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KAZAKHSTAN FILM MARKET

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Nevafilm Research would like to thank all participants of the Kazakhstan film market who provided their data on the results of their film distribution and had answered our questions while this report was being prepared.

The development of the Kazakhstan film market followed in the footsteps of the Russian market and had always been deeply connected with it. This connection can be explained by Russia and Kazakhstan's common economic and political space. Traditionally, Russian distributors acquire film distribution rights across the CIS countries which include Kazakhstan. Many of them work directly in this market (especially recently), but the biggest ones prefer cooperating with local representatives.

Main stages of the Kazakhstan film market development:

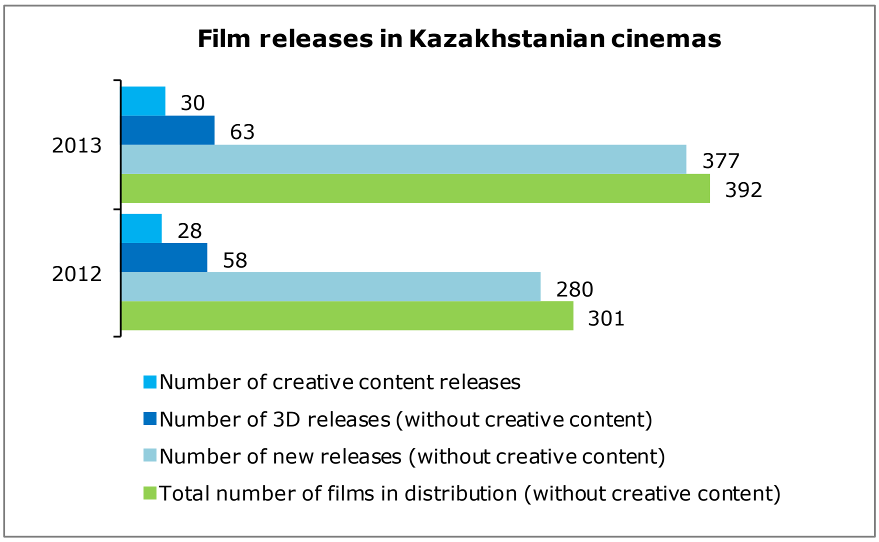
Stage I (1999-2004) – **market formation**. During this period we see the first commercial cinema theatres of the new generation that attract wide interest of the viewers. At that time film exhibitors in Russia were dominating, but in Kazakhstan we did not see any confrontation between exhibitors and distributors, as these two branches had become interlocked: two main companies (*Otau Cinema* and *Arman*) shared major packages. It is these companies which participate in the main confrontation, and they fight for viewers using tight exclusive programming;

Stage II (2005-2010) – **cinema network expansion**. Sharp growth in the number of modern cinema theatres resulted in weaker program competition. There are more distributors offering more films, including due to the new digital cinema technologies and Russian companies working in Kazakhstan without agents. There are new faces among major representatives although all Hollywood film distributors are characterized by vertically integrated structure (distribution-exhibition);

Stage III (2010-…) – **the leap in terms of quality**. In 2010 a leap takes place in several areas of the film industry. There are new ultramodern multiplexes that offer not only digital technologies, but also "amusement" cinema entertainment formats (IMAX). The list of local distributors cooperating with major independent Russian companies becomes longer again. The centralized distribution of national films began which had led to the 2012 triumph when a Kazakh film had ended up in the first place of distribution rating in the country. Finally, Hollywood majors change their representatives in Kazakhstan on a massive scale and address new players in the market. *Sulpak Cinema* Ukrainian and Kazakh enterprise becomes the biggest of them. At the same time, the level of the film distribution concentration rises dangerously.

The state of the film distribution market of Kazakhstan in 2012-2013

In 2012-2013, the film range of the country has jumped: the number of releases had increased by 35%, and all films in distribution had increased by 30%. At the same time, the total number of films on the screens of Kazakhstan is less than in Russia (due to the less developed exhibition infrastructure in the country); even some 3D releases are not distributed in Kazakhstan.



