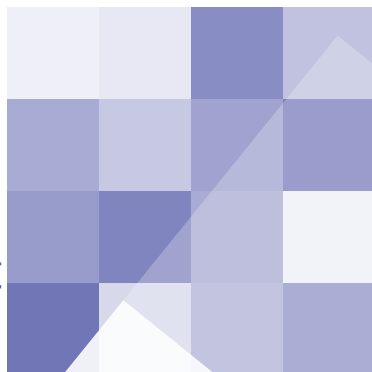


RVCA YEARBOOK

Russian private equity
and venture capital market
review 2010



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Foreword

Today, the priority direction of the leading countries' development strategies is mastering new scientific and technical achievements. To provide stable growth of the economy, a transition is necessary from raw economy to the innovation one which is based on intellectual resources, science-intensive and informational technologies, and efficient use of all industrial factors. Such economy needs adequate economical and financial architecture that might minimize the influence of global economical cataclysms as well as provide fast and timely financial support to the leap-ahead ideas of native entrepreneurs.

Venture capital – being necessary and important element of this architecture – is able to directly influence the deepest bases of each entity's economical activity, thus determining the process of a country economical growth as well as formation of high-tech diversified modern economy.

After passing peak of the crisis, the global venture capital market had been waiting for some time, then private equity financing activated again. The 2010 results of the Russian private equity and venture capital market investigation confirm this fact: the main industry indices of 2010 came closer to the 2008 figures – the total volume of the actually raised funds came to several billions of the US dollars. Especially optimistic is the information on the funds volume which is planned to be attracted in coming years.

Though the rate of the funds' capital gain has increased only moderately in comparison with the critical for all Russian economy year 2009, total volume of the investments made in Russian companies in 2010 increased about 5 times against the previous period.

In the present issue of the "Russian private equity and venture capital market review" the data based on the poll of more than 80 representatives

of leading investment structures acting in the Russian PE&VC market are presented to our readers' attention. In the investigation, the information given by the PE&VC funds working at the Russia's territory was used. The authors of the Review express again their thanks to the respondents who kindly consented to taking part in the investigation and rendered the information on their funds' activity.

RVCA Executive Administration

Russian Private Equity and Venture Capital Market Review 2010

According to results of the poll organized by RVCA, in 2010 the total capitalization of all Russian private equity and venture capital (PE&VC) funds increased in comparison with the last year nearly by 10.5% to the amount of \$16.8 bln (\$15.2 bln in 2009). Thus, a certain growth of capital augmentation rate may be stated in comparison with the critical for the whole industry year 2009 when the gain constituted 6% of the 2008 level. The 10% growth of aggregate capital in 2010 looks incomparable with the growth presented in more distant pre-crisis periods. For example, in 2008 the gain was 40% of the 2007 level, and in 2007 it was more than 60% against 2006.

In 2010, volume of newly attracted funds was equal to \$1.74 bln that was about 1/3 higher than in 2009 (\$1.31 bln).

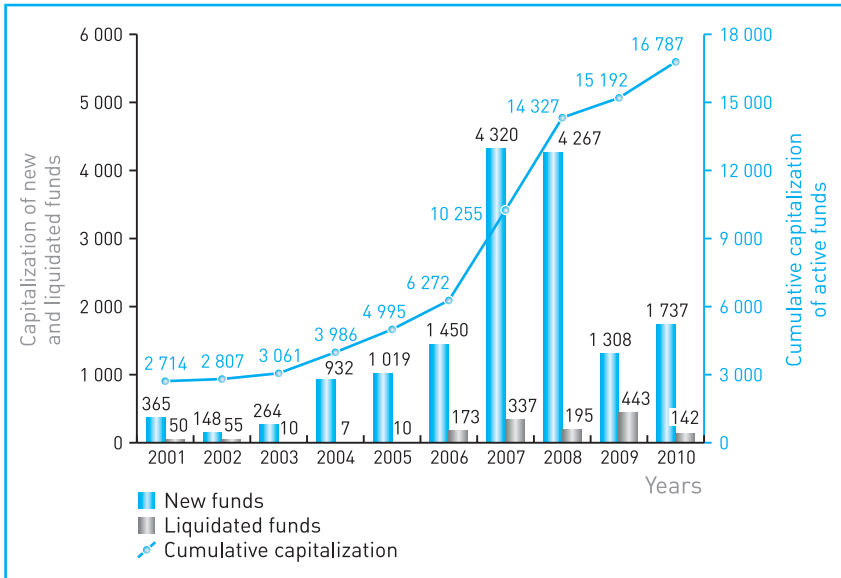
The 2010 statistics included the funds which had announced their final or intermediate closings. At the same time, a number of the funds carried out their first investments in 2010.

In the reporting period, like it was in 2009, fundraising was highly complicated by a number of reasons. On the one hand, it was connected with the problems of exiting from previous investments (quite often, pre-crisis investments were implemented in the prices range inadequate to current economy realities). On the other hand, there are few management companies in the market, which have management teams with successful track records and with clear investment strategy in current tough environment.

In general, in spite of progressive movement of the Russian PE&VC market in the last years, there is an opinion that, for the present, foreign investors prefer the markets of another emerging countries apart from Russia.

Nevertheless, the plans which have been announced during 2010 by management companies on capital attraction in their new funds acting in Russia are very impressive – despite persisting pressure of the global economic slump on the national economy processes.

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



In the last year Review, the activity of management companies (both ones that existed for a long time and newly created) aimed at raising funds mainly oriented to the Russian market was noted. The situation was the same in the reporting period, too. By the totals of 2010, the reported total volume of planned funds (valued by the reported targeted sizes) constitutes no less than \$5–6 bln. Overwhelming share of this volume corresponds to private equity funds. At the same time, according to information available there are intentions to form more than 20 funds oriented mainly to Russian market as well as CIS countries' markets. Although, inclusion of these funds in total statistics would be premature, because the funds either were at the

negotiation stage with prospected investors or, having announced the fundraising launch, had not accomplished interim closings and had not started investing actively yet. Thus, it remains to be seen to what extent these expectations of new funds raisings would be satisfied.

It's pleasant to note that range of the funds emerged in 2010 was very wide: from relatively small private seed VC funds (micro-finance funds) to PE funds specialized in later stage investments. Some of the funds planned to invest in undervalued or problem assets.

The total volume of the capital newly attracted in 2010 in the amount of \$1.74 bln was related to new funds raising by management companies. With that, several management companies already had the funds built up before.

Generally, the increase in accumulated capital was provided by 15 funds included both private PE&VC funds and closed mutual investment funds of different types – highly risky (venture capital) investment funds and mixed investment funds. About 80% of newly attracted capital were accounted for by several private PE funds.

A new phenomenon was creation of VC funds focused on interaction with the global venture capital funds possessing considerable work experience with high-tech companies.

It is necessary to note that the number of PE funds and mixed investment funds formed in 2010 in the pooled investment market was many times higher than the number of new highly risky (VC) investment funds. At the same time, the number of highly risky (VC) investment funds which had terminated their activity was also higher than the number of newly created funds of this type. Would this situation be a manifestation of an emerging new trend – time will show.

It should be underlined that among all the number of newly formed in 2010 closed mutual investment funds of above-mentioned types only the

funds engaged in investments in high-tech companies from different industry branches were included in aggregate statistics.

The projects of one of management companies from the pooled investment market on raising a fund for investing in seed stage companies in 2011 are of great interest. Lack of such funds still exists in spite of all efforts of institutes of development and private initiatives in this sphere.

Unfortunately, evaluation of the results of the closed mutual investment funds' activities is very complicated in most cases by the reason of the insider information restrictions.

Capital outflow from the market in 2010 was connected with termination of work of seven closed mutual PE&VC funds which were included in previous years' statistic. At the same time, capital estimates of these funds corresponded to their net assets value at the moment of accepting the "for qualified investors" status by them. Thus, the total value of the PE&VC market capital decrease in 2010 was equal to approx. \$142 mln.

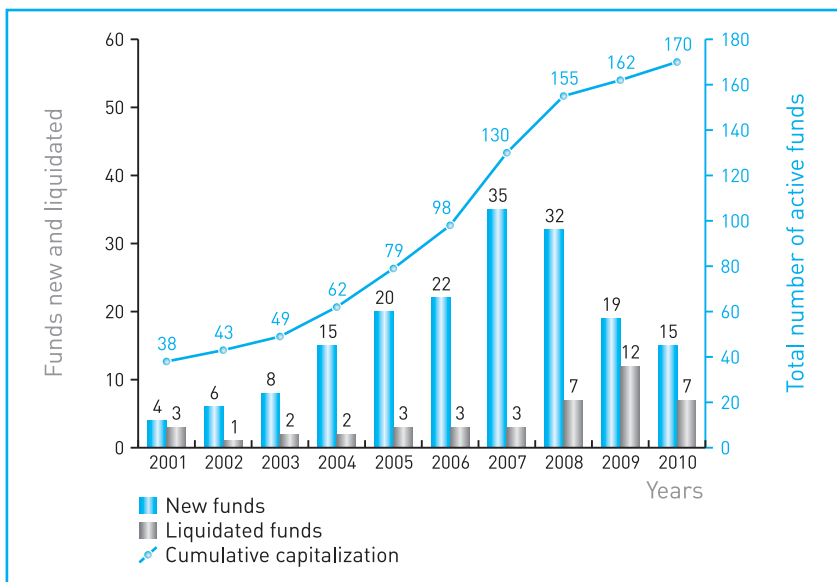
When speaking about capital outflow, it's necessary to note that there is a number of totally invested funds in the market, and activity of some of them may be traced to long ago. Though, the portfolio of such funds has not been totally realized yet.

In general, in spite of certain slowdown of fundraising by the investment funds acting in the Russian market in comparison with pre-crisis period, the market is evolving and adjusting to the existing economic situation and current global trends.

In 2010, the accumulated capitalization volume of PE&VC funds working in Russia's territory increased to \$16.8 bln approximately.

Although, like it was in 2009, the growth rate was not high in comparison with pre-crisis period

Number of private equity & venture capital funds in Russia



In 2010, the volume of raised capital totaled near \$1.7 bln that was almost 1/3 higher than in 2009

Classification of management companies

By the end of 2010, the number of PE&VC management companies (MCs) acting at the territory of the Russian Federation reached 110 (compared to 105 in 2009). The increase of the MCs number was connected with some new players' emergence in the market with the funds' sizes ranging from tens to hundreds of million dollars.

A number of MCs which worked in the pooled investment market before and had one fund under management each, were excluded from the statistics, as the funds had terminated their activity. All mentioned funds had managed small amounts of capital (no more than \$10 mln each).

Traditionally, the MCs were separated into three groups depending on the total capital volume under management. Correspondingly, the 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 \$2200 mln of their funds' capitalization) increased owing to new players' coming and amounted to 22 MCs in 2010. The capital gain in this group was also provided by raising new funds by existing companies. The total capital at \$12.392 bln was under management of the MCs of this group. The funds of this group invested mainly in the portfolio companies at the expansion and restructuring stages of development. Investment volume ranged from \$20 mln to hundreds of million dollars per one company. In 2010, the companies of this group provided the main share of total capitalization growth – near 85% (this tendency is being observed within the last years). In 2009, this figure was 53%, in 2008 – about 85%.

