

Industry Insights

The facts for your business

IT Outsourcing & Software Development in Belarus

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Agenda

- Executive Summary
- Belarus: Facts & Figures
- IT Industry: Role in the Economy
- IT outsourcing
- Software development
- Geographic Coverage of the Sector
- SWOT Analysis
- High Tech Park (HTP)
- Current Tax Exposure
- Industry Players – Top 10
- Our Industry-Specific Services
- Appendix – Details of M&A deals & IT products from Belarus

This report is an overview of the IT industry in Belarus rather than an exhaustive report. We would be happy to provide a more detailed report on a specific subject.

Executive summary

“Belarus leads in Eastern Europe by the progress of its IT sector”



- Belarus has become one of the **leading IT countries** in Eastern Europe in the past 5 years
- Despite the overall crisis in the economy, **IT industry sector** is growing rapidly
- Belarus **hosts the largest** and most established European IT outsourcing providers in Eastern Europe and the CIS countries
- Belarus’ **exports of IT**, telecommunication & information services and amounted to almost **USD 1bn** in 2015
- The Belarus **Hi-Tech Park**, created in 2005, provides strong opportunities for IT business development both to its member companies and start ups as well
- According to Software Magazine 2015 ranking, **10 Belarusian IT companies** have been included into the world’s **Top 500** IT companies

Belarus: Facts & Figures (1)



- *"Consider Belarus, particularly if you are looking to choose an Eastern European country..."*

Gartner

- *"Why Belarus? Two words – SMART PEOPLE. Belarus has a reputation of a country with a high scientific potential..."*

 **Microsoft**

- *"In the course of the last years Belarus has unexpectedly become one of the biggest software development centers in Central and Eastern Europe"*

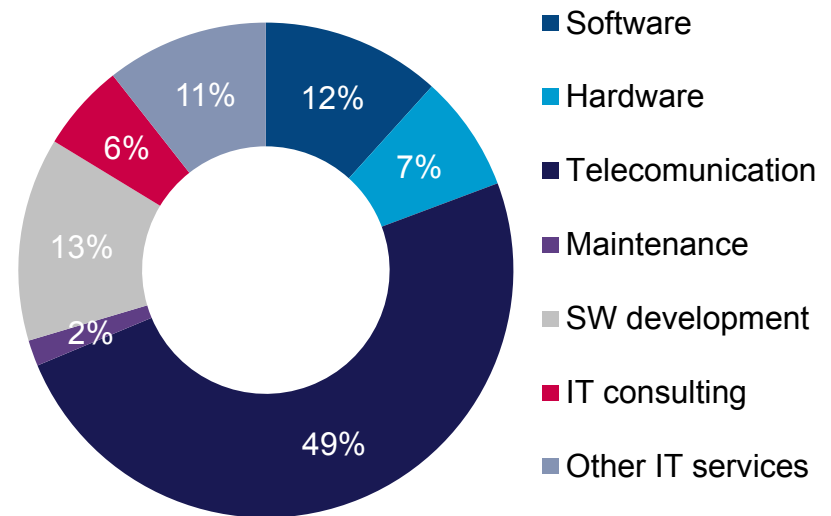
 **Deutsche Welle**

Belarus: Facts & Figures (2)

IT market is actively developing, and this creative process of innovation helps Belarus to act as an equal partner with the most successful countries on the global market

- **Significant progress** in World Bank's 'Ease of doing business' ranking: **44th place in 2016 (2015: 57th)**
- In 2015, the volume of exported computer software amounted to **USD 800m** which is **35.5 %** of total IT products exported
- Annual average growth rate for the past 5 years constituted **24-29%**
- IT services has **15%** share in gross value added of the exported services overall (2015)
- **4 550** businesses in IT sector as at December 2015
- **3 000 new** software professionals are hired by the IT companies from Hi-Tech Park annually
- About **35%** of inhabitants has higher education

Sales in IT sector by products in 2015, %



Source: Belstat

Belarus: Facts & Figures (3)



Education

- 54 universities and 16 000 graduates with IT and related technical skills annually



Experience

- High-end software development, customization, IT outsourcing and other services



Quality

- Quality for a competitive price. Hosting the largest US, EU and CIS IT outsourcing providers



State support

- High Tech Park – virtual park, created in 2005 to support IT businesses (tax & other benefits)

IT Industry: Role in the Economy (1)



