# Russian Periodical Press Market

## 2005

### Situation, Trends and Prospects

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**REPORT**

**Federal Agency for the Press and Mass Communications of the Russian Federation**

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# INTRODUCTION

**The outlook for the print media market in Russia is extremely promising.** It has been developing dynamically both in terms of quantity and quality in recent years. A number of factors have been important: an excellent economic situation in the country, liberal legislation on the press, a rapidly growing advertising market, stable demand for the quality press, improved technologies, no restrictions on foreign media ownership, and foreign and domestic investment in the sector.

Therefore, the market's capitalization is increasing and it is becoming increasingly attractive for investors. More media companies are merging or being absorbed, and the number of registered periodicals with clearly identified subject matter, consumer niches, and readers' and advertising preferences is increasing rapidly. Competition is becoming tougher. The declining readership of the daily newspapers is largely compensated by an increased readership of the weeklies (weekend issues of the dailies) and the robust growth of the magazine market, not least thanks to foreign capital and Russian-language versions of virtually every globally known magazine. The markets of periodicals, printing services and newsprint are developing well, even if there are some problems. Color printing and convenient formats are being increasingly adopted, and more nationwide color news group tabloids are being launched as traditional black and white publications go out of circulation. The business press is developing rapidly.

But these trends come against the backdrop of such phenomena as: the declining social and educational role of the periodical press in society; the natural aging of the "serious press" readership; increased consumer demand for pure entertainment; the inadequacy of media measurements and press market statistics; the heavy economic and political dependence of many Russian publications, especially regional and local newspapers, on the authorities that founded them, and on other influence groups; the inappropriate taxation of periodicals writing on education, science and culture, thereby disregarding their social significance; and the steadily growing information and advertising role of online media in the media market.

## GENERAL SITUATION

In 2004, Russia's media market (including print and electronic media) was worth more than $6 billion. In 2008, this figure is forecast to rise to $7.5-8 billion.

**The press market is growing also.** In 2004 periodical publications' copy sales exceeded $1.9 billion, with $520-530 million coming through subscription and about $1 billion over the counter. In addition, in 2004 the press made $1.25 billion from advertising. So, altogether the Russian periodical press market (distribution and advertising) was worth more than $3 billion in 2004, and investments came close to $1 billion (as compared with $800 million in 2003). The Russian press market's growth rates trail only India's and China's.

### World Media Markets: Growth Rates*

**Growth Forecasts for 2005-2008**

| | |
|---|---|
| **Russia** | **5.7%** |
| **U.S.** | **3.8%** |
| **Canada** | **2.1%** |
| **Europe** | **2.9%** |
| **China, India, Far East** | **9.8%** |
| **Africa, Middle East** | **2.4%** |
| **South America** | **3.1%** |

** PricewaterhouseCoopers*

At the same time, certain negative factors within and beyond human control are slowing down the periodicals market's development: the country's vast territory, severe climate, inadequate transport and communications facilities, low population density, insufficient purchasing power, etc.

In addition, there are other problems relating to taxation and customs, and insufficient state support for publications for children and young people, veterans, and the disabled, as well as those in languages spoken in the country other than Russian. There are also difficulties with the regional and municipal press, and scientific, cultural, educational, literary and art publications. The outdated nature of the printing industry is also a handicap, particularly its complete dependence on imported equipment, glossy paper, ink and other printing essentials. There are few retail sales outlets, especially in small towns and rural areas, while ways to subscribe to periodicals need to be modernized. Market-trained print media managers are also desperately needed at all levels.

Lack of reliable statistics on the press market is a particular problem. There is no complete information on the number of actual publications, their circulation, sales, consumer demand, the demographic, educational and social structure of readership, retail and wholesale distribution, efficiency of newspaper and magazine advertising is, etc. For this reason, most of the conclusions and data contained in this report are based on expert estimates.

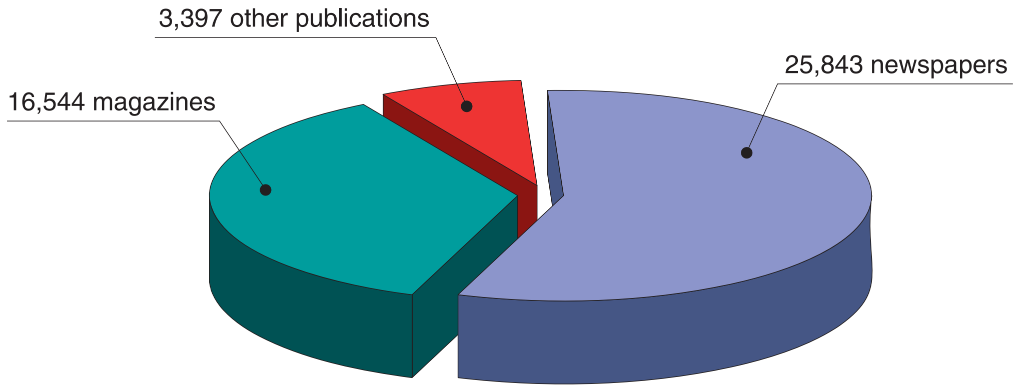
An analysis of the current situation in the periodical press suggests that in full compliance with the Russian Constitution and legislation on media **there is no state censorship in Russia**. But, as many periodicals are dependent on different influence groups or political forces, they practice some measure of self-restraint. However, this is not a phenomenon unique to Russia, as it is seen throughout the world.

There has also been a noticeable change in the journalistic style of the Russian press. The principles of Soviet journalism are now a thing of the past, while new ones are only in the making as is a journalistic ethical code that will conceptually replace editorial self-constraints. The general concept of the journalist's profession, its content and objectives, is changing. Above all, factual reporting is set against individual opinion, and team journalism against pieces by individuals. However, they should and do co-exist, as is the case throughout the world. As a result, readers see less and less familiar names in publications. Even the most credible publications increasingly prefer no-frills and news-based journalism to the personalized approach. Some applaud these processes, considering them a response to social demand, whereas others see a throwback to the most odious forms of the Soviet press when freethinking was frowned upon.

**Mass media in modern Russia can only develop successfully as a business.** In general, the process is moving in this direction, and substantial progress has been made in many areas. But the Russian press market is still young, and is still suffering from growing pains. The country's print media are arbitrarily divided into two groups: business projects and the rest. There are many business projects, but the "rest" predominate.

The “press market” concept first appeared in this country in 1990 when the USSR Law On the Press and Other Mass Information Media removed all obstacles for individuals and organizations setting up media. As a result, periodical press was given a chance to develop freely as a business built on consumer demand. Since then the number of registered periodical publications has increased many times over and by January 1, 2005 exceeded 46,000 titles, including almost 26,000 newspapers, more than 16,500 magazines, and about 3,400 almanacs, newsletters and bulletins. In all, there were 21,300 more than in January 1, 2000.

## Number of Registered Print Media in Russia
(as of January 1, 2005)

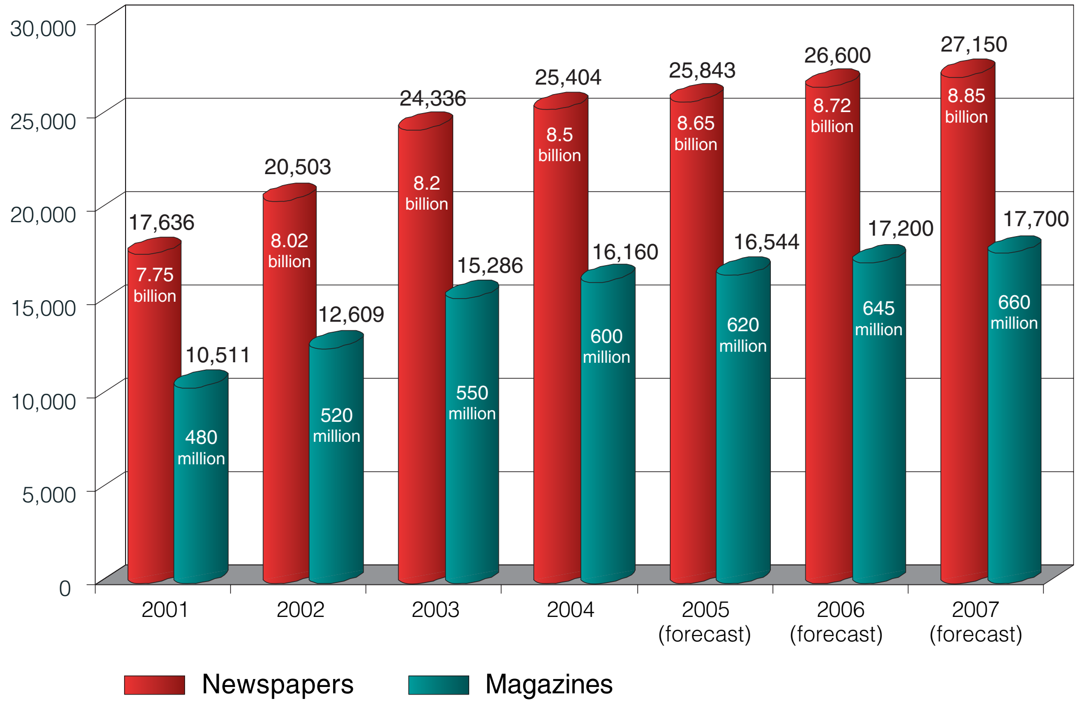



It should be noted that registration figures include many titles that are registered but not published, or published only occasionally. Unfortunately, the agencies responsible for registration are unable to follow up cases of non-publication, with the result that they rarely, if ever, go to court to invalidate registration certificates, although this is stipulated in the Law on Media. The database compiled by the Russian Book Chamber, which receives a copy of every publication issued in the country, suggests that the real number of print media in the country is a little over half of those registered. As of November 1, 2004, the database contained information about 10,880 magazines and 13, 251 newspapers.

Furthermore, print media growth in Russia is not matched by increased circulations and sales, and TNS Gallup Media, a company which makes media measurement in Russia, reports that even the most popular papers and magazines are losing readers. According to its figures, in 2001-2003 the readership of one issue of the daily Komsomolskaya

Pravda dropped from 2.2 million to 1.8 million, of the daily Izvestia from 390,000 to 320,000, and the weekly Argumenty i Fakty from 8.02 million to 7.1 million. If in 2000 the daily Russian press had 4.2 million readers, the figure today is 3.4 million. The situation is admittedly more or less stable now, and the magazine and (mainly entertainment) weekly readership has even grown. But the accuracy of data reported leaves much to be desired, since publishers widely exaggerate their figures, even though this is an offence punishable under the Administrative Code.

## Number and Circulation of Periodical Publications in 2001-2007




**The decline of the traditional media readership is partly due to the growing role of online media.** Apart from publications that are exclusively Web-based, electronic versions are published by all national and most regional dailies – the periodical media sector of the Russian Internet lists more than 1,700 sites.

The Russian Internet news leaders have remained unchanged in the past five years: RBC.ru, Lenta.ru, Gazeta.ru, Dni.ru, Strana.ru, Grani.ru, Utro.ru, and also the parent sites of Izvestia, Komsomolskaya Pravda and Nezavisimaya Gazeta. On average the popularity of major sites in the Russian Internet domain's media sector has grown tenfold in the last five years, while Russia now has more than 17.5 million regular Internet users.

Before 2004, the Russian online media followed a simple development pattern. Main online media players could be divided into three groups: pioneers (RBC.ru, Lenta.ru and Gazeta.ru), followers (Utro.ru, Dni.ru, Grani.ru, and Strana.ru), and traditional media (Izvestia.ru, Kp.ru and Ng.ru). Russia's first large online media organization was the RosBusinessConsulting (RBC) news agency. After the August 1998 financial crisis, when the dollar exchange rate was the most important news for Russian Internet users (whose number was no more than a million then), the RBC.ru site was as popular as the biggest search engines. The spring of 1999 heralded the triumph of first online newspapers Gazeta.ru and Lenta.ru. As the followers multiplied, traffic, as reported by the SMI-Periodika section, became divided among a growing number of contributors, and the role of the leaders was partly eroded.

