



**newzoo**  
games market research

# Introduction to the Russian Games Market

Opportunities in this submerged market: a broader perspective

# Foreword

Following Newzoo's free 42-page report on China and its games market, this report focuses on Russia. This report aims to provide understanding of the Russian market by putting it in a broader perspective.

Russia is a dynamic and rapidly growing games market, currently number 12 in the world in terms of revenues generated. It is quickly becoming one of the most important players in the industry and its complexity warrants further attention and examination. The Russian market differs from its European counterparts in many ways and this can be traced to cultural and economic traditions, which in some cases are comparable to their Asian neighbours.

Russia has been a part of the Newzoo portfolio since 2011, allowing us to witness first-hand the unprecedented growth and potential within this market. We have accumulated a vast array of insights on both the Russian consumers and the companies that are feeding this growth, allowing us to assist our clients with access to, and interpretation of, data on the Russia games market.

Following positive feedback from our report on the Chinese games market and input from our clients, we decided to examine the Russian market in detail. This high level report examines the broader Russian market context before zooming in on the games market.



We hope this helps to familiarize our clients and friends around the globe with the intricacies of the Russian market.

This report begins with some basic information on demographics, politics and cultural context, as well as brief descriptions of the media, entertainment, telecoms and internet sectors. It also contains short profiles of the key local players in these sectors, including the leading local app stores, Search Engines and Social Networks.

In the second part of the report we move onto describe the games market in more detail, incorporating data from our own primary consumer research findings as well as data from third party sources.

We also provide brief profiles of the top games in Russia, the top game companies and the regulatory bodies that exist here.

We hope you find this report useful and inspiring. If you have any questions, or spot any inconsistencies, please contact the authors below.

Newzoo is a global research and analysis firm focused solely on the games market. The majority of global game companies subscribes to its services. In June 2014, Newzoo released a series of global and regional infographics and insights from its 2014 Global Games Market Report. The infographic on Eastern Europe is shown here. Newzoo also offers in-depth data on the Russian market involving over 200 topics.

## Links:

- [China Report: newzoo.com/chinareport](http://newzoo.com/chinareport)
- [PC Gaming Report: newzoo.com/pcreport](http://newzoo.com/pcreport)
- [Global Insights: newzoo.com/globalinsights](http://newzoo.com/globalinsights)
- [In-depth Data on Russia: newzoo.com/topic-list](http://newzoo.com/topic-list)

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# 3 Quotes

"Russia is often compared with Asian markets, where it is simpler to work with local publishers and partners than try to be successful on your own. Although there are no general restrictions for foreign companies doing business in Russia, the main barriers to get up and running are language, bureaucracy and low overall business culture."

Alexander Karpovich, CEO AlternativaPlatform (Tanki Online)

"New anti-piracy and personal data protection policies are welcome developments but appear to have had limited influence on the overall Russian games industry so far. While no significant restrictive regulations have been announced for the Russian games industry to date, this remains a key concern for many industry participants. On the other hand, the government announced various bills aimed at supporting Russian IT companies, for instance via tax privileges, which are also beneficial for Russian games companies as they are considered part of the IT industry."

Julia Lebedeva, Business Development Director at Nevosoft

"Having a knowledgeable local partner is critical if you want to be successful in Russia, as market and regulatory developments continue at a rapid pace and companies need to be able to adapt quickly. A good example was the fairly sudden prohibition of anonymous electronic payments to foreign companies in May 2014, which actually was one of the most popular payment methods of Russian gamers."

Olga Kovinova, Head of account managers at Xsolla

# 1. Introduction

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# 6 Introduction

Russia is the biggest country in the world, covering 1/6th of the Earth's land surface and 9 time zones. The territory accounts for 17 million square kilometers.

## Russian Federation

The Russian Federation appeared as one of the 15 independent states after the collapse of the Soviet Union in 1991. The country went through multiple radical reforms liberalizing both political and economic institutions. The 1993 constitution characterizes the country as a democratic federal republic with a president as head of the state and a prime minister as head of the government.

The legislative system is represented by a bicameral parliament (Federal Assembly). Although there are multiple political parties in Russia, the legislative branch is dominated by the pro-presidential political party Edinaya Rossia (United Russia), which holds 52.9% of the seats in the lower chamber of parliament (State Duma).

In 2012, Vladimir Putin was re-elected as President for a six year term (with a right to run for a second term) with 63.6% of the votes. Putin was also President from 2000-2008 and then became Prime Minister under President Dmitry Medvedev, who now serves as the Prime Minister.

## Territorial Structure

Since March 2014, Russia consists of 85 federal units including Crimea and Sevastopol. The federal units include 46 provinces (oblast), 22 republics (respublika), 4 autonomous okrugs (avtonomny okrug), 9 krays (kray), 3 federal cities, and 1 autonomous province (avtonomnaya oblast). There are 15 cities with a population exceeding one million: Moscow (the capital), Saint Petersburg, Novosibirsk, Yekaterinburg, Nizhny Novgorod, Samara, Kazan, Omsk, Chelyabinsk, Rostov-on-Don, Ufa, Volgograd, Perm, Krasnoyarsk and Voronezh.

## Regional Organizations

Since the demise of the Soviet Union, Russia has tried to retain connections with former Soviet republics by co-organizing the Commonwealth of Independent States (CIS) in 1991. The organization, which includes the majority of former Soviet states, is a political union that gave birth to several other regional organizations with Russia as a hegemon or an informal leader. The Single Economic Space is an organization with the highest level of integration that unites three CIS countries (Russia, Belarus, and Kazakhstan) politically and economically.



# Demographics

According to a report of the Federal State Statistics Service, the population of the Russian Federation consists of 143.7 million people (May 2014), making it the ninth most populated country in the world.

## Ethnics and Languages

The population consists of 80.9% ethnic Russians and around 160 different ethnic groups constituting 19.1% of the population. The largest minority groups are Tatars (3.9%), Ukrainians (1.4%), and Bashkirs (1.15%). Russian is spoken by 138 million of the population. Other regionally significant languages are Tatar, English, German, Chechen, Bashkir, Ukrainian, and Chuvash.

## Concentration of the Population

Russia is one of the least densely populated countries in the world. According to the World Population Review, the country has a population density of 8.4 people per square kilometre. The Moscow and Saint Petersburg regions are the most densely populated areas of the country. Population density in the city of Moscow is 10,644 people per square kilometre, while it is only 0.07 in the Chukotka Autonomous Region (the region bordering with Alaska, the US).

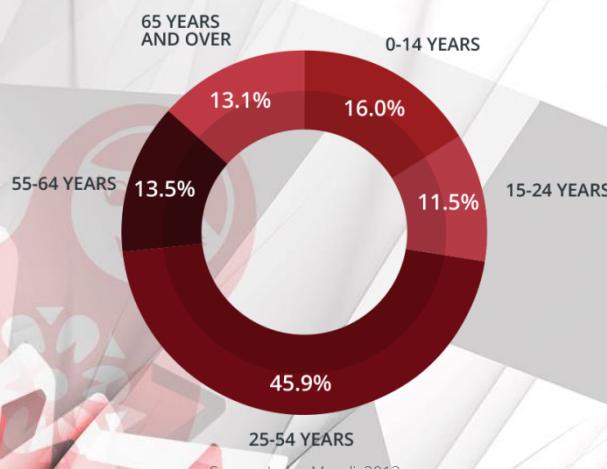
## Ageing Population

According to the UN World Population Report, the population aged 65 years or older increased from 6% in 1950 to 13.5% in 2013. According to the Federal State Statistics Service, this population group will increase to 28% by 2030.

## Urbanization

The level of urbanization in Russia is 73.8% of the total population. The process of urbanization continues at an insignificant rate of less than 1% a year.

## Age Breakdown of Russian Population (2013)



## Population Trend

Between 1992 and 2009, Russia's estimated population fell by two million a year due to social and economic hardships. The population has been on a slow rise since 2009. The Federal State Statistics Service provides three scenarios concerning population growth in Russia by 2031. The optimistic scenario predicts a population growth up to 150 million; the pessimistic scenario predicts a decrease in population, while the average scenario suggests that the Russian population will stay on the current level.

## "Four Russias"

Although it is common to have a holistic approach to Russia, its vast territory, diversity, and uneven development naturally suggests classifying Russia into several categories. One useful way is to distinguish among four primary categories:

Post-industrial Russia comprises of an urban population living in big cities. Overall, this population accounts for around 36% of the country's population. This Russia represents the Russian middle-class with modern demands for products and services. Among other things, the post-industrial Russia has the majority of internet users (around 50%).

Industrial Russia consists of towns with a population between 25 and 250 thousand inhabitants. Previously being the core of the Soviet industrial machine, these towns now consist of large numbers of blue-collar workers, constituting 25% of the population.

Rural Russia is the area of rural territories and small towns that occupy nearly 30% of the country. The major economic focus is agriculture, leaving other sectors heavily underdeveloped. Even with nearly 7% of arable lands in the country, job opportunities are very scarce, forcing the younger people to search for opportunities in urban areas.

Under-developed Russia is the last category, which includes the northern Caucasus and regions of Southern Siberia. Representing 6% of the population, these regions heavily rely on special federal programs aiming to tackle certain social and economic problems. This Russia is a place for the most corrupt governance and fierce clan fights over the resources distributed from the federal budget.<sup>1</sup>

Russia ranks as the 9th biggest economy in the world by nominal GDP and the 6<sup>th</sup> in the world by PPP (purchasing power parity).

## Political and Economic Reforms

The Russian economy, as well as the overall political setup, has experienced substantial reforms since the collapse of the Soviet Union in 1991, moving from a centrally-planned and isolated system to a more liberal market economy. Russia's economy is strongly dependent on its export of natural resources. In 2011, Russia became the world's leader in oil production. Russia also holds the world's largest natural gas reserves, the second-largest coal reserves and the eighth-largest crude oil reserves. The country is also a big exporter of steel and aluminium.

## GDP Growth

According to the World Bank, Russia's economic growth has slowed down, moving close to stagnation. Data shows that the country's GDP growth slowed down from 3.4% in 2012 to 1.3% in 2013.

## Social Indicators

Early economic reforms in the 1990s, such as privatization, distributed large parts of the country's industry among a handful of former Communist party elite and their affiliates. The country's Gini index was 40.1 points in 2009. It was revealed that 35% of the country's wealth is owned by 110 oligarchs.

