YEARBOOK

Russian private equity and venture capital market review 2009

Russian Private Equity
and Venture Capital
Association
(RVCA)

Foreword

RVCA offers to your attention the 2009 Russian private equity and venture capital market review based on the questionnaire of more than 70 representatives of leading investment structures acting at the Russian PE&VC market.

For carrying out this investigation, only the information, which was given by investment structures that positioned themselves as private equity or venture capital funds and worked at the territory of the Russian Federation, was used. At calculating the values of investment volumes, the deals of M&A sector as well as investment volumes inside holdings were not taken into account.

It's worth noting that at collecting the materials for this Review the authors was confronted with difficulties caused by introduction of some legislative acts: the changes of the Federal Law "On the investment funds" and of the FL "On the securities market" restrict disseminating information on the funds' activity. As a result, several Russian market players refused to give information on a number of parameters that seriously affected the representativeness of collected information.

RVCA expresses its profound gratitude to all structures that have given information for the Review, and we hope that it will be useful for both Russian PE&VC market professionals and concerned persons.

RVCA Executive Administration

Content

Russian Private Equity and Venture Capital Market Review

According to results of the poll organized by RVCA, by the end of 2009 the total capitalization of all Russian private equity and venture capital funds increased to nearly $15.2 bln – 6% more in comparison with the end of 2008 ($14.33 bln). Thus, a certain recession in the dynamics of capital growth relatively the preceding periods may be stated: in 2008 the gain was 40% in comparison with the 2007 level ($10.26 bln), and in 2007 it was more than 60% against 2006 ($6.28 bln).

Volume of newly attracted funds was equal to $1.31 bln, that was 3 times less than in the previous period ($4.27 bln in 2008). It is significant that many companies which had earlier announced the planned raising of their second (and following) funds in 2009, corrected their plans and postponed fundraising to 2010–2011. It is quite explainable, as exiting from before financed companies was very problematic in the 2008–2009 period and, correspondingly, new fundraisings were complicated.

At the same time, it should be noted that intentions of a number of management companies (mainly, new market players) on launching private equity funds were announced in 2009, provided that several funds' volume vas planned to reach near $1 bln. During 2009 year period the processes of these funds creation mainly were at the negotiation phase or at the stage of legal implementation, and therefore such funds were not included in the 2009 statistics, but will be included in the future taking into account actual results of fundraising (first funds closings are expected in 2010).

It's worthy of being noted that a part of the funds of indicated category is planned to be created on parity basis with the participation of Russian and foreign capital. Besides, attracting capital for work with problematic assets is becoming an actual current trend. A number of management companies, which announced funds launching in 2009 (in general, small and medium venture capital funds), also were not included in this statistics, because the information on actual volume of funds raised by them either was not disclosed or needed to be defined more exactly.

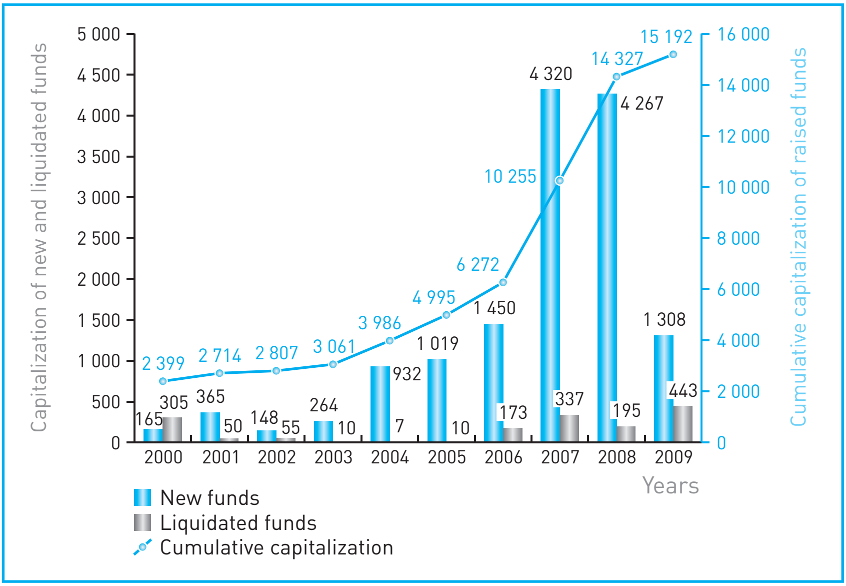
In general, there were no less than 11 PE&VC funds that were announced to start fundraising in 2009 and thus might be included in statistics in the future. Upon this, their total capitalization evaluated on the basis of announced (by management companies) targeted funds' volumes makes up an impressive volume – near $3 bln. It is interesting to note that if taking into account the announced plans on new fundraising and the actual volume of funds having been raised already in 2009, the volume of funds' capital gain in 2009 may become comparable with the capital augmentation in 2008.

All the finances which constituted the volume of capital newly attracted in 2009, accounted for new funds, and at the same time near one half of the capital corresponded to one of large private equity funds which was announced to be closed in 2009. Work on this fund's raising was being actively conducted during preceding years.

Totally, the 2009 capital gain equal to $1.31 bln was provided by 19 funds, including 4 private PE funds, 13 closed mutual VC investment and combined investment funds, and 2 funds created with the state participation (including capital which came through the institutes of development). Capitalization of the mutual investment funds was estimated on the base of preliminary data on the volumes of capital accumulated by them (i.e. before accepting the "qualified investors" statute by a number of funds), and the majority of them were regional funds which were created within the frames of realization of the Russian Federation Ministry of Economical Development program.

At the same time, in addition to mutual investment funds mentioned above, appearance of not less than 20 PE&VC funds (including specialized infrastructure funds) may be marked on the pooled investment market. However, the mentioned funds don't disclose the information on net assets cost, investments having effected, and other aspects of their activities in correspondence with legal requirements for funds for qualified investors. In this connection, estimation of their capitalization and prospects on volumes, ways and targets of investments is complicated. Thus, by the reason of the lack of information, these funds cannot be included in the total statistics yet.

Capitalization of private equity & venture capital funds in Russia, $ million



Also was not included in the statistics a number of private investment companies, which were not structured as classical PE funds and, therefore, such notions as attracted funds volumes were not relevant for such companies because of their specificity. Nevertheless, these companies effected investments in compliance with the private equity business model (planned investment volumes from $10 mln to $50 mln on average).

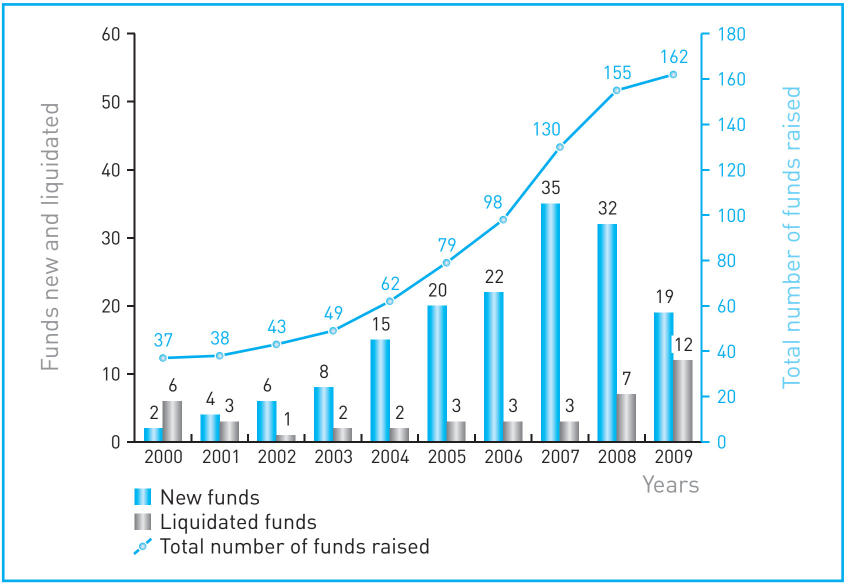
Decrease of PE&VC market volume was equal to $443 mln in 2009, which was higher than analogous figures of past years (near $195 mln in 2008 and $337 mln in 2007). Three quarters of this sum fall at three funds which terminated their activity in 2008–2009 (interesting, that one of these funds started working in the second half of 1990-s).

On the base of the data defined more precisely, several PE&VC funds, which either completed their activity in preceding period or had not yet started practical work, were excluded from the 2009 statistics. Additionally, termination of a number of venture capital funds' activity on pooled investment market was taken into account.

Eventually, the list of funds in this statistics decreased by 12 funds in comparison with previous investigation.

Thus, when taking into account the volume of really raised funds, it's possible to speak about slowing down dynamics of fundraising in 2009; however, bearing in mind the announced in 2009 plans of management companies on launching new funds it's possible to forsee not bad horizons of PE&VC market in the nearest future.

Number of private equity & venture capital funds in Russia



In 2009, the accumulated capitalization volume of PE&VC funds working in Russia surmounted the $15 billion bar in spite of a tendency to slowing down

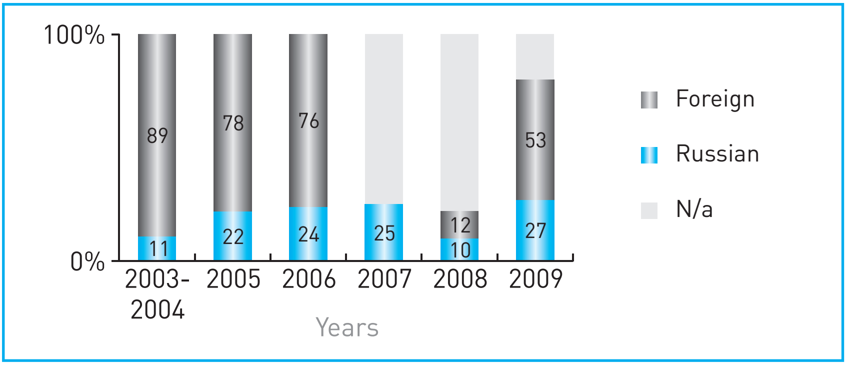
In 2009, the volume of raised capital totaled $1.31 billion that was approximately 3 times lower than the 2008 level

Capital sources of the Russian funds*

The structure of sources of funds raised in 2009 may be evaluated only approximately, in spite of that more or less complete information is available for 17 of 19 new funds that account for near 80% (approx. $1.06 bln) of the total volume of capital attracted in 2009. The task of the attracted funds' identification is facilitated in some degree by the fact that the number of funds created within the frames of state programs noticeable exceeds the number of actually raised private PE funds. Unwillingness of the private funds to disclose information on attracted capitals' structure is connected with a fear to lose trust of investors, internal constitutive and partner agreements of the funds, etc. In this connection, the information on capital sources and forms was not fully identified in the several years' statistics.