The number of management companies in the second group that managed funds with «medium» capitalization (from \$51 mln to \$150 mln) increased also and reached 33 MCs. The dynamics of number of the companies was

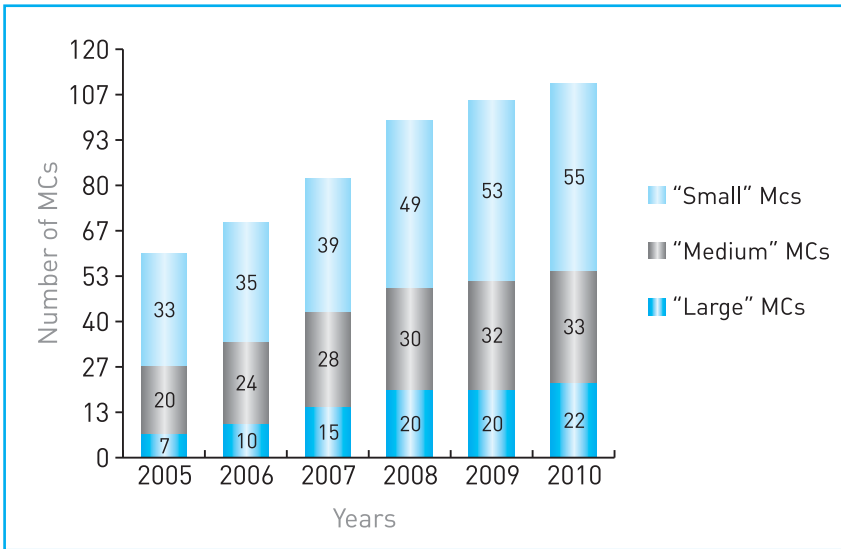
connected with a new MC coming to the market having a fund in the capital raising phase. Also, in this group a certain capital outflow was registered caused by termination of one closed mutual investment VC fund. The funds' volume under management of the MCs of this group increased and amounted to \$3.264 bln. The funds of this group didn't have evident investment preferences regarding development stages of the companies. The deals' volumes varied within the limits of \$5–15 mln.

The third group of MCs with «small» sized funds (having \$5–50 mln under management) included the majority of MCs – 55, that was 2 companies more than in 2009 (summarizing both arrivals of new MCs with new VC funds to the market and exclusion from statistics of several MCs connected with termination of several funds' activity). Total capital volume under management in this category was equal to \$1.131 bln. As a rule, deal sizes in this group amounted to \$3–5 mln.

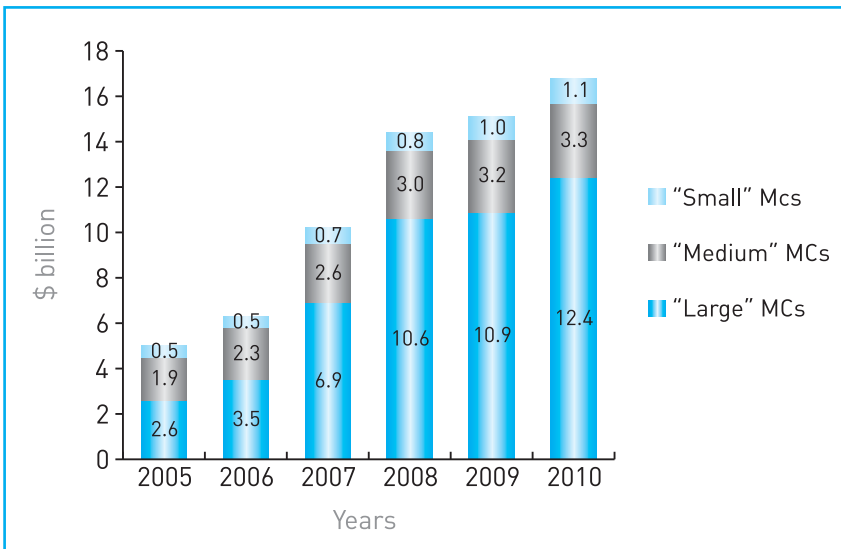
Therefore, there was no substantial regrouping of capital in 2010.

MCs with total funds' size more than \$151 mln traditionally provide main input in the total cumulative capitalization growth (85% in 2010)

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



Capitalization of fund management companies (MCs)



Investments by industry branches

In general, the 2010 totals let us draw a conclusion that the funds' investment activity showed recover tendency in comparison with the losing 2009, both by the volumes and numbers of investments, and approximately corresponded to the 2008 results.

According to the data given by management companies and some public sources, there were registered more than 128 deals between the funds and Russian companies. These deals were provided with corresponding information on investment volume, branches, stages and regions (further we name them "documented" deals). Besides, data on making of not less than 10 deals was available, but the information was not disclosed or was disclosed only partly. However, on the base of expert estimations, their total volume doesn't exert sufficient influence on the total investments statistics.

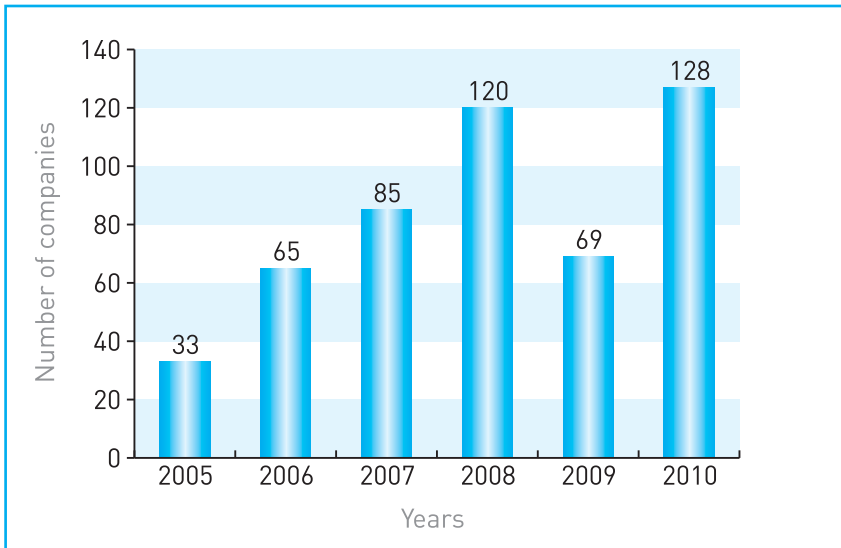
The total volume of the deals documented in 2010 is equal to approx. \$2514 mln. Such considerable increase of documented investments against previous periods is mainly based on several large deals in Communications and Financial services spheres (about one half of total documented investment volume).

Thus, in spite of presence of distressed assets caused by the 2009 crisis tendencies, the deal flow considerably increased in comparison with the previous period – about 5 times against 2009 (more than \$500 mln volume of documented investments).

The mentioned volume of the investments documented in 2010 was higher than 2008 level, too (near \$1.5 bln). Although, if taking into account the 2008 deals which were not documented and not included in the total statistics, the 2008 and 2010 investment levels may be considered approximately comparable.

The range of investee companies is wide and encompasses both small seed-stage companies from Communications and Computer related branches and large later-stage companies in Retail trade and Agriculture industries.

Number of the companies received financing



Traditionally, the major investment activity concentrated in the Communications and Computer related branches (often combined in ICT sector), Financial services, and Consumer market in 2010. Therefore, the structure of leading branches has not changed considerably against previous period. However, the emergence of specialized branch funds (particularly aimed at investments in biotechnologies, pharmaceuticals, etc.) allows looking forward to increase investment volume in the branches which were not investment favorites before. Seven deals of the total documented deals' number were classified as follow-on investments.

In 2010, the investors' branch preferences kept, in general, the structure of the previous periods

In the ICT sector – the 2010 leader by investment volume – the total size of documented deals was equal to approx. \$1063.5 mln (almost 42% of documented deals' total volume). The major contribution in this amount

was an investment in Communications branch made by one fund with its own and borrowed capital. Taking into account this large deal, the ICT investment volume has grown about 10 times in comparison with 2009 (near \$97 mln or 19% of total investment volume in 2009). In 2008, investments in ICT sector came to \$268 mln or approx. 18% of total investment volume. Thus, volume of ICT investments in 2010 increased about 4 times against 2008.

At the same time, disproportion by investment volumes between Communications and Computer related branches has remained –documented investments in these branches totaled in 2010: near \$945 mln in Communications (almost 38% of total investment volume) and \$119 mln in Computer branch (5%). In 2009, documented investment volume in Communications was equal to \$60 mln (11.7%) against \$38 mln (7.5%) in Computer branch; in 2008 correspondingly \$145 mln (10%) against \$123 mln (8%), approximately.

A number of ICT sector deals, which are in the tideway of current European and global trends, point out a sufficient potential of growing Russian market of electronic commerce. Besides of this, social network services, entertainment industry, telecommunication infrastructure are within the sphere of investors' interests as before.

Financial services branch follows ICT sector by the volume of documented investments with the \$842.27 mln result (about one third of total documented investment volume). Sufficient sizes of documented deals in Financial services branch are connected with realization of a number of large deals in banking sphere. At the same time, these deals may be considered as indicative ones, in other words, as witnessed slowing down the crisis influence and revitalizing the investors' concern in this sphere. This reflects the aspiration of some new major players to gain leading positions in the evolving Russian PE market in the financial services area.

It's worth to note that Financial services branch is permanently occupying leading positions. And if to analyze the Communication and

Computer branches separately, the Financial sphere outruns them and consistently retains the second place in the list of industries attractive for Russian private equity within the last years (near 16% of total deal volume in 2009 and 21% in 2008).

In 2010, the volume of documented deals in Consumer market branch was equal to \$292 mln or 12% of total documented deal volume, approximately. Thus, after the period of investment boom in Consumer market companies in 2007–2008, when the branch was a leader by investment volumes, there outlined a declining tendency in the industry in 2009 and 2010.

At the same time, against the background of reduction of sizes and diversity of the Consumer market investments, closing of one large specially structured deal in this sphere was registered in 2010. Moreover, only the deal's cost paid to the owner of the investee company without debt service was accounted in these statistics.

Notable that high activity of investors in Consumer market in the last years (e.g., connected with investments in food or construction materials retail) has led to a situation of certain oversaturation in the pointed areas. Therefore, in 2010, a tendency outlined of searching by the funds some new investment opportunities in the Consumer market area – in the niche goods trading networks, for example.

Attracts attention the fact that the activity of the funds, which are engaged in investing in Russian companies in the ecology, alternative energy, new materials, etc., spheres, is still relatively low. Moreover, available information on a number of deals is not sufficient enough to be included in the statistics. At the same time, the pointed industries are the objects of active interest of foreign investors – and mainly owing to different government measures supporting these branches. This may lead to situation of “overtaking development” of these branches in Russia, familiar by some other industries (particularly, Communications and Computers, where many projects represent copies of start-ups which have been successfully evaluated abroad already).

In 2010, a positive growth of documented investment volume against 2009 was registered in Energy branch – near \$101 mln (4% of total documented investment volume) in comparison with \$29 mln (6%) in 2009.

Investments in Industrial equipment industry increased many times as compared with 2009, and reached about \$95 mln (near 3.8% of total 2010 investment volume). In 2009, the analogous value amounted to about \$3 mln (near 0.6% of total investment volume).

In spite of the fact that, formally, there were no registered deals in the Biotechnology branch, there was evident growth (approx. 40%) of total deal volume in the relative to Biotechnologies Medical/Health care branch against 2009 (\$53 mln or 2.1% of total volume of documented investments in 2010 in comparison with \$38 mln or 7.5% in 2009, approximately). This growth was substantially connected with the activity of VC funds created in the frames of state-private partnership programs – in this branch, aggregate volumes of documented investments remained very low (near \$0.5 mln) within more distant periods (2006 and 2007).

Also, investors expressed an interest in Agriculture with near \$53 mln of total investment volume in the branch in 2010 (almost 2.1% of total investment volume).

The deals in Construction branch in the amount of \$7.5 mln (0.3% of total investment volume) were registered in 2010, that was more than 3 times higher than the 2009 aggregate investment volume in the branch (\$2 mln or 0.39% of total documented investment volume).