## Investment Climate

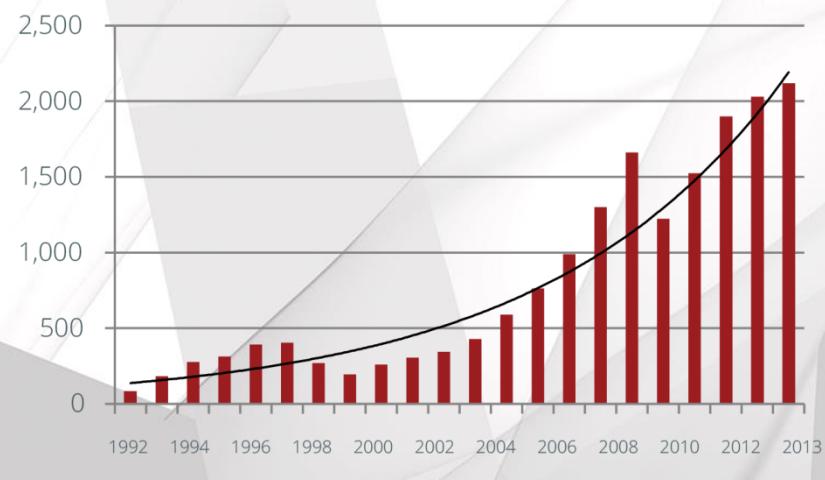
After liberalization of the economic system in the beginning of the 1990s, the country has tried to improve its investment climate. Tools such as the creation of special economic zones to attract foreign investors with significant tax privileges have been used. The country also passed through almost 2 decades of negotiations before it finally joined the World Trade Organization (2012) in order to facilitate trade relations with other members of the WTO.

Russia's current position in the World Bank's Ease of Doing Business ranking is 92 out of 185 countries. The government wants to improve this position by launching a road map to make rules for business easier and simpler. The ambition is to bring Russia into the top 20 of the ranking by 2018. Bloomberg argues that the recent international crisis concerning Ukraine seriously damaged the investment climate, making Russia the least attractive country to invest in among the biggest world markets.

| Key economic data (2013)                 |  |
|--|--|
| Nominal GDP                              | 2,118 USD billion  |
| GDP based on PPP                         | 2,558 USD billion  |
| GDP per capita                           | 14,973 USD   |
| GDP per capita (PPP-based)               | 18,083 USD   |
| Inflation (% per year)                   | 6.7 %  |
| Import                                   | 318 USD billion  |
| Main import partners                     | China 15.5%, Germany 9.5%, Ukraine 5.5% (2012)                 |
| Export                                   | 526 USD billion  |
| Main export partners                     | Netherlands 14.4%, China 6.4%, Italy 5.3%, Germany 4.5% (2012) |
| Average salary per month                 | 900 USD  |
| Median salary per month                  | 630 USD  |
| Unemployment rate (% of all labor force) | 5.3 % (2014)   |

Source: IMF, 2014; Rosstat, 2014.

## Nominal GDP (USD Billion)



Source: IMF, 2014.

# Media & Entertainment

The Russian media and entertainment industry has shown a steady growth during the last ten years, surpassing the average growth of the global industry. According to the PwC Global Outlook, the Russian media and entertainment industry grew by 14% in 2012, reaching 25.4 billion USD. It is expected to reach 39.8 billion USD in 2017.

## Market

Video content generally accounts for the majority of the digital entertainment goods market in the West. In Russia however, for a variety of reasons, games make up the majority of this market.

## IP Rights

For years, Russia has been criticized for insufficient legislation to protect IP rights of content owners. The media and entertainment industry has seriously suffered from illegal downloads and illegal offline retail. According to the International Intellectual Property Alliance (IIPA), the software piracy rate was 87% in 2004 and 63% in 2011. ICM reported that the distribution of pirated film copies was: 55% file-sharing, 37% online (streaming) and 8% torrents (P2P). Responding to domestic and international criticism, Russia passed a law in 2013 aimed to protect IP rights. This allowed for the blocking of access to illegal content based on a court decision. The new regulations are expected to have a significant positive effect on the consumption of legal content in Russia.

## Film and TV

Both the movie and TV segments are rapidly developing in Russia. The amount of cinemas increased by 30% since 2011, reaching 1,053 in 2013. The TV segment is also expected to grow as the audience of pay TV is forecast to reach 30 million by 2017. The cheap satellite TV providers such as Trikolor are increasing their market share while the Russian cable TV market is expected to stagnate.

TV will remain an important information source for a large part of the Russian population. According to the Levada Analytical Center, 72% prefer to watch news on TV, while only 14% of the population prefer to use the Internet. The TV segment is dominated by official state owned channels or companies with indirect connections to the governmental structures.

The Russian government launched the Federal Target Program "Development of TV and radio broadcasting in the Russian Federation in 2009-2015". According to the program, 98.3% of the population will be able to have access to 20 digital channels by 2015. All state channels will be broadcasted digitally.

## Music and Radio

According to the Russian Public Opinion Research Center, 60% of the population still listen to the radio. The audience has slowly been decreasing over the years, while the popularity of online music is on the rise. J'son & Partners Consulting reported that the online music market increased by 158%, reaching 8 million USD in 2013. This was due in large part due to the expansion of foreign services such as iTunes.

## Revenue per Segment

| Segment                           | Revenue (USD billion) |      |       | Average growth per year (%) |
|-----------------------------------|-----------------------|------|-------|-----------------------------|
|                                   | 2012                  | 2013 | 2017E |                             |
| Internet access                   | 6.4                   | 7.6  | 12.7  | 14.5                        |
| TV advertising                    | 4.2                   | 4.4  | 5.4   | 5.4                         |
| Internet advertising              | 1.8                   | 2.2  | 4.4   | 20                          |
| Business publications             | 2.5                   | 2.7  | 3.8   | 8.4                         |
| Movie industry                    | 1.6                   | 1.7  | 2.5   | 10                          |
| Pay TV                            | 1.4                   | 1.6  | 2.5   | 11.9                        |
| Outdoor advertising               | 1.3                   | 1.4  | 1.9   | 8.2                         |
| Video games                       | 1.2                   | 1.3  | 1.8   | 8.4                         |
| Music industry                    | 1.3                   | 1.4  | 1.7   | 6.3                         |
| Consumer magazines                | 1.2                   | 1.2  | 1.4   | 3.5                         |
| Newspapers                        | 1.2                   | 1.2  | 1.3   | 1.4                         |
| Consumer & education publications | 1.4                   | 1.3  | 1.1   | -3.7                        |
| Radio                             | 0.4                   | 0.5  | 0.6   | 7.5                         |

Source: Kommersant, 2013 with reference to PwC

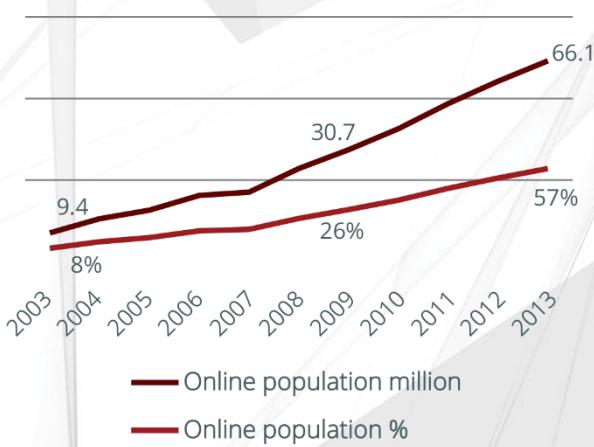
# 10 Internet Access

According to the Public Opinion Foundation, 66.1 million people accessed the internet at least once a month in 2013 (57% of the population aged 18+), making it the biggest internet population in Europe.

## Internet Penetration

The development of the internet is very dynamic in Russia and is partly boosted by mobile internet access. Due to its vast territory, internet penetration in Russia differs per region. The penetration rate is 80% in Moscow and Saint Petersburg and, on average, 55% in the rest of the country. The overall online population grows by 11% a year.

### Internet Penetration Rates (2003-2013)

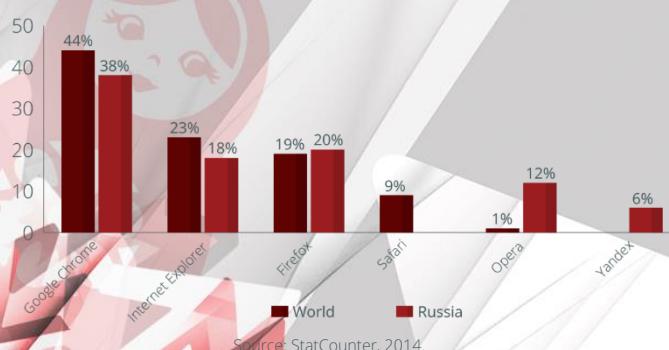


Source: The Public Opinion Foundation (FOM), 2014.

## Market Structure

During a meeting with industry leaders in 2014, the Russian president said that the Russian internet industry accounted for 8.5% of the country's GDP. Although the Russian market is open for international market participants, there are a number of very strong domestic companies. In search engines, Google trails behind market leader Yandex and in social networks, Facebook holds the fourth position after two Russian companies and one American-Russian company. Despite these peculiarities, the browser segment resembles the global picture, as illustrated below:

### Top 5 Internet Browsers



## Domains

A Yandex report on the development of the Internet in Russia states that the number of second-level domain names in .ru and .рф increased by 15% to reach 5.1 million in January 2013, with 85% of domains using .ru. The .ru domain occupies the sixth position in the global ranking of national domains.

## Internet Regulation

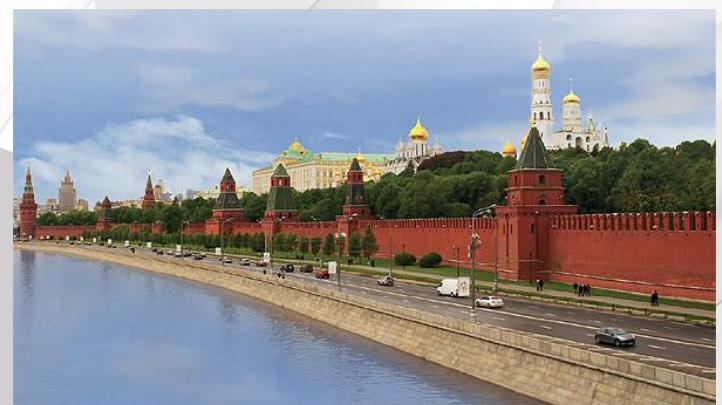
In 2012, Russia passed a law aimed at the creation of an internet blacklist, which allowed the state to block websites (without a court decision) with content related to child pornography, drugs, and suicides. Content related to other issues could be blocked after a court decision.

In February 2014, Russia amended another law "on combating extremist activity", allowing it to block any websites related to extremism immediately. A court decision, similar to the law of 2012, is not necessary.

During the international crisis related to Ukraine, the Russian President commented that the internet was designed as a CIA project and it still remained as such. This sent an ambiguous message not only to foreign but also to domestic internet companies.

In June 2014, the President of Russia conducted a meeting with top Russian internet companies, where he emphasized the importance of balanced and fair regulation of the industry. This was generally perceived as an attempt to assure the internet companies.

