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RIQ Editorial

New Prospects for Everyone

By Svetlana Vronskaya
Editor, Russian IT Quarterly

The past three months – surprisingly, primarily summer ones – have seen a volcano of activities on the Russian IT market. The subsequent changes affected both Reksoft and other market players.

Let's take Reksoft first. The company joined one of the largest systems integration houses in Russia thus having secured the immediate spur of sales on the Russian IT services scene and financial back up for expanding its international sales and delivery capability. Reksoft has rounded off the summer by opening up the development center in the city of Voronezh and more software engineering teams are selected to join Reksoft.

Major changes in the Russian governing structures related to the ICT industry – in fact, the whole team of the Ministry of IT and Communications resigned and new people came on board - resulted in the stricter attention to the industry. However, the new officials lack the necessary knowledge of the needs of Russian IT players. This means that the industry should once again start the education process to raise the awareness of the Ministry's administration. The government still has some time to think and act since Russia is still only moderately affected by the global economy crisis.

The predicament in the world's financial markets undoubtedly influenced software development companies, which operate on the international scene. With urgent need to cut operating costs, companies are shrinking their IT budgets and seeking cost effective options to proceed with their core IT activities. The segment to be interested in reducing the prices for IT delivery is made up of multinational systems integrators. They are pushed by their customers to find cheaper workforce options and therefore turn their attention to countries with lower labour costs.

On the other side, an interesting trend, which is still in its infancy, is the obvious willingness of strong Russian IT players to acquire European technology firms - both in software engineering and consulting domains. The goal of such initiatives is two-faced. Russian vendors will get an access to the consulting and integration business in Europe, offering professional but cost effective solutions. At the same time, on software development side of business, Russia-based providers will have the capacities in European locations thus profiting from visa-free zones and knowledge of languages. All this will lead to changes in the competitive landscape on the international IT market and all of us have to be prepared for that.

P.S. Dear RIQ readers, changes we are all facing today require non-standard actions and thinking. This season we are launching the new series of events in Sweden and Germany to bring together global IT leaders, providers, clients and industry analysts. The [first event](#) will take place in Stockholm on October 21st. We look forward to meeting you there!



Summary

New President of Russia Focuses on IT Perspectives

Dmitry Medvedev, recently inaugurated as Russia's third President, has already demonstrated his firm intention to develop Russian IT industry. He started next day after inauguration by reorganizing the Ministry of Mass Communication and Mass Media and by appointing a new Minister. [read more](#)

Auriga
06.08.2008

Russian IT Market Worth US\$17.4 Billion in 2008

The Russian IT market will be worth US\$17.4 billion for full year 2008, according to data from the latest report on global IT spending released by the European Information Technology Observatory. [read more](#)

Stuart Wilson
Channel EMEA
11.09.2008

Western IT Services Vendors Yet to Make an Impact in Russia

Spending on IT services in Russia topped the €3bn mark for the first time in 2007, as demand for project services, outsourcing and hardware maintenance grew by 18% according to the latest research from Pierre Audoin Consultants. The company says only five of the top 20 IT services suppliers in Russia are non Russian-owned companies. [read more](#)

Banking Technology
11.09.2008

Reksoft Becomes Part of TechnoServ A/S

Reksoft announced today that it joined TechnoServ A/S, one of the largest IT companies in Russia. Under the agreement, Reksoft will continue to operate independently and Alexander Egorov, Reksoft CEO since company's inception, will stay in his position. [read more](#)

Reksoft Press Service
16.09.2008

Russia and Poland SMBs to Cross US\$9.8B in ICT Spend This Year

Both Russia and Poland have been experiencing significant growth over the last few years and are the two largest Eastern European markets by GDP (purchasing power parity) followed by the Ukraine, Czech Republic and Romania. [read more](#)

Business Wire
25.09.2008

Martinson Trigon Exits Reksoft Via Sale To TechnoServ

The 2nd largest Russian IT service company TechnoServ A/S has acquired 74% shares in outsourcing software provider Reksoft from Estonian venture firm Martinson Trigon Venture Partners (MTVP) and the Reksoft management. [read more](#)

Quintura
03.10.2008



Reksoft SAP Consulting Practice Celebrates One Year of Success

Reksoft software outsourcing business unit launched SAP consulting practice last year. A solid team of professional SAP and ABAP development consultants joined the practice and currently Reksoft is proud to have completed eight projects in SAP maintenance outsourcing. [read more](#)

Reksoft Press Service
03.10.2008



New President of Russia Focuses on IT Perspectives

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Dmitry Medvedev, recently inaugurated as Russia's third President, has already demonstrated his firm intention to develop Russian IT industry. He started next day after inauguration by reorganizing the Ministry of Mass Communication and Mass Media and by appointing a new Minister. The previous Minister Leonid Reiman was appointed as one of the president's nearest advisors, and is now in charge of forming the President's Council on the "Information Society" project. The first task of the Council is to implement the Electronic Government scheme (to be launched in 2010). The Council also plans to reduce customs duties on high-tech equipment and to introduce tax benefits for software R&D and IT outsourcing services providers.