In Transportation branch, the aggregate documented investment volume amounted to approx. \$3.4 mln in 2010 (0.13% of total investment volume). At the same time, within several last years the level of documented deals in this branch is remaining low by comparison with the pre-crisis period.

The Chemicals & Materials investment level was relatively low as before – near \$3 mln of documented investments (0.12% of total investment volume) in 2010 against \$2.4 mln (0.5%) in 2009.

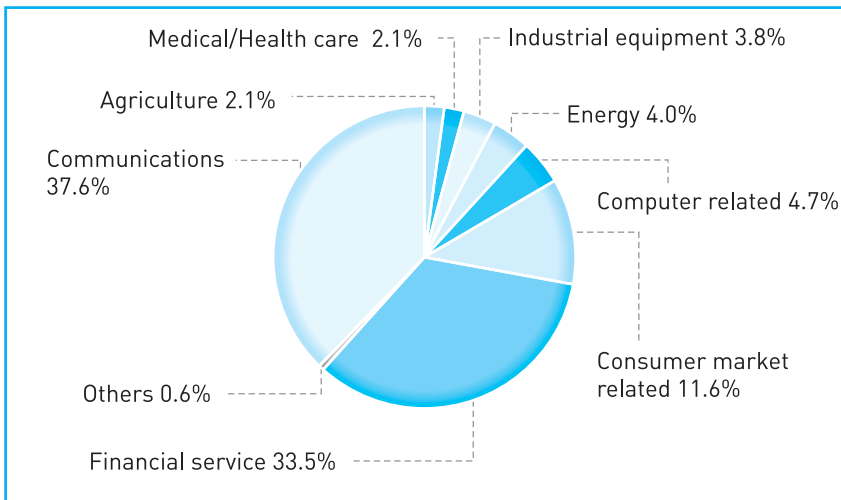
There was no registered investors' activity in the Light industry branch in 2010, like in 2009.

For the reason of lack of adequate information, the Electronics related deals were not included in the statistics.

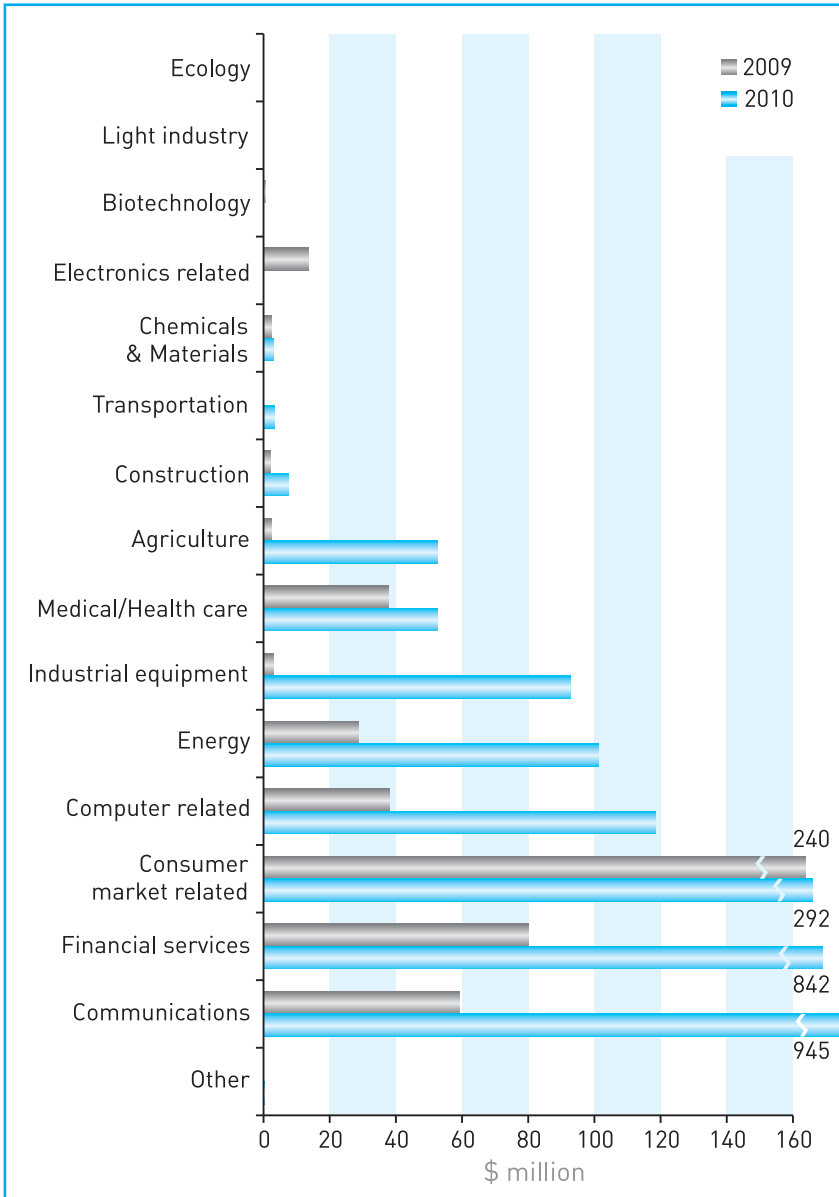
The average deal size considerably grew in 2010 against the previous periods and amounted approx. \$19.7 mln, however it was connected first of all with the several large investments in Communication and Financial services branches which were mentioned above. In general, the last years' average deal size (excluding 2009) was permanently growing (\$7.4 mln in 2009, \$12.3 mln in 2008, \$12 mln in 2007, \$10 mln in 2006, \$7.5 mln in 2005 and \$5.1 mln in 2004).

Total sum of documented investments increased in 2010 against the 2009 level and amounted to approx. \$2.5 bln. A number of large investments made in 2010 contributed significantly in the aggregate documented deal volume

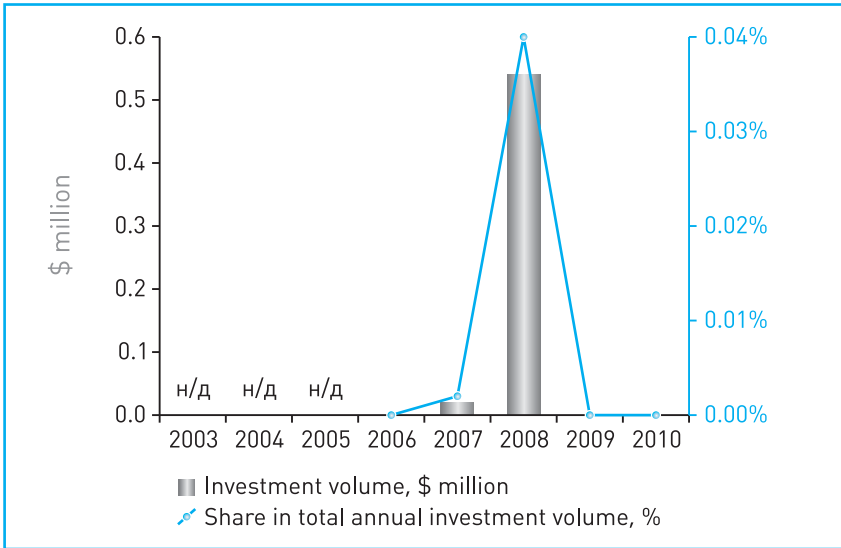
Investment distribution by industries, 2010



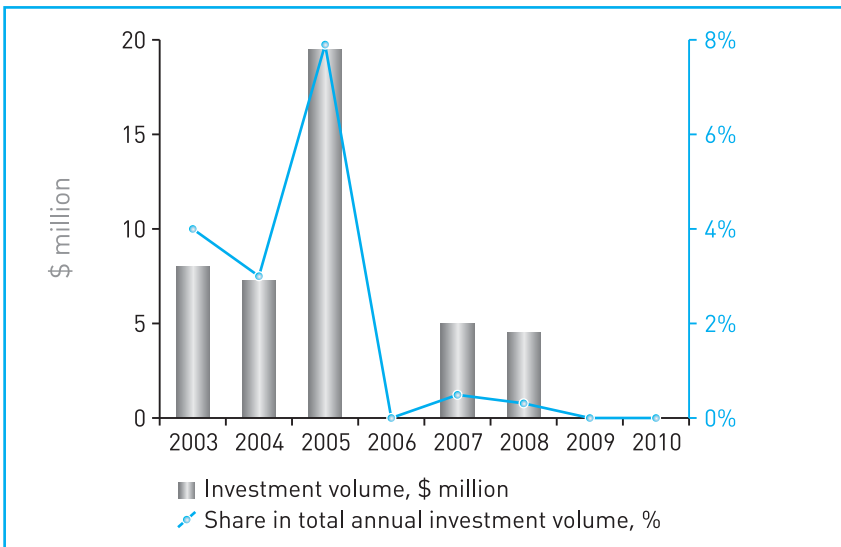
Investment distribution by industries, 2009–2010



