

Filas Venture Capital Department

Regional Law 2/85

CINEMA AND AUDIOVISUALS

May 2008

The following definitions determine admissibility to the benefits of Regional Law 2/85:

Definition of "cinematographic work"

By cinematographic work we refer to a show, produced on any type of media, including digital media, and/or with images created graphically or animated by any type of technique and media, with a narrative or documentary content lasting more than 75 minutes, as long as it is of a creative nature, as set by the legislation regulating copyright, destined to an audience preferably in a projection hall by the owner of the diffusion rights.

Definition of "audiovisual work"

By audiovisual work we refer to a show, produced on any type of media, including digital media, and/or with images created graphically or animated by any type of technique and media, with a narrative or documentary content, as long as it is of a creative nature, as set by the legislation regulating copyright, destined to an audience by the owner of the diffusion rights.

Definition of "experimental work" ("new talent work")

By experimental cinematographic or audiovisual works we refer to works, fitting any of the above definitions, regarding products by new authors and/or producers that do not have previous production experience in a specific sector (audiovisual or cinematographic) and that intend to present the product to an audience for commercial ends.

PRELIMINARY ASSESSMENT

In order to optimise application analysis, all applications will undergo a preliminary assessment to verify that they meet all essential pre-requisites for admissibility to the benefits of Regional Law 2/85. The result of the preliminary assessment phase will regulate admission to the final assessment phase.

Essential pre-requisites for admissibility include:

1. Applicants must be SMEs (as per current EU definition) with at least an operative office in Lazio and a sound financial and economic status (as foreseen by Regional Law 2/85);
2. Submitted works must satisfy the definitions of *cinematographic*, *audiovisual* or *experimental work* given above;
3. Submitted projects must satisfy the following requirements (cumulatively, not as options) concerning budget expenses in Lazio:
 - a. No less than **50%** of the total "under the line" production budget for cinematographic works, **50%** for audiovisual works and **70%** for experimental works must be spent in Lazio (in the case of international coproductions this percentage will only be applied to the budget quota representing the national territory);
 - b. Expenses planned in the "under the line" production budget (subsequently any modifications as indicated in points 1c and 3b below) for the work in Lazio will have to

be no less than twice the funding applied for from the Regional Law 2/85 Fund **with a maximum limit of € 600.000 per single production (€ 100.000 in case of experimental works)**;

- c. The minimum financing application must exceed **€200.000** for every individual cinematographic work, **€100.000** for every individual audiovisual work and **€50.000** for every individual experimental work, in order to ensure that the financing is significant both in terms of the work and of the benefits for the region;

4. Applicants must contribute directly and/or indirectly to the project budget by direct financial and/or alternative sources (in the latter case, budget contribution will be judged definitively by FILAS) in respect of the following requirements (cumulatively, not as options):

- a. No less than **10%** (monetary) or **25%** (alternative or combined) of the total "under the line" production budget for cinematographic and audiovisual works;
- b. No less than **50/75%** of the requested financing through the Regional Law 2/85 Fund;

As an alternative, there are pre-defined funding contracts that "guarantee", to the definitive judgement of FILAS, the complete coverage of the budget (with the exception of the funding applied for to FILAS).

ASSESSMENT PROCEDURE

The final assessment procedure for financing through Regional Law 2/85 will be based on the evaluation of four main macro-elements characterizing the presented project:

1. cinematographic/audiovisual project presented;
2. economic/financial evaluation of the ability to reimburse funding;
3. territorial impact derived from the use of the funds;
4. professional character of the applicants.

With regard to **point (1)**, evaluation will concern the qualitative and economic-financial aspects of the work, including:

- a. Direct and/or indirect co-financing of the work by the applicant by evaluating not only the minimum requirements on co-financing indicated above for the preliminary assessment phase, but also the soundness of these resources to cover the work production budget and share the entrepreneurial risk. The assessment will also take into account indirect financial resources that can be easily traced to the applicant (i.e. other members in the applicant company or subjects involved in the production).
- b. The soundness of the production/distribution budget in reference to the ability to address unexpected expenses;
- c. In relation to the work budget assessment presented by the applicants, amendments may be made, if necessary, to adjust expense items to current market values;
- d. The project development phase and consequently the feasibility that it will be effectively completed, including the evaluation of the distribution schedule, a significant element for the commercial success of the work;

- e. For international coproductions, besides evaluating the importance of the foreign parties, assessment will have to consider the foreign distribution potential, even in countries other than those of the co-producers.

