



WITH THE SUPPORT OF



ONLINE VIDEO IN RUSSIA

From piracy to global integration

FIRST EDITION – OCTOBER 2013

IN PARTNERSHIP WITH



FEATURED IN





About this report

This research was conducted by East-West Digital News in partnership with comScore, Ernst & Young, Moscow's Higher School of Economics, and The Next Web. It took place in August and September 2013 with the participation of more than 20 Russian and international market players.

The report has been sponsored by Tvigle.ru, a leading Russian online video site. This has had no impact on the report's editorial neutrality.

About the publisher

East-West Digital News is the first international information company dedicated to Russian digital industries. Its website EWDN.COM provides news, market data, business analysis and updates pertaining to the Internet, e-commerce, online media and mobile industries, software and hardware innovation, as well as the related investment activity and legal developments.

A consulting branch, East-West Digital Consulting, provides international players with assistance for business development in Russia and advises Russian companies on their international strategies.

For more information, please contact us at **contact@ewdn.com**

Copyright policy

The content of this report is protected by copyright. Individuals and organizations can, without prior authorization and free of charge, copy and publish without limitation extracts in the form of quotes. East-West Digital News must be clearly indicated as the source and a link to the EWDN.COM website must be offered.

To copy and republish very large extracts, or the full report, or for other editorial cooperation opportunities, please contact us at **editor@ewdn.com**

Advertising and sponsorship opportunities

To inquire about advertising and sponsorship opportunities, please contact us at **ads@ewdn.com**



Contributors



Vladimir Baydin
Head of Corporate
Finance and International
Communications
J'son & Partners
Consulting



Alexandra Chekareva
Senior lawyer, LL.M.
Ernst & Young Russia



**Georgiy
Chomakhashvili**
Administrative Director
Internet Copyright
Management (ICM)



Adrien Henni
Chief editor
East-West Digital News



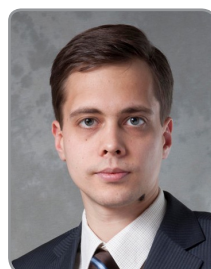
**Marie Ashley
Kummerlowe**
Editor
East-West Digital News



**Anastasia
Kuznetsova**
Lawyer
Ernst & Young Russia



Mikhail Lukyanov
Investment Manager
Media 3



Igor Nevzorov
Head of the IP protection
group, PhD (Law), Senior
manager
Ernst & Young Russia



Sergey Shlykov
Investment Analyst
Media 3



Participating companies

MARKET PLAYERS



INVESTMENT FUNDS



DATA & EXPERTISE





ONLINE VIDEO IN RUSSIA

FOREWORDS



Chief editor's note

Adrien Henni

An emerging segment in an emerging market: here is how one could define the online video industry in Russia and its considerable growth potential.

Not only is the Russian Internet market – already the leader in Europe by number of users – far from having exhausted all of its potential, but some of its segments are just starting to develop on a mass scale.

Online video is one of these segments. Further growth will be driven by a variety of factors, from the new anti-piracy legislation – which is likely to increase content owners' interest in the Russian market and stimulate the development of legitimate online video platforms – to the beginning of massive advertiser involvement in online video formats, to the growing maturity of several online video platforms.

We are pleased to provide international audiences with reliable and precise data on this market, in addition to middle and long term forecasts and trends. Much credit for this information is due to our partners comScore, J'Son & Partners, TNS Global, and others who kindly accepted to share their freshest data.

Furthermore, the report explores each of the key issues defining the industry – from traditional and new distribution channels to copyright holders' strategies, to advertising, to piracy and new legislation in this domain.

A special section is dedicated to market players with an exhaustive list of Russia's main online video sites. Last but not least, investors will enjoy an exhaustive review of investment deals that have taken place in Russia since the very start of this market seven years ago, with an analysis of opportunities and risks as well as exit perspectives.

Finally, our special gratitude goes to pioneering industry player Tvigle Media, which has sponsored this research, as well as to all the other market players and experts who have participated in various ways, providing us with the means necessary to complete this in-depth analysis.

Adrien Henni is co-founder and chief editor of East-West Digital News



Foreword

Dan Piech

With the explosion of the Internet and a shift in online consumer behaviours and habits, the media landscape has become a highly fragmented market, in which Digital plays a critical role. The increasing number of video viewing platforms gives consumers the flexibility to watch exactly what they want, when they want.

This multi-platform environment also presents new opportunities for marketers to communicate their message to a highly engaged online audience, in a more effective and measurable manner. So while there is no doubt that marketers should include Digital in their media plans, the main question to answer is how much of their budgets should be spent on digital video.

Being in the online video measurement business for more than 6 years, comScore helps clients grow and succeed in the online video marketplace, by providing insights into the online video market in 26 different countries. This report provides an overview of the global growth of online video, and its adoption in both advanced and emerging markets based on the latest comScore data.

comScore is glad to have contributed to this in-depth international research on online video, because even though the media market is complex and the future of TV unclear, digital video is going to be an instrumental and growing part of it. Insights from this research will help with the development of more effective online video strategies in Russia and allow market players to better evaluate their activities and benchmark against competitors.

Dan Piech is Senior Product Manager at comScore



Foreword

Egor Yakovlev

Europe's largest Internet audience is also one of its fastest growing, and this makes Russia one of the most exciting places to be doing online business anywhere in the world.

The numbers tell a clear story. Russia already has more than 70 million Internet users, yet this means that almost half of the population is still not online (compare this to the just over 20% of Americans); 42 million Russians are consumers of online video, but this is only 58% of Russia's total Internet users, compared to 90% in the US.

Russia has come a long way very quickly. When I founded Tvigle in 2007 – a year before Hulu was established and when Netflix was still a DVD-by-email business – the reaction from my peers was mostly one of bemusement and, in some cases, questioning whether I had taken leave of my senses.

Today it is a different story. As this report makes clear, the opportunities in the Russian online content market are multiplying. Not only is there still enormous room for growth as more Russians get online and start consuming content online, but the structure of the market is undergoing some profound changes.

Firstly, Russians are starting to move en masse from pirated to legal content, which offers a better user experience. Recently Tvigle was one of the co-founders of the Internet Video Association, an industry body formed to promote legal content and combat piracy, in tandem with legislation passed earlier in the year to crack down on sites distributing illegal contents. Secondly, many Russians are going straight to mobile devices and smart TVs, with exponential growth in both segments of the market.

All of this means new patterns of consumption and new opportunities. More than \$200 million has been invested in Russia's online video sector in the last five years, yet this is just the start. Online video advertising, as can be clearly seen from this report, also has tremendous room for rapid growth. Currently it accounts for just 8% of online display advertising in Russia (vs. 20% in the US) and a tiny 3% of total Internet advertising (8% in the US). The latest forecasts suggests growth rates for online video advertising will be over 90% CAGR through 2015.

In short, this is a tremendously exciting time to be doing business online in Russia. This report – the first of its kind – combines in-depth data from globally reputable sources with the insights born of years of experience in the sector. The result makes for compelling reading and points the way to a bright future for Russia's internet.

Egor Yakovlev is founder and CEO of Tvigle Media



ONLINE VIDEO IN RUSSIA

TABLE OF CONTENTS



Table of contents

Contributors & Participating companies	3
Forewords	5
Executive Summary	12
Sponsor's section: Tvigle	17
Part 1. The Internet in Russia: Europe's largest market	20
1.1. 85 million Russian-speaking users	21
1.2. Regional contrasts	22
• Internet penetration and usage intensity	22
• Distribution by regions and types of cities	24
1.3. Broadband development	25
1.4. Mobile Internet	26
Part 2. Online video in Russia: Market overview	29
2.1. From origins to take-off	30
The Russian online video market: Timeline (2006-2013)	31
2.2. Key facts and figures	32
• Current audience	32
• Segmentation by age and gender	34
2.3. Forecast	35
Part 3. Online video channels	39
3.1. The mobile video markets	40
3.2. Smart TV	41
Part 4. The piracy issue	43
4.1. Insufficient legal framework and practice before 2013	46
• International pressure	47
• The role of copyright owner associations	47
4.2. The 2013 anti-piracy law	48
• Fine-tuning the law	49
4.3. Expected impact on the industry	49
Part 5. Market players	51
5.1. The Russian online video landscape	52



5.2. Business model	55
Russia's 18 key Russian online video players	56
Part 6. Content market and copyright holders	74
6.1. The global digital content market	75
6.2. The content market in Russia	76
6.3. Online vide content in Russia	77
• Local consumption patterns	77
• A sizeable share for local content	77
6.4. Players' content policy	79
• Licensed video from content providers	79
• Content from mother companies	80
• Self-produced content	80
Part 7. Online video advertising in Russia	81
7.1. Online advertising in Russia	82
7.2. The online video advertising segment	84
• Current figures	84
The Russian online video advertising map	85
• Market prospects	86
• Challenges and opportunities	88
Part 8. Investing in the Russian online video market	90
8.1. Existing investors	94
8.2. Further investment trends	94
Investors respond: How attractive is the Russian online video market? with the participation of Dmitry Alimov of Frontier Ventures, Maxim Melnikov of Media 3, Igor Taber of Intel Capital, and Alexander Turkot of Maxfield Capital	96
8.3. Exit scenarios	98
• IPO	98
• Sale to strategic investors	98



ONLINE VIDEO IN RUSSIA

EXECUTIVE SUMMARY



Internet in Russia: Europe's largest market

Even though Russia overtook Germany in 2011 to become Europe's largest Internet market by number of users, Russia still lags behind most other European countries in terms of penetration, with 57% of the adult population connected (66 million people) as of spring of 2013. Internet penetration is higher in Moscow and St. Petersburg (over 70% of adult inhabitants) than elsewhere in Russia (less than 50% in small towns and around 60% in cities of over one million inhabitants), even though the capitals represent only 15% of the country's total Internet audience.

Mobile Internet took off rather late in Russia, but it has shown dramatic growth since 2010. The number of Russian mobile Internet users – including feature phone and smartphone owners – is estimated to be around 90 million this year. Better 3G and LTE coverage as well as the increasing success of smartphones and tablets on the domestic market are the key drivers of this growth.

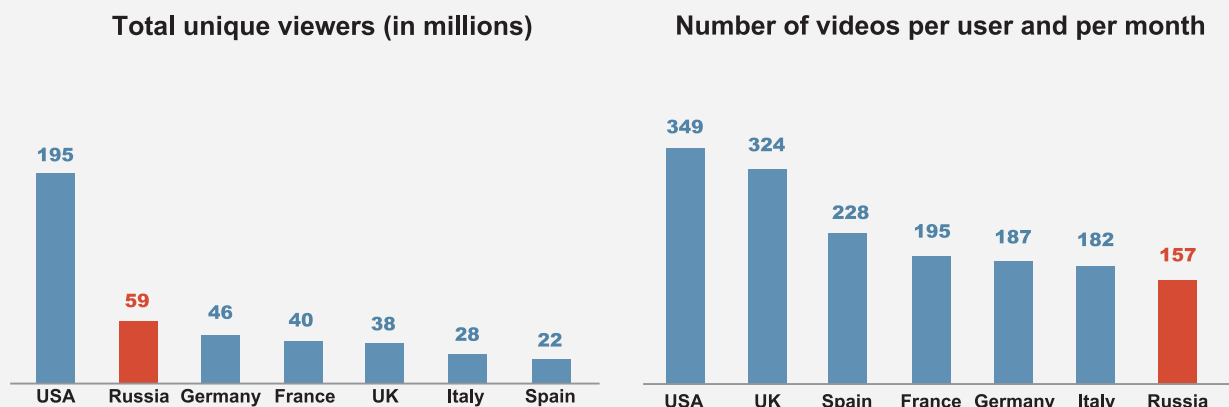
The Russian online video market

With nearly 60 million monthly viewers in July 2013 according to comScore, Russia has the largest online video audience in Europe with a more than 30% CAGR over the past three years. There is still a considerable growth potential in terms of videos per viewer (157) and hours per viewer (17 hours per month), based on international comparisons.

The market is expected to grow at an 18% average annual rate for online video audience and 6% in terms of videos per viewer until 2018. Meanwhile, the paid content and in-stream online advertising markets will be boosted by growth in online video inventories from 106 billion views in 2012 to an estimated 292 billion in 2018.

Until recently, Russia's reputation as a haven for pirated content has been deserved to a large extent. In 2012, about five billion online video views involved pirated content, while more than one million unique video file copies were detected – including on some of the most established Russian Internet sites. The damage to Russian and foreign TV companies ranges in the billions of US dollars.

TABLE 1 & 2 Internet and online video penetration: International comparisons (as of July 2013)



Source: comScore Video Metrix, July 2013, 15+



Coming after years of insufficient legal framework and practice, a new anti-piracy law was enacted in the summer of 2013. The law, which allows a Moscow Court to temporary block access to any illegal content as well as to hyperlinks to such content, has had an immediate impact, with 56 complaints filed and three sites blocked in a mere two months. Among the expected middle or long term effects of the law are increased video consumption via legitimate channels, reduced risks for right owners leading to more content available for online video providers, and increased interest in the segment from advertisers and investors.

Russia's online video landscape

The market already has seven years of history, but the last three years have been the most active (see Timeline). Today there are more than 20 legal VOD Internet services in Russia.

Launching a Russian YouTube version in 2007, Google was the first major international player to enter the market. In 2012, Viasat expanded its Viaplay online pay-TV service to Russia, while iTunes and Play Store (Google Play) began selling media content in the country that same year. Other players like Amazon Hulu and Netflix have recently shown interest in and may soon enter the market.

Thus far, the paid model for content has not been very successful in Russia. Only a limited number of viewers are ready to pay for content, while very large amounts of content are available for free on ad-funded sites or via resources with pirated content.

TABLE 3 **Ranking of Russian online video players by audience and volume (June 2013)**

Ranking	Players	Audience*	Video streams**	Videos per viewer
1	Google Sites	54.0	3,740	69
2	Mail.ru Group	33.6	791	24
3	Gazprom Media	15.9	106	7
4	Yandex Sites	15.0	81	5
5	Tvigle.ru	9.2	104	11
6	Vimeo	9.0	30	3
7	Viacom Digital	6.2	16	3
8	Kinopoisk.ru	6.0	20	3
9	Smotri.com	6.0	46	8
10	ivi.ru	5.3	76	14
11	Zoomby.ru	4.9	23	5
12	Molodejj.tv	4.8	103	22
13	Planeta-online.tv	2.8	14	5
14	Tvzavr.ru	2.2	11	5

Note: Although not mentioned in the above rating, Vkontakte.ru (VK.com) has been historically the largest video resource after YouTube. Its popularity was due to the considerable amount of content, including illegal content, made available on the site.

Source: comScore Video Metrix, June 2013, Age 15+

TABLE 4 **Ranking of Russian online video players by audience, excluding UGC sites**

Ranking	Online video players with legal professional content	Audience*
1	Tvigle.ru	8.0
2	Videomore.ru	4.0
3	Molodejj.tv	4.0
4	Zoomby.ru	3.7
5	ivi.ru	3.3
6	Megogo.net	0.9
7	Tvzavr.ru	n/a

* Unique online video viewers, in millions, in cities of 100,000 inhabitants and more.

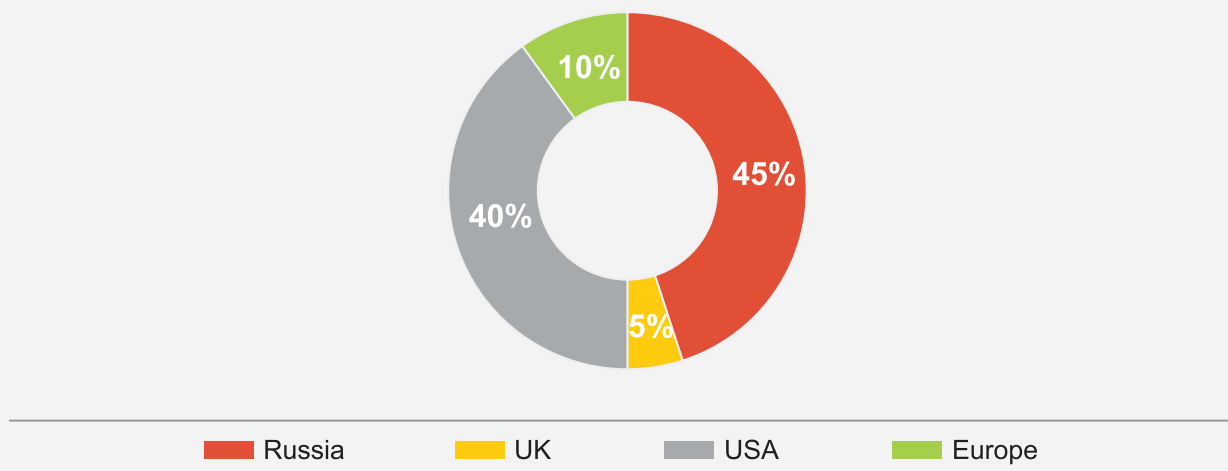
Source: TNS, June 2013

In this context, the advertising model – where the viewer has access to content for free, as in traditional TV – dominates the VOD market. It is the core revenue source for the main non-UGC market players. In this respect, the Russian market has more in common with China than with the US or Europe, where the pay-per-view and subscription models are far more widespread than the advertising one.

The content market

The Russian digital content market is estimated to currently be worth approximately \$1.4 billion (including the transactional and advertising models). Games account for 97% of the market, video for 2%, and music and books for 1%. A historically high level of piracy is the principle explanation for this market structure. The share of online video content is likely to grow in correlation with the legalization of video content on the Internet and in the online game industries. The structure of the Russian digital content market will thus gradually become similar to that of the US, the UK, or Japan.

In the online video segment, domestic content accounts for up to 45% of the available titles on average. Among the major Russian copyright owners are Film Direction, Cinema Company CTB, Amedia, CTC Media, All Media (Yellow Black and White), Russian World Vision and others.


TABLE 5 Estimated split of available video content by origin


Source: market player interviews, 2013

Online video advertising

Spending on online video ads has developed actively since 2010 and reached \$52 million in 2012, up 120% from the previous year. The market is expected to grow by about 60% annually in the next couple of years. There is a huge potential to tap: TV advertising spending per capita, as well as overall online advertising spending per Internet user, are six times higher in the US than in Russia, while online video advertising spending per online viewer is up to 15 times higher.

Online and mobile video advertising will significantly change the structure of Russia's online advertising market in the mid term, as has already been the case in more advanced countries.

Investment activity

Based on publicly disclosed transactions, founders, VC and PE funds, and strategic investors have invested about \$200 million in the Russian online video market since the first transaction – a foundation of Tvigle.ru – was completed in 2007.

Having just completing its early/venture stage, the sector is now entering the growth stage, with further investments required to scale businesses. However, due to the limited number of Russian funds operating at the growth stage, not all projects will attract funding, which may lead certain sites to cease their activity, radically change their format or be acquired by other players.

The sector remains attractive to VC and PE investors due to its untapped potential – in terms of user base, advertising revenues, and new channels – as well as to the weakness of cable, DVR, or content aired on traditional television. In addition, the new anti-piracy legislation is expected to increase the traction of legitimate video resources.

On the other hand, competition is already quite high, while players seem to be excessively dependent on content providers and advertising budgets. Piracy will not instantly disappear, and it will take time for the pay-per-view model to take off.



ONLINE VIDEO IN RUSSIA

SPONSOR'S SECTION

ABOUT US

Tvigle pioneered professional online video broadcasting in Russia in 2007 and remains the market leader by monthly reach and advertising revenue. Tvigle offers a vast selection of legal content that can be viewed anywhere and anytime on almost any device.

As well as offering video on demand, Tvigle has Russia's largest partnership network for content syndication, while its Video Publisher platform allows publishers to create and monetize video projects online.



OUR BUSINESS IN NUMBERS

No1

The market leader with **20% share of unique monthly viewers**

7,500

More than **7,500 partner websites** and a unique advertising network

10M

10 million people Tvigle's audience in April 2013

120M

120 million videos watched every month on Tvigle.ru and partnership network

FOUR CORNERSTONES

PORTAL – TVIGLE.RU

Main portal site focused on broadcasting high-quality content for online viewers with advertising rolls

PARTNERSHIP NETWORK

Content syndication platform to broadcast our content in the video stream

VIDEO PUBLISHING PLATFORM

Globally proven cloud based service for mid-sized TV channels and other video intensive media business

CONNECTED DEVICES

Transactional video on demand (pay-per-view)

OUR SENIOR MANAGEMENT



EGOR YAKOVLEV

Founder, CEO

- Former Sales and Marketing director at Amedia, top 5 Russian TV and Media production Company
- Former CEO at software developer Computerra with expertise in IT/Computer print & online publishing



MAXIM MELNIKOV

Investor, board member, CEO at Media3

- 16+ years of successful track record on top-management positions in media business and investment industry
- MBA from Stanford University

CONTENT PARTNERS

FOX INTERNATIONAL CHANNELS



ONLINE VIDEO MARKET IN RUSSIA

72M
users

Russia has the largest Internet audience in Europe with **72M** users in 2012, **51%** of population and more than **30%** 3Y annual historical growth

60M
viewers

Russia has a rapidly growing (24% y-o-y) number of online video viewers (**60M**, **83%** of Internet users in June 2013) with huge growth potential for the next 3-5 years

82%
growth

Emerging online video ad market valued at **\$51M** in 2012 with a high annual growth of **more than 80%**

13M
smartphone
sales

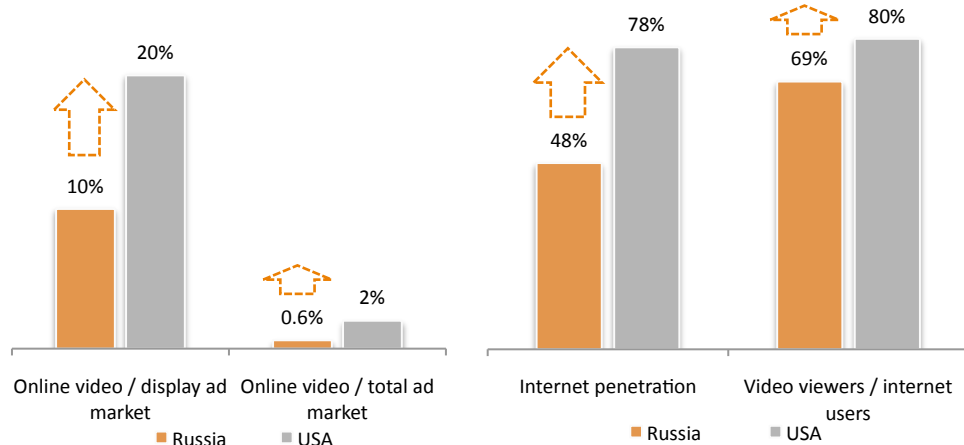
Rapidly growing Smart TV sales (approx. **0.8M** sales in 2012, more than **x2** in one year) and smartphone sales (**13M** in 2012, CAGR 08/11 = **115%**)

Russia's viewer audience is converting from utilizing pirated content as legal avenues provide a much better user experience and content quality

The Russian government and market players are working together to develop legal regulation and tackle the problem of content piracy