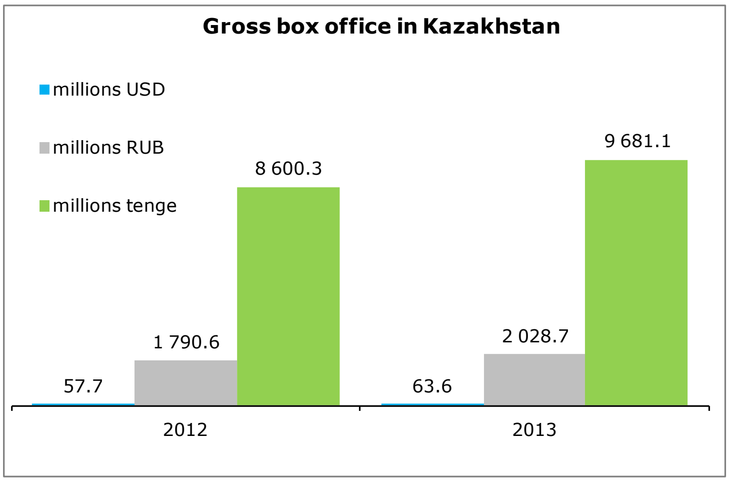
In the meantime, theatre exhibitors of the country have a rich experience in terms of screening alternative content programs, they cooperate with *Nevafilm Emotion* almost since the day the company was launched; about 30 films of this format are screened in Kazakhstan annually; since the autumn of 2013 *Cool Connections* projects have been showcasing (since the *The Day of the Doctor*).

The transition to digital distribution occurs in a special way. On the one hand, during the past two years the share of releases for digital screens in Kazakhstan exceeds that in Russia. This is due to the fact that most films are shipped to Kazakhstan from Russia, while for Russian distributors the reduction of shipping costs is a very important factor, and as a result they adjust to digital distribution in the CIS countries faster than in Russia.

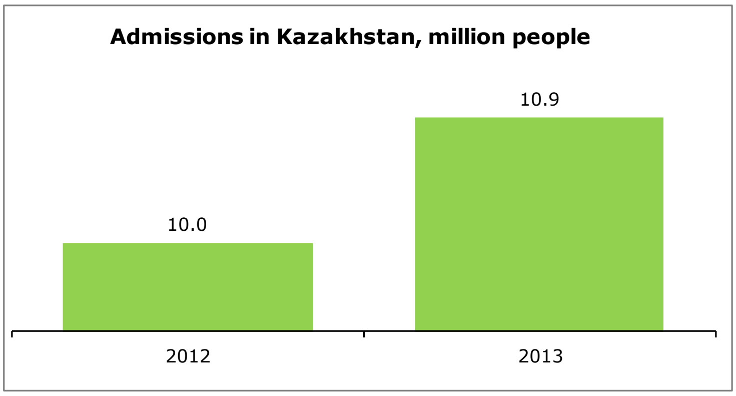
On the other hand, the share of releases for 35mm screens in Kazakhstan is higher, although it is decreasing at the same pace as in Russia. This feature of the market under research is determined by the fact that 35mm screens are a tidbit for film makers – with them films can be screened for a longer period of time than on digital projectors. And since the state finances domestic production and subsidizes the production of 35mm prints of Kazakh movies, especially in the Kazakh language, *Kazakhfilm* is not burdened to support 35mm distribution. Thus, Kazakhstan market moves towards digital distribution at a slower pace, and the situation of local companies which do not have time to go completely digital by the end of 2014 is not as dangerous as that of their Russian counterparts.

According to our estimates, Kazakhstan box office amounted to 9.7 billion tenge (2 billion rubles or 63.6 million dollars) in 2013. This represents about 4.7% of Russia's box office.

Since 2012, the box office in the country grew by 13% in local currency (or by 10% in dollar terms), while its share if compared to the Russian market remained relatively flat, which may be due to the close relationship of film distribution between the two regions.