10th
largest sector



25%
Average annual growth



> 38 000
engineers employed



0.85%
of total working population



> 4 500
IT companies (as at 2015)



97%
are small & medium companies

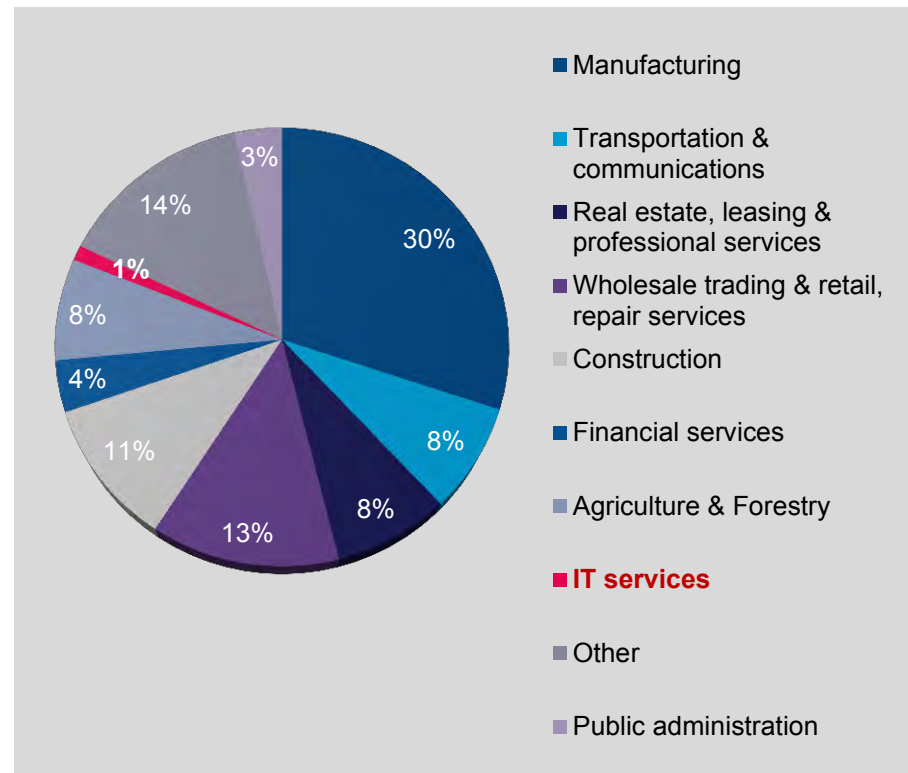


> USD 1.2 billion
IT sector's export capacity



> 50
International R&D centers

Share in gross value added in 2014, %

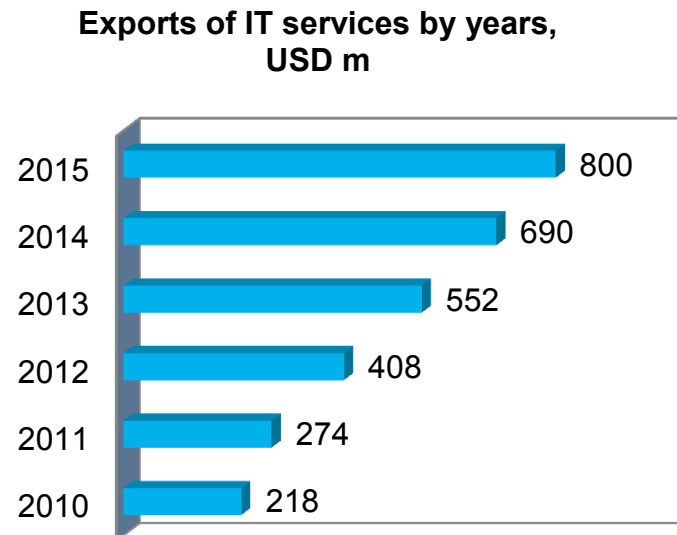
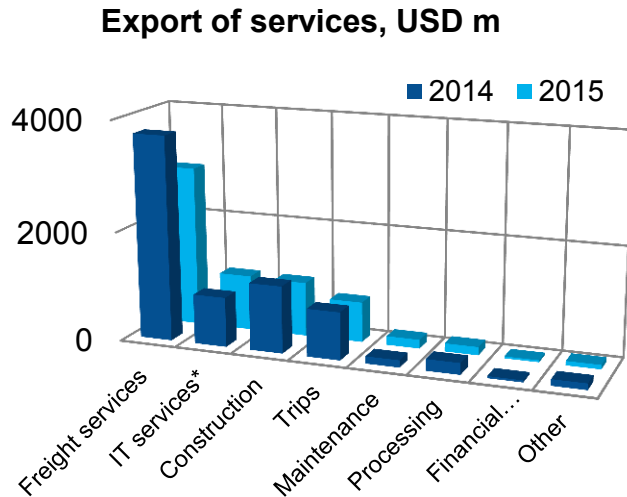