MARKET UPSIDE

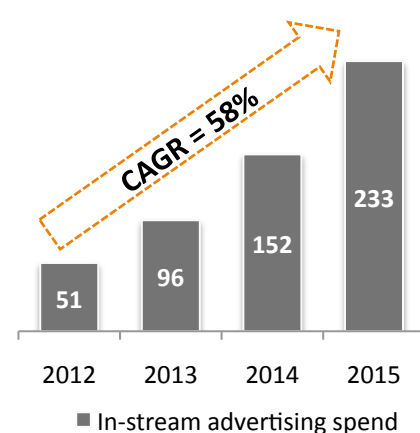
RUSSIA vs. US ONLINE VIDEO IN 2012



Source: comScore, eMarketer, UBS, J'Son & Partners, Accenture

ONLINE VIDEO

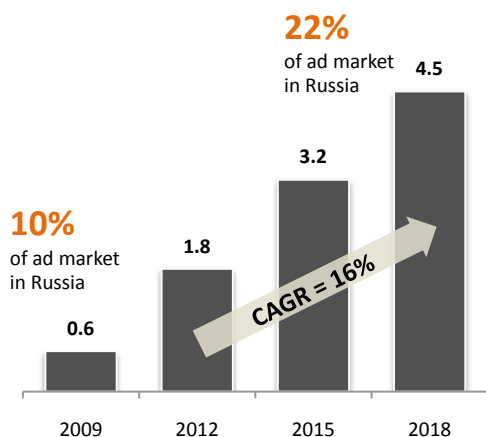
IN RUSSIA, mUSD



Source: AKAR, UBS, J'Son & Partners, Management

INTERNET MARKET

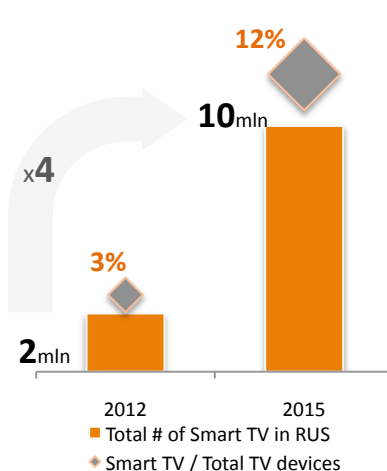
IN RUSSIA, BnUSD



Source: IAB, Finam

SMART TV MARKET

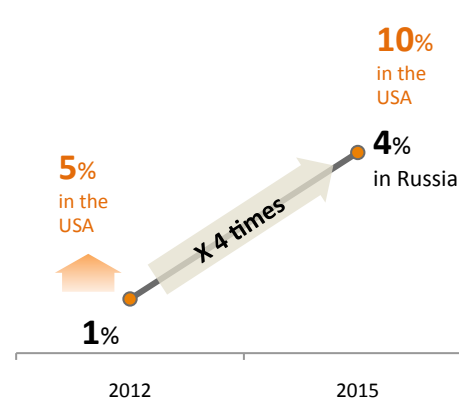
IN RUSSIA



Source: J'Son & Partners

% OF ONLINE TV

IN TOTAL TV AD BUDGET



Source: ZenithOptimedia, Video International



Online Video in Russia

PART 1

THE INTERNET
IN RUSSIA: EUROPE'S
LARGEST MARKET



1.1 85 MILLION RUSSIAN-SPEAKING USERS

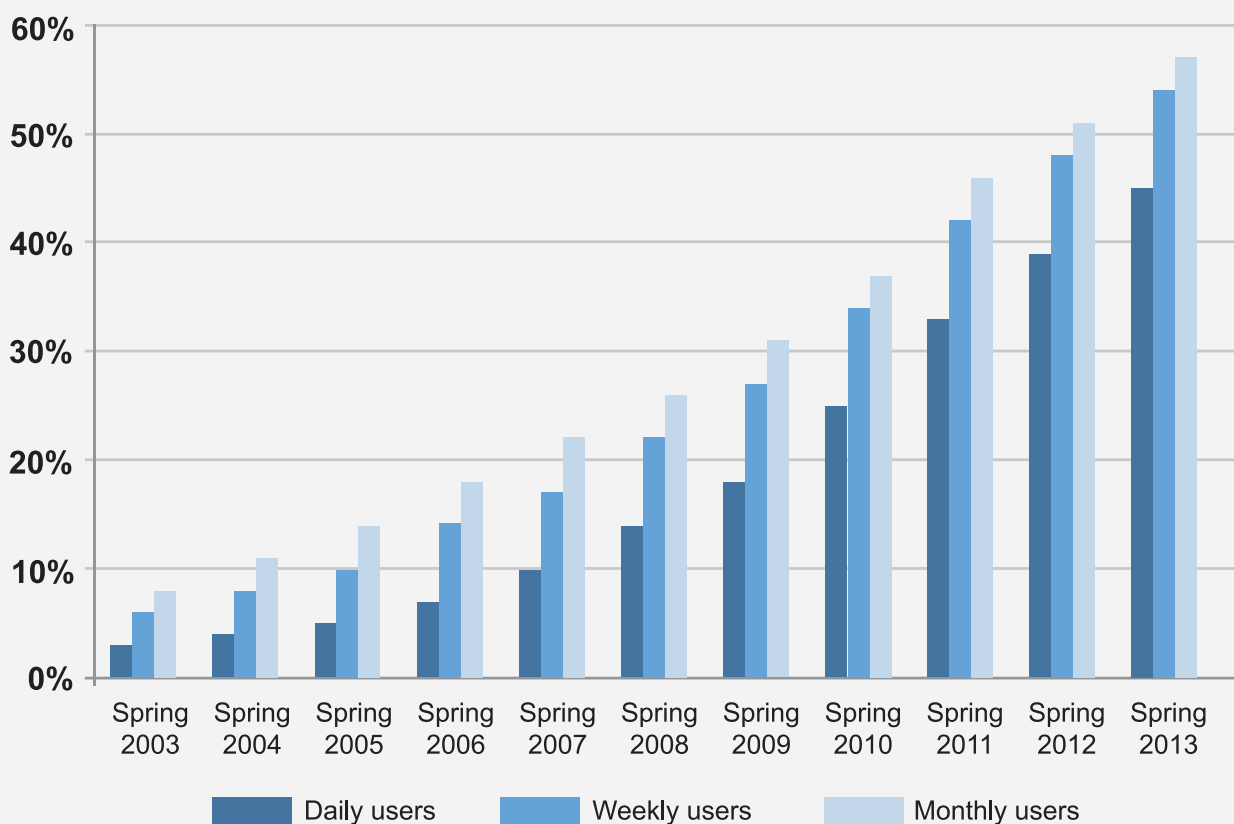
The Internet became popular in Russia significantly later than in advanced European countries, with only 10% of the adult population connected in 2003 and 20% in 2007. Today, Russia still lags behind most other European countries in terms of penetration, with 57% of the adult population, or 66 million people, connected on a monthly basis in spring 2013, according to the Public Opinion Foundation (FOM). Moreover, 45% of the adult population, 52.1 million people, used the Internet daily in spring 2013, according to FOM.

In comparison, the ratio of Internet users to the total population reached 83% in the UK, 83% in Germany, and 79% in France, according to Internet World Stats in June 2012.

However, Russia is catching up quickly, with an average annual growth in Internet monthly users exceeding over 10% or more over the last few years. Russia already overtook Germany as the market with the highest number of unique Internet users in Europe in September 2011.¹

The Russian-speaking audience could exceed 85 million users, including approximately 20 million Russian-speaking users in the former Soviet republics, Western Europe, Israel, and North America.

TABLE 1-1 Internet penetration and usage frequency in Russia



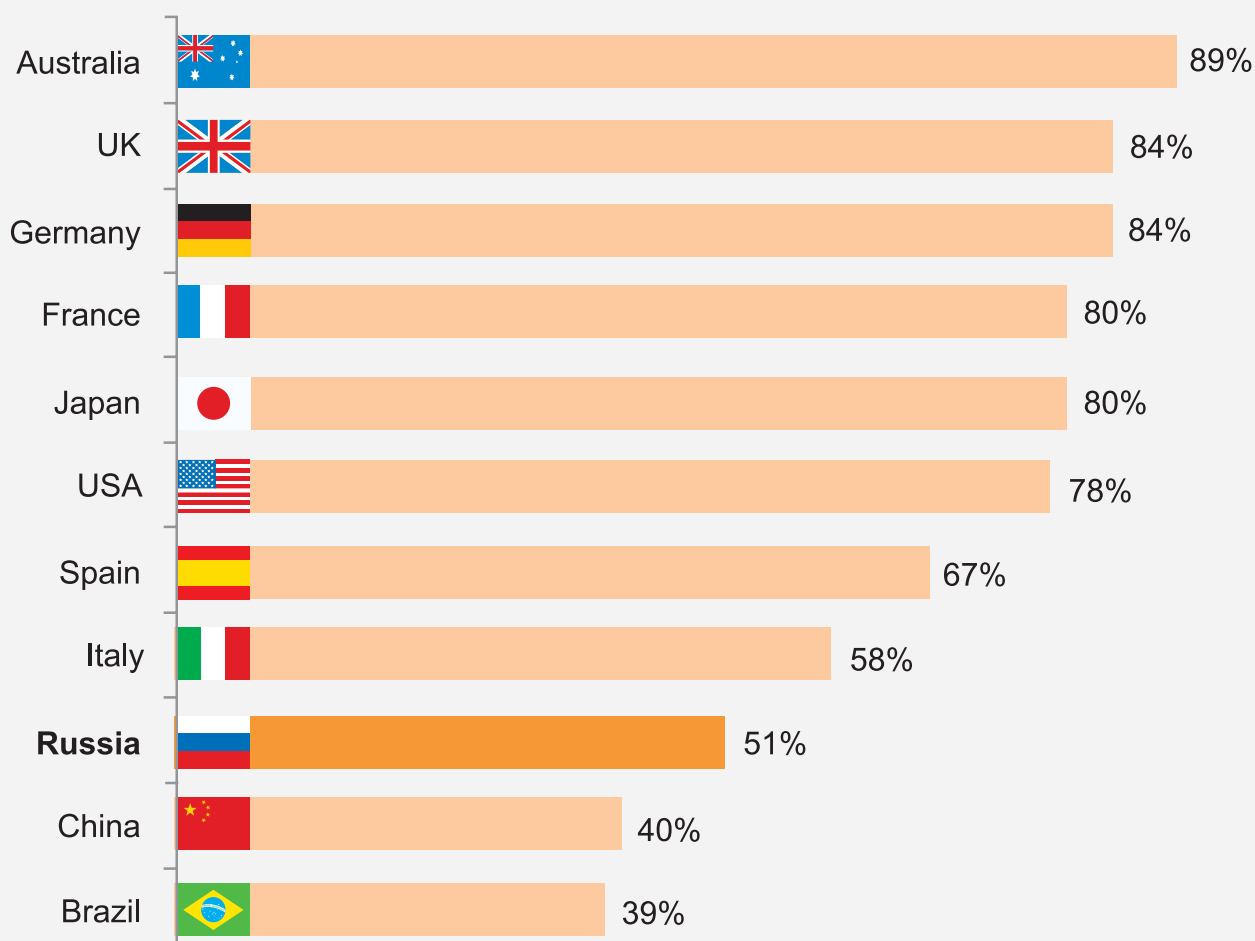
Source : Public Opinion Foundation (FOM)

¹ comScore counted as many as 50.81 million users aged 15 and older in Russia, compared to 50.14 million in Germany, 42.35 in France and 37.2 in the UK.



If growth continues at its current rate, it will take Russia less than a decade to reach the current levels of Europe's most connected countries. According to the Sociology Institute of the Russian Academy of Sciences, Russia's Internet penetration rate could reach 75% by 2020 and 90% around 2030.

TABLE 1-2

Internet penetration: International comparisons (mid-2012)

Sources: FOM (Russia), Internet World Stats (other countries)

1.2 REGIONAL CONTRASTS

Internet penetration and usage intensity

Internet penetration in Russia is still uneven. There is a two-fold difference in the percent of Internet users on a monthly basis between the capitals, Moscow and St. Petersburg with over 75% Internet penetration compared to 45% in Dagestan and 42% in Mordovia, according to a FOM report from February 2013. The average across Russia is 58%.

Among the key factors explaining these regional contrasts are differences in the standard of living, purchasing power, and development of broadband and wireless Internet access, as well as computer and Internet literacy.

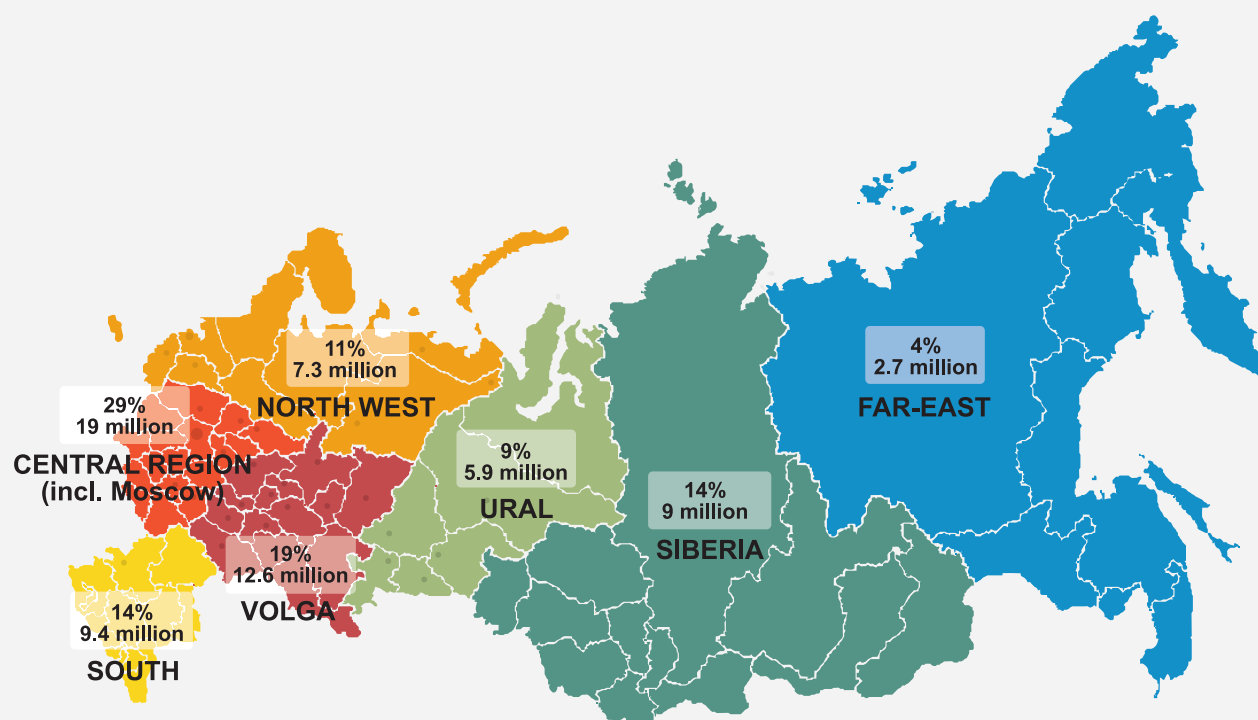


The differences between regions by usage intensity are even more profound.

Internet penetration and usage intensity are interconnected: the higher the percent of Internet users, the higher the level of Internet activity and vice versa.

In its study, FOM identified four groups of regions. The first one, led by Moscow and St. Petersburg, includes 15 Russian regions. Both Internet penetration and usage intensity are high in this group. Easy Internet access has been present here for some time, and the audience is relatively “mature” in terms of their Internet activity.

TABLE 1-3 **Distribution of Internet users by region (Spring 2013)**



Source : FOM

The Sakhalin and Tomsk regions, Primorskiy Krai, and 13 other Russian regions make up the second group. Internet penetration in these areas is relatively high, but usage intensity remains low. The local audience either lacks Internet experience or is affected by access limitation due to the high cost of Internet service found in a number of regions.

In the third group, penetration is limited, though Internet capabilities are being actively used. Among the 10 regions in this group, such as the Ivanovo region and the Republic of Marii El, Internet users are currently a small “elite.”

Finally, the fourth group of regions is the largest with 30 members, including the Tambov and Voronezh regions and the Republic of Mordovia. Internet penetration here is lower, and users are rather passive. In these regions, penetration will grow in tandem with economic growth and infrastructure improvements, as well as an increase in social capital.

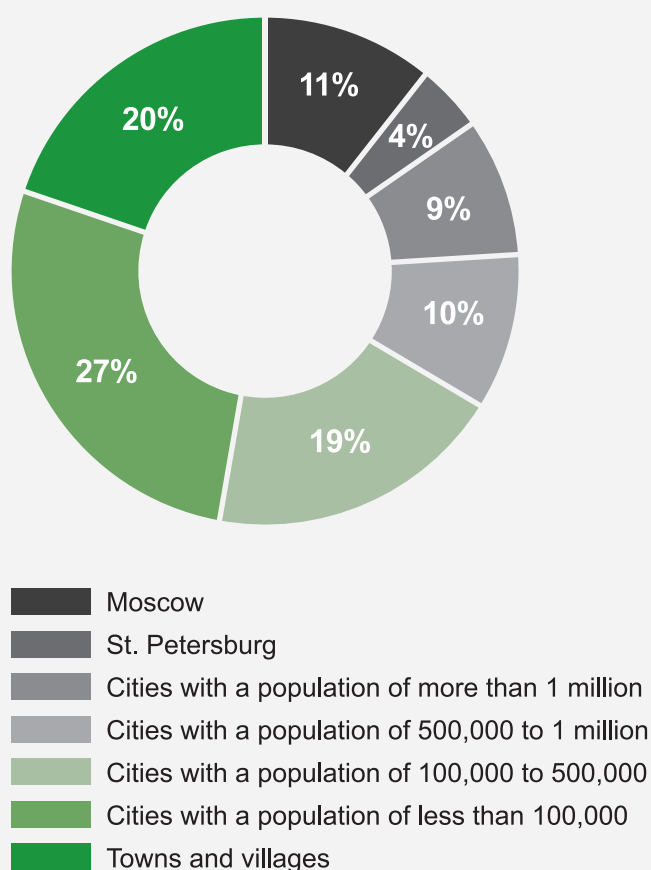


■ Distribution by regions and types of cities

Although Internet penetration is higher in Moscow and St. Petersburg (over 70% of adult inhabitants in late 2012 or early 2013) than elsewhere in Russia (averaging between 37% and 52% in small towns and villages to around 60% in cities of over 1 million inhabitants), users from these cities represent only a fraction (15%) of the total number of Internet users across the country.

As of early 2013, just 11% of Russian Internet users lived in Moscow, 4% in St. Petersburg, 9% in cities with more than 1 million inhabitants, while 20% lived in rural areas. Almost three quarters of all Russian Internet users live in the European part of Russia.

TABLE 1-4 **Distribution of Internet users by municipal types (Spring 2013)**



Source : FOM



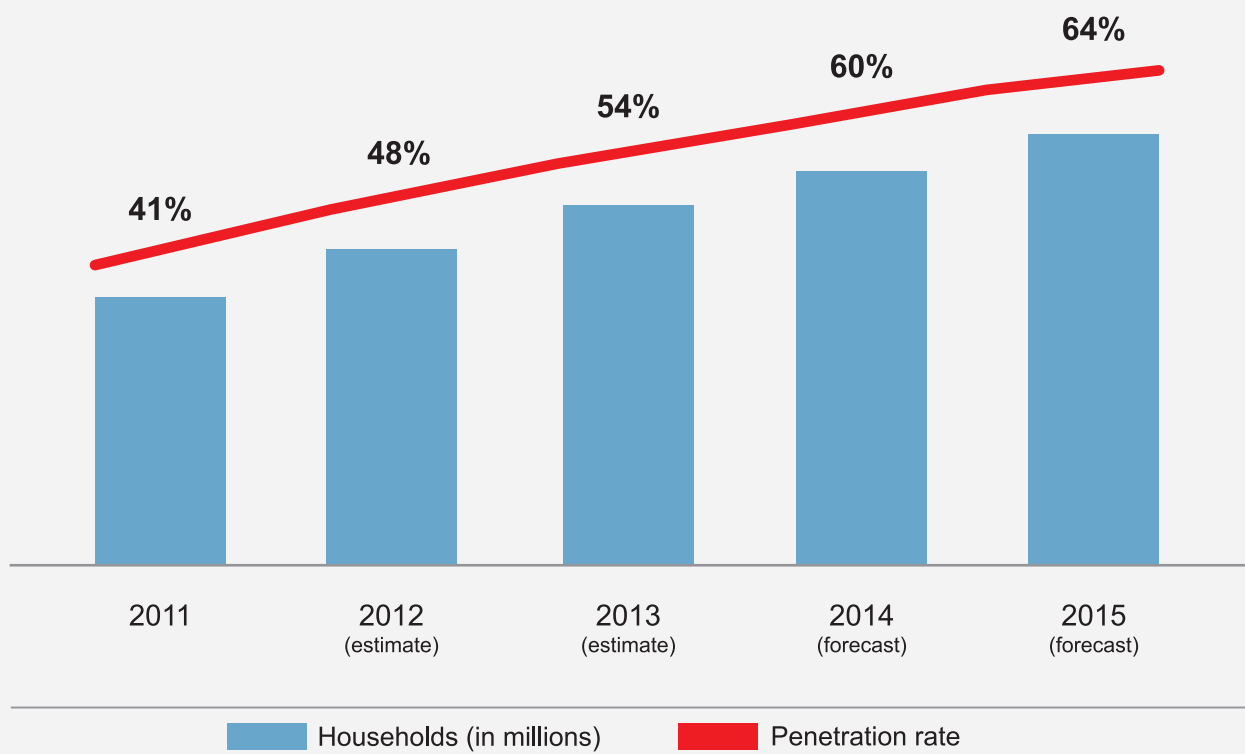
1.3 BROADBAND DEVELOPMENT

The year 2013 has been the tipping point for broadband in Russia since now more than 50% of households and approximately half of Internet users have broadband access. This provides an impetus to online video and a range of other online industries.

The increased penetration of PCs in the consumer segment promises significant additional growth. With the average cost of end devices continuing to decrease, the share of computers with Internet access is constantly growing.

Two other key drivers are the development of data networks with extended geographical coverage and a decrease in ISP rates.

TABLE 1-5 Broadband penetration in Russia (2011-2015)



Source: J'Son & Partners



1.4. MOBILE INTERNET

Apart from 2.5G which was already popular in the mid-2000s and provided a low-bandwidth substitute to landline Internet connections in lagging areas, mobile Internet took off only recently in Russia.

Virtually inexistent just five years ago, 3G is currently showing dramatic growth. The number of Russian mobile Internet users – including feature phone and smartphone owners – is estimated to be around 90 million this year.

Fast growth is expected to continue in the coming years since mobile Internet penetration is still significantly lower in Russia than in advanced countries.

While 3G network coverage is close to reaching completion and LTE is making its debut in Russia, another key driver of mobile Internet penetration is the growing success of smartphones and tablets on the domestic market. According to J'Son & Partners, the number of smartphone owners using mobile Internet services grew by 88% last year.

More than 16.5 million smartphone devices are expected to be sold in Russia this year, up 29% from 2012. In 2012, growth increased by 57% compared to 2011. J'son and Partners expects sales levels to reach 22.2 million in 2015, meaning an additional 32% growth.

Tablet sales are also booming, with 3.5 million units expected to be sold in 2013, up 40% in one year. In 2015, the number is forecast to reach six million, or 29% YoY growth, according to J'son & Partners.

