

-Business Opportunities

RUSSIAN ICT MARKET



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THE RUSSIAN ICT MARKET BUSINESS OPPORTUNITIES

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Executive summary

In 2014, the Russian market for software and IT services entered a difficult period. A sharp ruble devaluation caused by Western sanctions and lower oil prices in the second half of 2014, and in 2015, led to a rise in prices for hardware and software. This, in turn, caused a noticeable recession on the computer market, and the redistribution of market shares among IT developers. In addition, there was a significant reduction of demand connected with the decline of purchasing power for the market's main consumers. The market received some support from mobile network operators, and from companies that suffered from the crisis to a lesser extent (telecommunications, finance, the oil and gas industry). The market volume in rubles continued its growth due to increased costs for imported equipment and software; however, it experienced a serious decline in dollars. Preliminary estimates suggest that the size of the market in 2016 was 18 billion USD, which was 47% lower than in 2013 due to a sharp devaluation of the Russian currency. On the other hand, 2016 was a turning point for the IT industry; market growth resumed (by 6% compared to 2015). At the same time, the devaluation of the national currency was favorable for software exporters due to lower costs for producing inside Russia. In 2015, the total amount of exports were 7.6 billion USD, which was 12% higher than in 2014.

Today, the Russian market for information and communications technologies (ICT) is developing in line with global trends, and offers all types of modern IT products. Some areas (for example, M2M solutions) receive active government support, e.g. in the form of laws on the obligatory use of certain technologies like the Russian GLONASS satellite navigation system to monitor motor vehicles. During the current crisis, the state also supports the development of IT technologies that improve tax administration (fiscal performance); for example, those that mark goods in order to keep track of sales and combat illegal production and imports, and online payment terminals. At the same time, the prevalence of modern IT technologies remains relatively low in some areas where the state has a monopoly (e.g. healthcare).

The main consumers for IT services in Russia are finance companies (19% of all expenditures on software), manufacturing (16%), telecommunications (15%), professional services (14%), public institutions, and trade (6% of all expenditures on software).

The ICT market in Russia is characterized by an average level of monopolization. Both large holdings that generate billions in turnover and smaller companies are present. The total number of companies on this market is about 7,000. The majority of them are located in Moscow and Saint Petersburg.

IT holding companies like the National Computer Corporation (NCC) and Lanit are the largest IT companies in Russia. They oversee all types of IT processes, from equipment manufacturing (computers and servers) to system integration services and the development of customized software. High positions in ratings belong to companies that specialize in various IT services and selling equipment to state-run and public corporations. The Russian Top-10 includes large software developers that sell their products in Russia and abroad (Kaspersky Laboratory, Luxoft, 1C). Their total turnover reaches 1 billion USD, including foreign sales.

For most Russian developers (especially those that are export-oriented), the development of customized software is a priority. In addition, a number of companies specialize in developing mobile applications (40%), implementing standard information systems for businesses (40%), and web development.

Russian IT companies are increasing their presence on the global software market, including in the U.S., Germany, Austria, and Switzerland, as well as in Brazil, India, the Middle East, and China. Russian companies are increasingly visible in the segments of information security software, customized software, and IT services. In the beginning of 2017, at least 20 Russian companies worked with Swiss clients; this is rather low compared to the presence of Russian ICT in other European countries. The total number of Russian IT companies that have internalized their business processes on foreign markets is at least 150, by a conservative estimate.

In the beginning of 2017, at least seven Swiss companies worked in Russia and had their offices or official representatives there. Many more IT companies work with Russian clients directly from Switzerland, and export their software and IT services to Russia (the exact numbers are not available).

Russia's copyright laws provide protection for software as well as for digitized copyrighted material. This is in line with the general Western approach to these issues. Russia is a party to all major international agreements and conventions on intellectual property. Recent changes have provided a harmonized approach to patent, trademark, and copyright issues, and have replaced all previous legislation in these fields. The new laws introduced clear legal terminology, expanded intellectual property rights, resolved issues that involved conflicting laws, and generally strengthened protection for copyright holders. However, copyright violations remain a problem on the Russian ICT market, so one of the key issues for a foreign software developer working with Russian distributors is a comprehensive licensing agreement that takes into consideration both international and Russian laws, with all their idiosyncrasies.

If a foreign manufacturer decides to enter the market with the help of distributors, it should be taken into account that distributors typically do not get involved in directly promoting software, which remains the foreign company's responsibility. However, they generally are able to carry out the necessary marketing and promotional activities if the foreign software developer provides substantial funding for the promotion and advertising. In addition, it is better for foreign manufacturers to take responsibility for registering their brand names in Russia, and not to rely on their Russian partners. Finally, it is important to provide distributors with product information and marketing materials that can be translated into Russian independently or in cooperation with a Russian distributor.

Government procurement is one of the best opportunities for ICT companies in Russia. In order to improve its procedures, a website (<http://zakupki.gov.ru>) was created where all relevant information is published, including government orders for goods and services from the federal and regional authorities. An optimal way for foreign suppliers to make money in this field is to establish a local company, because Russian manufacturers receive some preferential treatment compared to foreign companies, and have the right to supply IT products and services to government institutions and public companies.

One of the best places to open an office or a production facility in Russia is the Skolkovo innovation center, located 30 km west of Moscow, where resident companies receive many legal incentives and face minimal administrative barriers and tax burden. Skolkovo is aimed at becoming an innovation hub that will stimulate innovative entrepreneurship and spread an entrepreneurial culture across the country. Also, good conditions to establish an ICT company may be found in large Russian cities (Moscow, Saint Petersburg, Yekaterinburg, Novosibirsk, Nizhniy Novgorod, Kazan, Voronezh, and Omsk) and in relatively small cities (e.g. in Taganrog with 250,000 inhabitants, or Izhevsk with a population of 640,000). They offer a positive environment for the development of world-class software companies.

Introduction

The Russian ICT market emerged during the last years of the Soviet Union. IT companies earned their initial capital from the import of computer equipment and tax incentives. After this initial period, large companies appeared on the market that offered system integration services and software development. The IT segment is today one of the most vibrant markets in Russia. Its rapid development from the end of the 1980's continued into the 21st century. During the history of its development, the Russian ICT market has demonstrated double-digit growth rates, but in 2015-2016 the growth rate decreased due to a twofold devaluation of the Russian national currency. Starting in 2014, the market started to shrink, and the forecasts for the next few years should be conservative. Although the market continues to grow in rubles, it suffered one of the deepest declines in its history in dollars. However, the year 2016 was a turning point for the industry; the market started to grow again by 6% compared to the same period of the previous year.

In conditions of the current financial crisis and international sanctions, the ICT market is developing due to public contracts, state programs, and the oil and gas industry, which has not suffered from the crisis. The financial sector (first of all, state-connected banks such as Sberbank and VTB24) also significantly influences the IT segment. The government stimulates the development of Russian IT products and import substitution through tax incentives, programs, and preferential treatment when awarding public contracts. The state also actively invests in IT technologies for implementing a system of comprehensive tax control. Active efforts are being made in certain segments to introduce QR codes and NFC tags to better control production (import) and sales; obligatory real-time sales reporting with the use of online payment terminals; e-government systems; electronic public services. At the same time, the financial crisis has led to a reduction in the cost of Russian IT products. As a result, exports of IT products have increased in the last year by 14% and reached 7.8 billion USD.

Government programs such as *Electronic Russia* (2002-2010), *Information Society* (2011-2020), the program to create technology parks (from 2004 until now), the Skolkovo innovation hub, and others have positively influenced the IT market. However, most programs with state participation have not extended to the parameters that were forecast. This is related to the low efficiency with which they are being implemented, as well as the misuse of allocated funds.

Today, the government significantly influences the ICT sector through legislative initiatives. Regulations are being introduced to localize personal data storage for users inside Russia, to create a system of state monitoring for telecommunications traffic (telephone and Internet communications) at the expense of their operators, and to tighten taxation on companies that sell their goods and IT services in Russia but are not Russian legal entities. The government has also developed and implemented a national system to block access to online resources in order to fight copyright violations, extremism, and illegal content.

1. Legal environment and business climate

The Russian Federation Ministry of Telecom and Mass Communications is the main regulator on the Russian ICT market. IT is one of the most vibrantly developing branches of Russia's economy, and legislative framework in this field is being regularly updated. However, it often lags behind the ongoing changes.

1.1. LEGISLATION WHICH AFFECTS IT BUSINESS IN RUSSIA, INCLUDING IPR'S

A number of legislative acts (federal laws, government and presidential decrees, official mandates in specific fields and industries) directly or indirectly influence the Russian ICT market. Among them are:

- The Strategy to Develop an Information Society in the Russian Federation for 2017-2030;
- The Strategy to Develop the IT Industry in the Russian Federation from 2014–2020 and Further on up to 2025;
- The Federal Law on Communications
- The Federal Law on Information, Information Technologies, and Information Protection
- The Federal Law on Licensing Certain Activities
- The Federal Law on Technical Regulation
- The Federal Law on Electronic Trading
- The Federal Law on Electronic Signatures
- The Federal Law on Personal Data
- The Russian Federation Civil Code.

1.1.1. Intellectual property rights (IPR) legislation in Russia

Russia's copyright laws generally conform to Western standards and protect software and digitalized copyrighted material. Russia is a party to all major international agreements and conventions on intellectual property. Recent changes provided a harmonized approach to patents, trademarks and copyright issues, and replaced all previous legislation in these areas. The new laws introduced clear legal terminology, expanded intellectual property rights, resolved issues of conflicting laws and generally strengthened protection for copyright holders.

Russia is a signatory to major international IPR harmonization conventions such as the WIPO treaties, which include the Universal Copyright Convention, the Berne Convention, the Paris Conventions, and the Patent Cooperation Treaty. Russian law also provides statutory protection for patents, copyright, and trademarks. It is worth noting that Russia is one of the few countries where issues involving intellectual property are regulated by a single law. All basic legislation regarding IPR protection is codified in Section 7 of the country's Civil Code (entitled "Rights to the products of intellectual activity and intellectual property designations), which came into effect on January 1st, 2008. According to this section of the code, in cases involving the infringement of exclusive rights to a product, the right holder has the power to demand compensation of up to five million rubles (about 83,000 USD). The Code of Administrative Offenses also includes liability for breach of copyright, related rights, and patents, as well as the illegal use of trademarks. In such cases, the maximum fine is limited to a more modest sum of 40,000 RUB (≈660 USD).

In the area of IT software outsourcing, the copyright for intellectual property developed by a paid employee belongs to the employer. In order to provide foreign clients with the required level of IPR protection, many Russian outsourcers set up headquarters abroad and make their delivery centers in Russia fully-owned subsidiaries.

Among the methods of dealing with IPR issues in Russia that can be considered effective in practice, and relatively cost-effective, legal deterrents like patent protection, NDA's, confidentiality agreements, the threat of lawsuits, etc. can be noted.

But copyright laws happen to be applied in arbitrary and confusing ways, therefore suppliers generally provide a more reliable way of protecting IP than government legislation. According to the opinion of industry experts, IPR's for customers who use

Russian outsourcing providers are generally safe. In practice, no major IPR violation issues for Russian providers have been reported.

In addition to carefully choosing partners based on experiences reported by peers, foreign IPR owners should rely on thorough, carefully negotiated contracts, and on registering their patents, utility models, and trademarks.

1.1.2. Taxation for foreign companies

Current tax law draws a distinction between foreign-owned representative offices operating in Russia, branch offices, and subsidiaries. Representative and foreign branch offices in Russia are taxed under standard terms. They can choose to abide by either the accounting standards used in their country of origin or by Russian ones. The transfer of funds between the main office and its overseas branch offices is not considered taxable income or deductible expenses, and as such it is not subject to withholding tax. The withholding tax rates for payments in Russia are 9 percent on dividend payments to residents, and 20 percent on interest and other payments (royalties, etc.). A Russian subsidiary of a foreign legal entity is considered a domestic taxpayer, and the transfer of funds between the subsidiary and its parent company may be subject to withholding tax. Payments from the parent company to its subsidiary also can be considered as taxable income.

1.1.3. Personal data issues

According to the “Law on Personal Data”, data on Russian citizens is to be hosted only in data centers located inside Russian borders. Since the middle of 2014, this has generated a massive data inflow because large companies used to receive services from data centers located in countries like Germany, Switzerland, or the Netherlands. This may be both a risk and an opportunity for IT companies, depending on their profile and on what side of the barrier they operate. Generally, it is a good business opportunity for local IT companies, but also for strong multinational IT companies, which started to modify their strategy to provide hosting and security-related services in Russia to comply with the new regulations.

1.1.4. Import substitution in the B2G segment

The government has adopted a number of measures to promote Russian software development. In particular, on January 1st, 2016 a federal law came into force that restricts the use of foreign software in the public sector. If a public institution intends to purchase foreign software, it will have to consult with the recently created ‘Register of Russian Software’. If a Russian-made solution is available, the institution will have to publicly explain why it prefers the foreign software to its domestic equivalent (more detailed information may be found in the following sections of this chapter).

1.2. STATE SUPPORT PROGRAMS

On November 1st, 2013, the Russian government approved a Strategy for Developing the IT Industry in the Russian Federation for 2014–2020, and Further on up to 2025 (government Decree No. 2036-r). Now, all federal executive authorities are required to comply with the strategy while developing and implementing their policy, including state programs. The provisions in the strategy are also recommended for the Russian regional authorities to use as guidance in developing regional documents concerning these issues. In order to implement the Strategy, a roadmap for developing the IT industry was approved. It addresses the research and development of information technologies, infrastructure, a system for training personnel, as well as improving institutional environment for IT business, and promoting the creation of socially significant services based on open data. According to this document, the initiative should result in the creation of electronic services based on open data in socially significant fields, e.g. education, health care, social welfare, housing and public utilities. All measures are divided into six chapters dedicated to IT research and development, IT infrastructure, basic and advanced training for IT specialists, the improvement of the institutional environment for IT businesses, the creation of an information and analytical base for the development of the IT industry, and general measures.

Most provisions in this Strategy have not yet been implemented (in particular, a state program for supporting exporters does not exist). For now, the most important areas of implementing government policy in the IT field are tax incentives for IT companies, the substitution of imported software in public institutions, and allocating funds to support science and technology parks.

Since 2011, tax incentives have existed for IT companies with less than 7 employees. In 2016, these incentives were prolonged up to the year 2023. To obtain a tax reduction, IT companies must register with the Ministry of Communications. In May 2017, the total number of such companies reached 7,000. The tax rates imposed on IT companies are 8% for compulsory pension insurance (compared to a 22% standard rate), 2% for compulsory short-term disability and maternity insurance (the general rate is 2.9%), and 4% for compulsory health insurance (the general rate is 5.1%). Therefore, the tariff for IT companies remains 14%, compared to 30% for most taxpayers. Additional tax incentives are granted for residents of the Skolkovo innovation hub. They are exempt from VAT and corporate property tax, and have a zero rate for profit tax if the profit made is below 1 billion rubles (about 15 million USD).

To support Russian companies, and provide government security guarantees for IT systems, the law creating a register for Russian software was approved in June 2015. The register was created in 2016. In November, a decree was signed that restricted the purchase of software not listed in this register by public entities. In July 2016, a plan for transition to Russian software was approved. According to this document, all government authorities need to move to Russian software between May 2017 and December 2018. In the same period, the normative and methodological documents need to be prepared to move regional authorities and public companies to Russian software.

Since 2007, a state support program for science and technology parks has existed in Russia. From 2007 to October 2014, the cost to implement it in 13 Russian Federation regions amounted to 30.452 billion RUB (about 500 million USD); 42.4% of this sum were federal budget funds, and the rest was covered by the regions. Despite the crisis, in 2017-2019 fifteen Russian technology and industrial parks will receive 6.8 billion RUB (over 100 million USD) in public funds to develop their infrastructure.

1.3. IMPORT AND EXPORT REGULATIONS (CUSTOMS, CERTIFICATION, TAXES, RESTRICTIONS)

On September 13th, 2013, Russia became the 78th participant of the plurilateral Information Technology Agreement (ITA) within the framework of World Trade Organization. The main task of the ITA is to liberalize international trade for IT products, including software. The main tools to used to accomplish this are eliminating customs duties and reducing non-tariff barriers for trading IT products. Under the terms of the agreement, Russia is committed to reducing customs duties on IT products from 5.4% to 0% after accession to the WTO, and by no later than in 2015. Therefore, now the rate for duties for most IT products is zero.

Import and export controls are put in place only if the software enters the customs terminal when crossing the customs border. However, it is physical storage media (compact disks, floppy discs, tape cassettes, etc.) that are reported, and not the software itself. Today, software products generally move between countries through electronic channels (by fiber-optic cables or satellite communications) instead of via physical media. According to current Russian legislation, this movement of software is not subject to customs control, and customs clearance is not performed for downloaded installation packages. The Product Classifier for Russian Federation Foreign Economic Activity and the Russian Federation Customs Tariff do not include classification codes or duty rates for software, or any other IT product.

The explanations provided in the official 'Letter on Customs Clearance for Information Conveyed by the Internet' published by the Federal Customs Service on March 17th, 2006, should be considered during the customs procedure. According to this document, goods that contain data conveyed by the Internet should be cleared, but not the information itself. This means that the procedure of customs clearance is performed for material media that pass the customs post, and all customs formalities should always be settled.

In practice, customs clearance for software may be required in order to obtain a VAT exemption, even if it is transferred by electronic channels. According to the Russian Federation Tax Code (Article 149), imported technical support services and software licenses are exempt from value-added tax. If an imported product does not undergo customs clearance, VAT is not settled de facto. On the other hand, importing software (or keys/passwords for software) in form of material data (i.e. recorded on CD's or DVD disks, flash memory cards, or other similar physical devices) is considered as the import of goods, and for this reason it is fully taxed, and must go through custom clearance. One subtlety is that the VAT depends on the chosen procedure, and the tax is paid with customs duties. However, if a contract involves the delivery of goods with compulsory customs

clearance, there is a serious risk of the VAT being undervalued, so a fine or penalty will be charged after a tax audit is performed on the importer or distributor.

Taking into account all the customs and tax requirements, the process of importing software into Russia with non-exclusive rights to use it includes generally the following steps:

1. a framework license agreement regarding the right to distribute the software inside Russia is made between an importer and a software provider
2. a sublicense agreement regarding the license to use the software is made between the importer and the software purchaser
3. The software provider sends a digital key for the software to the importer by regular mail
4. Customs clearance is performed on the digital key (in case the tax rate is zero, no customs duty is required)
5. The software is certified in Russia, if required by the purchaser
6. The digital key and delivery note is given to the user, with an act detailing the transfer of rights in accordance with the sublicense agreement
7. The purchaser registers the software in its accounting documentation and starts to use it
8. The importer sends the documents on the transaction to the tax authorities in order to receive a VAT exemption.

