

YEARBOOK



Russian private equity and venture capital market review 2008

Russian Private Equity
and Venture Capital
Association
(RVCA)



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Russian private equity market review 2008

By the end of 2008, the total capitalization of all Russian private equity and venture capital funds increased to nearly \$14.33 bln – 40% more in comparison with the end of 2007 (\$10.26 bln).

Volume of newly attracted funds was equal to \$4.27 bln, which was close to the previous year's increase (\$4.32 bln in 2007).

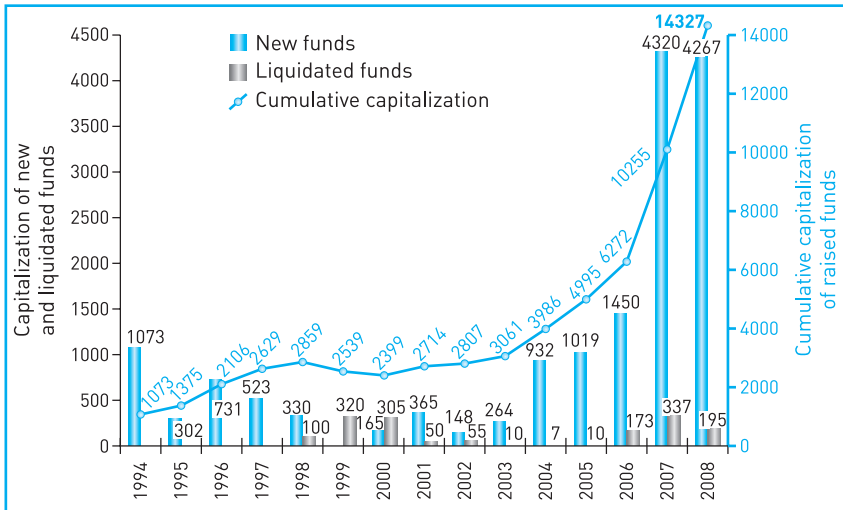
It should be noted that main part of attracted capital (95%) corresponded to the funds newly created in 2008 (and to the number of funds registered at the end of 2007 and that started investing in 2008, thus being not included in 2007 statistics). The number of such funds was 32. Three largest of newly created funds were responsible for almost a half of all capital amount attracted in 2008.

The typical for 2007 considerable numerical growth of private equity and venture capital (PE&VC) funds in the co-investment market was not observed in 2008. On the contrary, a number of funds under investigation terminated their activity in 2008. However, this reduction was partially compensated, both by the funds of regional and federal level created within the frames of public-private partnership*, and the funds created by private management companies outside the above-mentioned programs.

In 2008, rise of number of organizations which were not structured as "classic" PE&VC funds but positioned themselves as agencies, business angels' funds, innovation studios, internet-incubators, etc., was observed. Such structures are engaged in rendering consulting and intermediary services to young teams of developers, and finally promote attraction of investments to start-up projects (primarily, in IT-companies) or invest their own capital (relatively moderate).

* We mean the tender on venture funds creation with the Ministry for Economic Development of the RF and Russian Venture Company participation.

Capitalization of private equity & venture capital funds in Russia, 1994–2008, \$ million



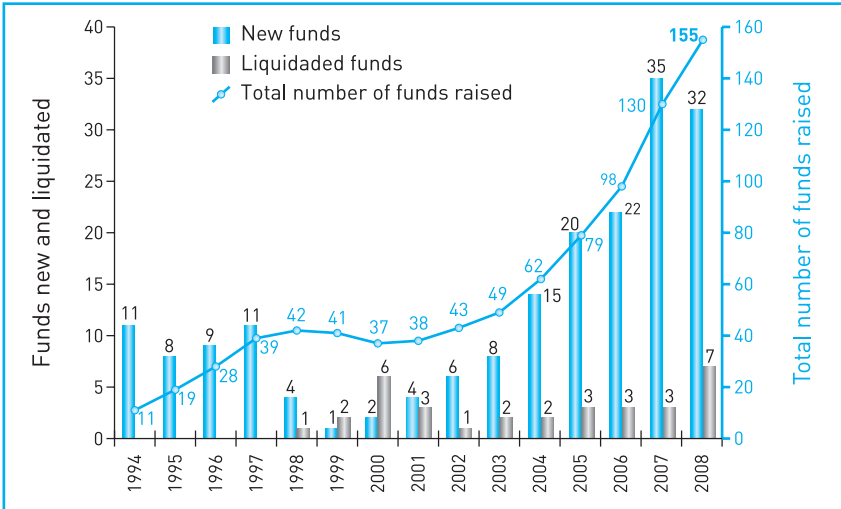
Termination of seven funds' functioning (several of which had been working during nearly 10 years) decreased the volume of PE&VC market in 2008 by nearly \$195 mln – approximately 1.7 times less than volume of capital outflow in 2007 (\$337 mln).

Thus, in spite of definite "natural" capital outflow (being registered annually) the total volume of accumulated capital continued to demonstrate significant rise, which was connected first of all with the last years' trend of big PE funds coming in the market.

During the investigation, additional questioning of the management companies' specialists on their expectations for 2009 connected with the dynamics of capital attraction to new funds, distribution of investments by stages, and exits' prospects was conducted.

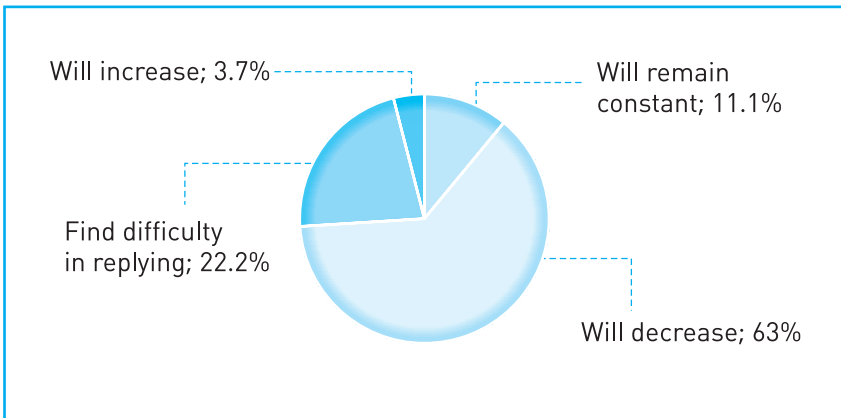
In 2008, the accumulated capitalization volume of PE&VC funds working in Russia demonstrated tendency of growth and reached the amount of \$14 billion

Number of private equity & venture capital funds in Russia, 1994–2008

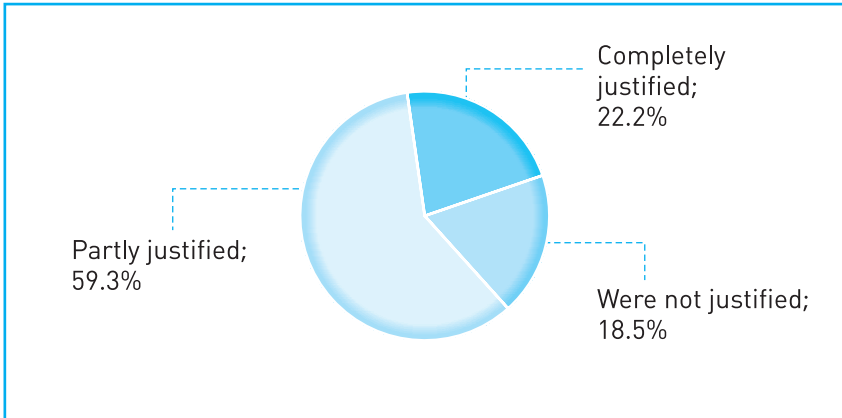


Also, a new venture fund (joint project of Russian and foreign market investors) which planned to invest beyond the boundaries of Russian Federation was registered in 2008.

Dynamics of capital volume raised by funds – forecast for 2009



Realization of the investors' expectations according to the funds' productivity in 2008



At the same time, it was found that several management companies which announced in 2007 their plans on new funds raising in 2008 postponed the fundraising to 2009.

Totally more than a half of interviewed participants noted that the expectations of the funds' activity in 2008 have been fulfilled only partly.

In 2008, total volume of raised capital amounted to \$4.27 billion that was comparable with the level of 2007

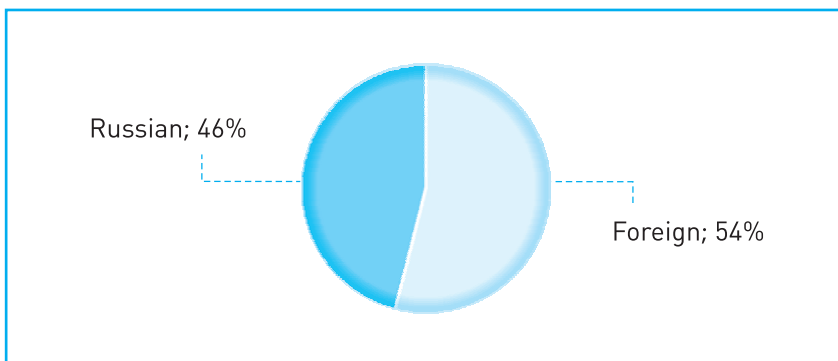
Sources of funds' capital

Structure of sources of raised funds traditionally is the most complicated part of the process of gathering information.

Speaking of the sources and types of capital, they were identified for approximately 22% (\$940 mln) of the total volume of capitalization increase in 2008. The information (total or partial) on the sources of newly attracted capital was presented by 16 funds which raised capital in 2008.

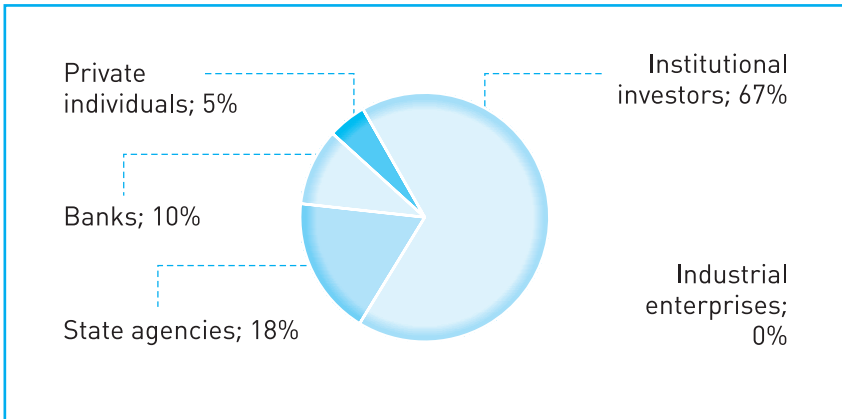
On the basis of these data, a positive dynamics of proportion of the Russian origin capital sources may be established: for the first time in the more than 10-years history of this market's development in the country this share almost became equal to the share of foreign capital.