Russia is strongly determined to shake off the image of a country with underdeveloped IT infrastructure and establish itself as a world's high-tech leader. Russian government are undertaking huge efforts to bring the country into the information era, including the abovementioned "Electronic Government" scheme and a project to introduce computers into all Russian schools. By 1 September 2008, 95 % of Russian schools will have been equipped with the latest workstations connected to the Internet. When asked by a Microsoft top manager what targets he sets for Russian IT, Mr. Medvedev remarked that, in his opinion, global IT companies should become the driving force "that will unite the digital world of the 21st century".

On July 17th Dmitry Medvedev held a State Council presidium meeting in Petrozavodsk. The topic was "Building Information Society in Russia". The president stressed that the country counts on its ability to build a strong information technology sector. He mentioned that Russia occupies the third place in the world market of IT outsourcing services providers. President intends that 20% of world brands will have Russian background by 2015, the contribution of the hi-tech sector to the Russian economy will increase up to 1.5% of GDP, and Russia itself will become one of the world leaders, with a strong national software development industry.

Russian IT statistics:

- According to the Ministry of Communications and Information Technology, ICT comprised 4,8% of the Russia's GDP in 2007, 4,5% in 2006 and 3,2% in 2000. Over 2007, the ICT market capacity grew 28,4% and reached 117,9 bln rubles.
- The Russia's ICT growth rate exceeds the average world rate, and its IT market capacity is predicted to reach 580 bln rubles this year. Money turnover in the software sector will reach 123 milliard rubles, and 157,8 milliard rubles IT services sector.
- According to several reviews Russian export capacity in the ICT sector by 2010 can reach 10 bln dollars per year opposite 2 milliard nowadays. Russian scientific development outlays are now 1,2% of GDP, India and China spend less than 1%.

Russian IT Human Capital:

- At present, about 80 thousand of Russian developers work for independent software vendors or IT outsourcing service providers (compared to 1,4 mln in India).
- At least 200 thousand IT specialists are employed in EAI companies.
- 150 thousand software developers and 500 thousand IT specialists are employed in corporate in-house IT departments.
- About one third of Fields Medal winners have Russian origins.



- 1,6 bln students are doing their majors in technical subjects, 225 thousand of them are estimated to be currently employed in software development.

Russian IT Market Worth US\$17.4 Billion in 2008

By Stuart Wilson
Channel EMEA
11.09.2008

The Russian IT market will be worth US\$17.4 billion for full year 2008, according to data from the latest report on global IT spending released by the European Information Technology Observatory (EITO). The 2008 market value represents 17.5% year-on-year growth and with a similar increase predicted next year, Russian IT spend will smash through the US\$20 billion barrier in 2009.

According to EITO the world IT market is expected to climb 5.2% in full year 2008 to a staggering US\$1.34 trillion despite the current economic turbulence. EITO says that business is booming in Russia, India and China with the strongest demand growth stemming from the software and IT services markets. Further global growth of 5.6% is predicted for 2009.

"The weakening trend in the world economy has hardly affected turnover in the high-tech sector," said EITO chairman Bruno Lamborghini.

Within the EU, the data realised by EITO claims that IT turnover in 2008 will climb 4.2% year-on-year to US\$433.3 billion with a similar growth rate predicted for 2009. EITO reckons that the newer EU members such as Poland, the Czech Republic and Romania are driving growth as they play catch-up in terms of IT infrastructure.

Western IT Services Vendors Yet to Make an Impact in Russia

Banking Technology
11.09.2008

Spending on IT services in Russia topped the €3bn mark for the first time in 2007, as demand for project services, outsourcing and hardware maintenance grew by 18% according to the latest research from Pierre Audoin Consultants.

The company says only five of the top 20 IT services suppliers in Russia are non-Russian-owned companies, including HP, Accenture and IBM. Within the survey there are no foreign companies in the top five positions, and PAC estimates that non-Russian-owned companies hold a combined market share of just 9%, which confirms the clear domination of local suppliers.

Foreign providers, such as HP and IBM, actually slipped in the rankings as M&A activity between large Russian IT suppliers made them strong enough to fight against the big foreigners present on the market.

