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New Catalysts for Change
THE RUSSIAN IT/INTERNET INDUSTRY: INVESTMENT AND BUSINESS
CLIMATE
Industry Breakfast

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Moderators:

Valentin Makarov, President, RUSSOFT Association

Sergei Plugotarenko, Director, Russian Association for Electronic Communications (RAEC)

Panellists:

Pavel Adylin, Executive Director, Artezio

Igor Agamirzyan, Chief Executive Officer, RVC

Igor Ashmanov, Chief Executive Officer, Ashmanov and Partners

Serguei Belousov, Senior Founding Partner, Runa Capital; Founder, Parallels, Acronis, Acumatica, Rolsen

Arkady Dobkin, Chief Executive Officer, President, EPAM Systems

Alexander Egorov, Chief Executive Officer, Reksoft

Robert Farish, Vice President, Regional Managing Director for Russia and CIS, International Data Corporation

Andrey Fedorov, General Director, Digital Design

Maelle Gavet, Chief Executive Officer, OZON.ru

Alexander Gentsis, Head of the Committee on Development of Business in Russia, Diasoft

Dmitry Grishin, General Director, Mail.ru Group

Alexandra Johnson, Managing Director, DFJ VTB Capital Aurora

Natalia Kasperskaya, General Director, InfoWatch

Michael Khitrov, President, Speech Technology Center

Arkady Khotin, President, ArdinSoftware

Alexander Kravchenko, Vice-President, SPIRIT

Sergei Lavrukhin, General Director, RBC

Sergio Pessoa, Global Business Executive, General Manager, Business Center, Apex-Brasil

Alexander Pozdnyakov, President, First Line Software

William Savage, Vice President, Intel Corporation

Alexander Semenov, General Director, Korus Consulting

Mark Shmulevich, Deputy Minister of Telecom and Mass Communications of the Russian Federation

Andrei Terekhov, General Director, Lanit

Sergei Tikhomirov, General Director, Kodeks Consortium

Leonid Zilberburg, President, Bee Pitron

S. Plugotarenko:

Colleagues, I think that it is time to start. We only have an hour and fifteen minutes. My name is Sergei Plugotarenko, I am the Director of the Russian Association for Electronic Communications (RAEC). My co-host is Valentin Makarov, the President of RUSSOFT.

We will hold this IT breakfast in a somewhat compressed format. We will talk about money, investment, and whether the business climate in Russia is favourable for the development of the IT sector. We will hear from some very interesting people today, and this format is unique in the sense that they will only have two to three minutes in which to speak. They will use this time to talk about the main issue in the segment that they represent. The organizers of this IT breakfast are RVC, RUSSOFT, and RAEC.

Now Mr. Makarov is going to take over, after which we will discuss the three topics mentioned.

V. Makarov:

Thank you very much, Mr. Plugotarenko.

My colleagues, this is the third year in a row that we have come together at the St. Petersburg International Economic Forum to discuss how our industry is evolving. Some changes have occurred during the year and, although they may not be so noticeable to politicians, for us they were akin to seismic shifts. First of all, it is clear that we are seeing a convergence of views, goals, and approaches to meeting the challenges we face. Secondly, we are joined here today by people from a number of different countries and international organizations, with whom we are working to market our products on an ever larger scale. The day before yesterday we signed an agreement with the Netherlands, where we are setting up an office. With us today is the State Secretary of the Ministry of Economic Affairs, Energy, and Industry of the State of North Rhine-Westphalia, with whom we also cooperate. Marketing is growing both on the international and domestic stage. Thanks to RVC, we now have a relationship with the iR&Dclub. IT clusters in Novosibirsk, St.

Petersburg, and Tomsk are working hard to market our solutions not only abroad, but also here in Russia.

Everything is changing. In the last session yesterday, Mr. Agamirzyan said something really important, with which I could not agree more: one of the major achievements of the post-perestroika age is the emergence of an internationally recognized IT industry in Russia. Mr. Agamirzyan, could you expand on this idea? How would you assess the state of this industry now, what changes have we seen over the last year, and what is in store for us in the future?

I. Agamirzyan:

Thank you, Mr. Makarov. Good morning, ladies and gentlemen.

I will say a few words about the state of investment in the industry, based on both our view of the situation and our analytic data. Over the last two or three years, we have seen the IT industry grow by nearly 100% year-on-year. Working capital and investments in IT companies have doubled for almost two years in a row. According to Dow Jones, in 2012 Russia climbed to fourth place in Europe in terms of investment, and to first place in terms of growth, with the majority of investment going into the IT and Internet sectors.

In our view, this is an excessively large share. We estimate that about 70% of investment deals on the Russian markets in 2012 were related to IT and Internet companies. Half of all investments made in Russia were in the consumer Internet segment, specifically in a variety of projects related to e-commerce. Total investments in 2012 exceeded USD 1 billion, USD 500 million of which were made in online projects, chiefly in the consumer Internet segment.

I believe that this is both a good thing and a bad thing. It is good as it points to the fact that Russia has become the top country in Europe in terms of Internet users, with an internationally recognized market and high quality projects, although I must admit that in terms of accessibility of services we are lagging behind other major economies. But it is also a bad thing as other sectors remain underfunded, including the real IT industry, no offence to the web developers. Even worse is that the

traditional IT industry, which grew rapidly in Russia for 15 years, now appears to have stagnated somewhat, although I have no statistics to confirm this. There are no longer any major corporate projects, and we have reached saturation point in the systems integration market.

Therefore we should not only talk about our achievements, but also think about how the industry should develop further and which areas look the most promising. My personal opinion, which I have already expressed at this Forum, is that IT has today become the backbone of economic development, and the new trend that we are now seeing is the introduction of IT technology into the real sector of the economy. We are talking about a variety of smart systems, intelligent distributed control systems, digital manufacturing, the application of IT solutions in the biotechnology sector (we have all witnessed the rapid development of bioinformatics), and so on. So I think that we should discuss the emerging trends, such as new potential markets, in which direction we should move forward, and what the main forces for growth will be. Thank you.

S. Plugotarenko:

Thank you. I think our other speakers today would do well to copy the format of Mr. Agamirzyan's short presentation when talking about their own industry.

According to available data, last year the Internet sector, which one way or another is part of the IT industry, contributed 5% of Russia's GDP and is growing at a rate of 30% a year. This industry has attracted the attention of both domestic and international business. Joining us today are Dmitry Grishin of the Mail.ru Group and Maelle Gavet of OZON.ru, who will speak about the economics, development, and the various ecosystems of the Internet sector. I would like to first give the floor to Dmitry Grishin. Please tell us which are the fastest growing segments, what their share of the market as a whole is, and how things are shaping up for them in the future.

