

CHAPTER 3. BOARD OF DIRECTORS' REPORT FOR 2012

3.1 OPERATING ACTIVITIES

RBC management set as its priority operating goal for 2012 development of the Internet business division, including mobile Internet, and firming up the hosting and domain registration business, improvement of technological base and the content of RBC channel, and optimization of the asset structure. The Company has managed to achieve all of these goals.

INTERNET

The number of users of RBC Internet resources in Russia exceeded 20.5m people a month as of year-end 2012. The total Russian-speaking Internet audience stood at over 63.7m people as of the end of December, according to TNS.

In 2012, most attention was devoted to the development of the content projects of the Rbc.ru portal, such as RBC.Sport (Sport.rbc.ru), RBC.Style (Style.rbc.ru), RBC.Realty (Realty.rbc.ru), and upgrade of the automobile website Autonews.ru.

The thematic section Sport.rbc.ru with new design and content was launched in April 2012. The launch was preceded by work to re-design the website, upgrade its technological platform, form a new team of editors and reporters specializing in sports, create a sports newswire with up to 120 news items per day. Additionally, the work on exclusive materials, including interviews, players and experts' commentaries, was fine-tuned. In 2012, two special projects were implemented on the Sport.rbc.ru website timed to coincide with large international sports tournaments: the UEFA European Football Championship and the 2012 Summer Olympics. As a result, RBC.Sport became one of the most popular sports websites in the Russian language internet as of year-end in terms of monthly audience in Russia, according to Liveinternet.ru.

The design of the Style.rbc.ru website was changed and a new editorial policy was established. The range of topics covered by the project was expanded and new sections appeared. The revised version of RBC.Style was launched in December 2012.

Changes in the Realty.rbc.ru website also concerned its design. The new design offers the greatest possible convenience to users interested in the purchase, sale or rent of real estate. Furthermore, additional emphasis was placed on the website's content. Specifically, the number of news items and research materials devoted to the real estate market was increased and the database of real estate offers was substantially expanded. RBC.Realty was re-launched in early 2013.

The revamped automobile portal Autonews.ru offers users modern design and high-quality visual content. Additionally, changes were made to the structure of the website's sections, which became more functional, and the user content, the share of which was significantly increased. A section entitled Autonews Club was created, which is expected to become a forum for auto enthusiasts and automobile business representatives. The re-designed Autonews.ru website became available to users in early 2013.

The re-design of major thematic websites expanded the advertising opportunities of the resources as additional space for advertisements appeared and the formats of banners on main pages changed, which will make it possible to carry out various creative advertising campaigns. At the same time, expansion of the range of topics covered by the above-mentioned websites will enable RBC to diversify its customer base, which includes expanding cooperation with advertisers of luxury goods and services.

The revamping of major Internet resources in the reporting year lays the groundwork for growth of audience and financial results of RBC's Internet business division in 2013.

RBC continued to scale up its footprint on the mobile Internet market by launching new mobile applications. The Company launched RBC Loans app, which makes it possible to find a bank loan to fit user specifications based on offers available on the market and estimate the payment schedule (the app is accessible to users of Android mobile devices). Additionally, an application of Utro.ru news website for iOS and Android and an RBC Sport app for Android were launched. The latter made access to materials on the Sport.rbc.ru website more

convenient. As a result of this effort, users downloaded RBC's apps over 1m times by year-end. The RBC app, which includes Rbc.ru newswire, articles from the *RBC daily* newspaper and RBC channel programs enjoys top position in App Store and Google Play. RBC began monetization of its apps in 2012.

In March 2012, RBC announced having acquired a 33% stake in KuponGid (Kupongid.ru), one of the biggest discount coupon aggregators in Russia and Ukraine. The value of the deal amounted to \$0.5m, including investments in project development. RBC has a two-year option to increase its equity stake in KuponGid to 73% in accordance with the agreement. RBC had partially exercised its option as of the beginning of 2013 and its stake in the project rose to 53%. KuponGid was integrated into key non-business resources of RBC. Additionally, the Company worked on mobile apps of KuponGid during the last reporting year. The mobile app of KuponGid (the iSkidki app) is available to users of iOS, Android and Bada operating systems.