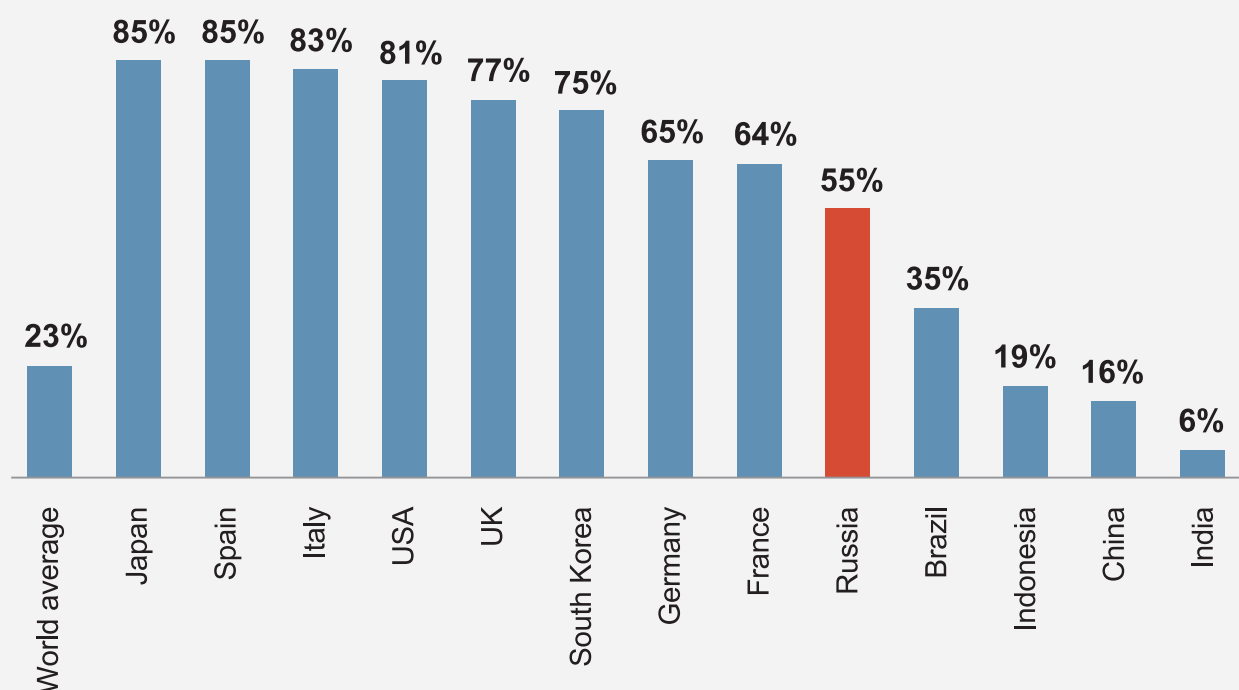
TABLE 1-6 **Mobile Internet penetration in Russia (2011-2015)**

	2011A	2012A	2013E	2014F	2015F
Number of mobile Internet users (monthly audience, in millions)	60.5	77.4	91.8	103.9	114.6
Penetration of mobile Internet users, %	43%	55%	65%	73%	81%
Mobile data (in Exabytes)	n/a	0.6	1.0	1.5	2.2

Source: J'son & Partners

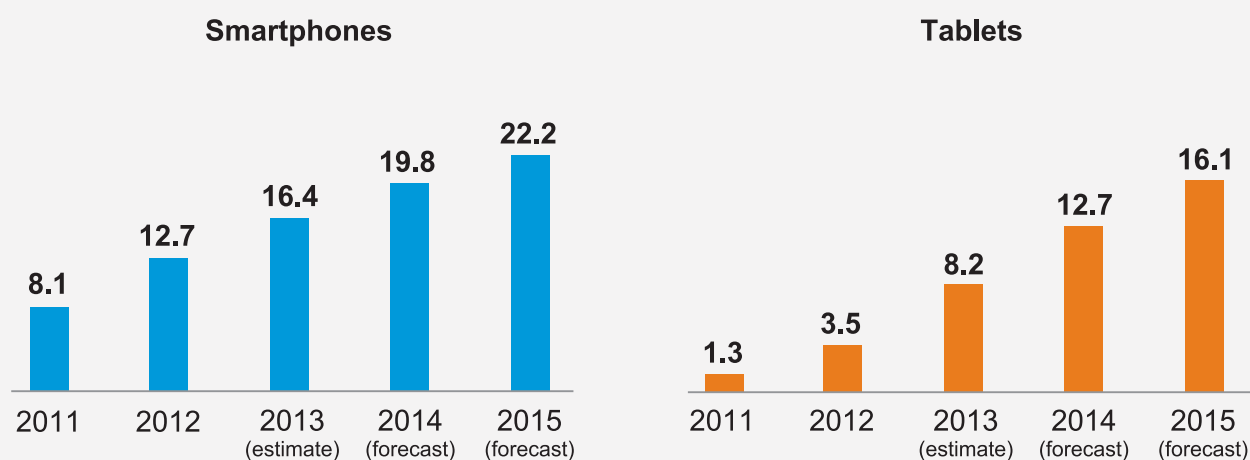


TABLE 1-7 Mobile Internet penetration in 2012: An international comparison



Sources: Informa, ITU, J'Son & Partners

TABLE 1-8 Smartphone and tablet sales in Russia (2011-2015, in million units)

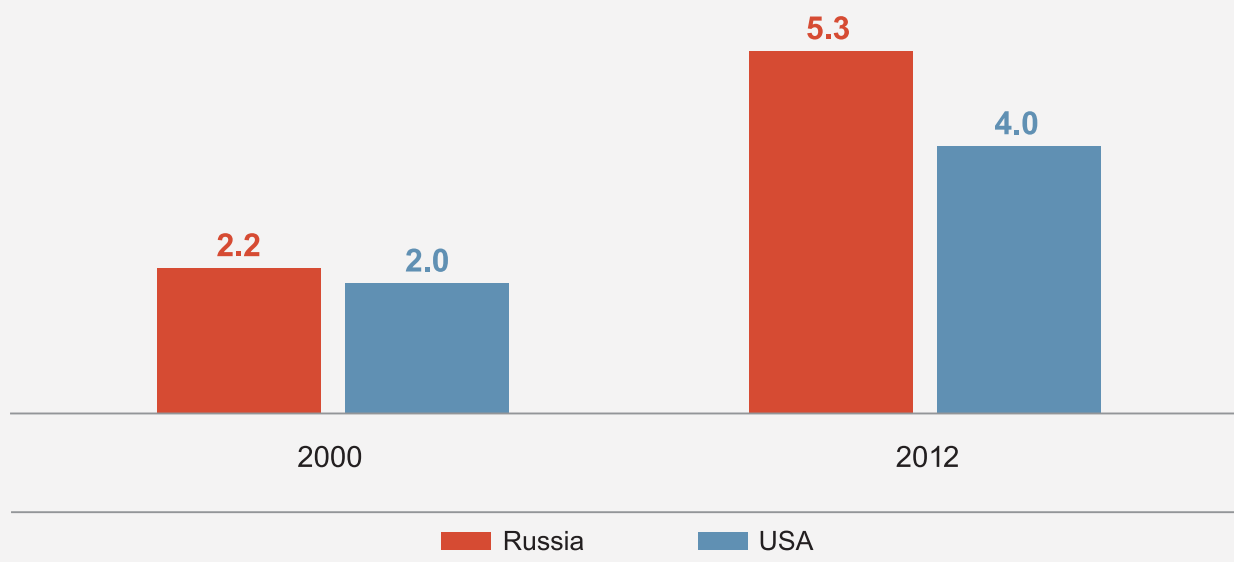


Source: J'son & Partners



TABLE 1-9

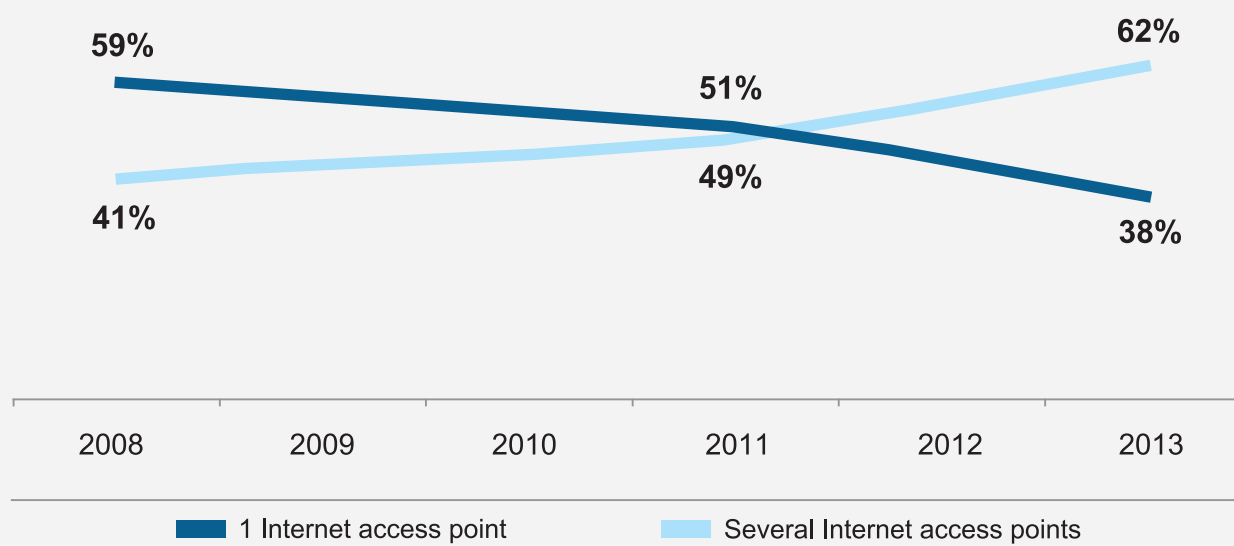
Number of devices with Internet access per Internet users in Russia and the USA (in million devices, 2000-2012)



Sources: MagnaGlobal from Yune & IPG Media report² (USA),
ACVI from TNS marketing index (Russia)

TABLE 1-10

Proportion of users with one or several devices with Internet access in Russia (2008-2012)



The video content category includes digital Pay TV, VOD, and online video

Source: J'Son & Partners

² "Are All Screens Created Equally," 2012



Online video in Russia

PART 2

MARKET OVERVIEW



2.1 FROM ORIGINS TO TAKE-OFF

Just like the Internet in general, online video started developing in Russia at a significant scale several years later than on Western markets. Virtually no online video existed before the end of 2006, whereas the first US services, such as YouTube, had already been thriving for years at that time.

The first notable initiative came in 2006 when the portal Mail.ru launched a video section, initially an UGC-only resource that did not get any traction for the first two years. Then entrepreneurs Oleg Volobuev and Mikhail Paulkin launched Rutube, a copycat of YouTube, which became instantly popular among the few hundred thousand Russians who had broadband Internet at that time.

It is important to note that in the fall of 2006, Rutube launched almost simultaneously with another copycat, VKontakte.ru. Inspired by Facebook, this site – now rebranded as VK.com – became Russia's leading social network, far exceeding its US model on the Russian market and a prime source of illegal content.¹

In early 2007, Egor Yakovlev founded the first video-on-demand (VOD) online portal with legal and high quality content, Tvigle.ru. A few months later, the company became the first in the industry in Russia to attract venture investors.

YouTube launched a local Russian version in late 2007.

TNS conducted the first measurement of the Russian online video audience in late 2008 and has become the most influential source of data among Russian advertisers until now. comScore introduced its own measurement in July 2011, when the audience reached 30 million unique users with a dozen sizeable players offering legal and professional quality video.

In late 2011, Gazprom-Media's creation of a media selling company dedicated to online video came as a notable sign of advertisers' interest in the nascent online video advertising market.

In September 2012, a \$40 million investment in ivi.ru involving both Russian and Western investors² showed that the Russian online video market had become a big player's game.

TABLE 2-1 The Russian online video industry in the life cycle curve

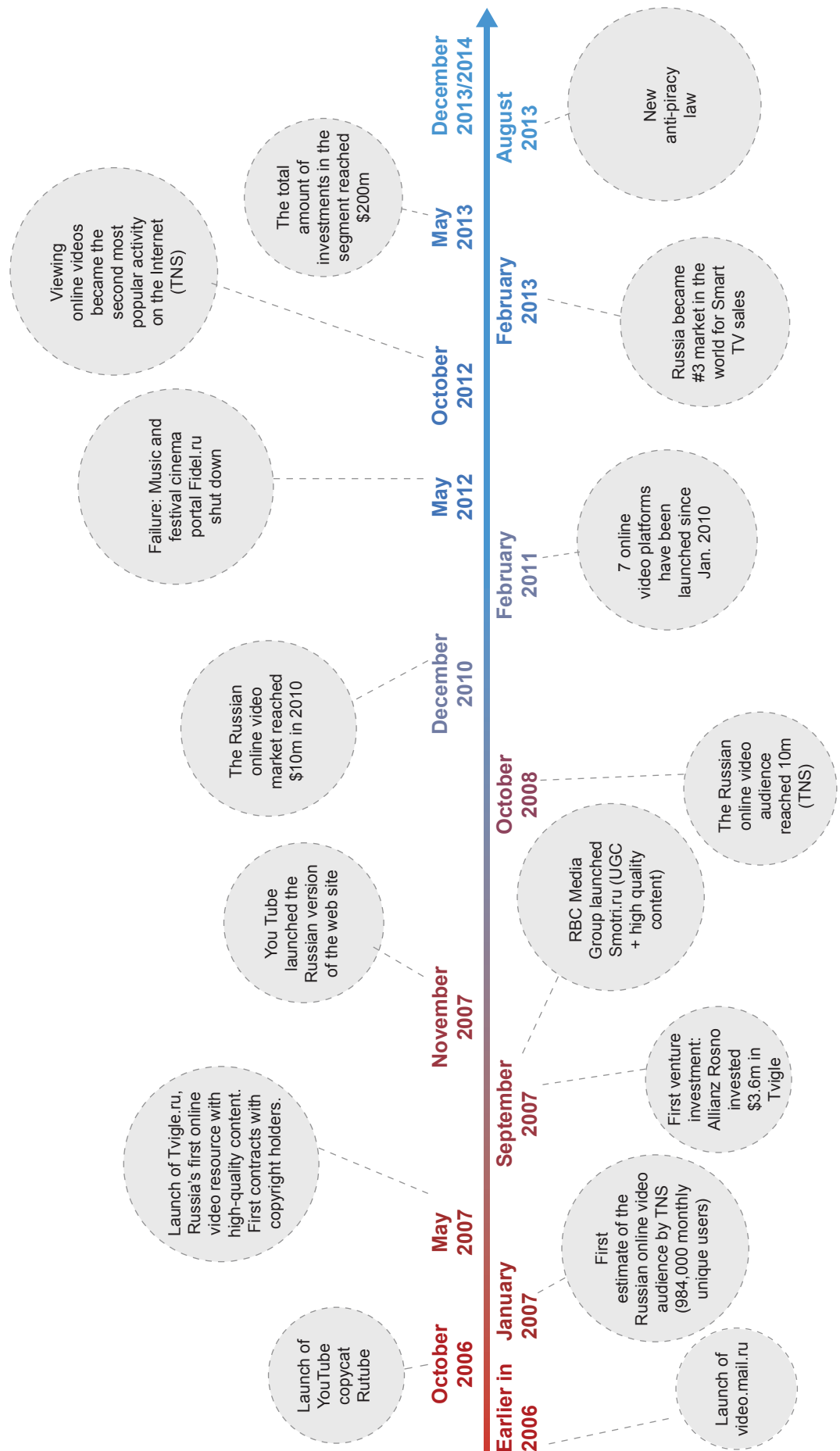


¹ As seen in Part 4, VKontakte's success was due in great part to the site's huge content library, where users could, until recently, access a virtually unlimited quantity of legal and illegal content, including music tracks and films. VKontakte started tackling this issue only recently under pressure from copyright owners and tightening legislation.

² <http://www.ewdn.com/2012/09/11/online-video-service-ivi-ru-secures-40-million-from-leading-russian-and-western-investors/>



THE RUSSIAN ONLINE VIDEO MARKET: TIMELINE (2006-2013)





2.2 KEY FACTS AND FIGURES

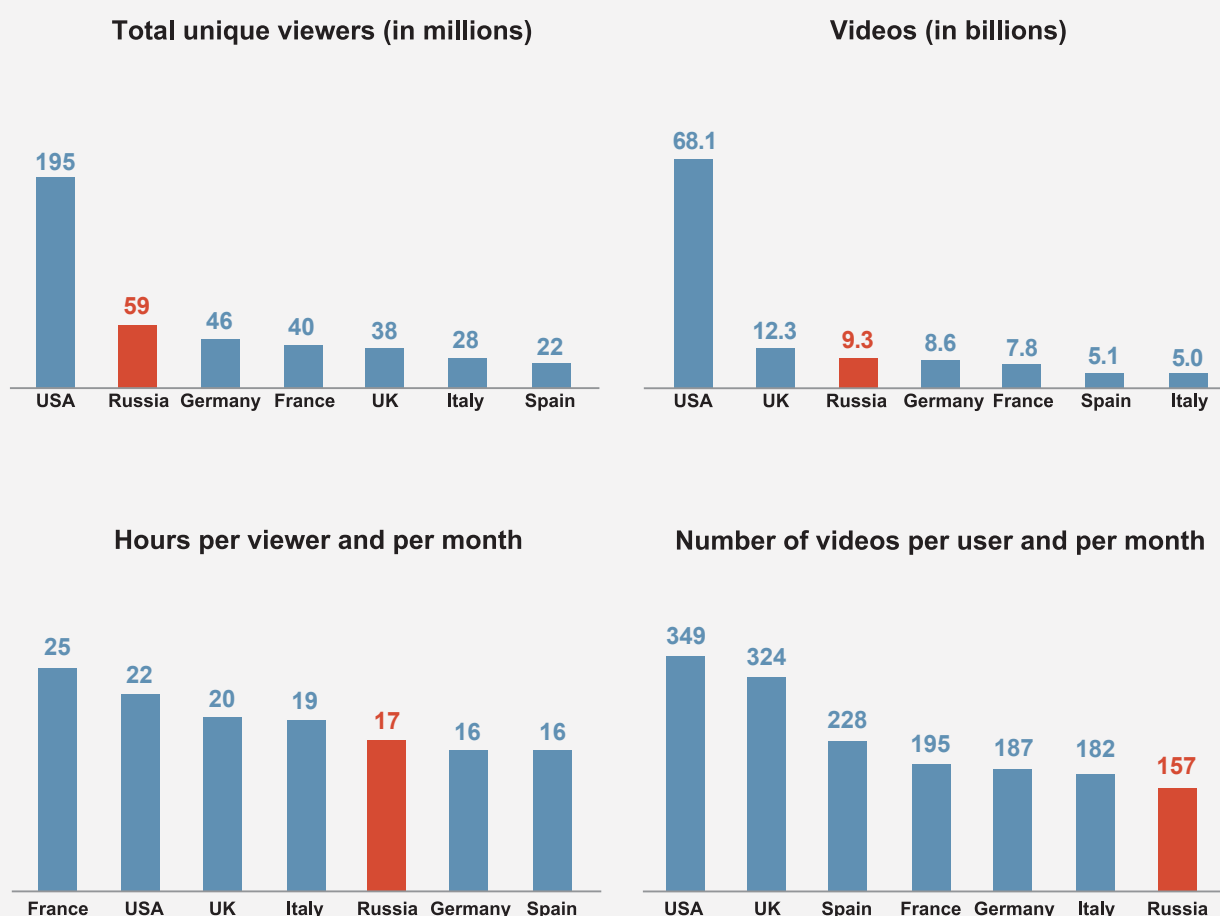
Current audience

With nearly 60 million monthly viewers in 2013, the Russian online video market is now emerging as one of the most important markets for electronic video content on the globe. comScore data indicates that the market ranks first in Europe in terms of unique video viewers and second in terms of monthly number of views.

The market has shown impressive growth in the past years based on several measures. The number of online video viewers grew by 18% to create a monthly audience of 59.4 million unique viewers in July 2013, according to comScore. In addition, the number of videos offered on Russian sites increased from 7.9 million to 9.1 million (16% growth) between June 2012 and June 2013.

Russian users, who generally adopt new media rapidly, switch to online video for numerous reasons. Many prefer online video since it provides flexibility as to when and where one can view content, as well as device and search convenience.

TABLE 2-2 Internet and online video penetration: International comparisons (as of July 2013)



Source: comScore Video Metrix, July 2013, 15+

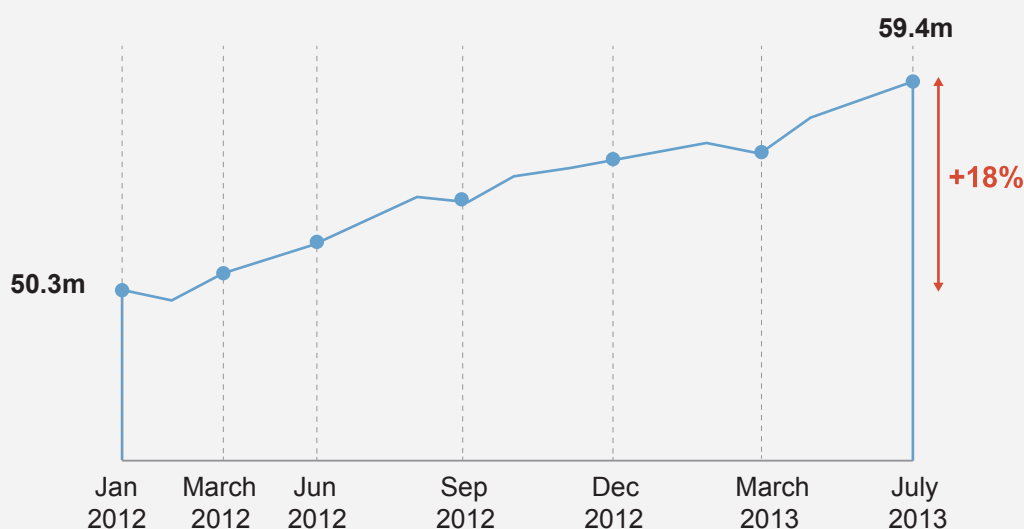


Each user watches on average 156 videos per month, with a mean viewing time of eight minutes per video. This number increased from 150 videos to 156 over the past year.

The average time spent watching online video content per viewer per month is now 17 hours. This figure could reach or exceed 30 hours by 2015 due to growing high-quality video consumption, increased use of mobile devices and Smart TV, and more long video assortment and consumption.³

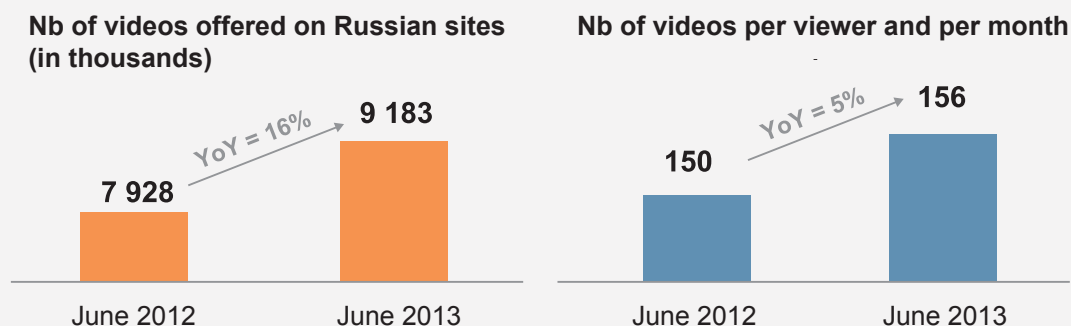
In 2012, online video viewing was the second most popular activity after social networking among Internet users in Russia, accounting for about 10% of total time spent online (TNS). The better part of consumption time is spent watching short videos (80%), while long videos make up 20% of views.