D. Grishin:

Good morning. The traditional way to make money on the Internet has long been via online advertising. It is no secret that this was the major source of growth for all Internet companies. But I would like to talk about a different revenue stream that is now growing fast: digital services. This is when users buy digital content or digital services. Online gaming is a perfect example of these services. According to our estimates, in 2012 the value of the online gaming market in Russia outstripped the film rental market and is continuing to grow rapidly. I believe that these services will become an important revenue stream for Internet companies, especially with the current expansion of the smartphone market. Most users have their credit cards linked to their smartphones, and they are used to the idea of paying for digital products, particularly for applications. So I think that we will see rapid growth in this market, and it will generate significant revenue for Internet companies on top of online advertising. These two main ways of making money have already been shown to be successful, and they are set to remain the main drivers of revenue in the future.

Another important thing that we discussed at the panel on Thursday is that in Russia, the Internet sector has become an important part of the IT industry as a whole, and the main challenge that we face today is finding the staff. We are here today on the back of the achievements of the Soviet Union and the excellent standard of mathematics, physics, and engineering education of that era. It is vital that we maintain and further develop this standard of education, as it is the foundation of the IT industry. At Bauman University, for example, we have opened a science park, where we teach our students modern-day Internet technologies. Unfortunately, university education rarely meets the needs of the market today. I believe that IT companies need to invest their own time and money in this.

Thank you.

S. Plugotarenko:

Thank you, Mr. Grishin.

So human resources is a problem area that needs to be addressed. We have our own assessment of the human resources market. The industry employs about 700,000 specialists, but of course without a proper education system, further growth will not be possible. It is good that large IT companies are aware of the need to invest in education.

Now I would like to move on from human resources and talk about e-commerce, as this segment is driving growth in the IT industry as a whole. According to some estimates, this segment generates RUB 400 billion per annum. Maelle Gavet from OZON.ru is going to talk to us about its prospects.

M. Gavet:

Good morning. I flew in yesterday and the first thing I saw were billboards on the road from the airport which said: 'Russia – the land of opportunity'. I thought that no other European country could have used this slogan.

Russia is truly the land of opportunity, and those of us in online trading have seen a lot of good news recently. We see that the market is growing. You mentioned a growth rate of 20–30%, and we agree with this. We see that Internet projects are becoming increasingly attractive. A few years back, when players on the Russia market attracted several million dollars in investments, everyone went "Wow!" This then grew to tens of millions and hundreds of millions of dollars. In 2010, OZON.ru attracted USD 100 million, the largest investment of private capital in Russia. A few weeks ago, another company announced that it had attracted USD 130 million. This is a new record and very good news for us all.

And I have more good news. The government has finally discovered the Internet. It has started communicating with the industry, and is now listening to what experts and associations such as the RAEC have to say about issues that are important to us. The most pertinent of these issues is the fight against piracy. The State Duma is now working on this, and much has already been achieved. For 15 years now, OZON.ru has been a leading vendor of digital content and we have invested heavily in this. Failure to act on piracy would mean that our investments will not pay off.

Therefore these developments are a very good sign for us. Another important development is that we are now talking about how to combat the black and grey market, in which goods are imported into Russia without paying duty or taxes. The state, as a result, does not receive any income from this, and fewer jobs are created. A large number of e-commerce companies are now relocating their warehouses from Russia into Europe. This may be good for my native country, but as I feel almost Russian now, I do not think that this is right. But it is really good that we are now talking about this.

At OZON.ru, we believe that Russia is the land of opportunity, and that it offers great conditions for Russian and international investors and a market which is set to continue growing.

V. Makarov:

Thank you Ms. Gavet.

We are here today for the third year in a row to talk about what is going on in the industry, how is it performing, and what we have achieved. For two years in a row now, Russian developers have said that we growing and everything is going well. This year we decided to invite an international expert and experienced analyst, who will give us an outsider's view of how things are looking in our IT industry.

So now we will hear from my good friend Robert Farish, Vice President of a company we all know – the International Data Corporation (IDC). Mr. Farish, looking in from the outside, how would you assess our IT industry?

R. Farish:

I have been presenting about Russia for some years, and typically my presentations would begin with the idea that Russia had enormous potential, and then I would have this list of 'buts': but this, but that. And what I would like to say first of all is that if we look back a number of years, then we have made significant progress in Russia, and a large number of those 'buts' that I used to talk about really are nothing like as important as they used to be.

For example, it was always said that Russia had great potential, but really the size of the market was not quite there yet. Russia is the ninth-largest country in the world by population, and, according to the IDC, the thirteenth-largest country in the world in terms of IT consumption. So Russia is almost already fighting in the right weight division, if you like, to use a boxing analogy.

There used to be discussion about intellectual property rights. That is still an important issue, but it is nothing like as much of an inhibitor as it used to be, and we have just heard about the progress made in software piracy. The BSA, with the help of the IDC, measures software piracy, and back in 2003, as I remember, the rate of software piracy in Russia was 87%. That has now fallen to around 63% last year, so there has been a significant amount of change.

Russia is the thirteenth-largest software market now in the world, and the seventeenth-largest IT services market in the world, so there has been a very significant amount of progress.

If I could now perhaps change my tack a little bit and introduce one of those 'buts', as a foreigner looking inwards, I would say that Russia still has some problems in terms of promotion internationally. To make an analogy, if you imagine countries as people, or countries as roles in a company, and if you imagine the VP of Marketing – smart suit, bright tie, can give you the elevator pitch in 90 seconds – if I had to think of a country, I would probably think of, for example, India. Using that framework, where would Russia be? In my view, you would probably find Russia in the R&D department: someone who is not altogether that approachable, but once you get to know him, you understand that this guy is really quite cool and, in fact, quite brilliant.

And I think that is the problem. The product is already relatively good, but it is a question of going out and marketing and selling that product. We at the IDC work with a lot of government customers around the world. We have had dozens of projects with dozens of countries, and typically, the aim of these projects is always the same: countries want to help promote opportunities for their companies abroad, and they want to attract IT investment into their countries.

It is a very competitive international market, and frankly, at the IDC, we do not really feel the buzz of Russia's activity perhaps as much as we could do.

Finally, from my experience of working with international companies here in Russia, I would say that many companies are international now, so it is wrong to look at multinational companies as if they are this elite 5% of the world. A lot of companies now are multinational; a lot of those companies are investing around the world, and the competition for that investment is really intense. Where I think the advocates for Russia could really help the Russian organizations of IT companies is if there were, perhaps, on the state side in this country, resources, perhaps motivated people able to support the great work that people are already doing, in order to act as advocates for those fighting for investment in Russia.

Thank you very much.

V. Makarov:

Thank you very much, Mr. Farish.

We will now bring the first part of our review of the state of the IT industry to an end, and move on to the second part. We will try to find answers to the questions posed by Mr. Agamirzyan: where should and where will investment be directed, what are the promising new segments, where might we see a breakthrough, and in which segments can Russian companies achieve significant success?

I would like to say one more thing. Mr. Agamirzyan claimed that we have seen no achievements in the IT industry. Yet in the last year alone, three new Russian companies have been set up, and we have representatives from at least two of them here today. One of these companies is the software development company SPIRIT, which now has more than 1 billion users. The second company, Diasoft, is well known to us, but this year its products were for the first time positioned in Gartner's Magic Quadrant, in the Core Banking Business segment, a segment which was previously considered unattainable.

