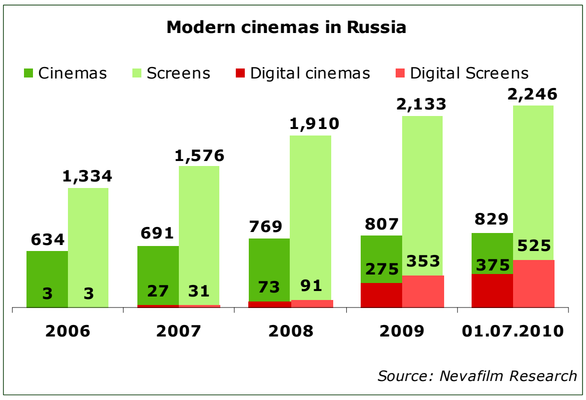
Nevafilm, 199397, Saint Petersburg
Korablestroiteley Street, 33/2b
Phone +7 (812) 449 7070, ext. 240
Fax +7 (812) 352 6969
E-mail: research@nevafilm.ru
http://www.nevafilm.ru

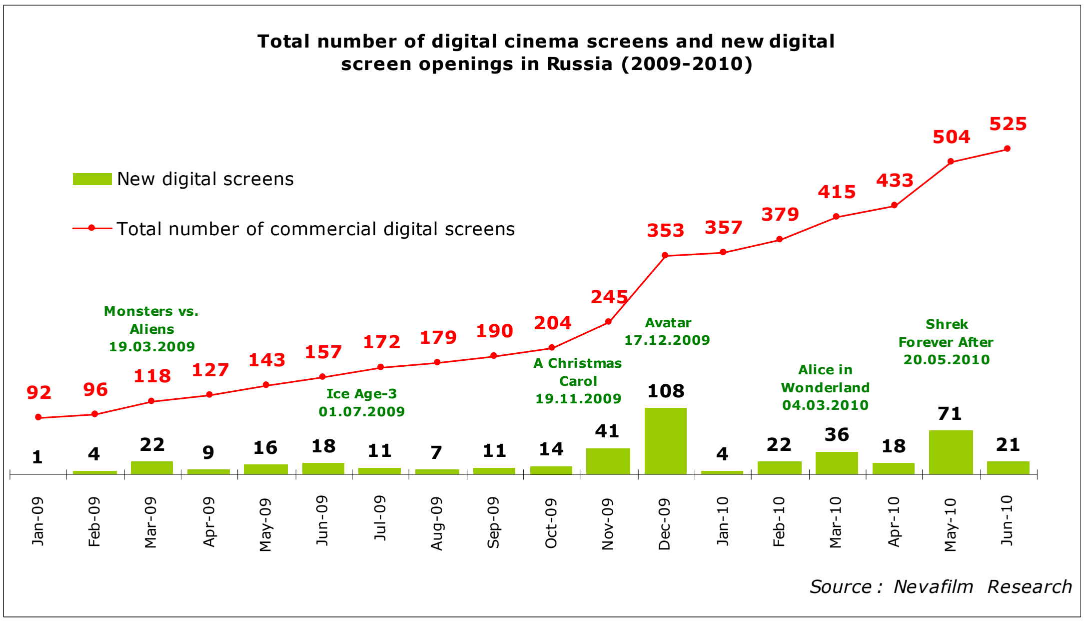
Digital Cinema in Russia: Results for the first half of 2010

Oleg Berezin, Ksenia Leontyeva, Eleonora Kolyenen-Ivanova, Nevafilm

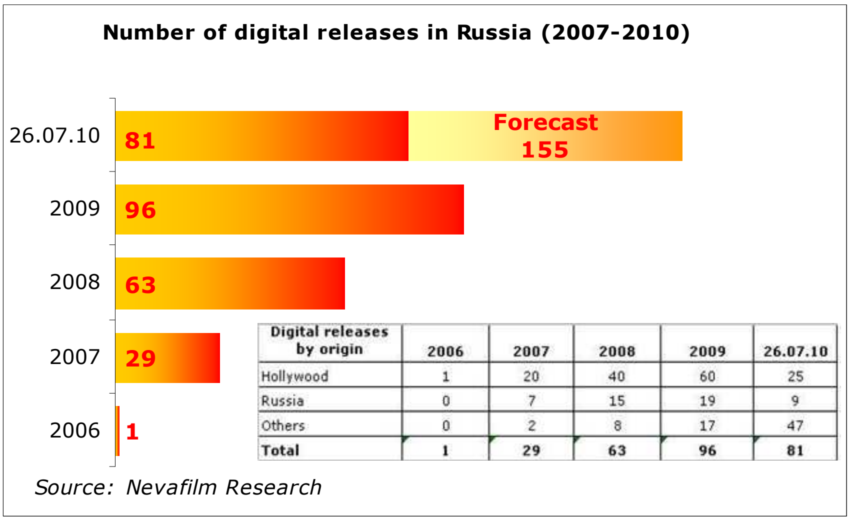
In 2010, the Russian cinema exhibition market has been showing increased growth rates, a sign that the consequences of the financial crisis are being gradually overcome. As of 1 July 2010, Russia boasts 2,246 modern screens in 829 cinemas. 121 new screens in 28 cinemas were opened during the first half-year. Six cinemas (8 screens) were closed during the same period. Overall, the growth in the total number of modern cinema screens across the country for the year was 14% (on 1 July 2009, 1,970 screens in 771 cinemas were active in Russia).