With regard to **point (2), the economic/financial evaluation of the ability to reimburse funding**, assessment procedures will examine the proposed profitability of a project, which should be at least sufficient for the reimbursement of the total funding. The assessment will privilege productions that allow a valid profit margin on the invested capital in relation to the risk presented by each project.

The assessment of the ability of the work to create financial revenue will examine feasible commercial sale to all the channels that are normally targeted (i.e., theatrical, free-TV, pay-TV, home and commercial video, etc.) and forecast different revenue models and relative possibilities (including the break even point) as well as the payback period.

In the case of audiovisual works, due to the absence of important reference points, such as the box office for similar/previous titles, it will be necessary to verify the existence of elements (contracts that have already been defined, information on the share of similar/previous titles, etc.) pointing to a "certainty" in the revenue that may be produced by a given work.

With regard to **point (3), the territorial impact derived from the use of the funds**, in addition to the requirements set by the preliminary assessment phase, the following elements will be analysed:

- a. The "quality" of the expenses in Lazio, giving greater importance to productions that employ services with a greater added value from the Lazio audiovisual industry;
- b. Admissible expenses must only include "under the line" expenses listed in the work budget (explicitly excluding expenses pertinent to the film director, screenplay writer and main actors) and in the budget assessment presented by the applicants. These may be modified, if necessary, both to adapt items to current market prices and to exclude certain expenses (such as insurance, producer fees, general expenses, unexpected costs, etc.) that would not directly influence the Lazio audiovisual industry;
- c. With regard to improving the image of the territory, the assessment will quantify the proposed benefits, rather than the number of locations.

With regard to **point (4), professional character of the applicants**, assessment will use the system developed by the Italian Ministry of Heritage and Culture that assigns a score to each producer based on the following elements:

- a. Quality of films and/or audiovisual works produced;
- b. Solidity of the activity and proven commercial capability;
- c. Artistic and technical quality

This assessment will be integrated by a general evaluation of the economic, patrimonial and financial means of the applicant.

The assessment of these elements will not be used to discourage, in any way, the debut of new subjects.

The following documentation must be included with each application:

1. Synopsis of the work (description of the subject and screenplay);
2. Declaration that the applicant owns the rights to exploit the film, including (if already available) SIAE receipts and rights documentation to be entered in the public cinematography register;
3. Declaration that the cinematographic work is destined prevalently to cinema audiences (only for cinematographic work applicants);
4. Graphical work plan indicating internal and external shooting locations and shots;
5. Copies of the letters of intent, gentlemen's agreement, memorandum of understanding and definitive contracts with other Italian or foreign companies for the coproduction and/or distribution demonstrating the effective interest (or specific contractual agreements) of other operators in the work financing (if already applicable);
6. Timing of projections, number of copies to be produced and number of movie halls indicated by the distribution agreement for the theatrical channel (only for cinematographic work applicants);
7. Analytical budget of production costs for the cinematographic/audiovisual work, indicating the expenses to be incurred in Lazio, including cost previews from local suppliers;
8. Analytical budget of distribution and sales costs in Italy and abroad;
9. Economic-financial plan and scheduling from the production kick-off date detailing income from each distribution channel (according to international standard denomination: theatrical, home & commercial video, free TV, pay TV e per view, near video on demand e video on demand, internet) and an indication of any minimal guarantees and existing product placement agreements;
10. Detailed plan of promotional and advertising investments (planned or definitive) and description of related activities;
11. CVs of the director, main actors and principal technical figures;
12. Presentation of the works produced over the past 5 years by the applicant;
13. Cinetel certification for cinematographic works and Auditel certification for TV works (or equivalent foreign agency for works from other countries) on box office revenue for each work produced in the last five years concerning the director and main actors (only for cinematographic works).