Enterprise Georgia
Business Process Outsourcing & Shared Service Centers
investment potential research
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Contents

Phase I. Global BPO and SSC market overview 4
Phase II. Georgian BPO and SSC market potential 53
Phase III. Investment proposals 91
Appendices for all phases 114

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Disclaimer

Introduction

- The information presented in this document (hereinafter - the “Presentation”) has been developed by Deloitte (hereinafter - the “Consultant”) within the project of “Business Process Outsourcing & Shared Service Centers investment potential research” for Enterprise Georgia (hereinafter - the “Client”).
- The purpose of this presentation is to provide high level information to assist in obtaining an overview of the project on development of BPO and SSC centers globally and in Georgia.
- The presentation is not intended to serve as a basis for any investment decisions and may not be considered as a recommendation for investment by the Consultant.
- The findings presented in this presentation are based on the information provided to the Consultant by ACT Georgia (survey subcontractor), the client and through publically available sources.
- When undertaking an investment decision, investors must rely on their own expertise and take into account the risks common to investments made in Georgia.

Data used in calculations

- This presentation includes financial calculations, which do not comprise of valuation, economic or financial models. Data included in the financial calculations are directly sourced from publicly available sources.
- Data used in capex calculations were obtained based on interviews conducted with practitioners working in SSC and BPO centers and do not represent binding agreements. Actual results may vary from such forward looking information. For this reason, there is some uncertainty associated with questions regarding the completeness or reliability of data provided by third parties.
- Opex calculations were based on the salary survey results carried out by the survey subcontractor and interviews conducted with local market players. Please refer to Phase 2, Appendix 2 – Scope of work.
- International Revenue figures per FTE were obtained from a sample of ten financial statements of the BPO companies located in the Eastern Europe continent within the CIS region.
- Local Revenue figures per FTE were obtained through the polling of 65 BPO companies throughout Georgia.
- The inclusion of the number of FTEs, work group structures, allocation of revenue streams in international and local markets, location of BPO center and BPO service areas in the hypothetical models were agreed with the Client.

Forward looking statements

- This presentation contains forward-looking statements. The consultant believes it is important to inform the investors about the expected results. Future events may occur that may cause the actual performance of the BPO and SSC centers to be materially different from the calculated high-level values.
Phase I. Global BPO and SSC market overview
Table of contents: Phase I. Global BPO and SSC market

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Glossary and definitions</td>
<td>6</td>
</tr>
<tr>
<td>Executive summary of the Global BPO and SSC market overview</td>
<td>7</td>
</tr>
<tr>
<td>Introduction to BPO, SSC and operation models</td>
<td>8</td>
</tr>
<tr>
<td>Outsourcing process map</td>
<td>9</td>
</tr>
<tr>
<td>Global BPO and SSC market: overview</td>
<td>10</td>
</tr>
<tr>
<td>Key trends</td>
<td>11</td>
</tr>
<tr>
<td>Market size and structure</td>
<td>12</td>
</tr>
<tr>
<td>BPO and IT markets by regions</td>
<td>13</td>
</tr>
<tr>
<td>Market segmentation by service areas</td>
<td>14</td>
</tr>
<tr>
<td>Historical development of BPO and SSC market</td>
<td>15</td>
</tr>
<tr>
<td>Key decision factors for selection of geographic area</td>
<td>16</td>
</tr>
<tr>
<td>SSC specifics</td>
<td>17</td>
</tr>
<tr>
<td>Key challenges for BPO and SSC providers</td>
<td>18</td>
</tr>
<tr>
<td>Global BPO and SSC market: demand</td>
<td>19</td>
</tr>
<tr>
<td>Market status and key trends</td>
<td>20</td>
</tr>
<tr>
<td>Breakdown by regions and service areas</td>
<td>21</td>
</tr>
<tr>
<td>ADE market</td>
<td>25</td>
</tr>
<tr>
<td>High demand industries</td>
<td>26</td>
</tr>
<tr>
<td>Global BPO and SSC market: supply</td>
<td>33</td>
</tr>
<tr>
<td>Regional distribution</td>
<td>34</td>
</tr>
<tr>
<td>Leading BPO and SSC market players</td>
<td>37</td>
</tr>
<tr>
<td>Leading BPO and SSC provider country profiles</td>
<td>38</td>
</tr>
</tbody>
</table>
### Glossary and definitions

**EG**  
Enterprise Georgia

**Deloitte**  
Deloitte & Touche LLC

**GoG**  
Government of Georgia

**EMEA**  
Europe, the Middle East and Africa

**Americas**  
North and South America

**CEE**  
Central and Eastern Europe

**AM**  
Americas

**WE**  
Western Europe

**EE**  
Eastern Europe

**ME**  
Middle East

**AF**  
Africa

**SLA**  
Service Line Agreement

**FTE**  
Full-time employee

**BPO**  
Business Process Outsourcing

**SSC**  
Shared Service Center

**BPaaS**  
Business Process as a service

**GBS**  
Global Business Services

**RPA**  
Robotic Process Automation

**F&A**  
Finance and Accounting

**CRM**  
Customer Relationship Management

**HR**  
Human Resource

**ADE**  
Architecture, Design and Engineering

**ADM**  
Application Development Management

**STEM**  
Science technology engineering and mathematics

**BSS**  
Business Services Sector

**AI**  
Artificial Intelligence

**IaaS**  
Infrastructure-as-a-Service

**NAEC**  
National Center for Assessment and Examinations

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**Business process outsourcing (BPO)** is the delegation of one or more business processes to an external provider that, in turn, owns, administers and manages the selected processes based on defined and measurable performance metrics. BPO offerings are categorized in two major categories: **horizontal/traditional offerings**; those that can be leveraged across HR, Accounting, CRM service areas and **vertical-specific offerings**; those that require demand specific industry vertical process knowledge.

**Robotic process automation** is way to automate repetitive rules-based processes. Software, commonly known as a ‘robot’, is used to capture and interpret existing IT applications to enable transactions processing, data manipulation and communications across IT systems.

**Artificial Intelligence** is concerned with getting computers to do tasks that would mainly require human intelligence. The concept of intelligence falls across four main areas namely:

- **Big Data** – capable of processing massive amounts of structured and unstructured data;
- **Learning** – ability to learn based on historical patterns, expert inputs and feed-back loop;
- **Reasoning** – ability to reason and to draw inferences based on situation. Context driven awareness of system;
- **Problem Solving** – capable of analyzing, solving complex problems in special purpose and general-purpose domains.

**Disruptive Outsourcing**

- **Cognitive automation** – how you can speed up the transaction processes;
- **Cognitive engagement** – how you can improve the customer experience using technology e.g. chatbots / virtual agents;
- **Cognitive insight** – how you can use data to draw conclusions out of it and make decisions using digital technology.

**Infrastructure as a service** is a service model that delivers computer infrastructure on an outsourced basis to support enterprise operations.

**BPaaS** is a form of business process outsourcing (BPO) that employs a cloud computing service model. Whereas the aim of traditional BPO is to reduce labor costs, BPaaS reduces labor count through increased automation, thereby cutting costs in the process.

**GBS** – Instead of operating numerous Shared Service Centers and managing outsourcing vendors independently, Global Business Services provide the common integration of governance, locations and business practices to all shared services and outsourcing activities across the enterprise.

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Executive summary
Global BPO and SSC market overview

• The BPO market has been growing at a rate of 4% CAGR for the past three years, surpassing USD 1 trillion in 2017. According to Gartner, growth is forecasted to continue at 5% CAGR through 2022. Moreover, the SSC market not-quantifiable as it represents the success of streamlining internal costs within organisations.

• The global BPO market is mainly represented by IT and Consulting services (83%) and traditional BPO services (17%) of which CRM (5%), HR (4%), ADE (4%) and F&A (3%) service areas have respective shares. The top 25 BPO companies account for 55% of the traditional market employing more than 2 million people totaling USD 87 billion in revenue.

• There are currently in excess of 50,000 service providers (Traditional, IT and Consulting) their number is expected to rise to 75,000 by 2022. An average multifunctional BPO service provider has an average headcount of 500 full time employees. In terms of specialist service providers falls in the range of 10 (ADE) up to 150 (CRM call center) full time employees.

• According to Deloitte 2017 global survey of BPO and SSC providers, the key decision making factors for the establishment of a service center were based on success stories, location, skilled human resources and infrastructure.

• SSCs usually established by a corporation as a legal entity within or outside the group is based on Service Line Agreements for delivering corporate support to central offices, while BPO providers operate as an independent third-party based on contractual agreements.

• The most in demand outsourcing services are within the Business services, Manufacturing, Financial services, Telecommunications, Healthcare and Pharmaceutical industries. However, there are no industry specific triggers for shifting to outsourcing. The key factors considered are generally high cost of support functions, significant headcount and complex legal and operational structure.

• Companies mainly resort to outsourcing in order to cut costs, increase customer satisfaction and in several cases to incorporate innovative technologies into the main business.

• Based on the analysis of pre-selected countries, the key success factors were availability of the skilled labor force, low FTE cost and proximity to end-users. Government support came in different forms of incentives mainly tax exemptions, free industrial zones and subsidies.

• According to Deloitte 2018 of global BPO providers, the key challenge identified was data security implications. As for SSC providers, the primary risks were the recruitment of senior management and forming of a service level agreement.
Introduction to Business Process Outsourcing and Shared Service Centers
The preferred operating model among SSCs is a separate legal entity that provides services on the basis of a SLA with the parent company, while BPO is contractual agreement with a third party provider.

Operational Model selected by companies

- **55% SSC**
  - An SSC is a part of a business where specific functions are centralized, in order to better service the organization as a whole.
  - A captive SSC is an accountable entity/wholly owned subsidiary within a multi-unit organization tasked with supplying the business unit, respective divisions and departments with specialized services (finance, sales transactions, logistics etc.) on the basis of a service level agreement (SLA) with a costs charge out on basis of some type and system of transfer price.

- **10% BPO**
  - Business Process Outsourcing (BPO) is when a company reallocates activities and services that it earlier used to perform in-house, to third party-providers on the basis of a contractual agreements. BPO is either traditional BPO or BPaaS.
  - Whereas the aim of traditional BPO is to reduce labor costs, BPaaS reduces labor count through increased automation, thereby cutting costs in the process.

- **35% Hybrid**
  - The Hybrid outsourcing model combines the shared services model with outsourcing. Captive SSCs are moving up the value chain, becoming centers of excellence and outsourcing transactional processes
  - The trend shows that companies with captive SSCs decide to outsource services mostly transactional/repetitive operations after certain period of time to focus on core business operations.

Source: SSON Analytics 2018, CIS and CEE Deloitte survey © 2018 Deloitte & Touche LLC
Definition: Outsourcing process map, BPO and SSC.
Captive solution still the preferred operating model however hybrid outsourcing is becoming more prevalent.

**BPO comprises of**

- **Traditional BPO** is a method of subcontracting various business-related operations to third-party vendors:
  - Finance and accounting (F&A)
  - Human Resources (HR)
  - Customer Relation Services (CRM)
  - IT support
  - Architect, Design and Engineering (ADE)

- **BPaaS** is a form of business process outsourcing (BPO) that employs a cloud computing service model. Whereas the aim of traditional BPO is to reduce labor costs, BPaaS reduces labor count through increased automation, thereby cutting costs in the process.

**IT Outsourcing comprises of**

- **Consulting Services** includes two segments namely business consulting and technology consulting. Business consulting is typically advisory services that are limited to introduce, enable or influence the adoption of IT within organizational structures. Technology consulting is slanted towards advisory services helping clients design and assess different technology strategies and align their technology strategies with their business or process strategies.

- **Implementation Services** are project-based services to develop, design and customize IT solutions and processes within established application, infrastructure and processes.

- **Managed Services** provides a wide range of application services, processes and methodologies for maintaining, enhancing and managing custom applications, packaged software applications or network-delivered applications.

- **Cloud Infrastructure** refers to a virtual infrastructure that is delivered or accessed via a network or online. The term refers to products or services being delivered through the model known as Infrastructure as a service (IaaS), which is one of the three main categories of cloud computing services, alongside Software as Service (SaaS).

Source: Deloitte analysis, Gartner
Global BPO and SSC Market: Overview

- As of recent, the global BPO and SSC market trend is the implementation of advanced technological solutions to processes, and diminution of the attractiveness of traditional services. Therefore, the traditional outsourcing archetype is fundamentally transformed by the introduction of emerging outsourcing solutions through mobile technology, cloud computing and automation.

- In 2017, the BPO market amounted to USD 1,036 billion and grew at a compound annual rate of 5%, where the IT and consulting segment increased by 7.6% and traditional BPO increased by 4.4% year on year.

- Vertical offerings (IT and consulting) make up to 83% of the BPO market, where the remaining 13% represent horizontal offerings including CRM, HR and F&A, and an additional 4% represent ADE.

- American and European BPO clients tend to focus on cost and efficiency by transferring their offices to nearshore locations and consolidating their number of BPO service providers in order to reduce operating costs and capital expenditure.

- Deloitte 2017 global survey of BPO and SSC providers lists key decision making factors for the establishment of a service center as such:
  - Success stories of existing BPO and SSC providers;
  - Location, including the company’s presence within the region;
  - Skilled human resources;
  - Telecom, IT and Real estate infrastructure.

- According to Deloitte 2018 of global BPO providers, the key challenge for global BPO providers in 2018 was data security implications. As for SSCs the associated primary risks were recruitment of senior management and forming a service level agreement.
The BPO and SSC market is developing toward more advanced technological solutions that diminish the traditional BPO market

1. For more than 20 years, BPO has evolved from an idea to move subsidiary units of Western corporations to third world countries into a global diversified market with a turnover of more than USD 1 trillion.

2. Horizontal processes common to all industries (general business operations, primarily in finance and accounting, personnel management, as well as customer support and CRM) account for 17% of the global market. The remaining 83% falls to specialized industrial "vertical" IT processes and consulting services.

3. The BPO market is gradually moving to digital service models, but given its long history, the business of most established providers is still based on analog platforms and interactions. This imbalance opens up unique opportunities for new high-tech players to enter the market (HR-tech, Legal-tech, BPaaS)

4. Despite its impressive size (in the top 50 BPO providers there are no companies with revenues less than USD 500 mln), the marginality of universal providers fluctuates in the range between 5–20% of EBITDA. It should be noted that companies rarely grow large due to the narrow industrial focus and niche expert specialization.

5. Many BPO players have developed out of the service divisions of large corporations (SSC) through a combination of:
   - Digital technologies (mass platform solutions to implement the scale effect);
   - Relatively narrow expertise radically improving the efficiency or quality of the process.

6. Technological development like robotics, AI, voice recognition and digitalization also become main trends based on the Survey in 2017. Please refer for the full description into Appendix.
The BPO market is growing at compound annual growth rate of 5% through 2022. The growth rate of the Business and IT Consulting market is at 7.6% while the Traditional BPO market is at 4.4%.

**Key Findings**

- Globally, market players within the BPO market are re-investing corporate earnings back into tech enabled applications and process enhancement technologies. Internal change to processes and people is critical to drive their digital transformation agenda.

- Spending on Business and IT Consulting services grew at an average 5 year compound growth rate of 7.6% from 2013 achieving a 50% increase in overall market size in 2018. Global spending is forecasted to keep pace at the same compound annual growth rate till 2022. The relatively larger Implementation Services market is showing slow growth signs growing at a 5 year annual compound growth rate of 3.6% between 2018–2022. Consulting services around portfolio rationalization and IT strategy will be developed as value enhancing rather than cost saving initiatives. Spending on Implementation Services is increasing on a sequential basis as enterprises are looking to invest in establishing cloud-based business platforms.

- Global spending on implementation services is seeing a shift from non-cloud to cloud implementation engagements, where cloud implementation services will constitute for 50% of the implementation services market by 2022.

- Global spending for Managed Services and Cloud Infrastructure will grow at a 5.4% annual compound growth rate through 2022. Mature infrastructure, such as desktop support and service desk will continue to experience a decline in growth rates. Maturing platforms driven by advanced technologies namely artificial intelligence, automation, chatbots, self-service options) are causing transformative changes to the value, quality and price competitiveness of delivery.

- Worldwide spending on business process outsourcing services (traditional BPO and BPaaS) is forecasted to grow at a compound annual growth rate of 4.4% through 2022. The traditional BPO market will grow at a slower annual compound rate of 3.1% compared to BPaaS of 7.6% through 2022, leading to the drop in the market share in BPO down to 69%. BPaaS is enabling firms to gain a competitive advantage by providing access to innovative technologies helping organizations be more agile, scale faster, enter new markets and transform their internal operations.

- The need to maximize the benefits through robust business model transformation and operating model optimization, as well as increased focus on organizational change will drive growth in Consulting and Implementation services through 2022.

**Global End-User Expenditure Levels in BPO market, Past and Future Trends, USD Bln**

<table>
<thead>
<tr>
<th>Year</th>
<th>Managed Services and Cloud Infrastructure</th>
<th>Consulting Services</th>
<th>Implementation Services</th>
<th>BPO</th>
</tr>
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<tbody>
<tr>
<td>2013</td>
<td>878</td>
<td>150</td>
<td>375</td>
<td>162</td>
</tr>
<tr>
<td>2014</td>
<td>889</td>
<td>156</td>
<td>364</td>
<td>146</td>
</tr>
<tr>
<td>2015</td>
<td>853</td>
<td>150</td>
<td>344</td>
<td>166</td>
</tr>
<tr>
<td>2016</td>
<td>995</td>
<td>168</td>
<td>415</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>1036</td>
<td>175</td>
<td>427</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>1083</td>
<td>182</td>
<td>442</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>1134</td>
<td>191</td>
<td>460</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>1189</td>
<td>199</td>
<td>480</td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>1247</td>
<td>208</td>
<td>504</td>
<td></td>
</tr>
<tr>
<td>2022</td>
<td>1309</td>
<td>217</td>
<td>532</td>
<td></td>
</tr>
</tbody>
</table>

**Note 1:** The SSC market is principally based on cost cutting initiatives for companies within whereas the BPO market size is based on the contracting of services with service providers in external markets. The SSC market not quantifiable and represents the cost optimization success.

**Note 2:** The value of traditional infrastructure, applications and business process deals contracted had fallen. An increasing number of services moved over to the cloud as many service providers adapted their business and sales models to address changing market conditions.
IT and BPO markets by regions: American and European BPO clients tend to focus on cost and efficiency by transferring to nearshore locations and consolidating BPO providers. Asian firms are centering their efforts around standardization.

Cost optimization in core business functions, and solving capacity issues are the primary drivers to outsource. More and more organizations use outsourcing to drive transformational change and improve business results.

Note: Shares are calculated according to the 2017 data basis
Source: Gartner, IT services worldwide 2016–2022 report
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Analysis
Americas, WE and Asia are the largest consumer markets with end-user spending (EUS) in excess of USD 100 bln, while EE, ME and Africa are classed as untapped, emerging outsourcing markets with market sizes of USD 16 bln and USD 30 bln EUS respectively.
Vertical offerings make up to 83% of the BPO market. Traditional CRM, HR, F&A service areas constitute 75% of the horizontal offerings in the BPO market.

The horizontal processes common to all industries today account for 17% of the market. The remaining 83% – is the maintenance of specialized industrial vertical processes (key processes).

ADE sector makes up for 4% of the traditional BPO market mainly due to strong construction activity on a global scale. Architectural services are typically rendered by large construction companies. Please refer to slide about ADE for a more detailed version.

BPO market breakdown by service types

- **Vertical Processes**: 83%
- **Horizontal process**: 17%

**Source**: HfS Research, Researchgate, Deloitte analysis

**Note**: * procurement, logistic, R&D, legal

### Sample structure of BPO services in HR and F&A

- **HR**
  - Salary calculation
  - Recruitment
  - Benefits and compensation
  - Training
- **FA**
  - P2P
  - S2P
  - Multi-process outsourcing

- **CAGR 2016-2021**
  - HR: 5%
  - FA: 6%

- The structure of BPO services is dominated by labor-intensive mass transaction processes;
- More than 70% of the market in Finance and Accounting accounts for large corporations;
- HR outsourcing based on HR solutions usually covers all categories of client.
Firms are looking to move part of their operations to low cost near-shoring locations in Europe in order to reduce their operating costs.

Outsourcing market development in Europe

The shared services model was launched in the US during the 1980s and spread into the British Isles, across the Nordics and later in Central and Eastern Europe (CEE).

Countries such as the UK, Ireland, Belgium, Netherlands, Portugal and Spain are already mature markets that offer high value added services with a large pool of experienced workforce. Although higher productivity is an advantage it also in turn translates into higher labor costs that is 25–50% higher than in EE countries.

Throughout the 2000s, companies decided to shift mostly transactional based work to the CEE region as there were:
- Lower attrition rates;
- Cultural and physical proximity to Western Europe;
- Language skills;
- Time-zone similarity.

Following Poland’s, Czech Republic’s, Hungary’s and Slovakia’s accession to the EU in 2004 a large wave of investment expanding into service centers occurred across the Baltic region, Romania and Bulgaria. The key success factors behind the expansion into these countries was a stable economic environment, comparatively low costs, a well educated labour force and developed infrastructure.

Based on the current trends in the SSC market, companies typically set up SSCs on the same continent or within the same continent where their headquarters is located.
The key decision making factors for the establishment of service centers were success stories, location, skilled human resources and infrastructure.

**Decisive factors for establishing BPO and SSC centers**

- **BPO/ SSC Success stories**
  - Presence of global companies in the relevant sectors

- **Infrastructure**
  - Well-developed, cheap telecommunications and IT Infrastructure
  - Average Internet speed for country
  - Good supply of A class office space with affordable price
  - Good connectivity (International Airports, Trains and Highways)
  - Well-developed banking system

- **Human resources**
  - Highly-skilled, multilingual and affordable workforce with advanced education
  - Extensive pool of higher education graduates
  - Hard-work-oriented business culture

- **Legal environment**
  - Legal code compliance and regulatory environment
  - Government support and tax and other incentives
  - Doing Business, rank
  - Existing country associations

- **Country profile and economic indicators**
  - Number of population
  - GDP per capita
  - Employment rate
  - Country Safety Index, scores
  - Global Insight Country Risk Ratings, points

- **Location**
  - Existing subsidiary
  - Geographic area
  - Time zone difference

- **Investors key concerns**
  - Data security
  - Performance resilience
  - Labor sustainability
  - Compliance with laws and regulations

Source: Deloitte SSC Survey, Deloitte Global outsourcing survey
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The SSC market is not-quantifiable and characterizes the success rate of cost optimization. 90% of SSCs are operating based on a SLA allowing for better control and efficiency in the provision of services.

**Key Findings on global SSC market**

- According to the SSON, the most prominent operating model among SSC is in-house/captive at 55% however hybrid model is becoming an increasingly widespread practice at 35%.
- The functional scope is expanding with more than 53% of companies having 3 or more functions in the SSC. Companies providing single function services account to 31% of total centers. Global architectural and design services are solely provided out of a single function BPO centers, and there is no evidence of an architectural SSC center to date.
- Most global SSCs are servicing in country or from regional (60%) locations, however Asia and Europe have the highest share of global SSC’s.
- The leading functions in SSCs are F&A, HR and IT with respective shares of 88%, 63% and 53%. Engineering functions are performed by 6% of the SSC’s.
- The most important benefits that companies find crucial while establishing SSCs are the cost of services and timeliness of response.
- According to the Grand View Research, there are more than 50,000 SSCs with an estimated CAGR close to 30% for years 2015-2022, reaching 75,000 in 2022. Despite the large number of SSCs, the majority of sector revenue is distributed among several thousand companies.

**Key Findings on regional SSC market**

- According to the ISSUU SSC vendor directory, CEE has approximately 1,000 companies where half of these are located in Poland, concentrating around Warsaw, Krakow, Wroclaw and Tri-city. There is a tendency of transferring SSCs to new EU member countries due to low cost competitive service offerings. The standing association agreement with the EU and simplified visa regimes also support this trend.
- Approximately 100 companies with SSCs in the CIS are mostly concentrated in Russia. In the CIS, SSCs started developing on the basis of carrying out Finance and Accounting for large Oil and Gas companies. The CIS region mainly serves companies located within the region. There are few exceptions when international corporations (Coca Cola, Nestle, Pfizer) use SSCs in the CIS to establish connecting services to other regions of Eastern and Southern Europe and Turkey.
- 46.2% of SSCs in CIS are separate legal entities, 23.1% are separate business units within the same legal entity and the remaining 30.8% are separate legal entities within the holding of firms.
The key challenge for BPO providers was data security implications, while for SSCs the primary risks were the recruitment of senior management and formation of a service level agreement.

Main challenges attributed to selection of BPO provider

- Due to the fact that BPO services are becoming technology driven through Artificial Intelligence and Robotic Process Automation, the concerns of clients regarding cyber risks and data security are becoming increasingly substantial. The vendors’ ability and reputation are also top priorities for companies looking for BPO partners.
- On the other hand, BPO provider companies face challenges in communication infrastructure (power and internet disruptions) and stable economic environment. Reliable and skilled workforce is an equally important factor as attrition rates are increasing costs of training employees.
- Intellectual property rights are absolutely critical in IT outsourcing. An IT outsourcing inevitably involves the taking over of the service from the client in-house IT function, which actually means gaining access to know-hows, software and hardware.