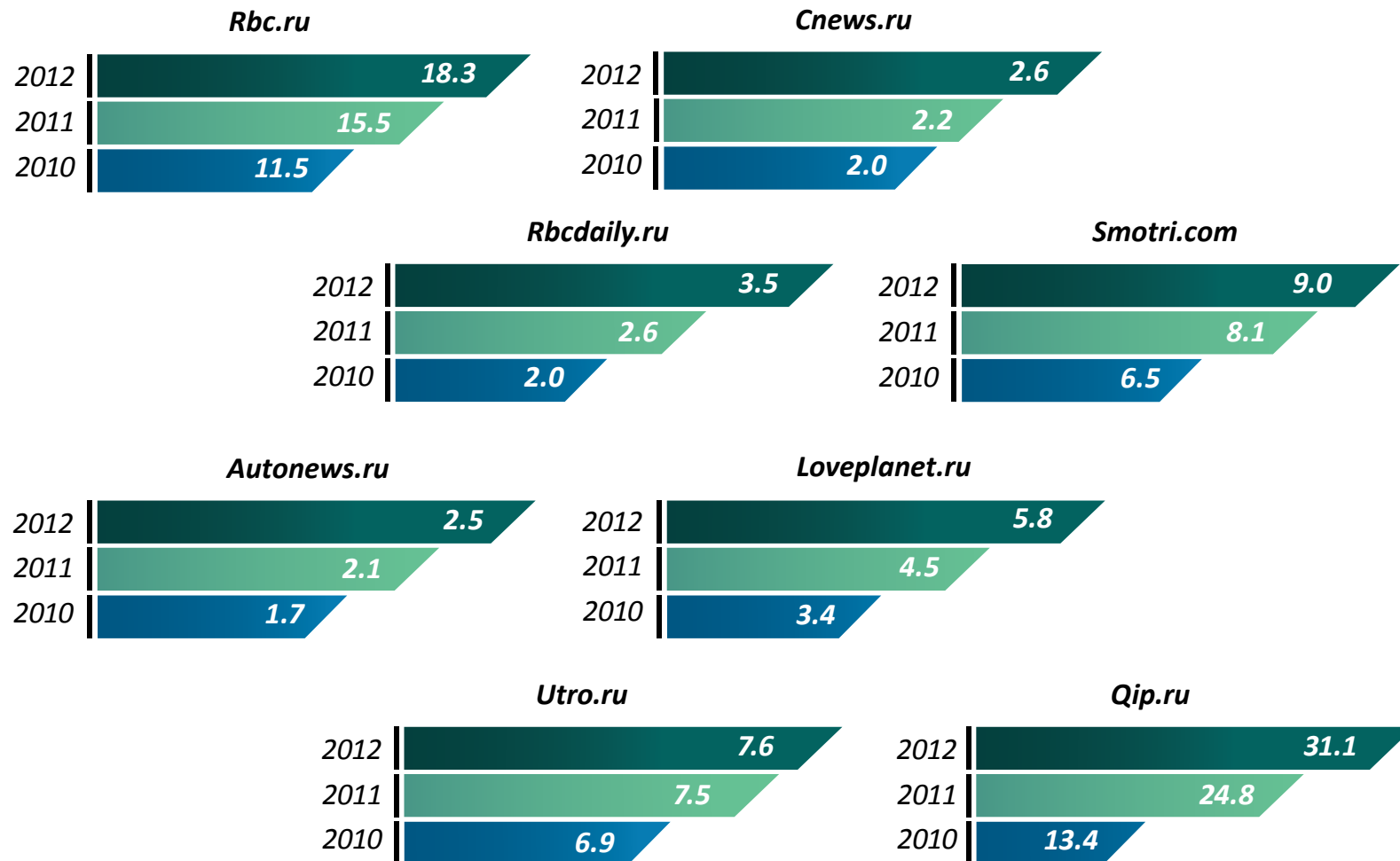
Work in the non-business Internet resource division focused on maintaining ongoing projects at their current level in 2012. Pavel Rogozhin was appointed head of the non-business Internet resource division in late August 2012. Under his leadership the strategy of revamping

RBC's entertainment Internet resources was developed which includes re-positioning of the QIP portal, the consolidation under one brand for all entertainment content projects, improvement of the Smotri.com video portal and the Loveplanet.ru dating website, and re-positioning of Magna and Videolink advertising networks. The strategy of overhauling entertainment Internet resources is expected to be implemented in 2013. As part of the non-business asset portfolio restructuring it was decided to suspend development of a number of start-ups.

In early September, RBC closed a deal to sell its 74% stake in RBC Money payment system for \$8.4m. The Company's Board of Directors passed a resolution prior to the deal that the asset is classifiable as non-core for the Company.