Critics argue that recent regulatory changes may lead to increased censorship and serious restrictions of the Russian internet. The Freedom House gave Russia 54 points for its internet freedom in 2013 (0 is the most free and 100 is the least free). The country's internet freedom is classified as 'partly free'. Iceland is on the top of the ranking with 6 points, while the 'least free' internet is in Iran with 91 points.



# Internet Search Engines

Although the Russian market is open for international competition, the most popular search engine in 2013 was a local firm, Yandex, followed by Google and Mail.Ru.



## **Yandex**

Launched in 1997, Yandex is the biggest internet engine in Russia with 53.8% of the local market. In 2011, the company listed on NASDAQ and by 2013, according to comScore, Yandex was the 4th most popular search engine in the world. Yandex now provides more than 50 services to its users, including the popular Yandex Mail.



## **Google**

Google first launched a Russian version of its search engine in 2005, and has been very popular ever since. It currently has a 34.2% market share, making it the second biggest search engine in Russia.



## **Search Mail.Ru**

Launched in 2004, Search Mail.Ru is the third largest search engine of Russian speaking internet users. Search Mail.Ru provides a modern search engine for web pages, images and videos, search in real-time news, microblogging and communities. Search Mail.Ru incorporates the social data (recommendations from other users) and automatically adjusts the search suggestions for gender and age of the user. Search Mail.Ru claims 9.4% of the market.



## **Rambler**

Rambler was launched in 1996 and existed until 2011. In 2011, Rambler turned into a portal, using Yandex to perform the search function. Its market share is around 1.2%.



## **Bing**

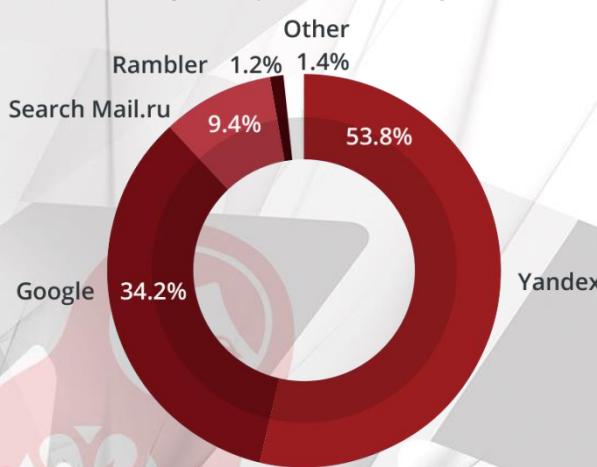
Bing was launched worldwide in 2009. Bing's market share in Russia is equal or less than 1%.



## **Nigma**

Founded in 2004, Nigma was an attempt to create an intelligent search engine. According to various estimations, the engine claims less than 1% of the Russian market. Nigma runs on a cluster principle, grouping and filtering results by topics.

### **Popularity of Search Engines**



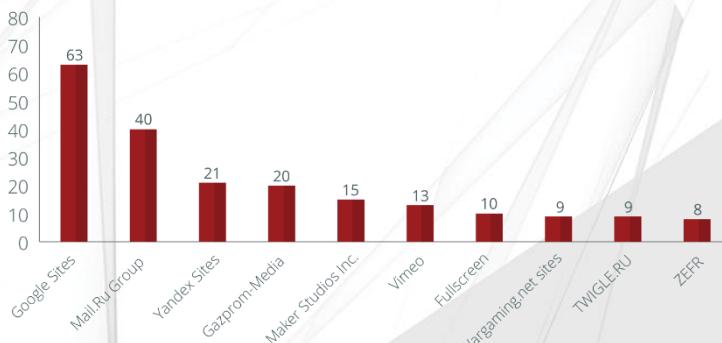
# 12 Online Video

According to a joint research project by the Higher School of Economics and several consulting firms, the number of viewers of online video reached 60 million in Russia in 2013.

## Key Players

There are more than 20 legal video-on-demand (VOD) providers in Russia, although the majority of the market is controlled by only a few players. Almost 80% of the market runs on an advertising model, while the payment model lags behind (around 20%). iKS-Consulting forecasts that the Russian VOD market will increase by 75% in 2014 to reach 88.7 million USD and will reach 290.5 million USD by 2018.

### comScore Top 10 Video Properties (Millions of Total Unique Viewers)



Source: comScore Video Metrix, Russian Federation, Total Audience, April 2014.

## Video Piracy

Video piracy is the biggest risk for owners of professional content on the Russian internet. According to research of the Higher School of Economics conducted in cooperation with other companies, the damage from video piracy is estimated at billions USD. In 2012 alone, five billion online video views involved pirated content. In the same year, nearly 6,000 Russian language websites with illegal content were identified.

New regulations in 2013 were introduced, aimed at improving the situation by better protecting content owners and promoting legal viewing. However, it should be noted that Russian language is one of the most popular languages on the internet and many Russian language websites are located outside of Russia and therefore fall under jurisdictions of other states.

## VOD Providers

### Google

Google is the market leader in online video in Russia, mainly due to its Russian version of YouTube launched in 2007. Initially Google had difficulty in competing with the local analogue competitor Rutube. Today however, Google's YouTube is the absolute leader in the Russian online video market.



Mail.Ru Group is the second biggest player in the Russian online video market. A wide range of video content is offered by Afisha Mail.Ru and its Odnoklassniki and Moi Mir ("My World") social networks. In March 2014, it was reported that Mail.Ru Group acquired a majority stake in VK.com (51.99%). This makes Mail.Ru Group the biggest VOD provider in Russia when taking the popular VOD function on VK.com into account.

### Яндекс

Yandex, being one of the leading Russian search engines, has successfully diversified its business portfolio, developing Yandex Sites. Yandex VOD websites attracted around 21 million unique viewers of online videos in April 2014.



Gazprom-Media owns several VOD websites (among other media assets), such as TNT-Online launched in 2010 and NOW.ru launched in 2011. The company co-owns Rutube, which was launched in 2006. In May 2014, it was reported that Rutube and NOW.ru had merged.

### Tvigle

Launched in 2007, Tvigle is one of the new players in the Russian VOD market and focuses on an online cinema service. Tvigle provides free access to professional content (movies, series, music videos, shows) based on an advertising model. It had 9.1 million unique viewers in April 2014.

# 13 Social Networks

According to the Russian Public Opinion Research Center, 99.7% of daily active internet users visit social networks. Russians also spend a relatively large amount of time on social networks.

## VK.com



The estimates the number of monthly users of VK.com's varies between 52 to 57 million, with the majority coming from Russia. The network boasts the most active users of any social network in Russia with 17.8 million active Russian users leaving comments and sharing content on the social network. The network is also used as a VOD website and music sharing platform. VK.com faced strong criticism internationally due to the large amount of illegal content infringing IP rights of video and music owners. Mail.Ru Group owns the majority of shares in VK.com, with the remaining 48% owned by United Capital Partners (UCP).

## Odnoklassniki



Seven years after its launch in 2006, the network has around 43 million users per month. Owned by Mail.Ru Group, it is the second biggest social network in Russia. The network aims to bring former high school students together throughout Russian speaking countries. Odnoklassniki is also available in other languages such as Ukrainian, Uzbek, Armenian, Georgian, Tajik, etc. In November 2013, Odnoklassniki launched free online cinema with popular Russian and foreign TV-series and films. The service is based on the existing video platform.

## Moi Mir



Launched in 2007, the network currently has around 31 million users per month. The idea of the service is to connect former classmates, colleagues, friends, and relatives. The network allows downloading and listening to music. Mail.Ru Group is actively developing an API to allow foreign and domestic third parties to launch games on the site.

## Facebook



The Russian version of Facebook was launched in 2004. It currently has 25.4 million users per month. Russian Facebook users spend on average only 4 minutes a day on the social network, partly due to the lack of VOD services.

## LiveJournal



The Russian version of this social network was launched in 1999. It currently has 19 million users per month, and over 200,000 active users from Russia that produce 11.2 million public posts per month. In 2007, the social network was purchased by the Russian Rambler-Afisha-SUP.

## Twitter



Although Twitter is a micro blog, it is commonly considered in the group of social networks in Russia. The service has around 11.6 million Russian users per month. The amount of active users in Russia is 1.6 million. This audience produces an average of 247 million public posts per month.

# 14 Messenger Apps

Similar to other countries, growing penetration of smartphones has increased the use of messenger apps in Russia.

## Russian Messenger Apps

Apart from traditional global leaders such as Skype, WhatsApp, and Viber, the Russian market has several local messenger apps. In line with the global trend, Russian mobile operators reported that SMS and MMS revenues decreased materially in 2013.

## Regulatory Risks

Messenger apps have always attracted the attention of Russian regulators and telecom companies. In 2013, MTS, the biggest Russian mobile operator, requested regulators to license and regulate the business activity of Skype. According to the Russian mobile operators, services such as Skype are direct competitors of them.

In February 2014, regulators suggested to regulate calling services via the internet to mobile operators. Although this service is currently available, its status is not regulated. The reform could change the status of services such as Skype, Viber, Google Hangouts, and others.

Finally, in May 2014, the Russian President signed a set of anti-terrorist regulations, including additional regulations for internet companies. Among others, companies are obliged to store all data transferred by internet users for a period of six months in Russia (textual data, video, sound, etc.). Microsoft officially confirmed that Skype would be capable to work in accordance with the new regulations in January 2014.



## Russian Messenger Apps



Telegram, launched in August 2013, quickly gained popularity among messenger users worldwide. In March 2014, it was reported that the amount of worldwide monthly users of Telegram increased to 35 million. United Capital Partners (UCP), a co-owner of VK.com, has sued the CEO of the social network for developing and launching a competitive product. Moreover, United Capital Partners (UCP) demands to include Telegram into a structure of VK.com.



Agent, launched in 2003, allows all types of communications between users: texts, voice, video, conferences, file exchange, free SMS messages, and online games. The messenger's popularity decreased in recent years. In 2013, it had 18.8 million monthly users globally. Agent is owned by Mail.Ru Group.



ICQ, launched in 1996, was initially designed for desktop computers and was quite successful. It allows all types of communication between users: texts, voice, video, and file exchange and also supports online games. ICQ lost some of its popularity in recent years. It had 11 million monthly users in 2013 (6.7 million in Russia). ICQ is owned by Mail.Ru Group.



QIP, launched in 2005, was designed to have only limited amount of advertisements, unlike its main competitor ICQ. In 2013, the messenger had 6.9 million monthly users in Russia. The messenger belongs to the Russian multimedia holding RBC.

# 15 Mobile Telecom Market

According to the Russian Public Opinion Research Center, 106.7 million people have various types of mobile devices, representing 92% of the population (18+).

## Overview

Euroset (the leader of the Russian mobile retail market) reported that about 41.6 million mobile devices were sold in Russia in 2013. According to an MTS report (the biggest mobile operator), the mobile device market increased by 7.8% to 9.27 million devices sold in Q1 2014. J'son & Partners Consulting estimated the revenue of mobile operators at 26.5 billion USD in 2012.

