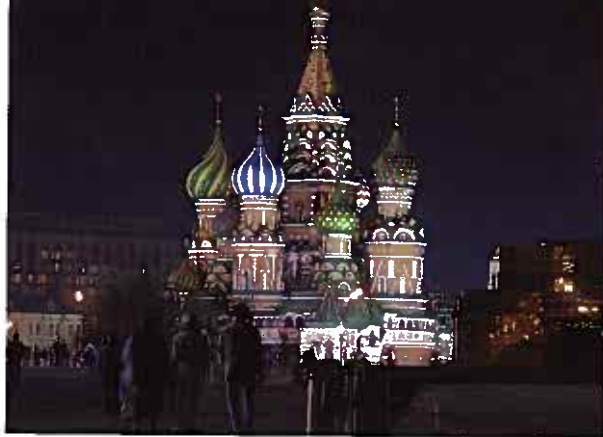


LETTER FROM MOSCOW



Patricia Cloherty (right), chairman and chief executive of Russia-focused Delta Private Equity Partners, reflects on a tumultuous year

There has been at least one and sometimes more than one major debt-induced crisis every decade of my professional life, and that's been almost 40 years. Debt is seductive: on the upside everyone is complicit and on the downside it's painful, but markets accommodate.

What surprised me in Russia was the extent of indebtedness that has been incurred over the past four or five years. International banks were eager to lend to rapidly growing Russian companies and the companies were eager to accept low-priced debt.

The liquidity crisis really revealed the fragility of the Russian financial markets and banking system, which after all are pretty new. A lot of the structural strengthening that was basically deferred over the years, because there was less need for it, will now be constructed and put in place.

We have paused from making new investments, because our pipeline, which was strong before the escalation of the financial crisis, consisted of yesterday's deals at yesterday's valuations. Right now there are a lot of variables in motion, including the currency devaluation, price of oil, interest rates, bank lending and government bail outs.

In these times you tend to the assets that you own. You accelerate receivables if possible, extend payables and trim away unnecessary expenses. Those companies that get through the crisis will be forced today to be more efficient. Productivity will go up after growth resumes.

There may be some consolidation among private equity firms, but that's healthy. ■