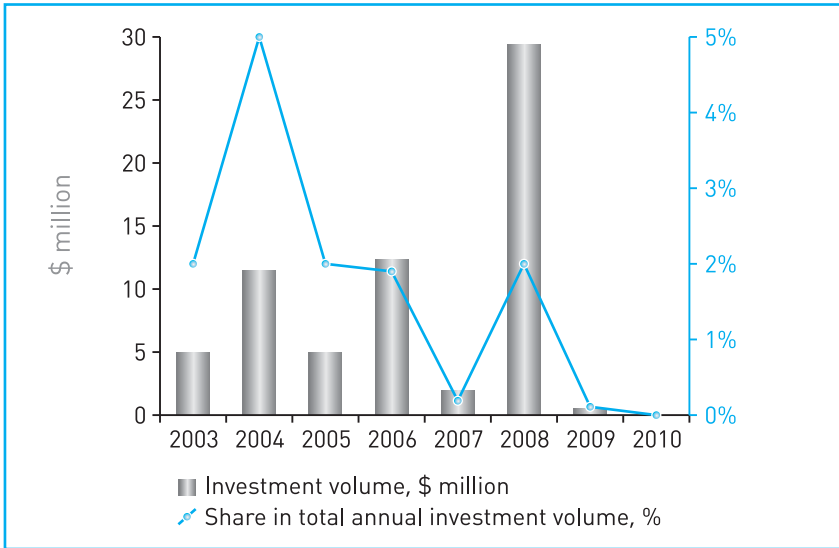
Investments in Ecology



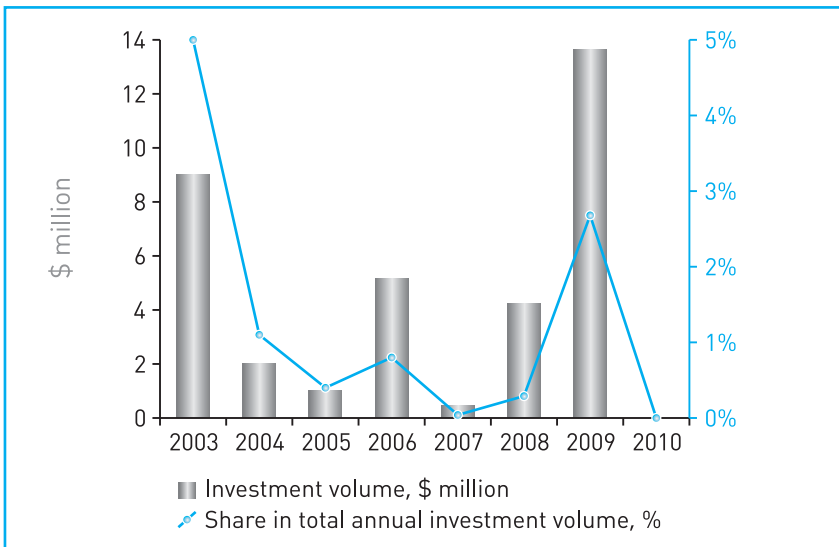
Investments in Light industry



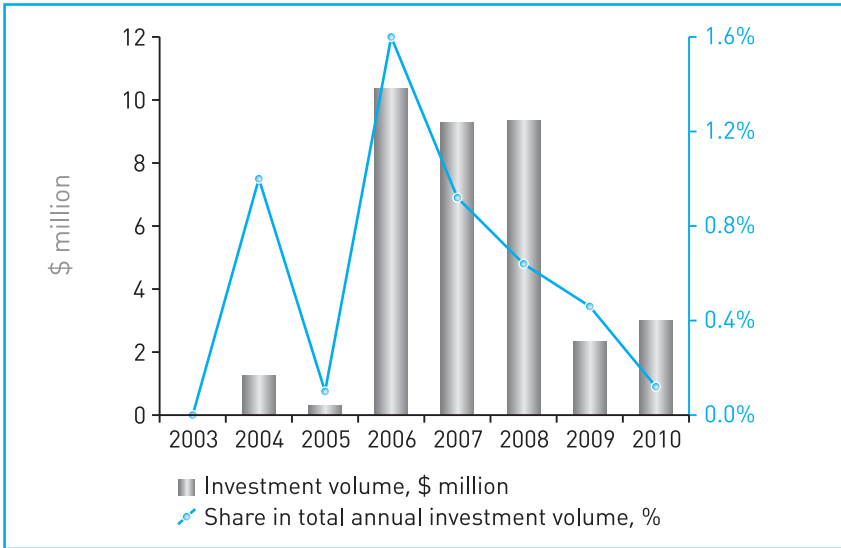
Investments in Biotechnology



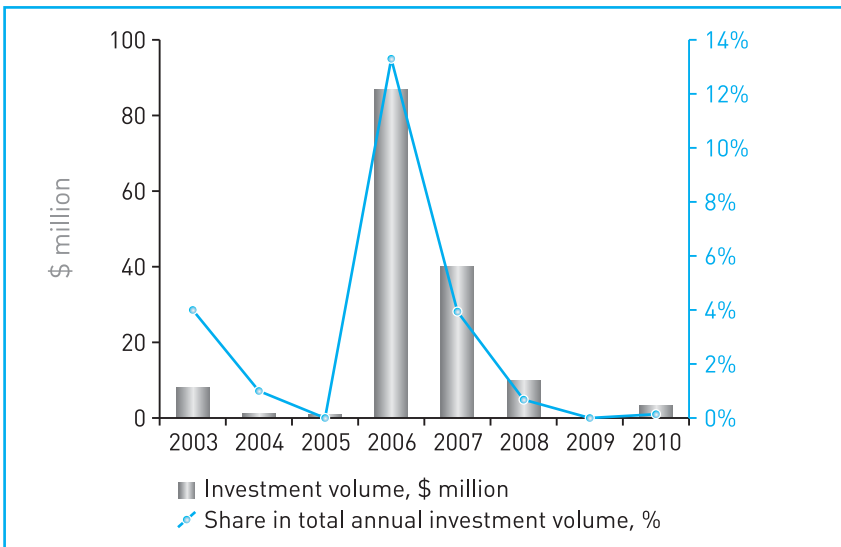
Investments in Electronics related



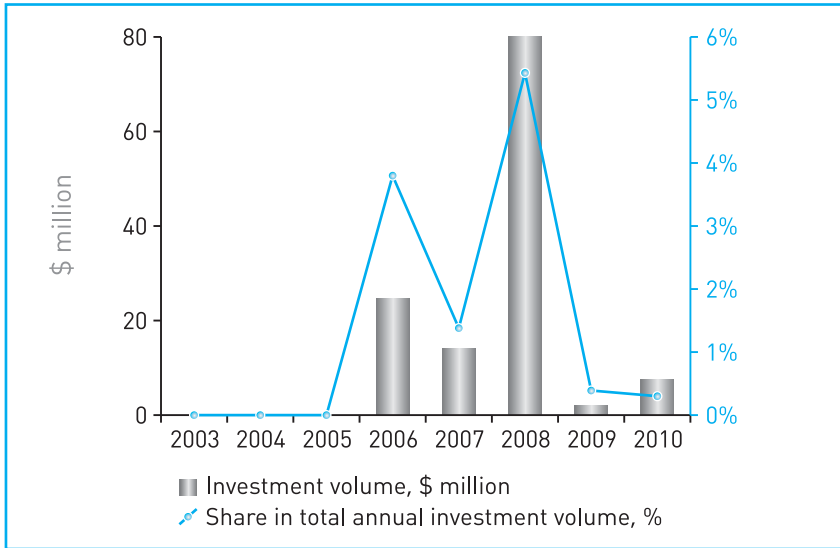
Investments in Chemicals & Materials



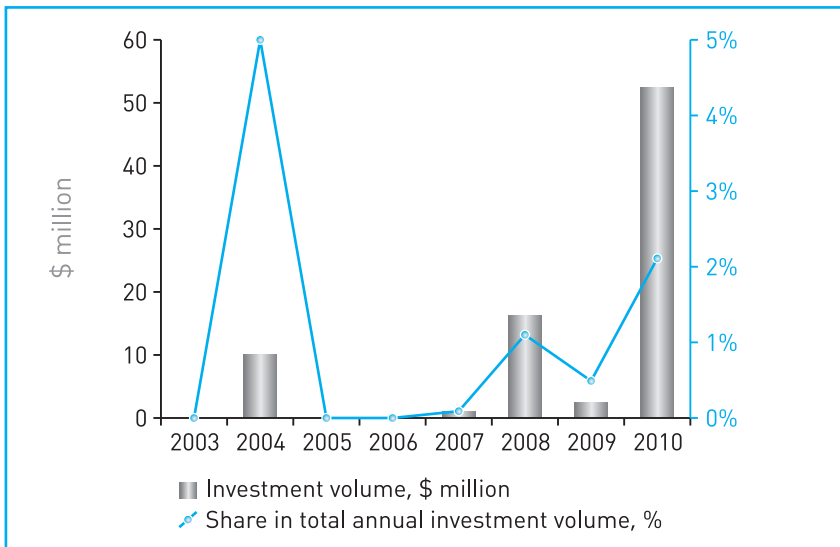
Investments in Transportation



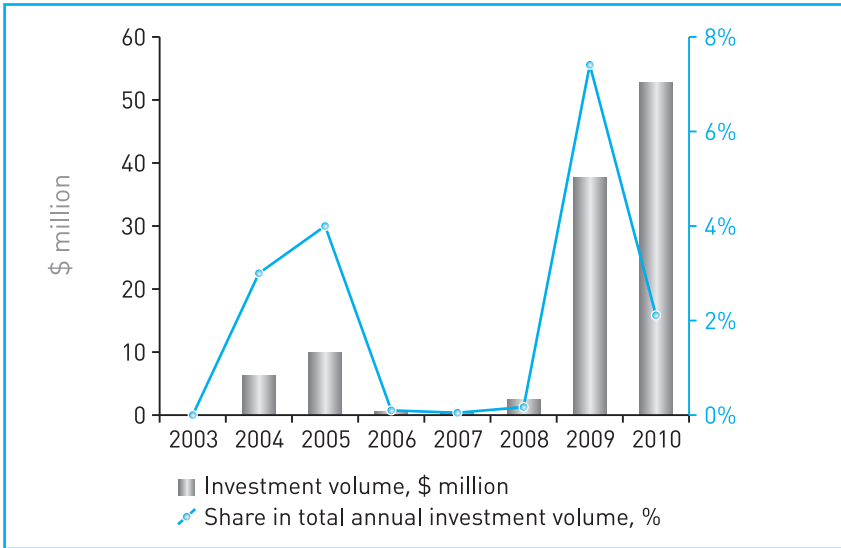
Investments in Construction



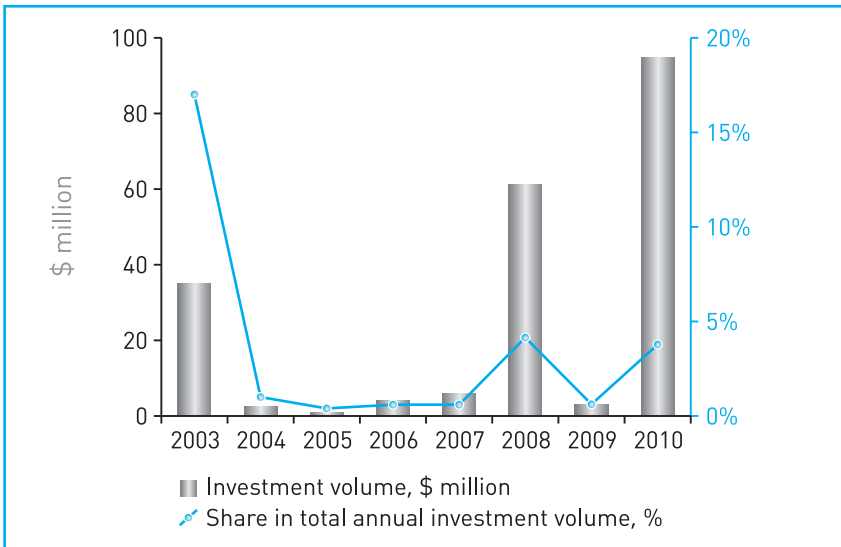
Investments in Agriculture



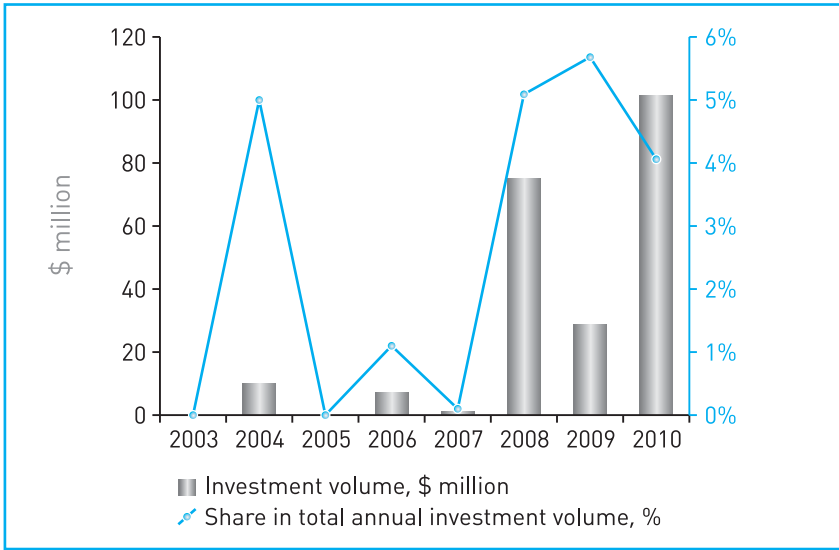
Investments in Medical/Health care



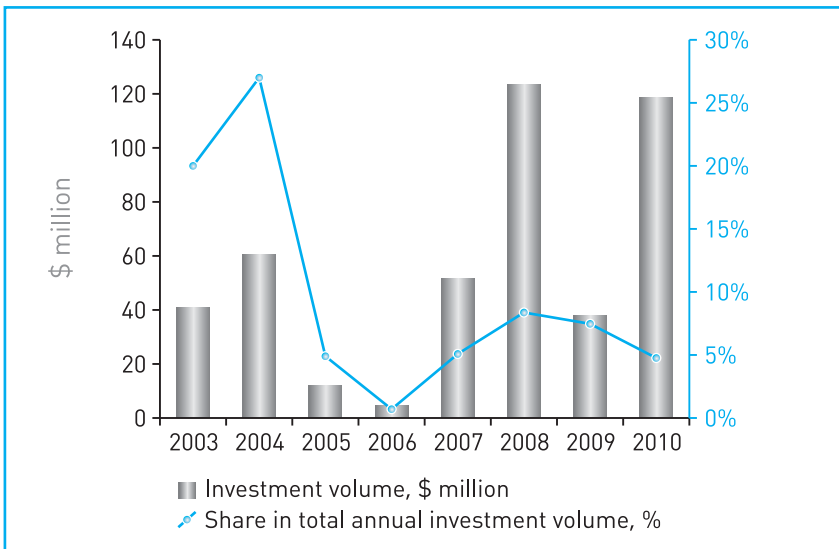
Investments in Industrial equipment



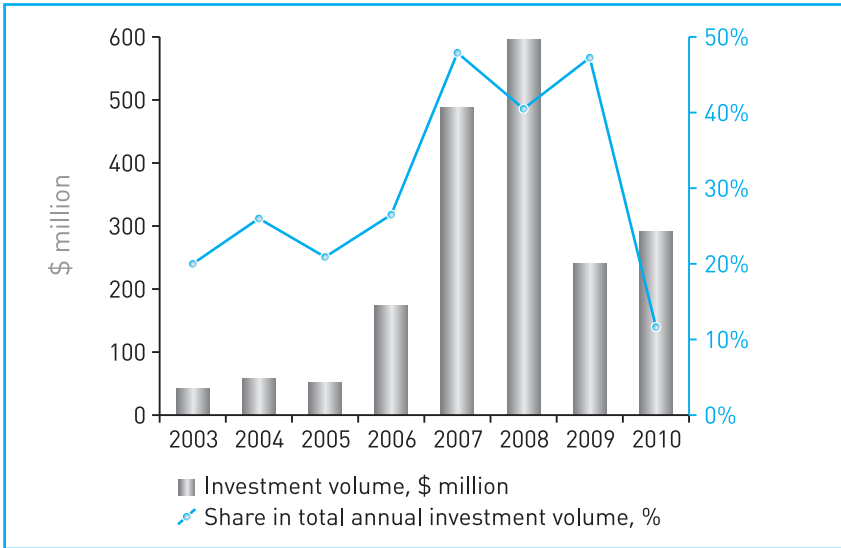
Investments in Energy



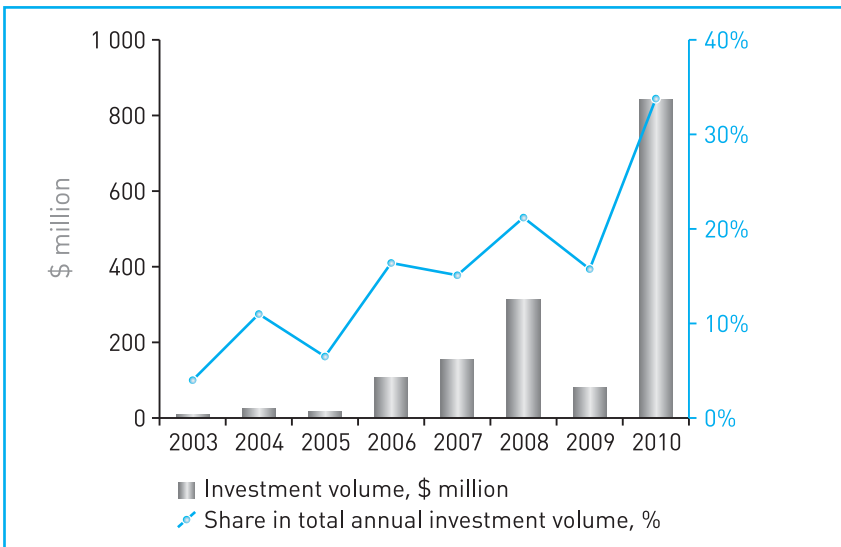
Investments in Computer related



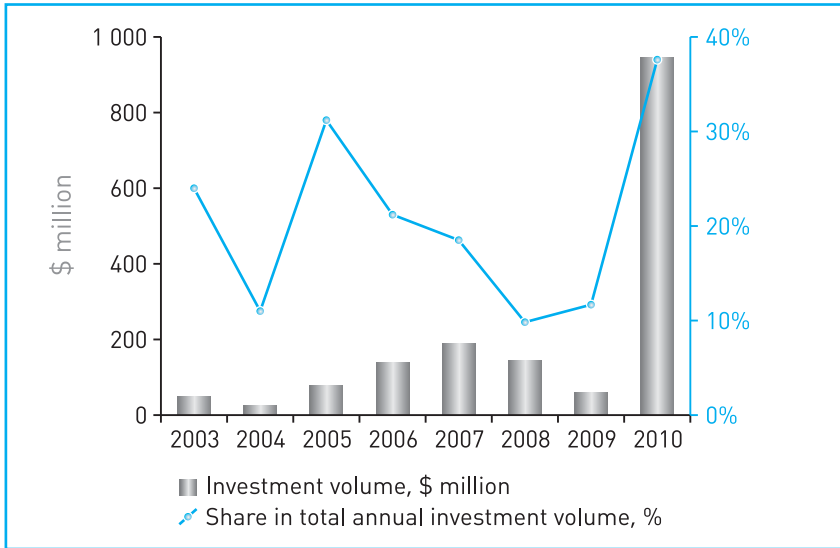
Investments in Consumer market related



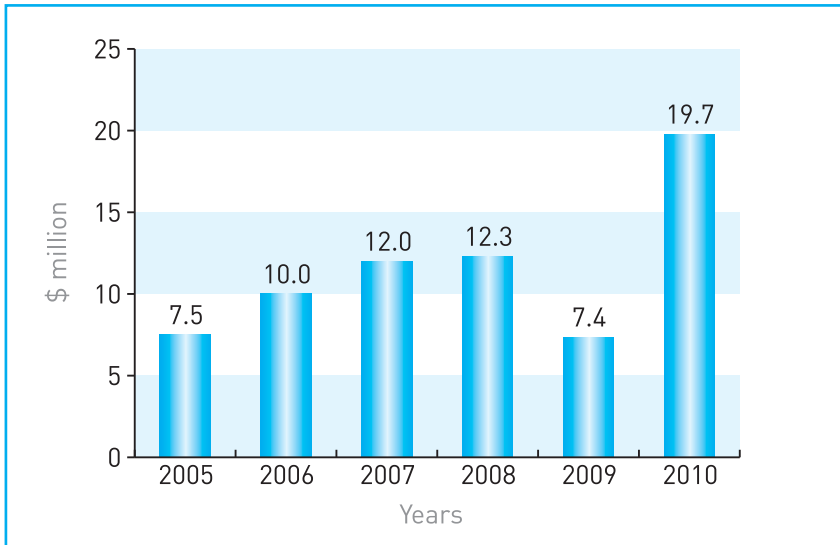
Investments in Financial services



Investments in Communications



Average annual investment volumes



Industry	2007		2008		2009		2010	
	Amount invested, \$ mln	%	Amount invested, \$ mln	%	Amount invested, \$ mln	%	Amount invested, \$ mln	%
Ecology	0.02	0.002	0.54	0.04	0	0	0	0
Light industry	5.00	0.49	4.50	0.31	0	0	0	0
Biotechnology	1.98	0.19	29.43	2.00	0.55	0.11	0	0
Electronics related	0.45	0.04	4.24	0.29	13.63	2.68	0	0
Chemicals & Materials	9.30	0.92	9.35	0.64	2.35	0.47	3.02	0.12
Transportation	40.10	3.94	10.00	0.68	0	0	3.37	0.13
Construction	14.00	1.38	80.00	5.43	2.00	0.39	7.54	0.30
Agriculture	0.96	0.09	16.25	1.10	2.50	0.49	52.50	2.09
Medical/ Health care	0.51	0.05	2.44	0.17	37.65	7.41	52.70	2.10
Industrial equipment	6.06	0.60	61.10	4.15	3.16	0.62	94.93	3.78
Energy	1.00	0.10	75.00	5.09	28.83	5.68	101.34	4.03
Computers related	51.71	5.08	123.31	8.37	37.93	7.47	118.62	4.72
Consumer market related	487.46	47.90	596.40	40.50	240.00	47.25	292.33	11.64
Financial services	153.60	15.10	312.16	21.2	80.00	15.75	842.27	33.51
Communications	188.38	18.51	144.69	9.83	59.30	11.68	944.92	37.58
Other	57.00	5.60	3.00	0.20	0	0	0.30	0.01
Total	1017.53	100	1472.41	100	507.90	100	2513.84	100

Investments by stages

