Industry Insights
The facts for your business

IT Outsourcing & Software Development in Russia
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This report is an overview of the IT Outsourcing & Software Development in Russia rather than an exhaustive report of the entire IT industry. We would be happy to provide a more detailed report on a specific subject.
Executive Summary (1)

The Russian IT outsourcing and software development market is estimated at USD 12.7 bn, which accounts for approximately 1.1% of GDP.

Companies in Russia purchased software for a total of USD 2.5 bn and IT outsourcing services for USD 3.1 bn in 2014.

Russia’s exports of software and IT services were estimated at approximately USD 7 bn in 2015.

Russia’s exports of software and services increased by 17% in 2015 compared to 2014. From 2009, this market segment has increased by a factor of 2.5 showing a CAGR of 16.5%.

State agencies purchased via public tenders software for a total of USD 1.4 bn, 77% of the value was foreign software.

The Russian IT market is going through a structural change: hardware sales are declining as business process automation software, cloud services, Big Data solutions, outsourcing and business analysis systems are in greater demand.

The Ruble’s devaluation makes the country attractive as an exporter of services from the cost perspective.

There are more than 3 500 software companies, of which 60% have export revenues.

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**Russian IT market, USD bn; %**

- Software, 2.5, 20%
- IT services, 3.1, 24%
- IT equipment, 7.1, 56%

Sources: Rosstat, IDC, Frost & Sullivan

**Purchases of software and IT outsourcing services in Russia, USD bn**

- Software
- IT outsourcing

<table>
<thead>
<tr>
<th>Year</th>
<th>Software (bn)</th>
<th>IT outsourcing (bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>0.5</td>
<td>1.2</td>
</tr>
<tr>
<td>2010</td>
<td>1.5</td>
<td>1.6</td>
</tr>
<tr>
<td>2011</td>
<td>1.8</td>
<td>1.6</td>
</tr>
<tr>
<td>2012</td>
<td>2.3</td>
<td>2.6</td>
</tr>
<tr>
<td>2013</td>
<td>4.1</td>
<td>2.6</td>
</tr>
<tr>
<td>2014</td>
<td>3.1</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Source: Rosstat

---

**Sources:** Rosstat, IDC, Frost & Sullivan.
Executive Summary (2)

- **Established software hubs** are in Moscow, St. Petersburg, Nizhny Novgorod and Novosibirsk. Moscow is well-known for business application programming whereas others are centers for scientific programming.

- Russia is home to **brands** that have gained or are gaining international renown, such as Kaspersky, Yandex, InfoWatch, Positive Technologies, Prognoz, EMC, Diasoft, Naumen, Parallels, Acronis, Auriga, Data Art, First Line Software, MERA, Reksoft, Return on Intelligence and Maykor. In addition, there are hundreds more companies in the sector.

- **Russia is #12** in the global mobile gaming industry with **USD 1.3 bn** revenues.

- **IT outsourcing market is changing**: oil & gas companies are reducing their expenditures while banks and retail companies are spending more.

- About **25 000** IT professionals graduate every year from universities. This is not enough due to a deficit of specialists due to strong competition with integrators and vendors for talent.

- Very strong school of mathematics: highly **complex mathematical analysis and algorithmic thinking** differentiate Russia from other countries.

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**Export of software and IT services from Russia, USD bn**

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>2.8</td>
<td>3.3</td>
<td>4.0</td>
<td>4.6</td>
<td>5.4</td>
<td>6.0</td>
<td>7.0</td>
</tr>
</tbody>
</table>

*Source: Russoft*

**Access to IT, % of households**

- Laptops and netbooks: 37% (2014), 33% (2015)
- Tablets: 19% (2014), 23% (2015)
- Smartphones, handhelds: 41% (2014), 41% (2015)
- Access to Internet: 70% (2014), 72% (2015)

*Source: Rosstat*
“The Russian software development sector offers huge opportunities and growth. It is a focus sector of the Russian government strategy for the future Russian economy.”

