



HELSINKI COMMISSION HEARING

UNITED STATES COMMISSION ON
SECURITY AND COOPERATION IN EUROPE

Testimony :: Boris Jordan

General Director - NTV

Thank you for inviting me to participate in the Helsinki Commission's hearings on the state of human rights in Russia, and particularly the events surrounding the change in management of the Russian television network NTV. I am especially grateful for this opportunity because I believe that NTV is one of the most important components of Russia's independent media, and its rehabilitation is essential to maintaining and improving the quality of human rights in Russia. Since assuming control of NTV in April, I have endeavored to rebuild it into a truly independent and professional news and entertainment company. However, to be truly independent, NTV must be permanently unchained from both the editorial and financial influence of the Russian state.

I cannot accomplish that unless NTV is also freed of the stigma cast upon it by Vladimir Gusinsky in the months since he lost control of the company. It is essential for the Commission to recognize that NTV has been and remains the victim of Mr. Gusinsky's practice of trading favorable media coverage for investment monies. The record is clear that Mr. Gusinsky, in league with Russian state financial institutions, crippled NTV with debts that it could not hope to repay. Moreover, as the press has reported, Mr. Gusinsky was able to accumulate these massive debts precisely because he was willing to trade favorable press coverage for state funds and loan guarantees. Therefore, to the extent that the freedom of expression in Russia is diminished or imperiled by the current condition of NTV, the Commission must understand that Mr. Gusinsky and his colleagues are responsible for this state of affairs.

I am intent on establishing NTV's independence both by putting it on a sound financial footing and by ensuring the freedom of its editorial voice. If I may, I would like to explain to the Commission how NTV came to its current condition, what efforts the new NTV board of directors is undertaking to improve NTV's standing, and how these efforts are critical to the maintenance of free expression in Russia.

Mr. Gusinsky Traded Favorable Press Coverage for State-Sponsored Loans.

Mr. Gusinsky would have the world believe that he is being persecuted for building an independent and critical media voice. That is an utter falsehood. It is widely known that Mr. Gusinsky built his media empire up by trading media influence for Kremlin support, and in turn parlaying his Kremlin support into investments. This practice reached its peak during Mr. Yeltsin's 1996 presidential campaign, a fact that Mr. Gusinsky himself admits. Last summer, Mr. Gusinsky said that Media MOST became a major media power following the 1996 elections, when the Kremlin gave him a license for daytime broadcasting as a reward for his services in helping get Mr. Yeltsin re-elected. Mr. Gusinsky's deputy, Igor Malashenko, who today campaigns in defense of Media MOST, was at that time Mr. Yeltsin's campaign manager while he was also serving as the General Director of NTV. There can be no more direct evidence of Mr. Gusinsky's willing lack of editorial independence. As Mr. Gusinsky himself said, "I was part of the team that in 1996 gave birth to this system. Believe me, today I have to a large extent re-assessed this process. If I could enter the same water twice, we would have behaved the same during the 1996 elections as we behaved in 1999 and 2000. But unfortunately, time flows only one way." (Andrei Zolotov, Jr., *Gusinsky: Kremlin Tried To Bribe Me*, *St. Petersburg Times*, #573, June 2, 2000.) Mr. Gusinsky has also acknowledged that he used his organization to attack Mr. Yeltsin when Mr. Gusinsky did not receive political favors that he felt were his due after the presidential election. NTV's Chief Editor at the time, Mr. Kiselyov, has also admitted that NTV was placed in the service of particular political interests when it served Mr. Gusinsky's agenda. Therefore, although NTV may have at certain times criticized the government under Mr. Gusinsky's leadership, it is ridiculous for anyone to suggest that such criticism was the act of an independent and objective media outlet. When Mr. Gusinsky has been candid, even he has admitted that this was not the case.