TABLE 2-3 Online video audience in Russia (million unique viewers)



Source: comScore Video Metrix, July 2013, 15+

TABLE 2-4 Online video consumption in Russia (2013/2012)



Source: comScore Video Metrix, July 2013, 15+



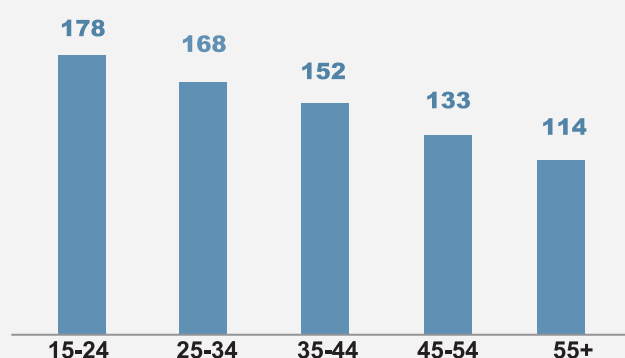
■ Segmentation by age and gender

In terms of segmentation by gender, 52% of online video viewers are women, with 44% of total views. Men comprise 48% of viewers. In terms of segmentation by age, users aged 15-24 account for 32% of viewers and 40% of all videos viewed. The most active group of viewers is teens and young adults aged 15-24 with about 178 videos per month on average.

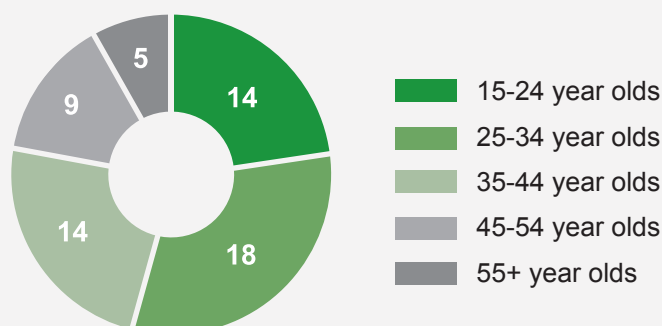
However, higher growth rates can be observed among older segments of the population that in the past were less active viewers of online video. (For example, the fastest growing segment is adults 55 years and older.) Viewing videos online is thus becoming a widespread phenomenon across all age groups, thus ensuring a larger overall audience in the future.

TABLE 2-5 Online video consumption in Russia (2012/2013)

Nb of videos per viewer and per month



Nb of unique viewers by age (in millions)

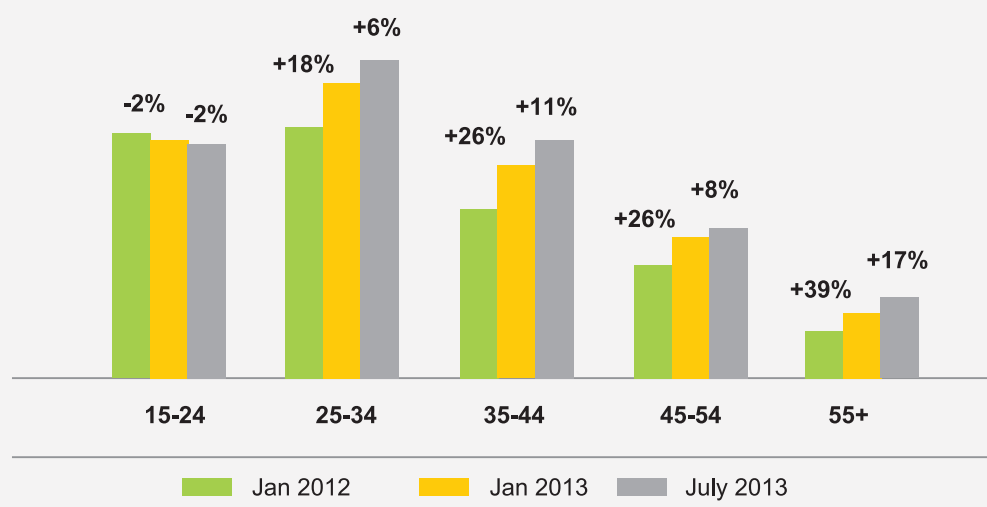


Source: comScore Video Metrix, July 2013, 15+

³ This trend could be particularly strong if viewers of live programs switch massively to online supports. A recent research by Ooyala (2012 Global Video Index), an Australia-based global analytics and video hosting service company, has shown that online video viewers spend five times more time watching live video than VOD.



TABLE 2-6 Online video audience by age



Source: comScore Video Metrix, July 2013, 15+

2.3. FORECAST

With 54% Internet penetration and 75% online video penetration in Q1 2013, these two measures are still significantly lower in Russia than in advanced countries,⁴ which suggests an important potential for the market to further develop.

The fast growing penetration of smartphones and Smart TV represents an additional market driver. While the number of smartphone owners using the mobile Internet almost doubled in 2012 (see Part 1), Smart TVs are making a promising debut. That same year, Russia stood as number three worldwide in terms of the number of devices sold, announcing a new field of opportunities for both advertisers and content owners.

Last but not least, in a country traditionally plagued by online piracy, the recent tightening of the legislation and legal practice in the field of online content will undoubtedly encourage market growth. Before the anti-piracy law, only 5% of content downloaded in Russia came from legal sources, while four out of five Russian Internet users viewed pirated video content.

Legal online video consumption will increase in the future as a result of the increasing availability of such content. A fraction of Russian viewers are already moving away from using pirated content since legal video portals provide a more diverse content assortment and an easy to use product that allows for a better user experience.

These factors are likely to drive rapid market growth, with an estimated 18% annual increase in the number of online video viewers and a 6% annual increase in videos per viewer until 2018. Meanwhile, the paid content and online advertising markets will be boosted by growth in online video inventories.

⁴ The online video penetration rates approach 85% in such countries as the UK, France, and Japan (comScore Video Metrix, Dec. 2012).



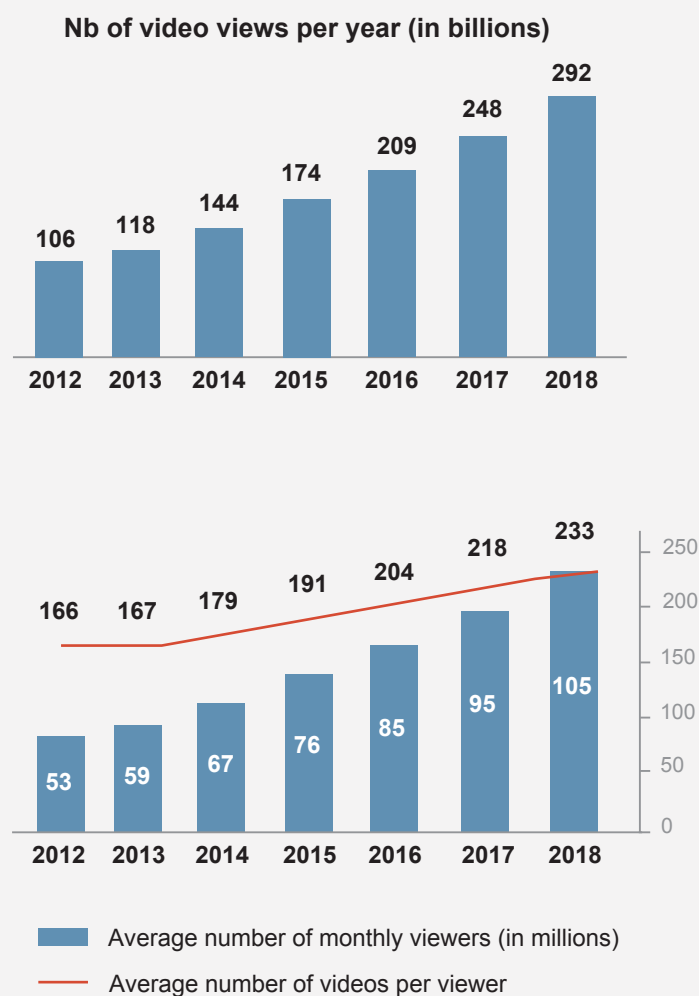
TABLE 2-7 Internet and online video penetration in Russia (2010-2018)

Indicator	2010	2013	2014	2015	2016	2017	2018	CAGR 18/12
Population *	143	143	143	143	143	143	143	0%
Internet users *	45	77	86	95	103	112	121	10%
Internet penetration, %	31%	54%	60%	66%	73%	79%	85%	
Video audience *	27	58	66	75	84	93	103	13%
Online video penetration, %	60%	75%	77%	79%	81%	83%	85%	

* In millions

For 2012 and 2013, the data is based on average Q1 figures.
Sources: comScore, Global Insight, J'son & Partners + Tvigle estimates.

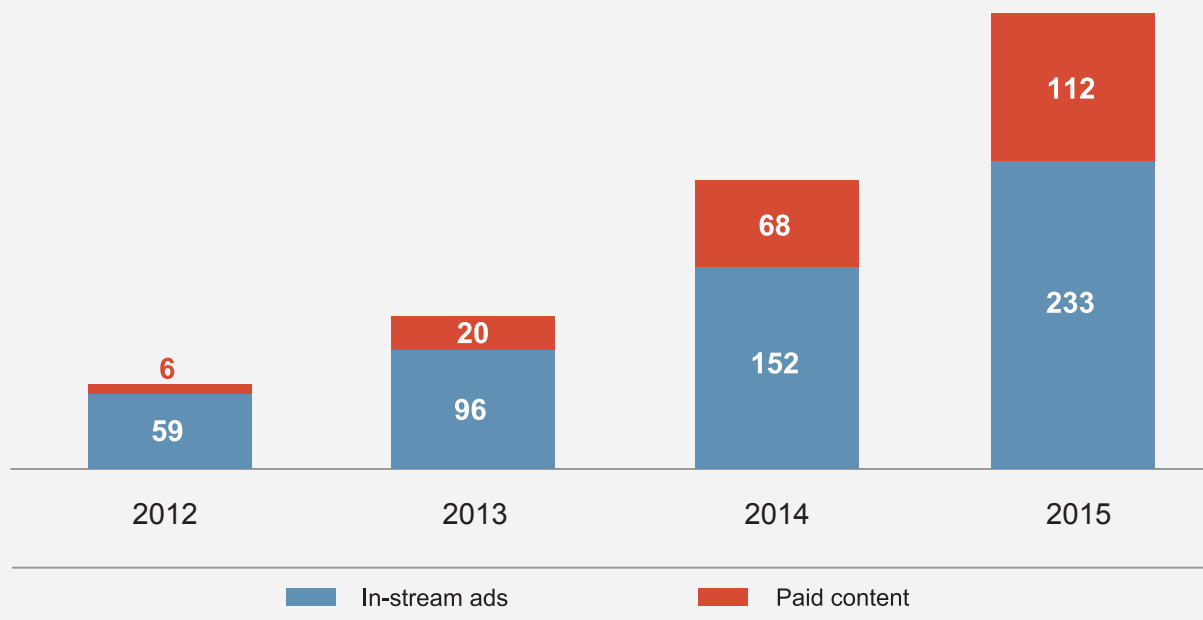
TABLE 2-8 Online video market volume forecast (2012-2018)



EWDN estimate based on data and expert opinion
from comScore, J'son & Partners, Tvigle



TABLE 2-9 The Russian in-stream ad and paid content markets (in million USD, 2012-2015)



Source: EWDN estimate based on data or expert opinion from AKAR, AEGIS, Google, GPMD, IMHO, J'son & Partners, Mail.ru, Tvigle.

A series of **in-depth reports** on Russia's **hottest industry topics**



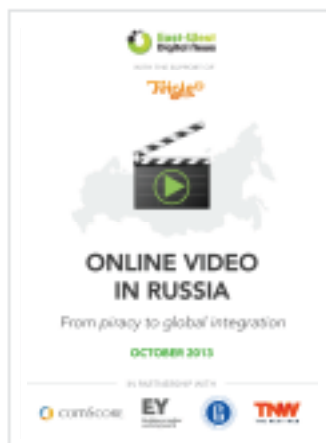
• "E-commerce in Russia"

What retailers, entrepreneurs and investors need to know to succeed in one of the world's fastest growing markets

10 chapters, 330 pages (paid report)

Updated edition released in Oct. 2013

+ Special report on cross-border sales scheduled for release in Nov. 2013



• "Online video in Russia"

The first-ever report on a market that is emerging in a new legal and business environment.

8 chapters, 100 pages

Free report released in Oct. 2013



• "Payment and banking technologies"

This study will analyze the current trends and issues in these industries, identify players' needs, and highlight their experiences. It will also provide insights into Russia's little-known but vibrant startup scene in the field of financial technologies.

15 chapters, 300 pages – Paid report scheduled for release in mid 2014

To receive these reports or executive summaries at no charge,
please contact us at report@edwn.com



Online video in Russia

PART 3

ONLINE VIDEO CHANNELS



3.1. THE MOBILE VIDEO MARKET

In 2012, as mobile Internet penetration was growing dramatically (see Part 1) an estimated 20 million Russian mobile Internet users viewed videos on their mobile devices. This figure represented almost half the total number of mobile Internet users and 90% of those using smartphones to access the Internet.

Even though feature phones represented the largest proportion of mobile Internet users in 2012, smartphone use is growing extremely quickly. The number of smartphone owners using mobile Internet services on a monthly basis reached 22.5 million in 2012, up 88% from 2011, according to J&P.

Over the last three years, the audience of Russian mobile video has shown a 39-fold increase, J&P reported. This audience is expected to continue to increase by more than 30% annually.

Interestingly, smartphone owners watch mobile video less frequently than tablet owners, according to the analysis by J&P experts.

TABLE 3-1 **Mobile video market demography: A Russia-US comparison**

	<i>USA</i>	<i>Russia</i>
Demography	2012	2012
Population	315	143
Internet users (daily)	245	68
Internet penetration	78%	48%
Online video viewers	179	50
% of internet users	73%	74%
% of population	57%	35%
Mobile internet users	144	36
% of internet users	59%	52%
% of population	46%	25%
Mobile video viewers	73	20
% of internet users	51%	55%
% of online video viewers	41%	39%

Source: Global Insight, eMarketer, ITU, J'Son & Partners



TABLE 3-2 Mobile online video market demography forecast

Indicator	2010	2012	2015	2018	CAGR 18/12
Video audience *	27	50	75	103	12.8%
% of internet users	60%	74%	79%	85%	
Mobile internet subscribers (SIM) *	47	77	115	128	8.8%
% population	33%	54%	80%	90%	
Mobile Internet users *	13	36	75	109	20.5%
% of subscribers	28%	46%	66%	85%	
Mobile video viewers *	3	20	55	98	30.7%
% of mobile internet users	20%	55%	73%	90%	
% of video audience	10%	39%	73%	95%	

* In millions

Source: Global insight, ITU, J&P, mobiThinking, EWDN forecast

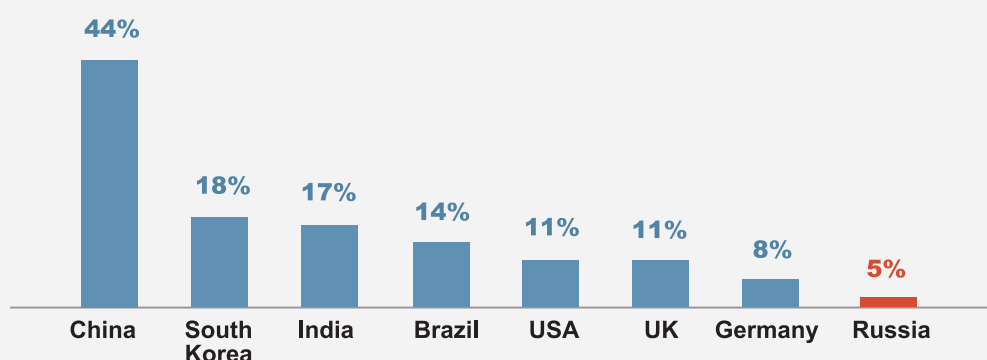
3.2. SMART TV¹

Russia is number three in the world in terms of Smart TVs sales, and the market is growing rapidly. While currently up to 30% of TVs sold in 2012 are Smart TVs, this share could reach 100% in 2018, as the average lifetime of TV is about six years.

Despite such rapid growth, the Smart TV penetration rate in Russia hovers around the 5% level, while in advanced markets this figure may reach 20% or even 40%.

Among the main market drivers, J&P experts cite the high level of broadband penetration in major cities, increasing and successful development of different OTT-services, and the dramatic decrease in the cost of Smart TVs.

TABLE 3-3 Smart TV penetration in Russia and other countries (as a percentage of total TV devices, 2012)



Source: GfK Group Research, Dec. 2012

¹ Smart TVs are TV sets with a broadband Internet connection



PART 3 | ONLINE VIDEO CHANNELS

800,000 Smart TV devices were sold in Russia in 2012, while more than 5 million devices are expected to be sold in 2018, which represents a 40% annual growth rate. As such, the total stock of Smart TV devices in 2018 is expected to reach 32 million or 31% of total TV devices (103 million), based on J'son & Partners' data and EWDN's estimates.

To address this rapid growth, all major online video players have installed applications for the main modules of Smart TVs. There were about 640 applications as of the first semester of 2013, up 50% from the previous year.

As of now, only one out of every three owners of a Smart TV device is using all functional features of the device, which also leaves room for growth in the online video market.

In conclusion, it seems inevitable that video consumption habits will become more sophisticated and migrate to connected devices. While advertisers will benefit from new opportunities for advanced targeting, publishers will find a way to monetize higher volumes of content through paid services.

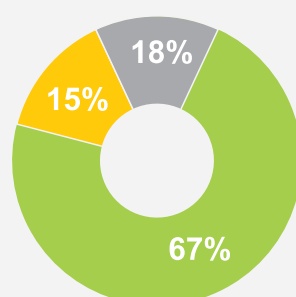
TABLE 3-4 The Smart TV market in Russia

Indicator	2011	2012	2013	2014	2015	2016	2017	2018	CAGR 18/12
Population *	143	143	143	143	143	143	143	143	0.0%
Total nb of TV in Russia *	91	93	96	98	100	101	102	103	1.7%
TV penetration, %	63%	65%	67%	69%	70%	71%	72%	73%	
Smart TV penetration *	1.1	2.4	4.2	6.6	9.9	17.2	24.6	32.1	54.0%
Smart TV penetration, %	1%	3%	4%	7%	10%	17%	24%	31%	

* In millions

Source: J'son & Partners, Tvigle, EWDN estimates

TABLE 3-5 Current online video consumption by channel for Russian online cinemas



Web

Mobile

Smart TV



Online video in Russia

PART 4

THE PIRACY ISSUE



INTRODUCTION

Until recently, Russia's reputation as a haven for pirated content has been deserved to a large extent. The following facts and figures illustrate the scale and seriousness of the issue:

- In 2012, five billion online video views involved pirated content¹;
- In 2011-2012, more than one million unique video file copies were detected, according to ICM, a Russian-Ukrainian specialized consultancy;
- The damage to Russian and foreign TV companies has been estimated at billions of US dollars²;
- Nearly 6,000 Russian language websites with illegal content were identified in 2012 (+58% YoY) by ICM. Ten percent of these websites are considered highly active and almost 4,000 of them had more than two million copies of films.
- The top 50 websites with pirated content are generating about 93% of total links to pirated content and 99% of total pirated traffic (ICM 2012);
- Online piracy accounted for 37% of the total distribution of pirated films in 2012, up from 15% in 2010.

At the same time it is worth noting that about 65% of all websites with Russian language content are located outside of Russia (12% are in Ukraine, for example). Identifying the owners of sites with pirated content and their location is thus a major problem. This information is often hidden or under jurisdiction of another country.



Ernst and Young's IP team in Russia contributed to the discussion of legal issues in this article:

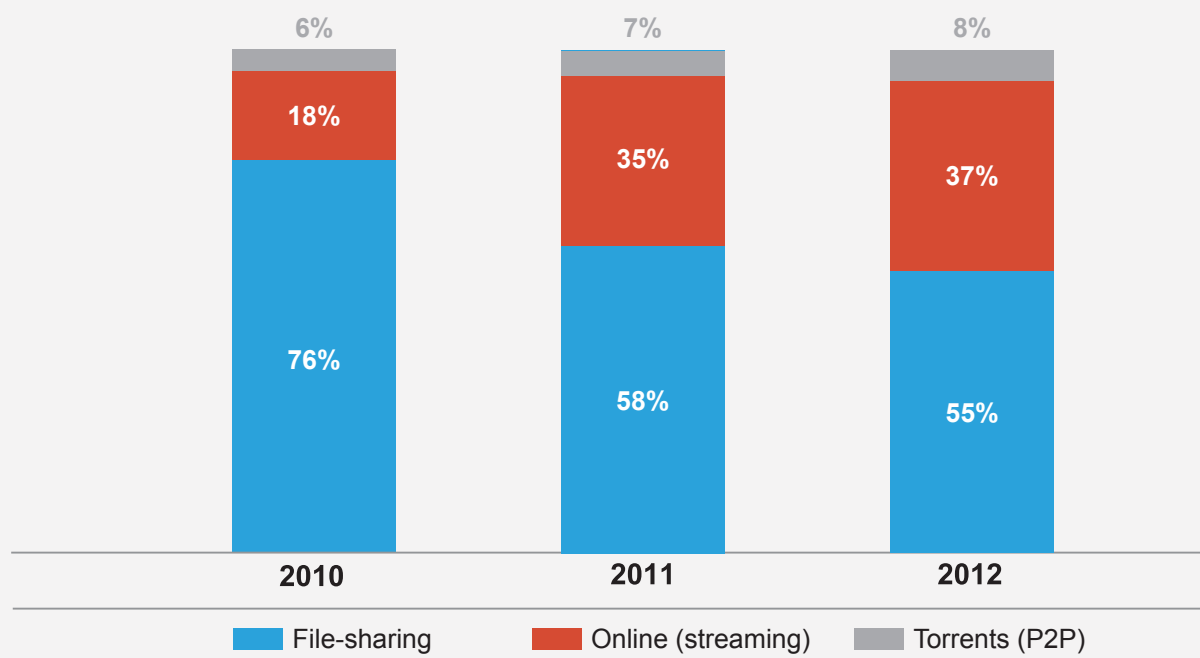
- **Igor Nevzorov**, Head of EY IP protection group, PhD (Law), Senior manager, specializing in complex intellectual property protection issues, IP litigation, IP legislation doctrinal analysis, and international comparison;
- **Alexandra Chekareva**, Senior lawyer, LLM;
- **Anastasia Kuznetsova**, Lawyer.