Taking into consideration these peculiarities, geographical distribution of capital sources may be presented like the following:

Capital sources of Russian funds (%)



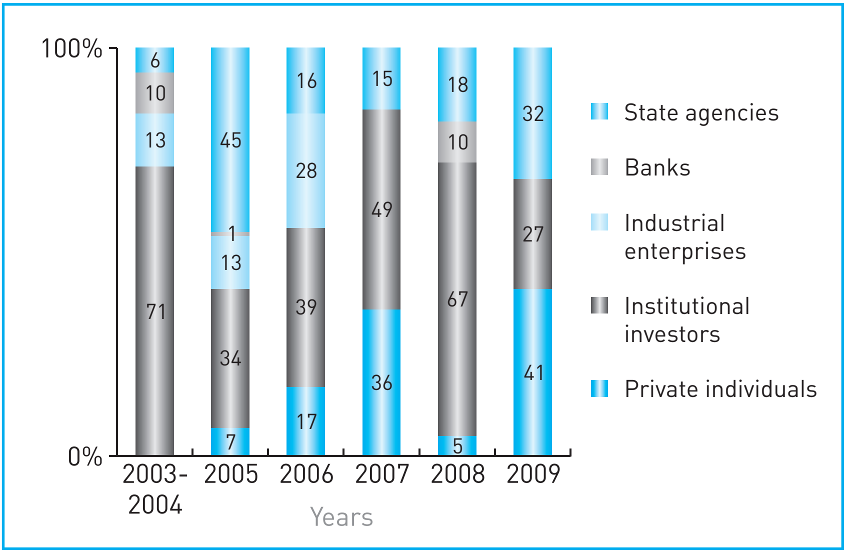
* By "Russian funds" in this review we mean the funds which permanently work in the Russian Federation (have headquarters or representation offices here), with more than half of capital having invested in Russian companies.

In the structure of Russian sources of capital some aggregate predominance of state capital and capital of institutional investors may be established. The money which has come from federal and regional budgets stand as state sources, and the state money which has come through different institutes of development is attributed to capital of institutional investors.

Most likely, it's possible to suggest that share of private capital is rather prevailing in the total volume of capital raised, because in the number of 17 new funds, certain information on which was available, were not included 2 private PE funds, information on which had not been disclosed.

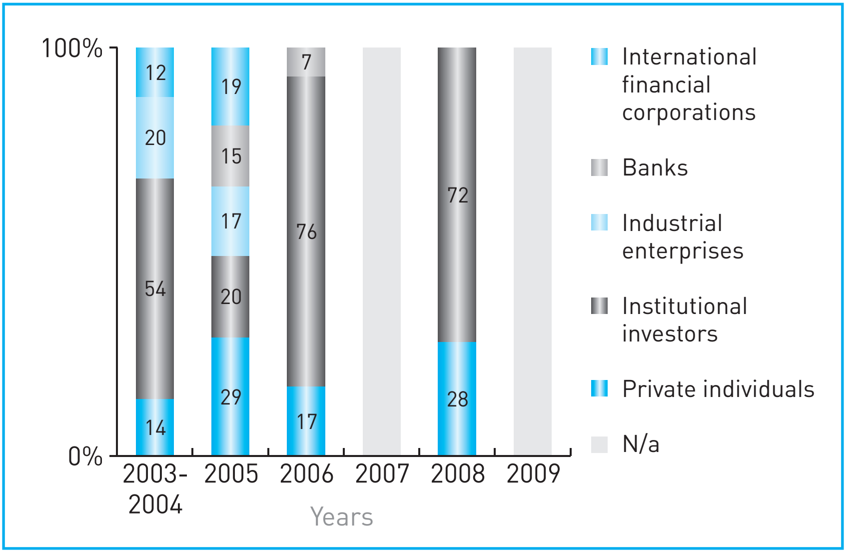
On the whole, attraction of capital from domestic investors is often complicated, as the latter not always ready to fulfill long-term capital commitments taken upon themselves.

Structure of Russian capital sources (%)



Unfortunately, it's not possible to present in this Review the structure of foreign sources of capital attracted by Russian funds in 2009, by the reason of difficulties with information disclosures existing in management companies of corresponding funds (similar situation was also registered in 2007).

Structure of foreign capital sources (%)



Classification of management companies

By the end of 2009, the number of PE&VC management companies (MCs) acting at the territory of the Russian Federation reached 105 (compared to 99 in 2008). The increase of the MCs number was connected with some new funds' emerging in the market in 2009. At the same time, it was taken into account that several MCs was excluded from the investigation, as the funds under their management, which were included in the statistics before, either had terminated their activity by some reasons or had not started working yet.

Depending on total capital volume under management, MCs were separated into three groups. The upper limit for the most capital-intensive group was equal to $2.2 bln. Traditionally, the MCs of this group provided the main input in the total capitalization growth (near 53% in 2009 and approx. 85% in 2008).

There were no significant changes in distribution of capital in 2009. Increase of capital in all three groups (if taking into consideration capital of the funds which had leaved the market) appeared to be rather even.

Taking into account the capital outflow in 2009 and, correspondingly, withdrawal of a number of MCs from the statistics focus, grouping of MCs by their capital intensity looks as the following.

The number of «large» management companies related to the mostly capital-intensive group (from $151 mln to $2000 mln of their funds' capitalization) did not change and amounted to 20 MCs in 2009 (as it was noted before, a number of large fundraisings, announced in 2009, will be taken in the account in the future on the base of actual results of fund's closings). The total capital at approx. $10.917 bln was under management of the MCs of this group. The funds of this group invested mainly in the companies at the expansion and later stages of development. Investment volume ranged from $15 mln to $70 mln per one company.

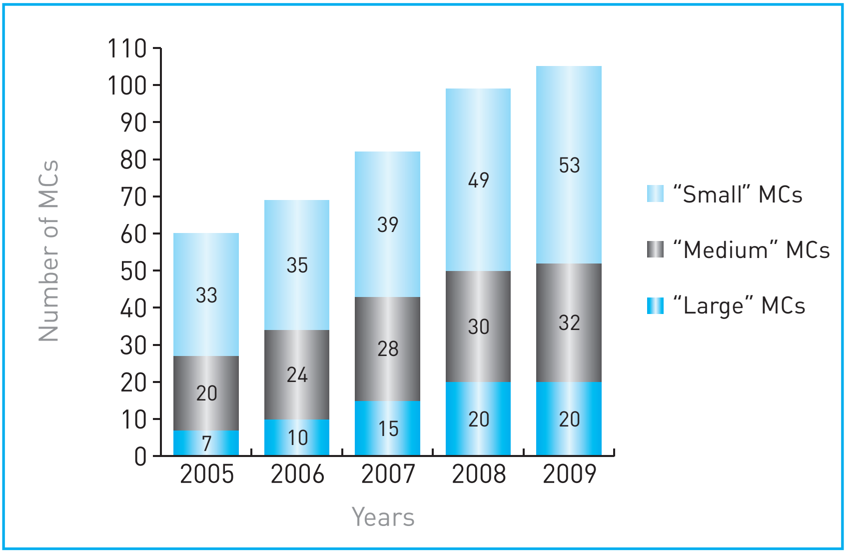
The number of management companies in the second group («medium»), that had managed funds with capitalization from $51 mln to $150 mln, increased and reached 32 MCs. The dynamics of number of the companies was determined by new funds coming to the market and emerging of new funds of already active MCs. The funds' volume under management of the MCs of this group rose by $0.27 bln and amounted to approx. $3.238 bln. 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 $5–15 mln.

The third group («small» MCs with the funds sized from $5 mln to $50 mln under management) included the majority of MCs – 53, that was 4 companies more than in 2008 (taking into account both arrivals of new MCs with new funds to the market, and liquidation of several MCs connected with termination, by various reasons, of some funds' activity). Total capital volume under management in this category was equal to approx. $1.037 bln. Deal sizes in this group ranged, as a rule, from several hundreds of thousands dollars to $3–5 mln.

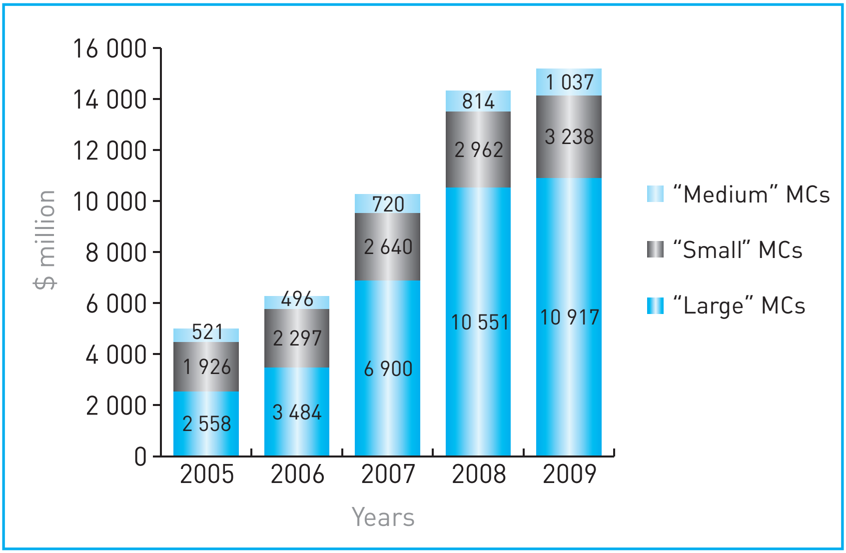
MCs with total funds' size more than $151 mln traditionally provide main input in total cumulative capitalization growth (53% in 2009)

Venture capital funds accounted for more than 60% increase of the capital under management of both "medium" and "small" management companies

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



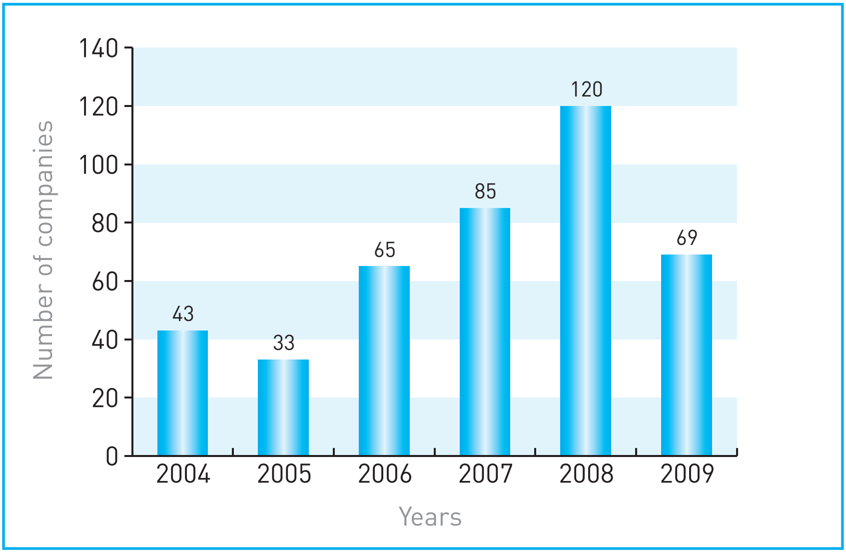
Capitalization of fund management companies (MCs)



Investments by industry branches

According to data given by management companies on the totals of 2009, there were 69 "documented" deals (i.e. provided with corresponding information on investment volume, branches, stages and regions). Additionally, data on making of not less than 15 deals are available, but the information is not disclosed.

Number of financed companies



The total volume of the deals documented in the investigation is equal to approx. $508 mln. Besides, one of the larger PE funds informed us about its total investments volume equal to near $200 mln without indication of the deals number. Another, also rather large fund announced its plans on investing near $200 mln by the end of 2009. However, the information on these plans' realization is not available. On the whole, the 2009 aggregate investment volume may be estimated as approx. $1 billion.

Thus, in 2009, the total volume of documented investments was very close to the 3 years ago level (in 2006 was documented total investment volume near $650 mln, in 2007 – near $1 bln, and in 2008 – approx. $1.5 bln).