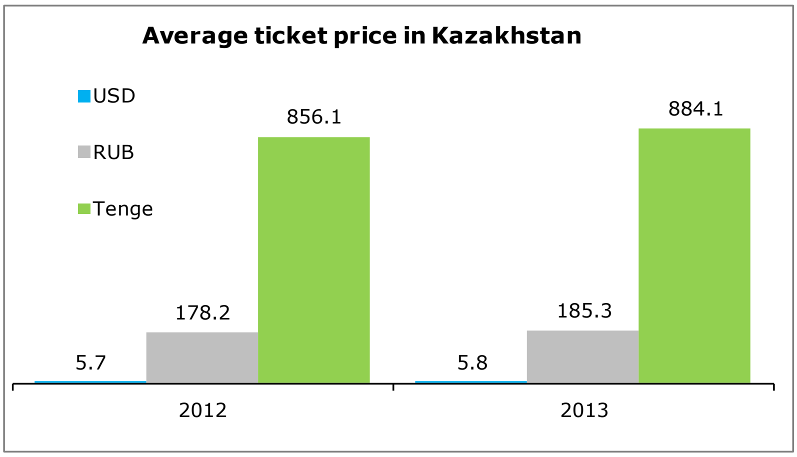
Cinema attendance in Kazakhstan has also increased during the year, but not as much as the fees which had gone up 9% despite the significant expansion of the country's movie range. There may be several reasons for this, including the shutdown of several cinema sites (for example, the *Otau Cinema* network quit the market, as its new owners had not been ready to upgrade outdated sites with modern equipment and digital projectors), and the lack of iconic national films in distribution (in 2012 the first place of Kazakh office box was occupied by *Myn Bala: Warriors of the Steppe (Жаужурек Мын Бала)*, but in 2013 the best Kazakh film was *Regret* (*Өкініш*) which was the 13th in the ranking).



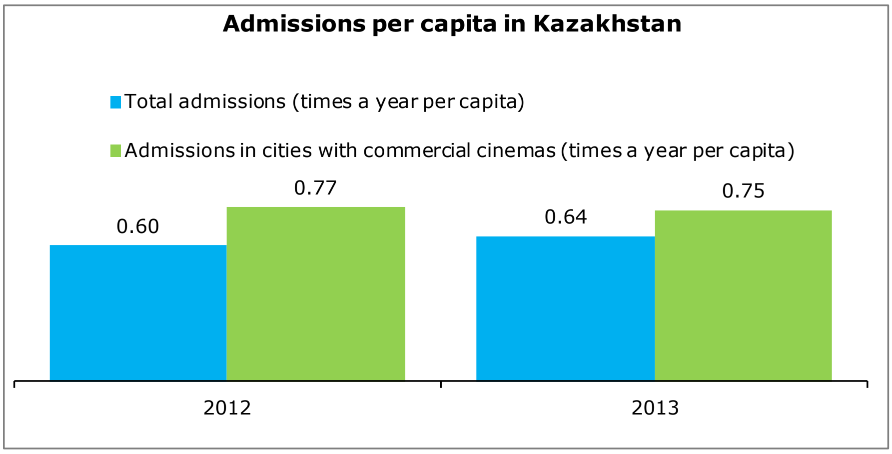
Thus, the growth of the box office in Kazakhstan is conditioned by the increase in cinema ticket prices, which have reached 884 tenge (185 rubles or 5.8 dollars) in 2013, This is 3.3% more than in 2012 (1.2% in dollar terms).

We should keep in mind that in 2013 in Russia the price was by 2.6% more in rubles and by 0.3% less in dollars as compared to the 2012 level. It can be explained by reduction of the share of 3D releases in distribution, as well as expansion of the practice of dumping policy by the new players in competitive markets of Russian cities.

In Kazakhstan, the price is generally at a low level (25% below that in Russia), and its growth prospects still exist, especially with regard to improving the quality of services and when it comes to the introduction of new cinema entertainment formats (4DX and D-Box motion effects, as well as Atmos and Auro sound systems).



The level of cinema attendance in Kazakhstan continued growing and by the end of 2013 has reached the level of 0.64 times a year per capita. In the cities where there are modern cinema theatres this indicator seems to decrease - from 0.77 to 0.75 times a year per capita. This is obviously caused by the shutdown of the *Otau Cinema* network theatres, lack of which has reduced people's access to film exhibition. For comparison, we should note that the overall level of cinema attendance in Russia in 2013 amounted to 1.2 times a year per person, and in towns with cinemas - to 2.1.