¹ EWDN estimate based on data and expert opinion by Tvigle and ICM, a Russian-Ukrainian specialized consultancy

² <http://genproc.gov.ru/smi/news/news-73726>

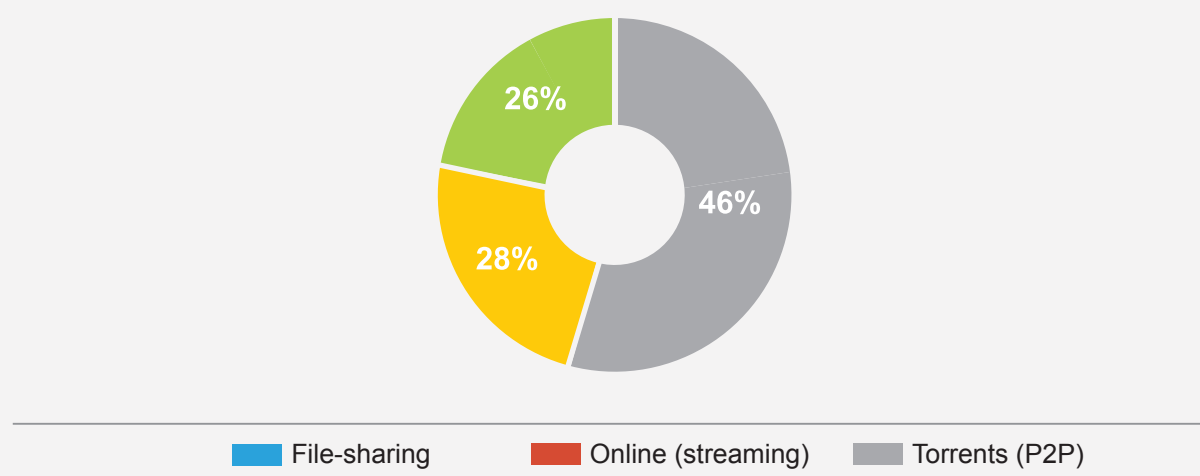


TABLE 4-1 Distribution of pirated Russian language film copies



Source: ICM 2012

TABLE 4-2 Links to pirated Russian-language video content



Source: ICM 2012



TABLE 4-3

The top 10 websites in Russia deemed to contain illegal videos by number of copies distributed in 2012

Ranking	WebSite
1	VK.com (Vkontakte.ru)
2	Letitbit.net
3	Torrentino.com
4	Vip-file.com
5	Rapidshare.com
6	Shareflare.net
7	Turbobit.net
8	Unibytes.com
9	Rapidgator.net
10	Sms4file.com

Source: IMC 2012

4.1 INSUFFICIENT LEGAL FRAMEWORK AND PRACTICE BEFORE 2013

While some other countries (such as the United States with DMCA) had already developed a framework to supply intellectual property owners with a legal mechanism to ensure timely and effective restraint of infringements, until 2013 Russia only had copyright legislation drafted before the country entered the information technology era.

"Russian legislation provided the same rights to copyright holders as legislation in European countries and the US. Any use of copyrighted materials, if not legally acknowledged by the copyright owner, including replication in any form, a record in computer memory, publication and dissemination in any form, was a violation of copyright. This violation entailed liability in accordance with both the Russian Civil and Criminal Codes," noted Anna Gutnikova, a specialized lawyer and professor at Moscow's Higher School of Economics.

The country, however, lacked specific legislation on the protection of intellectual property rights on the Internet. Copyrights – including in the field of video content – were protected based on general principles, which failed to provide sufficient legal means to support immediate termination of online infringements³ despite an increase in case law.

Whenever copyright holders tried to have infringements removed from Internet sites, it was very difficult for them to prove the committed infringement in court.

"Russian law-enforcement agencies simply didn't know what kind of evidence was sufficient to prove a copyright violation on the Internet and who was ultimately responsible for watching over Internet content or social networks for questionable materials or outright piracy," Gutnikova added.

³ http://www.obs.coe.int/oea_publ/iris/iris_plus/iplus1LA_2012.pdf.en



However, following a 2005 court case, a Russian website was shut down based on the claim of foreign copyright holder for the first time. In the subsequent years, several dozen Russian websites were suspended in connection with copyright violations. In many cases, criminal cases were engaged against the persons responsible for these websites.

Russia's legal practice tightened noticeably starting in 2011. In January of that year, for the first time, a criminal case was opened against a 26 year-old Muscovite for having "replicated and disseminated" 18 copyrighted music recordings via his personal page on a major Russian social network.⁴

According to ICM, 49% of Russian-language websites deleted litigious content in 2012, up from 39% in 2011, due to an increasing number of copyright holders' claims against websites or hosting providers.

■ International pressure

The scale of digital copyright piracy in Russia became the object of international concern. In March 2011, the Office of the United States Trade Representative (USTR) made public a list of 30 Internet and physical markets in various countries that "have been the subject of enforcement action connected with counterfeiting and piracy, or may merit further investigation for possible intellectual property rights (IPR) infringements." Several Russian websites, including major social network VKontakte.ru and torrent portal Rutracker.org, were explicitly named since they "[permitted] users to provide access to allegedly infringing materials."⁵

Meanwhile, the US-based International Intellectual Property Alliance (IIPA) assessed the level of online and physical piracy as having reached 'critical levels' in Russia and several other countries.⁶

In late 2012, while the USTR still listed Rutracker and VKontakte as serial offenders,⁷ the Russian and US governments signed an agreement that contained an action plan to protect intellectual property rights. The agreement required both parties to fight online piracy, close websites hosting litigious content, allocate funds for anti-piracy enforcement measures, and coordinate efforts towards these ends. Russia committed itself to altering its current legislation – particularly regarding providers' responsibility for copyright infringement – and also to consulting with American authorities about the strengthening administrative sanctions against piracy.⁸

Russia's accession to the WTO has also played a role in increasing legal protections for copyright holders. In particular, the Russian government now fully applies the provisions of the

WTO Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS), including the provisions on enforcement, without recourse to any transitional period.

■ The role of copyright owner associations

The last years were also marked by the increasing activity of Russian copyright holder associations in order to protect the copyrights of their members.

Among these associations is the Russian Authors' Society (RAO), which was created in 1993 by authors for copyright and intellectual property protection. RAO focuses on management of copyrights on a collective basis in cases when their practical implementation in an individual

⁴ <http://www.ewdn.com/2011/01/21/first-criminal-case-for-copyright-violation-on-a-leading-social-network-opened/>

⁵ <http://www.ewdn.com/2011/03/02/two-leading-russian-sites-blacklisted-by-us-government-for-piracy/>

⁶ <http://www.ewdn.com/2013/02/20/piracy-in-russia-s-music-market-eclipses-legitimate-sector-riaa/>

⁷ <http://www.ewdn.com/2012/12/19/us-frowns-on-global-ip-infringement-russia-s-vkontakte-and-rutracker-still-listed-as-serial-offenders/>

⁸ <http://www.ewdn.com/2012/12/27/us-russia-agree-anti-piracy-plan/>



order is complicated. At the moment, RAO has 182 reciprocal representation contracts with 117 Societies from 68 countries protecting copyrights of their members in Russia. RAO is a member of the International Confederation of Societies of Authors (CISAC).

The Russian Organization for Intellectual Property (VOIS) is an all-Russian non-governmental organization that provides collective management for related rights. VOIS was established in 2008 and specializes in the protection of IP rights for music and recordings. Today VOIS unites more than 3,000 performers and hundreds of record-labels with different music styles. Furthermore, VOIS is the only organization that has the right to act on behalf of an unlimited number of performers and phonogram producers and to collect and distribute money to right-owners.

4.2. THE 2013 ANTI-PIRACY LAW

The year 2013 came as a legal boundary between old and new legislation aimed at combating the Internet piracy phenomenon.

A new law¹ was passed in July 2013 as a result of long discussions in the Russian and international business communities about the dominance of Internet piracy in Russia. The last straw was a petition repeating these concerns that was signed by Russian filmmakers and sent directly to President Vladimir Putin. Proposed to the Parliament and passed in less than three weeks, the bill came into effect on August 1.²

The law allows a Moscow Court³ to temporary block access to any illegal content as well as to hyperlinks to such content based on a Court's decision. Any website hosting illegal video content can be blocked by the Court – based on a well-documented complaint prepared by the copyright holder – as a provisional measure before a hearing on the merits and a ruling on the legality of the complaint.

In its current version, the law only applies to video content displayed on the Internet. It could be extended later to other types of content, but this has yet to be confirmed.

Copyright holders hailed the bill: “We welcome the new anti-piracy law because it demonstrates the government’s efforts to regulate this domain,” Angela Yakovleva of Fox International Channels told East-West Digital News.

However, several leading Internet players and their associations, sharply criticized the new law⁴, trying to persuade legislators to consider rewording it.

One of the controversial rules is that the anti-piracy law can be deemed as formally overreaching the presumption of innocence, allowing the Court to block any website without preliminary investigation.

However, the procedure is so strict, detailed, and formalized that sites cannot be easily blocked. As a matter of fact, just three out of 56 applications over two months have led to such an outcome.

The law targets not only copyright infringers, who illegitimately publish content on their own or third party websites. Also concerned are “information agents,”⁵ which are defined as agents enabling the publication of litigious materials or providing access to them.

¹ Federal law of July 2 2013 #187-FZ “On amending certain legislative acts on intellectual rights protection in information and telecommunication networks”

² <http://www.ewdn.com/2013/08/09/russias-anti-piracy-law-comes-into-effect-key-players-and-analysts-divided-on-its-impact/>

³ A single court in Moscow will rule on all copyright-related complaints in Russia.

⁴ <http://www.ewdn.com/2013/06/26/new-anti-piracy-law-for-video-content-shocks-the-industry/>

⁵ In Russian: “Informationnye posredniki”



Critics of the law expressed fears that this may theoretically apply to any entity that simply posts or displays links to a third-party resource with illegal materials.

However, the first cases have shown, thus far, that such fears were exaggerated. According to the law – and in line with the existing related legislation and practice – the responsibility of these “information agents” for infringements may only be raised under more restrictive conditions, and in a milder way, than that of the copyright infringers themselves.

The law is likely to be adapted in the future based on court practice, allowing the new legal mechanisms to be applied efficiently and uniformly.

In September, a number of copyright holders and leading websites (including those potentially considered as “information agents”) signed a memorandum to “actively collaborate for the development of a legitimate Internet environment” and “to put a halt to infringements of exclusive rights.”

■ Fine-tuning the law

Amendments to the law seemed likely to be made through a working group that was created with the participation of both authorities and industry representatives.⁶

“I am ready to look into this and see because it is really a very important thing. Intellectual property rights must be ensured, but this cannot be overdone, so as to not kill the Internet,” President Putin stated.

Introducing a new version of the law for discussion in the parliament in mid-September 2013, Deputy Robert Shlegel stated that the anti-piracy law did work but that its implementation should be corrected and extended. The new version applies to all kinds of copyrights and neighboring rights, from video to music, to literary content, to software. New rules are proposed on how to apply the procedures to information agents and remove illegal content.

While the Moscow Court will continue settling disputes regarding video content, the Intellectual Property Court – a new body established on July 1, 2013 – will handle those cases concerning other types of intellectual property rights.

4.3. EXPECTED IMPACT ON THE INDUSTRY

Cases in which copyright owners complained to the courts about websites with illegal content instantly appeared after the adoption of the law. In a mere few weeks, the Moscow Court had received 56 complaints, for more than 30 of which Court granted proper injunctions. In most cases, the sites removed the controversial content even before being blocked by Roskomnadzor, the federal supervision agency for telecommunications and information technologies.⁷

Three weeks after the law came into force, opensharing.org was the first site to have illegal content blocked.

A case⁸ related to the “Game of Thrones” created a precedent when the court issued an injunction to block access to the content on several illegal online video portals and torrent trackers.

⁶ <http://www.ewdn.com/2013/09/10/kremlin-meets-with-internet-industry-leaders-to-discuss-self-regulation/>

⁷ <http://rkn.gov.ru/eng/>

⁸ <http://roem.ru/2013/08/20/akopov78755/>



“Websites have become slightly more open and more quickly delete more illegal content. If a claim says that the website will be sued in accordance with the new law, the websites are more tractable,” said ICM’s Administrative Director Georgiy Chomakhashvili in an exchange with EWDN a few weeks after the law was enacted.

“Industry players are now observing how the law is actually being enforced with its brand new procedures. The first court cases⁹ will serve as indicators for others on how to further proceed. Some are suing many websites for one or a couple of films, while others sue one or many websites at a time with a claim covering many more films,” Chomakhashvili noted.

Beyond these first cases, the new law has far-reaching potential impact on the online video industry:

- The online video market is moving towards international standards and becoming more law-abiding;
- Five billion views previously attributed to pirated content will partially move to licensed video, thus enhancing the revenues of market players;
- Video consumption via online channels is likely to increase, which will create a positive environment for content legalization due to easier piracy control, even though torrents will still be difficult to control;
- The market will become more open and less risky for right owners leading to more content available for online video providers;
- Content owners might be more flexible in content distribution contracts due to increased consumption and anti-piracy actions; therefore, the time between the public premiere of the film/series and the legal online distribution should decrease;
- Investors’ interests in legal video platforms will be renewed;
- Market players could scale their content assortment to meet users’ needs since they will lack access to pirated content; therefore, competition for the best content will increase;
- More advertising budgets from traditional channels could shift to online video as video consumption grows.

However, such effects are may appear only progressively. “It will take some time for the anti-piracy process to take shape,” said Yakovleva. “Still the new law is definitely a milestone in creating a legitimate content exploitation business in Russia, and the fact that it has opened discussion between all players — regulators, content owners and video sites — is in itself very promising.”

⁹ http://mos-gorsud.ru/inf/inf/zpo/?year=HH010_year2013&sf0=19.08&sf1=&sf2=&sf3=&sf4=&sf5= http://mos-gorsud.ru/sudz/ferst_instance/first_gd_hearing/?sf0=18.09.2013&sf1=&sf2=&sf3=&sf4=&sf5=&sf6=&sf7=&sf8= http://mos-gorsud.ru/inf/inf/zpo/?year=HH010_year2013&sf0=21.08&sf1=&sf2=&sf3=&sf4=&sf5=



Online video in Russia

PART 5

MARKET PLAYERS



5.1 THE RUSSIAN ONLINE VIDEO LANDSCAPE

The market already has seven years of history, but the last three years have been the most active. In 2013, there were more than 20 legal VOD Internet services in Russia.¹

Tvigle's leadership among non-UGC sites can be attributed to its extensive network of partner sites that display content from Tvigle's platform. Another player, Molodejj.tv, is developing a similar business model, distributing its content not only on its own site but also through its partners.

The audience in such growing segments as Smart TVs and mobile devices is thus far not included in these measurements, which may distort market representations.

International players are beginning to show interest in the online video market in Russia. At the end of 2011, Ukrainian online film site Megogo entered the Russian market. In 2012, the international broadcasting group Modern Times Group (Viasat brand) expanded its Viaplay online pay-TV service to Russia², while that same year international heavyweights iTunes³ and Play Store (Google Play) began selling media content in Russia.

Other US market leaders are also interested in the Russian market. In August 2013, online retailer Amazon applied to register the trademark "Amazon Instant Video" with the Russian patent office – a sign of a potential market entry in the near future⁴. The Amazon Instant Video service allows users to buy movies and TV shows for viewing on computers, tablets, and other devices. Thus far, the service has been available to users in the US, Canada, and several other countries, but not in Russia.

In 2012, representatives of Hulu.com visited Moscow to meet local Russian online video and movie players, considering a potential entry on the Russian market. "Hulu is seriously considering a potential entry on the Russian market, but their questions so far reveal a rather weak understanding of local conditions," a market player said at the time to the Russian media.⁵

Netflix, another major video service operating in the US, Canada, Latin America, the UK, and Ireland, also visited Moscow that same year to explore market potential.

At the same time, due to increased competition and the capital-intensive nature of this business, not all players are able to survive or even reach break even. For example, VOD site Fidel shut down in 2012, the first such case on the Russian market. Fidel focused mainly on music but also sold movies (mainly festival films).

Not all players are pure video portals.

- Some groups combine several portals and Internet resources, including a video one (Mail.ru Group, Yandex, Gazprom Media, Google)
- Some online video players combine their own portal with a partner networks (Tvigle, Molodejj.tv)

Professional VOD market players can be split into groups depending on their founders or backers. This factor significantly affects their content strategy, distribution channels, business models, and project management in general.

¹ The number of players fluctuates, with new ones entering the market while some existing sites leave the market, or change their strategy.

² <http://news.cision.com/mtg/r/mtg-launches-viaplay-online-pay-tv-service-in-russia,c9242372>

³ <http://www.ewdn.com/2012/12/06/itunes-launches-in-russia-music-tracks-run-at-half-of-us-price/>

⁴ <http://www.ewdn.com/2013/08/22/amazon-preparing-to-launch-online-video-service-in-russia/>

⁵ <http://www.ewdn.com/2012/02/14/hulu-com-considers-entering-the-russian-market/>

TABLE 5-1 **Ranking of Russian online video players by audience and volume (June 2013)**

Ranking	Players	Audience*	Video streams**	Videos per viewer
1	Google Sites	54.0	3,740	69
2	Mail.ru Group	33.6	791	24
3	Gazprom Media	15.9	106	7
4	Yandex Sites	15.0	81	5
5	Twigle.ru	9.2	104	11
6	Vimeo	9.0	30	3
7	Viacom Digital	6.2	16	3
8	Smotri.com	6.0	46	8
9	ivi.ru	5.3	76	14
10	Zoomby.ru	4.9	23	5
11	Molodejj.tv	4.8	103	22
12	Planeta-online.tv	2.8	14	5
13	Tvzavr.ru	2.2	11	5

Note: Although not mentioned in the above rating, VKontakte.ru (VK.com) has been historically the largest video resource after YouTube. Its popularity was due to the considerable amount of content, including illegal content, made available on the site.

Source: comScore Video Metrix, June 2013, Age 15+

TABLE 5-2 **Ranking of Russian online video players by audience, excluding UGC sites**

Ranking	Online video players with legal professional content	Audience*
1	Twigle.ru	8.0
2	Videomore.ru	4.0
3	Molodejj.tv	4.0
4	Zoomby.ru	3.7
5	ivi.ru	3.3
6	Megogo.net	0.9
7	Tvzavr.ru	n/a

** Unique online video viewers, in millions, in cities of 100,000 inhabitants and more*

Source: TNS, June 2013



THE OWNERSHIP OF RUSSIAN ONLINE VIDEO PLAYERS

Independent players	Media holdings (TV channels and pay-TV operators)	Copyright holders	Mobile and broadband operators
<p>These players require more investments in content and marketing compared to competitors belonging to media companies and operators. This is why these companies have financial investors among their shareholders.</p> <p>Many of these players were founded by movie and content distribution industry insiders. The main market players belong to this group.</p>	<p>Some of these video portals were created as an extension or reflection of offline TV channels (NTV, Videomore, TNT-online). Their main goal is to catch audiences that are migrating online.</p> <p>Some online video sites owned by TV holdings (Smotri.com, Now.ru, etc.) do not have their own TV channels, but are thoroughly influenced by their owner(s). They use content from the TV channel owners and benefit from their media selling capacities and cross-promotion.</p>	<p>They promote series from major western studios.</p> <p>Additional monetization comes via the advertising model (on top of the license model)</p>	<p>Their main goal is to increase the ARPU of the existing mobile client base.</p> <p>All video portals owned by mobile operators use the pay-per-view business model since this is the most popular monetization model for connected devices.</p>
 Oleg Tumanov, Dmitry Alimov MEGOGO.NET (Ukraine-based company) Jvige Egor Yakovlev, Pavel Cherkashin tvzavr Individual investors zoomby Web Media Group (Sergey Kalugin)	 NOW TV Gazprom Media RTB NTV, NTV+, Gazprom Media Rutube Gazprom Media smotri.com RBC TV, RBC Holding TNT Gazprom Media VIAPLAY Viasat	 Amediateka molodej tv YBW Group, Krasnyi Kvadrat PLAY Yota stream MTS TROPO Megafon ZABAVA Rostelecom	 videomore CTC Media



5.2 BUSINESS MODELS

Thus far, the paid model for content has not been very successful in Russia. Only a limited number of viewers are ready to pay for content, while very large amounts of content are available for free on ad-funded sites or via resources with pirated content.

In this context, the advertising model – where the viewer has access to content for free, as in traditional TV – dominates the VOD market. It is the core revenue source for the top five market players (Tvigle, Videomore, Molodejj.tv, Zoomby, ivi) .

In this respect, the Russian market has more in common with China than with the US or Europe, where the pay-per-view and subscription models are far more widespread than the advertising one.

This specificity can be attributed to the following:

- Historically easy access to pirated video content has created free consumption habits.
- Online payments are less developed in Russia than in the US and Europe, both from a technical standpoint and in terms of users' habits.
- Growing Internet penetration is driving the online video audience and stimulating the advertising market in Russia, which allows players to rely on the advertising model.

Nonetheless, the pay-per-view (PPV) model has been implemented by platforms that make it easy to pay for digital “premium” content, such as iTunes, Play Store, or the online video services Ayyo, Family Play (formerly Yotaplay), and Stream. Such sites may benefit from a growing content assortment, as well as the current strengthening of the anti-piracy legislation.

Some market players – such as Now and ivi – have combined advertising with PPV or subscription models, thus mixing premium content with a larger content base. However, in the foreseeable future the advertising model is likely to remain the leading model for most content.




RUSSIA'S KEY ONLINE VIDEO PLAYERS

Amediateka.ru	
Commercial launch	August 2013
Owner(s)	Amedia
Total amount invested in the resource to date	N/A
Business model	Subscription
Target audience	Russian-speaking users of entertainment content
Distribution channels	Web site: amedia.ru Connected devices: smartphones, tablets,
Monthly audience (unique viewers)	N/A
Monthly video views	N/A
Content base	Professional content: series from HBO, Showtime, Starz, CBS, Fox, Warner, Sony, Disney, etc



Ayyo.ru	
Commercial launch	2011
Owner(s)	Innova Systems
Total amount invested in the resource to date	N/A
Business model	Pay-per-view Electronic sell-through
Target audience	Russian-speaking users of entertainment content
Distribution channels	Web site: ayyo.ru Connected devices: mobile version
Monthly audience (unique viewers)	N/A
Monthly video views	N/A
Content base	Catalog format Professional content: films, series, cartoons Total content library: about 1,000 titles.
Comment	<p>Innova Systems, Ayyo's shareholder, is a pioneer in the Russian online entertainment industry. Founded in 2006, the company has taken an active part in developing the domestic MMO games market, bringing high quality services and AAA titles, and raising the industry to world standards.</p> <p>The single user profile allows a user to sync all his or her devices, as well as receive personal recommendations or create his or her own movie collection.</p> <p>In the near future, Ayyo is planning to expand geographically and develop more product lines, including top quality premium content.</p>




ivi.ru	
Commercial launch	February 2010
Owner(s)	Founder Oleg Tumanov Prof-Media Frontier Ventures Tiger Global Management Ru-Net Holding Baring Vostok Capital Partners
Total amount invested in the resource to date	\$75-80 million (publicly disclosed information)
Business model	Advertising (core) Pay-per-view
Target audience	Russian-speaking users of entertainment content
Distribution channels	Website: ivi.ru Connected devices: smartphones, tablets, Smart TV, set-top-box
Monthly audience (unique viewers)	5.4 million via web channels (comScore Video Metrix, Russia, July 2013, Age 15+) About 10.5 million via web and mobile channels (ivi data, June 2013)
Monthly video views	80.3 million via web channels (comScore Video Metrix, Russia, July 2013, Age 15+) 150 million via web and mobile channels (ivi data, June 2013)
Content base	Professional content: films, series, music, cartoons, TV programs Total content library: more than 70,000 titles (ivi data, September 2013)
Comment	ivi.ru offers the largest library of movies, TV shows, cartoons and music videos in Russia. 97% of content on ivi's platforms is free of charge and can be accessed without registration, while the remaining 3% represent the latest movie premiers and the best titles from majors' catalogs that can be viewed by subscribing to a premium ivi.ru+ service.