## Smartphones

Euroset also reported that smartphones accounted for 53% (19.6 million devices) of all mobile devices sold in Russia in 2013. It is expected that 28 million smartphones will be sold in 2014. Sales of smartphones also increased by 61.3% reaching 5.58 million devices in Q1 2014. This brought 1.3 billion USD in revenue. These sales figures are explained by the increasing amount of smartphones produced by cheaper brands. Sales of budget smartphones (with an average price of 140 USD) accounted for 42.8% (2.4 million devices) in Q1 2014.

## Mobile Internet

According to a Mail.Ru Group report, the amount of mobile internet users in Russia skyrocketed by 53% from 16.7 million users in December 2012 to 25.5 million users in December 2013. One third of all internet users used mobile devices to access the internet. This extreme growth is attributed to the penetration of smartphones and tablets, as well as decreasing prices on both the devices and internet access rates.

## LTE

Although the penetration of the 3G network is around 75%, more advanced networks belonging to the 4th generation of mobile networks, such as LTE, are less extensive in the country. The first LTE network was launched by Yota (owned by Megafon) in 2012. There were only 850,000 users of the LTE network in Russia by the end of 2012. The Russian government conducted a public tender in 2012, distributing licenses to operate using the LTE network among MTS, Megafon, VimpelCom, and Rostelecom only.

## Mobile Operators



MTS is the biggest mobile operator with 30.5% of the Russian market. By the end of Q2 2013, the operator provided services for 71.6 million users. The company is owned by Sistema (53.5%), while remaining shares are traded on the NYSE and the Moscow Exchange.



Megafon is the second biggest operator with 29% of the market. By the end of Q2 2013, the operator increased its amount of users to 64 million. The biggest shareholders are Garsdale Services Investment with 50% of the shares. TeliaSonera owns 25.17%. Shares are listed on the Moscow Exchange.

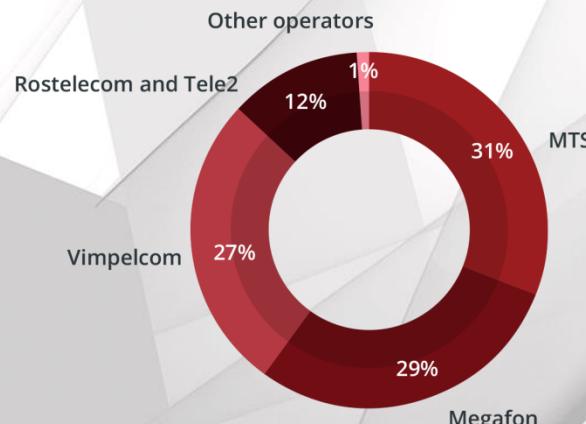


VimpelCom is the third biggest operator with a 26.8% market share. By the end of Q2 2013, the operator increased its amount of users to 57.1 million. VimpelCom is owned by Altimo and Telenor.



Rostelecom and Tele2 have planned to establish a joint mobile operating company. Together they have around 12.4% of the market. The joint venture plans to conquer 25% of the market by 2020.

## Market Share



Source: Vedomosti, 2014.

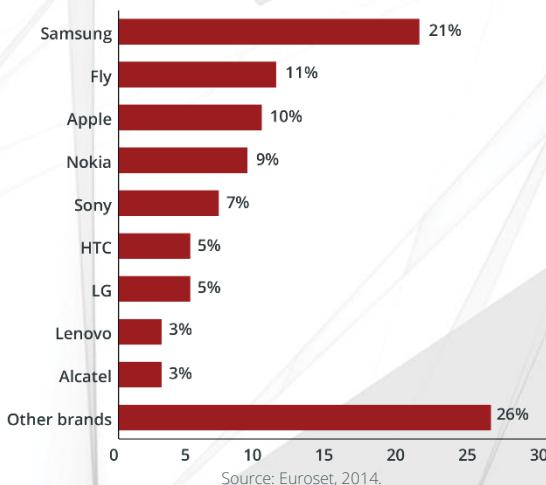
# 16 Smartphones, Tablets & PCs

There is an increasing amount of mobile internet users due to the growing sales of smartphones, tablets and other devices that connect users to the internet.

## Smartphones

According to a Mail.Ru report, Samsung is the most popular smartphone brand in Russia. Sales figures show that it had a 20.6% market share in Q1 2014 (in units). Fly, a B brand, is the second most popular with 11.3% of the Russian market. Sales of Apple smartphones accounted for 10.3%, followed by Nokia with 9.1% of the market and Sony Smartphones with 6.6%. The remaining 42.1% of the market is held by other brands.

### Market Share Per Smartphone Brand



Android, iOS, and Windows Phone are the most common operating systems for smartphones in Russia. Android is by far the most popular with an 80.3% market share (units). iOS has 10.3%, while the share of Windows Phone OS decreased to 4.5% in Q1 2014.

## PC

According to IDC, the overall PC market slowed down by 27.2%, decreasing to 10.24 million units sold in 2013. In terms of revenue, the market decreased by 32.1% to 5.73 billion USD in 2013. The decrease is partly due to the declining popularity of netbooks. Imports of netbooks decreased by 95% (units). Lenovo is the overall leader of the Russian PC market. The sub-segment of desktop computers is dominated by Hewlett-Packard.

## Tablet Market

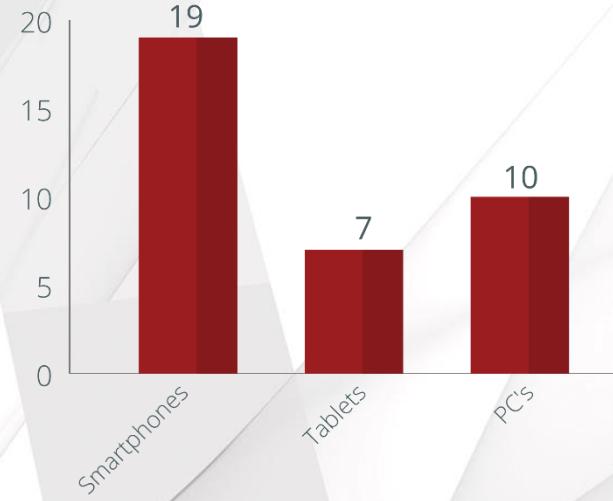
According to a report by Euroset, 6.7 million tablets were sold in 2013. Samsung is the leading tablet brand in Russia, followed by Apple, Prestigio, Asus, teXet, Digma, and others. About 80% of all tablets use Android as their operating system.

Sales of tablets increased by 57% to 1.9 million units in Q1 2014. This makes tablets the most popular device among all mobile computers (laptops, tablets, netbooks, and ultrabooks) in Russia.

Half of the Russian tablet market is accounted for by more affordable B brands such as Prestigio and 40% of all tablets do not cost more than 100 USD.

Growth of new tablets sales is expected to slow down and fall by 50% in the coming years, as the market becomes saturated and new unit sales are mainly a result of replacement rather than expansion.

### Sales 2013 (Million Units)



# 17 App Market

The Russian app market started its rapid development in 2009. According to Game Insight and J'son & Partners Consulting, it generated 330 million USD in 2013.

## Market Overview

According to J'son & Partners Consulting, Russia accounts for only 1% of the global app market. Despite the insignificant share, Distimo reports that Russia was the 10th biggest app market in the world in terms of revenues generated in 2013. Game Insight estimates the Russian mobile app market will grow to 1 billion USD in 2015. The majority of revenue is generated by games (97% of all digital content in Russia).

## App Store and Google Play

Similar to the global market, Google Play and Apple's App Store are the biggest players in the Russian app market. In terms of downloads, Russia is among the top 5 markets for both stores. The Apple App Store ranks Russia as the 9th biggest market in terms of revenue in 2013, but Russia doesn't feature in the Google Play top 10. A Mail.Ru Group report claims that Google Play is growing faster than Apple's App Store, both in terms of downloads and revenue. It is estimated that 50% of the mobile applications market (downloads) is taken by Android applications.

## Local Android Stores

Although the major Russian companies such as Yandex and MTS launched their own app stores, their market share is insignificant. The overall market share of all local app stores distributing applications for Android devices is around 10%, while the remaining 90% is occupied by Google.

Yandex Store provides Android applications for smartphones and tablets. Every application is checked by Kaspersky anti-virus software. Yandex and Megafon also launched GetUpp!, a branded version of the Yandex Store, specially for Megafon users. MTS launched its own app store in 2011. The store reportedly had 7,000 applications after the launch. The payment method of the store is charging via MTS mobile user accounts.



## Applications for Tablets

J'son & Partners Consulting reported that the global market for tablet applications is expected to grow from 2 billion USD in 2012 to 23.7 billion USD in 2016. The Russian market is expected to grow from 25.6 million USD in 2012 to 487.4 million USD in 2016. This rapid development is attributed to the development of mobile internet and an increase in the use of legal content. Social networks and video services are more likely to be used on tablets than on smartphones.

## iPad App Store

Unlike the rest of the world, revenues of the iPad App Store are higher than revenues of iPhone App Store in Russia (58% vs. 42%). The reason could be that an iPad is considered as a status symbol: an expensive device for consumers with money to spend. It is also a more common platform for gaming than the iPhone.

## Popular Applications

| Most popular applications (downloads) in Google Play and Apple's App Store in Russia in 2013: | Most popular applications (revenue) in Google Play and Apple's App Store in Russia in 2013: |
|---|---|
| VK.com  | Читай! (Read!)  |
| Skype   | Navitel Maps  |
| Dr.Web anti-virus   | Navitel Navigator   |
| WhatsApp Messenger  | Badoo   |
| Odnoklassniki   | Маша и Медведь (Masha i Medved)   |
| Viber   | Lingvo Dictionaries   |
| Instagram   | WhatsApp Messenger  |
| 2ГИС (navigation)   | CityGuide GPS-navigator   |
| Opera Mini  | Topface   |

Source: App Annie, 2014.

## 2. Games Market

# 19 Games Market

The Russian games market consists of a dozen big companies and multiple small studios (according to various sources from 200 to 2,000). The overall gaming population is around 46 million.