Given that Mr. Gusinsky owed his very broadcasting license to his efforts in service of Mr. Yeltsin, it is particularly galling

for NTV to now suffer his current media campaign, wherein NTV is depicted as the once free vassal of a newly repressive Russian state. Mr. Gusinsky would have everyone ignore the fact that he operated NTV as a mercenary of the State and other paying interests. Indeed, since my appointment, I have been approached by numerous Russian entities that have requested that I ensure that NTV does not broadcast negative information or that we broadcast positive information regarding their businesses in return for personal payments of millions of dollars. I have rejected such offers. However, I have received confirmation from both inside and outside NTV that such offers were routinely accepted by the previous management. As far as I can tell, up to \$50 million per year in revenues came from such "black advertising" or payments by politicians and business executives in exchange for positive or non-critical coverage. This is the legacy left by Mr. Gusinsky that NTV's new management must overcome. It is therefore my sincere hope that the irony of Mr. Gusinsky's rhetoric is not lost on the Commission.

Mr. Gusinsky Left NTV Insolvent.

I first met with representatives of NTV's two other principal shareholders, Gazprom Media and Capital Group, in March of this year to discuss NTV's critical financial situation. Gazprom Media is the media holding company established by Russia's dominant natural gas company, Gazprom. Capital Group is a highly regarded American private investment fund. At that point, Gazprom Media and Capital Group together owned slightly over 50% of NTV's shares. Mr. Gusinsky's Media MOST holding company owned the remainder. At the time of that meeting, NTV was insolvent. Because of my business and financial background, I was asked to lead NTV under a new Western-style management group and to arrange for a necessary infusion of new capital. On April 3, 2001, NTV's shareholders elected a new board of directors and appointed me as NTV's General Director.

As you may know, I am also involved with the Sputnik Group, one of Russia's largest private equity funds. I have been a part of the Russian business and investing community for nearly ten years, and I have participated in some of its most important developments. I was a founder of Renaissance Capital, which is one of the first and most prominent Russian investment banks. I built Renaissance Capital into Russia's first full-service financial institution, serving a diverse base of international and Russian blue chip clients. I first came to Russia with CS First Boston and before that I worked on Wall Street for Kidder Peabody & Co. I am also an American citizen, born and raised on Long Island and educated at New York University. It is this unique combination of training and experience — in both Russia and the United States — that I bring to the current effort to rehabilitate NTV.

Eleven days after the new board was elected and I was appointed as General Director, we were able to gain access to financial information relating to NTV and Media MOST, including drafts of NTV's unsigned audit statements for 1999 and 2000 prepared by PricewaterhouseCoopers. Mr. Gusinsky never completed or presented these statements to NTV's shareholders. 'When I received these draft audits, it was immediately clear that NTV was not, in accounting terms, a "going concern." Over the last four years, NTV accumulated a loss of approximately \$62 million. In addition, the company has been in arrears in its broadcasting fees, rents, and many suppliers, subcontractors and employees had gone unpaid for months. All told, at the time of the change in control, Mr. Gusinsky had burdened NTV with more than \$100 million in debt.

Ironically, despite borrowing so much money, NTV was under-investing in content purchases in 2000: specifically, the number of acquired movies dropped by more than 50% in 2000, compared to 1999; overdue payables to Russian content suppliers — some of which have not been paid for more than a year — exceed \$2 million; overdue payables to international content suppliers amount to another \$1.4 million; and only \$3.2 million of the planned \$5.1 million was spent in the first quarter of 2000 for new content.

Further, NTV was never run as a viable business. Mr. Gusinsky did not practice proper budgeting or financial planning, and what financial plans did exist for 2001 provided for negative cash flow; i.e., there was no plan to pay for the expenses coming due this year. Despite this obvious disconnect between revenues and debt, expenses, salaries and perquisites at NTV were unreasonably lavish. For instance, twenty NTV journalists were paid salaries in excess of \$300,000 per year, and some of NTV's money was loaned to its employees. As a matter of business realities, NTV should never have had such high overheads and debts. Likewise, the figures released this month by Media MOST to the Financial Times show substantial overheads from Mr. Gusinsky's parent company, including up to \$20 million per year in salaries for a head office of around 600 employees, as well as airplane leasing costs of \$11 million and legal and audit fees of \$5 million in 2000. (See Andrew Jack, *Gazprom Stuggles With A Media Legacy*, Financial Times, June 5, 2001.)