Sources of funds' capital, 2008



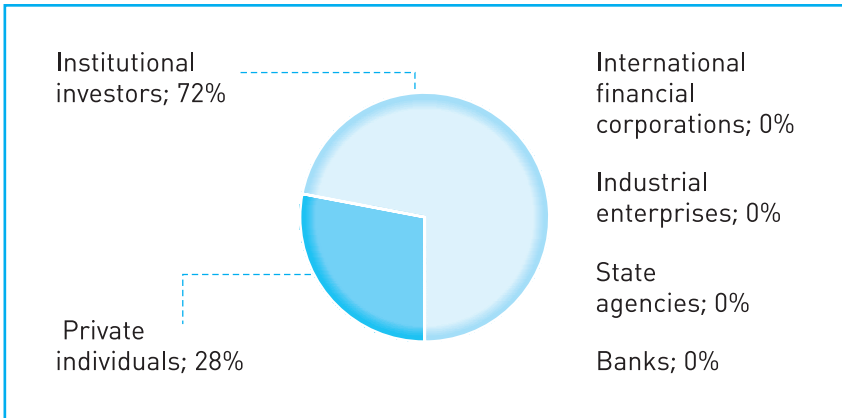
The structure of Russian sources of capital is diverse enough. Definite part of state capital is connected with the funds formed on a par within the frames of public-private partnership; at that, the funds which originated from federal or regional budget were considered as state capital. The main part of funds was formed by institutional investors' inputs (this category included also the state capital which came from funds of funds).

Russian sources of capital, 2008



In the structure of foreign sources main share corresponds to capital of large institutional investors.

Foreign sources of capital, 2008



Classification of management companies

By the end of 2008, the number of PE&VC management companies (MCs) acting at the territory of the RF reached 99 (compared to 82 in 2007). The remarkable increase of the MCs number was connected with the fact that new MCs, which entered into the market with their new funds in 2008, were included in statistics. At the same time, a number of MCs were excluded from the sphere of investigation as the funds under their management, which were taken into account earlier, terminated their activity in 2008.

Management companies were separated into three groups depending on the capital volume under management. The upper limit for the most capital-intensive group was equal to \$2.2 bln. Traditionally, MCs of this group provide the main input into the total capitalization growth (near 85% in 2008 and approximately 86% in 2007).

It should be noted on the whole, that the total picture of classification presented below has not changed significantly when compared with 2007 data, with accentuating larger funds as before.

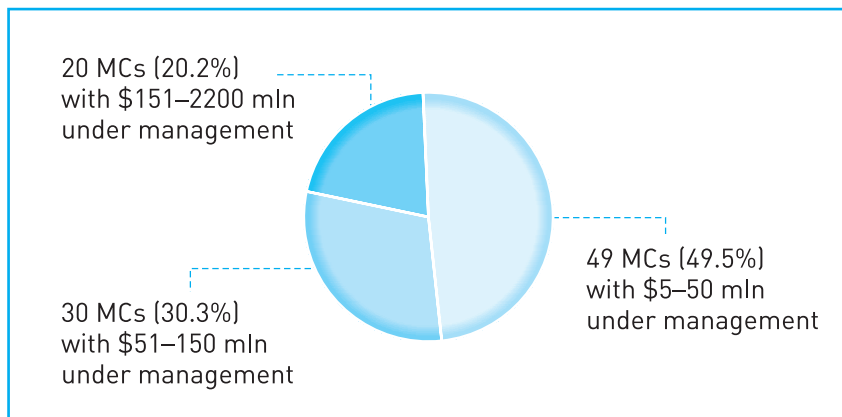
Taking into account the capital outflow in 2008, grouping of MCs by their capital intensity looks as the following.

Number of management companies belonged to the mostly capital-intensive group (from \$151 mln to \$2000 mln of funds' capitalization) rose by 5 companies and amounted to 20 MCs in 2008. There was total capital at \$10.551 bln approximately under management of the MCs of this group. The funds of this group invested mainly in companies at the expansion and later stages of development. Investment volume ranged from \$15 mln to \$50 mln per one company.

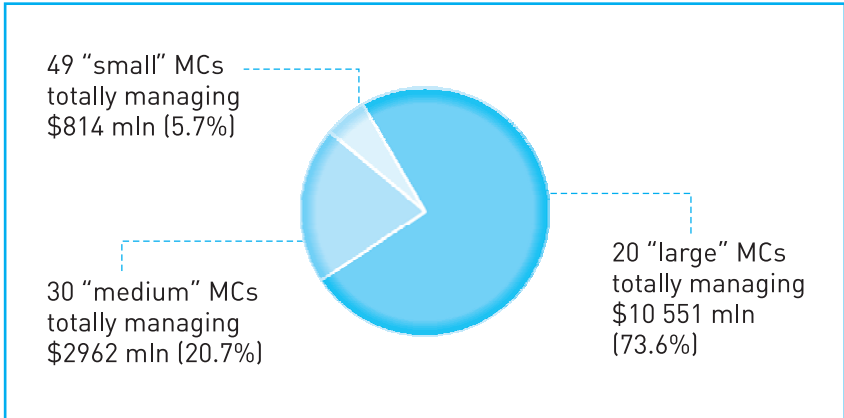
The number of management companies in the second group, managing funds with capitalization from \$51 mln to \$150 mln, increased by 2 companies and reached 30 MCs. The dynamics of number of companies in this group was determined by emergence of new funds and transition of some companies from "smaller weight" category after they had augmented their capital. The funds' volume under management of the MCs of this group rose by \$0.3 bln and amounted to \$2.962 bln approximately. The funds of this group didn't have any evident investment preferences regarding development stages of the companies. The deals' volumes varied within the limits of \$5 mln – \$15 mln.

The third group (funds' sizes from \$5 mln to \$50 mln) included the majority of MCs – 49, that was 10 companies more than in 2007 (taking into account both arrivals of new MCs with new funds to the market, and liquidation of other MCs connected with termination of some funds' activity). The capital volume under management in this category was equal to approx. \$814 mln (some decrease of capital was also connected with termination of several funds). Deal sizes in this group ranged from several hundreds of thousands dollars to \$3 mln.

Number of fund management companies (MCs) by total capitalization of funds under management, 2008



Capital of fund management companies (MCs) by total capitalization of funds under management, 2008



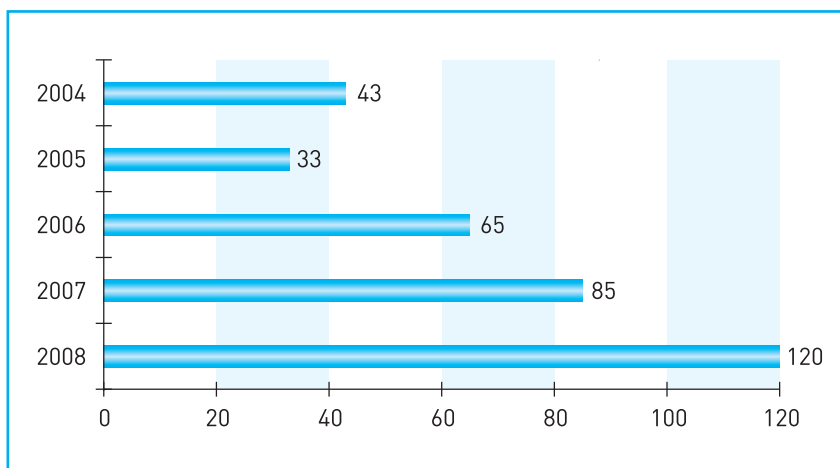
MCs with total funds' size more than \$151 mIn traditionally provide main input in total cumulative capitalization growth (85% in 2008)

Investment by industry branches

According to data received from management companies, 120 deals (provided with corresponding information on branches, stages and regions) with total volume to the amount of \$1472.41 mln were realized in 2008.

This volume may be augmented by approximately \$40 mln (total volume of at least 6 investments on which individual information was not disclosed), and \$65 mln (summarized data on several investments without indication of the deals' number). Besides, there are grounds to believe that one of the larger funds had realized investments – several hundreds of millions dollars by volume – in some Financial services and Communications sectors' companies, but has not disclosed the information on these deals on its own reasons. Taking this into account, the total investment volume was close to \$2 bln in 2008.

Number of portfolio companies, 2004–2008



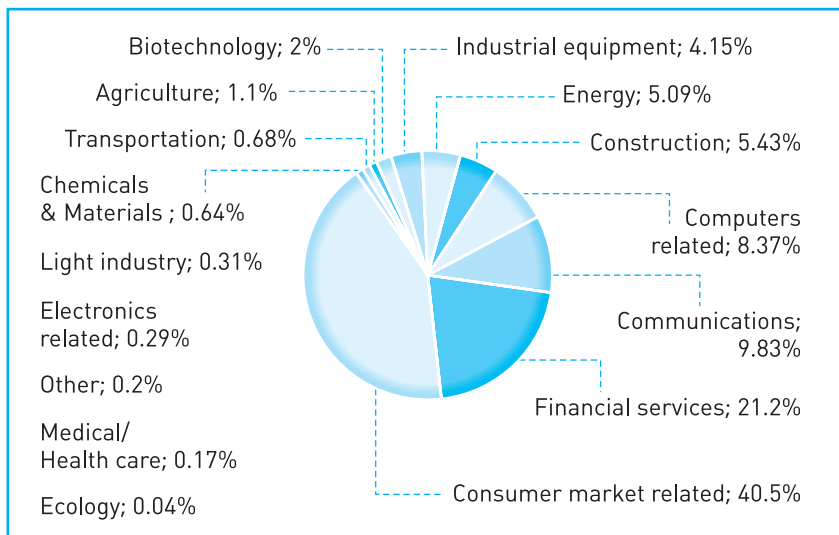
It may be stated that absolute leaders from the point of view of investment attractiveness were Consumer market related and Financial services

industries, as well as Communications and Computer related branches united within ICT sector.

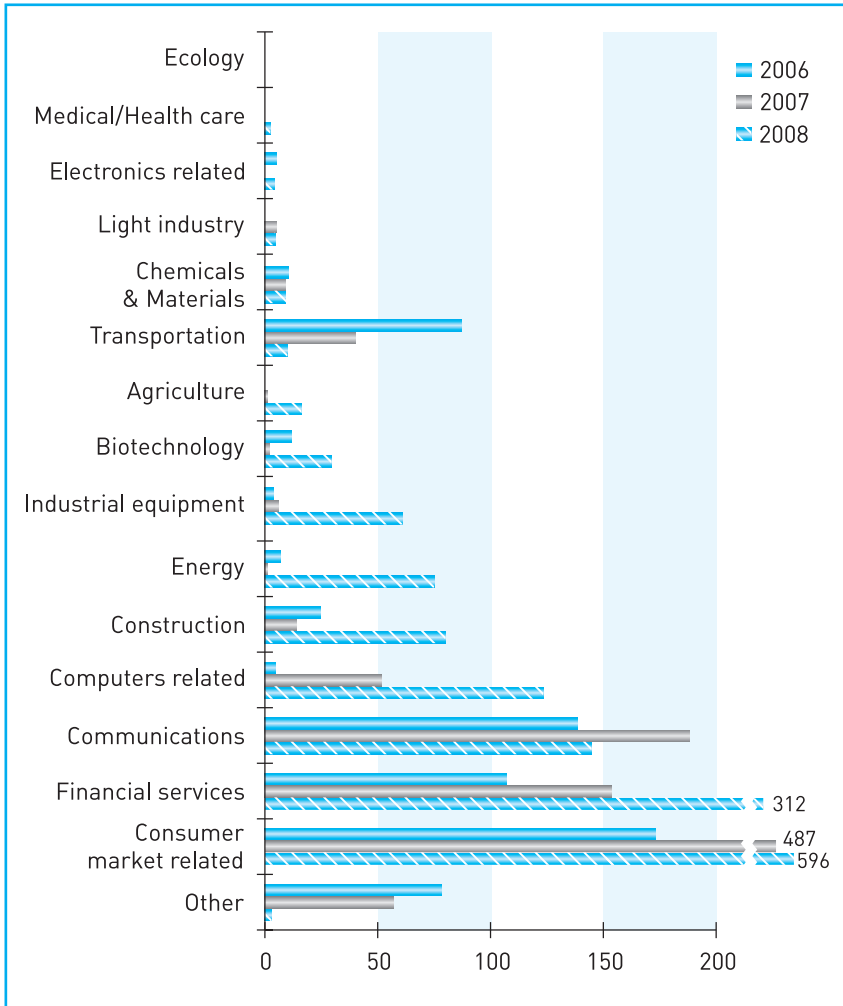
Like it was in 2007, the Consumer market related companies were the leaders by volume of investments attracted – \$596.4 mln or more than 1/3 of total volume of capital invested in 2008 (in 2007, investments in this branch were equal to \$487.46 mln – 47.9% of the total investment volume).