Licensing procedures and certificates of compliance and/or licenses to import or export software may be required if the developer or provider plans to offer protection services for confidential information, or to develop, manufacture, and /or export products to protect confidential information in Russia (especially if the licensed technologies may be considered dual-use). In these situations, a license usually must be obtained at the Federal Service for Technical and Export Control (FSTEK). This kind of certification is required for the non-cryptographic protection of information. The requirements of FSTEK certification system are publicly available, and published on the service's official website.

Certification is required if software is delivered to government institutions, and to non-public organizations that work with official information from state institutions or with personal data. (i.e. all workstations and servers, except anonymized ones or public data). Many private corporate clients have their own software requirements that de facto negate the need for this certification.

In some cases having to do with classified information, a license from the Russian Federation Federal Security Service (FSB) may be required. This licensing applies to software subsystems that use cryptographic protection (only Russian cryptographic algorithms are allowed in Russia). Federal Security Service requirements for certification systems are not publicly available, and special clearances are required to access them.

Any software developer can go through voluntary certification. This step is justified if a certificate of conformity could significantly expand the market for IT products and improves sales, which would cover the costs of certification.

1.4. SUPPORT FOR EXPORTS

Today, no state programs or regulations exist to support the export of Russian IT technologies. Measures to promote Russian IT export have yet to be developed. In particular, the Ministry of Economic Development is working on a roadmap to support the export of products and services for Russian IT companies. Among its initiatives are financial support for Russian companies to participate in exhibitions and trade fairs abroad, subsidies for banks that provide funds for exporting at a reduced rate, or offer new forms of bid bonds for the security of intellectual property or the rights to legal claims in export contracts. The Ministry also plans to promote reduced rates of insurance payments for IT companies, and simplify the procedure for confirming expenses on research and development processes.

Industry associations are trying to lobby incentives for Russian IT exports. In particular, the Association of Russian Software Developers (ARPP) in 2017 sent letters to the Minister of Communications, Nikolay Nikiforov, and to the managing director for non-financial support at the Russian Export Center, Konstantin Yevstyukhin, proposing loosening currency exchange regulations for the benefit of the ICT industry. According to participants in the software development market, excessive demands and paperwork are hindering the growth of software exports. In its letters, the ARPP proposed increasing the threshold for the transaction certificate from the current 50,000 USD to 100,000 USD; revising the time frame for submitting

supporting documents from 15 days to 60 days; increasing possible delays in payment up to 90 days; canceling the requirement to submit currency exchange control letters, contracts with clients, and confirmation that services have been rendered. According to the Association, an electronic invoice from an exporter can substitute these three documents. In March 2017, the Minister of Communication proposed government support via subsidized loans (at 5% per annum) for IT companies that already export their products.

1.5. IMPORT SUBSTITUTION REGULATIONS

Tensions in international relations connected with anti-Russian sanctions, and tightened security requirements for IT systems used by public authorities, have led to the creation of a government policy of import substitution. Several legislative acts have been adopted in Russia in this area. Regarding IT products in some market segments, the policy is shaped by the following:

- **Import substitution for public institutions** According to the current law, goods and services (including IT products) produced by Russian citizens enjoy increased priority in public procurement over foreign goods and workers starting January 1st, 2017. The policy is enforced during the procurement process in the form of bids, auctions, etc. except when the supplier is the only one that exists for a certain product. During the competition process, applications submitted by Russian participants are pegged at a price reduced by 15%, whereas the contract is signed at a normal price. In the case of auctions, if the winner offers foreign goods or services provided by foreign citizens, the contract is signed at a price reduced by 15%. This priority is not assigned if the purchase is declared void and the contract is signed with the sole supplier, and if the purchase contains only Russian or only foreign products, or the services are provided only by Russian or only by foreign citizens. No priority is given if the cost of Russian products and services is less than 50% of the offer's total price.
- **Substituting imported software in the public sector** In the beginning of 2015, a law was passed to create a Register for Russian Software, and in November a decree was signed that limited the purchase by public clients of software not listed in the Register. This Register has been in operation in Russia since the beginning of 2016. In 2016, a plan to fully move to Russian software was approved; state institutions need to move to Russian software from May 2017 to December 2018. During this period, normative and methodological documents have to be prepared for the transition of regional authorities and public companies to Russian software. In May 2017, the Ministry of Communications proposed charging public companies a fee for purchasing foreign software in order to stimulate the purchase of Russian products.
- **Regulating the public purchase of telecommunications equipment** For now, legislation in this field has yet to be adopted. The Ministry of Industry and Trade developed the draft for a government decree that limits purchasing foreign telecommunications equipment by government institutions and public companies. According to the draft, this kind of equipment may be purchased only if there are no similar Russian products in the ministry's register, or if the specific product fails to satisfy the purchaser. Experts note that many Russian solutions are in fact not really Russian, since their hardware is based on imported components.
- **Import substitution for electronic components** In September 2016, the Russian government approved Decree No. 968, which limits the public purchase of some types of foreign electronic products. According to this document, the ordering party must reject all offers for foreign products if the bidding procedure includes less than two applications that meet the following conditions: 1) it contains proposals for the delivery of products manufactured in the Russian Federation; 2) it does not contain proposals for the delivery of the same type of product from one manufacturer.
- **Import substitution in the field of information security** The share of Russian information security products in public purchases reached 90% in 2013, and is growing annually. Products from foreign vendors are competitive only in two categories: IDM/PKI/SSO systems (with a 43% foreign share) and means for preventing data leakage (an 83% share). Import substitution in the field of information security is not regulated by any special decrees, but, all other things being equal, information security systems offered by Russian companies are preferred in public bids.

2. The Russian market for software and IT services

In 2014, the Russian market for software and IT services entered a difficult period. A sharp ruble devaluation caused by Western sanctions, and lower oil prices in the second half of 2014, led to a rise in prices for hardware and software. This, in turn, caused a noticeable recession on the computer market and a redistribution of market shares among IT developers. Also, there was a significant decrease in demand connected with the decline in purchasing power of main consumers. The market received some support from mobile network operators, and from companies that suffered from the crisis to a lesser extent (telecommunications, finance, the oil and gas industry). The market continued growing in rubles due to increased costs for imported equipment and software; however, it experienced a serious decline in dollars. At the same time, the devaluation of the national currency was favorable for software exporters due to the lower costs associated with producing inside Russia. In 2016, some stabilization of the market was observed, and the growth in dollars resumed, despite ongoing devaluation of the Russian currency.

2.1. CURRENT SALES AND FORECASTS

The situation with the software and IT services sector is closely related to the general situation in the Russian economy. Declines in 2009 and in 2014-2015 were connected with the national economic crisis during these periods. In 2017, the market stabilized, and in 2017 it began to grow due to the stabilization of oil prices and currency, decreased international tensions, emerging economic growth, and the realization of deferred demand for IT products and services.

According to the IDC, sales for software, services, and equipment accounted for 13%, 25%, and 63% of total IT profits, respectively.

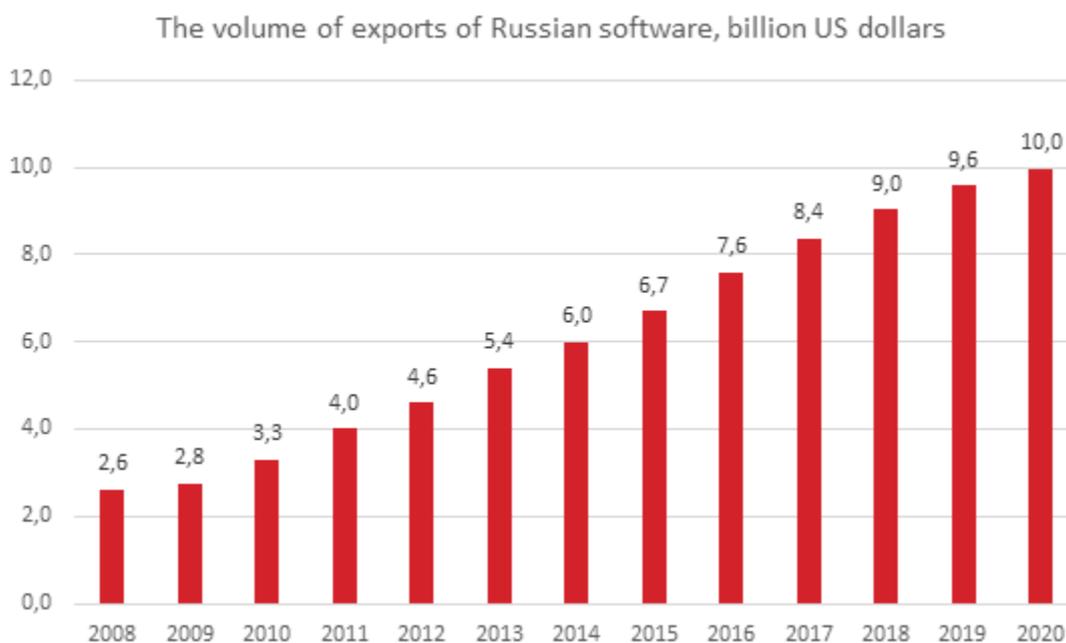


Source: IDC data, Direct INFO estimations based on data by Rosstat

It can be expected that the bottom of the crisis is reached, and that the Russian ICT market will quickly recover, surpassing its 2012-2013 values, and reaching 35 billion dollars by 2020.

2.2. EXPORTS, CURRENT FIGURES, AND FORECAST, INCLUDING FOR SUB-SEGMENTS

Exports of Russian software have been growing for a number of years. The financial crisis led to a decrease in the costs of Russian products, and stimulated exports. According to preliminary estimates, software exports in 2016 were 7.6 billion dollars, and increased by 13%. It should be noted that the current achievements were gained without any significant government support for the export of IT solutions. All existing financial measures to support exports are de facto not applicable to IT because the state is not prepared to assess the specific features involved with software production. Non-financial support (e.g. subsidies for international marketing) is almost inexistent in Russia. However, in recent years the state has been offering support to the IT industry (first of all, by funding startups and promising research, creating science and technology parks and clusters, and providing incentives in terms of social taxation). This support has already led to an increase in export growth rates, and it could be a good engine for growth over the next few years. It can be expected that Russian exports of software will reach 10 billion dollars by 2020.

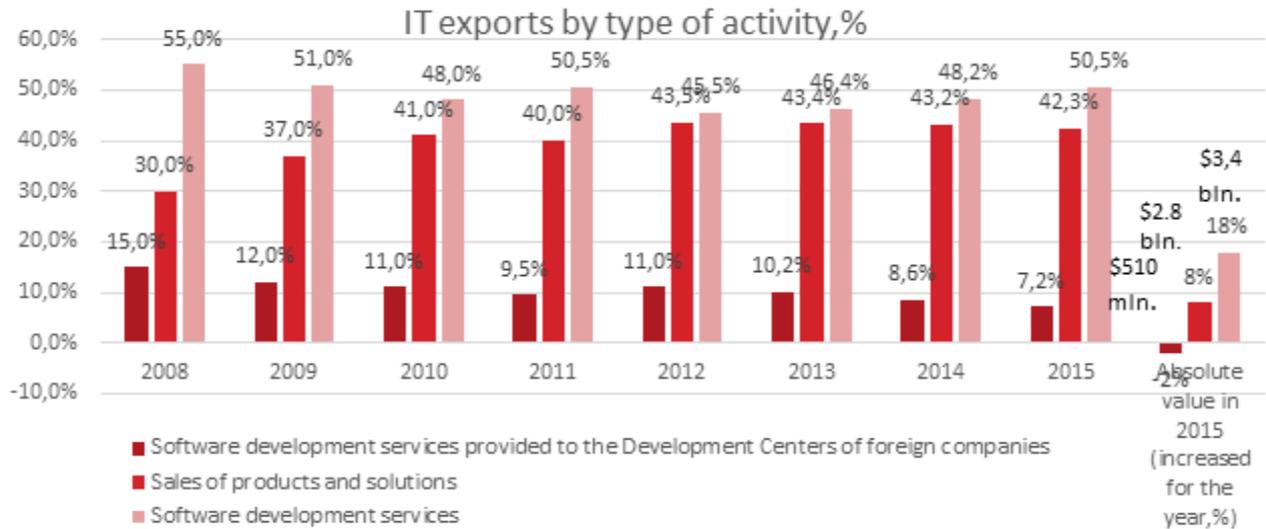


Source: Russoft, Direct INFO estimation

Traditional markets for Russian developers are Europe, North America, and Russia and its neighboring countries. The penetration of markets in economically developed countries was facilitated by many former Russian residents who immigrated to those countries in the years of perestroika. At first, service companies targeted only countries outside the former Soviet Union, because Russia and its neighbors lacked financially reliable clients. The United States remains in first place in regard to exports; the largest Russian exporters sometimes sell 50-80% of their products and services there. For instance, Kaspersky Lab earns 200 million USD on the American market annually. In the last 2 years, certain risks have emerged on this traditional market. Government entities in the U.S. are now not allowed to buy Russian software, and private companies are advised against purchasing Russian software if they do work for the Ministry of Defense. Therefore, Russian developers have to move their sales, support centers, and headquarters into the jurisdiction of those countries where the risk of being subject to anti-Russian sanctions is much lower. In addition, the attractiveness of some traditional markets has decreased, which is pushing companies to actively search for sales opportunities in Southeast Asia, Latin America, the Middle East, and Africa.

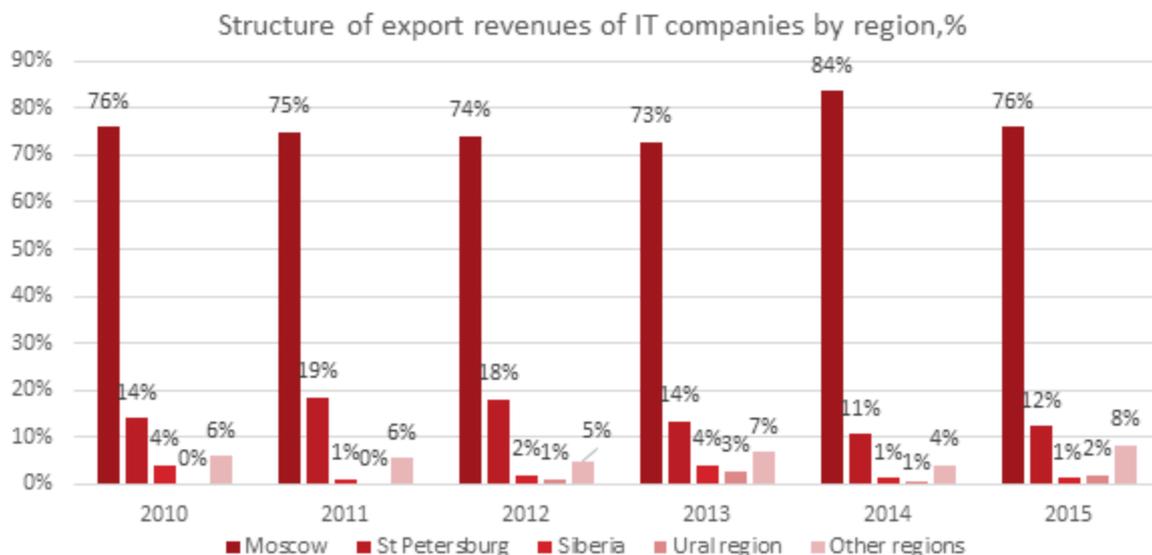
Service companies generated 3.5 billion USD (53%) out of 6.7 billion USD of Russian IT exports in 2015. While these type of companies had a 43% decrease in sales on the domestic market, their profits increased 22% on foreign markets. In 2015, about 90% of the profits for IT service companies came from selling customized software, 5% from IT outsourcing, 2% from deployment and support services, and 2% from developing and supporting software solutions and products. In the general structure of IT exports, software development services retain the leading position (about 51% of all export profits for Russian

IT companies). Exports of IT services and software to Switzerland are now insignificant compared to those to other countries; in 2015, Russia exported IT products for a value of 143 million USD (an 18% increase compared to 2014).



Source: Russoft

Most Russian IT companies that export software are located in Moscow and Saint Petersburg; the total share of the two capital cities' exports is 88%. The share that other Russian regions have is not high; however, some growth can be observed (from 10% in 2010 to 12% in 2015).

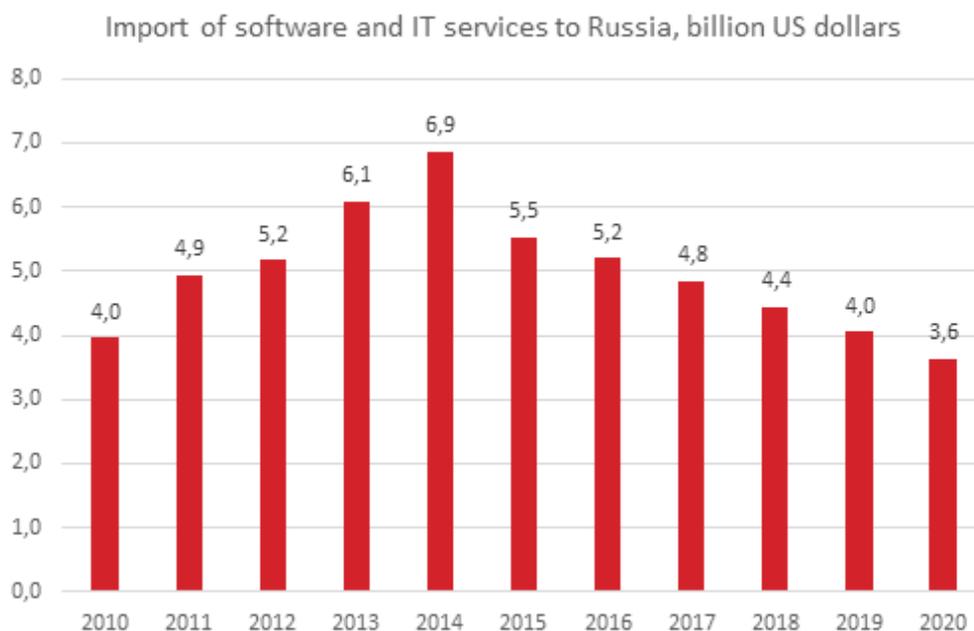


Source: Russoft

2.3. IMPORT, CURRENT FIGURES, AND FORECAST, INCLUDING SUB-SEGMENTS

Imports of software and IT services in 2014-2016 decreased from 6.9 billion USD to 5.2 billion USD. The reason for this decline was not only the crisis, ruble devaluation, and a decrease in purchasing power of main customers, but also state policy in the area of import substitution for software and stimulating the IT industry with tax incentives, which aided in the localization of certain types of software inside Russia. On the other hand, the imports for software and services from Switzerland increased. In 2015, it reached 234 million USD (3% growth).

