

### Chapter 3. Board of Directors' report for 2013

#### 3.1 Financial results

RBC's consolidated revenue rose 5% year-on-year to RUB 5.59bn in 2013. Revenue generated in the Internet segment accounted for 48% of the total revenue as of the year-end, domains and hosting revenue amounted to 27%, while TV and printed publications contributed 18% and 7%, respectively. RBC's operating expenses climbed 21% to RUB 5.58bn in 2013. EBITDA came in at RUB 12m.

#### Financial highlights of 2013<sup>4</sup>

RUB m	2013	2012	Change
<b>Revenue</b>	<b>5,591</b>	<b>5,070</b>	<b>10%</b>
Internet	2,689	2,638	2%
<i>Advertising</i>	2,293	2,233	3%
<i>Services</i>	396	405	-2%
Domains and hosting	1,534	1,169	31%
Television	999	846	18%
Business press	369	417	-12%
<b>Operating expenses</b>	<b>5,579</b>	<b>4,597</b>	<b>21%</b>
<b>EBITDA</b>	<b>12</b>	<b>473</b>	<b>-97%</b>

Revenue from the Internet division increased 2% year-on-year to RUB 2.69bn in 2013. Among major growth factors were high sell-out ratio of business resources and special advertising projects on business Internet platforms, which offset the negative year-on-year revenue growth in H1. Services revenue shortfall is attributable to the restructuring of RBC's non-business Internet resources. As part of the restructuring process some projects are being prepared for sale or entry of partners for further development, and optimization of the management structure is underway.

RBC's revenue in the domain registration and hosting segment advanced 31% to RUB 1.53bn on the back of the acquisition of RU-CENTER, organic growth in revenue from services provided, and consolidation of the results of domain name registrar Reggi, acquired in November 2013.

The revenue of RBC channel amounted to RUB 999m in the reporting year, up 18% compared to 2012. Expansion of advertising capabilities through programming grid update, launch of new television projects and installation of 3D and 4D graphics software helped boost the sell-out ratio in 2013.

<sup>4</sup> According to management accounts, excluding the financial results of RBK Money payment system (sold in 2012) and Salon-Press Publishing House (sold in 2013).

The revenue from RBC's printed publications decreased 12% to RUB 369m in 2013. Lower revenue resulted from an increase in advertiser interest in advertising on the Internet and a law restricting advertising of alcohol products (a ban on advertising of alcohol products in printed publications took effect in early 2013). Nevertheless, RBC was able to partially offset the shortfall by other categories of advertisers, primarily thanks to higher budgets of advertisers in luxury and real estate segments against the backdrop of strengthening audience ratings throughout the year.

### 3.2 Operating results

#### The Internet

RBC began last year with a large-scale rebranding campaign of all content media projects. Changes affected the brand that remained unchanged for nearly 20 years and the corporate style of RBC Group. Rebranding predetermined the main focus of work to develop media platforms in H1. The Company did not limit its efforts solely to visual revamping of projects, paying attention to content expansion, adoption of modern approaches to information presentation, and improvement of user experience. As a result of these transformations, RBC enhanced positioning of its projects with account of the needs of the target audience, while the concept of media platforms remained largely unchanged.

Improvements were made in all topical Internet projects targeted at business audience. The most sweeping changes occurred in the content sections of the Rbc.ru portal: Realty.rbc.ru, Travel.rbc.ru, as well as automobile website Autonews.ru. Audience figures and qualitative characteristics of RBC's topical website traffic serve as a confirmation of the audience's positive reaction to the revamped websites. Positive changes were also noted by professionals in the topic-specific communities. Thus, RBC Real Estate project (Realty.rbc.ru) became the winner of the Seventh annual international public contest WEB-Realtor-2013 (St. Petersburg) for real estate websites in the category of the best Internet portal covering the real estate market in 2013. It was also named the best media at the Russian Real Estate Forum (REEF) Awards-2013 for its achievements in the coverage of the residential construction market.

Concurrently with revamping its websites, RBC was putting in hard work to firm up its position in the mobile Internet segment. In May, RBC News mobile app was rolled out for iOS and Android smartphones and tablets. RBC News offers the advantage of having the content of RBC news agency, *RBC daily* newspaper, and RBC television channel, including on-air broadcasting, in one app. Major novelties included a modern design and functional interface supplemented with a number of functionalities. Specifically, such custom widgets as weather, stock market data and time zones became available to users. RBC continued to develop regional versions of the Rbc.ru portal. During the reporting year, regional versions were launched in Volgograd, Nizhny Novgorod, Novosibirsk, Rostov-on-Don, the Krasnodar Region, the Perm Region, the Republic of Bashkortostan, and the Republic of Tatarstan. In contrast to the first regional version of Rbc.ru launched in St. Petersburg in

November 2012 by the RBC team, the new regional projects launched in 2013 operate under a franchise model. This model envisions an involvement of a regional partner who provides regional news to the Rbc.ru newswire, sells advertising targeted at a specific region, and assumes an obligation to boost the traffic of the local website. RBC exerts editorial control over materials published and manages advertising placement.