PAC note that the hardware maintenance segment is dominated by local suppliers although HP recorded better performance results than in 2006 and won the top position in the rankings against local supplier National Computer Corporation (NCC), which has ranked first in previous years. A large number of players, as well as aggressive competition, led to gradual price decline for hardware maintenance services.

The consultancy says IBM and HP compete with local providers by offering diversified portfolios and packaged maintenance solutions (e.g. the "Service Pack" from IBM); however, local IT suppliers maintain their supremacy with better territorial coverage of the



market and access to Russian customers. It also argues that IBM and HP focus almost entirely on providing maintenance services for high-end products such as servers and storage systems.

In the project services market, it notes that the presence of foreign IT suppliers is limited to Accenture, which is among the Top 10 providers, while IBM and HP are positioned far below. PAC believes that lately, vendors such as SAP, Oracle and Microsoft have preferred to keep mostly the license sales, while offering their local partners the opportunity to provide project services around their products.

Russia's outsourcing market is immature, due to client concerns about information security issues. Spending in this area reached around €93mn in 2007 and the market is dominated by a small number of local suppliers.

Reksoft Becomes Part of TechnoServ A/S

Reksoft Press Service
16.09.2008

Reksoft, an expert software outsourcing provider with primary development centers in St.Petersburg, Russia, announced today that it joined TechnoServ A/S, one of the largest IT companies in Russia.

Reksoft was founded in 1991 and developed into the premier software outsourcing provider with 400 headcount and offices in Russia, Germany and Sweden. The company won the trust of Dirol Cadbury, Fujitsu Siemens Computers, Siemens, Mazda, Philip Morris, TietoEnator. Reksoft earned 22.6 mln. USD in FY 2007 and has had the CAGR of 41% over the last five years.

According to the latest IDC analytics, TechnoServ A/S is the second largest IT services provider in Russia. It accomplished the FY 2007 with 1.2 bln USD in revenues and has more than 1500 employees in Russia and the CIS. The alliance with TechnoServ A/S will strengthen Reksoft financial sustainability and accelerate the provider's geographical expansion both to become closer to our clients and to develop new delivery locations in Russia and Eastern Europe.

Under the agreement, Reksoft will continue to operate independently and Alexander Egorov, Reksoft CEO since company's inception, will stay in his position. MTVP, an Estonian-registered venture capital fund, which had invested in Reksoft in November 2005 and stayed in the Board of Directors of Reksoft since then, exited the company. "Among tens of different Russian IT companies we have worked with, Reksoft has one of the best managements, well-established processes, quality assurance and strong corporate culture", says Allan Martinson.

"We are excited about the future cooperation with this new partner. The management of TechnoServ and Reksoft shares a common vision on the future development of our joint business and we will further increase the value to our existing customers and partners. We appreciated all the help and support that MTVP provided and I am sure that we will cooperate in the coming years," confirms Alexander Egorov, Reksoft Chief Executive Officer.

Russia and Poland SMBs to Cross US\$9.8B in ICT Spend This Year

BusinessWire
25.09.2008



Small and medium businesses (SMBs, or companies with up to 999 employees) in Russia and Poland are on track to spend about US\$10 billion on ICT (IT and telecom) in 2008, up some 15% over 2007. Both Russia and Poland have been experiencing significant growth over the last few years and are the two largest Eastern European markets by GDP (purchasing power parity) followed by the Ukraine, Czech Republic and Romania.

This is according to studies by New York-based Access Markets International (AMI) Partners, Inc. "About 40% of Russia's one million SMBs are currently equipped with PCs, and generate the highest ICT spending in the region," says Pauline Courtiau, New York-based Analyst at AMI-Partners. "About one third of this amount is spent on computing—in areas such as desktop and notebook PCs, peripherals, servers, printers and handheld devices."

Russia has also been experiencing significant growth as a provider of IT outsourcing and software development, thanks to a vast pool of talented workers. This growth is attracting companies to set up their R&D centers in Russia and to make it an outsourcing hub. All of which leads to a greater need for networking and security products as Russian SMBs must adapt to their western clients' technology standards.

Since its accession to the EU (European Union) in 2004, Poland has been growing significantly and is regarded as a market with high potential in Central and Eastern Europe, mainly due to Poland's size and strategic location. Poland is home to about 674,000 SMBs, of which almost half use PCs. SMBs in Poland are on track to spend about US\$3.5 billion on ICT in 2008, up some 14% over 2007.

"In comparison with Russia and Poland, the Czech Republic is a smaller market with just 280,000 SMBs," Ms. Courtiau says. "However, it is considered the most mature IT market in Eastern Europe with about an 80% PC penetration in SMBs. The country spends slightly more than Poland's SMBs on ICT products and services."