Source: Belstat, National Bank of Belarus

IT Industry : Role in the Economy (2)

According to FORBES Magazine, Per Capita Income from exports of IT services exceeds that of Russia and Ukraine

- IT services along with telecom and information services with a total share of **15.2%** have been ranked **2nd** in the overall structure of services exports for 2015
- Having increased by more than 47 times for the past 10 years pure exports of IT services accounted to almost **USD 800m** in 2015



Source: Belstat, National Bank of Belarus

IT Sector: Role in the Economy (3)

Most of the software and IT services are being exported to USA (47%) Europe (35%), Russia and other CIS countries (18%)

Core business:

- IT outsourcing
- SW development
- IT consulting
- DB related activities



Exports of IT products by selected countries, USD k

	IT service / Country	2011	2012	2013	2014
<i>IT outsourcing, SW development & IT consulting</i>					
1	USA	110 371	163 691	201 511	257 579
2	Cyprus	16 899	50 412	93 439	113 134
3	Russia	44 374	65 707	92 987	111 982
4	United Kingdom	22 028	25 782	32 616	49 409
5	Germany	23 719	27 714	32 857	36 729
6	Czech Republic	8 066	8 552	11 904	11 530
7	Finland	2 294	4 870	10 322	10 726
8	Netherlands	3 831	3 492	4 890	9 377
9	Switzerland	2 506	3 640	3 947	7 454
10	Luxembourg	2 187	3 680	3 746	7 270

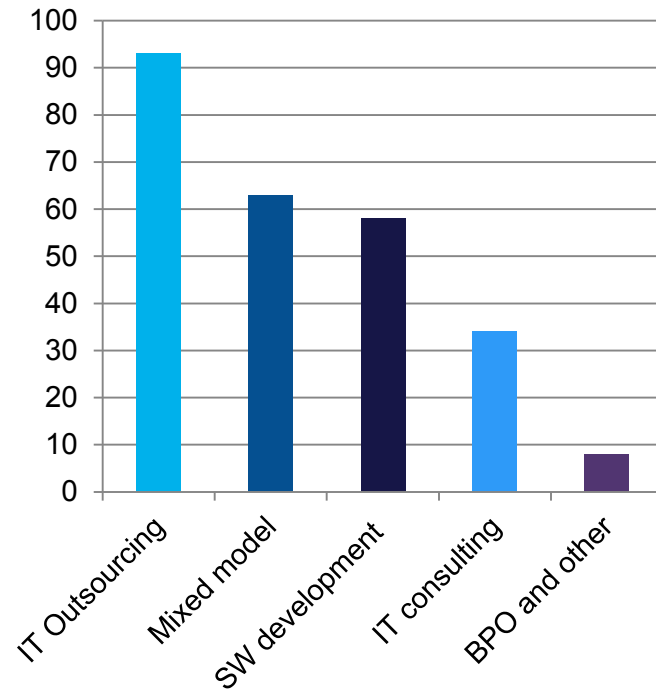
Source: Belstat

IT Outsourcing & Software Development

IT Outsourcing B2B model currently leads on an offshore programming market

- **B2B Outsourcing model** - more than 90% of companies deal with software outsourcing, however only 32.7% out of the IT companies positioned themselves as purely outsourcing companies
- **Software development (product model)** - 58% of companies offer own developed software though roughly 8% of companies develop software for their own needs.
- **Mixed model** - historically, about 60% of IT companies on the market provide outsourcing services and contemporary develop own software.
- Under a **Business Process Outsourcing (BPO)** - the companies perform routine business operations for the customers (i.e. completion of various statistics forms, maps and etc.).
- IT companies are actively engaged in **IT consulting, IT audit and system analysis** along with services of integrated process management for information systems development and implementation

