

Chapter 1. About the Company

1.1 Company history

The Company was founded in 1993 as an information agency specializing in financial and economic news on the Russian market. A few years later, the Company managed to achieve leadership on the country's business news market. In 1995 RBC was the first news agency to launch its own internet portal, Rbc.ru, which quickly became one of Russia's primary sources for business news. In April 2002, RBC was the first company to hold an IPO on the Russian stock market. In 2003, the Company implemented one of its largest media projects by launching RBC channel, Russia's first business television channel. In 2006, RBC expanded its portfolio of niche media products and entered the print media segment. In just a year, both *RBC* magazine and *RBC daily* newspaper gained an audience comparable to that of the market's leaders. In 2007, RBC spun off its IT business and began to develop non-business online resources. In 2008, RBC consolidated its domain name registration and hosting businesses by establishing Hosting Community group. In 2012, RBC acquired RU-CENTER, Russia's largest domain name registrar and a leading hosting provider. As a result, Hosting Community became a leading player on the Russian domain name and hosting market.

High recognition of RBC brand along with the Company's extensive experience in delivering efficient advertising campaigns in collaboration with other media has facilitated the development of RBC's marketing communications business. In this area, RBC organizes high-profile national awards, such as Company of the Year, Person of the Year, Marka №1 in Russia, and The Best Brand/EFFIE Russia.

RBC has recently been increasingly involved in the mobile internet segment, launched mobile versions of its online resources, and developed applications for the key operating systems. All of RBC core media projects are currently available through dedicated mobile applications, which have gained popularity among consumers.

Over the 20 years since its inception, the Company has managed to craft high-quality content and won confidence from tens of millions of people in Russia and the CIS. RBC was the first to diversify its media channels, enabling consumers to receive information in the most convenient manner.

1.2 Areas of business

RBC's online resources

RBC is one of the largest players on the Russian Internet. Its average monthly aggregate audience exceeded 49.1m people in 2013, according to TNS data.

Rbc.ru portal is the leading source of business and financial information on the Russian Internet. Rbc.ru offers its users newsfeeds, economic, financial, political, and analytic reports, comments, and forecasts, as well as real-time data on all financial segments, broadcasts of press events and interviews with high-profile Russian business and political leaders.

Apart from the main portal, RBC develops other special projects with wide-ranging content such as the website of *RBC daily* business newspaper (Rbcdaily.ru), financial information portal Quote.rbc.ru, hi-tech news website Cnews.ru, automotive news website Autonews.ru, real estate information portal Realty.rbc.ru, online lifestyle outlet Style.rbc.ru, online travel guide Travel.rbc.ru, catalog of short educational courses Seminar.rbc.ru, database of businesses for sale Biztorg.ru, marketing research reports store Research.rbc.ru, and a section on personal investments and loans Lf.rbc.ru.

Along with the wide range of business web resources, RBC is also the owner of a number of entertainment online resources. For instance, RBC's portfolio includes Loveplanet.ru, one of the largest dating websites on the Russian Internet, Smotri.com video sharing website, QIP instant messenger, and Qip.ru entertainment portal.

Domain registration and hosting

RBC's companies in the domain name registration and hosting segments were consolidated as Hosting Community group of companies. Companies of Hosting Community offer domain name registration services and support worldwide. In addition, registrars offer a full range of value-added services related to domain names: secondary market, legal support in transactions, dispute resolution, domain parking and other services. Hosting is a placement service for sites, program applications and other information. The placement is done on provider's equipment. Hosters ensure flawless work of equipment, 24/7 access to the information, and data protection. Hosting Community offers services on rent and placement of servers and provision of SSL certificates, as well as other value-added services.

Hosting Community is currently comprised of the following operating companies which include ICANN-accredited registrars R01, RU-CENTER, and Reggi; hosting companies Hosting Center, SpaceWeb, and Peterhost, as well as a telecommunications company Garant-Park-Telecom. Hosting Community is the largest community of domain name registrars and hosting providers in Russia. As of November 2013, according to Hosting Community estimates, the share of domain registration market in national zones .RU, .PФ and .SU was as follows: 47.7%, 53.7% and 63.2% respectively. In the hosting segment Hosting Community's market share makes up 26.3%, not including foreign hosting companies and small web studios that offer site placement services using proprietary equipment. Over one million clients use Hosting Community's services.

