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**theRunet**

From Russia with web

For St. Petersburg  
International Economic  
Forum 2012

Vodka, caviar, balalaika, matryoshka nesting dolls, Putin, Medvedev, Yuri Milner and Yandex – how much more do Western professionals know about Russia and its Internet industry?

Alas, very little.

With TheRunet, we hope to change this situation for the better. Our aim is to introduce international readers to most recent developments in the Russian-speaking sector of the Internet, with its rapidly growing number of users, eCommerce and advertising market, innovative startups, major deals and more Russian players entering European, American and Asian web markets.

Today, when Russian giants such as Yandex and Mail.ru Group are among the largest companies in Europe, we see a great interest in Russian Internet business in the West, but we also see a great

shortage of information on the subject.

TheRunet is a blog dedicated to news and analysis on the Russian Internet Industry. Every day, we will bring you news on Russian companies, current research data and commentary from the leading experts.

We hope that the blog will prove useful to professionals from Paris to Hong Kong, from Dublin to San Francisco, to those representing large international corporations or small startup businesses, to investors, business angels, media managers and journalists.

Our experience in Russia includes organizing major professional events, such as the Russian Internet Week and managing popular publishing projects, such as The Internet in Numbers magazine.

Users

**57,8 M** <sup>Ⓜ</sup>  
users monthly

**44,3 M** <sup>Ⓜ</sup>  
users daily

Advertising

**1.05 B €** in 2011

Market growth 57% ↑

**388,5 M €** <sup>Ⓜ</sup>  
display ads

**639,1 M €** <sup>Ⓜ</sup>  
search ads

eCommerce

**8 B €** in 2011

Market growth 30% ↑

**2,16 M €** <sup>✈</sup>  
airplane and train tickets

# Mail.ru Group & Yandex IPO

**Russian companies  
enter foreign markets:**

Ashmanov and partners (Vietnam), Yandex (Turkey),  
Kaspersky Lab (USA, EU, China)

President Medvedev initiatives to  
amend the legislation on copyright on  
the Internet at G20

Global companies and  
leading VC funds started to  
invest in Russian Internet  
industry



## How many Internet users are there in Russia?

Dmitry Frolov, Research & Trends

The Internet is well-known for its “measurability”, and maybe rightfully so. But being so easy to measure has plaid a bad joke on the virtual world, as too many people keep measuring it without coming up with any uniform methodology. Results of their research are then re-printed by the media, who make their own corrections and additions to the figures. Then a search engine blends it all together in a hodge-podge brew, and the truth is washed away by an endless stream of copy and paste. Just try entering “how many Internet users are there in Russia” in **Yandex’** search box, like we did. You will get results of all sorts, differing immensely and coming from a range of sources that are ranked by their level of “credibility”, following a criterion that seems to have little in common with reality.

When things are so messed up, the only way to discover the truth is to call a conference where various reputable companies that measure the Runet could share results of their own research. And, luckily, this is exactly what happened at the very first panel discussion at last month’s **RIF+KIB** Russian Internet Forum.

The organizers managed to collect a wide range of groups and experts on measuring the Internet, the only company missing was comScore. **TNS Russia, FOM foundation, WCIOM, Gemius, MASMI** and **ACVI** all sent their representatives to participate, and to form a combined vision of Runet’s current state. With a help of about a hundred graphs and visuals, trying to demonstrate how potent their methods are, the speakers did their best to entertain the audience. And, as the numbers and figures they presented differed dramatically, the speakers abstained from commenting on other’s reports. That is why we decided to do that for them and try finding the answer to the question: “How many people are the on the Runet?”

TNS Russia claims that almost 41 percent Russians go online at least once a month, and Internet penetration level us 65 percent, while FOM’s data suggests the Internet, which has a penetration level of 50 percent, is used each month by 57.8 percent of the country’s population. Something seems to be wrong, doesn’t it?

If we look for the source of this dramatic difference, it’s clearly the different calculation methods that were used, and, most importantly, the two groups’ different understanding of the general totalities. While TNS surveyed Internet usage by people of twelve years of age and older, and living in cities with over 100,000 population; FOM asked those above the age of eighteen, regardless of how large their city, town or rural township is.

Researches from both companies had their reasons for choosing this or that age group and community size, and they did name their reasons in comments to their reports. In Web Index, TNS's main Internet research project, people between the ages of 12 and 54 are taken as the general totality. But the issue of Runet's population is explored not in Web Index, but in another study, but in the so-called establishment survey. This research has no upper age limit, while still limited to communities with a population above 100,000.

### Russian Internet population size according to age and community size, in thousands

	Russia, Total	Urban population	100k or less	100–250k	250–500k	500k–1m	1m+	Rural population
<b>Age</b>	142'961	105'582	36'168	14'391	13'162	15'688	26'173	37'379
<b>0-12</b>	18'253	13'643	5'244	1'741	1'593	1'898	3'167	5'316
<b>% of total</b>	12,80%	12,90%	14,50%	12,10%	12,10%	12,10%	12,10%	14,20%
<b>12-54</b>	89'516	66'030	22'161	9'095	9'915	9'915	16'541	22'457
<b>% of total</b>	62,60%	62,50%	61,30%	63,20%	63,2%	63,20%	63,20%	60,10%
<b>Internet users*</b>	39660							
<b>54+</b>	35'193	25'675	8'530	3'555	3'875	3'875	6'465	9'102
<b>% of total</b>	24,60%	24,30%	23,60%	24,70%	24,70%	24,70%	14,70%	24,30%
<b>0-18</b>	27'978	20'255	7'483	2'648	2'422	2'887	4'816	8'295
<b>% of total</b>	19,60%	19,20%	20,70%	18,40%	18,40%	18,40%	18,40%	22,20%
<b>18+</b>	114'983	85'094	28'452	11'743	10'740	12'801	21'357	29'083
<b>% of total</b>	80,40%	80,60%	78,70%	81,60%	81,60%	81,60%	81,60%	77,80%
<b>Internet users**</b>	57'492							
<b>12-18</b>	9'725	6'611	2'238	907	829	988	1'649	2'979
<b>% of total</b>	6,80%	6,30%	6,20%	6,30%	6,30%	6,30%	6,30%	8,00%

