Russian Venture Capital Association (RVCA)

RVCA YEARBOOK

Russian private equity and venture capital market review 2011

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Foreword

RVCA presents to your attention the Russian private equity and venture capital (PE&VC) market review 2011 based on the questionnaire of the representatives of more than 100 PE&VC funds' management companies.

Taking into account the "undulatory principle" of venture entrepreneurship development, many experts suppose that the industry has overcome the crisis consequences and slowly, step-by-step, is recovering (that is supported by the recent results of Russian PE&VC market investigation): the important milestones – $20 bln under management and $3 bln of total investments – have been exceeded.

Additionally, it should be taken into account that this investigation is based only on the information which was given by the investment structures that positioned themselves as PE&VC funds working at the territory of Russia. The M&A deals as well as intra-holding investments were not taken into consideration when calculating the volumes of financing.

In spite of all their efforts, the RVCA experts failed to obtain the information from a number of major market players which refused to take part in the investigation and did not give data on their activities even on terms of confidentiality.

Nevertheless, despite the absence of data on some market developments which thus couldn't be included in the analysis, the total aggregated figures presented in the Review adequately reflect the PE&VC Russian market trends.

RVCA expresses its special thanks to all investment structures which have taken part in the investigation. Without their help and cooperation in accumulating information, this Review data wouldn't be representative and the Review itself – the ninth one – would be out of anybody's interest.

Albina Nikkonen

RVCA Executive Director

Russian private equity and venture capital market review

In 2011, the total capitalization of all Russian PE&VC funds demonstrated an increased and amounted to approx. $20.1 bln that was near 20% higher than in 2010 ($16.8 bln). Thus, the dynamic of capital growth rose in comparison with the previous accounting period (10.5% in 2010). Nevertheless, the relative growth rate was lower than the growth presented in more distant pre-crisis periods (in 2008 the gain was 40% of the 2007 level, and in 2007 it was more than 60% against 2006).

At the same time, there were some remarkable events registered in the fundraising sphere as well as in investment and exit activities of funds in 2011.

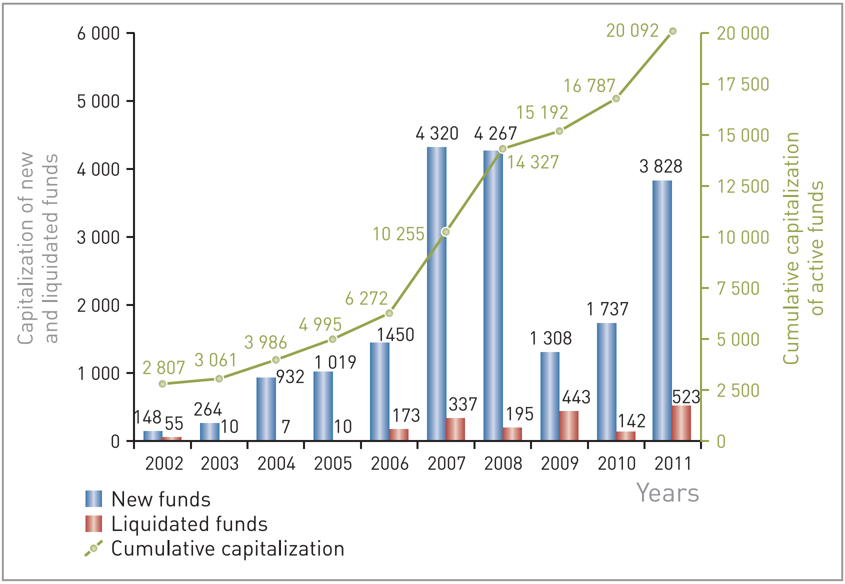
Probably, for the first time in domestic practice a fund destined specifically for investments in high-tech companies was launched by one of the oldest and well-known in the Russian market management companies. At the same time, there is information available on the anchor investors' (EBRD) intention to participate in the fund's capital.

Continuation of creating funds with clearly definite specialization may be attributed to the recent years' trends which were realized in 2011. Particularly, in 2011: the only one currently existing in the Russian market mezzanine fund made its first investment; besides, there were acting near 15 seed funds; under state support was launched the formation of the largest infrastructure fund (RPEF), the investment activity of which undoubtedly will make an impact upon the whole Russian PE&VC industry landscape. Also, the biotechnology and infrastructure funds of Russian Venture Company (RVC) started working; the nanotechnology funds were acting and actively being formed with the Rusnano participation; the pharmaceutical, clean technologies, etc., funds were expanding their activities in 2011.

Totally, in the Russian market the volume of newly attracted funds in 2011 ($3.8 bln approx.) was more than twice higher than in 2010 ($1.74 bln).

Traditionally, in the statistics were included the funds which had accomplished their intermediate or final closings, with authentic information on this available, and started actively deal searching (or had first investments in companies made in 2011 already).

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



The management companies' plans on new funds raising are very extensive as before – the total volume of the funds being launched (estimated by targeted volume) amounts to more than $15 bln, though the analysis of facts shows that the declared intentions on raising new funds often cannot be realized within the stipulated time limits and have to be delayed to later periods. At the same time, it should be underlined that the market potential of attracting capital in short-term outlook is rather high, especially when taking into account the funds which are only planned to launch. Particularly, a sufficient input in the Russian market fundraising is actively being made by Rusnano (it's expected that the total funds number with the Rusnano participation will be close to 15).

Considering the information available, it may be established that the 2011 total Russian market cumulative capitalization growth at the amount of near $3.8 bln was provided at the expense of 21 PE&VC funds launch. Excluding several funds which realized intermediate closings, the volume of newly attracted in 2011 capital was connected with new funds creation. It is significant that the venture capital funds having provided near 1/6 part of capital volume increase constituted approx. 2/3 of all new funds' number.

The statistics included selectively some new funds in the form of closed-end mutual VC&PE investment funds, the information on activities of which was available from open sources. At the same time, analysis of the funds acting on the collective investment market was still complicated because of law demands on the restrictions concerning the fund information disclosure for qualified investors. In this connection, in the statistics were not included near 30 closed-end mutual VC&PE investment funds active by the end of 2011.

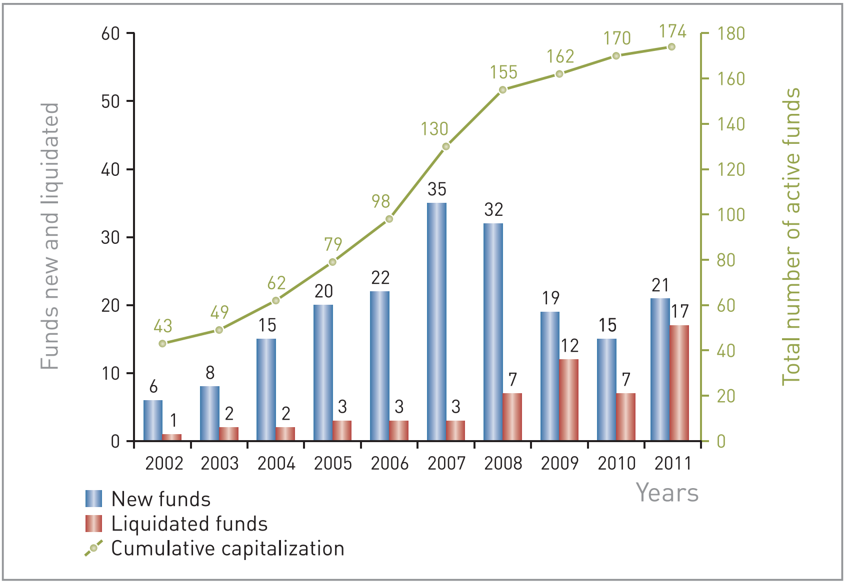
Branch preferences of the newly created funds were rather wide and ranged from Communication and Computers to Clean Technologies and Agriculture.

The funds' preferences encompassed all investment stages range from seed micro investments to the later stages.

Market capital outflow was caused by termination of a number of funds' work in 2011. Total volume of the funds liquidated amounted to approx. $523 mln (17 funds). More than a halve of capital was accumulated in private PE funds, with 2/3 of the number of terminated funds belonged to the collective investment market. This way, the total number of the funds, acting in the Russian PE&VC market and included in the present statistics, remained approximately at the 2010 level and was equal to 174.

At the same time, there is information on the management companies which prolonged work of their funds, termination of which was planned for 2011–2012. Besides, there is a number of funds in the market, the activity of which has almost a ten year history but having, nevertheless, non-realized investments in their portfolios.

Number of private equity & venture capital funds in Russia



As a whole, the cumulated capitalization growth may be characterized as solid. Taking into account the fact that a number of management companies were conducting active work on attracting capital in new funds during 2011, this trend may be expected to continue in 2012.

In 2011, the growth rate of funds' accumulated capitalization volume was slightly lower than in pre-crisis period, though a solid growth may be certified – almost 2 times higher than the 2010 level. As a result, the capital volume accumulated in the funds acting in the Russian market amounted to near $20.1 bln.

Classification of management companies

Taking into account the processes of funds' termination and new funds' raising, and considering specified information on current capitalization of the funds under management which have arrived from a number of companies, it may be stated that by the end of 2011 the number of management companies (MCs) working in the PE&VC sphere at the territory of Russia reached 120 (as compared to 110 in 2010).

Traditionally, MCs were separated by their capital intensity depending on the total capital volume under management. Correspondingly, the MCs were divided into three groups.

The number of "large" management companies (from $151 mln to $2200 mln of their funds' capitalization) increased sufficiently and amounted to 34 MCs in 2011 (22 MCs in 2010). The capital gain in this group was caused by new players' coming as well as provided by raising new funds by existing companies. The total capital at approx. $15.643 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 later stages of development. Investment volume ranged from $10 mln to hundreds of million dollars per one company. As before, the companies of this group provided the main share of total capitalization growth (more than 60%). In 2010, this parameter constituted 85% (in 2009 – 53%, in 2008 – 85%).

The number of management companies in the second group that managed funds with "medium" capitalization (from $51 mln to $150 mln) did not change against 2010 and totaled 33 MCs. The number of the companies was determined both by new MCs coming to the market and their transition to more "heavy-weight" group. Also, a certain capital outflow in this group was caused by termination of work of a number of MCs having one fund under management.

The volume of funds under management of the MCs of this group amounted to $3.068 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.

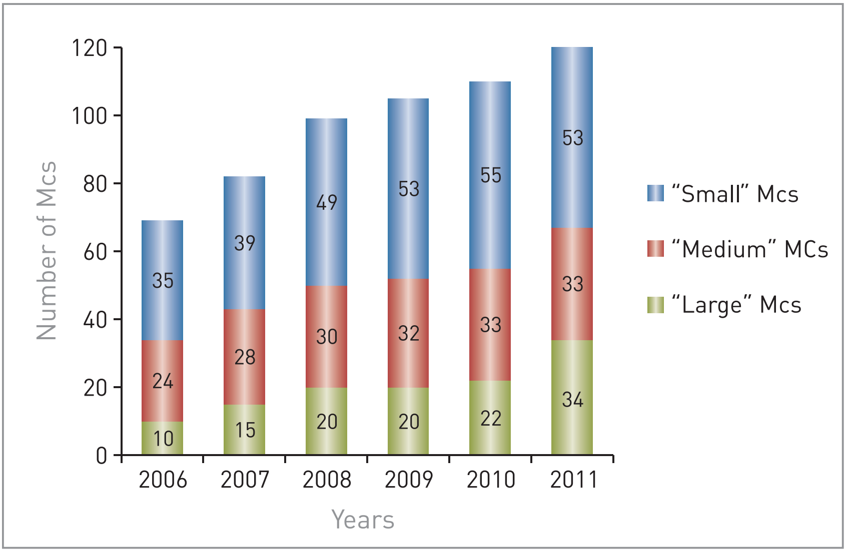
The third group of MCs with "small" sized funds (having $5-50 mln under management) traditionally included the majority of MCs – 53 (55 in 2010). In this group, the majority of the MCs that terminated their activity was observed, which was compensated by arrivals of new MCs with new early-stage funds to the market. Total capital volume under management in this category was equal to approx. $1.381 bln in 2011. As a rule, deal sizes in this group ranged from several tens of hundreds to several millions of dollars.

Therefore, there was some regrouping of MCs by the end of 2011 in favor of the companies with the total capital volume under management exceeding $151 billion. Is this an emergence of new tendency to funds' enlargement – the future will show.

