MoneyTree™ Venture Capital Market Navigator

Overview of Russian venture capital deals in 2012

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Introduction

We are pleased to present the third edition of MoneyTree™: Venture Market Navigator (MoneyTree™: Russia), prepared jointly by the PwC Centre for Technology and Innovation (CTI) and Russian Venture Company (RVC) based on the venture market results for 2012.

MoneyTree™ reports have already won international acclaim thanks to PwC's many years of experience conducting such research studies covering leading high-technology markets, including the United States, Israel and India.

The first edition of the MoneyTree™: Russia report looked at venture deals concluded in the information technology (IT) sector in 2011. At that time, Russia's venture ecosystem was only just starting to develop actively, which led to the objective need for a thorough review and analysis of the situation, and primarily in this particular sector.

As in our previous report covering the first three quarters of 2012 (9m 2012), this edition focuses on the IT sector, where we compare venture investment trends over a two-year period. We also continue to analyse data from two other sectors: biotechnology and industrial technology. The main difference in this edition of the report is that "major" deals are now valued at above USD 100 million (and have been excluded from the scope of our study) because we have seen greater investor activity at more mature stages, i.e. deals ranging between USD 50 million and USD 100 million. Also, we have added a new information source in this MoneyTree™: Russia report, i.e. RusBase (Startup Afisha), a special service for startups and investors whose analysts closely monitor developments in the Russian venture market. Based on this data, we have adjusted our findings for all quarters of 2012, thus giving you a more complete picture of the current status of Russia's venture capital market.

We estimate the overall volume of venture investments in the Russian market in 2012 at USD 910.6 million. This figure represents 201 transactions, including those for which no value was disclosed.

The IT sector still accounts for the largest share of venture investments raised, with USD 792.1 million brought in by IT sector companies in 2012, or twice the amount raised in 2011. For comparison purposes, our 2011 venture market analysis included two transactions worth between USD 50 million and USD 100 million, which had earlier been categorised as "major" deals.

In 2011 we focused on three new IT sub-sectors: financial sector technologies, medical and lifestyle services, and educational services. Over 2012, we observed a gradual shift in investor focus from early-stage company development to more mature stages. The shift in the structure of the venture investment market toward more mature stages of company growth represents a natural phase in the sector's development. The biotechnology and industrial technology sectors still lag behind the market leader, IT, both in terms of the number of deals and the volume of investment raised. The 2012 results show 18 deals worth USD 108.4 million in the industrial technology sector and 15 transactions worth USD 10.2 million in "biotech".

In 2012, a total of 702 grants with an aggregate worth of more than USD 145 million were allocated to companies in the IT, biotech and industrial technology sectors. It is noteworthy that we have not factored grant-related data into the total market volume, as we have categorised grants as non-market tools for financing innovation-driven companies.

Innovation infrastructure development accounted for eight deals closed in 2012 with an aggregate worth of USD 37.7 million, which, in fact, shows that the venture market continues to grow. We have not included these deals in the overall market volume as well.

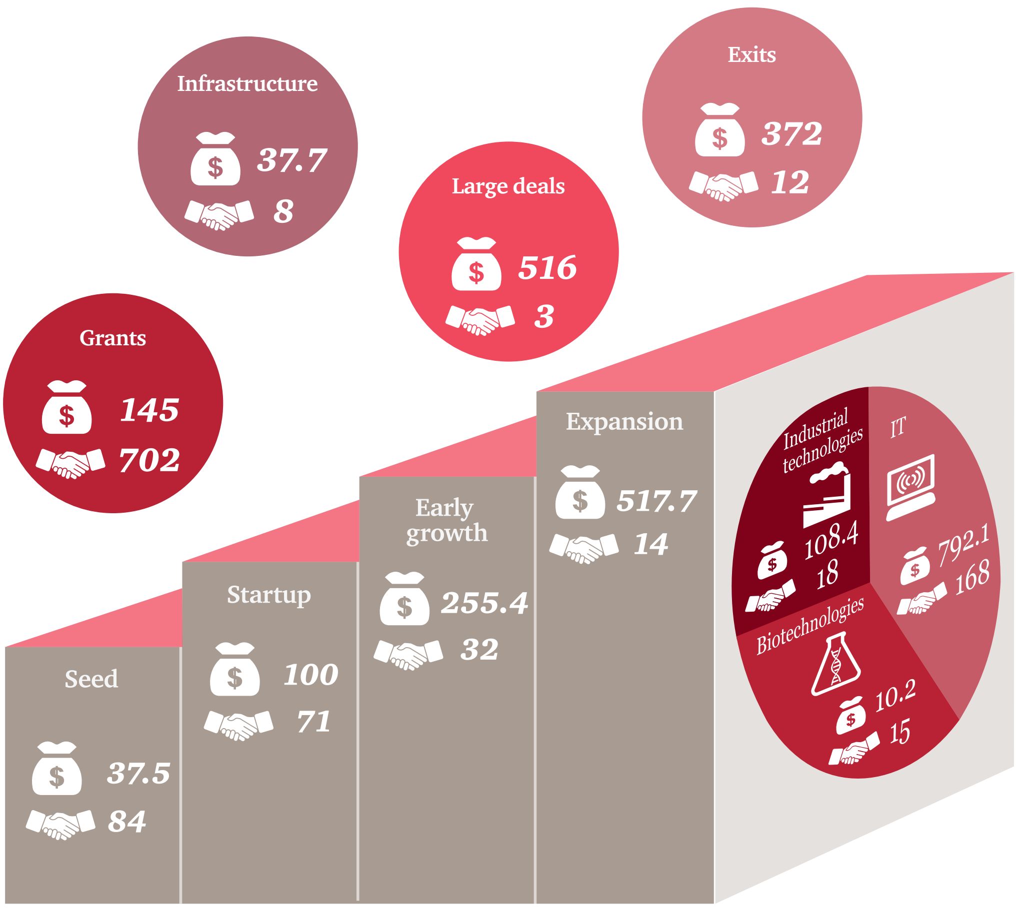
Overall, 2012 saw an end to the wave of "overhyped" startups and unjustifiably inflated investment expectations. Last year, investors demonstrated a more careful approach to selecting portfolio projects, favouring those whose owners had managed to show a tangible record of business success and realistic prospects, rather than mere talk.

Also, 2012 saw venture capital funds take a more active posture in working with companies at more mature stages. This year, we have noted 12 investor exits from projects with an aggregate worth of USD 372 million, including deals for which no value was disclosed. In addition, three major deals were closed, each worth in excess of USD 100 million. The advent of such deals represents an important factor in the market's development, demonstrating the readiness of investors to put significant funds into promising companies and lay the foundation for future exits.