- Consistently strong results in the ACM International Collegiate Programming Contest. Russian students won the contest 10 times: St. Petersburg ITMO University won 6 times (the only six-time winner in the world) and St. Petersburg University won 4 times (most recent win in 2016). Top 10 global performers in 2016 included teams from Urals Federal University (Ekaterinburg) and Nizhny Novgorod State University
- Estimates of software developers working in Russia range between 400,000 (Microsoft) to 890,000 (EDC)
- 102 million Internet users (71% of population), the country has very quickly embraced the Internet and new technologies
- The government provides significant tax incentives for software companies
- The government is pushing for local software champions. Government agencies and state-owned companies have to justify why they buy foreign software if there is a Russian equivalent in such fields as business applications, antivirus software, information security, and Internet servers in business environment
- List of Russian-made software was established in 2015
- 30 science and technology parks have been created to serve as the impetus for the sector’s development in the future
Russia: Facts & Advantages

Vast potential

- Russia is a major market with **144 million** inhabitants, of which 74% live in urban areas
- **Very close to Europe** with strong historic and economic ties
- **77 million** people are working age (aged 15-72)
- **Good education system** with a strong technical/science heritage
- **100%** of population is literate with 95% with at least upper secondary education
- **950 state and private universities** produce 1.2 million graduates a year (almost double from 2000)
- According to OECD, **54%** of those aged 25-64 have attained university degree
- Approximately **30%** of graduates major in sciences and technology
- **12th largest economy in the world** measured by GDP in real terms: USD 1 325 billion
- **6th largest economy in the world** measured by GDP based on PPP valuation
- **GDP per capita** in 2015 at current prices: **USD 9 055** (and USD 25 411 based on PPP)
- **Significant progress** in World Bank’s ‘Ease of doing business’ ranking: **51st place in 2016** (2015: 62nd)

### GDP, USD bn

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public debt, USD bn*</td>
<td>112</td>
</tr>
<tr>
<td>Public debt as a % of GDP</td>
<td>9%</td>
</tr>
<tr>
<td>Private debt, USD bn</td>
<td>165</td>
</tr>
<tr>
<td>Private debt as a % of GDP</td>
<td>13.2%</td>
</tr>
<tr>
<td>Human Development Index (HDI)</td>
<td>0.798</td>
</tr>
<tr>
<td>Unemployment, %</td>
<td>5.9</td>
</tr>
</tbody>
</table>

*Year-end exchange rates were used.  
Source: Federal State Statistics Service (Rosstat), FocusEconomics, UNDP, Central Bank
IT Outsourcing and Software Development: Role in the Economy

1.2% is the sector’s contribution to the economy

890 000 Specialists

1.1% of total working population

3rd Leading country in software exports after India and China

90% of players are small and medium sized companies

Russia's software and IT outsourcing services market, USD bn

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Consumption</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>7.4</td>
<td>3.4</td>
</tr>
<tr>
<td>2012</td>
<td>9.5</td>
<td>4.9</td>
</tr>
<tr>
<td>2013</td>
<td>12.1</td>
<td>6.7</td>
</tr>
<tr>
<td>2014</td>
<td>11.6</td>
<td>5.6</td>
</tr>
<tr>
<td>2015</td>
<td>12.0</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Sources: Rosstat, IDC, Russoft, own estimates
Target Markets (1)
Customers by Industry

Users of IT Outsourcing Services by Industry, %
- Financial services: 21%
- Real estate, renting and services: 18%
- Manufacturing: 14%
- Transport and communications: 12%
- Public administration and defence, social insurance: 12%
- Wholesale and retail trading; repair services: 9%
- Electricity, gas and water supply: 8%
- Healthcare and social services: 8%
- Construction: 7%
- Other: 4%

Software Purchases by Industry, %
- Financial services: 29%
- Real estate, renting and services: 16%
- Transport and communications: 12%
- Public administration and defence, social insurance: 12%
- Wholesale and retail trading; repair services: 9%
- Electricity, gas and water supply: 8%
- Mining: 3%
- Healthcare and social services: 3%
- Construction: 3%
- Other: 2%

Source: Rosstat
Target Markets (2)
IT Outsourcing

- Russian government agencies and private sector have been actively outsourcing IT support functions to independent local players
- Top IT outsourcing projects involved creation of large databases and servicing IT infrastructure of retail outlets in multiple locations

