 cities and settlements of Russia tried to win the award.	tefi.ru
Open Documentary Film Festival “Artdocfest”	30 November, 9 December	Moscow	The Open Documentary Film Festival “Artdocfest” has been organized in Moscow since 2007. Currently, it is the biggest Russian documentary film festival by the number of films, film displays and volume of business program. In order to take part in the contest, the applicant has to submit a Russian film, which has not been broadcast yet, directed in Russian language on the territory of the whole world. Within the non-competition program “SREDA” documentaries in Russian from all over the world are presented. Annually, approximately 20,000 viewers, guests and participants visit the festival.	artdocfest.ru

EVENT	DATE AS FOR 2013	VENUE	DESCRIPTION	WEBSITE
National TV Contest "TEFI"	Did not take place in 2012	Moscow	<p>"TEFI" (derived from "televizionniy efir) is a Russian TV award which was established in 1994 by the fund "Russian Academy of Motion Picture Arts and Sciences". The Academy was initiated by the leading Russian TV companies (ORT, VGTRK, NTV, TV-6, VID and others) as a "Russian fund of TV development" (RFRT). Originally, it involved 12 academics, headed by the journalist and TV moderator <i>Vladimir Posner</i>. In 2001 the fund changed its name. In 2007 NTV and TNT which belonged to Gazprom-Media Holding refused to participate in the contest. In 2008 TV channels <i>Russia, Kultura, Sport</i> and <i>Vesti</i> (All-Russia State Television and Radio Broadcasting Company) ignored the contest too. After that, Vladimir Posner left his position of chairman of the fund and his place got occupied by the former Minister of Culture of the Russian Federation <i>Mikhail Shvydkoy</i>. In 2013 VGTRK left the founding members of the Academy which was followed by fact that Channel One refused to present its programs for the contest. In terms of the meeting of the Board of Founders of the Fund "Russian Academy of Motion Picture Arts and Sciences", which took place April 23 2013, it was concluded that the national television contest "TEFI" would not take place in its traditional way. Also, it was decided to set up an operating team to elaborate a new schedule and new rules of conduct within the national TV contest "TEFI".</p>	tefi.ru

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OBSERVATOIRE EUROPÉEN DE L'AUDIOVISUEL
EUROPEAN AUDIOVISUAL OBSERVATORY
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Set up in December 1992, the European Audiovisual Observatory's mission is to gather and diffuse information on the audiovisual industry in Europe.

The Observatory is a European public service body comprised of 40 member states and the European Union, 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, and the provision of information through the Observatory's Internet site (<http://www.obs.coe.int>).

The Observatory also makes available four free-access databases, including MAVISE, DATABASE ON TELEVISION AND AUDIOVISUAL SERVICES AND COMPANIES IN EUROPE (<http://mavise.obs.coe.int>).



KVG Research belongs to the group of companies Key Vision Group and specializes in marketing analysis in regard to media. KVG Research focuses its research on TV market and its main players.

Own unique methodology enables to estimate general parameters of the TV industry as well as its certain segments. The data provided by KVG Research, was gained by means of own tools, such as multi-layer database TV RETE, TV PRODCO or TV PRETIUM, providing TV and production markets as for different levels of detail.

Regulation of online content in the Russian Federation

Legislation and Case Law



IRIS extra

Regulation of online content in the Russian Federation

European Audiovisual Observatory, Strasbourg 2015

ISBN 978-92-871-8089-6

EUR 15,00

Director of publication - Susanne Nikoltchev, Executive Director

Editorial supervision - Maja Cappello, Head of Department for Legal Information

Editorial team - Francisco Javier Cabrera Blázquez, Sophie Valais

European Audiovisual Observatory

Authors

Andrei Richter, Lomonosov Moscow State University, Faculty of Journalism

Anya Richter, University of Pennsylvania, School of Law

Translation / Proofreading

Christina Angelopoulos, Johanna Fell, Julie Mamou, Marco Polo, Erwin Rohwer

Editorial assistant - Michelle Ganter

Marketing - Markus Booms, markus.booms@coe.int

Press and Public Relations - Alison Hindhaugh, alison.hindhaugh@coe.int

European Audiovisual Observatory

Publisher

European Audiovisual Observatory

76, allée de la Robertsau F-67000 STRASBOURG

<http://www.obs.coe.int>

Tel. : +33 (0)3 90 21 60 00

Fax : +33 (0)3 90 21 60 19

iris@obs.coe.int

Cover layout - P O I N T I L L É S, Hoenheim, France

Please quote this publication as

Cappello M. (ed.), *Regulation of online content in the Russian Federation*, IRIS extra, European Audiovisual Observatory, Strasbourg, 2015

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Opinions expressed in this publication are personal and do not necessarily represent the views of the Observatory, its members or the Council of Europe.



Regulation of Online Content in the Russian Federation

Legislation and Case Law

Andrei Richter

Lomonosov Moscow State University, Faculty of Journalism

Anya Richter

University of Pennsylvania, School of Law



Foreword

Freedom of expression and the limitations thereto have been in the spotlight of European legislators and courts for decades, with trends going in various directions. This right forms one of the main pillars of democratic societies, enshrined in constitutions and international charters and conventions, so it is quite natural that discussion on its restrictions would attract intense attention. Such restrictions are of course allowed under specific circumstances, provided that balancing with other rights makes them legitimate and that the right of fair trial is ensured.

In this context, this analysis of the most recent developments in the Russian Federation by Andrei Richter and Anja Richter deserves particular attention. The authors show how the regulatory, supervisory and sanctioning frameworks have gradually evolved into something quite different from what seemed to be their original purpose, by pointing out the stratification of laws, amendments, interpretative resolutions, court decisions which have amassed over the years since 1991, when the Mass Media Law was adopted in order to eliminate censorship, create private mass media and establish specific rights for journalists.

As long as the Internet was accessed by a limited part of the Russian population – only 2% in 2000 – online content was not included in the scope of content regulation. Things changed when this percentage started to increase (it reached 64% in 2014) and public institutions felt the need to intervene “in order to improve legal regulation in the sphere of mass information”. In 2011, with the adoption of a new Statute that provided for a systematic regulation of online content, a registration procedure was introduced for website owners and the monitoring agency Roskomnadzor was given corresponding competencies. Its role in the field of site-blocking increased significantly in a very short time: in the beginning it was about fighting against the spread of extremist speech, but it has gradually expanded to censor swear words, obscene language and adult content.

With punctual references to the Russian Supreme Court’s interpretative resolutions and legal acts and with very clear descriptions of the various administrative procedures that might lead to the inclusion of a website on Roskomnadzor’s blacklist, the Richters take advantage of their rare access to sources that are mostly available in Russian only. They also provide an overview of the reactions of civil society to the progressively increasing number of blocking procedures of entire websites, including cases where the allegedly illegal content has been limited and clearly identifiable.

Some of the orders issued by Roskomnadzor have indeed been challenged. To give a preview of the variety of outcomes, in a case filed by Google concerning a video posted on YouTube showing a girl using make-up to create the appearance of cut veins, the Moscow Arbitration Court sided with Roskomnadzor in the qualification of this material as suicide information and the video was removed. In a case of use of obscene language in materials posted by the news agency Rosbalt on the Pussy Riot band, after the negative decision by the Moscow City Court, the Supreme Court reviewed the Roskomnadzor decision and declared it disproportionate, and thus void, because it disregarded the context.

Considering the global nature of the Internet, this Russian story gives plenty of material for further reflection. One might wonder how far it is possible and legitimate to proceed on a purely national level, how far a global standard-setting procedure on legitimate restrictions to freedom of speech might go and if this matter might be rather left to self-



regulatory codes, provided that they respect a minimum set of requirements, as is the case for the activities run by the Internet Governance Forum.

What is clear is how vulnerable freedom of expression risks being on the Internet, both because of over-ruling, so that free speech almost disappears, and of under-ruling, that allows almost anything in the name of free speech. Even universal freedoms admit limitations. The question is where to draw the line when exceptions tend to become the rule.

Strasbourg, January 2015

Maja Cappello
IRIS Coordinator
Head of the Department for Legal Information
European Audiovisual Observatory



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1. Media law and online media regulation

1.1. The Mass Media Law

The Russian Law “On the Mass Media” (hereafter “Mass Media Law”), a statute signed by President Boris Yeltsin in December 1991, was drafted in such a way that allowed it to govern online content regulation.¹

There were three main aspects to the 1991 law: the elimination of censorship, the creation of private mass media, and the establishment of specific rights for journalists.² The last element was crucial, as it gave journalists the right to access government reports, to interview government officials, and to keep the identities of their sources confidential.³

The Russian Mass Media Law attempts to move the country into the direction of liberalisation, with articles detailing freedom of information, anti-censorship, journalists’ rights and citizens’ rights to obtain information, among others. Despite that, it does not fully abolish government restrictions; on the contrary, such restrictions have grown in scope over the last decade or so. Limitations placed on freedom of the media (Article 4) and the necessary registration requirements (Article 3) are just two examples of such limitations.⁴ And, despite the fact that the law allows for the existence of private media outlets and even foreign-owned ones (until 2016⁵), it nevertheless authorises the continued existence of government-controlled mass media outlets (Article 7).⁶ Moreover, although the Mass Media Law grants journalists various rights, it places limits on these rights with several liabilities, including sanctions and criminal penalties for violating parts of the law; furthermore, in some cases, the government can strip journalists of their accreditation at public offices and shut down media outlets.⁷

Overall, the Mass Media Law has functioned relatively well in Russia and has adequately regulated online media in the age of the Internet. Although the Mass Media Law has gone through a number of amendments over the years, online media remained truly unaffected until only a few years ago. The reason was that in the beginning of the Internet age, Russian online media regulation was not a primary concern of the government.

This could be explained by the statistics. As of June 2000, Russia had just over three million Internet users, accounting for only two percent of its population.⁸ But as of 1 January 2014, that number has jumped to almost 88 million users, accounting for roughly 62% of the country’s population.⁹ The Internet’s economic weight in Russia’s GDP has reached 1,3%.¹⁰

¹ *О средствах массовой информации* (Law of the Russian Federation “On the Mass Media”, No. 2124-I of 27 December 1991), *Rossiiskaia gazeta* (*Ros. Gaz.*), No. 32, 8 February 1992.

² Richter A., *Правовые основы журналистики* (“The Legal Basis of Journalism”), 2009, pp. 49-53.

³ *Idem*.

⁴ Price M., “Law, Force and the Russian Media”, 13 *Cardozo Arts & Ent. L.J.*, 1995, pp. 795, 799-801.

⁵ Richter A., “Act on the limitation of foreign ownership in the media”, IRIS 2014-10/31, European Audiovisual Observatory, 2014, available at: <http://merlin.obs.coe.int/iris/2014/10/article31.en.html>

⁶ *Idem* at p. 802.

⁷ *Idem* at p. 805.

⁸ Internet World Stats, “Russia: Internet Usage and Marketing Report”, available at: www.internetworldstats.com/euro/ru.htm

⁹ Internet World Stats, “Top 20 Countries with the Highest Number of Internet Users”, available at: www.internetworldstats.com/top20.htm; see also, “Freedom on the Net” (2014), available at: <https://freedomhouse.org/report/freedom-net/2014/russia>. Russian official sources give the figure of 56 million users, *Интернет в России: состояние, тенденции и перспективы развития* (“Internet in Russia: Status and Trends of Development”), report of Rospechat (Federal Agency on the Press and Mass Communications) 2014, p. 8, available at: <http://2014.russianinternetforum.ru/upload/runet-today--rif2014.pdf>



1.2. Reform of the Mass Media Law in 2011

The legal milestone in online content regulation was the adoption in 2011 by the Federal Assembly (Parliament) of the Russian Federation of the Federal Statute “On amending some legal acts of the Russian Federation in order to improve legal regulation in the sphere of mass information”.¹¹ About 90% of the Statute amends and expands the Mass Media Law. In several ways the new act was aimed to counteract the liberal Resolution of the Plenary of the Supreme Court of the Russian Federation “On Judicial Practice Related to the Statute of the Russian Federation ‘On the Mass Media’” of 15 June 2010.¹²

The amended Statute provides a systematic regulation of online media. In particular it includes “network publications” as one of the types of mass media and considers a single issue or renewal of a network publication as a form of product of the mass media and providing access to a network publication to be a form of dissemination of the product of a mass media outlet. The Statute describes “network publication” as “any site in the information-telecommunications network of the Internet registered as a mass media outlet”. Thus, the owners (founders) of websites are invited to go through a special registration process established and mandated by the Mass Media Law for print publications, as well as broadcast programmes and stations. After such registration, they and the editorial staff of such websites fall under the legal regime of the Mass Media Law, with its rights and responsibilities. While such registration of a network publication is presumably optional, no editorial office of a mass media outlet may engage in professional activity without such registration.

1.3. Roskomnadzor and Its Warnings

In this way, online “network publications” as described above have come under the competence of Roskomnadzor, the Russian Federal Surveillance Service for Mass Media and Communications, an executive structure within the Ministry of Communications and Mass Media.¹³ As a result, the service has started performing its control functions and finding violations of Art. 4 (“Inadmissibility of abuse of freedom of mass information”) of the Mass Media Law. Its principal instrument in this regard is the issuing of official warnings on such abuse. According to the Mass Media Law, two warnings in the course of one year may lead to a request by Roskomnadzor for a court annulment of a news outlet’s media certificate of registration and its effective shut-down.¹⁴

A significant portion of such written warnings are tied to the spreading of extremist speech. For example, in 2013 Roskomnadzor issued 21 “anti-extremist” warnings to the editorial boards of

¹⁰ *Idem* at p. 58.

¹¹ О внесении изменений в отдельные законодательные акты Российской Федерации в связи с совершенствованием правового регулирования в сфере средств массовой информации (Federal Statute on amending some legal acts of the Russian Federation in order to improve legal regulation in the sphere of mass information), Ros. Gaz., No. 129, 17 June 2011. Most of the provisions of the Statute entered into force on 10 November 2011; see: Richter A., “Regulation of Broadcasting and Internet now Part of Media Statute”, IRIS 2011-7/42, European Audiovisual Observatory, 2011, available at: <http://merlin.obs.coe.int/iris/2011/7/article42.en.html>

¹² See: Richter A., “Supreme Court on Media Law”, IRIS 2010-6/40, European Audiovisual Observatory, 2010, available at: <http://merlin.obs.coe.int/iris/2010/6/article40.en.html> and Nikoltchev S. (ed.), *A Landmark for Mass Media in Russia*, IRIS plus 2011-1, European Audiovisual Observatory, Strasbourg, 2011.

¹³ Roskomnadzor (<http://rkn.gov.ru/eng/>) is the federal body responsible for oversight and surveillance of the media in Russia, including electronic media, see Richter A., “New Rules for Internet”, IRIS 2012-8/36, European Audiovisual Observatory, 2012, available at: <http://merlin.obs.coe.int/iris/2012/8/article36.en.html>

¹⁴ See for example, Richter A., “Warning to Broadcaster Annulled”, IRIS 2009-8/28, European Audiovisual Observatory, 2009, available at: <http://merlin.obs.coe.int/iris/2009/8/article28.en.html>



various publications.¹⁵ The SOVA Centre, a leading Russian NGO that deals with the issues of hate speech, believes that 16 of them lacked proper justification.¹⁶ In this regard it quotes eight warnings issued regarding the publication of the inappropriately banned Pussy Riot video, related to their performance in the Cathedral of Christ the Saviour. These warnings were issued to the websites of newspapers *Argumenty i Fakty* and *Moskovsky Komsomolets*, web portals *polit.ru*, *Piter.TV* and *KM.ru*, to the *Neva24* website, and to the news agencies *Novyi Region* and *regiony.ru*. Five additional warnings for photos of T-shirts with a Pussy Riot image stylised to look like an icon (by artist Artem Loskutov) were received by *grani.ru*, *polit.ru*, *obeschaniya.ru* and web portal *sibkray.ru*; *grani.ru* received the warning twice, for publishing the image on two separate occasions. The attempts by *grani.ru* and *obeschaniya.ru* to challenge the warnings in court were unsuccessful. Khanty-Mansiysk online news agency *muksun.fm* received a warning for publishing on the Internet the article “They do not appear in mosques”, which merely cited the banned Hizb ut-Tahrir book. Interestingly, the author of the article criticised its precepts and quoted from the book in support of his argument.

We see here and will find also below that the legal provisions on anti-extremism raise many concerns in Russian case law. It is worth mentioning that the Venice Commission has found that a number of existing definitions of the Russian anti-extremism law are “too broad, lack clarity and may open the way to different interpretations.”¹⁷

Subsequently, the Mass Media Law was amended again to include a total ban on swearing in the mass media, including on online media outlets.¹⁸ Thus, this is designated another abuse of freedom of the media that may lead to the closure of the media outlet. In December 2013, the Institute of Russian Language at the Russian Academy of Sciences compiled a list of four words and their derivatives that constitute illegal obscene language. Two depict male and female reproductive organs, one describes the process of copulation and the last refers to a promiscuous woman.¹⁹ In the same year, as many as 48 warnings were issued for this type of abuse, most of them directed at the editorial offices of “network publications”.²⁰

1.4. The Rosbalt Case

In at least one of these cases this type of warning for obscene language was successfully challenged in court. On 19 March 2014 the Judicial Collegium on administrative cases of the Supreme Court of

¹⁵ *Предупреждения, вынесенные редакциям СМИ за нарушения ст.4 Закона РФ «о средствах массовой информации» в 2013 г.* (“Warnings Issued to Editorial Offices for Violation of Art. 4 of the Mass Media Law in 2013”), available at: <http://rkn.gov.ru/mass-communications/control-smi/>

¹⁶ Verkhovsky A. (ed.), “Inappropriate enforcement of anti-extremist legislation in Russia in 2013”, 4 June 2014, available at: www.sova-center.ru/en/misuse/reports-analyses/2014/06/d29660/No.ultr005

¹⁷ “Opinion on the Federal Law on Combating Extremist Activity of the Russian Federation”, adopted by the Venice Commission at its 91st Plenary Session, Venice, 15-16 June 2012, Para 31, available at: [www.venice.coe.int/webforms/documents/default.aspx?pdffile=CDL-AD\(2012\)016-e](http://www.venice.coe.int/webforms/documents/default.aspx?pdffile=CDL-AD(2012)016-e)

¹⁸ *О внесении изменений в статью 4 Закона Российской Федерации “О средствах массовой информации” и статью 13.21 Кодекса Российской Федерации об административных правонарушениях* (Federal Law of 5 April 2013 No. 34-FZ “On an amendment to Article 4 of the Statute of the Russian Federation “On the Mass Media” and to Article 13.21 of the Administrative Code”), Ros. Gaz., No. 6052, 9 April 2013, available at: www.rg.ru/2013/04/09/mat-dok.html

¹⁹ *Рекомендации по применению Федерального закона от 05.04.2013 №34-ФЗ «О внесении изменений в статью 4 Закона Российской Федерации «О средствах массовой информации» и статью 13.21 Кодекса Российской Федерации об административных правонарушениях»* (Recommendations on application of the Federal Law of 5 April 2013 No. 34-FZ “On an amendment to Article 4 of the Statute of the Russian Federation “On the Mass Media” and to Article 13.21 of the Administrative Code”), Roskomnadzor, available at: http://rkn.gov.ru/docs/Rekomendacii_po_primeneniju_zakona_o_necenzurnoj_brani1.doc

²⁰ *Предупреждения, вынесенные редакциям СМИ за нарушения ст.4 Закона РФ «о средствах массовой информации» в 2013 г.* (“Warnings Issued to Editorial Offices for Violation of Art. 4 of the Mass Media Law in 2013”), available at: <http://rkn.gov.ru/mass-communications/control-smi/>



the Russian Federation made a resolution on an appeal complaint from JSC “News Agency Rosbalt”.²¹ The Supreme Court looked into the two warnings sent by Roskomnadzor (on 12 and 25 July 2013) to the editorial office of the online news service Rosbalt. Roskomnadzor claimed that Rosbalt had abused media freedom by posting materials that contained obscene language.

The Supreme Court also reviewed the subsequent decision of the Moscow City Court (dated 31 October 2013) to permanently annul Rosbalt’s certificate of registration. In its resolution, the Supreme Court followed the legal finding of the Constitutional Court of the Russian Federation²² by saying that “limitations by law of freedom of speech and the right to disseminate information may not take place in relation to activities or information on the mere grounds of their inconformity with established traditional views, or contradiction with moral and/or religious preferences. Otherwise this would mean a retreat from the constitutional demand of necessity, proportionality and fairness of limitations of human rights...”

The Supreme Court found that the lower courts had refused to look into the *substance* of Roskomnadzor claims, while the warnings of the watchdog had been procedurally faulty.

The Supreme Court found that the sanctions imposed on Rosbalt were disproportionate and disregarded the context of the news stories. The stories, one of them on the Pussy Riot band, did not aim to shock the imagination of the Internet users, but were rather of a socio-political nature. Therefore, the Moscow City Court decision could not be recognised as lawful. The Supreme Court pronounced it null and void and took a new decision that rejected the Roskomnadzor claims.

²¹ *Определение Судебной коллегии по административным делам Верховного суда РФ по делу № 5-АПГ13-57* (Resolution of the Judicial Collegium on administrative cases of the Supreme Court of the Russian Federation on case No. 5-APG13-57), available at: www.supcourt.ru/stor_pdf.php?id=584842

²² Such as those in the resolutions of the Constitutional Court of 30 October 2003 N 15-P, 16 June 2006 N 7-P and 22 June 2010 N 14-P.



2. Online media regulation and international law

Besides pure domestic law, international law also affects every country's national laws. Specifically, various international treaties can legally bind countries to precise norms and regulations. In addition, all countries are expected to comply with customary international law, as it embodies principles that have become the universal norm. The Universal Declaration of Human Rights (UDHR) is one such example of customary international law.²³ Article 19 of the UDHR declares that "[e]veryone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers."²⁴ The words "through any media" in this phrase allow for the interpretation of the provision in relation to online media.

Additionally, Russia is a party to the International Covenant on Civil and Political Rights (ICCPR)²⁵ and the European Convention on Human Rights (ECHR).²⁶ Both of these international documents protect freedom of speech and freedom of expression and apply to the media. In a similar fashion to the UDHR, Article 19 of the ICCPR asserts that "[e]veryone shall have the right to freedom of expression; this right shall include freedom to seek, receive and impart information and ideas of all kinds, regardless of frontiers, either orally, in writing or in print, in the form of art, or through any other media of his choice."²⁷ Although the ICCPR was adopted before the existence of the Internet, these principles nevertheless apply to it. The Human Rights Council, a United Nations charter body, passed a resolution codifying this application: "the same rights that people have offline must also be protected online, in particular freedom of expression, which is applicable regardless of frontiers and through any media of one's choice."²⁸ The resolution was based in part on interpreting Article 19 of the ICCPR.