In 2012, the main factors promoting the further development of a viable venture ecosystem were the appearance of a new group of experienced "serial" entrepreneurs, the growth

Investment snapshot

Volume in USD mln, number of deals



Source: RVC, Venture Database, RusBase, PwC

of a number of successful innovation-focused companies, and an increase in the number of domestic and foreign investors active in the Russian market.

The data for 2012 once again pointed to the ongoing process of developing a venture ecosystem, the "maturing" of the venture investment market, the accumulation of a critical mass of experience, and the expansion of those areas that have drawn heightened attention from investors. However, the sector's further successful development will require qualitative changes in the market's structure and more legislative fine-tuning.

Information technology

Venture capital investment by quarter: investment raised, number of deals, average deal value

As in previous editions, this report focuses on the IT sector as the most dynamically growing part of Russia's innovation- and tech-driven sectors, which are most attractive for the majority of venture investors. IT companies alone accounted for 84% of investment deals closed in 2012. The data obtained shows overall that most venture investors still prefer to focus on IT companies exclusively.

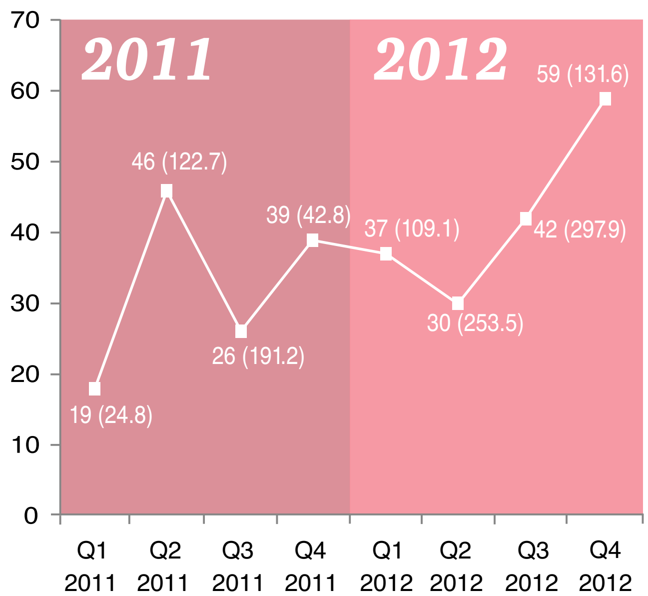
Total venture transactions grew 19% last year (27 in absolute numbers). In 2011, the sector recorded 141 transactions (for only one of which no value was disclosed), whereas 2012 saw 168 deals (for 14 of which no value was disclosed). Moreover, the overall volume of venture investments in IT sector companies grew more than twofold to reach USD 792 million versus USD 392 million in 2011.

This report largely affirms the main trends that we noted in our previous report for 9m 2012. The larger average deal size accounted, by and large, for the substantial growth in aggregate investment in the IT sector. Specifically, while average deal accounted for USD 2.8 million in 2011, this data point nearly doubled in 2012, reaching USD 5.1 million per one transaction. First of all, this appears to be the result of greater overall venture market maturity and a shift in investor priorities more toward later-stage startups and more mature projects.

In addition, the IT sector showed a significantly higher level of competition in 2012. Given the relative ease of creating a product, quick return on investment, and low level of capital intensity, a huge number of entrepreneurs looking to make "easy money" were attracted to the sector. With the rising number of such projects, startup teams had to come up with more clearly developed ideas, build sound financial models and monetisation plans from the very start, and rack up their first wins working on their own. We have noted a greater level of activity among "serial" entrepreneurs, that is experienced businesspeople who have already cut their teeth on several projects and are well experienced in how startup mechanisms and principles work in reality.

In turn, investors have also started taking a more careful approach to selecting projects for their own portfolios. In attempting to lower their risks, they have raised the bar regarding their requirements for target companies. To obtain project financing, companies must now have a market-tested business model, an experienced team, and a product with market demand.

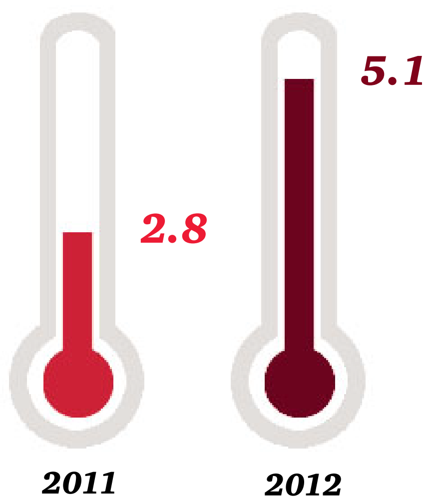
Venture capital deals trends in IT sectors by quarter, 2011-2012, number of deals (USD mln)



* Note: Not including deals for which no concrete date of closure was indicated.

Source: RVC, Venture Database, RusBase, PwC

Average value of venture capital deals in IT-sector, 2011-2012, USD mln



Source: RVC, Venture Database, RusBase, PwC

The second noticeable trend in 2012 involved the heightened level of competition in the investment environment. To get the attention of strong project teams, investors have begun to more actively promote their own funds and the success stories of their portfolio companies, including through public events and the media.

While increased competition helps make the venture industry more transparent, a major portion of the market remains invisible in the data because of the closed nature of the transactions involved.

Venture capital investment by project development stage

The data gathered on how venture investments break down by various stages of a project's lifecycle let us conclude that Russia's venture market will continue to mature. In our last report, we saw a noticeable overflow of capital from the "seed" stage to such later stages as "startup", "early growth" and "expansion". The full-year 2012 results show that this trend is continuing. Indeed, 2012 saw 22% fewer deals (60) struck at the seed stage versus 2011 (77), while the number of startup stage deals almost doubled, with 65 transactions in 2012 versus 34 in 2011. Considerably more deals were recorded at the "early growth" (16 transactions in 2011 versus 31 in 2012) and "expansion" stages (only 3 deals in 2011 versus 12 in 2012).

The findings of our investment volume analysis show a more notable shift in venture funds' focus from early-stage to later-stage development of companies. In 2012, investors put up a total of USD 27.7 million at the "seed" stage, or nearly 10% less than in 2011 (USD 30.6 million). Specifically, "startup" stage investments more than doubled (USD 96.6 million in 2012 versus USD 38.8 million in 2011). Meanwhile, "early stage" investments grew nearly 2.5 times (USD 253.8 million compared to USD 94.1 million), as did "expansion" stage investments (USD 414 million compared to USD 169.6 million in 2011).