Megogo.net (Russia)	MEGOGO.NET
Commercial launch	November 2011
Owner(s)	Ukrainian company Megogo.net
Total amount invested in the resource to date	N/A
Business model	Pay-per-view Electronic sell-through Subscription base
Target audience	Russian-speaking users of entertainment content
Distribution channels	Web site: megogo.net Connected devices: smartphones, tablets, Smart TV, set-top-box, media players
Monthly audience (unique viewers)	1 million via web channels (TNS, July 2013) 8.5 million via web channels (Megogo data, September 2013)
Monthly video views	N/A
Content base	Professional content: films, series, cartoons and music, TV shows, news. Catalog format. Total content library: about 25,000 hours (Megogo data, September 2013).



Molodejj.tv	
Commercial launch	December 2010
Owner(s)	Krasniy Kvadrat Media holding Yellow, Black and White
Total amount invested in the resource to date	N/A
Business model	Advertising
Target audience	Russian-speaking users of entertainment content
Distribution channels	Web site: molodejj.tv Connected devices: smartphones, tablets, Smart TV Partners network: about 1,200 sites
Monthly audience (unique viewers)	5.3 million via web channels (comScore Video Metrix, Russia, July 2013, Age 15+)
Monthly video views	115 million via web channels (comScore Video Metrix, Russia, July 2013, Age 15+)
Content base	Professional content: shows, series, TV-programs produced by the YBW media holding and Krasniy Kvadrat, films. Catalog format. Total content library: 7,225 units, about 1,000 hours.



Now.ru	
Commercial launch	February 2011
Owner(s)	Gazprom Media
Total amount invested in the resource to date	N/A
Business model	Advertising Pay-per-view Subscription base
Target audience	Russian-speaking users of entertainment content
Distribution channels	Web site: now.ru Connected devices: Smart TV
Monthly audience (unique viewers)	0.34 million via web channels (comScore Video Metrix, Russia, July 2013, Age 15+)
Monthly video views	2.9 million via web channels (comScore Video Metrix, Russia, July 2013, Age 15+)
Content base	Professional content: films, series, cartoons, TV-shows. Catalog format.




Playfamily.ru (formerly Yota Play)	
Commercial launch	July 2011
Owner(s)	Scartel (operating under the Yota brand)
Total amount invested in the resource to date	N/A
Business model	Pay-per-view
Target audience	Russian-speaking users of entertainment content
Distribution channels	Web site: playfamily.ru Connected devices: smartphones, tablets, Smart TV
Monthly audience (unique viewers)	N/A
Monthly video views	N/A
Content base	Professional content: films, series, cartoons Catalog format.



Rutube.ru	Rutube
Commercial launch	October 2006
Owner(s)	Gazprom Media Group of private investors
Total amount invested in the resource to date	N/A
Business model	Advertising
Target audience	Russian-speaking users of entertainment content
Distribution channels	Web site: rutube.ru Connected devices: Smart TV
Monthly audience (unique viewers)	4.0 million via web channels (comScore Video Metrix, Russia, July 2013, Age 15+)
Monthly video views	6.5 million via web channels (comScore Video Metrix, Russia, July 2013, Age 15+) 95 million via web and connected devices channels (Rutube data, June 2013)
Content base	UGC + professional content: shows, series, TV-programs from TNT and NTV channels, other licensed content. Segmented by channels (music, news, sport, etc.) Total content library: about 7 million units, about 815,000 hours
Comment	Rutube is referred to as the “Russian YouTube” and was one of the first online video market players in Russia. The company has the following plans for the future: <ul style="list-style-type: none"> - Encouraging the growth of user generated content; - Laying the groundwork for the licensed products, working with the owners; - Tracking pirated content and replacing it with copies of the licensed product.




Stream.ru (formerly Omlet.ru)	
Commercial launch	2009
Owner(s)	AFK Sistema, MTS
Total amount invested in the resource to date	Above \$15 million
Business model	Pay-per-view Paid subscription
Target audience	Russian-speaking users of entertainment content
Distribution channels	Web site: stream.ru Connected devices: smartphones, tablets, Smart TV
Monthly audience (unique viewers)	0.058 million via web channels (comScore Video Metrix, Russia, July 2013, Age 15+)
Monthly video views	0.182 million via web channels (comScore Video Metrix, Russia, July 2013, Age 15+)
Content base	Professional content: films, series, cartoons, music. Catalog format.




Tnt-online.ru	
Commercial launch	January 2010
Owner(s)	Gazprom Media
Total amount invested in the resource to date	N/A
Business model	Advertising
Target audience	Russian-speaking users of entertainment content
Distribution channels	Web site: tnt-online.ru Connected devices: smartphones, tablets, Smart TV
Monthly audience (unique viewers)	N/A
Monthly video views	N/A
Content base	Professional content: shows, series, TV-programs from the TNT TV channel. Catalog format.




Twigle.ru	
Commercial launch	May 2007
Owner(s)	Founders Egor Yakovlev and Pavel Cherkashin Allianz Rosno Asset Management Media 3
Total amount invested in the resource to date	Approximately \$13-14 million (publicly disclosed information)
Business model	Advertising
Target audience	Russian-speaking users of entertainment content
Distribution channels	Web site: twigle.ru Partners network: more than 7,500 sites Connected devices: smartphones, tablets, Smart TV, set-top-box
Monthly audience (unique viewers)	7.5 million via web channels (comScore Video Metrix, Russia, July 2013, Age 15+)
Monthly video views	101.7 million via web channels (comScore Video Metrix, Russia, July 2013, Age 15+)
Content base	Professional content aimed at women, men, children, humor, etc. Segmented by channels. Total content library: more than 21,000 units and 6,000 hours
Comments	Twigle offers a wide assortment of legal content through the Twigle.ru website as well as through its partner network and via connected devices. Twigle's innovative SaaS solution allows publishers to create, manage, and monetize various video projects online via a subscription-based approach ("Video Publisher Cloud").




Trava.ru	
Commercial launch	April 2010
Owner(s)	Megafon
Total amount invested in the resource to date	N/A
Business model	Advertising Subscription Base
Target audience	Russian-speaking users of entertainment content
Distribution channels	Web site: trava.ru Connected devices: smartphones, tablets, Smart TV
Monthly audience (unique viewers)	N/A
Monthly video views	N/A
Content base	Professional content: films, series, cartoons, TV-shows, music, books, megafon.tv Catalog format.




Viaplay.ru	
Commercial launch	2012
Owner(s)	MTG – Viasat
Total amount invested in the resource to date	N/A
Business model	Subscription base
Target audience	Russian-speaking users of entertainment content
Distribution channels	Web site: viaplay.ru Connected devices: smartphones, tablets
Monthly audience (unique viewers)	N/A
Monthly video views	N/A
Content base	Professional content: premium movies from four major Hollywood studios (Warner Bros, Sony Pictures, 20th Century Fox and NBC Universal), foreign and Russian blockbusters from major and independent studios, a variety of documentary series and programs. Catalog format.




Videomore.ru	videomore 
Commercial launch	December 2010
Owner(s)	CTC Media, Inc
Total amount invested in the resource to date	N/A
Business model	Advertising
Target audience	Russian-speaking users of entertainment content
Distribution channels	Web site: videomore.ru Connected devices: smartphones, tablets, Smart TV
Monthly audience (unique viewers)	5.1 million via web channels (comScore Video Metrix, Russia, July 2013, Age 15+)
Monthly video views	25.0 million via web channels (comScore Video Metrix, Russia, July 2013, Age 15+)
Content base	Professional content: shows, series, TV-programs (from CTC Media and National Media Group) Catalog format.



YouTube.com	
Commercial launch	February 2005. The Russian-language version was launched in late 2007.
Owner(s)	Google Inc.
Target audience	Users of entertainment content in 24 different countries.
Business model	Advertising Subscription base
Target audience (in Russia)	Russian-speaking users of entertainment content
Distribution channels	Web site: Youtube.ru Partners network of sites, downloading video to youtube Connected devices: smartphones, tablets, Smart TV
Monthly audience (unique viewers)	57.1 million via web channels (comScore Video Metrix, Russia, July 2013, Age 15+)
Monthly video views	5.36 billion via web channels (comScore Video Metrix, Russia, July 2013, Age 15+)
Content base	User-generated content Professional and semi-professional content: more than 54 channels
Comments	Russia is one of key markets for YouTube. Moreover, YouTube is planning to test the subscription model with some channels in Russia, which seems reasonable taking into account UFC's good performance.



Zabava.ru	
Commercial launch	2011
Owner(s)	Rostelecom
Total amount invested in the resource to date	N/A
Business model	Pay-per-view Subscription base
Target audience	Russian-speaking users of entertainment content
Distribution channels	Web site: zabava.ru Connected devices: smartphones, tablets, Smart TV
Monthly audience (unique viewers)	N/A
Monthly video views	N/A
Content base	Professional content: online TV, films, series, cartoons, TV-shows, music, games, software. Catalog format + channels.



Zoomby.ru	zoomby
Commercial launch	May 2010
Owner(s)	WebMediaGroup Leader Innovation (venture fund) Gazprombank
Total amount invested in the resource to date	\$20-22 million (publicly disclosed information)
Business model	Advertising
Target audience	Russian-speaking users of entertainment content
Distribution channels	Web site: zoomby.ru Connected devices: smartphones, tablets, Smart TV
Monthly audience (unique viewers)	5.3 million via web channels (comScore Video Metrix, Russia, July 2013, Age 15+) 8.9 million via web channels (Zoomby data, June 2013)
Monthly video views	20.2 million via web channels (comScore Video Metrix, Russia, July 2013, Age 15+) 47 million via web, mobile and connected devices channels (Zoomby data, June 2013)
Content base	Professional content: films, series, music, cartoons, sport, TV programs. Catalog format. Total content library: 27,000 titles, 18,000 hours.
Comments	One of the pioneers on the Russian online video market, Zoomby was launched by VebTV in May 2010, providing Internet users with the possibility to watch top quality movies totally free. It became the first official video portal focused on TV-content. Since 2012 Zoomby has been expanding in the mobile and Smart TV niches.

THE FUTURE OF TV IS IN PLAY

WHAT'S YOUR NEXT MOVE?



THE FUTURE OF TV IS EVERYWHERE. There is significant value to be realized for media companies and marketers alike. More engagement begets increased monetization opportunities, and having more touchpoints creates new ways of reaching and influencing audiences.

Use comScore Video Metrix® to acquire transparent, end-to-end video measurement and ensure your scalability, growth, and success in the online video marketplace.

comScore knows digital, and we're driving the future of measurement. Contact us today to learn how comScore can help you create value from digital consumer relationships.



comScore. Analytics for a Digital World™

russia@comscore.com

[@comScoreEMEA](https://twitter.com/comScoreEMEA)

www.comscore.com

RU-MIPCOM ©2013 comScore, Inc.



Online video in Russia

PART 6

CONTENT MARKET AND COPYRIGHT HOLDERS



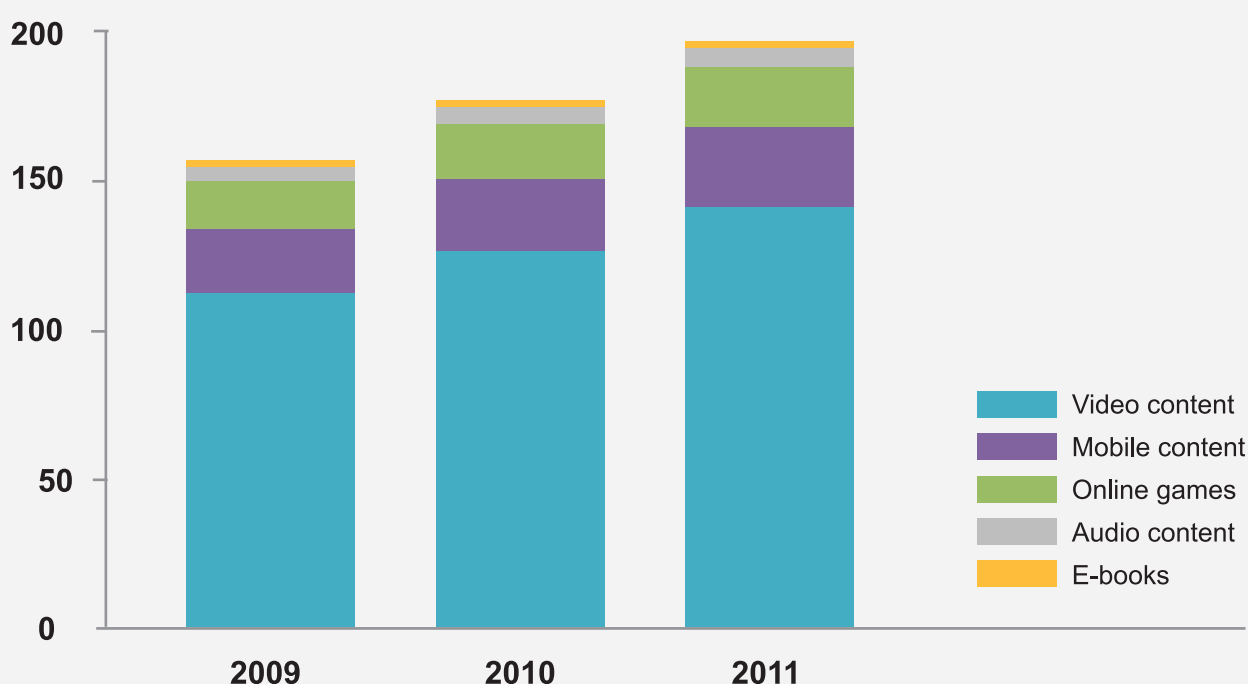
6.1. THE GLOBAL DIGITAL CONTENT MARKET

Over the last few years the global digital content market has shown steady growth. The United States has historically been the world leader, followed by European and Asian countries, with Russia lagging behind significantly.

While emerging markets (Southeast Asia, Brazil, China, etc.) demonstrate significant growth rates due to growing Internet mobile and broadband penetration, Western countries are characterized by more moderate, but at the same time sustainable growth rates. In these advanced markets, the sale of content in physical formats continues to decline, thus leading to structural changes.

The overall structure of revenue distribution in digital content has remained constant over the last years (2009-2011). Traditionally the leading market segment is digital video content, which includes online video, digital TV services, and VOD. According to a report from J'son & Partners Consulting, the share of video content in total market revenue reached 72% in 2011.

TABLE 6-1 Dynamics of the global digital content market (in billion USD)



The video content category includes digital Pay TV, VOD, and online video

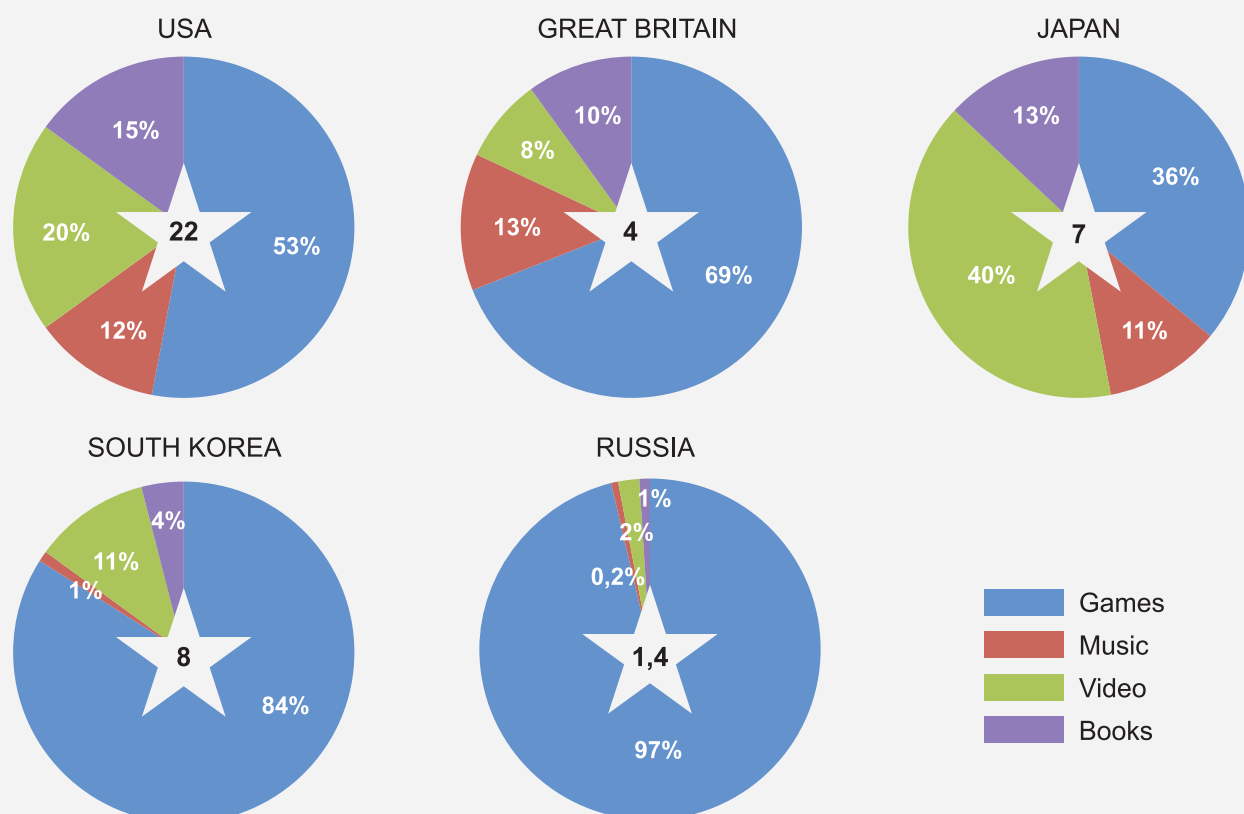
Source: J'Son & Partners



6.2 THE CONTENT MARKET IN RUSSIA

The company has estimated the Russian digital content market to be worth about \$1.4 billion (including the transactional and advertising models). Although demonstrating remarkable growth, this market remains relatively small in comparison with developed analogues.

TABLE 6-2 The global digital content market: Split by content type (2013)



In this new report, specialized consultancy J'son & Partners Consulting has estimated the Russian digital content market no longer includes RBT, mobile TV and other operators' content in the digital content market and does not separate mobile content from other types of digital content. Each segment of the digital content market includes revenues from mobile transaction as well. For this methodological reason, the graph shows a different market structure than in the previous one.

Source: J'Son & Partners

The game segment dominates the Russian market with a 97% share. A historically high level of piracy may explain such a market structure. For comparison, games represent a 53% share in the USA and only 36% in Japan.

Experts predict that the share of online (Internet) video content will grow in correlation with the legalization of video content on the Internet and in the online game industries. The structure of the Russian digital content market will gradually become similar to that of the US, the UK, or Japan.

Furthermore, mobile is a leading distribution channel for monetized digital content and represents a very high proportion of the Russian digital content market.



Firstly, this could be explained by the digital nature of content distribution via mobile devices, as well as by the relatively short history of monetization of non-mobile types of content.

Another major driver of growing mobile content consumption – in Russia in particular – is the evolution of user terminals. Explosive growth in the penetration of smartphones and tablets promotes universal ‘mobilization’ of the market and, as a result, increased use of mobile content.

According to data from Megafon and Vimpelcom, two major Russian mobile operators, video accounts for the largest share in the structure of Russian mobile content. Audio content (music or purchase services, RingBackTone (RBT), and customized ringtones), and information and entertainment services (news, location service, etc.) account for slightly less.

6.3. ONLINE VIDEO CONTENT IN RUSSIA

■ Local consumption patterns

Russians tend to consume “only the best, only the newest” of available online video content. As a result, VOD portals with high quality and professional content fight for user loyalty.

However, the paid model for content has not been very successful thus far. None of the players relying on this model is among the top five in terms of audience and number of video views. Moreover, some players (such as Now) which previously offered only paid content are now changing their model, introducing free content which they try to monetize with advertising.

Only a limited number of viewers are ready to pay for content, while very large amounts of content are available based on the ad model or piracy. Among the key drivers of the pay-per-view (PPV) model is the growing content assortment and the high quality implementation of the anti-piracy law. Some market players have shifted their business model and combined PPV and advertising, thus mixing premium content with a larger content base.

■ A sizeable share for local content

The Russian video market is less dependent on content from the US or the UK than many other markets. About 45% of the available online video titles are Russian, but this Russian content occupies about 80% of total views on average. The graph below shows the content split by country of origin.

Western content – which accounts for up to 55% of the available titles in Russia – is subdivided between American content (55-70%), content from the UK (10%) and content from other European countries (20%).

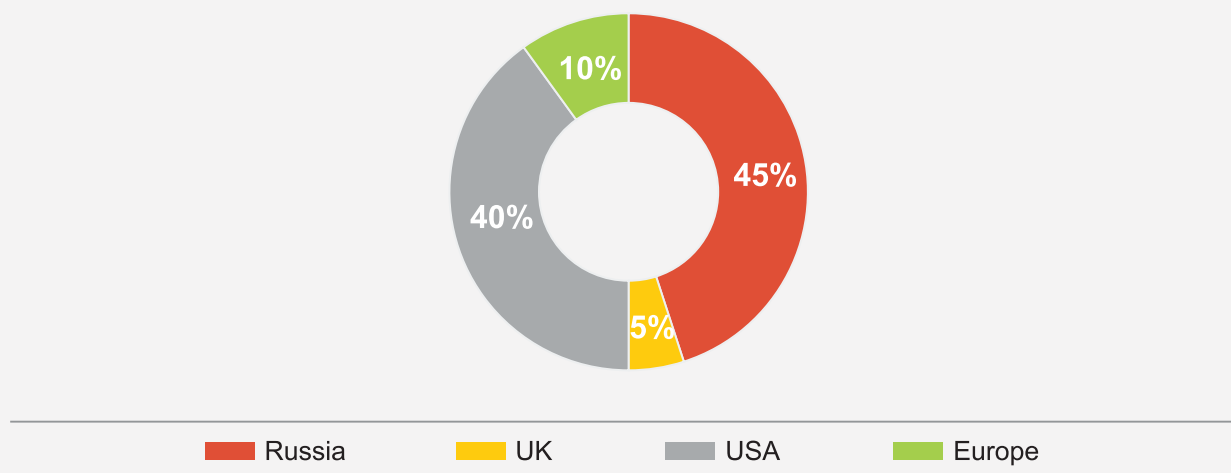
In the field of movies, the share of domestic production is more limited due to the small number of Russian productions.

However, the picture can be completely different if one analyzes content origin based on user consumption. Users of Tvigle and Zoomby, for instance, are highly interested in Russian TV content, essentially domestic movies and domestic music videos.

The proportions of domestic and foreign content naturally differ for each market player. For example, Ayyo, Now, and ivi have more foreign content, while Videomore shows almost exclusively domestic videos from the CTC channel. Tvigle and Zoomby have both domestic and Western content, but domestic content prevails.