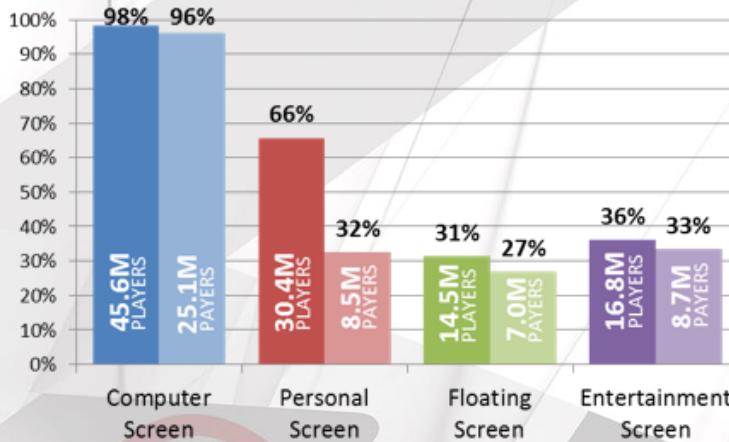
## Market Size

The estimates of the size of the total Russian gaming market vary in the range 1.0 - 1.5 billion USD. In its most recent Global Games Market Report, Newzoo estimates the 2014 Russian games market at 1.14 billion USD excluding tax, hardware, consumer trade and business services. The Russian Association of Electronic Communications is also at the lower end of this range, placing the market at 1 billion USD in 2013. Mail.Ru Group and the Ministry of Communications and Mass Media were at the top end of the range, with 1.3 billion USD in 2012 and 1.5 billion USD in 2014 respectively. PwC forecasts that the market will grow to 1.8 billion USD in 2017.

The number of Russian gamers has grown rapidly during the last few years, mainly due to the spread of new gaming platforms and business models, including F2P online games, smartphones and tablets. The growing internet penetration has also contributed to the development of gaming in Russia.

## Players and Payers per Screen

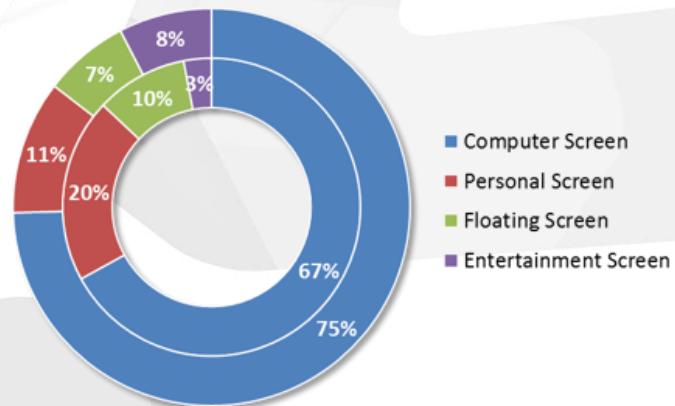
Based on its proprietary consumer research, Newzoo estimates that 78% of the active internet population aged 10-65 plays games (46.1 million gamers).



The Computer Screen is by far the most widely used. Of all gamers, 98% play here (45.6 million), and 96% of all payers pay for games on this screen (25.1 million).

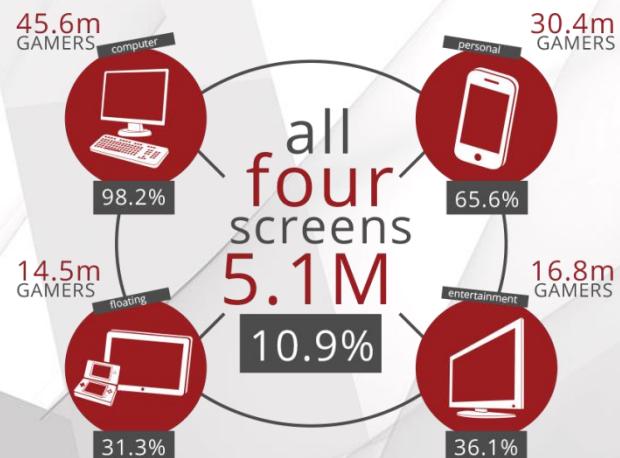
## Time and Money Spent

Most time and money spent on games is on the Computer Screen (75% and 67%). The Personal Screen is the second most popular in terms of money spent, but has the lowest payer/player ratio.



## Cross-Screen Gaming

The number of Russian gamers that play on all four screens is 5.1 million, or 10.9% of all gamers. This is relatively low compared to Western countries as the Entertainment Screen and the Floating Screen are not as widely used here. The number of gamers that play on both the Computer Screen and the Personal Screen is 50%.



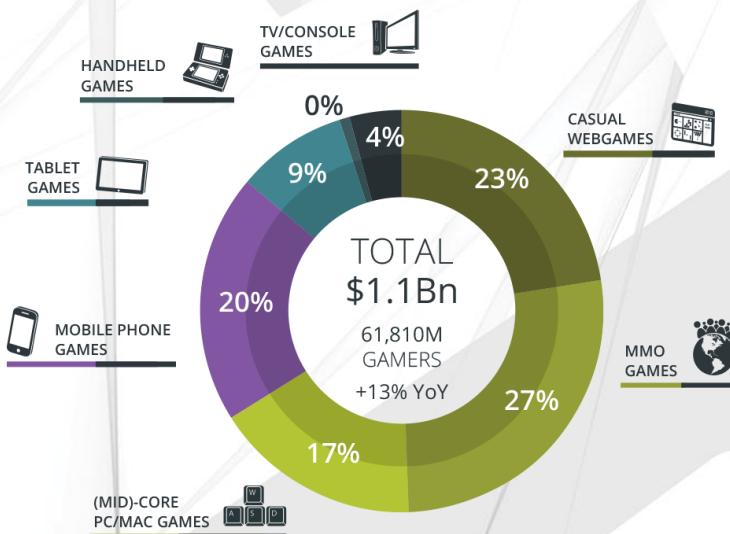
# 20 Games Market

Online games, in particular MMOs, are the most popular segment in Russia, followed by the rapidly growing mobile games sector.

## Market Segments

The Russian games market has a fairly unique structure as online PC based games, in particular MMOs, are far more popular than console games, which represent only a small share of the market. MMO games with short (battle) sessions do particularly well in Russia. In terms of segments, MMOs are followed by social web games and mobile games. The chart below shows the breakdown of the market in 2014 according to Newzoo's 2014 Global Games Market Report.

### Russian Games Market 2014



Newzoo estimates that MMOs represent 27% of the total market while consoles only have a 4% market share. Mid-Core PC games (i.e. games that you install on your PC, laptop or Mac before playing, excluding MMO games) still represent an important share of the market, but are expected to continue to lose market share in the coming years.

Mail.Ru Group estimated that the MMO segment represented 30% of the games market in Russia in 2012, with web games (as a sum of social and casual games) taking 27%. Social games make up the vast majority of this segment.

Using slightly different definitions, SuperData estimated that MMOs would achieve a 40% market share in 2014, followed by mobile games with 30% and social games with 16%. We discuss mobile and console game segments in more detail later on in this report.

Wargamings' World of Tanks dominates MMO gaming in Russia. Over the last year, a game similar to Wargaming's suite of battle games, War Thunder, developed by Russian company Gaijin, has gained momentum. Its recent distribution deal with Tencent adds to their potential.

## Top MMO games in Russia

## Publisher in Russia

| Top MMO games in Russia       | Publisher in Russia    |
|-------------------------------|------------------------|
| World of Tanks                | Wargaming.net          |
| Warface                       | Mail.Ru Group          |
| Perfect World                 | Mail.Ru Group          |
| Legend: Legacy of the Dragons | Mail.Ru Group          |
| Allods Online                 | Mail.Ru Group          |
| World of Warcraft             | Blizzard Entertainment |

Source: Kanobu, 2014. Based on 2013 revenues.

## Social and Casual Webgames

Social games achieved strong growth due to a growing number of internet as well as social network users. There are more than 200 developers active in this segment, although the top 10% of the developers control 90% of the market. The majority of the smaller developers have only one product. Leading companies in this segment are Mail.Ru Group, Social Quantum, and APITech. Contrary to many Western countries, social gaming has been a strong growth area in the last two years in Russia.

The majority of games are played in the Russian social network Odnoklassniki while VK.com is the second most popular destination. In June 2012, Appdata reported that Odnoklassniki had 767 games, providing 20 million DAUs, with 8.8 million DAUs secured by the top 20 game applications. Odnoklassniki brought more revenues from games than any other social network in Russia (5-10 times difference). Among the biggest players in the casual games segment are Nevosoft and Alawar and websites such as Minizone, Elektrokot and MyPlayCity.

## Steam and Digital Distribution in Russia

According to selected Russian game companies (interviewed by Newzoo), Steam is the market leader in digital distribution in Russia, with its turnover exceeding all Russian competitors combined. Russia constitutes 5% of worldwide sales in Steam and is one of the fastest growing Steam markets in the world: In 2013, sales increased by 128% year-on-year. EA's Origin ranks second, and uPlay by Ubisoft is third. The top local players are Mail.Ru Game Center, Gamazavr.ru, and 1C Digital. Valve chose Xsolla as their official partner to provide Russian Steam users with local payment options.

# 21 Mobile Games

The mobile games market has been constantly growing in Russia and according Newzoo, it will grow by 36.3% this year.

## Overview

The overall mobile app market increased to 330 million USD in 2013. According to App Annie, games generated 80% of revenues in Google Play and 74% in Apple's App Store. This gives an estimation of mobile games at 250 million USD. Looking at market share, the mobile games segment is the fifth biggest (7%) in the overall structure of games in Russia (Mail.Ru Group). The company also reported that mobile games is the most rapidly developing segment in the Russian games market, mainly due to the increasing penetration of mobile devices. Russia is most probably the only country in the world where Candy Crush was not in the top 10 grossing mobile games for 2013 which is dominated by "core" games.

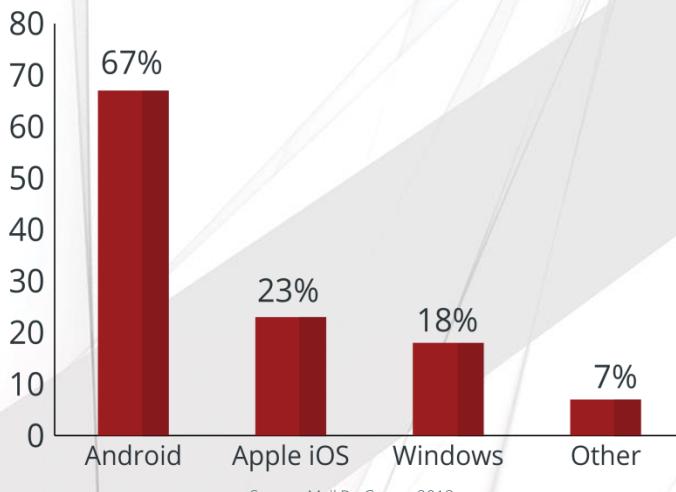
## Mobile Gamers

J'son & Partners Consulting reported that the number of mobile gamers in Russia was 38 million in 2012, forecast to grow to 65 million by 2016. Although half of all gamers use desktop computers and laptops, smartphones represent the second most popular gaming platform, while tablets are the third most popular.