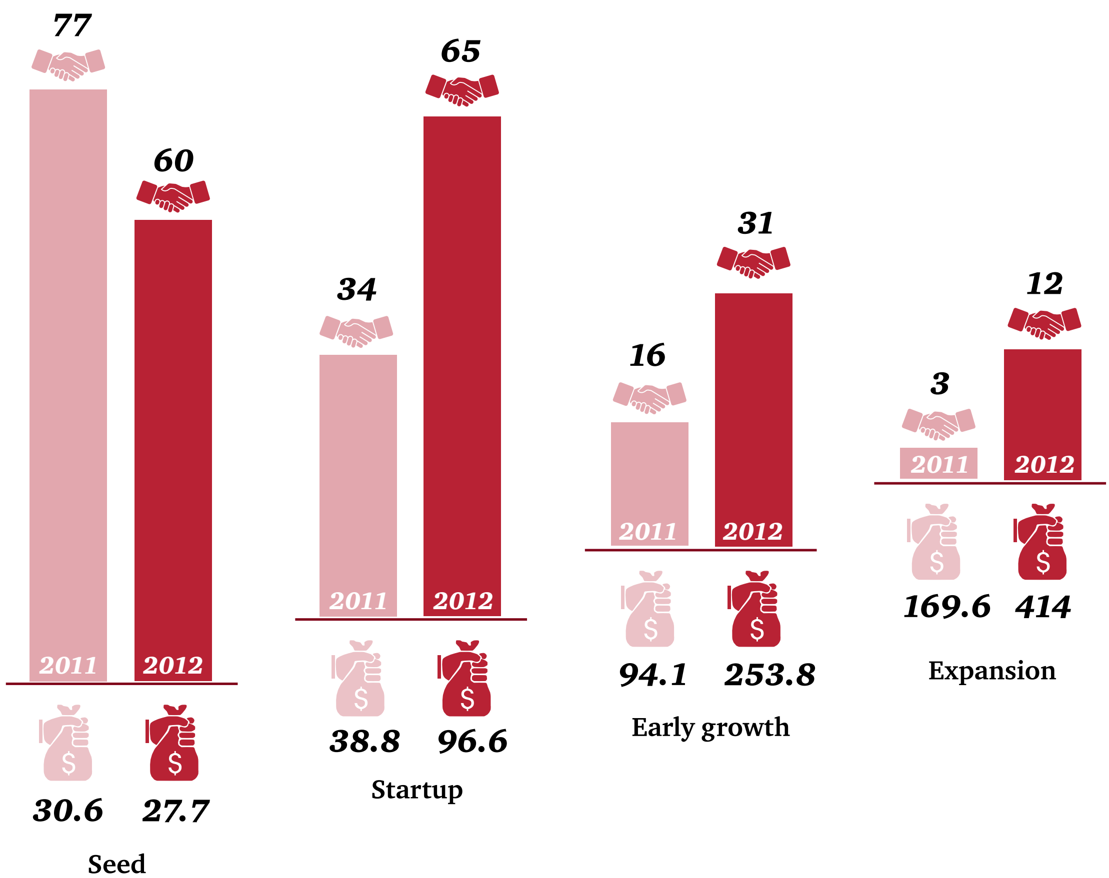
As we noted in our 9m 2012 report, the capital overflow from early stages to more mature growth stages is a natural phase in the venture market's development. The Russian market is becoming more mature: if in 2010-2011 investors were engaged in setting up the initial project pipeline, by 2012 they were able to refocus on capitalising an already existing pipeline of deals that had made it through the first "death valley".

“In 2012 we saw three major trends. First, there was a substantial increase in the number of transactions and the volume of venture capital, as well as rapid growth in the number of players on the market - startups, funds, and business angels. But, unfortunately, this growth is happening not so much on account of "smart money" as much as on account of non-professional investors. Second, there's a great deal of interest in investing in early-stage companies. Third, funds are starting to focus in specific industries, verticals and types of solutions. Because competition between funds is growing but the number of potentially successful projects is increasing at a significantly slower pace than the amount of money available on the market, primary competitive advantage is expertise in specific areas. For example, our fund focus on complex software, cloud computing, education, and vertical solutions for finance, public sector and small business, with potential for global growth. I think that in 2013 we will see further development in these trends, as well as more joint deals involving several investors with complementary areas of expertise.”

Gaidar Magdanurov, *Investment Director at Runa Capital*

On the other hand, this trend could be seen as evidence that the country is still experiencing a shortage of investors (both private and institutional), specialising exclusively on the "pre-seed" and "seed" stages. We believe that in the short term a decline in the number of early-stage deals could lead to a slowdown in the venture market's growth due to the lack of new "growth" and "expansion" stage projects as a result of insufficient seed investment.

Number of deals by project stage in IT
(investment volume in USD mln)



* Note: Not including deals for which no concrete stage of project was indicated

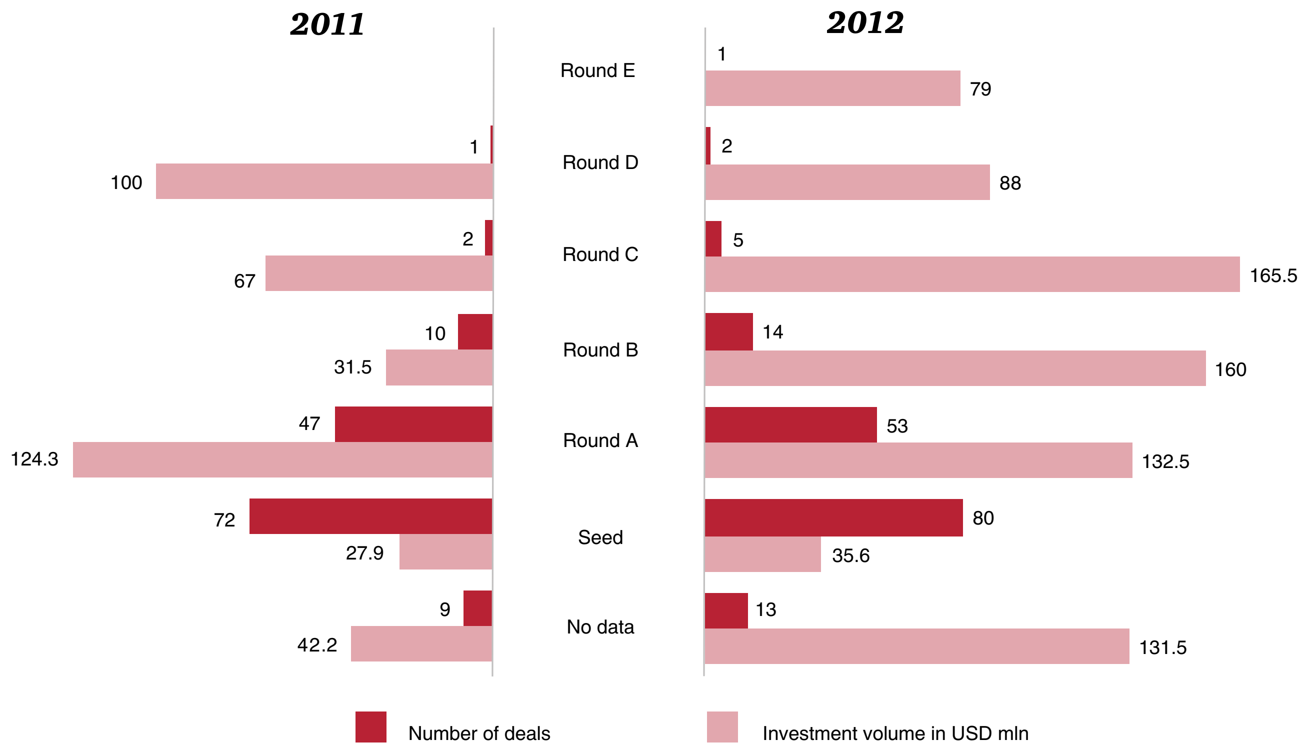
Source: RVC, Venture Database, RusBase, PwC