The plan for import substitution was approved in 2015. The Ministry of Communications divided the software market into three groups. The first group includes solutions used for information security and anti-virus programs. There are now many Russian products on the market, so it is possible to reduce the share of imported solutions from 60% to 40%. The situation is similar in the segment of business applications (ERP, CRM, ECM, and PM systems) and corporate Internet services (email, file sharing, browsers, and instant messaging), so imports for them are to be reduced by 2025 from 75% to 25% and from 50% to 10%, respectively. Software from the second group does not have any competitive Russian equivalents. It includes client and mobile operating systems (the share of imports is 95%), cloud infrastructure management systems (the share of imports is 95%), office software (97%), database management systems (86%), and server operating systems (75%). According to the ministry, it is necessary to create an autonomous non-profit organization in Russia to develop these kinds of solutions in cooperation with BRICS members and other countries. As a result, the share of imports for these solutions should be reduced to 50% by 2025. The third group includes industrial solutions, where the share of imports now ranges from 70% (finance) to 95% (fuel and energy industry), depending on the segment. According to the Ministry, it also needs to be reduced to 50% by 2025.



Source: Rosstat, Direct INFO estimation

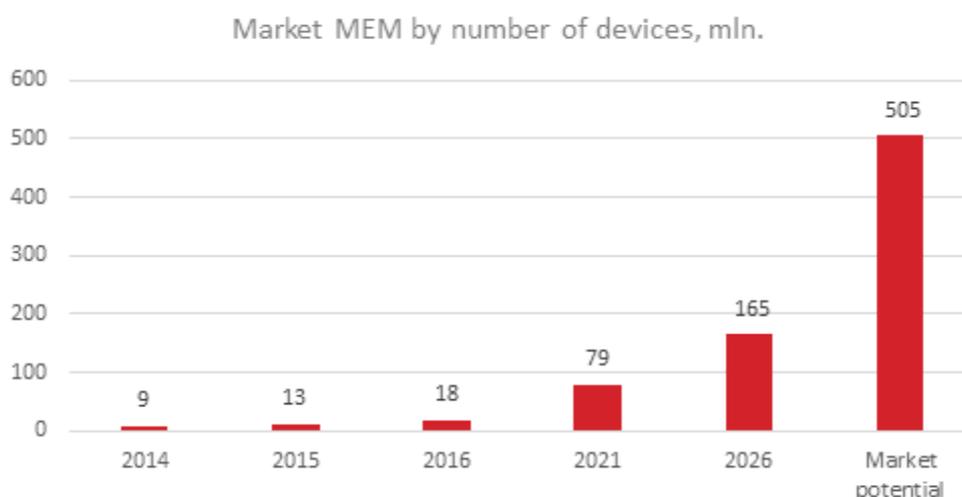
The policy of import substitution and tax incentives, which promotes localization of software manufacturing, will reduce the import of IT services and software. To obtain tax preferences and to secure access to public purchases, foreign companies will try to localize their software development inside Russia. It can be expected that imports for software and IT services will be reduced to 3.6 billion USD by 2020.

2.4. MAIN SECTORS WITH THE DEMAND FOR INNOVATIVE IT SOLUTIONS AND SERVICES

Today, the Russian market for information and communications technology is developing in line with global trends and offers all types of modern IT products. Some areas (for example, M2M solutions) receive active government support, e.g. laws on the obligatory use of certain technologies such as vehicle monitoring with Russian GLONASS satellite navigation systems. During the current crisis, the state also supports the development of IT technologies for improving tax administration (fiscal performance): for example, marking goods in order to control sales and combat illegal production and imports, as well as online payment terminals. At the same time, the prevalence of modern IT technologies remains relatively low in some branches that have a state monopoly (e.g. in health care).

2.4.1. M2M solutions, Industry 4.0

According to estimates by Direct INFO, the total size of the market for M2M solutions was 18 million devices over the past year, and increased by 42% compared to 2015. The total number of M2M connections will reach 79 million by 2021, and 164.7 million devices by 2026. The overall potential of the Russian market is estimated to be at the level of 0.5 billion devices.



Source: Direct INFO estimation

A significant part of the market consists of personal navigation devices (PND's - about 10 million devices). Apart from PND's, 31% of all connections are from the financial segment, and 29% from connected transportation (ConnectionCar solutions and monitoring), and 26% are security systems and SmartCity networks.

Mobile network operators lead in the market for telecommunication services in these segments. MTS holds first place (46%), Megafon is in second place (38%), and VimpelCom is in third place (15%). All these companies actively cooperate with the developers of M2M solutions to implement their services in their networks. Among popular solutions are systems for road transport verification, energy audits (electricity, gas, and water), and new ConnectionCar solutions such as smart insurance and security as well as video surveillance systems.

The Russian industrial internet market (industry 4.0) is now poorly developed, and the total number of M2M connections here is not high (less than 177,000). The potential of this market is estimated at 1.8 million connections. The most popular IT solutions are systems for process management in extractive industries and the power industry. In this market, leading international companies are present like Schneider Electric, EATON, ABB, Emerson Process Management, and Honeywell. Among Russian developers, ProSoft, ICOS, Nienschanz-Automatica, NPF KRUG, Compulink, Croc, Asteros, Sistematika, IT Energy, and Borlas have significant shares.

2.4.2. Retail logistics

IT solutions in the field of logistics and offline retailing are actively used by large distributor networks. The seven largest retailers (Magnit, X5 RetailGroup, Auchan, Dixi, Lenta, MetroGroup, and O'Key) have about 23% of the market in terms of the number of points of sale. Technoserv is the leader among large IT companies that provide warehouse logistics systems for this group of clients (in 2015, the company executed projects in this field worth 64.6 million USD). Croc is in second place (51.6 million USD), and Solvo is in third place (12.7 million USD). The total value of the ICT market in this segment is about 200 million USD, and somewhat decreased because of the crisis. More and more companies use tablet computers, smart watches, and smartphones to identify goods in their warehouses. Along with this, vendors actively use virtual reality solutions (VR glasses, etc.) to increase the performance of warehouse workers.

Online stores are another rapidly developing segment for trade logistics. More and more offline stores move goods online, which promotes orders for logistic companies and expands the market into the B2C segment, where the quality of services plays a key role in client retention. Transport and logistics companies now try to provide better services, and therefore actively seek solutions that will automatize all client interactions. The total number of online stores, which are potential consumers of these kinds of solutions in Russia, is approximately 53,000. Their turnover in 2016 was 13.7 billion rubles, and increased by 11% despite the crisis.

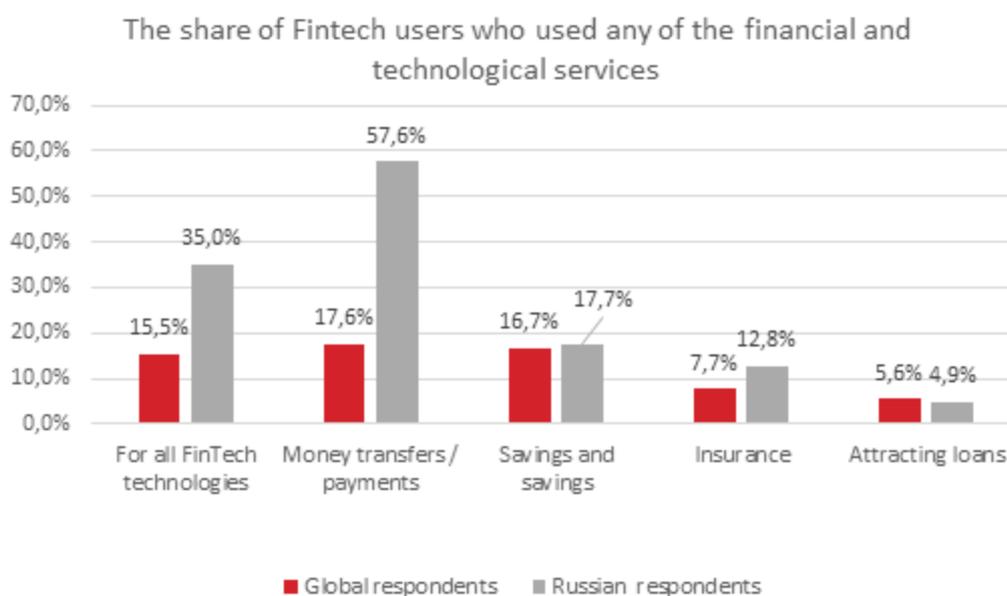


Source: InSales, Direct INFO estimation

An important component in the market of retail sales, which contributes to the implementation of logistic solutions in this field, is new legal requirements concerning implementing online tax reporting systems at the moment of sale. Also, development of this market is stimulated by introducing official marking systems for alcohol, pharmaceuticals, clothing, and agricultural products. This opens new possibilities for the developers of IT solutions in the field of trade logistics. For example, all cash registers (about 3.5 million devices) will be replaced within the next 3-5 years. New cash registers will have Internet connections, and may be equipped with QR code readers and NFC tag scanners. In future, this will enable various companies to implement all types of cloud solutions in warehouse management without significant costs.

2.4.3. Fintech

According to a general study by EY (the data are for June 2016), the average penetration for Fintech in Russia's largest markets (Moscow and Saint Petersburg) was about 35%, which is higher than in New York (33%), Hong Kong (29%), and London (29%). Russia's capital cities managed to achieve this level due to the popularity of money transfers and payment technologies (57%) among Russian users.



Source: EY (June 2016)

Fintech in Russia has its special features. For instance, the vector of development for innovations in the banking industry is defined by large banks (Sberbank and Tinkoff Bank are the leaders). However, along with large participants there are many interesting companies in this industry that work in microfinance, digital banking, payments, POS crediting, and mobile acquiring. One of the key problems for these companies is their modest scale.

Over a long-term perspective, large-scale transformations that will influence profits for traditional players are possible only in the area of payments, which is the most developed segment on the Russian market. Foreign IT companies that enter this market should take into account the specific aspects of Russian legislation in the banking sector and in e-payments sector, which are outlined in the Law "On the National Payment System". Among such features is, for example, the mandatory identification of users if payments exceed 250 USD, the storage of personal data on users in data processing centers inside Russian borders, and the ambiguous stance taken by regulators (especially the Central Bank of Russia) towards cryptocurrency and some other technologies. At the same time, the high level of penetration of FinTech in Russia, and the traditionally high-level reputation of Swiss financial products in Russia, gives Swiss companies a good chance to enter the Russian FinTech market.

The main players on the Russian Fintech market by segments are shown in the following table.

Table 1: Selected Fintech companies in Russia

Name / Segment	Year Established	Business Sector	Line of Business/Activity	Founders / Owners	URL
Online banks					
Modulbank	2014	B2B	Online SME bank	Owned by Artem Avetisyan (35%), Sovcombank (24%) and three founders (7.5% each)	modulbank.ru
Rocket Bank	2012	B2C	Online banking app	100% sold to Otkritie in 2016	rocketbank.ru
Tochka Bank	2015	B2B	Online SME bank	Set up by Otkritie	tochka.com
Touch Bank	2015	B2C	Online retail bank	Set up by OTP Group	touchbank.com
Mobile acquiring					
LifePay	2012	B2B	mPOS terminals	2.6 mln USD in seed financing from Life.SREDA	life-pay.ru
PayMe	2012	B2B	mPOS terminals	3 mln USD funding through angel investors	pay-me.ru
2Can	2011	B2B	mPOS terminals	8.3 mln USD funding from three investors: Almaz, ESN Group, Inventure Partners	2can.ru
Evotor	2016	B2B	Sales register and POS combined solution	JV of Sberbank, ATOL and Andrei Romanenko	evotor.ru
Online payment aggregators (acquiring and processing)					
Yandex.Checkout	2013	B2B	Online payment aggregator, payment processing	Set up by Yandex.Money	kassa.yandex.ru
Robokassa	2003	B2B	Online payment aggregator		robokassa.ru
Dengi Online	2006	B2B	Online payment aggregator, payment processing	Received 2 mln USD from QIWI	dengionline.com
RBK Money	2002	B2B	Online payment aggregator, payment system	Group of private investors and managers	rbkmoney.com
PayU	2011	B2B	Online payment aggregator	Global service, owned by Naspers	payu.ru
Microfinance					
Domashniye Dengi	2007	B2C	Microfinance	Founded by Evgeny Bernshtam	domadengi.ru
MILI	2012	B2C	Online microfinance	6.1 mln USD in two rounds, with 5 mln USD in series A in 2013	mili.ru
Platiza	2011	B2C	Microfinance	3 mln USD in series A from Flint Capital and Prostor Capital	platiza.ru
Moneyman	2011	B2C	Online microfinance	9 mln USD in two rounds (most recently 6 mln USD)	moneyman.ru

Name / Segment	Year Established	Business Sector	Line of Business/Activity	Founders / Owners	URL
				from Emery Capital and Vadim Dymov for 20% stake)	
Revo+	2012	B2B,B2C	Installment payments service for retailers	Group of private investors, Vostok Emerging Finance	revoplus.ru
PlatiPotom	2013	B2B, B2C	Installment payments service for online stores	Acquired by QIWI in 2016	platipotom.ru
Vdolg.ru	2011	B2C	P2P lending	2 mln USD from Runa Capital in series A in 2013	vdolg.ru
Crowdfunding					
Planeta.ru	2009	B2B, B2C	Crowdfunding	1 mln USD in series A funding in 2013	planeta.ru
Boomstarter	2012	B2B, B2C	Crowdfunding	Group of private investors	boomstarter.ru
StartTrack	2013	B2B, B2C	Marketplace for SME funding by retail investors	Set up by IIDF (Internet Initiatives Development Fund)	starttrack.ru
Comparison sites/marketplaces					
Banki.ru	2005	B2B, B2C	Online comparison of banking services	60% owned by founders, 40% by Russia partners (invested 6 mln USD in 2013 for unknown stake)	banki.ru
Sravni.ru	2009	B2B, B2C	Online comparison of financial services	Founded by Albert Popkov, Tinkoff Digital is one of the shareholders	sravni.ru

Note: Excluding Sberbank, Tinkoff, Moscow Exchange, Alfa Bank, QIWI and Yandex.Money

Source: Crunchbase, Rusbase, Companies, Sberbank CIB Investment Research

2.4.4. Transport: M2M, geosystems

The Russian market for IT systems for vehicle monitoring is experiencing rapid growth. It is connected with the current requirement to re-equip old freight and passenger motor vehicles, and new vehicles imported or manufactured in Russia, with remote monitoring systems based on GLONASS, a Russian satellite navigation system. A significant part of this market is navigation programs for mobile devices with the function of online traffic monitoring (Yandex.Navigator is the leader in this market), and systems for ordering and monitoring corporate motor vehicles (taxis, delivery services, cargo transportation, etc.) that use standard mobile devices. The public transportation segment is actively developing. In big cities, unified online payment systems for all means of transportation have been implemented. In Moscow and Saint Petersburg, free WiFi networks have been deployed in public transportation, including all metro trains. Over the past year, the total size of the market for M2M and geosystems installed in transportation was 12.3 million devices. The market may increase to 49 million by 2020, and to 85.1 million devices by 2026.

The forecast for the number of installed devices, broken down by consumer segments across the market for 2016-2026, is shown in the table:

Table 2: The number of transportation monitoring systems broken down by consumer segments, hundreds of devices

Segment	2016	2021	2026
Platon (the state toll collection system for freight traffic)	800	1,450	1,890
GLONASS monitoring motor vehicles	435	11,280	15,460
Commercial systems for monitoring motor vehicles	490	720	950
Monitoring other means of transportation (railroads, water transportation, etc.)	17	30	40
Municipal systems for accessing the Internet from means of transportation	190	560	1,200
Personal navigation systems (PND's)	10,071	28,360	37,480
Other ConnectionCar solutions (including smart insurance)	360	6,899	28,080
Total number of vehicles (services overlap)	12,363	49,299	85,100

Source: Direct INFO estimations

Russian IT systems for transportation monitoring are prevalent on the market. They include products by Omnicom, AvtoGRAF, GALILEO, Fort, Naviset, Mercuriy, Shtrikh-TaxoRUS, Granit Navigator, M2M Cyber, etc. Russian software products for analyzing collected navigation data and optimizing costs and various processes are available. Foreign IT manufacturers can claim a share on the Russian market in the segment for new integrated ConnectionCar solutions (for example, motor insurance systems and entertainment systems), navigation products for personal and business use installed in monitoring devices - or into automobile systems - and also commercial monitoring systems for motor transportation. The market for IT solutions connected with monitoring systems based on GLONASS, which receive government support on the legislative level, is monopolized by Russian manufacturers and public companies.

2.4.5. Mobile communications

Despite the crisis, the Russian market for mobile applications is developing at a fast pace. The reason for this is a high level of penetration for mobile communications in Russia, the availability of broadband wireless 3G/LTE technologies, and a very high level of penetration for smartphones (about 65% of all mobile phone devices). According to AppAnnie, Russia in 2016 firmly held fifth place in the world in terms of downloading mobile applications from AppStore and GooglePlay (after the USA, China, Brazil, and India). In 2016, the market for mobile devices was worth 483 million USD, and increased 10% within a year. 351 million USD (73%) of this sum was represented by mobile games. Russians generated 0.5% of the share of worldwide profits.



Source: J'Son & Partners (2015)

Analysts estimate that the size of the market for non-game mobile applications is 132 million USD. Mobile books (19.3 million USD), music (9.5 million USD), and videos (0.9 million USD) make up a significant share of this segment. The main supplier of mobile audio content is iTunes Store. By 2018, the size of the Russian market for mobile applications will reach 569 million USD.

According to Runet Rating, the top 10 developers of mobile applications in 2016 included REDMADROBOT, e-Legion, CleverPumpkin, Touch Instinct, Infoshell, MobileUp, iD EAST, Sebbia, Surf, and King Bird Studio.

The leading position in terms of mobile applications belongs to Mail.ru, Facebook, and Yandex. Social media and messenger applications remain the most popular judging by the number of downloads. VK.com is the most downloaded application both in App Store and in Google Play, while the application Odnoklassniki is the leader in terms of total revenue. Downloads of online store applications (e.g. Aliexpress) and mobile banking applications (primarily Sberbank, the largest bank in Russia) are also rapidly growing.