Alexander Gentsis is Vice President of Diasoft. Mr. Gentsis, what new areas are you now working in, where should we invest money, and in what areas can Russian companies such as yours succeed on a global scale?

A. Gentsis:

Thank you very much. This has indeed happened. Diasoft is not a startup but rather a large company, which was founded 22 years ago. For companies like us, being positioned in Gartner's Magic Quadrant is a result of our promotion of far-reaching strategic initiatives. Of course, this did not happen of its own accord, but came about as a result of our strategy to expand our presence in Russia and other markets on the basis of our innovative solution developed in partnership with IBM. I am talking about the FLEXTERA platform on which our banking product is based, and which has proved to be extremely competitive not only in Russia, but all over the world. We are now one of the 16 leading companies in the world in the core banking segment. Our products have generated considerable interest, and we have already signed a contract in Southeast Asia and plan to sign new ones soon.

Russian companies do have considerable potential, both the startups that offer innovative solutions and the traditional big companies that can implement large-scale projects. Our collaboration with Sberbank attests to this: in the last three years, we have implemented a major project designed to serve 30 million customers. Go to any Sberbank in St. Petersburg, and you will find software based on the FLEXTERA platform, positioned in the Magic Quadrant. For us this is, of course, extremely encouraging, and we are proud of what we have achieved. In the future, centralized systems will be of great importance to this country. Russia is a large country, and the government and large companies are very aware that IT solutions can be harnessed to keep tabs on events all around Russia. So innovative platforms like FLEXTERA, which help us to create a centralized system, have a great future.

It was suggested today that the IT industry has been a real driver of processes in the manufacturing industry and the economy as a whole, directly affecting the

standard of living in Russia. Please raise your hand if you use a mobile banking application or if you have used online banking technologies at least once. That is all of you. Thanks to IT solutions, we now have a service that did not exist a decade ago. The government has begun to implement modernization programmes in various sectors of the economy, and professionals are working in these programmes to create services that have a direct impact on our lives.

By this, I am referring first and foremost to the healthcare sector, where we plan to introduce new services. Please raise your hand if you can remember the last time you went to the doctor. Fewer hands raised this time. I do not think that anyone can remember. Now, raise your hand if you can remember the last time you took your car in for a service, and when it needs taking in again. So, people know more about their car than about their health. And if the government is guided by the IT industry, it can significantly improve people's quality of life.

Thank you very much.

V. Makarov:

Thank you, Mr. Gentsis.

I meet people from all over the world, and I am always asked the same question: are there any companies in Russia involved in information security and the fight against cybercrime that can compete with Kaspersky Lab? The answer is InfoWatch, another company which was positioned in this year's Gartner's Magic Quadrant. Our IT industry is represented not only by commanding men, but by brilliant women too. So the star of our industry is Natalya Kasperskaya from InfoWatch.

N. Kasperskaya:

Thank you. We were in fact positioned in Gartner's Quadrant after three years of trying. The first two years we applied to no avail, but in the third year our application was successful. The negotiations were drawn out, and we were categorized as a niche player, as usual.

Excuse me for saying this Mr. Farish, but on the whole, I am somewhat sceptical of these research agencies. But the IDC is not the worst of the bunch, right? Quite a lot of the data which they use is based on estimates pulled out of thin air. I remember when the IDC first started working in Russia, they gave us the figures for the anti-virus market, but these figures did not correspond to reality at all. The market share of our company was estimated at 75%, but half of our competitors were not even on the list. To gain a good understanding of a country's economy and its IT industry, you need to research it deeply. Oddly enough, research agencies do not dig deeply enough. But the IDC has since improved, while Gartner still operates in a very peculiar way, selecting companies based on strange criteria.

So why did we want to be positioned in Gartner's Quadrant? We sell our products in the Middle East and Southeast Asia. In the Middle East, we are often asked if we are in Gartner's Quadrant. If you are not in the quadrant, you are immediately perceived to be a minor player, and it is very difficult to persuade people otherwise. Now that we are in the quadrant, they tell us that this is "very good", but they do not pay extra for this. We still need to learn how to make money in this market, and then we will be happy.

On the whole, we are seeing substantial growth. Last year, our main business alone grew by 75%. We have begun to expand into the East. We work differently in the West, where we buy companies, while in the East we sell our own products. I believe that many Russian companies could follow our example, but do not do so because of the large size of the domestic market, and because of what Mr. Fairish said: the lack of marketing knowledge and fears of being rejected on the international market. Diasoft is 22 years old, and has only just signed its first agreement in Southwest Asia. Kaspersky Lab signed its very first agreements in the West. Why? Because there was no domestic market whatsoever. There was no anti-virus market anywhere. We had a good opportunity to start up everywhere at the same time.

I believe that now is a good time for IT companies to move into markets abroad. We should not be afraid, we must try to enter these markets, and then we will make it a success.

Thank you.

V. Makarov:

Thank you, Ms. Kasperskaya.

Colleagues, this year EPAM Systems has become the out-and-out leader in the outsourcing sector of the countries of the former Soviet Union. We are proud of the fact that Arkady Dobkin and his team are now leaders in the Russian and Belarusian markets, together with Luxoft. EPAM Systems is also one of the leaders in the US market, where it is currently the sixth fastest growing technology company.

Mr. Dobkin, you are on the cutting edge of progress, and you work with the biggest companies in the world. Where are the opportunities for Russian IT companies, which markets hold the greatest promise, and where can they become world leaders?

A. Dobkin:

Mr. Makarov mentioned that this is the third time we have come together at this Forum. This is the third time I have spoken here, and every time I do, I try to support the service sector, the poor cousin of the IT market.

Before answering Mr. Makarov's questions, I would like to give you a few examples. Let us imagine that 20 years or so ago, out of the thousands of venture capital fund investment projects, 30% were in software companies, while only 2% were in service companies. Last year, out of 3,000 investment projects, 30% were in software companies and 9% were in service companies. Investments in the service sector have increased by a factor of 16 or so. These are very telling figures.

In our market, we do not sell directly to Internet users, but rather to companies, which require high-level IT services. There is not a software product company out

there that can implement software without our help. In many cases, we implement software for the real sector, something which software product companies cannot do themselves. The estimated value of this market is around USD 300 billion, of which USD 40 billion is global delivery, in which development is carried out by a number of centres around the world.

What is the situation on our market? About 20 to 25 years ago, the main driver of development was investment. Then India began developing software, General Electric began to invest in it, and the industry was born. Today there are five or six global companies founded in India with a turnover of billions of dollars, which employ hundreds of thousands of people. When this industry first originated in the former Soviet Union, we had no domestic market to draw on whatsoever. All of our initial clients were from the West. Now, 90% of our clients are from North America and Western Europe, with only 10% from the countries of the former Soviet Union. There is a wealth of opportunities for companies entering the Russian market now. I am also somewhat sceptical of analytical agencies, except for the IDC of course, but there is no other reliable source of data. Gartner claims that the service industry today spends 5% on innovation, 25% on development, and 70% on service support. In four or five years, they claim, 20% will be spent on innovation, 50% on development, and only 30% on service support.