In 2010, volume of investments at the “venture stages” of companies’ development (seed, start-up and other early stages) totally amounted to \$153 mln (about 6% of the total documented investment volume). Thus, the venture investments volume was about a quarter higher than the similar 2009 figure (near \$120 mln) and approached to the level of 2008 (near \$160 mln). Meanwhile, the proportion of investments at venture stages in the total investment volume was 4 times smaller than in 2009 (24%) and 2 times smaller than in 2008 (11%). The sufficient drop of the venture capital deals’ proportion in 2010 was connected with realizing by private equity funds a number of large deals which constituted the major share of annual investment volume.

The number of documented venture capital deals was 81 that was all-observation period record. At the same time, the gap between volumes of early stage deals and seed/start-up investments remained. Thus, in 2010, there were documented early stage investments to the total amount of \$131.8 mln against \$21.5 mln of seed and start-up deals. The seed and start-up deals lagged by number, too: 32 against 49 at the early stage.

The main contribution (about 3/4) in the early stage investment volume was provided by the funds created within the frames of various state-private partnership programs.

Venture capital deals mainly related to ICT sector, Medical/Health care and Industrial equipment branches. Average deal size at venture stages was equal to approx. \$2 mln.

In general, it seems like the venture capital market is overheated, i.e. the investment potential of existing venture capital funds doesn’t match (is higher) the investment opportunities available in the market, particularly at seed and start-up stages. Therefore, certain deficit of high-quality projects and well-trained teams which can realize these projects suppresses growth of the venture deals’ volumes. The programs and projects which are being launched now by the institutes of development,

first of all the educational and consulting ones, aimed at the support of venture capital infrastructure, have to favor improvement of the situation.

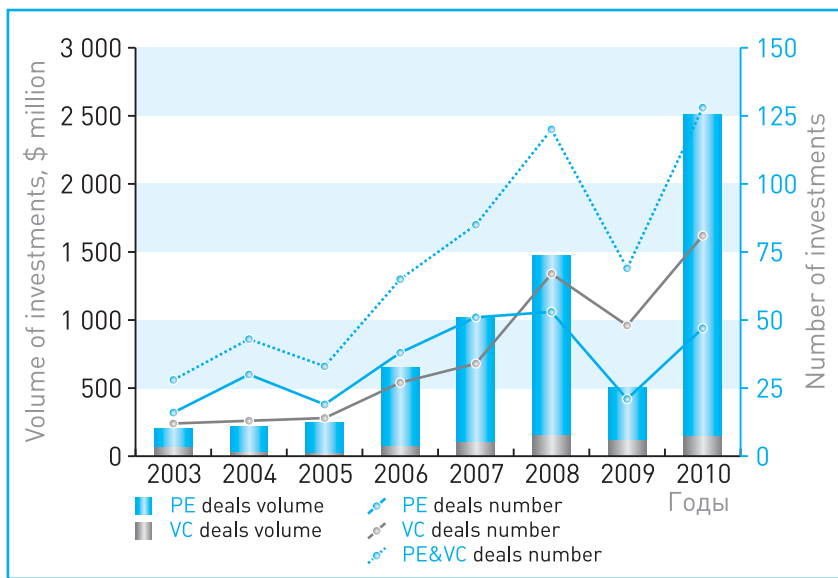
As before, the bulk of investments go to the restructuring and expansion stage companies in 2010. Also, later-stage deals have been registered.