It may be established on the base of these data that, both by number and by volume, the flow of documented deals was sufficiently lower in 2009 against 2008 (near 3 times). It may be partly explained by the fact that many "pre-crisis" investments of funds need a special care now for at least to keep the portfolio companies "on-the float", avoiding write-offs. Besides, the crisis caused a slump in a number of formerly high-growth sectors of the economy, the sectors which were in the focus of PE funds' activity before. In this environment, new investments appeared to be untimely.

At the same time, a number of new opportunities has opened now – particularly, investing in distressed assets with the aim to support companies via their restructuring. In these situations, investors are in more valued position now than before, because they may dictate their conditions and prices.

In spite of coming a favorable period of relative "cheapness" of potential assets, a number of investors are of opinion that it is unlikely that the majority of investments will be highly profitable in the foreseeable future.

Against the background of total recession of investment activity, it may be stated that relative distribution of the investors' branch preferences mainly keeps the structure typical for preceding periods

The largest investment volumes were registered in Consumer market related industry branch, in ICT sector (where Communications and Consumer related branches are combined), and in Financial services sphere.

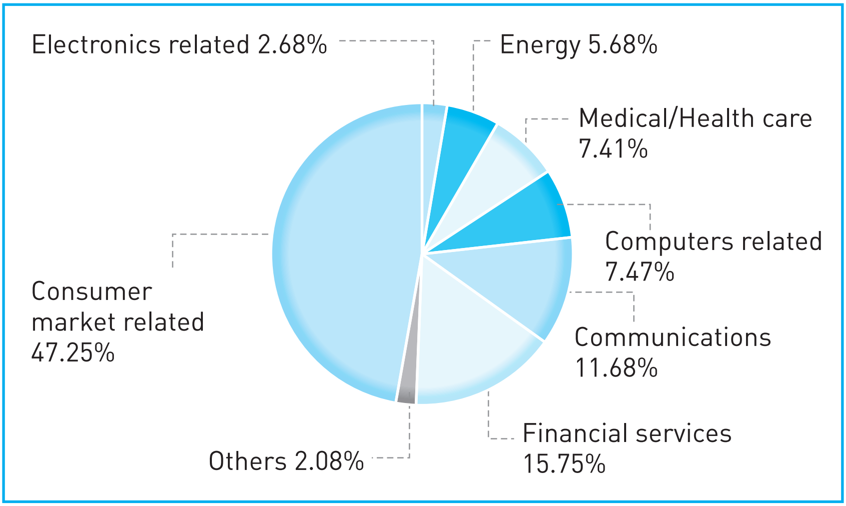
The investment volume in the Consumer market branch companies totaled more than $240 mln, or slightly more by volume than a half of all investments documented in 2009 (in 2008 investments in this branch made up near $600 mln, or more than one third of total investment volume). At the whole, the Consumer market sector (particularly, retail trade) demonstrated comparative stability in the challenging situation of shrink of demand in 2008–2009 – first of all at the expense of costs saving (by reducing expenditures, staff discharge, withdrawal of unprofitable business subdivisions).

The leadership of Consumer market most likely will remain in the nearest future in spite of well-known instability of economical and financial situation. First of all it will be connected with the fact that after a period of recession a rise of consumer credits market and domestic demand is inevitably expected. And such changes of market situation in the first place would favor the funds' investments in manufacturing consumer goods and creation services at the consumer market with relatively short period of return on investments, as far as long-term prospects still remain obscure.

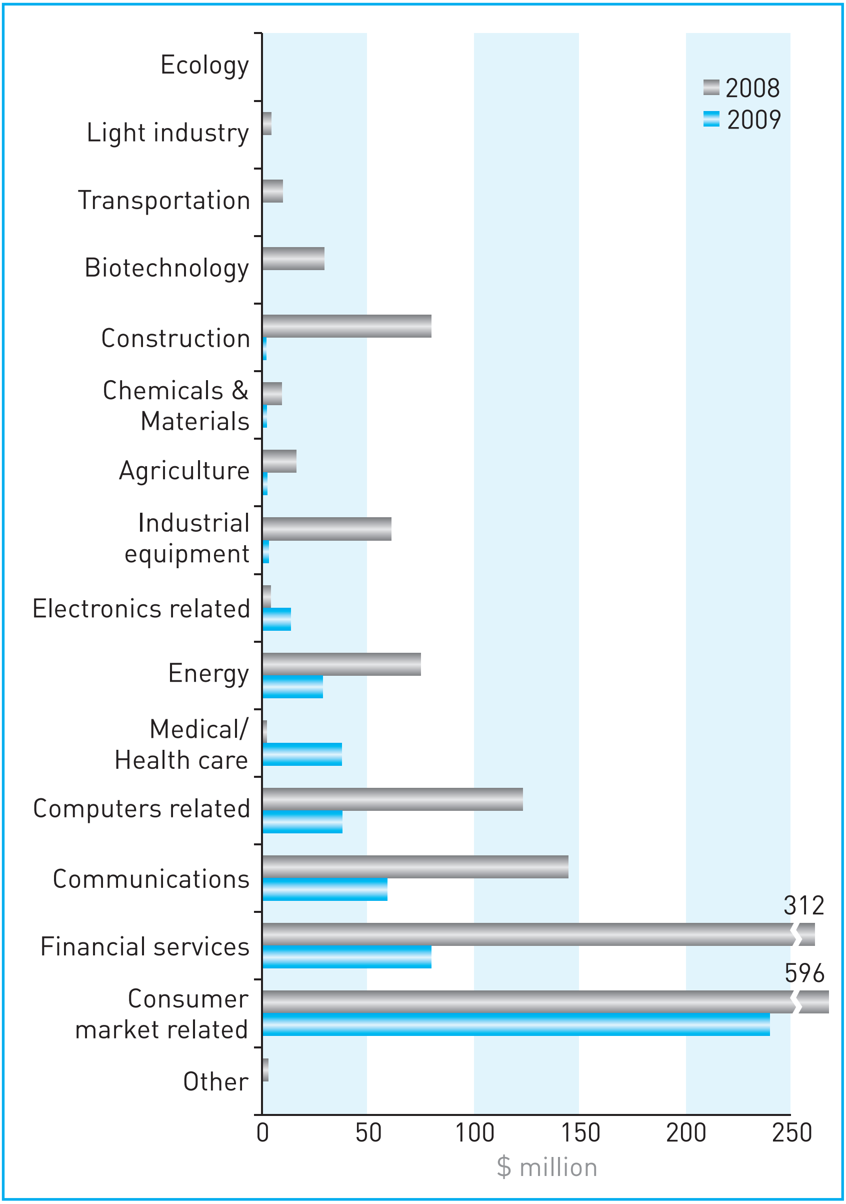
By the volume of documented deals, ICT and Financial services sectors were situated at the second and third places correspondingly, with the number of the deals in ICT sector considerably outnumbering the Financial services.

Total volume of documented ICT deals made up $97.23 mln (near 19% of total 2009 deal volume), having almost maintained the percentage as compared with 2008 but demonstrated significant (about 3 times) decrease in capital volume ($268 mln in 2008). At the same time, investment volume in the Communication branch companies was more than $1^1/_2$ times larger than investments in Computer related industries in 2009 ($59.3 mln and $37.93 mln correspondingly).

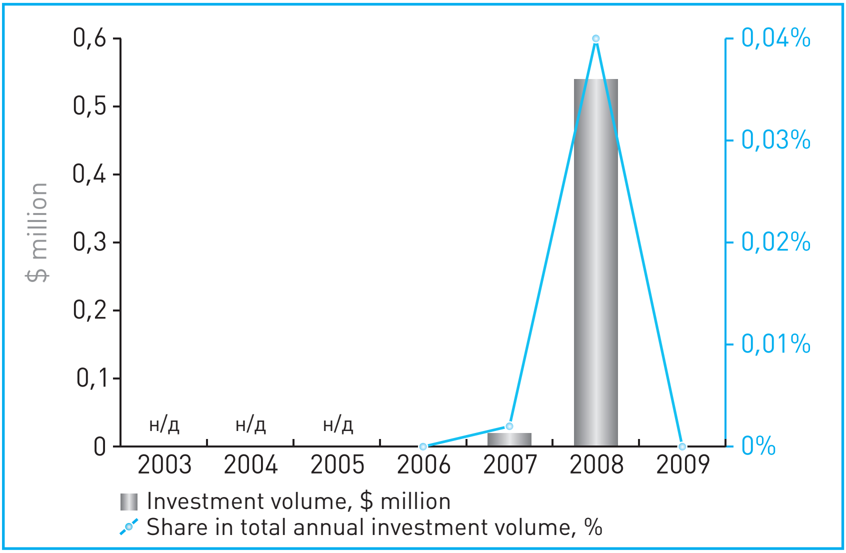
Investment distribution by industries, 2009



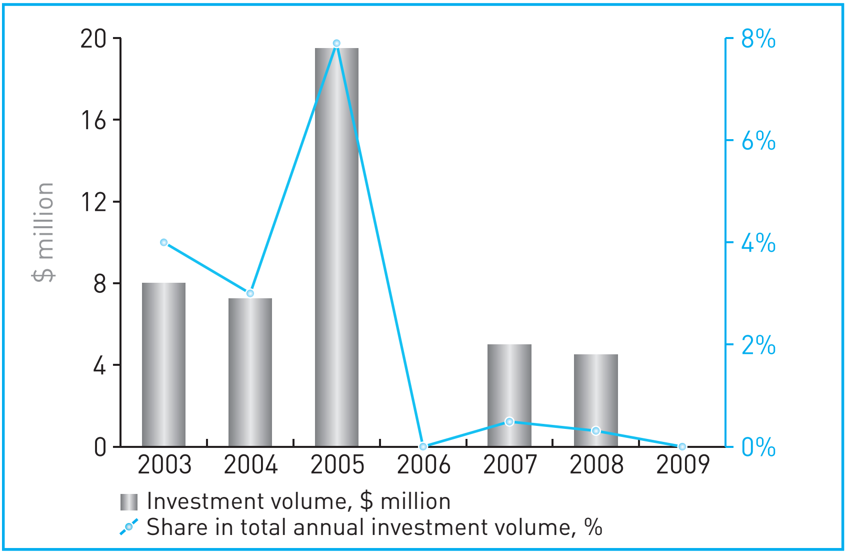
Investment distribution by industries, 2008– 2009