The big moment for the sites of traditional media came in 2002, when they emerged from five years of lethargy after being set up in 1997 and got a new lease of life. The Izvestia and Komsomolskaya Pravda sites have been among the ten biggest online media in the Russian Internet domain since fall 2001. However, they have not led the news segment, perhaps because they initially concentrated on comment and analysis rather than directly covering the news. Years of monitoring Russia's Internet readership show that readers first go to the sites of independent online media when major events happen. But, after the initial desire for news has been satisfied, network users traditionally revert to the newspaper resources to find explanations about what they have read.

Compared with 2003, the average daily audience of the Russian domain's news sites in 2004 rose by almost 65% and now a million hits a day is the rule. This represents about a 15% share of the overall traffic, but on news-breaking occasions the number of site visits doubles. The last record, which was 35%, came during the Beslan terrorist attack in 2004.

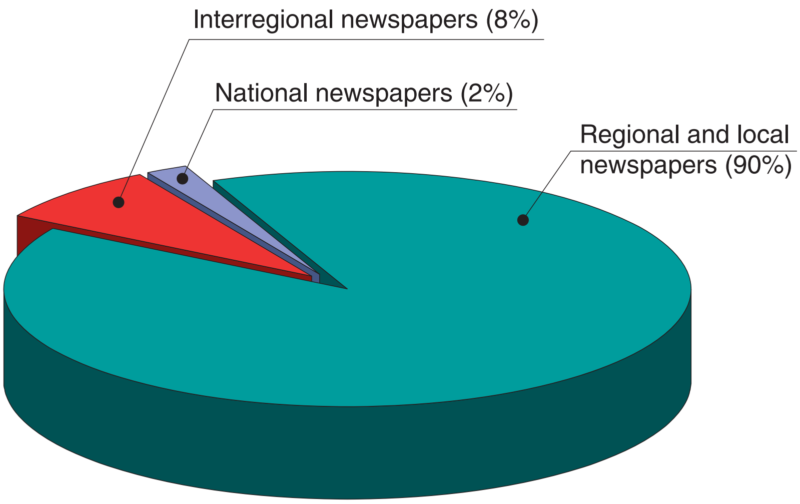
In Russia the Internet is aggressively winning over readers of traditional media. Television obviously dominates Russia's information sphere, but the online media are gradually moving into second place as sources of information. Revenues from providing Internet access last year almost doubled, rising from $290 million in 2003 to $560 million, and in 2005 may exceed $1 billion. The online market is becoming increasingly competitive, and it will soon become as tough as the print media market.

On the other hand, any talk of the online media presenting a threat to the print media is premature. At any rate, audiences and advertising volumes of printed and online media are not yet comparable.

## THE NEWSPAPER MARKET

**Just like in the rest of the world, newspapers account for the majority of Russian periodicals.** The annual circulation of Russian newspapers exceeded 8.5 billion copies in 2004. In contrast, the circulation of magazines totaled only 600 million. Newspapers are distributed over Russia's regions fairly evenly. In particular, Moscow and St. Petersburg share 10% of the overall number of published newspapers in Russia, even though the circulation of national newspapers (there are 400 of them or less than 2% of the total figure) with regional supplements equals 34.5% of the annual circulation of the entire Russian press.

### The Structure of the Newspaper Market




25,843 newspapers are registered in Russia. At least 50% of them are published regularly.

The total circulation is 8.5 billion copies a year.

The circulation of national newspapers (400) is 2.9 billion copies a year (34.5%).

The Russian newspaper market is facing numerous problems. “Russia's newspaper market is considerably distorted, and there are no conditions for it to develop”, – says Rafael Akopov, general director of Prof-Media, a major Russian publishing company. The major reason for this is that federal structures or private investors subsidize up to 90% of Russia's newspapers. Sponsors generally see their publications as a political resource and do not expect the projects to recoup.

Nearly every serious national daily today has either a financial and industrial group behind it or the state, while regional authorities support most of the leading newspapers in the regions. Considering Russian realities, this provides them with special, preferential treatment.

There are so many newspapers of varying quality in Russia that newcomers, particularly serious dailies, find it difficult to be successful. In the past five years, the Vedomosti business daily, which is published in conjunction with The Wall Street Journal and Financial Times, has been the only national newspaper to do so. Few regional newspapers can claim to be flourishing. Even the oldest dailies cannot cope without direct financial support from businessmen or the authorities (or at best – combined financing within publishing holdings). It negatively affects the quality of the daily press and readers' trust.

## Top Twenty Newspaper Publishers in Russia
### (as of February 2005)*

| No. | Publisher | Combined single issue circulation of publisher's titles, thousand copies | Number of newspapers |
|---|---|---|---|
| 1. | Prof-media Publishers | 6,132.6 | 90 |
| 2. | HFS-InterMediaGroup | 6,113.6 | 62 |
| 3. | Extra M Media | 5,749.9 | 12 |
| 4. | Argumenty i Fakty | 4,452.3 | 74 |
| 5. | Logos-Media | 4,020.0 | 15 |
| 6. | Zdorovy Obraz Zhizni (Healthy Lifestyle Review) | 3,149.3 | 1 |
| 7. | Moskovsky Komsomolets | 2,925.7 | 78 |
| 8. | Tsentr-Plus | 2,900.0 | 3 |
| 9. | S-Info | 2,718.9 | 7 |
| 10. | Sovershenno Sekretno (Top Secret) group of companies | 2,530.0 | 2 |
| 11. | Zhizn (Life) | 2,100.0 | 60 |
| 12. | Provintsia | 1,964.5 | 46 |
| 13. | Sobesednik | 1,773.3 (as of October 2004) | 19 |
| 14. | Mir Novostei | 1,390.0 | 6 |
| 15. | Pronto-Moskva publishing holding | 1,148.1 | 108 |
| 16. | Systemy Mass Media Concern | 1,108.0 | 5 |

* According to the Guild of Press Publishers' data

| | | | |
|---|---|---|---|
| 17. | Megapolis-Express | 1,038.0 | 5 |
| 18. | Moya Semya (My Family) | 982.3 | 2 |
| 19. | Ekonomicheskaya Gazeta (Economic Newspaper) | 834.0 (as of October 2004) | 16 |
| 20. | Independent Media | 802.7 | 23 |

The content and attractiveness of Russian newspapers as market products obviously needs to be seriously revised, but very few publishers and editorial staffs really give this any serious thought. As a result, the number of profitable newspaper projects in Russia, except advertising editions, hardly exceeds 10% today. The others are either based on combined financial schemes or rely completely on subsidies. Entertainment and tabloid publications, as well as some regional weeklies, are the main ones that recoup their costs in today's Russia. The state of publications for children and young people is alarming, and serious public and political editions are in a deep crisis. Russky Kurier recently closed its doors, while Gazeta has drifted toward tabloid journalism and Moskovskiye Novosti is on the brink of bankruptcy. Izvestia's year-on-year earnings were down from $13.7 million in 2003 to $12.1 million in 2004 (an 11.7% fall).

There is another obvious trend. Although it is complicated and expensive, the newspaper business can be highly profitable if run efficiently. Successful newspaper businesses can be found both in central Russia and in the provinces. Thus, Komsomolskaya Pravda, Vedomosti, Moskovsky Komsomolets, Kommersant, Rossiiskaya Gazeta, Zhizn, Krestyanin (Rostov-on-Don, southern Russia), Volnaya Kuban (Krasnodar, Black Sea region), Krasnoyarsky Rabochii (Krasnoyarsk, Eastern Siberia), Vesti (Leningrad region surrounding St. Petersburg), Chelyabinsky Rabochii (Chelyabinsk, Southern Urals), Nizhegorodsky Rabochii (Nizhny Novgorod, northeast of Moscow), Tomsky Vestnik (Tomsk, Western Siberia), Molodost Sibiri (Novosibirsk, Western Siberia), Svobodny Kurs (Barnaul, Western Siberia) and other editions not only adjusted to the new market conditions but also enjoy success.

Competition on the Russian dailies market will become increasingly tough, which will eventually accelerate the process of natural selection. The newspapers opting for a pure market approach will most likely stand the highest chances, as their management and editorial staff will prove capable of ensuring sufficient consumer value of their editions both for the reader and the advertiser, as well as their own adequate market share.

**The situation on the weeklies market** is fairly promising in terms of the publishing business. On the whole, weeklies are popular and commercially successful. Above all, they are weeklies for family reading, TV guides, classifieds and practical guides, crosswords and entertaining newspapers. The leading positions in this segment are held by such nationwide publishing houses as InterMediaGroup, AiF, Provintsia, Sobesednik, Logos-Media, Mir Novostei, Megapolis-Express, Moya Semya, Premier-Inform (Vologda, 300 miles northeast of Moscow), Vse Dlya Vas (Tambov, 300 miles southeast of Moscow), Severnaya Nedelya (Severodvinsk, a White Sea port in northwestern Russia), Altapress (Barnaul, Western Siberia), and some others. The current trends on this market are likely to continue, though competition will inevitably become tougher, first of all, among regional publishing houses and nationwide groups.

The majority of profitable national newspapers are published by newspaper groups. The dominating positions here belong to Pronto-Moskva (the Iz Ruk v Ruki advertisements newspaper) – 108 newspapers; Prof-media publishing house – 90 newspapers (including Komsomolskaya Pravda), Moskovsky Komsomolets – 78 newspapers; Argumenty i Fakty – 74 newspapers; Zhizn publishing house – 60 newspapers; InterMediaGroup (Antenna-Telesem, Va-Bank) – 62 newspapers; Provintsia publishing house – 46 newspapers, etc.

**"Gratis press" is showing an increasing influence on the Russian newspaper market.** The variety and the circulations of free newspapers are steadily growing. Only a couple of years ago this sector was dominated by purely advertising editions, whereas now free newspapers tend to be constantly turning into advertising and information periodicals, if not information and advertising ones. Graphic examples can be found both in Moscow – Moskovskaya Sreda (Yuzhnye Gorizonty publishing house), Metro and Telesreda (Sistemy Mass Media concern), Okruga (Extra M Media publishing house) – and in the regions – Birzha Plus (Nizhny Novgorod), Nasha Gazeta (Yekaterinburg, the Urals), and others.

Similar editions can be found today in virtually any relatively big Russian city, and sometimes even in rural areas.

The readership of traditional editions is getting older, making the free newspaper business the most sensible and essential solution for them. According to the World Association of Newspapers, only 39% of people aged 18-24 thumbed through a newspaper a day in 2004, whereas two decades ago the figure was 59%. According to the Newspaper Association of America, only 17% of daily subscribers belonged to this age group in 2002.

The problem seems to be relevant to Russia, too. It is a universally acknowledged truth that the size and stability of a newspaper's profits from advertisements mostly depend on whether it can retain the interest of solvent consumers.

In the past few years, the circulation and sales of Russian dailies and weeklies have been growing moderately, which means the press market is well supplied with these products.

At the same time, the newspaper segment of this market has recently seen a series of serious trends, including:

- **aggregate circulation stabilization.** If the total number of newspapers registered by the Federal Service for the Supervision of Legislation in Mass Communications and the Protection of Cultural Heritage is not taken into account, and calculations are made using the number of newspapers that are actually published, then growth over the next few years in natural terms (aggregate circulation) is unlikely to exceed 2-3% a year. If federal and local subsidies for regional newspapers are cut, their number may drop dramatically in 2006-08. On the whole, no drastic decline should be expected, as new editions will soon replace those that close. The Russian Association of Communication Agencies (AKAR) forecasts that newspaper advertising growth will slow down in 2006-07.

- **an increase in the volume of editions.** With the circulation of public and political newspapers being relatively stable, they become bigger, which can be seen in both the size of the papers and in higher demand for newsprint. It is a general trend, which is, however, most conspicuous in Moscow and other big cities. In parallel, more newspaper supplements are being published in big cities.

- **transition to color printing.** Increasing competition on the advertising market forces advertisers to resort to the most eye-catching printed adverts in quality publications (magazines, brochures, color advertising insertions). It is becoming increasingly difficult for newspapers to retain advertisers by maintaining high circulations alone. Therefore, experts forecast a better quality trend on the Russian newspaper market - most national titles will switch to color printing and the majority of regional newspapers will inevitably opt for the same solution. Advertising-based papers are also expected to see stable growth, as they are more interested in color printing than others.