Main challenges attributed to creation of SSC

- High quality and efficiency maintenance are the challenges that SSCs are the most concerned.
- Two most important success factors are a skilled and sustainable workforce and a performance measurement system. A strong organizational culture and morale are viewed as key tools for employee retention, while drawing up SLAs and KPIs are used to reach high efficiency and continuous improvement.
- The main requirements of SSCs are proper and timely reaction to business unit requests as well as low cost of services.

Source: Deloitte SSC survey 2016 – business client view

Note: for developing countries challenges please refer to Appendix 1.4 Key challenges for developing countries in BPO and SSC market
Global BPO and SSC Market: Demand

- Even though major international clients outsourced 45% of their existing operations in 2017, it only enabled them to transform their business processes in a limited way. Therefore, long-term expectations of clients, regarding outsourcing, are to provide for wide-scale transformation of digital technologies.

- Highest demand for outsourcing services by industry is:
  - Business Services: cost optimization and allocation driving F&A, HR, CRM and IT outsourcing
  - Manufacturing: cost reduction and quality improvement drive outsourcing of F&A and CRM
  - Financial services: cost reduction and customer satisfaction driving multiple process outsourcing (F&A, CRM, Legal compliance and IT)
  - Healthcare and Pharmaceuticals: innovative IT solutions in R&D and customer service driving demand for outsourcing
  - Telecommunications: rapidly changing technology driving IT outsourcing services.

- Demand for ADE outsourcing services has increased by CAGR of 1% in 2018 in line with growth in the overall construction industry. Architecture and design firms are mainly outsourcing drafting of design services to lower cost locations.

- There are no industry specific triggers for shifting to outsourcing. The key factors for companies considering outsourcing of their business functions are generally high cost of support functions, significant headcount and complex legal and operational structures.

- Regional demand overview:
  - Growth in the Americas is primarily driven by U.S buyer demand for nearshore and onshore delivery.
  - Japan and Australia are leading end-users of BPO and SSC services in Asia centering around IT, CRM and HR.
  - Western Europe is the major BPO end-user buyer mainly around high value IT and technology services, including cloud infrastructure and application development.
  - Easter Europe’s leading end-user buyers are between Russia and Poland with a trend pointing toward nearshore solutions.
  - Investors are increasingly valuing near-shoring solutions for more sophisticated processes, bringing them closer to home. Lower value-added services are naturally migrating toward the lowest-cost locations.
Clients outsourced 45% of existing operations, enabling transformation of business processes with limited effect. Long-term outsourcing clients expect to achieve wide-scale transformation through the uptake of digital technologies.

- During the past 5 years, the share of outsourced F&A functions in large international companies increased by 80%, while HR functions increased by 40%.
- F&A and HR operations carried out both in-house and in SSCs are continually being transferring to BPO service providers, therefore the share of services provided by SSC’s decreased by 13% for F&A and by 11% for HR.

**Average share of operations outsourced by large companies***

<table>
<thead>
<tr>
<th>Operations</th>
<th>BPO</th>
<th>SSC</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT support</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT administration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F&amp;A</td>
<td></td>
<td></td>
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<tr>
<td>HR</td>
<td></td>
<td></td>
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<tr>
<td>Purchases</td>
<td></td>
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<tr>
<td>Logistics</td>
<td></td>
<td></td>
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<tr>
<td>Vertical processes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Client support/telemarketing</td>
<td></td>
<td></td>
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<tr>
<td>Marketing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td></td>
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</tr>
</tbody>
</table>

**Expectation from BPO and SSC client now and in two years**

- Mainly a "lift and shift" of people and existing processes, with insignificant transformation of processes or their enabling innovative technologies
- A genuine transformation of business processes, but limited use of technology
- A wide-scale transformation of business processes enabled by digital technology tools / platform solutions

*88% customers with revenue more than USD 500 mln

Source: HFS Research, KPMG, Deloitte analysis © 2018 Deloitte & Touche LLC
Demand Americas: Growth in the Americas is predominantly driven by the U.S buyer demand for nearshore and onshore deliveries

**Traditional BPO end-user Spending in the Americas, 2017**

- **57 USD bln**
  - CRM (BPO/Bpaas) 52%
  - HR (BPO/Bpaas) 34%
  - F&A (BPO/Bpaas) 14%

**IT and Consulting end-User Spending in the Americas, 2017**

- **435 USD bln**
  - Cloud infrastructure 33%
  - Implementation services 22%
  - Application development 30%
  - Consulting services 14%

Source: Gartner End-User Spending Level forecast as at Q3 '18
© 2018 Deloitte & Touche LLC
Demand Asia: Japan and Australia are leading end-users of BPO and SSC services in Asia focusing on IT, CRM and HR

Traditional BPO End-User Spending in the Asia, 2017, USD bln

- Total BPO: 14
- CRM (BPO/Bpaas): 46%
- HR (BPO/Bpaas): 32%
- F&A (BPO/Bpaas): 22%

IT End-User Spending in the Asia, 2017, USD bln

- Total IT: 269
- Application Development: 31%
- Implementation Services: 29%
- Consulting Services: 7%
- Cloud Infrastructure: 33%

IT/BPO end-user spending in the Asia, 2017, USD bln

- 300+
- 200 – 300
- 100 – 200
- 0 – 100

Source: Gartner End-User Spending Level forecast as at Q3 '18
© 2018 Deloitte & Touche LLC
Demand Western Europe: In Western Europe, major BPO end-user spending is in IT high value and technology services, including cloud infrastructure and application development

Traditional BPO End-User Spending in the Western Europe, 2017, USD bln

- Total BPO: 16
- CRM (BPO/Bpaas): 22%
- HR (BPO/Bpaas): 57%
- F&A (BPO/Bpaas): 21%

IT/BPO end-user spending in Western Europe, 2017, USD bln

- Total IT: 311
- Application Development: 32%
- Implementation Services: 23%
- Consulting Services: 12%
- Cloud Infrastructure: 33%

Note: Spending level figures were displayed for countries that have available data

Source: Gartner End-User Spending Level forecast as at Q3 ‘18
© 2018 Deloitte & Touche LLC
Demand Eastern Europe: the key BPO end-users in EE are concentrated in Russia and Poland with a trend pointing toward to nearshore solutions.

Traditional BPO End-User Spending in the Eastern Europe, 2017, USD bln

<table>
<thead>
<tr>
<th>Service</th>
<th>Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total BPO</td>
<td>0.3</td>
</tr>
<tr>
<td>CRM (BPO/Bpaas)</td>
<td>21%</td>
</tr>
<tr>
<td>HR (BPO/Bpaas)</td>
<td>58%</td>
</tr>
<tr>
<td>F&amp;A (BPO/Bpaas)</td>
<td>21%</td>
</tr>
</tbody>
</table>

IT End-User Spending in Eastern Europe, 2017, USD bln

<table>
<thead>
<tr>
<th>Service</th>
<th>Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total IT</td>
<td>9</td>
</tr>
<tr>
<td>Application Development</td>
<td>31%</td>
</tr>
<tr>
<td>Implementation Services</td>
<td>21%</td>
</tr>
<tr>
<td>Consulting Services</td>
<td>17%</td>
</tr>
<tr>
<td>Cloud Infrastructure</td>
<td>31%</td>
</tr>
</tbody>
</table>

Note: Spending level figures were displayed for countries that have available data.

Source: Gartner End-User Spending Level forecast as at Q3 '18
© 2018 Deloitte & Touche LLC
ADE outsourcing demand grows proportionally to the construction industry. Architecture and design firms are mainly outsourcing drafting of design to lower cost locations.

Architecture and design companies typically provide customers with a wide range of services across landscape architecture, drafting, building inspection, geophysical surveying, mapping and operating testing laboratories. On-shore architecture firms, predominantly concentrated across the United States, Germany and the United Kingdom, are outsourcing the drafting phase of design to low-cost countries. Key off-shore architectural outsourcing companies are concentrated in India and the Philippines, representing almost the majority of the ADE BPO market. The main services rendered by ADE centers are: Engineering leasing, CAD creation, conversion and Architecture design.

**Market characteristics**

The ADE industry has a highly fragmented structure, as most firms are small scale contractors that operate in small narrow markets. Moreover, lack of knowledge, needed to implement design works, impedes adoption of outsourcing in the industry as of current. Despite the slow adoption of the work practice, architectural outsourcing providers are typically characterized by their geographic concentration and distribution including India, the Philippines and China. Skilled manpower, low labor costs and adequate infrastructure have helped leading outsourcing countries to compete in the global marketplace as service offerings are provided at a fraction of the cost.

**Current Trends**

**Construction Activity.** As architecture and design firms provide services on the front end of construction projects, the current state of economy is heavily linked to overall demand for these services in the market place.

**Digitalization and technology strategies.** Top EU Construction companies are strongly focused on internal start ups and partnerships with innovation ecosystems. Building Information Modelling and 3D/4D printing are services that are requested on a case by case basis.

**Green building movement.** Architecture firms are increasing their use of sustainable design principles and materials as the movement continues to gain traction among commercial, industry and residential clients.

**Global Architectural and Engineering Services Industry Vertical, USD bln**

The Architecture and Engineering market experienced growth rates of 1% between 2013-2018.

**Top 10 countries ranked by percentage of global market share of companies receiving Architecture and Engineering services**

**Demand by countries**

- United States: 12%
- Germany: 8%
- United Kingdom: 6%
- Brazil: 6%
- China: 5%
- Colombia: 4%
- Czech Republic: 4%
- Colombia: 4%
- Brazil: 6%
- China: 5%

Source: Dan & Bradstreet Hoovers, IBIS World © 2018 Deloitte & Touche LLC
Outsourcing is mostly demand by business services, manufacturing, financial services, telecommunication, healthcare and pharmaceutical industries

Global commercial industries ACV, USD bln

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional BPO</td>
<td>1.8</td>
<td>1.7</td>
<td>1.3</td>
</tr>
<tr>
<td>BPaaS</td>
<td>2.6</td>
<td>3.1</td>
<td>4.7</td>
</tr>
<tr>
<td>Business services</td>
<td>1.0</td>
<td>1.7</td>
<td>2.1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3.4</td>
<td>3.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Financial services</td>
<td>4.6</td>
<td>5.3</td>
<td>6.1</td>
</tr>
<tr>
<td>Telecom and media</td>
<td>0.8</td>
<td>1.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Healthcare and Pharma</td>
<td>0.8</td>
<td>1.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Other sectors*</td>
<td>0.8</td>
<td>1.4</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Source: ISG, Global sourcing and As-a-service market insights

Analysis

Traditional sourcing deals have decreased in size, and the average contract duration is down to 3.2 years. At this point in time, a deal size is between USD 5 million and USD 10 million that makes up a good 60% of the broader market.

The study shows that the EMEA and Asia Pacific are seeing more rapid growth in BPaaS. However, traditional sourcing has shown a negative trend mostly due to the decrease in infrastructure outsourcing and increase in nearshore outsourcing.

The Americas has enormous growth driven by smaller deal activities, especially with rapid activity in the area of Application Development and industry-specific BPO.

Note: Other services* comprises of energy, consumer packaged goods, retail and travel, transport and leisure
Contracts with ACV more than 5 million was analyzed

Triggers and rationale for outsourcing services

There are no industry specific triggers for shifting to outsourcing. Companies in different industries achieve particular parameters at different times in different countries. This in turn can fuel the need to outsource due to the following reasons:

• A large number of subdivisions (Oil and Gas, Metal, Automotive);
• High cost of support functions that can already be outsourced (all industries);
• Multiple legal entities with duplicated functions (all industries);
• High level of staff salaries in these functions relative to core staff (headquartered in WE, while key assets are out);
• Large middle manager level staff in the organization (all industries);
• High quality requirements for support functions (Pharma, Banking);
• Company's openness to innovations (Financial, Consulting, IT).

Source: Based interview with Head of SSC|BPO development and global finance transformation Deloitte
Business services companies are adopting a commoditized, value-orientated model while utilizing automation technologies to handle cost reduction and transaction based work.

**Key trends**

**Rise in technology and automation**
Advisory companies are adopting advance technologies that systemize certain consulting functionalities to significantly complement consulting specialist skills. Companies are shifting towards the cloud-based software solutions and automated accounting processes for their client portfolios.

**Increased partnership with market intelligence firms**
Strategic partnerships are being formed with market intelligence firms to provide valuable insights based on data collection work. This outsourcing initiative was intended to shorten time on the data collection work and effectively utilize time spent on formulating strategies.

**On site suppliers still favored over offshore ones**
High risk exposure is still the overriding factor behind buyers opting for direct, face to face engagement services. Online collaboration is driving the prevalence of innovation service delivery model to provide business services on demand.

**Market challenges**

**Highly complex contracting arrangements**
Complex outsourcing arrangements entail clarity around identifying responsibilities, payment terms and services delivered. Direct trade off and potential pitfalls between fixed price and time and materials contracts agreed on between the buyer and the supplier can arise. Each model has its strengths and weaknesses and plays a part in buying or selling services during contract negotiation terms. Time and materials contracts typically place the risk of variability on the customer, and therefore services are evaluated based the time spent. Whereas fixed contracts have stringent requirements and deadlines measured upon delivery of service.

**Shift towards upstream value chain services**
Business services are moving away from minimizing cost initiatives to value enhancing business propositions. High concentration of experienced firms are turning to technology advances to differentiate their value proposition and gain a strong foothold amongst their competitors.

**Workforce Management**
The seamless transition of workforce from the client to the service provider is a delicate, fine-tuned process in order to motivate the workforce to deliver the best possible end-service for the client's customers.

**What services and Why?**
- Business Services try to optimize costs by creating shared service centers and reallocating various processes including F&A, HR, CRM and IT.

Source: Deloitte analysis
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Traditional banking models are embracing new technologies to drive the headline customer-first approach in the industry.

Key trends

Product-focused to customer-focused agenda
The once traditional IT legacy infrastructure and platforms are becoming increasingly outdated and obsolete. Banks are rapidly shifting to integrating new advanced technologies such as RPA and Blockchain in conjunction with central banking solutions. Banks are open to improving their infrastructure platforms through digital collaboration initiatives.

Search for outsourcing service providers to enhance customer experience
Banks are looking to add and stabilize revenue streams while delivering outstanding customer experience at the lowest cost of ownership. With depleting top lines and rising costs, Banks are searching the market for service providers to increase revenue streams while cutting costs to give a reciprocated positive multiplier effect on improving customer experience.

Digitalization and mobility are driving banks to take their assets to market
Customers have an access to a multitude of channels and devices, and Banks are trying not to fall behind in keeping pace with providing an access anywhere at anytime. Banks are turning to monetization to shift legacy assets of their books and to convert them into variable costs. As a result, service providers are hired to apply technology and operation services to upgrade and improve the system, while taking the platform to market and on-boarding new customers.

Market challenges

Stringent Regulatory Landscape combined with technology advancement
Banks are heavily impacted both by economic cycles and stricter regulations, all of which are driving consolidation activities in the industry. Banks have felt significant pressure on their cost structures due to the regulatory frameworks enforced by central banking bodies across regions, and due to the significant investment in upgrading technologies to keep up and stay relevant with the digital advancements. Outsourcing regulations across geographic regions are not homogenous and require multiple, independent regulatory frameworks to establish an outsourcing arrangement.

Partner selection in line with risk appetite of the Bank
Significant effects on the Banks’ risk profiles and profitability must be taken into serious consideration throughout the assessment of outsourcing of critical activities. Outsourcing Independent service providers are selected in line with the Banking corporation’s outsourcing strategy and the restrictions set by its framework. Growing competition from Fintech companies, non definitive risk frameworks and increasing pressure from regulators of dubbed “high risk” outsourcing operations are critical assessment factors.

What services and Why?

- Financial sector outsources multiple processes (F&A, Legal, IT) that help in reducing costs and driving down regulatory risks.

Source: Deloitte analysis
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Manufacturers are carrying out heavy investment efforts to keep up, as technology advancements dictate the pace of change in the market

Key trends
- **Companies “proof of concept mode” to investigate and experiment with technology platforms**
  Manufacturers are digitizing their operations through the latest technology tools, mainly through the Industry 4.0 concepts, to achieve reduced costs, increased product quality and improved speed to market. Test running of online platforms linking physical to virtual environments.

- **Opportunity for flexible customer integration and customer specific adaption**
  To best deliver on the global outsourcing stage, manufacturers are optimizing supply chain processes to manage supply/demand and to reduce lead times, bringing down costs and developing service lines to improve customer satisfaction levels.

- **Implementing virtual / augmented reality**
  Improved speed of information delivery at the point of use – training, maintenance, inventory tracking devices. Instant, real time information is helping decision making in operating specific processes. Industry 4.0 solutions can help alleviate the pressure to relocate for cost reasons, but at the same time allow businesses to organize global structures more efficiently.

- **Emerging no collar workforce**
  Prominence of robotic process transformation (RPA), artificial intelligence (AI) and cognitive technologies are building a new culture of human/machine collaboration to reshape how work gets done, to deliver greater organizational value and set the stage for new products and business models.

Market challenges
- **Digital implementation across manufacturing enterprises is limited and narrow-based**
  Enterprises are still facing challenges in building a business case for embracing digital transformation within the fabric of their company.

- **Competence mismatch in utilizing advanced technologies to better efficient systems**
  Talent requirements and number of highly skilled professionals in advanced analytics remain unclear because of uncertainty about areas where staff is needed, the time required to source talent and the actual numbers. Digitization increases the importance of new technical skills, notably in the case of operating activities and mechanical working processes. Retraining and upskilling employees to operate new, process dependent systems making greater use of technology will prove to be a major challenge for current skill sets of existing employees.

- **Contraction of traditional sourcing market**
  Service providers will also need to show initiative to keep up with the acceleration of digital disruption to maintain their market offering. Replacement of traditional service providers with more agile, nice-specific providers will reap greater benefits in addressing manufacturers needs to advance in a digitally driven market.

- **Data overload**
  Many companies have challenge in managing large quantities of data and coordinating the findings with customer information systems. The vast majority of companies do not yet analyze their machinery and sensor data, for example to remedy defects in production or to enhance quality.

Source: Deloitte analysis
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What services and Why?
- Manufacturing companies are trying to optimize costs by creating shared service centers and reallocating various processes including F&A, HR, CRM and IT.
Pharmaceutical companies increase their contributions to drive new innovative initiatives in order to outstrip rising costs

**Key trends**

**Rising healthcare costs drive innovation**
One way in which costs are being kept down is through new healthcare innovations. ACV in the BPO market has increased by 21% year on year for the past 3 years while as-a-service ACV’s has increased by 18%.

**Trends in pharmaceutical in the BPO market**
Healthcare organizations have recently partnered with service providers to provide platform-based business services. Basic choice falls for selecting the right-shoring and opting to explore RPA.

**Trends in pharmaceutical in the SSC market**
Most of the companies prefer to establish SSCs to maintain expertise inside the company, centralize the processes and reduce security risks.

**As-a-service (Cloud services)**
With reference to the Healthcare industry, a heavily data-intensive IT outsourcing has increasingly high value adding prospects. Companies strive to have their work automated in order to deliver higher quality, consolidate data pools faster and free up resources to use that data in new ways. Most healthcare payer and provider organizations are in the early stages of using robotic process automation (RPA) internally.

**Market challenges**

**Accelerating MandA activity**
The ability to scale operations and maintain effective technology transfer between stages remains essential.

**Commoditization of mature service offerings**
Continued commoditization of common services has resulted in diminishing profit margins. Strategic customer relationships are becoming crucial.

**Patient consumerization driving new R&D models**
Traditional R&D models are beginning to evolve as pharmaceutical companies will increasingly rely on stable outsourcing relationships to increase speed to market in the patient-centric landscape.

**Pricing pressures on core customers**
Increasing pricing pressures on pharmaceutical companies, driven by growing buyer leverage and additional regulatory attention, will continue to make outsourcing attractive to customers. Cost constrained pharmaceutical and biopharma companies will look to outsourcing partners for creative terms and bulk agreements. To succeed, contracted organizations must also be increasingly flexible to work with amplified demands of many different customer types.

**What services and Why?**

- Pharmaceutical companies either have to enter into joint venture arrangements or outsource their operations to third parties in order to conduct business operations in the current dynamic market
Telecommunications leading transformation objective is profit growth

Key trends

Telecommunications infrastructure is the foundation for a new digital economy
ICT integrates the digital ecosystem, which is a global network of economic and social activities, such as the Internet, mobile and sensor networks. Development of this sector generates intensive potential in economic activity and social welfare.

Telecom enterprises are clear that the number one reason for transformation is to increase bottom-line profit
As the revenue of the core telecom communication services continues to decline, these change agents are critical in optimization of operations and enablement of new revenue streams. They include elements such as RPA and AI, IoT, and smart analytics. Telecom enterprises are clear that the number one reason for transformation is to increase bottom-line profit.

BPO
The service providers who will be the best partners to telcos will not only be those who bring deep subject matter expertise for the transformation enablement, but also those who excel at showcasing the best of new services. To support this, onshore, zero-distance co-innovation centers will become increasingly important to showcase what can be achieved.

SSC
Companies apply the Shared Services operational framework to ensure robust service delivery, better control, transparency and quality of service.

As-a-service (Cloud services)
The vast majority of publicly announced telecom deals were for IT outsourcing.

Market challenges

The telecommunication industry is going through a transformational phase of development – to acclimatize itself per the new technological and cloud trends
Telecommunication companies are decentralizing the purchasing and decision powers, both internally and externally, because of the essential agile reconfiguration of the cloud. Telecommunication providers need to make upgrades to their IT and connectivity infrastructure and focus on providing data and voice services that are high in quality, reliable, and affordable.

Source: Deloitte analysis
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Travel is heavily angled around customer experience. Traditional travel suppliers are competing with online market entrants to find unconventional ways to be more relevant to their customers across their travel journey.

**Key trends**

**Multichannel online access is driving growth**
Industry players are investing in mobile and computer platforms across multiple channels to increase customer interaction. Changing and new emerging customer preferences are shaping the front end of customer interface platforms. Valuable insights gained from data collection help identify some key drivers behind consumer choices and behavioral patterns.

**Increased demand for commoditized services**
Personalized services aligned to in-demand customer needs allow enterprises to achieve unique market positioning. Addressing unique customer needs under a focused lens will generate strong social media presence and likability amongst customers.

**Limited digital functionality of digital devices will exponentially increase over time**
The recent success of companies brought about through the empowerment of customers will only be increasing as the companies will improve customer experience through cloud and automation technologies.

**Introduction of Chatbots**
Chatbot is an interactive service powered by rules and artificial intelligence. Chatbot possess high potential efficiency gains both in terms of time and money for large customer service teams to handle large customer requests.

**Market challenges**

**Omni-Channel**
Customers are interacting across multiple communication channels that lack the clear transition from service provided to the sale made due to the lack of functionality of applications. There is a lack of clear end to end service offerings across all channels that ensure seamless contact with the customer.

**Emerging Business Models**
Alternative online travel agencies are breaking the traditional mold of conventional holiday bookings. Personalized recommendations are offered based on a customer’s profile data, content consumption and spending pattern. Online travel agencies are also leveraging messaging platforms, as well as virtual reality and 3D technologies, for the engagement and communication with customers to simplify holiday booking processes.

**Full potential of mobile devices yet to be utilized**
Companies are yet to fully embrace unconventional, disruptive avenues to deliver service to customers in sync with their preferred mode of communication. Companies are facing a challenge of integrating into their customer ecosystems services and products that fit specific customer requirements.

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Source: Deloitte analysis
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Business Process Outsourcing & Shared Service Centers
Investment Potential research development
Global BPO and SSC Market: Supply

- The traditional BPO market amounts to USD 175 billion and is represented by more than 3,000 large scale providers. The BPO market is highly concentrated among the Top-25 companies with 55% of the market share, employing more than two million people.

- Currently, there are more than 7,000 Hybrid SSCs operating worldwide using both internal and external services.

- Key players of the BPO and SSC markets are concentrated in Asia including China, India and Malaysia serving generally Americas. The major European service providers are located in Poland, the UK and Spain serving WE countries. WE providers are losing their market share to EE and CIS competitors due low cost service offerings.

- Analysis of the selected outsourcing provider countries and their success factors have revealed the following findings:
  - **Poland** – 1,200 centers and 279,000 FTEs. Extensive government support promoting foreign investors as important contributors of economic development. Main success factor was government incentives.
  - **Romania** - 250 centers and 120,000 FTEs. Mostly concentrated in IT and F&A and attracted customers by its low costs and cultural and geographic proximity to Europe. Main success factor was industry specialization.
  - **Portugal** – 100 centers and 40,000 FTEs. Highly-qualified workforce, strategic location, political stability, well-developed infrastructure. Main factor was cheap well-skilled labor force.
  - **Estonia** – 80 centers and 8,000 FTEs. Nordic business culture and its membership in market unions and trade organization, with heavy specialization in IT and software development. Main factor was specialization towards IT services.
  - **Israel** – 300 R&D centers and 240,000 FTEs. The technology sector is dominated by large multinational corporations employing almost half of Israel's high-skilled tech labor force. Main factor was presence of US multinational corporations.
Concentration of leading BPO and SSC centers around the world. USA, India and China makes up to 40% of the market.

Global Distribution of BPO/SSC market

Note: the Hybrid SSC outsourcing model incorporating the traditional SSC model and third party outsourcing is on the rise constituting 70% of delivery centers worldwide.
Asia is the leading market with low labor costs, however Europe has more to offer in terms of time and geographic proximity and European language competencies.