The ECHR, a legally binding treaty which Russia ratified in 1998, provides for similar rights. Article 10 of the ECHR guarantees the following: "Everyone has the right to freedom of expression. This right shall include freedom to hold opinions and to receive and impart information and ideas without interference by public authority and regardless of frontiers. This article shall not prevent States from requiring the licensing of broadcasting, television or cinema enterprises."²⁹ Article 10 of the ECHR resembles Article 19 of the ICCPR and Article 19 of the UDHR. In addition, the ECHR explains that only laws "necessary in a democratic society" can restrict these freedoms.³⁰

²³ Universal Declaration of Human Rights, G.A. Res. 217 (III) A, U.N. Doc. A/RES/217(III) (Dec. 10, 1948), available at: www.un.org/en/documents/udhr/

²⁴ *Idem*, Article 19.

²⁵ Article 53, International Covenant on Civil and Political Rights, G.A. Res. 2200A (XXI), Dec. 16, 1966, U.N. GAOR, 21st Sess., Supp. No. 16, at 52, U.N. Doc. A/6316 (Dec 16, 1966), at 279, available at: <http://www.ohchr.org/en/professionalinterest/pages/ccpr.aspx>

²⁶ Convention for the Protection of Human Rights and Fundamental Freedoms, Nov. 4, 1950, Europ.T.S. No. 5; 213 U.N.T.S. 221, available at: <http://conventions.coe.int/Treaty/en/Treaties/Html/005.htm>

²⁷ International Covenant on Civil and Political Rights, *supra* note 27, at 178.

²⁸ Human Rights Council Res. 20/8, "The Promotion, Protection and Enjoyment of Human Rights on the Internet", 20th Session, 29 June 2012, U.N. Doc. A/HRC/20/L.13 (July 7, 2012), available at: http://ap.ohchr.org/documents/alldocs.aspx?doc_id=20280

²⁹ Convention for the Protection of Human Rights and Fundamental Freedoms, *supra* note 28, Article 10.

³⁰ Human Rights Watch, "Laws of Attrition: Crackdown on Russia's Civil Society after Putin's Return to the Presidency", 2013, p. 73.



3. Major sources of online content legislation

Beyond the Mass Media Law, three major legal acts have taken part in forming current online media governance in Russia: first, the 2010 Supreme Court Resolution; second, the 2012 Federal Law that amended the Federal Law “On the Protection of Children from Information Harmful to their Health and Development”; and, third, a set of recent amendments to the Federal Law “On Information, Information Technologies and on the Protection of Information”. As a consequence, Russian online content regulation has changed dramatically in less than four years.

3.1. Supreme Court interpretive resolutions

As the Russian Internet community continued to grow exponentially, it became clear that parts of the Mass Media Law could not be applied to the Internet without further clarification from the judicial branch. Such clarification came in 2010, when the Russian Supreme Court published Resolution no. 16 “On Judicial Practice Related to the Statute of the Russian Federation ‘On the Mass Media’”, which resulted in the biggest change to online media governance since 1991.³¹ This Resolution is extremely significant essentially because it is viewed as a highly persuasive recommendation for all of courts and other state bodies.³² In their judicial value such resolutions of the top courts may be equalled to the Second Restatements of Torts in the United States law.³³

To understand the effect of the Resolution, several key parts of it must be explained. First and foremost, the Supreme Court declared that the Mass Media Law applies to online content, a concept that regulatory bodies could only assume prior to 2010.³⁴ In addition, although registration of Internet websites as mass media outlets is not required, the rights and privileges of journalists, such as accreditation and protection of confidential sources, are automatically granted to the websites’ authors upon such registration.³⁵ However, with registration comes accountability, such as an obligation to verify information distributed and for restraint from abuse of the freedom of mass media.

The Resolution’s most powerful impact comes from the Supreme Court’s explanation of the legal responsibility of registered online media websites. In particular, the Supreme Court’s Resolution declares that “regarding comments not subject to preliminary editing (for example, on a forum), rules are applied as established by the Mass Media Law for authors’ works which are broadcast without preliminary taping.”³⁶ According to this explanation, “rules established under Art. 57 of the Mass Media Law³⁷ for television and radio programmes are applicable to cases of dissemination of mass information (in fact, most often in textual format) through

³¹ *Постановление Пленума Верховного Суда РФ от 15 июня 2010 г.* (Resolution of the Plenum of the Supreme Court of the Russian Federation of 15 June 2010), *Бюллетень Верховного Суда РФ [BVS]* (Bulletin of the Supreme Court of the Russian Federation), 2010, No. 16.

³² Richter A., “Russia’s Modern Approach to Media Law” in Nikoltchev S. (ed.), *A Landmark for Mass Media in Russia*, IRIS plus 2011-1, European Audiovisual Observatory, Strasbourg, 2011, pp. 8-9.

³³ Even though Russia is not a common law country, resolutions “on judicial practice” serve as an influential treatise issued by the top court which summarises the general principles for the lower courts.

³⁴ *Idem*, at 11.

³⁵ *Idem*.

³⁶ Richter A., “Comments on the Internet Media Forum: Law and Practice in Russia”, *Social Media Guidebook*, 2013, pp. 55, 56.

³⁷ This article provides for circumstances for exemption of editors, editorial offices and journalists from liability.



telecommunications networks.”³⁸ As a result, those sections of Internet websites that do not require preliminary editing (such as, on a forum) place liability on the author of the comments and not on the editorial office of the website.³⁹ However, if an editorial office receives a notice (injunction) from Roskomnadzor or the prosecutor stating that some specific content on the website violates Article 4 of the Mass Media Law, the editors must promptly edit or remove that content.⁴⁰ If the editors fail to comply with the notice, they may be held liable for the online content in question.⁴¹

Prior to the publication of this Supreme Court Resolution, Roskomnadzor vigorously objected to the part that places liability on the authors instead of the editors, arguing that such regulation could only lead to an expansion of unmonitored extremist materials, pornography, and violence.⁴² As these objections were rejected, Roskomnadzor decided, following the publication of the Resolution, to interpret the Supreme Court’s explanation by adopting the “Procedure for Sending Injunctions on the Impermissibility of Abuse of Free Mass Information to Mass Media Outlets, whose Dissemination is Exercised on Information Telecommunication Networks, Including on the Internet.”⁴³ With this procedure, Roskomnadzor attempted to eliminate some of the freedoms of the Supreme Court Resolution, as the supervisory body called for a stringent policy for editorial offices that did not seem to have a lawful basis.⁴⁴ The key parts of the procedure are as follows: once Roskomnadzor sends a violation notice to the editorial office of an Internet website, the editors have one business day from the time the notice was sent (as opposed to the time it was received) to either edit or remove the online content; if the editors fail to do this in a timely manner, they will receive a warning as per Article 16 of the Mass Media Law.⁴⁵ As a final step, if the injunctions are not addressed by the editors, Roskomnadzor can permanently shut down the Internet website (per Article 16).⁴⁶ In 2011 and 2012 respectively, Roskomnadzor sent 155 and 517 such injunctions to various editors of Internet media outlets.⁴⁷ In 2013 the number of such injunctions dramatically increased to 1,129. Out of these, 579 were for the use of swear words, 379 for extremist speech, and 297 for incitement of ethnic enmity.⁴⁸ According to Roskomnadzor’s data, most of the injunctions resulted in a speedy removal of the online content in question.

Later on other Supreme Court resolutions have made slightly clearer the regulation of online content relating to crimes of terrorism and extremism by providing explanations on the issues in relevant case law.⁴⁹ The Resolution “On Judicial Practice Relating to Criminal Cases on Crimes of an Extremist Nature”⁵⁰ instructs judges that when adjudicating on such cases they should take into account both the safeguarding of the public interest (i.e. as concerns the foundations of the constitutional regime and the integrity and security of the Russian Federation) and the protection of human rights and liberties as defined in the Constitution (freedom of conscience and religion,

³⁸ Richter A., “Comments on the Internet Media Forum: Law and Practice in Russia”, *Social Media Guidebook*, 2013, pp. 55, 56.

³⁹ *Idem*.

⁴⁰ *Idem* at p. 56.

⁴¹ *Idem* at p. 57.

⁴² *Idem* at p. 58.

⁴³ *Idem* at p. 59. The full text of the order is available in Russian on the Roskomnadzor website: http://rkn.gov.ru/docs/doc_537.pdf

⁴⁴ Richter, *supra* note 38, at pp. 59-60.

⁴⁵ *Idem* at p. 60.

⁴⁶ *Idem* at p. 61.

⁴⁷ Richter A., *Правовые основы Интернет-журналистики* (“The Legal Basis of Internet Journalism”), 2014, p. 183.

⁴⁸ *Публичный доклад* (Roskomnadzor Public Report), 2013, p. 72, available at: http://rkn.gov.ru/docs/docP_1154.pdf

⁴⁹ Richter A., “Supreme Court on Extremism and Terrorism-Related Crimes in the Media”, IRIS 2012-3/32, European Audiovisual Observatory, 2012, available at: <http://merlin.obs.coe.int/iris/2012/3/article32.en.html>

⁵⁰ *Постановление «О судебной практике по уголовным делам о преступлениях экстремистской направленности»* (Resolution “On Judicial Practice Relating to Criminal Cases on Crimes of Extremist Nature”) No. 11, 28 June 2011, available at: http://supcourt.ru/Show_pdf.php?ld=7315



freedom of expression, freedom of mass information, the right to seek, receive and impart information by legal means, etc.).

The Resolution interprets what is to be considered as hate speech, the essential element of extremist speech. The crime of hate speech can take place only with actual malice and with the aim to cause hatred and enmity, as well as to denigrate the dignity of a person or a group of persons, if motivated by characteristics such as gender, race, ethnicity, language, origin, attitude to religion, or belonging to a social group.

The issue whether the dissemination of extremist materials presents a crime should be adjudicated based on the intention behind such dissemination. In this regard, the expression of opinions, arguments that use facts of interethnic, inter-denominational and other social relations in a discussion and in texts of scholarly or political nature that do not aim to denigrate the human dignity of groups of persons does not present a crime of hate speech.

The Resolution points to the fact that criticism of political organisations, ideological and religious associations, political, ideological or religious beliefs, ethnic or religious customs *per se* should not be considered hate speech. When determining whether State officials and/or professional politicians have been subject to a denigration of their human dignity or the dignity of a group of people, the judges are directly referred to take into account points 3 and 4 of the Declaration on freedom of political debate in the media of the Council of Europe's Committee of Ministers (2004)⁵¹ and the relevant case law of the European Court of Human Rights. In this regard, the Supreme Court has stated that criticism in the mass media of such persons and of their actions and beliefs *per se* should not be considered in all cases as action aimed at denigrating the dignity of a person or a group of people, as in relation to such persons the limits of admissible criticism are broader than those in relation to other people.

The Resolution "On Some Aspects of Judicial Practice Relating to Criminal Cases on Crimes of a Terrorist Nature" of 9 February 2012⁵² stipulates that judicial "measures to prevent and stop such crimes should be taken in compliance with the rule of law and democratic values, human rights and basic liberties, as well as other provisions of international law."

Both resolutions state that incitement to extremist activities (terrorism) include calls through the Internet, such as the posting of such calls on websites, in blogs or fora, dissemination via bulk e-mail, etc. The crimes are considered complete from the moment of the spreading of such incitement no matter whether they indeed cause citizens to perform extremist activity (acts of terrorism), e.g. from the moment of the provision of online access.

It seems that the effect of the Resolutions on terrorist and extremist crimes has been quite positive. According to the Russian NGO SOVA Centre, in 2013 the number of court verdicts nationwide for inciting hatred by placement of extremist materials, symbols or provocative comments on the Internet continued to grow, exceeding the figure for 2012 by about a third. Out of 134 verdicts issued in 2013 for online xenophobic propaganda, the SOVA Centre recognises 131 verdicts as appropriate. It admits, though, that it was unable in many cases to assess their validity, since, for example, the offending comments had been promptly removed from the Internet. It was also concerned that prosecutors and courts continued to not take into account the level of

⁵¹ Council of Europe, "Declaration on Freedom of Political Debate in the Media", adopted by the Committee of Ministers on 12 February 2004 at the 872nd meeting of the Ministers' Deputies, available at: <https://wcd.coe.int/ViewDoc.jsp?id=118995>

⁵² Постановление «О некоторых вопросах судебной практики по уголовным делам о преступлениях террористической направленности» (Resolution "On Some Aspects of Judicial Practice Relating to Criminal Cases on Crimes of a Terrorist Nature") No. 1, 9 February 2012.



dissemination of particular extremist materials, real audience size, and corresponding degree of social danger.⁵³

In 2013 the SOVA Centre viewed three verdicts for online extremism as inappropriate: to Radik Nurdinov of Bashkortostan for posting an article by Tatar nationalist Vil Mirzayanov, “certainly separatist in its tone, but containing no calls to violence”; to a Pavel Khotulev from Kazan “for speaking out against requirement to study Tatar language in schools”; to an Ivan Moseev “for uncivil remark about Russians” on the *Ekho Severa* website echosevera.ru located in Arkhangelsk. It also disagreed with the verdict (“threat of murder motivated by hatred or enmity”) issued to journalist Elena Polyakova from Klin for an aggressive comment under an article about the activities of the head of the municipal department of education, “since this comment couldn’t be interpreted as a genuine threat”.⁵⁴

3.2. Law on the Protection of Children

A major change to online media regulation came on 1 November 2012, when the Russian State Duma, the lower house of the Russian Parliament, approved a set of amendments to the Federal Law “On the Protection of Children from Information Harmful to their Health and Development.”⁵⁵ Technically speaking, the new law amends the original Federal Law, signed on 29 December 2010.⁵⁶ The 2010 law focused predominantly on content rating, as it required “informational products” to be labelled on the basis of the age of the consumers. According to the law, “informational products” included “mass media, printed materials, audiovisual materials on any material object, computer programmes and databases, as well as information disseminated by means of public performance and on the information telecommunication networks of general access (including the Internet and mobile telephony).”

Most importantly, these and further amendments adopted in 2013 allowed the blacklisting of Internet websites with content of several categories. Those categories include currently information containing explicit language; justifying unlawful conduct; encouraging children to commit acts that endanger their lives and/or health, such as suicide; promoting among children a desire for drug, tobacco or alcohol use, gambling, prostitution and vagrancy; justifying violence to humans and animals; promoting non-traditional sexual relationships and disrespect to parents; pornographic information and information containing personal data of minors who became victims of illegal actions.

Corresponding provisions in the Federal Law “On Information, Information Technologies and on the Protection of Information” allowed for the creation of a Registry of prohibited websites that are to be generally blocked for all users in Russia. The site blocking activity was set to concern the uniform registry of the Internet domain names and/or the universal indexes (locators) to pages of the Internet sites and network addresses of the Internet sites that contain information prohibited from dissemination in the Russian Federation. As the Registry is maintained by Roskomnadzor, no court order is necessary to declare a website in violation of the law.

⁵³ Verkhovsky A. (ed.), “Inappropriate enforcement of anti-extremist legislation in Russia in 2013”, 4 June 2014, available at: www.sova-center.ru/en/misuse/reports-analyses/2014/06/d29660/No.ultr005

⁵⁴ *Idem*.

⁵⁵ *О защите детей от информации, причиняющей вред их здоровью и развитию* (Federal Law of the Russian Federation “On the Protection of Children from Information Harmful to their Health and Development”), *Собрание законодательства Российской Федерации [SZ RF]* (Russian Federation Collection of Legislation) 2010, No. 436-FZ, Article 2.

⁵⁶ Richter A., “Law on the Protection of Minors against Information Detrimental to their Health and Development Adopted”, IRIS 2011-4/34, European Audiovisual Observatory, 2011, available at: <http://merlin.obs.coe.int/iris/2011/4/article34.en.html>



The 2012 amendment further clarifies the proper content labels that are necessary on Internet websites. Shortly after the 2012 law came into force, Roskomnadzor issued an explanatory guide aimed at media outlets.⁵⁷ Roskomnadzor's recommendation serves as an additional clarification of the new law's online content labelling changes. The explanatory guide details how to properly designate the correct age restrictions on Internet websites. The websites' age restrictions must fall within one of the following five categories: (1) children under the age of six; (2) children over the age of six; (3) children over the age of twelve; (4) children over the age of sixteen; or (5) content not for children. The guide further explains that the designated category of the age restriction must appear on the home page of the online website and the content label must adhere to the proper font size and colour.⁵⁸

In online media the pictogram must be placed on the top part of the front page of the website and must not be smaller than 75% of the script of the second-level headings or no smaller of the font size of the main text in bold or not smaller than 20% of the size of the main column on it. In colour it should correspond to or be in contrast to the colour of the title of the online media outlet.

Further, the age restriction listed must comply with the highest level of restrictions accessible on the entire website; to illustrate, if one sentence on one page of a multi-page website can only be viewed by adults, while the rest of the website is for children under six, the label must read "18+" solely because of that one sentence. The guide notes that online news websites are exempted from labelling their websites. Further, readers' comments on online websites do not require labelling.⁵⁹

Several avenues exist to identify websites in general violation of the law. First, certain government agencies can submit websites for the Registry directly to Roskomnadzor. Second, Roskomnadzor updates the Registry following individual court decisions that recognise websites with "illegal content".⁶⁰ Third, it updates the Registry following decisions of federal executive bodies specifically dealing with child pornography, drugs and suicide. Finally, individuals are encouraged to send in grievances about online content to Roskomnadzor directly through a form on its website.⁶¹ On the first day of this website's existence, individuals submitted over 5 thousand such complaints, though most of these were rejected.⁶² Although access to the full list of blocked websites is prohibited, anyone can check if a specific website has been blocked by simply visiting Roskomnadzor's webpage.⁶³

Within almost two years individuals submitted 114,000 complaints to Roskomnadzor.⁶⁴ According to the official report of Roskomnadzor published on 22 December 2014, the Unified Register contains more than 45,700 URLs, 64% of those contained drug use promotion, 15% child

⁵⁷ *Рекомендация по применению Федерального закона «О защите детей от информации, причиняющей вред их здоровью и развитию» от 29 декабря 2010 г., № 436-ФЗ (Recommendations on the Implementation of the Federal Statute of 29 November 2010 No. 436-FZ "On the Protection of Minors against Information Detrimental to their Health and Development")*, available at: www.rg.ru/2012/09/05/informacia-site-dok.html

⁵⁸ Recommendations on the Implementation of the Federal Statute of 29 November 2010 No. 436-FZ, Article 4.

⁵⁹ *Idem*, para 4.

⁶⁰ Richter A., "New Rules for Internet", IRIS 2012-8/36, European Audiovisual Observatory, 2012, available at: <http://merlin.obs.coe.int/iris/2012/8/article36.en.html>

⁶¹ Human Rights Watch, *supra* note 32.

⁶² "Russia Blacklists Over 180 Websites", RIA Novosti, 9 November 2012, available at: <http://en.ria.ru/news/20121109/177323824.html>

⁶³ Unified register of the domain names, website references and network addresses that allow identifying websites containing information circulation of which is forbidden in the Russian Federation, available at: <http://eais.rkn.gov.ru/en/>

⁶⁴ *Интервью Руководителя Роскомнадзора Александра Жарова газете Ведомости (Interview of the Head of Roskomnadzor Aleksandr Zharov with Vedomosti newspaper)*, 1 August 2014, available at: <http://rkn.gov.ru/news/rsoc/news26531.htm>



pornography, and 12% promotion of suicide.⁶⁵ Experts at the RosComSvoboda project claim today that this practice has led to the blocking of altogether more than 180,000 sites in Russia.⁶⁶

The list of blocked websites includes the Russian Uncyclopedia (a parody encyclopedia), LiveJournal (a blogging platform provider), Librusec (an online library), YouTube, and Wikipedia, among others.⁶⁷ Most of the websites are only blocked until the prohibited content is removed. For example, Roskomnadzor briefly blocked a popular Russian file-sharing website, RuTracker, until it removed a document titled “Encyclopedia on Suicide” from its database.⁶⁸ Various human rights groups and NGOs have campaigned against the 2012 law; however, the government continues to support it.⁶⁹

In order to block a website, Roskomnadzor follows the specific process outlined in the law.⁷⁰ The process is as follows: Roskomnadzor adds the website in question to the Registry and notifies the relevant hosting provider of the illegal material; within 24 hours the hosting provider must send a request to the owner (administrator) of the information resource (website) asking for the removal of the illegal content. If the owner does not comply within the next 24 hours, the hosting provider has to block access to the entire website and the website remains in Roskomnadzor’s Registry. If the hosting provider neglects to block the website, the access provider has to block access to the concerned Internet address within another 24 hours. If the access provider fails to comply, its license to provide communication services could be withdrawn.

However, if the website owner (or administrator) simply takes down the content once notified, Roskomnadzor will remove the website in question from the Registry. The owner of the website may appeal the ban in court within three months.

On 11 February 2013, YouTube’s owner, Google (Russian branch) filed the first such lawsuit against Roskomnadzor.⁷¹ The lawsuit challenged the decision of Roskomnadzor to permanently restrict access to a YouTube video allegedly in violation with the new law. The video was meant for entertainment purposes and portrayed a girl using makeup to create the appearance of cut veins. However, the supervisory body did not view it as simply entertainment; according to Roskomnadzor, the video was removed because it promoted suicide. In May 2013, the Moscow Arbitration Court sided with Roskomnadzor by ruling to uphold the ban of the YouTube video. In support of its decision, the Court reasoned that the title of the video “How to cut your veins” is exactly of the type of “suicide information” that the 2012 law attempts to restrict.⁷²

It seems relatively easy to see many of the possible negative impacts of this law. First, Roskomnadzor’s Registry does not have clearly defined limits, which could lead to over-blocking of Internet content. A once popular news website, Lenta.ru, described the limits of Roskomnadzor’s Registry as so broad that even the Internet page of the United Russia ruling party could be blocked.⁷³

⁶⁵ Подведены итоги работы Роскомнадзора в 2014 году (“Results of the Activity of Roskomnadzor in 2014 Made Public”), available at: <http://rkn.gov.ru/news/rsoc/news29403.htm>

⁶⁶ See visuals at: <http://visual.rublacklist.net/>

⁶⁷ Indina T., “Runet Transformations Over a Year”, Centre for New Media and Society, 6 October 2013, available at: www.newmediacenter.ru/2013/06/10/runet-transformations-over-a-year-an-overview-of-russian-internet-regulation-policy-in-2012-2013/

⁶⁸ Solopov M., “Поросенок Пётр перепыхал коноплю” (Piglet Peter Grew Cannabis), Gazeta.ru, 13 November 2012, available at: www.gazeta.ru/social/2012/11/13/4850645.shtml

⁶⁹ Indina T., *supra* note 69.