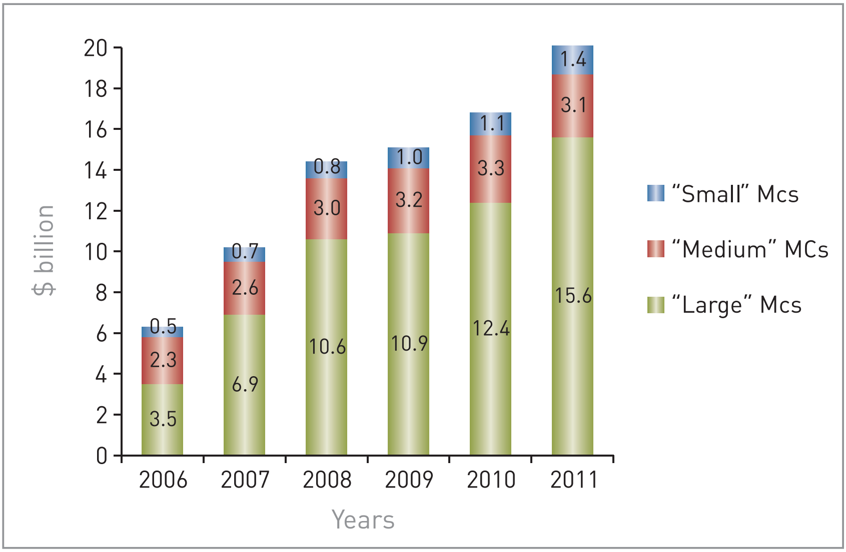
Analysis of aggregate funds' volumes shows that the share of large funds in the market trends toward increase.

This trend may hamper getting investments to small high-tech companies in the future.

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 2011 funds' investment activity maintained sufficiently high level. Both the volumes and the numbers of investments which exceeded the 2010 figures witness for this fact.

According to data given by management companies and some public sources, the funds made more than 135 investments in Russian companies in 2011. These deals were provided with corresponding information on investment volume, branches, stages and regions (further – "documented" deals). Unfortunately, data on making of more than 10 deals was not disclosed appropriately, and the deals were not included in the investigation. However, on the base of expert estimations, their total volume didn't exert sufficient influence on the total investments statistics.

It may be certified that the total volume of the deals documented in 2011 was impressively high – approx. $3.1 bln, which was mainly based on several large deals – one of them was bigger than $1 bln.

The three leading by investment volume industry branches don't look traditionally.

At the first place in the range of the investors' preferences the Consumer market sector with the $1.5 bln result is positioned (approx. 50% of total volume of documented investments) against $300 mln (near 12%) documented deals in 2010. The main input in this volume (near 3/4) has made one deal in the retail trade sphere. Along with the return of leadership by Consumer sector, the documented investment volume in this sector was comparable to aggregate investment volume in all branches being registered within several recent years. It's remarkable that in the Consumer market sector the first mezzanine funds' deal was recorded.

The second place by documented investment volume is occupied by Communication and Computer related industries in aggregate (further –

ICT sector). The companies of this sector received $560 mln of investments (approx. 18% of total investment volume) in 2011. Thus, the ICT companies have got near 3 times smaller investment volume in comparison with the leading Consumer market branch. Against the previous reporting period, the ICT investment volume decreased almost 2 times (approx. $1 bln in 2010), along with its share decrease (near 40% in 2010). Though, it should be noted that material volume of documented investments in ICT sector in 2010 was provided by one large deal near $700 mln by volume.

Unexpectedly, the Industrial equipment branch shot ahead into the third position, with more than $490 mln of documented investment volume (approx. 16% of total documented investment volume). Like it was in the case of Consumer market industry, the main input was provided by one large deal near $480 mln by volume.

It's necessary to note that the most remarkable 2011 deals were connected with the Industrial equipment (and with the Chemicals & Materials) branches: perhaps, for the first time in domestic practice the high-tech investments (in nanotechnology companies in this case) were made by "classic" private equity funds, founded by investors from the West. The funds mentioned have profound track records and are well-known in Russian PE&VC industry. But their brunch preferences have been rather far from high-tech sphere lately. The nearest future will elucidate if we witness the emergence of "high-tech trend" in branch preferences of PE funds.

The unique investments in high-tech companies made by large and well-known PE funds were registered in 2011.

The Financial services industry has sunk a little against the previous period by documented investment volume – both in absolute (more than 3 times) and relative (more than 4 times) terms. In spite of this, this industry follows the three leaders with aggregate investment volume near $230 mln (almost 7.6% of total documented investment volume in 2011).

The 5th and 6th positions were occupied by Energy (near $140 mln or 4.5% of total documented investment volume) and Chemicals & Materials

($64 mln or 2%) industries. At the same time, when the Energy had kept the investment level as compared to 2010 ($100 mln and 4% of total volume), the Chemical branch noticeably raised its investment activity and exceeded the 2010 values ($3 mln and 0.12%).

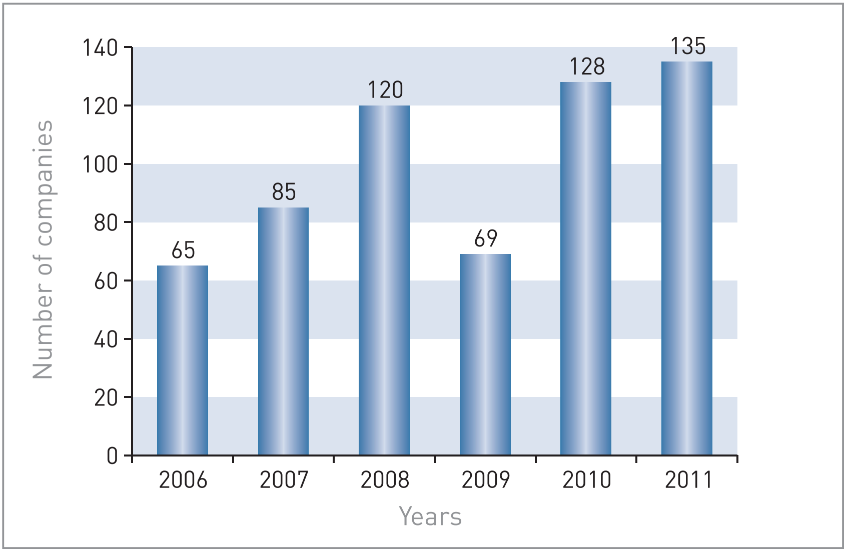
Further, with a considerable gap, were positioned the following industries (in the order of aggregate investment volume decrease): Electronics related (near $17.5 mln or near 0.5% – there were no reliable information in 2010), Medical/Health care ($14 mln or 0.5% against $53 mln or 2%, correspondingly, in 2010), Other industries (near $7 mln or 0.2% against $0.3 mln or 0.01% in 2010), Transportation ($8.5 mln or 0.28% against $3.4 mln or 0.13% in 2010), Biotechnologies (near $2.33 mln or near 0.08% – in 2010, the deals were not included in the statistics because of incompleteness of information), and Ecology (approx. $0.6 mln or 0.02% – there were no investments documented in 2010).

Total share in the total 2011 investment volume of the industries mentioned doesn't exceed 1.6%. Although, it may be indicated that Electronics related and Ecology branches show not bad results against the background of previous periods nevertheless. It should be also noted that expected in the future results of the launched in 2011 clean-tech fund's activity, undoubtedly, will sufficiently affect the investment statistics in the Ecology branch (moreover, one of management companies is planning to launch soon a fund of corresponding orientation).

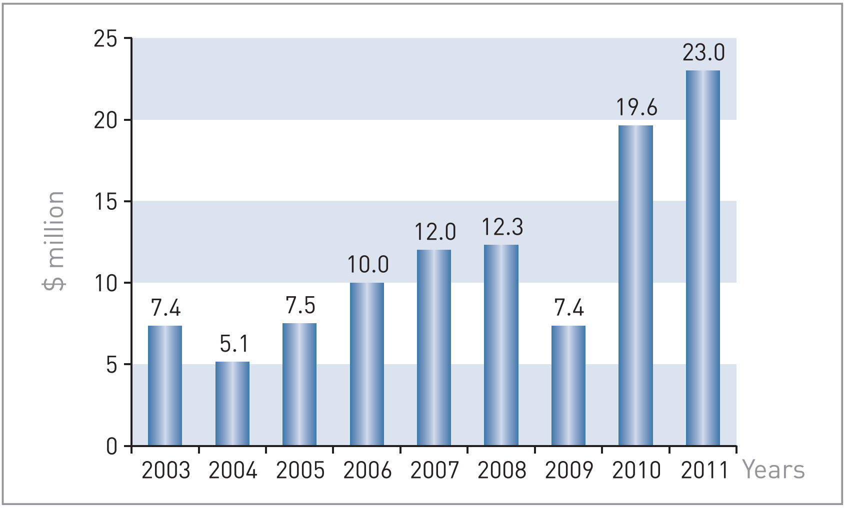
There were registered no investment activities in the Light industry, Construction, and Agriculture industries.

The branch section of investors' activities looks differently if analyzed in relation to the number of the companies – recipients of the investments. Here, the obvious leader is ICT sector (near 50% of total number of investee companies). Also, among leaders were Medical/Health care (near 10%) and Industrial equipment (approx. 6.5%) branches.

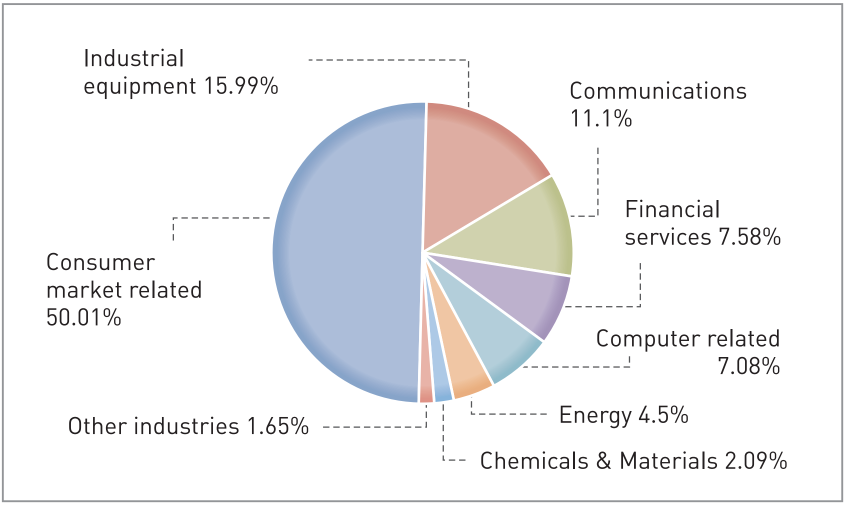
Number of investee companies



Average annual investment volumes



Investment distribution by industries, 2011



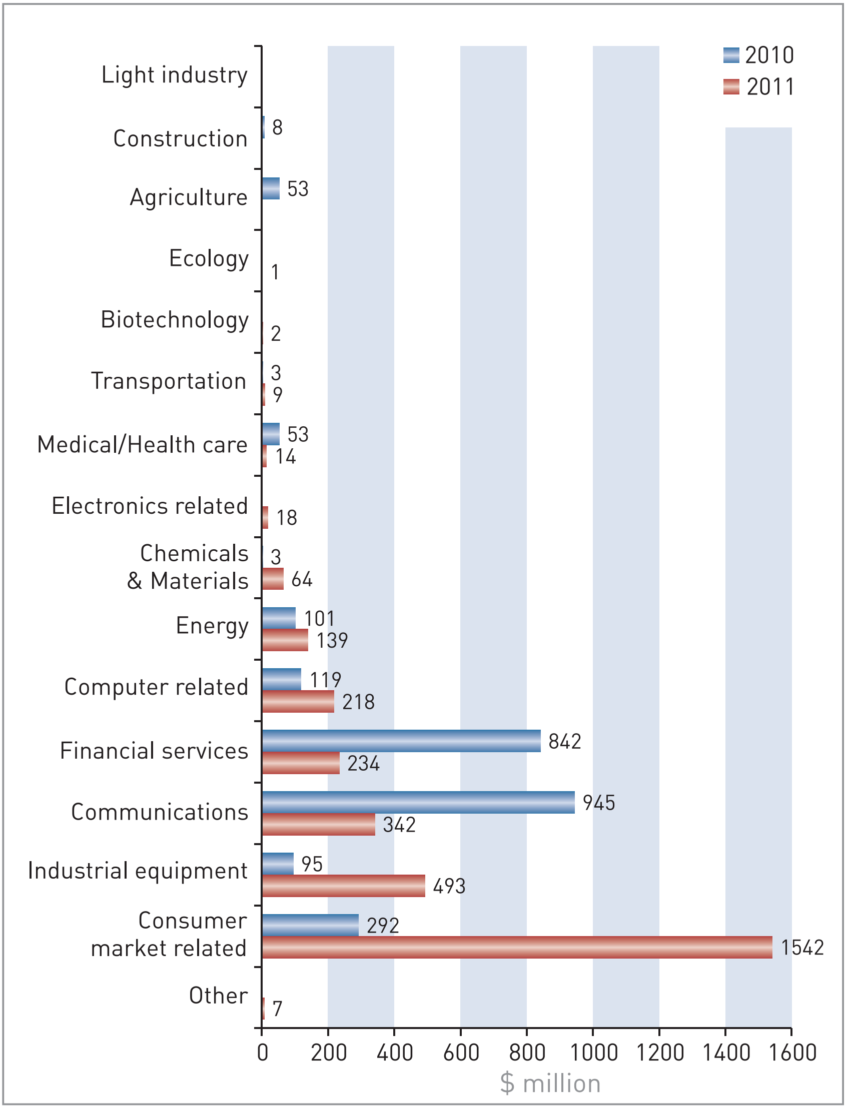
Within the Consumer market, Energy, Electronics related, Chemicals & Materials, and Other industries, the number of financed companies ranged from 6% to 4.5% of total deals number.