At the same time, qualitative changes continue to take place on the Russian cinema exhibition market, in particular the active transition to digital projection technology. As of 1 July 525 of these screens in 375 cinemas had already been opened in Russia – this is 23% of modern screens and nearly half of cinemas (45%); virtually all of them are equipped with equipment for 3D screenings. Given the lack of support for the "transition to digital" from distributors and the state, the launch of 3D releases is the main stimulus for the appearance of new digital screens in Russia. In 2009-2010, the films *Avatar* and *Shrek Forever After* had the most significant influence on the market: the former sparked the opening of more than 100 new digital screens, and more than 80 3D screens were set up for the launch of the latter.

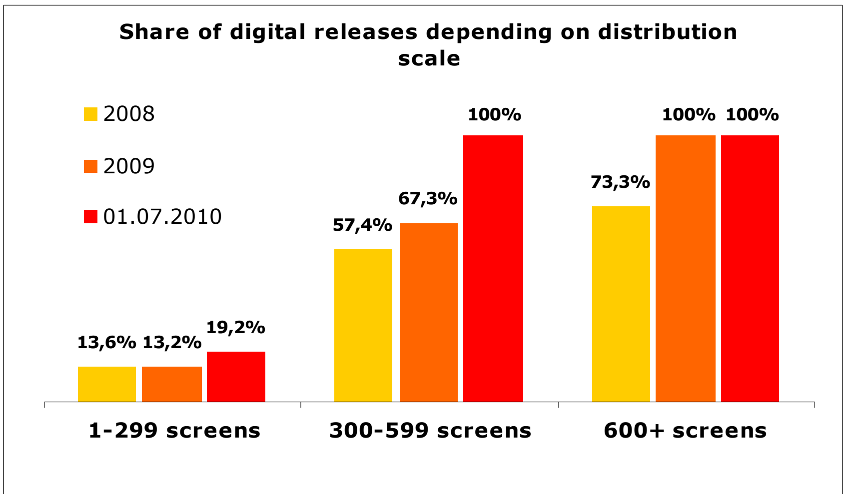


The growth in the number of digital film releases to Russian screens shows no signs of abating. Forty percent of films released to screens in the first half of 2010 (December '09-July '10), over 80 films, were digital; the year end is expected to see around 155 such releases in total. Indeed, since 2010 all films released with 300 copies or more are released in digital. At the same time, the share of digital releases among films with a lower distribution is barely growing at all; currently it stands at only 19% of releases. Growth over 2009 has only occurred in the main due to alternative content becoming available.



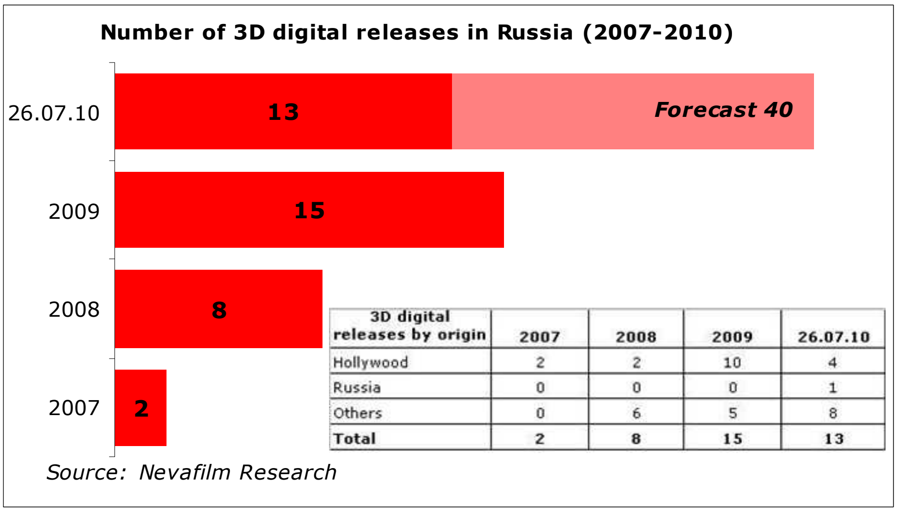
Digital releases by origin	2006	2007	2008	2009	26.07.10
Hollywood	1	20	40	60	25
Russia	0	7	15	19	9
Others	0	2	8	17	47
Total	1	29	63	96	81

