

## Chapter 5. Risk Management

RBC's activities involve certain risks, which can be broken down into external (those beyond the company's control) and internal (those associated with the company's operations). The risk management strategy, which incorporates in-house controls, involves routine risk identification and assessment in order to prevent and mitigate the risks. Below is the list of the main risks that the company could face. The list is not exhaustive.

### External risks:

#### *Economic and financial risks*

- The dependence of Russian economy on major global economies could have an adverse effect on the domestic advertising market, specifically, with regard to operations of multinationals. In order to mitigate the dependence on advertising revenue, RBC is developing the segment of online services.
- The economic downturn may adversely affect the personal purchasing power and impair the business activity of RBC's advertisers who use the company's resources to market their goods and services, which may have a material negative effect on the company's revenue. To minimize this risk, RBC seeks to diversify its operations.
- The depreciation of the Russian ruble against the U.S. dollar may have a negative impact on the company's operating results. Although most of the revenue generated by the company comes in Russian rubles, and its expenses are also mostly ruble-denominated, some of the company's liabilities are denominated in U.S. dollars. Consequently, the dollar's rise against the ruble runs up the company's debt burden.
- Growing inflation increases the company's operating expenses, especially with regard to payroll expenses, and also reduces the purchasing power of such RBC ruble-denominated assets, as cash and deposits. RBC is about to implement a motivation plan for management staff and advertising sales team, which implies delivering on financial objectives.
- A banking crisis may also produce a material adverse effect on RBC's liquid assets should RBC's counterparty banks go bankrupt with the company failing to gain access to its funds held with such banks. To mitigate this risk, RBC maintains accounts with several banks.

#### *Political risks*

- The operations of Russian media companies can be subject to politically motivated actions that could have a material negative impact on the company's investment value. For over 20 years, RBC has enjoyed the status of an independent and objective information source. In line with the editorial policy of RBC news agency, the company deliberately refrains from any comments on political events.

#### *Legal risks*

- Changes in the regulatory environment for the activities of Russian media companies, including taxation, could have a material negative effect on RBC's operations. To minimize this risk, RBC employs professional lawyers to routinely track changes in the legal framework regulating the company's activities.
- The revocation of licenses or inability to obtain new licenses to carry out its operations could have a material negative effect on the scale of RBC's operations and the amount of its revenue. To minimize this risk, RBC closely monitors the validity and expiration dates of its licenses and takes care to ensure continuous compliance of its activities with license requirements.

#### *Market risks*

- The advertising market is subject to cyclical movements and is reflective of the economic situation within the country. In order to reduce the dependence on advertising revenue, RBC is seeking to diversify revenue sources, for instance, by developing online services.
- Season fluctuations of the advertising market with regard to business media results in an uneven distribution of incomes during the year. RBC views the development of online services as the best way to even out RBC's revenue throughout the year.
- Legislative initiatives to limit advertising time on television channels along with bans on advertising of certain product categories in various media outlets could have an adverse effect on the company's revenues. RBC's exposure to three major advertising markets enables the company to reallocate advertising budgets between segments. RBC is seeking to attract new categories of advertisers and expand involvement with segments with a small footprint in RBC's client base.
- Cuts in advertising budgets could have a material adverse impact on RBC's revenue and operating results. To minimize this risk, the company is seeking to diversify its revenue streams. By the same token, RBC is doing its best to perfect the quality of its media resources and services.
- Rising competition on the Russian media market and the arrival of new, stronger players could have a material negative effect on RBC's operating indicators. To protect itself against competition, the company seeks to expand its operations on the media market and is doing its best to improve the quality of its resources and services.
- A slowdown in the internet infrastructure growth rate could adversely affect RBC's business. Although the internet is RBC's major focus, the company is also engaged in such market segments as television and the press. Therefore, RBC employs business diversification as a tool to mitigate this risk.
- The gradual saturation of the online advertising market and the resulting decline in its growth rates could negatively impact RBC's revenue growth in the online segment. In order to minimize this risk RBC is diversifying revenue and client base, improves its media platforms, and develops creative, efficient, and comprehensive solutions for advertisers.

- Any failure to extend or breach of relations with third parties that contribute to RBC's content distribution could have an adverse influence on RBC's ratings and cut into its revenue. To minimize this risk, RBC is committed to expanding its partner network.
- If the company falls short of its payment collection expectations, this could also negatively affect its financial situation. To mitigate this risk, RBC conducts an assessment of the solvency of its clients. Payment size and due dates are set in line with existing market practices.
- Any change in the market value of RBC's investment targets could impact the company's financial indicators. To minimize this risk, RBC conducts risk assessment before making an investment to be subsequently backed by routine monitoring of the fair market value of its investments.
- New technologies may increase the risks of copyright piracy with regard to information and impair the company's ability to protect its intellectual property, as well as block customers' advertising. To mitigate this risk, the company employs an in-house team of IT specialists to search for and develop new technologies aimed at protecting the company from unlawful actions by third parties.

#### Internal risks

- The loss of key employees as competition in the media industry is becoming increasingly intense could have a negative impact on RBC's growth. To minimize this risk, the company is building up a reserve of employees trained for top management positions. If necessary, the company may appoint outside executives to key management positions.
- A decline in demand for RBC's business or other information and services could have a negative impact on RBC's revenue. In order to safeguard itself against this risk, the company runs a diversified portfolio of resources and services targeting various audiences.
- A downgrade of RBC's media ratings (audience) in the internet, television, or print media segments could have a material negative effect on RBC's advertising sales. To minimize this risk, RBC endeavors to improve the quality of its resources and services.
- The need to service its debt burden limits cash resources available to the company and prevents RBC from investing in all projects that could be of interest. RBC seeks to boost its operating cash flow through monetization of the current projects, launching new ones, and diversifying its client base and revenue sources.
- Difficulties in integrating new acquisitions, failure to find acquisition targets to match the company's development strategy, and bad investment decisions could result in lower-than-expected operating results for the company. RBC takes a conservative approach to the assessment of risks involved in potential investments in media assets and conducts the relevant due diligence audits before making informed decisions on such deals.
- Hardware and software failures could cause the company to lose part of its audience, damage its reputation and have a negative impact on its advertising sales. RBC maintains

backup servers and isolated generators to ensure the uninterrupted operation of the company's media resources, if necessary.

- The failure to maintain a high reputation and RBC's brand recognition at a high level could have a material negative effect on the company's operations. RBC's business model is based on using a unified content database and an umbrella brand for all of its thematic media outlets. The company uses a single brand, RBC, for all of its business-related internet, television and print media resources, which enhances synergies between the company's resources and gives RBC an edge over competitors which are less diversified media companies. For instance, RBC consistently takes advantage of cost-cutting opportunities in the process of content creation and boosts advertising proceeds through cross sales. Furthermore, cross promotion of its products helps RBC bolster the recognition of its existing and newly created brands.