Venture capital investment by investment round

Given the trends outlined above, in 2012 the greatest growth was seen in late-round investments. At the same time, the greatest number of deals is still seen at the seed round: in 2012, 80 such transactions were concluded. There were 53 transactions during Round A (versus 47 in 2011).

Round B saw the greatest inflow of capital, with USD 160 million raised for 14 deals concluded in 2012 (compared to USD 31.5 million in 2011). In Round C, we recorded five deals for USD 165.5 million (versus two deals for USD 67 million in 2011). And, in Round D there were two deals worth USD 88 million (versus one deal in 2011). We recorded a Round E transaction for the first time in 2012 (for USD 79 million).

Breakdown by investment round in IT, number of deals (investment volume in USD mln)



Source: RVC, Venture Database, RusBase, PwC

"In 2012 euphoria was observed due to the growing number of state programs supporting high-tech startup companies, as well as new incubators been launched and increased attention of mass media to venture investments. All this was accompanied by the creation of new VC funds which were actively investing in early stage companies in order to build up investment portfolio quickly. Such intensive investments resulted in roughly 20:1 ratio of VC deals to investors' exits. In 2013 we expect the situation to change as many such active VC funds will focus on portfolio management and portfolio companies' development as the higher priority rather than further expansion of investment activity."

Roman Simonov, *Managing Director, Russia Partners, Head of technology practice – Russia Partners Technology Fund*

Venture capital investment by sub-sector: investment volume and number of deals

In 4Q 2012, we noted a significant adjustment in investor preferences. While our previous report showed an active flow of investment into e-commerce and tourism, the full-year 2012 results showed that the greatest growth in total deals and volume of venture investment raised went to mobile applications (with a 12-fold increase in number terms), social media and reference information services (twofold increase in total deals). This has partially been a result of saturation of e-commerce companies in investment portfolios and the need for greater industry diversification. For 2012, we also singled out attractive investment avenues in the IT sector, such as education, medical and lifestyle services, and financial sector technologies. Compared to the 2011 performance indicators, we noted a growth trend in both deal numbers and volumes in these sub-sectors.

Nevertheless, e-commerce remains the leading sub-sector in terms of volume of investment funds raised. Overall, investors put USD 395.6 million into this sector in 2012. This represents a nearly twofold increase over the 2011 figure. As well, e-commerce accounts for the largest deals in the venture market, with volumes often exceeding USD 20-25 million, and in some cases even reaching USD 100 million.

In 2012, major e-commerce projects were active in raising foreign investment to develop their own logistics infrastructure. Despite the fact that e-commerce is the most capital-intensive segment in the IT sector, most investors still exhibit a healthy interest in projects in this sub-sector. This is attributable to the growth that e-commerce is experiencing: last year, this segment of the Russian retail market boasted growth rates of 20-30%. Moreover, e-commerce turnover in Russia is still at the level of 1.8-2.5% of the overall Russian retail volume, compared to 6-7% in the developed countries, thus leaving substantial potential for growth.

The mobile application sub-sector led the market for growth in the number of deals concluded in 2012, with investors closing 12 transactions versus only 1 deal in 2011. Total investment reached USD 28.8 million, with the average deal value around USD 2.2 million.

We are also continuing to see strong growth in the cloud computing technologies sector, where in 2012 we recorded 30 transactions worth a total of USD 104.4 million.