⁷⁰ See the procedure in English at: http://398-fz.rkn.gov.ru/docs/398-FZ_eng.pdf

⁷¹ Razumovskaya O., “YouTube Files Suit Over Russian Content Law”, *Wall Street Journal*, 12 February 2013, available at: www.wsj.com/articles/SB10001424127887324880504578299900516580918

⁷² Richter A., *Правовые основы Интернет-журналистики* (“The Legal Basis of Internet Journalism”, 2014, pp. 359-360.

⁷³ Indina T., *supra* note 69.



In addition, online content in violation may just be one page, one image, or one video, but if it is not promptly removed, Roskomnadzor blocks access to the entire website.

To illustrate the gravity of this issue, one can look to Lurkomore.to, a Russian wiki-based encyclopedia. At the request of the Federal Drug Control Service, an agency authorised to submit websites for review directly to Roskomnadzor, Lurkomore.to was blocked until the website removed two marijuana-related articles. The entire website was blocked for several days directly because of the stringent process of the law. Instead of notifying the owners of Lurkomore.to, who had offices based in Russia, Roskomnadzor, following the above outlined procedure, notified the hosting provider of the website, whose offices were based in Holland. Furthermore, because the notice was sent on a weekend, when the offices in Holland were empty, the hosting provider failed to notify the website owners and thus, the prohibited content was not removed within the time restrictions. As a result, the access provider simply blocked access to the entire website; access remained blocked until the website owners removed the two entries in question.⁷⁴

Moreover, since no court order is necessary to blacklist a website, Roskomnadzor has endless power and limited oversight. Further, the lack of transparency regarding the blacklisted websites restricts individuals' rights to information in violation of the Constitution of the Russian Federation.⁷⁵ Additionally, blocking an entire website (full of completely legal information) could be viewed as another violation of the Constitution.⁷⁶ Specifically, blocking an entire website could be viewed as a violation of the following rights: free speech, freedom of expression, private property and data protection, freedom of information, and secrecy of communication.⁷⁷

3.3. Amendments to the Information Law

3.3.1. The 2013 amendments

On 30 December 2013 President Vladimir Putin signed into law a bill hastily adopted by the State Duma (first reading on 17 December, the second and the third readings on 20 December 2013).⁷⁸ The act amends Article 15 of the Law on Information, Information Technologies and the Protection of Information of 27 July 2006, No. 149-FZ⁷⁹ so as to allow the Prosecutor General and his deputies to order the blocking of websites containing content such as incitement to unsanctioned public protests and to "extremist" activities.

The act introduces the following procedure: without judicial approval the Prosecutor General or one of his deputies (currently there are 15 deputies) sends a written demand to Roskomnadzor. The latter immediately orders the access provider and the hosting provider to take steps that result in the removal of the allegedly illegal content. The act also applies to information hosted abroad; in such cases, the notice is sent in English. The access provider is also required to

⁷⁴ Solopov M., *supra* note 70.

⁷⁵ *Konstitutsiia Rossiiskoi Federatsii [Konst. RF]* (Russian Constitution) Article 29.

⁷⁶ *Idem*.

⁷⁷ *Idem*, Articles 23, 24, 35, 29.

⁷⁸ *О внесении изменений в Федеральный закон «Об информации, информационных технологиях и о защите информации»* (Federal Law "On Amendments to the Federal Law on Information, Information Technologies and Protection of Information", No 398-FZ of 28 December 2013). See its full text in English at: http://398-fz.rkn.gov.ru/docs/398-FZ_eng.pdf

⁷⁹ Richter A., "Blocking Internet Allowed without Court Decision", IRIS 2014-3/40, European Audiovisual Observatory, 2014, available at: <http://merlin.obs.coe.int/iris/2014/3/article40.en.html>



block access to the content upon receipt of the Roskomnadzor order. The act establishes a procedure to resume access to the website when the content is removed.

It is worth noting that, apart from mentioning the relevant article of the Law, the Prosecutor General's Office is not required to inform editorial offices or site owners about its reason for blocking, hindering efforts of the latter to resolve the problem.

The Russian Presidential Council on Civil Society and Human Rights has stated that the law could lead to a serious infringement of constitutional rights and freedoms and could pave the way for the growth of legal nihilism, as well as create only an illusion of fighting extremism. This was noted by the OSCE Representative on Freedom of the Media Dunja Mijatović, who also expressed her concern about the bill on 20 December 2013.⁸⁰

According to the Russian NGO SOVA Centre, extrajudicial blocking of the materials based merely on suspicion of extremism is unacceptable, “since it inevitably leads to arbitrary actions and abuse by the law enforcement and to an attack on freedom of speech. Even if the law enforcement views the materials as hazardous and in need of urgent blocking, they must, nevertheless, act with court approval, which can be issued in an expedited manner, as it is done for search or arrest warrants.”⁸¹

In 2013 alone the SOVA Centre noted 83 cases in which the proper basis for denying access or imposing sanctions was arguably absent. In the course of the year, prosecutors repeatedly demanded that Internet service providers (ISPs) block online libraries (due to individual banned items they contained), websites with inappropriately banned Muslim literature, Jehovah's Witnesses materials or other religious writings, Ingush opposition websites, and non-banned websites of banned organisations.⁸²

On 13 March 2014, incidentally three days before the Crimean secession referendum, the Prosecutor General issued an order to block access to three major opposition websites, Grani.ru, a news site known for its criticism of the Kremlin, particularly the crackdown on and subsequent prosecution of the Bolotnaya protestors in 2012; *Ezhednevny Zhurnal* (Ej.ru), a news and opinion site; and Kasparov.ru, the website of former chess champion turned opposition figure, Gary Kasparov. In this case the owners of the websites were not even provided with an explanation as to which content had violated the law and caused the Prosecutor General to issue the blocking order. Their lawsuits have so far brought only negative results and complaints registered with the European Court of Human Rights.

In the first half of 2014, Roskomnadzor reported blocking of 85 websites for containing “extremist content”, based on orders from the Prosecutor Generals’ office.⁸³

3.3.2. The 2014 amendments

On 22 April 2014 the State Duma again adopted a new set of amendments to the law “On Information, Information Technologies and on the Protection of Information”.⁸⁴ They were signed into law on 5 May and came into effect on 1 August 2014.

⁸⁰ “OSCE representative concerned about amendments to information law in Russia that might limit media freedom”, press release of the OSCE Representative on Freedom of the Media, 20 December 2013, available at: www.osce.org/fom/109885

⁸¹ Verkhovsky A. (ed.), “Inappropriate Enforcement of Anti-Extremist Legislation in Russia in 2013” 4 June 2014, available at: www.sova-center.ru/en/misuse/reports-analyses/2014/06/d29660/No.ultr005

⁸² *Idem*.

⁸³ Freedom House, “Freedom on the Net – Russia”, 2014, available at: <https://freedomhouse.org/report/freedom-net/2014/russia>



The new legislation forces owners of open access websites and web pages (now labelled as “bloggers”) visited daily by more than 3000 users to register with the public authorities. It also imposes additional responsibility on them to verify the accuracy and reliability of posted information, follow election law, respect reputation and privacy, refrain from using curse words, etc. Those encumbered with these responsibilities include webpage owners in social networks, blog hosting providers, as well as online forums.

Separate responsibility to cooperate with public authorities, including law-enforcement agencies, and keep personal data lies with the hosting providers. Bloggers’ personal data must disclose real identities and traffic data and must be stored, on Russian territory, for 6 months after the end of relevant online activity.

Penalties for violations include fines of up to 300,000 rubles (at the time of adoption about EUR 7,500) and the blocking of websites and blogs. Roskomnadzor has the task of developing rules for and taking responsibility for the registration.

On 23 April 2014, the OSCE Representative on Freedom of the Media Dunja Mijatović criticised the new legislation: “If enforced the proposed amendments would curb freedom of expression and freedom of social media, as well as seriously inhibit the right of citizens to freely receive and disseminate alternative information and express critical views.”⁸⁵

The exact list of bloggers is not public information, although Roskomnadzor has established a website devoted to these amendments and the issue of the registration of bloggers.⁸⁶ The most recent report by the watchdog agency speaks of 317 bloggers on the list of those with 3000 plus visitors a day.⁸⁷

The law allows both for bloggers to apply for such registration voluntarily and to be registered by Roskomnadzor according to its own procedures. Recently Roskomnadzor started to send persistent emails and tweets recommending that popular journalists and other personalities register of their own will or provide information on the number of their followers.⁸⁸

On 31 July 2014 Prime Minister Dmitry Medvedev signed the Ordinance of the Government that amends the current rules of access to the Internet, effectively banning the availability of this

⁸⁴ *О внесении изменений в Федеральный закон “Об информации, информационных технологиях и о защите информации” и отдельные законодательные акты Российской Федерации по вопросам упорядочения обмена информацией с использованием информационно-телекоммуникационных сетей* (Federal Statute of 5 May 2014 No.97-FZ “On Amendments to the Federal Statute ‘On Information, Information Technologies and on the Protection of Information’ and Specific Legal Acts of the Russian Federation on the Issues of Regulation of Information Exchange with the Use of Telecommunication Networks”) Ros. Gaz., No.101, 7 May 2014, available at: www.rg.ru/2014/05/07/informtech-dok.html

⁸⁵ Press release of the OSCE Representative on Freedom of the Media, “Attempts to Overregulate Internet Undermine Free Speech and Free Media in Russia, Says OSCE Representative”, 23 April 2014, available at: www.osce.org/fom/117950

⁸⁶ This is available at: <http://97-fz.rkn.gov.ru/>

⁸⁷ *Подведены итоги работы Роскомнадзора в 2014 году* (“Results of the Activity of Roskomnadzor in 2014 Made Public”), available at: <http://rkn.gov.ru/news/rsoc/news29403.htm>

⁸⁸ Likhachev N., *Роскомнадзор попросил Урганта, Канделаки и других телезвезд отчитаться о посещаемости своих блогов* (Roskomnadzor asked Urgant, Kandelaki and other TV stars to report on frequency of attendance of their blogs) 12 December 2014, available at: <http://tjournal.ru/paper/rkn-media-celebrities>



service to anonymous users.⁸⁹ The Ordinance formally entered into effect on 13 August 2014, although reports say it is still not effective.⁹⁰

The Ordinance refers to the changes in the laws related to information online adopted in 2014 and demands from those providing access to the Internet at points of collective access, as well as from any other Internet service providers at public spots including Wi-Fi, to demand the identification of the users and to collect and store this data for a six-month period.

⁸⁹ *О внесении изменений в некоторые акты Правительства Российской Федерации в связи с принятием Федерального закона "О внесении изменений в Федеральный закон "Об информации, информационных технологиях и о защите информации" и отдельные законодательные акты Российской Федерации по вопросам упорядочения обмена информацией с использованием информационно-телекоммуникационных сетей"* (On amending certain acts of the Government of the Russian Federation in respect of the adoption of the Federal Law "On Amendments to the Federal Statute 'On Information, Information Technologies and on the Protection of Information' and Specific Legal Acts of the Russian Federation on the Issues of Regulation of Information Exchange with the Use of Telecommunication Networks"), Ordinance of the Government of the Russian Federation of 31 July 2014 No. 758, available at: www.rg.ru/2014/08/05/svyaz-site-dok.html

⁹⁰ For example, see: http://hitech.newsru.com/article/08Aug2014/nofree_wifi



4. Other relevant changes

In addition to the amendments recently adopted to the laws on Information, Information Technologies and the Protection of Information and on the Protection of Children from Information Harmful to their Health and Development, that have transformed the whole system of regulation of online content, some other legal acts have affected certain aspects of the system. This was done mainly through changes to civil law, which were related to privacy and defamation online.

4.1. Defamation Law

On 9 July 2013, the Constitutional Court of the Russian Federation adopted an important Resolution concerning the constitutionality of several paragraphs of Article 152 (“Defamation”) of the 1995 Russian Civil Code.⁹¹

The particular case was raised by a citizen named Krylov, who complained that the Civil Code does not oblige hosting providers to remove defamatory statements made by third parties upon the request of the defamed party.

The complaint arose from decisions of the courts of first and second instances in the Sverdlovsk region of Russia on the lawsuit of Mr Krylov against a regional hosting provider. The plaintiff demanded that the defendant remove remarks posted by an anonymous user on the “Surgutsky forum” website. He wanted his photograph, which accompanied the statement, to be removed as well. The remarks had earlier been found to be of a defamatory nature by the city court of Surgut.

The Sverdlovsk courts noted that the Civil Code provides that the refutation of defamatory statements is to be made by the person who disseminated them or by the mass media outlet that disseminated them. As such a person was not found in the case, the “Surgutsky forum” was not registered as a media outlet and the Internet forum could not be considered as an illegal form of disseminating information, the claims were dismissed.

The Constitutional Court noted with concern that in cases like this the plaintiff can only obtain a court decision on the defamatory and untrue nature of information disseminated online, but has no other means of protection of his honour, dignity or privacy, as would be available in the case of defamation offline. It reviewed the constitutional and legal norms on freedom of expression and the right to protect one’s reputation, as well as relevant national law, international covenants and soft law, such as the Joint Declaration by the UN Special Rapporteur on Freedom of Opinion and Expression, OSCE Representative on Freedom of the Media, OAS Special Rapporteur on Freedom of

⁹¹ *Постановление Конституционного Суда Российской Федерации по делу о проверке конституционности положений пунктов 1, 5 и 6 статьи 152 Гражданского кодекса Российской Федерации в связи с жалобой гражданина Е.В.Крылова* (Resolution of the Constitutional Court of the Russian Federation on the case of the constitutionality test of paragraphs 1, 5 and 6 of Article 152 of the Civil Code of the Russian Federation in response to the complaint of citizen Ye. V. Krylov), Saint-Petersburg, 9 July 2013, available at: www.rg.ru/2013/07/19/ks-gk-dok.html; See: Richter A, “Privacy Protection, Libel and Defamation Incorporated in New Civil Code”, IRIS 1995-4/13, European Audiovisual Observatory, 1995, available at: <http://merlin.obs.coe.int/iris/1995/4/article13.en.html>; Richter A., “Russian Supreme Court on Defamation”, IRIS 2005-4/32, European Audiovisual Observatory, 2005, available at: <http://merlin.obs.coe.int/iris/2005/4/article32.en.html>



Expression and ACHPR Special Rapporteur on Freedom of Expression and Access to Information of 1 June 2011.⁹²

The Constitutional Court ruled that the impossibility of finding the person responsible for defamatory statements should not exclude the right of the defamed party to fully protect their reputation, e.g. by restoring the situation that existed prior to the violation of the right.

Such an imposition on the hosting provider of an obligation to remove the (defamatory) information declared by a court of law to be untrue should not, according to the Court, be considered as an excessive burden or as a disproportionate restriction of its rights. The obligation to comply means that the hosting provider should do so as soon as it learns about the relevant court decision that had entered into force. Such an action is not considered as putting the blame on the ISP, but only as a form of protection of reputation. If the relevant court decision is not enforced, then the court may consider imposing on the ISP the burden of paying moral damages to the plaintiff.

These rules relate also to the owners and administrators of websites.

As the norms of the Civil Code neither provide for the possibility to demand that defamatory online statements be removed nor introduce liability for a refusal to do so, they contradict the provision of the Constitution of the Russian Federation (part 2 of Article 45) which says: “Everyone shall be free to protect his rights and freedoms by all means not prohibited by law.”

The Resolution was issued a week after President Vladimir Putin signed into law widespread amendments to the 1995 Civil Code (Part I) of the Russian Federation, including its Article 152.⁹³

In particular, the new version of Article 152 *de facto* reflects the position of the Constitutional Court. In case of infringement of his or her reputation, a person becomes entitled to seek the cessation of dissemination of information, *inter alia* by means of removing the defaming information. This person also has a specific right for the dissemination of a refutation online, in accordance with procedures to be established by a court of law in each particular case.

The case law after 1 October 2013, the day the amendments to the Civil Code entered into force, demonstrates that the option of deleting defaming information from the Internet has not yet gained popularity in Russian courts. Random statistics of cases taken from the largest database of court decisions in Russia, Rospravosudie.com, shows that out of 56 resolutions on lawsuits to protect reputation in general jurisdiction civil courts only 10 record demands to remove defamatory materials and in 9 of those cases the demand was granted. In arbitration (economic) civil courts, out of 20 resolutions on lawsuits to protect reputation, 11 record demands to remove the defamatory material and in 8 cases the demand was granted.⁹⁴

Some of the cases became politicised and thus widely known. For example, a lawsuit was filed in a district court of Moscow by a judge of the city court and his former tutor against the independent newspaper Novaya gazeta. The defendants disseminated in print and online a story according to which the first plaintiff plagiarised his dissertation from the work of his tutor, while the other oversaw this fault.⁹⁵ The court found that the journalists are not authorised to reach

⁹² Organization for Security and Co-operation in Europe, “Joint Declaration on Freedom of Expression and the Internet”, 1 June 2011, available at: www.osce.org/fom/78309

⁹³ *О внесении изменений в подраздел 3 раздела 1 части первой Гражданского кодекса Российской Федерации* (On amending subsection 3 section 1 part 1 of the Civil Code of the Russian Federation), Federal Statute No 142-FZ, 2 July 2013, available at: www.rg.ru/2013/07/05/gk-dok.html; See Richter A., “Resolution of the Supreme Court on Transparency of Justice”, IRIS 2013-8/34, European Audiovisual Observatory, 2013, available at: <http://merlin.obs.coe.int/iris/2013/1/article34.en.html>

⁹⁴ Research conducted by Darya Novatorova of School of Journalism, Lomonosov Moscow State University, 12 December 2014.

⁹⁵ Resolution by Basmany District Court of Moscow on the lawsuit of Yu. Bepalov and D.Gordeyuk to N.Girin and Novaya gazeta publishers, No. 6, December 2013.



conclusions on the conformity of dissertations with the established criteria, therefore their statements in the legal sense may not be considered as corresponding to the truth, while the authorised bodies could not make a judgment, as the limitation period for the official review of defended dissertations had expired. It ruled that the defendants were to pay moral damages of 300,000 rubles (then about EUR 7000), to publish a refutation online and in print, as well as to delete the story from the website of the Novaya gazeta. An appeal before the Moscow City Court confirmed the decision of the district court and the story was effectively removed from the online version of the publication.⁹⁶ On 28 October 2014 the Supreme Court of the Russian Federation annulled the decisions of the lower courts and sent the case to a first instance court in another jurisdiction.⁹⁷

4.2. Privacy and the right to image

The major focus of the amendments to the 1995 Civil Code (Part I) of the Russian Federation (see above) was the development of new legal mechanisms for the protection of non-material values. An important innovation of the Statute was the development of the right to privacy. In addition to the Constitution of the Russian Federation, the new Article 152.2 of the Civil Code declares that the collection, keeping, dissemination and use of information about the private life of a person shall not be allowed without his or her consent. The Civil Code's provisions consider this regulation as emphasising that any use of information about the private life of a person is considered lawful when performed for pressing governmental, social or public needs. In case of infringement of the privacy or right to use of one's image, a person shall be entitled to seek such remedy as the cessation of the dissemination of information, *inter alia* by means of deleting such information. Also new is the right to claim the removal of defamatory information or images of such a person from the Internet.

4.3. Advertising

On 6 July 2012, the State Duma adopted an amendment to the Advertising Law that plays a critical role for online media in Russia.⁹⁸ The amendment is to the 2006 Federal Statute "On Advertising".⁹⁹ It extends the list of the media where advertising of alcohol products is banned (Article 21.2) by adding Internet websites. Since 2011, alcohol products in the Federal Statute "On Advertising" include beer or beer products.

⁹⁶ See page 8 of the pdf version of the newspaper, available at: www.novayagazeta.ru/issues/2013/2108.html

⁹⁷ Верховный суд: «Судами не было установлено, соответствуют ли утверждения о плагиате действительности» (Supreme Court: "Courts Failed to Verify if the Statements of Plagiarism Correspond to Reality"), Novaya gazeta, 28 October 2014, available at: www.novayagazeta.ru/news/1688798.html

⁹⁸ О внесении изменений в статью 21 Федерального закона "О рекламе" и статью 3 Федерального закона "О внесении изменений в Федеральный закон "О государственном регулировании производства и оборота этилового спирта, алкогольной и спиртосодержащей продукции" и отдельные законодательные акты Российской Федерации и признании утратившим силу Федерального закона "Об ограничениях розничной продажи и потребления (распития) пива и напитков, изготавливаемых на его основе" (On amendments to Article 21 of the Federal Statute "On Advertising" and Article 3 of Federal Statute "On amendments to the Federal Statute 'On state regulation of production and turnover of ethyl alcohol, alcohol and alcohol-containing products' and particular legal acts of the Russian Federation" and on invalidation of the Federal Statute "On restrictions of retail sale and consumption of beer and beer-based products"), Federal Statute No.119-FZ, 20 July 2012, Ros. Gaz., No. 166, 23 July 2012, available at: www.rg.ru/2012/07/23/reklama-dok.html

⁹⁹ See Richter A., "New Advertising Statute", IRIS 2006-4/34, European Audiovisual Observatory, 2006, available at: <http://merlin.obs.coe.int/iris/2006/4/article34.en.html>



The amendment means that any placement of alcohol advertising in any form in Runet (the Russian segment of the Internet) or by Russian companies shall be punishable by law, including through the possible blocking of the websites in question.¹⁰⁰ The law entered into force on 23 July 2012.

¹⁰⁰ See Richter A., “New Rules for Internet”, IRIS 2012-8/36, European Audiovisual Observatory, 2012, available at: <http://merlin.obs.coe.int/iris/2012/8/article36.en.html>



5. Conclusions

Online content regulation has by and large only begun to appear in Russia in the last four years and has become an important part of national law. Major changes have taken place in the Mass Media Law, the Federal Law “On the Protection of Children from Information Harmful to their Health and Development”, and the Federal Law “On Information, Information Technologies and on the Protection of Information”. An important input in the process was provided by the Supreme Court, which now directs all courts on issues of interpretation of the legislation.

By signing and ratifying international legal documents, Russia is required to respect and promote these rights and freedoms; likewise, the Russian Constitution calls for similar protections. Mass media freedoms are reflected in Article 29 of the Constitution, which envisages the right of each person to freely seek, acquire, transfer, produce, and disseminate information, by any legal method.¹⁰¹ That being said, it is definitely questionable whether these new laws on online media regulation function to protect these freedoms or whether they actually restrict them.

¹⁰¹ Конституция Российской Федерации [Konst. RF] [Constitution] Article 29.