RBC commenced regional expansion in late 2012 by launching the first regional version of the Rbc.ru portal in St. Petersburg. As a result, a localized version of the portal became available to the users in St. Petersburg. The localized version looks like the federal website with integrated local news highlighted for convenience. The information content is provided by the Company's own information agency based in St. Petersburg. The Company intends to launch local versions of Rbc.ru in other major Russian cities.

Average annual Russian-speaking audience of RBC's main Internet resources



Source: TNS data

DOMAINS AND HOSTING

In June 2012, RBC took over Russia's largest domain name registrar RU-CENTER. RBC acquired a 100% stake in the Company for RUB 920m. RU-CENTER became the sixth business unit of Hosting Community Group, which is part of RBC Holding. Integration of RU-CENTER into Hosting Community is underway since summer 2012. The group's organizational structure is being streamlined, key units with overlapping functions (back office, customer support, project development) are being merged, business processes are being unified, and notably the number of billing systems is being reduced.

Additionally, Hosting Community Group worked in the reporting year to expand the range of available services. The strategic goal of Hosting Community Group is to establish a universal provider for IT

departments of small and medium-sized companies and offer them a full range of required solutions. To accomplish this goal, Hosting Community has been active in rolling out value-added services. New projects include Website constructor, which makes it possible for customers to design without special training their own sites intended for promotion in search engines, and a goMobi constructor service, enabling users to deploy a site that can be accessed by any mobile devices.

In November 2012, RU-CENTER received the Runet Award 2012 in the category of innovations and technologies. The prize was given for the company's project "Worldwide Domains", which gives RU-CENTER's clients an opportunity to register their domain names in more than 300 domains all over the world.

TELEVISION

RBC television channel completed transition to an up-to-date technological platform in 2012, which includes a 16:9 widescreen broadcasting format, tapeless production of content, 3D and 4D graphics software. In addition, RBC channel's studio was merged with the newsroom into a single complex in order to fast-track news stories on the air. Additionally, close attention was devoted to the improvement of the channel's design last year. As a result, viewers were introduced to a new studio design and visual representation in September. Thus, in 2012 RBC completed the upgrade of the channel, which started in 2011.

In summer 2012, RBC launched two remote TV studios in Moscow: in the Ararat Park Hyatt hotel and the Moscow International Business Center. Convenient location of the first studio in the city center enables RBC to make life interviews with prominent Russian businesspeople, public and political figures. The immediate proximity of the second studio to the headquarters of major banks and international corporations will allow the TV channel to obtain exclusive commentaries from leading experts and market analysts. The opening of new studios enhanced RBC's ability to release news and analytical programs more rapidly and helped improve their quality.

RBC channel launched a new programming grid ahead of the new television season in fall 2012. New themed programs and a number of special projects featuring high-profile Russian business and public figures went on the air. The weekend programming grid substantially changed.

Work on improving the quality of content, expanding the range of topics covered, and inviting prominent business, political and public figures was conducive to increasing monthly audience by 12% year-on-year to 20.4m people as of the end of 2012, according to TNS. Average monthly audience in Moscow rose 6% to 5.2m viewers. In addition to these factors,

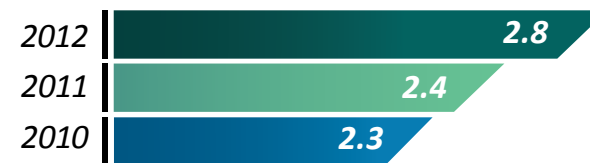
audience growth in Moscow is attributable to an agreement with Mostelecom signed in early 2012 on the expansion of technical penetration in Moscow. The channel has 100% coverage in Moscow via the Moscow city cable television network under an agreement with Mostelecom.

RBC channel's achievements were awarded in late 2012 with the Comnews Awards prize, which is handed out annually to leading players on the Russian information and communications market. RBC was the leader in the category NFTA channel with the highest annual audience.

Average monthly audience of RBC channel in Russia in 2010-2012



Average daily audience of RBC channel in Russia in 2010-2012



Source: TNS

PRINTED PUBLICATIONS

The focus in the development of business publications *RBC daily* newspaper and *RBC* magazine in 2012 was placed on expanding the range of topics covered, improving the quality of content and developing the distribution network. A number of new sections appeared in *RBC daily*, existing sections and periodical thematic supplements were improved. The important move for firming up the newspaper's market position was cooperation with the country's largest economic and business forums. Such events in 2012 were the St. Petersburg International Economic Forum, the APEC business summit, the Moscow International Forum Open Innovations, and the Moscow International Motor Show.