Totally, there were registered 47 deals at the expansion, restructuring, and later stages to the total amount of \$2360.5 mln in 2010 (21 deal and near \$384 mln in 2009, 53 deals and approx. \$1310 mln in 2008). The aggregate share of this kind of investments was permanently predominant during the whole observation period – more than 90% of the 2010 total investment volume, 76% in 2009, and 89% in 2008.

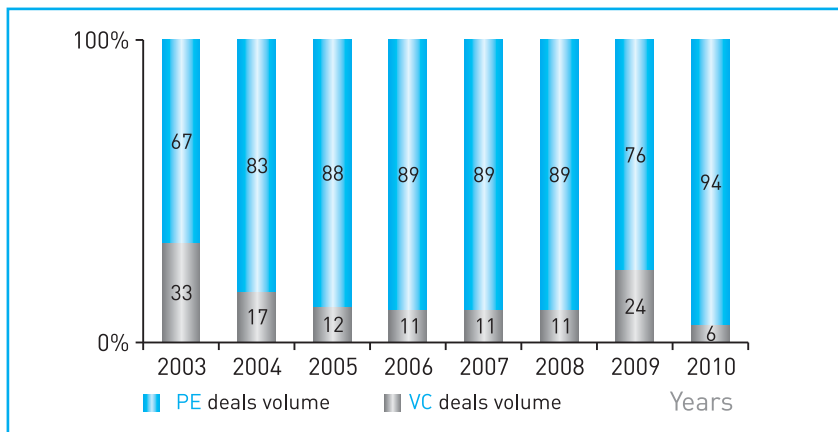
According to current economic situation, the role of private equity will further strengthen, because the access to credit financing is limited, particularly for medium- and small-cap companies.

In 2010, the volume of documented investments at venture stages increased approx. by 1/4 against the 2009 level. At the same time, their relative fraction in the total investment volume decreased abruptly (from 24% in 2009 to 6% in 2010) which was primarily connected with the growth of the later stage deals' volume

Distribution of investments' number and volume by stages*



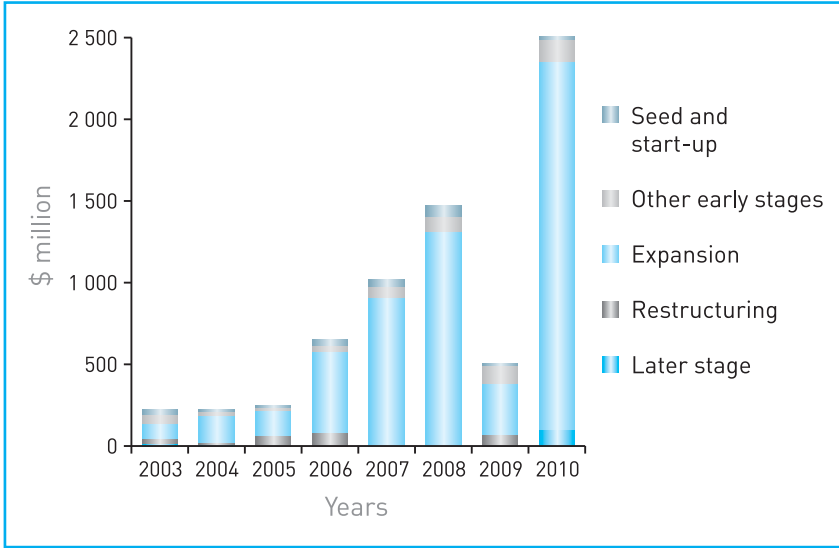
Relative fraction of investments of different stages in the total investment volume (%)



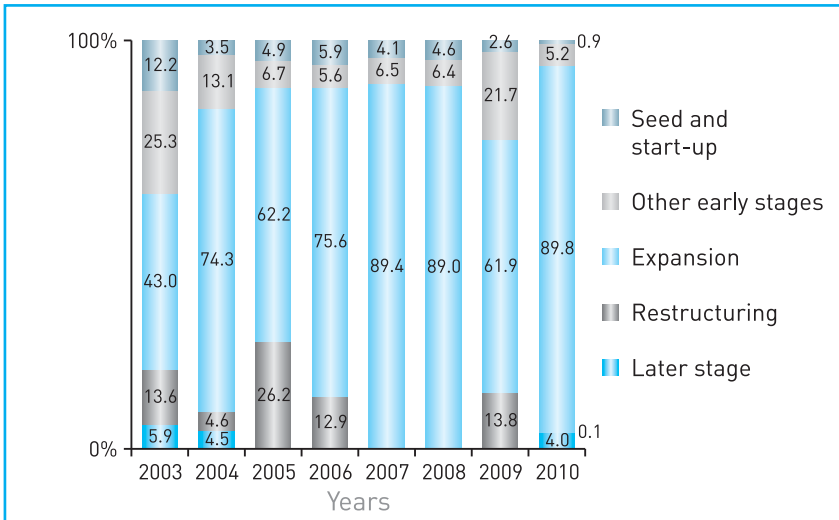
* VC - Seed, start-up, and other early stage;
PE - Expansion, restructuring, and later stage

		2007	2008	2009	2010
Seed, start-up, and other early stage investments (VC)	Number of deals	34	67	48	81
	Amount invested, \$ mln	108	162	123.75	153.30
	Share in the total investment volume, %	11	11	24	6
		2007	2008	2009	2010
Expansion, restructuring, and later stage investments (PE)	Number of deals	51	53	21	47
	Amount invested, \$ mln	909	1310	384.15	2360.54
	Share in the total investment volume, %	89	89	76	94

Distribution of investments by stages



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



Investment stage	2007		2008		2009		2010	
	Amount invested, \$ mln	%	Amount invested, \$ mln	%	Amount invested, \$ mln.	%	Amount invested, \$ mln	%
Seed and start-up	42.12	4.1	67.81	4.61	13.29	2.6	21.52	0.86
Other early stages	66.18	6.5	93.95	6.38	110.46	21.7	131.78	5.24
Expansion	909.23	89.4	1310.65	89.01	314.15	61.9	2257.88	89.81
Restructuring	0	0	0	0	70	13,8	2.66	0.11
Later stages	0	0	0	0	0	0	100	3,98
Total	1017.53	100	1472.41	100	507.90	100	2513.84	100

In 2010, about 3/4 of the total venture-stage documented investment volume were provided by the funds created within the frames of state-private partnership

Investments by federal districts

In 2010, investments were registered in the majority of federal districts (FD), with the Central FD leadership by volume of investment like in the previous periods. But it's necessary to highlight one aspect connected with regional classification of the investments in software, internet-services, and communication-services, etc., companies. Presence of the service offices' and elaboration centers' networks which cover many regions of Russia (as well as near abroad), availability of outsourcing services etc. – all of that create certain difficulties in the investments regional classification. In these cases, classification was based on the location of investee company's head office. Accordingly, the majority of these companies were related to Central FD.

Volume of documented investments in Central FD amounted to \$2167.5 mln (near 86% of total investment volume) that was sufficiently higher than absolute and relative figures of previous periods, particularly of 2009 when the documented investment volume totaled only \$343 mln (68% of total investment volume), and of 2008 – \$990 mln (67%), approximately.

The second place was occupied by Far East FD with the documented investment volume equal to \$200.1 mln (approx. 8% of total investment volume). This result was primarily related to one large investment in the Financial services branch, however, there were deals registered in the high-tech sphere, too.

Then, with a considerable gap as regards the documented investment volumes, followed the group of regions consisting of Ural, North-West, Volga, and Siberian FDs, the aggregate share of which in total investment volume came to 5,7% in 2010.

Thus, documented investments in Ural FD (taking the third place) sufficiently grew in 2010 and came to \$56.65 mln (near 2% of total investment volume) against \$1.73 mln (0.34%) in 2009.

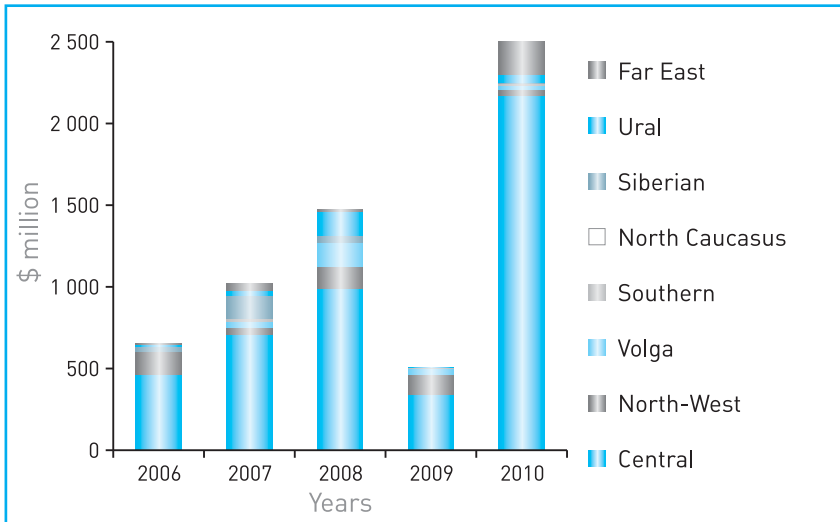
North-West FD was positioned at the fourth place in 2010 with the \$50.12 mln result (2% of total investment volume) with the invested capital volume having decreased about 2.4 times as compared with 2009, and even more decreased relative share of the investments (\$120 mln documented investments by size, and 24% of total investment volume in 2009).

Further follows Volga FD with volume of documented investments making up about \$24 mln (slightly less 1% of total investment volume) against \$36 mln (near 7%) in 2009.

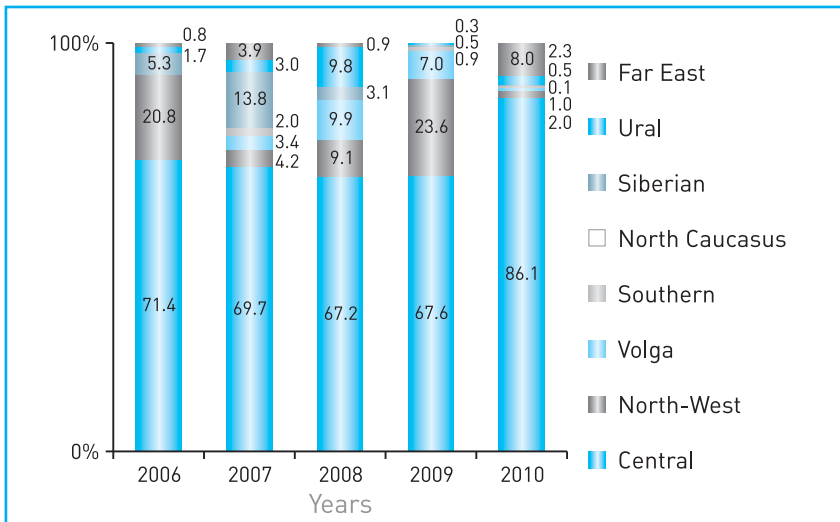
Siberian FD raised its investment activity in 2010 with volume of documented investments equal to \$13.45 mln (\$2.7 mln in 2009), having kept relative share in the total investment volume near 0.5%.

In Southern FD, the documented investment volume was equal to \$2 mln (less than 1% of 2010 total investment volume). In North Caucasus FD, there were no investments documented in 2010.

