

CHAPTER 2. RUSSIA'S ADVERTISING MARKET IN 2012

Russia's advertising market expanded by 13% to RUB 297.8bn in 2012, according to the Russian Association of Communication Agencies (RACA). The major contributors to the growth were television and Internet, which accounted for up to 78% of the aggregate increase in advertisement placements.

The advertising market structure remained largely unchanged in 2012 from 2011. Television is still the most popular form of advertising media among advertisers. The share of television amounted to 48% of the Russian advertising market, down from 50% a year ago. The interest of advertisers in this media is mainly due to the fact that advertising on television enables them to reach a large audience. In 2012, the value of commercials placed on television amounted to RUB 143.2bn, up 9% year-on-year, according to RACA. Advertising revenue of free-to-air (FTA) channels amounted to RUB 139.9bn, up 9% year-on-year, while placement of commercials on cable and satellite television rose 27% to RUB 3.3bn.

The advertising revenue of non-free-to-air (NFTA) TV channels has been growing at a fast pace recently.

Viewers' interest is switching towards thematic channels, which offer their audience unique and specialized content. As a result, the trend in recent years on the Russian television market is a reduction of the share of FTA channels and increase of that of NFTA channels. Advertisers are paying stricter attention to thematic channels following the audience. Although niche channels have a smaller audience compared to FTA channels they enable advertisers to gain access to a targeted audience segment, which makes advertising campaigns more efficient. Furthermore, the cost of advertising on niche channels is lower than on FTA channels, which appeals to medium-sized companies in addition to large corporations. Quite a few experts on the Russian advertising market note the increase in advertising budgets in recent years as well as the number of advertisers who prefer to place their commercials on thematic channels. At present, the share of advertising outlays on NFTA channels is substantially lower than the share of thematic channels in the total television viewing in Russia, which gives grounds to forecast further growth of advertisers' interest in this segment of the Russian television.

According to forecasts made by Russian advertising market participants, television will remain the largest market segment in the next several years. Television will retain its status as a popular form of spending free time for households and the most massive media in terms of coverage. For that reason, there will be high demand for television advertising from advertisers.

The Internet is the second-largest advertising market segment. Its share grew to 19% as of the end of 2012 from 16% in 2011. The value of advertising placed on the Internet increased 35% year-on-year to RUB 56.3bn in 2012, as estimated by RACA. Spending on display advertising amounted to RUB 17.9bn, up 17%, while spending on contextual advertising climbed 45% to RUB 38.4bn.

Internet advertising remains the fastest-growing segment of the Russian market. However, the segment's pace of growth slowed in 2012 compared to 2011, when its growth amounted to 56%. The decline is attributable to a number of factors. First of all, market participants noted that the Russian advertising market reached a certain level of maturity, which is why it is no longer able to achieve high growth rates year-on-year. Moreover, advertisers remained worried about the macroeconomic situation in Europe and in Russia in 2012. Some multinational companies went without active advertising campaigns in 2012, which impacted the entire advertising market and the Internet advertising segment. Another negative factor affecting the amount of spending on Internet advertising was the passage of amendments to the Federal law "On Advertising" which banned advertising of alcoholic products on the Internet from July 2012. The above-mentioned factors primarily impacted online display advertising.

Additionally, the year 2012 was uncharacteristic for display advertising on the Internet in terms of distribution of advertising revenues during the year: there were high incomes in the first half of the year, small growth in the third quarter and almost zero growth in the fourth quarter compared to the respective periods of 2011. Such unusual distribution of income was caused by a number of events. In early 2012 ahead of the March presidential elections, there was additional spending on Internet advertising. Also, as a result of the ban on alcoholic product advertising on the Internet imposed in July 2012 alcoholic beverage producers increased their advertising spending in the first half of the year. Additionally, the 2012 UEFA European Football Championship was held in June, in which the Russian team took part. As a result, many companies redistributed their advertising budgets to the second quarter, which is not typical for the advertising market. The Summer Olympics in late July–early August also contributed to

the allocation of advertising budgets for the summer months, during which the activity of advertisers is traditionally low. Therefore, the second half of the year, with the exception of July and August, saw a smaller increase in display Internet advertising. The high base effect of the second half of 2011 and especially Q4 2011 was an additional factor.

The Internet is a very attractive advertising platform for advertisers, because the Russian Internet market is one of the world's largest by the number of users. According to a poll conducted by the Public Opinion Foundation (FOM) in December 2012-February 2013, the number of people who go online at least once a month amounts to 64.4m or 55% of the country's population aged 18 and older. The share of active users who browse the Internet at least once in a day amounts to 43% or 50.1m people. Russia's Internet market became the largest in Europe in 2011, according to a comScore survey. Russia remained on top position in Europe in terms of Internet users as of June 30, 2012, according to data from Internetworldstats.com. However, the Internet penetration rate in Russia is lower than in most developed economies, in which it stands at about 78-90%. Analysts expect Russia's Internet user base to expand in the next several years primarily due to higher activity of people living outside of Moscow and St. Petersburg and the rollout of mobile Internet.