Offshore programming by models, %



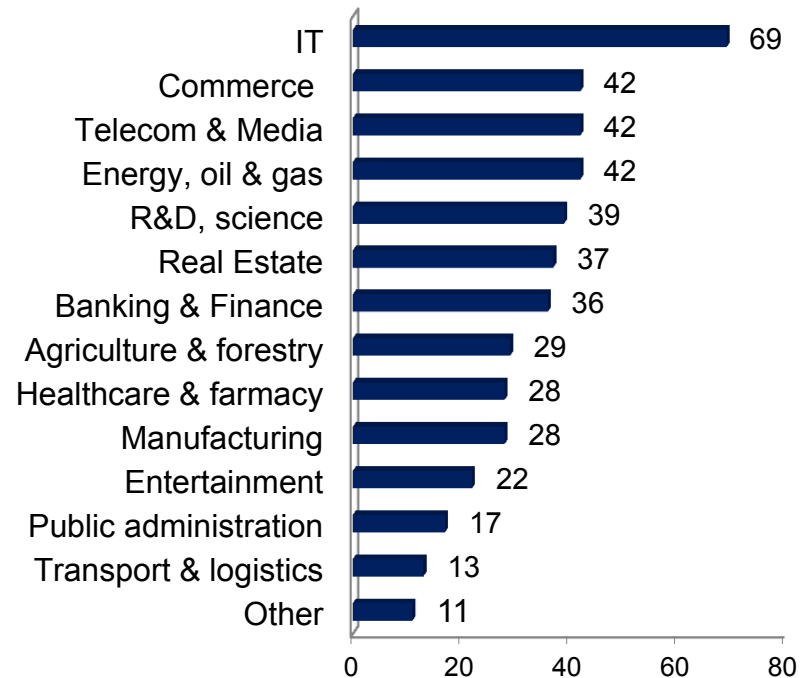
Source: "IT market in Belarus", report by Uniter IC, 2015

IT Outsourcing

According to Forbes, five out of 10 world's largest outsourcing providers are among the customers of the BY IT companies

- **Custom software development** has come a long way – from simple outsourcing to full software development life cycle, starting with design and finishing with implementation
- Belarus hosts the **largest European IT** outsourcing clients providing solutions for variety of industries, such as IT, energy, oil & gas, banking & finance, gaming and e-commerce and etc.
- The most common outsourcing solutions are: (i) **application software** (88.7% of companies), (ii) application developing and deploying (42.7%) and (iii) **software system infrastructure** (23.6%).
- More than 50% of developers offer application software whereas **system software** is only proposed by the quarter of IT companies overall.

Application of IT services by industry sectors, % of IT companies



Source: 1) "IT market in Belarus", report by Uniter IC, 2015;
2) <http://www.park.by>

Software development

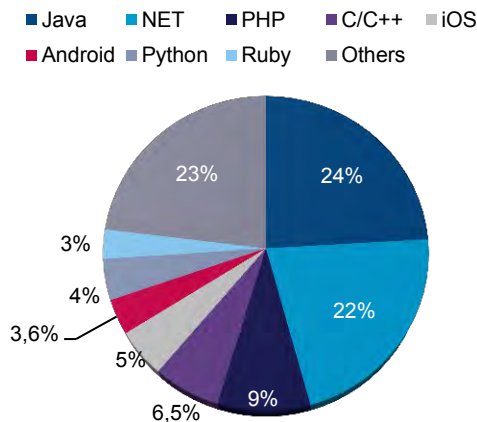


“...Due to talents and efforts of the software engineers a new industry has emerged and matured in Belarus – software development...”

(Valery Tsepka, Director of Belarus Hi-Tech Park)

- Belarus has become an attractive location for major international IT companies to open their development centers, such as **InterActiveCorp**, **Rakuten**, **SK Hynix**, **IHS**, **Playtech**, **Yandex**, etc.
- Currently, **IT products for banking & finance** have become one of the most upcoming and highly competitive trend of the IT market. As a result, about 40 companies operate in this segment and **SoftClub** is among the most strongest market players.
- Local **B2C companies** which have locally developed gaming and entertainment related IT products under the such brands as **Viber Media**, **Wargaming**, **Apalon**, **MSQRD** and etc., are well known over the globe.