While the overall ICT spending by Eastern European countries is still small in comparison with their western counterparts, huge opportunities are available as companies are building their infrastructure and are still ripe for most brands and technologies. For example, white box desktops and servers are prevalent in Eastern Europe. However, an increasing number of SMBs are starting to switch to branded products, especially HP and Acer.

"The market for notebook PCs is already brand-conscious as SMBs trust brands more to fulfill their mobility and after sales services needs," says Ms. Courtiau. "Acer, HP and Toshiba notebooks are gaining the most traction."

In Eastern Europe, the majority of SBs are still in Wave One of technology deployment, where they focus on building their basic infrastructure. MBs have already passed that stage and have entered Wave Two, in which they work on connecting the enterprise by increasing their network capabilities.

With increasing business transactions in EU countries, a growing number of SMBs in Eastern Europe have to comply with EU standards, such as EU data protection laws and legislation such as Basel II and SEPA, that require businesses to satisfy minimum security and networking requirements. These business requirements are stimulating IT deployment across the region and are one of the stepping stones towards the third wave of technology deployment, in which companies connect outside their enterprises, to channel partners and suppliers, and aim toward full ICT convergence.

Martinson Trigon Exits Reksoft Via Sale To TechnoServ

Quintura
03.10.2008

The 2nd largest Russian IT service company TechoServ A/S has acquired 74% shares in outsourcing software provider Reksoft from Estonian venture firm Martinson Trigon Venture Partners (MTVP) and the Reksoft management. The management retained the remaining



26% shares in the company. According to the Russian business daily newspaper Vedomosti, the value of the acquisition was estimated at \$25 million based on the company's valuation of 1.5 times annual sales. That would imply that MTVP should have realized a gross IRR of more than 70% or 5 times invested capital.

Founded in 1991, St.Petersburg-based Reksoft reported revenues of \$22.6 million in 2007. The company employs 400 software developers in offices in Russia, Germany and Sweden. Its clients included Dirol Cadbury, Fujitsu Siemens Computers, Siemens, Mazda, Philip Morris, and TietoEnator as well as Russian oil & gas companies and power utilities.

In November 2005, Martinson Trigon Venture Partners invested \$2 million for a 30% stake in Reksoft.

Founded in 1992, TechoServ reported sales of \$1,157 million in 2007, up 54% from 2006. More than 80% of sales came from IT system integration, including distribution services in Russia and the CIS countries. The company has more than 1,500 employees. According to IDC, TechnoServ had 6.2% share of the Russian IT service market, valued at \$ 4.4 billion in 2007. In January 2008, TechnoServ acquired the leading CRM solutions provider in Russia, Sputnik Labs, from private equity firm Sputnik Group and the company's management.

Martinson Trigon Venture Partners (MTVP) is a \$30 million private equity partnership that focuses on technology, media and telecom related investments in Russia and the Baltic countries. MTVP is founded and managed by Estonian technology & media entrepreneur and investor Allan Martinson. Its investment portfolio includes a data integration software provider InvisibleCRM, web hosting provider Hostex, music television broadcaster TVCorp, and computer game publisher and distributor Noviy Disk.

Reksoft SAP Consulting Practice Celebrates One Year of Success

Reksoft Press Service
03.10.2008

Reksoft, an expert software outsourcing provider with primary development centers in St.Petersburg, Russia, announced today the results of the first year of operations of its SAP Consulting Practice.

Reksoft software outsourcing business unit launched SAP consulting practice last year. A solid team of professional SAP and ABAP development consultants joined the practice and currently Reksoft is proud to have completed eight projects in SAP maintenance outsourcing.

Reksoft SAP projects portfolio features the following tasks:

- configuration and development of the corporate accounting system based on the SAP BI,
- modification of the reporting in financial accounting for the intercompany stock transfer orders and customer overdue items analysis,
- deployment of the interface for sales orders processing for customer's call center,
- optimization of SAP security concept for different office locations,
- integration of the logistics SAP module and external decentralized WMS based on EDI.

A number of projects included the integration the core components of SAP ERP 2005 and EMC Documentum platform, which proved to be a highly demanded EAI service in large enterprises looking to smoothly bind together their internal applications.

"Launching a SAP Consulting practice, we followed the needs of our European and Russian clients. We can now admit that it was the right decision since in outsourcing the



SAP environment support to Reksoft, our customers can count on better business results that deliver flexibility, lower costs and more efficient decision-making," - comments Ekaterina Zabelinskaya, Director, Software & Services BU.

Reksoft SAP Practice provides SAP consulting, ABAP development, and SAP Center of Expertise services for SAP installations in the CEE and Russia/CIS regions. The offer is targeted to enterprise customers and systems integrators.