Global offshore service locations, 2017

Source: Gartner, Evaluate Offshore/Nearshore Countries and Cities for Outsourcing, Shared Services and Captives, 2017

The figure above utilizes Gartner’s published scoring when benchmarking countries based on selection criteria, along with cost and labor pool data, to summarize the high-level positioning of the primary countries in the region.

**Labor pool.** The size of the bubble is based on Gartner estimates of the overall size of the service labor pool (for exported business and IT services) delivered through outsourcing, shared services or captive centers in the country.

**Cost.** The y-axis (Cost) indicates the relative cost of labor in the country.

**Composite of remaining eight criteria.** The x-axis (Maturity) is an aggregation of the eight criteria (other than cost and labor pool) from the published Gartner ratings — namely, educational system, infrastructure, government support, global and legal maturity, political and economic environment, language, cultural compatibility, and data and intellectual property (IP) security and privacy.

Source: Gartner, Evaluate Offshore/Nearshore Countries and Cities for Outsourcing, Shared Services and Captives, 2017, Deloitte analysis © 2018 Deloitte Touche LLC

Asian and European market review

- UK, Germany and France are leading Western European countries for outsourcing, however focus is shifting to Eastern Europe with 25%-50% cheaper labor costs.
- India remains the largest source of IT talent for exported skills with 15-25% lower labor rates compared that of Eastern Europe, while China continues to make extensive investments to leverage its scale to compete for coveted market share.
- Economic stability, time zone, geographic proximity and knowledge of European languages, other than English (French, German), gives Europe an advantage to compete with Asian market.
- For research purposes, the focus will be kept on CEE countries that are the most appropriate to the Georgian market. These countries possess the highest potential to compete for outsourcing services in the Eastern European market.
Western European providers are losing their market share to EE and CIS competitors due to lower costs of services.

Key findings

Eastern Europe remains one of the most vibrant software development destinations due to constant growth and development of its IT sector and a high level of digital technologies adoption. A strong educational system that yields highly skilled workforce, capacity for innovation, favorable business climate, modern infrastructure, and moderate costs of services are some of the prime considerations that influence the choice of an outsourcing provider.

The total market size of the EE region equals to USD 13 billion in 2017 representing 1.2% of the total global market. Average FTE per center in EE in 2016 was 300 FTEs.

In 2016, there were more than 1,700 centers in the EE region, with the majority of them located in Poland – more than 900 centers. However the highest average size of service providers is in Hungary employing in excess of 450 employees. The total FTEs in the region comprises of approximately 480,000 people.

Key providers in EE:

- **The Czech Republic** is a mature business location, an EU member, with well-developed infrastructure, a highly skilled labor force and a stable political situation.
- **Poland** has a high nearshore service capability, serving multinational corporations with a focus on the financial services industry vertical. 60% of the labor pool is spread across Warsaw, Krakow and Wroclaw.
- **Russia** has an advanced software development and IT service export industry, large pool of STEM graduates and a high concentration of 75% of delivery centers based in Moscow.

### BPO and SSC centers in CEE

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of service centers</th>
<th>Number of FTE in service centers (“000”)</th>
<th>Employment growth in service centers (YoY 2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>936</td>
<td>25%</td>
<td>15%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>212</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td>110</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>Romania</td>
<td>250</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Slovakia</td>
<td>82</td>
<td>9.5%</td>
<td></td>
</tr>
<tr>
<td>Estonia</td>
<td>41</td>
<td>8.5%</td>
<td></td>
</tr>
<tr>
<td>Latvia</td>
<td>7</td>
<td>7.8%</td>
<td></td>
</tr>
<tr>
<td>Lithuania</td>
<td>60</td>
<td>13%</td>
<td></td>
</tr>
</tbody>
</table>

Source: CBRE report, Business services destinations in Central Europe 2017

### Process

Most of the provided services are **HR, F&A and IT**

### Issues

Low unemployment rate in EE can cause labor shortages and the competition on the market for the pool of talented resources that may in turn put an upward pressure on the labor cost and increase what employees expect from their employers.
The majority share of BPO and SSC providers are multifunctional.

<table>
<thead>
<tr>
<th>Vendor</th>
<th>BPO category</th>
<th>FTE's</th>
<th>FTE per center</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tata Consultancy</td>
<td>Multifunctional*</td>
<td>395,000</td>
<td>1,391</td>
</tr>
<tr>
<td>2. IBM</td>
<td>Multifunctional</td>
<td>366,000</td>
<td>7,320</td>
</tr>
<tr>
<td>3. Teleperformance</td>
<td>Multifunctional</td>
<td>190,000</td>
<td>2,500</td>
</tr>
<tr>
<td>4. Atento</td>
<td>CRM</td>
<td>151,000</td>
<td>1,573</td>
</tr>
<tr>
<td>5. Atos</td>
<td>Multifunctional</td>
<td>120,000</td>
<td>1,111</td>
</tr>
<tr>
<td>6. Convergys</td>
<td>Multifunctional</td>
<td>115,000</td>
<td>810</td>
</tr>
<tr>
<td>7. Accenture</td>
<td>Multifunctional</td>
<td>100,000</td>
<td>472</td>
</tr>
<tr>
<td>8. Concentrix</td>
<td>Multifunctional</td>
<td>100,000</td>
<td>1,190</td>
</tr>
<tr>
<td>9. Conduent</td>
<td>Multifunctional</td>
<td>93,000</td>
<td>2,325</td>
</tr>
<tr>
<td>10. Genpact</td>
<td>Multifunctional</td>
<td>78,000</td>
<td>3,120</td>
</tr>
<tr>
<td>11. Capita</td>
<td>Multifunctional</td>
<td>75,000</td>
<td>8,333</td>
</tr>
<tr>
<td>12. Sitel</td>
<td>Multifunctional</td>
<td>75,000</td>
<td>500</td>
</tr>
<tr>
<td>13. FIS</td>
<td>Multifunctional</td>
<td>55,000</td>
<td>423</td>
</tr>
<tr>
<td>14. SYKES</td>
<td>Multifunctional</td>
<td>55,000</td>
<td>833</td>
</tr>
<tr>
<td>15. ADP</td>
<td>Multifunctional</td>
<td>52,000</td>
<td>468</td>
</tr>
<tr>
<td>16. TTEC</td>
<td>Multifunctional</td>
<td>50,000</td>
<td>562</td>
</tr>
<tr>
<td>17. Fiserv</td>
<td>F&amp;A</td>
<td>24,000</td>
<td>2,000</td>
</tr>
<tr>
<td>18. Samsung SDS</td>
<td>Multifunctional</td>
<td>22,871</td>
<td>347</td>
</tr>
<tr>
<td>19. First Data</td>
<td>F&amp;A</td>
<td>22,000</td>
<td>162</td>
</tr>
<tr>
<td>20. Paychex</td>
<td>HR</td>
<td>13,000</td>
<td>99</td>
</tr>
<tr>
<td>21. TSYS</td>
<td>Multifunctional</td>
<td>11,000</td>
<td>138</td>
</tr>
<tr>
<td>22. Broadridge</td>
<td>Multifunctional</td>
<td>10,000</td>
<td>196</td>
</tr>
<tr>
<td>23. West</td>
<td>Multifunctional</td>
<td>10,000</td>
<td>1,429</td>
</tr>
<tr>
<td>24. Transcosmos</td>
<td>Multifunctional</td>
<td>10,000</td>
<td>104</td>
</tr>
<tr>
<td>25. CDK Global</td>
<td>Multifunctional</td>
<td>8,500</td>
<td>274</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>2,201,371</strong></td>
<td><strong>965</strong></td>
</tr>
</tbody>
</table>

Note: *Listed multifunctional company provide two or more services across F&A, HR, CRM, IT

Source: SSON Analytics
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The vast majority of BPO and SSC market is made up of multifunctional BPO centers comprised of serving F&A, CRM, HR and IT services. 70% of global leading SSC providers are multifunctional. The average BPO has approximately a 1,000 FTEs, while the average SSC has at least 500 FTEs.

The total revenue of the top-25 traditional outsourcing companies make up to USD 87 billions in 2017.

The top-25 BPO companies constitute to 55% of the global BPO market where the vast majority of companies are multifunctional.

More than 2 million people are employed at the leading 25 BPO companies.

The largest BPO companies have more than 2,200 offices across 6 continents.

The listed companies provide services across IT, HR, F&A, CRM and ADE service areas.

A Samples of large ADE players

<table>
<thead>
<tr>
<th>Vendor</th>
<th>Country</th>
<th>BPO category</th>
<th>FTE's</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sourcefit</td>
<td>Philippines</td>
<td>Multifunctional</td>
<td>~500</td>
</tr>
<tr>
<td>2. HiTech CADD services</td>
<td>India</td>
<td>ADE</td>
<td>~500</td>
</tr>
<tr>
<td>3. ArchiGlobal</td>
<td>Philippines</td>
<td>ADE</td>
<td>~200</td>
</tr>
<tr>
<td>4. Geometrix</td>
<td>India</td>
<td>ADE</td>
<td>~200</td>
</tr>
<tr>
<td>5. Magellan Solutions</td>
<td>Philippines</td>
<td>ADE</td>
<td>~200</td>
</tr>
</tbody>
</table>
BPO and SSC provider country profile
Poland sits within the top 5 mentioned locations considered by companies as new headquarters or SSCs given its prolific rise since its accession to the EU.

Country profile
- **Country**: Poland
- **Region**: CEE
- **Population**: 38.5 million
- **GDP per capita**: Euro 12,000
- **GDP growth rate**: 4.6%
- **Unemployment rate**: 6.3%
- **Inflation rate**: 1.6%

Country snapshot
Poland has evidently become an important nearshore destination for the UK and continental Europe, aided primarily by its excellent geographical position and close time-zone alignment with clients based in Western Europe. Its 12 international airports ensure that all major European cities are just a two to three hour flight away, with London to Poznan for example taking a mere 1 hour and 55 minutes.

The most important **three target countries** for which services carried out in Poland are: Germany, UK and USA.

Key Success Factors
- **Economic stability**: Strong standing the international community like the WTO and OECD.
- **Low labour costs**: Labour costs were the primary driver for international corporations looking to expand operations into Poland. Given the improved country situation, economy development and political stability over the years, Poland has moved to more value adding services across its Business Services Hubs.
- **Experienced Talent**: Customer support and Accounting roles are the most common worker profiles in Poland. Increasing traction of shared service centers with increasing hiring rates of industry specific employees. Talent pool for software developers is in high demand making positions hard to fill.
- **Office Market**: Strong supply of new office spaces and increasing competition for the development of office spaces in the three largest cities in Poland, such as Warsaw, Krakow and Wroclaw, are keeping rent prices at a relatively low level.

Number of **Business Shared Centers (SSCs, BPO, IT, R&D)**: 1,236
Estimated Number of **FTEs**: 279,400

Main business service centers locations

<table>
<thead>
<tr>
<th>City</th>
<th>Office stock m2</th>
<th>Monthly Rent prices (Euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warsaw</td>
<td>51.3K</td>
<td>10.5 – 14.5</td>
</tr>
<tr>
<td>Krakow</td>
<td>1.1 mln</td>
<td>13 – 13.6</td>
</tr>
<tr>
<td>Wroclaw</td>
<td>0.91 mln</td>
<td>12 – 13</td>
</tr>
<tr>
<td>Tri-City</td>
<td>0.69 mln</td>
<td>12.75 – 14</td>
</tr>
</tbody>
</table>

Note: “K” indicates figures in thousands

Country association
Polish Investment and Trade Agency is an investment agency of the Polish government that offers guidance on the investment site selection, provides information on legal, economic and investment matters and aids in the identification of suppliers and contractors.

Source: Deloitte analysis, N-IX IT market in Eastern Europe, ABSL Business service sector 2018
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The Polish BPO and SSC Market

The biggest investment attraction was a development of SEZ areas throughout the country

Evolution Snapshot

Poland has the ninth-largest economy in the European Union in terms of nominal GDP (EUR 466 bln in 2017) and has fastest growing economies in the EU in the past ten years. One of the most important branches contributing to the growth of Poland’s economy is the business services sector. The industry’s impressive growth in recent years enabled Poland to strengthen its standing among the world’s most important locations for investments into (BPO, SSC, IT and R&D) business services centers.

2004

US and Nordic investors
Interest

Accession to EU and compliance with EU regulations attracted the biggest wave of investments in the country. 2008 World crisis encouraged many US and WE investors to look for low cost locations and resulted in a boom of Poland’s outsourcing business.

Poland’s growth model was based on productivity gains, dynamic exports, strong internal demand, EU funding, and foreign direct investment (FDI).

2010

Increased scope of service areas

Along with the BSS development in IT and F&A more sophisticated and essential services have been moving to Poland. Nowadays many mid-office operations like Research and Development, Valuation or Risk Management are transmitted to Poland and the government is offering number of incentives and support that increases attractiveness of the country and fosters sector development.

2012

Human capital

Poland, with the fastest GDP per capita growth in the CEE region, attracts labor from CIS countries, mostly from Ukraine and Belarus, which in turn increases the size and diversity of the Polish labor market. In 2012, approximately 200,000 foreigners were working in Poland temporarily. These workers typically do not take jobs away from Poles, but rather fill in capability gaps—for example, in positions requiring specific technical or IT skills, and in positions requiring proficiency in certain languages.

2018

Investment Environment

The policy of investor incentives gives special preference to the business services sector as one of the priority growth areas of the Polish economy. Investors planning this type of investment can count on support in the form of non-returnable subsidies, tax exemptions, or a wide package of instruments for their activities.

The recent incentive introduced by the government in 2018 offers investors tax exemption option for investments in any location in Poland as part of a Polish Investment Zone (PIZ). Incentive will replace SEZ.

Source: Deloitte analysis, ABSL Business service sector in Poland 2015, 2018
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Government incentives, Poland.
Polish R&D activities supported by the government increasingly become financed by the private sector thus fostering interest among global market players

**Tax benefits**

**Income tax exemption in a Special Economic Zone (SEZ)** - CIT exemption on income earned from their activities up to the end of 2026.

**Income tax exemption for investments in any location in Poland as part of a Polish Investment Zone (PIZ)** – soon, in the second half of 2018, investors will be able to obtain income tax exemption for from 10 to 15 years in connection with implementing new investments, regardless of where they are created. PIZ will replace SEZ.

**Support for R&D activities** – subsidies from EU funds (making it possible to finance both R&D implementation processes and purchases of infrastructure and equipment needed to achieve that goal) and Tax relief for research and development activities (R&D tax Relief) – qualifying business processes conducted in BPO/SSC center and R&D centers as R&D activities makes an additional (two-fold) deduction of the costs of these types of work possible from the tax base.

**Other Incentives**

**Direct governmental cash grant (MASP)** - governmental grants under the Program for Supporting Investments of Major Importance to the Polish Economy (Multi-Annual Support Program) – direct subsidy for employment and/or investment outlays allocated to implementing new investments perceived as key for the Polish economy. Among the investments supported in “priority sectors” are: business services and R&D activities.

**Conditions and amount of support**

**Support for creation of new job places**
Companies creating minimum 250 jobs and investing Euro 350K are subject to getting Maximum level of governmental state aid, excluding local support from € 750 to € 3,700 per employee.

**Support for new investments**
- Companies creating minimum 200/500 jobs and investing Euro 1,800K are subject to getting Maximum level of governmental state aid, up to 10% of eligible costs, depending on the location and size

**Tax system**

the provisions of EU directives have been implemented into the Polish taxation system

<table>
<thead>
<tr>
<th>Real Estate tax (Euro per m²)</th>
<th>VAT system</th>
<th>Social Security Tax**</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.36 2018</td>
<td>23% 2018</td>
<td>9.8% 2018</td>
</tr>
<tr>
<td>19% 2018</td>
<td>19% 2018</td>
<td>18% 2018</td>
</tr>
</tbody>
</table>

Source: Polish investment trade agency

Note:
* 19% WHT, with the option of an exemption or lower rate
** Retirement insurance

**General approach**

The value of support is calculated on the basis of investment outlays or labor costs – and constitutes the product of outlays or 2-year costs incurred in a new job and the regional intensity of public aid. Depending on the location of a project and the category of the applicant, businesses can count on a subsidy at a level of from 10 to 70%.
BPO and SSC provider country profile
Romania’s well educated, highly skilled IT workers and entrepreneurs have strong expertise in software development and Internet-based services. Costs and cultural risk are low, legal risk is declining setting up an encouraging future in the BSS market.

Country profile
Country: Romania
Region: CEE
Population: 20 million
GDP per capita: 12,000
GDP growth rate: 7%
Unemployment rate: 5%
Inflation rate: 1.3%

Country snapshot
According to the ABSL survey, IT and F&A are the main services provided out of Romania followed by Customer operations and HR. Romania typically acts as a nearshoring hub serving the majority of its clients in the region. The vast majority of companies are embracing and using some form of automation in their service offerings in order to springboard into the next level of efficiency. In addition to English language skills, services are being increasingly delivered in French, German and Italian across all business services areas.

Number of Business Shared Centers (SSC’s, BPO, IT, R&D)
200

Estimated Number of FTEs
121,400

Main business service centers locations

<table>
<thead>
<tr>
<th>City</th>
<th>Office stock m²</th>
<th>Monthly Rent prices (Euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bucharest</td>
<td>150,000</td>
<td>12–14</td>
</tr>
<tr>
<td>Cluj-Napoca</td>
<td>120,000</td>
<td>12–14</td>
</tr>
<tr>
<td>Iasi</td>
<td>55,000</td>
<td>12–14</td>
</tr>
</tbody>
</table>

Source: Invest in Romania Government 2018 report, ABSL, ISSUU's SSC directory for the CEE region
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Romanian outsourcing market

Romania has been fueled by low labor cost and ease of setting up new BSS centers. As costs remain a primary value driver, new decision making factors are centered around quality of workforce, multilingual capabilities and advanced IT driven services.

Evolution Snapshot

Romania has experienced growth in the number of locally established operations. Having joined as a full member of the EU in 2007, Romania was seen as an attractive cost cutting destination from the viewpoint of international companies. Innovation, increased scope of services and widening usage of automation have been recurring themes as of recent in Romania.

2007
Member of the EU

EU accession in 2007 provided stimulus to the economy, however effects of the 2008 recession caused consumer demand to significantly decrease. Early entrants like Continental, Renault, Siemens and Alcatel set up their single functional SSC/BPO centers as greenfield investments.

2011

Increased scope of service areas

Accelerated growth of both IT services and Infrastructure support. Romania had been one of the fastest growing IT markets focusing on financial and public sectors with Huawei, HP and Societe Generale expanding its service lines among existing SSCs into multi function areas.

In 2011, the world’s largest office furniture manufacturer, Steelcase entered the Romanian market setting up a cross-functional hub supporting operating markets in the EMEA and North America.

In 2015, the American food manufacturing giant opened a shared service centers generating jobs in different areas such as HR, IT, Finance and Distribution. Entering 2018, the manufacturing giant service offering branched out to supply chain and, is handling local as well as supply chain activities throughout Europe.

2016

State support

Investment support from the government in the form of state aid and fiscal incentives granted investors tax exemptions and partial subsidizing of large scale industrial, scientific or technological investments from 2016 onwards. The outsourcing market saw rapid activity in terms of SSC players, both through the expansion of existing operations and new market entrants.

In 2016, Germany’s Leoni, whose Romanian manufacturing operations employ more than 17,000 people opened its first shared service center in Cluj Napoca, where it centralized all its HR operations of the group.

2018

IT solution driven growth

Investments primarily into the Automotive, IT and Communications and Aerospace industries totaling 28 million euros. Adoption of 4th generation technologies increasingly present amongst outsourcing companies. Companies looking to improve process performance to innovation, differentiation and process re-engineering.

Source: ABSL; KPMG; Invest in Romania Reports
© 2018 Deloitte & Touche LLC
Government incentives - Romanian Government
Funding from the EU has been the backbone of stimulating the Romanian economy since its accession into the European market

**Investment Support Packages**

A state aid scheme set forward by the Romanian government allocated a EUR 1.5 billion budget between 2014 – 2020 for the purpose of promoting and facilitating investment into the country. The main purpose of these state aid schemes was to stimulate investments into the local economy. The eligibility criteria for the state aid schemes states that the SSC must be the initial investment in Romania. Further, the SSC must be viable and in line with the company business plan. The state investment program falls under two categories of investment namely:

Minimum EUR 10 million investment
- Construction of new buildings
- Rent costs for existing buildings
- CAPEX covering technical installations and tools
- Acquisition of intellectual property

Minimum of 10 jobs per location
- Salary costs registered for a second consecutive year resulted as direct consequence of the investment.
- Salary costs are compromised of gross average annual salary plus benefits

**Fiscal Incentive**

Investors that set up manufacturing locations or offices in an industrial, scientific or technological park benefit from:
- Exemption on land, building and urban planning tax
- Taxes charged for changing land destination

**Romanian tax system**

The Romanian tax system is in line with its government’s investment promotion and investment attraction efforts in R&D and IT through the means of tax exemptions and deductible expenses.

**VAT system**

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>24%</td>
</tr>
<tr>
<td>2016</td>
<td>20%</td>
</tr>
<tr>
<td>2017</td>
<td>19%</td>
</tr>
<tr>
<td>2018</td>
<td>18%</td>
</tr>
</tbody>
</table>

**Corporate Tax**

2015: 24%
2016: 20%
2017: 19%
2018: 18%

**Dividend Tax Rate**

2015: 19%
2016: 18%
2017: 17%
2018: 16%

**Reinvested Profit Tax**

2015: 18%
2016: 17%
2017: 16%
2018: 15%

**Income Tax**

Starting from January 2018
Employee: 35%
Employer: 2%

**Social Security Tax**

Starting from January 2018
- Employee: 10%
- Employer: 10%

**Note:** Starting from January 2018

**Business engaged in IT and Communications – 0% income tax applies to the following employees:**
- Business Analyst – 14 technical specialization available
- Employee is hired as a software engineers/ programmer/ software analyst position
- Annual revenue per exempted employee must be in excess of USD 100,000

**0% income tax applies to businesses engaged in R&D activities**

Deduction of R&D eligible expenses:
- Depreciation of R&D equipment, salaries for R&D personnel; 50% of these expenses can be deducted from the taxable income

Source: Deloitte analysis, Invest in Romania 2018 Report
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BPO and SSC provider country profile
Estonia is an attractive outsourcing destination due to the good infrastructure, highly educated labor pool with strong software development skills. Will likely remain a minor player however heavily specialized toward IT and Software Development.

Country profile
Country: Estonia
Region: CEE
Population: 1.3 million
GDP per capita: USD 19,700
GDP growth rate: 3.6%
Unemployment rate: 5.3%
Inflation rate: 3.4%

Country snapshot
Estonia is an established business services hub focusing on IT, Customer operation and F&A services with growing number of delivery centers providing supply chain, HR and process automation services. Further, Estonia also specializes in government services where the LISA center for operational management of large-scale IT systems and NATO's Cyber Defense Centre of Excellence are stationed. Services provided from Estonia serve clients based in the Nordics, Western Europe and the United States.

Number of Business Shared Centers (SSC's, BPO, IT, R&D)
80
Estimated Number of FTEs
8000+

Main business service centers locations

<table>
<thead>
<tr>
<th>City</th>
<th>Monthly Rent prices (Euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tallinn</td>
<td>12.5 – 16</td>
</tr>
<tr>
<td>Tartu</td>
<td>13</td>
</tr>
<tr>
<td>Parnu</td>
<td>6.5 – 11.5</td>
</tr>
</tbody>
</table>

Source: Enterprise Estonia
© 2018 Deloitte & Touche LLC
Evolution of the Estonian Outsourcing Market

Estonia, with the strong Nordic Business culture and a member of market unions and trade organization, is moving towards value adding, knowledge based outsourcing work given its pragmatic attitude towards digital solutions.

**Evolution Snapshot**

Estonia’s attractive nearshoring attributes were highlighted by the fact that many Nordic companies set-up shared service centers out of Tallinn in the 1990s. Conformation to the EU directives enabled non-EU fund manager to set up a structure based in Estonia to access the single European market. Fiscal incentives, strong start-up culture and IT have all become key value drivers across all industries in the Estonian outsourcing market.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nordic Interest</td>
<td>EU Directives</td>
<td>Investment Environment</td>
<td>E-Residency Programme</td>
</tr>
</tbody>
</table>

Scandinavian manufacturing companies showed interest in Estonia mainly due to cost savings in labor and freight spending as well as improved control over the supply chain. Shorter supply chains, enabling more flexibility, reduced inventory and better customer service. Facilitating communications in both the same time zone and language brought instant benefits to Nordic companies.

Implementation of UCITS IV and AIFMD* EU directives positioned Estonia as an attractive transfer destination country for the specific/small scale administrative functions. For bigger organizations transferring specific non-core functions, Estonia was used as a base for building UCITS structures for non-EU businesses. Fund managers from neighboring non-EU countries targeted Estonia to launch a UCITS structure.

Government incentives focused on the IT sector given strong pragmatic attitude to IT solutions. Given the local success stories of Skype and TransferWise, start-ups are encouraged to address the global market. With the NATO center of excellence alongside Kuehne + Nagel setting up shared service centers increased the prospective long term outlook of providing services out of Estonia.