<table>
<thead>
<tr>
<th>Customer</th>
<th>Sector</th>
<th>Provider</th>
<th>Geography</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Post</td>
<td>Services</td>
<td>Maykor</td>
<td>All Russia</td>
<td>2014-2017</td>
</tr>
<tr>
<td>Universal Electronic Card</td>
<td>Transport</td>
<td>Maykor</td>
<td>Moscow Region</td>
<td>2015-2022</td>
</tr>
<tr>
<td>Rosreestr (Real Estate Registry Service of Russia)</td>
<td>Government</td>
<td>I-Teco</td>
<td>All Russia</td>
<td>2015</td>
</tr>
<tr>
<td>Analytics Center, Supreme Court of Russia</td>
<td>Government</td>
<td>Orbita Service</td>
<td>All Russia</td>
<td>2015</td>
</tr>
<tr>
<td>Pension Fund of Russia</td>
<td>Government</td>
<td>Technoserv</td>
<td>All Russia</td>
<td>2015</td>
</tr>
<tr>
<td>MegaFon Retail</td>
<td>Retail</td>
<td>Maykor</td>
<td>500 cities</td>
<td>2015-2016</td>
</tr>
<tr>
<td>Sberbank (macro-region branch)</td>
<td>Finance</td>
<td>IT Center Voronezh Reg.</td>
<td>6 regions</td>
<td>2014-2015</td>
</tr>
<tr>
<td>Baltbet</td>
<td>Services</td>
<td>Maykor</td>
<td>190 cities</td>
<td>2014</td>
</tr>
<tr>
<td>Rostelecom – Retail Systems</td>
<td>Retail</td>
<td>Maykor</td>
<td>All Russia</td>
<td>2015</td>
</tr>
<tr>
<td>Pochta Bank</td>
<td>Finance</td>
<td>Jet Infosystems</td>
<td>All Russia</td>
<td>2014</td>
</tr>
<tr>
<td>Sberbank (macro-region branch)</td>
<td>Finance</td>
<td>Maykor</td>
<td>Eastern Siberia</td>
<td>2014</td>
</tr>
<tr>
<td>Kari</td>
<td>Retail</td>
<td>Maykor</td>
<td>All Russia</td>
<td>2015-2016</td>
</tr>
<tr>
<td>Bank Otkrytie</td>
<td>Finance</td>
<td>Maykor</td>
<td>All Russia</td>
<td>2014-2015</td>
</tr>
<tr>
<td>Detski Mir</td>
<td>Retail</td>
<td>Maykor</td>
<td>All Russia</td>
<td>2015</td>
</tr>
<tr>
<td>Melon Fashion Group</td>
<td>Retail</td>
<td>Maykor</td>
<td>All Russia</td>
<td>2015</td>
</tr>
</tbody>
</table>

Source: TAdviser
Target Markets (3)
Data Centers

Strong concentration in the two capitals with a number of new centers launches driven by legislation changes

- 170-180 large- and mid-sized data centers operate in Russia (iKS-Consulting)
- Vast majority of data centers are in Moscow and St. Petersburg
- Data centers in other areas are scarce
- Revenues are showing double-digit growth
- Prices have not basically changed since 2014 in order to attract new clients
- Data centers serve not only Russian companies but also firms based in the EU

<table>
<thead>
<tr>
<th>Rating</th>
<th>Company</th>
<th>Number of racks</th>
<th>Power supply, MWt</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>DataLine</td>
<td>2 718</td>
<td>26,6</td>
</tr>
<tr>
<td>2</td>
<td>MMTS-9</td>
<td>1 358</td>
<td>6,5</td>
</tr>
<tr>
<td>3</td>
<td>Linxtelecom</td>
<td>1 200</td>
<td>17</td>
</tr>
<tr>
<td>4 (5)</td>
<td>SafeData</td>
<td>1 190</td>
<td>14</td>
</tr>
<tr>
<td>5 (4)</td>
<td>Selectel</td>
<td>1 190</td>
<td>12,8</td>
</tr>
<tr>
<td>6</td>
<td>KROK</td>
<td>990</td>
<td>11</td>
</tr>
<tr>
<td>7</td>
<td>TrustInfo</td>
<td>960</td>
<td>8</td>
</tr>
<tr>
<td>8</td>
<td>Stack Group</td>
<td>901</td>
<td>8,7</td>
</tr>
<tr>
<td>9</td>
<td>DataPro</td>
<td>850</td>
<td>20</td>
</tr>
<tr>
<td>10</td>
<td>DataSpace</td>
<td>820</td>
<td>9,5</td>
</tr>
</tbody>
</table>