Foreign producers of mobile applications have a good chance to improve their position on the market for mobile applications in Russia if they offer good quality products in such segments as games, messengers, financial services, online stores, etc.

2.4.6. Healthcare

The market for IT services for medicine is developing in two areas. The first is the creation of a public E-Health system (the Unified Public Information System for Healthcare). The second is developing telemedicine services and services related to Med monitoring (the remote monitoring of patients) and Fit monitoring (mobile software for monitoring body parameters like pulse rate, blood pressure, number of steps, etc.) The potential for these markets significantly differs.

The first area is highly influenced by government policy in healthcare. The system is now extremely ineffective because the market is mostly state-monopolized (the share of private medical facilities is below 10%). The total expenditures on IT systems in public medical institutions was 218 million USD in 2015, and 500 million USD in 2014. The decrease in costs is connected with budget cuts in healthcare because of the crisis. It can be expected that the average expenditures on IT until 2022 will be 300 million USD a year.

The potential of the market for medical monitoring is defined by the population that suffers from chronic diseases and requires medical monitoring (about 6 million persons). The potential of the market for Fit monitoring is defined by the population actively engaged in sports activities (16% of the Russian population, or 23.6 million people according to the Russian Public Opinion Research Center). By 2021, the market for medical monitoring may reach 732,000 connections, 93% of which will be in the Fit segment. The general market potential is estimated to be at the level of 41.9 million connections (56% in the Fit segment).

Since 2017, telemedicine services have been allowed in Russia at the legislative level. This may lead to rapid growth in this market because the level of private and public medicine (especially in small towns and in rural communities) remains low, and a demand exists for high-quality medical care. In conditions of a relatively high level of penetration for mobile communications and internet access services, mobile medicine and telemedicine may satisfy this demand. For now, the only such project in Russia is the portal and mobile application *Pediatr 24/7* offered by Mobile Medical Technologies. The total potential of the telemedicine market is estimated to be at the level of 55 million consultations per year. Direct INFO estimates that the size of the IT services market for Med and Fit monitoring, and in telemedicine services, was not higher than 10 million USD in 2016. By 2022, it may grow up to 180 million USD.

Among the IT solutions for health care in Russia that are in the highest demand:

- a. Services for medical monitoring based on a company's cloud platform. Here, a specialized platform may be created for medical purposes to collect data (similar products are offered by GE Health Cloud and MedM/Swissmed Mobile, an international project of Russian origin for modular software to monitor medical parameters remotely)
- b. Telemedicine services in mobile applications and branded sets of sensors connected to smartphones (blood composition and blood pressure sensors, blood glucose meters, heart sensors for home use, etc.)

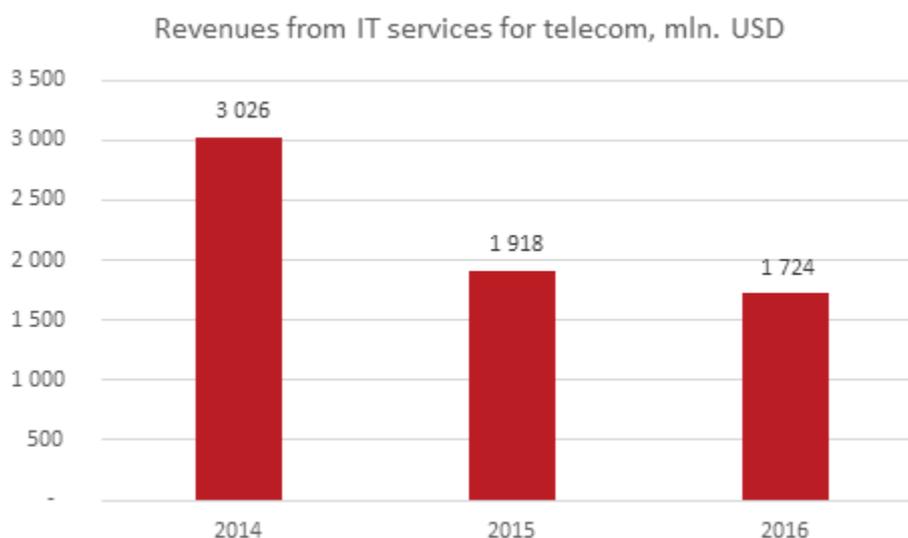
- c. Services for private medical facilities based on an operator's cloud platform to store medical information and automatize business processes (patient cards, arranging visits, reporting, the storage and exchange of medical information, e.g. visualization images, sensor data, etc.).

In this market, foreign IT companies should address the final consumer (in the case of telemedicine services) or private medical companies. The segment of public health care (and the E-Health project in particular) is relatively attractive, but it is extremely conservative when it comes to using new IT technologies, and it is monopolized by companies that have informal connections to the Ministry of Health. In this market, it would be reasonable to target large distributors that have been working with the public health care system for many years. In 2015, the largest suppliers of IT solutions for healthcare were Croc (it provided 13 million USD worth of IT services in the field of healthcare), Bars Group (7 million USD) and SP Arm (3 million USD).

2.4.7. Telecommunications

The Russian market for telecommunications stagnates. By the end of 2016, its size in dollars shrank by 9%, and reached 24 billion USD. Such a situation inevitably affects general expenditures by telecommunication companies on IT.

In 2014-2016, the market for IT services in telecommunications continued to decrease in dollars, and de facto rolled back to the level of 2005. Its total size was 1.7 billion USD in 2016, and decreased by 10% in one year.



Source: CNEWS Analytics, Direct INFO estimates

The Russian telecommunications market is highly monopolized. Initially, the state monopolist Svyazinvest, which united local phone companies, dominated the market. Most new players on this market were joint ventures between these local phone companies and foreign entities. The situation gradually changed, and foreign companies and strategic investors started to leave the market. Russian capital now prevails in all large telecommunication companies. Consolidation of companies occurred, and now four providers dominate the market (MTS 23%, Megafon 19%, Rostelecom 18%, and Beeline 15%). However, all large companies are publicly traded, both in Russia and abroad.

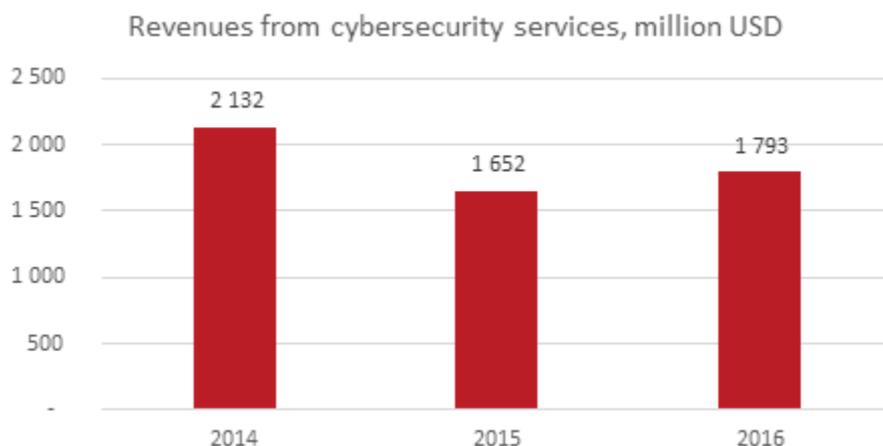
The biggest provider of IT services for telecommunications in 2015 (262 million USD, or 14% of all the market) was Envision Group, which worked with MTS, Vimpelcom, and Rostelecom. Vypmelcom was in second place (163 million USD, or 9% of the market) and provided telecommunication IT services for the Russian Ministry of Defense, and Technoserv was in third place (214 million USD, or 12% of the market).

Today, the telecommunications market has reached its saturation point according to all parameters (penetration of Internet and mobile communication). Therefore, telecommunication companies are looking for new sources of income, and are counting on new areas of development such as the Internet of things, M2M, financial services (mobile payments), services based on big data processing, and network services based on SDN/NFV technologies. Because of this, one of the key motivations for the development of IT services in telecommunications market is the need to update technical equipment, as well as the continuous expansion of communication networks to offer new communication services. This segment has the biggest potential for growth and for new players to enter (including Swiss IT companies) that will be able to offer Russian clients innovative services based on new technologies.

2.4.8. Cybersecurity

Russian companies dominate the domestic market for cyber security and information security. The total size of the market in the previous year was 1.8 billion USD, and increased by 9% compared to 2015.

The demand for solutions in the field of information security is formed by two contradictory trends. On one hand, the number of immediate threats is growing, and a difficult economic situation enhances this trend. On the other hand, the crisis forced clients to cut their budgets. The demand for foreign products shrank because of sanctions, which gave advantage to some Russian manufacturers. Not all companies cut budgets for cyber security: the oil & gas industry and the government sector continued to invest in information protection at previous levels, or at an even higher ones.



Source: CNEWSAnalytics, estimations by Direct INFO

The largest company on the market is Kaspersky Lab (their profits in Russia from cyber security services in 2015 were 628 million USD, or 38% of the total size of the market in terms of revenue). Softline is in second place (183 million USD, or 11% of the market), and Akronix is in third place (148 million USD, or 9% of the market).

According to a study conducted by Informzashchita in 2015, Russian solutions are in the least demand by companies in the oil and energy industry, and in telecommunications. The public sector dominates in the substitution of imported information security products, and uses domestic solutions at a level of 75%. Analysts explain that the popularity of Russian products is connected with the legal requirement to use certified products. It is also important that the oil & gas industry reacted to changes in the international and economic situation, and intends to substitute foreign solutions with Russian ones by up to 66.6% in the next year. Only 20% of telecommunication companies plan to move to domestic solutions within one to three years. 42% of IT companies and 25% of public institutions developed a program for import substitution. In the telecommunications industry, education, science, health care, and the oil & gas industry, these kinds of programs either have already been developed or are being slowly developed (this is 12-16% of the total number of companies in the industry).

The specific nature of the Russian market is that a significant part of it is composed of public contracts, and contracts with large public corporations in the oil & gas industry, where there is a rather cautious attitude towards foreign software

developers. Also, the state generally promotes import substitution, and it will be difficult for Swiss suppliers of IT services to build their position in these attractive market segments. At the same time, software developers and IT companies have chances to enter other segments of the Russian market, where the level of confidence towards their products would be much higher. This is particularly true for the financial sector, trading, the professional services market, and telecommunications.

2.4.9. Other prospective segments

Agriculture, product-marking systems to combat counterfeiting and track sales, and smart and safe city IT systems are among the other promising segments. Additional drivers of the IT market are changes in legislation linked to an anti-terrorism policy and new requirements to store all telecommunications traffic for up to 6 months (the so-called Yarovaya Law). All these segments, and what drives them, will be considered in detail below.

One of the main drivers for IT development in the agricultural sector are government programs, particularly the roadmap for developing the Internet of things (IoT) in the agro-industrial complex, including the creation of IT systems for smart agriculture and changing legislation to simplify the use of drones. Also, the government roadmap “On Implementing the System for the Identification of Animals”, which includes the comprehensive registration of animals used in agriculture, has significant potential for IT technologies in agriculture to be implemented. Within 5-10 years, monitoring agricultural equipment will be the most quickly growing segment of the IT market for agriculture. The total market of IoT in agriculture may reach 152,000 connections in 2021, and 445,000 connections in 2026. It is estimated that the total potential for this market is about 1.8 million connections. The creation of a unified cloud IT platform IoT for the agro-industrial complex, and monitoring systems with the use of drones, also have high potential.

In the last few years, several state systems have been created in Russia for controlling taxation, the sales of certain types of products, and combating counterfeiting, including in the alcohol (EGAIS) and fur markets. Work is in progress to create a similar system for livestock breeding, consumer goods, drugs, and automotive parts. In these systems, the goods are marked with special QR codes or NFC tags during production or import into Russia, and these marks are then scanned and monitored by tax authorities at every stage (production, import, entering the warehouse, entering the retail outlet, the sale to a consumer). The market for government marking systems is monopolized by one supplier (CentrInform). However, independent IT suppliers have a chance to enter this market with QR- and NFC-based labels (anti-counterfeiting protection, various marketing activities, etc.) Due to the government programs, all types of marking readers (graphic and RFID) may appear on the consumer market, and buyers will gain experience in the use of these systems to check the authenticity of goods. In the Russian market, these solutions are offered by the companies iActions and QRlik. Also, analytics for marking databases is of interest. Government institutions are now discussing the possibility of commercializing the data collected by these projects, and offering paid access to it by all interested parties.

In the next few years, smart meters and security systems will be the applications most in demand in the segment of smart city systems. The total number of such devices connected into one unified IT system is less than 2 million. The majority of them (about 1.2 million) are metering devices. In the next few years, this market may experience rapid growth. This is connected with the introduction of systems for online registration, energy-saving programs, and new technologies for data transfer from metering devices (primarily LPWAN/NB-IoT). All this will enable connecting 21 million devices by 2021; 85% of them will be registration systems. By 2026, the market may increase to 48.6 million devices. Today, the information from meters is collected mostly through mobile networks with the use of GSM (2G/3G/LTE) technology. However, there are several start-ups in Russia that use alternative LPWAN technologies. These solutions are highly autonomous (up to 3 years without an external power supply) and have wide coverage. Strizh Telematika is the biggest manufacturer of comprehensive lines of smart meters.

New changes in Russian legislation connected with anti-terrorist policies require operators to store all telecommunication traffic for six months. It is estimated that these storage systems will cost telecommunication companies up to 2 billion USD. On the side of state, IT supplier in this project will be Rostekh corporation. This law creates great opportunities for IT manufacturers and the developers of storage systems for big data.

2.5. POTENTIAL IN THE PRIVATE VERSUS STATE SECTOR, POTENTIAL OF PPP

In Russia, private-public partnerships (PPP's) are a relatively new form of medium- and long-term cooperation between the state and businesses that aims to solve tasks that have social significance on mutually beneficial terms. Today, several types of PPP exist in Russia. In most cases, their practical implementation on the ICT market is related to the commercialization of GLONASS, a Russian system of satellite positioning.

1. Companies owned by a public entity and a private investor are created to realize private-public projects. For example, the registered capital of OAO Navigation Information Systems (NIS-GLONASS) consists of 49% state property (OAO Russian Space Systems, RKS) and 51% private property (AFK Sistema). NIS-GLONASS was created to implement large private-public projects in the field of navigation. A good example is the pilot project of the Sistema 112 Federal Program.
2. Several Russian companies with different types of ownership (joint-stock companies, federal state unitary enterprises, closed corporations, ministries, and agencies) cooperate and enter into an agreement based on a private-public partnership to implement a certain project. For example, NIS-GLONASS, the Russian Ministry of Emergency Situations, and Rosavtodor signed such an agreement to develop the ERA GLONASS emergency response system. A serious breakthrough was a cooperation agreement between the Russian Ministry of Economic Development and NIS-GLONASS on international economic activity in the field of IT technology.
3. Several companies from various countries with different types of ownership sign an agreement based on a private-public partnership and create a joint venture company in order to implement a large-scale, long-term project. It is hard to imagine the development of PPP's in Russia without foreign participation. For example, the Indian company DIMTS and NIS-GLONASS signed a mutually beneficial agreement on joint participation in tenders by the Indian government on ITC development in the largest Indian cities. That led to deliveries of Russian navigation equipment being organized for installation and comparative testing in India.

The development of GLONASS is a good example of private-public partnership, where the government supports the system and private business develops commercial products that incorporate it. Another example of a successful PPP in Russia is the creation of IT systems for traffic safety control, weight and dimensional control, and maintaining public order. Despite some legislative ambiguities, many Russian regions are ready to implement these kinds of projects using a PPP model. Good potential for implementing IT projects exists in health care. It is attractive in subsegments with a sufficient guaranteed money flow through the system of mandatory health insurance, the marginal subsegment of paid medicine, and in subsegments where the public partner is ready to invest in creating a health care facility.

However, a study conducted in 2013 called "On the Evaluation of Developing PPP's in Russia" showed significant problems in this area. There are cases when the necessary mechanisms are inefficiently promoted. It is worth noting that many respondents thought that the development of private-public partnerships in Russia was concentrated mainly in transportation, while in other areas the state takes only authoritative measures.

E-government products for public healthcare are of interest for Swiss suppliers, but this market is now highly monopolized by traditional, state-run service providers (Rostelekom is the main contractor in this field). The segment of public security and road traffic control is also very attractive; however, access by foreign companies may be restricted by general import substitution policies on the ICT market that give priority to certain Russian companies.

2.6. POTENTIAL MARKET NICHEs FOR SWISS COMPANIES

The Table below is based on an analysis of IT services market for target industries (see Section 2.4. of this study) and describes products that are potentially in demand in Russia by field.

Table 3: Potential niches for Swiss IT products in Russia by fields

M2M, Industry 4.0	Retail Logistics
M2M solutions for energy metering systems; SmartCity products; public security and video surveillance systems; industrial Internet solutions in various segments (power industry, manufacturing, transportation, etc.)	Logistics and warehouse management systems for wholesale, retail, and online trade; products based on online terminals and QR and NFC scanning systems (registering, anti-counterfeiting, consumer information, etc.)
Fintech	Transportation (M2M, geosystems, etc.)
Financial P2P products (money transfer, loans, etc.) based on mobile and blockchain technologies; products based on cryptocurrencies (with consideration of current legal restrictions); software for banks and insurance companies	New built-in ConnectionCar solutions (e.g. motor insurance systems, entertainment systems); personal and commercial navigation products installed on mobile devices, or on automobile systems; commercial systems for monitoring motor vehicles
Mobile communications	Health
Mobile games; cloud products for mobile devices in different private and industry segments; products developed together with mobile network operators	Telemedicine; cloud systems for medical and fitness monitoring; systems for automating private medical facilities
Telecommunications	Cyber security
IT products in new fields of telecommunications: Internet of things, M2M, financial services (mobile payments), services based on big data processing, and network services based on SDN/NFV technologies	Information security products for banks, telecommunication companies, retail networks, and online trading
Other areas	
Agriculture: M2M systems for monitoring agricultural production (data from various sensors, monitoring transportation, analyzing data from drones, etc.); a unified cloud IT system for Internet of things.	
Marking systems: IT systems for anti-counterfeiting, marketing actions based on QR codes and NFC tags	
Smart metering systems for energy providers (water, electricity, gas, etc.)	
Storage systems: IT systems for storing and analyzing big data (for all types of telecommunication traffic)	

Source: open sources, Direct INFO estimations

3. The ICT industry in Russia

Since the 1980's, the ICT industry in Russia has been actively developing. The Russian ICT market is quite competitive, and includes about 7,000 Russian and international companies. Half of these companies are financially sound, and at least 2,000 gain profits from selling their IT products abroad.