IRIS *extra*

**Regulation of online content
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15 € - ISBN 978-92-871-8089-6

2013-1

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IRIS plus 2013-1

The Digital Switchover

ISBN (Print Edition): 978-92-871-7642-4

Price: EUR 25,50

European Audiovisual Observatory, Strasbourg 2013

ISBN (PDF-Electronic Edition): 978-92-871-7645-5

Price: EUR 34,50

IRIS plus Publication Series 2013

ISSN (Print Edition): 2078-9440

Price: EUR 100

ISSN (PDF-Electronic Edition): 2079-1062

Price: EUR 130

Director of the Publication:

Wolfgang Closs, Executive Director of the European Audiovisual Observatory

E-mail: wolfgang.closs@coe.int

Editor and Coordinator:

Dr Susanne Nikoltchev, LL.M. (Florence/Italy, Ann Arbor/MI)

Head of the Department for Legal Information

E-mail: susanne.nikoltchev@coe.int

Editorial Assistant:

Michelle Ganter

E-mail: michelle.ganter@coe.int

Marketing:

Markus Booms

E-mail: markus.booms@coe.int

Typesetting:

Pointillés, Hoenheim (France)

Print:

Pointillés, Hoenheim (France)

Conseil de l'Europe, Strasbourg (France)

Cover Layout:

Acom Europe, Paris (France)

Publisher:

European Audiovisual Observatory

76 Allée de la Robertsau

F-67000 Strasbourg

Tel.: +33 (0)3 90 21 60 00

Fax: +33 (0)3 90 21 60 19

E-mail: obs@obs.coe.int

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Contributing Partner Institutions:

Institute of European Media Law (EMR)

Franz-Mai-Straße 6

D-66121 Saarbrücken

Tel.: +49 (0) 681 99 275 11

Fax: +49 (0) 681 99 275 12

E-mail: emr@emr-sb.de

www.emr-sb.de



Institute for Information Law (IViR)

Kloveniersburgwal 48

NL-1012 CX Amsterdam

Tel.: +31 (0) 20 525 34 06

Fax: +31 (0) 20 525 30 33

E-mail: website@ivir.nl

www.ivir.nl



Moscow Media Law and Policy Center

Moscow State University

ul. Mokhovaya, 9 - Room 338

125009 Moscow

Russian Federation

Tel.: +7 495 629 3804

Fax: +7 495 629 3804

www.medialaw.ru



Please quote this publication as:

IRIS plus 2013-1, The Digital Switchover, Susanne Nikoltchev (Ed.), European Audiovisual Observatory, Strasbourg 2013

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Digital Switchover

Foreword

The European Commission's report on the telecommunications market and regulatory development (see also IRIS 2012-9/8) describes, among other things, the current status of the introduction of digital television in the EU member states. According to section 5.3.2 of the report, at the time of publication (18 June 2012) it was already clear that Bulgaria, Poland, Hungary, Romania and Greece were the only EU member states that would not have completed the digitisation process before the deadline of 31 December 2012.

But how is the switchover to digital television progressing in other parts of Europe? An overview of the situation in the 11 countries of the Commonwealth of Independent States shows how painfully slow the journey from tried and trusted analogue TV to the pleasure of digital viewing can be, particularly in countries that have not enjoyed decades of free competition and independent media regulation. The lead article examines the numerous stages that had to be and, in some cases, are yet to be completed in order to successfully launch the first multiplex. It looks in particular at numerous legislative amendments, plans and draft strategies, selection procedures, investments and technical aspects, market structures and restructuring, and finally, the role of authorities and state bodies.

However, it is not only in the Commonwealth of Independent States that there are still hurdles to overcome before the post-analogue era is well and truly established or, at least, can finally begin. Planning, legislation, court decisions and accompanying measures are also commonplace within the EU. This is demonstrated in the Related Reporting section, with articles from seven European Union countries written in 2012.

Furthermore, the ZOOM section provides a detailed insight into the progress of the digital switchover in South-East Europe. It summarises the findings of the SEE Digi.TV project, based on an evaluation of the legal and actual situation in ten different countries. By the end of 2012, the digital switchover had reached varying levels of completion in these countries. While Italy, Croatia, Austria and Slovenia had already switched off the analogue signal by the turn of the year, Albania, Hungary, Serbia and "the former Yugoslav Republic of Macedonia" were still in the transition phase. In Bosnia-Herzegovina and Montenegro, the journey towards digital television has not even begun. Nevertheless, the reports on each country have helped to determine the aspects that are important for the successful transition from analogue to digital television. Thanks to the agreement of the project participants and the enormous commitment of the report's author, we are able to include these results in the ZOOM section of this IRIS *plus*.

The comprehensive contents of this publication show that the transition to digital television is a complex, challenging and lengthy process. A conclusion that is all too easily forgotten when digital channels can finally be accessed so simply at the touch of a button in the living room.

Strasbourg, February 2013

Susanne Nikoltchev

IRIS Coordinator

Head of the Department for Legal Information

European Audiovisual Observatory

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Digital Plans and Reality: Switchover in Russia and other CIS Countries

Andrei Richter

Faculty of Journalism, Moscow State University

Plans for the introduction of digital terrestrial broadcasting in Russia and all other Commonwealth of Independent States (CIS) countries are based on international accords such as the Regional Agreement GE06 (Geneva 2006), which is a binding international treaty signed by national administrations and registered with the United Nations. This Agreement served as a stimulus for adopting national policies in the switchover to digital broadcasting. All CIS countries are due to switch over to digital TV by 17 June 2015.

Since the publication of previous reviews for the readers of IRIS¹ quite a number of developments have taken place in Russian broadcasting that are worth reporting and analysing, this time in the context of Russia's neighbouring countries.

I. Russian Federation

1. New broadcasting law and the line-up of must-carry digital TV channels

The most important development in the regulation of broadcasting in post-Soviet Russia was the adoption of amendments to the media law in 2011 by the parliament. Designed as a broadcasting statute, the set of norms was implanted in the 1991 Statute "On the mass media".²

While a first draft of this statute was in fact submitted to the Supreme Soviet (parliament) of the Soviet Union in 1991, neither this bill nor those prepared later by the Russian Parliament have ever been adopted and/or promulgated because of the different political positions of the stakeholders on this issue. In the 1990s the parliament aimed repeatedly to develop a statutory system for electronic media. To this end, the parliament tried to overturn the opposition of the upper chamber (whose members were appointed by the President) or the presidential veto on a number of occasions, but failed each time. Moreover, in 2000 the government put an unannounced moratorium on the preparation of a draft law on television and radio broadcasting, which continued until 2010, when suddenly the green light was given to the bill "On amending some legal acts of the Russian Federation in order to improve legal regulation in the sphere of mass information". The

1) Richter, A. and Shevchenko, T., "Development of Digital Terrestrial Television in Russia and Ukraine", in *IRIS plus* 2010-1, *Digital Television*, European Audiovisual Observatory (ed.), Strasbourg 2010. Richter, A., "The Regulatory Framework for Audiovisual Media Services in Russia", S. Nikoltchev (ed.), *IRIS Special*, European Audiovisual Observatory, Strasbourg 2010, 64 p.

2) The Statute was adopted on 27 December 1991, No. 2124-1.

bill was introduced on 29 November 2010 by the chair of the parliamentary committee on the mass media, Valery Komissarov, from the ruling party United Russia. It was adopted in the first reading by the State Duma (lower chamber) on 22 February 2011, and in the second and third readings in only one day – on 3 June 2011. The Council of the Federation (upper chamber) approved the bill on 8 June 2011, and the Statute was signed by the President of the Russian Federation on 14 June 2011. Most of the provisions of the Statute entered into force on 10 November 2011.

Approximately 90% of the Statute amends and expands the Statute of the Russian Federation “On the mass media”. In several ways the new Act counteracts the recent Resolution of the Plenary of the Supreme Court of the Russian Federation “On Judicial Practice Related to the Statute of the Russian Federation ‘On the Mass Media’” of 15 June 2010.³

The new Statute widens the scope of Article 31 of the Statute “On the mass media” and adds Articles 31.1 to 31.9 in order to detail the process for the licensing of broadcasting. In particular, these articles stipulate that licensing may be based on a tender, competition or auction as shall be determined by the government. The relevant procedures as well as fees for the participants/applicants shall be determined by the government. Each applicant must submit a programme policy, in which it should conceptualise and describe the range of programmes it proposes to offer. If it wins the licence, the programme policy becomes part of its licence and its terms must be respected. Other conditions of the licence shall be determined by the government. The new Act allows the government to also license broadcasting online.

The term of the licence shall increase from the current five to ten years. It may be extended in case, *inter alia*, there are no uncorrected violations of the terms of the licence. The government determines the licensing body, which is currently *Roskomnadzor* at the Ministry of Communications and Mass Communications. This body may also decide on the extension of a licence. A licence shall not be transferred to a different legal entity.

A new provision, Article 32-1, of the Statute “On the mass media” gives powers to the President of the Russian Federation to approve the list of must-carry channels on all platforms. The channels that enter the list obtain licences without tender (competition, auction).

In the new Statute, the parliament essentially gave all powers to regulate broadcasting to the government and the President. In particular, it included in the statutory law the right of the President to establish the list of broadcasting channels to enter the first multiplex of digital TV and radio. The original decree laying down this list had been adopted on 24 June 2009, but was twice amended thereafter.⁴ The first instance was a decree which on 12 May 2011 amended the earlier list of the eight mandatory TV channels on the first multiplex of digital terrestrial television, as several of them had changed their names (and programme policies) between 2009 and 2011. Channel Sport became Rossiya-2, with a gradually decreasing number of sports broadcasts to the benefit of offering more entertainment; Channel Kultura was rebranded as Rossiya-K; and the Russian Information Channel was rebranded as Rossiya-24. Petersburg-Channel 5 changed its remit as a regional channel and now presents itself as a federal broadcaster, under the name Channel 5. The decree also specified that a channel mentioned earlier as a “channel for children and youth” is indeed a brand new channel known as Karusel, which is owned by a state-run joint stock company of the same name.

Thus, in 2011 the list of TV channels included Rossiya-1, Rossiya-2, Rossiya-24 and Rossiya-K (all belong to the state broadcaster All-Russian State Television and Radio Company, VGTRK); Channel 1 (Pervyi kanal) (run by the state and loyal to government businesses); NTV (run by a Gazprom-owned company); Channel 5 (owned by another loyal private broadcaster); and Karusel (see Table 1).

3) See Richter, A., *Russia's Modern Approach to Media Law / A Landmark for Mass Media in Russia*, IRIS plus 2011-1, Strasbourg, 2011.

4) See IRIS 2009-10/18; IRIS 2011-7/41; IRIS 2012-5/36. All IRIS quotes refer to articles published in the monthly electronic newsletter *IRIS Legal Observations of the European Audiovisual Observatory* (to subscribe to this free-of-charge service see http://merlin.obs.coe.int/iris_subscribe.php). The articles are also available free of charge on the IRIS Merlin database at: <http://merlin.obs.coe.int>

Table 1: Must-carry channels in Russia

No. of the spot	2009	2011	2012	Ownership/property:
2	Rossiia	Rossiia-1	Rossiia-1	VGTRK
7	Russian Information Channel	Rossiia-24	Rossiia-24	VGTRK
6	Kultura	Rossiia-K	Rossiia-K	VGTRK
3	Sport	Rossiia-2	Rossiia-2	VGTRK
8	Channel for children and youth (unnamed)	Karusel	Karusel	VGTRK
1	Pervyi kanal	Pervyi kanal	Pervyi kanal	51% owned by the government
5	Petersburg-Channel 5	Channel 5	Channel 5	National Media Group
4	NTV	NTV	NTV	Gazprom-media
10		Regional channel (unnamed)	Regional channel (unnamed)	
9			Public Television of Russia (to be established in 2013)	State property

As expected, the decree also expanded the powers of the state broadcasting communications network "Russian Television and Radio Networks" (RTRN) in regard to contracting private networks and facilities for the distribution of the must-carry channels. It also allowed RTRN to use the first multiplex of digital terrestrial television to deliver one additional regional channel in each "broadcasting zone" of Russia, quite possibly channels of its own choice.

RTRN was confirmed in 2012 by the government as the only operator of the second multiplex.⁵ It has neither been decided who will be allowed to operate the third and other multiplexes, nor is it clear based on which rules (if any) such a company is to be determined.

The second instance was on 17 April 2012, when for the first time in Russia, a decree of the President of the Russian Federation set the legal conditions to establish a national public service broadcasting (PSB) channel, named "Public Television of Russia". Its aim is to inform the population "in a timely, trustworthy and all-round manner on current affairs of domestic and foreign policy, culture, education, sciences, spiritual life and in other spheres". On the same day by a separate but related decree, the President amended the list of national mandatory free television and radio channels by adding the TV channel "Public Television of Russia". He also announced that the new channel would start broadcasting on 1 January 2013.

5) Government of the Russian Federation, План использования полос радиочастот в рамках развития перспективных радиотехнологий в Российской Федерации (Plan on the use of radio bands within the framework of development of prospective radio technologies in the Russian Federation), Resolution of the Government of 21 January 2012, No. 57-r as amended on 3 March 2012 by Resolution No. 287-r. See the text at: http://minsvyaz.ru/common/upload/Plan_57.pdf, accessed on 3 November 2012.

2. Rules for the second and third multiplexes

Following the entry into force of the Statute "On amending some legal acts of the Russian Federation in order to improve legal regulation in the sphere of mass information", on 8 December 2011 the Government of the Russian Federation adopted an ordinance that introduced new rules on licensing television and radio broadcasting,⁶ replacing those of 7 December 1994.⁷

The new rules stipulate that Roskomnadzor remains the licensing body. Roskomnadzor is the Federal Service for Supervision in the Sphere of Telecommunications, Information Technologies and Mass Communications, a service controlled by the Ministry of Communications and Mass Communications and therefore part of the government.

A necessary precondition for issuing a licence to an applicant is now the establishment of an editorial board that must obtain its own statute (by-laws) and governmental registration certificate in accordance with the Statute "On the mass media". In the case of rebroadcasting there should be a valid contract with an editorial board of the TV or radio channel, established in accordance with the Statute "On the mass media". The realm of broadcasting is now understood under Russian law to encompass any form or platform of dissemination of TV and radio channels as a conglomerate of programmes formed in accordance with the relevant TV or radio programme listings.

Any violation of the programme policy, a blueprint document in which the applicant should conceptualise and describe the range of programmes it proposes to offer, is considered to be a gross infringement of the licensing rules.

The rules confirm that licensing may be based on a tender, competition or auction, but still fail to provide details as to how the procedural choice will be determined.

The original version of the (later amended) decree of 24 June 2009 had provided a line-up for the first multiplex based on recommendations developed by the Governmental Commission on Development of TV and Radio Broadcasting. Back then the extensive work of the Commission had been the focus of media attention. There is no evidence that further consultations with the Commission were held preceding the amendments to the decree or the establishment of the PSB channel. Nevertheless, the Commission at its meeting on 16 December 2010 set certain rules for the line-up of the second and third multiplexes of digital television. According to the press release of the Ministry of Communications and Mass Communications, the channels on both multiplexes will be offered free-of-charge to the audience.

The third multiplex will contain four "municipal channels" with regional services that will be different in different parts of Russia. It will also contain one national HDTV channel to be determined by the Federal Competition Commission (FCC). The municipal stations can be affiliated with the TV networks that will not enter the second multiplex. The municipal channels are to be selected in a competition procedure, but the exact role of the FCC has not been determined. The press release of the Ministry mentions the criteria of higher ratings, 24-hour broadcasting and "social importance" for determining the potential winners.

6) Rules on Licensing Television Broadcasting and Radio Broadcasting (Положение о лицензировании телевизионного вещания и радиовещания), approved by Ordinance No. 1025 of the Government of the Russian Federation on 8 December 2011. See IRIS 2012-2/35.

7) Rules on Licensing Television Broadcasting and Radio Broadcasting in the Russian Federation (Положение о лицензировании телевизионного вещания и радиовещания в Российской Федерации) approved by Ordinance No. 1359 of the Government of the Russian Federation on 7 December 1994.

A ruling of Roskomnadzor adopted on 15 October 2012 gave some shape to the second multiplex:⁸ After having been postponed several times, licensing of broadcasters on the second DTT multiplex is now scheduled to take place on 14 December 2012.⁹ Only Russian legal entities could take part in the open competitions. All applicants for the ten slots made available on the second multiplex were to hold a valid national licence, dispose of experience to conduct terrestrial, cable, and satellite broadcasting in at least five regions of Russia and be able to broadcast 24 hours every day of the week. There were no demands as to the programme concepts, topical directions, or formats (so-called “free concept”), but there is a minimum quota of 55% of airtime to be allotted to national products.

The broadcasters for the second DTT multiplex were selected by the FCC,¹⁰ based on the criteria of higher ratings and “social importance”. There is a one-time licence fee of RUB 36,095,000 (approximately EUR 900,000) for potential winners and a non-refundable fee for each applicant of RUB 721,900 (approximately EUR 18,000).

Within three months from the competition day, all winners are to sign a 10-year contract with RTRN for its service, which consists of providing, in stages, access to viewers in Russia. Each winner will form packages of TV programmes for broadcasting in different time zones – that is, every set of programmes will be prepared for four time-shifted intervals. They will supply to RTRN the signals in accordance with the technical specifications set by RTRN, as well as provide it with the electronic programming guides.

According to the director-general of RTRN, Andrei Romanchenko, the distribution of a channel in the second multiplex will cost each winner RUB 944 million (approximately EUR 23.4 million) per year. The entire sum becomes due as soon as the second multiplex is completely functioning, which is expected to occur in the year 2016. In addition there continues to be a fee for the distribution of the analogue signal, ranging from EUR 8.9 to 16 million.¹¹

No competition or tender for the slots on the third multiplex is planned so far.

According to the estimates of the National Association of Broadcasters, there are 920 TV broadcasters in Russia. Out of this number, 142 produce four hours or more of daily programming of their own.¹²

3. Investments and technical aspects

By October 2012, approximately 57 (out of approximately 143) million Russian citizens in 45 (out of 83) regions of the country could watch eight programmes of the first multiplex.¹³ Most

8) The exact date and number of the document are not clear as the official website of Roskomnadzor published only a “report” on it. No other official publication of the document is known to the author. Its title seems to be: “On conducting competitions to obtain the right to terrestrial broadcasting with the use of the second multiplex” (О проведении конкурсов на получение права осуществлять эфирное наземное вещание, с использованием позиции во втором мультиплексе). See the text at: www.rsoc.ru/docs/S00BSHHENIE_o_provedenii_12.20121.rtf, accessed on 3 November 2012.

9) The competition was indeed held by the FCC on that day. According to the press release of the Federal Service for Supervision in the Sphere of Telecommunications, Information Technologies and Mass Communications, the FCC “has managed to compile the second multiplex in such a way that the programme concepts [of the winners] responded to the interests of the multiethnic and extremely different audience”. The winners are ten channels: “TV Centre” (run by Moscow City Government), “Zvezda” (Ministry of Defence), “Mir” (the channel of the CIS member states), two sports channels “Sport” (VGTRK) and “NTV Plus Sport” (Gazprom-media), general broadcaster “RenTV”, and the private entertainment channels “MuzTV”, “TNT”, “STS”, and “Domashniy”. See www.rsoc.ru/news/rsoc/news17878.htm

10) The author had expressed reservations in this regard, see Richter, A. “The Russian approach to the line-up of digital TV channels”, *International Journal of Digital Television*, 1:2, p. 237.

11) Balashova, A., Novy V., “Телеканалы метят в десятку” (TV channels aim at 10) *Kommersant* daily, 17 October 2012 No. 195. See the text at: www.kommersant.ru/doc/2046156, last consulted on 3 November 2012.

12) Presentation of the proposals of the National Association of Broadcasters at its 16th congress in Moscow, 6-8 November 2012.

13) Kitaeva, K., “Участие во втором мультиплексе окажется по карману всего нескольким телеканалам” (Participation in the second multiplex will be affordable only to a few TV channels) *RBC*-daily, 17 October 2012. See: www.rbcdaily.ru/2012/10/17/media/562949984941459, last accessed on 3 November 2012.

of those regions are in the Far East, along the borders with China, or in the west near the European borders of Russia.

According to the plan on the use of radio bands within the framework of the development of prospective radio technologies in the Russian Federation,¹⁴ the DVB-T2 standard was chosen to replace DVB-T for terrestrial digital broadcasting. The DVB-T2 standard allows even more programmes to be broadcast on a given multiplex. The new model was used when one more channel – that of future public service broadcasting – was added to the line-up of the first multiplex in April 2012.

Standards for set-top boxes were developed by a “technological partner” of RTRN and approved by the Ministry of Communications and Mass Communications in March 2012.¹⁵

As to the digital dividend, on 8 September 2011 the State Commission on Radio Frequencies at the Ministry of Communications and Mass Communications adopted a decision to allocate the band of 791-862 Mhz to develop LTE-type communication networks.¹⁶ In July 2012 Roskomnadzor held the long-expected competition for the frequencies of the digital dividend in the 791-862 Mhz band. Four nationwide lots of two 7.5 Mhz bands each for LTE services were won by the “Big Four” of Russian telecom companies (MTS, MegaFon, VimpelCom and Rostelecom).¹⁷

To summarise, based on current evidence, television policies in Russia tend to consolidate the power of the executive to control the broadcasting spectrum and “make order” in the array of broadcasters that exist at national and especially regional level. The first decree of the President on must-carry channels of 24 June 2009 raised doubts as to his powers to deal with licensing issues. In 2011 statutory rules were introduced that seem to significantly widen the power of the government and the President to rule on broadcasting. This power has economic (budgetary spending and digital dividend distribution) and political (more political control with competition left for entertainment programming only) consequences. As Russia remains a trendsetter for most of the other CIS countries, this seems to be having repercussions for its neighbours.¹⁸

II. Other countries belonging to the Commonwealth of Independent States

1. Armenia

From among the Commonwealth of Independent States (CIS) countries Armenia has chosen a path towards the digital switchover which seemed to be the closest to Western models: public discussion and reform of the Statute on broadcasting. The results of the process resemble, however, those elsewhere in the region: despite public discussion the government retains control of the licensing and the legal framework is far from clear.

14) Government of the Russian Federation, План использования полос радиочастот в рамках развития перспективных радиотехнологий в Российской Федерации (Plan on the use of radio bands within the framework of development of prospective radio technologies in the Russian Federation), Resolution of the Government of 21 January 2012, No. 57-r as amended on 3 March 2012 by Resolution No. 287-r. See the text at: http://minsvyaz.ru/common/upload/Plan_57.pdf, accessed on 3 November 2012.

15) Kodachigov, V., “Минкомсвязи выбрало неизвестного поставщика систем доступа к каналам” (Mincom chose an unknown supplier for access to channels systems), *Vedomosti.ru*, 30 March 2012, www.vedomosti.ru/tech/news/1582097/kod_dlya_svoih, accessed on 3 November 2012.