Source: CNews
Based on the Russoft survey of software developers, their target industries are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>74%</td>
<td>70%</td>
<td>74%</td>
<td>75%</td>
<td>68%</td>
</tr>
<tr>
<td>Banking</td>
<td>23%</td>
<td>36%</td>
<td>26%</td>
<td>27%</td>
<td>34%</td>
</tr>
<tr>
<td>Telecom</td>
<td>26%</td>
<td>38%</td>
<td>31%</td>
<td>35%</td>
<td>27%</td>
</tr>
<tr>
<td>Industrial Manufacturing</td>
<td>27%</td>
<td>36%</td>
<td>38%</td>
<td>40%</td>
<td>37%</td>
</tr>
<tr>
<td>Business Logistics, Travel &amp; Transportation</td>
<td>28%</td>
<td>37%</td>
<td>29%</td>
<td>33%</td>
<td>31%</td>
</tr>
<tr>
<td>Government</td>
<td>21%</td>
<td>31%</td>
<td>24%</td>
<td>34%</td>
<td>28%</td>
</tr>
<tr>
<td>Power Supply, Gas &amp; Oil</td>
<td>17%</td>
<td>22%</td>
<td>22%</td>
<td>24%</td>
<td>29%</td>
</tr>
<tr>
<td>Healthcare &amp; Pharmaceuticals</td>
<td>23%</td>
<td>29%</td>
<td>28%</td>
<td>31%</td>
<td>28%</td>
</tr>
<tr>
<td>Retail &amp; Distribution</td>
<td>26%</td>
<td>41%</td>
<td>29%</td>
<td>31%</td>
<td>24%</td>
</tr>
<tr>
<td>Education</td>
<td>21%</td>
<td>28%</td>
<td>28%</td>
<td>31%</td>
<td>24%</td>
</tr>
<tr>
<td>Science &amp; Research</td>
<td>18%</td>
<td>28%</td>
<td>26%</td>
<td>31%</td>
<td>20%</td>
</tr>
<tr>
<td>Gambling &amp; Entertainment</td>
<td>9%</td>
<td>17%</td>
<td>15%</td>
<td>18%</td>
<td>17%</td>
</tr>
<tr>
<td>Media</td>
<td>13%</td>
<td>20%</td>
<td>18%</td>
<td>15%</td>
<td>18%</td>
</tr>
<tr>
<td>Sport &amp; Travel</td>
<td>10%</td>
<td>20%</td>
<td>17%</td>
<td>18%</td>
<td>11%</td>
</tr>
<tr>
<td>Insurance</td>
<td>13%</td>
<td>28%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Building &amp; Real estate</td>
<td>12%</td>
<td>23%</td>
<td>17%</td>
<td>21%</td>
<td>28%</td>
</tr>
<tr>
<td>Services</td>
<td>27%</td>
<td>40%</td>
<td>35%</td>
<td>31%</td>
<td>26%</td>
</tr>
<tr>
<td>Financial Services</td>
<td>25%</td>
<td>30%</td>
<td>26%</td>
<td>27%</td>
<td>21%</td>
</tr>
<tr>
<td>Energy</td>
<td>17%</td>
<td>22%</td>
<td>21%</td>
<td>20%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Source: russoft.ru
Target Markets (5)
Software Development

- USD 5 bn market volume
- Largest growth in custom software development services
- Trend toward development of ready-to-use solutions
- Strong increase in export volumes
- More than 3 500 active software companies
- Leading software developers by revenue band:

### USD 500m+

<table>
<thead>
<tr>
<th>Company</th>
<th>HQ location</th>
<th>Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 1C</td>
<td>Moscow</td>
<td>Accounting, databases</td>
</tr>
<tr>
<td>2 Cognitive Technologies</td>
<td>Moscow</td>
<td>Enterprise functional management</td>
</tr>
<tr>
<td>3 EPAM Systems</td>
<td>Minsk/Moscow</td>
<td>Bespoke development</td>
</tr>
<tr>
<td>4 Kaspersky Lab</td>
<td>Moscow</td>
<td>Antivirus</td>
</tr>
<tr>
<td>5 Center of Financial Technologies</td>
<td>Novosibirsk</td>
<td>Banking software</td>
</tr>
<tr>
<td>6 Luxoft</td>
<td>Moscow</td>
<td>Bespoke development</td>
</tr>
</tbody>
</table>