In contrast to 2007, Financial services were the second with total (registered) investment volume at \$312.16 mln. Taking into account the fact that a number of deals in this sector has not been disclosed, the total amount of investments in this sector is estimated to be at the level comparable with the Consumer market related branch. Taking into consideration the problems attacking the companies of financial market, this correlation may remain in next years.

Investment distribution by industries, 2008



Investment distribution by industries, 2006–2008, \$ million



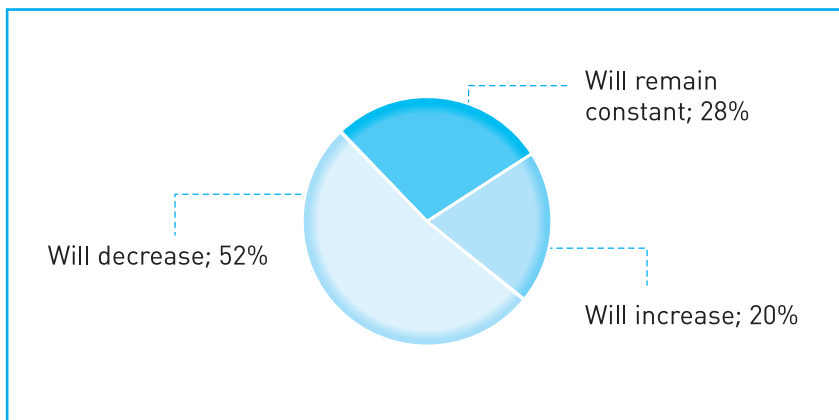
As compared with 2007, ICT sector has removed from the second place to the third. Total volume invested in ICT exceeded the 2007 level and amounted to \$268 mln – in comparison with \$240 mln in 2007. Totally, the Communications and Computer related branches cut down their share in

the whole volume of investments as compared with 2007 (18.2% in 2008 and near 23.6% in 2007).

In spite of the fact that a number of deals at total volume \$61.1 mln were registered in the Industrial equipment sector in 2008, the main increase of the volume was provided by only one large investment.

Remarkable activation was observed in Biotechnology and Energy areas (correspondingly, \$29.43 mln and \$75 mln compared to \$1.98 mln and \$1 mln in 2007). There are grounds to believe that the investments' rise in these sectors will remain in 2009.

Dynamics of investments volume – forecast for 2009

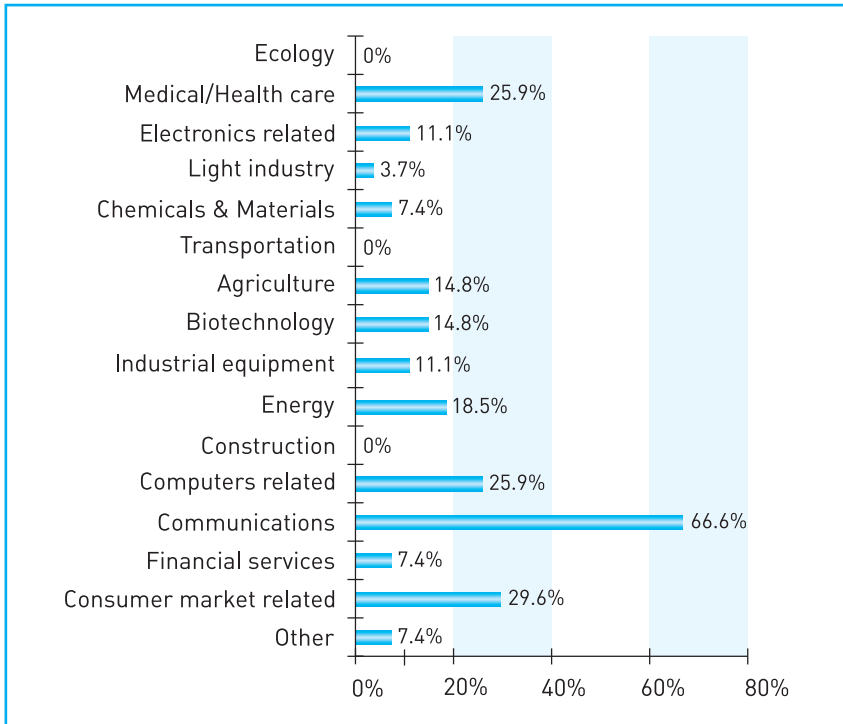


Average deal size in 2008 (if taking into account the size of identified deals) was close to the 2007 level and amounted to \$12.3 mln (on the whole, average deal size increases permanently: in 2004 – \$5 mln, 2005 – \$7.5 mln, 2006 – \$10 mln, and 2007 – \$12 mln).

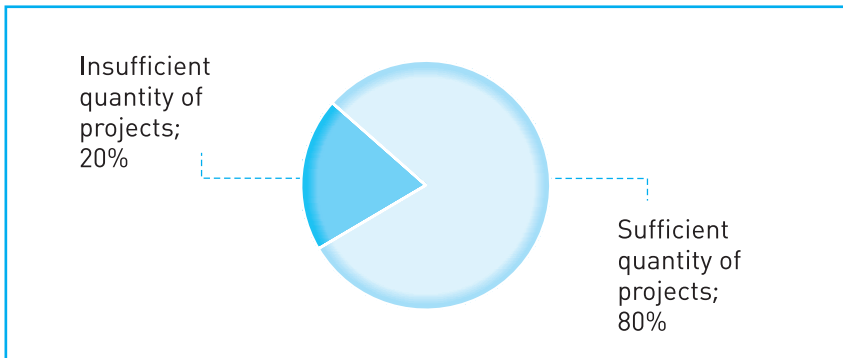
Negative and positive expectations of the market participants about the dynamics of investments volume in 2009 were equally divided.

The investment distribution by industries forecast for 2009 (the interviewed participants could choose more than one variant of answer) basically corresponded to the 2008 results. Traditional leaders have

Investments distribution by industries – forecast for 2009, percentage of respondents

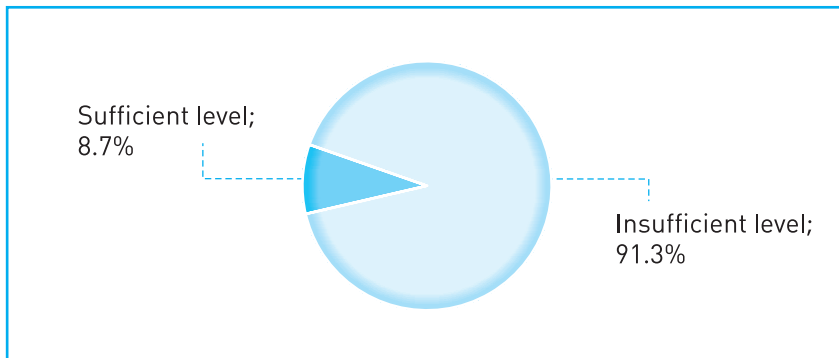


Availability of investment opportunities in 2008 – estimated by funds specialists



become ICT and Consumer market related sectors. Noticeable was the increase of expectations in areas of Biotechnologies (Medicine) and Energy.

Level of projects' preparedness in 2008 – estimated by funds specialists



On the whole, most promising objects for investments could become, on the opinion of market participants, the companies from the industries which are less subjected to crisis effects.

Specialists of management companies were rather unanimous in their estimation of quality and quantity of the projects which were seeking for investments – relatively low level of the projects' preparedness against the large volume of investment applications.

The specialists note the necessity of additional steps in special training aimed at raising the level of skills of managers and shareholders, as far as they often (primarily, in early stage companies) lack clear understanding of strategy of company's development, possession of the monetary process, lack or insufficient knowledge of the market, and so on. Often, the basic information on an applicant company is not disclosed, and investor's requests meet a hostile reaction; however, having no necessary information investor unlikely can make a reasonable decision on investment.

Industry	2006		2007		2008	
	Amount invested, \$ mln	%	Amount invested, \$ mln	%	Amount invested, \$ mln	%
Ecology			0.02	0.002	0.54	0.04
Medical/Health care	0.50	0.1	0.51	0.05	2.44	0.17
Electronics related	5.15	0.8	0.45	0.04	4.24	0.29
Light industry	0.00	0.0	5.00	0.49	4.50	0.31
Chemicals & Materials	10.35	1.6	9.30	0.92	9.35	0.64
Transportation	86.93	13.3	40.10	3.94	10.00	0.68
Agriculture	0.00	0.0	0.96	0.09	16.25	1.10
Biotechnology	12.37	1.9	1.98	0.19	29.43	2.00
Industrial equipment	4.11	0.6	6.06	0.60	61.10	4.15
Energy	7.08	1.1	1.00	0.10	75.00	5.09
Construction	24.63	3.8	14.00	1.38	80.00	5.43
Computers related	4.55	0.7	51.71	5.08	123.31	8.37
Communications	138.50	21.2	188.38	18.51	144.69	9.83
Financial services	107.15	16.4	153.60	15.10	312.16	21.2
Consumer market related	173.20	26.5	487.46	47.90	596.40	40.5
Other	78.41	12.0	57.00	5.60	3.00	0.20
Total	652.92	100.0	1017.53	100.0	1472.41	100.0

Total sum of deals registered in 2008 rose approximately 1.5 times larger than in 2007 and amounted to \$1472.41 mln

Investments by stages

There were no remarkable transpositions in relative distribution of investments by stages in 2008, and on the whole the trends of last year have retained – traditionally, the leader was the expansion stage.