The E-Residency Programme** gives foreign entrepreneurs access to government services. In 2015, Estonia started to take E-Residency applications and give ID cards to foreigners, providing them access to government services. E-Resident proved convenient and quickly gained traction for entrepreneurs wanting to set up their start-ups in Estonia in order to enter the European market.

Note:

* the objective of which was to create a single European market for retail investment funds, while at the same time ensuring a high level of investor protection

**The Republic of Estonia is the first country to offer e-residency. E-Residency is a transnational digital identity available to anyone in the world interested in administering a local independent business online.
Government Incentives - Estonia

The Estonian government is highly receptive to all enterprises along the business size scale catering for start ups, large businesses and foreign businesses. A highly competitive tax system boosts the profile of entering and doing business from the Estonian market for foreign nationals.

**Investment Incentives**

With traditional strengths lying in IT and Finance horizontal service offerings, the Estonian government has prioritized attracting foreign investors in logistics and infrastructure projects on an international scale. In order to create high-value, highly-paid service areas, the Estonian Government is supporting companies looking to set up Shared Service and Research + Development Centers for up to 2 million euros in total. In doing this, the government’s goal is to provide a supporting mechanism for companies who want to create their own group or establish a center in Estonia that provides support services to their parent company.

**Foreign Businesses**

The Estonian Government encourages foreign investment through liberal regulations for exports. The government is seeking to attract foreign investments in Estonia allowing 100% ownership. The Estonian Government promotes an equal treatment of foreign and Estonian companies in matters of incorporation.

- Foreign companies are not subject to any tax reinvested profits
- The Estonian banking system allows for almost all operations to be conducted online
- Estonia benefits from being a member of the EU, WTO, NATO and OECD
- Total aid granted to an enterprise over the current and three fiscal years exceeds EUR 200,000 or EUR 500,000 in case of aid for undertakings providing services of general economic interest

Estonia uses Euro as its primary currency from 2011 which has lead to market liberalization and a sustained increase in investment levels thus making investments more accessible for foreigners.

**Tax system**

Estonia is ranked 1st in the OECD’s most competitive tax system with its 0% corporate income tax on retained or reinvested profits, 14-20% income tax on distributed profits and online tax reporting

<table>
<thead>
<tr>
<th>VAT system</th>
<th>Social Security Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>20%</td>
<td>33%</td>
</tr>
<tr>
<td>20%</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Corporate Tax</th>
<th>Dividend Tax Rate</th>
<th>Reinvested Profit Tax*</th>
<th>Income Tax*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017/2018</td>
<td>20%</td>
<td>0%</td>
<td>10%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Note: *Starting from January 2018

Source: Estonian Tax and Customs Board
© 2018 Deloitte & Touche LLC
BPO and SSC provider country profile
Portugal is an established on-shoring location for companies located in Western Europe, by increasing its attractiveness through a technologically driven business environment.

<table>
<thead>
<tr>
<th>Country profile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country: Portugal</td>
</tr>
<tr>
<td>Region: WE</td>
</tr>
<tr>
<td>Population: 10.4 million</td>
</tr>
<tr>
<td>GDP per capita: Euro 18,737</td>
</tr>
<tr>
<td>GDP growth rate: 2.3%</td>
</tr>
<tr>
<td>Unemployment rate: 6.7%</td>
</tr>
<tr>
<td>Inflation rate: 1.6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Success Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of Staff</td>
</tr>
<tr>
<td>Geographical Location</td>
</tr>
<tr>
<td>Accessibility</td>
</tr>
<tr>
<td>Political Stability</td>
</tr>
<tr>
<td>Office Market</td>
</tr>
</tbody>
</table>

According to the EY, "Business in Portugal survey", Portugal is a popular business center destination due to the reputable universities that deliver well educated young workers in several service areas (IT, Engineering, Management, etc). Additionally, the Portuguese aptitude for foreign languages such as Spanish and German is viewed favorably by companies.

Portugal is strategically positioned between Europe, Africa and the Americas making the country an attractive location for BSS centers.

Portugal is an attractive country due to well developed infrastructure, several international airports, preferable time zone and proximity to American continent.

Portugal is considered a stable country, ranking 3rd in a Global Peace Index for 2017.

Prime office rent prices in comparison to other WE European countries are relatively lower.

<table>
<thead>
<tr>
<th>Country snapshot</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portugal is a western country in Europe located on the Atlantic side of the Iberian Peninsula. Portugal is strategically positioned between Europe, Africa and America in UTC/ GMT time zone.</td>
</tr>
<tr>
<td>Maximum 4 hours flight distance from main European cities and is close to American continent.</td>
</tr>
<tr>
<td>The most important three target countries for which services are carried out in Portugal are: Germany, Spain and the USA.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Main business service centers locations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Porto FTE 3.6K BSS centers 25</td>
</tr>
<tr>
<td>Lisbon 22.5K 55</td>
</tr>
</tbody>
</table>

Note: *K* indicates figures in thousands

<table>
<thead>
<tr>
<th>City</th>
<th>Monthly Rent prices (Euros)* per sq. meters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lisbon</td>
<td>18.5</td>
</tr>
<tr>
<td>Porto</td>
<td>12</td>
</tr>
</tbody>
</table>

Note: *prime rent prices

Source: ABSL Europe’s business service destinations, 2016, AICEP Portugal Global – Portugal main economic indicators 2018
© 2018 Deloitte & Touche LLC
Evolution of the Portuguese Outsourcing Market.

The combined result of a comprehensive investment in infrastructures with a language-savvy and STEM-oriented workforce, has become increasingly visible for companies preparing their business plans for business services centers in Portugal.

**Evolution Snapshot**

Portugal has attracted companies serving the Americas, particularly in the fields of finance and IT as well as large multi-lingual contact centers. Lisbon thrives as a popular destination for Europe’s start-ups in the area of Fintech. According to Eurostat, Portugal produces 21,000 STEM graduates every year. Portugal has more doctorate graduates than the European average by 171% and international scientific co-publications by 173%. The country has high R&D potential that is not being capitalized as the number of patents applications are 19% of the European average. Also, Portugal is aligned to best practices regarding the quality of scientific research.

**2000s**

*Interest from US and Western European corporations*

Portugal is one of the few Western European countries that compares with Central and Eastern European destinations in terms of labour costs, while at the same time offering a young, skilled and talented workforce. A wave of US, German and Spanish companies opened up foreign offices given the attractive cost arbitrage opportunity after the economic recession in Portugal.

**2010**

*Investment Environment*

Due to the Portuguese government’s stabilization efforts after the crisis of 2007-2010, its diversified economy and benefits from its EU membership, Portugal has a positive investment environment. Several leading global companies within telecommunications, pharmaceuticals, porcelain and glass are headquartered in Portugal. Recently, Portugal was ranked as one of the top 10 countries worldwide for ICT outsourcing thanks to highly developed infrastructure, focus on engineering and IT education, language skills and the low labour costs.

**2012**

*Human capital*

Portugal has well developed very reputable universities that deliver highly qualified people in several areas (IT, Engineering, Management, etc). High unemployment rates mean that qualified talent is widely available that keeps labour costs low and attracting business services centers. Demand for IT and business services center managers is high, making these slightly more difficult positions to recruit for. Meanwhile the multi-lingual educated population makes customer service and general ledger roles with language skills easier to fill.

**2018**

*ARI - Residence Permit for Investment*

New legal provisions open up the possibility of applying for a residence permit for pursuing investment activities to those who have entered the country regularly (v.g. holders of valid Schengen Visas, or beneficiaries of Visa exemption), by transferring capital, creating jobs or acquiring real estate, with advantageous periods of stay in Portugal. The holders of Golden Residence Permit for Investment Activity have the right to family regrouping, and may gain access to a permanent residence permit, as well as to Portuguese citizenship in accordance to the current legal provisions.

Source: EY Portugal attractiveness survey 2017 and 2018, Deloitte analysis

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Government incentives - Portugal
Portuguese R&D activities supported by the government become increasingly financed by the private sector thus fostering interest among global market players

**Tax benefits**

Up to 2020, all the investment projects with a minimum investment of €3m, qualifying for strategic economic interest and creating jobs, can benefit from contractual tax incentives. Namely, a tax credit of 10% to 20% of the investment is attributed and reductions from property tax transfer, property tax and stamp duty are allowed.

Additionally, the new patent regime for industrial property rights registered from 1 July 2016 is available (as in other European countries). It allows for a 50% reduction in the total income that results from selling or grating the use of industrial property rights temporarily, namely patents, models and industrial drawings.

Considering the tax burden on corporate income, companies investing in the North, Center, Alentejo, Azores and Madeira regions benefit from a deduction against corporate income tax (CIT) of the qualified investment, namely 25% for qualified investments up to €5m and 10% when exceeding that limit. In case of Lisbon and Algarve regions, the deduction is 10% for the qualified investments.

Deduction against CIT is also possible for eligible expenses with R&D incurred by Portuguese tax resident firms that conduct commercial, industrial or agricultural activities, and nonresident firms with a permanent establishment (PE) in Portugal.

Likewise, costs related to the net increase in job creation for employees (aged up to 35 years) without term contracts and for long-term unemployed individuals, may also claim a partial deduction in their taxable income.

**The attractiveness factor for outward investment**

Nonresident corporate entities can also benefit from capital gains on the sale of shares and quotas held in a Portuguese companies, or interest and capital gains on Government and corporate bonds, which are tax exempt under certain conditions. Another tax exemption is the interest paid to non-resident financial companies by resident credit institutions, which results from loans and swap transactions.

Source: Deloitte analysis, ABSL Business service sector 2018, CBRE Business services destinations in Central Europe 2017 © 2018 Deloitte & Touche LLC
BPO and SSC provider country profile. Israel is a leading pioneer in the outsourcing market focused on R&D and IT directions housing a plethora of global leading multinational tech companies.

### Country profile

**Country:** Israel  
**Population:** 8.5 million  
**GDP per capita:** USD 37,292  
**GDP growth rate:** 4.1%  
**Unemployment rate:** 5.6%  
**Inflation rate:** 3.4%

### Country snapshot

Israel is widely considered a start-up nation and a destination of choice for R&D with over 300 R&D centers. The technology sector is dominated by large multinational corporations employing almost half of Israel's tech labor pool of 480,000 people. Many of these delivery centers based out of Israel are considered mature shared service centers (Centers of Excellence) acting as the only global R&D centers for most of companies outside of their home countries.

### Key Success Factors

#### Infrastructure, Accessibility and Hazards

With strong telecommunications and transport links, Israel attracts a relatively large labor pool in the technology sector. However, many of the multinational corporations based in Israel have concerns over the security and intellectual property rights.

#### Political and Macro Economic Environment

Strong and resilient economy showing robust growth rates above the US and the OECD average consecutively over the past 5 years, despite geopolitical challenges facing the country.

#### Location Attractiveness

Israel is a primary offshoring location for multinational corporations from the United States. The US and Israel share mutual robust and innovative economies built on strong business affinity and entrepreneurship.

#### Business Regulation and Practices

Successful Foreign Investments and Industrial Cooperation Division at the Israeli Ministry of Economy and Industry has a successful track record contributing to the cluster of start ups and multinational corporations.

#### Human Resources

Israel is selected as a outsourcing destination due to its low inflation rate, strong economic growth and average national salary rates that are about half of U.S. rates. Israel has the highest concentration of engineers and PHD's per capital in the world.

---

Source: Invest in Israel, World Bank, EIU. © 2018 Deloitte & Touche LLC
Evolution of the Israeli Outsourcing Market

IT outsourcing, including applications development, infrastructure and service desk outsourcing, is a predominant field of outsourcing. However a successful new generation technology culture both in multinational corporations and start-ups constitutes Israel’s high tech industry

**Evolution snapshot**

The government’s Innovation Authority forecasts a shortage of 10,000 engineers and programmers over the next decade in a market that employs 140,000. The shortage is particularly painful for Israel’s local startups which compete for talent with development centers of technology giants such as Google, Intel, Microsoft and Apple. They offer big incentives that a startup cannot afford. Currently salaries are raising and the industry tends to shrink to only very high level R&D.

1949-1999

**U.S Multinational Corporations**

85% of foreign companies that came from the United States set up their research and development hubs in and around Tel Aviv with IBM making the first entrance on the scene in 1949. A wave of 13 multinational companies formed the center of R&D clusters across the country by 1999.

2004

**Investment environment**

Company registration and taxation system is more complicated in Israel compared to that of other countries. Israel ranks number 54 worldwide in ease of doing business rankings.

2015

**Silicon Wadi**

A formulation of technology clusters quickly gained speed as EBay, Google, Apple, Facebook and Amazon set up R&D institutes making high tech exports from Israel reach USD 18.4 bln in 2010. Israel was and still remains the world’s leader in terms of research and development as a percentage of the economy.

2018

**Human capital**

Quality of staff is very high due to many reputable universities especially in IT direction. Though the labor market is small, the long term existence of R&D centers in the market contributed to creation of own unique products that attracts biggest IT companies in the market.

In order to expand the labor pool, Israeli companies open IT companies in Ukraine and employee local staff to outsource IT services.

© 2018 Deloitte & Touche LLC
Taxation system in Israel

Taxation system

There are no special rules for outsourcing services. Generally, an entity doing business in Israel will need to register with the income tax authorities and the VAT authorities before commencement of actual operations. Generally, in order to register, the company will need to open a bank account in Israel.

In order to employ Israeli employees, the company is required to open a withholding tax file with the income tax authorities and register with the National Insurance Institute. These actions are typically performed with the assistance of a local accountant. As indicated above, opening a bank account is generally a prerequisite for opening tax files. This part of the process can sometimes cause delays, in particular when the registering entity is a foreign corporation rather than a company established under Israeli law.

The following documents are generally required in order to open an account at a commercial bank; however, the details should be verified with the particular bank with which the company plans to open an account:

- Authenticated copies of corporate charter and registration documents; resolutions of the corporation's board of directors to open a company bank account at the particular bank and authorization of signature rights for the account
- An Israeli attorney's confirmation of resolutions of the board of directors
- A foreign company must provide written confirmation from a lawyer in the country of origin authenticated the corporate documents and the validity of the resolutions taken with respect to opening a bank account in Israel
- And execution of standard anti-money laundering forms, backed by an Israeli attorney's confirmation

According to Israel's tax reform, a tax is levied on personal basis, instead of the previous territorial basis, Israelis pay tax on all sources of income, in Israel and abroad.

<table>
<thead>
<tr>
<th>VAT system</th>
<th>Income Tax</th>
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<tbody>
<tr>
<td>Corporate Tax</td>
<td>2018</td>
</tr>
<tr>
<td>Dividend Tax Rate</td>
<td>2018</td>
</tr>
<tr>
<td>Reinvested Profit Tax</td>
<td>2018</td>
</tr>
</tbody>
</table>

Source: www.worldwide-tax.com/israel/israel_tax.asp © 2018 Deloitte & Touche LLC
Phase II. Georgian BPO and SSC market potential
# Table of contents: Phase II. Georgian BPO and SSC market potential

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive summary of the Georgian BPO and SSC market overview</td>
<td>55</td>
</tr>
<tr>
<td>Georgia overview</td>
<td>56</td>
</tr>
<tr>
<td>Business Sectors overview</td>
<td>68</td>
</tr>
<tr>
<td>F&amp;A</td>
<td>69</td>
</tr>
<tr>
<td>HR</td>
<td>70</td>
</tr>
<tr>
<td>IT</td>
<td>71</td>
</tr>
<tr>
<td>CRM</td>
<td>72</td>
</tr>
<tr>
<td>ADE</td>
<td>73</td>
</tr>
<tr>
<td>Local success stories</td>
<td>74</td>
</tr>
<tr>
<td>Benchmarks for Georgia</td>
<td>81</td>
</tr>
<tr>
<td>F&amp;A</td>
<td>83</td>
</tr>
<tr>
<td>HR</td>
<td>84</td>
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<td>CRM</td>
<td>85</td>
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<td>86</td>
</tr>
<tr>
<td>ADE</td>
<td>87</td>
</tr>
<tr>
<td>Investment rationale</td>
<td>88</td>
</tr>
<tr>
<td>Tax, Rent and Utility costs benchmarks</td>
<td>89</td>
</tr>
</tbody>
</table>
Executive summary

BPO and SSC investment potential in Georgia

- In 2018, Georgia was placed sixth on the Ease of Doing Business index; remains a low cost center in the CEE with an average gross salary starting at USD 400 per month, a highly educated workforce and an upbeat investment climate. Steady economic growth of 4% year on year over the past five years, a strategic geographic location together fostered by effective government initiatives and an expected increase in FDI boost the business growth. A consistent focus on simplifying business operations and alleviating the tax burden has led to the introduction of the Estonian Tax Model and the establishment of Free Industrial Zones (FIZ), as well as government supported programs and institutions such as Enterprise Georgia, GITA and Partnership Fund.

- New laws on Innovation and Information Technology zones (virtual zones) have been adopted to incentivize activity in the IT industry. Data Protection laws are also being brought in line with EU standards. An industrial trade secret protection order safeguards companies’ technological, commercial and organizational know-how.

- The education system is being geared towards new market requirements, seeing a shift from Business and Law to STEM focused professions. Almost all universities include one or two foreign language courses as part of their programs. From a total of 75 HEI’s, there are on average 24,000 graduates across Georgia every year. Despite the high volume of graduates, unemployment among 20-45 year-olds is 14%.

- Among the 10 Benchmarked countries including Poland, Czech Republic, Romania, Bulgaria, Bosnia and Herzegovina, Lithuania, Armenia, Ukraine, Albania, Moldova, Georgia offers one of the most competitive gross monthly salary levels for the following service areas:
  - **F&A** - Georgia is competitively ranked for senior level staff positions and sits at the top of the countries that have low costs per FTE;
  - **IT** - Georgia has competitive ranking in bottom three among its benchmarked countries with one of the lowest salaries for IT Support Specialists at USD 600 with comparatively low costs per FTE;
  - **ADE** - Georgia has recorded the lowest salary levels for CAD/ 3D specialists and, is among the highest salary levels for Interior and Product Designer professionals;
  - **CRM** - Junior level Sales and Customer Services salary levels are among the lowest in Georgia in combination with the lowest average cost per FTE;
  - **HR** - Georgia has a distinct competitive advantage in terms of average cost and senior level human resources personnel wage levels.

- The Business Services Industry in Georgia is developing around CRM, IT, Finance and ADE service areas. The HR service area is relatively nascent and mostly represented as secondary functions inside service provider companies. The average gross salary in F&A, CRM and HR services amounts to USD 470 while IT and ADE have USD 820 and USD 900 respectively. A summary analysis of the selected service areas are provided below:
  - **F&A** (excluding Banking and Insurance) service area has matured with a steady supply of experienced employees compared to other service areas that have been growing at a CAGR rate of 2% over the past five years with a USD 64 million turnover in 2017. The average gross monthly salary in the F&A service area is USD 560. Based on the survey results, there are an estimated 40 F&A outsourcing companies in Georgia where services provided to the local market differ from those supplied for international markets. Tax, Accounting and Declaration services are commonly provided locally, while Financial Analysis and Transactional processes are the most in-demand services from international clients. The main problems in exporting F&A services are associated with DPL and technical knowledge.
  - With total turnover of USD 10 million, the HR service area remains nascent in Georgia. There are 11 BPO companies, mainly providing recruitment services to the local market. The lack of a developed HR industry is hindering BPO growth potential in the country. The average gross monthly salary in the HR sector amounts to USD 520.
  - IT Computer programming and Consulting services have the highest CAGR growth of all the service areas at 16% for the past 5 years, reaching turnover of USD 65 million in 2017. Based on the research and survey results, there are 25 outsourcing companies earning USD 4 million for outsourcing services. The main services outsourced include support functions, web design and programming. The service area's rapid growth has increased the demand for skilled professionals. IT companies may face rapid employee turnover due to intense competition for skilled IT professionals in the local market. The service area's average gross monthly salary accounts to USD 820.
  - CRM service area is mostly represented by sub-divisions within business service providers, meaning that separate figures for total market volume are not available. Based on the survey results, there are up to 40 independent CRM service segment companies with an annual turnover estimated at USD 6 million. They mostly provide customer support and telemarketing services. The average gross monthly salary in CRM is USD 400.
  - ADE service area has the highest turnover out of all the service areas at USD 144 million and has been growing at a rate of CAGR 4% over the past 5 years. There are 15 BPO companies working locally and internationally, providing Rendering, 3D Modelling and Engineering services. Developing workforce skills is the key challenge in this service area, as fresh graduates require training in modern architectural programs to meet international market needs. On the contrary, practical training and coaching in using the latest computer programs can transition fresh graduates into becoming employable assets in the job market. The average gross monthly salary in this service area amounts to USD 900.

- The BPO and SSC market in Georgia is in its early stage of development. BPO centers are concentrated in Tbilisi, mostly serving the local market. According to the 2018 company survey results, there are more than 130 BPO centers in Georgia employing approximately 2,500 FTEs* with revenues of USD 20.5 million.

Note: *The number of total FTEs was estimated based on the survey sample of the employee market as the total actual market size was not obtainable due to limited infrastructural accessibility means.
Georgia remains a low-cost center with a respective educated multilingual labor force. The top 5 cities by population size were identified for assessing their investment potential.

Overview

The World Bank Group has ranked Georgia in sixth place worldwide in its 2019 Ease of Doing Business rating. This index ranks countries by how long it takes and how much it costs to set up and run a business. It measures such factors as starting a business, obtaining building permits, registering a property, getting credit, trading across borders, paying taxes, etc. Georgia has placed well above the average rankings for its European and Central Asian peers in most of these factors, mainly thanks to simplified legislation and streamlined processes for incorporating new enterprises.

Source: National Statistics office of Georgia, Deloitte analysis, Survey results, Ministry of Education
© 2018 Deloitte & Touche LLC
After spotting the drift of outsourcing services to cost-competitive locations in CEE, the GoG began supporting innovation and the development of modern technology to encourage FDIs’ oriented towards the introduction of new technologies.

The key factors of increasing FDI in the country and creating a favorable investment climate in Georgia

- **Stable political environment and fast growing economy.** GDP of Georgia has permanently been increasing in the past 5 years with around 4% growth year on year.
- **Efficient, pro-business and corruption-free government.** According to the Transparency International Global Corruption Barometer, Georgia is perceived as a corruption-free destination.
- **Growth-friendly tax policy.** According to the 2016-2017 World Economic Forum report, Georgia has one of the lowest taxes worldwide placed in 8th position with a 16.4% total tax rate and only 7 active taxes, including profit tax deductible only in case of profit distribution from 2017.
- **Strategic location and liberal cross-border trade.** Georgia’s strategic location makes it a natural logistics and transit hub along with the One Belt and One Road Initiative linking Asia and Europe via the Caucasus. Georgia has a DCFTA with the EU and an FTA with China (including Hong Kong), EFTA, the CIS, China and Turkey.
- **Low business costs.** Georgia is a low-cost center having the lowest average gross salary among key competitor countries. High class modern office stock is available in major cities and utilities costs are one of the lowest in the region.

![FDI by years (mln USD)](image)

**Key monetary indicators**

<table>
<thead>
<tr>
<th>Date</th>
<th>Currency rate</th>
<th>Inflation rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>EUR vs GEL 2.83</td>
<td>6%</td>
</tr>
<tr>
<td>2017</td>
<td>USD vs GEL 2.51</td>
<td></td>
</tr>
<tr>
<td>Forecast</td>
<td>EUR vs GEL 2.98</td>
<td>3.3%*</td>
</tr>
<tr>
<td>2022</td>
<td>USD vs GEL 2.41</td>
<td></td>
</tr>
</tbody>
</table>

Note: *Inflation rate is forecasted for 2019
Source: Deloitte CFO survey

The socioeconomic development strategy of Georgia focuses on the support of innovations, that aims to improve the competitive standing of local production and the orientation of Georgian exports towards more high-tech products.

The biggest investments come in the Transport and Communications, Finance, Construction and Energy sectors.

**Key sectors of FDI in 2017**

- **Energy sector** 22%
- **Construction** 15%
- **Transports and communications** 10%
- **Financial sector** 16%
- **Real Estate** 26%
- **Other sectors**

The Georgian economy is expected to grow more rapidly than the economies of its neighboring countries, which will cause a long-term appreciation of the real exchange rate of the Georgian Lari (GEL)
The new tax model was adopted since 2017 to stimulate economic growth.

**Investment incentives**

**Free Industrial Zones (FIZ)** are located across three major cities: Tbilisi, Kutaisi and Poti. Companies that produce goods to export in FIZ, are exempt from all taxes except from personal income tax that stands at 20%.

**Georgian Innovation and Technology (GITA)** is an agency which is oriented on improvement and stimulation of Georgian innovation ecosystem. GITA offers several options for financing the projects:

- **Start up Georgia** - The investment amount is up to GEL100,000 per project. The applicants should provide at least 10% of project co-financing. As of now total 54 Projects have been financed.
- **Small Grants** - Grants up to GEL 5,000 were provided to 84 projects in total GEL 290,000 in 2016.
- **Innovations co-financing** - The program finances products, technology or business process innovations. The maximum amount of grant per project is GEL 500,000 with two years of expiration period. The applicants should provide at least 30% of project co-financing. In 2018 17 out of 133 startups were awarded the grants in the amount of up to GEL 100,000.