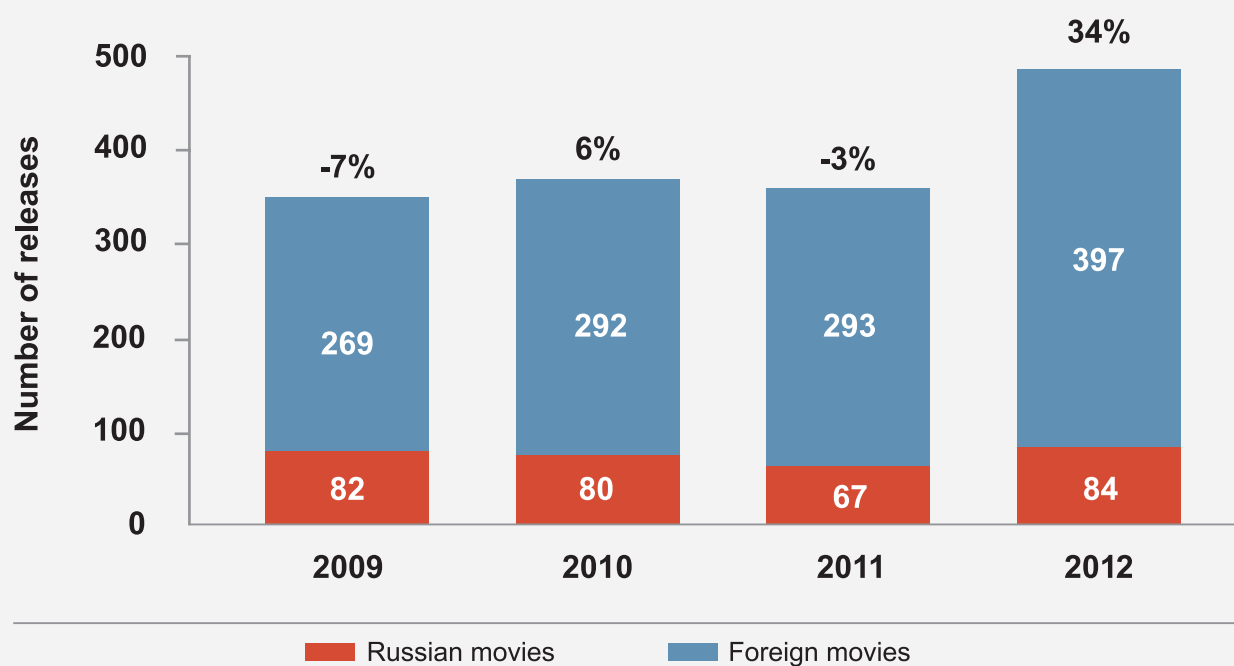


TABLE 6-3 Estimated split of available video content by origin



Source: market players interviews, 2013

TABLE 6-4 Shares of domestic and foreign movie production on the Russian market (2009-2012)



Source: Russian Ministry of Culture



Major Western copyright owners include Warner Bros, Disney (including ABC), FOX (including National Geographic), NBC Universal, CBS Paramount, and Sony Pictures. These majors produce about 80% of all US content, as well as a lesser share of European content. Russian VOD sites ivi and Now are working with practically all of these companies. Among other large Western players are BBC Worldwide and All3Media. The shares of these six majors (Warner Brothers, Disney, FOX, NBC Universal, CBS Paramount, and Sony Pictures) are more or less the same, excluding that of CBS, which is smaller.

Among the major Russian copyright owners are Direction Film, Cinema Company CTB, Amedia, CTC Media, All Media (Yellow Black and White), Russian World Vision, and others.

Both domestic and international copyright holders operating in Russia consider domestic VOD as an interesting channel for content distribution, even though it is still in its early stages of development.

Fox believes that VOD represents an important complement to the current TV content offer, which could become more segmented thanks to VOD. “One advantage is the possibility to access content in a multi-screen offer, including TV, computer, iPad, or mobile, in a legal way,” said Angela Yakovleva, the company’s Russia & CIS Regional Manager, in an exchange with East-West Digital News.

“Another advantage is the ability to offer content as early as possible after the US release date. Fox is shortening the gap between US and Russian release dates to provide Russian users with early opportunities to catch-up on popular US content,” she added.

Piracy remains, however, the main issue, more deeply rooted in Russian users’ habits (see Part 4) than in Western countries. Says Yakovleva: “Piracy is a common problem with other European and global markets, but in Russia it is particularly concerning because downloading content from websites in an illegal way has become a habit for a part of Russian society. All the players in the TV industry need to unite their efforts not only to ensure a regulation, which has already been implemented with the anti-piracy law, but to re-educate the population to make them understand that creative content— series, movies, documentaries, music or literature- cannot be for free.”

Most copyright owners predict significant growth of Russia’s VOD market. Lenfilm views “smart TV and mobile development as one of the main drivers,” while Fox believes that “the recent anti-piracy law will stimulate market development.”

6.4. PLAYERS’ CONTENT POLICY

In a market still plagued by piracy (see Part 4), all types of online video content are currently available:

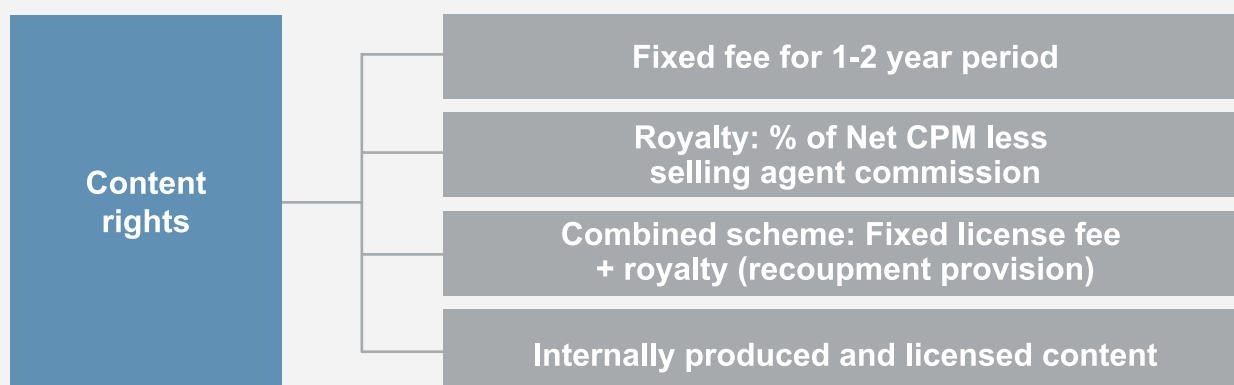
- Immediately (new, high-profile US/UK products are typically available in less than a week)
- In high quality versions
- Through multiple sources (torrents, numerous free VOD sites, VK)
- And free of charge!

The content platform is the core asset for law-abiding professional video resources. During different stages of a company’s life, investments in content typically represent up to 50% of yearly expenses.

In Russia as elsewhere, legitimate online video players use content from three distinct sources.

■ Licensed video from content providers

Copyright owners provide content (e.g. movies, software, etc.) to video portals in return for a share of future revenue from this content, which is obtained through advertising or user payments. They also generally insist on receiving a guaranteed minimum (i.e. minimum payment).

TABLE 6-5 **Content acquisition models**

Due to a very fragmented content landscape, content providers are not willing to provide exclusive rights to any player. Content is always available through multiple sources regardless of exclusivity terms with content providers. The table below describes content acquisition models in Russia.

Due to the small market size, content providers are not interested in the royalty model. As soon as market reaches scale, they may become more interested in license terms.

Content from mother companies

The structure of content platforms often depends on their relationship with shareholders, which may be large media companies or other market players. For example, Zoomby.ru uses the videos of VGTRK, a leading state-owned television and radio company, while TNT-online.ru has access to content from the TNT TV channel, Videomore.ru uses CTC Media's content, and Molodejj.tv uses that of content distributors Yellow Black and White and Krasniy Kvadrat.

Self-produced content

International experience shows a tendency to consider alternative content strategies. In a bid to avoid the migration of a lion's share of value to the third-party copyright owners, Netflix has decided to produce more and more original content – a strategic pivot from content licensing to content production. The business logic here is quite different since initial investments are huge, but with each passing year Netflix has a larger stock of its own zero-cost content.

In Russia, Tvigle is the only known example of a company successfully putting in place this content production strategy. In 2009, the company began producing a short animated series, named "Versus," which became a hit on the Russian Internet in 2009 and 2010. Tvigle resumed the show in September 2012 and launched a new season of the cartoon with 20 new episodes.

However, the share of self-produced content remains negligible among Russia's online video sites.



Online video in Russia

PART 7

THE ONLINE ADVERTISING MARKET



7.1 ONLINE ADVERTISING IN RUSSIA

In 2012, the total volume of Internet advertising reached 56.3 billion rubles (approximately \$1.9 billion) or 18.9% of the total advertising market's revenues.

TABLE 7-1 The Russian advertising market in 2011 and 2012

Market segments	2010	2012	Growth
	Billion USD		
Television	4.4	4.8	9%
Including traditional channels	4.3	4.7	9%
Cable and satellite TV	0.1	0.1	27%
Radio	0.4	0.5	23%
Print	1.3	1.4	2%
Including newspapers	0.3	0.3	8%
Magazines	0.7	0.7	1%
Advertising publications	0.4	0.4	– 1%
Outdoor advertising	1.1	1.3	10%
Internet	1.4	1.9	35%
Including display advertising	0.5	0.6	17%
Contextual advertising	0.9	1.3	45%
Other media	0.1	0.2	14%
Including Indoor advertising	0.1	0.1	13%
Advertising in movie theaters	0.0	0.0	18%
Total (ATL)	8.8	9.9	13%

Source: Russian Association of Communication Agencies (AKAR)

Television advertising remained the clear leader in terms of market share, taking in 143.2 billion rubles (\$4.8 billion) but saw its growth rate fall from 18% in 2011 to 9% in 2012.

Internet advertising remained the fastest growing advertising segment, up more than one third from the previous year. Contextual advertising gained the lion's share of the Internet market, with more than two thirds of revenues.¹

In April 2012, TNS noted that for the first time the number of daily visitors to Yandex (19.1 million), Russia's search giant and most popular Internet site, exceeded the number of daily viewers of Pervy Kanal (18.2 million), Russia's most popular television station. Products that traditionally were advertised on television are migrating to Internet advertising. This trend particularly affects the categories of everyday goods, as well as the premium brands segment, which includes watches, jewelry, and perfume.

¹ After a noticeable increase over the past years, the share of contextual ads could stabilize with real-time bidding (RTB) technologies. RTB was introduced in Russia a mere two years ago and is making the display ad segment more dynamic.

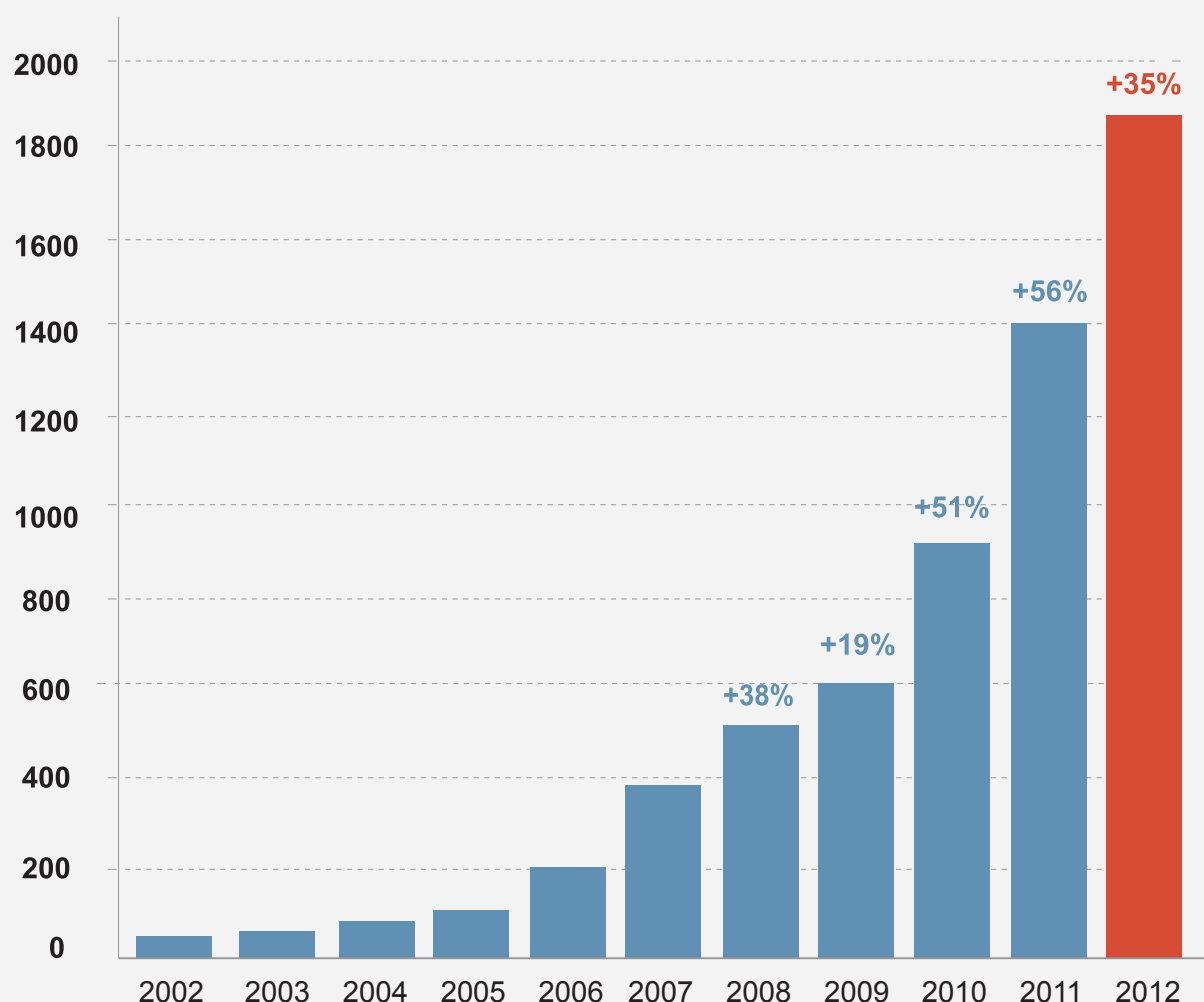


Meanwhile, print advertising – which online advertising surpassed in terms of revenue in 2011 – stagnated in 2012 with an anorexic growth of 2%, down from the previous year's 6%. This segment thus amounted to a mere 41.2 billion rubles (\$1.4 billion) for the year.

Even though its annual growth rates now tend to decrease (from 56% in 2011 to 35% in 2012), few doubt that Russia's Internet advertising market will continue to expand in the coming years.

Based on IAB and ZenithOptimedia forecasts, online advertising may exceed \$3 billion by 2015 – and thus account for 22% of Russia's total advertising market volume – and as much as \$4.5 billion by 2018.

TABLE 7-2 The growth of the Russian online advertising market (in million USD, 2002-2012)



Source: Russian Association of Communication Agencies (AKAR)

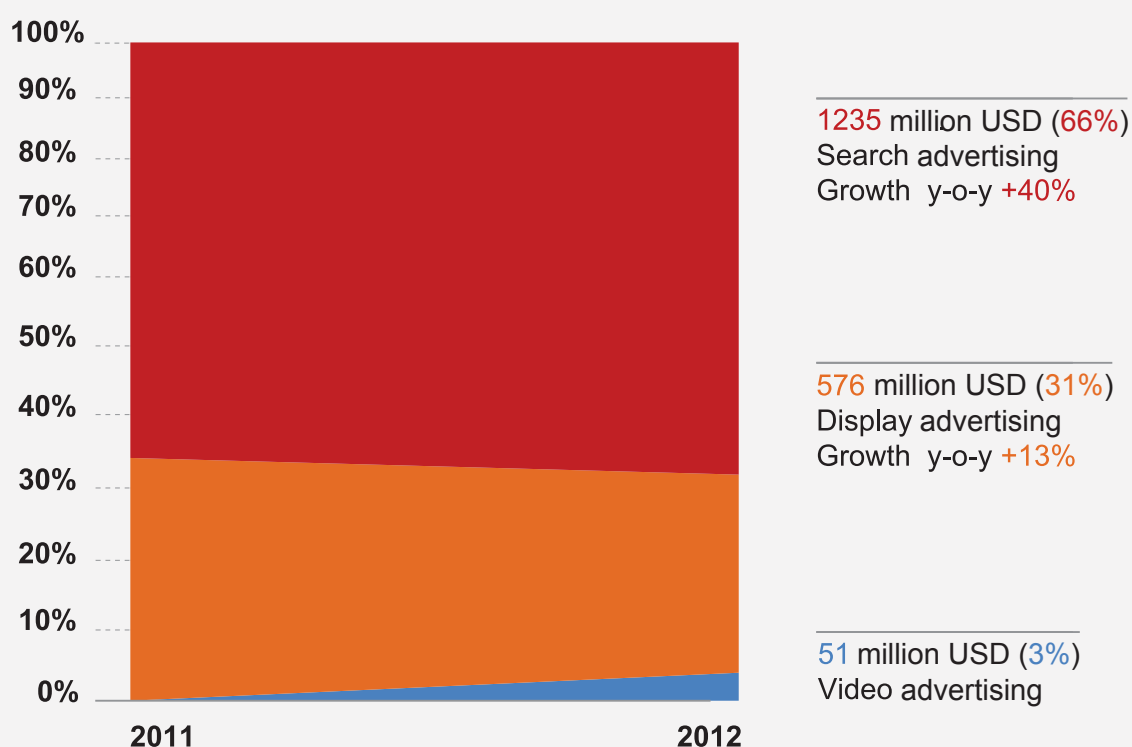


7.2 THE ONLINE VIDEO ADVERTISING SEGMENT

Current figures

Online video advertising, whose volumes were barely noticeable just a few years ago, has started to emerge in Russia, following a trend that had been observed years before in Western countries.

TABLE 7-3 The late emergence of online video advertising in Russia



Source: Russian Association of Communication Agencies (AKAR)

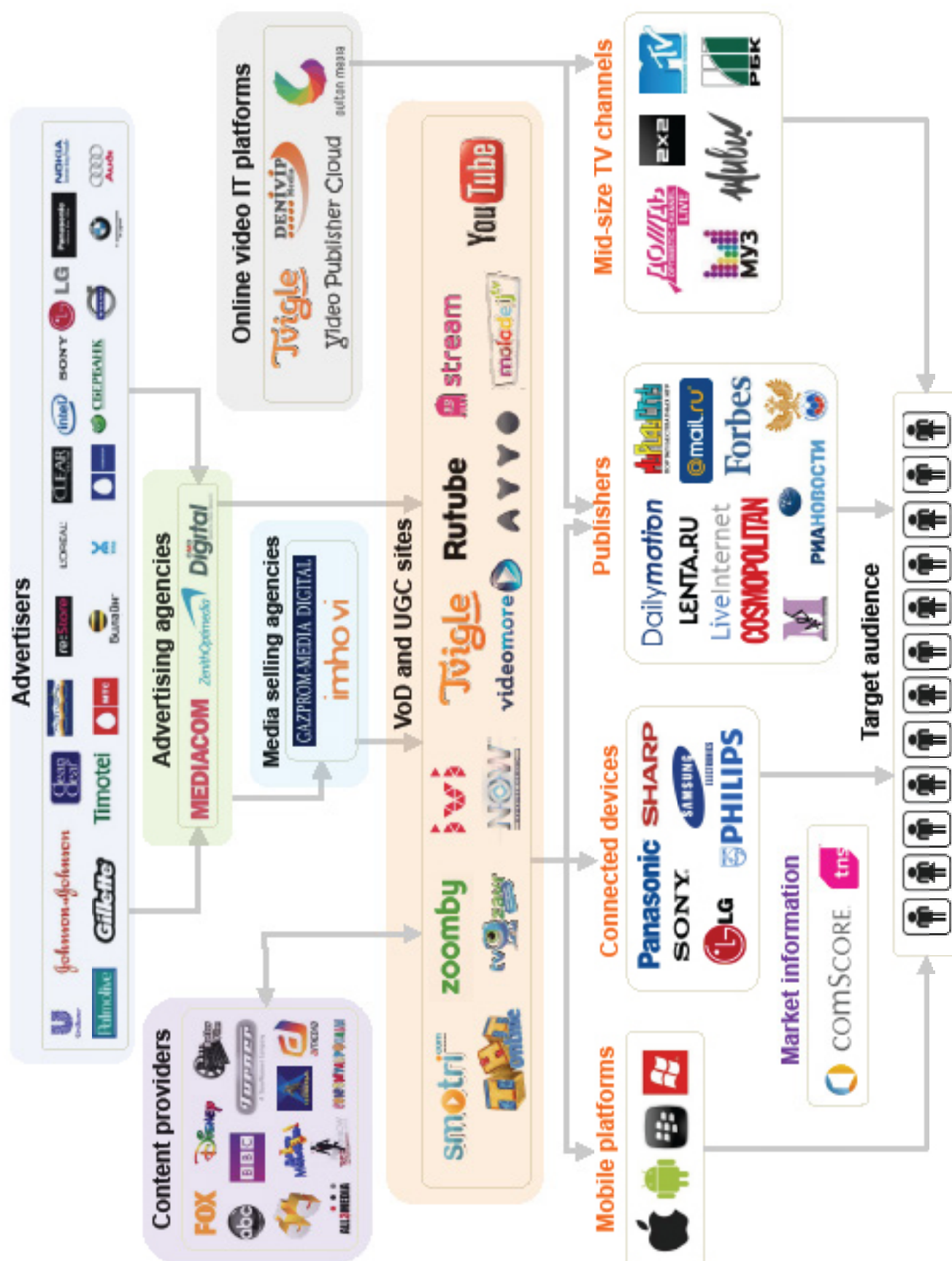
Spending has developed actively since 2010 and reached \$52 million in 2012, up 120% from the previous year. The market is expected to grow by about 60% yearly in the next couple of years. In the first half of 2013, it already reached \$32 million, up 70% in one year.

Meanwhile, the advertising load of Russian online video sites is still very low. “For instance, ivi.ru’s ad load is less than 3%, compared with around 12% on television. Hence online video players have a strong monetization potential before reaching advertising saturation,” says Frontier Ventures’ Managing Partner Dmitry Alimov.

The growing share of legal content and the growing use of mobile and connected devices are likely to drive growth in the coming years.



RUSSIA'S ONLINE VIDEO ADVERTISING MARKET MAP





Advertisers, who have traditionally lagged behind audiences, are now catching up in the online video market. Better infrastructure and standards of measurement, successful track records, and online expertise create a favorable environment for the shift from traditional TV advertising to online advertising.

While willing to undertake video ad campaigns, some advertisers are suspicious of the quality of targeting due to insufficient market research. Audience segmentation still remains unclear, while information on how connected devices are used and their overall advertising influence is still far from being complete. TNS (which in Russia as elsewhere stands as one of the most trusted sources for TV advertisers) is completing analytical research on this subject, which could improve advertisers' knowledge by 2014.

Media sellers collect about 25% of online advertising budgets, but it seems that the share will decrease due to growth of total advertising budgets in online video and new technology developments like real-time bidding (RTB).

■ Market prospects

The current underdevelopment of the Russian online video advertising market is illustrated by the considerable gap in ad spending per unit between Russia and more mature markets. As shown below, TV advertising spending per capita, as well as overall online advertising spending per Internet user, are six times higher in the US than in Russia, while online video advertising spending per online viewer is up to 15 times higher.

TABLE 7-4 The late emergence of online video advertising in Russia

	USA	Russia	Gap
TV advertising spending per capita	\$205	\$32	x6
Online video advertising spending per 1000 video	\$6	\$0.6	x11
Online video advertising spending per viewer	\$16	\$1.1	x15
Online advertising spending per Internet user	\$150	\$27	x15

EWDN estimate based on data from Global Insight, eMarketer, AKAR, ZenithOptimedia, J'son & Partners, AKAR, AEGIS, Google, GPMD, IMHO, Mail.ru, Tvigle.