Source: Nevafilm Research



Source: Film Business Today, *Nevafilm Research*

The number of 3D releases has also been growing: 13 films were released in the period January-July 2010, with a further 20 planned for release by the year end. This year also saw the first Russian 3D film releases – *Space Dogs 3D* came out in spring; *Temny Mir* is set for release in autumn. In addition to this, more and more independent studios are also releasing digital 3D films for exhibition.



3D digital releases by origin	2007	2008	2009	26.07.10
Hollywood	2	2	10	4
Russia	0	0	0	1
Others	0	6	5	8
Total	**2**	**8**	**15**	**13**

Currently, digital screens can be found in 137 Russian cities. The majority are in Moscow and St. Petersburg, but quite a number of smaller cities (with populations of less than 250,000, or even 100,000) have digital screens as well. Exhibitors in small cities aim to set up digital facilities not only in order to show 3D films, but also so that they can obtain premiere copies of blockbusters which would be unavailable to them on film.

Digital Cinemas in Russia @ Google Map (as of 01.07.2010)

http://www.digitalcinema.ru/content/press/dcinemas_ru_eng.php

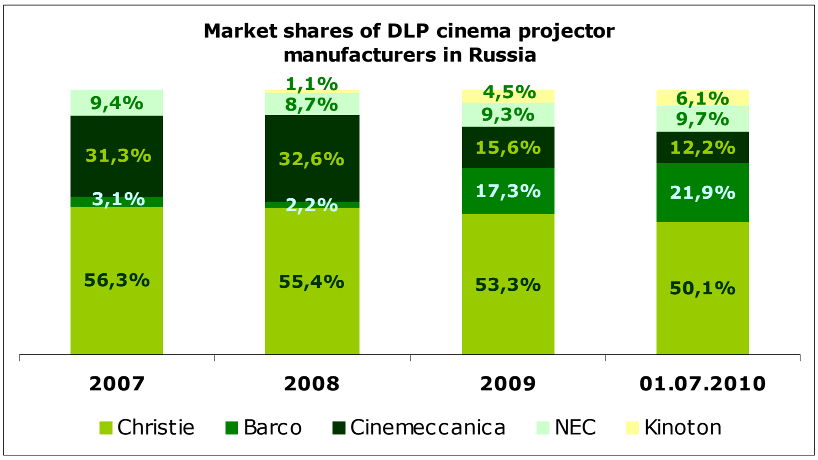
Another motivating factor behind the "digital revolution" in Russia is the major nationwide cinema networks. Digital screens can be found in all Cinema Park, Rising Star Media, Luxor, Formula Kino and Paradise cinemas; the Karo Film network, leader of the Russian market, is also close to this level. The active conversion of Russian cinema chains over to digital exhibition technologies became possible in 2010 thanks, in part, to cooperation with the industry majors. It has become the norm for leading Russian cinema operators, taking advantage of their market position, to directly approach Hollywood studios, seeking reimbursement of VPFs upon the exhibition of a number of digital films on their screens. In addition, the terms for such agreements appear to be negotiated individually between each studio and cinema chain – while at the same time, there have been no official announcements of signed long term agreements concerning VPF payments between the studios and Russian cinema chains.

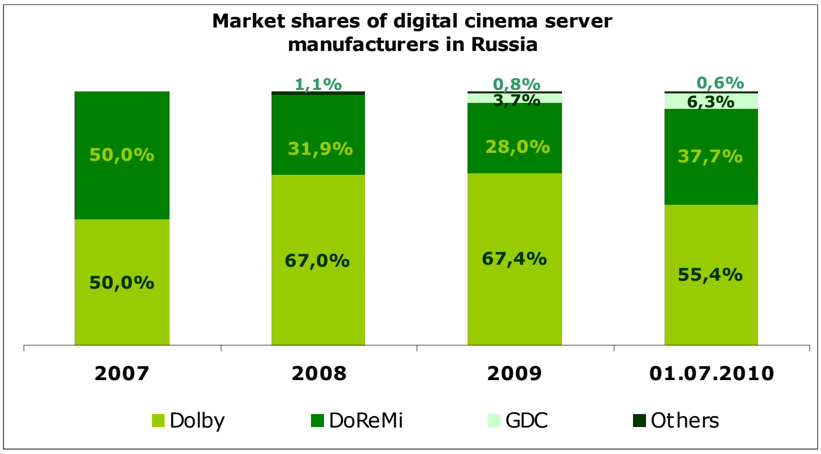
TOP 10. Major digital cinema network operators in Russia as of 01.07.2010 (including franchises and repertory cinemas)

