



**Contents:**

RIO Editorial..... 2

Summary..... 3

Russia To Develop More Technoparks..... 4

IT Tax Incentives: in Search of an Economic Miracle..... 4

Russian Government to Support Country's Outsourcing Efforts..... 6

Russian ERP market growing constantly..... 8

Reksoft Brings Technology Innovation to the Postal Service Business..... 8

Over RUB 23 bln Be Assigned to Develop Hi-Tech Industries in 2007/11..... 9

Reksoft Achieves CMMI Level 4 ..... 9

## RIQ Editorial

### Summer in the City: the Governmental Miracles

By Svetlana Vronskaya  
Editor, Russian IT Quarterly

The summer has left us with vivid impressions of the tremendous activity that went on in the governmental bodies of Russia, all of it being geared towards shaping the new line of legislative and administrative support to Russian IT exporters.

Among the most promising initiatives, introduced by the Russian government in support of the whole high-tech sector (including the development of a number of Technoparks around the country, the federal law "On Special Economic Zones in the Russian Federation"), the most tangible of achievements so far is the fast-paying law on industrial VAT exemption for IT services companies (effective from January, 2006).

This August, the authorities took a few more steps towards securing a brighter future for the national software developers.

It started with the State Duma of the Russian Federation having finally passed the long-awaited law on tax incentives for export software development companies based in Russia. The law was prepared by the Ministry of Information Technologies and Communications and passed three hearings in the Duma. According to the new legislation, companies engaged in software outsourcing activities will get a major tax relief due to the reduced unified social tax paid per employee. To be able to act under this new legislation, a company needs to generate more than 70 % of its revenue from IT consulting, software export or other IT outsourcing services and have not fewer than 50 employees on its payroll.

On August 11, 2006, the Russian Prime Minister Mikhail Fradkov, signed another practical law, establishing a national venture fund with a special focus on nurturing the domestic ICT industry. The fund would obtain financing of about \$52 mln. and initially be 100%-owned by the state. By the end of the first year of operations, the government stake will be downsized to 49% and after the third year of operations, the fund should be entirely private. The Ministry of IT and Telecommunications lobbied for the creation of an IT fund to ensure that the sector does not remain underfinanced, in comparison with other high-tech sectors.

And less than a month after the President Putin had signed the law on tax incentives, and just a few days after the new IT-focused and state-funded venture capital body had been created, the Russian government stepped forward with another initiative in support of the ever-growing IT export industry. The Ministry of IT and Communications announced in August 2006 that it created the Federal Agency of Software Export support. The main goal of this entity will be the promotion of software outsourcing sector in the global marketplace through the support of special events in the target markets, as well as raising the public awareness of the opportunities available through cooperation with Russian ESPs.

Among other tasks of the Federal Agency will be accreditation of individual companies for becoming eligible for the tax breaks as stated in the recent legislation. The Minister Leonid Reyman stressed that firms established in the Russian Federation as well as foreign companies with Russian legal entities are eligible for both: the tax incentives and the state support.

Although the Russian IT market players express moderate optimism over these government initiatives, even they have to admit that very specific steps have been taken by the state, and it seems to be willing to go even further, and really help. All that is left to do is wait and see.

## Summary

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Nicolas Mokhoff, 19.06.2006  
19.06.2006

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The IT-sector began receiving attention at the highest governmental level back in the beginning of 2005. [read more](#)

Ruslan Vasutin and Ekaterina Kosheleva, 01.08.2006  
The St.Petersburg Times

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Pavel Kupriyanov, 30.08.2006  
IT World Canada

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JustLoad IT

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More than 23 billion roubles will be disbursed for the development of the high-tech industries in the period between 2007 and 2011, Russian Minister of Industries and Energy Viktor Khristenko said during Tuesday's discussion of a strategy for development of the domestic electronic industry. [read more](#)

19.09.2006  
ITAR-TASS

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Reksoft successfully passed the formal assessment against the requirements for SEI CMMI-SE/SW Maturity Level 4. [read more](#)

06.10.2006  
Reksoft Press Service

## Russia To Develop More Technoparks

By Nicolas Mokhoff  
EE Times  
19.06.2006

The World Bank has opened a \$100 million credit line to finance a development program for technoparks in high technology areas in Russia, according to Interfax news reports.