Distribution of investments by federal districts



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



Federal District	2007		2008		2009		2010	
	Amount invested, \$ mln	%	Amount invested, \$ mln	%	Amount invested, \$ mln	%	Amount invested, \$ mln	%
Central	709.07	69.7	989.75	67.22	343.23	67.58	2167.50	86.22
Far East	40.00	3.9	14.00	0.95	0	0	200.10	7.96
Ural	30.00	3.0	144.13	9.79	1.73	0.34	56.65	2.25
North-West	43.00	4.2	133.30	9.05	120.00	23.63	50.12	2.00
Volga	34.68	3.4	145.76	9.90	35.65	7.02	24.02	0.96
Siberian	140.33	13.8	45.09	3.06	2.70	0.53	13.45	0.53
Southern	20.45	2.0	0.38	0.03	4.59	0.90	2.00	0.08
North Caucasus							0	0
Итого	1017.53	100	1472.41	100	507.90	100	2513.84	100

Divestments

High financial indicators of funds' divestments from portfolio companies – this is, probably, the main criterion for investors at evaluating prospects of new investments in the funds. In this regard, the year 2010 offers hope for future progressive development of the Russian PE&VC market.

In 2010, 25 exits of funds from portfolio companies were documented – 2.5 times more than in 2009 (10 documented divestments).

The divestments ranging looks as the following.

Like it was in the previous years, the most attractive for the investors way of exit was trade sale (sale of a company to strategic buyer) – 13 deals (about 50% of total number of documented exits in 2010).

The second popular exit path – sale to financial buyer. There were registered 4 deals of this type in 2010 (approx. 16% of total exits number).

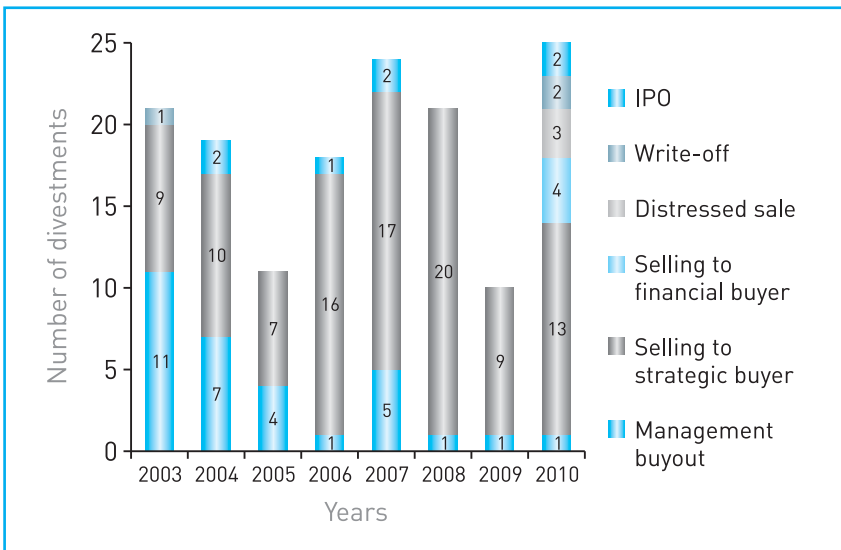
Crisis developments in the economy have definitely affected the divestment ranging. Therefore, for more precise reflection of the market processes' structure, an additional to "write-off" type of exit was introduced – "distressed sale" (complete or partial sale of a company's assets). Totally, 2 write-offs and 3 distressed sales were registered in 2010 (both exit types jointly constitute 20% of total documented exits number).

Regardless of the fact that selling portfolio companies via IRO is, potentially, a preferable exit path for the majority of acting in the Russian market funds, in reality, entrance into stock markets – and the foreign particularly – is available only for large and successful companies. Just this situation took place in 2010 when 2 funds exits were registered (8% of total exits number) via flotation of the shares of one large Russian communication company on a stock market. Unfortunately, it may be stated that the majority of portfolio companies hasn't got the resources enough for IPO realization yet. An additional suppressive factor is inadequate level of the national IPO market development. Therefore, in the high-tech sector at least, the increase of number of successful divestments via IPO may be expected following the new stock market

sector “Innovation and Investment Market” (IIM) launching jointly by MICEX and RUSNANO.

In 2010, 1 exit via the management buyout path was registered (4%). The prognoses on increase of number of exits via this path are connected with existing expectations of the first in the Russian market buyout funds’ creation.

Exit distribution by number of divestments



The ways of exits	2007		2008		2009		2010	
	Number of deals	%	Number of deals	%	Number of deals	%	Number of deals	%
IPO	2	8	0	0	0	0	2	8
Write-off	n/a	n/a	n/a	n/a	n/a	n/a	2	8
Distressed sale	n/a	n/a	n/a	n/a	n/a	n/a	3	12
Sale to financial investor	n/a	n/a	n/a	n/a	n/a	n/a	4	16
Sale to strategic investor	17	71	20	95	9	90	13	52
Management buyout	5	21	1	5	1	10	1	4
Totally	24	100	21	100	10	100	25	100

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

In 2010, the Regional Venture Funds (RVF) formed by the Ministry for Economic Development of the RF (MED) made about 20 investments, and a quarter of them were additional investment rounds. Investment activity was displayed by more than 75% of the funds created before. One of two funds, the activity of which was suspended in 2009, started working in 2010 after competitive selection of new management company. The future of the second fund will be clarified in 2011 with its capitalization exceeding the initial level planned.

The RVF MED total investment volume surmounted \$100 mln milestone and came to \$105–110 mln level within the 2007–2010 period. Thus, up to the end of 2010, about one third of the capital accumulated within the RVF MED system had been invested.

Work on development of the funds' regional system is going on. In particular, several closed mutual mixed investment funds had been created for investing in SMEs by the end of 2010. In 2010, the RVF MED investment sizes in the companies ranged from \$0.1 mln to \$2 mln approx.

By the end of 2010, the total size of the Russian Venture Company (RVC) funds came to more than \$800 mln, with the deals made within the whole period of the funds' activity having totaled about \$230–240 mln. It's necessary to note that in 2010 the RVC funds invested almost half of the capital which was invested in portfolio companies within the entire period of the RVC activity. According to the 2010 results, about 40 companies have got the investments.

In 2010, a number of RVC representatives were involved, as experts, in the process of consideration of the projects which come to RVF MED for selecting the best investment opportunities.

It may be stated that ranging of the branch preferences of the RVF MED and RVC funds were somewhat different in 2010. Traditionally, investments in ICT sector prevailed in the RVF MED branch ranging (more than 1/3 of total 2010 RVF MED investment volume). At the second place the Industrial equipment branch was situated (near 17% of total investment volume). Medical / Health care and Construction industries

corresponded to the third and fourth places by investment volume in 2010 (each of the branches accounted for approx. 15% share of RVF MED total investment volume). Then follows Chemicals & Materials branch –near 7.5%. Agriculture and Energy branches round out the list of the RVC MED investment activity target branches in 2010 (making up in aggregate almost 8.5% of total RVF MED documented investment volume).

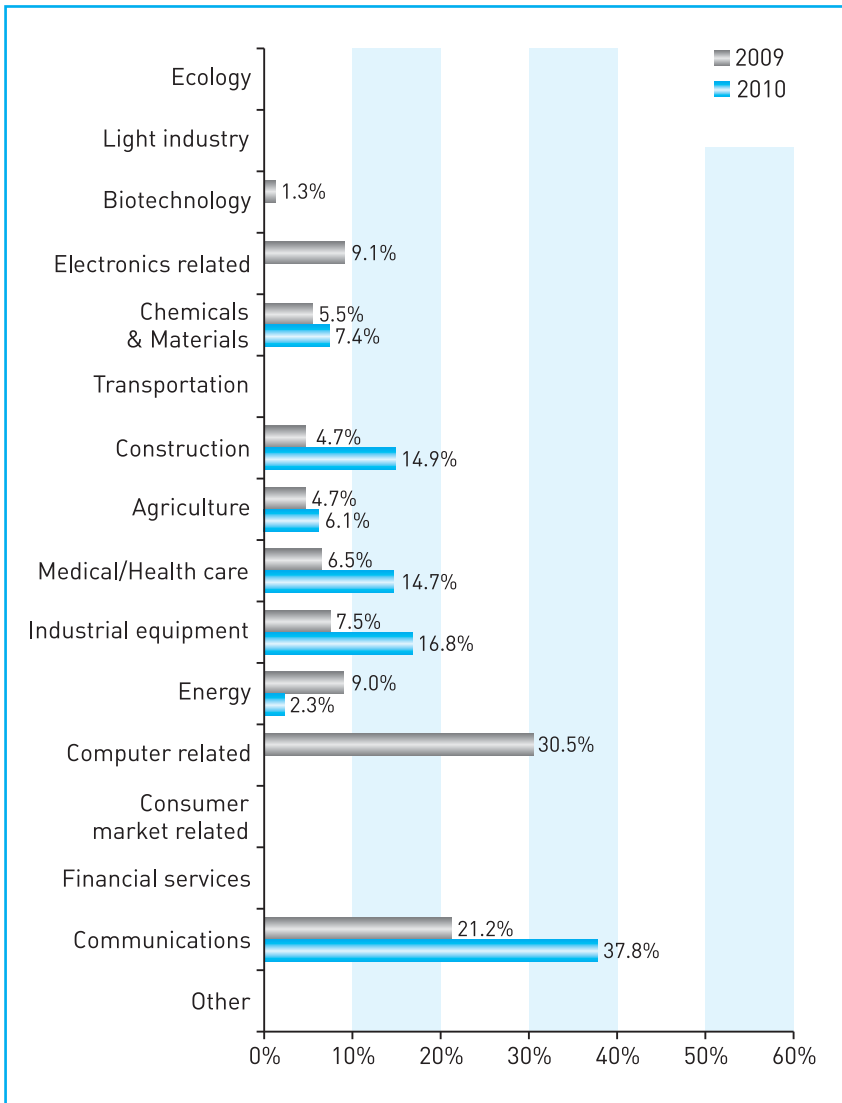
In its turn, the analysis of branch structure of the RVC funds' deals in 2010 shows that mainly the Medical / Health care branch was accentuated (more than half of the RVC total investment volume). Slightly more than a quarter of total investments were made in the Industrial equipment branch. ICT sector was situated at the one from the bottom place by the volume of investments attracted (18%). And Construction was situated at the end of the list of branch preferences of the RVC funds in 2010 (near 1.7%).

There were registered certain differences of the RVF MED and RVC funds investment volumes distribution by federal districts, too.

The regional distribution of the MED funds' investment volumes in many respects reflects their geography, as before. The priority is being strongly retained by Volga FD, at the same time the investment activity in Central FD has decreased a few (in the main, there were follow-on investment rounds). Ural and Siberian FDs occupied the second and the third places. On the contrary, in the regional preferences of the RVC funds the leader was Central FD (more than 90% of the RVC total investment volume). Then, Ural and Siberian FDs were situated at the second and the third places (1.9% and 3.3%, correspondingly). The one from the bottom place belongs to North-West FD (1.8%). The smallest RVC funds' investment volumes were registered in Far East FD (near 0.1% in 2010).