Russia lagged behind Western countries by a number of years in the development of most online and mobile industries but caught up rapidly. There is no reason why the country's online video advertising market should not in time also follow the same pattern and catch up to more advanced countries.

We expect online and mobile video advertising to significantly change the structure of Russia's online advertising market in the mid term, as has been the case in more advanced countries. With an average CAGR of 120%, this segment could reach \$300 million in a mere three years, or more than 20% of total display advertising spending (8% of the total online advertising market).

The segment will continue to increase after 2015, fueled by online video RTB, which is currently booming on the US market.² This trend will arrive soon or later on Russia's shores.

² The US RTB market more than doubled each year over the past two years and is expected to continue growing by 60% CAGR until 2015, according to Forrester research.



PART 7 | THE RUSSIAN ONLINE ADVERTISING MARKET

An even more powerful driver could be the rise of mobile advertising. In spite of the dramatic development of mobile Internet in Russia over the past three years (see Part 1), the corresponding advertising segment is still minuscule, reaching a mere \$61 million in 2012, according to J'son & Partners, or 3% of total online advertising market, compared with 12% in the US.

This segment's growth is likely to reach or exceed 50% annually in the next few years, driven by further penetration of 3G and 4G, continued growth of mobile Internet usage, and the delayed but inexorable increase of advertisers' interest in mobile.

TABLE 7-5 Mobile and video ad spending forecast (in million USD, 2011-2015)

	2012	2013	2014	2015	CAGR
Total online advertising	1,824	2,240	2,656	3,071	19%
Total mobile video advertising	61	115	165	215	52%
Share in the total online advertising market	3%	5%	6%	7%	
Display video advertising	576	718	859	1,001	20%
Mobile display video advertising	43	86	137	190	64%
Share in the total display ad segment	7%	12%	16%	19%	
Banner	517	622	707	768	14%
Mobile banner	41	80	124	164	59%
Share in the total banner segment	8%	13%	18%	21%	
Video	51	96	152	233	58%
Mobile Video	2	6	14	26	121%
Share in the total video segment	4%	6%	9%	11%	
Mobile messaging	18	29	28	25	12%
SMS / Total Mobile ads	25%	17%	12%		

EWDN forecast based on data from AKAR, AEGIS, Google, GPMD, IMHO, J'son & Partners, Mail.ru, Tvigle



TABLE 7-6 Mobile and video ad spending forecast (in billion USD, 2011-2015)

	USA			Russia		
	2012	2015	CAGR	2012	2015	CAGR
GDP	15,683	17,137	3.0%	1,964	2,273	5%
Total ad market	165	183	3.6%	9.6	13.9	13%
% of GDP	1.05%	1.07%		0.49%	0.61%	
TV ad market	64.5	70	2.8%	4.6	6.7	13%
% of total ad market	39%	38%		48%	48%	143
Internet ad market	36.8	52.5	12.6%	1.8	3.1	19%
% of total ad market	22%	29%		19%	22%	
Media ad market	15.0	23.1	15.6%	0.6	1.0	20%
% of total Internet ad market	41%	44%		32%	33%	
Online video ad market	2.9	7.0	33.7%	0.06	0.23	58%
% of total ad market	2%	4%		0,6%	1,7%	
% of total Internet ad market	8%	13%		3%	8%	
% of media ad market	20%	30%		10%	23%	
% of TV ad spend	5%	10%		1%	3%	
RTB (video market)	0.4	1.7	60.3%	0	0.012	n/a
% of online video ad market	14%	24%		0%	5%	
Mobile online ads	4.4	18.6	62%	0.061	0.22	52%
% of total online	12%	35%		3,3%	7%	
Online mobile video ads	0.24	1.6	87.9%	0.002	0.03	121%
% of total mobile ads	6%	9%		4%	12%	
% of total online video ads	8%	23%		4%	11%	

EWDN calculations based on data from Global Insight, eMarketer, Forrester, SpotExchange, AKAR, ZenithOptimedia, J&P, J&P, AKAR, AEGIS, Google, GPMD, IMHO, Mail.ru, Tvigle

■ Challenges and opportunities

Market growth would likely be even faster without a range of factors that affect the Russian market more than others.

- Content is highly fragmented by genres, duration, publishers, and sometimes advertisers lack experience and expertise for ad campaigns with this type of content.
- Advertisers and buying agencies still lack detailed information about viewers for qualified targeting.
- The diversity in IT infrastructure makes it difficult to manage and optimize online video ad campaigns across several publishers. There are a couple of IT platform for publishers to create, manage, store, and monetize online video projects, but most market players use their own software that is developed in-house.



- Advertising experience in online video and cross-media campaigns is still weak among advertisers and agencies, which remain unaware, or unsure, about the effectiveness of online video advertising.
- There are no special tools for managing online TV ad campaigns on mobile or connected devices. Some trackers, like that of AdRiver, the leading ad server provider on the domestic market, as well as in-house software allow advertisers to track the quantity of rolls viewed by channels.
- In Russia, like in other countries, there are no unified metrics to measure the effectiveness of online video campaigns (including cross-platform measurements) and no established method to compare online campaigns with TV campaigns.

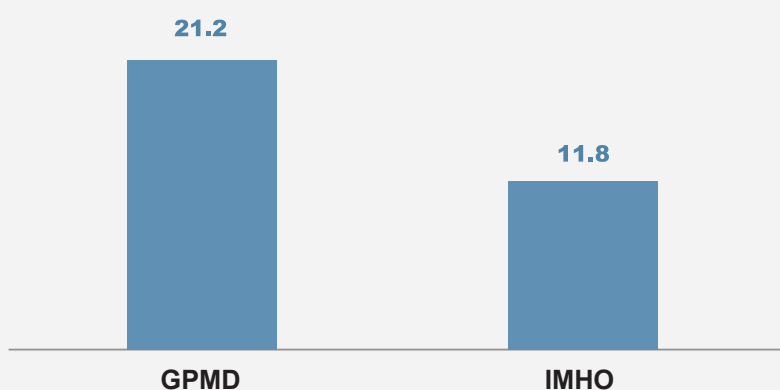
To a significant extent, market development will depend on how players will overcome these barriers, adapt their activity to new market conditions, and create or seize new opportunities.

In comparison with more advanced countries, Russia's media sellers are still far from providing publishers and advertisers with the benefits of full-fledged ad networks. Such networks could provide more possibilities to target and optimize advertising campaigns across a pool of premium content publishers, while enhancing these publishers' access to traditional advertising budgets (including those of such major TV players as VGTRK and GPMH).

Such networks could provide more qualified knowledge of and experience with online video campaigns, as well as cross-media/cross-platform advertising.

On their side, advertisers and advertising agencies could benefit from centralized advertising campaign planning across a vast array of publishers, thus achieving maximum ROI and brand-lift objectives.

TABLE 7-7 Russian media sellers by audience reach (March 2013)



Source: TNS Web Index. Russia, 12-64, 100 000+



Online video in Russia

PART 8

INVESTING IN THE
RUSSIAN ONLINE
VIDEO MARKET



INTRODUCTION




The Russian online video market is still very young, despite the fact that it is already seven years old. The same observation applies to investment activity in this segment.

Based on publicly disclosed transactions and estimates, about \$200 million have been invested by founders, VC and PE funds, as well as by strategic players in the Russian online video market since its inception.¹

This amount is significantly lower than that in such others as e-commerce, classifieds, and online travel agencies, which raised about \$400 million in 2012 alone and \$950 million between 2010 and 2012.

From our point of view, the online video market has just finished its early/venture stage and is now entering the growth stage. Series C rounds took place for the first time in 2012 with the involvement of later stage investors such as Media 3, Baring Vostok Capital Partners, and others.

INVESTMENT DEALS IN THE RUSSIAN ONLINE VIDEO SEGMENT TO DATE

Approximate Date	Target	Acquirer/ Founder	Round	Value	Description
May 2013	 zoomby	Gazprombank, Leader Innovations	Round B	10	Video portal Zoomby.ru secured \$10m in funding that was attracted through mother company WebMediaGroup. Existing shareholders (Leader-Innovations, Gazprombank, and Sergey Kalugin, founder of WebMediaGroup) carried out the round.
September 2012		Baring Vostok, Frontier Ventures, Prof-Media, ru-Net, Tiger Global	Round C	40	ivi.ru raised \$40m in a funding round led by Baring Vostok, along with existing investors ru-Net, Tiger Global, Prof-Media, and Frontier Ventures.
May 2012	 stream	AFK Sistema	Round B	15	AFK Sistema invested in Stream.ru, a paid video content portal. Sistema owns 55% of the company, while MTS has a 45% stake. Sistema Mass Media, a separate AFK subsidiary set up to produce and distribute content, took over day-to-day management of Stream.

¹ Referring only to Russia-focused platforms. For example we do not include Qik.com or YouTube.com, which are global players.



Approximate Date	Target	Acquirer/ Founder	Round	Value	Description
November 2011		Tiger Global, ru-Net	Round B	~30	ivi.ru attracted up to \$30m from Tiger Global and its existing shareholder ru-Net.
July 2011		Media 3	Round B	n/a	Tvigle.ru completed a new round of funding with Media 3, which acquired a 27.7% stake in the company.
July 2011		Scartel (Yota)	Round A/ Foundation	n/a	Russia's leading WiMax provider Scartel, working under the Yota brand, launched Yota Play (now Playfamily), a video on demand (VOD) service. Scartel's investment in the project was projected to reach \$15m by the end of 2012.
March 2011		Gazprombank, Leader Innovations	Round A	~8	Gazprombank and venture fund Leader-Innovations (launched by RVC and Leader), acquired 30% of WebMediaGroup. This group included which includes Zoomby.ru – which has used the better part of the funding – as well as e-commerce site Dostavka.ru, and a few thematic consumer portals.
February 2011		Gazprom Media, TNT Broadcasting Network	Foundation	n/a	The Gazprom Media holding and TNT–Broadcasting Network launched Now.ru, a VOD platform platform which initially featured content from Warner and Warner Bros.
December 2010		Prof-Media	Round A	3.3	The Russian media and entertainment group ProfMedia invested \$3.3m in exchange for a 25% stake in ivi.ru owner Digital Access.
December 2010		CTC Media	Round A/ Foundation	n/a	Russian media company CTC Media launched a social television network, Videomore. Videomore.ru provides free access to content from CTC Media's three Russian channels: CTC, Domashny, and DTV.



Approximate Date	Target	Acquirer/ Founder	Round	Value	Description
May 2010		Web Media Group, VGTRK	Foundation	n/a	Online video service Zoomby was launched by WebTV (part of WebMediaGroup) in cooperation with VGTRK, the Russian state television company.
April 2010		Individual Investors	Round A/ Foundation	2.5	A new video portal TvZavr was launched. The declared investments totaled \$2.5m.
February 2010		ru-Net	Foundation	n/a	The online video platform and advertising company Digital Access, which was acquired by ru-Net in 2009, launched ivi.ru. ru-Net revealed that it invested several million dollars in the project.
March 2009		Allianz Investment	Round A	1.5	The Moscow Venture Fund (managed by Allianz Investment) invested another \$4m for an additional 24% stake in Tvigle (formerly TviGo).
2009		MTS	Round A/ Foundation	n/a	Stream.ru (formerly known as Omlet.ru) was launched in 2009 by MTS, a Sistema subsidiary. Stream.ru is an online paid video site.
November 2008		Gazprom Media	Acquisition	n/a	Gazprom Media acquired a majority stake in Rutube, valuing the business at \$15m.
November 2007		Allianz Investment	Round A	3.6	TviGo (now Tvigle) received its first venture investments from Allianz Investment in exchange for an initial 25% stake.
September 2007		RBC	Round A/ Foundation	n/a	Major media group RBC launched the video sharing service Smotri.com.
May 2007		Egor Yakovlev Pavel Cherkashin	Foundation	n/a	Egor Yakovlev and Pavel Cherkashin launched TviGo (later rebranded as Tvigle). The company initially specialized in the creation and diffusion of its own entertainment content.

Sources: EWDN, public information



8.1. EXISTING INVESTORS

As in other segments, investors in the Russian online video market include financial investors (angel investors, venture and PE funds) and strategic investors (TV channels, media holdings, mobile and Internet operators). In certain cases, strategic players act as financial investors – in particular, when strategic and financial investors co-invest with the former providing industry expertise in addition to money, while the latter shares the financial risk. (See table “Investor categories” on page 95)

8.2. FURTHER INVESTMENT TRENDS

In a sector that remains underfunded, further investment is needed to scale businesses. As the sector remains attractive to investors because of its considerable potential, new funding rounds will be no surprise in the short term.

At the same time, later stage rounds are made difficult in Russia due to the limited number of funds operating at later stages. Therefore, it is likely that some projects, after failing to secure further funding, will shut down or radically change their format.

Also likely is the consolidation of existing market players. This would allow projects to achieve economies of scale, consolidate a significant market share, and become more attractive to investors.

At the same time, investors should carefully analyze the following issues:

- The market size is still small, despite the huge growth demonstrated over the past few years.
- The industry is very fragmented. As a result, no single player generates significant revenues, which is unlikely to attract PE funds.
- Piracy still exists, even though this issue is likely to be resolved at least partly following the adoption of the 2013 anti-piracy law.
- Even before companies reach the break-even point, additional investment could be necessary for content acquisition due to increased competition.
- Valuations are high because the multiples from previous rounds are high, which makes it difficult to expect high IRRs.



INVESTOR CATEGORIES IN THE RUSSIAN ONLINE VIDEO SEGMENT

Investor categories	Investors	Portfolio companies	Description
Strategic players	Media groups, TV channels, content owners	Amedia	<p>The main reasons to invest in online media:</p> <ul style="list-style-type: none"> • Fast market growth (PC, connected devices) in terms of consumption • Advertising budgets are moving to new media channels following audiences • Existing experience in media advertising market • Content is already available (from TV channels) • Existing audience from TV channels and other Internet assets • Promotion of TV channel's self-produced content through online channel • Possibility of reaching the audience moving to online media and changing its consumption preferences • Chance to expand the range of content available to the media holding's existing audience <p>How funding is used (generally until break-even point):</p> <ul style="list-style-type: none"> • Product development • Marketing • Content acquisition for independent players (ivi, Tvigle, Zoomby, Now)
		CTC Media	
		Gazprom Media	
		Krasnyi Kvadrat, Yellow Black and White	
		Media 3	
		Prof-Media	
		RBC	
		VGTRK	
	TMT companies	MTS	<p>The main reasons for investment:</p> <ul style="list-style-type: none"> • Fast market growth (PC, connected devices) in terms of consumption and money • Existing online and mobile audience • Possibility of increasing the ARPU (therefore the PPV model is preferred) <p>How funding is used (generally until break-even point):</p> <ul style="list-style-type: none"> • Product development • Marketing • Content acquisition
		Scartel (Yota)	
Financial investors	Venture funds and angel investors	Allianz	<p>Main reasons for investment:</p> <ul style="list-style-type: none"> • East market growth (PC, connected devices) in terms of consumption and revenues • Liquid assets and identified exit opportunities • Fast company growth («venture game») <p>How funding is used (until next round or exit – not necessarily break-even point):</p> <ul style="list-style-type: none"> • Product development • Marketing • Content acquisition <p>Note:</p> <p>Very often venture and PE funds invest important amounts of money aiming to build a market leader and kill competition because exits are mostly feasible for giants and less so for smaller companies. Sometimes these funds are used inefficiently and just lead to higher marketing and content rates.</p>
		Vestor.in (P. Cherkashin)	
		Frontier Ventures	
		ru-Net	
		Tiger Global Management	
		Gazprom-bank	
		Leader Innovations	
	PE funds	Baring Vostok	



Investors respond: How attractive is the Russian online video market?

WHY INVEST?



Dmitry Alimov, Managing Partner at Frontier Ventures

- Russia, the largest Internet market in Europe, has a still untapped potential with a mere 50% penetration rate. Online video is already prevalent, with 89% of Russian Internet users watching videos online.
- As video viewership shifts from TV to online, advertising budgets will follow. The online video advertising market is already sizeable (nearly \$100 million in 2013) and is forecasted to more than double in the next two years. Low advertising load and personalization opportunities make online video a more attractive advertising support than TV.
- From tablets, to smartphones, to smart TVs, a new generation of devices is driving strong growth in video viewing.
- The government and market participants have taken credible steps to fight video piracy, which benefits professional video sites with legal content and state-of-the-art usability.
- The poor quality of content on the prevalently state-owned TV channels offers an opportunity for online players with highly personalized quality content.



Maxim Melnikov, CEO of Media 3

- Online video is one of the most rapidly growing markets in online media and the Internet in general. Significant growth is being observed both in advertising budgets and non-financial metrics: online video audience, number of streams per viewer, time spent viewing videos, etc.
- Video is the undisputed leader in global digital content consumption. This is not currently the case in Russia, but the market structure will evolve. Five billion dollars previously devoted to TV advertising has already started flowing towards online video advertising, in line with increased Internet video viewing.
- The new antipiracy law will increase the traction of legal video resources.
- Connected devices (smartphones, tablets, Smart TVs) are developing extremely rapidly and already account for up to 50% of video views for some market players, while monetization of this channel is still very low. RTB for video as a form of inventory monetization is set to emerge in Russia following other countries.
- In this market at early stage, great teams who understand viewers' preferences and advertisers' needs can create successful products, build customer loyalty, and capitalize on the rapid expansion in the years to come.



Igor Taber, Investment Director at Intel Capital

- No strong competition from cable, DVR, etc.
- Given the current and foreseeable audience trends, TV advertising budgets will continue to shift to online video, providing significant upside.
- There is a huge potential for further penetration of Smart TVs and mobile devices with preinstalled OTT services. The significant level of piracy on TV and the possibility to provide an on-demand «lean-back» TV experience, which will continue to accelerate as seen in other markets, explain this potential.
- Strong teams on the market.



Alexander Turkot, Founder and Managing Partner of Maxfield Capital

- The market is growing. Broadband penetration, infrastructure development, and lower connection prices are bringing more streaming content to customers. Obviously, Russia will also quite soon become the biggest market in Europe in this segment.



WHY NOT INVEST?



Dmitry Alimov

- Russia is still one of the top three global markets for pirated content, so in spite of the new law there is still a long way to go.
- Dozens of companies tried to compete in this very difficult segment and did not succeed. We believe that only one or two market leaders will emerge in the next two to three years, gaining a disproportionate share of users and revenues. Bets on outsiders will not yield attractive investor returns.
- It is difficult to sell online video advertising products. Few players can do this well. The market is still immature, while advertisers spend their budgets on other less efficient channels.
- The pay-per-view model is still new to Russian consumers and represents a tiny share of total online video revenues in Russia. It will take time for user behavior to change.



Maxim Melnikov

- The piracy issue has been outstanding for long time and the effect of the new antipiracy law is unpredictable.
- The segment is capital intensive and requires significant investments in content.
- It is still a small market. It needs to reach the critical mass in order to cover investments in content.
- Players are dependent on media sellers in terms of advertising budget flows.



Igor Taber

- The business model for OTT in Russia is still unproven as the advertising model is not sufficient to compensate the required content, customer acquisition, and capital expenditures. Consumers' willingness to pay also remains to be proven.
- Content providers have significant power as evidenced by ever rising content costs.
- * The current valuations and capital invested provide a limited risk/return ratio for investors.



Alexander Turkot

- The new legislation and the regulator's pressure are likely to decrease piracy but to a yet unknown extent. Their impact will be clearer in the near future.
- Because the "pay-for-content" model is unlikely to be popular in the foreseeable future, the advertising model will still dominate for quite a while. As a result, this segment will be strongly dependent on the overall advertising industry and traditional sales channels.
- Competition is already quite high with a few "big" players and many small ones. A "deep-pocket" war for quality content may emerge with copyright owners dictating their rules.



8.3. EXIT SCENARIOS

Exits are always a delicate issue, especially for investment funds with a limited duration. We have tried to evaluate each potential scenario.

8.3.1. IPO

This type of exit seems unlikely. Not only is the online video market too small for IPOs – and is likely to remain so in the foreseeable future – but the industry is very fragmented and no leader ready for an IPO seems likely to emerge for a long time.

8.3.2. SALE TO STRATEGIC INVESTORS

■ **Media holding or TV channel: Medium opportunity**

Most Russian media holdings and major TV channels have invested in one (Media 3, Prof-Media, CTC Media, etc) or several players (Gazprom Media). Some own minority stakes, while others fully own online video sites.

Media holdings may aim to consolidate their online video platforms in the future in order to increase their presence in the online video market.

■ **Search engine companies: Medium opportunity**

Yandex, as well as Google (YouTube), may be interested in the acquisition of one of the existing independent online video portals. Yandex, the leading Russian search engine company, has a very large Internet audience. Online video could be regarded as a form of business diversification and a way to increase its media advertising presence beyond contextual advertising.

In October 2013, Yandex acquired leading movie portal Kinopoisk.ru.¹

■ **Content providers: Low / Medium opportunity**

As the online video audience is growing, the Internet has become an important source of content promotion for copyright owners. There are already several examples: the Yellow Black and White holding and Krasniy Kvadrat own Molodejj.tv, Amedia Holding has its own VOD site, and Videomore distributes CTC Media's content.

■ **Foreign in-stream video provider: Low / Medium opportunity**

Among potential acquirers could be Hulu (both for advertising model and PPV model companies), Netflix (mostly for PPV and subscriber model companies), and Amazon (owner of Viacom and potential acquirer of Hulu).

¹ <http://www.ewdn.com/2013/10/16/yandex-acquires-kinopoisk/>



In 2011 and 2012, representatives of Netflix and Hulu met with representatives from the Russian online video and movie industries and inquired about the state of the Russian online video market.² Currently Hulu and Netflix are struggling for leadership on the US market. They invest considerable amounts in exclusive third-party content and the production of original content. Outside the US, Hulu has only launched service in Japan, while Netflix has much broader international coverage in Europe, Latin America, the UK, and Canada.

In August 2013, Amazon applied to register the trademark “Amazon Instant Video” with the Russian patent office.³

■ Mobile and Internet operators: Medium opportunity

Mobile and Internet operators may boost their presence in online content and continue to provide access to online content via smartphones and tablets. This would be a good opportunity for them to increase ARPU.

For example, one of the largest European mobile operators, France Telecom, owns the video portal Daily Motion.

However, MTS already has its own project, Stream.ru. Megafon has developed the Trava.ru project, and it was recently announced that Megafon would buy Scartel, which owns Playfamily (formerly Yota Play). One of the remaining operators, Rostelecom, also has its own project, Zabava. Zabava is closely linked to Zoomby because its current CEO, Sergey Kalugin, was one of Zoomby's founders.

² <http://www.ewdn.com/2012/02/14/hulu-com-considers-entering-the-russian-market/>

³ <http://www.ewdn.com/2013/08/22/amazon-preparing-to-launch-online-video-service-in-russia/>

• INTERNET • E-COMMERCE • MOBILE • SOFTWARE INNOVATION •

STARTUPS & INCUBATORS • INVESTMENT ACTIVITY • LEGAL ENVIRONMENT • EVENTS

Digital Russia in English



East-West Digital News

Daily news • Analysis
International consulting
www.ewdn.com

East-West Digital News is the first international information and consulting company dedicated to Russian digital industries. Get in touch with us at
c o n t a c t @ e w d n . c o m

• INTERNET • E-COMMERCE • MOBILE • SOFTWARE INNOVATION •

STARTUPS & INCUBATORS • INVESTMENT ACTIVITY • LEGAL ENVIRONMENT • EVENTS