RBC daily had high readership figures during the entire year. According to research conducted by TNS in September 2012-February 2013, the newspaper's average issue readership (AIR) in Moscow amounted to 107,700 readers, up 35% year-on-year. *RBC daily* ranks as the second-largest among popular Moscow business dailies in terms of AIR. In addition to the audience of the printed version, *RBC daily* has a broad base of readers in the Internet. The average daily audience of the Rbcdaily.ru website in Russia amounted to 203,500 users in 2012, up 19% year-on-year, according to TNS.

The monthly business magazine *RBC* expanded the range of topics it covers. It started paying more attention to public and political topics compared to 2011, expanded the section devoted to business class and luxury lifestyle, launched new sections, set up a team of freelance reporters who specialize in certain topics, including foreign reporters. As far as the expansion of distribution network is concerned, efforts were devoted in 2012 to the development of regional distribution of the printed version of the magazine. Additionally, measures were taken to increase retail sales in Moscow and large Russian cities, while the Company was active in forming partnerships with online stores selling electronic versions of printed publications.

RBC magazine confirmed its leadership on the Russian market of business monthlies last year. The magazine's AIR amounted to 1.082m people in September 2012-February 2013, according to TNS. *RBC* magazine is the second most popular business publication in Russia and No. 1 on the Moscow market of business monthly publications. The magazine's AIR in Moscow amounted to 433,200 readers during the same period.

Efforts to improve the quality of the content in the *RBC daily* newspaper and the *RBC* magazine helped boost the citation index of both publications in 2012.

RBC's magazines on architecture and design hold leadership in their market niches. Specifically, the *Idei Vashego Doma (Ideas for Your Home)* magazine is the leader among Russia's interior design press, and *Salon-interior* tops premium-segment interior design publications. The AIR of *Idei Vashego Doma*, which targets a broad audience, amounted to 1.63m people in Russia in September 2012-February 2013, while the AIR of premium segment magazine *Salon-interior* amounted to 451,400 readers, as estimated by TNS.

3.2 FINANCIAL RESULTS

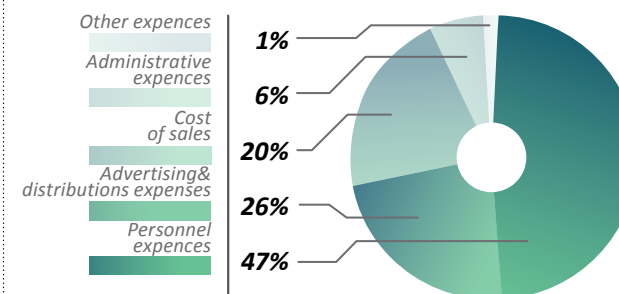
Financial highlights of 2012⁵

RUB m	2012	2011	Change
Revenue	5,675	4,682	21%
Cost of sales	(3,403)	(2,710)	26%
Including salaries and social security contributions	(2,397)	(1,864)	29%
Gross profit	2,272	1,972	15%
Advertising and distribution expenses	(1,320)	(1,172)	13%
Administrative expenses	(334)	(263)	27%
Other revenues/ (expenses)	(80)	(43)	86%
EBITDA	538	494	9%

Revenue breakdown

RUB m	2012	2011	Change
Revenue	5,675	4,682	21%
Internet	2,695	2,511	7%
Domains and hosting	1,169	592	97%
Television	846	606	40%
Printed publications	965	973	-1%
Business publications	417	426	-2%
Salon Press Publishing House	548	547	-

Cost structure in 2012



REVENUE AND EBITDA

RBC's consolidated revenue rose 21% year-on-year to RUB 5.676bn in 2012. The major contributors to revenue growth were domains and hosting division due to the acquisition of RU-CENTER, RBC channel and online services. Lower advertising sales primarily on non-business and partially on business online resources in Q4 as a

result of slow growth of display Internet advertising constrained revenue growth in the reporting year. The fourth quarter is traditionally the most important period in the media business, because in this period companies with an advertising business model generate a significant portion of revenue and up to two-thirds of operating profit. An advertising

revenue shortfall in Q4 and the start of the new investment cycle, which is related to business development, had a negative effect on RBC's consolidated EBITDA in Q4, which, in turn, impacted the EBITDA for the entire reporting year. EBITDA rose 9% to RUB 538m in 2012.