Programming by technologies in 2015, %



Source: Belstat, National Bank of Belarus

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

	Java	1C	C#/.NET	C++	Delphi	PHP	Python	Ruby/ Rails
Jr. Programmer	750	700	700	750	700	600	950	800
Programmer	1 200	1 200	1 200	1 200	N/A	1 200	1 300	1 600
Sr. Programmer	2 300	1 700	2 300	2 100	N/A	2 300	2 800	3 500
Software Technical Lead	3 500	2 000	2 900	2 900	1 700	2 700	3 200	N/A

Source: www.salaries.dev.by

IT Sector: Geographic Coverage (1)



With accumulating knowledge and experience, Belarusian IT companies have grown qualitatively and become prominent players on the international scene...

- According to 2015 data, there were more than **4 500 IT companies** operating in Belarus, having major concentration in Minsk and other central cities of the region.
- 50% of IT companies are **headquartered in Belarus**, 40% in North America and Europe and the rest – are managed from Asia and other countries.
- **EPAM**, the largest IT company in Belarus by the headcount, has about 6 thousand engineers employed locally. Significant number of IT companies have implemented staff outsourcing schemes as well.
- Leading local IT companies established their own **competence centers** in Belarus where engineers can learn the world and IT best practices and improve their skills for solving creative and complicated tasks

Number of IT companies (2015)

Brest	Vitebsk	Gomel	Grodno	Minsk	Mogilev
276	254	348	225	3 360	265

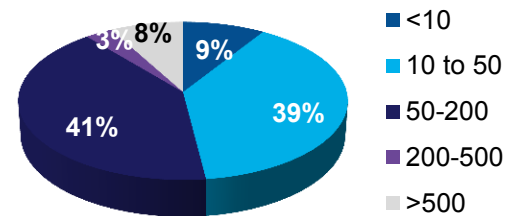


IT Sector: Geographic Coverage (2)

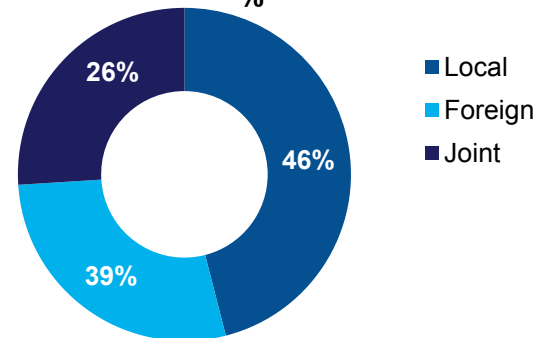
The Belarusian IT sector is mainly represented by medium sized companies employing 100 engineers on average

- Most companies are of a **medium size** having 50-200 engineers employed
- **Local investments** play leading role in the ownership structure of IT companies
- **Starts ups** and companies of 6-10 years of operating experience predominate on the market

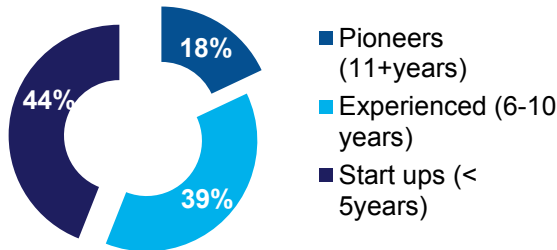
Companies by headcount, %



IT companies' ownership structure, %



HTP companies by age, %



Source: SG analysis , <http://www.dev.by>; <http://www.park.by>

SWOT Analysis

Strengths

- Strategic geographic position
- Fast-growing market
- quickly developing IT infrastructure
- Tax benefits for both individuals & entities
- Highly educated & motivated IT professionals
- Quite low setup costs as compared to other EU countries

Weaknesses

- Existing high level of bureaucracy
- Yearly changing tax and regulatory environment
- Thought the court system declared to be independent, most of the actions against governmental authorities
- B2B outsourcing model affects further growth of the local IT business in general

Opportunities

- Keep further working to raise funds from large international technology companies that have accumulated more than USD 850bn of available funds to invest as at 2014
- Consider transferring B2B to B2C model
- Establishment of venture funds focusing on IT
- Creating of own research and L&D centers by IT companies
- Boosting the local demand by increasing the public partnership projects such as e-Medicine, e-Logistics, Christy Gorod and etc.

Threats

- Devaluation of the Belarusian currency
- Significant degree of corruption across many government bodies
- Quite low level of domestic demand
- Lack of funding and foreign investments

High Tech Park (HTP)



The Belarus Hi-Tech Park could serve to showcase to other countries how to promote the ICT sector...