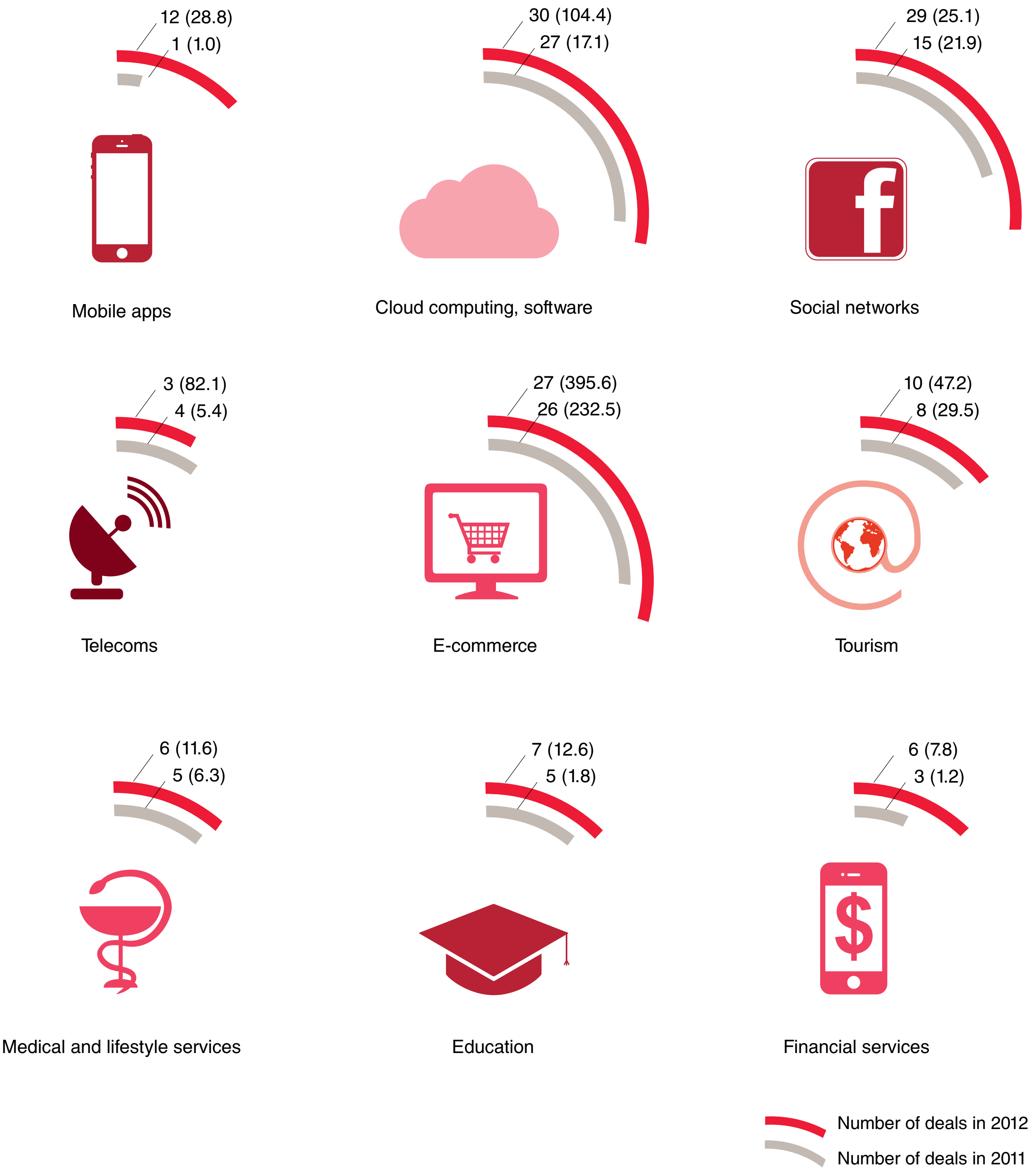
However, the sharp growth seen in social media projects and reference information services came as a surprise. This segment went from 15 deals worth USD 21.9 million in 2011 to 29 transactions worth USD 25.1 million in 2012. Such sub-sectors as educational services, financial sector technologies, and medical and lifestyle services have enjoyed increasing popularity: in 2012 these three sub-sectors accounted for seven (USD 12.6 million), six (USD 7.8 million), and six (USD 11.6 million) deals, respectively.

The level of investor interest in online tourism projects has remained unchanged from last year, with 10 deals worth USD 47.2 million concluded in 2012.

"The active operations of various accelerator and incubator programmes, conducted not only for residents but also for a mass audience, have led to a noticeable improvement in the quality of startup companies and a change in how entrepreneurs look at building a business. This has also resulted in increased investor interest in early-stage projects. For example, in the next few years we are planning to invest about 10% of our capital in precisely such projects. Also, we will closely monitor the heightened interest in those sectors that had previously developed exclusively offline but are now gaining an increasingly prominent online presence, such as e-commerce, financial services technologies, ticket booking, etc."

Lyubov Simonova, *Lead Expert, Almaz Capital Partners*

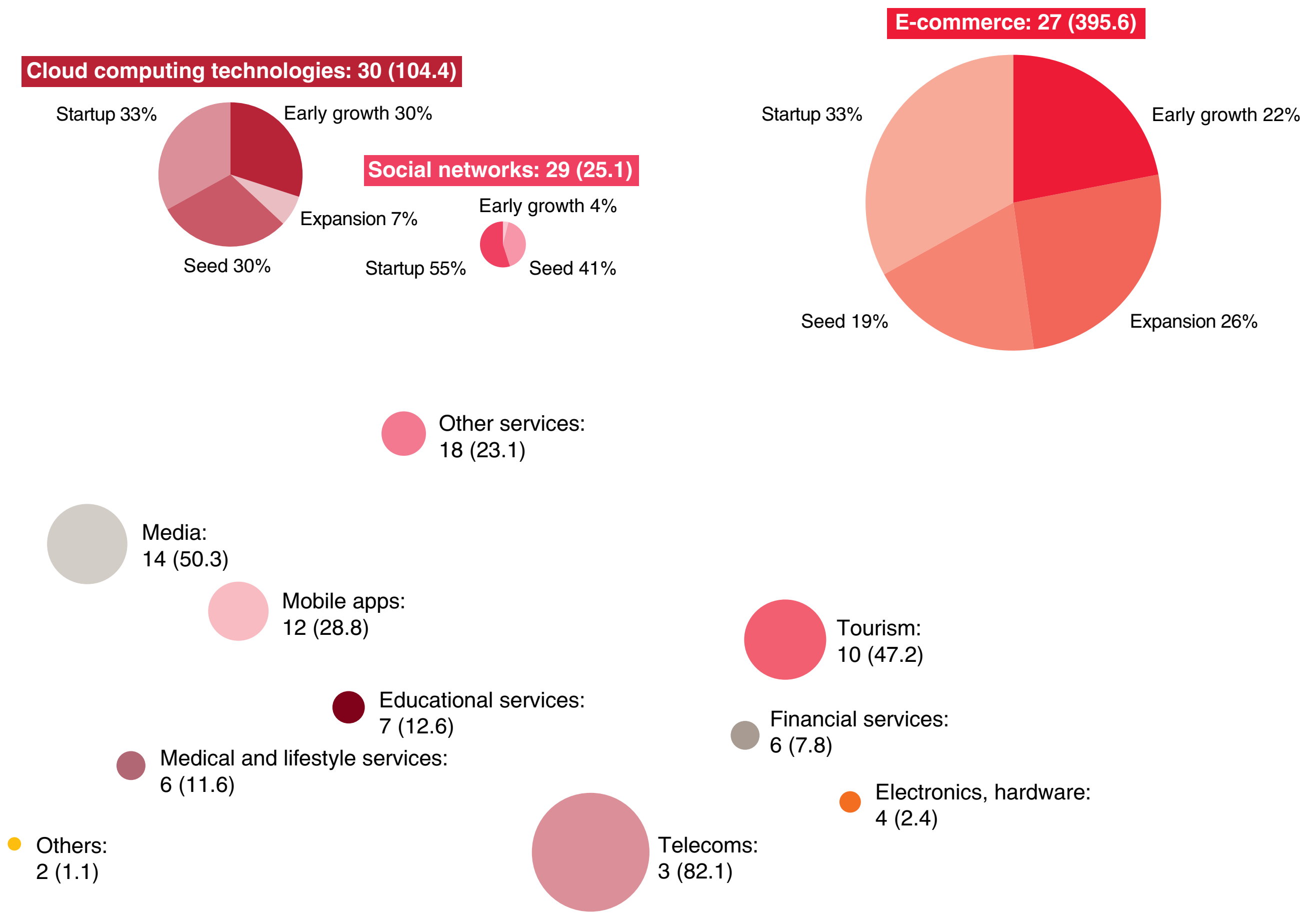
Investment by IT sub-sector, number of deals
(investment volume in USD mln)