Tables below show the rating of one hundred most popular films in theatrical distribution of Kazakhstan in 2012 and in 2013. Italicized figures have been obtained with the help of evaluation by the specialists of *Nevafilm Research*.

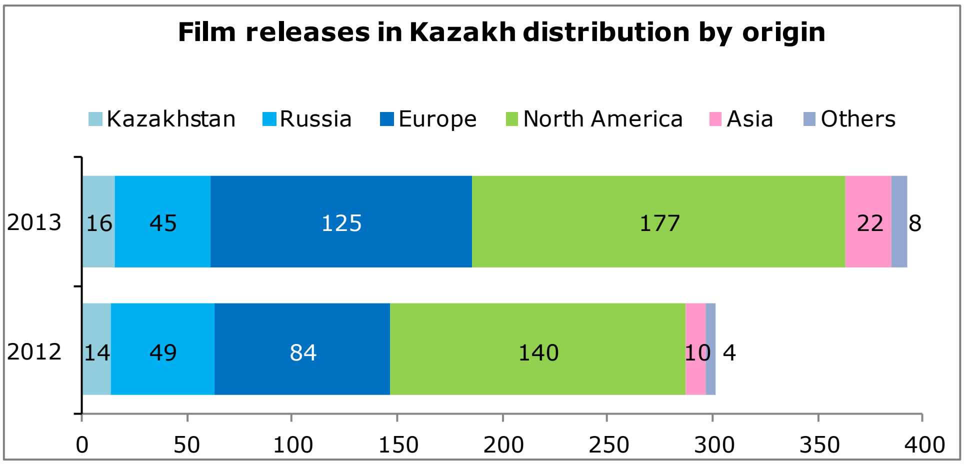
Top 10 films distributed in Kazakhstan in 2012 (by attendance)

№	Film	Release date	Distributor in Kazakhstan	Box office (thousand dollars)	Attendance (thousand)
1	Myn Bala: Warriors of the Steppe	03.05.2012	Kazakhstan	2,700.0	*466.4*
2	The Twilight Saga: Breaking Dawn - Part 2	15.11.2012	Meloman	2,645.9	412.6
3	Madagascar 3: Europe's Most Wanted	07.06.2012	Interfilm Distribution	*2,186.6*	*397.9*
4	Ice Age: Continental Drift	12.07.2012	Prof-Film	1,907.4	326.3
5	The Avengers	03.05.2012	Meloman	1,828.8	315.4
6	John Carter	08.03.2012	Meloman	1,550.2	261.7
7	Men in Black 3	24.05.2012	Meloman	1,519.9	257.7
8	The Amazing Spider-Man 2	05.07.2012	Meloman	1,220.4	219.1
9	Skyfall	26.10.2012	Meloman	1,158.1	174.4
10	Wreck-It Ralph	01.11.2012	Meloman	809.9	169.9

Top 10 films distributed in Kazakhstan in 2013 (by attendance)

№	Film	Release date	Distributor in Kazakhstan	Box office (thousand dollars)	Attendance (thousand)
1	Iron Man 3	02.05.2013	Meloman	1,866.0	316.0
2	Despicable Me 2	15.08.2013	Interfilm Distribution	1,379.9	264.8
3	Fast & Furious 6	23.05.2013	Interfilm Distribution	1,507.1	262.2
4	Thor: The Dark World	07.11.2013	Meloman	1,542.0	253.7
5	Monsters University	20.06.2013	Meloman	998.9	231.8
6	The Croods	21.03.2013	Prof-Film	1,101.4	226.3
7	The Hobbit: The Desolation of Smaug	18.12.2013	Sulpak Cinema (Interfilm Distribution)	1,505.1	216.9
8	After Earth	06.06.2013	Meloman	1,177.4	216.7
9	Frozen	12.12.2013	Meloman	1,092.3	214.9
10	World War Z	27.06.2013	Interfilm Distribution	1,334.0	211.8