3.1. SUB-SEGMENTATION

According to the IDC, software sales, IT services, and equipment sales account for 13%, 25%, and 63% of profits in the IT industry, respectively. Compared to 2013, the share of IT services increased from 20% to 25%. This change suggests that the market has become more mature, although it was caused mainly by a significant increase in costs for imported equipment, which led to a reduction in sales. According to various sources, profits in certain IT segments in 2015 reached the following values (see the Table):

Table 4: Company profits in certain IT segments

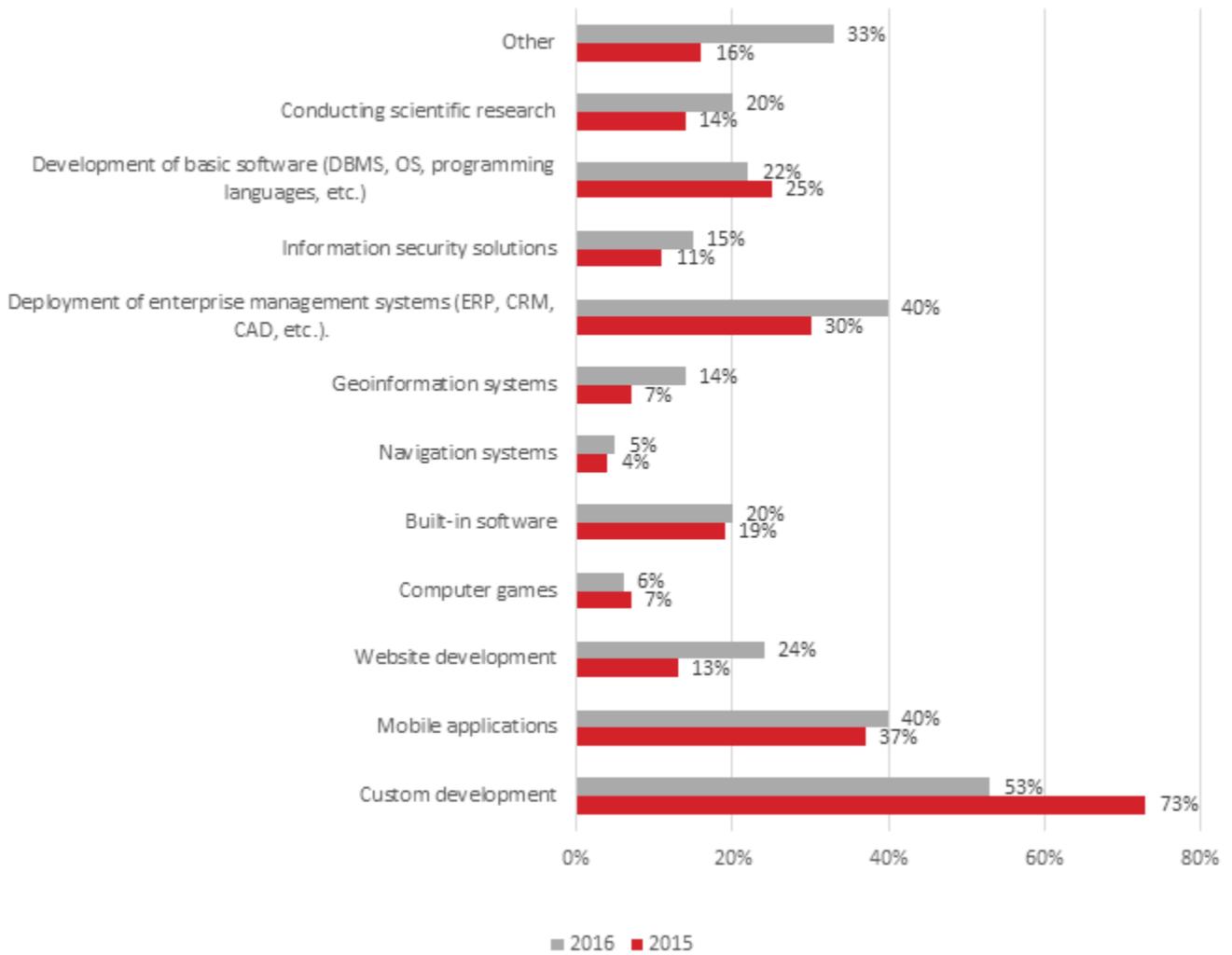
Market segment	2015	Fall (-)/ rise (+) by the end of 2015%	Source
ERP systems	0.98-1.31 billion USD	-20%–40%	Energy Consulting, TAdviser
Mobile applications	440 USD	+15%	J'Son
Software information systems for business administration (ERP, information systems for project management)	639.5 million USD	-30,6%	IDC
Market for electronic document flow systems/ECM systems	620 million USD	-27%	TAdviser
DLP market	78 million USD	-26%	
Market for information security	1.6 billion USD	-28%	CNEWSAnalytics
Market for online games	0.85 billion USD	-36%	Mail.ru
Market for customized software	5 billion USD	n/a	Russoft

Source: open sources

According to Rosstat, the highest expenditures on software are in finance (19% of all expenditures), manufacturing (16%), telecommunications (15%), professional services (14%), public institutions, and trading (6% of all expenditures on software each).

Russian software manufacturers prefer customized software development; however, due to the decline in demand for these services in Russia, the share of companies working on tailored software products shrank from 73% to 53% in 2016. A significant share of companies specializes in the development of mobile applications (40%), the implementation of standard information systems in companies (40%), and web development (24%).

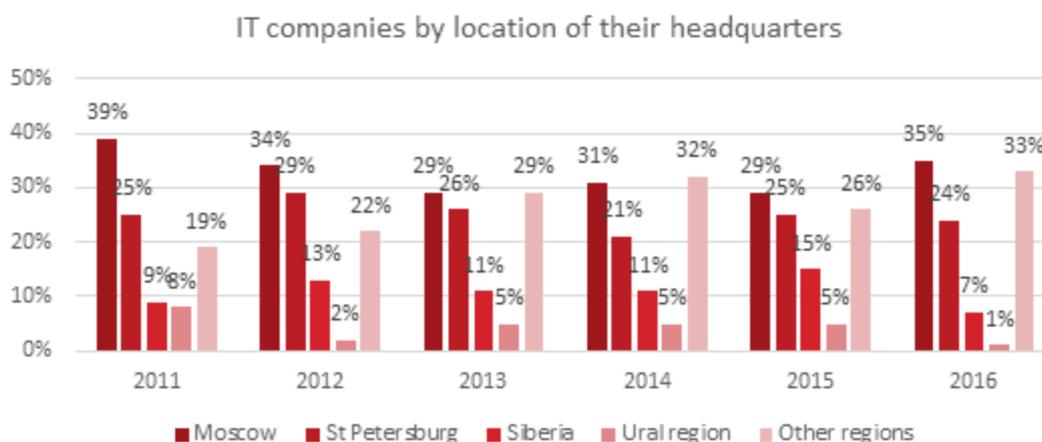
The main activities of Russian IT companies, %



Source: Russoft (2016)

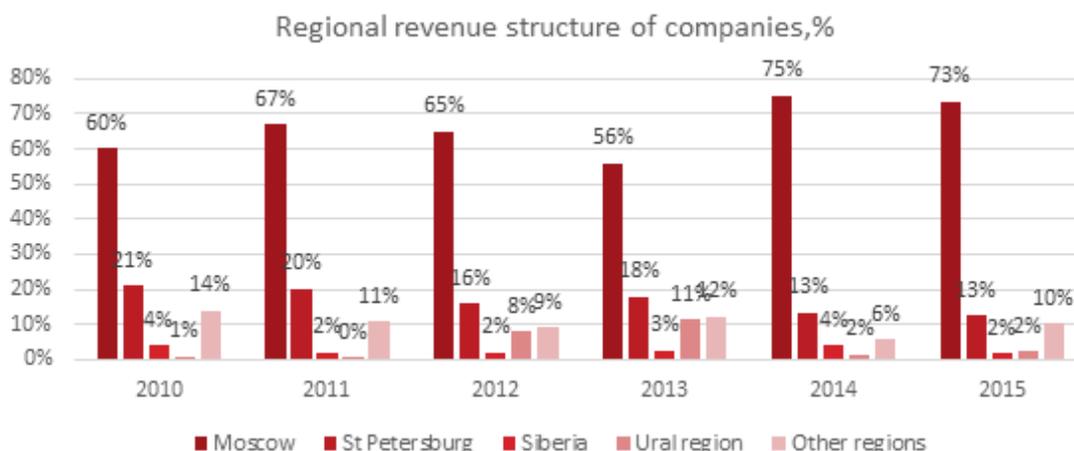
3.2. GEOGRAPHICAL CLUSTERS

The total number of IT companies registered with the Ministry of Communications was 7,000 in April 2017. According to Russoft, the total number of financially sound software developers (with a stable revenue, product portfolio, and market reputation) is at least 3,200. About 2,000 of them receive profits from selling their products abroad. Geography, the localization of central offices, and the amount of profits is described below.



Source: Russoft (2016)

Moscow and Saint Petersburg are the leaders in profits from software development. The share of these two biggest Russian cities is about 86%. In fact, the share of Russia's regions in software development may be higher than 14%, because more than half of large companies in Moscow and Saint Petersburg have their software development centers in Russia's regions (at least one regional development center).

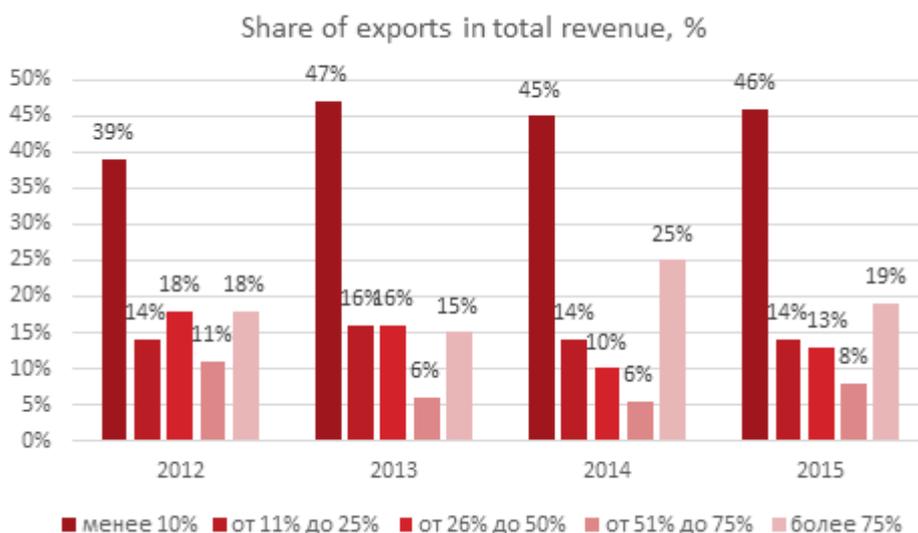


Source: Russoft (2016)

According to Russoft, the top 10 cities with headquarters or remote development centers for IT companies include all cities with a million-plus population (Moscow, Saint Petersburg, Yekaterinburg, Novosibirsk, Nizhny Novgorod, Kazan, Voronezh, and Omsk). Relatively small cities like Taganrog (250,000 inhabitants) or Izhevsk (with a population of 640,000) also are on this list; the good environment there promotes the development of world-class software companies. Samara, Penza, Ulyanovsk, Belgorod, Perm, Vladimir, Rostov-on-Don, Saratov, and Yaroslavl are among the cities that were not included in the top 10 list.

3.3. LOCALLY-ORIENTED AND EXPORT-ORIENTED PROVIDERS

The results of regular surveys by Russoft show that the professional development of software for export takes place in at least 50 Russian cities. About 20 cities have strong universities and dozens of software companies, therefore there are good possibilities to do business developing software for both Russian and the global markets. In 2015, about 27% of companies had an amount of foreign sales over 50% of their total revenue.



Source: Survey performed by Russoft (2016)

Large companies were more often export-oriented compared to small- and medium-sized companies. For example, companies with a turnover below 5 million USD surveyed by Russoft received 43% of their total revenue from exports, on the average. Kaspersky Labs and Luxoft remain the largest Russian exporters of software. At the same time, 1C, a large software developer, is more focused on domestic market, and considers it a priority. A large part of Russian IT companies work on implementing software in Russia (accounting, CRM, systems for electronic document flow, etc.), and provide specific Russian solutions such as electronic cash terminals, GLONASS-based products, etc. Among export-oriented companies are large suppliers of customized software, mobile games, and cyber and information security systems.

3.4. STRENGTHS AND WEAKNESSES OF LOCAL MARKET

A SWOT analysis of the Russian IT market, from the point of view of foreign companies, is shown in the table.

Table 5: SWOT analysis of Russian IT industry

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • High qualifications and education level of Russian IT specialists • Weaker ruble, and therefore lower costs to develop in dollars • Highly developed ICT industry, good market penetration for all new technologies (including mobile access and broadband Internet connection), M2M technologies, and the Internet of things • Significant internal demand for advanced IT, high growth potential in many segments • Tax incentives for IT companies, import substitution policies • Large number of financial and other tools for government support of the IT industry • Big investments in IT technologies from public organizations 	<ul style="list-style-type: none"> • Non-transparent and corrupt practices in public procurement for IT • The market for public IT services is closed to foreign companies because of import substitution policies • Low purchasing power in industry segments and private segments connected with the general financial crisis in Russia; the reduction of IT investments in all industries (including public procurement) • Poor law enforcement in the field of IT • The popularity of IT may vary in different regions • Insufficient development of the mechanisms for private-public partnerships • A lag between the legislative process and the market situation
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • It is easier for Russian IT products to occupy new niches on the global market, and in Asian markets, due to the decreased costs for Russian products after the devaluation of the ruble • The Russian market offers great possibilities to introduce new IT products connected with Fintech, the Internet of things, M2M, telemedicine, and trade • Steps are being taken at a legislative and practical level to improve the protection of intellectual property rights • Improvement of the Russian system of standards, integration into global systems • Development of international scientific cooperation 	<ul style="list-style-type: none"> • The geopolitical situation and current sanctions complicate access for Russian companies to foreign markets (for example, access to new technologies for information security is restricted in some industries, such as IT technologies for oil and gas sector) • Changes in Russian legislation may lead to significant costs for IT companies (requirements to store telecommunications traffic, laws on personal data that require information to be stored inside Russian borders, limitations on financial activities for international players, tightening tax policy for e-business) • The level of corruption remains high

3.5. R&D AND INNOVATION

There are 107 science and technology parks in Russia. Twelve of them are focused on the ICT segment, 45 of them are geared towards supporting small and medium enterprises and higher education institutions, and 22 are industrial parks. Russia has a number of private and public institutions involved in innovative development on the federal level, R&D centers for foreign companies that actively cooperate with Russian universities and public institutions and support innovations (e.g. the Skolkovo Foundation).

The largest institutions involved in innovative development on the federal level:

- The state-run corporation ROSNANO participates in creating nanotechnology infrastructure such as shared-use centers, business incubators, and early investment foundations
- More than 40 foundations that actively invest in Russian venture companies

- A nonprofit public foundation called the Foundation for the Support of Small Enterprises in Science and Technology offers financial support to young innovators and small companies working on commercializable high-tech solutions
- The Skolkovo Foundation aims to create favorable conditions for innovative processes in five high-priority fields: ICT, biomedicine, energy-efficient technologies, and nuclear and space technologies
- Rosinfokominvest is a public venture investment foundation worth 1.45 billion RUB that plans to fund venture IT projects. Shareholder rights on behalf of the government belong to the Russian Ministry of Communications
- The Russian Foundation for Technological Development is a public foundation that provides financial support to scientific and technological projects and experimental development
- RFFI (the Russian Foundation for Fundamental Research) is the most active state-run foundation.

From 2012 through the first half of 2014, a number of foreign corporations announced plans to create R&D centers in Russia, or to expand already existing centers. These centers mainly emerged with the help of the Skolkovo Foundation and the newly-built Skolkovo innovation hub, whose residents had already received tax incentives.

The privileges offered (tax incentives) and grants for scientific research helped to increase R&D investments by foreign corporations in Russia. Among the active investors in R&D in Russia are IBM, Cisco Systems, Microsoft, and SAP. R&D centers for EMC and Samsung have been in operation in Saint Petersburg and Moscow for a long time. Also, the following programs for cooperation have been launched:

- T-Systems, which already has its office in Saint Petersburg, entered the Voronezh employment market and started cooperating with Voronezh State University.
- In 2013, Cisco announced that it would implement a long-term research program in Russia in order to develop science and research innovations
- In 2014, the Center of Research and Development for EMC in Saint Petersburg signed a cooperation agreement with the Russian Academy of Science's Academic University
- In April 2014, the science and research branch of Microsoft Research announced a three-year agreement with Moscow State University.

Because of changes in the geopolitical situation in the second half of 2014, the scale of cooperation between Russian organizations and large international companies has sharply declined, and joint projects nearly ceased in 2015. In 2015-2016, activity was mainly seen from Asian companies. In particular, D-Link opened its R&D center in Ryazan in May 2016, and at the end of May 2016 an agreement was signed to create a Russian-Chinese scientific and technical innovative center in Strogino technology park in Moscow.

In 2015, the total cost of services provided to foreign companies by their research and development centers in Russia was 510 million dollars, and declined by 2% compared to 2014. For the end of 2016 a 6% growth in investment is forecasted. Various factors significantly influence these parameters, and in various ways. The weaker ruble positively influenced the growth of investment, but the geopolitical situation had a negative impact. Against this negative backdrop, companies from Southeast Asia (China, South Korea) and relatively small Western companies work in Russia were more active.

4. Market Players

The Russian IT market is characterized by an average level of monopolization, and both holding companies with millions of dollars in turnover and small companies are present. At least 19 Russian companies have clients in Switzerland.

4.1. The top 100 Russian IT companies

According to Cnews Analytics, the largest company on the Russian market is the National Computer Corporation. Its aggregate turnover in the last year was 140 billion RUB, which is 3.7 times higher than the revenue of Kaspersky Lab in Russia. The total turnover of the 100 largest IT companies in Russia was 16.6 billion USD. This rating does not include the cluster of public corporations in electronics, which includes such companies as Roselektronika, the United Instrument Manufacturing Corporation (OPK), the National Center for Informatization, RT-Inform, Yota Devices, and others. The revenue in Rostec's electronics segment in 2014 was 210.7 billion rubles, and increased by 15% compared to 2014. According to the rating, the largest software developers are Kaspersky Lab, Luxoft, and 1C.