Source: RVC, Venture Database, RusBase, PwC

Our overall observation is that the segmentation of the venture market's IT sector is still ongoing. In our reports, we have gradually expanded the number of sub-sectors that have attracted investor interest. This trend is the result of market saturation in individual segments, which in turn has triggered the need to develop better infrastructure and related services. For example, the growth of e-commerce has provided strong stimulus for the spread of auxiliary services, such as online lending, cloud-based content management services, logistics solutions, etc. The online tourism sub-sector has brought in its wake a wave of recommendation services, mobile applications, and trip planning services. This year, we have also seen an IT services trend marked by a shift in focus from the B2C sector toward the B2B sector. The number of projects aimed at providing services for businesses has grown. As a rule, startups in the B2B segment tend to go through the business model validation process much faster, and taking a product to market occurs much faster, thus giving investors additional incentive to allocate funds toward such companies.

Venture investment by IT sub-sector and project stage, number of deals (investment volume in USD mln)



* The diameter is proportional to the volume of investment

Source: RVC, Venture Database, RusBase, PwC

Biotechnology and industrial technology

In our 9m 2012 report, we introduced for the first time a section covering the biotechnology and industrial technology sectors. In this edition of MoneyTreeTM: Russia, we continue to monitor trends in these two sectors. For now, these sectors are not as noticeable as IT is in the overall investment picture of Russia's venture market, and thus at this stage we have not divided them into sub-sectors. However, according to the full-year 2012 results we see an ever-increasing level of investor activity, in contrast to the IT-related sectors.

Total venture investment in Russia's biotechnology sector in 2012 came to USD 10.2 million. A total of 15 transactions were closed, around a third of which were undisclosed deals.

Total venture investment in Russia's industrial technology sector came to USD 108.4 million in 2012. A total of 18 transactions were executed.

The bulk of deals in biotechnologies and industrial technologies are being cocluded at the early stage and have a relatively low average value (around USD 1 million for biotech deals). Average deal in industrial technologies is around USD 7.2 million. The Russian market is still out of sync with global trends, however, where these sectors are characterised by highly capital-intensive and long-term investment projects.

It is likely that we have not yet seen the full scope of deals concluded in biotech and industrial technology. Financing of such projects most often comes under the investment programmes of major corporations.

We should also note that the biotech and industrial technology sectors account for the greatest number of grants that have been allocated to support the most research-intensive startups.

If the positive trends in the Russian and global economy continue, we anticipate that these sectors will continue to demonstrate dynamic growth.

"For a long time now, huge amounts of money have been invested in Russia in what comes under the label of "innovation", but this has not led to any innovation-driven breakthrough in the biotech sector. Nevertheless, a market has now appeared in Russia for truly innovation-driven growth, and in comparison with the West the cash situation remains good. The main negative factors that have an impact on the development of the venture market are still the legislative arena and the lack of capable management. Moreover, the lion's share of money on the market, provided under federal target programmes, does not come under the category of venture financing. Just as soon as we manage to improve the legislative base and the quality of funds, Russia will have the chance to occupy a solid position in the global market for innovations."

Alexey Konov, *Partner, Life Sciences Venture Fund*

Major deals and exits

The rapid development of Russia's venture investment market and the growing number of late-stage deals, and the resulting growth in average deal size, have made it necessary to raise the minimum bar for major deals (which have not been included in the overall market volume for the purposes of our analysis) from USD 50 million up to USD 100 million. Altogether for 2012 three major deals were registered (over USD 100 million each) with a total investment value of USD 516 million. In 2011, given the changes in our methodology, this category covered three deals worth USD 462 million. We expect this trend to continue in 2013, since many companies that raised investment funding in rounds B and C in 2012 and have posted high growth rates will need a significantly greater volume of capital to continue growing.

In addition, in 2012 exits by portfolio investors became systematic in nature for the first time, with 12 such transactions recorded in 2012 for a total of USD 372 million (including deals for which no value was disclosed). In contrast, in 2011 only one exit occurred, the Yandex IPO, worth USD 1.3 billion. This represents an important signal for the entire market, which points to the prospects for its development and also makes it possible for fund managers to demonstrate to investors based on real examples that Russia's venture market is an attractive venue for investing their capital.

Major deals				
Project Name	**Sector of investee's operation**	**Investor**	**Investment volume, mln USD**	**Closing date**
Usoliye-Sibirskoye Silicon	Clean technologies	RUSNANO, Sberbank of Russia	133	March 2012
Pilkington	Clean technologies	RUSNANO	247	May 2012
GS Nanotech	Electronics	General Satellite	136	December 2012

Exits*				
Project Name	**Sector of investee's operation**	**Buyer**	**Investment volume, mln USD**	**Closing date**
Sapato	E-commerce	Ozon	50	February 2012
Sotmarket	E-commerce	IQ One	50	August 2012
Yandex	Others	No data	184	November 2012
Yandex.Money	Financial services	Sberbank of Russia	60	December 2012

* Deals with volume 50 mln USD and above

Source: RVC, Venture Database, RusBase, PwC, data from corporate web sites

Grants

Our 9m 2012 report featured a new section on grants for the first time. In this report, we continue to show the number of grants allocated to startups in the IT, industrial technology and biotechnology sectors. We have not included the total amount of grants in the overall market volume, as we categorise them as non-market instruments for financing innovation-related activity. However, we see grants as an important stimulus for developing the venture market and Russia's innovation ecosystem overall.

Altogether in 2012, 702 grants for a total of USD 145 million were allocated to projects in IT, biotech and industrial technology. The greatest portion of grants was issued by the Fund for Promoting the Development of Small Businesses in the Science and Technology Sector (the Bortnik Fund): 556 grants totalling about USD 24.4 million. Coming in second in terms of activity was the Skolkovo Foundation, which in 2012 issued 107 grants worth USD 119 million.

Most grants (318) went to companies in research-intensive sectors: biotechnology and industrial technology. However, IT companies brought in only 210 grants worth USD 32 million.