The smallest number of investee companies was registered (in descending order) in Financial services, Transportation, Biotechnologies, and Ecology industries (approx. from 3% to 0.7% of total deals number).

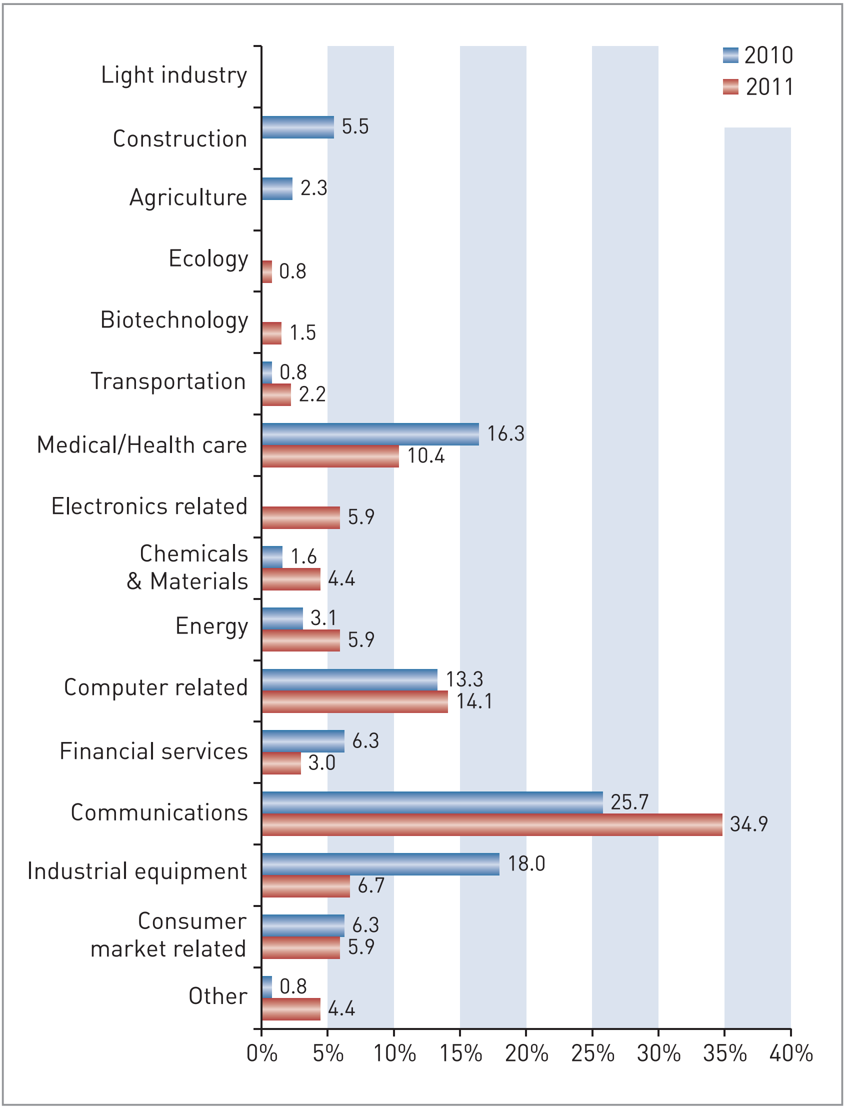
It's significant that average investment volume per one company continued to increase and reached near $23 mln in 2011 (to compare: the similar parameter was almost $20 mln in 2010). Maybe, only in the crisis year 2009 some decrease of average deal size (to $7.4 mln) was observed against the background of this parameter's growth within the previous periods ($12.3 mln in 2008, $12 mln in 2007, $10 mln in 2006, $7.5 mln in 2005, and $5.1 mln in 2004).

In 2011, the volume of documented investments increased even against the level of quite successful post-crisis year 2010 and amounted near $3 bln.

Investment distribution by industries, 2010–2011

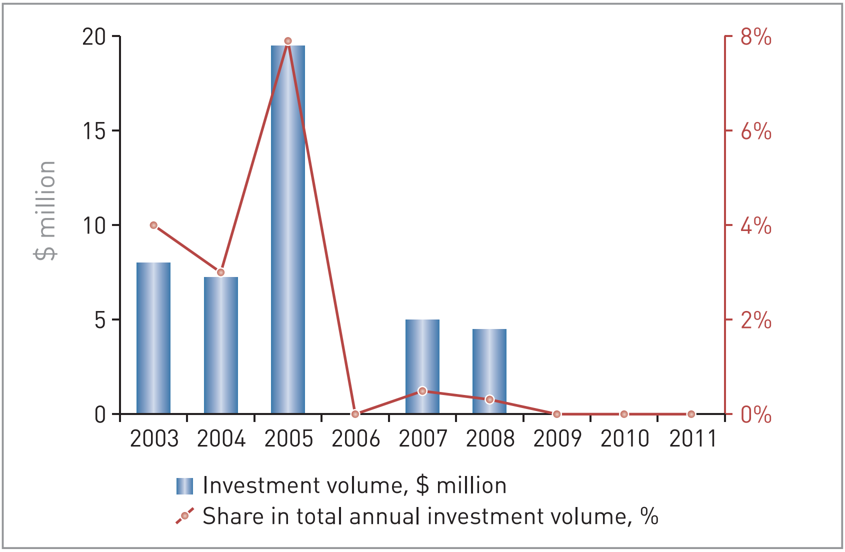


Number of investee companies by industries, 2010-2011, %*

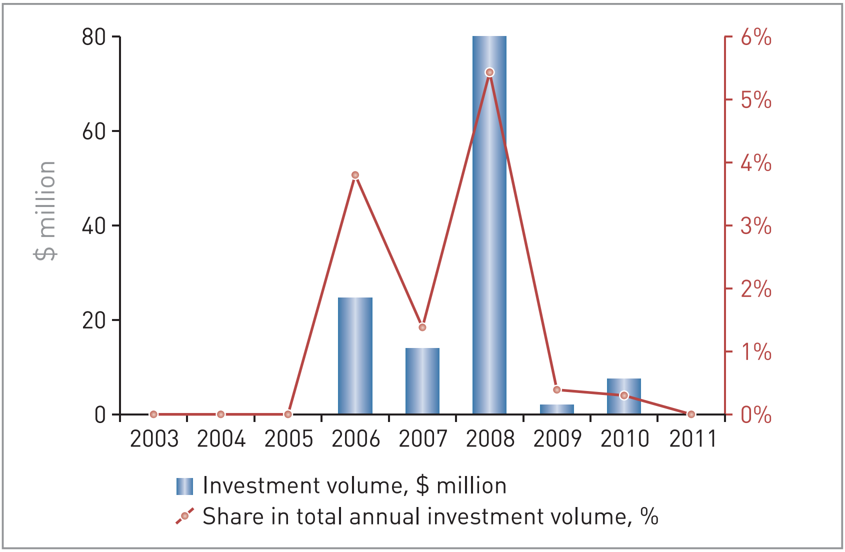


* Is calculated with respect to the total investee companies' number in corresponding year.