**National Innovation Ecosystem (GENIE) project.** Under the agreement between Government of Georgia and International Bank for Reconstruction and Development (IBRD) 5 year project was signed to invest USD 40m for development Georgian ecosystem. The idea of project is to increase activities in the innovative ecosystem. The project consists of four parts: to create the innovation infrastructure, ensure innovative support services, fund innovations, provide technical assistance for implementation of the project. The project is ongoing and more trainings in IT field are planned. The new project under GENIE is Consultancy services for evaluation of project proposals under Matching Grants program that will take 24 months starting from 2019.

According to the [Law of Georgia on Information technology zones](https://www.georgia.gov.ge/en/section/2/148), Georgia provides a profit tax exemption to legal entities of a “virtual zone” engaged in export of IT services.

Government established state owned “Partnership Fund” with an equity value of 1.4 billion, provides equity financing to financially viable projects. PF can finance maximum 49% of the equity, since they are not going to participate in the management. The fund also requires the business buy out after several years.

**Enterprise Georgia** co-finance customized trainings of labor workforce for foreign enterprises that are willing to establish BPO and SSC delivery centers in Georgia.

Source: Georgian Innovation and Technology (GITA), Deloitte analysis, Tax code of Georgia, EG © 2018 Deloitte & Touche LLC
Georgia at a glance – Investment Incentive programs

GITA is oriented to promote innovative ecosystem development in Georgia

**Georgian Innovation and Technology Agency (GITA)**

Georgia’s Innovation and Technology Agency is the native resolution of the Government, the Ministry of Economy and Sustainable Development under state control and its sub-entity of public law. GITA’s main mission comprises of promotion of knowledge and innovations, creation of an environment for the growth of innovations and high-tech products and development high-speed internet nationwide.

GITA IT professional trainings create the entry or basic level IT education framework for applicants needed to seek employment in Georgian companies, through web-portals or networking possibilities. The training program has already certified 135 trainers (out of 180 trainees) that are being required to re-deliver trainings for two more groups. There were about 1,100 specialists trained by the end of 2016. In 2018 about 100 people attended coaching and mentoring trainings and 170 students from 10 regions participated in IT Trainings / Frontend Development. More trainings are planned in the future years in IT direction.

**FabLab Techno park**

Techno park FabLab is open for everyone with free prototypes and diverse learning programs. Applicants discuss their projects with consulting team and develop future plans. Other type of FabLabs are located either on the base of universities or professional colleges. They give students unique chance for turning theoretical knowledge into practical exercises that can be later commercialized.

**ILab**

Innovation Laboratories are focused on the preparation of specialists, on the creation of the comfortable environment for generating innovative ideas and for the development of the project management skills. So far 3 universities have joined the process.

There are total 22 fabrication laboratories in Georgia and three innovation laboratories located in GeoLab, Gamelab Iliauni and CG multilab GIPA.

**Startup Georgia**

Program was developed by joint cooperation of Partnership Fund and GITA and was approved by the Government order N 206 dated as 11 May, 2016. The purpose of the program is to enhance innovation development and financially support innovative and economically feasible business ideas.

**Vocational Education. Industry-led Skills and Workforce Development (ISWD)** is a USD 16 million project of the Millennium Challenge Account Georgia funded under the second USD 140 million Compact between the Millennium Challenge Corporation (MCC) and the Government of Georgia. This Project is implemented in collaboration with the Ministry of Education and Science of Georgia. The project started in September 2014 and will continue until March 2019. It aims to address the gap between the need of the labour market for skilled personnel and the supply of workers with the required technical skills.

In 2017 Georgian Research and Development Foundation (GRDF), in partnership with GITA, has launched another round of competition under a renewed science and technology entrepreneurship (STEP) program targeting startup companies with growth potential with focus on ICT, clean-tech, biotech, artificial intelligence, robotics, biotech, VR and augmented reality (AR). The maximum amount of a grant is 30,000 USD. The goal of Global Pivot to Success (GPS) training and startup competition is to support technology entrepreneurship in Georgia through mentorship and funding.

Source: Georgian Innovation and Technology Agency (GITA), Startup Georgia, Invest in Georgia © 2018 Deloitte & Touche LLC
Legislation and regulations in Georgia: Liberal Labor Code provides additional incentives for the companies working in Georgia, however changes are expected in the process of approximation with EU labor standards.

**Summary Statement**

Georgia is an aspiring economic center of the Caucasus. It demonstrates years of robust economic growth, liberal tax and labor legislation reforms, business friendly practices, low corruption, high security and openness to foreign investment. Georgia signed the association agreement with the EU in 2014 and an aspiration to join the EU will guide future policy decisions.

**Observation**

The clause regarding overtime compensation should be included in the corresponding labor agreement. However, employers do not take into account the rules and conditions of overtime work and therefore do not compensate employees resulting in direct violation of the rights of the employee primarily caused by the fact that the public is not aware of their rights, employers’ legal obligations and the legal protection of human rights.

**Key laws and regulations**

**Employment contracts**

- A typical employment contract is indefinite.
  - Another most common is a fixed period contract:
    - May be concluded cumulatively for a maximum of two and half years and can be renewed twice, with an option that maximum duration won’t exceed two and half years, otherwise contract will be assumed to be indefinite.
    - Other possible forms of employment contracts include:
      - Agreement to perform work: used mainly for part time employment, scope of work and hour per week is not defined.
      - Probation period must last no longer than six months and amount of payment terms should be agreed between parties.
      - Maternity leave is 6 months. Compensations is not obligatory for the employer.

**Hiring/firing**

- Relatively simple hiring and firing process – an employee can be hired with an employment contract and meet the minimum age requirement set by national laws. Employees may terminate their contract by resigning and an employer may terminate the contract by dismissing an employee. A one month notice period applies to both cases, apart from exceptional cases.

**Working hours**

- 40 hours is the standard working week (unless the entity is under the status of specific working regime that is defined by Government order N329 and has 48 hours working week)
  - Typical working day in Georgia is from 9:00/10:00 AM to 6:00/7:00 PM.
  - In case of two-shifts operations:
    - Minimum 12 hours should be passed between working days/shifts
    - Maximum 36 working week for employees in the age group of 16-18
    - Working in shifts and transition from one shift to another will be determined by the employer according to work specifics.

**Overtime**

- Overtime is paid by an increased hour wage rate and is a matter of agreement between parties, overtime can be also be converted into additional vacation days.

**Vacation and public holidays**

- 24 working days per year for paid vacation;
  - 15 working days per year for unpaid vacation;
  - 18 days per year Public holidays.

**Remuneration**

- If otherwise not agreed by the parties, employer should pay salary once a month and in case of delay pay 0.07% of overdue amount per day

Source: Labor code of Georgia, Deloitte analysis
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Significant progress has been made in recent years, through institutionalizing the support for startups, mostly focused on innovation and R&D commercialization. DPL is being brought in line with EU standards.

Law of Georgia on Innovations
The law is aimed at development of the national innovation ecosystem and the improvement of the country's economy based on knowledge and innovation. To increase the sector competitiveness government focuses on intellectual property protection and technology export promotion.

Law of Georgia on Information technology zones
This Law is intended to attract foreign investments and create a favorable environment for legal persons operating in the Information Technology (IT) sector. The status of a virtual zone company is granted to an interested person by a person designated by the Government of Georgia.

Virtual zone company does not need licenses, permits and other regulatory documents to conduct its activities. They also use tax benefits, the following shall not be levied:

- tax on the profits earned from supplying outside Georgia the information technologies created by a virtual zone company;
- tax on the supply with VAT outside Georgia of information technologies (ITs) created by a virtual zone company
- export duties on exporting from the customs territory of Georgia of the information technologies produced by a virtual zone company.

The expenses, related to earning income from supplying within or outside of the territory of Georgia of the ITs produced by a virtual zone company, shall be deducted from the gross income in proportion to the share of the income earned from supplying the ITs within the territory of Georgia.

Civil code of Georgia
Order N1105 applies to Industrial commercial secret protection. An entrepreneur who owns industrial-commercial secrets (know-how), that represents a special technological, organizational or commercial importance, has a special right to this kind of information and is protected by this code and by other legislative acts on industrial property.

Association Agreement imposes the obligation upon Georgia to establish high standards of personal data protection in the country. According to the Agreement, the parties agree to cooperate in order to ensure a high level of protection of personal data in compliance with the European Union, Council of Europe and other international legal instruments.

Supervisory authority is Office of the Personal data protection inspector that monitors lawful processing of personal data by public and private organizations. Inspector presents to the government of Georgia annual report about general assessments of data protection in the country and develops recommendations. Reports are publicly available.

Data protection law (DPL)
- Georgia aligning legislation about DPL due to the EU association agreement
- DPL is not fully aligned to EU standard and Georgian personal data protection office is going to add some changes in the Georgian law to meet GDPR requirements

Legislation regarding data protection is evolving in Georgia. Georgian Parliament endorsed ratification of Council of Europe Convention No. 108 for the Protection of Individuals with regard to Automatic Processing of Personal Data on October 28, 2005 and it's additional protocol regarding Supervisory Authorities and Trans-Border Data Flows on July 27, 2013. By ratifying those conventions, Georgia took an obligation to implement data protection standards in local legislation and to complete comprehensive changes in the field of data protection, including adoption of new legislation, its execution and implementation, raising public awareness and establishment of a supervisory authority – the office of Personal Data Protection Inspector (the “Inspector”). Association agreement with EU obliges Georgia to ensure a level of data protection which at least corresponds to that set out in Directive 95/46/EC. Now in EU, these rules and regulations have changed, as a new data protection regulation has been introduced: the General Data Protection Regulation (the “GDPR”). The GDPR is enforceable since May 25, 2018 and sets new standards on the processing of personal data.

Currently (December 2018), here are governmental discussions regarding the changes in data protection legislation. However, the draft document is not publicly available. According to office of Inspector in public announcements, the new draft will be most likely the same as the GDPR and it will be publicized in spring 2019.
Education system is developing with the increased interest, shifting focus from Business and Law to STEM faculties in HEI's.

- Elementary education for children aged 6-14 is mandatory in Georgia. Students graduating with elementary education can choose to enter the secondary education or vocational education. After the completion of the secondary level education, students should pass Unified National Exams to enroll in an Authorized Higher Education Institution.

- Georgia has a literacy rate of 99.8% where 92% of population have completed secondary education.

- The number of authorized HEI's in Georgia accounts to 75. Number of enrollments is increasing by 3% CAGR for past 10 years reaching more than 140,000 in the 2017-2018 academic year. The number of graduates is relatively low and accounts to 24 thousand for last 10 years average, reaching 26 thousand in 2017.

- The most popular faculties in HEI's are Social Sciences, Business and Law accounting to 44% in total.

- There are 125 educational institutions that provide vocational education out of which 67% are private. On average, there are more than 10,000 graduates from vocational institution each year.

- The most popular VET programs are Engineering, Business Administration and Healthcare fields with shares of 33%,17% and 14% of total graduates respectively.

- Financing of vocational trainings - the government encourages and finances most of the fees of VETs courses for 2 year programs, and students have possibility or arrangement of customized trainings. In 2016, there were 781 IT specialized students in 21 TVET educational institutions in Georgia.

Source: Ministry of education, Deloitte analysis
© 2018 Deloitte & Touche LLC
English and Russian are the most common spoken languages in Georgia. Since the GOG made English lessons mandatory in schools over the past few years, English is nowadays the second most common language in Georgia while Russian has existing prevalence in Georgian society from the Soviet era.

F&A and IT has highest graduates in all target cities

- Tbilisi, Batumi and Kutaisi are the top leading cities in terms of number of universities and foreign language centers.
- English language is widely spoken in the age group of 35 and younger, due to the policy of the Georgian government aimed at popularization of the English language, through the financing of the English program courses and through the recruitment of thousands of native English speakers, mostly from the USA, with the goal of having at least one English teacher in every village. English language slowly replaced Russian language that was primary the primary language after the Georgian language in the Soviet era. Despite this, Russian language still remains very important, both due to the geographical proximity and considerable number of ethnic Russians, Armenians and Azeri people mostly speaking Russian among themselves.
- Tbilisi has the biggest amount of language centers, that is in the range of 107-150, located on almost every street in the city. Primary language is English. However, Russian and German are the most taught as the most in-demand secondary languages.
- English is the primary language in almost all universities in the other regions of Georgia. Akaki Tsereteli State University in Kutaisi offers lessons in German, French, Slavic or Middle Eastern languages. Batumi Shota Rustaveli University offers lessons in German, Turkish, Russian and French as a secondary option. However, the secondary options represent a minor share compared to that of primary languages. Telavi Iakob Gogebashvili State University offers lessons in German, French or Russian languages as a secondary option.

Number of language centers in the regions

- There are 30 language centers in the regions, in selected cities. Most of the centers offer two or more languages. 73% of centers teaching English, 33% Russian, 20% German, 13% French and only 10% Italian.

6 year cumulative amount of graduates from HEI’s and VET from 2013-2018

- On average 6,838 students graduate per year in selected service areas.
- English is the primary language taught in most of the universities however, 10-20% of students chose German and other languages as their secondary option.

6 year accumulated number of graduates amounted to 41k

Aggregated amount of students that have taken foreign language exams through Unified National Exams between 2009-2018

- Based on NAEC more than 90% of students have passed the minimum threshold.

Source: Ministry of Education, Science, Culture and Sports of Georgia; National Center for Assessment and Examinations (NAEC); Deloitte analysis
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Language Proficiency Results by Regions based on ACT survey

Population survey results on language proficiency based on yes/no answers

Following the initial language competency survey, about a third of the respondents agreed to verify their skills through verbal testing, that showed that the results in the appendix are accurate with over 90% respondent success rate.

Target pool

<table>
<thead>
<tr>
<th>Region</th>
<th>Total 5 regions</th>
<th>Tbilisi</th>
<th>Batumi</th>
</tr>
</thead>
<tbody>
<tr>
<td>English</td>
<td>46%</td>
<td>40%</td>
<td>36%</td>
</tr>
<tr>
<td>German</td>
<td>6%</td>
<td>3%</td>
<td>9%</td>
</tr>
<tr>
<td>Russian</td>
<td>64%</td>
<td>65%</td>
<td>43%</td>
</tr>
<tr>
<td>French</td>
<td>1%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Italian</td>
<td>0.2%</td>
<td>0%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Target pool</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tbilisi</td>
<td>574 k person</td>
</tr>
<tr>
<td>Batumi</td>
<td>56 k person</td>
</tr>
</tbody>
</table>

Source: ACT survey

© 2018 Deloitte & Touche LLC
The Tbilisi office market has seen significant growth in recent years due to increased demand for modern stock offices. The regional office market has remained unchanged over the past few years as there are no modern business centers currently functioning or planned outside of Tbilisi.

**Tbilisi overview**

Due to regional and country-wide economic stability, Georgia’s modern leasable office stock has grown over the past few years, amounting to 176,000 sqm (38% of total leasable area). The Tbilisi modern office market has demonstrated strong demand for office spaces in each class. Tbilisi's total office space amounts to about 1 million sq. m. 51% of the stock is a leasable area. The average leased area has been under 500 sq. m for the past six years, and there are a limited number of companies requiring a larger space. Demand is also partially satisfied by the availability of owner occupied office spaces.

**Regional overview**

Following Tbilisi, Batumi, Kutaisi, Zugdidi and Telavi are Georgia's largest cities by population size. Despite this, there are no modern business centers and the supply of modern offices is relatively sparse. Like other cities in Georgia, the stock offered or already leased is often called 'commercial', though the area can be used both for the office or retail activities.

- **Batumi** is located near the Black sea coast, and is the capital of the Autonomous Republic of Adjara. It is one of the most popular touristic destinations in Georgia. Batumi is the second largest city by population size but has significantly lower office stock compared to Tbilisi. In 2017, 68% of the available stock was leasable.
- In 2012, the Parliament of Georgia moved to Kutaisi that caused an increase of the office stock and slightly increased the weighted average rent price to USD 7.2. The office market in Kutaisi is expected to grow as there are government plans to build a logistics center in the existing FIZ. As of current, 75% of offices are owner occupied predominantly by the state.
- **Zugdidi** is located in Samegrelo region in Western Georgia. The majority of adults are self employed individuals. The city has existing basic transport links and communications infrastructure, however with respect to the regional review, the level of infrastructure still remains a challenge due to the poor conditions of the roads in rural areas.
- **Telavi** is located in Kakheti region of Eastern Georgia, 90 km from Tbilisi. The main source of income stems from agricultural activities. Aside from the government support of infrastructure projects, the region faces the same issue as the Samegrelo region.

**Key findings:**

- According to the weighted average, rental rates in A class business centers has declined over the past six years, decreasing by 26% since 2012 to USD 21.9. This drop was driven largely due to an increase in competition, as the classified leasable office stock increased by 77% between 2012-2017. Data suggests that this trend is likely to continue. According to Colliers, estimated rental prices are expected to stabilize at approximately USD 20 by 2021.
- All the leasable office areas are mostly old Soviet Union buildings, street retail spaces and offices in apartments.
- There are no business centers under construction in the following cities, thus the markets are not expected to experience any major changes in the foreseeable future.

**Total space distribution and vacancy rates (k sq.m)**

- Office stock in Zugdidi and Telavi is not measurable due to its small scale and low demand for rented office spaces in the city.

**Weighted average rent by class USD per sq. meter and vacancy rates in Tbilisi**

<table>
<thead>
<tr>
<th>Class</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>22</td>
<td>11%</td>
</tr>
<tr>
<td>A-</td>
<td>15</td>
<td>12%</td>
</tr>
<tr>
<td>B+</td>
<td>4%</td>
<td>6%</td>
</tr>
</tbody>
</table>

**Weighted average prices USD per sq. meter in 5 cities**

<table>
<thead>
<tr>
<th>City</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tbilisi</td>
<td>14</td>
<td>7.5</td>
</tr>
<tr>
<td>Batumi</td>
<td>7.2</td>
<td>7.2</td>
</tr>
<tr>
<td>Kutaisi</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Zugdidi</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Telavi</td>
<td>12%</td>
<td>20%</td>
</tr>
</tbody>
</table>

**Total space distribution and vacancy rates (k sq.m)**

- Office stock in Zugdidi and Telavi is not measurable due to its small scale and low demand for rented office spaces in the city.

- Office stock in Zugdidi and Telavi is not measurable due to its small scale and low demand for rented office spaces in the city.

<table>
<thead>
<tr>
<th>City</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Batumi</td>
<td>9%</td>
<td>12%</td>
</tr>
<tr>
<td>Kutaisi</td>
<td>40</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: Colliers, Office market in Georgia 2017, Deloitte analysis © 2018 Deloitte & Touche LLC
Telecom and utilities tariffs are nearly similar in Tbilisi and regions

### Internet providers

2 main internet providers that cover almost whole Georgia:
- Magticom
- Silknet

Price and speed are nearly similar but it depends on the packages and range from USD 20 to USD 120 for commercial sector.

Fiber Optic internet prices for 6 megabit/sec ranges from USD 20 to USD 24

### Water and wastewater treatment-cleaning service providers

<table>
<thead>
<tr>
<th>Company</th>
<th>Coverage</th>
<th>Commercial rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgian water and power</td>
<td>Tbilisi and Rustavi</td>
<td>Prices per cubic meter is USD 1.8 and USD 1.5 for Tbilisi and Rustavi respectively</td>
</tr>
<tr>
<td>United water supply company of Georgia</td>
<td>All cities except Batumi</td>
<td>Prices per cubic meter is USD 1.7 for regions</td>
</tr>
<tr>
<td>Batumis Tskali</td>
<td>Batumi</td>
<td>Prices per cubic meter is USD 1.6 for regions</td>
</tr>
</tbody>
</table>

### Gas distributors

2 main gas providers that cover almost entire Georgia:
- KazTransGas Tbilisi
- Socar Georgia Gas

KazTransGas Tbilisi covers the capital city and Socar Georgia Gas supplies regions. Tariffs are deregulated for commercial sector and are confidential. The average price per cubic meter is USD 0.3

### Energy distributors

<table>
<thead>
<tr>
<th>Company</th>
<th>Coverage</th>
<th>Commercial rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telasi</td>
<td>Covers the whole territory of Tbilisi</td>
<td>Prices without VAT per Kwh varies from USD 0.06 to USD 0.07</td>
</tr>
<tr>
<td>EnergoPro Georgia</td>
<td>Covers the rest of Georgia</td>
<td>Prices without VAT per Kwh varies from USD 0.06 to USD 0.09</td>
</tr>
</tbody>
</table>

Source: Deloitte analysis, publicly available data
© 2018 Deloitte & Touche LLC
Phase II.
Business sectors overview

• In 2017, the total business services sector’s turnover within F&A, IT, HR, ADE and CRM service areas is increasing at a CAGR of 7% for the last five years, reaching USD 300 million. The largest service areas are ADE followed by IT and F&A (excl. Banking) with USD 144, USD 65 and USD 64 million respectively.

• There are approximately three thousand active companies, half of the share provides services in ADE, followed by F&A and IT service areas with 800 and 600 companies respectively.

• According to the survey results, there are approximately one hundred and thirty thousand people (20-45 age range) employed for the five service areas in Tbilisi, Batumi, Kutaisi, Zugdidi and Telavi. The highest number of people are employed in CRM followed by F&A and IT with 34 thousand, 31 thousand and 26 thousand workers respectively.

• According to the Phase 2 findings, there are 131 BPO centers with a total turnover of USD 20.5 million.

• According to the survey total workforce within 20-45 age range for the five service areas reached 271 thousand out of which 214 thousand are concentrated in Tbilisi, 24 thousand in Batumi 22 thousand in Kutaisi, seven thousands in Zugdidi and five thousand in Telavi in 2017.

• According to survey results, the average gross monthly salaries for the five service areas are the following:
  • F&A - USD 560
  • HR - USD 520
  • CRM - USD 400
  • IT - USD 820
  • ADE - USD 900
Business Sector Overview - F&A in Georgia has a steady workforce supply in this service segment mostly concentrated around service offerings to the local market.

**Segment overview**

Finance and Accounting services are growing at 2% CAGR over the past 5 years, reaching USD 64 million in 2017. The F&A service area has matured and mostly serves local companies. There are more than 800 companies providing Accounting and Financial Consulting services. More than 80% of companies have an annual turnover of less than USD 200,000.

There are 40 F&A outsourcing companies in Georgia. The services provided at the local market vary from the ones that are provided abroad. Tax Accounting and Declaration services are the most common services provided in the local market, while financial analysis and transactional processes are the most commonly requested services by International clients. Based on the surveyed companies, major international clients come from Azerbaijan, Armenia, Turkey, Ukraine, Russia, Italy and France.

The majority of companies providing F&A services have an employee headcount of 10 FTEs. 17% of companies have headcount of up to 50 employees and only 2% of companies have more than 50 FTE's. Companies prefer to hire experienced specialists rather than fresh graduates. Outsourcing companies constantly provide trainings and invest in the professional development of the staff.

Based on the Survey results, there are more than 84,000 educated specialists in Georgia within the 20-45 age range, mostly concentrated in Tbilisi out of which 31,000 are employed.

The most demanded skills are computer knowledge skills particularly MS Excel and language skills. Certifications in ACCA and CFA are considered a big advantage. There are more than 900 ACCA and 200 CFA students registered in Georgia.

Higher education in F&A is available in almost every target region. There are 22 HEI’s providing F&A courses in Tbilisi, Kutaisi, Batumi, Telavi and Zugdidi, with an average of 4,000 graduates annually, totaling around 20,000 in five years.*

Aside from the higher education, there are 66 VET’s and certification institutions offering different courses in F&A across five of the selected regions. Georgia produces around 950 VET graduates per year amounting to 4,700 for the past five years.

Based on the survey results, knowledge of Russian and English languages is widespread among F&A specialists, where 50% and 66% of respondents working in F&A have the working knowledge of English and Russian respectively.

**Companies holding outsourcing departments in Georgia**

- BDO
- Fchain
- Nexia
- Big 4 companies
- Grant Thornton
- ALS

Note: * Data includes the number of Business Administration, Economics and Accounting and Finance graduates

Source: Geostat, BIA, Deloitte analysis
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Business Sector Overview – HR in Georgia has a large potential labor pool of Law and Social Science faculty graduates and low salary averages per position

Segment overview

There are approximately 70 companies providing HR services mostly in the direction of recruitment with the total turnover below USD 20 million. Large companies are not present in this service area, comprised of several companies with an annual revenue of up to USD 1 million. The HR service area is connected to Consulting services and therefore a standalone revenue figure is not available.

The HR service area is at its early stage of development, where the most prominent HR service used in Georgia by companies is digital HR platforms acting as an intermediary information provider on current vacancies.

In Georgia, there are 11 HR outsourcing companies with a total estimated revenue of USD 400,000. They mostly provide recruiting and consulting services for clients, several of whom come from Europe and the CIS region.

The majority of HR companies have an employee headcount of less than 10 FTE’s. 15% of companies have an employee headcount of up to 50 employees and 5% of companies have more than 50 FTE’s.

There are more than 75,000 available workforce in Georgia within the range of 20-45 years, mostly concentrated in Tbilisi, out of which 20,000* are working in HR.

The most required skills in HR are soft skills and computer knowledge.

Higher education in HR is not available at Bachelor level. There are only 2 universities in Tbilisi that offer HR management masters programmes with a total of 36 graduates. Specialists working in HR mostly hold diplomas from Legal or Social Science faculties. On average, 6,000 students graduate from institutions of Law and Social Science degrees in the last five years.