16) State Commission on Radiofrequencies at the Ministry of Communications and Mass Communications of the Russian Federation, Об использовании радиочастотного спектра радиоэлектронными средствами стандарта LTE и последующих его модификаций (On the use of radiofrequency spectrum by radio-electronic devices of the LTE standard and its further modifications), Decision of 8 September 2011, No. 11-12-02. See the full text at: www.grfc.ru/idc/groups/public/documents/grhcresheniya/009823.doc, accessed on 3 November 2012.

17) Maltsev, S., Частоты LTE достались “большой четверке” (LTE frequencies went to the “Big four”), 13 July 2012. See: www.ict-online.ru/news/n87718/, accessed on 3 November 2012.

18) Richter A., “The trends in digital switchover of Russia and other CIS countries”, *International Journal of Digital Television*, 3:3, 2012, pp. 235-238.

Armenia was one of the first countries in the CIS to establish a two-year moratorium on the licensing of analogue broadcasters. The freeze on the allocation of frequencies was first ordered by the government, and then, in 2008, by an amendment to the broadcasting law. The amendment followed (and was probably triggered by) the judgment of the European Court of Human Rights in the case of *Meltex Ltd. and Mesrop Movsesyan v. Armenia*.¹⁹ The judgment of 17 June 2008 pointed to the need to review the licensing procedures used to decide on the frequency application of the independent television broadcaster A1+. A1+ had been denied a licence seven times since 2002.²⁰ Despite the European Court of Human Rights' judgment, the government did not review the application of A1+, possibly because awarding a licence would have been impossible due to the absence of available frequencies.

According to the government's goals, the two-year moratorium was meant to give the relevant public authorities time to prepare the switch to digital broadcasting to the maximum, to elaborate a concept paper on the transition to digital broadcasting and to make changes to the Law "On Television and Radio" in order to ensure a smooth passage to digitalisation.

In line with this expectation, the Interdepartmental Commission on Implementation of Digital TV and Radio Broadcasting in the territory of Armenia prepared a Concept Paper "On migrating to digital radio and TV broadcasting system in Armenia", which the government approved in November 2009. However, according to the Committee to Protect Freedom of Expression, an Armenian human rights NGO, the Concept Paper "reminded more of a declaration of good intentions than a strategy for actions".²¹ An analysis of the Concept Paper commissioned by the Office of the OSCE Representative on Freedom of the Media was more diplomatic: "the Concept Paper mentions the need for changes in the laws but is not very clear on the substance of such changes."²²

Nevertheless, on 17 June 2010 Armenian President Serzh Sargsian signed into law the Statute "On Introducing Amendments and Supplements to the Law 'On Television and Radio'". The Statute had already been adopted by the parliament on 10 June 2010. The law had been drafted by the Ministry of Economy and justified by the need to switch from analogue to digital broadcasting.

The Statute amended the existing Law "On Television and Radio"²³ in that it introduced a new text addressing digitalisation issues. Even with these changes the new law was very close in its structure and approaches to the norms of the previous one.²⁴

The amending Statute did not lay down any legal grounds for private operators of digital broadcasting to be established. For example, the Statute now provides that "in order to create a private network of digital broadcasting by legal persons starting from 1 January 2015, the procedure and terms for multiplex licencing will be established by law". It neither stipulates when precisely (after 2014) the law will provide these important terms nor does it specify why their adoption was delayed to start with.

The Statute has been criticised by journalistic and international organisations. They noted that the new law does not solve the crucial issues of broadcast regulation and recommended to introduce some essential changes. In response the President established an expert committee of representatives of the government and NGOs, headed by the Ombudsman of the Republic of Armenia. By June 2011,

19) See: <http://merlin.obs.coe.int/iris/2008/8/article1.en.html>

20) Richter, A., *Post-Soviet Perspective on Censorship and Freedom of the Media*, Moscow: UNESCO, 2007, p. 153-155; Burgess, J., *Throwing the Switch: Challenges in the Conversion to Digital Broadcasting. A Report to the Center for International Media Assistance*, Washington, DC: Center for International Media Assistance, 2009, p. 11.

21) Committee to Protect Freedom of Expression, "Transition process to digital TV and radio broadcasting in Armenia. Analysis of the situation and recommendations", 2010, www.partnership.am/res/POS%20Publications_Eng/Recom-Digital-%28eng%29-2010.doc, accessed on 3 November 2012.

22) Nyman-Metcalf, K. and Richter, A., "Analysis of the concept paper on migrating to digital radio and TV broadcasting system in Armenia", Office of the Representative on Freedom of the Media, Organization for Security and Co-operation in Europe, 2010, www.osce.org/fom/67722, accessed on 3 November 2012.

23) Statute "On Television and Radio Broadcasting" of 9 October 2000.

24) See IRIS 2010-8/8.

the group had drafted a new bill on broadcasting, which despite having been submitted to the parliament was never formally considered.

In July 2010, the regulatory authority for broadcasting, the National Council for Television and Radio, or NCTR, invited applicants to its tender for 18 DTT broadcast slots. A total of five licences for commercial broadcasters were allocated in December 2010; two licences were reserved for the public service broadcaster. In addition, one licence was awarded for the capital city Yerevan and one for each of the 10 provinces. The NCTR turned down the 13th licence bid of *A1+* with the argument that *A1+* had provided false financial information in its licence application, an allegation that *A1+* refutes.

ALM TV, which is managed by the leader of the opposition People's Party, was also denied a DTT licence despite a seemingly superior application that offered more coverage and financing in comparison with the broadcaster *Yerevan* that received the licence.

Prior to the competitions of December 2010, 42 licensed private TV channels existed in Armenia: 16 of them in Yerevan and 26 in the provinces. Since then the number of broadcasters diminished. Today 15 private TV channels are operated (in addition to the Public Television of Armenia). There are six nationwide TV channels, of which one is allocated for the rebroadcasting of foreign broadcasters. Nine TV channels are operated in Yerevan and three of them are rebroadcasters. Besides, ten regional TV channels – one for each of the Armenian regions – were licensed to broadcast in the digital network. The regional TV companies that did not take part in the competitions or were not successful with their applications will continue to broadcast in analogue mode until the end of 2014. Most of the private TV channels are owned by politicians and major entrepreneurs, associated with the authorities.²⁵

2. Azerbaijan

In early 2011 the Cabinet of Ministers of Azerbaijan approved a programme “On Establishment and Development of Digital Broadcasting System DVB-T on the Territory of the Azerbaijani Republic”. Transition from analogue to digital broadcasting is to be attained in two stages. By the end of stage one (2012), digital broadcasting shall be ensured in major cities and in the areas along the borders of the country. Upon the completion of the second stage (2015), all TV viewers shall be able to receive 2, 3, 4 or more packages, each of which can consist of up to 12 TV channels. At the same time the analogue broadcasting will be switched off.

The process of digitalisation started in Azerbaijan back in 2004. As of 2011 digital television is offered to 35% of the population. However, the prospects of digitalisation are often questioned due to the high costs for some TV companies and residents of Azerbaijan.²⁶

3. Belarus

In this country a “State programme to implement digital television and radio broadcasting” was adopted on 8 December 2005 by an ordinance of the Council of Ministers. In comparison with other members of the Commonwealth of Independent States, Belarus has an advanced telecom infrastructure. Cable TV penetration is 71% of the population (Russia, to compare, has about 20%). The line-up of the channels of the so-called “social package” multiplex, which consists of free digital broadcasting, was approved by an order of the Ministry of Information on 6 July 2009. The original list contained six channels, including two from Russia. As of today it consists of state TV channels Belarus 1, Belarus 2, ONT (that rebroadcasts programmes of Russia's *Pervyi kanal*), STV (a stock company affiliated with Russian commercial TV channel *Ren*), the two Russian channels NTV and RTR-Planeta (international version of *Rossiya-1*), as well as the CIS common channel *Mir*.

25) Poghosbekian, E. (ed.), *Media Landscapes of Eastern Partnership Countries*, Yerevan, 2011, p. 10, www.ypc.am/upload/Media%20Landscapes%20of%20EaP%20Countries_eng.pdf, accessed on 3 November 2012.

26) *Ibid.* p. 28.

Another channel that had been part of the first multiplex – 8th Channel (a private company) – was suspended from its communication services on 1 January 2012 for outstanding debts.

The second must-carry free package includes Moscow channels TV-Centre, TNT, Ren-TV and Russia Today (RT).²⁷ Altogether there are 87 TV media outlets in the country, out of which 55 enterprises are not affiliated to the state, and 32 are state broadcasters.²⁸

All non-state broadcast media are fully controlled by the public authorities – both local and national – through the system of broadcast licensing. The licensing body, the Commission on Television and Radio Broadcasting of the Republic of Belarus at the Ministry of Information, grants an automatic right for terrestrial broadcasting to TV organisations established by the decisions of the Belarusian President or the Council of Ministers. In all other cases the competition rules apply. The assignment of licences for broadcasting is regulated by an ordinance of the Council of Ministers adopted in 2003.²⁹

The Council of Ministers and the Ministry of Communication and Information jointly appoint all the members of the licensing body, including its chair. This position is traditionally reserved for the Minister of Communication and Information. Thus, the government fully controls the process of distribution of all frequencies and licences.³⁰

The standard for DTB is MPEG-4, DVB-T. According to the state broadcasting network operator, BRTPC, as of 4 July 2012 the penetration of digital TV broadcasting with the DVB-T standard reached 95.25% of the country's population.³¹ MMDS operators of television services had completed switchover by 1 June 2012.

National factories produce set-top boxes and TV sets that are compatible with the digital TV standards. At the same time consumer demand for these products is low. Only 20,000 set-top boxes were sold in the period from January to November 2011.³² While there are 2 million analogue TV sets in Belarus, the sales of digital TV sets amounted to only 10,000 in 2011 and 5,000 in 2010.³³ The low sales figures are viewed as the major problem on the way to analogue TV switch-off.

4. Kazakhstan

On 2 March 2012 the first broadcasting statute entered into force in Kazakhstan.³⁴ It had originally been designed to reflect the needs of digital switchover. To this end, the state-controlled stock company Kazteleradio was assigned the role of national operator of broadcasting. The Statute guarantees all existing analogue TV broadcasters inclusion in the line-up of the digital networks. However, only some of them became part of a free “social package” determined by the State

27) Rak, I., О развитии телекоммуникационной сети Республики Беларусь (“On development of telecommunication network of the Republic of Belarus”), report at the conference *Media Sphere of Russia and Belarus under Conditions of Contemporary Geopolitical Transformations*, Minsk, 21 October 2010.

28) As of 1 September 2012, Data of the Ministry of Information of the Republic of Belarus. See: www.mininform.gov.by/rus/smi/elek/

29) Ordinance of the Council of Ministers of the Republic of Belarus of 30 May 2003 No. 726 “On approval of the Rules on competitions for the right to terrestrial television and radio broadcasting” (Об утверждении Положения о предоставлении на конкурсной основе права наземного эфирного телерадиовещания). See: www.pravoby.info/docum09/part22/akt22232.htm, accessed on 3 November 2012.

30) Poghosbekian, E. (ed.), *Media Landscapes of Eastern Partnership Countries*, Yerevan, 2011, p. 41-42, www.yrc.am/upload/Media%20Landscapes%20of%20EaP%20Countries_eng.pdf, accessed on 3 November 2012.

31) Belarusian Radio and TV Transmitting Network (BRTPC), “Цифровое телевидение” (Digital television), 2012, www.brtpc.by/services/television/digital, accessed 3 November 2012.

32) Solonovich, A., Переход на цифровое вещание может оставить белорусов без телевизоров (Digital switchover may leave Belarusians without TV sets), *Naviny.by*, 7 December 2011, http://naviny.by/rubrics/society/2011/12/07/ic_articles_116_176087/, accessed on 3 November 2012.

33) Platov, A., Беларусь готовится к цифровому телевидению (Belarus gets ready for digital TV), *Компьютерная Газета* (Minsk), No. 9. 2 March 2012, <http://pressenter.ru/index.pl?act=PRODUCT&id=77>, accessed on 3 November 2012.

34) Statute of the Republic of Kazakhstan “On television and radio broadcasting” of 18 January 2012, No. 545-IV. See: IRIS 2012-3/28.

Commission on Development of Broadcasting in November 2012. The Commission was formally established on 6 June 2012 by the government with the Minister of Culture and Information as its chair and his vice-minister as the deputy chair. It basically replaced the Commission on Broadcasting as it had been known before then.

To implement the broadcasting law and in view of the coming digital switchover the Government of the Republic of Kazakhstan adopted on 26 July 2012 an ordinance titled "On approval of the Rules for competition on selection of the must-carry television and radio channels".³⁵ According to the Ordinance, the Committee on Information and Archives of the Ministry of Culture and Information has the mandate to assist the procedures for the selection of broadcasting channels for the line-up on the multiplex. The competition itself will be conducted by the Commission on Development of Broadcasting that reviews programme policies, technical specifications and financial resources of the applicants. The Commission's decisions on the results of the competition are to be approved by the government within one month after the competition.

As approved by the Ordinance the selection criteria for the competition include "social importance of proposed programmes, availability of broadcasts on culture, educational programmes, programmes aimed at youth and children, coverage of state policies concerning the social and economic development of the country". As other criteria the ordinance lists the general format of a channel, the requirement that a certain proportion of programmes must be produced by the applicants, that a proportion of programmes must be broadcast in Kazakh language, the availability of professional staff, and an average length of broadcasting per day.³⁶

While tariffs for the digital transmission service will be determined only in 2014, Kaztelradio will not charge broadcasters until the switch-off of analogue broadcasting. In return Kaztelradio will be compensated from the national budget.

DVB-T2 is the minimum standard. The first DTT national multiplex started regular broadcasting in five major cities in July 2012 with a set of eight programmes including two regional ones.

5. Kyrgyzstan

In the framework of the GE06, 14 multiplex frequencies have been reserved for Kyrgyzstan. A pilot project to test the problems of the digital switchover started in 2009 in the Batken region. This south-western province was chosen as its mountainous landscape and intersecting signals from neighbouring countries constituted additional challenges in the context of testing the setting up of digital transmitters. Currently, eight TV and two radio channels broadcast in digital format in the province using one multiplex that is owned by Kyrgyz Telecom, a state-controlled and partly state-owned company.

On 2 November 2011, a programme for the digital switchover was approved by the Government of the Kyrgyz Republic,³⁷ following a process of consultations with civil society and media NGOs. It outlines the technical and political steps to be taken by stakeholders. In particular it establishes DVB-T2 as the minimum standard. The programme appoints the state-run Kyrgyz Telecom as the main service provider and obliges it to broadcast the free-of-charge "social package" multiplex to 95% of the population by 2013.

35) Ordinance of the Government of the Republic of Kazakhstan "On approval of the Rules for competition on selection of the must-carry television and radio channels" of 26 July 2012 No. 970. See: http://online.zakon.kz/Document/?doc_id=31233586, accessed on 3 November 2012.

36) Ordinance of the Government of the Republic of Kazakhstan "On approval of the Rules for competition on selection of the must-carry television and radio channels" (Об утверждении Правил проведения конкурса по формированию перечня обязательных теле-, радиоканалов) of 26 July 2012, No. 970. Published in *Kazakhstanskaya pravda* official daily on 16 August 2012, No. 271-273.

37) Government of the Kyrgyz Republic, Resolution О переходе на цифровое телерадиовещание в Кыргызской Республике (On the digital television switchover in the Kyrgyz Republic) of 2 November 2011, www.gov.kg/?p=4733, accessed on 3 November 2012.

The programme tasks the State Communications Agency (SCA) with implementing the switchover in four stages:

1. The SCA and the Ministry of Transport and Communications (MTC) are to develop criteria for the allocation of licences.
2. Allocation of multiplex frequencies is to take place through a competition. The Ministry of Culture must identify specific TV programmes that are to be included in a free-of-charge multiplex, the so-called "social package".
3. Private broadcasters are to develop their digital broadcasting networks. The government pledges to create favourable conditions for the domestic production.
4. Measures to prevent a negative impact on the socially vulnerable population are to be implemented by the Ministry of Social Protection, the Ministry of Finance, the MTC, the SCA and the Ministry of Culture.

The programme foresees that the 14 multiplexes allocated for Kyrgyzstan will be distributed in the following way. Four of them go to Kyrgyz Telecom, including the "social package" multiplex; and one is reserved for a free-of-charge educational TV to be determined through a competition; between three and ten multiplexes are to be allocated to private service providers on the basis of a competition or auction by 2014 and until then will be considered as reserve frequencies.

The programme suggests that in each of the seven provinces one or two of the "commercial" multiplexes are allocated for private broadcasters to be auctioned among private telecommunication enterprises in three lots. The multiplex operators are to select and contract local broadcasters on the inclusion of their programmes in the line-up.

At the same time high initial costs are likely to limit any interest of commercial service providers to bid for multiplexes. According to the OSCE sources, local broadcasters are poor and lack resources to produce or purchase enough content. There is already a strong preference of the population for satellite TV, a trend that may be accelerated with the digital switchover. It should be noted that currently satellite TV for viewers in Kyrgyzstan does not offer any national content.

Though adopted recently the programme is already behind schedule.

6. Moldova

According to the plan agreed in Geneva in 2006 (GE06), Moldova will have six national multiplexes (36 television channels) and two regional multiplexes (26 television channels).³⁸

The first concept for introducing digital terrestrial television in Moldova was drafted in 2007. The Ministry of Information Technologies and Communications (MITC) announced its intention to begin the process of switchover only in 2011. According to the government, digital licences in the first multiplex will be given to both public and private institutions.³⁹

In June 2010, the MITC finalised the drafting of the Strategy Regarding Transition from Terrestrial Analogue to Terrestrial Digital Television (hereafter, the Strategy) and submitted it to broadcasters for public consultation. After debates with industry bodies, the Strategy was posted online for a wider public discussion. The final draft was submitted to the government in February 2011 and by autumn was ready to go through all the stages of the legislative process.⁴⁰ However, it has not been approved. Local authors believe that this is mainly because of "the fact that the topic itself is complex and there are few people in Moldova able to grasp the full extent of the upcoming

38) Gotisan, V., Pirtac, O., Dogaru, V. et al., *Mapping Digital Media: Moldova*, Open Society Media Program, 2012, p. 89. See: www.opensocietyfoundations.org/reports/mapping-digital-media-moldova, accessed on 3 November 2012.

39) Ibid., p. 18. See the text of the Concept (in Russian) at: www.mtic.gov.md/img/law/2009/proiect/2009-10-31b/conceptia_ru.pdf, accessed on 3 November 2012.

40) Ibid., p. 89.

transition and to provide meaningful input".⁴¹ The fact that approval is still pending is probably also related to the second observation that no information campaigns have been carried out to explain the implications of digital switchover to the general public.⁴²

Meanwhile, in February 2012, the MITC "downgraded" the Strategy to a Programme of the same name. The Programme was put forward for public consultation, published on the website and stakeholders were invited to send comments and suggestions. In summer 2012, the Programme was revised and consolidated with the suggestions received as a result of the public consultations. Thereafter stakeholders were again invited to send their comments and suggestions. Following this public consultation, MITC is expected to forward the draft Programme to the government for approval.

What is clear at this point is that the national, state-owned transmission network operator Radiocomunicatii will operate the DTT platform to be built on the basis of the current three analogue networks.⁴³ Radiocomunicatii, the major transmission network operator in Moldova, was founded and is run by the MITC and remains a state-owned enterprise. The first DTT trial, offering services from one transmitter, began in September 2003 in Chisinau. The second transmitter was installed in October 2003. Currently, one multiplex is available offering access to four television programme services. Another DTT trial operation exists in the town of Slobozia.⁴⁴ Other sources say that only three programmes – public broadcaster *Moldova1*, as well as private broadcasters *2 Plus* and *Prime*, have national coverage in the digital format.⁴⁵

The launch of a nationwide or regional DTT platform was expected to begin by the end of 2009, but the first practical steps were taken only in October 2010, when Radiocomunicatii began installing new equipment that would ensure the reception of the digital terrestrial signal. It is expected that after completion of the process of digitising terrestrial platforms, there will be about eight television stations in the first multiplex using MPEG-4 compression technology. The second multiplex was to be launched in 2012 (although this has not occurred), allowing viewers to access 16 television stations.⁴⁶

The line-up of the first, second, and probable third multiplexes is not yet finalised. The broadcast regulator is to conduct competitions for the line-up of the first free multiplex in 2013. In this context, the draft Programme mentioned that one aim of the digital switchover should be to migrate all existing analogue programmes to the new platform, the "effectiveness and importance of which had been demonstrated for many years in various aspects".⁴⁷ Local broadcasters are expected to establish associations to fill in the slots on regional multiplexes which they first have to build at their own expense or by attracting investments.⁴⁸ Many of them are likely to lose terrestrial access to the audiences with the switch-off.⁴⁹

41) Ibid., p. 90.

42) Ibid., p. 108. See also: Gotisan, V., "Digital mass media in Moldova: Evolution and perspectives", *Mass Media in Moldova*, June 2012, p. 10, available at: www.ijc.md/bulmm/2012%20iunie/eng/8_11_MM-June-2012-ENG-3.pdf, accessed on 3 November 2012.

43) Programme on Transition from Terrestrial Analogue to Terrestrial Digital Television (2012), draft to be approved by the Government of the Republic of Moldova, see the text (in Moldovan) at: www.mtic.gov.md/img/d2011/download/2012/03-20/program_TV-digital_februarie_2012_V2%20.pdf, accessed on 3 November 2012.

44) Gotisan, V., Pirtac, O., Dogaru, V. et al., *Mapping Digital Media: Moldova*, Open Society Media Program, 2012, p. 38. See: www.opensocietyfoundations.org/reports/mapping-digital-media-moldova, accessed on 3 November 2012.

45) Moiseev, S., Наземное цифровое телевидение в Молдове (Terrestrial digital television in Moldova), *Ekonomicheskoe obozrenie*, No. 8, 2 March 2012, www.logos.press.md/node/33716, accessed on 3 November 2012.

46) Gotisan, V., Pirtac, O., Dogaru, V. et al., *Mapping Digital Media: Moldova*, Open Society Media Program, 2012, p. 38. See: www.opensocietyfoundations.org/reports/mapping-digital-media-moldova, accessed on 3 November 2012.

47) Programme on Transition from Terrestrial Analogue to Terrestrial Digital Television (2012). See also: Nyman-Metcalf, K., (2012) Analysis of the Programme on the transition from analogue terrestrial television to digital terrestrial television in the Republic of Moldova at: www.osce.org/fom/92575, accessed on 3 November 2012.

48) Ibid.

49) Grosul, O., Вещатели пишут завещание (Broadcasters write last will), *Kommersant.md*, 10 July 2012, www.kommersant.md/node/9059, accessed on 3 November 2012.