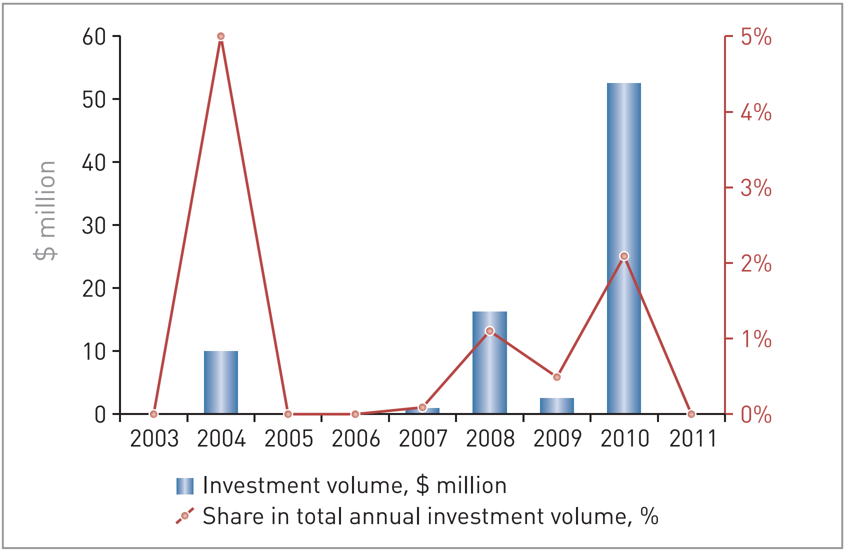
Investments in Light industry



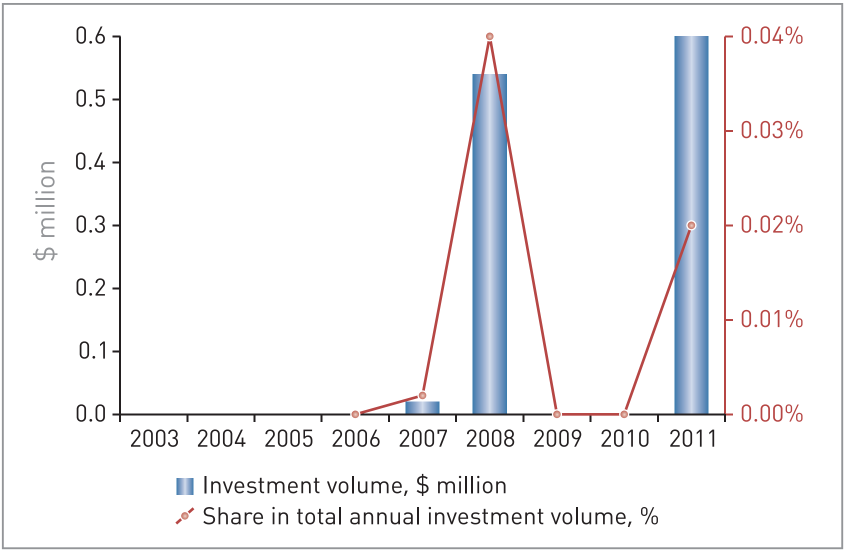
Investments in Construction



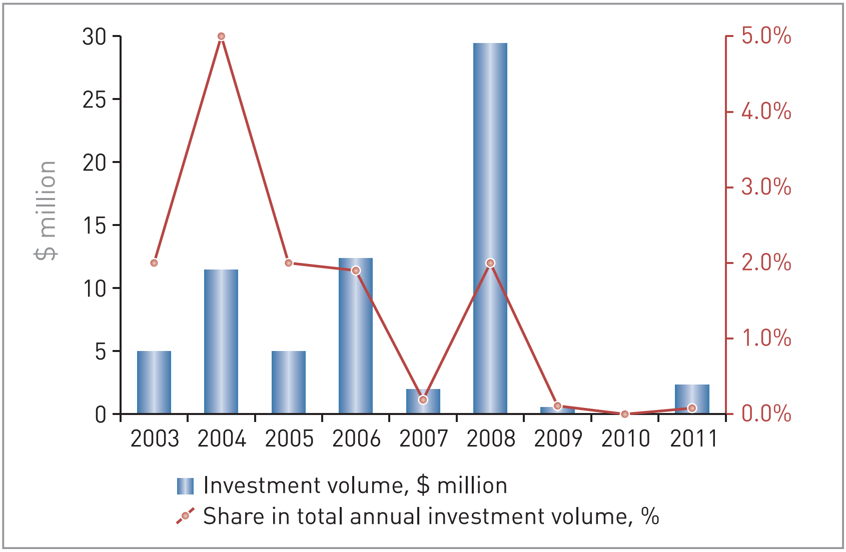
Investments in Agriculture



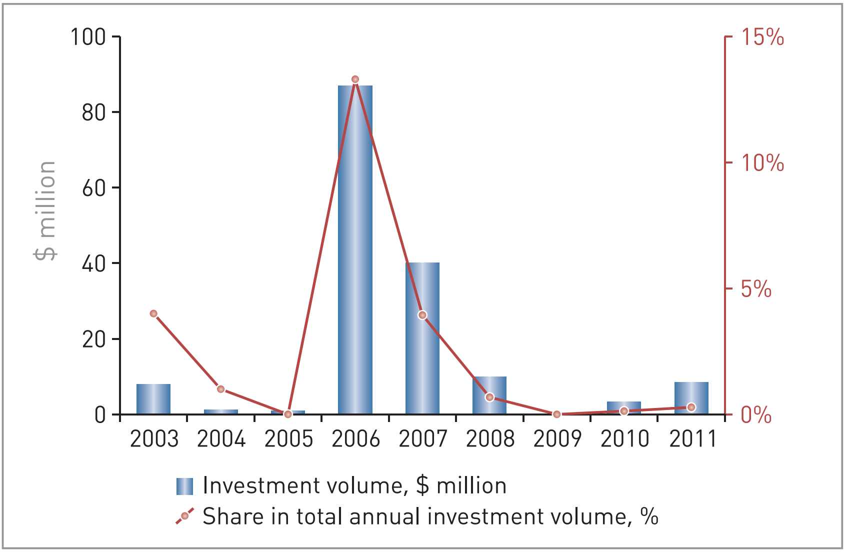
Investments in Ecology



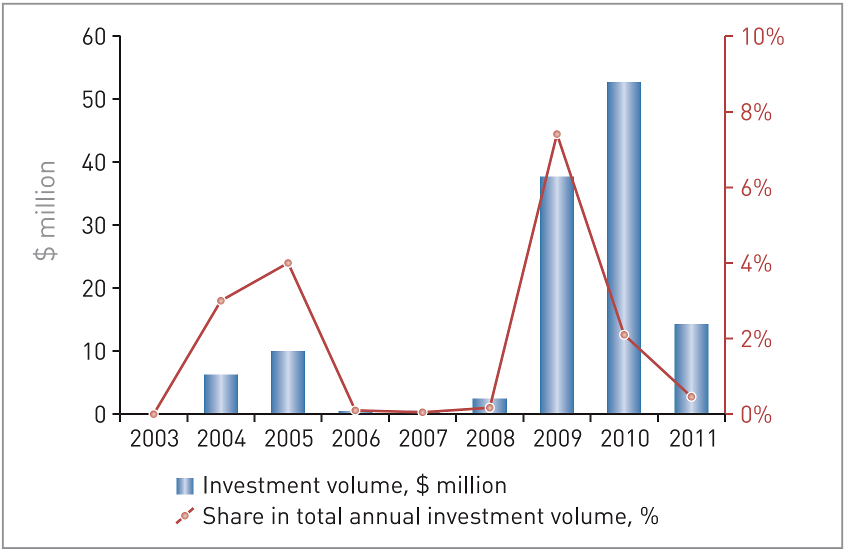
Investments in Biotechnology



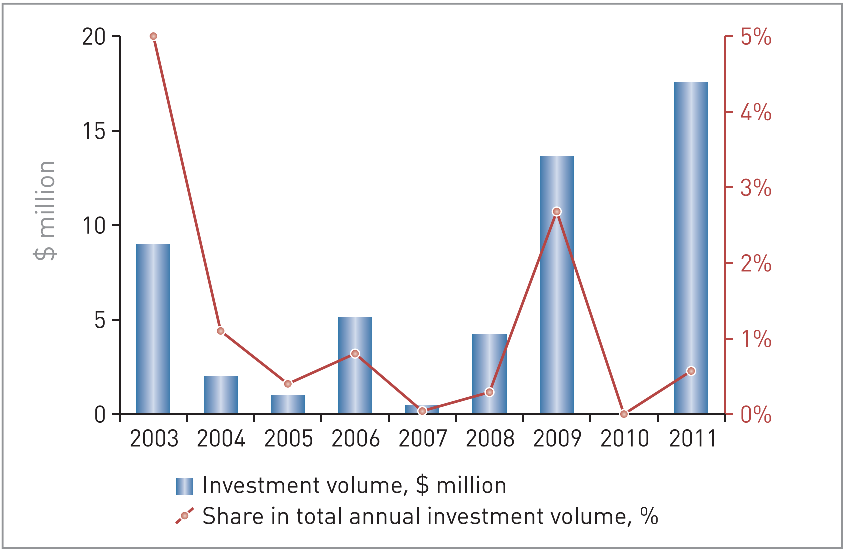
Investments in Transportation



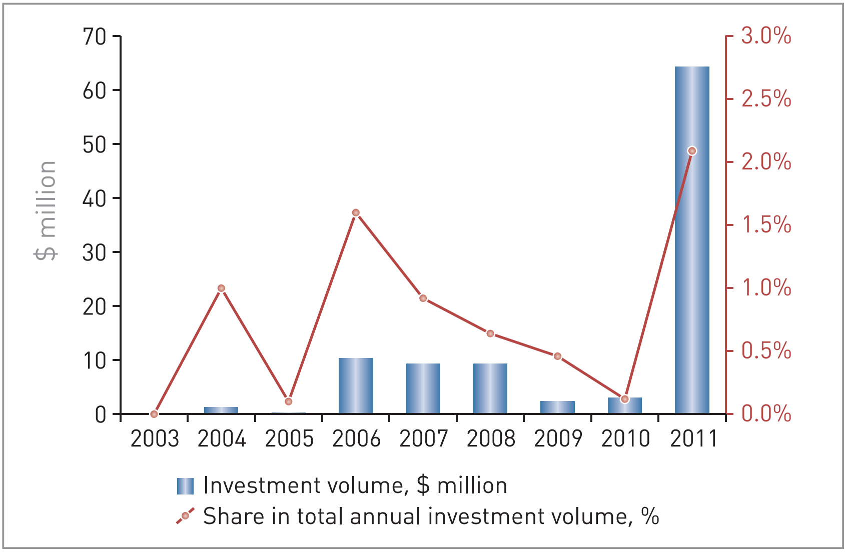
Investments in Medical/Health care



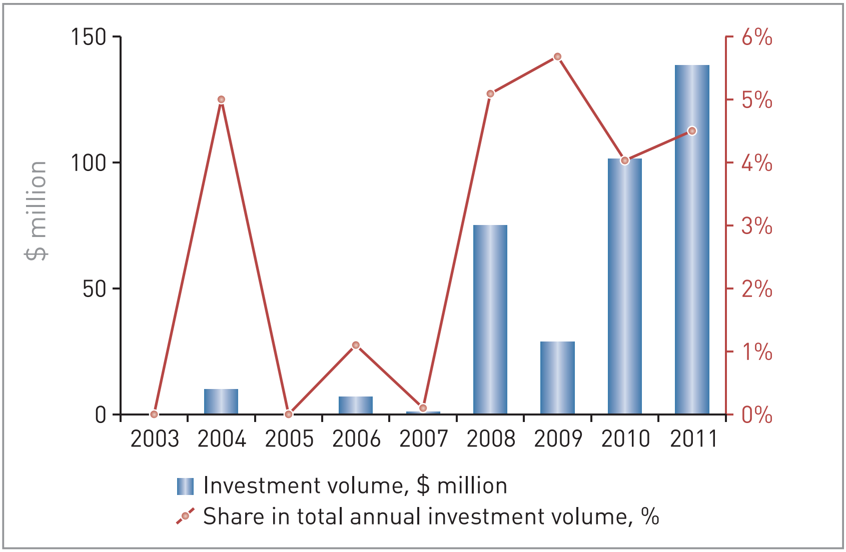
Investments in Electronics related



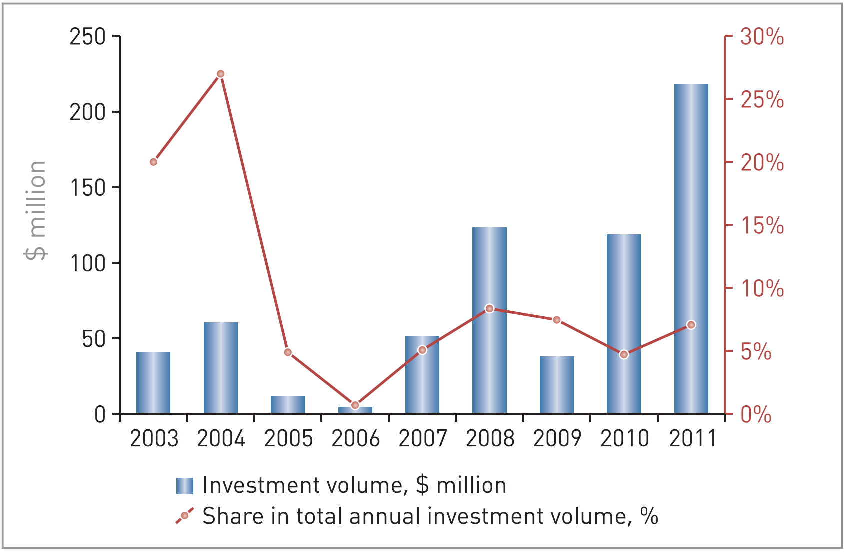
Investments in Chemicals & Materials



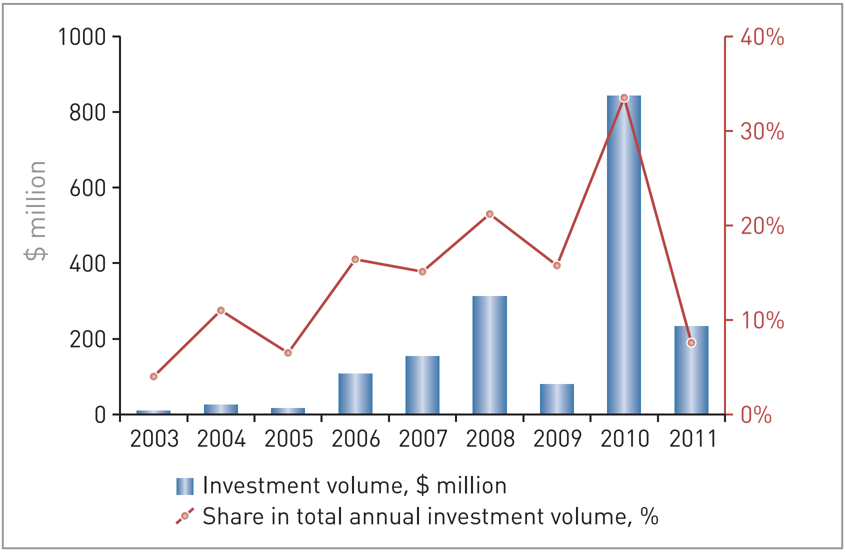
Investments in Energy



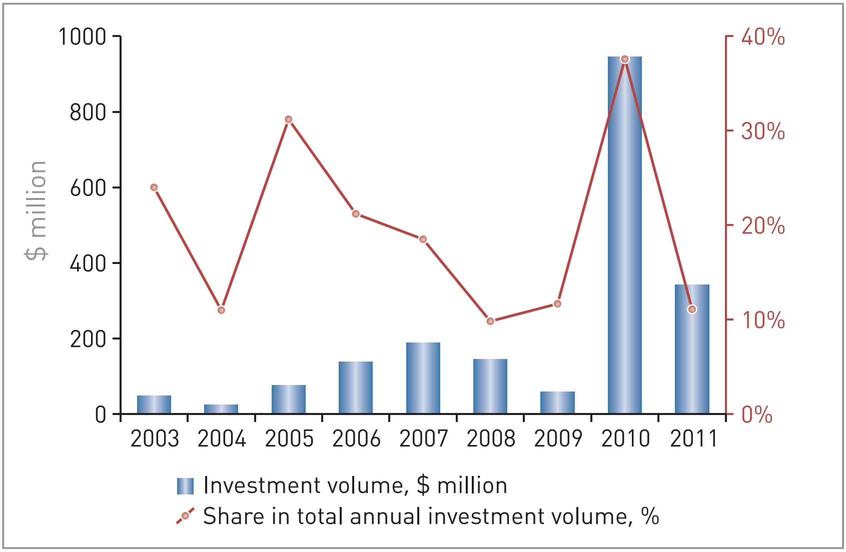
Investments in Computer related



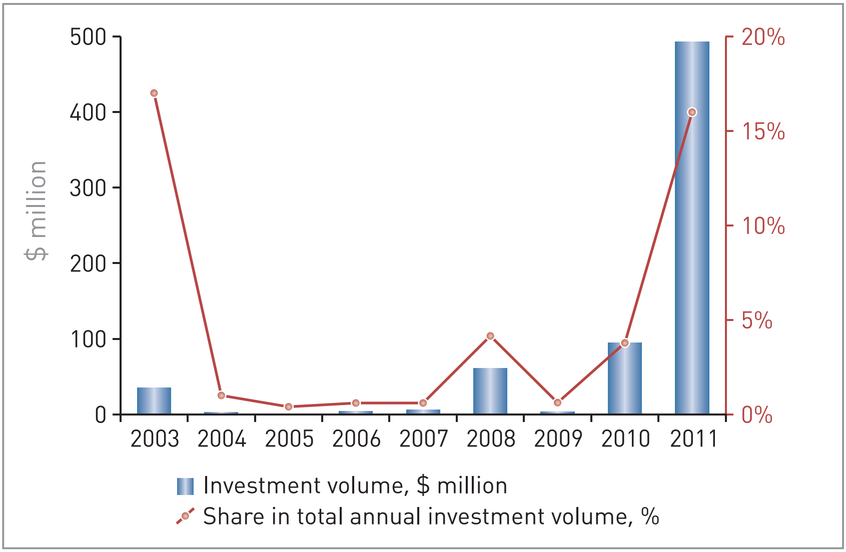
Investments in Financial services



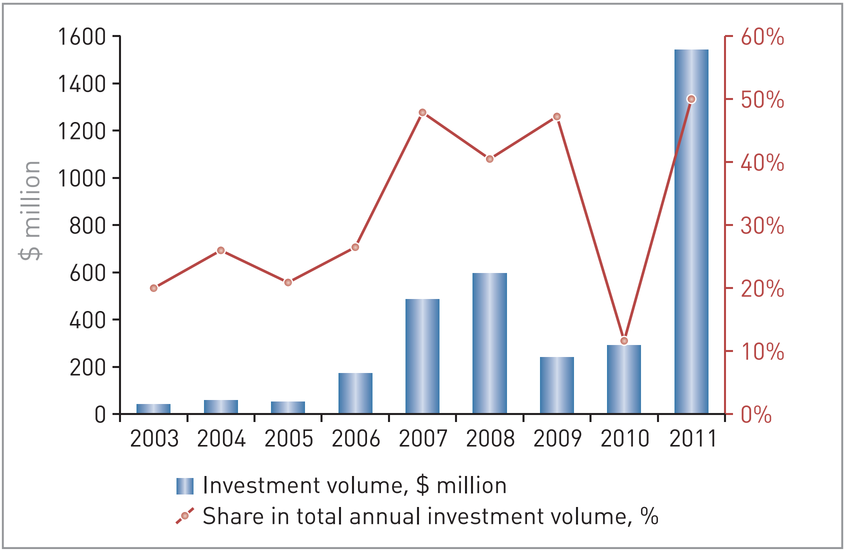
Investments in Communications



Investments in Industrial equipment



Investments in Consumer market related



Industry	2008		2009		2010		2011	
	Amount invested, $ mln	%	Amount invested, $ mln	%	Amount invested, $ mln	%	Amount invested, $ mln	%
Light industry	4.50	0.31	0	0	0	0	0	0
Construction	80	5.43	2.00	0.39	7.54	0.30	0	0
Agriculture	16.25	1.10	2.50	0.49	52.50	2.09	0	0
Ecology	0.54	0.04	0	0	0	0	0.6	0.02
Biotechnology	29.43	2.00	0.55	0.11	0	0	2.33	0.08
Transportation	10	0.68	0	0	3.37	0.13	8.5	0.28
Medical/ Health care	2.44	0.17	37.65	7.41	52.70	2.10	14.31	0.46
Electronics related	4.24	0.29	13.63	2.68	0	0	17.58	0.57
Chemicals & Materials	9.35	0.64	2.35	0.47	3.02	0.12	64.38	2.09
Energy	75.00	5.09	28.83	5.68	101.34	4.03	138.59	4.5
Financial cervices	312.16	21.2	80	15.75	842.27	33.51	233.74	7.58
Industrial equipment	61.10	4.15	3.16	0.62	94.93	3.78	493.12	15.99
Computers related	123.31	8.37	37.93	7.47	118.62	4.72	218.36	7.08
Communications	144.69	9.83	59.30	11.68	944.92	37.58	342.22	11.1
Consumer market related	596.40	40.50	240	47.25	292.33	11.64	1541.96	50.01
Other	3.00	0.20	0	0	0.30	0.01	7.08	0.23
Total	1472.41	100	507.90	100	2513.84	100	3082.77	100

Investments by stages