What are the opportunities for companies such as EPAM and Luxoft, which will hold an IPO next week? EPAM currently spends 70% on development and very little on support. No doubt the figures are similar at Luxoft, and other Russian service companies. Luck was not on our side. We started up a little later than we should have, and we do not have a stake in the multibillion dollar projects that our competitors are now involved in. Herein lie the opportunities for service companies from our region, because the market and the technology platforms we use are evolving.

You all can imagine what happened when the Internet replaced its client-server model. Today, mobile devices are replacing everything that preceded them, and ERP and CRM systems are quickly becoming obsolete. This is where the

opportunities lie for our companies. The segment of the USD 40 billion market in which we operate is smaller, worth USD 15 billion, but it is growing not by 6%, but by 12% per year. And it includes an even more interesting sub-segment called product development services. For me, this is a point of reference on Forrester. The bottom line is that traditional software companies do not have long-term experience of creating software systems, while all new industries are based on software. This is what we are doing. We are helping companies who do not know how to compete with Amazon or IBM to develop commerce solutions and survive in this world. This is an opportunity for the service industry in our region, where the standard of education is not particularly improving, but the foundation laid in the past is helping. I agree with Dmitry that education is our main sore point. The main problem for software product, service, and Internet companies is human resources. This is something that unites us all, as the markets here vary greatly.

Mr. Makarov mentioned a list of the 25 fastest growing technology companies in America, which is in its eleventh year of publication. Forbes selects them out of 2,000 public companies according to certain criteria: market capitalization, which should be not less than USD 500 million, profit growth, which should be not less than 10% per year over the last three years, and so on. In first place is LinkedIn, second is Apple, and third is Facebook. But the most interesting thing is that the only company to be listed for ten consecutive years is Cognizant Technology Solutions, which has a turnover of USD 8 billion. It is ranked third in size after Apple and Google, but it has still managed to grow for ten consecutive years. EPAM is listed for the first time, and it will be really great if we can repeat this achievement at least once more.

Thank you.

S. Plugotarenko:

Good luck! Mr. Makarov, if I am not mistaken, we have some comments.

V. Makarov:

Sergey Kravchenko, Boeing.

S. Kravchenko:

Mr. Dobkin, I have one comment. I think 20-25 years ago, when the Russian IT industry emerged, everyone was hoping to manage without outsourcing. I work in an engineering company and I want to share my observations about the engineering services market.

Today the world is desperately short of engineers. There are a huge number of new projects that require human resources. Nowadays engineers are also IT specialists. Let us take, for example, the 1,500 engineers who work for Boeing in Russia. I do not know whether they are really engineers or programmers. In the future I hope we will be able to do business with EPAM, and 350 people from Luxoft are working for us now. They are not simply programmers; they are programmers and engineers.

I think that there is a unique opportunity here for Russia. We missed the IT outsourcing train, but we are most definitely the pioneers of engineering outsourcing. Mr. Shmulevich, you should deal not only with programmers, but with engineers too, because they are powerless without a computer nowadays. If we add our scientific expertise to this, Russia will have a strong competitive edge. This will not be IT services per se, but rather smart services. Mr. Shmulevich, there is a huge market out there for smart services, where new technologies, engineering, and programming are brought together to create a product.

V. Makarov:

We will now hear from Leonid Zilberburg. He is the first speaker today from a company that actually provides smart services. Leonid Zilberburg, Founder and President of Bee Pitron.

L. Zilberburg:

Good morning.

This is the first time I have spoken at this Forum, although we have been working with RUSSOFT for many years. Last year we celebrated our twentieth birthday, and today we are more of an engineering company, although we started with computer-aided design systems. I am from the IT sector that Mr. Agamirzyan talked about. At the beginning of the week, I was at the Paris Air Show and was proud to see the demonstration flight of our Su-35 fighter. It was an amazing sight, evoking a dry leaf falling gracefully towards the ground. Other planes cannot fly like that. We were involved in that particular project and in many others, creating data transfer lines.

As I am speaking here for the first time, I will say a few words about our company. We currently employ about 350 people. We are continuing to develop computer-aided design systems. To develop the real IT sector, we have to be very knowledgeable and competent. For example, we have electrical engineering facilities, including a large plant in Vyborg, and a design bureau in St. Petersburg. We make electrical bundles in half the time purely as a result of deploying PLM solutions.

An important idea that has been voiced at the Forum is that people need to think globally now. We are only now beginning to realize this, although we have made some attempts in this direction before. Particularly since the crisis hit, large Russian companies have been trying to develop their own software or work with large international companies. For us to enter this market, we need good references, but we are not getting them. Nevertheless, we are trying to find different ways to achieve our goals. This week we sent an electrical bundle to Europe for Airbus, made using our technologies, and through Airbus we are trying to reach out to Russian companies. For example, we are trying to establish links with Russian Railways via Boeing and Ariston.

To finish up I would like to say that RUSSOFT is really helping us to promote our products, and we would like to thank them for this. I hope that our cooperation will continue to be fruitful.

V. Makarov:

Thank you, Mr. Zilberburg. Sergey Kravchenko from Boeing is here today. Feel free to introduce yourselves and discuss possible future work together.

S. Plugotarenko:

I will now pass the microphone to Laura Ipsen, Corporate Vice President of Microsoft. I would like to hear what you have to say about investment opportunities in Russia and which sectors, in Microsoft's eyes, are the most promising for investors. It would be useful if you could compare your experience here with your experience in the West.

L. Ipsen:

Thank you. What I would say is that any time a USD 80 billion software company that spends over USD 13 billion in R&D, begins to reinvent itself from a software company into a devices and services company, you know that there is something happening in the market.

The trends that we watch, that certainly the IDC sees as well, are the move towards big data, social, cloud, and mobility. For us to harness growth and to make investments, and grow new startups around the world and invest in them, we have to align our company around those big trends.

Here in Russia, it is exciting to come back again this year, because you do feel the buzz in IT. And I really relate, Sergei, to the comments you made, because I think it is more about tying the education and the IT skills, and the engineering skills, to where the jobs are going in the future, where these big trends are taking us, and how companies and governments are innovating.

I run the public sector business for Microsoft that extends over everything from education to health care, traditional public defence and public safety, and while most governments have had this daily diet of austerity, the cuts have come, and many of our government's companies are saying, "How do I learn to do more with less and make do with less?" And so we are building technologies and investing in new things that change the state of healthcare, that change the state of education

with distance learning and online learning and new things coming up like MOOC and the Khan_Academy that I talked about yesterday, and healthcare, finally, because we have got a lot of the regulatory issues dealt with; many countries are starting to actually build electronic medical records. These are areas where we have opportunities to work with our partners to build solutions, where we are making investments in startups here in Russia, driving new activity and investing seed money into startups: over 31 so far over the past three years, most recently in healthcare, in gaming and social.