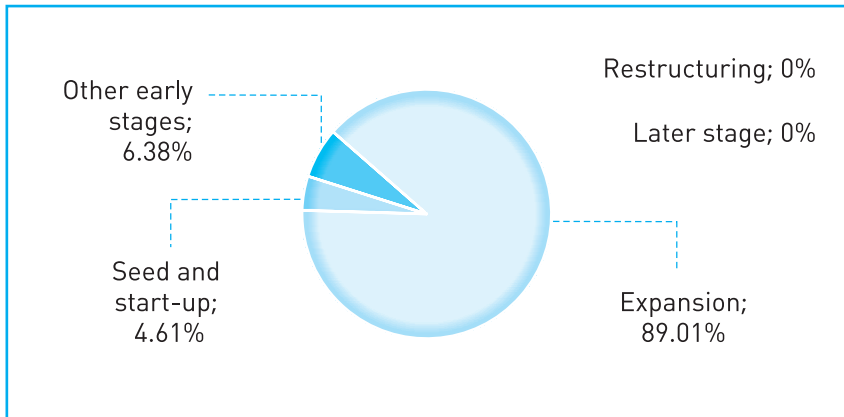
Proportion of investments at venture stages (seed, start-up and other early stages) in the total investment volume almost has not changed (about 11% compared with 10.6% in 2007). Total volume of investments in cash registered at these stages was \$161.76 mln in 2008 compared with \$108.30 mln in 2007, including seed and start-up – \$67.81 mln, other early stages – \$93.95 mln (in 2007 – \$42.12 mln and \$66.18 mln correspondingly).

Thus, the volume of venture stages investments exceeded this parameter of 2007 by more than 1.5 times. Totally, more than 67 companies (34 in 2007) received venture capital in 2008. The registered rise of venture investment activity to a substantial degree (first of all, concerning the deals' number) was connected with increased activity of funds created within the frames of the Ministry for Economic Development of the RF' programs of public-private partnership, being prepared in the recent years.

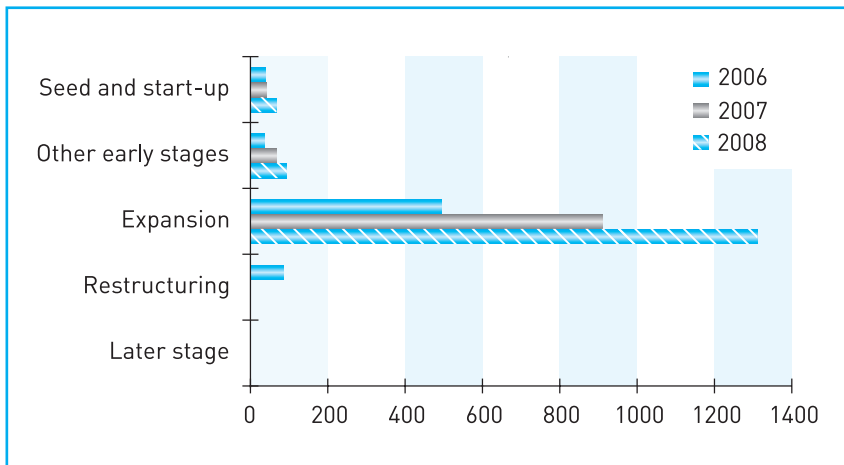
Expansion stage investments traditionally constitute the main part of the deals, and are mainly realized in the Communication and Consumer market related sectors. The registered expansion stage investments were many times larger again than the amount invested in venture stages. In 2008, there were 53 deals at the total amount approx. \$1310.65 mln (51 deal and \$909.23 mln in 2007 correspondingly). It accounts for 89% of total volume invested in 2008 and almost equal to the same level of 2007 (89.4%). It should be noted that the information on a number of deals was insufficient, and because of this they were attributed to the expansion

stage. At the same time, we may suppose that some of realized deals belonged to the restructuring stage.

Distribution of investments by stages, 2008



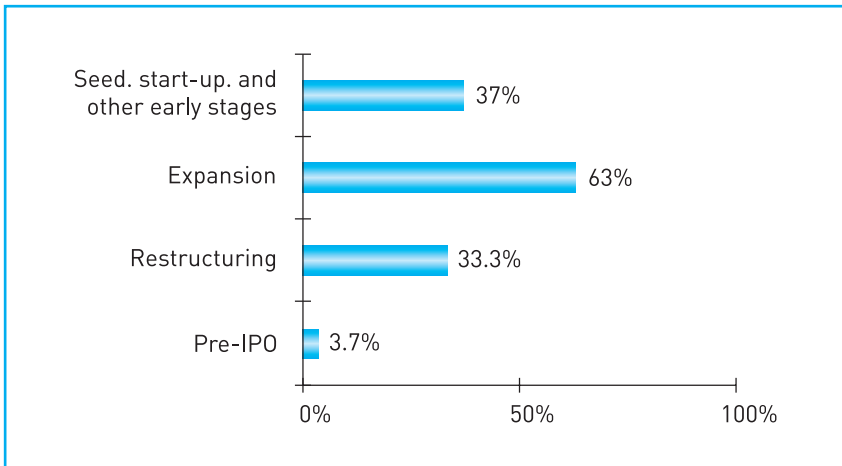
Distribution of investments by stages, 2006–2008, \$ million



When forecasting distribution of investments by stages in 2009, the specialists of funds show preference to later stages (in the interview, the

participants could choose more than one variant of answer). In the crisis environment it is connected first of all with the lower level of investments risks in proved projects of already existing successful companies. Investments in pre-IPO companies are practically excluded because of probable difficulties in exit. Probability of investing at expansion and restructuring stages is estimated above the average.

Distribution of investments by stages – forecast for 2009, percentage of respondents



In 2008, remained the last years' tendency of increase of venture stage investments volume (more than 1.5 times higher than in 2007) with keeping at the same level their share in the total investment volume (near 10%)

Investment stage	2006		2007		2008	
	Amount invested, \$ mln	%	Amount invested, \$ mln	%	Amount invested, \$ mln	%
Seed and start-up	38.53	5.90	42.12	4.1	67.81	4.61
Other early stages	36.55	5.60	66.18	6.5	93.95	6.38
Expansion	493.46	75.6	909.23	89.4	1310.65	89.01
Restructuring	84.38	12.90	0.00	0.00	0.00	0.00
Later stages	0.00	0.00	0.00	0.00	0.00	0.00
Total	652.92	100.0	1017.53	100.0	1472.41	100.0

The considerable rise of number of registered investments at venture stages (almost twofold when compared with 2007) was markedly connected with realization of public-private partnership programs at federal and regional levels

Investment by federal districts

Geographical distribution of investments has changed to some extent in comparison with past years.

Investments in Central federal district (FD) were dominant by their share in the total amount invested like in previous years (near 67% against 70% in 2007). At the same time, the 2008 investment volume in cash (\$989.75 mln) exceeded the data of 2007 (\$709.07 mln).

As regards to the other FDs, a certain equalization of investments' distribution occurred as compared with 2007 – with the difference by investment volumes between the federal districts which had taken places from 2nd to 4th was inconsiderable.

Second and third positions were occupied with a little gap by Volga and Ural FDs – \$145.76 mln (near 10% of total investment volume) and \$144.13 mln (near 10% also) correspondingly.

North-West FD reached 4th position in 2008 (3rd place in 2007). The volume of investments realized in this region increased approximately 3 times in cash in comparison with 2007, and the proportion of these investments in total invested capital rose 2 times (\$133.30 mln or 9.05% in 2008 compared to \$43 mln or 4.2% in 2007).

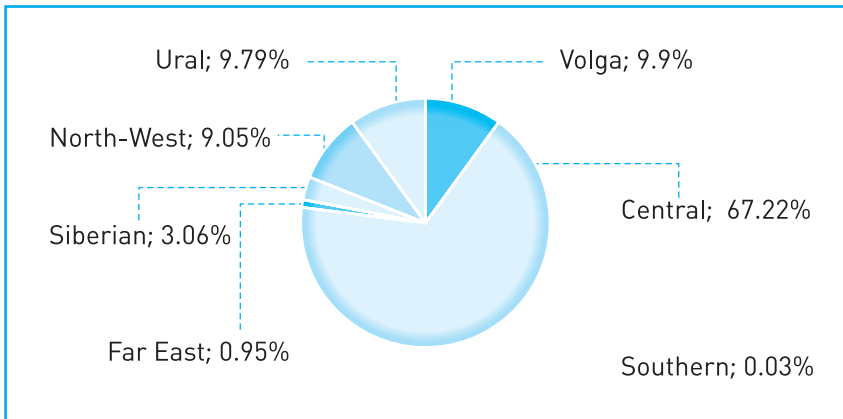
In Siberian FD, the volume of registered deals decreased in comparison with previous period – \$45.09 mln (near 3%) in 2008 against \$140.33 mln (13.8%) in 2007. This decrease may be connected with considerable investment volume in 2007.

In 2008, a certain decrease of deals volume was registered in Far East FD – \$14 mln (near 1%) opposite \$40 mln (3.9%) in 2007.

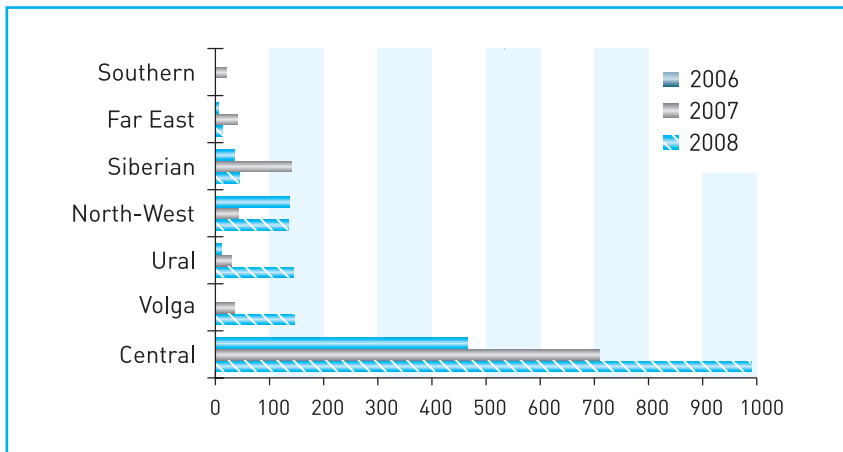
Registered investment activity in South FD was relatively low as before (\$0.38 mln or 0.03%). However, one can hope for improving the situation owing to forming in 2009 regional venture funds within public-private partnership programs.