By the 2011 totals, it may be asserted that distribution of documented investments by the stages of companies' development was traditional enough – as before, expansion, restructuring, and later stages prevailed by the deals volume. By the number of investee companies, on the contrary, prevailed venture stage deals (seed, start-up and early stage).

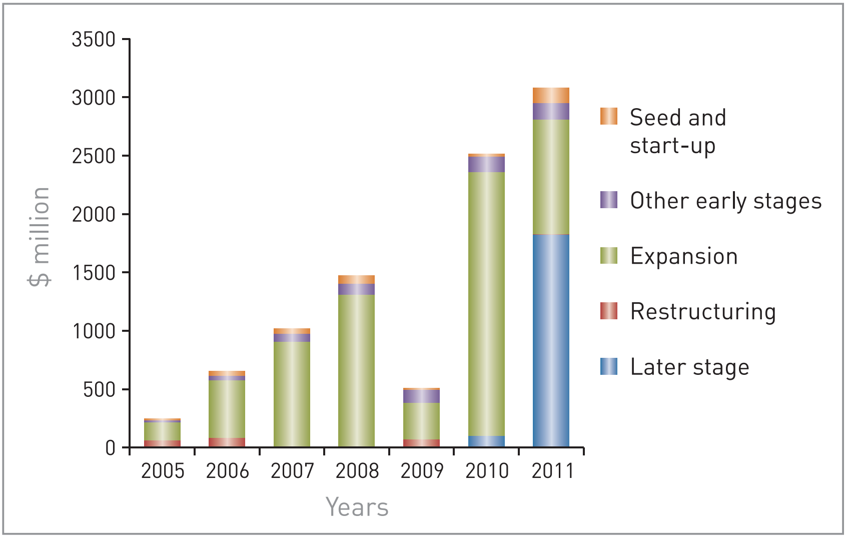
Thus, at the expansion, restructuring, and later stages were documented investments to the total amount of near $2.8 bln (30 investee companies in aggregate) against approx. $270 mln at venture stages (105 companies). This way, the proportion of investments at venture stages in the total investment volume remained at the 10% level, as it was in previous periods. In 2010, the investment volumes in the expansion, restructuring, and later stage companies amounted to $2.3 bln (47 companies) and in the venture stage companies – $150 mln (81 company).

At the same time, there were certain changes within the mentioned deals' groups.

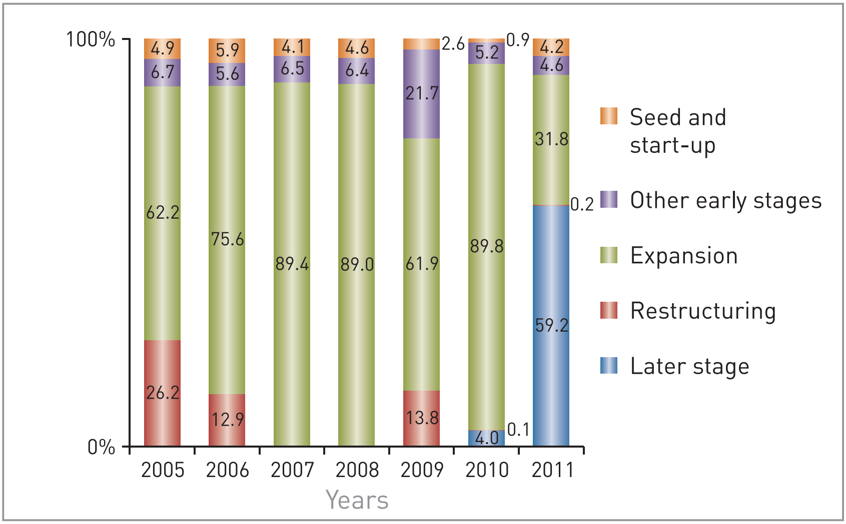
Particularly, at the expansion, restructuring, and later stage group the major share of investment volume corresponded to the later stage companies: total volume of documented deals at expansion and restructuring stages amounted to approx. $980 mln (near 30% of total deal volume) against almost $1800 mln at later stages (near 60%). At the same time, the number of investee companies at the expansion and restructuring stages was 2 times bigger than the same parameter for later stages.

As regards the second group (venture stage deals), it's necessary to note sufficient growth of investment volumes at seed and start-up stages. As a result, as compared to several preceding periods, the aggregate seed and start-up investment volume became comparable to the volume at the early stage: aggregate documented deals volume at the seed and start-up stages totaled near $130 mln in 2011 (near $20 mln in 2010), and at the early stage – approx. $140 mln (approx. $130 mln in 2010).

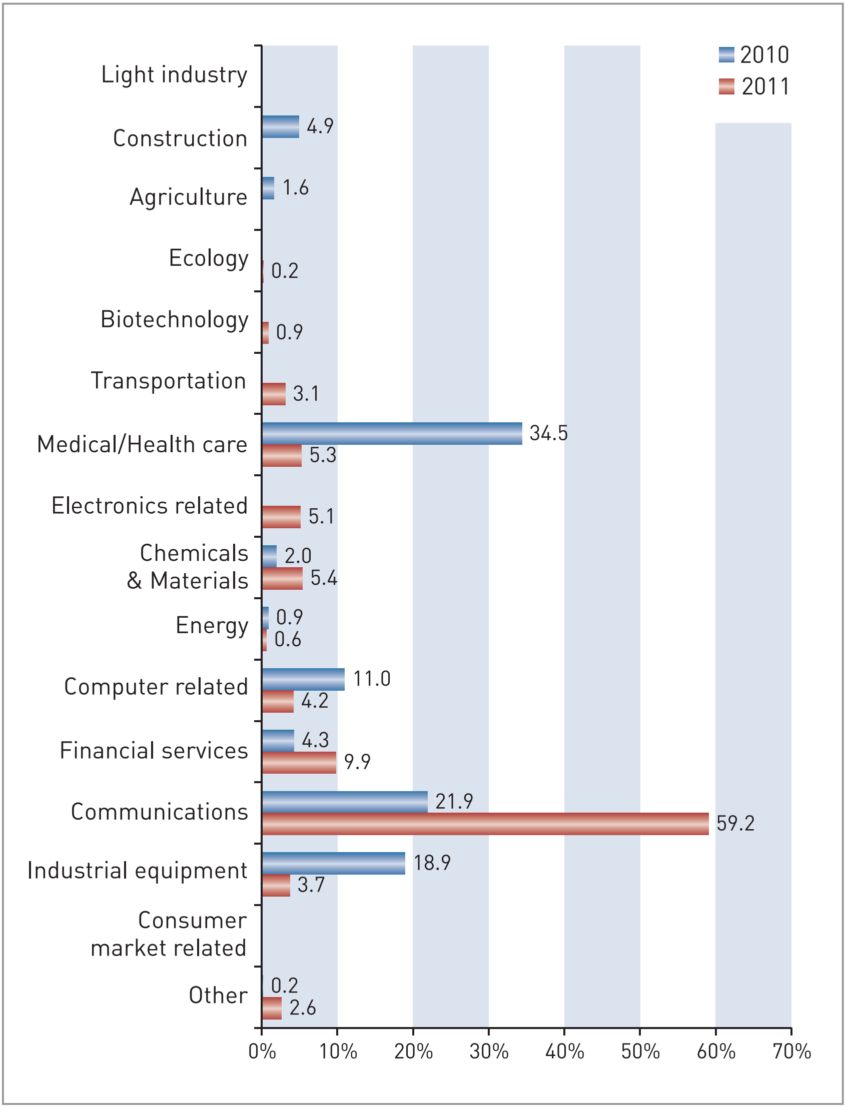
Distribution of investments by stages



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

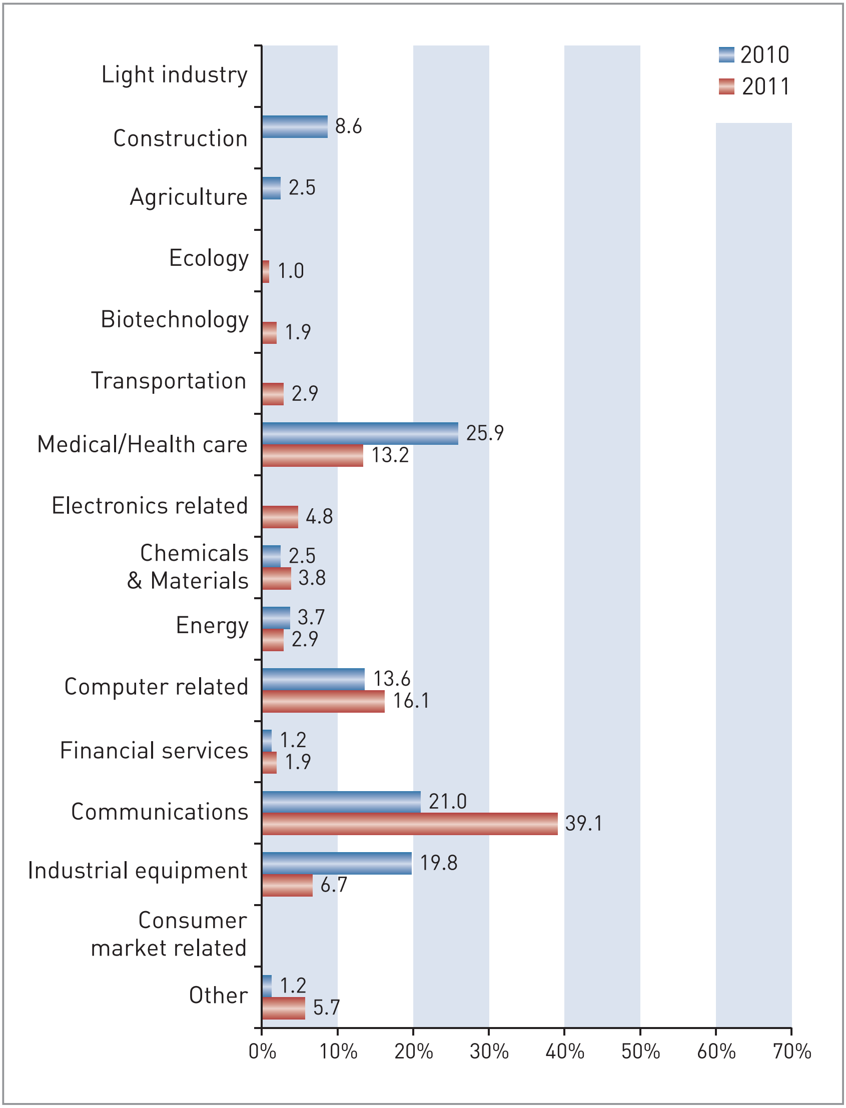


Venture stage investment volumes by industries, 2010–2011, %*



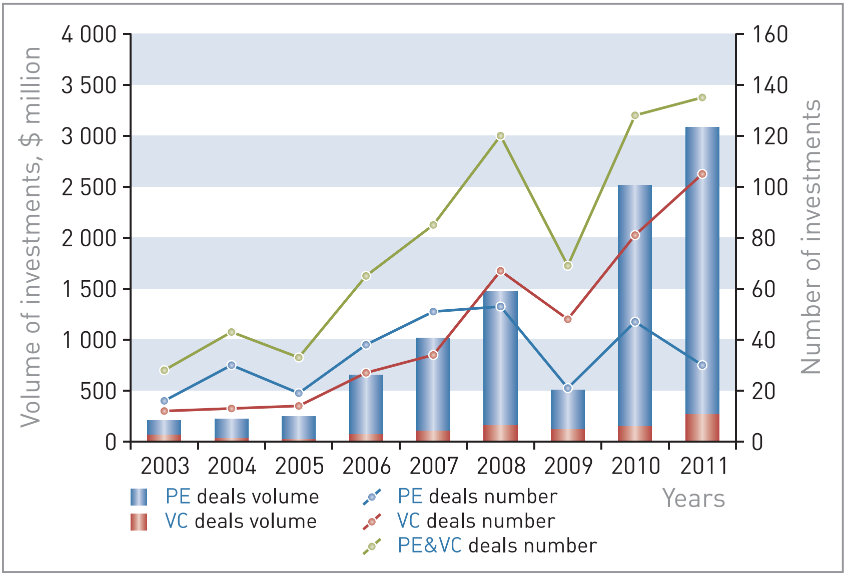
* Is calculated with respect to the total volume of venture stage investments in corresponding year.