So, following those trends, knowing that Russia has one of the highest numbers of advanced degrees in the world, with great institutions: I think it is really combining the those things and working those together.

One of the other areas that we look at when you think of the public sector is that cities tend to be siloed, and there are more opportunities to build compelling solutions around cities. The market is over USD 25 billion annually going into cities. Over the next thirty years, USD 350 trillion is going to be spent in cities. It is not all information technology, but it is a combination of the engineering, the infrastructure, and the innovations in the technology that I think are really going to change the state of cities, as there is massive urbanization: by 2050, 70% of all of us are going to be urbanized, and China is going to be 80% by 2050.

So that is really where we see the momentum going, and I would say that when you come to a country like Russia, it is very inspiring, because the youth are so active, and you see a lot of the community and activity happening coming from the youth.

We run something called the Imagine Cup globally, and we are really excited, because next month will be the culmination of the eleventh annual Imagine Cup. Russia was only second to China in the number of great proposals and ideas – over three hundred – and there will be three teams in Russia that will compete. The year before, I think that one of the winners had a project that had something to do with a new technology for the visually impaired.

So I think that if we say that the jobs go where the best educated workforce is, the new venture capital coming in combining IT and engineering, and knowing where

the spend is, because we have great analysts like Robert at the IDC, you follow those trends. And that is what we are doing at Microsoft. There are those big macro-trends, and then you follow where the money is, where the best educated people are, and the universities, and that is why we are so excited about the growth in Russia; why we continue to invest and will continue to do so.

Also, we are just looking to build out our partner ecosystem. That is very important, because we will not build the solutions; we will work with some of our best partners – many of you in the room, I hope, as well – to do that.

So you have a good environment here. Thank you.

V. Makarov:

We have talked about which industries are looking for investment and which industries hold potential for investors, and listened to a representative of a large international corporation and found out what she thinks about the situation in Russia. The next questions for discussion are as follows: where will this investment come from, and is the open innovation model a viable investment strategy for large corporations? I will ask Alexandra Johnson and Serguei Belousov to speak about this. Please begin, Ms. Johnson.

A. Johnson:

I am not quite sure why I should be talking about large corporations, as I know little about them. But I can talk about venture capital and the trends in this area, if you would like.

As you know, venture capitalists suffer from a herd mentality. We say that we know where the next new big deal is coming from, but the truth is that we just follow the herd wherever it is going. When I was told that I would be speaking at the St. Petersburg International Economic Forum to such an interesting group of people, I approached leading venture capitalists to discuss the future with them. It is clear that social networking is no longer a hot subject. Cloud computing is old hat, and mobile enterprise is nothing new any more. Do you know what these people are

primarily talking about? They are talking about cybersecurity. They believe that many companies are going to start investing in this. I shudder to think of it, but some of them are planning to invest in hackers, because they want hackers to test the strength of cybersecurity systems.

A large number of investors are interested in investing in personalized medicine. I can understand why, as the human genome was deciphered a long time ago. All my colleagues and friends, for example, have undergone gene testing. This will enable us to fight a variety of diseases better. Nikolay Savchuk would no doubt agree with me, as your companies are moving in the same direction. Am I right?

Many people are interested in so called machine learning. Previously only large corporations were involved in this, such as IBM with its Watson computer, but a large number of companies are now working in this field. I think that such systems will enter the market quite quickly. But above all, investors are interested in online learning, which gives people the opportunity to choose what and when to study.

Another trend we see is that while previously we talked about our plans for the future, now we have a whole new generation of young entrepreneurs and technical experts who are used to getting everything they want right here, right now. One result of this approach has been networks such as Twitter, where news items appear earlier than on actual news sites.

There are a huge number of companies that require very little investment to become equal players on the large Russian market. Nowadays, it is very easy to set up a company. Looking at all of these trends, I would suggest to Russian companies that instead of waiting for the next new fad to come to Russia, they should plug into global processes. One investor said that in investing, as in ice hockey, the main thing is to understand in which direction the puck is moving. So, if Russian businesses keep their eye on this metaphorical puck, they can become world-class players.

Thank you.

S. Plugotarenko:

Thank you, Ms. Johnson, for your insight into what your people are talking about in your circles.

Is anyone, except Dmitry Grishin, talking about robots? This is also a promising area.

Mr. Belousov, let us bring the subject of investment to a close. What sectors have a promising future? Maybe you can share your own recipes for success with us?

S. Belousov:

This is not the first time I have said this, but I do not really understand why we are all here today. Everybody is saying quite general things about general subjects. No one has had anything particularly smart to say. So why are we here today? I do not really know. We are not getting much breakfast.

What I would like to say about investment trends is that we do not need to follow any trends. Trends are a thing of the past, and if we follow them we will not be successful. Can you imagine the leaders of normal companies – people like Steve Jobs and Mark Zuckerberg – coming to such a meeting to listen to a discussion about trends and then seeking to follow these trends? Or investors who would try to do this? I do not think they would be successful.

Something else that occurred to me is that this is the third or fourth time that we have met here. I see the same people every time, or nearly the same, anyway. I would hope in the future to see new people, and that I receive no further invitations to come here to listen to the same people say the same things.

V. Makarov:

Mr. Agamirzyan, please do not invite this man again. All right?

S. Belousov:

I would just like to see some new people. Maybe next year this will happen. Are you going to invite new people?

V. Makarov:

Of course we will. And there are some people we will not invite.

S. Belousov:

That would be a good thing. What else do I have to say?

V. Makarov:

That is it, nothing more.

S. Belousov:

Then that is all. Thank you.

S. Plugotarenko:

Healthy criticism is always a good thing. I think that as the organizers, we should take this into account.

V. Makarov:

The only thing is, Mr. Plugotarenko, that when people sitting in the hall speak right at the end...

S. Plugotarenko:

As I understand it, we should give them the opportunity to speak from next year.

V. Makarov:

I think that there is something in this. People come here and listen to what smart people, who come here every year, have to say.

Colleagues, I have a suggestion. The sixth technological structure, based on the convergence of technologies such as biotechnology, nanotechnology and so on, is no longer an abstract idea, but something that is with us today. I would like to give the floor to Nikolay Savchuk from the biotechnology industry.

N. Savchuk:

Everybody is giving Mr. Shmulevich advice about what to do and what not to do. I am not going to offer any advice.

Mr. Belousov said that there are no new people here. I have not been to an IT get-together since 1996. But I do keep in contact with people. Circumstances brought me here and I came to watch and to listen.

I agree with Mr. Kravchenko that Russia has unique know-how in the field of engineering. Experts from many different industries such as bioengineering are turning to IT professionals for help. In three of my companies, inexperienced CEOs are seeking out new partnerships, and are trying to do work along these lines, but not in a systematic way.