The program envisions the construction of seven technoparks - in Tomsk, Novosibirsk, the Moscow region and Kazan.

Information Technology and Communications Minister Leonid Reiman said at a press conference in Moscow Friday (June 16) that \$20 million had already been received to create a technopark in St. Petersburg on the core of the Bonch-Bruевич Telecommunications University.

The technopark has drawn interest from Google who, from reports, is considering establishing a base there after 2008 when the technopark will house a new information technology park.

Researchers from Bonch-Bruевич University are participating at the Third International Russian Communication Association Conference this week (June 9-16) in St. Petersburg, Russia. The conference combines technology developments with communications influence on society.

The conference theme "Communication and (Re)Making Social Worlds" includes support by the North American Russian Communication Association - the western branch of the Russian Communication Association - and leading universities of the St. Petersburg area, including St. Petersburg State University, St. Petersburg-M.A. Bonch-Bruевич State University for Telecommunications, St. Petersburg State Polytechnical University, Nevsky Institute of Language and Culture, and the St. Petersburg Institute of Foreign Economic Relations, Economics and Law.

Other conference topics include mediated communication and advanced information technologies, mass and media communication, and communication and culture.

## IT Tax Incentives: in Search of an Economic Miracle

By Ruslan Vasutin and Ekaterina Kosheleva  
The St.Petersburg Times  
01.08.2006

The IT-sector began receiving attention at the highest governmental level back in the beginning of 2005. The government has set rather ambitious national goals. According to its concept of IT development, by 2010, Russia, along with India and China should be the three world leaders of IT outsourcing with export volumes over US\$ 3 billion.

Today, the IT sector in Russia is truly one of the most dynamic. According to some statistical data, the growth of the IT sector has been 15 percent to 20 percent per year, with sales volumes reaching US \$12 billion. In this situation, the state measures in support of the IT sector take on extra significance.

State efforts to stimulate the development of the IT sector on the legislative level had already started in and around St. Petersburg and Moscow with creation of specific "research and development" type Special Economic Zones (hereinafter, SEZ). According to SEZ law, software developers registered as residents of such zones enjoy the following tax concessions: regressive unified social tax rate cut from 26 percent to 14 percent;

abolishment of property and land tax (during 5 years from the moment the assets are recorded in the accountant's books; unlimited tax deduction of R&D costs.

Notwithstanding such attractive arrangements it is anticipated that this tax regime, since it only extends its application to new greenfield sites, will not be overly beneficial to existing IT industry in Russia. The SEZ tax regime is not feasible for companies who have already established their presence through renting offices or the purchase of property in a particular location. Given the absence of necessary technological or residential infrastructure in the SEZs, this effectively means that the hidden costs of moving to such zones for IT-companies will outweigh any tax incentives involved.

In an effort to overcome the territorial limitations of a SEZ, the State Duma has considered a bill that would introduce another special tax regime for IT companies. A draft law passed its third reading and is currently at the final stage of consideration (waiting to be signed by the President). The bill stipulates that IT companies will receive considerable unified social tax benefits, bringing down the effective rate from 23 percent to 13 percent for an IT company with an average payroll of US\$ 1,000 a month in relation to each employee. IT companies will also have the right to deduct as a period expense the cost of hardware components and computers. Such deductions will result in a decrease in property tax payments. The tax incentives granted under the new law are so great, that they make this regime comparable with taxation operations in the SEZ. An important benefit is that no relocation will be necessary, which will result in large savings for IT companies.

To qualify for the tax incentives established by the new law, IT companies will have to satisfy the following legislative requirements:

- over 50 individuals on staff;
- at least 90 percent of gross income is a result of software development and other IT-related services, and 70 percent of total income relates to services provided to foreign customers.
- to acquire state accreditation, which does not have the mechanism and procedure set up as of yet.

Under the latest legislative initiatives, first in line for support is the offshore software development sector, i.e. IT-companies operating in Russia and focused on servicing foreign clients. Provision of such tax incentives is also aimed at spurring large international IT-companies to locate their software development centers in Russia.