### USD 100-500m

<table>
<thead>
<tr>
<th>Company</th>
<th>HQ location</th>
<th>Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Abbyy</td>
<td>Moscow</td>
<td>Optical text recognition, form entry, dictionaries</td>
</tr>
<tr>
<td>2 Acronis</td>
<td>Moscow</td>
<td>Back-up and data storage</td>
</tr>
<tr>
<td>3 CBOSS</td>
<td>Moscow</td>
<td>Billing systems for telecoms</td>
</tr>
<tr>
<td>4 Parallels</td>
<td>Novosibirsk</td>
<td>Virtualisation</td>
</tr>
<tr>
<td>5 SKB Kontur</td>
<td>Ekaterinburg</td>
<td>DMS, accounting</td>
</tr>
<tr>
<td>6 Prognoz</td>
<td>Perm</td>
<td>Business intelligence</td>
</tr>
<tr>
<td>7 Transas</td>
<td>St Petersburg</td>
<td>Transport management</td>
</tr>
<tr>
<td>8 Veeam</td>
<td>St Petersburg</td>
<td>Availability and back-up solutions</td>
</tr>
</tbody>
</table>

Note: Companies are sorted alphabetically within their revenue groups
Source: Russoft, TAdviser
Target Markets (6)
Mobile Applications Development

- Thanks to the pervasive use of smartphones and other mobile devices, mobile apps have become very popular.
- Russian market of mobile apps is estimated at USD 1.3 bn in 2016 (J’son & Partners Consulting).
- Russia is #5 globally by the number of downloads.
- Russia is #3 in the global retail mobile conversion rate index (Criteo).
- Leading software developers by revenue band:

<table>
<thead>
<tr>
<th>Developer</th>
<th>Rating</th>
<th>No. of Apps</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 CleverPumpkin</td>
<td>8,73</td>
<td>145</td>
</tr>
<tr>
<td>2 Touch Instinct</td>
<td>5,29</td>
<td>110</td>
</tr>
<tr>
<td>3 Sebbia</td>
<td>5,1</td>
<td>137</td>
</tr>
<tr>
<td>4 e-Legion</td>
<td>4,9</td>
<td>102</td>
</tr>
<tr>
<td>5 REDMADROBOT</td>
<td>3,86</td>
<td>99</td>
</tr>
<tr>
<td>6 Infoshell</td>
<td>3,25</td>
<td>96</td>
</tr>
<tr>
<td>7 MobileUp</td>
<td>2,46</td>
<td>73</td>
</tr>
<tr>
<td>8 Smorodina</td>
<td>2,14</td>
<td>50</td>
</tr>
<tr>
<td>9 King Bird Studio</td>
<td>1,99</td>
<td>75</td>
</tr>
<tr>
<td>10 Asmo-Press Media Group</td>
<td>1,98</td>
<td>209</td>
</tr>
</tbody>
</table>

Source: CMS Magazine
Target Markets (7)
Major Offshore Development Centers

- Moscow, St. Petersburg and Novosibirsk are the leaders in the software development industry
- The former cover around 70% of the total market
- St. Petersburg is the leader in graduates from IT, science and engineering with 28,000 graduates p.a., Moscow 24,000 and Novosibirsk 15,000

Number of software offshore development centers per city

- St. Petersburg: 125
- Moscow: 160
- Novosibirsk: 41
- N. Novgorod: 11
- Kazan: 7
- Ekaterinburg: 8
- Rostov: 6
- Samara: 9
- Vladivostok: 3
- N. Novgorod: 11
- Kazan: 7
Labor Market in Software Development

- St. Petersburg labor market with approx. 232,000 IT employees and average salary of USD 18,000 p.a.

- Moscow labor market with approx. 510,000 IT employees and average salary of USD 21,000 p.a.

- Russian educational system is traditionally strong in fundamental sciences and math, leading to Russian programmers being well trained in problem solving and algorithmic thinking

- Russian labor market is far more stable than Indian, leading to very low personnel attrition rates (below 10% annually vs. 20-25% or higher in India)