Rank	Network Operator	No. of digital cinemas	Number of digital screens	Share of digital sites in the network	Share of digital screens in the network	Market share by number of digital screens	Head Office
1	Cinema Park	16	48	100%	36%	9,1%	Moscow
2	KinoStar	6	30	100%	40%	5,7%	Moscow
3	Karo Film	22	26	69%	16%	5,0%	Moscow
4	Luxor	14	25	100%	35%	4,8%	Moscow
5	Formula Kino	11	18	100%	29%	3,4%	Moscow
6	Paradise	9	18	100%	36%	3,4%	Moscow
7	Monitor	8	13	50%	29%	2,5%	Krasnodar
8	Kinomax	11	12	46%	12%	2,3%	Moscow
9	Premier-Zal	8	9	21%	17%	1,7%	Yekaterinburg
10	Kronverk Cinema	7	7	44%	7%	1,3%	St. Petersburg
Totals for these operators		**112**	**206**	**62%**	**24%**	**39,2%**	
Overall in Russia		**375**	**525**	**45%**	**23%**	**100,0%**	

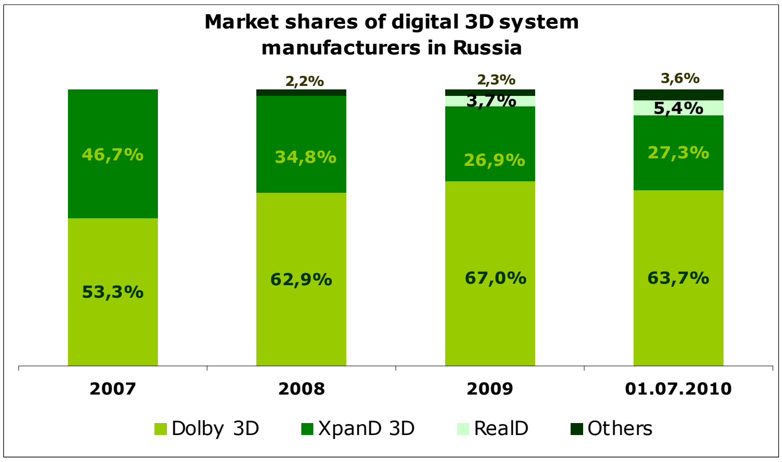
Meanwhile, the potential for growth of the digital cinema market in Russia depends on two parameters: on the number of small cities (up to 500,000 residents) that still lack digital screens, and on the level of competition in these markets; it also depends on the number of 3D releases in distribution that precipitate the expansion of the digital cinema network in large cities (the leading cinema networks equip new screens especially for high-quality 3D films). So far, the market is not showing any abatement in the players' interest in acquiring digital equipment; a certain slowing of market growth in 2010 is connected with a deficit of digital projectors, rather than with any decrease in the number of those interested in installing them in their cinemas.

The most successful digital exhibition equipment package on the Russian market remains a combination of Christie projectors and Dolby servers, which are present in over half of all Russian digital screens. Since 2007 Barco has seen its market share grow 7-fold; Kinoton has also seen its market share grow from 1% to 6% between 2008 and July 2010. The digital server market is led by Dolby and DoReMi, with Dolby’s leading position coming under threat from DoReMi’s growing market share. To add to the competition, 2009 saw the entrance of GDC Technology, the Hong Kong company, into the Russian digital exhibition market.





Dolby 3D remains the leader for installation of 3D systems into Russian theatres, with 64% of theatres thus equipped. Real-D equipped theatres are, however, on the increase, having begun installations with the KinoStar chain. Second position in the market is occupied by XpanD, with 27% of installations. The other players on the market, including Master Image, Dual Projection etc, each hold an insignificant share, totaling less than 4% between them.



One more technology that has been gathering momentum over the past year is IMAX: the corporation concluded several major deals with Russian film networks in 2010 (including Monitor, Formula Kino, Rising Star Media and Cinema Park), and by 2012 Russia should have around 25 IMAX screens in cities including Moscow, St. Petersburg, Krasnodar, Saratov, Voronezh, Novosibirsk and others.