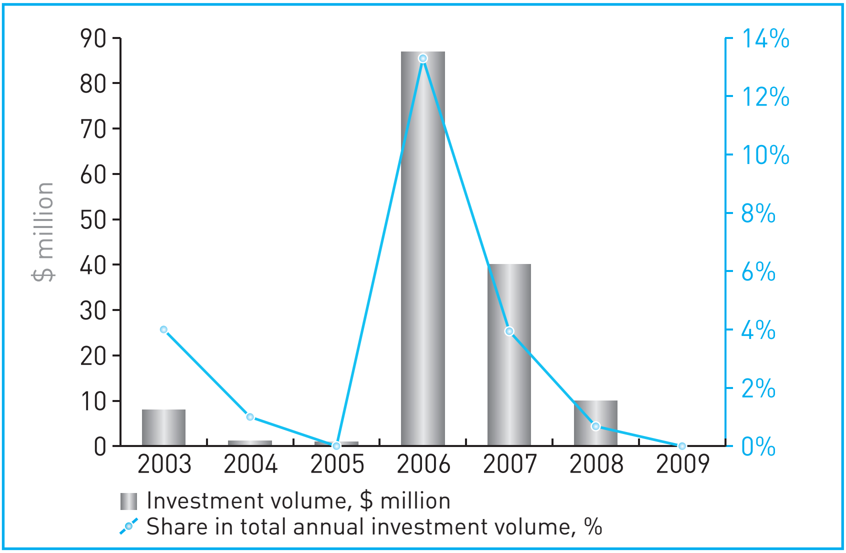
Investments in Ecology



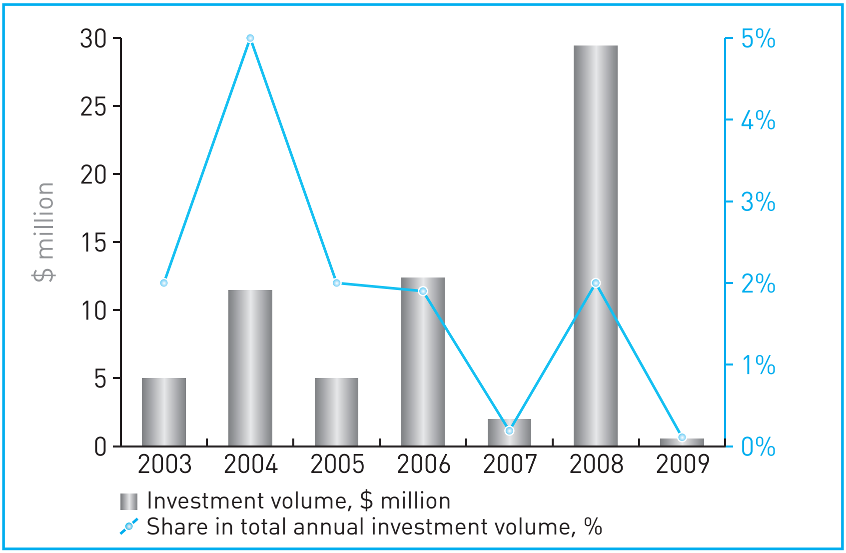
Investments in Light industry



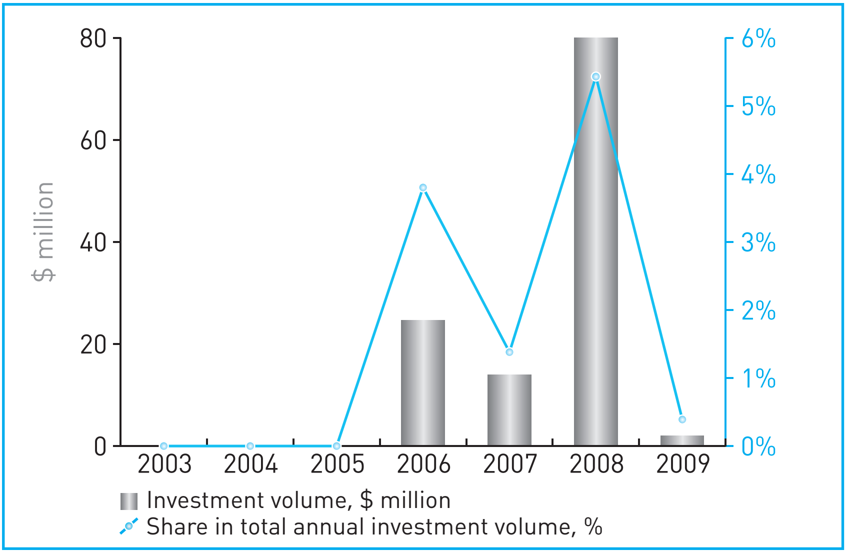
Investments in Transportation



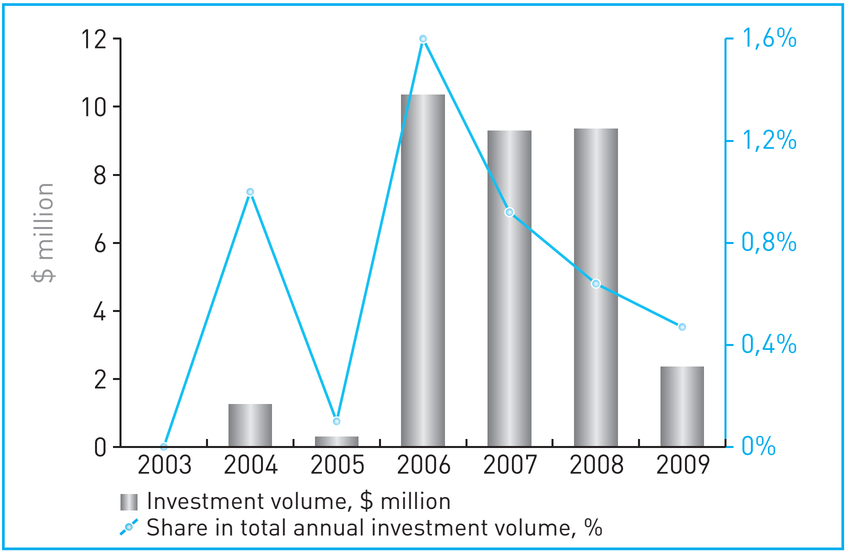
Investments in Biotechnology



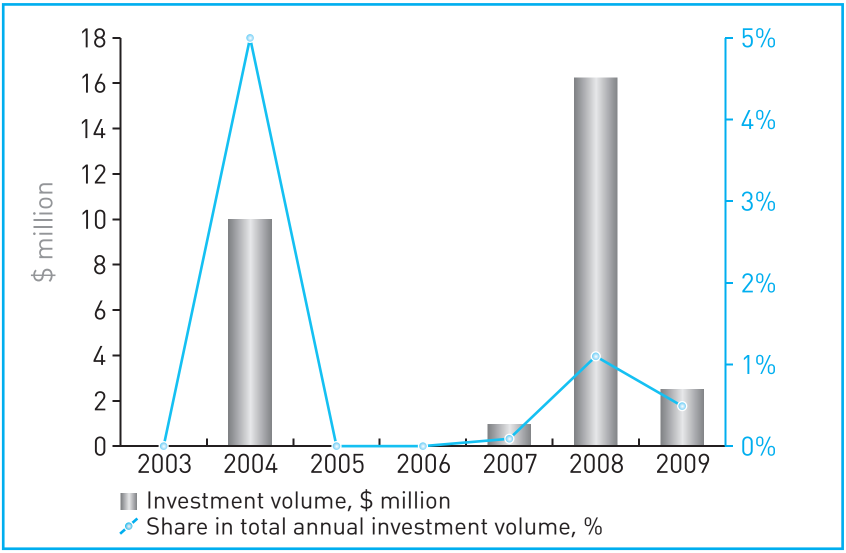
Investments in Construction



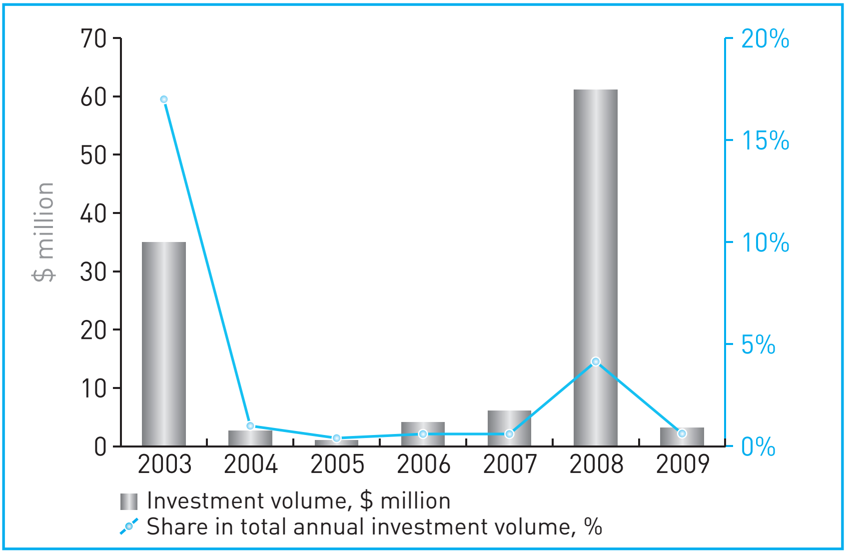
Investments in Chemicals & Materials



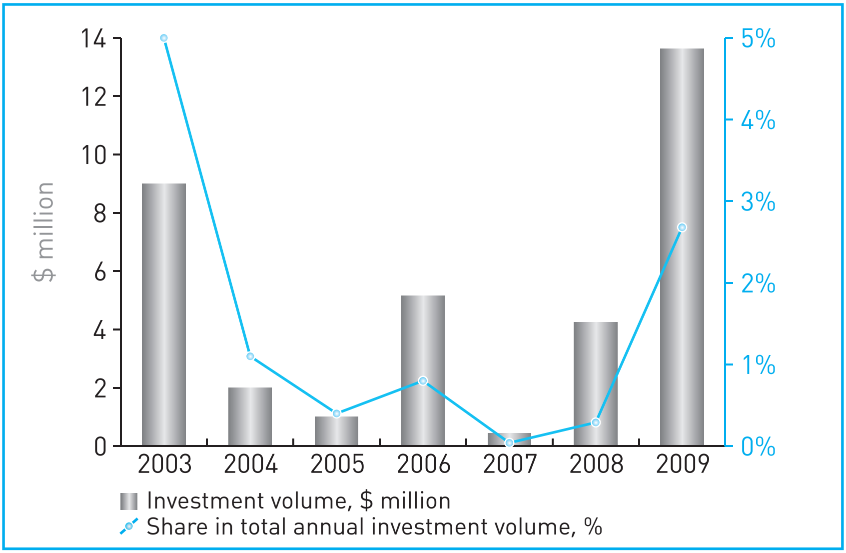
Investments in Agriculture



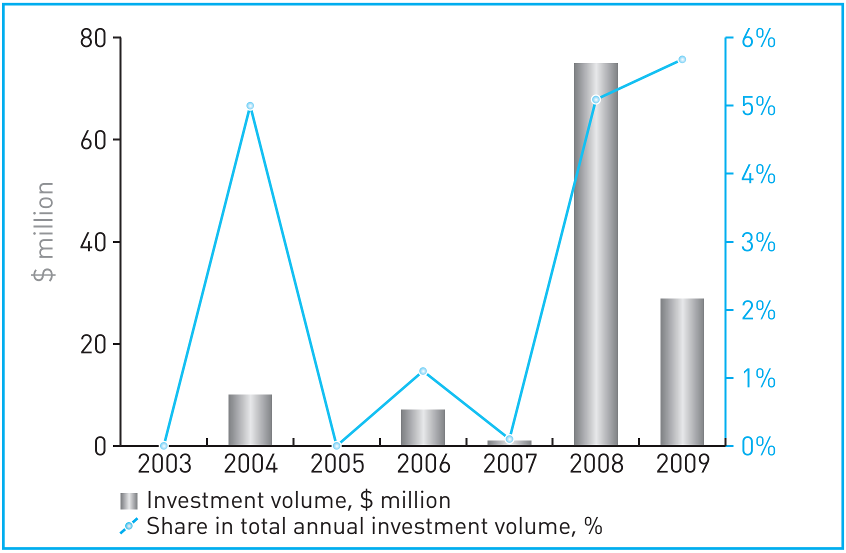
Investments in Industrial equipment



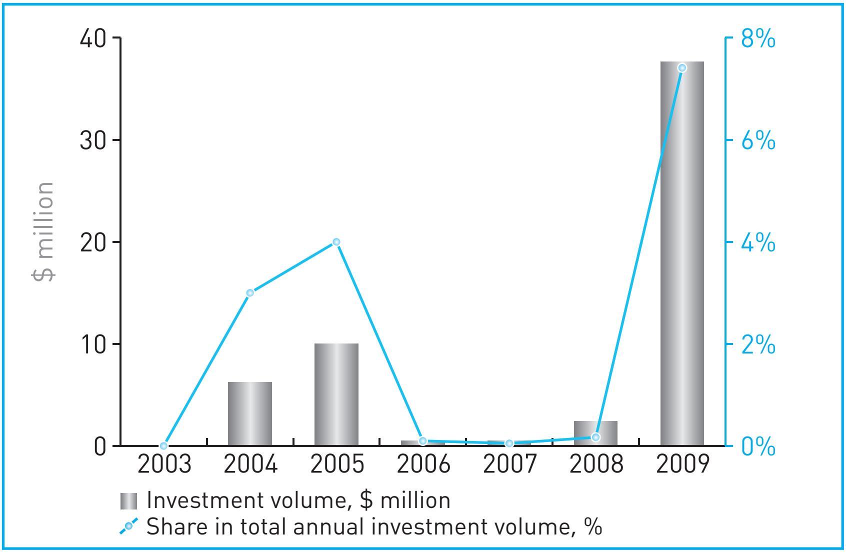
Investments in Electronics



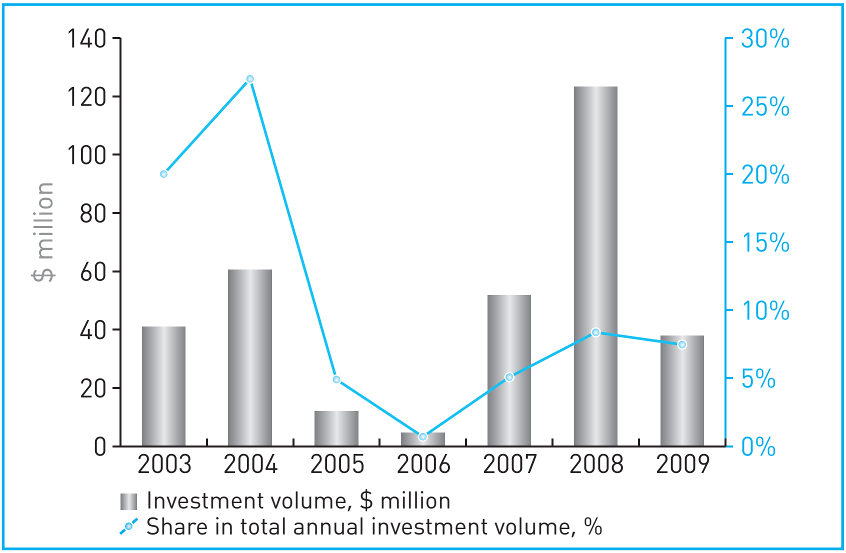
Investments in Energy



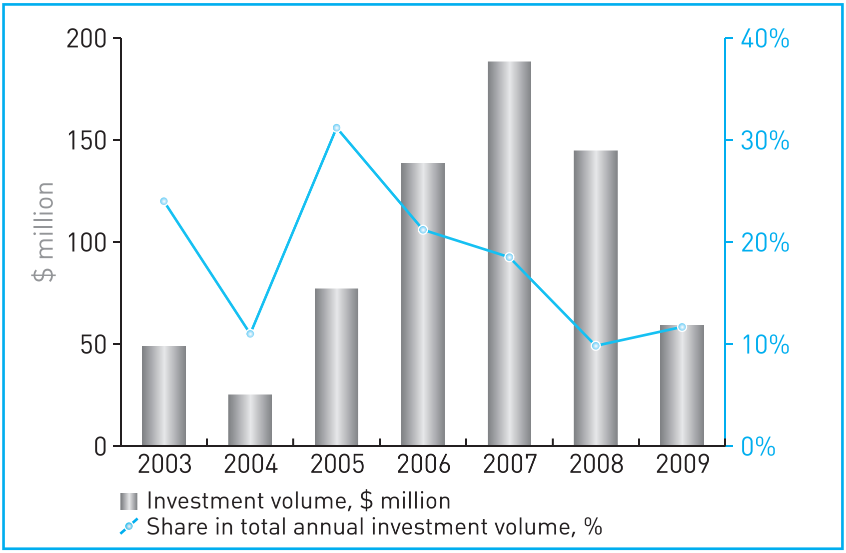
Investments in Medical/Health care



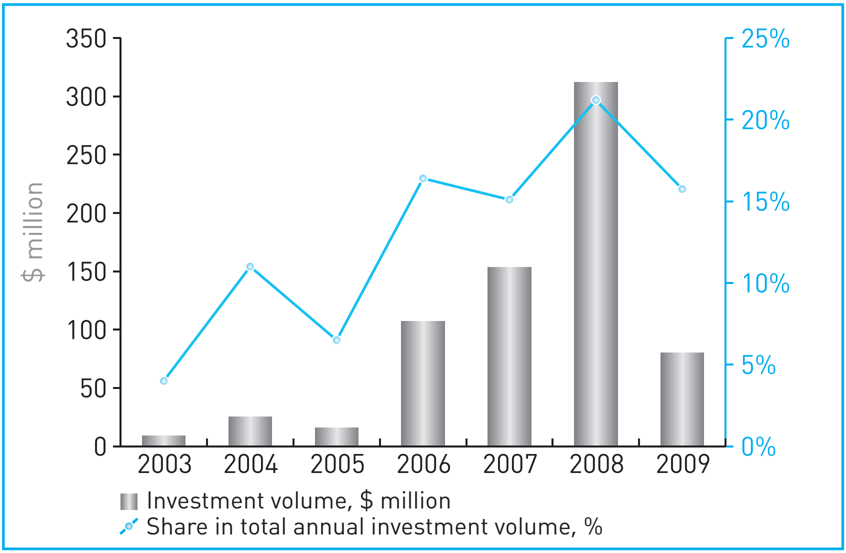
Investments in Computers



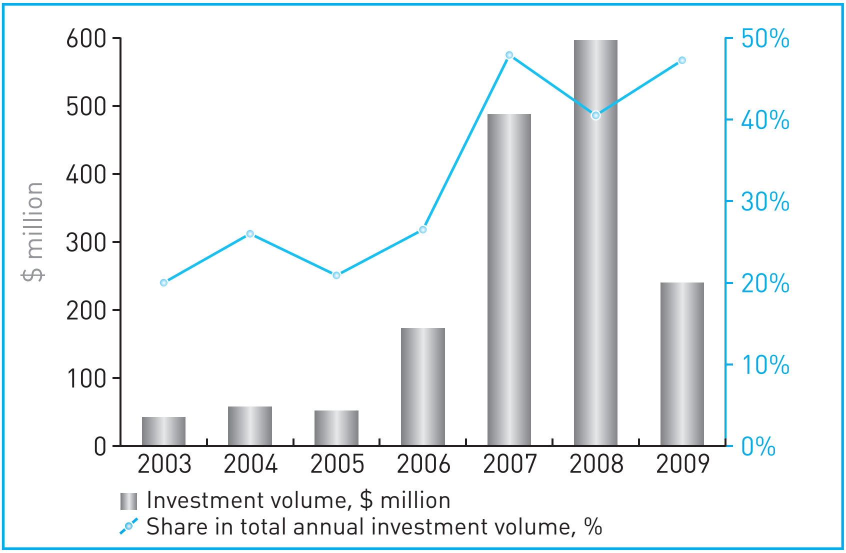
Investments in Communications



Investments in Financial services



Investments in Consumer market



At the whole, there is an impression that the Communication, Internet, and Computer market in less degree than the other branches was affected by crisis, and has not so bad prospects. Probably, this situation was favoured by relatively small debt burdens of the companies, stable situation on the market of internet-advertising against the traditional kinds of advertising, and permanent demand for communication services among population. Moreover, investments in developments, for example software, don't need significant capital inputs (at least, comparable with inputs needed in the case of creating a manufacture) and promise short-term returns. There are grounds to hope that the fund's interest in ICT sphere will not go down, on the assumption of emergence of new interesting domestic projects.