We clearly need convergence. For example, we can see prominent experts in bioinformatics who have no IT partners. They are creating homemade software, while somewhere out there is a fantastic service company that has already created the software they need, but does not know how to apply it. We need to find a way to bring these people together, and in doing so we could, for example, create a company that specializes in personalized technology for the bioinformatics industry. Another example is the large San Diego company Qualcomm, which is now developing services for medical device communications, a project that I am involved in. This company is banging its head against a brick wall because it only has a fixed number of partners.

Sergey was spot on with what he said. Normally you use the services of the same companies again and again. You give them a task, and they come up with the goods. What you need to do is seek out new partners who may have already launched this breakthrough technology, which is a step up from anything done before. I believe that here in Russia there is a wealth of opportunities to seek out such breakthrough technology.

The last thing I wanted to say is that these kinds of partnerships are forged in specific places. Sergey, Mr. Agamirzyan, and I, for example, have organized such

partnerships at the Moscow Institute of Physics and Technology (MIPT). Large technical schools are a perfect venue for investors, engineering schools, and scientists to come together. Otherwise, they may just end up roaming the world, meeting the same people over and over again.

Thank you.

S. Plugotarenko:

Colleagues, as I have already mentioned, we are witnessing seismic shifts in our industry. People in the healthcare industry want to work closely with us, and we want to work with them. Alexander Gentsis talked about this. For us this is a great trend.

Now our great friend William Savage from Intel will say a few words. Intel's largest research and development centre outside the US is in Russia, and a large number of specialists work for Intel in five Russian cities. With this, we will conclude our discussion about the direction in which the industry is going and where investments are set to be made in the future.

W. Savage:

Good morning; I am happy to be here. I have to apologize to Sergei: I have been here three times; maybe I will need to skip next year.

Anyway, we do a great deal of research and development in Russia, and I want to share some perspective on what a good ecosystem or environment for doing innovation and research in product development is.

I just have some thoughts and observations; I will be quick. In this worldwide economy – and we think about the world without borders and boundaries – when you are building something, collaboration across boundaries is really important. That is, collaboration across companies, often; collaboration across country boundaries, as well as collaboration between academics and business people.

In order to promote those and reduce the boundaries, we do things. And we have had these observations in Russia, particularly, because of the desire to create an innovation economy.

The observation that I will share is that when collaborating across companies, if you are going to produce any meaningful product, it is almost necessary that you are going to build on top of something that someone else has created. So you need the ability to share IP when appropriate, and work on standards that raise the whole industry, as opposed to trying to work exclusively in walled gardens. Horizontal and open ecosystems tend to win.

And then, across country boundaries – this is an area we have particular experience in. When we are building certain hardware devices and we want our software developers in Russia to take these forward – you need a way to share the early prototypes and hardware devices across country boundaries without obstacles to imports, and many weeks of delays, and things like that.

So crossing country boundaries is very critical if you are going to innovate and have a great ecosystem for that.

Finally, I have an observation about academics and commercial operations. In the US, we work very closely with universities on research that turns into products in the future, and we are doing more of that in Russia, but it has been a little bit more difficult: we have made good progress, but often the research in Russia is for the sake of research, and not always, when you speak to the students and professors, are they deeply interested in the commercialization of that research.

Now, we see that changing, especially with the efforts by the government in the Skolkovo area, so we have great hopes that this collaboration without boundaries between commercial organizations and academics, across country boundaries, and between companies as well, will be a great environment that will make Russia's companies prosper, as well as our companies, in this world.

Thank you.

V. Makarov:

I would like to talk about how the IT sector is doing and what is hindering its development: the business climate, the investment climate, or legislation?

S. Plugotarenko:

Now we can challenge Mr. Belousov's statement: there is a new face in the hall who can change the situation. It is the Deputy Minister of Communications, who is joining us here for the first time. The Ministry is in constant dialogue with business.

V. Makarov:

This is exactly why we would like to let Mr. Shmulevich speak at the end of this section.

S. Plugotarenko:

In the meantime, let us listen to a proposal regarding what changes are needed, as we need to make a lot of them. Alexander Egorov, you now have the honourable right to express your criticisms to the government. Do you have any constructive suggestions?

A. Egorov:

Good morning. I am Alexander Egorov from Reksoft. We work in the service sector and are involved in the development of information systems and software. Since 2010, we have belonged to the Technoservice group of companies.

Like many of our colleagues, at first almost all of our work was in the Western market. Up until a certain time, our turnover in Russia was zero. But in the last two years, we have been involved in some interesting projects at home as well. This has come about mainly as a result of the Russian Government also trying some interesting things, such as e-government. We entered the Russian market with the belief that we would be able to implement here the best practices which we have adopted from our Western clients over the last 20 years. That is exactly what happened. We have created some serious state-of-the-art systems which will make

it possible, to a certain degree at least, to restructure the functions of the government and various federal executive agencies.

While doing this, one interesting thing came up. After we began to work here in Russia, we discovered that given the size of the country and the difficult problems that we needed to solve, the solutions developed here can be used in the Western market as well. I had never previously considered this at all. For example, we presented a transportation management system, which is considered one of the best in Europe, to the representatives of one of our natural monopolies with the words: "This is what they do in Europe so that public transport runs on time." They took a look at the system and said that it was only good for serving one city district, and it would not be able to serve the entire country, since in terms of circuit design, the entire complexity of Russia's transport networks cannot be grasped.

So, there is potential for taking your business back abroad. If a service company that works with the Russian market musters the courage, like Diasoft did, to take its product to the Western market, it will find huge benefits. So, what is standing in our way? First of all, an inferiority complex. Russian companies still have a deeply-rooted inferiority complex: people believe that we cannot do anything very well. Maybe only a dozen or so leaders do not have this complex, people who, for one reason or another, made early contacts with Western markets and realized that they can do certain things better than others. But the majority of companies lack self-confidence, something I have observed while working with many of them and helping them break into Western markets.

If you believe that you have created a good product or are able to do something better than other people, then I urge you not be afraid to try and enter the open market. You might have to deal with negative feedback about your product. In this case, you just need to quickly take the information on board, improve the product, and move on. There are many such companies, and there would be even more of them if we could solve a few of the problems that have plagued us for a long time.

I agree with Serguei Belousov that for the third, fifth, even twenty-fifth year in a row, we are still talking about the same things. We have already talked about

education today. Yes, we are working with universities and trying to improve the standard of our post-graduate education, but overall the standard is declining. This is a serious problem which, as I understand it, the Ministry of Communications cannot do anything about, since it is outside of its domain. But maybe Mr. Shmulevich can find a way to put pressure on the Ministry of Education? Because something needs to be done. Higher education, vocational education, and professional retraining are the three areas in which we are lagging far behind. We have no skilled workers, and this is just one of the factors that is forcing Russian companies to work abroad. I do not know how many employees EPAM has in Russia, but I think it has more abroad because the company was founded in Belarus. Recently, another company reported that more than half of its employees were now in other CIS countries. Hence, the growth in personnel is happening outside of Russia.