### Average gross monthly salary in 2015 (in USD)

<table>
<thead>
<tr>
<th></th>
<th>Java</th>
<th>1C</th>
<th>C#/.NET</th>
<th>C++</th>
<th>Delphi</th>
<th>PHP</th>
<th>Python</th>
<th>Ruby/ Rails</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Junior Programmer</strong></td>
<td></td>
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<td>1 057</td>
<td>797</td>
<td>760</td>
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<td>1 001</td>
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<td>1 761</td>
<td>1 576</td>
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<td>1 761</td>
<td>1 798</td>
<td>1 706</td>
<td>1 798</td>
<td>1 835</td>
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<tr>
<td><strong>Senior Programmer</strong></td>
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<tr>
<td>-</td>
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<td>2 521</td>
<td>2 114</td>
<td>2 243</td>
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<td>2 503</td>
<td>2 762</td>
<td>2 262</td>
<td>2 521</td>
<td>2 577</td>
<td>2 466</td>
<td>2 503</td>
<td>2 503</td>
</tr>
</tbody>
</table>

*Sources: software-russia.com*
Import Substitution (1)

Software

- The government is pushing an active import substitution agenda in key segments, including software development
- Federal Law #188-FZ dated 29.06.2015 provides for preferences to local software producers involved in state tenders; the law has been in effect since 01.01.2016
- If a Russian equivalent of a foreign software program or database is available, the customer should buy it. If it does not want, it should publicly justify why
- Criteria for treating software as that of Russian origin set out in the law:
  - Exclusive rights to this software are owned by Russia, its region or municipality, a Russian company or non-commercial entity in which Russia has more than 50% of shares, and Russian citizens
  - A foreign entity should have no control over the owner of rights
  - Payments in favor of foreign entities should not exceed 30% of all payments for this specific software
- Government’s Decree #1236 dated 16.11.2015:
  - Establishes a log (registry) of Russian software and sets out rules of maintaining it
  - Contains a procedure of justifying why software made in Russia is not appropriate for the customer
- The registry is maintained by the Ministry of Communications
- It currently has approximately 1 200 product records; 2 260 more applications are pending
- Each record has details of the product, including brief description, technical architecture, distribution chart, production cycle, etc.
- Link to the registry: https://reestr.minsvyaz.ru/reestr/
## Import Substitution (2)

**Russian IT Market**

<table>
<thead>
<tr>
<th>Category</th>
<th>Import Share %</th>
<th>2014</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>ERP, CRM, BI …</td>
<td>75</td>
<td></td>
<td>25</td>
</tr>
<tr>
<td>Antivirus</td>
<td>60</td>
<td></td>
<td>40</td>
</tr>
<tr>
<td>Internet / Cloud Services</td>
<td>50</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Server operating systems</td>
<td>75</td>
<td></td>
<td>50</td>
</tr>
<tr>
<td>PLM, CAD, CAM, CAE</td>
<td>88</td>
<td></td>
<td>50</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accounting</th>
<th>ERP</th>
<th>Import</th>
<th>Legal</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[Graph showing percentage changes from 2014 to 2025 for different categories]
SWOT Analysis
IT Outsourcing and Software Development

**Strengths**
- Large educated workforce
- Highly developed IT technical skills
- Expertise in complex non-standard solutions
- High concentration of technical universities in main IT cities
- Low attrition rate
- Nearshoring opportunities because time zones are more aligned with Europe and the U.S.
- Existing significant players
- Special tax regime for software companies

**Weaknesses**
- Insufficient supply of IT specialists and strong competition from integrators and vendors
- Language skills are less developed than in some other CEE countries
- Visa requirements cause difficulties to travel to Russia
- Legal restrictions in internet related IT

**Opportunities**
- Significant devaluation of currencies makes Russia attractive from the cost perspective
- Growth of nearshoring
- Growth potential of existing industry players, they have attained major market niches
- Increasing interest in complete IT outsourcing and cloud services
- Improved marketing of Russia’s IT export potential
- Preferences to Russian software products and service providers at state tenders
- Subsidies to high-tech industry

**Threats**
- Competition not only from traditional rivals (China and India) but also from other Asia Pacific players and Central and Eastern Europe
- Legislation changes and isolationism
- Stalemate in sanctions
- Continued brain drain
Current Tax Exposure
Non-accredited IT Companies

- Corporate Profit Tax: 20%
- Simplified Tax regime:
  - As tax on profit (normal rate) 15%
  - As tax on turnover (normal rate) 6%
- VAT normal rate 18%
- VAT reduced rate 10%
- VAT on exports 0%
- Personal Income Tax 13%
Tax and Regulatory Advantages and Benefits
State-Accredited IT Companies