Number of financed at venture stages companies by industries, 2010–2011, %*

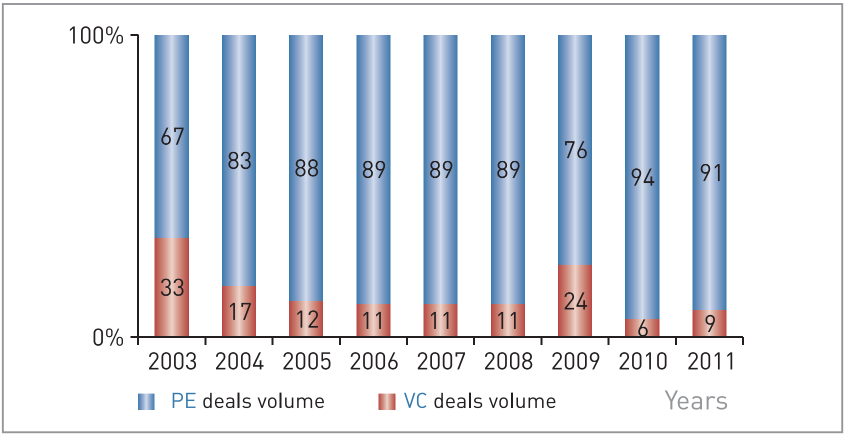


* Is calculated with respect to the total number of financed at venture stages companies in corresponding year.

Distribution of investments' number and volume by stages



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



		2008	2009	2010	2011
Seed, start-up, and other early stage investments (VC	Number of deals	67	48	81	105
	Amount invested. $ mln	162	123.75	153.30	272.21
	Share in the total investment volume. %	11	24	6	8.84
		2008	2009	2010	2011
Expansion, restructuring, and later stage investments (PE)	Number of deals	53	21	47	30
	Amount invested. $ mln	1310	384.15	2360.54	2810.56
	Share in the total investment volume. %	89	76	94	91.16

Investment stage	2008		2009		2010		2011	
	Amount invested, $ mln	%	Amount invested, $ mln	%	Amount invested, $ mln	%	Amount invested, $ mln	%
Seed and start-up	67.81	4.61	13.29	2.6	21.52	0.86	129.18	4.20
Other early stages	93.95	6.38	110.46	21.7	131.78	5.24	143.03	4.64
Expansion	1310.65	89.01	314.15	61.9	2257.88	89.81	979.91	31.78
Restructuring	0	0	70	13.8	2.66	0.11	6.80	0.22
Later stages	0	0	0	0	100	3.98	1823.85	59.16
Total	1472.41	100	507.90	100	2513.84	100	3082.77	100

The number of seed and start-up deals (85 companies) more than 4 times exceeded the number of early stage deals (20) in 2011 (32 against 49, correspondingly, in 2010).

The indicated proportion reflects, particularly, the results of the "cluster" RVC funds' active work starting. Totally, almost 60% of the number of companies which got venture stage investments consisted of the companies which were financed by the RVC close mutual venture investment funds, "cluster" funds, as well as regional venture funds acting with the RVC expert support.

Analysis of the industry distribution of the investments in venture stage companies is of certain interest.

According to the 2011 results, as regards the investment volumes, the main industry preferences of venture investors were aimed at ICT sector (near 64% of total documented venture deals volume), at the same time, in 2010, the main emphasis was on the Medical/Health care branch (near 34%).

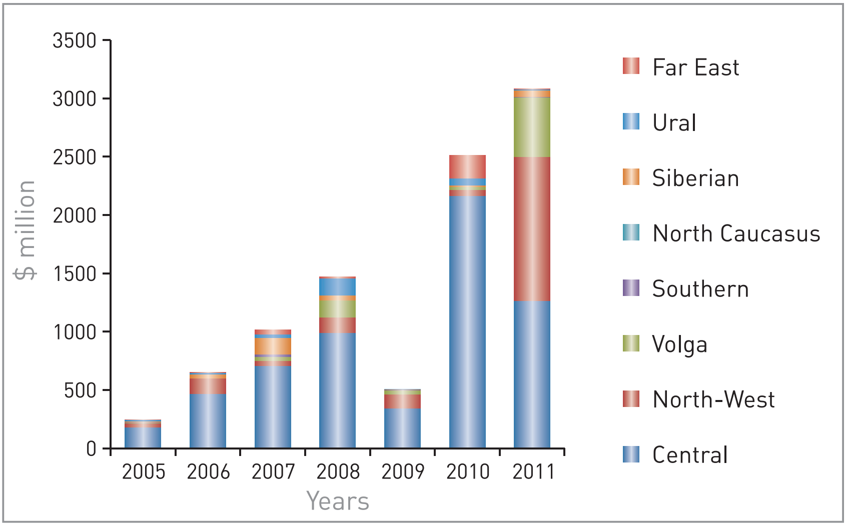
At the second place, Financial services sector was positioned in 2011 (near 10% of total volume of documented investments at venture stages), unlike the 2010, when the same place was occupied by ICT sector (approx. 33% of total venture stage documented investments volume).

The third place by the investors' industry preferences belonged to Chemicals & Materials (near 5% of total venture stage documented investments volume) in 2011. In 2010, the third place was occupied by Industrial equipment branch (approx. 19% of total venture stage documented investments volume).

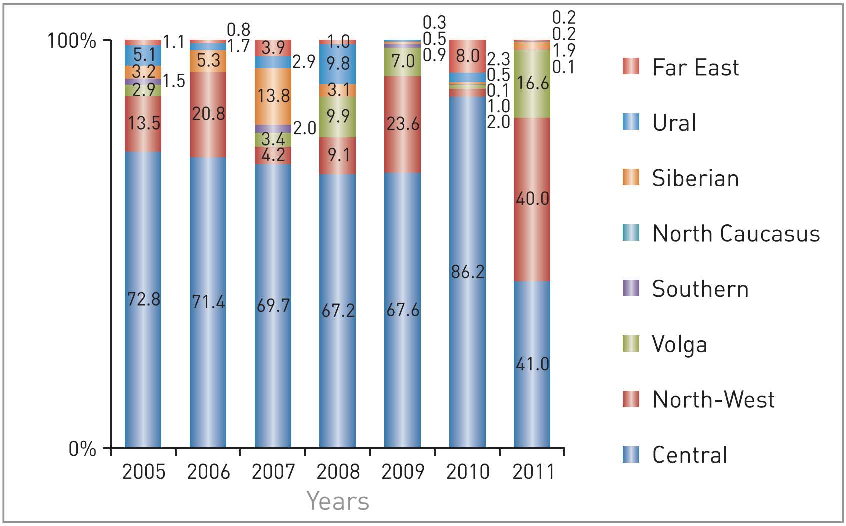
Also in 2011, certain animation of venture investors' activity against 2010 was noted in Transportation, Biotechnologies, and Ecology industries.

In 2011, the volume of documented investments at venture stages increased (approx. by 1/8) against the 2010 level and amounted to near $270 mln.

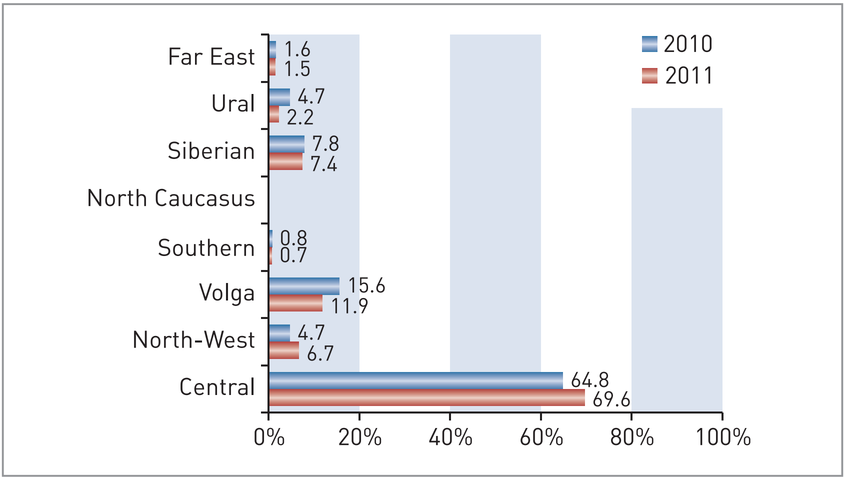
Distribution of investments by federal districts



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



Number of investee companies by federal districts, 2010–2011, %*



The sufficient increase of deal stream at venture stages was connected with work of the funds which were created by RVC and acted with its participation.

* Is calculated with respect to the total number of financed companies in corresponding year.

Investments by federal districts

In 2011, the traditionally investment active regions confirmed their reputation which was being built during the recent years.

In the order of documented investment volumes diminishing, the three leaders have become: Central federal district (FD), with the result approx. $1265 mln or near 41% of total investment volume, North-West FD (near $1234 mln, 40%), and Volga FD (near $511 mln, 16.5%). Thus, the gap between the first and the second positions was rather small. Although, it should be noted that these positions of both North-West and Volga FDs were provided mainly by two large investments documented in these regions. This allowed them to exceed considerably the 2010 results when, in the North-West FD, a cumulative deal volume at the amount of near $50 mln was registered (approx. 2% of total deal volume) and in Volga FD – $24 mln (almost 1% of total deal volume).

Therefore, Central FD is still the leader by its proportion in total investment volume among all FDs. For comparison: in 2010, totally $2167 mln of investments were documented in Central FD, or 86% of total 2010 investment volume, and in the crisis year 2009 – $343 mln or 68%, correspondingly.

Then, with a considerable gap, follows a group of regions leaded by Siberian FD which sufficiently (more than 4 times) improved the figures of investment volumes in comparison with the previous reporting period (near $58 mln – 2% of total 2011 investment volume against near $13 mln – 0.5% in 2010).

After them, the Ural and Far East FDs follow, having shown similar results in 2011. So, in Ural FD the total documented investment volume was equal to near $7 mln (0.2% of total investment volume), that was considerably lower than in 2010 (near $56 mln or 2% of total investment volume). In Far East FD, totally almost $5 mln of investments were documented, or near 0.15% of total investment volume ($200 mln or 8%, correspondingly, in 2010).

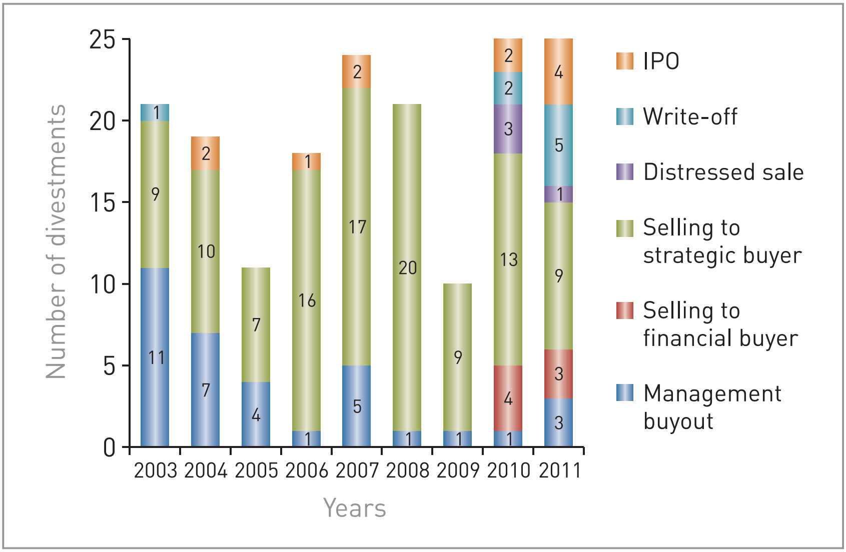
In general, the observed heterogeneity in the parameters of regional investment volumes in different years is usually connected with registration in separate FDs relatively large isolated deals.