In addition to the lack of skilled workers, there are a number of simple and straightforward problems that everyone is tired of, but which we just cannot solve. The day before yesterday, I was talking to yet another American customer who arrived a week late because he did not get his visa in time. He did not get a multiple-entry visa valid for a year, so he came on a tourist visa. To obtain an urgent, single-entry Russian tourist visa costs USD 380. This is a hefty sum, so you are not going to travel here very often. Yet he can go to Ukraine for free. Of course, these things are done on a reciprocal basis: if we cannot go to their country, then we will not allow people from that country to come here either. We are proud people and so on. Today I will receive my American multiple-entry visa valid for three years, which will let me visit the country wherever I want, and this only took two weeks. Let us make it so that Americans can also come to Russia on a three-year, multiple-entry business visa which can be arranged in two weeks. Reksoft is ready and waiting to help the Ministry of Foreign Affairs solve this problem, just as we have helped the Federal Migration Service to solve it. Bring us in. We know what needs to be done, and we can do it.

The last factors are the overall image of the country and the business climate here, but this is a topic which we could talk about until the cows come home. Therefore, my only wish is that the appropriate steps the Ministry of Communications has taken over the last year will not be the only ones. I think that more was achieved last year than in the previous fifteen put together, and special thanks for that goes out to Mark Shmulevich. If we keep moving in this direction, I believe we can overcome the current obstacles.

Thank you.

V. Makarov:

Thank you very much.

Speaking about the business climate, we should not forget about legislation. According to our association, in 2012 the government began to show an unprecedented interest in regulating our industry. In some cases this brings about positive changes, but not without some negative changes too. Unfortunately, according to Internet experts, the majority of changes of late have been negative.

What are the trends here? Are things really all that bad? Does the government really want to take control of our segment, and is this because it has become rich, or because it has such a big influence on society? I would like an expert, Igor Ashmanov, to talk about this in more depth.

Igor, is this all true? Is our segment really attracting so much attention? In your opinion, what will be the negative impact of the legislative initiatives being put forward now?

I. Ashmanov:

Hello. My name is Igor Ashmanov. I am involved in developing Internet technologies that are used in a wide variety of systems, from search engines to monitoring social networks. We monitor social networks and have observed that there has been a lot of heated debate about the legislative initiatives put forward in the last year or two.

According to our programme today, I am supposed to talk about Russian legislation and the best in international practice. I should point out right away that the Internet cannot be a place of freedom. It is ridiculous to think that in economics, in politics, and in people's lives, there can be a place where laws do not apply. Imagine there is a district in your city where you do not have to follow the laws, pay taxes, or face trial for murder. I think we all know what would happen to this city.

Regulation is inevitable. As usual, it started a bit later here than in America and Europe. There the Internet is quite well regulated. Some people have the illusion that it is not regulated, but it is. There, content is filtered, especially in the UK. In Germany, all those involved have agreed to do the filtering themselves, including Google and other search engines. So, developed countries have been regulating the Internet for a long time.

As for regulating Internet content, there is not one foreign practice that is best for us, for the simple reason that we first need to define our goals. If our goals are similar, then we can use the same practices. But unfortunately, our goals are different. Take China, for example. China set a goal to control political debate and activism on the Internet, and from a practical point of view, they have done well. They have certainly invested a lot of money in this. China's great firewall, the Golden Shield, works well. Do we want to adopt this practice or not? If our goals are the same as China's, then we probably need to look at what they are doing. Furthermore, across Europe it is considered almost an act of heroism to publish cartoons of the Prophet Mohammed. In our country, where there is a sizeable Muslim population, such things would immediately instigate scrutiny of the journalist or blogger who published it, so that we do not drive a wedge between the peoples of Russia. In this case, our goals differ.

The adoption of Federal Law Number 139 caused a huge scandal and led to considerable conflict within the RAEC and on the Internet. But in my view this is a fairly standard law, and not much harsher than those in place in the UK or Germany. There are much tougher laws out there. If our goals are the same in this regard, and we believe that some content should be filtered, then we need to see how this can

be realized at the legislative level and what hardware, filters, and so on are required.

At the moment, a number of other laws are being debated in Parliament. I would like to point out that we now have a mechanism for fast tracking laws through Parliament, which are then immediately signed by the President. This is not always a bad thing. Up to now, Parliament has voted unanimously on almost all of the Internet laws. Everyone voted for the laws, even the avid liberals. This either suggests that there is a public consensus that extremism, child pornography, and so on should be filtered, or that lawmakers have learned to adopt legislation quickly and efficiently.

I believe that the copyright law currently being considered by Parliament is ambiguous. For example, I am not fully convinced that we need a strict law on copyright. We have heard today that piracy allegedly hinders economic growth. But in my opinion, this is an outright lie. Ms. Kasperskaya, who is sitting right here, can confirm that those who sell software products, particularly mass-produced ones, know that piracy is in fact a driver of growth and not an obstacle. For 20 years now, Microsoft has been talking about the losses it has suffered because of piracy in Russia. But Microsoft has never really tried to combat piracy in our country. I was part of this battle myself when I ran a company that produced multimedia content in the 1990s, and I even organized raids on kiosks. This does not work. When Kaspersky Lab closed a couple of important keys, its market share shrank by a few percent. If the pirates do not copy a mass-produced product, its market share declines. Microsoft actually conquered our market because it did not fight piracy in our country. And this was a good thing for our country. Those who used Microsoft Security Essentials or Windows at home requested that this software be installed in the workplace. In my opinion, the anti-piracy legislation, which has now been introduced in Parliament, is not only bad for the industry, it might even kill it off completely, because it offers complete freedom, so to speak, for trolling and opens the doors to groundless lawsuits.

The problem is that this law does not address the industry's true interests. However, the RAEC is working on this. At the moment, the organization's Committee on Legal Affairs is actively debating this law, but few people are listening to the RAEC. This is not just a problem of the government not wanting to listen to industry representatives. This is a problem for industry professionals who have long refused to negotiate, claiming that the Internet should be completely free and that if you do not subscribe to that, we will not talk to you. We need to learn how to lobby in support of our interests. Other industries represented here know how to do this, but the Internet industry still does not.

We need laws regarding, for example, startups, which will allow them to grow freely, without fear that the tax office will close them down within three years because they are making a loss. There are many important laws that we need to see adopted, but this industry is bad at lobbying in support of its interests. In addition, we have no organization that brings together Internet users. Mr. Plugotarenko can speak on behalf of the hundred and something companies that are in the RAEC, but there is nobody speaking on behalf of Internet users.

I will wrap it up at that. Thank you.

V. Makarov:

I see that we made a mistake by not giving Mr. Ashmanov more time. He touched upon a number of topics that deserve further discussion. But, unfortunately, I am already getting signals that we have no more than two minutes maximum. And we have two more speakers.