In reality, all this is already happening. In the past few years, the correlation between black-and-white and color newspapers has been rapidly moving toward the latter. This trend intensified in 2004 after new newspaper printing houses owned by ProfMediaPrint and Extra M Print were opened outside Moscow, and Novaya Tipografia commissioned a chain of printing houses all over Russia (in Perm - the Urals; the Leningrad region surrounding St. Petersburg, etc.). The acute shortage of production units for quality printing has forced most newspapers (regional ones in particular) to postpone the transition to color printing indefinitely.

## MAGAZINE MARKET

**Russia's magazine market** is developing successfully as a business. The increased competition in all of its segments, the high growth rates of magazine advertising and the rapid emergence of Russian versions of the world's most popular magazines illustrate the success and the promising nature of this market. The number of magazines registered in Russia virtually doubled between January 1, 2000 and January 1, 2005.
Increased total annual circulation on the Russian magazine market and the launch of new publications is now ensured mainly by the largest publishing houses – Burda, Independent Media, EDIPRESSE-KONLIGA, Hachette Filipacchi Shkulev, SPN, OVA-Press and others.

### Top 20 Magazine Publishers*
### (as of February 2005)

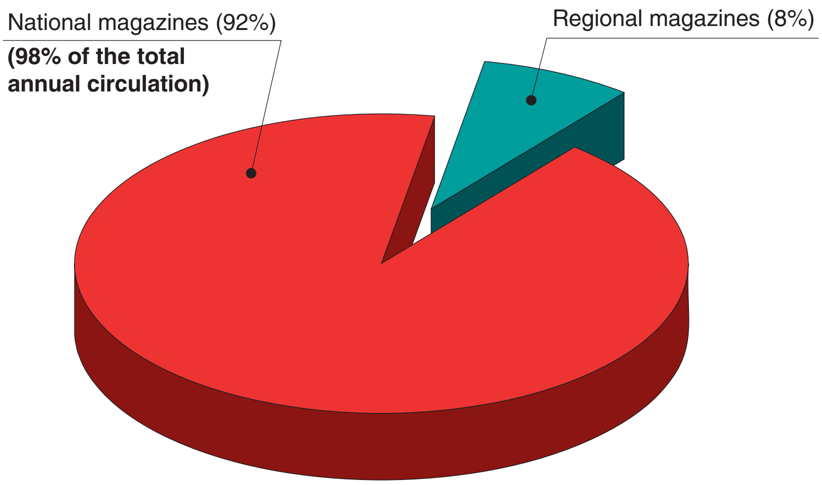
| No. | Publishing house | Combined single issue circulation of publisher's titles, thousand copies | Number of magazines |
|---|---|---|---|
| 1. | Burda | 5,705.5 (as of October 2004) | 28 |
| 2. | Independent Media | 5,319.6 | 41 |
| 3. | Logos-Media | 2,313.0 | 13 |
| 4. | EDIPRESSE-KONLIGA | 2,206.0 | 31 |
| 5. | 7 Dnei | 1,580.9 | 4 |
| 6. | Veneto | 1,147.0 | 9 |
| 7. | Gruner + Jahr Russia | 1,130.0 | 7 |
| 8. | Hachette Filipacchi Shkulev | 962.0 | 10 |
| 9. | Egmont Rossiya Ltd. | 941.0 | 16 |
| 10. | Delovoi Mir | 928.0 | 10 |
| 11. | Game Land | 894.0 | 14 |
| 12. | SPN | 881.5 | 8 |
| 13. | OVA-Press | 736.0 (as of October 2004) | 14 |
| 14. | Za Rulem | 647.2 | 3 |

* According to the Guild of Press Publishers

| | | | |
|---|---|---|---|
| 15-18. | SK PRESS | 625.0 | 14 |
| 15-18 | Afisha Industries | 624.3 | 5 |
| 15-18 | Salon-Press | 578.0–626.0 | 9 |
| 15-18 | Mediasign | 599.3 | 14 |
| 19. | Zdorovye | 500.0 | 6 |
| 20. | Rodionov publishing house | 417.8 | 5 |

Unlike newspapers, most magazines (91.6% of the titles and 98% of the aggregate annual circulation) are registered and published in Moscow and St. Petersburg. This means that Russia's two largest cities almost completely determine the structure of the national magazine market. Its core is made up of 600 general-interest magazines with an annual total of 62 billion pages and a circulation of over 500 million copies.

## The Structure of the Magazine Market




**The total annual circulation of magazines – 600 million copies**

**The share of weeklies – 60% of the annual circulation and 30% of the market**

**The share of monthlies – 35% of the annual circulation and 60% of the market**

The number of new magazines registered every year remains high, but the market in physical terms (the number of publications, their circulation and profits) is growing slower, by 8-10% every year. This shows that the country's magazine market has become more or less stabilized and publishers have fewer opportunities for maneuver. The population's low purchasing capacity has a more serious effect on the development of the magazine market in comparison with the newspaper market and this is compounded by the underdeveloped system of press distribution and its concentration in major cities. Generally, Russians buy essential commodities, which, of course, do not include magazines, especially glossy ones, although in Western Europe and North America they have long been in everyday demand. For example, Shape, a fitness magazine, has a circulation of 2 million copies in America (compared with 200,000 in Russia) and a full-page advert costs $60,000. And this is not the limit, as the price can exceed $80,000 in some American publications, whereas a full-page advert in similar Russian magazines costs $8,000 on average. Only the few most successful magazines manage to reach the foreign level of advertising rates. So it is no coincidence that the prevailing publishing strategy targeted at capturing advertising and readership was in the recent years to concentrate on sales. As a result, there are not many publications on vague subject matters or, conversely, those with limited appeal… Format changes are also becoming a big trend among major magazines reflecting their drive towards greater circulations.

The growing middle class in the country evidently creates additional preconditions for the successful development of mass (large-circulation) magazines, in which advertisers are also interested. On the whole, it can be said that competition on the magazine market in 2005-2006 will not so much focus on increased circulations and the number of titles, as on improved quality of the content and print, the speed of magazine production and delivery. With relatively stable circulations, magazines will most probably become thicker. At any rate, an analysis of magazine imports over the last few years shows that between 2001 and 2004 the average weight of an imported magazine increased by 30%.

Most market players agree that 2005 will be a make or break year for many Russian magazines. Last year showed that the publications set up with “political” money or in order to make quick use of money received from a generous investor tend to have unenviable fates.

There are several reasons for this. First of all, the Russian reader has become tired of unprofessional content and has become much more demanding of what is on offer. Secondly, large Western publishers have become interested in the political segment of the Russian magazine market as they have serious managerial capabilities and financial opportunities to clear the ground for their editions. One example is Axel Springer with its Russian versions of Forbes and Newsweek. And, thirdly, several well-branded publications left the scene last year, including such publications as Yezhenedelny Zhurnal (Weekly Magazine), Russky Fokus (Russian Focus) and Novy Ochevidets (New Witness). Huge advertising campaigns had been a feature of their launch. Novy Ochevidets alone spent over $2 million on promotion (its first issue came out in August 2004 and the winding up petition was filed in mid-January 2005). Experts usually call this process natural selection on the mass media market.

Another problem is that many Russian magazines are still not set up as businesses. Some of the newspapers and magazines that were shut down had simply lobbied the interests of certain influence groups, neglecting the commercial side of their work. Although a number of similar publications remain on the market, they have started losing readers and some have closed down since the political situation in the country has stabilized. Still, interest in them may revive in the run-up to the election years of 2007-2008.

It seems, however, that there will be no drastic changes on the Russian magazine market within the next few years. Generally, it will develop under the existing scheme: promising market publications will bolster their positions, whereas the rest will either die out or continue stagnating. Positioning will become more clear: there will be fewer magazines "for everyone" and "about everything," and the influx of advertisement money will gradually slow down, thereby forcing publishers to address the distribution system and adjust their pricing policy to the consumer's pocket. Solid glossy magazines, especially Russian versions of international brands, will remain the most profitable, at least in terms of advertising. Yet the number of them will stabilize and is unlikely to exceed the current level significantly.

Crossword magazines, which account for 15% of the Russian market, kept their positions and remained sales leaders in 2004. TV guides and cinema magazines (14.8%), followed by women's and entertaining magazines (over 14%), are in second and third place, respectively. The markets of men's magazines and specific publications on computers, automobiles, design and architecture, etc. are now well established, and all these publications are packed with adverts.

Weekly magazines account for about 60% of the combined annual magazine circulation and a third of the combined annual volume of pages. Monthlies account for 35% of the combined annual circulation and for over 60% of the country's magazine market. Apart from a few leading magazines, the circulation of most publications does not exceed 50,000 copies.

The leading monthly magazines are Cosmopolitan, with over a million copies, Glamour (600,000 copies), Za Rulem (Behind the Wheel), Karavan Istorii (Caravan of History), Elle and a dozen others, with a circulation of between 100,000 and 350,000 copies. Almost all of them send 45% of the copies to the regions. Apart from this, two publishing houses print special regional supplements devoted to local issues. Cosmopolitan, for example, has four 52-page supplements – in St. Petersburg, the Urals, Siberia and Kazakhstan. Most of the advertising in these supplements comes from local sources. The Conde Nast publishing house in Kazakhstan has a joint project with Central Asia Media – the Bite Women supplement to Vogue.

Almost all the magazines are color and the rest have at least a color cover. Russian magazines are usually printed inside the country. About 300 are published abroad, but they account for 55% of the annual circulation and over 50% of the market. Russian orders are fulfilled mainly in Finland, Slovakia, Germany, Ukraine and Lithuania, and, less often, in Poland, the Czech Republic, Italy, Switzerland, Hungary and Latvia.

A new trend on the magazine market is the emergence of partworks, which have been winning target audiences. However, these publications can only nominally be considered mass media, as they have almost no news side to them. They are simply published with the periodicity of the press and use the same distribution channels.

Britain's Marshall Cavendish was the first to reclaim the Russian partwork market. In 2003, it launched weekly editions of the Drevo Poznaniya/The Tree of Knowledge encyclopedic magazine. It was followed by partworks from the NG Premyer publishing house (Uznai Svoyu Sudbu/Learn Your Fate, Volshebny Klubok/The Wonder Ball of Wool, Na Rybalku/Fishing, Komnatnye Rasteniya/House Plants), and projects launched by De Agostini UK Ltd. (Khudozhestvennaya Galereya/The Picture Gallery) and Fabbri Publishing Ltd. (Otkroi Mir S Volli/Open The World With Volli), which work via the Burda publishing house.

The market received them well, although not without the assistance of a powerful advertising campaign that accompanied the first issues. As a result, the first print-runs of Drevo Poznaniya reached almost a million copies, and the edition proved not simply profitable, but commercially lucrative. Still, despite its attractiveness, the Russian partwork market is far from saturated.

Most experts believe that the Russian magazine market has fairly good prospects. It will be developing faster than the newspaper market in the next few years as it has greater opportunities for growth, especially in the regions, and more magazine advertising. Now, since the arrival of Glamour in Russia, all the famous glossy magazines are represented in the country. All of them are profitable. Advertisers are literally lining up to place their advertisements in the most popular publications. In 2004, magazines' advertising revenues were up $119 million on 2003, while traditional (paid) newspapers and weeklies posted an increase of only $64 million.

Experts predict that magazines that live on advertisements alone and do not make money from subscription will leave the market in increased numbers in the next three or four years. Meanwhile, projects oriented not so much toward increased turnover as to quality and popularity on the market will be successful.

The Russian magazine market is now fascinated by luxury publications oriented toward the wealthier classes. At the same time, the segment of cheap glossies, which is the key segment in Europe, is still underdeveloped, even though it could comfortably accommodate another dozen of publications.

## MEDIA ASSETS: MERGERS AND ACQUISITIONS

A recent report by PricewaterhouseCoopers says that **publishing is becoming the most proactive sector of the European media market**. The number of major acquisitions in this sector in EU countries grew to 51 in 2004, against 38 in the previous year. The report also predicts the growth of mergers and acquisitions among European media companies by 14% in 2005.