- Virtual Park, **created in 2005** for programming according to the initiative of the Belarusian Government
- Currently there are **152 companies** with approximately 25 000 employees among the HTP residents
- Focus industries – **IT and related industries** (nanotechnologies, telecom, wireless, wireless & cloud technologies, information protection & establishment of data processing centers)
- Produced software and IT services are being sold to clients from more than **61 countries** worldwide
- **Five out of 10 world's** largest companies (according to Forbes Lists) are among HTP customers
- HTP residents provide **80%** of information technology solutions demanded by the economy of the country
- The **export share** in total production volume of HTP resident companies exceeds **91.5%**
- World leading corporations, such as **Peugeot, Mitsubishi, BP, Gazprom, Reuters, British Telecom, London Stock Exchange, World Bank, Coca-Cola** and etc. represent major customers of the Belarusian IT companies-residents of High Tech Park
- In 2015, total revenues of Belarusian IT companies comprised about **USD 1.5bn**

Current Tax Exposure

*High Tech Park provides for significant **tax benefits*** to its residents by replacing all corporate taxes with only one single tax payable (1% on revenues)*

Tax	Standard rate in Belarus	High Tech Park benefits**
Corporate Income Tax	18%	exempt
VAT	20% / 10%	exempt
Personal income tax for tax residents	13%	9%
Social Tax	35% (on cap of 5 average wages)	35% (on cap on 1 average wage)
Dividend withholding tax	Max. 12%	exempt
Offshore tax	15%	exempt (on dividends only)
Tax in HTP	N/A	1% on revenues

* All tax benefits are provided solely with regard to qualifying activities (IT services, SW development and the like)

** High Tech Park tax treatment (duration of tax benefits) expires on December 2020 and subsequent prolongation is very expected

Industry players – Top 10

“The sector is mostly privately owned”



	Company	Revenue in 2014, USD, Mio	Specialization
1	EPAM Systems	730	Testing, IT services, ASP, SaaS
2	Game Stream	505	Box Products / Licensed Software (computer games - World of Tanks)
3	IBA IT Park	n/d	IT security, Application Software, ASP, SaaS, Custom Software Development
4	Itransition	n/d	System infrastructure software Application Software
5	Exadel	n/d	Business Process Outsourcing
6	iTechArt Group	n/d	Mobile (iOS, Android) development
7	ISsoft Solutions	n/d	Testing, Embedded Software
8	Sberbank Technology	n/d	Application development and deployment market
9	ScienceSoft	n/d	Application development and deployment market, Box Products/Licensed Software
10	System Technologies	n/d	Embedded Software, Custom Software Development, Services & Solutions

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
 - Temporary office sublease
 - Support in searching for the office spaces
- **Tax and legal services**, incl.
 - Intercompany agreements
 - Labor contracts & Service agreements
 - Tax advisory & structuring, tax returns filings
 - Tax and legal due diligence
 - Migration services (visas, work permits)



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
 - Tax accounting, reporting and compliance



Appendix – Details on M&A deals and IT Products

Major M&A deals in 2011-2014

Belarusian IT industry is increasingly involved in M&A deals

- In 2012 -2013 **Wargaming.net** has acquired **Day 1 Studios** and **BigWorld** - the US and Australian game development companies having spent about USD 65m.
- Back in 2012 **Playtech** has become the shareholder to **Viaden**, local IT development company, by acquiring of 20% of shares in its charter capital.
- In 2014 **Apalon**, the Belarusian mobile application developer, become a part of **InterActiveCorp**, the global media and IT company headquartered in the United States.
- **Rakuten**, Japan based IT company, has successfully completed the M&A deal on acquisition of 100% stake in **Viber Media**, local IT development company
- In December 2011 **HTC Corp of Taiwan** has paid USD 13.2m to **Abaxia SA** for the shareholding in the Belarusian software development company **BLRSoft**.



Locally Developed IT Products by brand awareness

*Instead of loosing a time explaining a foreigner where Belarus is on the map, we may just point out that it is a home to **Viber** and **World of Tanks**...*

World of Tanks
(online game)



Weather Live
(mobile application)



My Alarm Clock
(mobile application)



Viber
(mobile application)



Pimp Your Screen
(mobile application)



SENSE
(mobile application)





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