RBC television channel

RBC channel was launched in 2003. Today, RBC remains Russia's only business TV channel focusing on the coverage of economic and financial developments in Russia and worldwide, featuring relevant comments, interviews and insightful analysis from both Russian and foreign experts, live on-the-spot reports, feature programs and industry reviews, as well as materials from international news agencies. Sports and lifestyle programs are added to the weekend programming grid. Over 95% of RBC channel's content is created by RBC journalists and is focused on Russia, while the channel's information partners supply foreign market data.

RBC broadcasts 24/7, delivering its signal via cable, satellite, and over the Internet. The channel has proprietary TV stations in Rostov-on-Don and Novosibirsk. The signal is now available in all major Russian cities across the country, and the channel's penetration in Russia as a whole stands at more than 75m. In its key market – Moscow – the channel is broadcast in all districts, and is available in all major cities of the Moscow region. In addition, RBC is broadcast in the CIS and the Baltic States, Western Europe, North Africa, Middle East and Central Asia.

The channel broadcasts from a hi-technology TV complex located in Moscow. RBC also operates two remote TV studios in Ararat Park Hyatt hotel and Moscow International Business Center (Moscow-City), as well as a remote camera in St. Petersburg. Furthermore, the channel has a news bureau in New York, which provides live coverage from one of the world's financial centers.

The channel's monthly audience in Russia averaged 22.3m viewers in 2013, according to TNS data.

RBC's print publications

In print media segment, RBC offers two business titles: *RBC daily* newspaper and *RBC* monthly magazine. Both titles were founded in 2006 on the back of rising demand among advertisers for RBC's resources. The two publications quickly captured leadership positions in the business press segment.

RBC daily newspaper offers its readers a daily roundup of the latest Russian and foreign business news stories. The newspaper covers various segments of the Russian economy and corporate news stories. *RBC daily* is among top-3 business daily newspapers in Moscow. *RBC magazine* is a monthly business magazine which brings together high-quality information and analytical material on various sectors of the Russian and global economy. *RBC magazine* is the most popular monthly business publication in Moscow and the second most popular business title in Russia.

Marketing communications

In this segment, RBC organizes high-profile national awards, such as Company of the Year, Person of the Year, Marka №1 in Russia, and The Best Brand/EFFIE, and also holds business regattas.

1.3 Business model

RBC generates the bulk of its revenue from the sale of advertising in its media resources on the Internet, television, and in printed publications. Advertising revenue accounts for approximately 65% of aggregate revenue. The rest is revenue from domain registration and hosting services, value-added online services, and dissemination of printed publications via the points of sale. The Company has recently pursued a policy of cutting the share of advertising revenue by boosting revenues from developing domain registration and hosting business and value-added online services. By doing so, RBC attempts to reduce the dependence of its quarterly revenue on seasonal fluctuations on the advertising market. The seasonal nature of the advertising market means low advertising activity in

January, the first half of February and in the summer months and high activity in autumn and in the period ahead of New Year holidays. The seasonal declines are strongly pronounced for RBC, which focuses primarily on business audience.

The Company receives advertising revenue by placing advertisements on its own Internet websites, on television, and in printed business publications. Therefore, the company has a presence in the three segments of the Russian advertising market, which enables it to attract a large number of advertisers and sell advertising packages. Advertising packages mean comprehensive advertising placement on several resources and/or in several segments.

The Company sells advertising through its own team of advertising sales managers and in cooperation with all major Russian advertising agencies. RBC switched to advertising-focused business model in 1998 and starting from that year the Company has formed its own advertising sales structure. As a result, RBC's advertising sales team is a group of professionals who have in-depth knowledge of the advertising market and experience in effective sales. The important aspect in the work of the Company's advertising sales team is cooperation with advertising agencies. At present, the Company cooperates with all leading Russian advertising agencies which provide access to large advertisers, including multinational corporations which prefer to conduct their advertising campaigns via specialized agencies. RBC's efficient sales are based on a combination of direct sales with sales through advertising agencies.