The list of regions where the investments have been documented is finished by Southern FD. Nevertheless, somewhat comforting is the fact that the investments in this region are being registered during a number of recent years regularly, in spite of their rather small volumes – in 2011, documented investment volume in Southern FD made up $2 mln (near 0.06% of total volume).

In 2011, regional distribution of the financed companies' number, in general, resembles the same distribution for aggregate investment volumes. By the number of investee companies, the leader is Central FD. Then follow Volga and Siberian FDs. After them – North-West FD, taking the fourth place. The ordinal numbers of the rest FDs coincide with the places that they have taken in regional distribution of aggregate investment volumes.

Federal District	2008		2009		2010		2011	
	Amount invested, $ mln	%	Amount invested, $ mln	%	Amount invested, $ mln	%	Amount invested, $ mln	%
North Caucasus					0	0	0	0
Southern	0.38	0.03	4.59	0.90	2.00	0.08	2.00	0.06
Far East	14.00	0.95	0	0	200.10	7.96	4.80	0.16
Ural	144.13	9.79	1.73	0.34	56.65	2.25	6.69	0.22
Siberian	45.09	3.06	2.70	0.53	13.45	0.53	58.77	1.91
Volga	145.76	9.90	35.65	7.02	24.02	0.96	511.24	16.58
North-West	133.30	9.05	120	23.63	50.12	2.00	1234.21	40.03
Central	989.75	67.22	343.23	67.58	2167.50	86.22	1265.06	41.04

Exit distribution by number of divestments



Total	1472.41	100	507.90	100	2513.84	100	3082.77	100

In 2011, as before, the highest investment activities were shown by the regions of the European part of the Russian Federation (proportion of Central, North-West, and Volga FDs in total investment volume constituted more 95%).

Divestments

By the totals of 2011, it may be stated that the funds' divestment activity was keeping at the level of the post-crisis 2010year. Exits from 25 investee companies have been registered.

As regards the exit ways, investors, traditionally, preferred the trade sale of portfolio companies – sale of a company to strategic buyer (9 exits or 36% of total exit number).

The impact of economic crisis was reflected in the fact that the "write-off" exit way took the second place (5 exits or 20%). On the other hand, big "weight" of this parameter is an indicator of market transparency growth, because the information on failed deals practically always was hushed up before.

It's interesting to mark that such exit way as IPO entered in the leading three exit ways in 2011 (4 exits and 16%).

One of the brightest 2011 events was connected with this type of exit – flotation of the Yandex company's shares at a foreign stock exchange. The history of this flotation represents a classic example of successful development – from a small company to a giant which finally became a public company. Some PE funds which were investing in the company within several recent years have made material contribution in this development.

The one from the bottom place was shared among management buyout and sale to financial investor (correspondingly, 3 exits or 12% of total exit number).

Total or partial sale of assets was at the last place in 2011 with the 4% result (one "distressed sale").

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* Information on the funds presented in this section is included in total investment statistics of the present investigation.

The ways of exits	2008		2009		2010		2011	
	Number of deals	%	Number of deals	%	Number of deals	%	Number of deals	%
Distressed sale	n/a	n/a	n/a	n/a	3	12	1	4
Write-off	n/a	n/a	n/a	n/a	2	8	5	20
IPO	0	0	0	0	2	8	4	16
Sale to financial investor	n/a	n/a	n/a	n/a	4	16	3	12
Management buyout	1	5	1	10	1	4	3	12
Sale to strategic investor	20	95	9	90	13	52	9	36
Итого:	**21**	**100**	**10**	**100**	**25**	**100**	**25**	**100**

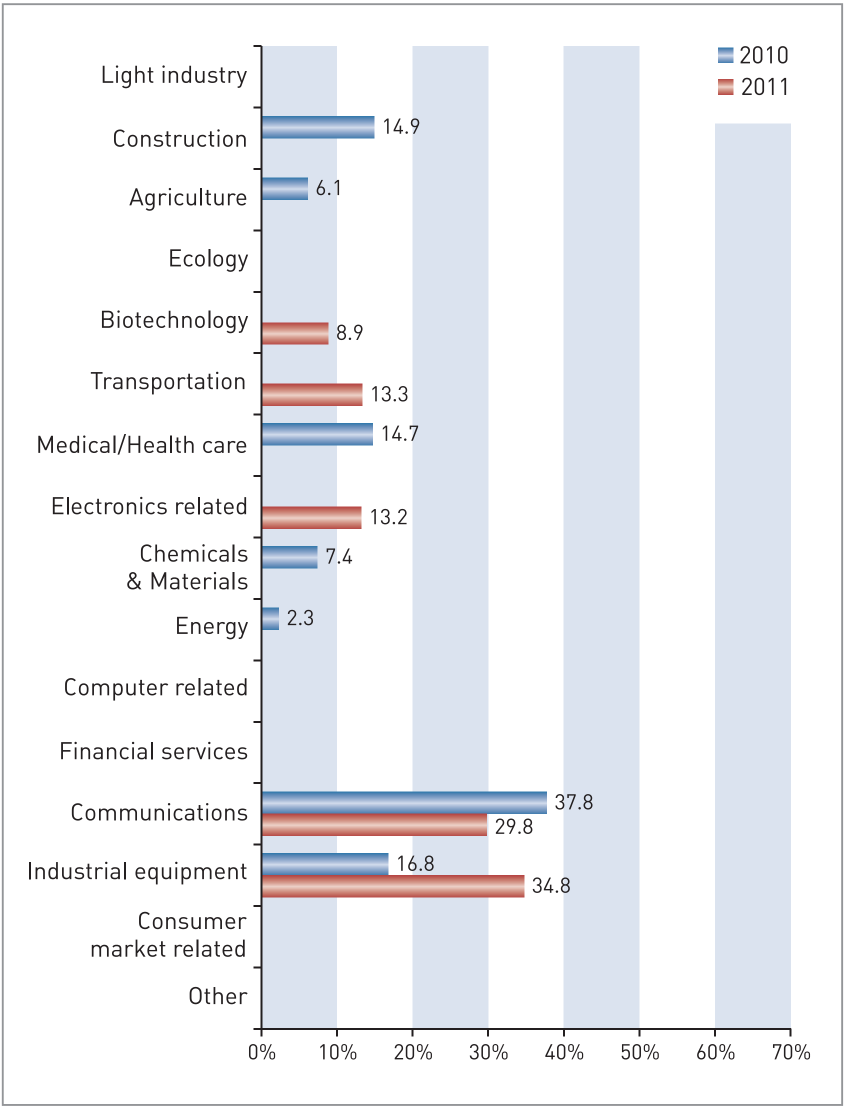
Venture capital funds created with the participation of Ministry for Economic Development of the Russian Federation (MED) and Russian Venture Company (RVC)*

In 2011, there were acting 22 regional venture funds of MED (MED RVF), the activities of which are being realized today with the RVC expert support. Total number of the companies which received investments to the amount of near $25 mln in 2011 was equal to 15 that was 1/4 lower than the same parameter of 2010. It is significant that all documented MED RVF investments were made in seed and early stage companies. The total volume invested by MED RVF from the beginning of their investment activity constituted approx. $130–135 mln. Thus, according to estimates available, somewhat more than 40% of capital accumulated in the MED RVF system were invested (near $300 mln) by the end of 2011.

Management companies of the RVC funds which were created in the form of closed-end mutual venture investment funds (RVC CMVF) had near $630 mln under management in aggregate. In 2011, the average deal volume of these RVC funds was slightly higher than of MED RVF: according to data available, 15 companies totally got near $45 mln of the RVC CMVF' investments. The biggest capital volume (near 3/4 of aggregate investment volume) received the companies at early stage of development, and near 15% of total deal volume fell on restructuring stage. At the same time, distribution of the number of the companies financed in 2011 was rather even and encompassed wide range of stages – from seed and early to restructuring stage.

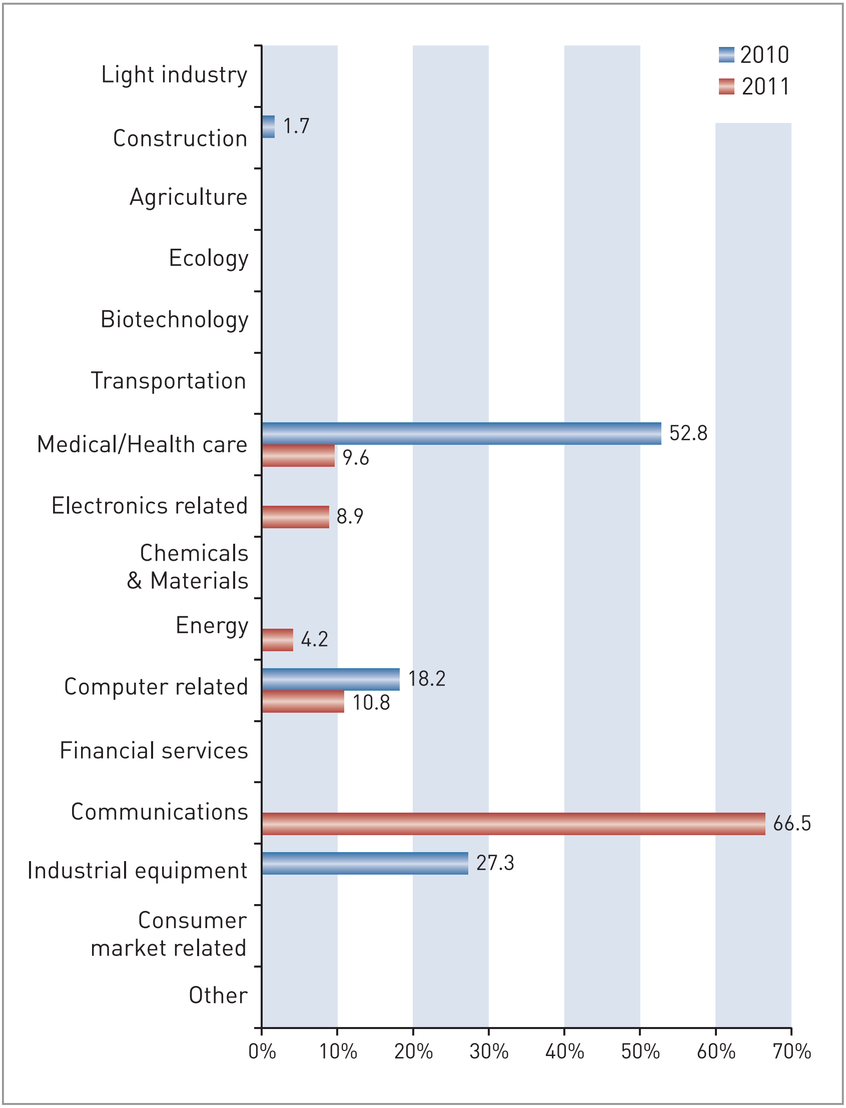
Comparative analysis of branch preferences of MED RVF and RVC CMVF in 2011 shows that the indicated funds concentrated their principal investment efforts in rather narrow industrial areas (no more than 5 positions for each group of the funds), at the same time, the branch spectrum of investee companies was different. It should be noted that the branch coverage of MED RVF was always broader than the same of RVC CMVF.

MED RVF investment volumes by industries, 2010–2011, %*

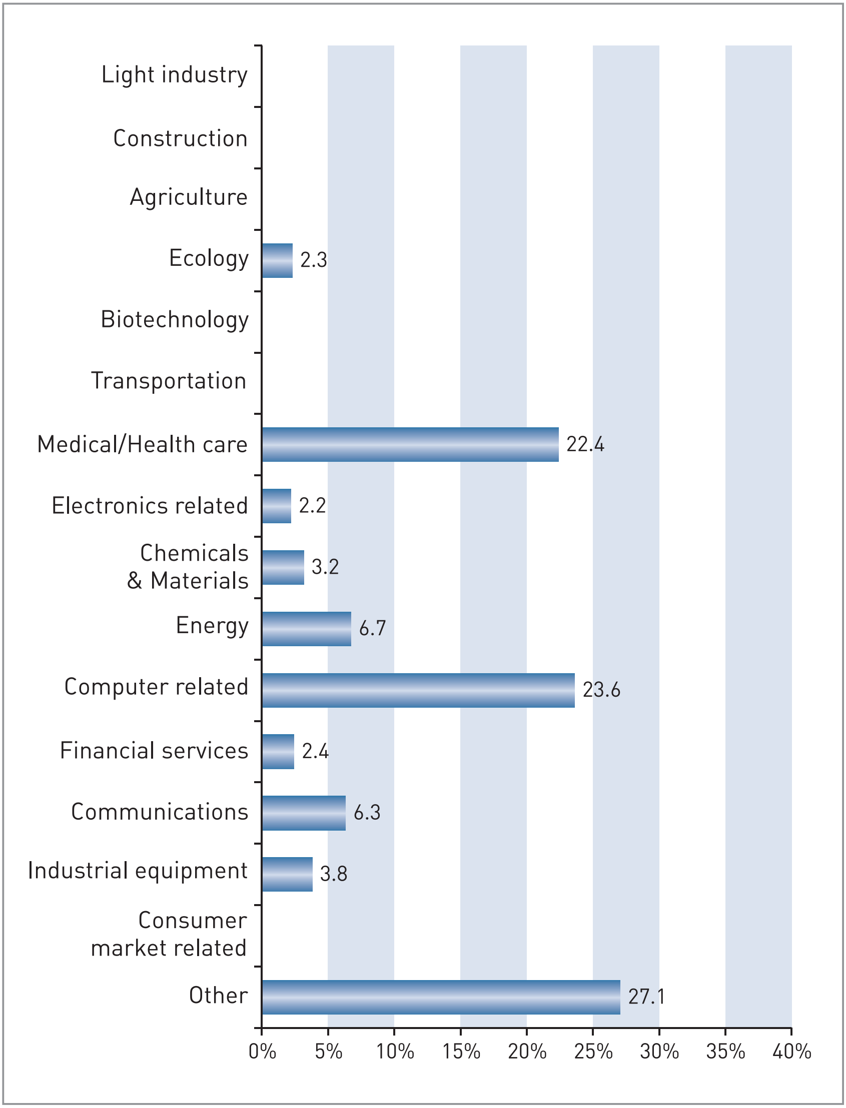


* Further in the diagrams the investment distribution is calculated with respect to the aggregated deal volumes in corresponding year.