There are a number of prominent universities that offer bachelor degrees in fields related to HR as well as private training centers that offer courses in HR management. The duration of courses varies from 3 weeks to up to 4 months with the course fees ranging from USD 80 to USD 1,200.

According to the survey results, the knowledge of Russian and English languages is widespread among HR specialists with 54% and 68% of them having intermediate knowledge of English and Russian respectively.

Companies holding outsourcing departments in Georgia

Note: *This number represents the total amount of people working in HR in all type of companies, including HR outsourcing companies.

Source: Geostat, BIA, Deloitte analysis
© 2018 Deloitte & Touche LLC

<table>
<thead>
<tr>
<th>Position</th>
<th>Average Gross Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR Junior</td>
<td>280</td>
</tr>
<tr>
<td>HR Specialist</td>
<td>400</td>
</tr>
<tr>
<td>HR Manager</td>
<td>760</td>
</tr>
</tbody>
</table>

Aggregated number of graduates from social science and Law faculties, HEI’s and VET in ks

Company structure by number of FTE’s

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>6.1</td>
<td>6.3</td>
<td>5.1</td>
<td>5.5</td>
<td>6.5</td>
</tr>
</tbody>
</table>

Average gross salaries by position, USD

<table>
<thead>
<tr>
<th>Position</th>
<th>Average Gross Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR Junior</td>
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<td>HR Specialist</td>
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</tr>
<tr>
<td>HR Manager</td>
<td>760</td>
</tr>
</tbody>
</table>
Business Sector Overview – IT in Georgia has increasing demand for fresh graduates and experienced specialists. Banking and Gambling sectors are attracting top talent in the market offering topmost salaries.

Segment overview

In 2017, Computer programming and Consulting services is growing at 16% CAGR over the past 5 years, reaching USD 65 million.

There are more than 600 companies providing Computer programming and IT consulting services. More than 90% of companies have annual turnover less than USD 200,000. In 2018, 12 IT companies took part in BPO and SSC survey in Georgia. Outsourcing companies in computer programming in Georgia reached 25 where most of the services provided were App Development, Web-Design and IT support services.

The majority of companies in the IT service area have an employee headcount of less than 10 FTE’s. Only 3% of companies has an employee headcount of more than 50 FTE’s. The main requirements for choosing IT specialists are specialist experience. Finding experienced specialists is a challenge in the local market as there is an overriding demand from Banking and Gambling industries for experienced IT specialist offering higher salaries.

In 2018 ICT cluster has been established having 11 members. The main directions of the Cluster are participation in public policy development for the ICT sector, dialogue with state agencies, and education – fostering the development of a professional workforce that will meet current industry demands and the challenge of internationalization.

The Georgian market has the highest labour supply in IT support and infrastructure specialists followed by system administrators commonly with MySQL knowledge and developers. Web developers are for the most part working in Java, .NET and PHP. There are a number of mobile developers mostly working on Android with Java.

According to the survey results, there are more than 24,000 specialist working in the sector within 20-45 age range, out of which, approximately 5,000 are working in Application Development.

There are 19 HEI’s providing IT specializations with an average of around 560 annual graduates for the past five years. Besides higher education, there are 46 VET and Certification institutions offering a variety of courses in Computer Programming with 782 students graduating in 2018. Besides formal education there are numerous IT training centers offering intensive beginner programs.

Working knowledge of Russian and English language is common among IT specialists. Based on the survey results, it is estimated that 67% of IT professionals have working knowledge in English and 60% have working knowledge in Russian.

Companies holding IT outsourcing departments

Source: Geostat, BIA, Deloitte analysis © 2018 Deloitte & Touche LLC
Business Sector Overview – CRM: CRM service segment has a high potential of serving CIS and European countries due to the close proximity and skilled workforce.

Segment overview

The Information provision service market is growing at 18% CAGR over the past 5 years, reaching USD 22 million in 2017. It is estimated that out of information provision services the CRM holds the revenue share of 11% and amounts to USD 2.5 million. Large scale companies in Banking and Insurance, Healthcare, Telecommunications and other Business services have established in-house CRM centers generating the vast majority of revenue in the service area.

There are up to 40 companies providing CRM services in Georgia; where more than 60% of companies have an annual turnover less than USD 200,000.

There are large international companies serving European markets in multiple languages such as Arvato Bertelsmann, CMX, Evolution Gaming and others. Out of the 9 CRM companies that took part in the survey, the vast majority of them provide customer support and telemarketing services. The main working languages used to cater this service is Georgian, Russian and English. Apart from provisioning services to companies in the local market, some of the survey participants serve European countries (including neighboring Turkey, Azerbaijan and Armenia) and USA.

CRM companies have the highest FTE headcount compared to the other service areas. Only 43% of CRM companies have an employee headcount of less than 10 FTE’s. There are several large international companies employing more than 100 FTE’s. Companies constantly upgrade employee knowledge by providing trainings mostly in sales and customer service.

Based on the survey results, there are more than 150,000 educated workforce available to be employed in the CRM service area. There are approximately 35,000 employees working in the CRM service area mainly concentrated in Tbilisi.

The most required skills in CRM are knowledge of languages and soft skills, therefore main pool of employees is naturally identified from graduates of Social Science faculties. According to the survey results, knowledge of Russian and English languages are the most common among CRM specialists. It is estimated that 25% of labor force are proficient in one or more languages.

Companies holding outsourcing departments in Georgia

Source: Geostat, BIA, Deloitte analysis © 2018 Deloitte & Touche LLC
Business Sector Overview – ADE: ADE service segment is relatively developed in Georgia having local as well as international players on the market

Segment overview

Architecture and Engineering services are growing at 4% CAGR over the past 5 years, reaching USD 144 million in 2017. Growth is more visible in national currency indicating 15% CAGR equivalent. ADE services in Georgia are reasonably developed having local as well as international players on the market. There are more than 40 international company representations in the service area. There are more than 1,600 companies providing ADE services where more than 83% of companies have annual turnover less than USD 200,000.

Based on the survey results, outsourcing companies in ADE amounted to 15. They mostly provide Rendering, 3D Modelling and Design services. Major clients come from Europe and the USA.

Outsourcing companies in ADE are not required to have specific trading certificates or permits to establish operations in Georgia.

The majority of companies in ADE have an employee headcount of less than 10 FTE’s. 26% of companies have up to 50 employees while 7% of companies have an employee headcount of more than 50 FTE’s. Companies prefer to hire experienced specialists rather than fresh graduates. Besides that, employees need on average one month training to be involved in the architectural projects.

Higher institution diplomas together with specific software knowledge are considered as a must in the sector. The most widespread software programs are AutoCAD, ArchiCAD and Revit.

Higher education in ADE is available in Tbilisi and Batumi therefore resulting in a high concentration of sector development between the two cities. There are 6 HEI’s of which four are in Tbilisi and two are in Batumi, offering ADE specialist courses with an average of 170 graduates annually over the past five years. None of the HEI faculties offer high quality education as course materials are based on outdated curricula, resulting in a substandard entry level workforce that is in need of skill upgrade.

Based on the survey results, there are 23,000 people employed in ADE sector mostly concentrated in Tbilisi and Batumi with 12,000 and 7,000 employees respectively.

Besides higher education, there are 7 VET and Certification institutions offering various courses in ADE with the average of 140 graduates over the last five years.

Russian and English are the most widespread languages among ADE specialists. According to survey results it is estimated that 50% of employees in ADE have a working proficiency in English and 65% have proficiency in Russian.

Companies holding outsourcing departments in Georgia

Source: Geostat, BIA, Deloitte analysis
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Success stories local market (1/7)

**Company name:** Conf.
**Services provided:** ADE
**Company website:** n/a

**FTE:** 25

**Confidential**

**Success story**

The company is a subsidiary of US based leading ADE company. Through its cost optimization strategy, the company reviewed several countries to open offices at off-shore locations. Georgia was recommended to them as a potential investment location for ease of doing business and low cost labour opportunities. The final decision was made after a comprehensive feasibility study in combination with the support from the government. The office was opened in 2016 in Tbilisi and since then have been growing significantly in size. The company employees 25 FTE’s that focuses on providing ADE services for branded hotel chains in the US market.

The key challenges facing the company in case of recruitment were impeding language barriers and outdated technical knowledge. On average, the company spends GEL 5,000 annually on staff trainings and online tutorials. The biggest advantage of operating in the Georgian market is an intelligent, creative and motivated personnel.

**Testimonials**

“Georgia has inexpensive labor, delivering European standard high quality services at significantly lower prices”

S. S. Regional director

“Georgian investment environment is highly perspective and attractive, with competitive prices and high intellectual creative labor force. The biggest challenges are language barriers and knowledge of innovative methodologies and technologies.”

S.S. Regional director

Source: BIA, company management

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**Company name:** Conf.
**Services provided:** CRM
**Company website:** n/a

**FTE:** 470
**Revenue:** ~USD 500k-800k

**Architecture and design service centers**

**International CRM company**

**Company name:** Conf.
**Services provided:** CRM
**Company website:** n/a

**FTE:** 470

**Revenue:** ~USD 500k-800k

**Testimonials**

According to the management, the company made a decision to establish local center due to several factors: nearshore location, increasing number of German speaking people, low corruption rate

**How would you describe the investment climate in Georgia:**
- Ease of doing business
- Government support

Source: BIA, company management

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Success stories local market (2/7)

**Success story**

The BDO network is represented in 162 countries, vast majority of which offers outsourcing services. BDO Georgia mainly serves its clients on local market, and all out-of-country services are rendered as referrals through other member firms.

BDO opened its outsourcing services line in 2000. Main factors behind opening the business line were as follows:

- Best way to enter the Audit and Accounting services market;
- The International outsourcing trend started to become popular worldwide, as well as in Georgia.

BDO currently has approximately 35 FTEs carrying outsourcing services. Employees are involved in different activities to enhance the activities resulting in an increase in project execution efficiency and effectiveness. One of the major goals in the outsourcing field is to maintain the high quality of services and ability to cover increasing demand. Even though there are many activities which need to be executed, management highlights three major activities: Constant employee trainings, software development and optimization, effective internal procedures.

Main challenges the company is facing in Georgian market are:

- Since Georgia is still a developing country, the effective legislative changes and innovations are important, however at the same time it is more important to adopt and implement these innovations in a timely manner. Sometimes it takes long to first train staff and then to help client to operate in an upgraded working environment.
- The understanding of outsourcing to many companies operating in Georgia is rather superficial. Hence there is a high risk of inconsistent perception of the benefits of outsourced services, very diverse and often incoherent expectations by clients, and therefore difficulties in allocating responsibilities fairly and properly in the engagement.
- The necessity of constantly increasing investments into technology and human recourses.
- Existing trend in the local market towards low service fee rather than quality.

BDO’s approach is to hire fresh graduates and train them accordingly to suffice business needs. The company pays attention to the background of applicants both in terms of professional experience as well as technical knowledge. Language proficiency and computer literacy skills are always of high importance.

**Testimonials**

“In recent years, Georgia is actively trying to implement reforms which could help in terms of the liberalization of the economy and an increase of foreign investments. Key advantages in setting up an outsourcing operation are:

- Ease of starting businesses - set up a company in one day;
- Liberal tax system - Reduced tax rates, facile tax legislation; special incentives for different types of enterprises and businesses (free industrial zones, special statuses which can facilitate tax administratons process);
- Relatively cheap workforce;
- Ease of to be engaged in trade as a Georgian Company - low import tariffs, limited customs paperwork needed for exports and imports, special tax incentives for export/re-export, excellent administration of customs procedures, etc;
- Good geographical position;
- Low level of corruption.

*Ketevan Zaridze, Partner, Head of Outsourcing*

“Georgia is an investment destination that has been attracting particular attention for past few years due to the recent reforms put in place. Easy administrative procedures and liberal tax legislations are important factors.

Georgia has received an overall positive assessment from the international rating agencies and financial institutions, improving the business environment in the country. Free industrial zones and special economic statuses give the possibility to invest and develop business directions. Potential investors have the possibility to develop and enhance its businesses costs effectively, due to relatively low taxes and cheap workforce.

A very important factor is the hospitality of Georgian people and its historical heritage inclined to accept people from other cultures proving an attractive practice for people from different cultures, which is definitely a unique feature and advantage.”

*Ketevan Zaridze, Partner, Head of Outsourcing*
Success stories local market (3/7)

Success story
Nexia TA offers different types of financial services to organizations, that are based in Georgia. These financial services include Accounting outsourcing, Tax Audit, Tax consultations, Financial Audit, Advisory and Transfer pricing. Nexia TA is a member of the “Nexia International” network (Nexia) from 2014. Nexia is a global, leading network of independent accounting and consulting firms.

Nexia TA started F&A outsourcing activities in 2014. According to the management, an outsourcing decision was made based on their own experience and demand for services by locally based companies. Nexia, being in line with the demanded services, expanded into a niche market. Nexia has 50 FTE’s in the outsourcing division serving mostly Retail, Construction, Distribution, Pharmacy and MicroFinance clients that are both local and international companies based in Georgia.

Since the introduction of a new taxation law, local companies are required to adopt IFRS standards and prepare financial statements accordingly. The new tax law has increased the demand for accounting and financial reporting outsourcing from companies that want to mitigate risks and receive high quality error-free accounting. As outsourcing is a relatively new practice, companies are either unaware of the services or lack trust in terms of confidentiality, where some companies requiring to wish to have accounting documents and accountants in the office to manage processes directly. Another challenge that Nexia management faces is the difficulty of finding experienced staff. With businesses growing in size, an increasing number of companies are shifting their F&A operations to outsourcing companies in order to better manage their businesses.

Nexia Ta has established its own academy dedicated to training its own personnel. It also offers several professional courses for students.

Testimonials
“First of all I would like to mention that Georgia is a safe place to do business, the country is gaining popularity and has high rankings with international rating agencies.”

Gela Mgebrishvili
Managing partner, Nexia TA

“Aside from having a favorable strategic location, starting business in Georgia is very easy. The country has a very simplistic tax regime, following the adoption of the Estonian tax model. The biggest challenge from my point of view is that Georgia is just gaining attention and popularity among investors but the biggest limitation factor is geopolitical threat.”

Boris Megrelishvili
Managing partner, Nexia TA
Success stories local market (4/7)

Success story

CMX Solutions is a German customer care company providing customer service at its locations in Berlin, Skopje, Tbilisi and Yerevan. The company provides a variety of customer services including: inbound contact center services via email contacts, chats and social media, outbound contact center services via phone, email social media and; back office processing through responding to emails and requests received by email or by fax.

CMX solutions entered the Georgian market, setting up its local headquarter office in Tbilisi, in 2016. The site in Tbilisi already employs more than 110 employees, and it is equipped with 100+ workstations. The vast majority of services provided out of the Tbilisi branch primarily serve German speaking markets with a minority of services focused on Russian speaking markets.

CMX solutions managed to successfully recruit German speaking Georgians with relevant call center experience. Two years down the line, CMX solutions is serving customers abroad across a full range of service lines on the global market.

"As part of our commitment to ever improving our service to our licensees and ever increasing our lead over our competitors, we are delighted to announce our next major studio in Tbilisi, Georgia. From this studio, we will continue to expand, offering our services to additional customers and markets. The new studio will also provide further solid career opportunities, both amongst our existing staff and new employees. Tbilisi is a beautiful city with a population of over 1 million people, and offers strong development and investment opportunities."

Evolution Group CEO Martin Carlesund

Success story

Evolution Gaming is a business-to-business company specializing in developing, producing, marketing and licensing integrated live casino solutions to gaming operators in online casinos. Among Evolution's products are award-winning Lightning Roulette and Dreamcatcher; but also traditional games such as Roulette, Blackjack, Casino Hold'em, Three Card Poker, Caribbean Stud Poker and Baccarat in live version, which means the user is playing against a Game Presenter who is a real person in real time.

Evolution gaming currently operates nine studios in total. The brand has opened its third studio in Europe in 2018. Their strong standing in Europe has overflowed into North America. Evolution Gaming is the most popular live game provider in Canada. Evolution Gaming expanded to Georgia following to high demand and went to live in 2018. The new studio in Tbilisi in the country of Georgia is state-of-the-art. It will act as a service hub for many markets that use Evolution Gaming creations.
Success story

Insource is a leading local consulting and recruiting company. Insource.ge services include the search for the leaders and professionals in order to create a successful teams of management consulting and training. Company was established in 2010 and has undertaken several projects for local companies.

The company has conducted several research reports on the local labor market. Studies cover topic areas in relation to the structure and methodology applied during job searching process, established industries in Georgia and an analysis of the highest labour demanded sectors in Georgia.

The company undertook research in cooperation with Pasha bank headlined Business café in 2015. The main idea of the project was to host an informal meeting of top management and knowledge sharing among the top businesses in Georgia.

Company has an experience in recruiting of all ranks of staff for foreign companies that are entering Georgian market and establishing local business units.

The company provides the following services: potential assessment of candidates and interviews in English. They also offer an applicable candidate list from the company’s database and provide a full report with regards to the selection process of potential job candidates.

Success story

FINCA Impact Finance’s network of 20 community-based microfinance institutions and banks offers innovative, responsible and impactful financial services to low-income clients. In 2015, Finca set up an internal back office for office network support, which serve CEE and CIS markets.

Finca set up an SSC operating as a local subsidiary to the parent company.
Success stories local market (6/7)

Orient Logic

Company name: Orient Logic
Services provided: IT
Company website: n/a
http://www.orient-logic.ge/

$$\begin{align*}
\text{FTE:} & \ 155 \\
\text{Revenue GEL:} & > 5 \text{ Mln}
\end{align*}$$

Success story
Orient Logic has over 20 years of experience in the Georgian IT outsourcing market. The company started out servicing printers and offering full package IT technical support and equipment to their customers. The company’s key areas of outsourcing operations fall, but not limited, under two areas:

- Support of Client based IT Infrastructure, including Nonstop and Mission Critical systems;
- IT Consulting and other services, including networking, software support and etc.

The company has an employee headcount of 50 FTE’s dedicated to serving clients on demand 24/7, 365 days a year. Staff is regularly trained and, as a result, certified to deliver quality services to customers. Orient Logic’s biggest customers are in the Banking, Telecommunication, Healthcare and Transport sectors. Due to high competition in the market, the company strives to establish long-term partnerships with the customers by compensating a lower profit margin in order to deliver high-quality services. The Company's average profit margin is 15-20%.

According to the management, most of the young people have good English proficiency but lack of knowledge of other European languages placing a limit on providing services to non-English speaking clients. The company has recently opened an office in Sweden to increase its client base and increase its project pipeline in the local market.

Testimonials
“The biggest challenge is relatively low FDI and small size of the local market. The key advantages are ease of doing business and simple company registration procedure.”

Vitali Djaginov, Co-founder

Source: BIA, Orient Logic management

MCI

Company name: MCI
Services provided: F&A
Company website: n/a

$$\text{FTE:} \ \sim 30$$

Success story
A local multifunctional outsourcing company. The company’s key areas of outsourcing services fall under the following areas: F&A, Management, Marketing, Legal and Notary. The company was established in 2012 mostly providing services to local clients. Top services are F&A and management outsourcing. The main challenges observed in the market is finding staff with a combination of satisfactory foreign language proficiency and good technical skills.

Source: MCI management

Conf

Company name: Conf
Services provided: IT
Company website:

$$\text{FTE:} \ \sim 10$$

Web page and app developer

Source: Company management

Success story
The local IT company was established in Georgia in 2014. The main service offering is IT outsourcing focusing on web page design and mobile application development for both local and international companies with parent companies in the US, Canada and Germany.

The main reason for establishing the company was personal experience in this field.

Key challenges the management met is looking for well qualified IT personnel.

Source: Company management

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Success story

UGT is a leading local IT company established in 1997. The company offers a wide range of IT services: IT process management, data processing infrastructure support, network infrastructure support, IT hardware support, IT systems support, management of IT Services continuity and hosting. The company’s major client base is local public and private organizations.

The company has 5 subsidiaries: Amper, Deline, Ensol, IT-Knowledge, PCshop.ge.

UGT assists the Ministry of Foreign Affairs in IT infrastructure development with the use of modern technologies. The project is planned to last for 2 years and includes the development of the above mentioned works as well as supporting the Ministry in the development of modern IT management standards. The first phase of the project includes:

- Creating an intranet portal for employees;
- Forming meeting and an event management system;
- Creating an HR and staff assessment system;
- Creating a contact management system;
- Establishing a staff coordination and document turnover system.

UGT has been named the best partner of the year in the sales at Microsoft’s Partnership Conference. With large business segments, UGT is also going to focus on medium and small business segments. On the basis of Microsoft’s products, UGT is going to create basic packages for small and medium businesses. Organizations will be able to meet major automation requirements.

Success story

Tetraedri set up a small architecture bureau predominantly serving German-speaking countries. The key success factor was a Georgian representative working in a foreign ADE company that collected and shared requests for Georgian BPO services. Temporary specialists are drafted to cope with business demand from Germany. The main service provided is the processing of drawing in CAD programs.

“The biggest challenge to find experienced staff”

“Good start was sufficient amount of architects working in Revit, speaking German language”

Success story

KMS Georgia was established in 2009. The local company provides primarily HR recruiting services for several international hotel chains in the hospitality sector. Aside from HR recruiting services, the company also offers staff training in the hospitality sector across Georgia.

Company name: KMS
Services provided: HR
Company website:

Company name: Tetraedri
Services provided: Architecture and Related Services
Company website:

Company name: UGT
Services provided: IT, ICT and Information security services
Company website:

Source: Interview with respective company
Source: Company’s website
Source: Company’s website, BIA

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Phase II.
Benchmarks for Georgia
Country benchmarks for BPO and SSC study

Poland
SSC/ BPO – 552; FTE’s – 212,000;
Average Gross Monthly salary – USD 1,194

Czech Republic
SSC/ BPO – 240; FTE’s – 89,000;
Average Gross Monthly salary – USD 1,402

Bulgaria
SSC/ BPO – 244; FTE’s – 140,000;
Average Gross Monthly salary – USD 658

Romania
SSC/ BPO – 265; FTE’s – 125,000;
Average Gross Monthly salary – USD 1,092

Bosnia and Herzegovina
SSC/ BPO – 20; FTE’s – 20,000;
Average Gross Monthly salary – USD 791

Lithuania
SSC/ BPO – 48; FTE’s – 12,500
Average Gross Monthly salary – USD 1,061

Armenia
SSC/ BPO – 160*; FTE’s – 7,000;
Average Gross Monthly salary – USD 478

Ukraine
SSC/ BPO – 70; FTE’s – 40,000;
Average Gross Monthly salary – USD 328

Albania
SSC/ BPO – 130**; FTE’s – 15,000;
Average Gross Monthly salary – USD 542

Moldova
SSC/ BPO – 53***; FTE’s – 24,000;
Average Gross Monthly salary – USD 350

Georgia
SSC/ BPO – 131; FTE’s – 2,500;
Average Gross Monthly salary – USD 400

Note: Under SSC/BPO is considered SSC/BPO delivery centers
* Estimation based on the number of IT delivery centers providing outsourcing services to foreign markets as per the Armenian ICT Industry Association
** Estimation based on the number of Call Center delivery centers providing outsourcing services to foreign markets as per the Invest in Albania agency
*** Estimation based on the number of Software and Development, Software Integration and BPO companies as per the Moldovan Association of ICT companies

Source: ABL and country investment profiles, ACT survey
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Finance and Accounting – Gross salary levels and Investment cost per FTE

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Position</th>
<th>Georgia</th>
<th>Poland</th>
<th>Czech Republic</th>
<th>Bulgaria</th>
<th>Romania</th>
<th>Bosnia and Herzegovina</th>
<th>Lithuania</th>
<th>Armenia</th>
<th>Ukraine</th>
<th>Albania</th>
<th>Moldova</th>
</tr>
</thead>
<tbody>
<tr>
<td>F&amp;A</td>
<td>Junior Accountant</td>
<td>390</td>
<td>930</td>
<td>1,164</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>176</td>
</tr>
<tr>
<td></td>
<td>Accountant</td>
<td>520</td>
<td>1,524</td>
<td>1,572</td>
<td>1,150</td>
<td>1,306</td>
<td>1,027</td>
<td>1,406</td>
<td>1,186</td>
<td>447</td>
<td>909</td>
<td>1,014</td>
</tr>
<tr>
<td></td>
<td>Financial Manager</td>
<td>990</td>
<td>2,913</td>
<td>2,698</td>
<td>1,796</td>
<td>2,468</td>
<td>1,992</td>
<td>1,998</td>
<td>1,589</td>
<td>1,853</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average cost per FTE in F&amp;A</td>
<td>655</td>
<td>2,245</td>
<td>2,400</td>
<td>2,300</td>
<td>2,087</td>
<td>1,365</td>
<td>1,786</td>
<td>1,225</td>
<td>532</td>
<td>906</td>
<td></td>
<td>524</td>
</tr>
</tbody>
</table>

Analysis:

- Georgia is competitively ranked for mid and senior level staff positions amid its competitor peers. Georgia is at the lower end of the cost per FTE scale.
- Due to a mature Banking and Financial Services cluster in the Czech Republic and Poland, finance and accounting professionals are some of the easiest, in demand profiles on the local job markets.

Note: The average base salary for the service area, bonus pay including language premium bonuses, social insurance payments and training costs for new hires are the cost components factored into the average cost per FTE.