As before, the obvious leader by volume of attracted investments among federal districts was Central FD. At the same time, certain equalization of investments volumes was registered in a number of FDs

Total investments by federal districts, 2008



Total investments by federal districts, 2006–2008, \$ million

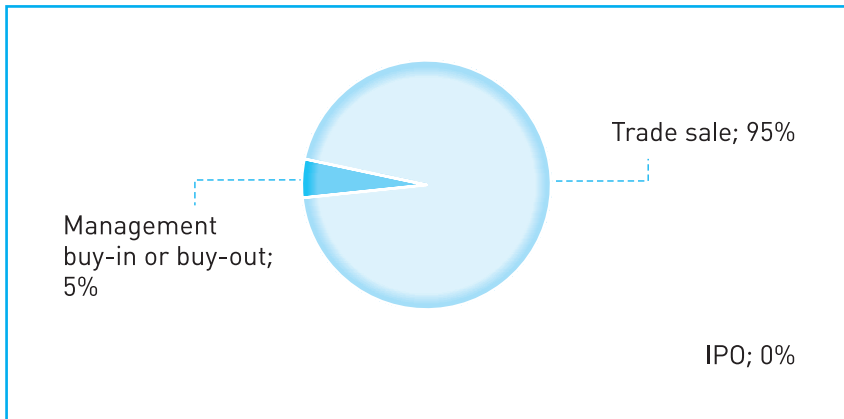


Federal District	2006		2007		2008	
	Amount invested, \$ mln	%	Amount invested, \$ mln	%	Amount invested, \$ mln	%
Southern	0.00	0.00	20.45	2.0	0.38	0.03
Far East	4.90	0.8	40.00	3.9	14.00	0.95
Siberian	34.65	5.3	140.33	13.8	45.09	3.06
North-West	135.98	20.8	43.00	4.2	133.30	9.05
Ural	11.00	1.7	30.00	3.0	144.13	9.79
Volga	0.00	0.0	34.68	3.4	145.76	9.90
Central	466.39	71.4	709.07	69.7	989.75	67.22
Total	652.92	100.0	1017.53	100.0	1472.41	100.0

Divestments

In 2008, 21 exits were registered. As before, the most popular way of divestment was sale of a company's share to strategic investor, or trade sale, – 20 deals or 95% of total number of exits (17 deals – 71% of total number in 2007). Management buyout – 1 deal (5%).

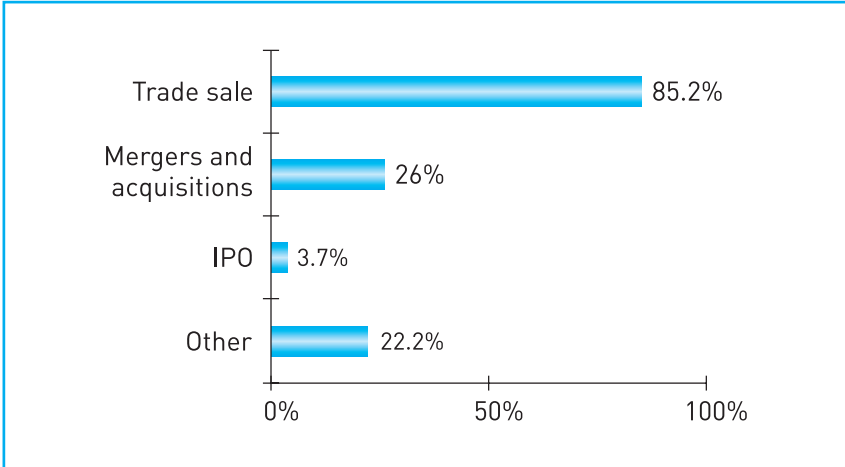
Exits distribution by number of divestments, 2008



On the opinion of the interviewed participants, IPO market will not be popular as a way of divestment in the nearest future.

According to the forecast, probability of the ways of divestments in 2009 ranges in the going down order as follows: trade sale (a number of respondents believed that the probability was considerable but at low prices), mergers and acquisitions, other ways of exits (leveraged sale to the project's initiators or third persons, as well as liquidation and bankruptcy), IPO. The participants of interview could choose more than one variant of answer.

The ways of fund's exits – forecast for 2009, percentage of respondents



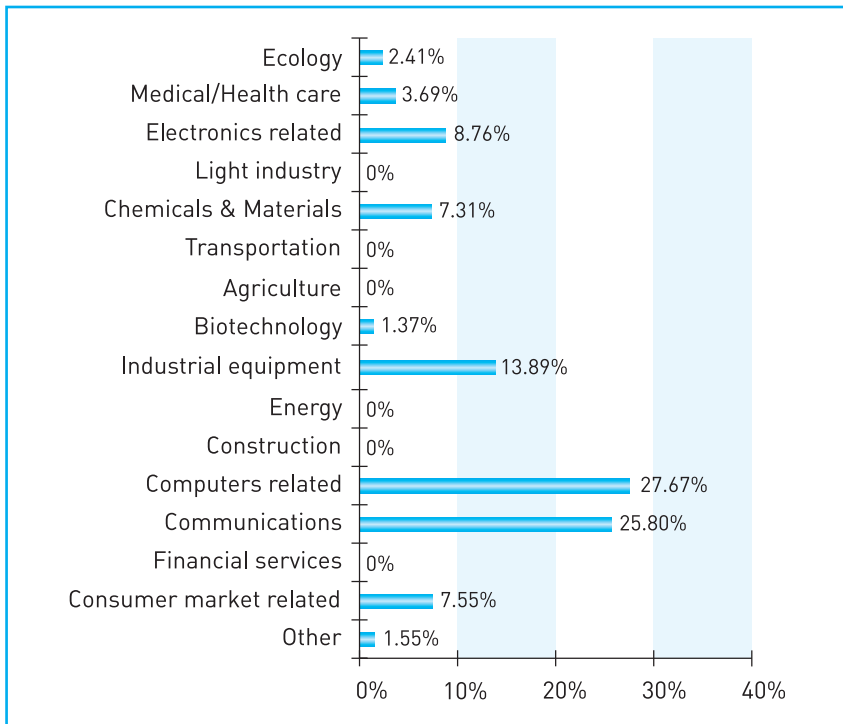
	Trade sale	Management buy-in or buy-out	IPO
2006	16 (88%)	1 (6%)	1 (6%)
2007	17 (71%)	5 (21%)	2 (8%)
2008	20 (95%)	1 (5%)	0 (0%)

Trade sales traditionally prevailed among the ways of funds' exits – 95%

Regional venture capital funds of the Ministry for Economic Development of the Russian Federation

Near 15 regional venture capital funds formed within the frames of public-private partnership by the Ministry for Economic Development of the RF programs were active by the end of 2008 (by the middle of 2009, more than 20 funds were active or almost formed). The information on several funds wasn't disclosed properly, and requires further definitions.

Distribution of investments of the Ministry for Economic Development of the RF venture capital funds by industries

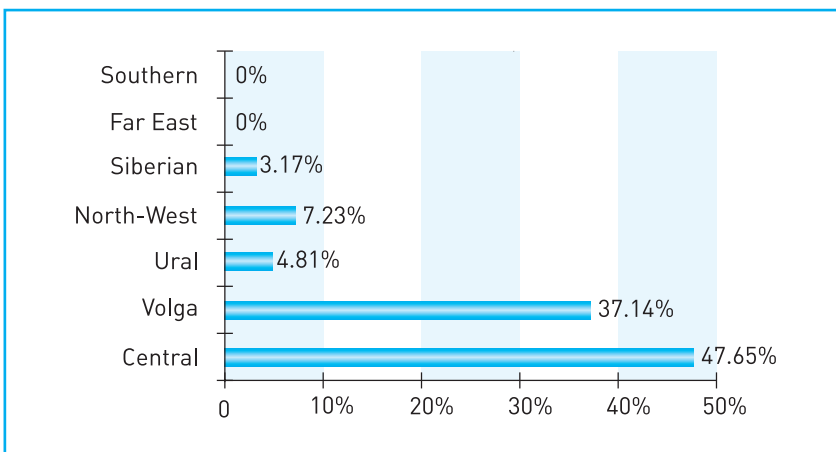


At the same time, several years have been passed since the beginning of such funds formation, and some preliminary results may be summed up. By the end of 2008, the total capitalization of active funds amounted approximately to \$150 mln. Total investment volume (for the 2007–2008 period) of the regional venture funds may be estimated at \$ 45–50 mln, and total number of the deals was equal approximately to 30. The sizes of these funds' investments ranged from several hundreds of thousands dollars to \$ 3–4 mln.

From the industries branches preferences point of view, the investors of the Ministry for Economic Development of the RF venture capital funds preferred ICT sector most of all, then – Industrial equipment, Electronics related, Chemicals and so on.

It's worthy to note that Volga FD following Central FD is among leaders by volumes of investments realized by the regional venture funds created within the public-private partnership programs, activity of which increased considerably in 2008 in comparison with 2007.

Distribution of investments of the Ministry for Economic Development of the RF venture capital funds by federal districts



Highlights 2008

- By the end of 2008, the **accumulated capitalization volume** of all funds acting in the Russian PE&VC market reached approximately **\$14.33 billion**.
- **Number of active funds** was **155** by the end of 2008.
- Total **volume of new capital raised** in 2008 amounted to **\$4.27 billion** that was very close to 2007 level (\$4.32 billion).
- **The number of management companies** acting in the Russian Federation totaled **99** by December of 2008 – 20% more than in 2007.
- **Total sum of investments in Russian companies** amounted to **\$1472.41 million** in 2008 – approximately 1.5 times more as compared with 2007.
- **Total number of the companies being financed** in 2008 – **120**. Average deal size – near \$12 million.
- The **Consumer market related companies** again were the leaders by volume of **investments attracted** – **\$596.40 million** or nearly 40% of total capital volume invested in 2008.
- **The expansion stage** remained to be mostly attractive for investors. **Attracted capital volume** at this stage amounted to **\$1310 million**, number of invested companies – **53**.
- Volume of **seed and start-up investments** amounted to near **\$68 million** in 2008, **early stage** investments – approx. **\$94 million**. Number of the companies that got investments at these stages – **67**.
- The most popular way of divestment remained **trade sale** – **95%** in 2008.

Dynamics 2006–2008

Total capitalization of all funds working at Russian private equity and venture capital market:

- 2006 – \$6.28 billion
- 2007 – \$10.26 billion
- **2008 – \$14.33 billion**

Number of working funds:

- 2006 – 98
- 2007 – 130
- **2008 – 155**

Volume of capital attracted:

- 2006 – \$1.45 billion
- **2007 – \$4.32 billion**
- **2008 – \$4.27 billion**

Number of management companies acting at the territory of the Russian Federation:

- 2006 – 69
- 2007 – 82
- **2008 – 99**

Total capital volume invested in Russian companies:

- 2006 – \$653 million
- 2007 – \$1017.53 million
- **2008 – \$1472.41 million**

Total number of the companies being financed:

- 2006 – 65
- 2007 – 85
- **2008 – 120**

Average deal size:

- 2006 – \$10 million
- 2007 – \$12 million
- **2008 – \$12.3 million**

The consumer market related companies are the leaders in attracting investments:

- 2006 – \$173.2 million (26.5%)
- 2007 – \$487.5 million (47.9%)
- **2008 – \$596.4 million (40.5%)**

Expansion stage remains to be the most attractive for investors:

- 2006 – \$493.46 million (28 companies got investments)
- 2007 – \$909 million (51 companies got investments)
- **2008 – \$1310 million (53 companies got investments)**

Volume of seed and start-up investments:

- 2006 – \$38.53 million
- 2007 – \$42 million
- **2008 – \$68 million**

Volume of early stage investments:

- 2006 – \$36.55 million
- 2007 – \$66 million
- **2008 – \$94 million**

Number of the companies being financed at venture stages:

- 2006 – 27
- 2007 – 34
- **2008 – 67**

Trade sale is the most popular way of divestment:

- 2006 – 88% of exits
- 2007 – 71% of exits
- **2008 – 95% of exits**

Methodology

Totally, in the Russian private equity and venture capital market review the data on 117 funds are presented. The following sources were used in the process of preparing the materials:

- Information from the questionnaires distributed among the funds acting in Russia.
- Interviews of the venture capital investments experts and professionals (several tens of interviews and meetings).
- Use of the RVCA Executive Committee database.