Due to the small size of Moldova (which is almost equal to that of Belgium), the total expenses for the digital switchover are relatively low-scale compared to those of other CIS states. According to some experts, the total budget for completing the digital switchover is around EUR 3 million.⁵⁰ The funding for the switchover is expected to come from private investors.⁵¹ The standard will be MPEG-4, DVB-T.

The Strategy includes a commitment to provide set-top boxes to those who cannot afford them and to elaborate criteria for the provision thereof some time in the future.⁵² This is a crucial issue, as according to researchers “most Moldovan households are not equipped to access digital content due to the poverty that plagues a significant part of the Moldovan population”.⁵³ Technical standards for the set-top boxes are yet to be approved. Cable, satellite and similar technologies had a penetration of 22.5% in 2011, which means that more than three quarters of the population need new equipment.

As for the self-proclaimed independent state of Transdnistria, (IDC), its main telecom operator, migrated its TV cable and MMDS services to digital at the beginning of 2012. Back then, IDC announced it had already distributed 80,000 set-tops across Transdnistria for its clients free-of-charge. The must-carry package includes five free channels.⁵⁴

7. Tajikistan

The State Programme for development of digital television in the Republic of Tajikistan for 2010-2015 was approved by the government in 2010. Its implementation is administered by the State Committee on Television and Radio, which is part of the Government of Tajikistan. The government made it the Committee’s “main task” to create the conditions allowing citizens to obtain socially important and reliable information, to provide for the development of new platforms including mobile television, IPTV, HDTV and satellite transmissions from Tajikistan, and to secure the functioning of the analogue infrastructure until the switch-off.⁵⁵

According to the Programme, the switchover will be carried out in six phases and is planned to be completed by the end of 2016. It will be funded from the state budget (60%) and “other sources”.⁵⁶

The “social package” will include four state-run national programmes, while remaining slots will be taken by regional broadcasters. Sources in the State Committee on Television and Radio indicated at the end of 2011 that Russian broadcasters were also invited to express commercial interest in obtaining slots in the social package under the conditions set by the national communications authority.

No decisions were taken with regard to the exact line-up of this multiplex, the rules for inclusion of programmes and licensing, and sources that might subsidise set-top boxes. The standard chosen will probably be DVB-T2, with 16 slots in one multiplex.

50) Gotisan, V., Pirtac, O., Dogaru, V. et al., *Mapping Digital Media: Moldova*, Open Society Media Program, 2012, p. 37. See: www.opensocietyfoundations.org/reports/mapping-digital-media-moldova, accessed on 3 November 2012.

51) Programme on Transition from Terrestrial Analogue to Terrestrial Digital Television (2012).

52) Gotisan, V., Pirtac, O., Dogaru, V. et al., *Mapping Digital Media: Moldova*, Open Society Media Program, 2012, p. 90. See: www.opensocietyfoundations.org/reports/mapping-digital-media-moldova, accessed on 3 November 2012. See also: Programme on Transition from Terrestrial Analogue to Terrestrial Digital Television (2012), draft to be approved by the Government of the Republic of Moldova (on file with the author).

53) Gotisan, V., “Digital mass media in Moldova: Evolution and perspectives”, *Mass Media in Moldova*, June 2012, p. 10, available at: www.ijc.md/bulmm/2012%20iunie/eng/8_11_MM-June-2012-ENG-3.pdf, accessed on 3 November 2012.

54) See the website of Interdnestrcom at: www.idknet.com/about/vopros-otvet/o_cifrovizacii.php?phrase_id=1070882, accessed on 3 November 2012.

55) Government of Tajikistan, Государственная программа развития цифрового телевизионного вещания в Республике Таджикистан на 2010-2015 годы (State programme for development of digital television in the Republic of Tajikistan for 2010-2015), Ordinance No. 76 of the Government of the Republic of Tajikistan, 27 February 2010, para 22. www.khoma.tj/index.php?option=com_content&view=article&id=48:2011-08-01-08-32-22&catid=7:2011-08-01-08-30-48, accessed on 3 November 2012.

56) Ibid.

8. Turkmenistan

The broadcasting system in this country is quite simple. All TV channels belong to the state and are run through the Committee on Television, Radio Broadcasting and Cinematography which is part of the Government of Turkmenistan. Before 17 October 2011 this sphere was administered by the now defunct Ministry of Culture, and Television and Radio Broadcasting. The digital switchover and resulting increase in the number of television channels is part of the mandate of the Committee.

While only a few years ago not more than three TV channels operated in the country, there are now six national channels. They are: Altyn Asyr (Golden Age, current affairs), youth channel Yasyk, Miraz (Heritage) on history and culture, Turkmenistan (available in seven languages), Turkmenistan Sport, and Owazy, a musical channel of national folk songs. In addition, the local channel Ashkhabad is available in the capital and its suburbs.

All these channels will migrate to a digital broadcasting platform, all in HDTV format, all free for the public. This has led to the revival of government plans to ban aerial dishes that are popular in urban areas to receive signals from Russian or Turkish satellites.

9. Ukraine

Whereas some researchers view “the absence of a legislative framework that would regulate the process” as a serious problem for introducing digital broadcasting in Ukraine,⁵⁷ one might also state the opposite with reference to an abundance of relevant legal acts, at least in comparison with other post-Soviet countries.

A new version of the 1993 Statute On Television and Radio Broadcasting was adopted by the Supreme Rada (the national parliament) as early as 12 January 2006 to include (in Article 22) a number of important provisions regarding the future of digital broadcasting.⁵⁸ The Statute was followed by:

- the Radio Frequency Resource Utilisation Plan approved by a Resolution of the Cabinet of Ministers on 9 June 2006;⁵⁹
- the second “Plan for the Development of the National Television and Radio Sphere of Ukraine”, which was adopted by the National Council of Ukraine on TV and Radio Broadcasting (hereinafter the National Council) on 1 December 2010;⁶⁰
- a decree of the President of Ukraine “On Urgent Measures to Provide for the Information Security of Ukraine” of 23 April 2008;⁶¹
- the “State Programme on the Introduction of Digital Television and Radio Broadcasting” approved by the Cabinet of Ministers on 26 November 2008.⁶²

The number of different legal instruments might account for the inconsistency within the legal framework. Further delay in the switchover has been caused by the conflicting opinions of different national authorities as to the path digitalisation should take, and instances of backtracking and numerous amendments to the documents listed above during the switchover process.⁶³

57) Poghosbekian, E. (ed.), *Media Landscapes of Eastern Partnership Countries*, Yerevan, 2011, p. 94, www.ypc.am/upload/Media%20Landscapes%20of%20EaP%20Countries_eng.pdf, accessed on 3 November 2012.

58) Statute of Ukraine “On TV and Radio Broadcasting” (Про телебачення і радіомовлення) No. 3759-12 of 21 December 1993.

59) See its text in Ukrainian at: <http://zakon.nau.ua/doc/?uid=1096.849.7&nobreak=1>, accessed on 3 November 2012.

60) See the text in Ukrainian at: <http://zakon.nau.ua/doc/?code=z1294-10>, accessed on 3 November 2012.

61) See its text in Ukrainian at: <http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=n0010525-08>, accessed on 3 November 2012.

62) See its text in Ukrainian at the website of the Supreme Rada (the Ukrainian Parliament) at: <http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=1085-2008-%EF>, accessed on 3 November 2012.

63) Richter, A. and Shevchenko, T., “Development of Digital Terrestrial Television in Russia and Ukraine”, *Digital Television IRIS plus*, 2010-1, Strasbourg: European Audiovisual Observatory, p. 24.

One of the few definite elements is that Ukraine has chosen the DVB-T2 MPEG-4 format for the digital signal.

The process of introducing digital broadcasting in Ukraine was spurred by the designation by the National Council of Ukraine on TV and Radio Broadcasting, the independent regulator, of a national provider, Zeonbud Ltd, in December 2010. Next, Zeonbud announced a schedule for building a network for digital broadcasting, including, in particular, the installation of 668 transmitters to be mounted on 167 transmission stations throughout Ukraine.⁶⁴

The platform was launched in October 2011 and as of August 2012 Zeonbud had an audience of three million (or about 6% of the country's population).⁶⁵ Viewers can access up to 28 television programme services depending on the region.⁶⁶ Zeonbud expected that one million households would access the DTT platform by the end of 2012.

Ukraine has a huge number of broadcasters, most of them municipal and regional, which has led to an excessive demand from them for slots in multiplexes guaranteed to them under Article 22 of the Broadcasting Statute. However, results of the competitions for regional slots (held by the National Council in 2011) allocated them to unknown Kiev companies bypassing leaders of the regional TV markets. Similar decisions marked competitions for slots in nationwide multiplexes. Priority was given to programmes such as "Hockey", "Banking", "Real Estate", and "Weather" rather than to general sports programmes, general news, culture and children's programmes.⁶⁷ A total of 28 programmes in the MX-1, MX-2, MX-3 and MX-5 multiplexes succeeded in the competition out of 59 bids. The results were challenged in court (the cases are pending).⁶⁸

In May 2012 the National Council on Television and Radio cancelled a competition for regional DTT licences citing litigation by a regional broadcaster (which might have led to an invalidation of the competition results). The competition was re-announced for 169 regional digital frequencies, the same number as before. The winning companies will enter into a contract with Zeonbud, which operates four national DTT multiplexes.⁶⁹

There is no clear policy regarding the supply of set-top boxes needed to receive the digital signal with regard to giving them to socially vulnerable layers of the population. The Head of the National Council recently stressed that out of 17.5 million households in Ukraine, only one million are equipped with transmitters capable of receiving digital signals.⁷⁰

During May-June 2012, 185,000 DTT receivers have been sold.⁷¹ Free receivers will be made available to 700,000 eligible households. In 2012 the Ukrainian State Committee for Television and Radio Broadcasting selected Strong to supply DTT receivers to needy sections of the country's population. The company offered to do so for UAH 486.80 (EUR 45.6) per receiver, while Romsat, the other shortlisted bidder, suggested a figure of UAH 487. Although Strong's receivers are currently

64) Poghosbekian, E. (ed.), *Media Landscapes of Eastern Partnership Countries*, Yerevan, 2011, p. 94, www.ypc.am/upload/Media%20Landscapes%20of%20EaP%20Countries_eng.pdf, accessed on 3 November 2012.

65) Dziadul, C., "New landmark for Ukrainian DTT", *Broadband TV News*, 22 August 2012, www.broadbandtvnews.com/2012/08/22/new-landmark-for-ukrainian-dtt/, accessed on 3 November 2012.

66) ProIT, Цифровое ТВ «Зеонбуда» уже смотрит 500 тыс. украинцев (Digital TV Zeonbuda is watched by 500 thousand Ukrainians), 27 June 2012, <http://proit.com.ua/news/telecom/2012/06/27/153212.html>, accessed on 3 November 2012.

67) Крайныак, Ю., Цифровые разводы (Digital plots), *Zerkalo nedeli* (Ukraine), No. 31, 2 September 2011, http://gazeta.zn.ua/ECONOMICS/tsifrovye_razvody.html, accessed on 3 November 2012.

68) Dziadul, C., "Ukraine announces DTT winners", *Broadband TV News*, 18 August 2011, www.broadbandtvnews.com/2011/08/18/ukraine-announces-dtt-winners/, accessed on 3 November 2012.

69) Dziadul, C., "Ukrainian DTT problems continue", *Broadband TV News*, 1 June 2012, www.broadbandtvnews.com/2012/06/01/ukrainian-dtt-problems-continue/, accessed on 3 November 2012.

70) Poghosbekian, E. (ed.), *Media Landscapes of Eastern Partnership Countries*, Yerevan, 2011, p. 94, www.ypc.am/upload/Media%20Landscapes%20of%20EaP%20Countries_eng.pdf, accessed on 3 November 2012.

71) Dziadul, C. "DTT takes off in Ukraine", *Broadband TV News*, 2 July 2012, www.broadbandtvnews.com/2012/07/02/dtt-takes-off-in-ukraine-2/, accessed on 3 November 2012.

manufactured in China, it is considering the possibility of assembling them in Ukraine. The total cost of the subsidised receivers will amount to UAH 333.458 million.⁷²

10. Uzbekistan

Uzbekistan introduced terrestrial digital TV broadcasting in the DVB-T standard in October 2009 with the first multiplex of 12 channels. It includes four state-run channels – O‘zbekiston, Yoshlar, Toshkent and Sport, as well as eight other channels (including five Russian ones). The state company “Centre of radio communication, radio broadcasting and television” (CRRT) is responsible for the development of the digital TV broadcasting networks as well as the preparation of normative acts like the state action plans on transfer to digital TV. In line with the CRRT decision of 25 February 2010, for example, a plan on transfer to terrestrial digital TV broadcasting in Uzbekistan for 2010-2015 was approved.⁷³

Currently the first multiplex provides 12 free channels in a number of regions of the country, mostly in border areas and in highly populated parts. In 2010, two more digital TV platforms were introduced in the capital and the Tashkent region and the number of digital broadcast TV channels rose first to 25 and then to 36. Most of these channels broadcast Russian entertainment or state-run programmes. In November 2011 the first terrestrial HD channel (Uz.HD) was introduced. As of April 2012 digital broadcasting was available to 37.5% of the population.⁷⁴ It is envisaged that 87% of the territory will be covered by the digital signal in 2015, while the target of 100% coverage of the territory will be attained only in 2017. According to data provided by the government, the number of non-state TV programmes reached 63 in 2011.

The telecom operator UzDigital TV LLC was founded in 2009 by CRRT and Aloqabank (in its turn established by the government as a stock company to finance projects in the communications field) to implement the switchover plans. It obtained licences to operate the now existing three multiplexes.

On 17 April 2012, the President of Uzbekistan, Islam Karimov, signed the decree “On the State Programme on technical and technological transfer to digital television broadcasting in the Republic of Uzbekistan”.⁷⁵ The document foresees two stages for the switchover. The first shall take place in 2012-15 and the second in 2016-17. Until 1 January 2018 the CRRT and the state-run National Broadcasting Company (NTRKU) are exempted from taxes on profits as well as duty fees on import of digital equipment so as to allow more spending on the digital switchover. In line with this arrangement, the date for the switch-off of analogue broadcasting was pushed back to 1 January 2018. Until then, the government plans to keep both analogue and digital broadcasting. The NTRKU, the Ministry of Culture and the “Republican Centre of propaganda of spirituality and enlightenment” are invited by the decree to suggest more digital TV channels and programming in order to push forward with the digital switchover. NAESMI, the National Association of Electronic Mass Media of Uzbekistan, has been assigned the task to modernise private TV companies in order to form a line-up of non-state programmes.

The State Programme deals with a number of issues related to the switchover, including the establishment of 12 state-run digital TV programmes, protection of minors and setting of technical standards (in 2012 and 2013). The State Programme embraces the idea that the development of digital networks and the digitalisation of archives will be funded by “low-interest foreign credits”.

72) Dziadul, C. “Strong wins Ukrainian DTT contest”, *Broadband TV News*, 18 April 2012, www.broadbandtvnews.com/2012/04/18/strong-wins-ukrainian-dtt-contest/, accessed on 3 November 2012.

73) UzDaily, “Digital television has been introduced in Samarqand”, 2 October 2010, www.uzdaily.com/articles-id-11639.htm, accessed on 3 November 2012.

74) Spiridonova, N., “Цифровое телевидение охватило 37,5% населения Узбекистана (Digital TV now reaches 37.5% of Uzbekistan’s population)”, *AnonsUZ*, 30 April 2012, www.anons.uz/article/it/6456/, accessed on 3 November 2012.

75) Unpublished document, on file with the author.

The State Programme foresees low-interest loans for special categories of the population to buy set-top boxes and digital TV sets.⁷⁶ The document was not made available to the public.

Set-top boxes have been produced in the country since 2009.

III. Conclusion

The advent of digital television has accelerated the elaboration of regulation and related processes in the countries of the region. Some countries adopted changes in their broadcasting statutes (Ukraine in 2006; Armenia in 2008 and 2010; Kazakhstan in 2012) or their mass media statute (Russia in 2011). One country laid the foundations for the switchover in a presidential decree (Uzbekistan in 2012), while the rest have opted for governmental ordinances and executive orders. Some changes made in the process go beyond merely adjusting the legal framework to digital technology.

76) Khadzhaev, A., *Перспективы развития цифрового телевидения (Perspectives of digital TV development)*, interview of the head of NTRKU with Sado newspaper, 2012, www.mtrk.uz/news/info/company/2461, accessed on 3 November 2012.

News about Seven More Countries

Whereas the lead article examines the transition to digital television in the Commonwealth of Independent States and the ZOOM focuses on developments in various South-East European countries, the following Related Reporting section is dedicated to news announced in other European states in the past year. Three aspects of the digital switchover are dealt with:

The first aspect is the switch-off of the analogue signal, which was completed before the EU deadline in the Czech Republic. This country was therefore one of the first East European countries to complete the digital switchover. Ireland also achieved this objective on 24 October 2012, while Greece announced last year that the analogue signal would be switched off in June 2013.

Secondly, the Related Reporting section describes the judicial examination of multiplex and licence allocations, which are certainly not always without controversy. Here you can read about decisions taken in Bulgaria and Spain.

Thirdly, we also report on follow-up decisions that need to be taken as part of the digital transition. These include Spanish plans to promote digital TV by making the best possible use of frequencies, the numbering of digital channels in France and, finally, decisions on measures to support digital television in Portugal.

News about Seven More Countries

I. Mastering the Transition

Czech Republic

Transition to the Digital Terrestrial Broadcasting Completed

*Jan Fučík
Ministry of Culture, Prague*

On 22 August 2012 the Czech Government approved the "Final report of the National Coordination Group for Digital Broadcasting in the Czech Republic to complete its transition to digital television broadcasts".

The report considered the Czech Republic during its transition from terrestrial analogue television broadcasting to digital television broadcasting (DVB-T). The switchover was subject to very complex conditions within the Czech Republic of an economic, legislative, technical and geographical character. The whole transition took place in all 13 designated geographical areas within the time frame established by Government Regulation No. 161/2008 Coll. The Czech Republic also met the European Commission deadline for the disabling of terrestrial analogue television broadcasting in the course of 2012. It is among the first Central European countries with such a high terrestrial platform coverage to do so.

In the Czech Republic there are four networks for DVB-T. The first network (a multiplex attributed to the public service provider) with full coverage reached 99.9% of the population. The second and the third DVB-T multiplexes have a coverage of 99.8% and 96.3%, respectively. The fourth network's coverage reached 22.7% of the population; it is used only in the local areas of Prague, Brno and Ostrava.

The transition to digital terrestrial television led to an increase in the range of television stations available - from 4 analogue programmes to at least 9 digital nationwide programmes and several regional programmes. The switch-off brought the long-awaited "digital dividend", in helping towards the release of the radio frequency band to be used for the provision of other electronic communications services, such as those specifically dedicated to mobile access to broadband internet. That frequency is in the process of being prepared for auction.

The smooth completion of the switchover to DVB-T created the possibility of further development of a new generation of electronic communications that signify the development of the level of basic infrastructure needed to achieve national GDP growth and to increase competitiveness. Available frequencies also allow for the provision of terrestrial digital radio broadcasting in the bands released by the 12th television channel. The switch over has not caused significant difficulties for either television broadcasters or citizens of the Czech Republic.

- *Závěrečná zpráva Národní koordinační skupiny pro digitální vysílání v České republice o dokončení přechodu na digitální televizní vysílání*
(Final report of the National Coordination Group for Digital Broadcasting in the Czech Republic to complete its transition to digital television broadcasts)
<http://merlin.obs.coe.int/redirect.php?id=16235>

Ireland

Digital Switchover of Terrestrial Television Complete

Damien McCallig
School of Law, National University of Ireland, Galway

At 10:00 am on 24 October 2012 Ireland's analogue television signal was switched off. Analogue technology had been used to transmit and receive television signals in Ireland since television broadcasting started in 1962. This completes Ireland's digital switchover from analogue to digital television services and meets the European Union target of 2012 for analogue switch-off.

The switchover was coordinated with the digital switchover in Northern Ireland. A Memorandum of Understanding (MOU) was signed between the Irish Minister for Communications, Energy and Natural Resources and the United Kingdom's Secretary of State for Culture, Media and Sport. Under the terms of the Memorandum the widespread availability of RTÉ services and TG4 in Northern Ireland will be facilitated on a free-to-air basis and BBC services will be available in Ireland on a paid-for basis.

- Department of Communications, Energy and Natural Resources, Digital Switchover website
<http://merlin.obs.coe.int/redirect.php?id=16190>
- Department of Communications, Energy and Natural Resources, Memorandum of Understanding between the United Kingdom of Great Britain and Northern Ireland and the Government of Ireland regarding the Digital Switchover and the provision of television services in Northern Ireland and Ireland (1 February 2010)
<http://merlin.obs.coe.int/redirect.php?id=16191>

IRIS 2013-1/27

Greece

Digital Transition in Motion

Alexandros Economou
National Council for Radio and Television, Athens

The most important switch off of analogue television signal is to be held in Attica region next July (6 July 2012) according to a ministerial decision of 20 March 2012. This operation is expected to enhance the legislative level that has been ceased since the publication of the first co-ministerial decision on the digital switchover (see IRIS 2008-9/20).

In the last three months significant progress, marked by two legislative initiatives, can be observed at the institutional level. Firstly, in a provision voted in February by the Greek Parliament a timetable related to different stages of the digital switchover operation (digital licensing procedure, date of definitive switch off: 30 June 2013) is established. All television stations that have no licence but are considered to be legally functioning up to now will continue to enjoy the same legal status only on the condition of participating in this future tender. This provision could be considered as the official response to the latest decision of the Plenary Session of the Συμβούλιο της Επικρατείας (the Council of State – Supreme Administrative Court of Greece) that had declared unconstitutional two legislative provisions permitting all regional television stations, which participated in the 1998 tender, to function even after an indefinite time after the publication of this tender (see IRIS 2011-1/34).

The second provision is a new version of Article 13 of Act 3592/2007 related to digital broadcasting that has been voted in 6 April 2012 by Greek Parliament and incorporated in Article 80 para. 1 element 6 of Act 4070/2012 on electronic communications. The separation of content providers and multiplex (e. g. technical) operators is being officially established, the former being licensed by the audiovisual regulatory authority (Εθνικό Συμβούλιο Ραδιοτηλεόρασης, National Council of Radio and Television), the latter using digital frequencies to be allocated under auctions conducted by the telecommunications regulatory authority (Εθνική Επιτροπή Τηλεπικοινωνιών και Ταχυδρομείων, Hellenic Communications and Post Commission). The public broadcaster ERT S. A. is excepted from licensing tender and has been allocated by ministerial decision its own frequencies.