\* TNS data, internet penetration at 65% \*\* FOM data, internet penetration at 50%

Of course, the statistical companies are entitled to decide what the design of their own survey will be, but the problem is that such design may not satisfy the reader's needs. And so, to bring harmony between, so to say, demand and offer for Internet statistics, we decided to re-count everything. When doing this, we also used data from Rosstat (the Federal State Statistics Service), who (we're in luck!) recently updated their demographic figures from the 2010 national census.

We did encounter some problems while re-calculating, but none that weren't possible to solve. Ros-

stat's idea of what age range should be studied differs from that of TNS or FOM's. The fact that fresh data appears on Rosstat's endless tables gradually (figures on the population's age structure came from 2009, and those on territorial structure – from 2011), complicated the task even further. To overcome this technical difficulty, we used linear approximation in all cases, assuming that age and territorial population structure didn't change. In order to combine figures from different years in one table, we multiplied the older data by the 2011 to 2009 population ratio. The ratio, by the way, is different in case of urban (1,018) and rural (0,965) populations.

In the table below, we present our re-calculation of Rosstat's data on Russia's population in various age ranges and different (in terms of number of residents) communities. We also added the figures from TNS and FOM, taking into account their estimation of Internet penetration, in order to find out the number of Russian Internet users.

As you can see, the figures match, as our calculation model allowed, with a slight margin of error, to combine the data from both FOM and TNS. And now, we can propose our own version of how large Runet's population is.

Both TNS and FOM, for different reasons, did not include one group in their calculations: people between the ages of twelve and eighteen living in small towns (less than 100,000 residents) and rural communities. As we can see from the table above, this group is quite sizeable (5,217 people). Let us as-

sume that Internet penetration level there is 50 percent. Internet penetration level among young people is higher than the average, and lower than the average in smaller communities, and so we can assume that the level is average for the group in question. Thus, we need to multiply the number of Internet users according to FOM by 2.609 million people, to get a result: **60.41 million** people above the age of twelve, regardless of where they live.

Naturally, the number will further rise, especially in small towns, as many speakers at RIF+KIB pointed out. Rosstat's data shows that small towns and rural townships have an important growth potential, as their combined population matches that of major cities.

Furthermore, today's "poselok" (Russian for a large village or rural township – TheRunet) are far more developed than they were twenty years ago. Real estate agents in Moscow cannot say that living in or out of the city is an important criterion for their clients today. The market's current trend is that living in rural suburban areas is becoming increasingly prestigious, and this trend is spreading from the capital to Russia's provincial regions. And, considering that most rural areas are now well covered in mobile networks, and that Internet connection technology using a mobile or stationary phone, or a mobile modem is getting more and more accessible, we see a huge reserve that many overlook or underestimate.

Or do they? WCIOM estimate Internet penetration level is higher than that of FOM: 55 and 50

percent, respectively. Who are the five percent? They did not appear because of different general totalities the two companies used; they actually used the same totalities and surveyed the same territories. And it has nothing to do with error margin, which does not, according to WCIOM, exceed 3.4 percent. But where do these people come from?

This seems to be easy to understand, as WCIOM surveyed 1,600 people (and that was supposed to be a nation-wide research!), while FOM had 39,000, and TNS – 120,000 respondents. But, in terms of margin of error, the difference matters not. WCIOM's 1,600 participants are quite enough to get the declared 3.4 percent margin. Increased sampling doesn't level reduce the margin of error, what it allows is narrowing the survey's focus and represent it not on all-nation level, like WCIOM does, but on the level of Federal Districts or separate major cities, as is the case of TNS.

The difference in figures presented by the companies can be explained by the difference in what questions the respondents are asked, and, most importantly, how the questions are put. And although researchers treat their questionnaires as their commercial secret (and quite reasonably so), we can often see some of the questions in their presentations.

WCIOM's graph, for instance, shows that out of 55 percent of all Internet users, 36 answered "every day", 13 – "a few times a week", 5 percent – "a few times a month", and 1 percent "occasionally, at least once every six months". The remaining 45 percent "don't use" the Internet at all.

So, WCIOM understands Runet's monthly audience as those who "use the Internet at least a few times a month", while FOM's idea of the same is people who "have used the Internet at least once in the past month". Unlike FOM, WCIOM also leaves

a loophole for those who go online rarely, allowing them to pick the "occasionally, at least once every six months", and be counted. The difference may not seem to be important, but it accounts for as much as 5 percent. And, taking the 5 percent into account, the total number of Internet users in Russia can be estimated as **63.43 million** people.