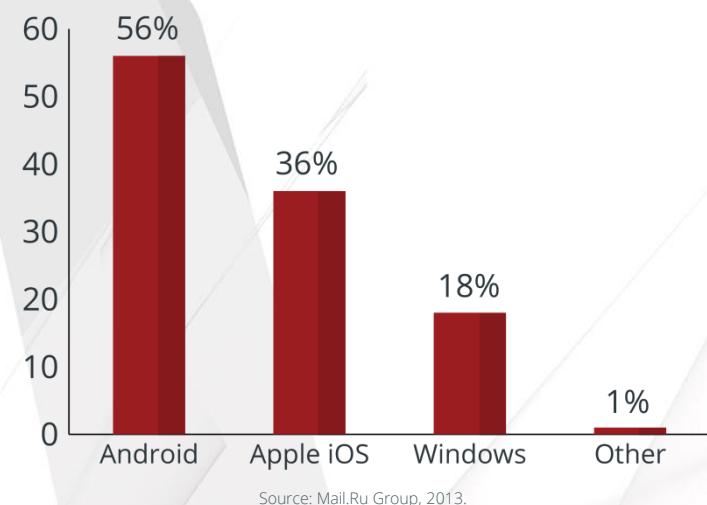
## Operating Systems

Android is by far the most popular operating system in Russia with 67% of gamers favouring Android for smartphones and 56% of gamers favouring Android for tablets. The second most popular platform is iOS (23% of smartphones and 36% of tablets).

### Popularity of Smartphone Gaming Platforms



### Popularity of Tablet Gaming Platforms



| Top games (by 2013 downloads) | Publisher       |
|-------------------------------|-----------------|
| Subway Surfers                | Kiloo           |
| Despicable Me                 | Gameloft        |
| Hill Climb Racing             | Fingersoft      |
| Angry Birds                   | Rovio           |
| Fruit Ninja                   | Halfbrick       |
| Real Racing 3                 | Electronic Arts |
| Angry Birds Rio               | Rovio           |
| Temple Run 2                  | Imangi          |
| Angry Birds Star Wars         | Rovio           |
| Pou                           | Zakeh           |

Source: App Annie, 2014.

| Top games (by 2013 revenues)  | Developer             |
|-------------------------------|-----------------------|
| Clash of Clans                | Supercell             |
| Spartan Wars: Empire of Honor | Tap4Fun               |
| Megapolis                     | Social Quantum        |
| The Tribez                    | Game Insight          |
| King's Empire                 | Tap4Fun               |
| Galaxy Empire                 | Tap4Fun               |
| Real Racing 3                 | Electronic Arts       |
| Slotomania                    | Caesars Entertainment |
| Game of War – Fire Age        | Machine Zone          |
| Texas Poker                   | KamaGames             |

Source: App Annie, 2014.

# 22 Console Games

Sony is the leader of the Russian console market, providing its products such as the PS3 to nearly every second console gamer in the country.

## Console Games

Newzoo research shows that there were around 20 million console gamers in Russia in 2013. Half of these gamers use consoles produced by Sony. One of the leaders in the Russian games industry, Alawar Entertainment, estimated the value of the total (hardware & software) console market at 140 million USD in 2013.

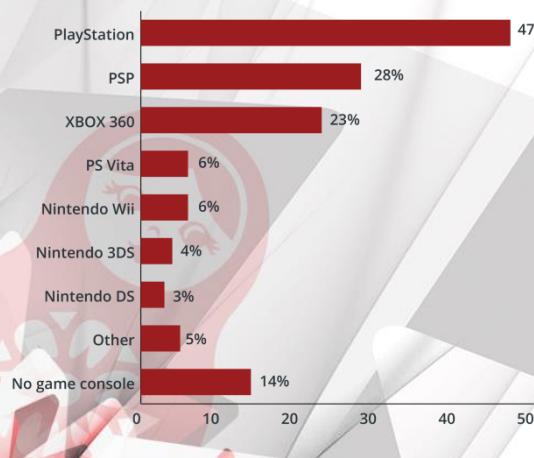
In that same year, one of the leaders of the Russian retail market, M.video, reported that the annual console software market stood at 55 million USD. The company controls 23% of the retail of console games in Russia. They reported that the number of consoles sold in Russia was 311,000 units or 85 million USD, which is consistent with the above estimates. Russia has a relatively high number of gamers per single console.

Another leader of the Russian retail market, Euroset, reported that the amount of consoles sold in Russia was 1.4 million units in 2012. Euroset also added that portable consoles were dominating in units in 2012, accounting for 63% of sales. The average price per unit has decreased to 175 USD. PwC estimates that the Russian console market will continue to grow to 506 million USD by 2017.

## Association Combating Computer Crimes (APKP)

The APKP unites all major console companies in a fight against piracy and violation of IP rights in Russia. SuperData reported that 70% of video games are pirated due to poor copyright enforcement and high retail prices. In 2010, the association conducted research which resulted in more than 50 police raids on distributors of illegal (counterfeit) versions of Xbox 360 consoles. In 2013, the NGO sued two individuals in Russia for storage and distribution of illegal content (disks). Both persons received jail terms.

## Popularity of Game Consoles



## Sony

Russian retailers, M.video and Euroset, both claimed that Sony was the market leader in console sales in Russia in 2013. The top 3 games for the PS3 were: The Last of Us (Одни из нас), FIFA 13, and God of War: Ascension. The Kanobu games portal reported that the PS4 was a better alternative for Russia compared to its main competitor from the USA. This is partly due to the price of the console, which is one of the most important factors for Russian gamers.

## Microsoft

Russia is the 4th biggest European market in terms of sales of the Xbox 360. Live service is popular among 49% of gamers, while 53% of all consoles are equipped with Kinect. GTA 5 was one of the most important reasons behind increased sales of the console in Russia in 2013. Top games according to Microsoft are GTA 5, Minecraft, and Mortal Kombat. Most popular games by downloads are Mortal Kombat, GTA 5, and Max Payne 3. Kanobu games portal reported that the Xbox One did not provide video services in Russia, making the platform less attractive for gamers.

## Nintendo

Mail.Ru reported that the Wii U lost serious market share after the introduction of the PS4 and Xbox One. Gamers that previously played casual games on the 3DS and Wii U switched to similar games on smartphones and tablets, while hardcore gamers switched to the more advanced next-gen consoles. Kanobu games portal reported that the Wii had been extremely unpopular in Russia. M.video stopped purchases of Nintendo consoles in 2012 due to their extremely low popularity in Russia. The retailer now sells only existing stock of the consoles.



23

# Top Games in Russia

The Russian games market is dominated by MMO games. The absolute majority of games are published by local Russian companies. This ranking is based on revenues in 2013.

## World of Tanks



World of Tanks is the most successful game from the territory of the former Soviet Union, collecting as much revenue as the rest of the top 10 games in Russia and the CIS countries combined. WoT is a client MMO game focused on armoured warfare. The game is "free-to-win" which means even players that never spend money on the game can conquer all. Developed by Wargaming (Belarus), the game quickly bypassed revenues of the traditional bestseller: World of Warcraft. Apart from millions playing the game on the PC, there are also around 100,000 people playing the game on Xbox in Russia. In January 2014, it was reported that about 1,114,000 users played simultaneously on Russian servers of the game. There are over 80 million users of the game worldwide. According to Wargaming data, there are 19 million gamers in Russia. There was over 1.1 million concurrent users (CCUs) on the Russian servers of the game in January 2014.

## Warface



Warface is the biggest product of Mail.Ru Group. The game is a client MMO which also uses the free-to-play model. According to Kanobu, Warface is the famous MMO first-person shooter that managed to gross 10 million USD per month in 2013 (CIS countries). The MMO shooter was recognized as the best client game during the Russian Game Developers Conference (KRI) in 2013. There are 19 million users registered on Russian speaking servers of the game (around 75% from Russia). Mail.Ru Group reported about 720,000 DAUs in April 2014.



## Perfect World

Perfect World is another client MMO project of Mail.Ru Group, which also uses the free-to-play model. The game is popular among 30 million people throughout the world. The game was originally developed in China and published in Russia. In October 2013, Mail.Ru Group reported that the localized version of the game had 9 million gamers (registered users).



## Legend: Legacy of the Dragons

Legend: Legacy of the Dragons is a popular game that can be played both as a browser and client MMO. Like other successful titles in the Russian games market, Legend: Legacy of the Dragons uses a free-to-play model. The game was originally developed by IT Territory (owned by Mail.Ru Group) and published in 2006. In November 2013, it was reported that the game was played by 8.5 million gamers (registered users).



## Allods Online

Allods Online is the first Russian free-to-play game that gained popularity internationally. The game was developed by Allods Team studio (owned by Mail.Ru Group) and published by Mail.Ru Games in 2010. In 2011, Mail.Ru Games reported that the game was played by 3.5 million gamers worldwide, whereas the majority of them (2 million) are Russian gamers. In 2013, Mail.Ru Group launched a server that worked only via a subscription model.



## World of Warcraft

The famous MMO from Blizzard Entertainment is the first game in the ranking which was not published by a Russian company. The Russian version of the game was launched in 2008. In 2011, it was estimated that Russian-speaking servers of the game had around 750,000 gamers.

# 24 Top Games in Russia II

Although the top 6 positions in the ranking are occupied by MMO games, console games such as GTA 5 also managed to raise substantial revenue in Russia.



## Grand Theft Auto 5

GTA 5 is the first non-MMO game in the ranking of top revenue generating games in Russia. The bestseller was localized by 1C-SoftClub. The game is the leader of the console charts in Russia and abroad. 1C-SoftClub sold 250,000 copies of the game in Russia since its launch.



## War Thunder

War Thunder is developed and published by a Russian company called Gaijin Entertainment. War Thunder is a client MMO game dedicated to the military genre. Since the beta release in 2012, the game has been very successful among Russian gamers as well as abroad. The game is seen as the primary competitor of World of Tanks, especially since the decision of Gaijin Entertainment to localize in China in cooperation with Tencent Games. The game is played by more than 6 million people worldwide.



## Тюряга (The prison)

This game is developed by a small Russian company called Kefir. The prison is a social game available on the majority of social networks in Russia such as Odnoklassniki, VK.com, and Moi Mir.



## Lineage 2

Lineage 2 is developed by NCsoft and was published by Innova Systems in Russia in 2008. Similar to other MMO games, Lineage 2 uses the successful free-to-play model. The game is played by 3 million gamers in Russia. The game is expected to be less popular in the future due to multiple competitors in this genre.



## League of Legends

League of Legends is an MMO game developed by Riot Games. In 2013, the company launched a Russian server and in January 2014, it was reported to have about 27 million DAUs worldwide.



## Правила Войны (Total Domination)

Total Domination is the primary project that turned Plarium Global into a successful company producing browser, social, and mobile games. Total Domination earns around 1 million USD per month in Russia. The game is also very successful on Russian social networks.



## Cross Fire

Cross Fire is a free-to-play shooter released in South Korea in 2009. In Russia the game was localized by Mail.Ru Group. In June 2013, it was reported that there are about 10 million registered gamers in Russia.



## ArcheAge

ArcheAge an MMO game developed in South Korea. In Russia the game was localized by Mail.Ru Group. Published in February 2014, the game quickly became successful in Russia. ArcheAge is based on a hidden subscription model.