1. Reduction of Social Contributions

<table>
<thead>
<tr>
<th>Social Contribution to:</th>
<th>Accumulated Income threshold in RUR p.a.*</th>
<th>Common rates</th>
<th>IT accredited company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2016</td>
<td>2017</td>
</tr>
<tr>
<td>Social fund</td>
<td>≤ 718 000</td>
<td>2,9%</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>&gt; 718 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension fund</td>
<td>≤ 796 000</td>
<td>22%</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>&gt; 796 000</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Insurance</td>
<td>-</td>
<td>5,1%</td>
<td>4%</td>
</tr>
<tr>
<td>Accident insurance</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interim results I</td>
<td>≤ 718 000</td>
<td>30,2%</td>
<td>14,2%</td>
</tr>
<tr>
<td>Interim results II</td>
<td>718 001 – 796 000</td>
<td>27,3%</td>
<td>12,2%</td>
</tr>
<tr>
<td>Interim results III</td>
<td>&gt; 796 000</td>
<td>15,3%</td>
<td>4,2%</td>
</tr>
</tbody>
</table>

2. Other benefits

- Accelerated depreciation of IT equipment
- Lower minimum salary for foreign Highly Qualified Specialists
- >3 000 accredited companies
Establishing Legal Presence

- Usually as an OOO (limited liability company)
- Registration with tax authorities within 5 working days
- Further registrations with non-budgetary funds, opening of bank accounts usually take another 3 weeks
- Minimum charter capital RUR 10 000 (≈ EUR 140)
- 100% foreign ownership possible
- Legal address required
- One or more general directors as single executive body
- Foreign general directors possible but Russian citizen is required until work permit is received
- Work permits for foreigners as Highly Qualified Specialists in 3 - 4 weeks
- Special accreditation for software companies is possible in case certain criteria are fulfilled
IT Industry Parks (1)

- **Skolkovo**
  - High tech business area
  - Technopark 95 000 m²
  - 336 resident companies
  - 8 600 jobs
  - Generating RUR 19.4 bn in revenues
  - Strong government support and financing, grants and top infrastructure
  - Clusters for IT, energy, biomed, space & nuclear
  - Management school & private research university
  - Collaboration with international companies such as IBM, Siemens, Nokia, Microsoft, Cisco, EMC, etc.
  - Tax benefits for residents

http://sk.ru/
IT Industry Parks (2)

Tomsk SEZ

- IT, Nanotech, Biotech focus
- 34,000 m²
- 60 resident organizations, of which 27 in software and hardware, 13 foreign organizations
- 2,000 jobs
- Generating RUR 1 bn in revenues
- Special tax and customs regime
- Close to Tomsk Scientific Centre of the Russian Academy of Science

http://www.investintomsk.com/investicionnye_vozmozhnosti/tomskaya_osobaya_ekonomicheskaya_zona/oez_tvt/
Kazan IT Park

- Platform to support for promising IT startups
- 30 000 m²
- 157 resident companies
- Approximately 4 000 jobs
- Generating RUR 8.7 bn in revenues
- Special tax regime applicable

http://new.itpark-kazan.ru/
Our industry-specific services (1)

- **IT services**, incl.
  - System Admin set up and permanent help desk
  - ERP systems implementation

- **Market research/ business partner search**, incl.
  - Advice on localization options (partner search, special economic zones, industrial parks, etc.)

- **Company registration and business set-up**, incl.
  - Legal and business address
  - Office search

- **Tax and legal services**, incl.
  - IT company accreditation
  - Intercompany agreements
  - Labor contracts
  - Service agreements with private entrepreneurs
  - Tax advice for managers (short- und mid-term stay) in Russia, annual tax returns
  - Tax and legal due diligence
  - Migration services (visas, work permits)
  - Transfer pricing
Our industry-specific services (2)

- **Interim management**, incl.
  - General Director, head of branch or representative office
  - Risk management

- **Recruiting services**, incl.
  - Front-office IT professionals
  - Local office management, accountants etc.

- **Outstaffing**, incl.
  - Employment of your team by SCHNEIDER GROUP
  - Work place, office equipment, secretary services provided by SCHNEIDER GROUP
  - Business software potentially provided by SCHNEIDER GROUP

- **Accounting outsourcing**, incl.
  - Financial accounting
  - Transformation and reporting according to IFRS/US GAAP
  - Payroll accounting with special knowledge about local salary-related regulations
  - Tax accounting
Thomas Titsch
IT / ERP Director
TitschT@schneider-group.com

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