So, what do we have? We have "reconciled" the figures from different companies, which enables us to use any of their results according to our needs and how the design of each research fits them. Furthermore, we now have a detailed table that allows us, even though roughly, estimate the size of Internet audience in various age groups and communities of all sizes. The estimates are approximate; because we were only given average national figures that didn't take local peculiarities of different regions into account (more precise data according to region would require additional research). We can also expect that, in the future, the questionnaires offered to survey participants will evolve and become more detailed, so the research results can tell us more about "online lifestyles" of our society, and not just how often they use the Internet. We should also expect the very question about how many Internet users there are to become a mildly interesting anachronism, just like the question of how many people use mobile phones has become. X

## Runet's top ten advertisers in 2011

Adindex advertiser ranking is based on figures provided TNS Russia and ESPAR-Analitic, with the consultative participation of the Association of Communications Agencies of Russia (ACAR). The ranking only takes into account the media where complete independent monitoring is available: TV,

radio, press and outdoor advertising. Advertising placed on the Internet is harder to estimate, as no industry monitoring data is available. Attempts to estimate digital advertising budgets have been made, however, including the latest one, done by Havas Digital, member of ADV Group association.

Procter & Gamble (P&G) remains Russia's largest advertiser in terms of traditional media ad placement. In 2011, P&G's advertising spending increased by 18 percent, reaching 8.92 billion ruble. Renault-Nissan, with 750 million ruble budget, tops the Internet advertisers list. Car manufacturers generally remain the key advertiser, with accumulated market share of 24 percent.

no.		Internet media ad spending, in million rubles, incl. VAT	Traditional media ad spending, in million rubles, incl. VAT	Overall ranking
1	Renault-Nissan**	885	2267,0	8*
2	Procter & Gamble	590	8914,70	1
3-4	Nokia	472	232,53	154
3-4	MTS	472	3371,21	8
5-6	Samsung Electronics	448,4	1231,95	35
5-6	MegaFon	448,4	2977,65	10
7	Vympelcom	413	2086,27	19
8	Unilever	342,2	3837,87	4
9	Sberbank	295	2160,46	18
10	Microsoft	283,2	136,03	240

\* Aggregate budget

## Internet media advertising spending by product category, percentage

	2011	2010
Cars	24	27
FMCG	19	17
Services	16	15
Communication services	10	12
Retail	10	8
Finance	7	7
Real estate	5	6
Media and events	4	5
Other	3	2
Pharmaceuticals	2	1

ACAR estimates that in 2011, aggregate Internet media advertising spending comprised 18.1 billion rubles, including VAT. The amount is smaller than the three largest advertisers (P&G, L'Oreal and Mars Russia) spent on ads in other types of media. Contextual advertising costs comprised 31.27 billion rubles, which roughly equals the budget of the top-seven advertisers in four major types of media.

When assessing the budgets of leading media

advertisers Havas Digital also considered the results of TNS Media Intelligence monitoring and market players expert estimates. Average market discounts and other characteristics, such as average price per a thousand views, seasonal ratios and weekly traffic were also taken into account, the agency notes. According to Havas Digital, the ten top Internet advertisers spent 4.65 billion ruble, or 17 percent of their combined media advertising costs in 2011. X

# Russian eCommerce & ePayments: main accents

Among the many topics discussed during last week's **RIF+KIB 2012** conference, the biggest yearly event in Russian Internet business, eCommerce was a dominating theme.

On the very first day of the forum, participants of the panel dedicated to online retail were introduced to a document entitled **Electronic Commerce Industry Convention**. **Mikhail Osin**, Digital Retail Director at **OZON.ru**, presented the draft agreement, designed by **Russian Association for Electronic Communications (RAEC)** Commission for eCommerce.

The treaty's main aims are to consolidate honest eCommerce market players, promote trust in their industry in government officials and the general public, and speed up further development of the electronic market. The draft has already received support from many major companies, i.e. **OZON, Webmoney, Oborot.ru, Utinet.ru, Wikimart, Boutique.ru, Softline, LiveTex, CPANetwork**, and others.

The online retail-themed panel, which also discussed electronic and mobile payments market, featured speakers from leading market players, who

shared their work experience in the past year and their vision of the industry's future development.

## eCommerce trends

**Fedor Virin** of **Data Insight**, spoke about the trends that his research company believes will dominate the market in the coming three or five years. One of the most important trends is market regionalization, Mr.Virin said, noting that market revenue is growing twice as fast in provincial Russia that in Moscow or St. Petersburg. Another important trend is diversification of investment: there are major projects appearing in all the segments of electronic market, with some companies arriving from offline trade, and some being born out of mergers of smaller players.

Product range and quality will soon become the key factors of an online shop's success, Virin believes. Stronger market players will bank on improving their product range and their brand image. Retail models that will manage to combine all the benefits of both online and offline trade will gain momentum, as many Russians still have little trust in "virtual" sales. Seeing this, Virin said, more and more online retailers will open customer pickup points.

Mobile commerce is also expected to develop. By "mobile commerce" Data Insight mean not just mobile websites and apps for buying or tracking your order status, but also solutions that help search for the best offers and compare prices while shopping offline. The latter option is already becoming tradi-

tional retailers" nightmare: customers come to their shop to see a product, then browse online stores on their gadgets and eventually buy the product they need from a vendor offering the lowest price, usually an online retailer.

Coupons remain one of the market's main drivers. And, while coupon trade began offering mostly discount on services mostly, more and more offers are now made for discounted products. Thus, coupon services are competing with the usual online stores. The greatest positive effect that coupon sites have on eCommerce in general is that, when people buy coupons, i.e. expensive ones, they are getting used to advance payment.