These business decisions were made with no regard to the realities of the Russian media market. Therefore, it should come as no surprise that under Mr. Gusinsky's leadership NTV registered a profit in only one quarter since it was founded in 1993. Since 1997, Mr. Gusinsky has amassed \$1.6 billion of debt, virtually none of which was ever repaid in cash; Mr. Gusinsky instead preferred to swap his debts for questionably valued pieces of his companies. To date, the Media MOST group has converted \$571 million of its debt into equity. It has also written off \$168 million in exchange for government securities. However, that still leaves more than \$857 million in borrowings outstanding on Media MOST's balance sheet. As a simple

matter of finances, this massive indebtedness is the reason that Gazprom and Capital Group found it necessary to appoint new management at NTV. It was clear from Mr. Gusinsky's past practices that he will never pay his debts, including the \$261 million coming due to Gazprom in July.

Nor should the Commission be left with the impression that Mr. Gusinsky only left large lenders such as Gazprom in the lurch. In reality, Mr. Gusinsky also left NTV with debts to many small independent television producers and other journalists, thereby damaging their livelihoods as well as NTV. During Gusinsky's tenure, NTV failed to pay numerous program suppliers, and even many of its own employees. Mr. Gusinsky's unprofessional and ethically questionable practices were therefore a scourge on much of the Russian media market.

NTV's insolvency is clearly the result of an intentional scheme by Mr. Gusinsky to saddle all of the Media MOST companies with more debts than they could possibly repay. The basic and irrefutable facts of the Russian television industry show the deliberate folly of Mr. Gusinsky's excessive borrowing. The annual Russian commercial advertising market in electronic media does not exceed approximately \$350 — \$400 million per year. NTV's legitimate advertising revenues before the management change were less than \$100 million per year. Clearly that is not large enough to serve as the basis to pay the debts that Mr. Gusinsky so indiscriminately heaped upon NTV and his other companies, debts which arguably exceed the entire value of the Russian television industry.

In sum, it is Mr. Gusinsky who bears the blame for compromising the independence of NTV. Mr. Gusinsky left NTV extremely vulnerable by his assumption of colossal debts coupled with his inability and unwillingness to repay them. The predicament that Mr. Gusinsky created for NTV is extremely serious. Article 99 of the Russian Civil Code states that if the net assets of a joint-stock company are lower than the minimum amount of charter capital required bylaw, the company must be liquidated. Mr. Gusinsky left NTV without the necessary capital, and the threat to its existence as an organization financially independent of the State is therefore imminent unless we can secure additional funding on an urgent basis.

The Change in Management at NTV Was Lawful and Peaceful.

There have been serious misrepresentations in the media about the way the change in management at NTV occurred. Some have wrongfully characterized it as a forceful takeover at the urging of the Russian government. I want the record to be clear that the new NTV board of directors assumed control of the station peacefully, lawfully and by the will of NTV's shareholders. These are the facts: Following the April 3rd shareholders' meeting, former NTV general director Evgeniy Kiselyov and a few of his close associates launched a protest and declared that they would block me and my team from entering NTV headquarters. When my attorneys conveyed my request for access to NTV's records, Mr. Kiselyov denied the request and asked my attorneys to leave the premises. These same persons disrupted normal NTV programming and uttered a number of obscenities on the air. Just as in the United States, these unprofessional acts violated the station's federal broadcasting license. These same persons then cancelled commercials in breach of NTV's agreements with its advertisers, which resulted in a material loss of advertising revenue for the company. When I learned, around midnight on April 13th, that these protestors were removing television equipment belonging to NTV, along with the news department's archives, I directed my Deputy General Director to prevent the theft and to protect the station, but also to avoid confrontation. My Deputy, together with a few attorneys, personal assistants, and ten unarmed private security personnel peacefully entered NTV's premises that night. Upon entering NTV, they discovered that Mr. Kiselyov and his associates had illegally diverted NTV's broadcast signal to TNT, another television station owned by Mr. Gusinsky's group.

Contrary to media reports which have tended to repeat early and inaccurate accounts, force was never used and no government officials or security forces were involved. My Deputy General Director and his assistants were admitted by NTV security guards after they were shown various legal documents which verified our right to enter the premises, including orders signed by me under the official seal of NTV. In other words, NTV was voluntarily turned over to its new management in recognition of the legal authority of the new board to assume control of the station. I cannot stress heavily enough that the change in management at NTV took place peacefully and at all times in compliance with the law. I can confidently say that such a change of control, as the result of a legitimate vote of the majority of NTV's shareholders, would have passed muster if it had taken place in the United States.