The situation on the Russian media market is similar. Although it trails other European countries in terms of the volume of foreign investment, interest in Russian media assets is growing. As a result, foreign companies were the buyers in more than half of the deals concluded on the Russian media market in 2004 and early 2005. The largest was the acquisition of the Dutch assets of Independent Media (publisher of the magazines Cosmopolitan, HARPER'S BAZAAR, Men's Health, the newspapers Vedomosti and the Moscow Times) by Finland's Sanoma Magazines for €142 million (about $185 million) in January 2005.

Hachette Filipacchi Shkulev (publisher of the magazines ELLE, MARIE CLAIR, MAXIM) and InterMediaGroup (net of regional newspapers and television guides) announced they were merging in 2004.

An international investment fund, Mint Capital, bought a 20% stake in the Russian publishing house Gameland for $2 million in spring 2004. In the fall, German publishing house Heinrich Bauer Verlagsgruppe acquired controlling stakes in the publishing projects of major Russian crossword publisher Logos Media. The size of the deal was not disclosed, but experts put it at $10-12 million.

In December 2004, the Rodionov publishing house bought the magazine Domovoi, while Business Media Communications, part of ProfMedia, bought Mediadom (Industriya Reklamy magazine). In mid-2004, Rodionov bought the rights to publish the French men's magazine L'OPTIMUM from Edipresse KON-Liga.

Companies connected with Yukos bought the Moskovskiye Novosti publishing house and, presumably, the magazine Sekret Firmy, which they used to create a publishing house that prints the newspaper Biznes and two new magazines, Vsyo Yasno and Imeesh Pravo.

The largest regional deal was the acquisition of the newspapers Smena and Nevskoye Vremya by St. Petersburg's Foundation for the Development and Support of the Media (a holding of the Baltic News Agency, Radio Baltika, the ART advertisement technologies agency, and the Vremya publishing house, publisher of the newspaper Vecherneye Vremya).

In 2005 and in the medium term, the Russian media market will continue to consolidate and the assets of its players will be restructured. Currently, several Russian publishing houses are searching for buyers and may choose investment funds. Some companies plan to buy into the regional publishing business. Another trend is to attract investors and float on the U.S. and British stock markets.

Two trends are expected to gain momentum soon. Firstly, small publishing houses will be sold or search for ways to attract external funds for their new projects, because it is difficult to succeed on the media market with only one or two magazines or newspapers. Secondly, "sponsor projects" may be curtailed.

The system of business project management in periodicals is rapidly drifting toward a division of powers between owners and management. Owners' priorities are transparent economy and effective financial control in the media. Thus, owners' interests are usually represented by a strictly controlled general director, while the production process is the domain of the editor-in-chief.

This points to the gradual transformation of the Russian press into a full-scale market product, investment into which is increasingly pursuing economic, rather than political, goals.

It should be noted, however, that mergers and acquisitions on the media market are not controlled by society, which has no access even to official information because it does not exist. The reason for this is that Russian lawmakers are unwilling to do anything about introducing common European standards of transparency in the national media and preventing the monopolization of the media, including by the state.

# CORPORATIVE PUBLISHING

**Business publishing is developing rapidly in Russia**. A major marketing instrument for business, it is playing a growing role in the media sector of the Russian economy. According to the Association of Corporate Media of Russia, over 5,000 corporate newspapers and magazines totaling tens of millions of copies were published in Russia as of late 2004. Annual spending on their production and circulation already exceeds $1 billion.

These figures have no material confirmation. However, business sees in the business press – which is clearly targeted at specific audience segments – a more effective tool of influencing the reader than the general press. Hence, funds are being redistributed in favor of business publishing. In a recent statement A.V. Suleikov, deputy general director of Pushkinskaya Ploshchad – one of Russia's major publishing houses, noted that in 2004 the volume of business publishing at his company increased by several times.

No wonder that bespoke publishing by professional publishing houses to individual orders from companies not related to the publishing business is gaining pace in the market. It is a new business in Russia, but one of the most quickly growing in many European countries.

Bespoke publishing costs are relatively low – from $10,000 per issue of a black-and-white newspaper with a small circulation and $50,000 per issue of a glossy magazine with a print run of up to 20,000.

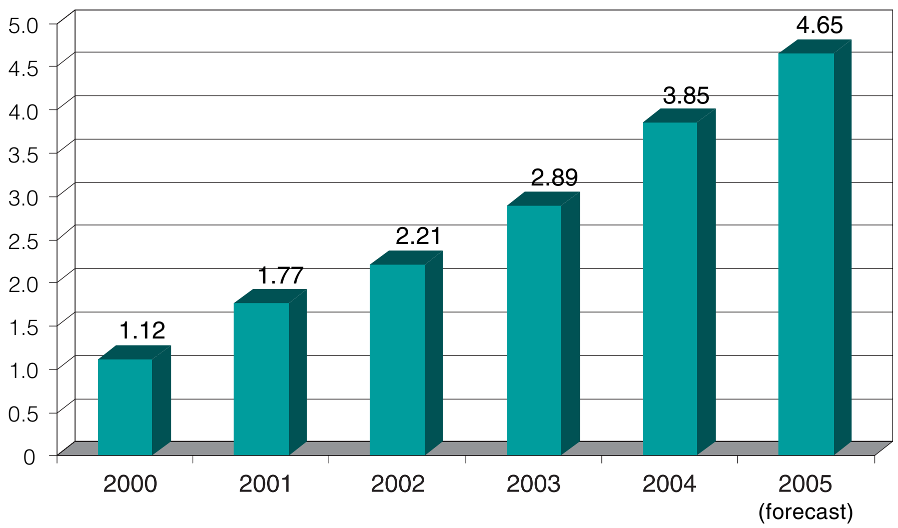
The aim of such publications is to become an additional channel for promoting the client's brand and winning public loyalty. Bespoke publications are usually marketed at selling points or mailed to the client's potential consumers. The number of such publications is growing rapidly in Moscow, and companies claim that investment in them is recouped relatively quickly.

In short, the potential of the Russian business publishing market is far from exhausted.

## ADVERTISING IN THE PRESS

**The Russian press advertising market has been growing by about 30% annually since 2000**. According to the Russian Association of Communication Agencies (AKAR) and the Guild of Press Publishers (GIPP), the volume (without business publishing) reached $3.855 billion in 2004 (up 33.39% in comparison with 2003). This year the figure may exceed $4.5 billion and reach $5.2 billion in 2006.

### Russian Press Advertising Market Volume
**(billions of US dollars)***




* According to the Association of Communications Agencies of Russia's data

The volume of advertising in regional media, including the advertising market of the Moscow region, reached $1 billion in 2004, or 28% of the aggregate volume of the advertising market of Russia. The largest regional center is St. Petersburg, where the advertising market topped $200 million, followed by Yekaterinburg, Novosibirsk, Samara, Krasnoyarsk and other cities with a population of more than a million.

The press received $1.25 billion in advertising in 2004* ($1.2 billion according to AKAR). Of this, paid newspapers accounted for 28%, magazines for 38%, and advertising and advertising/information publications (counted as newspapers before 2002) for 40%. The advertising revenues of regional printed media reached $300 million, or 24% of their volume (a 30% increase against 2003).

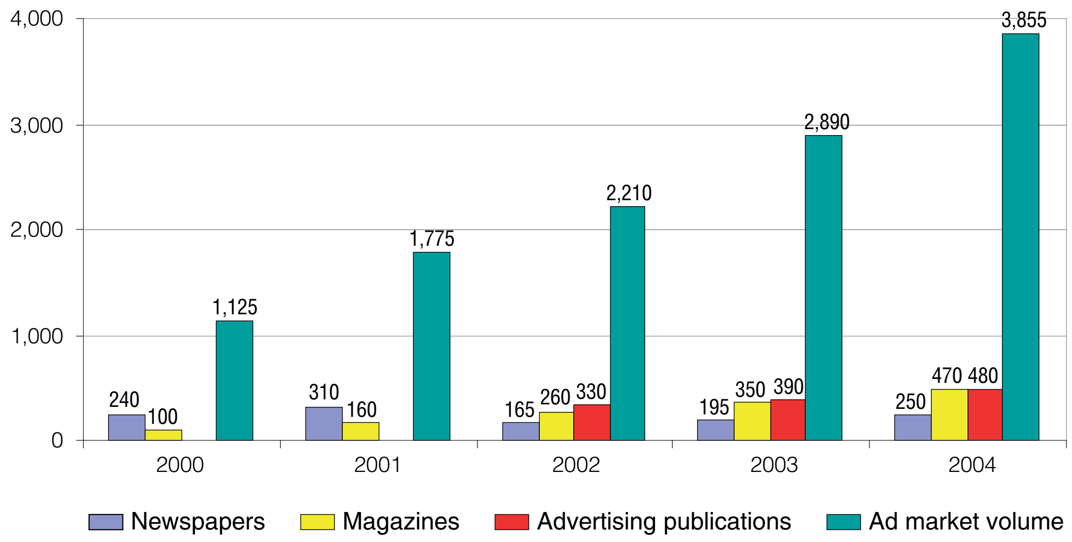
* According to GIPP (excluding VAT, the royalties of advertisement agencies, and spending on layout, the production of advertisement and its placement in B2B publications)

The trend continued this year. According to AKAR, national newspapers earned 26.3% more from advertising in the first quarter of 2005 and magazines, 33.8% more than in the same period of the previous year. Advertising publications did not register any growth (+5.8% in the regions and minus the same figure in Moscow). Partial proof of this is the outflow of advertisers to the largest and most popular publications. The newspapers Antenna-Telesem, Komsomolskaya Pravda, Rossiiskaya Gazeta, Vedomosti, Kommersant, Moskovsky Komsomolets, the magazine 7 Dnei (7 Days), and several other publications charge the highest prices for advertising.

GIPP experts say that the advertisement market in the press, especially regional outlets, is underestimated, largely because of the lack of transparency and closed nature of the printed media market in Russia. They believe that advertising and advertising/information publications are likewise underestimated ($500 million in 2004). The assessment of advertising in the press does not take into account affiliated and business-to-business (B2B) publications.

Market players cannot agree what should be regarded as revenues from advertising in the printed media. In particular, information about the volume of advertising in the printed media provided by AKAR does not include sampling; advertising inserts and stickers that do not bear notice of direct relation to the given publication; advertising based on non-standard polygraphic solutions; and cross-media barter. Consequently, the AKAR and GIPP assessments differ.