S. Plugotarenko:

These two speakers are from government, from Brazil as well as Russia. Russia and Brazil are both members of BRIC. They are very similar to each other in many ways, including in their size and the nature of their problems. Sergio Pessoa is from Apex-Brasil. It is an organization that supports Brazilian exports, but does not have a presence in Russia.

S. Pessoa:

Thank you, Valentin; it is a pleasure to be here. This is my first visit to Russia: it is a beautiful country with great people.

We look at Brazil with traditional market development. We have seen strong dependence on natural resources, much like in Russia, but more recently we have seen great growth in the Internet space. Certainly we have the third largest base of Internet users, and also of Facebook and Twitter users. So we have seen great developments in that space.

I was the Head of Market Development for Brasco, which is focused on looking at education, opportunities for the market place, looking at infrastructure initiatives, looking at market development, regulations, and innovation.

So in a number of ways, the industry association collaborates closely with the government across two initiatives that I can mention. One is tax reduction for the sector. We eliminated 20% of contributions to the social security payroll and moved it to revenue in terms of taxation, which helped small and medium-sized businesses. We also worked with the Ministry of Education to develop programmes to support the ICT sector.

The ICT sector in Brazil today is the seventh largest globally. We work with the IDC: it is a USD 123 billion industry, representing 4.5% of GDP. So we have the industry association working closely with the different levels of government, and now in my current role, in the Brazilian Trade and Investment Promotion Agency, we are working at bringing Brazilian companies to international markets – which has been a challenge, as many Brazilian companies have traditionally been looking at the internal market – but also bringing investments to Brazil.

Brazil has received a very large amount of foreign direct investment in the last few years. It was in the top three, just to give you some perspective: USD 67 billion for Brazil in 2011; overall, Latin America received USD 113 billion. So we are really looking to work with the industry associations, trade associations, and ministries in a number of different programmes.

More recently, we have run two important programmes, including Science Without Borders: we are sending 100,000 students at graduate/Ph.D. level to work in 50 top universities globally, because we want to bring more of a global mindset to the leadership in Brazil. As I said, it is such a large market, and many of the companies have a strong focus on this market.

We are also establishing Startup Brazil: this is a new programme that we are working on with the Ministry of Science and Technology Innovation, to develop entrepreneurship innovation levels. USD 100,000 is being given by the government to 100 companies to accelerate those companies' internationalization in Brazil. In fact, 25% of those 100 companies are international companies, so hopefully we might see some Russian companies going to Brazil for that programme as well.

Right now, I am based in San Francisco, in Silicon Valley, to establish an international hub connection between the Brazilian entrepreneurship innovation ecosystem and the Silicon Valley ecosystem.

So, we are seeing a lot of collaboration between industrial associations, the Trade and Investment Promotion Agency, and the different levels of ministries in the government.

Thank you.

V. Makarov:

We are coming to the end of our IT breakfast. Now we will address the third set of problems related to the business climate in Russia for the IT industry. Mark Shmulevich, Deputy Minister of Telecom and Mass Communications, will talk about state policy to regulate the industry.

M. Shmulevich:

Thank you very much.

I will try to give you a brief summary. Some people believe our annual discussion is monotonous and unproductive, but I think today's meeting was quite the opposite.

Here is what I want to say today. Firstly, a new star was born. Every third speaker mentioned the IDC. The state system for collecting statistics on the IT industry in Russia is underdeveloped, and Rosstat data is inadequate for monitoring the industry and analysing information. Secondly, many people today have talked about optimism and confidence. There is only one thing I would like to say about this. This year we have had two debates about whether or not Russia offers good conditions for the development of startups in the IT industry, and for the development of software companies. Virtually the same thing happened in both debates. Some people argued that the conditions are good, while others insisted that they are bad, and finally someone got up and said what are you arguing about? All of you, even those who claim that the conditions are bad, are working in Russia and are doing quite well. In other words, your actions prove that conditions in Russia are quite good.

Indeed, we have grounds for optimism. There are opportunities for the IT industry to grow at least three times faster than GDP in the near future. Venture capital investments in the Russian IT industry will soon exceed USD 1 billion. Russian Internet companies are set to get a further boost from international expansion. We will continue to export software from Russia, and the USD 6–7 billion figure that will be achieved in the coming years is far from the limit for this industry.

If we talk about the conditions for the IT business in Russia, we have recently produced a publication on that subject. You can download a brochure from the Ministry of Communications website that outlines the conditions for running an IT business in Russia. If you look at all the numbers and compare these conditions with those in other more remote CIS countries, it would not be fair to say that the conditions in Russia are poor. What we have is quite comparable. Some things are better, some things are worse, but the conditions are definitely comparable. We have room for improvement, and we are doing something about it. We have, for example, expanded the list of IT companies, whose insurance premiums are half those of other companies in the market. We are working on getting startups onto this list as well. We are preparing changes to federal legislation that will expand the

ability to use stock options as a means of incentivizing employees. Now they are barely used at all, yet for small companies this is really important. We are talking about professional standards. A month ago, we reformed the Rosinfocominvest fund, which now provides financial incentives for successful investors.

There are also some more complex problems. For example, together with the Ministry of Education and Science, we have launched a programme to create R&D centres. Over the next five years, up to 50 such centres are due to be built, and they will focus on the most promising areas in the IT industry. As early as the end of this year, we may start tenders for the first seven to ten centres. It is crucial that world-class research is carried out in these centres.

To be honest, there are some problems for which we have not yet found a solution. One of them has been mentioned by many speakers, including Alexander Egorov, and that is the lack of human resources. How can we make sure that over the next five years, 350,000 new IT specialists will enter the labour force in Russia, despite the demographic crisis? This is a really big challenge, and we need to work on it.

I see more than half of the speakers here today privately as well as at association and advisory council meetings, and we can observe an interesting trend. At the moment, we are drawing up a project for the strategic development of the IT industry in Russia up to 2020 and in the future, we will develop this up to 2025. Many of you have already seen it. It is just a rough draft, which has been coordinated with industry representatives. The strategy at this point in time is rather conservative and sluggish. Some people believe that this is the right approach to the development of the industry. However, I think that we should also think about more daring projects that will bring us a breakthrough in the next ten years, because most segments are developing steadily. The best thing would be for these projects to be based on public–private partnerships, as together we can achieve better results. We are trying to work within the framework of a public–private partnership: an organization has already been set up, which will promote programming competitions, with investments from private business and the state. We will see how

it works. We would be very happy to hear your suggestions. We really need them now.

V. Makarov:

Thank you very much, Mr. Shmulevich.

Colleagues, we are coming to the end of our session. To be honest, I, like Mr. Belousov, was somewhat pessimistic about this meeting, because we have the same people here for the third time in a row and there was a chance that it would not work well. In my opinion, it turned out great. I think that we really should get together at least once a year to compare notes, learn which trends are prevailing in the market, and just meet and discuss things. Many thanks to everyone. Many thanks to Mr. Agamirzyan.

S. Plugotarenko:

I would like to thank everyone who came here at this early hour, giving us a full house. Until next time!