Based on the information gathered, a detailed profile was prepared for each fund. Data was organized according to the main parameters: sources of capital, realized investments by industry, stage, and geographical area, as well as divestments. All reasonable effort were undertaken to collect data on individual investments. When this was not possible, data was organized for each category in relation to the whole portfolio.

Questionnaires were distributed, gathered and processed by employees of the RVCA Executive Committee. Also from the RVCA office the telephone interviews were executed as well as open sources study.

This survey contains information on all known to the RVCA Executive Committee funds that perform according to the classical scheme of a private equity fund. It also included companies making venture investments through a revolving investment pool.

In cases when investments in Russia were made by a multinational private equity fund (investing in variety of countries), capitalization of such funds equaled the total sum of investments made only in Russia, and the vintage year was the year of the first investment in Russia.

In the process of preparing data and converting it from monetary terms to percentage and back, intermediate results were rounded off to the higher million. Therefore, some results may have a discrepancy.

Industries

European Private Equity & Venture Capital Association (EVCA) classifications were used to list investment data by industry:

Communications

- Telecommunications hardware
- Telecommunications carriers
- Internet related
- TV and radio broadcasting
- Publishing and media houses

Computer related

- Computer hardware
- Computer software
- Computer services

Electronics related

- Batteries
- Power supplies
- Fiber optics
- Analytical scientific instrumentation
- Semiconductors and components

Biotechnology

- Food supplements
- Agricultural/animal biotechnology
- Biotechnology related research and equipment

Medical/Health related

- Healthcare
- Pharmaceuticals and drug development
- Medical equipment

Energy

- Oil & gas exploration and production
- Exploration and drilling services and equipment
- Alternative energy

Consumer market related

- Food processing and beverages producing
- Retailing and store chains
- Leisure and recreational products
- Tourism
- Clothing manufacturing
- Household goods

Industrial equipment

- Industrial machinery
- Robotics
- Industrial automation

- Process control equipment

Light industries

- Textiles
- Furniture
- Pulp and paper
- Printing and binding
- Packaging materials

Chemicals and materials

- Lacquers
- Paints
- Glues
- Color pigments
- Fertilizers
- New materials

Transportation

- Logistics and carriers
- Transportation infrastructure
- Mail and package shipments

Financial services

- Banking
- Insurance
- Leasing
- Real estate

- Securities and commodities brokers

Agriculture

- Animal husbandry
- Fishing
- Forestry

Construction

- Engineering and architectural services
- Construction materials production
- Construction services

Other

- Advertising agencies
- Wholesale
- Consulting

Stages/type of financing definitions

The following stages definitions were accepted, described and included in survey forms:

Seed/start-up

A company is in the concept stage or just been registered. Additional R&D is needed. Product is still in a form of prototype. Sales have either not started or are absolutely minimal. Financing is also provided for patenting, licensing and/or protection of property rights.

Other early stages

Pilot batch of product is produced. Limited sales allow company to reach breakeven point. Extensive sales have not begun yet. Company is not generating substantial profit yet. Key managers have been hired; however, corporate structure needs further development. Additional licensing and finalizing of certification are needed.

Expansion

A company is profitable and stable in the market. Financing is needed to expand production capacity, market or product development, extensive marketing campaigns, and/or provide additional working capital. Restructuring (Buyout) stages

Financing is used to change shareholder structure. One or more shareholders change, come in or leave the company. It can be done through management buy-outs or buy-ins, secondary purchase by another private equity fund or other forms or replacement capital. Substantial restructuring or change of business model or selling off non-core assets can also be undertaken at this stage.

Later stages

Financing is used for short-term spur of company valuation, refinancing bank debt, acquiring additional production or distribution units along the value chain. It includes forms of bridge and mezzanine pre-IPO financing or preparation for trade sale.

Disclaimer

While the Russian Private Equity and Venture Capital Association (RVCA) have made every attempt to ensure the reliability of the data included in this review, it do not assume any responsibility for the accuracy of the underlying amounts submitted by the participating private equity companies or any other figures presented in this review. RVCA also do not assume any responsibility as regards the use that could be made of the data contained in this review by any third parties. This review should not be rated as recommending to invest as well as to refrain from investing.

Key provisions of the development strategy of JSC Russian Venture Company

Russian Venture Company (RVC) is one of the key institutions of the Russian Federation. The decision to create RVC was adopted in 2006, and since the beginning of 2007 the company is present in the Russian innovation and high technology market. The main task of the company when it was created was to provide saturation of venture capital market with funds by using a model of public-private partnership and thus to solve the problem of lack of financing for innovation development, as well as to provide the groundwork for development of a stable system of private investment mechanisms for innovation financing independent from the state. It is important to note that from the beginning the Company was granted a very limited set of instruments – that actually means that RVC does not exercise direct investment, but only participates in the creation of venture funds which invest in investee (portfolio) companies, essentially performing the function of fund of funds.

After more than two years of RVC's work in the Russian market, it has become clear that this model of activity in the current conditions of Russian market of high-tech innovation projects does not provide effective use of public funds. Money per se in the venture capital market can do little. We need not just money, but «smart money», accompanied by expertise, understanding of how to build technology businesses. In the classical scheme of venture capital a venture capitalist brings to investee company not only financial resources but also his own experience and understanding of the market; he becomes a «player-manager» of a project's team. Unfortunately, when creating RVC this «intelligent» component was missed – the company was created exclusively as a financial organization; it was assumed that the expertise will concentrate in the funds created with the RVC participation. The function of the Company was to be just a distributor of money to funds – of course, at certain and sufficiently stringent conditions.

Today it has become clear that RVC needs to turn its main product into the smart money and rebuild the institute of independent expert examination, both in terms of forming pool of experts and building regulations of project analysis, and in terms of creation of the expert community that is a collective bearer of knowledge and experience of commercialization of technology projects.

Another problem faced by the Company in its work was undeveloped market infrastructure, which keenly felt the lack of service organizations necessary for successful development of innovative companies. Here-with, RVC by its mandate cannot support such companies directly but only through the funds with the RVC participation. But for the funds, as a rule, such projects are not interesting because they do not provide venture return on investment.

Development of infrastructure, creation of favorable conditions for venture capital funds and portfolio companies, and building their own partnership network – these are the important activities of RVC.

So, today we can identify three main fields of the Russian Venture Company activity – capital, infrastructure, and expert examination. In each of these areas there are specific branches:

- In the investment block there is a need to expand the area of seed investments and to create specialized seed funds. In addition, today we have already to think of the later stages funds and the exit strategies from portfolio companies.
- In the infrastructure block there is a need both for the Government and the legislature to create favorable conditions for the development of innovation market. It is important to form a partnership network of RVC and to activate a program of international cooperation – both to attract international capital to Russian market, and to bring Russian technology companies into global markets.

- In the expert examination block there is a need to form a pool of experts and expert councils at the RVC, to provide high-quality technology business expertise to venture capital funds, and make the expert community available for all market participants, primarily for technological start-ups.

Just these three areas form the basic provisions of the development strategy of Russian Venture Company, which were approved by the Board of RVC directors on June 6, 2009, and by realization of which RVC is engaged at present. In the nearest future the Fund of seed capital will start working; the activity on forming a partnership network has started; also has been prepared the Concept of Law on Amendments for a number of federal laws aimed at forming an organizational and legal form that is appropriate for venture funds; formation of expert pool and expert councils of RVC has started; and the Company is working now on establishing regulations of expert examination.

Changing the Company's strategy was welcomed by the market and supported by the authorities which are responsible for the innovation development of Russia. It is safe to say that the role of RVC in the market place for innovation development will only be rising in the nearest future.

Igor Agamirzyan
General Director RVC

Introduction

The President, the Government, the Ministry of Economic Development, The Russian Federation Ministry of Education and Science have set the task of building competitive national innovation system of global scale in Russia.

JSC Russian Venture Company (RVC) as a federal state fund of funds and an institution of development of the Russian Federation is one of the key instruments of the state in building the national innovation system which is focused on creation and development of national venture capital industry in Russia as one of the most important aspects of innovation economy.

In this document the principal provisions of the RVC strategy are enunciated, on the grounds of which a long-term strategy for the company's operation during the period till 2020 is to be worked out and confirmed by the RVC Board of Directors in 2009.

The role of venture capital industry consists of mobilization of entrepreneurship, intellectual and financial resources in order to assure substantial increase in producing competitive hi-tech products and services, to accelerate the commercialization of intellectual property, to realize the technological potential in the context of market economy

In the long term prospect, the venture capital industry will be developing upon the condition of gradual decrease of the government budget's financial participation and is to become an important source of new working places and tax incomes.

Development of fundamental technological changes, the industry and markets' globalization, nascence of new economical leaders, aggravation

of the international competition, profound crisis in the world financial system in 2008–2009 – all these factors make it necessary to work out and realize a new practical and actual strategy of RVC development, which would allow eliminating negative trends as well as taking advantage of unique opportunities to the benefits of the Russian Federation.

The strategy of RVC development is based on the statements of the Concept of long-term social and economical development of the Russian Federation till 2020, which was affirmed by the Government of the Russian Federation on November 17, 2008, №1662-r.

Hence, the RVC mission for the 2009–2012 period, and for the near-term perspective until 2020 consists of providing accelerated building of an efficient and competitive national innovative system of global scale by creation of self-developing venture industry branch in cooperation with other institutions of development by means of:

- involvement of private venture capital,
- development of innovation entrepreneurship and technological business expertise through mobilizing the human potential of Russia.

Thus, the strategic aim of the company till 2020 is to secure the creation of a self-developing venture capital branch in the economy and innovative technological enterprising.

Reaching this strategic aim is possible only on the basis of wide mobilization of human capital, creativeness of Russian businessmen, scientists, designers, representatives of Russian-speaking expatriate abroad, talented young people, with the active use of mechanisms of private-state partnership in initial stage. It is also necessary to promote innovation technological entrepreneurship and to stimulate innovative activity among the developers of technologies.

In order to realize the RVC mission it is necessary to reach progress in the following directions:

- To increase attracting of private venture capital to innovative projects at all stages of their realization in Russia by creating conditions for self-development of the venture capital industry.
- To promote forming and accelerated development of globally competitive innovative business through creating favorable environment for innovative technological entrepreneurship in Russia.
- To promote availability and high quality of business expertise options and best investment practice for all market participants.

RVC is acting in the above mentioned directions with the use of the following means:

- minimizing transaction costs in venture business;
- furnishing capital for improving the financial basis of venture capital market;
- increasing mutually beneficial contacts between technological businessmen, investors and experts;
- stimulating innovative activity of businessmen and developers;
- saturating the market with timely information, skills, and practices.

1. Involvement of private venture capital in innovation projects at all stages of their realization in Russia with creation of conditions for self-development of venture capital industry

The conditions necessary for increasing private capital inflows in the innovation sphere are:

- availability of sufficient pool of projects attractive for investments;
- high upside potential of investments at risks under control;
- developed resources for building up capitalization of innovative companies.

To create such conditions, RVC as a fund of funds will use the following investment instruments:

- venture funds of seed investments;
- early stage funds, including highly specialized funds;
- later stage funds, including mezzanine funds, funds of buyout financing, private equity funds focused on high-tech industrial assets.