⁵ According to management accounts

Internet

Revenue from the Internet division increased 7% to RUB 2.695bn in 2012. The Internet display advertising market experienced a slowdown in growth from fall up to year-end, which impacted the level of advertising sales on business and non-business online resources. Another negative factor impacting the Company's revenue was the ban on advertising alcoholic products on the Internet, which took effect in late July. The share of alcoholic beverage producers fell to 1% from 5% in 2011. In addition, a number of western carmakers, which are some of RBC's largest advertisers, saw a decline in car sales in late 2012, and this also had a negative effect on revenue. At the same time, RBC's business and entertainment online services reported confident growth. Specifically, sales of market research reported gains, while revenue from subscription fees for paid information and from Loveplanet.ru dating website increased.

Domains and hosting

Revenue in the domain registration and hosting segment surged 97% to RUB 1.169bn in 2012. The major factor behind this growth was the takeover of RU-CENTER.

Television

The revenue of RBC channel amounted to RUB 846m, up 40% compared to 2011. Revenue growth rate was significantly above the market average rate in H2: cable & satellite TV segment expanded 27% in 2012. Above-market growth was attributable to revamping of the channel which helped boost audience and the sell-out ratio.

Printed publications

Revenue from RBC's printed publications decreased 1% year-on-year to RUB 965m in 2012. Lower revenue resulted from weak activity of advertisers and a lackluster environment on the printed

publication market. Nevertheless, RBC's business publications and interior design magazine increased their revenues in Q4 which was largely attributable to high activity of alcoholic beverage producers before the ban on alcoholic product advertising in printed publications took effect on January 1, 2013.

EXPENSES

Personnel expenses

Personnel expenses, which rose 26% to RUB 2.397bn in 2012, account for the largest portion of total expenses. Payroll rose as a result of an increase in headcount primarily due to the acquisition of RU-CENTER, and salary hikes in some operating divisions. RBC's headcount stood at 2,570 employees as of end 2012, up 3% year-on-year.

Breakdown of RBC's staff by business divisions

Business division	2012	2011	
Internet	1,185	1,037	+148
including RU-CENTER	332	-	+332
TV	530	583	-53
Printed publications	391	416	-25
Business publications	194	185	+9
Salon Press Publishing House	197	231	-34
Administrative staff	131	142	-11
Sales staff	95	108	-13
Auxiliary staff	88	94	-6
Other staff (on maternity leave)	150	125	+25
TOTAL	2,570	2,505	+65

Source: Company data

Advertising and distribution expenses

Advertising and distribution expenses are the second-largest cost item. Most of them are commissions payable to advertising agencies, which is why advertising and distribution expenses are linked to the increase in RBC's advertising revenue and are the Company's main variable costs. RBC cooperates with all leading advertising agencies in the market. RBC is a leading producer of business and news content in Russia, which is why combining internal expertise in advertising sales with advertising sales through advertising agencies, is the best way to achieve the highest possible volume of advertising sales on the Internet, television and in printed publications. RBC's advertising and distribution expenses increased 13% to RUB 1.32bn in 2012. Another component of advertising and distribution expenses, which rose in 2012, was costs to promote RBC's projects on third-party resources.

Administrative expenses

RBC's administrative expenses, which include salaries to administrative staff and rent, amounted to RUB 334m in 2012, rising 27% year-on-year due to an expansion of RBC's senior management team in H2 as a result of the acquisition of RU-CENTER, among other factors.

Other expenses

RBC's other expenses surged 86% to RUB 80m during the reporting period. The upsurge was attributable to the Company's efforts to make management accounts as similar as possible to accounting under international financial reporting standards. As a result, some expense items, in particular writing off of production costs after the sale of intangible and fixed assets, were moved above the EBITDA line in 2012. Another factor behind the increase in other expenses was the consolidation of RU-CENTER, which booked expenses on its non-core business closed in 2012.

Cash position

Cash and equivalents on RBC's accounts stood at RUB 508m as of year-end 2012, down from RUB 713m a year ago. Capital expenditures amounted to RUB 161m in 2012, investment in intangible assets amounted to RUB 385m, of which RUB 274m was invested in software development. The biggest spending on fixed assets was purchase of computer and television equipment worth RUB 139m. Additionally, around RUB 275.4m was paid in debt interest.