Mr. Virin predicts that in the coming four years, Russia's eCommerce market will be 2.3 times bigger. In 2011, market value was 310 billion rubles (\$ 10.5 billion). This year's expected growth is 25 percent. As of today, sales of airline tickets, clothing and footwear, and children's products are the most dynamic market segments. In the coming years, groceries, other FMCG's, DIY goods and tour packages may start booming.

### E-currencies and mobile payments

Research by FOM foundation shows that only 16.7 percent adult Russians, or 9.7 million people, currently buy things online, and as few as 5.8 percent choose to pay for their purchases online. Russians tend to be more relaxed about paying for services via the web, but when it comes to buying goods 65 percent prefer to pay in cash.

Shoppers who make advance payments with their credit cards or e-wallets tend to spend more, spending 5,879 and 4,705 rubles, respectively. People who chose post-payment spend, on average, 3,803

rubles. Russians don't mind making a pre-payment in larger online stores whom they believe they can trust. When buying from smaller and less-known vendors, they like to see the product first and pay cash on delivery.

Another research, carried out by TNS in February and March 2012, about 27 percent Russians (3.9 million people) between the ages of 18 and 45 and living in major cities, use e-currencies at least once every six months. 15 percent of those asked by TNS use Yandex.Money, which remains the country's most popular e-currency system to date.

Payroll debit cards make up to 80 percent of all bank cards in Russia, and 90 percent of all card transactions are cash withdrawal, said Victor Markelov, Product and Business Development Director at Vypelcom. Most people still chose to withdraw their salaries from their cards within a few days after being paid and don't use their cards to pay for services or anything else. In an attempt to change this, Vypelcom (known under its Beeline brand) was the first operator to offer its customers an alternative option: Beeline subscribers can now use their mobile account to pay for their Internet connection, public utilities, fines, tickets and things they buy in online stores. Beeline's mobile apps and the special RURU.ru web portal allow users to easily transfer money from their cards to their mobile accounts for no fee, and pay for products and services from their phones. The more money a subscriber has on their mobile account, the more they tend to spend on both third-party and the mobile operator's services, Mr. Markelov added.

PrivatBank's Tatiana Ignatenko told participants of a new system that allows entrepreneurs acquire payments from Visa and MasterCard accounts anywhere with a help of iPay app installed on a smartphone and a portable terminal that can be

plugged into a phone, laptop or other device.

Mobile terminals are becoming increasingly popular with small and medium businesses. The system now has 3,000 users in Russia, i.e. taxi drivers, web stores, delivery services, and doctors, among others. The era of magnetic stripes is fading out, said Ms. Ignatenko, and the future belongs to Near Field Communication (NFC) technology, enabling no-touch payments.

Google was one of the first major companies to promote NFC in the mass market. According to a forecast made by IMS Research, sales of smartphones that support NFC will reach 80 million items, or even 100 million, if rumours that the new generation iPhone will also support e-wallets are true, analysts say.

### Large trading platforms vs. small online shops

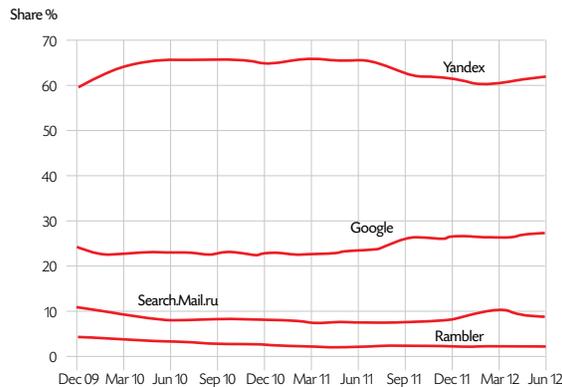
More and more larger web portals show a tendency towards protecting their information, Ichiba e-trade platform's Anton Terekhov said in his presentation. Social networking sites are closing their content from search engine indexing and don't seem to want to let their traffic out, turning into an "Internet inside the Internet" for their users. In order to view third-party content, VKontakte users now don't have to actually leave the network's page, and Facebook has introduced different prices for ads that lead to third-party pages or allow users to view the content via Facebook page.

Thus, powerful segments and clusters are appearing on the global web, and this applies to large trading platforms as well. In this situation, smaller online retail businesses have no choice but to try to be present on all major trading platforms. Ozon.ru, who now has 150 partner merchants, plans to add a few more thousand by the end of 2012. In order to do this, Ozon will open the opportunities of its logistics system to the partners and even introduce its own web-currency.

It is possible, Mr. Terekhov says, that social networking commerce boom will take place in a few years. Mikhail Ukolov of Utinet.Ru agrees: social networking sites have an immense customer base that cannot but interest millions of online sores. What remains to be done is to design an infrastructure and a correct CRM that will help retailers and their customers find each other. And it seems like Facebook has already made the necessary steps in this direction, introducing Open Graph that allows receiving detailed information on any subscriber and segmenting the site's audience. X

# Runet's Search services in 2011

Janna Rozhkova, SEOnews



2011 was an interesting and fruitful year for the market. In this review, we would like to remember some of its highlights.

## Yandex

Although its share in the search market decreased a bit, Yandex is, as before, the Runet's no. 1 search engine, and, according to comScore, it's no.5 globally.

## Search technology changes

Last summer, Yandex announced launch of its new search platform. Christened Reykjavörk and built to deliver search results based on the user's language preferences, the new version only looks at search queries in English, filtering transliterated Russian requests, website addresses and misspells. Reykjavörk ranks more or less pages in English in each user's search results page, based

on analysis of links the user follows.