If we analyze the "national structure"[1] of films in distribution of the Republic of Kazakhstan, most of them are produced in North America (140-177 titles in 2012-2013, 47% and 45%, respectively). With the expansion of the film range, due to the growth of digital distribution, the number of European films has increased dramatically in 2013 - from 84 to 125, accounting for 32% in the past year. The increase of films produced in Asia and other countries was just as sharp (twice as much) from 4.7% to 7.7% on average; this surge is primarily caused by the advent of Kazakhstan distributors specializing in the distribution of Indian films, which showed good results in the local cinema market. The number of Russian films in Kazakhstan is quite stable – 49-45 in the years under consideration, but their proportion in connection with the general expansion of the range is decreasing (from 16% to 12%); it is easy to notice that not all films produced in Russia can be seen on Kazakh screens: in 2012-2013 in Russia there were 80-90 national films in distribution. At the same time, the number of domestic (Kazakh) films in the theatres of the republic grows rather slow: in 2012 there were 14 (5%), and in 2013 – 16 (4%).

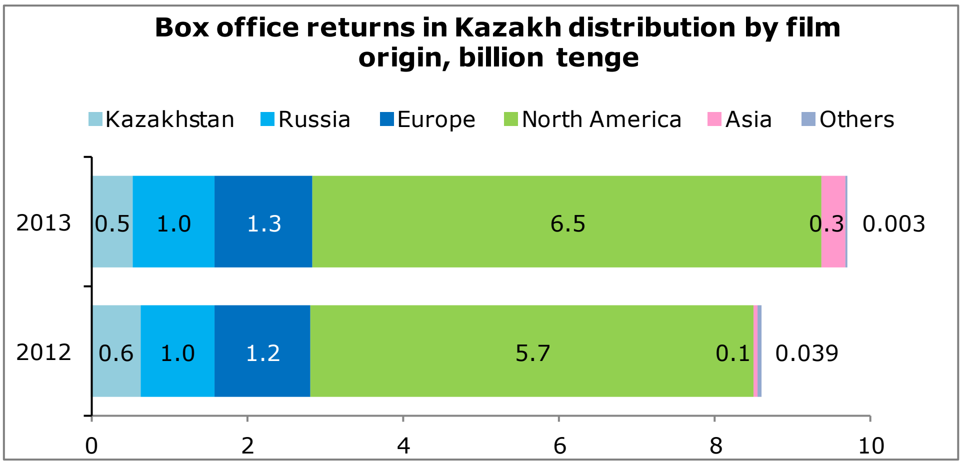


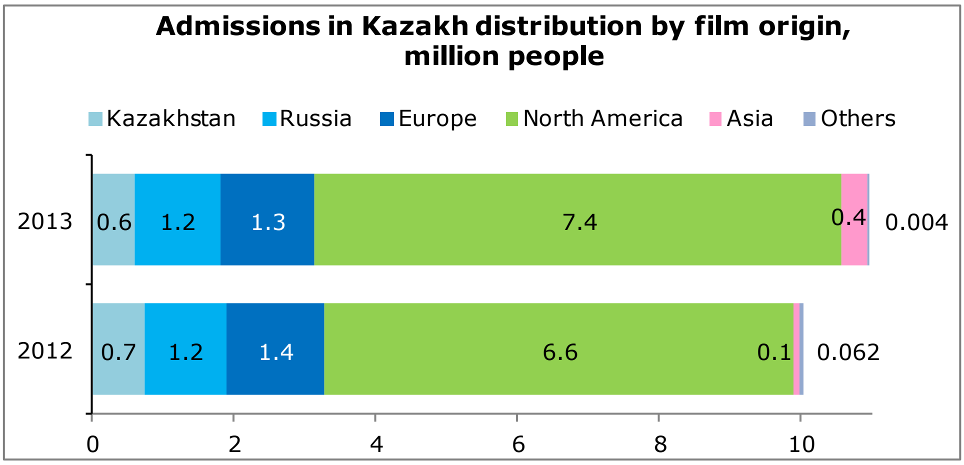
In 2013, the theatres showed domestic animation film called *Er Tostik and Aydahar 3D* (*Ер Тостик и Айдахар*), which, according to our estimates, gathered

[1] When attributing films to certain production region the following priorities were used: 1) a film was considered Kazakh if Kazakhstan was listed among the producing countries; 2) with Russia and without Kazakhstan among its producers the film was considered Russian; 3) with European countries and without Russia and Kazakhstan the film was considered European; 4) with the USA or Canada and without Kazakhstan, Russia and European countries – North American; 5) a film was considered Asian with no Kazakhstan, Russia, Europe and North America and with Asian countries among its producers; 6) the rest of the films (Australia, Africa, Latin America and others) were referred to as other countries.