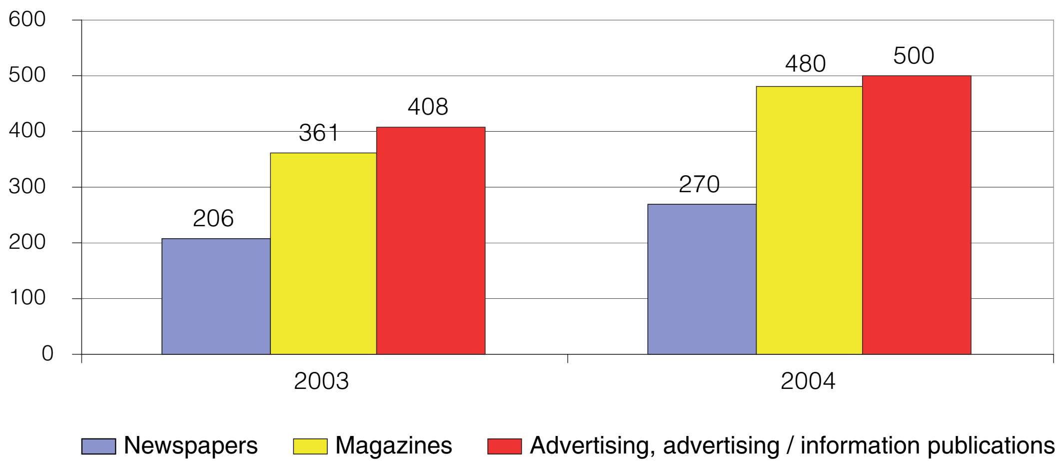
## Print Media Advertising Volumes
**(millions of US dollars)***




**"Advertising publications" classed as "Newspapers" in 2000/1**

* According to the Association of Communications Agencies of Russia's data

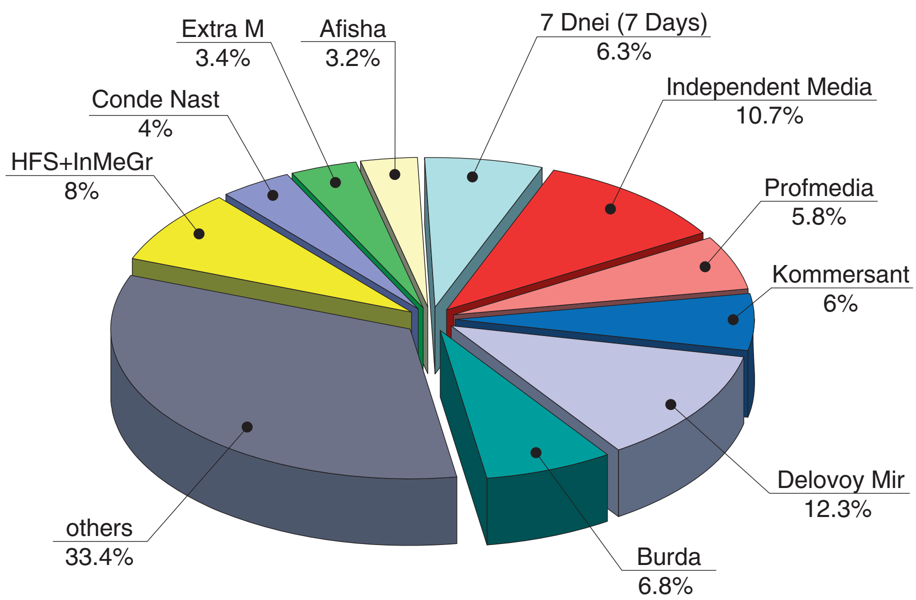
## Print Media Advertising Volumes
### 2003/4 (millions of US dollars)*




* According to Guild of Press Publishers' data. Not including VAT, advertising agencies' commissions, advertisement layout and production; inclusive of discounts and bonuses.

Advertising assets are very unevenly distributed on the print-media market.

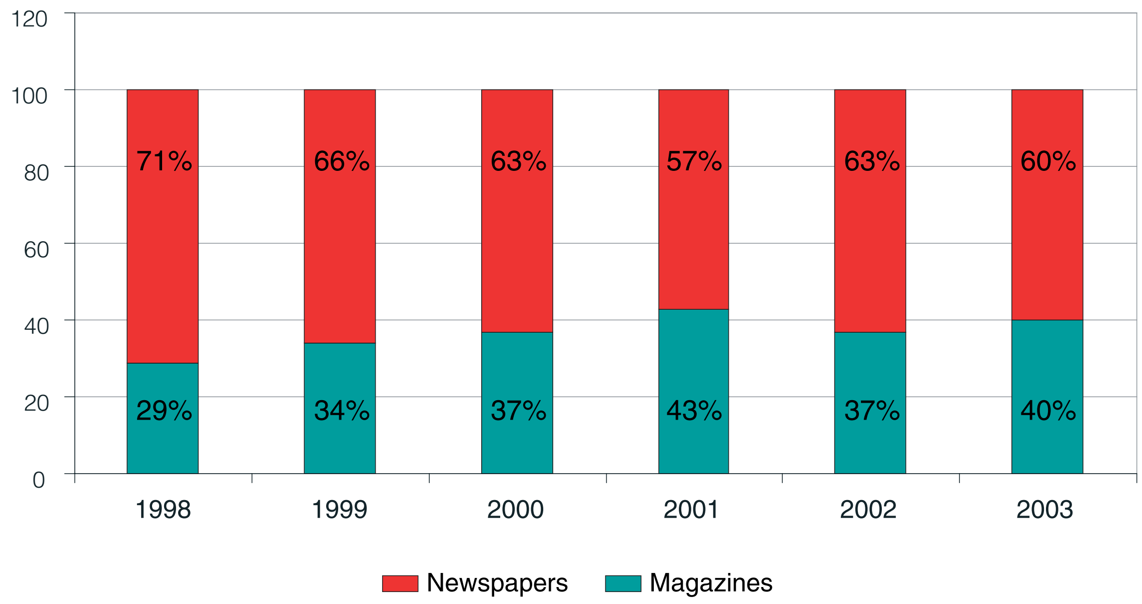
## Advertising Spending of Individual Publishers on the Newspaper/Magazine Advertising Market in 2004, (%)



A small group of major publishers (nearly 50) leads the market both in terms of the readership and advertising money involved. In 2004, more than 65% of print media advertising income went to 10 major Moscow-based publishers: Delovoy Mir, Independent Media, Hachette Filipacchi Shkulev+InterMediaGroup, Burda, 7 Dnei, Kommersant, Profmedia, Conde Nast, Extra M Media and Afisha.

However, the situation is changing, and the advertising flow among various printed media is being redistributed. In particular, over the past 12-18 months, specialized (или professional) publications and regional publishers have noticeably consolidated their positions. The proportion of adverts in newspapers and magazines also varies. With the exception of 2002, magazines have been carving an increasingly larger share of the periodicals advertising market, nearing parity with the newspaper segment of the Russian press.

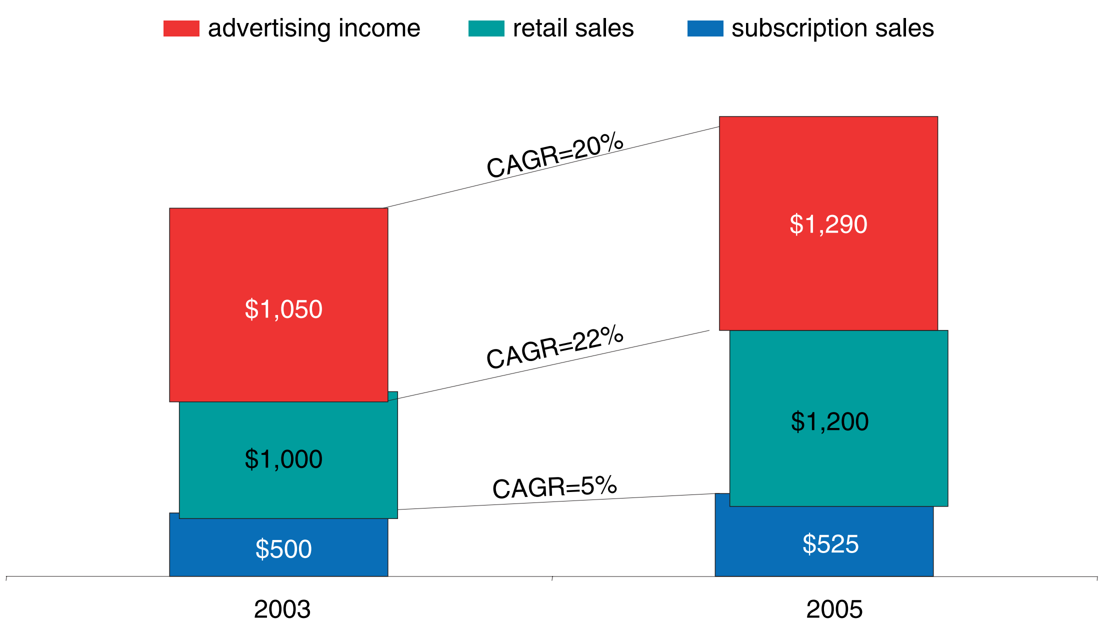
## Proportion of Ads in Newspapers and Magazines, (%)



## DISTRIBUTION OF PERIODICALS

**In spite of the sizeable growth of advertising earnings**, retail and subscription sales remain the most important sources of income for most periodicals in Russia, even for heavyweights such as the Provintsiya newspaper group or the Burda publishing house.

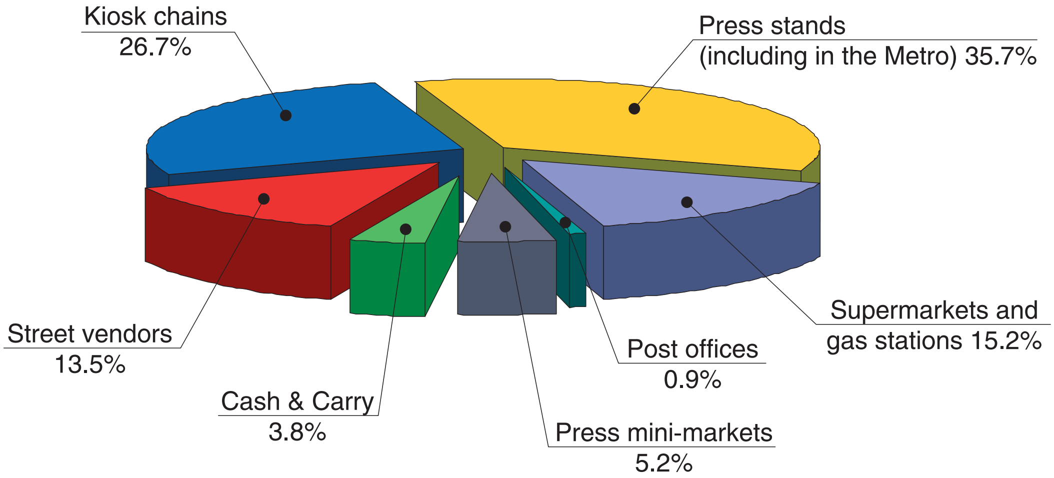
### Print Media Income in 2003 and Forecast for 2005
**(millions of US dollars)**




Unfortunately, the growth rate for press sales has been insignificant, although printed media sales techniques have gradually been improving.

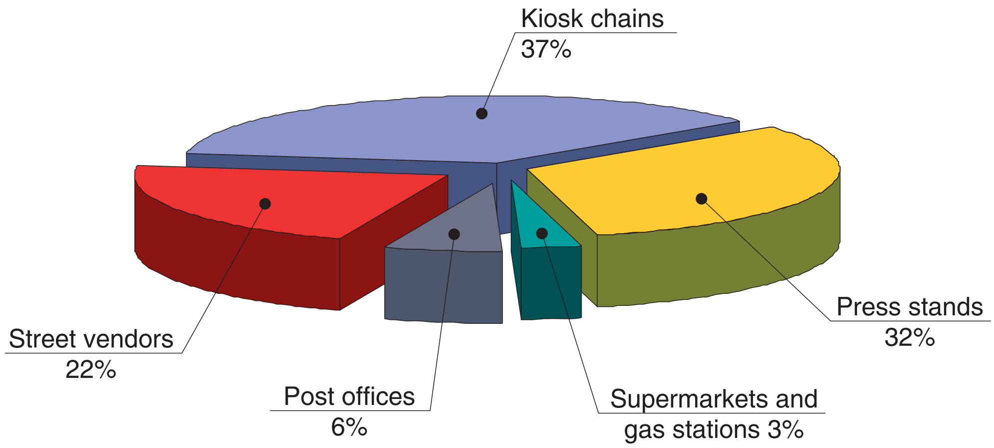
In particular, the introduction of new copy sales techniques in Moscow allowed a copy sales market to emerge. The market is fairly close to European standards and focused on meeting the needs of readers in big cities. In addition to traditional newsstands and vendors, the market is experiencing the growing influence of points of sale at supermarkets, gas stations, business centers, specialist mini-markets, etc., whose share of the city's press sales volume accounts for about 25% and is growing.

## Structure of Retail Distributors
### Moscow 2004




The situation is similar in the regions.

## Structure of Retail Distributors
### Regions 2004




The charts show that a periodical press retail distribution market in Russia is mainly established. The market has a sufficient number and range of distributors and more than 57,000 points of retail trade (24,000 stationery kiosks and about 33,000 moveable press stands).*

* According to the Association of Print Media Distributors' data

In addition, there are numerous free publications in Russia, including business, municipal, advertising/information and purely advertising publications. In 2004, the advertising revenues of free publications reached about $500 million, while all the paid newspapers taken together only made $270 million from advertising. At present, it is mainly the editorial offices of the free publications that organize their distribution, though this will certainly change.