NTV Is Essential to the Maintenance and Improvement of Human Rights in Russia.

Despite Mr. Gusinsky's legacies of debt and influence peddling, I believe that NTV can be rehabilitated to realize its true potential as an independent voice. I know that the Helsinki Commission is particularly concerned with the death and destruction that continues to occur in Chechnya. NTV's reporting of the Chechnya crisis has been an essential part of the Russian human rights equation. By bringing to light the abuses occurring there, I think it is fair to say that NTV has served as an engine for human rights reform.

What has been getting lost in the current media battle over NTV, however, is the fact that NTV's reporting on the Chechnya

crisis continues the professional investigation and analysis that characterized NTV's coverage before the change in control. In fact, the team of NTV reporters covering Chechnya remains the same. As I have said all along, I only ask that the world judge NTV by its actions, and not by rumors or speculation. I encourage you and the Commission to review the enclosed articles which trace NTV's recent reporting on various issues within Russia, including its continued reporting of the events occurring in Chechnya. I think you will find that NTV's reporting continues to be objective, professional and, most importantly, critical.

I Am Taking 'The Most Effective Steps Possible to Ensure NTV's Editorial Independence.

Perhaps one of the most concrete illustrations of NTV's commitment to editorial independence is the fact that on April 25, 2001, NTV's own journalists elected Tatiana Mitkova as NTV's Chief News Editor. Ms. Mitkova is an award-winning journalist who is held in the highest regard for her reporting and news analyses, and she has the true credentials of an independent journalist. In 1991, she was fired from her position as a producer and correspondent for Soviet State Television after she refused to read a government-influenced statement sanitizing the storming of a television tower in Vilnius, Lithuania by Soviet forces, during which more than a dozen protesters were killed. That same year, Ms. Mitkova won an award for "outstanding professionalism" by the Committee to Protect Journalists, and in 1994 she was awarded a medal by the President of Lithuania in recognition of her actions during the attack. Her acceptance of the editorial helm of NTV should be a cause for confidence that NTV is taking the most meaningful steps possible toward creating an editorially independent and professional media outlet.

The Commission should also know that not a single NTV journalist has been fired, including the journalists who reported stories critical of President Putin for the Russian government's actions in Chechnya. Moreover, less than one-third of the members of NTV's news department have resigned since April 3rd. In fact, eight members of the news staff have officially returned and more are expected to return in the near future.

Above all, I want the Commission to understand that I am thoroughly committed to establishing NTV's editorial independence. As I have informed NTV's shareholders, I shall immediately resign if there is any attempt to influence NTV's editorial independence or journalistic freedom. I cannot think of any way to make my intention more clear.

I am working to ensure NTV's financial independence.

Ultimately, NTV has little chance of surviving as an independent editorial voice unless a viable business model is put into place. That is exactly what I intend to do. My agenda is to improve NTV's profitability and build it into Russia's leading independent media company. Perhaps the most effective means by which I can ensure NTV's editorial independence is by establishing its economic independence. My mandate is to run NTV as a business, to make its operations profitable and to attract strategic foreign investment to enable NTV to become a world-class network.

Accordingly, we have embarked on an ambitious yet sensible program to establish NTV's independence. We have begun the task of carrying out a proper audit of the company, the first in two years. That audit has been published under Russian Statutory Accounting Principles, and is now being completed in accordance with U.S. Generally Accepted Accounting Principles. We are also creating a budget with a detailed balance sheet and cash flow statements, another essential feature of a professional organization which will be new to NTV. We are also streamlining operations and reducing out-of-control costs. But the Commission needs to appreciate just how far NTV must go to overcome Mr. Gusinsky's fleecing of his own companies. My first task was to pay hundreds of thousands of dollars in outstanding employee salaries and debts to program producers. My second will be to raise more than \$20 million to cover the outstanding costs of our foreign bureaus. NTV was left entirely without resources, and therefore needs to be able to bring itself current before it can move forward.

Unfortunately, even today Mr. Gusinsky plots to strip NTV's resources away from it through various court actions in Russia.

I hope that this statement sheds light on those parts of this dispute that have not received sufficient attention. I also encourage you to address any questions you may have to me and my colleagues at NTV. You will find NTV's new management to be much more forthcoming and open than its previous handlers.