Also last summer, SEO community was rocked by Yandex' offensive against those who fake behavioral factors. After hinting politely that it could not approve 'inappropriate promotion methods', the search engine then simply ranked down more than a thousand sites – those of SEO companies caught faking behavioral factors, and their clients.

Despite the weather being gloomy, last year's autumn was a hot time for optimizers. In September, Yandex opened its 'buki' page where visitors could test the new ranking system for commercial search queries in the Moscow region.

In late November, the company announced its renewed ranking formula for the region's commercial queries. The search engine now takes into account factors such as site and company credibility, site design and user interface, product range, pricing, online payment and delivery.

Another war Yandex waged was on sites with over-optimised text content. A site with too many keywords (put there in order to improve its search ranking) can now be ranked down in search results.

A site's ranking is now also influenced by its usability especially in its relation to advertising. The new ranking formula now looks at how much ads inhibit access to the site's content and irritated the viewer

Yandex also took a stand against copyright infringement, offering web masters to take part in identifying copyrighted content on the Internet. By filling a special form at <http://webmaster.yandex.ru> one can notify the community of a new original text being published, enabling the search engine to rank sites with original content more correctly. Details on what Google is also doing to protect copyright can be found below.

Changes were also noticed on Yandex' results page. In June, the site was testing a '10 more results' button on

its SERP. In early autumn, Yandex officially announced its 'endless' search results page, but the function was abandoned less than a month later. Yandex decided to keep on experimenting and trying new things, the company's press service explained. No new features have been introduced ever since, and Yandex' SERP looks exactly the way everybody is used to seeing it.

In August, Yandex' search bar 'stuck' at the top of the screen, and has been there since, making it very handy for users, who now don't need to scroll back to the top of the page for a new query.

Recently, Yandex also added a new snippet linking to the company's pages on Twitter, Facebook, VKontakte and other social networks.

## Partnership deals and international debut

In May 2011, Yandex made its long-expected international stock market debut at NASDAQ IPO. Opening at \$25 a share, Yandex rocketed to close at \$38, with a 55% first-day gain. The price later fell to \$35 a share. Managing to raise \$1.304 billion, Yandex was estimated at \$8.03 bn. A total of 52.2 million shares were sold at the first floatation, and a few days later Morgan Stanley, Deutsche Bank and Goldman Sachs sold 5.217 more shares at the initial price of \$25.

2011's other milestone in Yandex' history was the company's partnership with Rambler. As result of the deal, Yandex shared its SERP with the new partner, while receiving additional advertising space in return.

Cooperation with another partner, Samsung, moved further: Yandex is now the default search engine

installed on the Korean brand's smart phones and smart TVs.

In late November, Seznam, Czech Republic's leading search site, installed Yandex' video search.

And of course, we could not fail to mention the launch of Yandex search portal in Turkish, and the company's new office in Istanbul. The Turkish Yandex knows the language's morphology, can correct misspells and misspelling and work with synonyms. Yandex.com.tr users can enjoy webpage, image, news and video search, as well as mail, news, translation and other services.

## Google

In 2011, Google continued to develop its search and services, resulting in a market share growth from 21% in January to 25.5% in December, according to LiveInternet data.

Like Yandex, Google took a stand against ads that gets in the way of users trying to enjoy a site's contents. While a special algorithm is being developed, Google suggests to web masters that they remove excessive advertising voluntarily.

Apart from participating in a number of international projects, Google Russia launched a few important products at the national market. As part of Google's global Art Project, the Russian branch digitalized paintings from the country's celebrated Hermitage museum and Tretyakov gallery. Google also organised a live broadcast of the Bolshoi opening gala on YouTube. In 2011, Google+, Google Goggles and Chrome webstore were launched in Russian. In March, Google Navigation

was offered to users of the mobile Maps service. Covering only Moscow at first, the service is now available everywhere across the country. Users can plot routes on Google Maps not only inside Russia, but in other countries as well (the feature was previously unavailable).

### Mail.ru

Mail.Ru's search system saw no dramatic changes in 2011. According to LiveInternet, the company's share of the search market was stable all year at 7.4%.

For Go.mail.ru, the search engine, the year began with renewed image search interface. The new services featured AJAX technology that allows navigating through search results without reloading the page. In early summer, Mail.ru tested its SERP with the search bar sticking at the top. The tests must have been successful as the bar still permanently crowns the screen.

Go.mail.ru can now find directory information on websites and link portals to regions. This new function is based on Mail.ru's own resources, not Google technology.

Next year, the company plans to employ more search system developers, doubling the size of the team.

"A great deal of attention, energy and time was spent on developing our search technology, and a lot was done there, said a Mail.ru representative, describing the company's achievements in 2011. The SERP's interface and design was re-worked completely: it is now a three-column layout, with a fixed search bar. And, you can use the search with just your keyboard; you don't even need a mouse. We have a mobile version that is customised to work with all major platforms (Java, Android, iOS, etc.).

Go.mail.ru was the Runet's first search engine to implement a technology that allows indicating user preferences ("likes" from Moy Mir, one of Russia's most popular social networks with millions of registered us-

ers), in search results.

We worked on improving our adult content filters. According to an independent study by Ashmanov & Partners, Go.mail.ru achieved remarkable results in that area, and for most of the year was Runet's no. 1 search service in that sense.

Discussions search became Russia's first search service working in real time mode. Users can actually watch what bloggers and news agencies are publishing, in real time, and see how actively this or that topic is currently discussed in the social media"

### Rambler

For Rambler, a firm that recently celebrated its 15th birthday, 2011 was full of important events and changes. Firstly, the company changed the style and logo on its SERP, so that "Rambler" is now written in lower-case Cyrillic, and is placed next to an image of a three-coloured compass.