Revenue from value-added online services comes from fees for certain services charged from users. Value-added online services include paid subscription to the expanded newswire, access to information and research system QuoteTerminal, sales of ready-to-use marketing researches (industry researches, business plans, analytical reports, etc), paid value-added services at RBC's entertainment resources, in particular the dating website Loveplanet.ru (a paid service to promote a user profile to top search results, placement of a user profile on privileged positions) and QIP messenger (a fee for calls made to fixed-line and mobile phones).

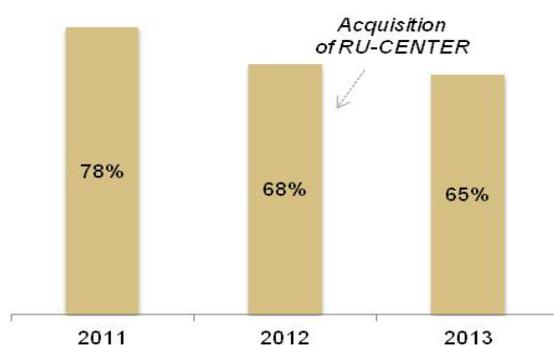
Domain registration revenue is a fee charged from a client for the registration of a domain name in the chosen zone for one year. The amount of the fee depends on the area in which the domain name is registered. A fee is also charged for the renewal of registration for the following year. Hosting revenue also comes from payment charged from a client depending on the service period (from 3 months to 1 year) for a package of services available at a certain tariff. Thus, incomes from domain registration and hosting services are regular payments from clients for services provided to them. In addition to the main services, a number of additional services are offered, for instance rent and placement of servers, provision of SSL certificates, website creation.

Seasonality of RBC's revenue – share of quarterly revenue in annual consolidated revenue structure (average figure for the last three years)

Q1	Q2	Q3	Q4
19%	25%	22%	34%

Source: Company data

Share of advertising revenue in RBC's consolidated revenue



Source: Company data

Unlike revenue, which is subject to seasonal fluctuations, RBC's expenses predominantly consist of permanent costs. Payroll makes up the largest share of the cost side. It includes salaries and premiums paid to employees. Higher payroll costs are attributable to an increase in headcount and salaries paid to employees. The Company has seen moderate growth of headcount in recent years. Furthermore, the Company is interested in attracting and retaining highly-qualified employees in order to maintain its market leadership.

Commercial expenses are the second biggest cost item. They comprise fees to advertising agencies and costs of promotion of RBC's projects on third party resources. Costs related to the payment of fees to advertising agencies are the main fluctuating costs as they are directly related to the growth of RBC's advertising revenue.

Cost of sales is made up of expenses for printing, telecommunications expenses (Internet access, domain name registration and renewal, TV signal transmission, expenses on data centers), and costs to purchase information.

The Company's administrative costs include office rental payments and office maintenance expenses, expenses for the administrative and technical divisions, and salaries to administrative staff.

1.4 Development strategy

In the end of 2013 RBC determined key development goals for the next few years. The mission of RBC is to build a platform that provides businesses with full-scope solutions and helps attain their top-priority goals. The strategy is based on the principle “Business made easy”.

On the one hand, RBC strives to keep the position of the largest cross-platform media company in the b2c business information segment in Russia. Key goals until the end of 2016 are the growth of audience and advertising sales at least on par with the market, full realization of RBC’s potential as a 360° platform, and the growth of margins at least up to the market average³.

Concurrent to maintaining dominant position in the business b2c information segment, RBC plans to extend its operations in the segment of b2b information and online services for business. As part of this initiative, the company plans to address all key needs of not only individuals, but also companies as to how set up and successfully conduct a business.

Thus, RBC will concentrate on the development of its core competence – creation of high-quality business media products. At the same time, the company will choose the most appropriate ways to enter the segment of b2b services for business. As a result of the company’s operations extension in the b2b segment, RBC will diversify its revenue sources by means of content sale and paid online services.

RBC’s targets for 2014 include completion of the business processes restructuring, management structure optimization, and revision of editorial and commercial policies. Despite business reorganization process underway, RBC is committed to maintain cash-based profitability of the media business at least at the level of 2013.

³ For platforms, whose business models are based on advertising sales