RVC CMVF investment volumes by industries, 2010–2011, %



RVC cluster funds investment volumes by industries, 2011, %



In 2011, the first place in branch distribution of MED RVF investment volumes was occupied by Industrial equipment branch (near 1/3 of aggregate investment volume of these funds) – in the previous accounting period the leader was ICT sector with almost comparable result. In 2011, ICT sector was positioned at the second place (near 1/3 of aggregate investment volume, too), and at the third place Transportation industry was situated (13.3%). Then followed Electronics related industry (13.2%), and at the last place in the range of MED RVF branch preferences there was Biotechnologies industry with the result of near 9% of total documented investments volume of these two funds.

Focus of the RVC CMVF branch preferences also underwent changes in comparison with 2010: in the accounting period, the main share in the total documented investments volume (more 75%) fell on ICT sector, which moved from the next to last place to the first. The 2010 leader – Medical/Health care industry – took the second place by documented investment volume in 2011 (near 10%). The aggregate share of Electronics related and Energy branches (next to last and last places) constituted slightly more than 13%. In each of listed industries it was documented almost the same number of financed companies (3–5 companies).

In 2011, beginning of active work of new RVC cluster funds became a literally important event for the whole market. "Biofund" and "Infrafund" joined the RVC Seed Fund which had worked since 2010. Totally, the aggregate target volume of these three RVC cluster funds makes up $180 mln. It's important that taking into consideration the practices of the Russian VC market work, the cluster funds were created in the form of limited liability companies which – by the number of experts' opinion – represents more flexible structure as compared to the widespread form of the closed-end mutual investment funds.

Just cluster funds, having made the investments in 37 portfolio companies in 2011, provided material increase of venture stage deals. Being inferior to RVC CMVF by total investment volume (almost 1.5 times less), by number of investments the cluster funds more than twice surpassed the analog parameter of RVC CMVF. At that, more than 90% deals of the cluster funds (both by number of financed companies and investment volumes) were made in the seed and start-up companies.

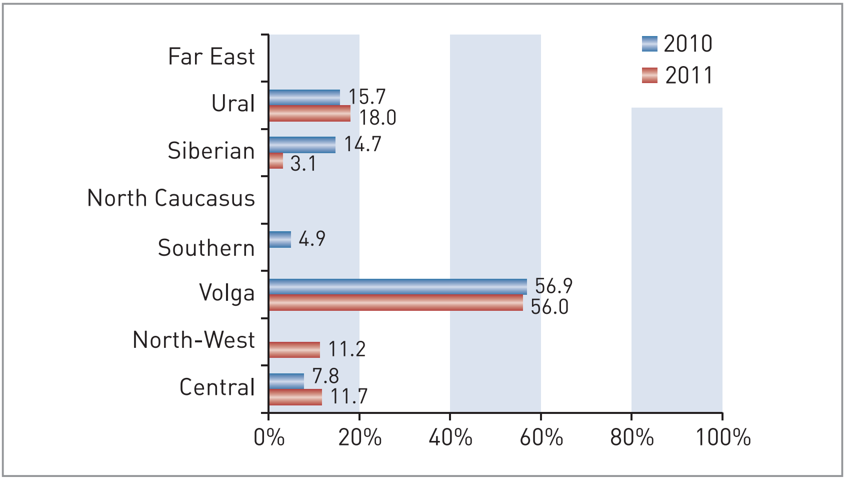
The main volume of the RVC cluster funds' investments in 2011, like it was with RVC CMVF, corresponded to ICT sector. The second place by total investment volume was taken by the companies belonged to the "Other industries" category (almost 1/3 of aggregate investment volume). Third place was occupied by Medical/Health care branch (more than 20% of total cluster funds' investment volume). The rest industries (including Ecology, Chemicals & Materials, Energy, Industrial equipment, Electronics related, Financial services) accounted for 2%–6.5% share in the total investment volume of the funds under consideration, occupying in the aggregate near 20% of total investment volume.

Regional preferences of the three groups of the funds mentioned were different, as judged by the investment volumes, may be excluding the leader region. Thus, the main investment volume of RVC CMVF and RVC cluster funds (more than 90% and 70%, correspondingly, of aggregate investment volume for each group of funds) fell on the Central FD, though, for their part, MED RVF manifested the highest activity in Volga FD (56% of total MED RVF investment volume). The second place among RVC CMVF and MED RVF occupied Ural FD (correspondingly, near 4% and 18% of aggregate investment volume of the pointed funds groups), and in the RVC cluster funds' investments – Siberian FD (near 11%). At the third place by regional preferences (by investment volumes) of the funds' groups under consideration were: for MED RVF – Central FD (near 12%), for RVC CMVF – North-West FD (near 1.5%), for RVC cluster funds – Volga FD (near 10%).

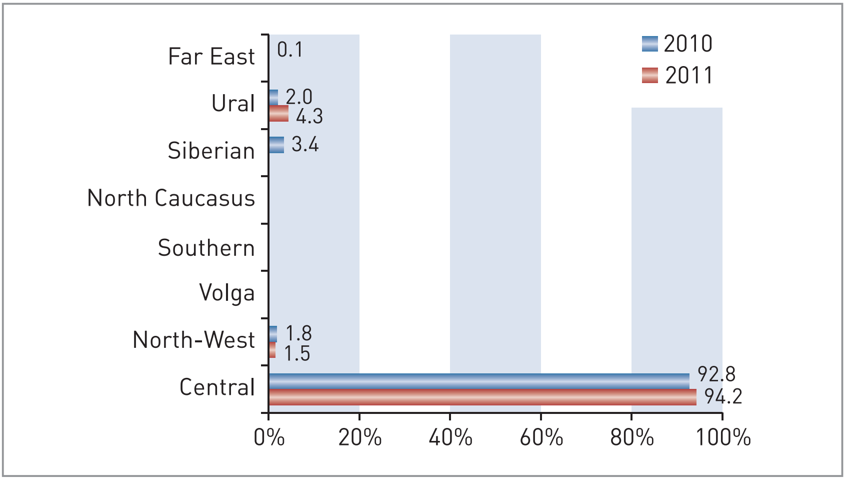
In 2011, the theme of investment legislation improvement got further development. At the end of the year, the Russian Federation President signed the Act on the "Investment partnership". This new organizational-legal form was destined to sufficiently simplify the procedures of funds' formation and work, and first of all – in the venture capital sphere. Particularly, it allows investors to unite for syndicated investing in companies without forming a legal entity. On the whole, this event has become significant for the market, as it brings the deal-making environment in the Russian market closer to the best world practices which have been built within the frames of the Limited Partnership scheme. It may be expected that in the nearest future the new organizational-legal form for investment making will be actively demanded in the market.

The RVC cluster funds, by making investments in 37 portfolio companies in 2011, have provided sufficient activation of venture stage deals.

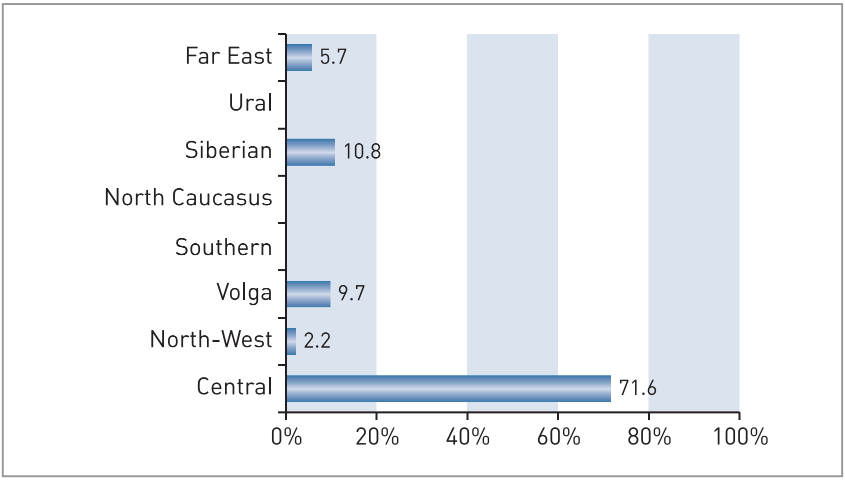
MED RVF investment volumes by federal districts, 2010–2011, %



RVC CMVF investment volumes by federal districts, 2010–2011, %



RVC cluster funds investment volumes by federal districts, 2011, %



Industry	2011		
	MED RVF, %	RVC CMVF, %	RVC cluster funds, %
Ecology	0	0	2.29
Light industry	0	0	0
Transportation	13.33	0	0
Biotechnology	8.87	0	0
Construction	0	0	0
Chemicals & Materials	0	0	3.17
Agriculture	0	0	0
Industrial equipment	34.77	0	3.81
Electronics related	13.21	8.86	2.19
Energy	0	4.15	6.73
Medical/ Health care	0	9.61	22.39
Computers related	0	10.86	23.62
Communications	29.82	66.52	6.32
Financial cervices	0	0	2.42
Computers related	0	0	0
Other	0	0	27.06
Total	100	100	**100**

Федеральный округ	2011		
	MED RVF, %	RVC CMVF, %	RVC cluster funds, %
Far East	0	0	5.72
Ural	18.02	4.30	0
Siberian	3.08	0	10.78
Southern	0	0	0
Volga	55.98	0	9.73
North-West	11.23	1.46	2.15
Central	11.69	94.24	71.62
North Caucasus	0	0	0
Total	100	100	100

Highlights 2011

- By the end of 2011, total capital under management of all private equity and venture capital funds working on the Russian market amounted to approx. $20.1 bln.
- The number of active PE&VC funds totaled 174 by the end of 2011.
- Volume of the capital newly attracted in 2011 amounted to about $3.82 bln that was more than twice higher than in previous period ($1.74 bln in 2010).
- The number of management companies acting at the RF territory came to 120 by the end of 2011.
- 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 2011 is estimated at approx. $3.1 bln – a quater more than in 2010.
- Total number of investee companies – 135; average deal size – near $23 mln in 2011.
- In 2011, the leader by documented investment volume was Consumer market sector which received near $1.5 bln volume of investments or near 50% of total documented investment volume.
- Expansion, restructuring, and later stages remained the most attractive for investors with the total investment volume amounted near $2.8 bln and 30 investee companies.
- The most popular way of exit remained the sale to strategic investor – 36% in 2011 (9 exits).
- Attracts attention the trend to extension of the gap between the VC and PE deals' number (105 against 30).

Dynamics 2006–2011

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
- **2011 – 20,1** bln

Number of working funds:

- 2006 – 98
- 2007 – 130
- 2008 – 155
- 2009 – 162
- 2010 – 170
- **2011 – 174**

Volume of capital attracted:

- 2006 – $ 1.45 bln
- 2007 – $ 4.32 bln
- 2008 – $ 4.27 bln
- 2009 – $ 1.31 bln
- 2010 – $ 1.74 bln
- **2011 – 3,82 bln**

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

- 2006 – 69
- 2007 – 82
- 2008 – 99
- 2009 – 105
- 2010 – 110
- **2011 – 120**

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
- **2011 – 3077,82** mln

Total number of the investee companies:

- 2006 – 65
- 2007 – 85
- 2008 – 120
- 2009 – 69
- 2010 – 128
- **2011 – 135**

Average deal size:

- 2006 – $ 10.0 mln
- 2007 – $ 12.0 mln
- 2008 – $ 12.3 mln
- 2009 – $ 7.4 mln
- 2010 – $ 19.7 mln
- **2011 – 23 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%).
- **2011 – 1541,96 mln (50,02%).**

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)
- **2011 – 2810,56 mln (30 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
- **2011 – 129,18 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
- **2011 – 143,03 mln**

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

- 2006 – 27
- 2007 – 34
- 2008 – 67
- 2009 – 48
- 2010 – 81
- **2011 – 105**

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
- **2011 – 36% of divestments**

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