The software development in Russia may become especially lucrative in St. Petersburg. In addition to other advantages, such as the large number of technical universities (which, potentially, can serve as a base for R&D centers) and young specialists, as well as the lower cost of business operations, compared to Moscow, the authorities of the northern capital provide additional incentives specifically for IT-companies investing in infrastructure. According to St. Petersburg city law "On tax incentives" IT companies with 80 percent of earnings coming from the sale of software products and which, within one calendar year, made specific investments amounting to approximately US\$ 1.8 million in the territory of St. Petersburg, are entitled to a reduction in profits tax from 24 percent to 20 percent. If an IT-company invests over US\$ 5.6 million in qualifying assets, it will be entitled to a reduction in property tax rate from 2.2 percent to 1.1percent.

As always in Russia, the use of these tax incentives is associated with practical problems due to various "grey" areas in the law. Not all IT-services will qualify for the above treatment. Software developers will have to pay close attention to the subject matter of their cross-border service agreements and very carefully document the nature of their IT services. Transactions involving the export of software products on disks and clearing them at customs, done by IT companies in the past to reclaim input VAT will inevitably be phased out. VAT will remain a major aspect to keep in mind. As proposed in a letter from the Ministry of Finance in May, 2006, tax treatment for cross-border IT services in the context of VAT rules will very much depend on the nature of legal rights and the nature of the specific IT services produced by the software developer.

Despite all the difficulties, things have been put into motion. At last, the Russian authorities have moved from allegation to action and Russia has a fighting chance in a World Software Outsourcing Rally with St. Petersburg as its leading force.

## Russian Government to Support Country's Outsourcing Efforts

30.08.2006

By Pavel Kupriyanov  
IT World Canada

Leonid Reiman, the Minister for Information Technologies and Communications (MinInformSvyazi) announced a new governmental initiative to support Russian software outsourcing companies.

Reiman expects Russian IT exports to increase by 80 percent reaching US\$1.8 billion in 2006. According to the minister, the country's total IT market volume in 2006 will amount \$13-14 billion compared to \$11 billion in 2005.

As part of the ongoing effort of accelerating the Russian IT industry development, the ITC-ministry presented its plans to create a dedicated authority - Federal Agency for IT Exports Development.

The initiative was first proposed in Reiman's letter to the Russian president Vladimir Putin, on which Putin issued a resolution in support.

According to Reiman, the agency will analyze the exporting potentials, provide marketing support and conduct PR-activities. The agency is likely to employ about 50-70 people and its budget will mainly consist of employee's salaries. Still the financing of the agency's programs is to be discussed with the Ministry of Finance.

Though no particular supporting tools for Russian companies has been offered yet, it's evident that industry associations will assist the agency in elaborating these tools.

"The instruments we are talking about have to be worked out with active support of industry associations such as Russoft and AP KIT," said Reiman adding, "I hope in the future the associations will play the key role in the market development."

The executives for the two agencies have not been appointed yet, as Reiman explained the issue wasn't even discussed. Soon the documents on the new agencies will pass to the Russian Government for official approval. The ITC-ministry expects the agencies to be created by the end of 2006.

The new Reiman's initiatives come after he accomplished the previous Putin's tasks to develop measures for IT industry development. Putin paid significant attention to the Russian IT sector after his tour to Bangalore, India in late 2004.

On March 16, the Russian prime-minister Mikhail Fradkov signed the governmental order to launch the federal program for techno-parks creation to concentrate IT companies there. The government chose Saint Petersburg, the Republic of Tatarstan and the regions of Moscow, Novosibirsk, Nizhny Novgorod, Tyumen and Kaluga as launching pads for the program. Some of them have already been officially inaugurated. The federal budget will finance the further development of techno-parks infrastructure investing 1.4 billion rubles (about US\$52 million) in 2007.

On July 27, 2006 the Russian president approved the law introducing amendments to the Tax Code of Russia. Still after parliamentary discussion the amendments fell short of optimistic expectations. Instead of imposing a special taxation scheme for IT-companies (a 6 percent income tax and the abolishment of most taxes), the Parliament introduced nothing but a better way of calculating the unified social tax.

Usually taxpayers benefit from the lower tax rate of 10 percent instead of 26 percent, as soon as employee's annual salary fund exceeds 280.000 rubles per head, while IT-companies under the new amendments can apply this tax rate after a 75.000 rubles fund. Still the salary fund's level for applying the most favorable 2 percent tax rate remained at the level of 600.000 rubles.