- ΚΥΑ 13971/365/20.3.2012 “Οριστική παύση ορισμένων αναλογικών τηλεοπτικών εκπομπών από το κέντρο εκπομπής Υμηττού” (ΦΕΚ Β’ 862/20.3.2012)(Ministerial Decision of 20 March 2012 on the switch-off of analogue television signal in Attica, Official Journal B 862 of 20 March 2012)
- Νόμος 4038/2012 “Επείγουσες ρυθμίσεις που αφορούν την εφαρμογή του μεσοπρόθεσμου πλαισίου δημοσιονομικής στρατηγικής 2012–2015” (ΦΕΚ Α’ 14/2.2.2012).(Law 4038/2012, Official Journal A 14 of 2 February 2012)
- Νόμος 4070/2012 “Ρυθμίσεις Ηλεκτρονικών Επικοινωνιών, Μεταφορών, Δημοσίων Έργων και άλλες διατάξεις” (ΦΕΚ Α’ 82/10.4.2012).(Act 4070/2012 on electronic communications (Official Journal A 82 of 10 April 2012))

IRIS 2012-5/26

II. Reviewing the Results

Bulgaria

Judicial Review of the Public Digital Multiplex Completed

Rayna Nikolova
New Bulgarian University

On 16 January 2012 the Supreme Administrative Court rejected the appeal of DVBT (a group of seven companies led by Insat Electronics that support the networks of television Pro.bg and radio Express, Darik and FM+) against the choice of the Latvian company Hannu Pro to build up a so-called public multiplex (see IRIS 2010-8/16). The public multiplex will distribute the programmes of BNT and BNR from October 2013 (see IRIS 2009-7/5).

DVBT ranked second in the competition conducted by the Communications Regulation Commission with a score of 0.3 point lower than Hannu Pro. According to the company's appeal, pressure has been exerted on the working group's members in order to manipulate the assessments in favour of Hannu Pro. The company has previously been granted three more multiplexes in Bulgaria. On 8 December 2011, during the court meeting, the appeal by DVBT was supported by the prosecutor on that case. He said that the choice of Hannu Pro was unlawful and contrary to EU Directives that encourage competition in the media market.

The Supreme Administrative Court rejected making a request for a preliminary ruling to the European Court of Justice because the answer comes clear and unambiguously from a decision of the

Court of Justice in a similar case: C-380/05 (Centro Europa 7 Srl v. Ministero delle Comunicazioni e Autorita per le garanzie nelle comunicazioni and Direzione generale per le concessioni e le autorizzazioni del Ministero delle Comunicazioni, see IRIS 2008-7/25).

Competitions have been conducted for six multiplexes so far (see IRIS 2011-4/12). The first two of them have been won by the Slovak company Towercom and the remaining four by Hannu Pro. According to some publications in the Bulgarian media both companies are directly or indirectly connected to the owner of the Corporate Commercial Bank, which is participating in the purchase of NURTS (a network for analogue television broadcasting).

- Решение № 772 от 16.01.2012 г. на Върховния административен съд, Петчленен състав, II колегия (Decision № 772 of the Supreme Administrative Court, five-member jury, II College, 16 January 2012)
<http://merlin.obs.coe.int/redirect.php?id=15654>

IRIS 2012-3/11

Spain

Supreme Court Cancels all DTT Licences Awarded for Valencia in 2006

Pedro Letai
IE Law School, Instituto de Empresa, Madrid

On 18 July 2012, the Spanish Supreme Court declared null and void all local allocations of Digital Terrestrial Television (DTT) granted at the beginning of 2006 by the *Generalitat Valenciana* (Valencian regional government). The Court found that the Generalitat had lacked objectivity and impartiality in the allocation process.

The plaintiff at the action is Tele Elx, the first local television that had broadcast in the Valencian Community. In first instance, the *Tribunal Superior de Justicia de Valencia* (Valencian High Court) rejected its complaint, whereas the Supreme Court has upheld its arguments.

The Supreme Court reminds that Article 88 of the Royal Legislative Decree No. 2/2000 imposes an obligation on the licensing panel to evaluate the candidates' offers according to the criteria laid down in the tenders. However, this function was outsourced by the licensing panel to a private company.

The Court considers possible the use of external advice but this cannot mean that the assessment of applicants would be systematically made by an external company. Otherwise the licensing panel would not fulfill its role in the assessment of the different bids.

According to the Court, a private entity may have an undisputed technical competence to assess applicants, but lacks objectivity and impartiality to do so. The situation would have been different if, from the assessment made by the private consultant, the licensing panel would have shaded, modulated or corrected these criteria, i.e., the ex-ante evaluation would have been sufficient, based on the knowledge and expertise of the private consultant.

The Supreme Court believes that the private consultant only assumed the numerical score on the basis of which it granted the licences. The Court concludes that the appellant *Télé Elx* could not know why its tender had not been selected, even though Article 88 of the *Texto Refundido de la Ley de Contratos de las Administraciones Públicas* (Public Administrations Contracts

Act) requires that an explanation should be given for the reasons for agreeing or refusing the grant of a licence.

- *Sentencia del Tribunal Supremo, Sala de lo Contencioso-Administrativo, Sección séptima, Recurso Núm.: 5128/2008, 18 de Julio de 2012* (Judgment of the Supreme Court of 18 July 2012) <http://merlin.obs.coe.int/redirect.php?id=16183>

IRIS 2012-10/11

III. Following Up on Related Matters

Spain

New Plan to Promote DTT and Technological Innovation

*Trinidad García Leiva
Universidad Carlos III de Madrid*

On 24 August 2012 the Council of Ministers approved a plan, entitled *Plan de Impulso de la TDT y de la Innovación Tecnológica* (Promotion Plan for DTT and technological innovation), which aims to support high definition television and 4G mobile broadband services but which will also affect DTT services.

Since the switch-off of analogue terrestrial television took place in April 2010 in Spain (see IRIS 2010-6/24), it was decided that the frequencies to be released, best known as the digital dividend, would be mainly dedicated to the provision of 4G services. Nevertheless, the allocation of television services to band 470-790 MHz (channels 21 to 60), in order to free up subband 790-862 MHz (channels 61 to 69) for other uses by 1 January 2015 (see IRIS 2010-6/25), has been a matter of negotiation between the government and national commercial broadcasters. The reason was that, in a context of an economic crisis, whereas the government was interested in taking advantage of those new telecommunication services that are supposed to be helpful in boosting the economy, national commercial broadcasters requested financial support for the switch to different frequencies.

The Spanish government and broadcasters, gathered around the commercial TV association UTECA (Unión de Televisiones Comerciales Asociadas), have finally reached an agreement which is, in fact, at the heart of the approved plan. Although the text has not yet been released to the public, the Council of Ministers has announced that the digital dividend will be cleared by January 2014 and that high-definition DTT services will be strengthened at the same time as the number of DTT frequencies available will be reduced.

Following this recent agreement, a new DTT technical plan is therefore set to be approved soon. The new allocation map for DTT services would be as follows: national commercial broadcasters will share capacity across five multiplexes instead of six, as was originally planned; the national public service broadcaster, RTVE, will reduce its capacity from two multiplexes to one; and it is expected that regional public service broadcasters will do the same. As a consequence of this reduction in their DTT capacity, national commercial broadcasters will offer four standard-definition and one high-definition services.

National commercial broadcasters that were in place when the current DTT frequency plan was decided (Antena 3, Telecinco, La Sexta, Cuatro, Net TV and Veo TV) have now gone through a concentration process. While Telecinco and Cuatro had merged by the end of 2010

(see IRIS 2011-1/25), the Council of Ministers authorized the acquisition of La Sexta by Antena 3 (see IRIS 2012-8/21) during the meeting; it also approved the above-mentioned Plan to promote DTT.

- *Referencia del Consejo de Ministros de 24 de agosto de 2012* (Council of Ministers meeting of 24 August 2012)
<http://merlin.obs.coe.int/redirect.php?id=16087>

IRIS 2012-9/19

France

Conseil d'Etat Confirms Numbering of New DTV Channels

*Amélie Blocman
Légipresse*

On 3 July 2012, the audiovisual regulatory authority (*Conseil Supérieur de l'Audiovisuel* – CSA) authorised six new free-view high definition (HD) channels on terrestrially-broadcast digital television (HD1, L'Equipe TV, 6 ter, Tvo la Télédiversité, RMC Découverte, Chérie HD). On 24 July 2012, in the presence of representatives of the channels, the authority drew lots for allocating numbers to these six new channels, which are to start broadcasting on 12 December 2012. The new numbering is the result of firstly the allocation of the logical numbers 1 to 29 to the national television services previously broadcast in analog mode and to the unencrypted services broadcast terrestrially in digital mode, which were previously numbered 1 to 19. Local television services broadcast terrestrially, which were previously numbered 20 to 29, have now been allocated the numbers 30 to 39. However, a number of organisations, representing about forty local channels, referred the CSA's decision to shift the numbers allocated to them up by ten in order to leave room for the six new channels to the Conseil d'Etat under the urgent procedure. The applicants called for the suspension of enforcement of the CSA's deliberation, on the grounds that it was a serious and immediate infringement of the interests of the other local free-view channels and of the interest of viewers, by changing the logical number – a fundamental feature of channel identification – particularly when there were other solutions for numbering the new channels. They also argued that no text gave the CSA the right to revoke a decision attributing a logical number, and that the deliberation at issue disregarded the principles of equality of treatment, non-discrimination, and free competition.

In its order of 23 October 2012, the Conseil d'Etat recalled that the provisions of Article 30-1 of the Act of 30 September 1986 gave the CSA the power to authorise the use of broadcasting resources for television services, including the organisation of broadcasting these services by laying down the rules for the logical numbering of the channels – and therefore also the power to change them. Consequently, the claims based on the disputed deliberation, which is in the form of regulations, would have no legal foundation, and could not give rise to “serious doubt as to its legality”, which is a prerequisite for the administrative courts under the urgent procedure ordering the suspension of performance of an administrative decision. Similarly, the Conseil d'Etat found that preparatory investigation of the case did not show that the deliberation of the CSA, which must also ensure the uniform nature of the numbering of the services, had disregarded the principles of equality and non-discrimination, or the principle of free competition. Nor were any of the other arguments raised against the disputed deliberation able to create a serious doubt as to its legality. Thus, and without even needing to pronounce on the conditions of urgency, the administrative judge found that the applicants had no grounds for requesting the suspension of the decision at issue.

The applicants said that they were “consternated” by the order, which “encouraged them to pursue their action on the merits of the case”. For its part, the CSA issued a communiqué confirming

“the commencement of the broadcasting of these six new channels on 12 December 2012 and their gradual extension to the whole of mainland France”.

- *Conseil d'Etat (ord. réf.), 23 octobre 2012 - Association Bocal et a.* (Conseil d'Etat (order under the urgent procedure), 23 October 2012 - the association Bocal et al.)
- *Communiqué du CSA, Calendrier de déploiement des nouvelles chaînes HD de la TNT, 25 octobre 2012*(CSA communiqué. Schedule for deployment of the new HD channels on DTV, 25 October 2012) <http://merlin.obs.coe.int/redirect.php?id=16157>

IRIS 2012-10/12

Portugal

Deadline for DTT Subsidies' Applications Extended until the End of the Year

*Mariana Lameiras & Helena Sousa
Communication and Society Research Centre, University of Minho*

The Portuguese National Communications Authority (ANACOM) has announced the extension of the application period concerning the subsidy programmes for DTT (Digital Terrestrial Television) decoders. Following this decision, applications can be submitted until 31 December 2012 to PT Comunicações, the global telecommunications operator leader in Portugal.

There are two types of support programmes available, one for the installation of the reception system of DTH (Direct to Home) and the other for DTT kit reimbursement.

On the one hand, reimbursements are of EUR 47 for anyone living in places where satellite is accessible, regardless of the individuals' economic situation. This program is available until 2023, although the reimbursement value might change. People who purchase the satellite TV kit can benefit from this refund by either ordering the kit within five days (paying EUR 30 on delivery of the satellite) or by purchasing the kit immediately (paying EUR 77 and being refunded EUR 47 later).

On the other hand, support programmes for the installation of the DTH reception system are limited to EUR 61 but are available to everyone having access to the satellite signal, independently of individuals' economic situation. Pensioners whose monthly income is less than EUR 500 and people with at least 60% disability benefit from a subsidy of 50% (up to a maximum amount of EUR 22) to buy a DTT or DTH decoder. Citizens aged 65 or older, retired people or pensioners having a monthly income of up to EUR 500, referenced by the Portuguese Institute of Social Security, can also benefit from an extra subsidy of EUR 61 to adapt, redirect or reinstall the new DTT or satellite reception antenna.

These support programmes were initially established until the end of June 2012 but because the intent was to cover the largest number of beneficiaries, the deadline was first extended to 31 August 2012, and with the recent decision of ANACOM until the end of 2012.

- *TDI - Prazo para pedido de subsídios prorrogado até 31.12.2012* (Decision of the Portuguese National Communications Authority (ANACOM), 13 August 2012) <http://merlin.obs.coe.int/redirect.php?id=16098>

IRIS 2012-9/35

Legal Aspects of Digital Switchover: State of Play in South-East Europe

Tanja Kerševan Smokvina
Post and Electronic Communications Agency (APEK), Slovenia

At a time of increasing popularity of connected devices, in which a growing proportion of the population does not care anymore via which content distribution platform or device it receives media content and data, but is rather interested in variety of content, quality of services and features of devices, the contrasts between those countries with advanced and those with less developed information supply systems are more evident than ever before. In South-East Europe¹ large differences can be witnessed in a relatively small, although politically and economically very diverse territory. Regardless of the rather different levels of digitisation between the countries in this area, the terrestrial broadcasting platform remains one of the most important television delivery platforms across the region.

I. Cross-border co-operation

1. Speeding up the digital switchover in an unevenly developed region

The mere fact that the radio waves that are used to transmit television or other electronic communications services surpass national borders requires co-operation between neighbouring states. International co-operation in the management of the frequency spectrum is already well established. For decades, it has been carried out according to standardised protocols under the auspices of the International Telecommunications Union. The European Convention on Transfrontier Television and the Audiovisual Media Services Directive, on the other hand, provide mechanisms for collaboration on content-related issues. However, in order to create opportunities for more widespread use and better utilisation of advanced broadcasting and ICT services in a multi-country region, co-operation with a larger scope is needed.

In 2009, a group of broadcasting regulators from countries around the Adriatic Sea started to discuss possibilities for the harmonisation of activities related to the digital switchover and the development of a regional proposal for optimal use of the freed frequency spectrum for the new ICT broadband services. At that time, most countries from the region had already taken some steps

1) For the purpose of this article the term South-East Europe (abbreviated SEE) refers to the territory covered by the South-East Europe Transnational Cooperation Programme, in which 16 countries participate: Austria, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, "the former Yugoslav Republic of Macedonia", Albania, Greece, Bulgaria, Romania, Moldova, bordering areas of Ukraine, Slovakia, Hungary and south-eastern regions of Italy.

towards transition to digital terrestrial television, at least through policy making or adaptation of laws. However, only a few of them had implemented these acts and policies in practice. The regulators believed that a joint development of tools, facilitating their work and contributing to more harmonised approaches, could lead to a faster deployment and better accessibility of services in the region. Therefore they conceived the project SEE Digi.TV and applied for funds from the South East Europe Transnational Cooperation Programme.² The latter is an instrument within the framework of the EU's regional policy's territorial co-operation objective, which supports projects that aim to improve the competitiveness of South-East Europe and to contribute to the integration of the non-EU member states. The idea of the SEE Digi.TV project matched the SEE programme's priority axis of improving accessibility and developing strategies to tackle the digital divide, and the project was approved by the programme authorities as one of 26 projects that succeeded in obtaining funding on the second call for proposals, completed at the very end of 2010.

2. Co-operation of regulators via the SEE Digi.TV project

The project, managed by the lead partner APEK, the Slovenian Post and Electronic Communications Agency, connects 13 regular partners, one associated strategic partner and one observer from 10 countries: Italy, Austria, Hungary, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, "the former Yugoslav Republic of Macedonia" and Albania. Most partners are regulators for either electronic media or electronic communications, a few are converged authorities responsible for both areas, and the remaining partners are representing other stakeholders in the digital switchover.³ The activities of the partners from the EU member states are co-funded by the European Regional Development Fund (ERDF), while those of the non-EU members are financed through the Instrument for Pre-accession Assistance (IPA).

In January 2011, when the project was officially launched, three countries from the project area, namely Austria, Croatia and Slovenia, had already switched off their analogue terrestrial transmitters. They were followed by Italy, which completed the switch-off in mid 2012. Other partners are progressing at different speeds, with only Bosnia and Herzegovina and Montenegro not even having started digital transmissions. They, however, also contributed to the creation and implementation of various project documents. The transfer of knowledge takes place in both directions, from EU member states to non-EU member states and vice versa. For instance, the partners from the EU candidate country Croatia share with others their experience with a successful switchover and deployment of advanced services. The project consortium also follows developments in Serbia, which recently introduced the improved transmission standard DVB-T2, and in "the former Yugoslav Republic of Macedonia" that has accumulated several years of experience with pay television services on digital terrestrial platform.

The project's activities under the umbrella of the SEE Programme will end in April 2013 and most of the envisaged activities have already been accomplished, resulting so far in 12 joint documents (e.g. analyses, guidelines, education plans, model laws, awareness measurement tools, receiver specifications, conformance tests),⁴ as well as numerous national surveys, published and presented to policy makers and other stakeholders. Before the April 2013 deadline, all the remaining joint papers will be published and the ongoing national studies will be finished. The partners will continue to stimulate public debate with the help of national workshops and at the final international conference in Budapest. As one of the main achievements of the project, co-operation among the regulatory bodies from the region will continue in one way or another after the end of the project.

2) For more information on the South-East Europe Programme see the programme website at: www.southeast-europe.net/en/ (accessed on 3 January 2013).

3) The consortium is composed of APEK, Sintesio, Informest, RTR, IVSZ, HAKOM, AEM Hr, CRA, RBA, AEM Me, EKIP, SRDF and NCRT, plus the associated strategic partner AGCOM and the observer NMHH. For more details see the project website: www.see-digi.tv/partnership/all-partners/ (accessed on 28 December 2012).

4) The documents are published in the section Deliverables of the SEE Digi.TV project website: www.see-digi.tv/documentation/, while other material, such as country-specific surveys, presentations from the conferences, brochures and leaflets can be found in the News and events section: www.see-digi.tv/newsevents/ or in Communication material section: www.see-digi.tv/communication-material/ (all accessed on 28 December 2012).

II. Analysis of the legal frameworks for digital switchover

1. A study within the SEE Digi.TV project work package dedicated to legal aspects

The purpose of the study, originally published on 30 November 2011,⁵ was to provide a comparative analysis of the legal frameworks related to transition from analogue to digital television broadcasting in the 10 countries from the project area (listed above). Because the legal frameworks regulating the switchover in the respective countries were not aligned, and because the participating countries found themselves in significantly different situations due to the disparate levels of digitalisation in the project area, the goal of the analysis was to provide a solid factual background for the elaboration of regional guidelines⁶ that would facilitate the development of the national legal frameworks in the SEE countries and thereby contribute to the successful implementation and harmonisation of activities in the field of digital broadcasting. It was also hoped that such guidelines could help to reduce the digital divide in the region.

The study was commissioned by APEK and carried out by Dr Klemen Podobnik, Dr Ana Vlahek and Dr Matija Damjan from the Institute for Comparative Law at the Faculty of Law, University of Ljubljana.⁷ The project partners provided them with lists and details of relevant legal acts, milestones in the switchover process and identification of roles of the most important stakeholders in their countries. For the purpose of this IRIS *plus* Zoom section only the findings and recommendations part of the study in a revised and updated version is reproduced.

2. General findings

The analysis has shown that conditions concerning the transition from analogue to digital terrestrial television broadcasting vary considerably from country to country across the SEE region. Activities related to the digital switchover have taken place, at least to a certain extent, in all of the countries included in this study, regardless of whether or not a suitable legal framework exists. The characteristics of national legal frameworks regulating the digital switchover also differ significantly in the region. Some countries have adopted specific digital broadcasting laws (e.g. Slovenia, Hungary, Montenegro); others have amended the existing legislation on electronic communications and mass media (e.g. Italy, Croatia, Bosnia and Herzegovina) or have not adopted any specific digital broadcasting legislation at all (e.g. "the former Yugoslav Republic of Macedonia"). The legislation may be very comprehensive and detailed (as the Hungarian law), or may lay down just the general rules for the switchover and leave the implementation details to the regulatory authority (e.g. the Albanian law).

3. Planning the digital switchover

As digitalisation brings significant changes in broadcasting, the process should be planned carefully and in a transparent manner with the co-operation of all actors concerned by the digital switchover. The first step in the process is usually the adoption of a digitalisation strategy that sets out the legal changes needed to allow and encourage digitalisation, and addresses the most important practical details of the process. The latter entails especially:

- defining the stakeholders' roles and relations, as well as technical and geographical details of the networks;
- setting the switch-off date and duration of the simulcasting period;
- determining the most important broadcast standards; and
- providing a more or less detailed action scheme or plan for the switchover.

5) For the whole study see the project's website: www.see-digi.tv/shared_files/wp3/wp3a1.pdf, accessed on 27 December 2012.

6) The Guidelines can be downloaded from the following link: www.see-digi.tv/shared_files/wp3/regional_guidelines_on_how_to_improve_legal_framework_r1_1.pdf, accessed on 27 December 2012.

7) More information on the Institute is available at: www.ipp-pf.si/introduction, accessed on 27 December 2012.

The strategies are normally adopted by parliaments or governments, and this applies also to the countries from the SEE Digi.TV project area.

The need for adequate preparation of digitalisation has been pointed out by the European Commission and by international organisations, such as the Council of Europe and the European Broadcasting Union. Recommendation Rec (2003)9 of the Council of Europe's Committee of Ministers⁸ provides that states should draw up a well-defined strategy that would ensure a carefully thought-out transition from analogue to digital broadcasting. Such a strategy "should seek to promote co-operation between operators, complementarities between platforms, the interoperability of decoders, the availability of a wide variety of content, including free-to-air radio and television services, and the widest exploitation of the unique opportunities which digital technology can offer following the necessary reallocation of frequencies."

The analysis has shown that all included countries have followed these recommendations and practices of EU member states. The fact that all countries from the region adopted detailed national strategies for the switchover from analogue to digital broadcasting could be considered as an instance of a good practice. If the transition is planned well ahead and the process is transparent and predictable, legal certainty for all players in the digitalisation process, including companies and consumers, is much higher.

However, the analysis of switchover strategies has also shown that such documents often turn out to be rather abstract and somewhat remote from the specific problems that need to be concretely addressed in each country. Whereas they may elaborate on the advantages of digital over analogue broadcasting, discuss various technical aspects of digital broadcasting in general, present the overview of European Union legislation and policy initiatives in the field of digital switchover, together with experience of individual member states, etc., they typically lack operative content adapted to the specific economic and technical conditions in the broadcasting market of a given country. For example, they do not detail the concrete tasks of particular national authorities in the digital switchover process and the time schedules for the completion of such tasks in order to finalise the switchover by a certain date.