The volume of documented investments in the Financial services companies is estimated at $80 mln (near 16% of total investment volume). Although, there are reasons to assume that both the volume and the deals number at the Financial services sphere are somewhat higher than the documented figures.

Attracts attention the fact that summary volume of investments in the companies of ICT, Financial services, and Consumer market accounts for more than 80% of total volume of investments documented in 2009.

A number of other industries (such as Industrial equipment, Agriculture, Chemicals & Materials, Construction, and Biotechnologies) has demonstrated significant decrease of both volumes and numbers of deals (the level of investors' activity in these areas against the leading branches was rather low in previous periods, too). It should be noted that the acceptance by some funds the statute "for qualified investors" has created a number of difficulties in picturing the real market situation.

It may be stated that in the Industrial equipment branch the total deal volume of near $3.16 mln was documented (that constituted 0.62% of total investment volume), in Agriculture – $2.50 mln (0.49%), in Chemicals & Materials – $2.35 mln (0.47%), in Construction – $2 mln (0.39%), and in Biotechnologies – $0.55 mln (0.11%).

Also noticeable drop of investment volumes was registered in Energy branch (near $29 mln in 2009 against $75 mln in 2008), with relative fraction remained at 5% level.

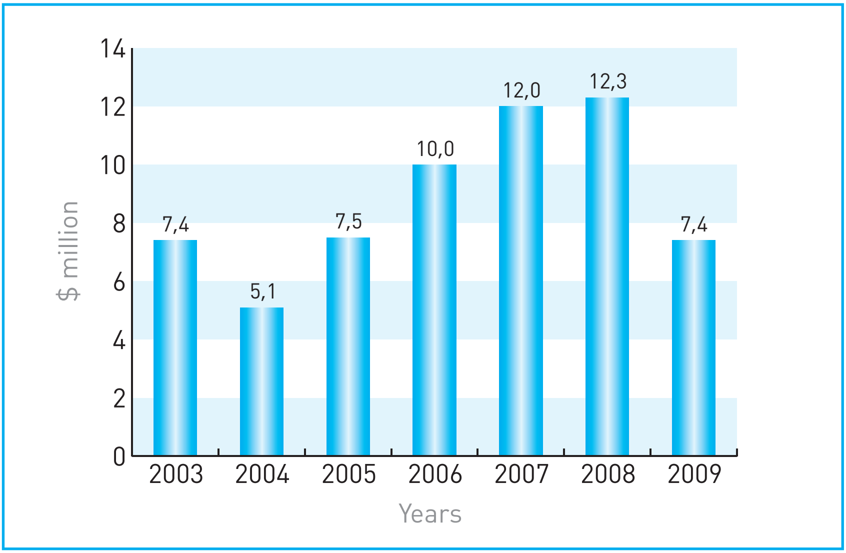
Significant growth in comparison with 2008 was demonstrated by Medical/Health care and Electronics related branches – $37.65 mln (7.41%) and $13.63 mln (2.68%) in 2009 against $.44 mln (0.17%) and $4.24 mln (0.29%) in 2008, correspondingly.