The company then founded Rambler Fund, aimed at helping and promoting promising Internet startups (Yandex, by the way, has a similar project).

Rambler's heyday came when it signed a partnership deal with Yandex: in June, Rambler started using Yandex' search technology and joined its Advertising network.

Later on, Rambler introduced voice search service based on technology by Google.

News design and fitness, however, made little improvement to Rambler's search market share, which was reported by LiveInternet to be 1.13% in December and 1.6% by the end of the year.

## Mobile Internet in Russia

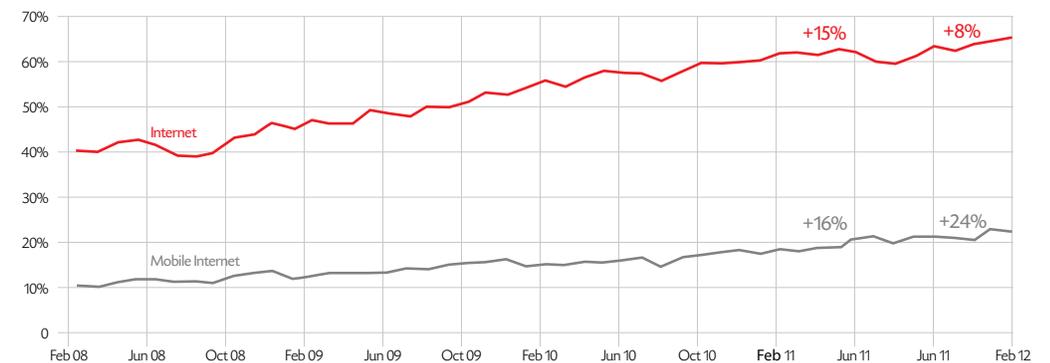
Russian mobile Internet audience grows twice faster than "regular" Internet audience. In January 2012 22% of urban population (cities 100k+) used Internet access on mobile device. 53% of Internet users access Internet on three or more devices. Among mobile users 46% use smartphones, 10% – tablets, 46% – feature phones. With the rise of mobile access the ratio of unique users to actual users have grown to 5,7 to 1.

MTS mobile network has outrun, for the first time ever, its competitor Megafon in terms of numbers of subscribers who use mobile Internet options. Experts believe that, MTS now has around 20 million Internet users among its subscribers, while Magafon

has 19 and Vimpelkom (known under the Beeline brand) – 17 million, the estimates being based on data from the last quarter of 2011. According to separate data, Russia has a total of 40 million mobile Internet users.

And, as the numbers are only expected to grow in 2012, MTS plans to further advance in the market. The company's success in the number of Internet users was due to coverage expansion and news tariff options offered to subscribers. MTS has substantially shortened its lag with Megafon in numbers of 3G base stations, of which MTS now has 23,000, Megafon 26,000 and Vimpelkom over 15,000. MTS is also leading the mobile 'Troika' in terms of revenue growth.

According to AC&M-Consulting, mobile operators earned a combined 75.6 billion rubles (roughly \$ 2,5 bn.) in 2011, which is 43 percent more than the previous year. Megafon earned 28.2 bn., MTS 25.4 and Vimpelkom 18.3 bn rubles.



# The Runet investment:

## Fast Lane Ventures releases Deal Book of Russian Internet 2010-2011

The research covers more than 270 transactions on the Russian internet and features, full descriptions of these transactions, including dates, amounts of funding and details on their investors. Complete data about grants, investments at seed stage and subsequent rounds were collected as well as the information on exits and stakes purchased by company share holders.

### Research Aims:

- Define national and foreign entrepreneurs' level of interest for the Russian internet market
- Track the growth pace of financial investments in Runet and filter the key areas of investments
- Collate in one place, all of the possible data on investments in internet companies and startups.

### Research objective:

Russian companies whose business model is based on internet operations or whose majority of income is generated by internet transactions.

The selected Russian companies for this research, was defined by the following criteria:

- Operational activity performed in the Russian market
- Origin of the company
- Russian founders
- A representative office or development center operated in Russia

### Source of information:

Public sources and data received from investors and companies directly as well as Fast Lane Ventures' expert reviews.

### Research Results: Market Volume and Dynamics

**59 deals** were held in the Russian internet market in **2010**.

**\$250 million** was invested in new and innovative internet companies and startups, representing **19.2%** of the total investment volume in Runet. This includes two of the largest transactions involving mature businesses: the IPO of Mail Group and the purchasing of VKontakte shares by Mail Group (**\$ 1, 3 billion**).

**In 2011** the number of transactions increased almost by **3.6** times to **213**.

Total investment volume into these internet companies and startups increased to **\$500 million**, representing over **23.2%** of the total market volume (**\$ 2.15 billion** comprising Yandex IPO, purchasing of VKontakte shares by Mail Group, investments of ruNet, Rakuten and the Index in Ozon).

Despite the positive dynamics, the Russian internet market continues to be nontransparent. According to Fast Lane Ventures' experts, the amount of non-public transactions in Runet is approximately equivalent to the number of public deals. "We are aware of at least 100-150 seed investments completed by businesses and non-public holdings, and 20-30 major investments (e.g. now.ru, wildberries.ru, bonSPORT.ru, autoscout24.ru, promenad.ru, bigbuzzy.ru, mebelrama.ru, holodilnik.ru, booking.ru, quto.ru, zvoq.ru, bookmate.ru, t e p.ru, etc.) whose financial information is completely closed," says **Andrey Kulikov, Senior Investment Analyst at Fast Lane Ventures**.