Overall, the Russian periodical press retail market is fairly outdated and this is seriously limiting the development of the country's print media industry as a whole. In addition, against the backdrop of stagnation in the wholesale distribution sector, low profit margins in the distribution business, and a fall in the number of retail spots as small private entrepreneurs gradually withdraw from the market, capital is rapidly becoming concentrated in the hands of a few. This trend, however, has had some positive results.

For instance, in the past two years, shareholder investment in the Russian distributor Rospechat Agency allowed the company to acquire retail networks in 15 Russian regions and gain a 20% market share, which in turn made it a market leader. The company DM-Press is developing its business in a similar way, as it dominates the kiosk periodical press distribution network in Moscow and is trying to take over this same market in the Moscow region as well. In addition, the retail networks have recently been gaining ground on the Russian print distribution market and it is very likely that they will soon start to squeeze the wholesale print distributors out of the market.

As a result, these concentrated print distribution networks are rapidly increasing their leverage. It is now evident that the amalgamated "independent" distribution chains are using aggressive tactics and are imposing their own terms on the publishers. The chains that are owned by big publishing houses are also forcing out the smaller players.

This is one of the main reasons why large distributors will usually only take on publications that are little known to consumers and advertisers if the publishers pay them sizeable "distributor bonuses." These additional expenses are usually put down as marketing, advertising or preferred placement costs. At present, in Moscow these "services" cost between $1,500 and $6,000 per month depending on the size of the distribution network.

While the publishers view this system as skewed, there is some logic to the distributors' strategy. For example, M. V. Litvinov, the general director of Metropolitenovets, which is one of the largest periodical press distribution networks in Moscow, says the bonuses are “nothing more than additional payments by the publishers to the distributors to guarantee the profitability of their business.”

It is true that there are now a great many publications on the market and it would be impossible to have them all on the shelves at the same time. Twenty years ago there were only five-six daily newspapers, a handful of weeklies and about eighteen magazines on sale. Now there are dozens more titles, even though the number of readers has not increased. This means that as publishers compete for market share they are all trying to bring the prices of their products down, and one of the ways to do this is by paying the distributors less. This situation would never have arisen if the market worked on a commission basis. In that case, the publisher would compensate the distributor for all costs incurred when a publication went down in price. This would keep everyone happy, including the readers.

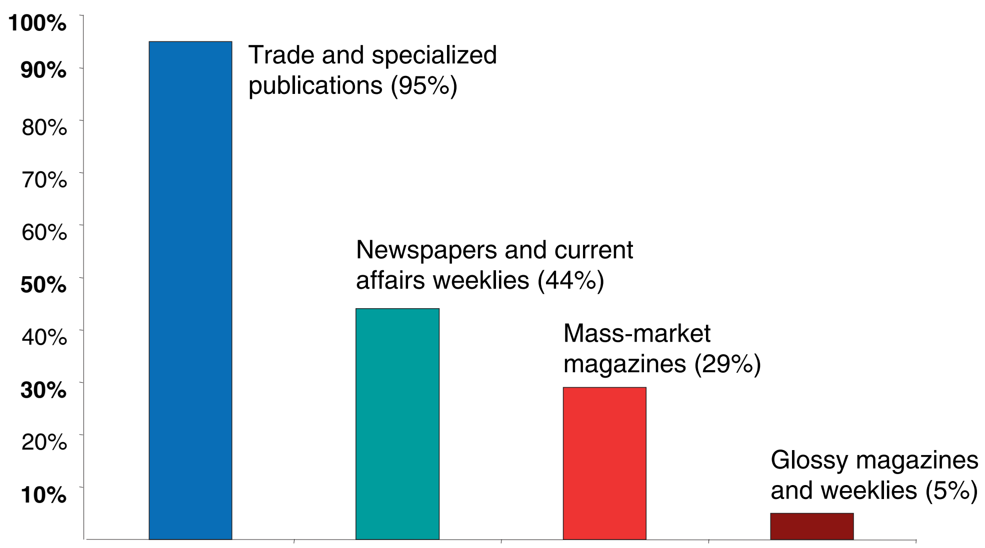
That is not however how things work at present. Due to current tax legislation, the Russian press retail distribution market operates primarily on the basis of sales agreements rather than on the basis of commission, even although the latter is the preferred practice in most of the developed countries. At present, just two Russian companies, MAART-MEDIA and Logos, are experimenting with commission. Under the current system, the distributor, as the owner of the goods, has the right to mark-up the publisher’s price to reflect the real costs and risks, as the distributor sees them. This means that when the publishers criticize the distributors for putting the prices up and say that they should lower them, they do not have the law on their side. At the same time, it is hard to explain to a publisher why in order to sell its product he sometimes has to pay several times more than the product’s cost price.

Both the Russian experience and international practice suggest that introducing commission (agent) agreements would be a perfectly acceptable solution. This might result in “economic expediency” being the factor that decides prices and all registered periodicals having equal access to the periodical press retail distribution market, as they should under the Law “On Media.” It would also mean that publications would be sold at fixed prices, which would be indicated on their covers.

Of course, under such a scheme, the publisher would have to spend more on distribution, and it seems that this is the main obstacle to the introduction of commission-based payment. However, these expenses are unavoidable because only when a publisher assumes all the risks can he say that his business practices are transparent. This in turn would lead to growth in their business, growth in the print media market in general, and an increase in sales and the volume of advertising in the press.

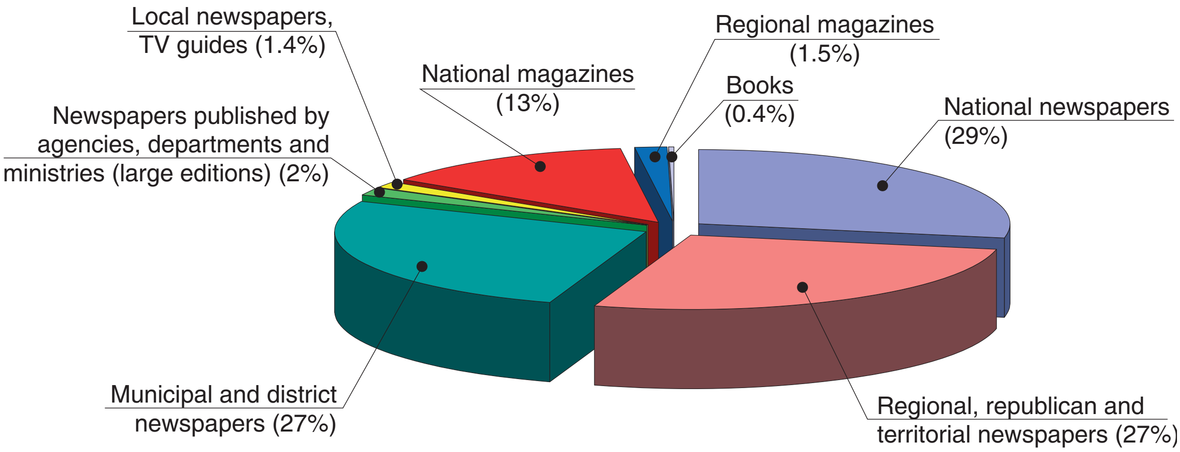
**Subscriptions to the periodicals** in Russia have existed for a long time and there are some well-established trends. As is the case all over the world, there are some specific types of publications in Russia that are distributed primarily through subscription. Almost 95% of trade and specialized publications are sold by subscription. At the same time, subscriptions account for just 5% of the sales of general titles and there are no signs that this percentage will increase. The same can be said of popular glossy magazines.

## Share of Periodicals Sold by Subscription in 2003




Subscriptions to the periodical press in Russia could be higher. Since 2000, subscriptions have remained more or less static, accounting for sales of between 31 million and 33 million copies. For instance, as of January 1, 2005, the combined single-issue subscription circulation of Russian titles was 32,104,500 copies (not counting selected subscription) – this is 575,300 copies less than on January 1, 2004, but 904,500 copies more than on January 1, 2003. There are many reasons for this, but the main one is that the current subscription system for the periodical press in Russia is outdated. It has remained largely unaltered since the Soviet era, and when changes have actually been made, they have generally not been for the better.

## Share of Subscription-Based Publications in the Total Subscription Circulation for the Second Half of 2004 *




* According to Russian Postal Service data

Overall, although it has been doing relatively well, the periodical press distribution market in Russia in its existing form has almost exhausted all scope for further development and now needs to be reformed. In recognition of this, publishing and distribution companies have taken a number of measures. In September 2004, Russia's ten largest publishing houses formed a Noncommercial Partnership, The Publishing Initiative, which aims to reform the periodical press retail distribution market in the interests of the whole publishing community. Then in the first quarter of 2005, the following organizations were set up: Soyuzpechat (the Print Union) of the Union of Publishers and Print Media Distributors, the Union of Moscow Publishers, and the Press Distribution noncommercial partnership. In addition, with the support of the Federal Agency for the Press and Mass Communications, public associations of publishers and print media distributors worked together to develop a new system for subscriptions to the periodical press in Russia, which ties in with the restructuring of the Russian Postal Service and is scheduled to be launched in the middle of 2005.

It is therefore reasonable to hope that in the near future the Russian periodical press retail and subscription distribution markets will obtain all the resources needed (financial, technical and intellectual) for rapid improvement. In the majority of European countries, and in the U.S., Canada and Australia, it was when publishers became involved in developing the print distribution market that standards were introduced to govern the relations between publishers and distributors. These standards ensure that publishers have unrestricted access to distribution networks, that company operations are transparent, that payments are made on time, and that there is a neutral and unbiased approach to all publications.

## THE NEWSPRINT AND PRINTING SERVICES MARKET

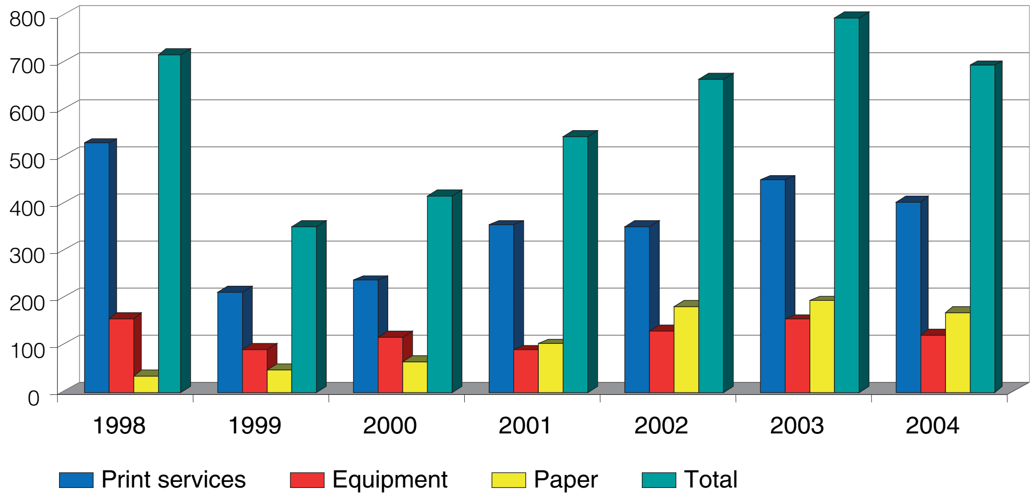
The current **state of the domestic paper and printing services markets,** particularly regional periodicals and quality printed materials that are technically difficult to produce, seriously hinders the development of the Russian paper and printing services market. Market services and price levels do not match international standards.

For example, far more newsprint is produced than necessary, whereas the country does not produce any paper for glossy magazines and papers that are becoming very popular. Consequently, Russia exports two-thirds of its newsprint and imports all its glossy paper and cardboard. Historically tycoons have monopolized newsprint production, conducting well coordinated pricing and commodity policies along the lines of cartels. Therefore, a metric ton of newsprint on the domestic Russian market exceeds average global prices by $60-65, but Russian clients are forced to buy newsprint at these de facto monopoly prices because current customs duties and VAT on imports make it unprofitable to buy foreign newsprint. Periodicals and books therefore tend to be more expensive, as paper costs account for 25%-30% of production costs. With printing services on top, this share goes up to over 50%.