It's worth to note that although the promising outlook for Biotechnology and Medical (pharmaceutical) branches is beyond any doubt, nevertheless, from the PE/VC funds' point of view the risk of investing in these industries has risen greatly, as investment cycle of such projects may take up to 7–10 years – that substantially increases risks in the environment of high financial and economical instability. Additionally, high enough professional skills of investors, their deep understanding of the subject under development are necessary.

Deals in the Light industry, Ecology, and Transportation spheres either were not documented or were not provided with information sufficient to include them in the statistics.

As judged by the volume of deals identified, average deal size in 2009 decreased against the 2008 level and totaled approx. $7.4 mln, that was close to 2005 level ($12.3 mln in 2008, $12 mln in 2007, $10 mln in 2006, $7.5 mln. in 2005 and $5.1 mln in 2004).

Average annual investment volumes



Industry	2006		2007		2008		2009	
	Amount invested, $ mln	%	Amount invested, $ mln	%	Amount invested, $ mln	%	Amount invested, $ mln	%
Ecology	0		0.02	0.002	0.54	0.04	0	0
Light industry	0	0	5.00	0.49	4.50	0.31	0	0
Transportation	86.93	13.30	40.10	3.94	10.00	0.68	0	0
Biotechnology	12.37	1.90	1.98	0.19	29.43	2.00	0.55	0.11
Construction	24.63	3.80	14.00	1.38	80.00	5.43	2.00	0.39
Chemicals & Materials	10.35	1.60	9.30	0.92	9.35	0.64	2.35	0.47
Agriculture	0	0	0.96	0.09	16.25	1.10	2.50	0.49
Industrial equipment	4.11	0.60	6.06	0.60	61.10	4.15	3.16	0.62
Electronics related	5.15	0.80	0.45	0.04	4.24	0.29	13.63	2.68
Energy	7.08	1.10	1.00	0.10	75.00	5.09	28.83	5.68
Medical/ Health care	0.50	0.10	0.51	0.05	2.44	0.17	37.65	7.41
Computers related	4.55	0.70	51.71	5.08	123.31	8.37	37.93	7.47
Communications	138.40	21.20	188.38	18.51	144.69	9.83	59.30	11.68
Financial cervices	107.15	16.40	153.60	15.10	312.16	21.20	80.00	15.75
Consumer market related	173.20	26.50	487.46	47.90	596.40	40.50	240.00	47.25
Other	78.41	12.00	57.00	5.60	3,00	0,20	0	0
Total	652.92	100	1017.53	100	1472.41	100	507.9	100

Total sum of investment deals documented in 2009 decreased against the 2008 level and amounted to approx. $500 mln

Investments by stages

The companies at restructuring and expansion stages of development were accounted for the major share of the documented investments' volume (near $^{3}/_{4}$ of total investment volume), like it was registered in the previous years. In the case of lack of information necessary for valuation of investments, the companies which had worked stable and profitable at the market in previous period and didn't have any serious debt problem in the reporting period were considered as being at the expansion stage.

In 2009, proportion of investments at "venture stages" (traditionally, this included seed, start-up and other early stages) made up near 24% in the total investment volume (approx.11% in 2008). Although, such leap might be explained rather by temporary decrease of deals' volume at restructuring and expansion stages than by increase of investment volumes at venture stages.

The total investment volume at venture stages was equal to approx. $124 mln in 2009 in comparison with $162 mln in 2008. At the same time, the other early stages investments were many times larger by volume than seed and start-up deals: at the seed and start-up stages – $13.29 mln, at the other early stages – $110.46 mln (in 2008 – $67.81 mln and $93.95 mln, correspondingly). Sufficient input in the early stage investment volume was provided by the funds created with the participation of Russian venture company (RVC).

At the whole, total number of venture stage projects which are prepared (from the point of view of management, first) for attracting investments remains few; the circle of potential start-ups is still rather narrow. In this respect, the role of government institutes for venture industry infrastructure development, which realize the projects on improving competence of managers of potential companies-applicants for investments and on seed-stage companies' development, is becoming as vital as it never was.

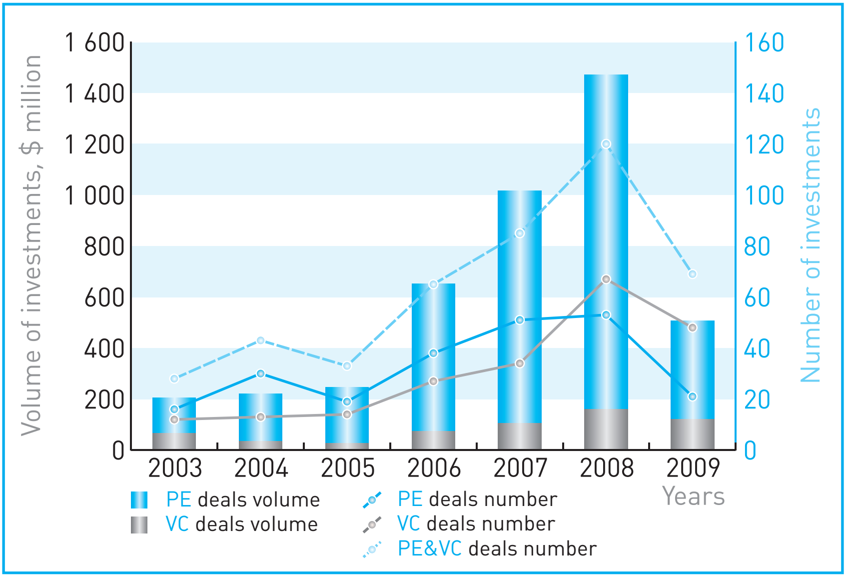
All these measures may eventually help to provide the deal flow attractive for venture capital funds.

Investors are quite aware that it's possible to earn big money on innovative products, but uncertainty of the game rules and absence of proper stimuli for introduction of innovations suppress this sphere's development. These are the key problems which need cooperation of business and the state on the base of system approach to the development of entrepreneurship.

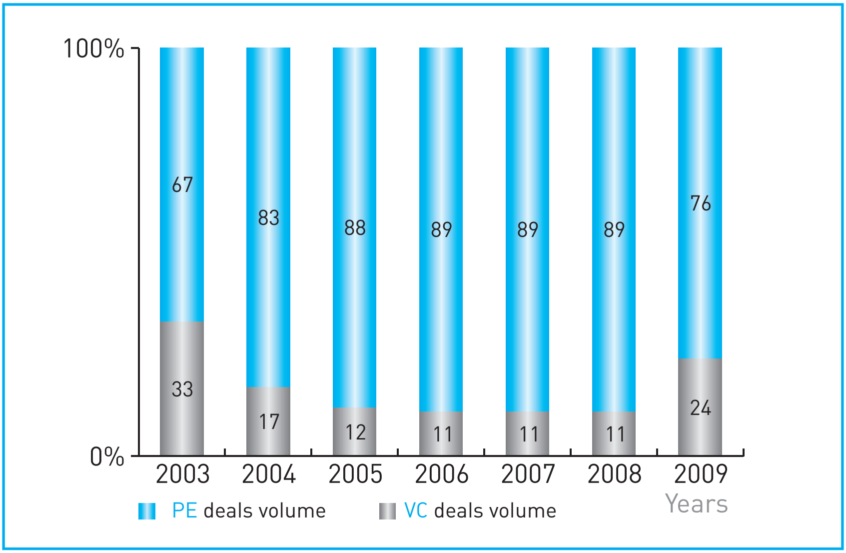
Expansion stage investments were executed mainly in the Financial services and Consumer market spheres, and, partly, in ICT sector, like it was in previous periods. Considerable gap between venture stages and more mature stages by volume of the capital invested has remained like in previous years: the volume of documented venture deals in 2009 was approx. 3 times less than of expansion and restructuring stages investments summarily.

In 2009, at the expansion and restructuring stages 21 deals were documented to the total amount of $384.15 mln (53 deals and $1310.65 mln correspondingly in 2008). At the same time, the share of investments at these stages (near 76% of the total 2009 investment volume) was predominant as before (in 2008 – 89%). Documented deals that may be attributed to restructuring stage constituted approx. 14% of the total investment volume.

Distribution of investments' number and volume by stages*



Relative fraction of investments of different stages in the total investment volume (%)

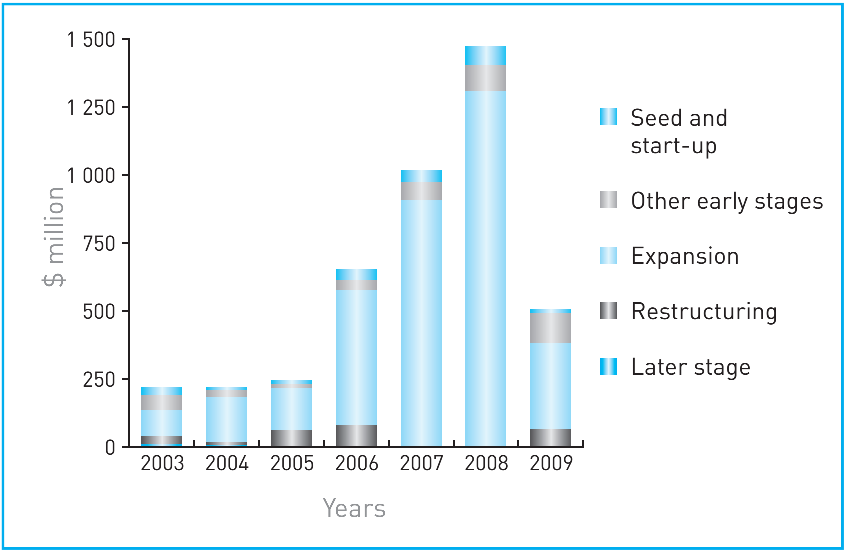


* VC - Seed, start-up, and other early stages;
PE - Expansion, restructuring, and later stages

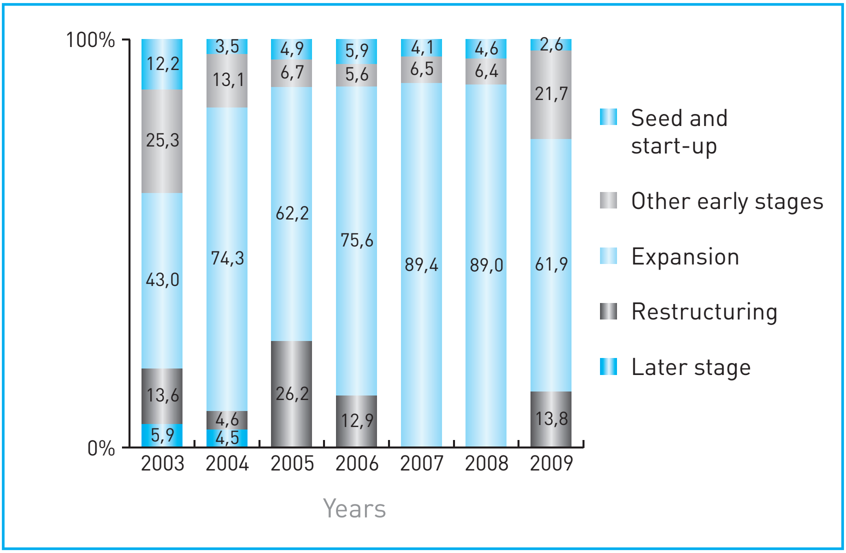
		2006	2007	2008	2009
Seed, start-up, and other early stage investments (VC)	Number of deals	27	34	67	48
	Amount invested, $ mln	75	108	162	123,75
	Share in the total investment volume, %	11	11	11	24
Expansion, restructuring, and later stage investments (PE)	Number of deals	38	51	53	21
	Amount invested, $ mln	578	909	1310	384,15
	Share in the total investment volume, %	89	89	89	76

In 2009, volume of documented investments at venture stages decreased approx. by 1/3 against the 2008 level. At the same time, their relative fraction in the total investment volume steeply increased (from 11% in 2008 to 24% in 2009) against a background of drop of deals' number and amounts at the expansion, restructuring, and later stages.