Table 6: The largest Russian IT companies in 2015

Rank 2015	Name	City	Field of activity	Total revenue 2015, thousands USD incl. VAT	Revenue growth rate 2015/2014	Number of employees (31.12.2015)	Output per person in 2015, thousands USD
1	National Computer Corporation	Moscow	IT holding	2,298,775	-35.00%	3,804	604
2	Lanit	Moscow	IT holding	1,676,905	-29.34%	6,197	271
3	Gazprom Automation	Moscow	IT services	989,820	-36.13%	4,747	209
4	Technoserv	Moscow	IT services	844,799	-27.96%	2,735	309
5	Softline	Moscow	IT services	775,417	-21.43%	3,600	215
6	Kaspersky Labs	Moscow	Software development	612,537	-12.64%	n/a	,
7	Luxoft	Zug, Switzerland	Software development	612,433	26.87%	n/a	,
8	1C	Moscow	Software development	580,750	-32.86%	n/a	,
9	ITG (Inline Technologies Group)	Moscow	IT services	579,723	-32.92%	2,533	229
10	RRC Group	Moscow	Distribution hardware	564,704	-18.23%	650	869
11	Ay-Teko	Moscow	IT services	467,120	-24.51%	2,778	168
12	Croc	Moscow	IT services	448,498	-34.56%	2,160	208
13	Cognitive Technologies	Moscow	Software development	436,923	-25.89%	1,198	365

Rank 2015	Name	City	Field of activity	Total revenue 2015, thousands USD incl. VAT	Revenue growth rate 2015/2014	Number of employees (31.12.2015)	Output per person in 2015, thousands USD
14	CompuLink	Moscow	IT holding	318,316	-35.18%	620	513
15	NVision Group **	Moscow	IT services	313,668	-57.61%	906	346
16	Asteros	Moscow	IT holding	311,905	-40.33%	1,502	208
17	Center of Financial Technologies	Moscow	IT services, software development	290,310	-32.11%	2,640	110
18	Jet Infosystems	Moscow	IT services	267,981	-28.40%	1,284	209
19	Sberbank-Technologies	Moscow	IT services	247,961	-7.55%	6,515	38
20	Voentelecom	Moscow	IT services	227,038	-12.32%	2,999	76
21	AT Consulting	Moscow	IT services	200,528	-25.07%	2,489	81
22	Optima	Moscow	Distribution of JSC, IT services	197,424	-31.79%	1,990	99
23	Satel	Moscow	IT services	189,173	7.34%	400	473
24	NIIME and Mikron	Zelenograd	Production of JSCs	185,971	-29.78%	1,506	123
25	Maykor	Moscow	IT services	173,400	-38.70%	5,168	34
26	Force	Moscow	IT services	141,701	-22.94%	598	237
27	IT Co.	Moscow	IT services	134,584	-33.99%	2,000	67
28	Peter-Service	St. Petersburg	IT services	114,122	29.25%	1,068	107
29	SKB Contour	Ekaterinburg	Software development	113,825	-20.30%	3,793	30
30	Tegru	Moscow	IT services	110,203	-42.53%	200	551
31	X-Com	Moscow	Production and hardware distribution, IT services	103,678	-31.23%	270	384
32	ICL-KME VS	Kazan	IT services	98,192	-32.99%	2,033	48
33	AMT-Group	Moscow	IT services	97,049	-35.94%	359	270
34	Compares **	Moscow	Software distribution	86,645	-35.31%	145	598
35	Informprotection	Moscow	IT holding	85,629	-19.48%	732	117
36	Ramek-Sun	St. Petersburg	Production of JSCs	80,538	-43.73%	528	153
37	OFT Group	Moscow	Hardware distribution	73,936	-33.61%	187	395
38	Telecom-Protection	Moscow	IT services	73,314	-29.41%	180	407
39	InfoTeX **	Moscow	Software development,	64,568	30.20%	623	104

Rank 2015	Name	City	Field of activity	Total revenue 2015, thousands USD incl. VAT	Revenue growth rate 2015/2014	Number of employees (31.12.2015)	Output per person in 2015, thousands USD
			production				
40	Borlas	Moscow	IT services	64,013	-25%	n/a	,
41	Diasoft *	Moscow	Software development	62,713	-35.00%	n/a	,
42	Forecast*	Permian	Software development	61,770	-46.62%	n/a	,
43	Systems and Communication	Moscow	IT services	61,496	-26.52%	577	107
44	Corus Consulting	St. Petersburg	Distribution of JSC, IT services	60,359	16.19%	470	128
45	Atol	Moscow	Production of JSCs	51,865	-19.11%	267	194
46	Eltex	Novosibirsk	Hardware distribution	46,339	-6.92%	428	108
47	Fort Dialogue	Ufa	IT services	41,124	-1.83%	239	172
48	ADV Consulting	Moscow	Distribution of JSC, IT services	40,277	-42.22%	111	363
49	Amtel-Service	Moscow	IT services	39,645	208.88%	182	218
50	Galaxy	Moscow	IT services	34,861	-19.86%	772	45
51	Sail	Moscow	Software development	33,368	-40.96%	560	60
52	BSS	Moscow	Software development and distribution, IT services	33,148	-35.06%	650	51
53	RT-Inform (1)	Moscow	IT services	32,626	385.36%	255*	,
54	RD Teh	Moscow	IT services	30,578	-29.66%	201	152
55	Budget and Financial Technologies	Moscow	IT services	29,620	-30.10%	697	42
56	Bars Group	Kazan	Software development	29,217	-22.87%	1,126	26
57	Unit	Ekaterinburg	IT services	27,895	-31.29%	221	126
58	Angstrem	Zelenograd	Production of JSCs	26,612	-21.74%	1,159	23
59	Forus	Irkutsk	Software distribution	25,057	-30.47%	325	77
60	R-Style Softlab	Moscow	IT services, software development	24,932	-34.18%	682	37
61	Sonnet	Nizhny Novgorod	IT services	24,461	-25.58%	180	136
62	UCSS	Ekaterinburg	IT services	23,775	-54.15%	301	79

Rank 2015	Name	City	Field of activity	Total revenue 2015, thousands USD incl. VAT	Revenue growth rate 2015/2014	Number of employees (31.12.2015)	Output per person in 2015, thousands USD
63	Interprokom	Moscow	IT services	23,191	26.24%	65	357
64	System software	Moscow	Software distribution	21,653	-4.66%	50	433
65	ICore	Moscow	Distribution of JSC, IT services	21,148	-9.62%	92	230
66	ProtectionInfoTrans	Moscow	IT services	20,404	-12.70%	235	87
67	Neolante	Moscow	Hardware, software distribution	19,650	-22.50%	520	38
68	Aladdin R.D.	Moscow	Software development, hardware distribution	19,204	-0.14%	122	157
69	ITPS	Moscow	IT services	18,720	-42.66%	379	49
70	Impulse Telecom	Moscow	Hardware distribution	18,565	12.74%	60	309
71	DialogueScience	Moscow	Software distribution, IT services	18,555	-33.93%	70	265
72	Software	Moscow	Software development, IT services	17,989	-29.41%	112	161
73	InfoWatch	Moscow	Software development, IT services	17,664	-18.16%	332	53
74	Omnicom	Moscow	Production of JSCs	17,292	-39.46%	176	98
75	Ascon	St. Petersburg	Software development	16,299	-41.84%	606	27
76	SEC Kami	Moscow	IT services	16,088	-36.50%	233	69
77	Galex	Barnaul	Hardware distribution	15,977	-41.34%	284	56
78	Neoflex	Moscow	IT services	14,479	-36.88%	309	47
79	Digital Design	St. Petersburg	IT services	14,444	-41.78%	295	49
80	Center of speech technologies	St. Petersburg	Software development, production	14,256	-44.92%	392	36
81	IT Energy Service	Moscow	IT services	14,143	-40.33%	225	63
82	Computers and Networks	Novosibirsk	Hardware distribution	13,790	-6.11%	159	87
83	STG	Moscow	IT services	13,571	159.83%	15	905
84	Sovzond **	Moscow	IT services	13,561	-54.78%	132	103
85	Oberon	Moscow	IT services	13,360	-35.06%	103	130
86	Timlis Technology	Moscow	IT services	13,077	41.25%	53	247

Rank 2015	Name	City	Field of activity	Total revenue 2015, thousands USD incl. VAT	Revenue growth rate 2015/2014	Number of employees (31.12.2015)	Output per person in 2015, thousands USD
87	First Line Software	St. Petersburg	Software development	12,838	-7.80%	400	32
88	Corus consulting CIS	St. Petersburg	Software development, IT services	12,838	-18.29%	371	35
89	Bank information systems (LIS)	Moscow	Software development	12,376	-34.68%	320	39
90	CCS Specialist	Moscow	IT services	12,338	-43.22%	354	35
91	Echelon	Moscow	IT services	11,432	-29.97%	223	51
92	Prof-IT Group	Ulyanovsk	IT services	10,926	6.20%	155	70
93	Kaluga Astral	Kaluga	IT services	10,920	-29.41%	359	30
94	Cinimex	Moscow	Software development, IT services	10,363	-30.85%	213	49
95	Aichi Link	Moscow	IT services	10,055	160.08%	12	838
96	USC	Rostov-na-Donu	Software distribution	9,645	-34.74%	104	93
97	Portal-South	Krasnodar	Hardware, software distribution	9,056	-13.27%	227	40
98	Netrika	St. Petersburg	Software development	8,462	4.26%	105	81
99	Siam Consulting	Moscow	IT services	8,104	-34.49%	118	69
100	Computer Business Systems	Moscow	Software distribution	7,851	-37.13%	38	207

Source: CNewsAnalytics, Jun 2016

According to Russoft, the 65 biggest Russian IT companies have over 6 billion USD in total revenue, including profits from IT services and products sold abroad.

4.2. RUSSIAN ICT COMPANIES DOING BUSINESS IN SWITZERLAND

At the beginning of 2017, about 20 Russian IT companies, directly or indirectly, were doing business in Switzerland (some companies do not disclose their clients, so the actual number may be higher). Three Russian companies (Yandex, Kaspersky Lab, and Luxoft) opened offices in Switzerland. A summary of their parameters and fields of activity for these companies is shown in the tables below.

Table 7: Summary data on the companies that do business in Switzerland

#	Name	URL	Year established	Location of headquarters	Office in Switzerland	Number of employees
1	Unisoft plus	unisoftplus.com	1994	Novosibirsk	No	20
2	Enterra	enterra-inc.com	2001	Barnaul	No	80
3	Reksoft	reksoft.com	1991	Saint Petersburg	No	380
4	Solution2Markets Vostok	solution2markets.com	2009	Moscow	No	10
5	Luxoft	luxoft.com	2000	Moscow	Yes (in Zug)	7400
6	SimbirSoft	simbirsoft.com	2001	Ulyanovsk	No	300
7	Artezio	artezio.com	2000	Moscow	No	350
8	Palex	palex.ru	2002	Tomsk	No	80
9	MERA	meranetworks.com	1989	Nizhny Novgorod	No	1500
10	Kaspersky Lab	kaspersky.com	1997	Moscow	Yes (in Zug)	3500
11	Dr.Web	drweb.com	1992	Moscow	No	>400
12	Prompt	prompt.com	1991	Saint Petersburg	No (distributor of professional MT solutions in Geneva)	No data
13	Spirit	spiritdsp.com	1992	Moscow	No	120
14	ElcomSoft	ElcomSoft.com	1990	Moscow	No	No data
15	CBOSS (Convergent Business Operation Support System)	cbossgroup.com	1996	Moscow	No	200
16	Paragon Software	paragon.ru	1994	Moscow, Germany	No (company closed its Swiss office in 1998)	250
17	Sitronics	sitronics.ru	1997	Moscow	No	9000
18	ABBYY	abbyy.com	1989	Moscow	No (Switzerland is covered by Germany's office)	1250
19	Yandex	yandex.com	2000	Moscow	Yes (in Lucerne and Zurich)	6271

Source: companies' data, open sources

Table 8: Activity by Russian companies doing business in Switzerland

#	Name	Industries / Areas served	Specialization							
			Outsourced development services	Russian software vendor	Distributor / reseller	System integrator	Custom software development	Software localization	IT analysis	Consultant
1	Unisoft plus	Banking and financial services, consumer products, education, entertainment, government and public sector, healthcare, industrial, logistics and warehouse automation, pharmaceuticals, science and research, transportation	+	+		+				+
2	Enterra	Agriculture, automotive, banking and financial services, consumer products, education, entertainment, food industry, government and public sector, healthcare, industrial, insurance, legal, logistics and warehouse automation, media, publishing, retail / distribution, software and technology, telecom, transportation, travel	+	+						
3	Reksoft	Banking and financial services, government and public sector, logistics and warehouse automation, media, publishing, retail and distribution, software and technology, telecom, transportation, travel	+							
4	Solution2Markets Vostok	Banking and financial services, government and public sector, insurance, retail and distribution, software and technology, telecom			+					+
5	Luxoft	Aerospace & defense, automotive, banking and financial services, education, entertainment, industrial, insurance, media, publishing, retail and distribution, science and research, software and technology, telecom, transportation, travel	+							
6	SimbirSoft	Banking and financial services, education, entertainment, logistics and warehouse automation, media, publishing, retail and distribution, software and technology, telecom, travel	+				+		+	
7	Artezio	Banking and financial services, government and public sector, healthcare, logistics and warehouse automation, pharmaceuticals, retail and distribution, science and research,	+			+				+

#	Name	Industries / Areas served	Specialization							
			Outsourced development services	Russian software vendor	Distributor / reseller	System integrator	Custom software development	Software localization	IT analysis	Consultant
		software and technology, telecom								
8	Palex	Automotive, banking and financial services, computer hardware, consumer products, education, entertainment, food industry, healthcare, industrial, insurance, legal, logistics and warehouse automation, media, pharmaceuticals, publishing, science and research, software and technology, telecom, transportation, travel							+	
9	MERA	Media, telecom	+							
10	Kaspersky Lab	About 400 million corporate and individual users, the largest market share for cybersecurity software vendors in Europe		+						
11	Dr.Web	Corporations, individuals								
12	Prompt	More than 10,000 major client companies in the IT, oil & gas, metal industry and mining, power industry, public sector, science, finance, localization, education, translation worldwide		+						
13	Spirit	OEM customers of the global smartphone market, Social Networks, mobile operators	+	+				+		
14	ElcomSoft	Law enforcement, military, and intelligence agencies, supplying a range of forensic products and tools used in criminal investigations								
15	CBOSS	Telecom operators		+		+		+		
16	Paragon Software	Corporates, individuals, assembling companies		+						
17	Sitronics	More than 3,500 customers (corporations, telecom operators)		+	+	+		+	+	
18	ABBYY	More than 40 million of customers in 200 countries		+						
19	Yandex	Currently around a 60% share of the Russian market for search engines		+						

Source: companies' data, open sources

4.3. POTENTIAL PARTNER FOR SWISS ICT COMPANIES

Large-scale distributors, retailers, and system integrators are potential partners to sell software and other IT products in Russia .

Table 8: Potential partners for Swiss companies: distributors and retailers

Rank 2015	Name	City	Field of activity	Total revenue 2015, mln USD (excluding VAT)	URL
1	OCS	Moscow	Distribution of IT products, computer equipment, and household appliances	1 205.7	ocs.ru
2	Ulmart	Moscow	E-commerce and distribution	656.3	ulmart.ru
3	Marvel	Moscow	Distribution of IT products, computer equipment	467.6	marvel.ru
4	RRC Group	Moscow	Distribution of IT products, computer equipment	461.8	rrc.ru
5	Resource-Media company	Moscow	Distribution of IT products, computer equipment	200.1	resource-media.ru
6	Citilink (LLC Kronar)	Moscow	Electronic E-commerce discounter	171.2	citilink.ru
7	DNS-Altair	Tatarstan	Distribution of computer equipment and household appliances	138.5	dns-shop.ru
8	Asbis	Moscow	Distribution of software and hardware	126.2	asbis.ru
9	OLDI (LLC "Vektrum-K")	Moscow	Electronic retailer	125.3	oldi.ru
10	ImportTelecom	Moscow region	Distribution of telecom equipment	124.3	importtele.com
11	Merlion (LLC Company Digital Machines)	Moscow	Distribution of IT products, computer equipment, household appliances, and office furniture	119.9	merlion.com
12	Sistema Znaniy	Moscow	Supplying schools with IT products and computer equipment	74.8	системазнаний.рф
13	Prosoft Trading	Moscow	Distribution of industrial computers and other equipment	73	prosoft.ru
14	Depo Electronics	Moscow	Production and distribution of computer equipment	72.1	depo.ru
15	KEY	Moscow	E-commerce and Distribution	68.9	key.ru
16	Formoza	Moscow	Production and distribution of computer equipment	55.2	formoza.ru
17	Komtek	Moscow	Distribution of computer equipment	45.5	komtek.net.ru
18	Softkey	Moscow	Software E-Commerce	29.3	softkey.ru
19	Enter	Moscow	E-commerce and distribution	n/a	enter.ru
20	Pervyi Bit	Moscow	Software E-Commerce	n/a	soft.ru

Source: companies' data, open sources

Table 9: Potential partners for Swiss companies: system integrators

Rank 2015	Name	City	Field of activity	Total revenue 2015, mln USD (excluding VAT)	Number of employees	Output per person in 2015, thousand USD
1	NKK	Moscow	IT holding	2,298	3,861	692.5
2	Lanit	Moscow	IT holding	1 676.4	6,426	290.6
3	Gazprom Avtomatizasia	Moscow	IT services	984.4	4,905	168.8
4	Technoserv	Moscow	IT services	844.5	2,725	313.8
5	Softline	Moscow	IT services	775.2	3,700	252.5
6	ITG (Inline Technologies Group)	Moscow	IT services	579.5	2,425	245.4
7	I-Teko	Moscow	IT services	467.0	2,833	171.3
8	Croc	Moscow	IT services	448.4	2,174	213.8
9	Compulink	Moscow	IT holding	318.2	665	552
10	Asteros	Moscow	IT services	311.8	1,643	212.6
11	Center Finansovyyh Technologiy	Moscow	IT services	290.2	2,730	125.1
12	Jet Infosystems	Moscow	IT services	267.9	1,321	236.8
13	Nvision Group	Moscow	Distribution, IT services	210.9	803	267.5
14	AT Consulting	Moscow	IT services	200.5	2,686	72.1
15	Optima	Moscow	IT services	197.4	2,000	128.2
16	Satel	Moscow	IT services	189.1	417	505.9
17	Maykor	Moscow	IT services	173.3	6,131	27.2
18	Force	Moscow	IT services	141.7	610	275.1
19	IT Group of Companies	Moscow	IT services	134.5	2,100	68.5
20	Peter-Service	Saint-Petersburg	IT services	112.7	1,147	125.9
21	Tegrus	Moscow	IT services	110.2	200	610
22	X-Com	Moscow	Production, distribution, IT services	103.6	283	409.4

Source: company data, open sources

4.4. POTENTIAL CLIENTS FOR SWISS COMPANIES

Based on the market analysis for IT services in the target industries (see Section 2.4), the table below describes the possible clients for Swiss IT companies in Russia by segments.