RVC will invest both in newly created and active funds. In addition, RVC considers that it is expedient to support fundraising for private funds that can provide as much significant result for achieving the strategic goal of RVC as the direct involvement in the funds.

RVC keeps strictly and will keep in the future all its obligations towards private investors and management companies of venture capital funds

For secured execution of their financial commitments, RVC uses fixed-income instruments and bank deposits offered by Russia's credit institutions with the highest ratings of reliability. Where it is necessary, RVC will apply effective tools for hedging currency and other exchange rate risks. When realizing investment and infrastructure programs, RVC will widely use transparent, accessible and understandable for applicants and public tender procedures, trying to meet as much as possible the customs of the suitable market sector. RVC will develop and implement specific programs and mechanisms for material saving of time and money of applicants, experts, partners, governments in conducting tenders. A detailed description of tools and conditions used by RVC and offered for private investors, managers, innovators will be reflected in the document "Principles of Investment Policy of JSC RVC", adopted by the Board of Directors of RVC and published on the website of the company. RVC will tightly control the compliance of activity of the funds and partners with the principles of investment policy of RVC.

1.1. Development and launch of the seed capital investment program with JSC RVC and private venture capital

For historical reasons, there is acute shortage of private capital sources for start-up companies in Russia. In this connection, RVC realizes a program of seed investments in innovative business ideas to significantly increase the quantity and quality of starting-up technology companies for their analysis and possible acquisition by venture capital investors and early stages funds.

Such program would include creation of public and private-public seed funds, support of programs of co-investing with business angels and corporate funds, close cooperation with state programs of financial support for small business in scientific and technological sphere and other development institutions, participation in organizing favorable crediting programs for small businesses.

Efforts of RVC to support new innovative companies will be located in areas with maximal concentration of the innovation infrastructure objects and sufficient level of entrepreneurial activity. However, RVC will provide availability of seed investments for promising start-up companies from any region of Russia. For this purpose, RVC will expand the investment and infrastructure joint projects with the regions of Russia whose leadership is the most active and demonstrates a real progress in regional and interregional programs of innovation development.

At the first stage, RVC participation in seed investment funds will amount to 100%. Investing in the newly created seed companies will be granted, provided that not less than 25% funds that the company needed will come from private investors. The maximum size of the first round investment in a technology company from the RVC seed funds will be up to 30 million rubles. In the future, seed funds with participation of private investors can be created. RVC will carefully examine and, if it'll be possible, apply various models of seed co-investing with the private capital participation.

RVC will stimulate formation of a venture partners' network for seed funds in order to maximize the involvement of professional managers, experts and business angels in the process of creating new technology companies. The network of independent venture partners, represented in all regions of Russia, will take on itself solving of main challenges of the projects' selection and «packaging», private investors' attraction, deals presentations to the Investment Committees of the Seed Funds, participation in the management of investee companies and their preparation to further rounds of investments.

1.2. Creation and support of early stage funds with participation of JSC RVC and private capital

To involve new players in the venture capital market there is a need for striking success stories, positive results of activity of the funds and innovative companies founded with the RVC participation

This is the main economic criterion for the success of the RVC's work as an investment institution.

Therefore, RVC provides maximum assistance to the funds and companies, in which it has invested state capital. RVC organizes regular programs for post-investment support of funds and portfolio companies, their expertise at all stages of growth, uses all opportunities to increase the companies' capitalization and sales of innovative products and services, including those in the international market.

In the economic crisis environment, RVC considers the international expansion of Russia's funds and companies to be necessary, and encourages creation of representative offices and subsidiaries in the countries where favorable market conditions exist for substantial increase in sales of innovative products and services. The activities of portfolio companies in such areas as using international division of labor in interests of Russia, the optimal placement of the research, and production and distribution facilities in the world will be also supported, provided a meaningful reduction of costs and achievement of maximum result for Russia's economy in the long term.

In order to provide and support an optimal level of public-private venture capital intended for investments in early stage companies, it is planned:

- Creating Funds of highly risky (venture) investments in accordance with established practice of RVC, with constant improvement

of competitive procedures to select the most professional and experienced managers.

- Creating specialized funds focused on specific areas of potential technological breakthroughs that have enhanced investment declaration, which allows both investing in innovative projects on various stages of development and financing innovative infrastructure in terms of specialized services and services for related technology clusters.

Responding flexibly to the sound and having successfully passed a comprehensive examination market offers, RVC can decide on forming middle stages funds with different legal structure and investment focus.

1.3. Elaboration and realization of measures aimed at attracting private venture capital in later stages innovative companies

The final stage of venture capital investment is venture funds' deals on selling their assets (divestment). Since the vast majority of these transactions occur with the participation of later stage venture funds, private equity funds and, also, the funds which finance the procedures of reorganization, mergers and acquisitions of mature companies, the RVC activity will include a variety of programs to involve private and public capital in investing in later stage innovative companies.

For realizing this direction, both investment mechanisms and direct financing of infrastructure projects and development programs will be used. With the emergence of proposals and market needs in the financial resources allocated in the mature later stage innovative companies, RVC will participate in creation of venture funds for later stage investing as a minority investor.

The presence of RVC in all segments of venture capital industry as an active investor and a leading market participant would allow the formation of a unified system of private financial institutions in Russia, that capitalized intellectual resources and capable of independent and accelerated development.

To reduce risks and costs of private investors in the innovation financing, RVC will offer economically attractive conditions for buyout by private investors and technological entrepreneurs the shares of RVC in venture funds and innovative companies. Such rights will be available to interested parties, taking into account the general condition of RVC investment portfolio by the risk/return profile criterion.

2. Formation and accelerated development of globally competitive innovative business through creation of favorable environment for innovation and technology entrepreneurship in Russia

Formation of all the necessary elements of venture capital market and the resource filling of interaction channels is critical for accelerated development of venture capital industry and technological entrepreneurship.

The environment for technological entrepreneurship is considered by RVC to be favorable if existing and emerging innovative companies have no difficulties and don't experience unduly high transaction and operating costs in all areas of their work including:

- searching and recruiting valuable business partners and key managers, including experienced foreign professionals;

- quality business planning and meaningful presentation to investors, availability of timely and accurate market data;
- quick and easy rules for establishing legal entities, deep opportunities for optimal transactions' structuring;
- availability of effective instruments of corporate governance;
- simple, flexible and transparent rules for hiring and firing staff;
- freedom in the economically efficient allocation of production, sales and service units;
- possibility of selection of necessary for the business objects of innovation infrastructure for cooperation;
- lack of obstacles and saving time with organizing sales of products and services, particularly in import-export transactions, customs procedures;
- protection of intellectual property created at any territory, management of intangible assets, their accounting and adequate market valuation;
- simplicity and accessibility of mechanisms and programs of state support of small and medium businesses; existence of a harmonious system of tax incentives for innovative entrepreneurs and investors;
- existence of diversity of financial, stock, and investment tools to attract, if necessary, additional resources or for carrying out strategic mergers.

Active participation in market failures' elimination is a strategic initiative of RVC that permits to improve significantly the conditions for technological entrepreneurship in the country, to achieve high investment attractiveness of Russian's venture capital market in the global scale

In this regard, RVC is concentrating its efforts and resources on the following areas, not limiting itself by them:

- Analysis and monitoring of legislative and regulatory framework which defines the institutional medium for innovation and technologic entrepreneurship, and development of proposals to the executive and legislative bodies on modifying or refining relevant regulations.
- Creation at the earliest possible date a network of the RVC partners.
- Active international work of the company aimed at ensuring the global competitiveness of the Russian venture capital market's participants.

2.1. Analysis, monitoring, and improvement of legislative and regulatory framework that defines the institutional medium for innovation and technologic entrepreneurship

The limited effectiveness of legal instruments regulating venture capital activities in Russia is a factor of deterrence of investment activity within the country.

JSC RVC – in close cooperation with market participants, the executive and legislative bodies, the Foundation for Assistance to small innovative enterprises, other institutions of development, in particular, the State Corporation «Russian Corporation of Nanotechnologies» and Russian Bank of Development – should realize integration of experience, views

and working practices, initiate preparation of laws in the legal security of venture capital market and technological entrepreneurship, in particular, the rules governing mutual investment funds, partnerships, self-regulatory organizations, etc. In addition, RVC is planning to participate actively in work on harmonization of relevant rules of civil corporate, customs, and immigration legislation of the countries – members of the Commonwealth of Independent States (CIS), Eurasian Economic Community, Shanghai Cooperation Organization.

2.2. Development of partner network of RVC

Developed partner network of RVC is the main tool in achieving success in the development of innovation and technology market infrastructure and the formation of the missing elements of the venture business' environment.

Partner network can and should be used for informing the market, conducting educational programs, analytical activity, publishing, etc. Partners of RVC will be both commercial and noncommercial organizations working closely, which will permit not only to perform well the different programs of RVC for innovation and technological market development, but also serve as a feedback channel with the target audience:

- most involved business representatives;
- private and institutional investors;
- expert communities;
- industrial enterprises;
- suppliers of innovative products and services;

- regional bodies for supporting venture market.

It is supposed that there will be a marketing support for RVC partners that will be provided to the organizations successfully cooperating with RVC and used to promote the brand and programs of RVC and its partners in the market.

2.2.1. Popularization of innovation activity

Low awareness of existing and potential participants about innovation and technological market, as well as of an open audience about the potential and practice of venture businesses – this is the factor which substantially lowers the efficiency of public and private initiatives in the field of technology and innovation investments. Also, special attention should be paid to more complete elucidation of measures of government support for innovation development.

Initiatives and programs of JSC RVC in this area will be focused primarily on the following:

- Interaction with Russian and international professional associations and organizations.
- Development of their own informational resources and organizational and financial assistance to the media partners, information resources and companies.
- Sponsoring and informational and expert participation in national and international events (contests, forums, roundtables, conferences, exhibitions) devoted to venture business, commercialization of intellectual property, formation of successful business projects and business teams.

2.2.2. Informational saturation of the market and publishing activity

The information needed for launch and development of innovative businesses in Russia is insufficiently available for the venture capital market participants. Qualitative information services, operating primarily in the English-speaking segment of Internet, are quite expensive for Russian innovators or totally obscure.

RVC organizes permanent functioning of regular informational and publishing programs for the purpose of providing for the innovation and technology entrepreneurs the access to sources of marketing, scientific, technological, legal and reference information, the results of the venture capital market' monitoring and the transactions carried out on it.

The practical results of such initiatives should be dissemination and introduction into practice:

- successful experience of realization of innovative projects in Russia;
- international experience of innovation activity and commercialization of products, protection of intellectual property;
- best forms and practices of private equity and venture capital investments.

Within the framework of informational and publishing activity of the company it is advisable to establish RVC library, including professional literature and world periodicals.

In order to optimize the involved resources, the program will be implemented in partnership with interested organizations and market players, both in Russia and abroad.

2.2.3. Development of the innovation business skills in innovative entrepreneurs, investors and developers

At the present stage of innovation development of the country there is an objective problem – low level of skills of the innovation processes participants.