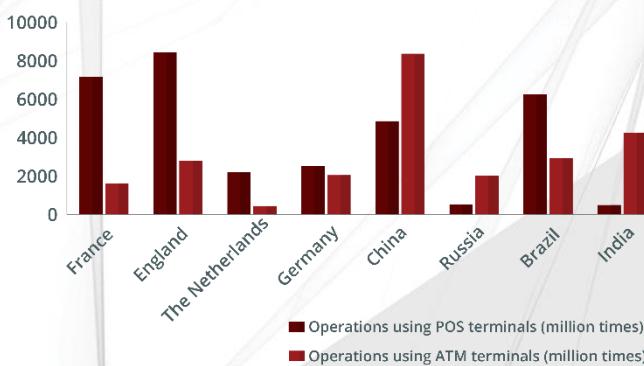
# 25 Payment Methods

Revenues in the games industry, especially the MMO segment, are tightly connected to monetization which involves a developed infrastructure of non-cash payments.

## Payment Cards

The Russian market of non-cash payments grew massively in terms of the number of payment cards issued. By 2013, there were 240 million banking and credit cards in Russia and 75% of them were in use. The Central Bank of Russia reported that the volume of non-cash payments grows by 10-15% a year. Despite its rapid development, the amount of cards used in POS terminals or online is very low in comparison to the use of cards in ATMs.

### Card Operations per Country 2010



Source: Central Bank of Russia, 2011.

## National Payment System

The recent international crisis turned the Kremlin's attention to the dependence on foreign payment systems such as Visa and MasterCard. The Russian official newspaper reported that 95% of all non-cash payments in Russia are conducted by one of these companies. In May 2014, it was reported that Russia introduced a set of regulations which oblige international payment systems to process transactions locally or to keep a relatively big deposit at the Central Bank of Russia. Although it was reported that Visa and MasterCard reached a compromise after talks with Russian officials, July 1st 2014 remained an alarming deadline for both these companies and millions of Russian cardholders. The government has also been working on an alternative National Payment System.

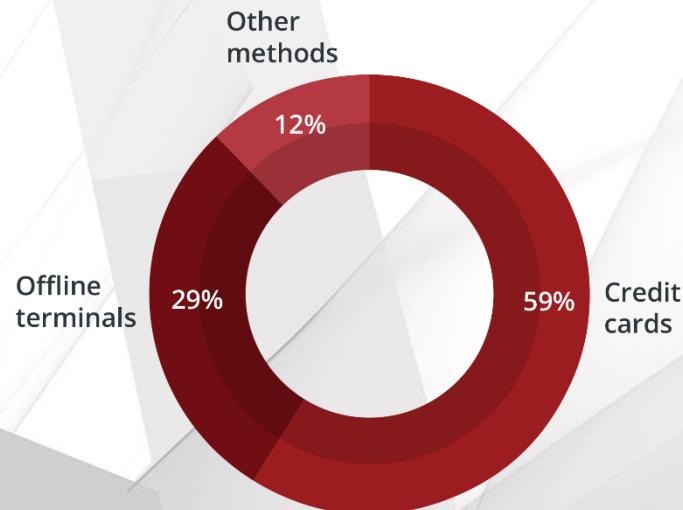
## Payment Methods in Games

The Russian media holding RBC published a report evaluating 2013 data on payment methods on or in games in Russia. The dominant payment method turned out to be payment cards (credit cards), representing 59% of all transactions. Payments via offline terminals still occupy 29% of all payments while 12% is done via other payment methods. Payment cards have many advantages such as security and the fact that cards can be conveniently linked to a gaming account. Another advantage is universality – it is very easy to buy anything anywhere in the world.

Similar research by Xsolla identified somewhat different findings: 36.8% cash (offline payments), 39.6% mobile payments, 14% online (electronic payments) and 8.5% payment cards (credit and debit cards) and 1.1% other payment methods.

In May 2014, anonymous payments to foreign companies such as Skype were prohibited (one of the most popular payment methods in Russia). From now on, to keep the payment flow uninterrupted, foreign gaming companies will have to work with a Russian publisher or a company that offers publishing/licensing services.

### Payment Methods in Games



Source: RBC, 2014.

# 26 Games market regulation

Though the games industry is regulated in Russia, it is not currently a key focus area of the regulators. Since 2013, the level of piracy in games has been reduced and IP rights are better protected.

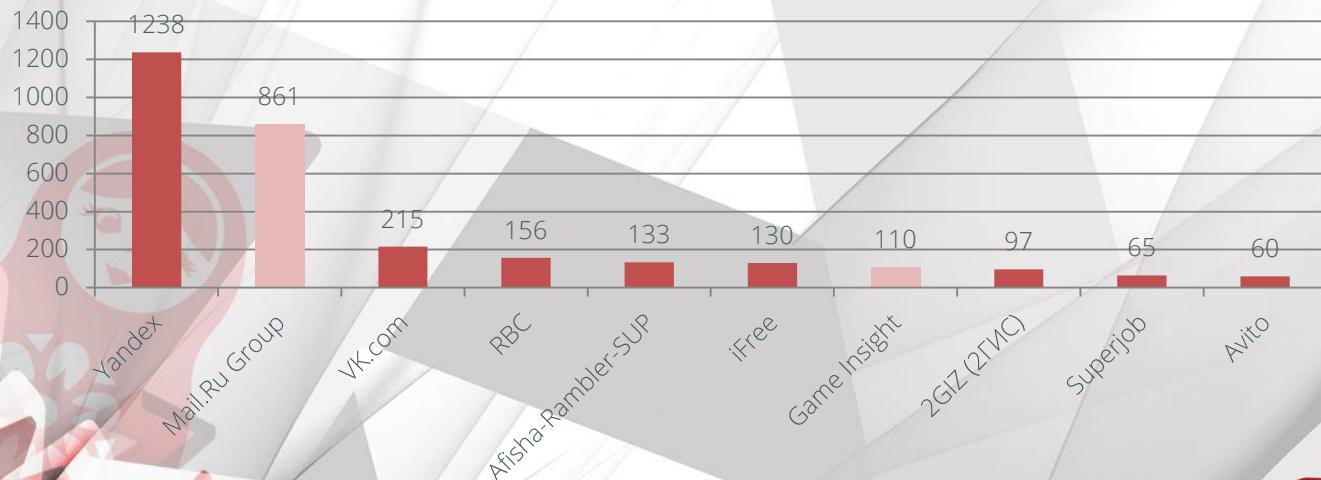
## Regulation

Just like any other segment of the media and entertainment industry, the Russian games market is regulated by the Ministry of Mass Media and Communication and an industry oversight organization called Federal Service for Supervision in the Sphere of Telecom, Information Technologies and Mass Communications (Roskomnadzor). Games, being a relatively new industry on the Russian market, are often criticized and attacked for various issues such as the increased violence among teenagers. Overall, the Russian games industry is not a key focus area of the regulators and no strict regulations have been imposed, but this may change. Some companies prefer to hold their servers abroad. In May 2014, the second biggest Russian game company (Game Insight) decided to move its headquarters to Lithuania and indicated this was a more favourable place to operate as a global company.

The gambling industry is regulated far more strictly in Russia. By law, all gambling companies had to relocate to special gambling areas in Russia in 2009, located in different regions of the country. After the reform of the offline gambling industry, regulators started focusing on the online gambling industry. In March 2014, Roskomnadzor included more than 200 gambling websites into a blacklist of banned websites in Russia.

As the illustration below shows, several leading game companies are among Russia's largest internet firms, increasing the chances that the regulators will start looking at the sector more closely.

Top 10 Russian internet companies by revenue in 2013 million USD



There are two ways to conduct business in Russia: go it alone or partner with a local firm. As always, both have their (dis)advantages, but obviously a good local partner can be very valuable.

## Doing Business Alone

Doing business alone offers many advantages such as deciding on your own commercial strategy, marketing, distribution and control of products. On the other hand, this requires additional expenses and profound expertise (qualified staff) to deal with Russian bureaucracy as well as issues related to entering the Russian market. Both Western and Asian companies face the same challenges when entering the Russian market alone.

## Local Partners

In 2011, a member of the Chamber of Commerce and Industry of the Russian Federation provided investors with two major recommendations – to make good strategic partnerships and not to blame the authorities.

It is easier to enter the Russian market together with local support. A Russian partner can handle administrative issues and understand market peculiarities while also having pre-existing business connections. Having connections is essential because relationships are of vital importance and most foreigners will find it hard to work with Russian stakeholders without fostering business and personal connections.

Another advantage to having a local partner is the ability to use this partnership in a mutual enterprise for localization purposes. Although localization is an option rather than an obligation, companies that aim to participate in public contracts are gradually forced to increase their level of localization in Russia.

## Entering the Russian Games Market

With the exception of Blizzard Entertainment, few Western companies have successfully entered the Russian market alone and no Asian company has so far managed to become a strong and independent player in Russia. An attractive way to enter the Russian market is to invest in a gaming company as it lowers operational and other risks for foreign companies. One of the leaders of the Chinese games market, Tencent, holds a share in the biggest Russian media company Mail.Ru Group (7.8%).

## Development

In terms of number of companies, game development is the largest sub-sector in the games industry. Costs related to the development of an AAA game in Russia are up to eight times lower than costs of a similar product in a Western country. Out of 5,000 games developed annually, only 100 get published while the top 10 will generate the majority of all profits. There are around 10 big game developers in Russia.

## Localization

Both 1C-SoftClub and Xsolla confirmed that localization is an informal obligation for companies entering Russia. Localization could be more important than the quality of translation. Experts argue that localization brings an additional 30-70% increase in sales and in Russia's case this number could be as high as 120%.

## Publishing

The publishing area is one of the most competitive, divided among 4-5 big companies. It is common in Russia that publishers fully finance the publishing of a game. As for the distribution of revenues, 20-50% (usually) goes to the developer while the rest goes to the publisher. The analysis of the top games showed that nearly all games were published by Russian partners. Last but not least, local marketing (PR and user acquisition) is a serious barrier which could more easily be handled by a local publisher.

## Distribution

Distribution of games can be conventional or digital. According to IHS iSuppli, Russia will be the second market in the world in terms of digital distribution of games by 2017 (percentage distributed online vs. offline).

## Monetization

Payment is another barrier in Russia. Foreign companies are required to establish local legal entities in order to accept game payments. The games monetization leader, Xsolla, solves this issue by providing the service for gaming giants such as Wargaming and Mail.Ru Group. Providers of payment services also note that it is easier to have an agreement with Xsolla rather than deal with each game individually. New developments in payments are more alarming, with anonymous payments to foreign companies outlawed since May 2014. Visa and MasterCard have been on the edge of closing their business in Russia, although their payment cards are popular among gamers.

# 3. Appendix

# a1 Regulators and associations

Apart from companies and gamers, there are also regulators and business associations that influence the development of the industry in Russia.