Table 10: Possible clients for Swiss IT companies in Russia

MEM (M2M, Industry 4.0)	Retail Logistics
Large telecommunication companies interested in introducing new services to their networks (MTS, Megafon, Beeline, Rostelekom); IT integrators that introduce new industrial technologies (ProSoft, ICOS, Nienschanz-avtomatika, NPF KRUG, Compulink, Croc, Asteros, Sistematika, IT Energy, Borlas etc).	The largest retailers (Magnit, X5 RetailGroup, Auchan, Dixi, Lenta, MetroGroup, O'Key). Tekhnoserv is the leader among IT companies that implements warehouse logistics systems for this group of clients (in 2015, it executed projects in this field worth 64.6 million USD). Croc is in second place (51.6 million USD), and Solvo is in third place (12.7 million USD).
Fintech	Transport (M2M, geosystems, etc.)
Russian banks that invest in Fintech (Sberbank, Tinkoff Bank); large private banks (Alfabank, FK Otkritiye, NKC etc.)	Mobile network operators that offer services for transportation monitoring (MTS, Megafon, Beeline, Tele2); large independent transportation companies (PEK, Delovie Linii, Delko); large players in motor insurance (Ingosstrakh, Alfa Strakhovanie, Alyans, VSK, VTB Strakhovanie)
Mobile	Healthcare
Large mobile network operators (MTS, Megafon, Beeline, Tele2)	Large private medical service providers (MedSi, OOO Medicina, InVitro, Mat i ditya, European Medical Center), mobile providers that develop mHealth solutions (MTS, Megafon, Beeline), large providers of IT solutions for public healthcare (Croc, Bars group, SP Arm)
Telecommunications	Cybersecurity
Large telecommunications companies (MTS, Megafon, Beeline, Tele2, Rostelekom etc.), major providers of IT solutions for telecommunications (Envision Group, Tekhnoserv)	Large private banks and financial organizations (AlfaBank, FK Otkritiye, NKC); retail chains and online trading companies (Exist, Ulmart, Wildberries, Enter etc.); large suppliers of information security systems for the government (e.g. Softline).
Other industries	
Agriculture: large agro-industrial holdings: Miratorg, Cherkizovo Group, Russagro, Agro-Belogorye, Cargill, Sodrugestvo Group, Efko etc.	
Public and commercial marking systems: CentrInform (a developer and operator of government marking systems); large manufacturers and distributors of pharmaceutical products as the most solvent segment interested in anti-counterfeiting.	
Smart meters: large energy providers like Mosenegrosbyt, Rosenergosbyt (the number is about 720)	
Storage systems – state-run corporations and public companies responsible for the development of storage systems for telecommunications traffic (Rostekh, Rostelekom), private developers of these systems for the Federal Security Service (Norsitrans)	

Source: open sources, Direct INFO estimations

5. Swiss IT companies on the Russian market

Despite the financial crisis and the reduction in its size, the Russian ICT market remains attractive for international companies. According to estimates by Direct INFO, at least seven Swiss IT companies actively work in Russia and have branch offices or representative offices there.

5.1. IMPORTS

As of the beginning of 2017, at least seven companies had a branch office or representative office in Russia. Even more IT companies worked with Russian clients directly from Switzerland, and exported software and IT services to Russia (the exact number of these companies is not available). The business segments where Swiss companies work are very diverse (see the table below) and encompass a wide range of both B2B and B2C solutions.

Table 11: General information about Swiss companies in Russia

#	Name	URL	Headquarters	Line of business
1	EBS Partners	ebspartners.com	Zuerich	EBS Partners AG specializes in the implementing, updating, and providing technical support for Oracle software in the logistics, transportation, and freight-forwarding industry
2	Sicap	sicap.com	Baar	Sicap is a global leader for software solutions for Mobile Network Operators (MNO's)
3	STS-Vostok	sts.ch	Lausanne	STS successfully deploys highly customized training programs for numerous domestic and international companies across all industries
4	Verysell	verysell.ru	Nyon	Computer hardware and software distribution, IT systems integration, industrial automation, and software development.
5	Novanox	novavox.ru	Zurich	Implementing telecommunication services for mobile operators and developing products and solutions for pbx-manufacturers. The product portfolio covers voice, fax, and wireless solutions.
6	Swissmed Mobile	medm.com	Zug	World leader in IT for Mobile Patient Monitoring and Medical Device Connectivity software.
7	WayRay	wayray.com	Lausanne	Innovative company working with augmented reality technology to develop holographic navigation systems and advance the connected car

Source: companies' data, open sources

5.2. LOCAL PRODUCTION

Four of the seven Swiss companies with their offices in Russia (Verysell, Novavox, Swissmed Mobile, WayRay) have localized the development of software and IT services in Russia. Offices of the other companies offer sales, IT projects, and technical support for their clients.

Table 12: Activity of offices of Swiss companies in Russia

#	Name	Office(s) in Russia	Form of Russian office	Year established	Line of business	Number of people in Russia and the CIS
1	EBS Partners	Moscow	Branch	2012	Consulting services and business applications for logistics, including transportation operations management; warehouse management systems; business intelligence, supply chain management, and financial management. Implementing complex projects with a full cycle of services, from business analysis and deploying relevant Oracle applications to maintaining and supporting implemented transportation management solutions	60
2	Sicap	Moscow	Subsidiary	2006	Facilitating further penetration into the Russian market, and providing services for customers and partners. Experts in Moscow are responsible for Sicap's track record in the development of solutions	No data
3	STS-Vostok	Moscow	General partner and representation	2007	Sales of licensed services and solutions to STS (Sauter Training & Simulation) inside Russia and CIS countries, supporting partners, managing IT projects, implementing standard IT projects.	No data
4	Verysell	Moscow	Subsidiary company, R&D center	1990	The Moscow office executes general management and full-cycle projects, from technical design to deploying and supporting industrial automation, IT infrastructure, and developing software (the Swiss units of Verysell S.A. and Verysell CIS S.A. only support businesses and attract funding).	>500
5	Novavox	Moscow, Saint Petersburg	Subsidiary company, R&D center	1997	Moscow: central sales office; Saint Petersburg: manufacturing products under the Smartphone trademark. The development, testing, quality control, and document preparation departments are located here.	No data
6	Swissmed Mobile	Saint Petersburg	R&D center	2012	Full cycle of developing patient monitoring software for a variety of equipment and various vendors	>70
7	WayRay	Moscow	R&D center	2012	Developing Navion, a car navigation system with augmented reality, which displays information about the traffic situation on the windshield	100

Source: companies data, open sources

6. Russian IT companies doing business in Switzerland

Russian IT companies are increasing their presence on the global software market, including in the U.S., Germany, Austria, and Switzerland, as well as Brazil, India, the Middle East, and China. Russian companies are becoming increasingly visible in the segments of information security software, customized software, and IT services.

6.1. Reasons for Russian companies to internalize

At the beginning of 2017, at least 20 Russian companies already worked with clients in Switzerland. It is a rather small number compared to the presence of Russian ICT companies on other European markets. The total number of Russian IT companies that have internalized their business processes in foreign markets is at least 150, by a conservative estimate.

Usually, companies have a range of reasons to internalize their business. Every case is unique, but most often the main reason for Russian IT companies to enter the markets of other countries is to realize their growth potential by expanding their market and attracting new foreign clients, as well as attempting to increase marginality. At the present moment, the size of the Russian ICT market, and the marginality for transactions on it, is declining year by year. At the same time, many foreign markets (and European ones in particular) have been experiencing noticeable growth. In these circumstances, the narrowing bounds of local markets limit growth, which is very strong motivation to look for new opportunities abroad.

At the end of 2014, new entrance opportunities opened on European markets for Russian ICT companies. The devaluation of the ruble made their prices more competitive, and this provided incentives for a larger number of Russian software manufacturers. However, only IT companies that develop customized software by outsourcing, and had already entered international markets - or started this process – gained an advantage. For the overwhelming majority of companies focused on the domestic Russian market, and CIS markets, the crisis only caused troubles.

Along with the above mentioned factors, many Russian IT companies have other important reasons for internalization. They may want to access to new management and technological know-how and innovation, or cheaper and more convenient sources of foreign credit to fund their development.

6.2. VALUE CHAIN STRATEGIES

The largest players on the Russian ICT market are usually multi-industry holding companies, which may include up to several dozen structural units. Their business is quite diversified, and may include both IT and activities indirectly connected with the ICT market. Therefore, most companies in the top 100 are involved in the full cycle of software creation and IT services, starting from design, development, and (if applicable) mass replication to technical support and after-sales client support. In practice, outsourcing is quite rare. The added value in software manufacturing and IT services mostly emerges at the stage of development, therefore there is a clear trend on the Russian ICT market when the manufacturer or developer concentrates the bulk of added value.

Many large ICT holdings have their own distribution and/or retail outlets, which makes it possible to control all links in the chain, from creation to reaching the final consumer and accumulating the revenue that arises on every stage. Nevertheless, even large developers have limited possibilities to develop their own distribution system, and many companies on the ICT market use broader distribution networks and retail partners to sell their software, especially in the B2C segment. The role of distributors and retailers, and their share in the added value, will grow with the increasing penetration of IT products into all areas of life.

Most large IT companies on the Russian and CIS markets already have a well-developed distribution network. However, in Europe, and in other non-CIS countries - and in Switzerland in particular - their connections with trade partners are generally poorly developed, and their business strategy is to work directly with individual clients. At the same time, the development of software and IT services occurs only in Russia, where the bulk of the added value remains. Sales and marketing on foreign markets is not the strong suit of Russian companies. Therefore, almost every Russian company entering a European market is interested in reliable and experienced local partners, which opens opportunities for Swiss companies.

6.3. EXPORT STRATEGIES

Only three Russian IT companies have sales offices in Switzerland and are able to conduct direct sales of software and IT services for their Swiss clients. They are primarily large, global companies: Yandex (offices in Lucerne and Zurich), Kaspersky Lab / InfoWatch (office in Zug), and Luxoft (principal office in Zug). Along with sales, local offices usually conduct marketing activities and offer client support.

In the vast majority of cases, Russian software companies that do business in Switzerland (see the list in Section 4.2) choose an export strategy without having any physical representation in Switzerland. Their activities usually boil down to directly exporting software or IT services manufactured in Russian development centers to clients located inside Switzerland. This strategy is most often chosen by small or medium-sized developers of IT solutions for the B2B segment. B2C-oriented software manufacturers without an office in Switzerland choose indirect exports as their basic strategy. In this case, software sales are conducted online on the company's website, or by local agents (retail resellers) and global online software stores (Google Play, Amazon, Appstore, Yandex.Store, iTunes and others).

The largest segment for Russian exports is software development services (48% of the total amount of exports). Their share of software products and ready-to-use solutions is about 43%, while software development services provided by the development centers of foreign corporations in Russia only constitute 9% of Russian software exports.

6.4. R&D AND INNOVATION STRATEGIES

The strategy followed by the vast majority of international players on the Russian ICT market assumes that the development of software or IT services occurs in the companies' centers in Russia. A small percentage of companies that have internalized have R&D centers in other countries (most often in the CIS and, in some cases, in India, China, Taiwan etc.). Russian companies rarely use outsourcing for research and development, and usually outsource routine and simple tasks.

For most Russian IT companies, the domestic market, with its specific nature (the public sector is a large share), is still the main priority. This may narrow the horizons for implementing innovation, even in large companies. However, this conservative demand is observed only in some segments of the Russian market. There are many applications and market segments where Russian companies generate innovations on a global level and have become unquestioned leaders.

6.5. FINANCIAL STRATEGIES

Since the end of 2014, the financial crisis caused by the devaluation of the ruble and anti-Russian sanctions introduced by some developed countries has seriously limited the availability of cheap and convenient sources of credit for Russian companies. Therefore, the financial strategy for most players on the market to internalize should take into account the current difficult situation. Companies should rely on their own available funds for the development and entrance to new markets. The opportunity to freely receive credit to expand in European countries on more favorable terms than in Russia is an important factor for many Russian IT companies that started the internalization process, or plan to enter global markets.

One possible financial strategies for IT start-ups is to look for strategic investors. However, this is possible mostly for relatively small companies. Medium- and large-sized players of the Russian ICT market are usually privately-owned, and rarely decide to share their business with third-party investors.

The financial strategy for the largest companies may also include contracts with IPO's to attract additional funds. However, the leaders on the market are private companies, which not always plan to take these kinds of steps. For example, an IPO by Yandex in 2011 was very successful. The company earned 1.3 billion dollars, which is an impressive result not only for the ICT market, but also for the entire history of IPO's with Russian companies. However, this case is an exception to the rule. Other global ICT companies of Russian origin, such as Kaspersky Lab (InfoWatch) and ABBYY, considered the possibility of conducting an IPO in previous years, but decided not to.

6.6. DISTRIBUTORS

Most large players on the Russian ICT market have a well-developed network of sales partners (agents, distributors, resellers, or retailers, depending on the segment) throughout Russia and in CIS countries. IT companies that are members of large technological holding companies often develop their own distribution networks. Some players have several (sometimes more than a dozen) offices in Russia's regions.

However, when it comes to non-CIS countries (Europe, and Switzerland in particular), the distribution network for Russian companies is rather poorly developed. Many companies that have already internalized their business processes do have their sales offices and representative offices in European countries, or work with local agents and distributors, but in most cases they work with European clients directly from Russia. Comparing Russian exports for software and IT services with the size of distribution networks abroad shows a significant potential for developing distribution networks (of course, it depends on plenty of factors). Therefore, Swiss software distributors have a good chance of finding new business partners with the growing number of Russian companies that are deciding to enter European markets.

6.7. PARTNERS AND ASSOCIATIONS

Members of the Russian ICT market are actively developing partnership with leading equipment vendors (HP, Cisco, Huawei, Samsung), and global IT companies (Google, Oracle, Microsoft, etc.) In these cases, Russian companies usually are distributors or subcontractors for foreign companies, and this defines the terms of their cooperation. The Russian company in such projects usually plays a secondary role because the foreign vendor or partner has a choice, and losing the partner will be more disadvantageous for the Russian company.

Also, partnerships are actively used as a type of cooperation when the IT business specializations between Russian companies and others do not overlap, or are complementary (for example, the developer of the PROMT computer translation tool cooperates with Kaspersky Lab, an anti-virus software developer; the Yandex search engine uses anti-virus solutions by Dr.Web, etc.) In these kinds of alliances, the partnership is equal, and both sides enjoy a synergistic effect for developing their business in fields where they do not have enough expertise.

7. Market entry strategies in Russia

Despite a continuing, long-term positive trend towards improved business practices, opening a business in Russia still poses significant risks. In every single case, the best strategy for market entry depends on multiple factors, and it is not possible to make universal recommendations. In this section, the pluses and minuses of various strategies of market entry will be discussed.

7.1. IMPORTING THROUGH A DISTRIBUTOR

The most common strategy for market entry in case of mass and standard IT products is to choose one or several distributors, depending on the software type and regional presence. One good distributor will suffice to work in Moscow and Saint Petersburg, but manufacturers that want to sell IT products in Russia's regions will probably need to establish a distribution (and/or agent) network that will include more than one company. Many Russian distributors have well-established networks in the Russian regions that can allow greater market penetration for foreign partners. Some of the largest distributors cover all of Russia's regions.

A distributor typically sells and delivers IT products to end users (this is especially true in the B2B segment) and/or retailers (in the B2C segment) and provides logistical support (the necessary customs clearance for equipment, warehousing, inventory management, etc.) and after-sales support (helpdesk).

Working with distributors requires that the legal framework governing supplier-distributor relations be structured in optimal fashion. They should consider:

1. The terms and conditions for delivering the IT products
2. intellectual property issues (trademarks, patents, etc.)
3. promotion of the IT product on the Russian market (market research, promotional actions)
4. interaction among distributors (special agreements about the geographical division of the product's market, non-compete arrangements, etc.)

The main advantage of this strategy for market entry is the possibility to start selling quickly at a relatively low cost. On the other hand, there are the risks connected with disrupting relations with a distributor (especially when it is the only one available), and the manufacturer has limited influence on the sales process and customer service.

7.2. REPRESENTATIVE OFFICE / BRANCH OFFICE

Along with distributors, some foreign manufacturers establish representative offices or branch offices. Representative offices and branch offices can be attractive for foreign businesses wishing to operate on the Russian market because they reduce their tax burden, facilitate administrative processes, may help to avoid currency control restrictions (it is easier to move money outside Russia) and obtain work visas for staff members. Representative offices and branch offices are not considered independent legal entities, and are sub-divisions of their parent companies. Acting on behalf of a foreign company, representative offices and branch offices can negotiate, be involved in marketing, and provide other business support.

The major advantage of a representative office for a foreign company is direct contact with end users and control over the promotion and distribution of their products. Representative offices cannot be involved in commercial activities directly, because they are not allowed to have commercial bank accounts under Russian law; nevertheless, such an approach permits greater control over the process of distribution, and helps reduce possible risks. If a foreign manufacturer intends to use its Russian office primarily for marketing and negotiating, it would be better to establish a representative office in Russia.

A representative office is required to submit reports on its activities and possible income on a quarterly basis, and is subject to payroll taxes, retirement taxes, road taxes, social insurance, etc. Since representative offices cannot participate in commercial activities, branch offices are becoming increasingly popular. According to the law on foreign investments approved in 1999, foreign companies may engage in commercial activities through their legally established branch offices.

Since January 1st 2015, branch offices or representative offices have been receiving accreditation without any expiration date; they can continue to operate until their foreign founders decide to close them.