Solving the problem of providing highly skilled “human capital” for technological entrepreneurship – is one of the priorities of the RVC activity. The company will expand its initiatives on conducting entrepreneurial contests of innovation technology projects of the students of Russian universities of humanitarian and technical specialties, short-term educational programs (seminars, workshops) for raising the level of skills of the innovation sphere participants, sending them for training to successful foreign technology companies and funds.

Realization of the programs should be performed in partnership with universities, academic and branch institutes, business schools, and commercial training centers

In developing such programs, RVC will conduct the study of the applicability of international practices in the field of venture entrepreneurship to the conditions of the Russian's economy.

2.3. Promotion of global competitiveness of the national venture capital market

The competitiveness of Russian's venture capital market participants in the global scale can be ensured only when an open system of sharing knowledge, experiences, technologies is being built, the Russian's companies are included in the most important technology chains of international market, and the funds with Russian capital participation are joined the key investment and information flows.

Getting into contact with the global leading technology companies, international venture capital funds, and successful venture capital professionals – these are the main objectives of cooperation with international partners.

2.3.1. Attracting the members of the international venture capital market to Russia

International experience shows that the transition to innovation economy is possible only with accumulation of a critical mass of venture capital managers. Lack of smart money in Russia innovation market should be compensated with the foreign capital and high qualification of professional venture investors.

In particular, it is necessary to create an international expert council of eminent and experienced representatives of the world venture capital industry to provide a highest quality preparation of all RVC activities in the international market, including forming a brand, timely receiving of «first-hand» analytical data on the trends and technological developments in the market, expertise of foreign economic operations of venture funds with the RVC participation, aggregation of the most advanced experience of the global venture capital industry in the interests of the Russian Federation.

2.3.2. Promotion of participants of Russian venture capital industry and production of innovative companies in the international market

Active position in the international arena of a state institute of development in the person of JSC RVC is an essential factor of promoting the competitiveness of Russian venture capital industry. Activity of RVC and the funds with its capital participation in the international technology and venture capital market is supposed to provide access to sales

markets, technological and institutional capital, technologies, and global technological chains.

Establishing partnership between RVC and international venture capital funds will ensure presence of RVC in the international market by the moment of expected exits of the funds with its participation from portfolio companies, and also will allow adjusting at the initial stage the strategy of RVC and funds in view of the global trends and practices.

RVC cooperation with international funds may be accompanied by the terms of the compulsory level of the funds' and their portfolio companies' activity in Russia. Minority participation RVC in the capital of international funds will ensure the presence both its representatives and the funds with its participation in the governing bodies of international funds, and will allow using the gained experience to transfer and implement the best practices of investment and management.

3. Ensuring availability and high quality of technology business expertise

Availability of technology business expertise plays a critical role in successful development of the innovation entrepreneurship market. Ensuring availability of skilled expertise for both RVC and other market participants is an important infrastructure goal.

3.1. Forming of permanent Expert Councils at the JSC RVC and improvement of internal service of projects' analysis

The essential problem of quality and market prospects of the projects is the lack of expertise in areas of investment activity. The objective factor

is the increasing involvement of RVC in specific projects and processes of companies' development. This becomes particularly significant in a condition of growing number of such companies, in view of the launch of new mechanisms of RVC.

In order to avoid making wrong decisions on the projects with very obvious market prospect or potentially interesting innovative projects with not developed business model, RVC supposes to participate actively in forming and managing a portfolio of funds' companies created by self-RVC or jointly with private capital.

In the shortest term, RVC will start moving from one-time expert examination practice to formation of permanent pool of experts, involved in designing and functioning of the RVC instruments and programs, access to which will be provided to existing and emerging funds with the RVC participation.

Formation of the "RVC Experts" expert pool is expected to begin simultaneously with creation of expert councils at the RVC by the priority directions with participation of the most active experts with high ratings. It is important that the proposed Expert councils include experts in various fields - technology experts, business experts, experts on investment, etc. Mechanism of the expert main body selection and starting formation of expert pool requires additional study, but it is clear that it should be a closed process with widening of experts circle by recommendations based on internal ratings.

To control expert resources (both expert councils and expert pool in general) and organize an internal service of projects' analysis, RVC needs a special unit to be created and the experts on the organization of innovative technology businesses to be attracted. In addition, there is a necessity of some marketing efforts for creating and promoting the «RVC Expert» status.

3.2. Organization of expert examination of venture funds' projects at different stages of development, and inclusion of the JSC RVC experts in preliminary analysis of the projects

It seems appropriate, by agreement with the partners of RVC, to involve the RVC expert examination at the level of units responsible for project analysis (Engagement committee and Due Diligence services). Inclusion of the RVC experts in the process of decision-making by existing and future early stage funds and by supposed later stage funds may significantly improve the quality of decisions.

Strengthening the role of preliminary analysis of projects in all funds with RVC participation is to provide high and competent level of decision-making and to achieve consistently high quality of the deals' preparation.

Participation of the RVC experts in the funds' work at the preliminary stage of projects consideration will allow effective selecting of high quality projects, and will support the peculiar to the Investment Committees of funds function of decision-making on transactions.

3.3. Building of qualified expert knowledge base for innovative and technological entrepreneurship by means of network expert community

There is a high need of the qualified expert operations' availability in the Russian venture capital market. This concerns the funds and management companies operating in the market, as well as innovative companies, teams, business-angels and so on.

RVC will secure availability of consultative resources, which can be used by all market participants when analyzing as well as preparing the projects. In particular it will be useful and sometimes even necessary for a potential team with a technological idea and for a business-angel involved in the project to get reference about the project "packaging", creation of juridical

person, cooperation with business incubator, development of a perspective business-plan, registration of intellectual property rights and so on. For a fund involved into the focus of RVC interests it is necessary to have an opportunity to involve independent examination for companies and project analysis.

RVC will provide the availability of consultative resources,
which can be used by all market participants

The solution of this problem, because of its magnitude and wide geographical distribution, will be focused on organizing and conducting by RVC methodological work in cooperation with an expert pool, preparing standard solutions and packages of documents, and initiating establishment of expertise base of innovation and technological entrepreneurship through the mechanism of creation of open expert network community.

Expert pool of RVC should become the main body of such a community, and its expansion should be achieved through open registration of both experts and consumers of expertise, with the possibility of initiating a participation and direct invitation of experts during the development stage of the community. For effective creation and development of the expert community, it's supposed to involve a broker for establishing relationships (including financial) between actors, and marketing support providing to market participants maximum information on existence of the community and rules of work with it.

During organization of this project and creation of advisory broker, direct involvement of RVC is necessary. Later on, this broker may be separated into an independent consulting company which works with sustainability and carries out the formal aspect of the transactions between market participants, while the substantial side (providing consulting and advisory services) will be realized by the immediate participants of the process.

Conclusion

In order to solve within 2009 the listed problems it is necessary:

- To develop a new organizational structure of JSC RVC and to provide transition to it according to strategic goals and tasks of the company.
- To develop and integrate a system of key indicators (benchmarks) of the RVC activities' efficiency and a system of its staff motivation.
- To develop road maps and indicate the key stages (milestones) essential to achievement goals by the company in all strategic directions.
- To improve the process of budget planning and control over the budget realization.
- To define and record key business processes of RVC and to implement a control system over their execution.
- To develop and actualize the means of automation of basic business processes, budgetary procedures and methods of interaction with market players.
- To stimulate improvement of the employees' skills and competency, necessary for the achievement of strategic goals and tasks of the company.
- To provide permanent informational interaction between partners and market players in order to achieve the agreed positions.
- To secure interaction between the RVC management and the Board of Directors' members in order to use their experience and support in the actualization of certain programs.

Business angels in Russia: it's already becoming a serious turn ...

Trends

Only five years ago, the most used headline of any information of the emerging class of individual venture capital investors in Russia was «Business Angels: Myths and Realities». In most cases and regardless of the audience an explanation had to begin from the beginning: where are these people from, what do they do, how these people are attractive and the more dangerous, and ultimately differ from patrons and sponsors.

The situation is fundamentally different now. The phrase «business angel» seldom requires detailed explanations in the target audience. According to different estimates, the number of active angels in Russia amounts to thousands and even tens of thousands. The most active of them are big-name.

In the foreseeable future information on their numbers and for sure on the volume of transactions performed by them is unlikely to be refined. Any individual investors who invest at their own risk their own money in private companies can be regarded as business angel. This activity does not specifically regulated by the state and therefore remains largely «invisible» to statistics.

Accordingly, all quantitative estimates are very approximate. Are there many such people? Much! How much? God only knows! It is essentially not important – there is little value from the statistics for the vast majority of entrepreneurs who obtain financing in their projects: what he can get, knowing the fact that in Russia, for example, there are a certain number of people who invest so many millions each year? Nothing ...

What the entrepreneurs need to know?

- Firstly, that this class of investors really exists, including in Russia.
- Secondly, when is it worth going, what should you expect and how to behave.
- Thirdly, where could you find them.

Angels get together

In the matter of availability and simplification search of business angels in Russia there have been changes in recent years: the most active and open of them have come together. Currently there are more than two dozens of relatively stable, formalized groups of angels including networks, clubs, funds and syndicates, linking up to hundreds of individual investors.

Models and goals of these organizations vary greatly: some of them really bring angels together to co-invest, others are actually the small investment companies that realize the finalization of projects, structuring deals and the «sale» of them to the angels, and others combine the features of the first and the second.

As for an entrepreneur, all these differences are unimportant. The main thing is that the «entry points» becomes clear for him! It means that he understands where should he go to meet his angel investor. As for the angels, associations help them find partners for joint investment, obtain admittance to more potential deals, exchange experiences.

Moreover, the situation has «matured» to more: the largest and the most stable group of angels realized that they have common, departmental goals associated with:

- improving the legal field, where Russia's angels work;
- development of a positive image of Russia's business angel figure;

- conjoint with government agencies programming to stimulate and support the activities of business angels;
- promotion learning and exchanging an experiences, including international.

To combine the efforts to decide these and other problems the all-Russia trade association of individual venture investors was established in August 2009, and was named Russian Association of Business Angels.

Angels and Government

It is interesting and gratifying that the activation of this field has not passed by «the sovereign's eye» – project of Russia Venture Company is actively developing, where the major partners in the financing of innovative start-up projects are exactly the business angels. RUSNANO has taken this model as a basis when creating their seed funds.

Therefore, these two major venture capital market public players in Russia actively supported the initiative of Russian Venture Capital Association (RVCA) to create a trade association of Russian angels without which the realization of their plans and programmes is almost impossible.

Summary

Business angels are no longer a phenomenon in Russia! They are the class of extremely useful for the economy private investors which are recognized both by the business community and the Government.

Konstantin Fokin

President

Russian Business Angels Association



Project Leader	Albina Nikkonen
Consultant	Ivan Rodionov
Financial Expert	Valentin Levitskiy
Financial Analyst	Andrey Gladkikh
Computer Design	Pavel Lomakin
Editor	Nataliya Zhukovskaya

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FOR NOTES



Russian Private Equity
and Venture Capital
Association
(RVCA)

P.O.B. 33, St. Petersburg, 194156, Russia

Phone: +7 (812) 326 6180

Fax: +7 (812) 326 6191

www.rvca.ru

rvca@rvca.ru