Source: ABSL Reports, Teleport.org, Hays Salary Guide
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Human Resources – Gross salary levels and Investment cost per FTE

Human Resources gross salaries and cost per FTE in U.S Dollars

<table>
<thead>
<tr>
<th>Service Area</th>
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<th>Georgia</th>
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<th>Armenia</th>
<th>Ukraine</th>
<th>Albania</th>
<th>Moldova</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Junior HR specialist</td>
<td>280</td>
<td>571</td>
<td>977</td>
<td>581</td>
<td>533</td>
<td>396</td>
<td>390</td>
<td>290</td>
<td>250</td>
<td>350</td>
<td>306</td>
</tr>
<tr>
<td>HR</td>
<td>Mid level HR Specialist</td>
<td>400</td>
<td>1,143</td>
<td>1,395</td>
<td>1,163</td>
<td>1,067</td>
<td>637</td>
<td>1,109</td>
<td>596</td>
<td>886</td>
<td>564</td>
<td>998</td>
</tr>
<tr>
<td></td>
<td>HR Manager</td>
<td>760</td>
<td>2,994</td>
<td>2,326</td>
<td>2,265</td>
<td>2,667</td>
<td>2,252</td>
<td>2,000</td>
<td>1,028</td>
<td>1,600</td>
<td>1,993</td>
<td>1,793</td>
</tr>
<tr>
<td>Average cost per FTE in HR</td>
<td></td>
<td>680</td>
<td>1,730</td>
<td>1,660</td>
<td>1,527</td>
<td>1,663</td>
<td>984</td>
<td>1,473</td>
<td>870</td>
<td>684</td>
<td>712</td>
<td>779</td>
</tr>
</tbody>
</table>

Note: The average base salary for the service area, bonus pay including language premium bonuses, social insurance payments and training costs for new hires are the cost components factored into the average cost per FTE.

Source: ABSL Reports, Teleport.org, Hays Salary Guide
© 2018 Deloitte & Touche LLC

Analysis:

- Georgia has a distinct competitive advantage in terms of average cost and human resources personnel of junior and senior rank. Junior and Senior level staff are placed far below salary level benchmarks at the bottom end of the pay scale.
- Human resources salaries are amongst the highest in the Czech Republic and Poland across the board. Skilled candidates with English knowledge are easy to find in the business services sector in the Czech Republic and Poland.
- Albania, Ukraine and Lithuania are countries with the lowest paid salaries. Low national wages and cheap labor costs are the primary reasons behind the wage levels in these countries being at the lower end of the scale.
# Customer Relationship Management – Gross salary levels and Investment cost per FTE

## Customer Relationship Management gross salaries and cost per FTE in U.S dollars

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Position</th>
<th>Georgia</th>
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<th>Romania</th>
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<th>Albania</th>
<th>Moldova</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRM</td>
<td>Customer Services rep.</td>
<td>280</td>
<td>843</td>
<td>1,073</td>
<td>581</td>
<td>671</td>
<td>554</td>
<td>613</td>
<td>353</td>
<td>265</td>
<td>482</td>
<td>217</td>
</tr>
<tr>
<td></td>
<td>Customer Services manager</td>
<td>840</td>
<td>1,356</td>
<td>1,442</td>
<td>1,069</td>
<td>1,209</td>
<td>1,040</td>
<td>529</td>
<td>357</td>
<td>1,070</td>
<td>1,189</td>
<td>271</td>
</tr>
<tr>
<td></td>
<td>Sales Agent</td>
<td>360</td>
<td>1,244</td>
<td>1,105</td>
<td>1,261</td>
<td>1,181</td>
<td>321</td>
<td>728</td>
<td>350</td>
<td>424</td>
<td>n/a</td>
<td>454</td>
</tr>
<tr>
<td></td>
<td>Sales Manager</td>
<td>600</td>
<td>2,365</td>
<td>2,309</td>
<td>2,409</td>
<td>1,355</td>
<td>827</td>
<td>1,386</td>
<td>590</td>
<td>758</td>
<td>n/a</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Average cost per FTE in CRM</td>
<td>567</td>
<td>1,991</td>
<td>2,135</td>
<td>2,564</td>
<td>1,810</td>
<td>1,089</td>
<td>1,498</td>
<td>899</td>
<td>756</td>
<td>934</td>
<td>660</td>
</tr>
</tbody>
</table>

*Note: The average base salary for the service area, bonus pay including language premium bonuses, social insurance payments and training costs for new hires are the cost components factored into the average cost per FTE.*

Source: ABSL Reports, Teleport.org, Hays Salary Guide
© 2018 Deloitte & Touche LLC

### Analysis:
- Junior and Senior level staff salary levels for Sales and Customer services functions are among the lowest in combination with the lowest average cost per FTE.
- Junior level customer services vacancies are easy to fill across all countries in large quantities.
- Wage levels in Bulgaria are among the highest for the sales service line.
- Moldova has the lowest wage levels for both junior and senior level Sales staff in addition to junior level staff in the CRM service segment.
Information Technology – Gross salary levels and Investment cost per FTE

### Information Technology gross salaries and cost per FTE in U.S dollars

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Position</th>
<th>Georgia</th>
<th>Poland</th>
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<th>Romania</th>
<th>Bosnia and Herzegovina</th>
<th>Lithuania</th>
<th>Armenia</th>
<th>Ukraine</th>
<th>Albania</th>
<th>Moldova</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT</td>
<td>IT support specialist</td>
<td>600</td>
<td>2,444</td>
<td>2,386</td>
<td>1,350</td>
<td>2,324</td>
<td>631</td>
<td>1,648</td>
<td>698</td>
<td>679</td>
<td>558</td>
<td>529</td>
</tr>
<tr>
<td>IT</td>
<td>Programme Engineer</td>
<td>1,320</td>
<td>2,694</td>
<td>2,582</td>
<td>1,261</td>
<td>2,798</td>
<td>1,274</td>
<td>2,181</td>
<td>655</td>
<td>888</td>
<td>n/a</td>
<td>493</td>
</tr>
<tr>
<td>IT</td>
<td>IT Project Manager</td>
<td>1,040</td>
<td>3,198</td>
<td>3,246</td>
<td>2,876</td>
<td>2,724</td>
<td>900</td>
<td>1,462</td>
<td>698</td>
<td>920</td>
<td>n/a</td>
<td>537</td>
</tr>
<tr>
<td>IT</td>
<td>Application Developer</td>
<td>960</td>
<td>2,549</td>
<td>2,899</td>
<td>3,335</td>
<td>2,664</td>
<td>930</td>
<td>2,769</td>
<td>718</td>
<td>962</td>
<td>974</td>
<td>1,765</td>
</tr>
<tr>
<td>IT</td>
<td>IT Infrastructure Team Member</td>
<td>880</td>
<td>2,241</td>
<td>1,335</td>
<td>1,198</td>
<td>1,109</td>
<td>906</td>
<td>1,929</td>
<td>508</td>
<td>661</td>
<td>n/a</td>
<td>499</td>
</tr>
</tbody>
</table>

**Average cost per FTE in IT**: 1,003

<table>
<thead>
<tr>
<th>Average Cost per FTE</th>
<th>Georgia</th>
<th>Poland</th>
<th>Czech Republic</th>
<th>Bulgaria</th>
<th>Romania</th>
<th>Bosnia and Herzegovina</th>
<th>Lithuania</th>
<th>Armenia</th>
<th>Ukraine</th>
<th>Albania</th>
<th>Moldova</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3,363</td>
<td>3,240</td>
<td>2,327</td>
<td>2,736</td>
<td>829</td>
<td>2,230</td>
<td>939</td>
<td>893</td>
<td>668</td>
<td>673</td>
<td></td>
</tr>
</tbody>
</table>

**Analysis:**

- Despite a large number of graduates the competition for IT talent is high among Poland, the Czech Republic, Bulgaria and Romania, which is reflected in noticeably higher wage levels across all professions in the IT sphere.
- An increasing number of locally operating multinational companies are starting to attract talent from abroad, particularly from Ukraine. Experienced Java, .NET and mobile developers remain some of the most difficult profiles for companies to find.
- The lower end of the scale depicts similar wage levels between Ukraine and Moldova as Application Developer position wage levels in Moldova indicates a cost competitive environment in the commercial and customer application development sphere.
### Architecture, Design and Engineering – Gross salary levels and Investment cost per FTE

#### Architecture, Design and Engineering gross salaries and cost per FTE in U.S dollars

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Position</th>
<th>Georgia</th>
<th>Poland</th>
<th>Czech Republic</th>
<th>Bulgaria</th>
<th>Romania</th>
<th>Bosnia and Herzegovina</th>
<th>Lithuania</th>
<th>Armenia</th>
<th>Ukraine</th>
<th>Albania</th>
<th>Moldova</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADE</td>
<td>Architect Group Specialist</td>
<td>500</td>
<td>760</td>
<td>824</td>
<td>1,163</td>
<td>890</td>
<td>698</td>
<td>975</td>
<td>450</td>
<td>571</td>
<td>618</td>
<td>521</td>
</tr>
<tr>
<td></td>
<td>Architect</td>
<td>1,100</td>
<td>2,000</td>
<td>2,326</td>
<td>1,453</td>
<td>1,067</td>
<td>1,055</td>
<td>1,292</td>
<td>740</td>
<td>883</td>
<td>934</td>
<td>915</td>
</tr>
<tr>
<td></td>
<td>Interior Designer</td>
<td>600</td>
<td>1,143</td>
<td>744</td>
<td>1,163</td>
<td>1,330</td>
<td>704</td>
<td>784</td>
<td>477</td>
<td>902</td>
<td>623</td>
<td>901</td>
</tr>
<tr>
<td></td>
<td>CAD Specialist</td>
<td>500</td>
<td>1,417</td>
<td>2,200</td>
<td>1,000</td>
<td>1,833</td>
<td>1,293</td>
<td>1,350</td>
<td>718</td>
<td>732</td>
<td>1,145</td>
<td>839</td>
</tr>
<tr>
<td></td>
<td>3D Modeling and Visualization Specialist</td>
<td>800</td>
<td>2,274</td>
<td>2,665</td>
<td>1,743</td>
<td>2,643</td>
<td>1,985</td>
<td>1,782</td>
<td>570</td>
<td>469</td>
<td>n/a</td>
<td>439</td>
</tr>
</tbody>
</table>

**Average cost per FTE in Architecture** 1,024

| Average Cost per FTE | 875 | 1,024 | 1,186 | 1,478 | 1,811 |

**Analysis:**

- Georgia has recorded the lowest salary levels for junior level architects and CAD/3D specialists and the highest salary recording for the position of interior and product designers.

- The Czech Republic, Bulgaria and Romania are the top paying countries for the architecture related segment.

- Armenia is consistently the lowest among its cost based competitive countries like Ukraine and Albania in this regard.

Note: The average base salary for the service area, bonus pay including language premium bonuses, social insurance payments and training costs for new hires are the cost components factored into the average cost per FTE. Source: ABSL Reports, Teleport.org, Hays Salary Guide © 2018 Deloitte & Touche LLC

Business Process Outsourcing & Shared Service Centers
Investment Potential research development
## Investment opportunities rationale based on workforce and language skills

<table>
<thead>
<tr>
<th></th>
<th>Tbilisi</th>
<th>Batumi</th>
<th>Kutaisi</th>
<th>Zugdidi</th>
<th>Telavi</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Target group in 20-45 age group</strong></td>
<td>436k</td>
<td>55k</td>
<td>48k</td>
<td>14k</td>
<td>7k</td>
</tr>
<tr>
<td><strong>Languages</strong></td>
<td>🇺🇸🇬🇧🇩🇪🇫🇷</td>
<td>🇷🇺🇬🇧🇩🇪</td>
<td>🇷🇺🇬🇧🇩🇪</td>
<td>🇷🇺🇬🇧</td>
<td>🇷🇺🇬🇧</td>
</tr>
<tr>
<td><strong>F&amp;A</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educated</td>
<td>65k</td>
<td>9k</td>
<td>7k</td>
<td>2k</td>
<td>1k</td>
</tr>
<tr>
<td>Employed 20-45 age group</td>
<td>19k</td>
<td>4k</td>
<td>6k</td>
<td><strong>0.2k</strong></td>
<td></td>
</tr>
<tr>
<td>Language skills*</td>
<td>5k</td>
<td>N/A</td>
<td>1k</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>HR</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educated</td>
<td>60k</td>
<td>6k</td>
<td>7k</td>
<td>2k</td>
<td>0.4k</td>
</tr>
<tr>
<td>Employed 20-45 age group</td>
<td>16k</td>
<td>1k</td>
<td><strong>2k</strong></td>
<td>1k</td>
<td>N/A</td>
</tr>
<tr>
<td>Language skills*</td>
<td>5k</td>
<td>1k</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>CRM</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educated</td>
<td>125k</td>
<td>13k</td>
<td>12k</td>
<td>3k</td>
<td>3k</td>
</tr>
<tr>
<td>Employed 20-45 age group</td>
<td>28k</td>
<td>3k</td>
<td><strong>1k</strong></td>
<td><strong>1k</strong></td>
<td><strong>1k</strong></td>
</tr>
<tr>
<td>Language skills*</td>
<td>8k</td>
<td>N/A</td>
<td>1k</td>
<td>N/A</td>
<td><strong>0.3k</strong></td>
</tr>
<tr>
<td><strong>IT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educated</td>
<td>20k</td>
<td>2k</td>
<td>1.5k</td>
<td>0.5k</td>
<td>0.3k</td>
</tr>
<tr>
<td>Employed 20-45 age group</td>
<td>20k</td>
<td>3K</td>
<td><strong>1.4k</strong></td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Language skills*</td>
<td>2k</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>ADE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educated</td>
<td>4k</td>
<td>0.3k</td>
<td>1k</td>
<td>N/A</td>
<td>0.1k</td>
</tr>
<tr>
<td>Employed 20-45 age group</td>
<td>12k</td>
<td>7k</td>
<td><strong>4k</strong></td>
<td>N/A</td>
<td>0.3</td>
</tr>
<tr>
<td>Language skills*</td>
<td>2k</td>
<td>1k</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**Note:** Generalization based on pre-selected workforce multiplied by share of survey results

**Source:** Geostat, ACT survey, Deloitte analysis

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Benchmarking Georgia’s competitive positioning in terms of office rental prices and utilities expenses

Rent
Georgia has the lowest average rent among benchmarking countries and relatively low prime rent prices

<table>
<thead>
<tr>
<th>Prime class rent USD per SQ meter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia 18</td>
</tr>
<tr>
<td>Median 21</td>
</tr>
<tr>
<td>17</td>
</tr>
<tr>
<td>min</td>
</tr>
<tr>
<td>max</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Average rent USD per SQ meter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia 12</td>
</tr>
<tr>
<td>Median 15</td>
</tr>
<tr>
<td>20</td>
</tr>
<tr>
<td>min</td>
</tr>
<tr>
<td>max</td>
</tr>
</tbody>
</table>

Utilities
Utility cost per sq meter and internet services are the lowest and mid priced respectively, compared to benchmarking countries

<table>
<thead>
<tr>
<th>Utility cost per SQ meter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia 2.3</td>
</tr>
<tr>
<td>Median 3.3</td>
</tr>
<tr>
<td>6</td>
</tr>
<tr>
<td>min</td>
</tr>
<tr>
<td>max</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Average cost of broadband per month USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia 19</td>
</tr>
<tr>
<td>Median 19</td>
</tr>
<tr>
<td>5</td>
</tr>
<tr>
<td>min</td>
</tr>
<tr>
<td>max</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-household Electricity tariff USD per Kwh*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia 0.06</td>
</tr>
<tr>
<td>Median 0.08</td>
</tr>
<tr>
<td>0.14</td>
</tr>
<tr>
<td>min</td>
</tr>
<tr>
<td>max</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-household Gas tariff USD per Kwh*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia 0.024</td>
</tr>
<tr>
<td>Median 0.03</td>
</tr>
<tr>
<td>0.034</td>
</tr>
<tr>
<td>min</td>
</tr>
<tr>
<td>max</td>
</tr>
</tbody>
</table>

- According to Colliers, A class business centers experienced low tenant flow during 2015-2016, due to superior tenant stability as compared to other classes. In contrast, net take up in 2017 amounted to 2,166 sq. m as a result of new offerings in the class (such as the King David BC) and lower rental prices that allowed companies to upgrade to more prestigious offices.

- GOG launched a state program on Broadband Infrastructure Development that ensured creating a fiber-optic Internet network across more than 2,000 cities and villages in Georgia.

Note: *Excluding taxes and levies; In Georgia gas provider companies calculate gas tariff in cubic meters

Source: Deloitte analysis, Colliers, Eurostat
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Benchmarking Georgia’s competitive positioning in terms taxes and labor law

Labour law
Liberal labour law enabling flexible working conditions for locally based companies

<table>
<thead>
<tr>
<th>Public Holidays</th>
<th>Remuneration of overtime</th>
<th>Temporary Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia 18 min</td>
<td>Overtime hours and payment rates is not regulated by the Georgian law in contrast to most benchmarking countries.</td>
<td>Citizens of 98 countries can stay in Georgia without visa during whole 1 year, which helps attract professionals from other countries.</td>
</tr>
<tr>
<td>18 Med 20 max 28</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Tax
Georgia has one of the lowest overall tax rates worldwide ranked in 8th** position with 16.4% total tax rate

<table>
<thead>
<tr>
<th>Corporate profit tax %</th>
<th>Personal Income tax* %</th>
<th>Social security tax %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia 0 or 15 min 10</td>
<td>Georgia 0 or 15 min 20</td>
<td>Georgia 2 min 19</td>
</tr>
<tr>
<td>Med 15 max 20</td>
<td>Med 15 max 36</td>
<td>Med 19 max 31</td>
</tr>
</tbody>
</table>

Note: Please view Appendix 2.7.6 for specific information of benchmarking countries

• Double taxation avoidance treaties with 54 countries;
• Fully exemption foreign-source income of individuals;
• No restrictions on currency convertibility or repatriation of capital and profit.

Note: *Georgia has a fixed income tax however tax rates do vary according to the country’s income tax system.
** According to the World Bank’s Ease of Doing Business Index.
Note: Please view Appendix 2.7.3/4/5 for specific data of benchmarking countries

Source: Deloitte analysis, Labor and tax code of Georgia and benchmarking countries
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Benchmarking Georgia’s competitive positioning in terms of office rent prices per SQ meter and utility expenses

<table>
<thead>
<tr>
<th>Cost</th>
<th>Unit</th>
<th>Georgia</th>
<th>Poland</th>
<th>Czech Republic</th>
<th>Bulgaria</th>
<th>Romania</th>
<th>Bosnia and Herzegovina</th>
<th>Lithuania</th>
<th>Armenia</th>
<th>Ukraine</th>
<th>Albania</th>
<th>Moldova</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent price</td>
<td>Prime rent per sq m USD</td>
<td>18</td>
<td>25</td>
<td>22</td>
<td>17</td>
<td>21</td>
<td>21</td>
<td>17</td>
<td>21</td>
<td>22</td>
<td>22</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>Average rent per sq m USD</td>
<td>12</td>
<td>15</td>
<td>15</td>
<td>14</td>
<td>15</td>
<td>18</td>
<td>15</td>
<td>13</td>
<td>15</td>
<td>20</td>
<td>14</td>
</tr>
<tr>
<td>Utility cost</td>
<td>Utility cost per sq m USD</td>
<td>2.3</td>
<td>3.2</td>
<td>3.4</td>
<td>3.8</td>
<td>3.4</td>
<td>3.2</td>
<td>3.3</td>
<td>3.3</td>
<td>2.5</td>
<td>6</td>
<td>4.2</td>
</tr>
<tr>
<td></td>
<td>Non-household Electricity tariff USD per Kwh</td>
<td>0.06</td>
<td>0.08</td>
<td>0.08</td>
<td>0.09</td>
<td>0.08</td>
<td>0.08</td>
<td>0.08</td>
<td>0.08</td>
<td>0.06</td>
<td>0.14</td>
<td>0.1</td>
</tr>
<tr>
<td></td>
<td>Non-household Gas tariff USD per Kwh*</td>
<td>0.02</td>
<td>0.03</td>
<td>0.03</td>
<td>0.02</td>
<td>&lt;0.1</td>
<td>0.03</td>
<td>&lt;0.1</td>
<td>0.03</td>
<td>&lt;0.1</td>
<td>0.03</td>
<td>0.03</td>
</tr>
<tr>
<td></td>
<td>Average cost of broadband (Per month in USD)</td>
<td>19</td>
<td>18</td>
<td>26</td>
<td>30</td>
<td>14</td>
<td>35</td>
<td>17</td>
<td>47</td>
<td>5</td>
<td>33</td>
<td>11</td>
</tr>
</tbody>
</table>

Note: Utility costs per sq meter was calculated based on the benchmark ratio of electricity consumption per sq meter for non-households electricity tariffs excluding taxes per sq meter.

*Data provided is average standard tariffs, gas tariffs most of the countries, including Georgia are deregulated and are the matter of agreement between parties.

Non-household Electricity tariff USD per Kwh and Non-household Gas tariff USD per Kwh by Eurostat are excluding taxes and levies.

Source: Colliers, CBRE, Cushman & Wakefield, Eurostat, Cable Worldwide Broadband Price Comparison 2018, Deloitte analysis

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Phase III. Investment proposals
Table of contents: Phase III. **Georgian BPO and SSC market potential**

<table>
<thead>
<tr>
<th>Disclaimer</th>
<th>93</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Proposals overview</strong></td>
<td></td>
</tr>
<tr>
<td>CRM in Kutaisi</td>
<td>94</td>
</tr>
<tr>
<td>F&amp;A in Tbilisi</td>
<td>96</td>
</tr>
<tr>
<td>HR in Tbilisi</td>
<td>98</td>
</tr>
<tr>
<td>ADM in Tbilisi</td>
<td>100</td>
</tr>
<tr>
<td>ADE in Tbilisi</td>
<td>102</td>
</tr>
<tr>
<td>IT support in Tbilisi</td>
<td>104</td>
</tr>
<tr>
<td>CRM in Tbilisi</td>
<td>106</td>
</tr>
<tr>
<td>CRM in Batumi</td>
<td>108</td>
</tr>
<tr>
<td>ADE in Batumi</td>
<td>110</td>
</tr>
<tr>
<td>F&amp;A in Kutaisi</td>
<td>112</td>
</tr>
</tbody>
</table>
Disclaimer

Induction

• The information presented in this document (hereinafter - the “Presentation”) has been developed by Deloitte (hereinafter - the “Consultant”) within the project of “Development BPO and SSC in Georgia” for Enterprise Georgia (hereinafter - the “Client”).

• The purpose of this presentation is to provide high level information to assist in obtaining an overview of the project on development of BPO and SSC centers globally and in Georgia.

• The presentation is not intended to serve as a basis for any investment decisions and may not be considered as a recommendation for investment by the Consultant.

• The findings presented in this presentation are based on the information provided to the Consultant by ACT Georgia (survey subcontractor), the client and through publicly available sources.

• When undertaking an investment decision, investors must rely on their own expertise and take into account the risks common to investments made in Georgia.

Data used in calculations

• This presentation includes financial calculations, which do not comprise of valuation, economic or financial models. Data included in the financial calculations are directly sourced from publicly available sources.

• Data used in capex calculations were obtained based on interviews conducted with practitioners working in SSC and BPO centers and do not represent binding agreements. Actual results may vary from such forward looking information. For this reason, there is some uncertainty associated with questions regarding the completeness or reliability of data provided by third parties.

• Opex calculations were based on the salary survey results carried out by the survey subcontractor and interviews conducted with local market players. Please refer to Phase 2, Appendix 2 – Scope of work.

• International Revenue figures per FTE were obtained from a sample of ten financial statements of the BPO companies located in the Eastern Europe continent within the CIS region.

• Local Revenue figures per FTE were obtained through the polling of 65 BPO companies throughout Georgia.

• The inclusion of the number of FTEs, work group structures, allocation of revenue streams in international and local markets, location of BPO center and BPO service areas in the hypothetical models were agreed with the Client.

• Discount factor has been calculated as per mid-year approach

Forward looking statements

• This presentation contains forward-looking statements. The consultant believes it is important to inform the investors about the expected results. Future events may occur that may cause the actual performance of the BPO and SSC centers to be materially different from the calculated high-level values.
Case #1 Kutaisi CRM services. Key assumptions and rationale

Large scale CRM service center in Kutaisi

Rationale for investment

- **Kutaisi meets the main criteria** for setting up a BPO or SSC center as per the **Phase 1: Global BPO and SSC market overview report**. In Kutaisi, the total available labour workforce capable of working in a CRM center is sufficient as there are approximately **1,000 experienced CRM working professionals** and a pool of **12,000 job candidates** holding diplomas in CRM related fields namely social sciences, law and media graduates. Moreover, the pool of graduates in Georgia reached approximately 26,000. In Kutaisi, there are 1,000 foreign language speakers (English, German, Russian) working in CRM. Further, there are 14 language schools in Kutaisi teaching English and German.

- A German company previously expressed interest in establishing a CRM center in Kutaisi showing clear investment potential from the perspective of international investors.

- Telecom services such as **fast broadband internet lines** and **multiuser telephone connections** are available in Kutaisi.