The procedure for establishing branch offices and representative offices includes the following stages:

1. Accreditation and inclusion into the State Register of Accredited Foreign Representative Offices and Branch Offices;
2. Registration with the tax authorities (regardless of whether the activities are taxable or not taxable);
3. Registration with the Federal State Statistics Service;
4. Securing approval for the organization's stamp.

To accredit a foreign subsidiary or representative office, the following documents are required:

- an application for accreditation, signed by a representative from the foreign company who is authorized as per Russian Federation statutory law
- charter documents for the foreign company
- an extract from the registry of legal entities in the country of origin, or other document with the same legal force, that confirms the foreign company's legal status
- a document issued by an authorized body in the country of origin for the foreign organization that confirms its registration as a taxpayer and includes its taxpayer identification number (or similar number)
- a document stating the decision of the foreign company to establish a branch office or representative office inside Russia
- the foreign branch office's or representative office's bylaws
- a letter of authorization issued to the foreign branch office's or representative office's director inside Russia that confers the necessary authority
- a confirmation of payment for the state duty (120,000 RUB \approx 2,000 USD)
- a list of submitted documents (two copies).

Accreditation for a representative office or branch office can take much longer than registering a subsidiary (a limited liability company or joint-stock company). After submitting the documents, the entire procedure usually takes four to eight weeks. It is possible to choose a fast-track process.

Representative offices and branch offices are managed by a person appointed by the foreign company (a foreign or a Russian national). The executive officer is authorized to act on behalf of the foreign company pursuant to a power-of-attorney. A well-written power-of-attorney for the director of a representative office can go a long way towards reducing the foreign company's liability risks.

After the accreditation process, a representative office or branch office may be allowed to receive work permits for foreign nationals. Every foreign employee must also obtain a personal work permit even if he/she is accredited.

7.3. SUBSIDIARIES

If a foreign investor plans to establish a business in Russia, he/she may alternatively choose to establish a Russian limited liability company with 100 percent foreign ownership. The major factors to be considered are liability issues, management control, and taxation.

Registering a subsidiary for a foreign company in Russia is the most comprehensive option for operating on the Russian market. It gives a supplier full control over distribution, from logistics support to final sales and after-sale support for customers, and helps further reduce possible risks from wrongful invoicing and other violations that could be committed by independent importers and distributors.

If the supplier decides to sell goods through its Russian subsidiary, it will have to resolve some specific issues, including:

- Audits by the state authorities
- Taxes, employment laws, and currency controls
- Obtaining the necessary permits, licenses, etc.

Table 13: Comparison of the legal, financial, and tax aspects of a subsidiary, in the form of a Russian legal entity, and a representation office

Aspect	Representative office	Subsidiary
Legal Status	This does not constitute an independent legal entity. All its property is owned by the foreign (non-Russian) company. Commercial activities are not allowed, so it does not technically generate profits. Activity is limited to negotiating contracts, marketing, and other support activities for the foreign entity.	A subsidiary can act only through a manager authorized to act for and on behalf of the foreign entity pursuant to the power-of-attorney. It has all the rights of a Russian company. A managing director elected by the foreign company can act on behalf of LLC without a power-of-attorney in the bounds of Russian legislation, the LLC's charter documents, and agreements signed between the LLC and the director.
Liability	The head office or parent company bears full liability. The foreign entity is liable for the actions of its representative office pursuant to the power-of-attorney.	This is a separate legal entity that bears all liability on its own. the foreign entity's liability is generally limited to its proportion in the subsidiary's charter capital.
Charter Capital	Not required	Minimal charter capital is required (~170 USD)
State duty	120,000 RUB (~2,000 USD) for accreditation	4,000 RUB (~70 USD) for registration
Foreign employee issue	Foreign employees must obtain personal work permits	A company must obtain an employment permit to employ foreign citizens. After that, every foreign employee must obtain a personal work permit.
Taxation	A representative office is subject to payroll, retirement, road, and social security taxes. No value-added tax (VAT) accounting is needed if there is no commercial activity, and VAT is considered a cost. If a representative office engages in commercial activities, full tax accounting and reporting is mandatory.	A subsidiary is subject to the same taxes at the same rates as a representative office, but it must also provide quarterly financial reports; pay income tax, pay VAT (e.g. for equipment shipped for sale to Russia); pay property taxes and transportation taxes (if the LLC owns vehicles). The dividends received by a foreign entity from its subsidiary may be subject to either Swiss or Russian taxation, as per the double taxation agreement between Switzerland and Russia.

Source: open sources

The most common legal form of a subsidiary is a limited liability company (OOO) in Russia. Under Russian law, it is possible to have one shareholder and one executive officer (the general director); both corporate and individual shareholders are allowed. In order to register a company, a general director and a legal address are necessary. Before determining an appropriate candidate and locating office premises, it is possible to outsource this function to a reputable third party.

For a corporate shareholder, the chief executive officer of the corporation must sign the application for incorporation. This can be done in the home country and sent to Russia for translation and official submission, or submitted personally in Russia. If this is not possible, then a nominee shareholder (a trusted local manager, or a person chosen by the law firm performing the registration) is appointed, and he/she can sign all the application documents.

To register a limited liability company (OOO), the following documents are required:

- an application for government registration of a legal entity (form No. P11001);

- a document stating the decision to create a company signed by the founder, or the general founders' meeting minutes where the issue was addressed;
- the charter documents for the legal entity (two copies of the original if submitted personally or by mail, or one copy if submitted in electronic format);
- confirmation of the payment for the state duty (4,000 RUB ≈ 70 USD);
- confirmation of the founder's status, if the founder is a foreign legal entity.

If all documents are in order, the founder receives a certificate of registration in the Uniform State Register of Legal Entities at the tax inspectorate, and one copy of the statute with the registering entity's stamp. This finishes the process of company registration. After that, the newly established company should rent or purchase an office, hire personnel, and search for providers of outsourcing services necessary for the company to function.

7.4. Localizing manufacturing

The most significant reason for foreign manufacturers to localize their software development and IT services in Russia is the desire to supply IT products to public institutions and corporations in the bounds of open bids. According to recent legislative changes, any foreign company that develops software for the public sector and wants to sell it in Russia must localize its manufacturing inside Russian borders in order to register it as Russian software. This kind of registration opens access to participation in state purchasing bids.

According to current laws, software is considered Russian if the following criteria are met:

- exclusive rights to the software worldwide throughout their term belong to a Russian legal entity or natural person that owns more than 50% of its shares;
- the software must be available to be freely purchased;
- the total amount of payments to foreign entities under license or other agreements is less than 30% of the revenue for the software's right holder over the calendar year;
- information about the software's right holder is in the register of accredited organizations that carry out activities in the field of information technologies;
- information about the software is not officially classified, and the programs and databases do not contain classified information.

If a foreign company does not plan to participate in state tenders (the B2G segment), localization of manufacturing in Russia is not vital for the sales. However, it may give IT manufacturers the following opportunities:

- business-related issues (in the B2B segment) are solved much faster and more efficiently if developing IT solutions is performed close to the client
- localization makes it easier to guarantee security when the software is being used
- localization gives the opportunity to take into account Russian consumers' special features (government standards, historical specificities, the technical culture, shared approaches)
- adapting foreign solutions to Russian reality makes IT products more attractive for local consumers, both in the B2B and B2C segments; it focuses on interface modifications (translations into Russian, automation ongoing changes, user-friendliness)
- the costs of IT manufacturing in Russia may be significantly lower than in Europe, while the qualifications of Russian developers are often higher.

If a foreign software manufacturer or IT services provider does not supply the equipment, the localization process is almost identical to the process of registering a subsidiary described in Section 7.3, and includes the following steps:

- registering a Russian legal entity;
- renting or purchasing an office;
- hiring personnel;
- searching for the suppliers of necessary outsourcing services.

Russian software developers only need special certificates and licenses if they want to supply IT solutions to the Ministry of Defense, the Federal Security Service, or the Ministry of Internal Affairs, and in some cases for narrow segments of corporate clients (for example, billing solutions for communications providers, or specialized software for banks and payment systems). In other cases, a localized software manufacturer is no different from a huge number of service companies.

If the IT solution or IT service includes equipment, or the manufacturer offers boxed versions of the software for retail stores, solving logistic issues (delivery to final users or to points of sale, and renting warehouses) is an additional stage in setting up local production. The logistics market in Russia is well-developed especially in bigger cities where most consumers live. It is possible to quickly find a suitable partner for any logistic task.

7.5. MARKETING

If a foreign manufacturer enters the Russian market by importing through a distributor, then it should be taken into account that distributors typically do not get involved in the direct promotion of software. Usually, it remains the foreign company's responsibility, but many distributors are able to offer necessary marketing and promotional activities if the manufacturer provides substantial financial support for promotion and advertising. In addition, it is better for foreign manufacturers to take responsibility for registering their brand names in Russia instead of relying on local Russian partners. It is also important to provide a distributor with product information and marketing materials that can be translated into Russian.

If the entrance strategy involves establishing a representative office, subsidiary company, or localizing manufacturing, then marketing issues may be solved by outsourcing (this field is developed in Russia) or directly by the company. The optimal way of doing it depends on many factors, but there are no significant barriers to implementing any marketing activities (promotions, advertising, market research, etc.) Some of these issues are regulated by advertising laws.

8. Events and media

8.1. CONFERENCES

CNews Conference is an agency for ICT marketing communications that regularly organizes events connected with the information technologies market

Address: #78 Profsoyuznaya Ulitsa, Moscow, 117393, Russia

Phone: +7 495 363-11-11 ext. 1250, 1326, 1230, 1249

Website: events.cnews.ru

Vedomosti conferences are annual conferences on the hi-tech and telecommunications market organized by Vedomosti, the largest business newspaper in Russia

Address: #3 Ulitsa Polkovaya, Bldg. 1, 127018, Moscow, Russia

Phone: +7 495 956-25-36

Website: events.vedomosti.ru

IEEE International Conference on Application of Information and Communication Technologies

Address: #65 Profsoyuznaya Ulitsa, Moscow 117997, Russia

Phone: +7 495 334-92-61

Website: www.aict.info

8.2. TRADE FAIRS

Communications, Information and Telecommunication Technologies is the biggest annual fair for ICT in Russia

Address: #14 Krasnopresnenskaya Naberezhnaya, Moscow, 123100, Russia

Phone: +7 499 795-37-99

Website: www.sviaz-expo.ru

Hi-Tech Building 2017 (October 31st to November 2nd, 2017) is an international fair on automation for buildings, smart houses, smart cities, and energy efficiency.

Address: #14 Krasnopresnenskaya Naberezhnaya, Moscow, 123100, Russia

Phone: +7 499 551-99-80

Website: www.hitechbuilding.ru

Integrated Systems Russia is an annual fair on audiovisual, information and communication technologies, system information, and digital signage

Address: #7 Bagrationovskiy Proezd, Bldg. 20V, Moscow, 121087 Russia

Phone: +7 499 551-99-80, +7 495 737-74-79

Website: www.isrussia.ru

8.3. JOURNALS

Computerworld Russia offers a review of events in the IT industry in Russia and abroad

Address: #8 Elektricheskiy Pereulok, Bldg. 3

Moscow 123056, Russia Phone: +7 499 253-92-06

Website: www.osp.ru/cw

Intelligent Enterprise/RE is a business magazine on IT for CIO and IT detectors
Address: #34 Marksistskaya Ulitsa, Bldg. 10, Moscow, 109147, Russia
Phone: +7 495 974-22-60
Website: www.iemag.ru

8.4. INTERNET PLATFORMS

www.cnews.ru — the most popular website in Russia about information technologies

www.comnews.ru — a popular Russian resource on the telecommunications and IT market

www.ict-online.ru — an online news medium on the ICT market

www.iks-media.ru — an online news portal and electronic version of an ICT market magazine on ICT

www.tadviser.ru — a business portal for information technologies.

9. Important addresses

9.1. AUTHORITIES

Russian Federation Ministry of Communications and Media

Address: #7 Ulitsa Tverskaya, Moscow, 125009, Russia

Phone: +7 495 771-81-00

Website: www.minsvyaz.ru

The Federal Service for the Supervision of Communications, Information Technology, and Mass Media (Roskomnadzor)

Address: #7 Kitaygorodskiy Proezd, Bldg. 2, Moscow, 109074, Russia

Phone: +7 495 987-68-00

Website: rkn.gov.ru

Federal Agency for Technical Regulations and Metrology

Address: #7 Kitaygorodskiy Proezd, Bldg. 1, Moscow, 119049, Russia

Phone: +7 499 236-03-00

Website: www.gost.ru

Federal Service for Technical and Export Control (FSTEC)

Address: ul. Staraya Basmannaya d. 17, Moscow, 105066, Russia

Phone: +7 499 261-16-34

Website: www.fstec.ru

Russian Federation Federal Security Service Center for Licensing, Certification and State Secrets (FSB)

Address: #2 Ulitsa Bolshaya Lubyanka, Moscow, 101000, Russia

Phone: +7 495 914-30-73

Website: clsz.fsb.ru

9.2. INDUSTRY ASSOCIATIONS

Russoft is a non-profit partnership of software manufacturers in Russia, Ukraine, and Belarus. It joints together over 100 companies in the field of information technologies

Address: #16 Birzhevaya Liniya, office 411, Saint Petersburg, 199034, Russia

Phone/fax: +7 812 457-15-47

Website: www.russoft.ru

Association of Russian Software Developers (ARRP) is the biggest association of Russian software manufacturers, uniting 140 companies

Address: ul. Tverskaya d.7 a/ya 43, Moscow 125009, Russia

Phone: +7 495 728-89-59

Website: www.arppsoft.ru

Association for the Internet of things

Address: #12 Krasnopresnenskaya Naberezhnaya, Moscow, 123610, Russia

Phone: +7 495 212-11-28

Website: www.iotas.ru

9.3. OTHER

Russian Governmental Foundation for Fundamental Research, (RFFI)

Address: #32a Leninskiy prospekt, Moscow, 119334, Russia

Phone: +7 495 938-55-32

Website: www.rfbr.ru

10. Conclusions / Recommendations for exporters

The Russian ICT market is well-developed, and offers many modern solutions created by local manufacturers. At the same time, Swiss companies have good chances to build strong positions on this market by offering high-quality IT products to Russian consumers.

Among the most attractive fields are the segment involving the Internet of things and related applications (smart networks, smart meters, motor transportation monitoring, the industrial Internet, etc.) The partners for Swiss companies in this segment could be the large Russian mobile network operators (MTS, Beeline, Megafon). They are interested in launching new solutions for their networks in conditions of a stagnating mobile communications market.

The Fintech segment in Russia is also actively developing, and some banks (for example, Sberbank and Tinkoff Bank) actively promote these technologies, and may become reliable partners for Swiss manufacturers of these solutions.

Another attractive segment is telemedicine, and systems for fitness and medical monitoring. Changes in Russian legislation that enabled providing such services became effective only in 2017. The demand for these solutions is not yet satisfied; the Russian market is experiencing a de facto deficiency, and rapid growth of sales in Russia can be expected. However, Swiss IT companies will have to deal with risks connected with the prevalence of public medicine, characterized by conservative approaches and inefficient expenditures.

Swiss exporters may also expect some share of the market for cyber security for financial institutions, and in the field of IT solutions for telecommunication companies. Due to the development of state-run systems for marking goods, IT products may be in demand on the market involving QR codes and NFC tags for anti-counterfeiting and warehouse logistics (stock inventory management).

One of the most attractive segments on the Russian market in conditions of the ongoing financial crisis is public clients and state-owned corporations (Gazprom, Rosneft, Rosatom, Rostec, etc). Because of the official import substitution policy, localization of the development of software in Russia is required to work on this market. A localized foreign IT developer may also receive tax incentives offered to Russian IT companies. Among the most attractive regions to localize in are Moscow (and Skolkovo in particular), the science and technology parks in larger cities (Moscow, Saint Petersburg, Yekaterinburg, Novosibirsk, Nizhniy Novgorod, Kazan, Voronezh, and Omsk), and development centers in smaller cities that offer a highly attractive environment and human resources for IT companies (Taganrog, Izhevsk, Samara, Penza, Ulyanovsk, Belgorod, Perm, Vladimir, Rostov-on-Don, Saratov, and Yaroslavl).

It is also possible to cooperate with Russian government institutions within the framework of private-public partnerships to promote Russian technologies on foreign markets, for example by engaging in the participatory development and promotion of IT products based on the Russian satellite positioning system GLONASS.

11. Conclusions / Recommendations for Location Promotion Switzerland

After the industries that process natural resources (oil, gas, and mining), the ICT is sector the most active in Russia from the standpoint of companies that want to internalize their business. Currently, at least 20 Russian IT-companies work with Swiss companies alone. Many more players on the ICT market also work with customers from other European countries, and the potential for the future development of domestic software developers is still not fully realized.

It is now a good time for Russian IT companies to expand their business in Europe. The second half of 2014 economic crisis in Russia has simultaneously created both new difficulties and unique opportunities.

The recommendations for Swiss government agencies responsible for attracting Russian IT companies into the country could include the following:

- The widespread impact of the economic crisis, and sanctions against Russia, has significantly reduced the abilities of Russian companies to get funds for development. Most Russian companies (even large-sized ones) do not have any of their own idle funds, and limited access to inexpensive external funding sources. One recommendation could be to facilitate access to the Swiss market for Russian companies by means of assisting them to establish new contacts with investors and/or banks and, if they are available, to develop special credit tools/mechanisms on a preferential basis (this would at least be less expensive than the credit funds available inside Russia)
- Most Russian companies still have no significant experience doing business in Europe. They lack information, both about formal procedures and the competitive environment. One recommendation could include supporting Russian companies interested in internalization by providing them with detailed information about the business opportunities in Switzerland (and all of Europe)
- Matchmaking business events between Russian and Swiss counterparts (potential customers, distributors, and partners) both in Moscow and Saint-Petersburg and in Switzerland, could be recommended as one of the possible effective tools to attract investors (the decision to enter the Swiss market can be made much more easily in case preliminary agreements arise and there obviously exists demand on the part of Swiss companies)
- Currently, in Russia large companies are more often export-oriented compared to small and medium companies. The focus on searching for potential investors must be inside segments with large enterprises that are more financially stable and have more opportunities to extend their business in comparison with the SME segment
- In some cases, the Russian owners of IT businesses may be interested in obtaining of a residence permit in Switzerland for themselves and / or a long-term work visa for individual coworkers with Russian citizenship. In these situations, Switzerland can be considered just a one of several options for tax residency. It is recommended that potential investors be informed about all the preferences that they can obtain in Switzerland (including through a comparative analysis with other countries).

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