Organization	Sector	Number of projects	Investment volume, mln USD
Skolkovo Foundation	Biotech	17	16.7
	IT	41	26.5
	Industrial technologies	49	75.8
Bortnik Foundation	Biotech	101	3.2
	IT	130	3.9
	Industrial technologies	151	4.9
	No information	174	12.4
Microsoft Seed Fund	IT	13	0.5
Others	IT	26	1.1
Total		**702**	**145.0**

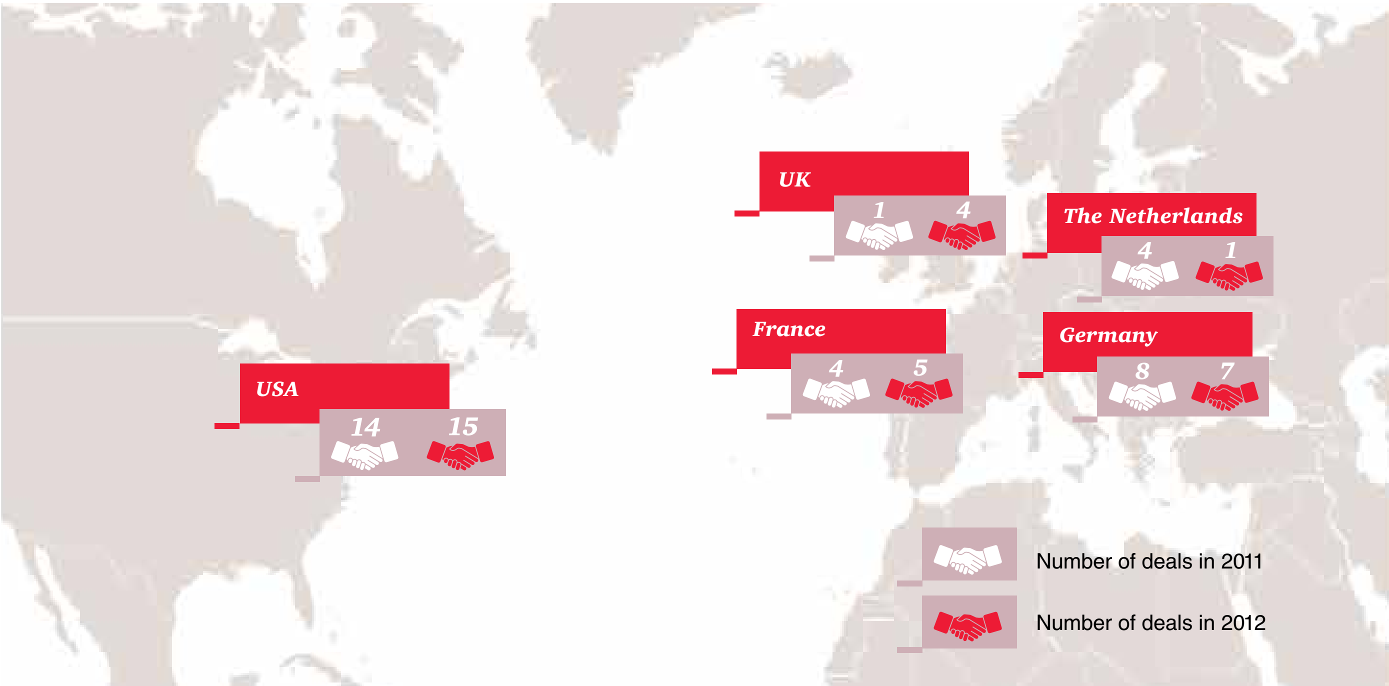
Source: RVC, Venture Database, RusBase, PwC, data from corporate web sites

Investor geography

In our research, the geographical distribution of investors was analysed based on the location of their headquarters, rather than the place where the relevant legal entity is incorporated. Russian investors remain the main driving force in the Russian venture market (in 2012 they took part in 182 deals). However, international players are becoming more noticeable.

The US came in second by number of transactions with 15 deals, followed by Germany in third place with seven deals. In comparison to 2011, Asian investors are also starting to show interest in Russian startups : in 2012 we recorded two transactions involving Japanese investors.

Top-5 foreign investors in 2011 and 2012



Source: RVC, Venture Database, RusBase, PwC

"Over the last couple of years we have seen an acceleration of capital inflows from private Russian individuals and corporates into venture funds. Multiple government or regional initiatives are also expanding. Nevertheless the market is still in its early stage, and for the majority of its players the main challenge will be to manage and generate returns for investors. On the other side of the equation, Russia still lacks a proper limited partner selection, and single investors, co-managed funds or investment committee dependent fund managers, lead many initiatives. As such the venture business lags behind international standards and practices, making it complex for international funds to setup regional dedicated funds. Late 2013 we might also see major M&A transactions taking place. When this happens our expectation is that Russia will rank higher on the map of international funds, private equity funds and major international players, which will mark the start of a new era for the Russian startup market".

David Waroquier, *Partner, Mangrove Capital Partners*

Conclusion

The 2012 results have clearly demonstrated that Russia's venture market is maturing and becoming more transparent. We are seeing a gradual shift in investment focus from early-stage projects to more mature stages. In 2012, we recorded a drop in investor activity at the "seed" stage and noted rapid growth in rounds B, C, D and E. We also saw 12 successful investor exit deals. This signals that the market is gradually becoming more attractive for investors, since major corporate players are beginning to appear, closing out the venture investment cycle.

In 2012, the IT sector remained the largest segment of the venture market. The majority of deals (84%) were in IT, while 7% were in biotech and 9% in industrial technology. Along with the increasing transparency in the market and the development of corporate investment programmes, we anticipate greater activity by corporate investors in research-intensive industries, including through the appearance of corporate venture funds. Similarly, grant programmes also play a major role in financing biotechnology and industrial technology initiatives.

Looking carefully into the future, we are confident that the Russian venture market has great potential for further growth and could double over the medium to long term. However, major changes are needed for the market to realise its potential, such as more avenues for exits, attracting new players with critical experience (including experience with investment project failures), accelerating the role of major Russian and foreign companies as both users of innovations and a source of venture capital, and expanding venture activity outside of the IT sector. Accelerating the market's development will also require resolving the issue of human capital, specifically the need for expanding and enhancing the training of the available pool of managers and entrepreneurs, which could help balance out the strong technical potential of Russian startups and ensure the successful commercialisation of projects. Furthermore, the market's rapid development means dealing with such critical issues as protecting intellectual property, enhancing the role of universities and academic institutions in stimulating innovation-focused activities, reducing the regional imbalance in the development of the innovation-venture ecosystem, and boosting the overall quality of the investment climate and business culture in Russia.