Printed media are the third-largest segment of the Russian advertising market. The share of printed publications amounted to 14% as of the end of 2012. RACA estimated that the amount of advertising in printed publications

reached RUB 41.2bn in 2012, rising 2% compared to 2011. Of the total, advertising in magazines amounted to RUB 20.1bn, up 1%; advertising in newspapers rose 8% to RUB 9.5bn; and in advertising publications decreased by 1% to RUB 11.6bn.

The ways and means that information has been used in recent years have been changing due to the expansion of the Internet and development of digital formats. Printed publications have felt the effects of these changes more than other media. In particular, the audience and circulation of printed publications is in decline, which has a negative impact on the demand for printed publications as an advertising medium. Therefore, the share of printed publications decreased to 14% of the Russian advertising market in 2012, down from 18% in 2011. However, market players note that despite the negative changes, the printed publication market retains its position as a source of reliable information and as the third-largest segment of the Russian advertising market in terms of advertising placements. A number of polls of subscribers to printed publications showed that over 50% of the audience are not prepared to forego printed publications and replace them with digital media.

At present, publishers direct more attention to the development and promotion of online versions and websites of printed publications, which often offer additional content compared to hard copies. However, experience has proven that digital publications do not replace printed publication but just serve as an addition to them.

The printed publication market will undoubtedly change in the future due to changes in reader preferences. However, a certain part of readership by force of habit and because of convenience will continue receiving information from printed publications and consequently advertisers will be regarding advertising in the press as one of the ways to catch readers' attention.

OUTLOOK FOR 2013

ZenithOptimedia projects that the Russian advertising market will grow 12.5% to RUB 335bn in 2013. The Russian market is still one of the fastest-growing in the world and its growth outpaces such dynamic markets as Latin America, developing countries in Asia and Eastern Europe. Internet advertising is expected to remain the major growth driver of the Russian advertising market. Internet advertising is expected to soar 30% in 2013 in Russia, according to ZenithOptimedia's forecast. Expenses on

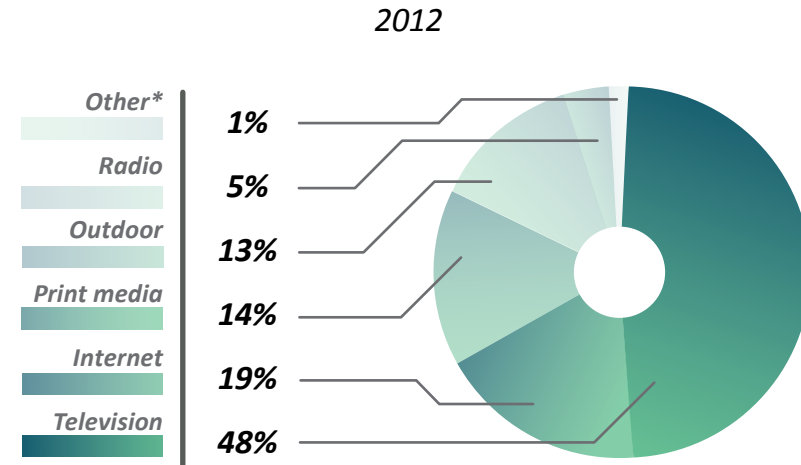
TV advertising are projected to increase 9% in 2013, whereas advertising in printed publications is expected to grow 2%. The ban on advertising alcoholic products in printed media effective January 1, 2013 will have a negative effect on advertising in printed publications.

The size of the Russian advertising market, bn rubles

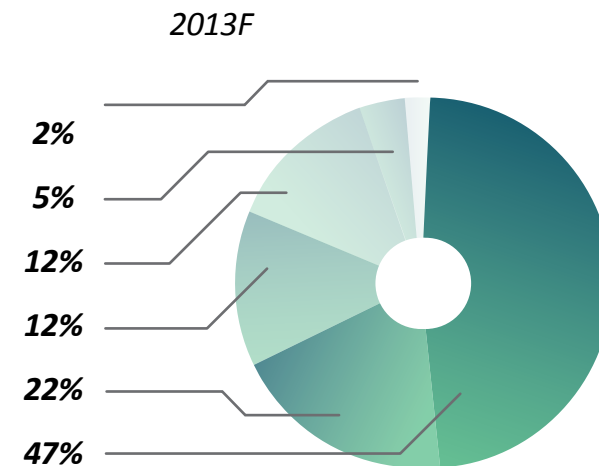
Segment	2012	Growth in 2012	2013F	Growth in 2013
TV	143.2	9%	156.2	9%
FTA	139.9	9%	-	
cable and satellite	3.31	27%	-	
Internet	56.3	35%	73.3	30%
display advertising	17.9	17%	-	
contextual advertising	38.4	45%	-	
Printed publications	41.2	2%	42.0	2%
newspapers	9.5	8%	-	
magazines	20.1	1%	-	
advertising publications	11.6	-1%	-	
Radio	14.6	23%	17.0	17%
Outdoor advertising	37.7	10%	41.1	9%
Other media	4.9	14%	5.6	16%
indoor advertising	3.8	13%	-	
advertising in movie theaters	1.11	18%	-	
TOTAL	297.8	13%	335.2	13%

Source: 2012 data is provided by RACA, 2013 forecast was made by ZenithOptimedia

Structure of Russia's advertising market



* Indoor advertising and commercials in movie theaters



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