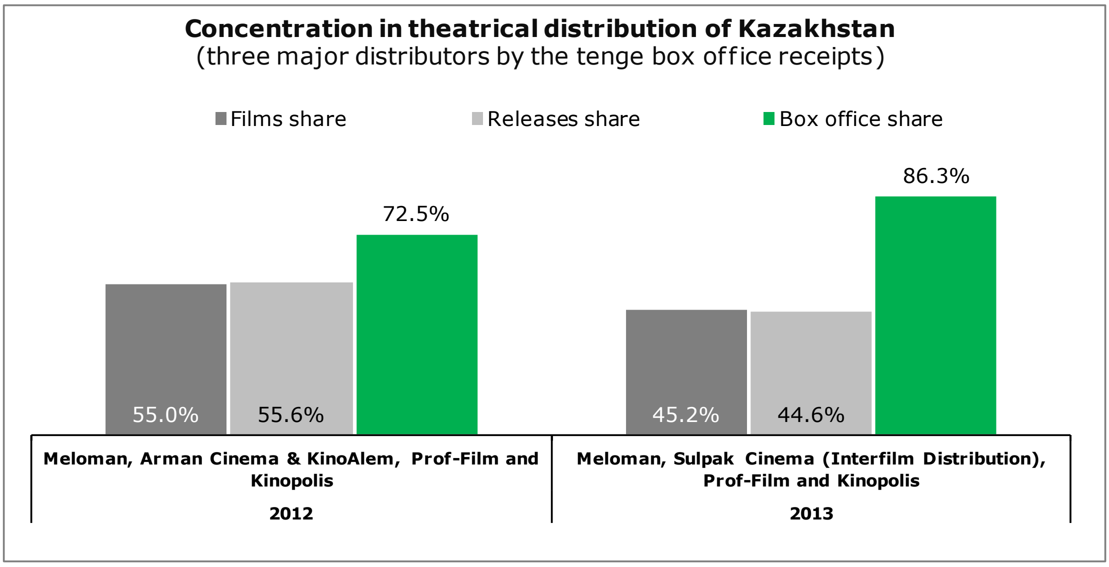
about 27 million tenge. And this is not the first movie filmed in 3D – the first one was the war drama entitled *Returning to the A* (*Возвращение в «А»*) by Yegor Konchalovsky (2011).

As for the box office and attendance situation of different production regions, the performance of all domestic, Russian and European films in 2012-2013 proved to be very smooth, despite the significant increase in the number of the latter. In 2013, they amounted to 0.5 million, 1 million and 1.3 million tenge and 0.6, 1.2 and 1.3 million spectators, respectively. The amount of film distribution market has increased solely due to the results of the North American films (their box office receipts increased from 5.7 to 6.5 million tenge per year, and attendance - from 6.6 to 7.4 million) and Asian films (their growth was the most impressive: from 100 to 400 thousand sold cinema tickets amounting to 100 and 300 tenge, respectively; the share of the box office and attendance has increased from 0.8% to 3.3%!).