## **Ministry of Communications and Mass Media of the Russian Federation**

The ministry is the primary governmental body formulating rules for the IT and internet industries in Russia. It created "The Strategy for Developing the Information Technology Sector in the Russian Federation in 2014-2020". Among other things, the document identifies online games as one of the most attractive segments of the games industry. The strategy aims to promote Russian internet companies both in the country and globally. In 2013, the ministry turned down the suggestion of the Ministry of Education to limit internet access to various media content (including games) in schools. In May 2014, the ministry established a working group aimed to stimulate the development of the Russian games industry. The first meeting was attended by representatives of Mail.Ru Group, 1C-SoftClub, and Wargaming. Meeting participants discussed possible ways to support patriotic video games in Russia (aid to developers and organization of tournaments).

## **Federal Service for Supervision in the Sphere of Telecom, Information Technologies and Mass Communications (ROSKOMNADZOR)**

Roskomnadzor is the IT and internet industry oversight organization in Russia. Alexander Zharov, a head of the organization, stated in December 2013 that the gaming industry needed additional regulation. According to Zharov, the current game labelling by age category (similar to video and music content) is not sufficient as many children still have access to games online.

## **Federal Assembly (Russian parliament)**

Vadim Denygin, a head of the commission of cybersport and games entertainment industry (part of a larger committee on information technology), supports additional regulation of games in Russia. He said that there was a large number of young gamers that could be exposed to disturbing content, including antipatriotic propaganda. Other members of the parliament have also proposed various populist bills aimed to protect children from disturbing content on the internet. In February 2014, a member of the parliament proposed to limit retail of adult games in places accessible for children. In March 2014, the same member of the parliament also proposed to fine distributors of games "revising or misinterpreting historical facts", such as Call of Duty and Company of Heroes. The chairwoman of the Council of Federation (upper chamber of the parliament) proposed additional filters on the internet in order to protect children from negative and disturbing content. Experts reported that such regulations would inevitably influence the Russian games industry.

## **Russian Presidential Executive Office**

Aide to the head of the Presidential Executive Office supported the Russian games industry. In March 2014, he discussed options of how to make the games industry more profitable and how to attract investors. According to the official, the state is willing to support Russian game companies by providing financial aid to companies that have already managed to raise certain amount in funding (by means of crowd funding).

## **Russian Association of Electronic Communications (RAEC)**

Founded in 2006, RAEC is the only Russian association that conducted research on the Russian games market. The association consists of more than 100 Russian internet companies, including games companies such as Mail.Ru Group and Innova Systems. The association acts as a collective voice of the Russian internet industry.

## **Russian Association of Cybersport**

In 2004, cybersport was included in the list of the Russian Unified Sports Classification System, which led to the development of the formal professional association. In 2006 however, cybersport was excluded from the list, which led to the informal status of the association in Russia.

## **Russian Association of Developers and Publishers of Game Industry and Interactive Technologies (RADIT)**

A company founded in 2010 which claimed to represent the interests of the games industry. There was no activity registered since.

# Top Russian Game Companies

Source: *Forbes Top 30 Russian Internet Companies (February 2013)*

## Mail.Ru Group

Mail.Ru Group is one of the leading internet companies in Russia with their sites reaching approximately 90% of Russian Internet users on a monthly basis (TNS, March 2014). They operate large social networking sites (Odnoklassniki and Moi Mir), two large instant messengers (Mail.Ru Agent and ICQ), Russia's leading email service, Russia's largest Internet portal Mail.ru and Russia's largest online games platform. In 2010, Mail.Ru Group purchased Astrum, becoming even stronger player in Russia. MMO games are one of the most profitable business lines of the company and their most prominent gaming project is Warface, developed by Crytek. The company announced to publish a new game called Armored Warfare, aiming to repeat the success of the leader of the Russian market: World of Tanks by Wargaming.



## Game Insight



Game Insight is a developer and a publisher of mobile and social games. The company was established by Alisa Chumachenko in 2010. The company has developed more than 30 mobile games and has around 600 staff in eleven countries. The most successful games are The Tribez, Mystery Manor, Airport City and My Country. According to Forbes, Game Insight's revenue was 110 million USD in 2013. In May 2014, the company decided to relocate its headquarters to Lithuania.



## Innova Systems

Innova Systems was established in 2006 and is headquartered in Moscow. It has a strong team of 200 professionals and, according to Forbes, its revenue was 50 million USD in 2013. The company publishes client and browser MMO games with a portfolio of 8 projects. The most successful projects are Lineage 2, Point Blank, and PlanetSide 2. The company's games are played by 2 million gamers. The company is a traditional competitor of Mail.Ru Group in terms of localization and publishing of games (especially South Korean games). Apart from its games business, the company also launched a paid VOD website called Ayyo.



## 1C-SoftClub

Although there is no confirmed revenue of the company in 2013, stakeholders indicate that 1C-SoftClub is one of the biggest participants of the Russian games industry. It works with the majority of publishers both in Russia and abroad. In order to increase its market share, the company purchased another Russian developer, Buka, in 2008. In 2013, 1C-SoftClub released GTA 5 for the CIS market (including Russia), which generated 17.5 million USD in 2013.



## Zeptolab

The company was established in 2008. Its current size is around 30 specialists focusing on social games. With few, but very successful projects, the company earned 40 million USD in 2013. The company's portfolio includes games such as Parachute Ninja, which was downloaded 300,000 times. The company is also famous for one of its internationally successful projects – Cut the Rope series.



## Alawar Entertainment

Founded in 1999, Alawar is headquartered in Novosibirsk. It has a team of more than 400 specialists. In 2012, Forbes estimated the company's revenue at 35 million USD. The company started as a developer of casual games and later started publishing games of other developers. Alawar is the biggest distributor of casual games in Russia with a portfolio of more than 300 games, including The Treasures of Montezuma and Farm Frenzy. The company's products are translated and sold in 37 languages. The games generate 1.5 million daily downloads.



## Akella

Akella was established in 1993 in Moscow and develops, publishes, and distributes PC and console games in Russia and CIS countries. By 2007, the company released more than 800 games, as well as educational software programs. The company also localized global bestsellers such as Prince of Persia series, the Postal series, Neverwinter Nights 2, EverQuest II, Painkiller, Sacred, Fahrenheit, Test Drive Unlimited, Armed Assault and Assassin's Creed. The company has a network of around 30 partner-studios that develop games for it. It has a staff of around 250 professionals.



## AlternativaPlatform

AlternativaPlatform was established in 2006 in Perm. Additional offices of the company were opened in China and Malta. The company consists of around 100 specialists with its major product a free-to-play MMO called Tanki Online. The product is played by 5 million gamers in 50 countries. In 2013, Tanki Online was acknowledged as the most popular browser game in Russia.



## Destiny Development

Founded in 2008, the company's 150 specialists have produced successful games such as Botva, Bad Pets, Music Wars, and Maestia: Rise of Keledus. The company's headquarter is in Moscow. Destiny and its projects were highly popular on the local market, receiving multiple awards.



## Gaijin Entertainment

Established in 2002, Gaijin is one of the few successful players on the console market. One of the first big success stories of the company was the release (in cooperation with 1C-SoftClub) of the game IL-2 Sturmovik: Birds of Prey. In 2012, the company launched a beta version of another military simulator called War Thunder. The beta version of the game is played by 6 million gamers worldwide. In April 2014, it was reported that the company signed a contract with the Chinese Tencent Games, aiming to launch War Thunder in China.



## Kefir

Kefir is a relatively new Russian company based in Volgograd. Among its three products, the most successful is Тюряга (Jail). The game is played by 12 million gamers in Russia and CIS states. The game is included in a list of the most successful games in Russia in 2013 (by revenue). According to various sources, the revenue of the company reached 24 million USD in 2012.



## Nevosoft

Founded in 2002, Nevosoft is headquartered in Saint Petersburg. It is the biggest developer as well as distributor of casual games in Russia. Its website is visited by 1.5 million unique users per month. The company has organized White Nights and Winter Nights Mobile Games Conferences. It has around 40 titles, including very successful games such as Super Cow.



## Novy Disk

One of the biggest localizers and publishers of games in Russia and the CIS countries. The company has a large retail network in Russia, Baltic states, and CIS countries. Since its establishment in 1997, the company has actively worked on games but also publishes various software products. The company has exclusive contracts with foreign game developers, localizing successful products such as Call Of Duty 4, Modern Warfare, Unreal Tournament 3, Runaway 2, and others. Novy Disk was acknowledged as the best localization company in Russia in 2008.

## Nival



Nival is a Russian developer and publisher of strategy genre games. Founded in 1996, the company has 200 specialists working in major offices in Russia, Belarus, Ukraine, and the USA. Since 2005, the company has published its own games such as Blitzkrieg, Prime World, Heroes of Might and Magic V, Silent Storm and Etherlords game series. In the end of 2013, Almaz Capital invested 6 million USD in Nival. The resources will be focused on international marketing of the new game Prime World and on the promotion of Blitzkrieg 3.

## Nikita Online



Nikita online, founded in 1991, was the first game company established in Russia. It develops and publishes online games with a portfolio of more than 100 different games including King of Kings 3, Rappelz, 4Story, and World of Dragons. The company currently has 18 projects in Russia. Its offices are situated in Moscow and Rostov-on-Don.

## Play Flock



Play Flock was established in 2009 and focuses on development and publishing of social games on three major Russian social networks and internationally. Games include FriendVille, Drunken Bartender and Gold Rush. There are more than 50 million users of social games produced by PlayFlock and its games are popular in 165 countries. The company has a strategic partnership with Mail.Ru Group, as well as agreements with other Russian and foreign publishers.

## Saber Interactive



The company was established in 2000 and has grown into one of the largest and longest-standing providers of interactive games in Russia and Eastern Europe. Saber has divisions dedicated to video gaming technology, game content and casino gaming. The company has two offices in Saint Petersburg and in New Jersey (USA).

## Social Quantum

Social Quantum develops and publishes games for social networks. Since its creation in 2010, it has launched 7 studios in various countries of the former Soviet Union and Eastern Europe. The amount of daily users of the games released by Social Quantum reached 5 million a day. It has 200 strong staff, with a headquarter in Moscow. Social Quantum game applications are leaders on the social network Odnoklassniki in terms of the amount of users.

## Sperasoft

Founded in 2004, Sperasoft has grown into one of the largest game developer and outsourcing companies in Eastern Europe with over 200 professionals. Headquartered in the USA, the company has development teams in Saint Petersburg and Volgograd. The company works with global games leaders such as Electronic Arts Inc. and Sony Network Entertainment.

## Syncopate

Headquartered in Moscow, Syncopate has offered online games since 2009. It also launched a portal called the GameNet, which is designed to be a social network for gamers. It currently has 7 games such as Combat Arms and Rage of Titan in its portfolio.