With these transactions the total investment volume made in Russian internet companies and startups could have made approximately **\$500 million in 2010** and **\$1 billion in 2011**.

### Main research trends:

The last two years showed a radical growth of investors' interest in internet startups at the seed stage. The number of companies which received upfront investments in 2011 increased more than 4 times when compared with 2010 (22 transactions in 2010 – 91 transactions in 2011). The total amount of seed investments amounted to \$8.7 million in 2010 and \$14,1 million in 2011.

In the same period of time, an unprecedented growth of grant funding can be observed. Within these two years, 61 startups have received more than \$20 million in the form of grants (before 2010 this figure had tended towards zero).

Where the seed stage has seen this significant increase in investments, funding in the subsequent rounds and business exits did not follow this high investment trend and was seen to likely be the "bottleneck" in the Runet investment process. A study of 11 transactions, classified as exits, showed that the majority of them appeared as teams and technologies purchases, or change of shares ownership. Only two transactions can be labeled as true "success stories": Groupon's purchase of Darberry and Skype's purchase of Qik.

To date, the Russian internet investment process evolves in the following manner: a good job at the

start, slowdown and delay during the later rounds and deceleration at the exit point.

According to **Andrey Kulikov**, "Today, because of the significant increase in the interest of investors and infrastructure development, young entrepreneurs have more opportunities to start businesses, but they shouldn't rely on the same level of investment after the start. The creation of internet companies in Russia does not cost less than those for example in the US, however investors' expectations for investment return in the Russian market, is not yet at the same level as if they were to invest in the U.S. or Europe. Therefore Russian internet builders who create new businesses on the smaller market will have to work hard to get funding for the later rounds."

The main object of investment and the main driver of growth of the Russian Internet is electronic commerce.

The analysis of the largest transactions has reaffirmed the commitment of investors to proven business models and companies leading the way in their segments. In 2010 at least half of the top 10 investments, including VKontakte, Darberry, Avito, Kupivip and others, were direct analogs of Western companies. In 2011 the top 10 largest Runet investments included only three companies that are not direct analogs of the western business models – Yandex, Utinet and SPB Software.

The key issue for the next few years will be the pace of development of Russian venture infrastructure and if it will have enough resources to continue investing both in startups and in more mature businesses financed at the researched period.

# Runet and the copyright reform

Today Russian Federation, as well as the entire international community, is actively involved in developing the Internet and the information society, trying to find solutions to many issues that arise from the use of the virtual space. One of the key issues is the future of copyright and the technology that allows access to digital information, when legal monopoly on works of literature, music, cinematic and visual arts, programming and databases may hinder access to knowledge and development of innovative solutions and services.

The current copyright ideology and legislative system, created decades ago, does not fully take into account the interest of authors and Internet users, as well as that of society as whole, and may restrict access to knowledge and information even in cases when authors and rights holders intend to allow free use of their work. In Russia, the situation is worsened by many legal amendments passed in the recent years. These initiatives disturb the balance of interest between rights holders and the society, favouring the former. Furthermore, many necessary changes regarding organisational and technical qualities of information exchange have not yet been introduced to Russia's legislation, which leads to law-enforcement practices that do not take the nature of the Internet into account.

Duly respecting the very institution of intellectual property and acknowledging its importance for Russian economy; and without any intention to call for its unnecessary revision, we cannot fail to see a

number of current challenges that need to be faced, in order for us to be able to speak of efficient development of the Internet and innovative economy in the country.

## Access to knowledge as a strategic issue

The Internet enables students, researchers and other users to participate in the global exchange of information, thus having an enormous impact on education, science and culture. The system of restrictions that exists for the sake of protecting copyright, formed in the past century and developing now, can have negative effect on the potential of many developing countries, as it will, in specific circumstances, prevent their communities from accessing socially significant information.

The existing copyright protection model does not allow, or at least seriously complicates the use of protected content for non-commercial purposes by wide audience.

## Replication for personal use

In recent years, additional legal restrictions on the use of non-material goods have been introduced in Russia, contradicting the very logic of information society evolution. Among them is the recent addition of «necessity» notion in the laws. Apart from enabling further offensive on the rights of individuals, the elusive meaning of this term leaves space for multiple interpretation, making it possible to use the law as a mechanism that imposes presumption of a user's guilt.

## The author's free will: free licensing and public domain

The Internet today gives everyone an opportunity to be an author and to find their audience.

A considerable number of authors are willing and ready to share their work with the society for free. They, however, cannot delegate rights to users or other authors, or define responsibilities related to free gratuitous, or compensated, use of their works, due to current legislation's shortcomings. The society, therefore, loses the possibility to gain and further develop knowledge.

Authors, rights owners and the state may desire to pass intellectual property to the public domain ahead of terms scheduled by the present law, and the law must give them such opportunity.

## The Internet as means of traditional content monetization

Today, when the offline market for intellectual products (printed, video and audio material) is constantly shrinking, the Internet keeps offering an increasing number of opportunities for acquiring income from online operations with legal content. In this regard, companies that offer rights holders services related to digital content distribution become a key link in the chain. On the Internet, ensuring the author's right for a reward often depends on the rights holders' will to provide their content to such companies and to cooperate with wider Internet community in the field of digital distribution.

## The issue of Internet service providers (information brokers) responsibility

Internet providers, using various services and

technological platforms at their disposal, provide users with the possibility to upload and distribute information. If not for them, the Internet could not have become one of humankind's main achievements of the 20th century.