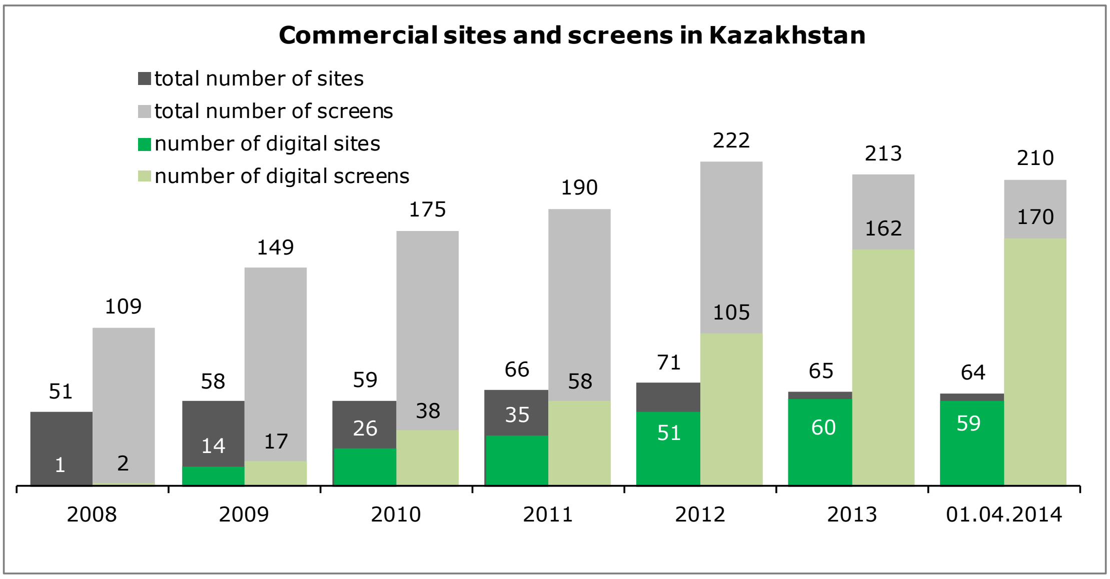


The three leaders in 2012 were *Meloman*, *Arman Cinema* and *Prof-Film*, which brought in 72.5% of the country's total box office. In 2013, the level of distribution concentration has increased significantly – the box office of the three leaders (*Meloman*, *Sulpak Cinema* and *Prof-Film*) has reached 86.3%, which was largely due to the concentration of the package of the three majors (*Warner Bros.*, *Paramount Pictures*, and *Universal Studios*) in the hands of *Sulpak Cinema*. For comparison, the three leaders in Russia in 2013 (*WDSSPR*, *Caro Premier / Caroprokat*, *Twentieth Century Fox CIS*) brought in 55.6%.



Current state of the film exhibition market

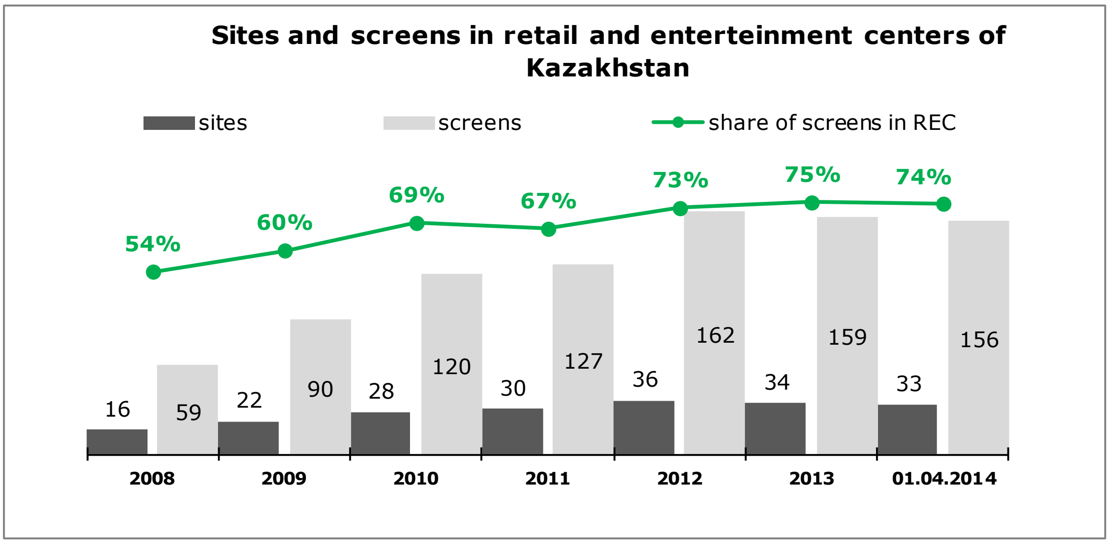
The size of Kazakhstan cinema chain is quite small by Russian standards – as of January 1, 2014, there were 213 commercial screens in 65 sites here (the average number of screens per site is 3.3). It's a little more than in just St. Petersburg alone, and twice as less as in Great Moscow. This is a low level for a country with a population of 17.1 million citizens – the density of screens per 100 thousand people amounts to 1.2 (in Russia this figure is twice as high and amounts to 2.4).