Distribution of investments by stages



Relative fraction of investments of different stages in the total investment volume (%)



Investment stage	2006		2007		2008		2009	
	Amount invested, $ mln	%	Amount invested, $ mln	%	Amount invested, $ mln	%	Объем инвестиций, млн долл.	%
Seed and start-up	38.53	5.9	42.12	4.1	67.81	4.61	13.29	2.6
Other early stages	36.55	5.6	66.18	6.5	93.95	6.38	110.46	21.7
Expansion	493.46	75.6	909.23	89.4	1310.65	89.01	314.15	61.9
Restructuring	84.38	12.9	0	0	0	0	70.0	13.8
Later stages	0	0	0	0	0	0	0.0	0.0
Total	652.92	100	1017.53	100	1472.41	100	507.9	100

In the environment of PE&VC industry recession in 2009, the main role in providing necessary investment volumes for the companies at venture stages of development played the funds created within the frames of realization of public-private partnership programs, which had been actively worked out in previous years

Investments by federal districts

Overall slump of PE/VC funds' investment activity was also mirrored in regional distribution of documented investments in 2009.

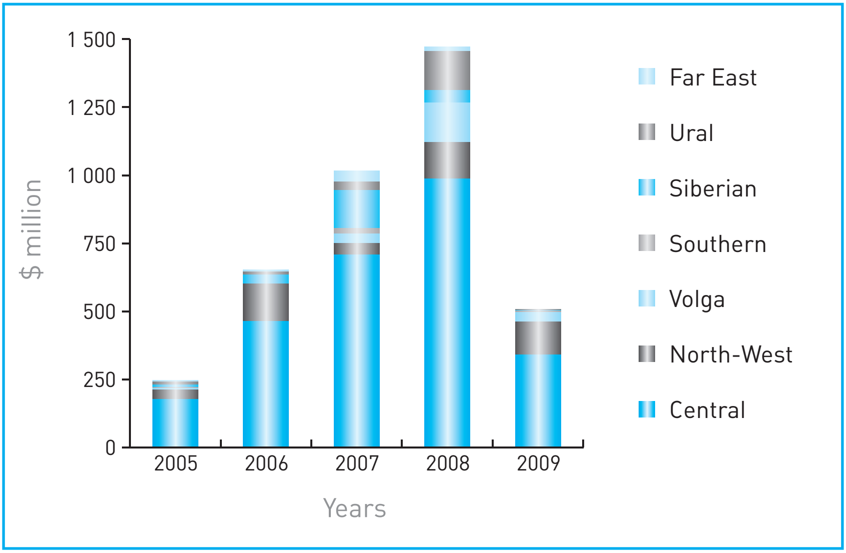
The main share of documented investments falls on Central and North-West federal districts (FD). Investments in the other federal districts were insignificant (except for Volga FD).

In 2009, in Central FD the largest investment volume among all federal districts was documented (that was a characteristic feature of all previous periods of observations, too). At the same time, volume of the investments decreased approx. 3 times against the 2008 level and totaled $343.23 mln (as compared with $989.75 mln in 2008), with proportion in the total investment volume remained comparable with the level of 2008 (near 67%).

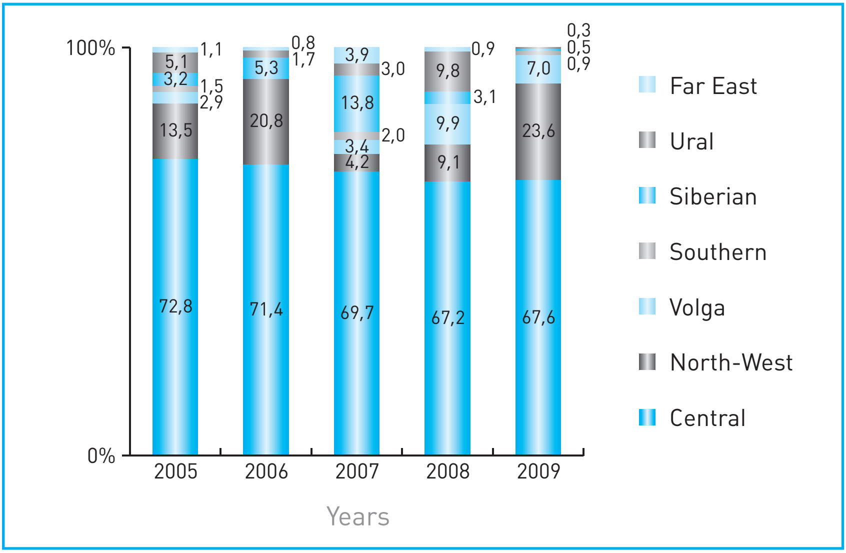
The second place was occupied by North-West FD with the documented investments' volume equal to $120 mln (approx. 1/4 of total 2009 investment volume). Thus, the North-West FD has risen from the fourth place at which it was situated in 2008 (and third place in 2007).

Volga FD was traditionally active enough in the context of deal making. In 2009, this district was positioned at the third place with total volume of documented investments equal to $35.65 mln (slightly more than 7% of total 2009 investment volume – in comparison with approx. 10% in 2008). At the same time, aggravation of crisis effects in the economy was totally reflected in about fourfold decrease of the documented investments' volume against the level of 2008.

Distribution of investments by federal districts



Relative fraction of investments in different federal districts in the total investment volume (%)



As it was expected, the South FD investment activity has increased. If the volume of documented investments constituted $0.38 mln in the South FD in 2008 (or 0.03% of total investment volume), in 2009 it totaled $4.59 mln (0.9%). This was primarily connected with the activity of regional venture funds which were created in previous period within the frames of the state-private partnership programs.

According to the totals of 2009, Siberian FD took the fifth place with the $2.7 mln (or 0.53%) result.

Ural FD is situated at the one from the bottom place in the list of regions ranged by the volumes of documented investments, having shown considerable decrease in comparison with the previous period both in absolute and relative expression – $1.73 mln (or near 0.34%) in 2009 against $144.13 mln (near 9.8%) in 2008.

In the course of investigation, no reliable facts were obtained concerning real investment activity in Far East FD.

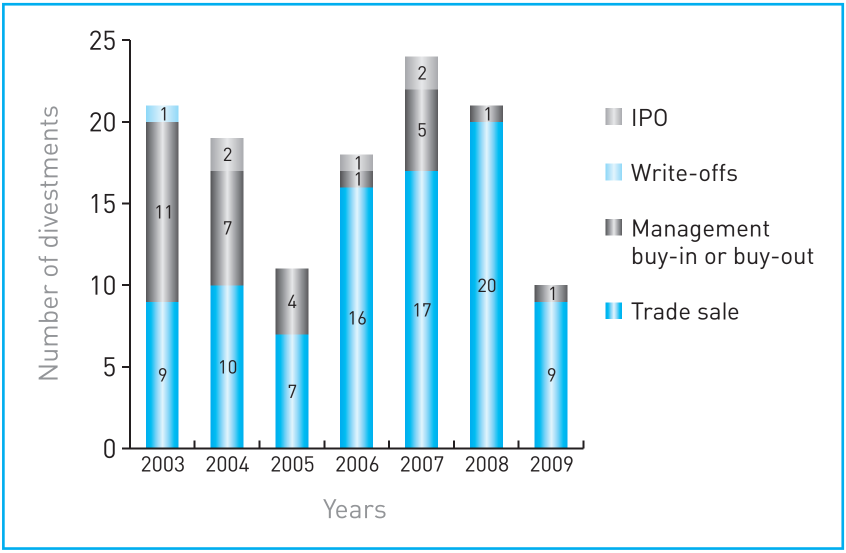
Federal District	2006		2007		2008		2009	
	Amount invested, $ mln	%	Amount invested, $ mln	%	Amount invested, $ mln	%	Amount invested, $ mln	%
Far East	4,90	0,8	40,00	3,9	14,00	0,95	0	0,00
Ural	11,00	1,7	30,00	3,0	144,13	9,79	1,73	0,34
Siberian	34,65	5,3	140,33	13,8	45,09	3,06	2,70	0,53
Southern	0	0	20,45	2,0	0,38	0,03	4,59	0,90
Volga	0	0	34,68	3,4	145,76	9,90	35,65	7,02
North-West	135,98	20,8	43,00	4,2	133,30	9,05	120,00	23,63
Central	466,39	71,4	709,07	69,7	989,75	67,22	343,23	67,58
Total	652,92	100	1017,53	100	1472,41	100	507,9	100

Divestments

In 2009, 10 exits were documented. The most popular way of divestment was sale of company's stock to strategic investor, or trade sale, – 9 deals or near 90% of total number of exits (20 deals, or 95% of total number in 2008). Management buyout – 1 documented deal (10%). There was information available on some more exits from portfolio companies, but the information was not properly documented. From them, no less than 4 deals were management buyouts.

At the whole, there was objective drop in divestment activity as it was rather difficult to sell investee companies profitably, because, from the funds' point of view, the offered prices were not adequate.

Exit distribution by number of divestments



The ways of exits	2006		2007		2008		2009	
	Number of deals	%	Number of deals	%	Number of deals	%	Number of deals	%
Sale to strategic investor	16	88	17	71	20	95	9	90
Management buyout/buyin	1	6	5	21	1	5	1	10
IPO	1	6	2	8	0	0	0	0
Totally	**18**	**100**	**24**	**100**	**21**	**100**	**10**	**100**

As regards the IPO market, it has not been much competitive yet as a way of divestment. Although, the launch by MICEX Group and RUSNANO State Corporation a joint financial infrastructure project aimed at promotion of investments attracting in SMEs – the new stock market sector "Innovation and Investment Market, IIM" – should be taken into consideration, as it can amend these appraisals.

Goals of IIM MICEX:

- Creating a transparent mechanism of attraction investments in high-tech sector of the Russian economy
- Building investment chain: from early-stage financing of innovative companies to preparing them for IPO
- Developing private-public partnership concept.

There are three main segments destined for the companies of different stages of maturity and capitalization as well as for different groups of investors that are functioning within the frames of IIM MICEX:

- Sector of Innovative and Growing Companies (IGC) – the stock exchange sector which allows innovative companies to carry out public placements (IPO/SPO) and admit securities to secondary flotation under all trading regulations at the MICEX stock exchange. Capitalization of issuer at placing its shares for trading should be not less than 50 million rub. and not more than 15 billion rub. In the case of offering shares at the IGC Sector, all types of investors which operate at the MICEX stock exchange are available for the issuer.
- Sector IGC-2 – a procedure for conducting private placements with the use of stock exchange techniques and listing. Secondary marketing is executed among qualified investors (being such by virtue of the Federal Law #39 "On the securities market" or acknowledged to be such by the regulation stipulated by the Order of Federal Financial Markets Service of the Russian Federation of 18.03.2008, N 08–12/пз-н "On ratification of the Regulation on the procedure of recognition persons as qualified investors" within the frames of the trading technologies oriented towards the major holdings' trading (under the Negotiated Deals Regulation – NDR).
- Informational Board (web-resource) – is directed to creating mechanisms of investments attraction by early-stage innovative companies. Within the frames of the resource, "buyers" (funds, investment companies, banks, and private investors) and "sellers" (funds, investment companies, banks, and issuers) may place offers for sale shares of a company/project and can get into contacts for deal making.