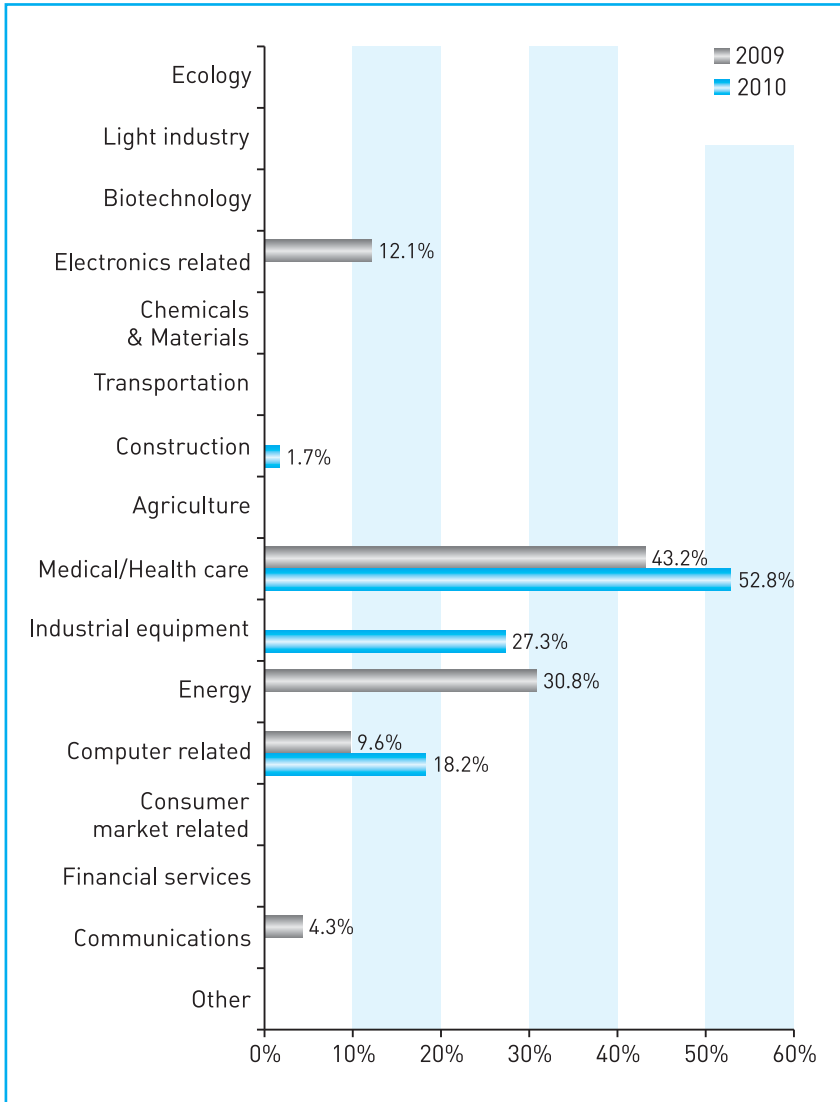
In 2010, the largest volumes of the MED and RVC funds' investments were made in the early stage companies.

The RVF MED investments
by industry branches 2009–2010 (%)*

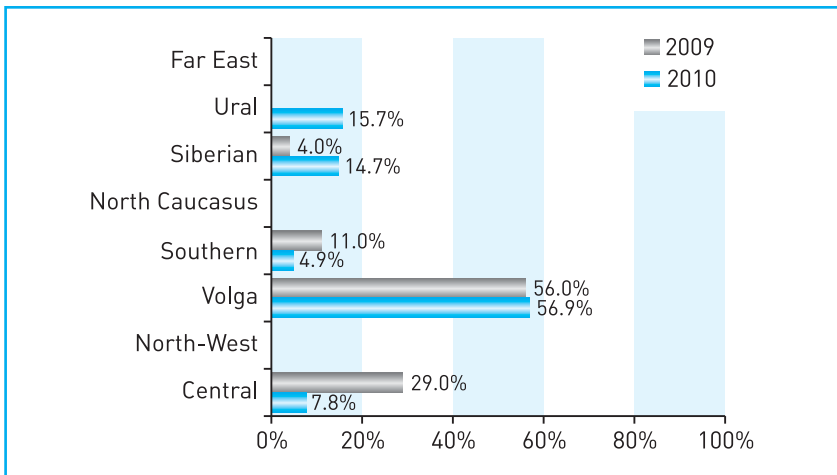


* Further on the diagrams the investment distribution is calculated in respect to the aggregated deals volumes in corresponding year.

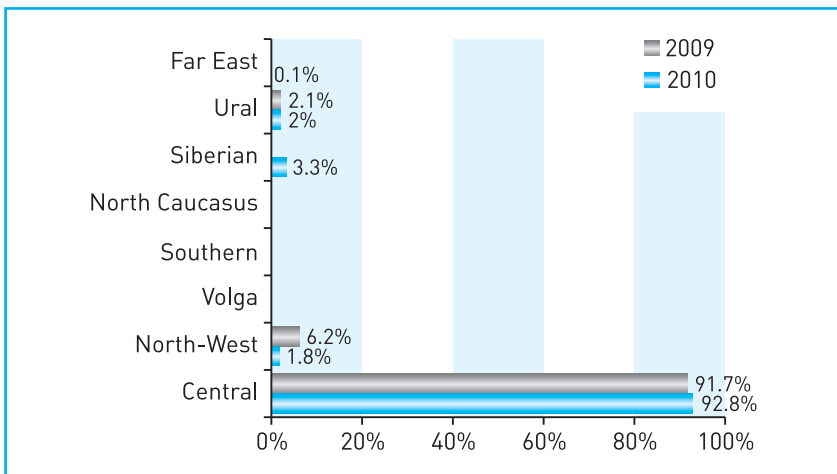
The RVC investments by industry branches 2009–2010 (%)



The RVF MED investments by federal districts 2009–2010 (%)



The RVC investments by federal districts 2009–2010 (%)



Industry	2010	
	MED regional funds, %	RVC funds, %
Ecology	0	0
Light industry	0	0
Transportation	0	0
Biotechnology	0	0
Construction	14.90	1.69
Chemicals & Materials	7.42	0
Agriculture	6.13	0
Industrial equipment	16.76	27.29
Electronics related	0	0
Energy	2.31	0
Medical/ Health care	14.71	52.82
Computers related	0	18.20
Communications	37.77	0
Financial services	0	0
Computers related	0	0
Other	0	0
Total	100	100

Federal district	2010	
	MED regional funds, %	RVC funds, %
Far East	0	0.11
Ural	15.66	1.97
Siberian	14.71	3.35
Southern	4.90	0
Volga	56.93	0
North-West	0	1.82
Central	7.80	92.75
North Caucasus	0	0
Total	100	100

Conclusion

Today in Russia, like in the whole World, diversification of the economy is necessary, and this is acknowledged at the nation-wide level. Solution of this task is directly related to increase of the investment activity. In March 2011, at the session of the Presidential Commission on Modernization and Technological Development of Russia's economy, the Russian Federation President Dmitry Medvedev publicized the list of the top-priority measures necessary for pivotal improvement of the investment climate of Russia, demonstrating this way the authorities' concern in improvement of investment attractiveness of the national economy.

In April 2010, the Agreement was signed on interaction aimed at guaranteeing of continuous financing of innovative projects at all stages of the innovation cycle. In the Agreement participated: The public corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank), JSC Russian Venture Company, RUSNANO, JSC Russian Bank for Development, The Foundation for Assistance to Small Innovative Enterprises (FASIE), The all-Russia public organization of small and medium entrepreneurship «Opora Rossii», Russian venture capital association (RVCA), Moscow Interbank Stock Exchange (MICEX), and Federal Agency for Youth Affairs, with Skolkovo Foundation joined to them in April 2011.

Additionally, the state institution "Agency on innovations and development" started working in 2011. Activity of the Agency is aimed at realization of the federal innovation policies, development of innovation infrastructure etc., that will undoubtedly strongly influence the innovation entrepreneurship development, and consequently will favor transition of Russia to sustainable growth on the base of modernization and innovative development.

Highlights 2010

- By the end of 2010, **total capital under management** of all private equity and venture capital funds functioning in the Russian market amounted to approx. **\$16.8 bln**.
- **The number of active PE&VC** funds totaled **170** by the end of 2010.
- **Volume** of the **capital newly attracted** in 2010 amounted to about **\$1.74 bln** that is a third higher than in previous year (**\$1.31 bln** in 2009).
- **The number of management companies** acting at the RF territory came to **110** by the end of 2010.
- **Total volume of “documented” investments** (i.e. the deals which were provided with corresponding information on investment volume, branches, stages and regions) made in the Russian companies in 2010 is estimated at approx. **\$2.5 bln – 5 times more than in 2009**.
- **Total number of documented investments – 128; average deal size – near \$19.7 mln** in 2010.
- In 2010, the Consumer market sector yielded the palm to the **ICT sector** which received **\$1 bln** volume of investments or about **42%** of total documented investment volume.
- **Expansion and restructuring stages** remained the most attractive for investors with the total invested amount near **\$2.36 bln** and **47** investee companies.
- The 2010 volume of **seed and start-up** investments made up **\$21.5 mln**, the other **early stages** investments – **\$131.8 mln**. The number of investee companies at these stages – **81**.
- The most popular way of divestment remains sale to **strategic investor – 52%** in 2010.

Dynamics 2006–2010

Total capitalization of all funds acting at the Russian PE&VC market:

- 2006 – \$ 6.28 bln
- 2007 – \$ 10.26 bln
- 2008 – \$ 14.33 bln
- 2009 – \$ 15.20 bln
- **2010 – \$ 16.80 bln**

Number of working funds:

- 2006 – 98
- 2007 – 130
- 2008 – 155
- 2009 – 162
- **2010 – 170**

Volume of capital attracted:

- 2006 – \$ 1.45 bln
- 2007 – \$ 4.32 bln
- 2008 – \$ 4.27 bln
- 2009 – \$ 1.31 bln
- **2010 – \$ 1.74 bln**

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

- 2006 – 69
- 2007 – 82
- 2008 – 99
- 2009 – 105
- **2010 – 110**

Total volume of documented investments in Russian companies:

- 2006 – \$ 652.92 mln
- 2007 – \$ 1017.53 mln
- 2008 – \$ 1472.41 mln
- 2009 – \$ 507.90 mln
- **2010 – \$ 2513.84 mln**

Total number of the investee companies:

- 2006 – 65
- 2007 – 85
- 2008 – 120
- 2009 – 69
- **2010 – 128**

Average deal size:

- 2006 – \$ 10.0 mln
- 2007 – \$ 12.0 mln
- 2008 – \$ 12.3 mln
- 2009 – \$ 7.4 mln
- **2010 – \$ 19.7 mln**

Consumer market related companies have attracted:

- 2006 – \$ 173.20 mln (26,50%)
- 2007 – \$ 487.46 mln (47,90%)
- 2008 – \$ 596.40 mln (40,50%)
- 2009 – \$ 240.00 mln (47,25%).
- **2010 – \$ 292.33 mln (11,63%).**

Expansion, restructuring, and later investment stages remain the leaders:

- 2006 – \$ 577.84 mln (38 invested companies)
- 2007 – \$ 909.23 mln (51 invested companies)
- 2008 – \$ 1 310.65 mln (53 invested companies)
- 2009 – \$ 384.15 mln (21 invested companies)
- **2010 – \$ 2360.54 mln (47 invested companies)**

Volume of documented seed and start-up investments:

- 2006 – \$ 38.53 mln
- 2007 – \$ 42.12 mln
- 2008 – \$ 67.81 mln
- 2009 – \$ 13.29 mln
- **2010 – \$ 21.52 mln**

Volume of documented early stage investments:

- 2006 – \$ 36.55 mln
- 2007 – \$ 66.18 mln
- 2008 – \$ 93.95 mln
- 2009 – \$ 110.46 mln
- **2010 – \$ 131.78 mln**

Number of the companies financed at seed and start-up stages:

- 2006 – 27
- 2007 – 34
- 2008 – 67
- 2009 – 48
- **2010 – 81**

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

- 2006 – 88% of divestments
- 2007 – 71% of divestments
- 2008 – 95% of divestments
- 2009 – 90% of divestments
- **2010 – 52% of divestments**



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