In the meantime, early this year almost 76% of the republic's theatres had digital projection (92% of the theatres).

Such a rapid increase in the share of digital theatres is caused by the small size of the market in general, the domination of network operators in it, as well as the shutdown of theatres with few screens and inefficient and incapable of digitization locations (the wave of shutdowns was especially high in Kazakhstan in 2013). The market lost its pioneer - *Otau Cinema* - a network of reconstructed Soviet time theatres. *Star Cinema* and *Kinoplexx* networks have lost several objects. The first one has largely suffered from the effects of the economic crisis and had been forced to abandon areas in some malls. The second one had to get rid of inefficient theatres with few screens and had lost several objects to the new and aggressively developing company called *Chaplin Cinemas*.

As for Russia, most multi-screen theatres in Kazakhstan are located in shopping malls. This market segment in Kazakhstan is developing more rapidly than in Russia (which is understandable in terms of the difference between the size of the markets) – at the moment 75% of the screens (52% of theatres) of Kazakhstan are located in shopping malls.



Today, one third of the country's cinema theatres are single-screen ones, and another 17% have two screens. There are only three multiplexes in Kazakhstan, and the biggest of them is *KinoPark Esentai* with eleven screens. It was opened in Almaty in late 2012 and is the most modern cinema complex in the country with IMAX and Dolby Atmos screens.

Most of theatre few-screen sites in Kazakhstan already have digital projection, and they are better equipped in terms of the number of screens than multiplexes. At the same time, Kazakhstan distributors do not seem to be totally giving up 35mm : films produced in Russia and Kazakhstan still enjoy the benefit of full screen in the remaining 35 mm cinemas. And this practice will continue at least until the end of 2014, particularly in relation to national films that receive state support for production and distribution. I. e., single-screen theatre sites equipped for 35mm exhibition are not under the threat of imminent shutdown due to problems with the range, however, as it can be seen from the dynamics of theatre shutdowns in the country, Kazakh exhibitors can easily get rid of the problem areas - apparently, 'white elephant' problem is not typical for the market.

At the moment, Almaty city is the most saturated film market of Kazakhstan where there are 6 screens per 100 thousand inhabitants (for comparison: in Moscow as of 01.01.2014, this figure is 4.7, in St. Petersburg - 6.4). It is followed by Astana and Aktau with more than 4 screens per 100 thousand inhabitants. In other cities the level of competition is pretty weak, especially in such large cities as Karaganda and Aktobe. At the same time, the market of the southern city called Shymkent with 683 thousand inhabitants is not considered attractive by exhibitorsand distributors: they talk about 'Shymkent phenomenon', something somewhat similar to what is happening in Yakutia. There local cinema enthusiasts shoot a large amount of cheap films every year (the average budget amounts to several dozen thousand dollars). Such films are quickly paid off due to the distribution at local video rooms. Due to this feature of Shymkent cinema attendance theatre owners are in no hurry to start working in the region (though *Arsenal* and *KinoPark* networks took their chances in 2007 and 2011).

In Kazakhstan there are only seven cinema network operators, they own 70% of the screens of the country, with *KinoPark* being the leading company in this regard. *KinoPark* controls a quarter of Kazakh theatres including the only IMAX rooms (in Almaty and Astana).

Major cinema network operators in Kazakhstan as of 01.01.2014
(including franchises and repertory cinemas)

Rank	Operator	Number of sites	Number of screens	Number of sites with digital screens	Number of digital screens	Market share
1	KinoPark	8	54	8	43	25%
2	Star Cinema	4	28	4	11	13%
3	Arman	5	22	5	20	10%
4	Chaplin Cinemas	5	17	5	13	8%
5	Arsenal	6	15	6	15	7%
6	Illusion	2	9	2	9	4%
7	Kinoplexx	2	4	2	3	2%
Owned by the company, total		**32**	**149**	**32**	**114**	**70%**
Total in Kazakhstan		**65**	**213**	**60**	**162**	**100%**