The aggregate audience of RBC's Internet projects totaled 47.4m users in December, according to TNS.

In September, RBC opened a new press center complex located in its headquarters. RBC's press center has been successfully operating since 1998, and in the run-up to the rebranding a decision was made to profoundly revamp the project. The new complex comprises two halls with cutting-edge multimedia equipment. The press center can host events of different formats, with television and online broadcasting. RBC's press center provides great possibilities to hold events like press conferences, round-table discussions, presentations, online conferences, and business meetings. The press center's website [Presscentr.rbc.ru](http://Presscentr.rbc.ru) was also launched.

## **Television**

Work on modernizing RBC channel and developing real-time news broadcasting continued in 2013. A single news service was established which helps organize content depending on the importance of events, and the programming grid is flexible. As a result, the speed of delivery of business news and information went up. The programming grid was expanded by new program series during the reporting period. The weekend programming grid was completely revamped with more entertainment content added. Along with that, the channel's daytime lineup was partly reorganized to make it more convenient, including for watching in office with muted sound, by adding infographics and information scrawls. The efforts of the channel's team in 2013 were also devoted to the development of the channel's distribution, the expansion of coverage in Russia and the CIS, installation of LCD panels in office centers in Russia, and opening of remote TV studios. RBC channel opened its news bureau in New York in March and a remote studio in St. Petersburg in October.

The highlight of the reporting year was entering into a cooperation agreement with the Sochi 2014 Organizing Committee. As the result, RBC channel became the general partner and official broadcaster of the 2014 Sochi Winter Paralympics.

Average monthly audience of RBC channel in Russia increased 11% during the reporting year to 22.6m viewers in December, according to TNS statistics. The channel's average daily audience rose 22% year-on-year to 3.2m viewers as of the year-end.

## **Business press**

In 2013, the company increased the frequency of specialized topical supplements to *RBC daily* newspaper, launched *Lifestyle* Friday supplement, and introduced regular sports and real estate sections. The editorial policy of the newspaper was changed to give priority to the online version of the newspaper. *RBC* magazine was redesigned and its editorial policy was also revised.

*RBC daily* firmed up its positions as the second-largest printed business daily and the largest online business newspaper in terms of audience in 2013. *RBC* magazine confirmed its status as the leading business magazine in the capital and the second most popular business publication in Russia. According to a research carried out by TNS in September 2013-February 2014, average issue readership (AIR) of *RBC daily* in Moscow amounted to 90,400 people. The Russian daily audience of its online version (Rbcdaily.ru) reached 241,300 readers on weekdays in December 2013, according to TNS. *RBC* magazine's AIR in Russia amounted to 993,500 readers in September 2013-February 2014, while the magazine's AIR in Moscow reached 374,200 readers during the same period.

The structure of RBC's asset portfolio in the printed publications segment was optimized last year in line with the Company's strategy to strengthen its position in the business information segment. In September 2013, RBC announced having reached an agreement with Publishing House Burda, Moscow, regarding the sale of the business of Salon-Press Publishing House that specializes in publishing interior design magazines. The deal was closed in Q4 2013.

Redesign of the media platforms expanded RBC's advertising capabilities thanks to additional advertising space and a change in the format of advertising layouts, also enabling the Company to implement creative advertising campaigns and a number of multimedia partner projects.

### **Domains and hosting**

Work in the domains and hosting division continued on new product rollout during 2013. In July, RU-CENTER entered into an exclusive agreement with My-apps.com that produces mobile apps. Under this agreement, RU-CENTER became Russia's only registrar that provides users with a service of creating their own apps for mobile platforms under unique Instant-apps technology developed by My-apps.com. Other services launched last year include placement of DNS records on a cloud platform to improve the security of servers during peak loads and protect clients from DDoS attacks, as well as server rental abroad (in France and the U.S.) for companies targeting European and American customers. Additionally, extensive work was done in Q4 to prepare the rollout of the VDS hosting service intended to host large corporate websites, store huge amounts of information, and test applications for various operating systems.

As part of its strategy to boost the customer base, Hosting Community announced in early July having entered into a deal to acquire a 100% stake in Reggi Business LLC that provides services under the Reggi.ru brand. The deal was closed in November. The company became the third registrar accredited by ICANN and the sixth hosting services provider in the group. The new asset will enable Hosting Community to occupy additional market niches.

According to an estimate by Hosting Community, its domain market share amounted to 47.7% in .ru zone, 53.7% in .рф zone, and 63.2% in .su zone as of November 2013. Hosting Community holds a 26.3% share of the hosting services market, not including foreign hosting providers and small web studios that provide website hosting services using their own equipment.