The situation with glossy magazines and color papers is even worse. This country has to import foreign glossy paper, ink and other expendable printing materials. Importers pay high customs duties (up to 15%) and VAT on such products. The total value of these goods far exceeds the sums saved through lower fuel and energy prices and lower wages in Russia. Russian printing shops therefore face less favorable economic and tax conditions than their foreign rivals, and the equivalent printing services cost 23% more in this country. As a result, foreign printing shops now have obvious competitive advantages over Russian enterprises when contesting contracts here.

The Russian printing industry is also becoming less competitive, because 70% of its production facilities have already outlived their service life. Moreover, the country does not produce any printing equipment, and therefore has to import sophisticated and expensive foreign equipment. Local authorities charge 5% customs duties on such equipment, as well as basic VAT rates based on their customs value. Russian printing enterprises that have to make such mandatory lump-sum payments in many cases cannot retool production and end-product costs tend to increase as a result.

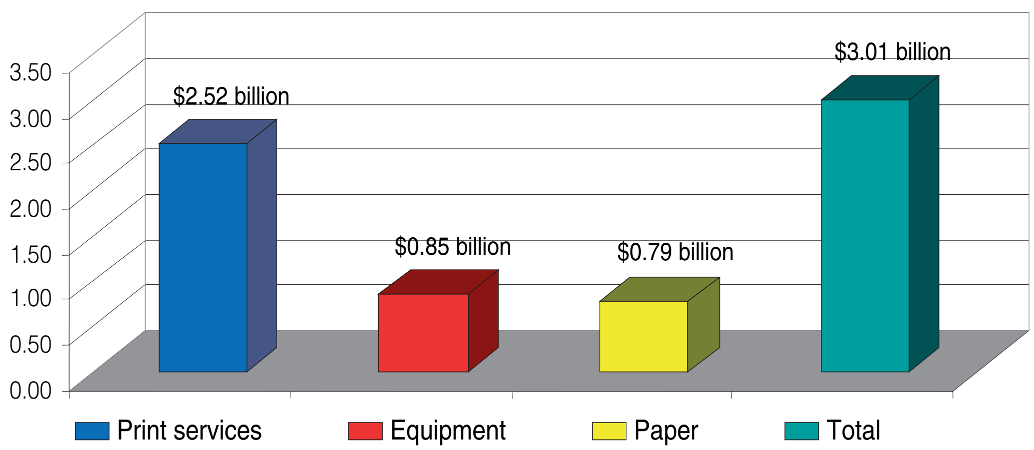
## IMPORTS OF PRINT SERVICES, EQUIPMENT AND PAPER INTO RUSSIA ($ mln)




Naturally, Russian publishers often prefer foreign printing enterprises in this situation, especially as Russia lacks adequate printing facilities and local printing offices sometimes offer low quality services. Other countries now print more than 50% of the country's glossy magazine titles, or two-thirds of the total volume, which was equal to $401.6 million in exported capital last year. The figure for 1998-2004 was over $2.5 billion*.

However, given the relevant incentives, the overwhelming majority of Russian publishers would prefer to print their editions in Russia, as this would reduce delivery costs, deadlines and transport risks, simplify distribution operations, etc.

## IMPORTS OF PRINT SERVICES, EQUIPMENT AND PAPER INTO RUSSIA, 1998-2004




* According to the Inter-Regional Association of Printing Enterprises

Russia will not solve this problem unless the government implements a set of protectionist measures to support the production of periodicals. In this connection, Russia should charge customs duties on all newsprint exports that would cover the gap between domestic and global prices. At the same time, no customs duties and VAT should be charged on newsprint, ink and expendable printed materials (non-commercial and non-erotic printed matter) imported into Russia. As far as imports of new printing equipment and spare parts are concerned, the authorities could defer mandatory customs payments and VAT payments until the equipment is installed and working. The experience of Ukraine, Poland, Slovakia, the Czech Republic and the Baltics shows that such measures can drastically improve the investment climate in the sector. The modernization of Russia's printing industry will therefore be sharply accelerated and it would start to produce high-quality books and periodicals. This will meet solvent demand more effectively, the federal budget will receive increased tax proceeds, and the high-tech printing industry will create new jobs, thereby enhancing the nation's information security.

## MEDIA DIMENSIONS AND SECTOR STATISTICS

**Investors select projects on the basis of their transparency and profitability.** When both factors are present on the market, investment flows into an enterprise or an economic sector, which is the case with Russia's natural resources now.

The publishing sector cannot compete with the oil industry's profits, while its attendant risks are more difficult to predict. In terms of the main indicators, the publishing business has remained largely closed in Russia, as the country still lacks many of the free market instruments to ensure its transparency, and the overwhelming majority of Russian publishers tend to overestimate their circulation, often intentionally.

The quality of media research in Russia leaves much to be desired. The Gallup Media polling organizer is a major, long-established player in the Russian market. It conducts objective research, but it is not able to provide extensive information. The same is true of the National Circulation Service (NTS). NTS was established in 1998 and only audits a few hundred of the 46,000 registered print editions. The International Federation of Audit Bureaus of Circulation (IFABC) has recognized NTS methods. However, the service does not provide any serious analysis of the market, as its monitoring efforts only embrace a small number of periodicals.

Some positive changes have occurred in printed media monitoring. On December 31, 2004, the Federal State Statistics Service issued resolution No. 162 that was proposed by the Federal Agency for the Press and Mass Communications and the Guild of Press Publishers. It stipulates that data on print periodicals should be filed with the Agency and the Russian Book Chamber once every six months before the 15th of the month following the reporting period. The resolution came into force on January 1, 2005. Violating the procedure of filing the data and providing inaccurate statistical data are punished under article 13.19 of the Russian Code of Administrative Offences, dated December, 30 2001 (No. 195-FZ), and Article 3 of the Law of the Russian Federation On Accountability for Violations of the State Statistical Reporting Procedure, dated May 13, 1992 (No. 2761-1).

In November 2004, the Agency and NTS signed an agreement on cooperation in monitoring and analyzing the circulation of Russian print media. Steps have been taken to improve the statistical monitoring of the country's press market through registering and analyzing statutory copies of printed periodicals filed with the Federal Agency for the Press and Mass Communications and the Russian Book Chamber under the Federal Law On the Statutory Copies of Documents.

In addition, the Agency and the Guild of Press Publishers are implementing a project, MEDIASTAT, which was launched in February 2004. MEDIASTAT is an electronic system that gathers and processes statistical data on the printed media (newspapers, magazines), printing, and trading companies involved in media production and sales. This permanent system will provide prompt online access to reliable systematized data on Russia's media and printing markets for state bodies, publishers, advertisers, advertising agencies, investors, media analysts, etc. At the moment, the organizers are preparing to launch a classifier of print editions. It has been created with account of the Russian press market players' needs, existing foreign counterparts, the parameters of relevant international databases, and it has received positive assessments from Russia's leading publishers. The organizers are also completing a sector statistics Web site and an interactive database of Russia's periodical editions. This will be a geographical and information system, i.e., a kind of electronic map of Russian periodicals with interactive access and opportunities to select information on the Russian press market, both the market in general and individual segments (regions, cities, districts).

These and some other measures will allow the Russian press market's transparency to be improved dramatically in the foreseeable future and thereby make it an attractive investment option.

# STATE SUPPORT FOR THE PERIODICAL PRESS

**An analysis of the press market in Russia** shows that the total sales and advertising revenues of most Russian newspapers and many "non-glossy" magazines are insufficient for these publications to develop independently. A large proportion of the revenue of Russian periodicals continues to come from "political" and "sponsorship" budgets. Therefore, the country's many non-commercial periodicals still depend on all sorts of administrations, big and small businesses, political parties, movements and funds, i.e., on all those who give money in exchange for PR-support.

In these circumstances, it seems that targeted government support at the expense of federal and regional budgets for certain periodicals is essential if the constitutional right to free access to information is to be guaranteed. Publications with a particular social or information content that cannot compete with commercial publications will continue to need government support for some time (district and municipal newspapers, publications for the disabled and children, literary, artistic, cultural and educational publications). Their total number is about 3,000.

Under Item 456 0000 Periodical Press of the 2005 federal budget, 47,582,000 rubles are allocated for government subsidies to socially important publications. The types of periodicals eligible for one-off subsidies are publications for the disabled, veterans, children and youth, and literary, artistic and cultural periodicals that have been published regularly for at least a year and that have a circulation of at least one thousand. The subsidies are only to be used for the partial reimbursement of paper, printing and distribution costs in Russia, all based on actual expenditures and print run. Under budget item 456 0000, it is envisaged that in 2005 about 220 periodicals that are deemed to be socially important (mostly regional periodicals) will receive over 30 million rubles in federal subsidies, and 16 publications for the disabled will receive 17.002 million rubles (37.73% of the total budget for periodical press subsidies).

In 2000-2004, periodicals on the Federal Register of district (municipal) newspapers received government subsidies in accordance with Federal Law No. 177-F3, dated November 24, 1995, On Economic Support for District (Municipal) Newspapers. Over this period, 170 million rubles were allocated every year (235 million in 2001) to partially reimburse paper, printing and postage costs (cost item 292) and expenses on the upkeep and equipment of editorial offices (cost item 291). All the funds were accrued under budget item 425, Government Support for District (Municipal) Newspapers.

Federal Law No. 177-FZ, dated November 24, 1995, On Economic Support for District (Municipal) Newspapers was abolished on January 1, 2005, thus ending federal subsidies of district (municipal) newspapers. This was done in accordance with Federal Law No. 122-FZ, dated August 22, 2004, On Amendments to Legislative Acts and the Repeal of Certain Legislative Acts of the Russian Federation due to the Enactment of the Federal Laws On Amendments and Additions to the Federal Law On General Principles of Organizing Legislative (Representative) and Executive Bodies of State Authority of Constituent Members of the Russian Federation and On General Principles of Organizing Local Self-Government in the Russian Federation.

On the whole, federal subsidies for district (municipal) newspapers were given in accordance with legislation that was in force until January 1, 2005, and these subsidies not only provided publications with a degree of stability but also created additional opportunities for them to develop independently.

Therefore, it seems that the abolition of federal subsidies for district (municipal) newspapers was unjustified, and that in the interests of the state they should be resumed. Due to the low purchasing power of their readers (who live in rural areas and small towns), district and municipal publications, whose total print run amounts to a third of the total print run of the national newspapers, cannot develop effectively (and in many cases cannot even survive) without subsidies. The withdrawal of federal support will force many of them to close down, which will be to the detriment of Russia's common information space, as for a significant proportion of the Russian population the only newspapers that are affordable are district and municipal ones.

If government subsidies are resumed, they should primarily be used to improve the administrative and technological resources available to district (municipal) newspapers and also to allow the managers of these publications to participate in the federal retraining and advanced training programs so that they have the skills required to run a competitive business in market environment.

The situation with local funding of the regional press is different. Significant sums of money are involved. Moreover, local authorities' funds are quite often used to support "necessary" publications. According to media reports, the Yamalo-Nenets autonomous region (northwestern Siberia) allocated nearly 390 million rubles to the regional press, the Lipetsk (central European Russia) and Irkutsk (eastern Siberia) regions earmarked 51 million rubles each, the Vologda region (300 miles northeast of Moscow) set aside 17 million rubles, and the Altai territory (southeastern Siberia) set aside 3.5 million rubles in

2005. It is evident that such impressive regional subsidies, though largely justified, are distorting the regional press markets and hampering their normal development.

There is a need for a range of measures to resolve this problem, including changes to legislation. The issue is all the more pressing given that Federal Law No. 131-FZ, dated October 6, 2003, On General Principles of Organizing Local Self-Government in the Russian Federation will enter into force on January 1, 2006. Under this law and also paragraph 2, subparagraph 38 of Article 28.3 of Federal Law No. 184-FZ, dated October 6, 1999, (as amended on December 29, 2004) On General Principles of Organizing Legislative (Representative) and Executive Bodies of State Authority of the Constituent Members of the Russian Federation, each region, city, district and village will be permitted to set up and finance from the local budget one mass media publication for the purpose of publishing legislative acts and other official information.