In order to benefit from the new way of paying the unified social tax the IT-companies should suit a number of requirements: a company should have a governmental accreditation, employ more than 50 people and 70 percent of its turnover should come from software exports. The first legislation draft required having at least 100 employees, but this was changed when it became clear to the parliament members that the tax incentive would be inaccessible for most companies.

"The introduced amendments give significant tax incentives to software outsourcing companies. At the same time they do not completely solve the initial task, in particular, do not create a special [taxation] scheme for companies occupied in this field," said Reiman.

"We've discussed the issue with our colleagues, members of the parliament, senators and we plan to create a working group in September to estimate what was done during the spring session and propose further directions of development, but we are eager to continue this work and bring it to a special taxation scheme."

The creation of the state-own venture fund, which was started in the summer of 2005, turned out to be even more hard going. Up to the very end it was vague whether the ITC-ministry would be able to create its fund or the Ministry for Economic Development and Trade would lead the initiative with its own proposal.

Finally, the Russian government accepted both. The Ministry for Economic Development and Trade will manage Russian Venture Company (or a 'fund of funds' as it was dubbed earlier) for financing venture projects throughout its subsidiary-funds working in different fields. And ITC-ministry will run a dedicated Russian Investment Fund for Technologies and Innovations.

According to Reiman these two projects will be running separately at least in the nearest future. "Historically the technology fund was being created under our initiative and we proposed it could be used to support the IT sector," the minister said. "It looks pretty well that the Ministry of Economic Development is creating a fund of funds. Today there are many industries to support with this tool. At the moment we are not speaking about merger, but I don't deny that we can turn to it in future."

The ITC-ministry fund will be launched in the form of a joint-stock company with 100 percent shares owned by the federal government. The federal budget will finance the fund with 1.450 million rubles that is about \$53.7 million, but later the fund will attract private investments. By 2009 the state share will have been reduced to 25 percent, while private investors will triple the today's state financing up to \$161.1 million.

According to the governmental regulation by 2010 the fund will become completely private. Nevertheless, Reiman said that private investments can flow to the fund even sooner. After discussions with British and American financial institutions representatives, who invest in IT and know the Russian market perfectly well, the minister got an idea that additional investments can dilute the state share in the fund to 25 percent by the end of 2007.

Many IT companies are eager to get investments from the fund. According to Reiman, the ministry has already got several thousand applications for funding. The quality of proposals for financing is "different" but some of them are ready to be implemented.

The ministry expects the selected projects to pay back within the period from a year and a half to three years; yet the sum of financing shouldn't exceed 100 million rubles per project.

## Russian ERP market growing constantly

08.09.2006  
RBC

Russia's ERP systems market grew by 21 percent to \$236m in 2005, IDC analysts say. The market's growth rate can be compared to that of the IT market.

The market's growth was secured by stable economy development that stimulated investment in the IT sphere and increasing competition that made companies improve their resource management and move to international accounting standards. Large-scale government projects made a contribution to the market's development as well as large enterprises. "Government projects play an increasing role in the market's development. The share of small and medium-sized enterprises has also increased lately," analysts note.

Like in 2004, enterprises with non-stop or discrete production cycles as well as telecommunication companies spent most on IT in 2005. The transport and energy industries had the second largest IT expenses.

Four companies controlled over 80 percent of the Russian ERP market in 2005, SAP accounting for 39.7 percent, Oracle having 21.7 percent, Russian 1C having a 9.7-percent share and Microsoft Dynamics controlling 9.4 percent of the market. The share of Russian developers increased by 3 percent in 2005, mostly due to small and medium-sized companies preferring cheaper Russian solutions.

The Russian ERP market is likely to increase by an average of 28 percent annually, experts conclude.

## Reksoft Brings Technology Innovation to the Postal Service Business

JustLoad IT  
04.09.2006

Reksoft, the software outsourcing vendor with primary resource base in St. Petersburg, Russia, announced that it successfully developed an innovative software solution to raise the efficiency of Germany's leading manufacturer of franking machines, Francotyp-Postalia.

As an innovative, total solutions provider, Francotyp-Postalia offers a full range of mail center solutions, notably post processing machines. The company manufactures all kinds of franking machines from compact entry devices to high performance mailing systems serving the perfect solution for organizations in every size. With more than 900 employees worldwide and sales and service subsidiaries in Austria, Belgium, Canada, Germany, Italy, The Netherlands, United Kingdom and USA, the company is proud to have more than 260,000 installed franking machines worldwide.