Venture capital funds created with the participation of Ministry for Economic Development of the Russian Federation and Russian Venture Company

Of more than 20 regional venture capital funds formed by the for Economic Development of the RF (MED) more than a half were active in 2009. At the same time, work of two funds was terminated in 2009. There are prospects on continuation of the activity on the regional funds' creation in 2010.

A number of these funds' investments represented additional rounds of financing. Traditionally, the majority of the investments belonged to "venture stages".

Capitalization of active regional venture capital funds of MED reached near $280 mln by the end of 2009. Total investment volume in the 2007–2009 period made up approx. $75–80 mln. Amounts of the investments varied within $0.5–5.0 mln limits.

The majority of MED regional funds' investments were made in ICT sector. Investments in the other industry branches, such as Electronics related, Medical/Health care, Energy, Industrial equipment, and Chemicals & Materials were distributed rather evenly.

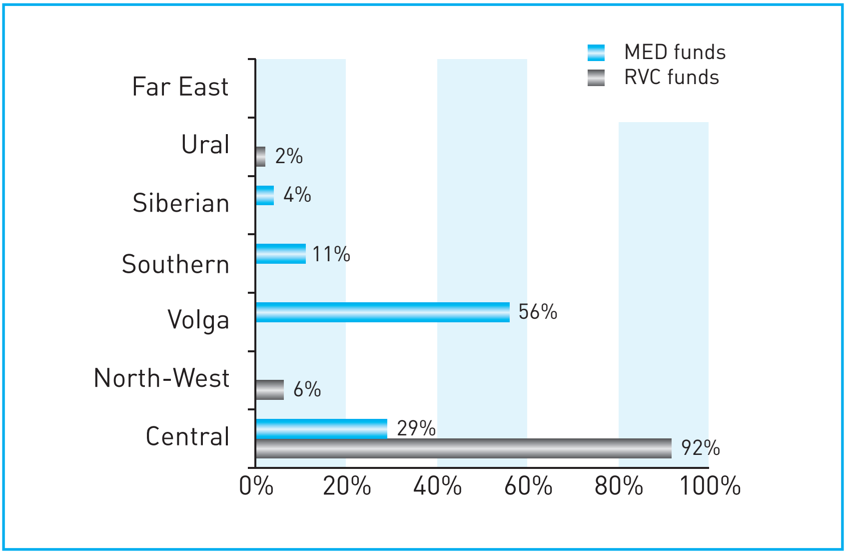
Comparison of the branch structure of the MED and Russian Venture Company (RVC) funds' investments in 2009 allows revealing some differences in their investment preferences: in the RVC funds' investment portfolio ICT sector was situated only at the third place in 2009, with Medical/Health care and Energy branches leadership, and Electronics related industries ended the list of preferences.

Also differ the regional preferences of MED and RVC funds (taking into account more freedom in choosing investment geography by the RVC funds). Regional distribution of the MED funds' investments reflected actually the geography of the funds: the largest investment volumes were documented at Central and Volga FDs.

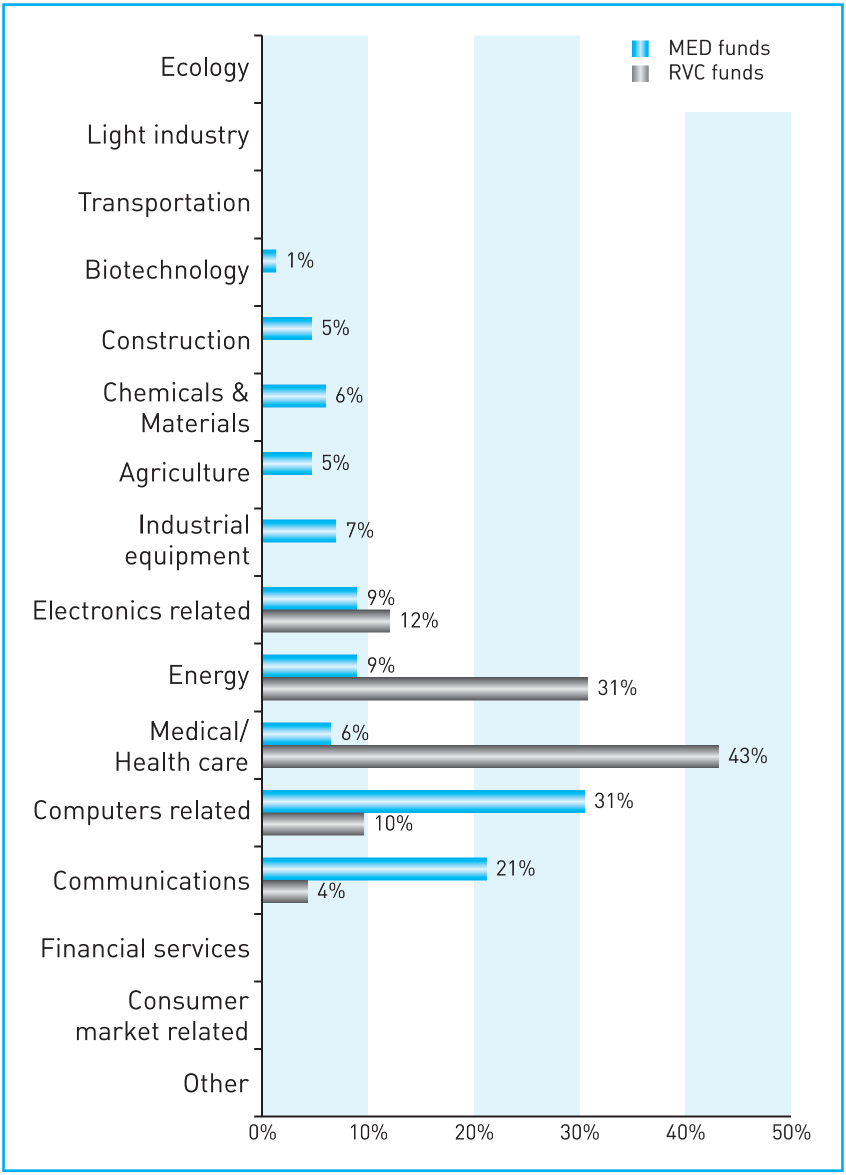
Central FD leaded by a head in the investment preferences of the RVC funds; North-West and Ural FDs came next.

In 2009, the RVC funds' investments were being made in the early-stage companies, when the MED funds were investing mainly in the venture stages (near 66% of the 2009 total investment volume).

The MED and RVC investments by federal districts, 2009



The MED and RVC investments by industry branches, 2009



Industry	2009	
	MED regional funds, %	RVC funds, %
Ecology	0	0
Medical/ Health care	6,55	43,16
Electronics related	9,00	12,06
Light industry	0	0
Chemicals & Materials	6,00	0
Transportation	0	0
Agriculture	4,70	0
Biotechnology	1,35	0
Industrial equipment	7,00	0
Energy	9,00	30,82
Construction	4,70	0
Computers related	30,50	9,65
Communications	21,20	4,31
Financial cervices	0	0
Consumer market related	0	0
Other	0	0
Total	100,00	100,00

Federal district	2009	
	MED regional funds, %	RVC funds, %
Far East	0,00	0,00
Ural	0,00	2,14
Siberian	4,00	0,00
Southern	11,00	0,00
Volga	56,00	0,00
North-West	0,00	6,16
Central	29,00	91,70
Total	100,00	100,00

Highlights 2009

- By the end of 2009, the accumulated capitalization volume of all funds acting in the Russian PE&VC market reached approximately $15.2 billion.
- Number of active funds was 162 by the end of 2009.
- Total volume of new capital raised in 2009 amounted to $1.31 billion that was approx. 3 times less than in the previous period ($4.27 billion in 2008).
- The number of management companies operated at the Russian Federation territory totaled 105 by December of 2009.
- Total sum of documented investments in Russian companies amounted to $507.09 million in 2009 – approx. 3 times less as compared with 2008.
- Total number of the companies being financed in 2009 was 69. Average deal size – near $7.4 million.
- The Consumer market related companies again were the leaders by volume of investments attracted – $240 million or nearly half of total capital volume invested in 2009.
- Expansion and restructuring stages remained to be most attractive for investors, as before. Attracted capital volume at this stage amounted to approx. $384 million, the number of financed companies – 21.
- Volume of seed and start-up investments amounted to near $13.29 million in 2009, early stage investments – approx. $110.46 million. Number of the companies that got investments at these stages – 48.
- The most popular way of divestment remained the sale to strategic investor – 90% in 2009.

Dynamics 2006–2009

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

- 2006 – $6.28 billion
- 2007 – $10.26 billion
- 2008 – $14.33 billion
- **2009 – $15.2** billion

Number of working funds:

- 2006 – 98
- 2007 – 130
- 2008 – 155
- **2009 – 162**

Volume of capital attracted:

- 2006 – $1.45 billion
- 2007 – $4.32 billion
- 2008 – $4.27 billion
- **2009 – $1.31** billion

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

- 2006 – 69
- 2007 – 82
- 2008 – 99
- **2009 – 105**

Total volume of documented investments made in Russian companies:

- 2006 – $653 million
- 2007 – $1017.53 million
- 2008 – $1472.41 million
- **2009 – $507.09** million

Total number of the financed companies:

- 2006 – 65
- 2007 – 85
- 2008 – 120
- **2009 – 69**

Average deal size:

- 2006 – $10 million
- 2007 – $12 million
- 2008 – $12.3 million
- **2009 – $7.4** million

The Consumer market related companies have attracted:

- 2006 – $173.2 million (26.5%)
- 2007 – $487.5 million (47.9%)
- 2008 – $596.4 million (40.5%)
- **2009 – $240** million **(47.25%).**

Expansion and restructuring stages remain to be the leaders:

- 2006 – $493.46 million (28 companies got investments)
- 2007 – $909 million (51 companies got investments)
- 2008 – $1310 million (53 companies got investments)
- **2009 – $384** million **(21** companies got investments**)**

Volume of seed and start-up investments:

- 2006 – $38.53 million
- 2007 – $42 million
- 2008 – $68 million
- **2009 – $13.29 million**

Volume of early stage investments:

- 2006 – $36.55 million
- 2007 – $66 million
- 2008 – $94 million
- **2009 – $110.46 million**

Number of the companies being financed at venture stages:

- 2006 – 27
- 2007 – 34
- 2008 – 67
- **2009 – 48**

Sale to strategic investor – the most popular way of divestment:

- 2006 – 88% of exits
- 2007 – 71% of exits
- 2008 – 95% of exits
- **2009 – 90% of exits**

RUSSIAN PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION (RVCA)

Mission:

- To contribute to the formation and development of the venture capital and private equity industry in Russia.

Goals:

- To create a political and enterpreneurial environment favorable for investment activity in Russia.
- To represent the interests of RVCA's members before government bodies, in the mass media and in financial and industrial circles both within Russia and throught the World.
- To provide information services and to create communicative arenas for Russian Venture Capital and Private Equity market players.
- To develop educational system for training modern management manpower for small innovative companies as well as for venture capital funds.

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