A part of the problem may also stem from the fact that digital switchover strategies are typically prepared by independent regulatory authorities, while the adoption and especially the implementation of the strategies (through adopting the necessary legislative and administrative measures) is the task of the relevant government ministries. The latter may prioritise goals that are politically desirable, rather than what is technically and financially feasible. In order to avoid that less relevant short-term interests and needs drive the digital switchover process, the relevant strategy could be secured by new legislation adopted by parliament (rather than administrative decisions or presidential decrees). In Serbia, for example, the switchover is mainly regulated in a by-law adopted by the competent minister upon a proposal by the regulatory authority, which does not guarantee the same level of legal certainty to the players in the switchover process as rules laid down in legislation adopted by parliament. In "the former Yugoslav Republic of Macedonia", to mention another example where the implementation process is challenging, the government has rejected the first strategy prepared by the regulatory agency, and the regulator is currently drafting another proposal. It is also often left to the government to provide the additional funding that the public service broadcasters need to digitise their broadcasting services. The lack of such funding may delay the switchover, since public service broadcasters usually play an important role in the digital switchover whereas private broadcasters (especially in smaller countries) are reluctant to invest in a technology that is not effectively supported by the state.

8) The text of the Recommendation Rec(2003)9 of the Committee of Ministers to member states on measures to promote the democratic and social contribution of digital broadcasting (adopted by the Committee of Ministers on 28 May 2003 at the 840th meeting of the Ministers' Deputies) is available at: <https://wcd.coe.int/ViewDoc.jsp?id=38043&Site=CM>
For an overview of all Recommendations of the Council of Europe's Committee of Ministers, see "Freedom of Expression and the Media: Standard-setting by the Council of Europe (I) Committee of Ministers", Susanne Nikoltchev & Tarlach McGonagle (Eds), European Audiovisual Observatory, Strasbourg 2011, available at: www.obs.coe.int/oea_publ/legal/ebook_committeeministers-coe.pdf.en

Most strategies of the countries from the project area do include a target date for analogue switch-off, however, the setting of such dates often seems to be motivated by political purposes rather than being founded on fact-based estimates. As a result, target dates for the digital switchover seem unrealistic and in many cases cannot be met. The data collected from the various countries also indicates little co-ordination of the switchover plans between the countries in the region, which leads to the situation that not all advantages of digital broadcasting can be achieved, given that full benefits would only be possible once all countries in the region have completed the analogue switch-off.

It is important not to switch off analogue terrestrial transmitters until there is a near universal penetration of digital terrestrial broadcasting. A switch-off date should be revised if a danger of excluding a part of the population arises. In the region, a few countries have postponed the date of the analogue switch-off. It should be noted, that such delays are not specific only to the countries in the SEE region, since many central and western European countries have also faced delays in the analogue switch-off, although several years earlier.

Missing the deadline initially set in the switchover strategy is not critical in itself. It is important, however, that the planning of the transition to digital broadcasting takes into account technical and economic changes that may require postponing the switch-off. Rather than simply ignoring the deadlines originally set in the switchover strategy, the strategies should be amended accordingly and adapted to the new circumstances. For this reason, switch-off dates should be flexible enough to respond to delays in the expected progress. A mechanism for monitoring the progress of the digital environment is also recommended.

In order to be more concrete and better adapted to the specifics of the respective country, the digital broadcasting strategies (including the relevant legislation and executive regulation, if necessary) should be updated at regular intervals to take into account the challenges encountered in the digitalisation process thus far, based on the input and experience of all stakeholders. For example, Austria, which first adopted its digitalisation concept in 2003, upgraded the document accordingly in 2007 and in 2011. Similarly, Slovenia's switchover strategy of 2006 was updated in 2009.

4. The role of stakeholders

The Council of Europe's Recommendation (2003)9 states that digital broadcasting strategies should be drawn up "in consultation with the various industries involved and the public". Therefore, it is advisable to draft the legislative framework and strategy for digital broadcasting under the constant scrutiny of the public. In order to put the digitalisation plan beyond suspicion of being a partisan political document, all concerned parties, including private broadcasters, public broadcasters and regulators, should be involved in its preparation. Prior to its adoption, the drafts must be open to criticism by the general public, civil society organisations and professionals. Even if it is not very likely that the general public will contribute substantially in a debate that is rather demanding in terms of the technical specifics and societal aspects of this complex process, representatives of the industry, consumer associations and other particularly interested parties, as non-governmental organisations and academia, might provide valuable insights concerning the broadcasting content aspects, technical specifications, infrastructure matters, affordability of equipment etc.

In all countries included in this study, various stakeholders in the digital switchover had the possibility to present their views and comment on the draft switchover strategy at some stage of the planning process. However, public participation in the planning of the digital switchover should not remain a one-time event. Consultation with the stakeholders is not sufficient if it occurs only in the phase of preparation of the digital switchover strategy. Typically, at that time most stakeholders have not yet gathered enough experience with digital broadcasting to foresee all issues that may be relevant to them. Therefore, it is advisable that permanent mechanisms for participation of stakeholders in planning and supervision of the digital switchover be put in place. A special body may be formed, bringing together the representatives of public authorities, regulatory authorities, broadcasters, and operators, in order to monitor the execution of the digital switchover process and

assist in making further policy decisions. Such a body can also have an important role in spreading information and fuelling the public discussion of the issues of digital switchover that are relevant to the consumers. This body should work very closely with the independent regulator. The “Digital Platform Austria” appears to be a good example of such a special participatory working group for digital switchover.

5. Allocation and use of broadcasting spectrum resources

Even in countries where no specific legislation governing digital broadcasting exists, the right to use radio frequencies for broadcasting digital signals may be granted under the general legislation on electronic communications and spectrum management. However, given the differences between frequency use for analogue and digital broadcasting, it might be better to avoid such an approach. Whereas in analogue television, available frequencies were each allocated to individual broadcasters, in digital terrestrial television broadcasting, multiple channels and additional services may be bundled by a single multiplex operator and transmitted using a shared frequency. A single broadcaster typically does not produce a number of channels sufficient to fill the entire multiplex capacity, especially in standard definition and in systems with advanced coding standards. The operators include in the multiplex stream channels produced by different broadcasters. Therefore, allocation of frequency rights to network operators should be subject to specific rules, separate from the traditional rules for allocation of frequencies for analogue broadcasting.

In Europe, different approaches have been adopted for allocating digital capacity (the radio spectrum). The capacity is allocated to one or more network operators, to multiplex operators or directly to media services providers. All SEE countries included in this study have followed the model of allocating frequency rights to network and/or multiplex operators, which are often, but not necessarily, the same entity, thus acting as managers of the network facilities and administrators of the multiplex capacity at the same time. In several instances, the broadcasters in some SEE countries (e.g. in Serbia, “the former Yugoslav Republic of Macedonia”, Albania, and Bosnia and Herzegovina) started broadcasting in digital format without having obtained any of the required authorisations or frequency rights. The problem is particularly present in Albania. Thus, a specific issue that the legislators in such countries could consider is to eventually legalise the operation of such networks (e.g. by setting out specific conditions under which frequency rights and multiplex licences may be granted to incumbent operators, while ensuring that the international agreements are met).

A somewhat different problem regarding frequency use concerns Italy, where in several cases licences for radio frequencies though issued by the competent authorities seem not to respect the internationally co-ordinated frequency plans contained in the relevant international agreements, such as Geneva 1984 and 2006. Apparently, Italy has allowed the operation of channels on all available frequencies regardless of whether or not it had the necessary rights under the international legal framework. Hence frequencies allocated to the neighbouring countries have been occupied. If not addressed timely and efficiently, this situation might seriously affect the digital switchover process in Italy’s neighbouring countries and the future of the terrestrial platform as an important platform for free-to-air access to diverse and pluralistic audiovisual media services. Furthermore, it might negatively impact the efficient release and use of the digital dividend for bridging the digital divide in the region.

6. Selection of network and multiplex operators

The role of network and multiplex operators differs significantly from the role of traditional analogue broadcasters, since network and multiplex operators provide the service on which several broadcasters depend. Therefore, specific legislation should regulate the selection and role of multiplex operators, separating it clearly from the role of content providers. Most SEE countries have entrusted the main powers for the selection of network and multiplex operators to national regulatory authorities and have given them the responsibility to determine the number of multiplexes and to manage public tenders for the selection of operators. In some countries, however, special

rules apply for public service broadcasters, allowing them to obtain the right to operate a multiplex *ex lege*, without a public tender. This exception reflects their special public interest role and can be used as a means of speeding up the switchover process. This solution is unlikely to be extended to the operation of multiplexes intended mainly for broadcasting of commercial services given that these services do not cater specifically to the public interest.

In allocating digital capacity for broadcasting, public tenders that take the form of “beauty contest procedures” are widely adopted as opposed to auctions, which are used more commonly when allocating spectrum for telecommunications. Under a beauty contest, also called comparative selection, applicants present their proposals for which they want to obtain licences on the basis of the criteria set out in the conditions for a licensing bid. A beauty contest allows the allocation of licences based on detailed plans submitted by applicants. In contrast, the essential feature of an auction is that licences are awarded to those that bid the highest price. In most of the SEE countries the policy documents foresee that also in the future, network/multiplex licences should be awarded on the basis of a public tender. In Italy, however, the intention to allocate frequencies for new multiplexes by “beauty contests” has been criticised. The critics believe that the government would have been able to generate significantly higher licence fees through an auction process.

Some countries seem to lack a market-based approach in the selection of network/multiplex operators. In Serbia, for example, the legal framework did not provide general procedures for granting the right to operate a multiplex; instead the legislator gave the task of setting up and operating a multiplex to a newly established public enterprise, which operates the existing technical broadcasting and transmission infrastructure. While such approach may be pragmatic, justified by the need to speed up the transition to digital broadcasting, it might need to be replaced in the long term by an open tender procedure, through which private entities may compete for the right to operate a multiplex. In the case of Serbia, the law on electronic communications envisages the possibility for new operators to enter the market, once the digital switchover is completed.

A noticeable weakness of several laws regulating the procedure for the selection of network and multiplex operators is that the rules are rather abstract and leave too much discretion to the regulatory authorities in defining the selection criteria. Given that the main criteria for the selection of multiplex operators in a tender procedure reflect the basic policy choices, they should be determined by the digital switchover strategy and stipulated by the law to ensure that the allocation and assignment of radio frequencies are based on objective, transparent, non-discriminatory and proportionate criteria. Laying down the basic criteria in legislation also ensures that the main political choices are made by the parliament and thus helps avert subsequent political interference in the activities of the regulatory authority concerning the digital switchover.

7. Selection of content/service providers

One of the key principles in digital broadcasting is that licences for the transmission facility (the platform) and for the content should be kept separate. Programming licences for digital broadcasting are generally granted under a procedure similar to that applied to analogue broadcasting. The Council of Europe adopted Recommendation Rec (2000)23,⁹ according to which the basic conditions and criteria governing the granting and renewal of broadcasting licences should be clearly defined in the law. The regulations governing the broadcasting licensing procedure should be clear and precise and should be applied in an open, transparent and impartial manner.

If licensed broadcasters cannot obtain access to transmission facilities they cannot reach the audience. Especially in the initial phases of digital switchover, no real market exists for transmission facilities, and broadcasters cannot choose between different multiplex operators. Thus, it is

9) Recommendation Rec(2000)23 of the Committee of Ministers to member states on the independence and functions of regulatory authorities for the broadcasting sector (adopted by the Committee of Ministers on 20 December 2000 at the 735th meeting of the Ministers’ Deputies). The text of the Recommendation is available at: <https://wcd.coe.int/ViewDoc.jsp?id=393649&Lang=en>

important that national regulators have a certain role in the selection of content providers for the multiplexes or that they are able to impose requirements on fair access to a network/multiplex in the operators' licences in order to protect pluralism and diversity and prevent concentration.

Two regulatory approaches emerge concerning the selection of channels for multiplexes: in a first group of countries (Slovenia, Croatia, Montenegro), the channels' line-up is the result of a selection made by the regulator through public procedures that are very similar to those used in the analogue environment and are typically based on a beauty contest model. In a second group of countries (Italy, Austria, Hungary, Albania), the multiplex/network operator may select the channels on its own. In this case, some limitations or constraints (e.g. must-carry, capacity reserved to special categories of broadcasters) are imposed on the multiplex operator in the operating licence in order to preserve public interest objectives. The conditions laid down either in legislation or in the operating licence limit the freedom of the operator to compose the multiplex and thus blur the distinction between the two models of selection mentioned.

In any case, the legislation typically guarantees the public broadcaster and other historical analogue broadcasting licensees the right to be included among the channels offered on the first multiplexes in operation. This may be achieved through must-carry rules laid down in the law (e.g. in Hungary) or imposed in the multiplex licence (e.g. in Austria). Such provisions permit a faster transition towards analogue switch-off and the freeing of additional broadcasting frequencies. In Italy, specific measures are in place to guarantee access to the platform for "independent channels", i.e. channels not owned by the broadcasters operating the multiplexes. Such measures aim at avoiding bottlenecks caused by vertical integration of network operators that have their own channels.

A specific problem concerning the selection of channels that appear in a certain multiplex has arisen in Slovenia. The digital switchover strategy foresaw that the first national multiplex (mux a), operated by the public broadcaster RTV Slovenia, should be reserved primarily for public service broadcasting. The second national multiplex (mux b), on the other hand, whose operator, Norkring, had been selected through a public tender, was to provide transmission services to the channels offered by commercial broadcasters. During the switchover, however, all services of the then existing broadcasters, the public and commercial ones, were transmitted via mux a, which was the first to start operating and to reach national coverage. Even after mux b started operating with a great delay, the commercial broadcasters kept transmitting their channels through mux a, due to more beneficial pricing offered and better coverage. Norkring believed this was a case of unfair competition by the public broadcaster. While Norkring's pricing was bound by strict licence conditions, RTV Slovenia was only required to keep separate accounting for the operation of the multiplex, and to charge a cost-based price. After Norkring lodged complaints, the competent ministry in 2011 proposed and the parliament in 2012 adopted an amendment to the Digital Broadcasting Act, preventing RTV Slovenia from transmitting commercial services through mux a. The amended regulation is in line with Article 5 of the EU Authorisation Directive,¹⁰ which allows exceptions to the requirement of open procedures for granting broadcasting frequency rights only where this is necessary to achieve a general interest objective as defined by member states in conformity with Community law.

8. Regulation of relations between broadcasters and multiplex operators

Digitalisation entails initial risks of concentration, since usually only few transmission facilities exist, due to their cost and complexity. It is therefore important to prevent that digitalisation cause or cement the dominance of the transmission facility owner or multiplex operator. Rules ensuring access to such facilities are crucial in order to preserve content diversity and pluralism, as well as

10) Directive 2002/20/EC of the European Parliament and of the Council of 7 March 2002 on the authorisation of electronic communications networks and services, OJ of 24 April 2002, L 108/21.

other cultural and business related objectives. The EU Access Directive¹¹ stresses that all requests for access should be met in good faith on a commercial basis. The parties can determine conditions, but if there are significant differences in negotiating power, and when some companies rely on the infrastructure of others, there must be a regulatory framework and an independent regulator to ensure that the market works and different companies can compete even if the number of transmission facilities is limited. However, in a free market logic ensuring equitable access to the infrastructure for digital broadcasting should not be done by the direct setting of prices and other conditions for use of the network. Doing so would interfere excessively with the free market, and the usual benefits of a free market such as competitive prices and higher quality would be lost. The market should set prices and conditions and the regulator should step in only if the market fails.

For example, multiplex operators may be required by regulation to offer fair, transparent and non-discriminatory conditions. Network providers, as well as platform operators, may be required to publish a price list for the technical services offered to the content providers (and also scrambling of the signal, EPGs, and so on). When the network or platform operator is also a broadcaster, it could be required to keep separate accounting for its different activities.

Most SEE countries included in this study have adopted in their legislation rules on access to transmission facilities, modelled on the EU Access Directive. The legislation usually contains the general requirement that multiplex operators broadcast all digital channels and additional services under fair, equal and non-discriminatory conditions. It is recommended that more specific obligations of multiplex operators in relation to content providers should be detailed in conditions attached to the operating licence. The regulatory authority should be able to act to resolve disputes between multiplex operators and content providers. For example, in Slovenia, the regulator has carried out price controls with regard to the operator of the first multiplex and has required that it eliminate irregularities in the calculation of prices for digital broadcasting that were not in line with the requirements of the operating licence. In Serbia, the broadcast network was spun off from the public service broadcaster to form an independent public company tasked only with operating the broadcast network infrastructure. In situations like that of Serbia where the public service broadcaster is at the same time the only multiplex operator, this may be considered a good practice, since it removes the potential conflict of interests in the treatment of the public service channels (in Serbia the channels of RTS) and channels by commercial broadcasters.

9. Content obligations

During and after the digital switchover, which often results in access to a wider variety of television services, special attention is needed for content-related issues. In some countries, content obligations are contained in the general mass media legislation; in other cases, there are specific content-related provisions in the digital broadcasting laws.

The Convention on Transfrontier Television of the Council of Europe and the EU Audiovisual Media Services Directive recognised some general interest objectives related to audiovisual content. In the European Union, audiovisual media services should not contain any incitement to hatred based on race, sex, religion or nationality. Linear audiovisual media services should not offer content, which might seriously impair the physical, mental or moral development of minors. The availability of on-demand audiovisual media services, which might seriously impair minors, should be restricted and technically protected, so that such services are available to adults only. For the purpose of short news reports, any broadcaster has the right to access, on a fair, reasonable and non-discriminatory basis, events of interest to the public, which are transmitted on an exclusive basis. Broadcasters are not allowed to broadcast, on an exclusive basis, events of major importance for society if this were to deprive a substantial proportion of the public of a chance to follow them. Audiovisual commercial communications (advertising, sponsorship, product placement and teleshopping) should be readily

11) Directive 2002/19/EC of the European Parliament and of the Council of 7 March 2002 on access to, and interconnection of, electronic communications networks and associated facilities (Access Directive), OJ of 24 April 2002, L 108/7.

recognisable; subliminal and surreptitious techniques are not allowed; they should respect the human dignity and should not include/promote discrimination (e.g. based on sex, nationality, religion). Besides, broadcasters should protect minors; should not encourage behaviour harmful to health, safety or the environment; and should not promote tobacco or prescription medication. And last, but not least, audiovisual media services should promote production and access to European audiovisual works, to list only the most important requirements. The Convention on Transfrontier Television contains the bulk of these content requirements.

All SEE countries have ratified the Convention on Transfrontier Television and most of them, including the non-EU members, have transposed the content-regulating provisions of the AVMS Directive in their legislation, although not necessarily in the laws governing the switchover.

Another typical content focus can be noticed in country-specific requirements, according to which television channels providing content related to the respective country or its national culture and language (e.g. in Austria) are to be prioritised in the selection of channels for multiplexes. The choice of digital broadcasting content is also influenced by must-carry obligations concerning public broadcasters' programmes or other programmes of general interest. Recommendation (2003)9 of the Committee of Ministers of the Council of Europe suggests that must-carry obligations imposed by member states should be reasonable, meaning they should be proportionate and transparent in the light of clearly defined general interest objectives, and could, where appropriate, entail a provision for proportionate remuneration. Such must-carry obligations may include transmission of services specifically designed to enable access for disabled users.

10. Public interest provisions

Besides the public policy to protect pluralism and diversity of broadcasting content, already discussed above, there are some other aspects of public interest that should be taken into account during the switchover. Among them are the significant costs of the switchover. Even if the legislation in most SEE countries does not address in detail funding or co-financing models, the switchover strategies usually acknowledge that digitalisation represents a financial burden for broadcasters and viewers.

In relation to affordability of digital receivers, the readiness of viewers to purchase digital receivers may have to be stimulated by covering a part of the price and thus making equipment affordable. However, over time prices may be expected to fall and the availability of digital equipment to increase with the effect that general subsidies will lose relevance. Still, special attention should be paid to the financial means of the most vulnerable groups (pensioners, low-income households, persons with disabilities). From the audience viewpoint, it is essential to have clear, transparent and fair rules framing potential help schemes. It is likely that criteria used for providing social benefits in other contexts may not be appropriate. Economic support for the switchover should be structured so as to ensure that irregularities and violations of the rules on the prohibition of state aids will be avoided.¹²

An example of a support scheme laid down in legislation is the Italian law from 2006 that granted an income tax deduction to consumers who would purchase television sets with an integrated digital decoder during 2007. The income tax reduction was 20% of the price of the equipment (a maximum deduction of EUR 200 per decoder) with a total budget of EUR 40 million. The measure was notified to the EU Commission, which decided that the subsidies were in compliance with the EC Treaty state aid rules.¹³ In Hungary, the amendments to the digital broadcasting legislation provided that the financial gains of the digital switchover process (licensing fees) could be used for public

12) The guidelines for the framework for funding the digital switchover have been addressed in more detail in another project document, prepared by the Institute of Comparative Law for APEK, available at: www.see-digi.tv/shared_files/wp3/wp3a5.pdf, accessed on 5 January 2013.

13) For more details on the case see: http://europa.eu/rapid/press-release_IP-07-960_en.htm?locale=EN, accessed on 5 January 2013.

communications on the digital switchover process. Another example is the case of Croatia, where the government determined the criteria and standards for subsidising the payers of the public service broadcasting fee (only natural persons), when purchasing technology-neutral digital receivers. The right to a subsidy was exercised on the basis of a non-transferrable voucher in the amount of HRK 75.00 (EUR 10). State investments in digital broadcasting and transmitting equipment are another possibility to speed up the switchover and safeguard media pluralism, provided that distortion of market is avoided.

III. Conclusion

Due to the differences described, the study could neither provide general findings that would apply in the same way to all countries examined nor formulate recommendations that would be equally relevant for all countries in the region.¹⁴ Nevertheless, a few common conclusions could be derived. The experience, both positive and negative, of the early-adopter countries in the implementation of digital switchover should be taken into account by the late adopters. The process needs to be planned well in advance, in a transparent and inclusive way. The roles and tasks of the stakeholders should be clearly defined and policy papers and regulations need to be backed up by enforcement measures. Given that the SEE countries concerned are either EU member states or EU aspirants, they should follow the European Acquis Communautaire for electronic communications and audiovisual media services in their planning and implementation of the digital switchover. And last but not least, international agreements on radio spectrum should be taken into account.

14) For further elaboration of legal guidelines for the region see the project document, prepared by Francesco Canini and Francesco Sciacchitano for Informest, available at: www.see-digi.tv/shared_files/wp3/regional_guidelines_on_how_to_improve_legal_framework_r1_1.pdf, accessed on 5 January 2013.



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