Reksoft and Frankotyp-Postalia GmbH cooperation started in 2005, when Reksoft was chosen from among other providers of software development services from Eastern Europe. The core idea of the project launched by the customer was to improve the performance of operations and it was requested that Reksoft focused solely on the software part of the system, leaving hardware and mechanics untouched.

"Reksoft R&D team demonstrated excellence in developing the solution we needed. This result increases the performance of our machines and speaks for the high quality of technology knowledge and engineering skills, - says Werner Kampert, Frankotyp-Postalia

GmbH Manager, R&D, Software & Hardware. - We are now in the process of running another project with Reksoft and look forward to excelling our relationship in the future".

*See Francotyp-Postalia commenting on the successful cooperation with Reksoft on Deutsche Welle, on July 19th, 2006 (in German) -*

[http://www.reksoft.com/misc/reksoft\\_co/files/140/DW-TV-Francotyp-Postalia-Reksoft.wmv](http://www.reksoft.com/misc/reksoft_co/files/140/DW-TV-Francotyp-Postalia-Reksoft.wmv)

## Over RUB 23 bln Be Assigned to Develop Hi-Tech Industries in 2007/11

ITAR-TASS  
19.09.2006

More than 23 billion roubles will be disbursed for the development of the high-tech industries in the period between 2007 and 2011, Russian Minister of Industries and Energy Viktor Khristenko said during Tuesday's discussion of a strategy for development of the domestic electronic industry.

"Military, information and economic securities determine the primary role of the development of the electronic industry," he said.

"The new strategy, which will be adopted before the yearend, will help Russian high-tech industries to find their own niche on the world market," Khristenko said.

The document envisages the technological upgrading of the production of electronic components and materials, developing of fundamental and applied sciences, personnel training and growing of the sustainable demand on domestic electronic products in the country.

According to the minister, cooperation on the international arena and licensed production of modern hardware components in Russia also will be in the focus. "Currently, we must admit a critical gap between foreign indices and the indices of this country, which rightfully aspires for worthy economic, military and political positions in the world," Khristenko said.

He also voiced an opinion that the growing share of imported parts in armaments and military hardware is inadmissible for Russia, as "risks are too high." "By 2015, the Russian share in the deliveries of parts to the defense industry should reach 50 percent," Khristenko said.

## Reksoft Achieves CMMI Level 4

Reksoft Press Service  
06.10.2006

St. Petersburg, Russia - October 6th, 2006 - Reksoft, the software outsourcing vendor with a primary resource base in St. Petersburg, Russia, announced that it successfully passed the formal assessment against the requirements for SEI CMMI-SE/SW Maturity Level 4.

Capability Maturity Model® Integration (CMMI) - SE/SW is a process improvement approach that provides organizations with the essential elements of effective processes. The model was developed by the SEI (Software Engineering Institute, Carnegie Mellon University) for assessing a company's software engineering capability and the maturity of its processes.

Reksoft has always considered it important to instill the best practices in quality management and has put a lot of effort into improving the effectiveness of its internal processes, while continuously striving to make them more transparent for customers. After

claiming ISO 9001:2000 back in 2000, Reksoft did not put on hold its drive for perfection and initiated the CMMI-based process improvement program, about a year and a half ago.

The final assessment was carried out by Q-Labs, a US consulting company and official partner of Software Engineering Institute. "During the whole appraisal process I have witnessed Reksoft commitment to utmost quality and their determination to reach the higher level of customer satisfaction", commented lead assessor David Dayton.

Reksoft CEO Alexander Egorov noted on the achievement, "Reaching this CMMI<sup>®</sup> Maturity Level rating will help Reksoft to continuously improve the software engineering processes as well as the quality of the services delivered, and further enhance its standing as a premier provider of software outsourcing services in the global marketplace. Now, our prospective clients will not just have to take our word for it, all of our processes have been subjected to zealous investigation, and have been found to match the highest customer expectations, and we are proud of that".

The combination of vertical and technology know-how with scalable and efficient process brings sustainable benefits to our customers. By adopting CMMI practices Reksoft ensures its capability to deliver end-to-end software solutions aligned with our customers' business needs, while maintaining fast time-to-market and low total cost of engagement.