Our estimates suggest that growth on the Russian venture market should slow in 2013 while the size of the market itself will not change substantially in comparison with 2012. At the same time, we note that investors will continue to focus more on companies that have been successful in raising initial investment rounds and now need additional capital to fuel continued growth. In turn, this would substantially change the market's structure in favour of companies in later stages of development while also increasing the average size of venture deals. Bearing in mind the gradual saturation of the e-commerce market and its internal problems, new investment will be more actively concentrated in other IT sectors while investors will be more enamoured with companies engaged in industrial innovation, as well as medicine and healthy lifestyle products. Depending on the overall situation in the global economy and the stability of the Russian economy, we could also see a new wave of exits this year as companies that have grown over recent years go public, and larger Russian and international players start making acquisitions.

Methodology

This report has been prepared according to The MoneyTree™ Report methodology(www.pwc.com/globalmoneytree).

MoneyTree™: Russia contains information from RVC, which PwC used to compile its review.

The data analysis considers venture investment actually received in the first round of financing from business angels, investment companies, private, corporate and public venture funds not exceeding USD 100 million during single round of financing.* If a company has received investment in two or more rounds, each round is viewed as a separate deal. This study considered deals which were formally concluded between 1 January and 31 December 2012.

The term "venture investment" is understood here to mean the acquisition of a stake or capital in new or emerging companies, but less than a controlling stake. Funds invested are primarily directed toward growing the business, and not toward the purchase of shares owned by a company's existing shareholders (founders). This report covers companies active in Russia's IT, biotechnology and industrial technology sectors.

Please note that this report does not include information about deals involving Russia-based investors oriented toward the US market.

This report provides information about the size of grants issued. The term "grant" is understood here to mean a free subsidy for pursuing scientific research or R&D work. However, grants are non-market sources of funding and not factored into the total market volume.

This report also covers deals related to investor exists. However, similar to grants, these transactions are not factored into the total market volume.

Definition of sectors and sub-sectors:

The biotechnology sector includes companies involved in the development of medical equipment and pharmaceuticals, medical research, and the provision of innovative medical services.

The industrial technology sector includes entities involved in the development of equipment and technologies for application in clean technology-based operations; manufacturing of machinery and equipment for various purposes to be used in industrial production; chemicals production; and automated industrial operations.

The IT sector includes the following sub-sectors: e-commerce; development and application of cloud technologies, telecommunications; cellular applications; services and applications for the creation and development of social networks; Internet groups, information and recommendation services; tourism (hotel reservations, tickets, recommendations and reviews of tourist services); development of electronic and computer equipment, services and resources for the collection, processing and transmission of audio and video material (media); medical and lifestyle services; educational services; and financial services.

Stages in the life cycle of a project/company and their definitions:

Seed stage: The company has a concept or idea for a product, but no final product; work is under way on a prototype.

Startup stage: The company has a pilot version of a product, or an initial demonstration version; testing is under way.

Early stage: The company has a product ready to enter the market, and demand is being tested.

Expansion stage: The product is available on the market, and sales and demand growth can be seen.

Later stage: The company is becoming a major organisation and exhibiting the characteristics of a public company.

* Because of greater investor activity at more mature stages, "major" deals are now valued at above USD 100 million.

RVC is a government fund of venture capital funds, a development institute of the Russian Federation, and one of Russia's key tools in building its own national innovation system. RVC was established by the Russian Government in accordance with Order Number 838-r of 7 June 2006.

RVC's authorised capital stands at over RUB 30 bn. It is 100% owned by the Federal Agency for State Property Management (Rosimuschestvo).

As of 2012, RVC-backed funds boast a portfolio of 139 companies. Invested capital totals more than RUB 12.1 bn.

RVC's main goal is to stimulate the creation in Russia of a domestic VC investment industry, and significantly increase venture capital funds' financial resources.

An important area of RVC's work is creating and supporting a special-purpose service infrastructure for VC market players, to increase transparency of investee funds and companies, to ensure Russia has an environment in this area that is conducive to international investors and entrepreneurs, and to optimise legislation affecting the development of innovative business.

The publication of the report MoneyTree™: Venture Capital Market Navigator is a crucial step in supporting the development of the infrastructure of the Russian venture-innovation ecosystem, with RVC participating as a development institute.

The MoneyTree™ Russia Report is prepared on a basis of RVC project "Database of the Russian venture-innovative ecosystem". Company Venture Database acts as a partnering company of the RVC project to collate and compile data on deals and venture-innovative market players.

VENTURE DATABASE

Venture Database is a statistics provider for innovation venture market in Russia. Industry professionals get insight on investment deals, projects and market participants; corporations get perspective on new business models and innovation ideas.

RUSBASE

RusBase is the main channel through which it is possible to interact with the Russian venture community. Platform that provides news, market data and services that help to launch business or invest in Russia. As a media platform, RusBase covers all trusted news and current trends of the Russian VC market. This database also contains relevant and up to date information about the Russian startup ecosystem.

PwC Center for Technology and Innovations (CTI) was opened in Russia in autumn 2009, with its stated goal being to foster the development of the Russian innovation and technology market. CTI specialists help companies and governments design strategies for innovative development, create technology clusters, accommodate these innovations in laws and develop the infrastructure for the innovations market. For more close work with fast-growing innovation companies CTI opened its office in the Digital October technological entrepreneurship center in October 2011.

Supporting young innovation companies is one of the Center's main roles. Drawing on our many years of work with the world's largest technology companies, we have a clear vision of how they succeed, and what obstacles they have to overcome on their road to success. Collaborating with young companies and entrepreneurs, the CTI not only pools the experience and knowledge of its experts in Russia, but also draws on the experience and knowledge of experts and its wide net of contacts across the entire global network of PwC firms. Similar centres are operating in PwC USA and Luxembourg, thus offering Russian startups direct access to global markets.

We are confident that the MoneyTree™ Russia Report will become an important tool for the further development of Russia's venture capital market, helping to open it up to a host of foreign players.

PwC in Russia (www.pwc.ru) provides industry-focused assurance, tax, legal and advisory services. Over 2,300 professionals working in PwC offices in Moscow, St Petersburg, Kazan, Ekaterinburg, Novosibirsk, Krasnodar, Voronezh, Yuzhno-Sakhalinsk and Vladikavkaz share their thinking, experience and solutions to develop fresh perspectives and practical advice for our clients. The global network of PwC firms brings together about 181,000 people in 158 countries.

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