In Russia, defining the character and limits of information brokers' liability in cases of illegal content placement on the Internet and breach of copyright and associated rights, has become a particularly controversial issue.

We fully understand the logic of rights owners who prefer to rest responsibility upon Internet service providers; and we do not wish to impose any defence mechanism on them, as they are free by the law to choose any legal strategy they find efficient when protecting their rights. We, however, find it unfair to hold owners of Internet service companies, platforms or social networking sites liable for breach of copyright when all they do is provide services and opportunities to store and give access to information, without any intention whatsoever to violate intellectual property ownership rights.

We would like to draw attention to the fact that globally, there exist and are widely used by rights holders themselves many organisational, technical and legal solutions that allow them to immediately restrict access to illegal content or delete such content, after notifying the information broker of a violation (cooperation between service providers and rights owners is therefore necessary).

### Considering all the foregoing, we believe that:

- A strategic balance must be found between the protection of intellectual property rights and that of the public interest, namely providing the community access to copyrighted material, in order to ensure distribution of knowledge, encourage creativity and facilitate public welfare.
- It is necessary to broaden and define the limits and possibilities for replication of copyrighted content for personal use, thus making easier the access to cultural heritage for information, study, scientific or cultural purposes, regardless of replication method.
- It is also necessary to extend the right of authors to allow free use of their works and to simplify the procedure for passing such works into the public domain.
- It is necessary to define the extent and conditions under which Internet users and service providers can be held liable for the content that constitutes violation of copyright law, taking into account the technical characteristics of the Internet and the democratic principle that prohibits censorship.

We call on authors and rights owners to pay attention to the fact that the Internet gives new opportunities and opens new possibilities for monetization. We are convinced that holders of intellectual property rights can successfully gain financial and reputational benefit from active involvement and cooperation with the Internet, instead of resorting to infringement of users rights or waging a war on Internet service providers and users.

We believe that a number of copyright protection tools must be amended so that they can reflect

the profound changes that advancement of digital technology has brought to our society. We are ready to engage in dialogue and discussion in order to find compromise solutions that will take into account the interest of all parties: Internet users, rights owners, Internet businesses. As a step towards such dialogue, we present propositions that are based on our own vision of an innovative model for development of copyright legislation in the 21st century.

We call upon all interested organisations and individuals to make all the possible effort in order to discuss and jointly define the current issues and ways to find the solutions to them; and to make these ideas and possible strategies for developing laws that regulate copyright issues on the Internet known to the authorities.

## Improving the legislation

In order to ensure further development of information society and finding a mutually beneficial compromise of interest between rights holders, users, information brokers and the state, we find it practical to discuss and implement the following propositions on how Russia's current legislation could be improved:

1. In order to ensure rights and freedom of authors and rights owners:
  - 1.1. Define a procedure for licencing and other agreement signing in electronic form, in order to give legal status to the Internet's tradition of dealing;
  - 1.2. Define an efficient procedure for passing objects of intellectual property rights into the public domain at authors'/rights holders' will;
  - 1.3. Define a procedure for an irrevocable announcement to be made by authors/rights owners who allow free use of their intellectual property (i.e. on the Internet);Create a legal basis for implementing the Internet's current important free licensing formats (Creative Commons, GNU FDL, etc.).

In order to ensure the development of information society and the interests of users:

- 2.1. Remove the notion of «necessity» from the list of requirements for free replication for personal use;

- 2.2. Secure the right of libraries and archives to create electronic copies of creative products without the consent of the authors/rights owners, and without paying the royalty, in order to provide access to such products on the libraries/archives premises, given that further digital copying is impossible and that the copying is not done for financial gain;

- 2.3. Secure the right of educational institutions to create electronic copies of legally published articles, small works and fragments of larger works for the purposes of study, given that copying is not done for financial gain. Educational institutions must be allowed to copy such material without the consent of authors/rights owners or without royalty payment, given that the author whose work is being used is credited, as well as the source from which such work of fragment was taken;

- 2.4. Broaden the list of actions that are not deemed by the law as a breach of database manufacturers' exclusive right, when the copying is done for personal, scientific or educational purposes, and not for financial gain;

- 2.5. Secure the freedom of panorama, allowing free photo or video footage of copyrighted objects that are present in public spaces or can be seen from such spaces, as well as free distribution and public demonstration of such footage;

- 2.6. Prohibit the use of technical means of rights protection that hinder lawful use of creative objects;

- 2.7. Create mechanisms that stimulate the use of intellectual work results that were created with state

funding and are owned by the Russian Federation, in order to include these works in innovation and provide access to knowledge in the information society;

Secure the right of the state and authorised persons to proclaim results of intellectual work, created with state funding, as objects of the public domain, and allow their free use;

In order to set reasonable limits of Internet users and service providers (information brokers) responsibility for illegal content:

3.1. Limit the responsibility of Internet service providers for the actions of users, given that the former comply with all legal requirements and procedures that ensure the interests of authors and right holders regarding protection of their rights on the Internet;

3.2. Define a legal procedure for notification and cooperation between Internet service providers and authors/rights owners and other parties involved regarding intellectual property rights breach.

# Main Events 2012

## RedApple MIXX 2012

/ September 19-20<sup>th</sup>

## Russian Internet Week 2012

/ October 17-19<sup>th</sup>

## The Runet Awards 2012

/ November 23<sup>th</sup>

## Russian Internet Forum 2012

April 18–20<sup>th</sup>

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