In 2004, as part of the administrative reform, the Russian Ministry for the Press, Television, Radio and Mass Communications was abolished, and its functions and jurisdictions were distributed between the Ministry of Culture and Mass Communications and bodies subordinate to it: the Federal Agency for the Press and Mass Communications, and the Federal Service for Supervision of Legislation in Mass Communications and Protection of Cultural Heritage. Responsibility for introducing regulations was assigned to the ministry, the federal agency was put in charge of managing state property, and the federal service took over registration, licensing and inspection. These changes have all had their effect on the essence and practical implementation of measures of state support for the periodical press in the country.

# LEGISLATION ON THE PRINT MEDIA

**The federal and regional legislation on mass media** is crucial for the development of the print media market. The more systemic, non-contradictory and stable legislation is, the more attractive the Russian media market will become to strategic investors.

Russia's legislation on mass media developed rapidly in the first half of the 1990s and is being amended now to reflect new realities and trends. The core of the Russian media legislation is Law No. 2124-1 dated December 27, 1991, On Mass Media (hereinafter referred to as the Law on Media). Adopted at the start of democratic change, it remains one of the most liberal in the world, leaving much room for the development of Russia's media.

Since its adoption, the law has been amended and augmented with 16 bills owing to the adoption of new laws related to media and the practice of its application by the regulating and legal agencies. However, the time has come to stop introducing minor changes to the law and to revamp the Russian system of media legislation. The new law should become the basic, systemic bill of national media legislation.

While preserving the benefits of the old law and sealing the rights and duties of the media market players that had evolved by its adoption, the new law should above all ensure clear legal regulation of the media market in the long term. It should also gear media legislation to its development requirements and other aspects of law.

For example, the provisions of the law should be adjusted to the norms of civil legislation with regard to media ownership rights, exclusive rights of intellectual ownership and comparable means of individualization created by or used in the media. As regards the public law aspects, media legislation should have precedence over other bills on the constitutional rights of citizens to information. The improvement of the legal regulation in the media sector should not be limited to amendments to an individual law, such as the Law on Media.

This spotlights the viability of the concept of the Federal Law On Ensuring the Economic Independence of Mass Media, which was drafted by a group of State Duma deputies two years ago and subsequently tabled. **However, these two fundamental laws can only be adopted after a broad public discussion.**

The task of the media is to ensure practical implementation of civil freedoms and rights to ideological diversity, freedom of thought and speech, and the right to obtain and distribute information guaranteed by the Constitution of Russia. This task can be fulfilled only when the conditions of obtaining information and producing and circulating media products are the same all over the country.

The situation in this sphere was changed dramatically by Federal Law No. 122-FZ, adopted on August 22, 2004, On Amendments to Bills and Invalidating Certain Legal Acts as a Result of the Enactment of Federal Laws On Amendments and Additions to the Federal Law on the General Principles of Organizing Legislative (Representative) and Executive Bodies of State Power of Members of the Russian Federation, and On General Principles of the Organization of Local Governments in the Russian Federation (the latter is also known as the law on benefit monetization). Under it, Article 5 of the Law on Media is amended with a phrase stating that normative and legal acts on the media shall be adopted exclusively at the federal level. The new wording of the said article geared it to the provisions of Article 71 of the Constitution of Russia, which stipulates that the Russian Federation shall have jurisdiction over the regulation and protection of human and civil rights and freedoms, information and communications.

In compliance with Federal Law No. 114-FZ dated July 25, 2002, On Combating Extremism, amendments have been made to Article 4 of the Law on Media, according to which the publication of a medium can be halted on the presentation of “facts testifying to elements of extremism in the operation of the said medium.” At the same time, the number of legal procedures that can be used to halt or stop the issue of a medium has been increased.

In the past, the publication of a [print] medium could be halted only by a court ruling made at a civil hearing instituted after the state agency that registered the said medium filed a motion. Under the law On Combating Extremism, it can be done by a court decision made at a civil hearing launched by a registering state agency or a prosecutor office.

Such a suit can be filed after one warning to the medium (two in the past), unless the warning “has been appealed in court according to the established procedure or has been declared to be illegal by a court, or if measures have been taken in due time to correct the situation that provoked the issue of the warning.”

By making this decision amid increased anti-terrorist efforts, the lawmakers most probably proceeded from the belief that the exercise of the right to freedom of opinion and expression and to obtain and circulate information imposes on the media special duties and a particular responsibility to society. There are specific features in covering certain events, above all emergencies that threaten people's safety. Access to information is curtailed in several other logical cases, such as investigations, service and commercial secrets, privacy, and so on.

At the same time, the most favorable conditions must be ensured and access to information must be guaranteed in other cases (concerning the operation of state authorities). But in both cases the trend for amending Russian legislation on the media to introduce more grounds for halting or terminating the publication has become apparent in the past few years.

The general rules on the role of the media in organizing and holding elections are stipulated in Federal Law No. 67-FZ of June 12, 2002, On Basic Guarantees of Election Rights and the Right to Participate in Referendums in the Russian Federation. Its adoption called for augmenting the Law on Media with Article 16 bis, which formalizes the right of the Central Election Commission of Russia and the election commissions of members of the Russian Federation to appeal to the federal body of executive authority responsible for the registration of the media to halt the issue of a medium that was used to infringe on the law on elections and referendums.

Initially, this innovation provoked many fears. The media community feared that Article 16 bis would be used to fight publications that do not suit the authorities, but these fears were minimized during the 2003-2004 election campaigns by Resolution No. 15-P of the Constitutional Court of the Russian Federation dated October 30, 2003. It said that the norms of election law on halting the issue of media suspected of attempts to infringe on the election and referendum laws were in breach of the Constitution.

At the same time, the Constitutional Court stressed that journalists as representatives of "organizations that act on conditions of editorial independence and on the self-regulation norms elaborated by the journalistic community" should assume "an ethical and balanced stand" and cover election campaigns "in a fair, balanced and objective manner."

The Supreme Court of the Russian Federation has recently solved one more legal problem created by the decision of the Moscow Arbitration Court on October 20, 2004 to rule in favor of a suit filed by Alfa Bank against Kommersant for 300 million rubles (in excess of $10 million) in damages for harming the reputation of the bank and 20.5 million rubles (in excess of $700,000) for damages “sustained by the bank because of the article published in the said newspaper on June 7, 2004.”

Resolution No. 3, On the Court Hearings of Cases of the Defense of the Honor and Dignity of Citizens and Business Reputation of Citizens and Legal Entities, adopted by the plenary session of the Supreme Court on February 24, 2005, points to a possibility of a radical adjustment of these practices to the legal norms of the European Court of Human Rights.

The Resolution says, in part, “the sum of moral damages should be compatible with the damage and should not infringe on the freedom of mass information.” This should be a cause for optimism for media market players, because this will reduce the risk of publishing houses and other media being bankrupted with multimillion suits for moral damages.

A consistent change of the system of state support for the media is a major part of recent transformations of media legislation. The line was drawn under the matter by the aforementioned Federal Law No. 122-FZ dated August 22, 2004. Its enactment concluded the process of canceling the system of subsidies stipulated by Federal Law No. 191-FZ dated December 1, 1995, On State Support for the Media and Book Publishing in the Russian Federation, and Federal Law No. 177-FZ dated November 24, 1995, On Economic Support for District (Municipal) Newspapers. In fact, this means that print media concerned with education, science and culture have lost any legal grounds for regarding themselves as socially significant products.

Under Federal Law No. 195-FZ dated December 31, 2002, On Amendments and Additions to Articles 149 and 164 of Part Two of the Tax Code of Russia, paragraphs three to six of subpoint 3 of point 2 of Article 164 of the Tax Code were invalidated as of January 1, 2005. As a result, the provision on the collection of a reduced 10% VAT from periodicals concerns only the retail sale of printed periodicals (with the exception of advertising and erotic periodicals), while their sale by subscription is fully taxed.

This is illogical, to put it mildly, because the so-called socially significant periodicals (scientific, fiction, for disabled persons, veterans, children and young people, religious and municipal newspapers, substantial amounts of federal dailies, as well as small-edition publications that are not sold in retail networks for economic reasons) are sold mostly by subscription. This contradiction can and should be removed by spreading the reduced 10% VAT on the sale of printed periodicals by subscription, including on their delivery to subscriber if this is stipulated in the subscription contract.

An analysis of the cancellation of the reduced 10% VAT for periodicals and books on education, science and culture shows that owing to this decision the rights of the publishers of this printed matter have been leveled off with the rights of all other market players beginning in 2005. This means for the Russian press market that publishers and distributors of public/political products, periodicals and books for children, and scientific and educational literature have been put in the same economic conditions as the producers of labels, advertising and erotic printed matter. Nothing of this kind is done in many countries (see the Table below).

## VAT on Printed Media in the World* (in %)

| Country | Sales | Ads | Newsprint | New Equipment | **Standard VAT rate** |
|---|---|---|---|---|---|
| Azerbaijan | 0 | 0 | 0 | 0 | 0 |
| Argentina | 0 | 21 | 21 | 21 | 21 |
| Belgium | 0 | 21 | 21 | 21 | 21 |
| Brazil | 3 | 3 | 0 | 0 | 18 |
| Britain | 0 | 17.5 | 17.5 | 17.5 | 17.5 |
| Germany | 7 | 16 | 16 | 16 | 16 |
| Denmark | 0 | 25 | 25 | 25 | 25 |
| Spain | 4 | 16 | 16 | 16 | 16 |
| Italy | 4 | 20 | 4 | 20 | 20 |
| China | 13 | 0 | 17 | 17 | 17 |
| Latvia | 9 | 18 | 18 | 18 | 18 |
| Mexico | 0 | 15 | 0 | 15 | 15 |
| Netherlands | 6 | 19 | 19 | 19 | 19 |
| Norway | 0 | 24 | 24 | 24 | 24 |
| USA | 0 | 0 | 0 | 0 | 0 |
| Turkey | 1 | 18 | 8 | 0 | 18 |
| Finland | 22 | 0 | 0 | 0 | 22 |
| France | 2.1 | 19.6 | 19.6 | 19.6 | 19.6 |
| Switzerland | 2.4 | 7.6 | 7.6 | 7.6 | 7.6 |
| Sweden | 6 | 25 | 25 | 25 | 25 |
| Japan | 5 | 5 | 5 | 5 | 5 |

* Data taken from the reference book World Press Trends 2004 of the World Association of Newspapers (WAN).

In view of the above, the federal authorities should resume, beginning in 2006, the practice of establishing tax breaks for the print media and books on education, science and culture in order to make this printed matter maximally available to the general public.

At the same time, they should resume and increase target subsidies from the federal budget to the poorest regional publications (district and municipal newspapers), channeling the funds mostly into their material and technical modernization and personnel retraining. President Vladimir Putin has mentioned this task twice in the past four months.

Owing to the specific features of readership of district (municipal) newspapers and their important social and information role in the areas to which the access of the other print media is hindered, this policy will not damage the periodicals market but will greatly benefit society.

The termination of financing district and municipal newspapers from the federal budget is directly connected with Federal Law No. 131-FZ dated October 6, 2003, On the General Principles of Local Governments in the Russian Federation, which will come into force on January 1, 2006. This law grants the municipal authorities only one power in the media sphere – to establish a print medium for publishing municipal legal acts and other official information (Article 17). Under Federal Law No. 122-FZ (point 4 of Article 10), such print media shall be exempted from the official state registration, which takes them out of the legal environment of the Law on Media.

In practice, this innovation forced the editorial boards of local newspapers in some Federation members out of the jurisdiction of the municipal authorities and herded them with state regional newspapers into state media holdings in 2004. This concentration ensures guaranteed financial assistance to the local newspapers from the regional budget but curtails their professional independence and information pluralism in the given region.

Russians' views on the mass media, including print media, have changed radically since the beginning of the reform period. The first to be affected was public trust in the media, which is crucial for assessing the influence of the media on the public, the processes underway in society and public opinion in general.

According to ROMIR Monitoring, a Russian pollster, the absolute figure of Russians' trust in the media was only about 8% in March 2005, though 60% of the people trust them, to one degree or another. This is much higher than the people's trust for many other public and state institutions.

It can be said in conclusion that the market of the periodical press in Russia has developed, by and large, though it still has to catch up with the accepted standards of media markets.