- Kutaisi International airport is a **half-hour drive to Kutaisi city center** offering easily accessible air connections.

CRM total costs

- **CAPEX** for establishing a BPO or SSC Center includes the following: a leasehold improvement, telecommunication infrastructure (establishing a server and telecom station), cost of office equipment and a first idle month is applied.

- **OPEX** includes the following: Staff and Administrative salaries, utilities, rent, telecommunication services and Staff training.

Business model

- **Services** - Central and East European customers will make up 90% of the customer base. Customers in the CIS and the local market will make up 10% during the first few years of operation.

- **Staff** - In line with the typical size of a CRM center in Kutaisi, the CRM center is planned to employ 100 FTEs. Additionally, a one to ten ratio is planned for every CRM manager, IT manager, Director/Technical Director to every ten CRM professionals. CRM specialists are single type of employees in the company that will drive the top line i.e. revenue per FTE.

- **Centrally located office space** is available in Kutaisi city center. By applying a rule of thumb the average working space per FTE is 2 per sqm.

- Due to the availability of staff in Kutaisi, it is assumed to start off at 30% of full capacity in the first year of operation rising to 60% in the second year, 90% in the third year, reaching maximum capacity in the 4th year.

Revenue streams

- **The Annual revenue per FTE** in a BPO and SSC center in Eastern Europe is equivalent to **USD 14,000** (USD 9 per hour in CEE), while a BPO and SSC center in the local market is equivalent to **USD 4,000** (10 CRM salary profiles).

- In case of setting up a CRM center in Kutaisi; 90% of revenue streams will come from Central and Eastern European customers while 10% will come from the CIS and the local market. To penetrate EE market, prices offered will be **40% discount on current EE average**.

Source: ACT survey, global SSC report, Deloitte analysis, open CRM companies profiles and financial statements, testimonials

According to the 2016-2017 World Economic Forum report, Georgia has one of the lowest taxes worldwide ranked 8th place with a 16.4% total tax rate and only 7 active taxes, including profit tax deductible only in case of profit distribution from 2017.

Georgia is 6th in the Ease of Doing Business Index and 16th in the Economic Freedom Index, which indicates a favorable investment climate.

A favorable location and close time proximity to Europe makes Georgia an attractive place for outsourcing companies.
Financial projections – CRM Kutaisi
High-level financial results suggest positive NPV, IRR

BPO CRM service center in Kutaisi with a headcount of 100 FTEs
Percent of full capacity: 30% – 60% – 90% – 100%

Key inputs
- Initial CAPEX = c. USD 300k
- OPEX at maximum full capacity reach USD 670k
- Revenue growth 2% as per CPI in the US
- WACC for service providers in Georgia equal to 17%

Average cost per FTE*: USD 4,000
Full cost per FTE**: USD 5,400
Revenue per FTE: USD 8,150

Disclaimer
- The purpose of this presentation is to provide high level information to assist in obtaining an overview of the project on development of BPO and SSC in Kutaisi, Batumi and Tbilisi.
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- Taking an investment decision, investors must rely on their own expertise and take into account the risks common to the investments in Georgia.

Note:
* Average cost - salary, bonuses, training and recruiting. Cost applicable to current case staff composition
** Including rent, utilities and communication costs

Source: Deloitte analysis
© 2018 Deloitte & Touche LLC

Financial projections 2019-2022

<table>
<thead>
<tr>
<th>In USD</th>
<th>2019</th>
<th>2020</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>TV</th>
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<td>Total OPEX</td>
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<td>450,592</td>
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</tr>
<tr>
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<td>4 years</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>EBITDA/FTE</td>
<td>USD 2,200</td>
<td></td>
<td></td>
<td></td>
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</table>

Financial projections 2019-2022

CRM Source: Deloitte analysis
BPO CRM service center in Kutaisi with a headcount of 100 FTEs
Percent of full capacity: 30% – 60% – 90% – 100%

Key inputs
- Initial CAPEX = c. USD 300k
- OPEX at maximum full capacity reach USD 670k
- Revenue growth 2% as per CPI in the US
- WACC for service providers in Georgia equal to 17%

Average cost per FTE*: USD 4,000
Full cost per FTE**: USD 5,400
Revenue per FTE: USD 8,150

Disclaimer
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Note:
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** Including rent, utilities and communication costs

Source: Deloitte analysis
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Case #2 Tbilisi F&A services. Key assumptions and rationale for F&A service center in Tbilisi

Rationale for investment

- **Tbilisi meets the main criteria** for setting up a BPO or SSC center as per the **Phase 1: Global BPO and SSC market overview report**. The availability of labour workforce capable of working in a F&A center is sufficient as there are approximately 19,000 experienced F&A employees and 101,000 potential job candidates holding diplomas in F&A related fields. Moreover, the total number of approximately 26,000 graduates are located in Tbilisi. In Tbilisi, there are 5,000 foreign language speakers (English, German, Russian) working in F&A. Further, there are 150 language schools in Tbilisi teaching English and German.

- There are several established accounting outsourcing service providers in Tbilisi, providing services for local market customers.

- Telecom services such as fast broadband internet lines and multiuser telephone connections are available in Tbilisi.

F&A total costs

- **CAPEX** for establishing a BPO or SSC Center includes the following: a leasehold improvement, telecommunication infrastructure (establishing a server and telecom station), cost of office equipment and a 2.5 idle months is applied.

- **OPEX** includes the following: Staff and Administrative salaries, Utilities, Rent, Telecommunication services and Staff training.

Business model

- **Services** Central and East European customers will make up 40%, of the customer base potentially serving one international corporation. Customers in the CIS and the local market will make up 60% during the first few years of operation.

- **Staff** in line with the typical size of a F&A center in Tbilisi, the F&A center is planned to hire 100 FTEs where 1 manager is planned to be hired for every 5 F&A professionals. A financial analyst and Managers are included in the FTE’s.

- **Centrally Located office space** is available in the city center, by applying a rule of thumb the average working space per FTE is of 2 sq. m.

- Due to the availability of staff, operations in Tbilisi is assumed to start off at 60% of total capacity in the first year of operation rising to 80% in the second year, reaching it's maximum capacity in the 3rd year.

Revenue streams

- **Annual Revenue per FTE** in a BPO and SSC center in Eastern Europe is equivalent to **USD 38,000**, while revenue from the customers based in the local market is equivalent to **USD 3,700**.

- In the case of setting up a F&A center in Tbilisi, 40% of revenue streams will come from international markets where the remaining 60% will come from the local market.

Source: ACT survey, global SSC report, Deloitte analysis, open F&A companies profiles and financial statements, testimonials

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Branches of international accounting companies provide accounting outsourcing services to local branches of international companies.

Data protection law is being brought in line with EU regulations.

According to the 2016-2017 World Economic Forum report, Georgia has one of the lowest taxes worldwide ranked 8th place with a 16.4% total tax rate and only 7 active taxes, including profit tax deductible only in case of profit distribution from 2017.

Georgia is 6th in the Ease of Doing Business Index and 16th in the Economic Freedom Index, which indicates a favorable investment climate.

A favorable location and close time proximity to Europe makes Georgia an attractive place for outsourcing companies.
### Financial projections 2019-2022

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>TV</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>1,063,688</td>
<td>1,448,653</td>
<td>1,849,335</td>
<td>1,889,746</td>
<td>1,935,664</td>
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<td><strong>Operating expenses</strong></td>
<td>991,546</td>
<td>1,322,596</td>
<td>1,664,851</td>
<td>1,701,123</td>
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<td><strong>EBITDA</strong></td>
<td>72,141</td>
<td>126,057</td>
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<td><strong>Capex</strong></td>
<td>438,557</td>
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<td>10,545</td>
<td>10,775</td>
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<td><strong>Free cash flow before tax</strong></td>
<td>(366,416)</td>
<td>115,732</td>
<td>173,940</td>
<td>177,848</td>
<td>182,294</td>
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<tr>
<td><strong>Income tax</strong></td>
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<td>17,360</td>
<td>26,091</td>
<td>26,677</td>
<td>27,344</td>
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<tr>
<td><strong>FCFF</strong></td>
<td>(366,416)</td>
<td>98,372</td>
<td>147,849</td>
<td>151,171</td>
<td>154,950</td>
<td>158,715</td>
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<td><strong>NPV</strong></td>
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<tr>
<td><strong>IRR</strong></td>
<td>25%</td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Payback period</strong></td>
<td>4 years</td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>EBITDA/FTE</strong></td>
<td>USD 1,840</td>
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</tbody>
</table>

### Key inputs
- Initial CAPEX = c. USD 330k
- OPEX at full capacity rate reach USD 1,600k
- Revenue growth 2% as per CPI in the US
- WACC for service providers in Georgia equal to 17%

**Average cost per FTE**: USD 13,200  
**Full cost per FTE**: USD 13,740  
**Revenue per FTE**: USD 17,420

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*Note:*  
* Average cost - salary, bonuses, training and recruiting. Cost applicable to current case staff composition  
** Including rent, utilities and communication costs

Source: Deloitte analysis

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Case #3 Tbilisi HR services. Key assumptions and rationale
HR center in Tbilisi

Rationale for investment

- **Tbilisi meets the main criteria** for setting up a BPO or SSC center as per the Phase 1: Global BPO and SSC market overview report. The availability of labour workforce capable of working in a HR center is sufficient as there are approximately **16,000 experienced HR employees** and **60,000 potential job candidates** holding diplomas in HR related fields. Moreover, the total number of approximately 26,000 graduates are located in Tbilisi. In Tbilisi, there are 5,000 foreign language speakers (English, German, Russian) working in HR. Further, there are 150 language schools in Tbilisi teaching English and German.
- There are several established HR centers in Tbilisi serving the local market. There have been cases of international cooperation in HR outsourcing within the CIS region.
- Telecom services such as **fast broadband internet lines** and **multiuser telephone connections** are available in Tbilisi.

HR total costs

- **CAPEX** for establishing a BPO or SSC Center includes the following: a leasehold improvement, telecommunication infrastructure (establishing a server and telecom station), cost of office equipment and a first idle month is applied.
- **OPEX** includes the following: Staff and Administrative salaries, Utilities, Rent, Telecommunication services and Staff training.

Business model

- **Services** - Central and East European customers will make up 40%, of the customer base potentially serving one international corporation. Customers in the CIS and the local market will make up 60% during the first few years of operation.
- **Staff** in line with the typical size of a HR center in Tbilisi, the HR center is planned to hire 54 FTEs where 1 manager is planned to be hired for every 4 HR professionals. An IT manager and Administrative staff are planned to be hired in addition to the main staff.
- **Centrally Located office space** is available in the city center. By applying a rule of thumb the average working space per FTE is of 2 sq. m.
- Due to the availability of staff, the HR center in Tbilisi is assumed to start off at 60% of total capacity in the first year of operation rising to 80% in the second year, reaching it's maximum capacity in the 3rd year.

Revenue streams

- **Annual Revenue per FTE** in in a BPO and SSC center in Eastern Europe is equivalent to **USD 30,000**, while a BPO and SSC center in the local market is equivalent to **USD 4,850**.
- In the case of setting up a HR center in Tbilisi, 40% of revenue streams will come from international markets where the remaining 60% will come from the local market.

Source: ACT survey, global SSC report, Deloitte analysis, open HR companies profiles and financial statements, testimonials
© 2018 Deloitte & Touche LLC

According to the 2016-2017 World Economic Forum report, Georgia has one of the lowest taxes worldwide ranked 8th place with a 16.4% total tax rate and only 7 active taxes, including profit tax deductible only in case of profit distribution from 2017.

Georgia is 6th in the Ease of Doing Business Index and 16th in the Economic Freedom Index, which indicates a favorable investment climate.

A favorable location and close time proximity to Europe makes Georgia an attractive place for outsourcing companies.

The Georgian HR outsourcing market is at the early stage of development where the majority of cases are carrying out recruiting activities. There are no HR specialists in the market. Staff carrying out HR related activities is working in cross functional roles in an administrative setting.
Financial projections – HR Tbilisi
High-level financial results suggest positive NPV, IRR

BPO HR service center in Tbilisi with a headcount of 54 FTEs
Percent of full capacity: 60% – 80% – 100%

Key inputs
- Initial CAPEX = c. USD 400k
- OPEX at full capacity reach USD 670k
- Revenue growth 2% as per CPI in the US
- WACC for service providers in Georgia equal to 17%

Average cost per FTE*: USD 7,000
Full cost per FTE**: USD 8,700
Revenue per FTE: USD 14,900

Disclaimer
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Note:
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** Including rent, utilities and communication costs
Source: Deloitte analysis
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Financial projections 2019-2022

<table>
<thead>
<tr>
<th>In USD</th>
<th>2019</th>
<th>2020</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>TV</th>
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<td>Revenue</td>
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<td>854,750</td>
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<td>4,003</td>
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<td>Total OPEX</td>
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<td>NPV</td>
<td>481,839</td>
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</table>

NPV USD 481k  IRR 20%  Payback period 4 years  EBITDA/FTE USD 3,400
Case #4 Tbilisi App Development services. Key assumptions and rationale
App Development center in Tbilisi

Rationale for investment
- **Tbilisi meets the main criteria** for setting up a BPO or SSC center as per the Phase 1: Global BPO and SSC market overview report. The availability of labour workforce capable of working in a App Development center is sufficient as there are approximately **4,000 experienced App Development employees and 20,000 potential job candidates** holding diplomas in Software Development related fields; where the vast of majority of the total number of approximately 26,000 graduates are located in Tbilisi.
- According to the law on Information Technology zones, Georgia provides a profit tax exemption to legal entities of a “virtual zone” engaged in the export of IT services, which makes web/app development in Georgia an attractive proposition for international investors. In addition, Data protection law is being brought in line with EU regulation.
- There are several established software development centers in Tbilisi, providing services mostly for Ukraine and US markets.
- Telecom services such as **fast broadband internet lines and multiuser telephone connections** are available in Tbilisi.

Business model
- **Services** Central and East European customers will make up 50%, of the customer base potentially serving one international corporation. Customers in the CIS and the local market will make up 50% during the first few years of operation.
- **Staff** In line with the typical size of an App Development center in Tbilisi, the App Development center is planned to hire 30 FTEs where 1 manager is planned to be hired for every 2 application developer.
- **Centrally Located office space** is available in the city center. By applying a rule of thumb the average working space per FTE is of 2 sq. m.
- Due to the availability of staff, it is assumed to start off at 60% of full capacity in the first year of operation rising to 80% in the second year, reaching it’s maximum capacity in the 3rd year.

Revenue streams
- **Annual Revenue per FTE** In a BPO and SSC center in Eastern Europe is equivalent to USD 50,000, while a BPO and SSC center in the CIS market is equivalent to USD 24,000.
- In the case of setting up an App Development center in Tbilisi, 50% of revenue streams will come from international markets where the remaining 50% will come from the local market.

Web/App total costs
- **CAPEX** for establishing a BPO or SSC Center includes the following: a leasehold improvement, telecommunication infrastructure (establishing a server and telecom station), cost of office equipment and a first idle month is applied.
- **OPEX** includes the following: Staff and Administrative Salaries, Utilities, Rent, Telecommunication services and Staff training.

Source: ACT survey, global SSC report, Deloitte analysis, open IT companies profiles and financial statements, testimonials
© 2018 Deloitte & Touche LLC
### Financial projections 2019-2022

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>TV</th>
</tr>
</thead>
<tbody>
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<td><strong>Revenue</strong></td>
<td>598,401</td>
<td>918,922</td>
<td>1,040,384</td>
<td>1,063,118</td>
<td>1,088,950</td>
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<tr>
<td><strong>Operating expenses</strong></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Annual cost FTE</td>
<td>207,581</td>
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<td>360,902</td>
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<td>364,661</td>
<td>372,630</td>
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<tr>
<td>Electricity</td>
<td>796</td>
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<td>1,223</td>
<td>1,250</td>
<td>1,280</td>
<td></td>
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<tr>
<td>HVAC</td>
<td>1,172</td>
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<td>2,548</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Communication</td>
<td>1,465</td>
<td>1,996</td>
<td>2,604</td>
<td></td>
<td></td>
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<tr>
<td>Training</td>
<td>8,649</td>
<td>11,779</td>
<td>15,038</td>
<td>15,366</td>
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<td>Office rent</td>
<td>18,318</td>
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<td>19,527</td>
<td>20,001</td>
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<td>Other unforeseen costs</td>
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<td>Property tax</td>
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<td>4,162</td>
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<tr>
<td><strong>Total OPEX</strong></td>
<td>619,559</td>
<td>724,657</td>
<td>821,051</td>
<td>838,896</td>
<td>859,171</td>
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<tr>
<td><strong>EBITDA</strong></td>
<td>(21,158)</td>
<td>194,265</td>
<td>219,333</td>
<td>224,222</td>
<td>229,779</td>
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<tr>
<td>Capex</td>
<td>418,666</td>
<td>3,758</td>
<td>3,838</td>
<td>3,921</td>
<td>4,017</td>
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<tr>
<td>Free cash flow before tax</td>
<td>(439,825)</td>
<td>190,508</td>
<td>215,496</td>
<td>220,300</td>
<td>225,762</td>
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<tr>
<td>Income tax</td>
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<td>28,576</td>
<td>32,324</td>
<td>33,045</td>
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<td><strong>FCFF</strong></td>
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<td>187,255</td>
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<td>196,560</td>
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<tr>
<td><strong>NPV</strong></td>
<td>713,378</td>
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<td></td>
<td></td>
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</tr>
</tbody>
</table>

### Note:
- * Average cost - salary, bonuses, training and recruiting. Cost applicable to current case staff composition
- ** Including rent, utilities and communication costs

### Financial projections – App Development Tbilisi
High-level financial results suggest positive NPV, IRR

**BPO App development center in Tbilisi with a headcount of 30 FTEs**

Percent of full capacity: 60% – 80% – 100%

**Key inputs**
- Initial CAPEX = c. USD 400k
- OPEX at full capacity reach USD 810k
- Revenue growth 2% as per CPI in the US
- WACC for service providers in Georgia equal to 17%

**Average cost per FTE*: USD 17,000**

**Full cost per FTE**: USD 20,500

**Revenue per FTE**: USD 32,700

**Disclaimer**
- The purpose of this presentation is to provide high-level information to assist in obtaining an overview of the project on development of BPO and SSC in Kutaisi, Batumi and Tbilisi.
- The presentation is not intended to serve as a basis for any investment decisions and may not be considered a recommendation for investment by the Consultant.
- Taking an investment decision, investors must rely on their own expertise and take into account the risks common to the investments in Georgia.

**Source:** Deloitte analysis
© 2018 Deloitte & Touche LLC
Case #5 Tbilisi ADE services. Key assumptions and rationale
Large scale ADE service center in Tbilisi

Rationale for investment

- **Tbilisi meets the main criteria** for setting up a BPO or SSC center as per the Phase 1: Global BPO and SSC market overview report. The availability of labour workforce capable of working in an ADE center is sufficient as there are approximately 10,000 experienced ADE employees and 24,000 potential job candidates holding diplomas in Architecture related fields. In Tbilisi, there are 2,000 foreign language speakers (English, German, Russian) working in ADE. Further, there are 150 language schools in Tbilisi teaching English and German.
- There are existing success stories of ADE centers serving the German and US markets. **Revenue per FTE** for companies providing services abroad is approximately four times more than companies providing services to the local market.
- Telecom services such as fast broadband internet lines and multiuser telephone connections are available in Tbilisi.

ADE total costs

- **CAPEX** for establishing a BPO or SSC Center includes the following: a leasehold improvement, telecommunication infrastructure (establishing a server and telecom station), cost of office equipment and a first idle month is applied.
- **OPEX** includes the following: Staff and Administrative salaries, Utilities, Rent, Telecommunication services and Staff training.

Business model

- **Services** Central and East European customers will make up 90%, of the customer base potentially serving one international corporation. Customers in the CIS and the local market will make up 10% during the first few years of operation.
- **Staff** in line with the typical size of a ADE center in Tbilisi, the ADE center is planned to hire 30 FTEs where 1 manager is planned to be hired for every 5 CAD professionals. An IT manager and administrative staff will be part of the operation in addition to the CAD professional team.
- **Centrally Located office space** is available in the city center. By applying a rule of thumb the average working space per FTE is of 2 sq. m.
- Due to the availability of staff, in Tbilisi, it is assumed to start off at 60% of full capacity in the first year of operation rising to 80% in the second year, reaching it’s maximum capacity in the 3rd year.

Revenue streams

- **Annual Revenue per FTE** in a BPO and SSC center in Eastern Europe is equivalent to **USD 15,000**, while a BPO and SSC center in the local market is equivalent to **USD 3,700**.
- In the case of setting up an ADE center in Tbilisi, 90% of revenue streams will come from international markets where the remaining 10% will come from the local market.

Source: ACT survey, global SSC report, Deloitte analysis, open ADE companies profiles and financial statements, testimonials
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According to the 2016-2017 World Economic Forum report, Georgia has one of the lowest taxes worldwide ranked 8th place with a 16.4% total tax rate and only 7 active taxes, including profit tax deductible only in case of profit distribution from 2017.

Successful ADE outsourcing centers serving German and US markets achieving revenue per FTE at approximately four times of local outsourcing ADE centers.

Interview conducted with companies preferred not to disclose their names as a precaution to headhunting of current employees.
Financial projections – ADE Tbilisi
High-level financial results suggest positive NPV, IRR

Financial projections 2019-2022

<table>
<thead>
<tr>
<th>In USD</th>
<th>2019</th>
<th>2020</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>TV</th>
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<tbody>
<tr>
<td>Revenue</td>
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<td>346,030</td>
<td>441,739</td>
<td>451,391</td>
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<td>Operating expenses</td>
<td></td>
<td></td>
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<tr>
<td>Annual cost FTE</td>
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<td>195,677</td>
<td>199,953</td>
<td>204,811</td>
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<td>Admin remuneration cost</td>
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<td>68,487</td>
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<td>Electricity</td>
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<td>3,905</td>
<td>4,000</td>
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<tr>
<td>Training</td>
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<td>8,153</td>
<td>8,331</td>
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<td>18,711</td>
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<td>19,527</td>
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<td>Software licenses</td>
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<td>Other unforeseen costs</td>
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<td>17,302</td>
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<tr>
<td>Property tax</td>
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<td>1,618</td>
<td>1,609</td>
<td>1,595</td>
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<td>Total OPEX</td>
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<td>356,995</td>
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<tr>
<td>EBITDA</td>
<td>8,759</td>
<td>49,264</td>
<td>92,334</td>
<td>94,396</td>
<td>96,744</td>
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<tr>
<td>Capex</td>
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<td>7,065</td>
<td>7,215</td>
<td>7,373</td>
<td>7,552</td>
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<td>Free cash flow before tax</td>
<td>(156,830)</td>
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<td>Income tax</td>
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<td>6,330</td>
<td>12,768</td>
<td>13,054</td>
<td>13,379</td>
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</tr>
<tr>
<td>FCFF</td>
<td>(156,830)</td>
<td>35,869</td>
<td>72,352</td>
<td>73,970</td>
<td>75,813</td>
<td>77,655</td>
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<td>NPV</td>
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<td></td>
<td>275,265</td>
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**Note:**
* Average cost - salary, bonuses, training and recruiting. Cost applicable to current case staff composition
** Including rent, utilities and communication costs

Source: Deloitte analysis
© 2018 Deloitte & Touche LLC
Case #6 Tbilisi IT support services. Key assumptions and rationale: Large scale IT support service center in Tbilisi

Rationale for investment

- **Tbilisi meets the main criteria** for setting up a BPO or SSC center as per the **Phase 1: Global BPO and SSC market overview report**. The availability of labour workforce capable of working in an IT center is sufficient as there are approximately **4,000 experienced IT employees** and **20,000 potential job candidates** holding diplomas in IT related fields. In Tbilisi, there are 2,000 foreign language speakers (English, German, Russian) working in ICT. Further, there are 150 language schools in Tbilisi teaching English and German.

- There are **400 ITIL (Information Technology Infrastructure Library) students** registered in Tbilisi with a handful qualifying as certified ITIL practitioners.

- There are several established IT support center in Tbilisi, providing services mostly for local customers; some of the largest service providers being Orient Logic and UGT.

- Telecom services such as **fast broadband internet lines** and **multiuser telephone connections** are available in Tbilisi.

IT support total costs

- **CAPEX** for establishing a BPO or SSC Center includes the following: a leasehold improvement, telecommunication infrastructure (establishing a server and telecom station), cost of office equipment and a first 1.5 idle months is applied.

- **OPEX** includes the following: Staff and Administrative salaries, Utilities, Rent, Telecommunication services and Staff training.

Business model

- **Services** Central and East European customers will make up 30%, of the customer base potentially serving one international corporation. Customers in the CIS and the local market will make up 70% during the first few years of operation.

- **Staff** In line with the typical size of an IT center in Tbilisi, the IT center is planned to hire 200 FTEs where one manager is planned to be hired for every 20 IT professionals. Two IT administrators and Administrative staff will be part of the operation in addition to the IT staff.

- **Centrally Located office space** is available in the city center. By applying a rule of thumb the average working space per FTE is of 2 sq. m.

- Due to the availability of staff in Tbilisi, it is assumed to start off at 60% of full capacity in the first year of operation rising to 80% in the second year, reaching it’s maximum capacity in the 3rd year.

Revenue streams

- **Annual Revenue per FTE** in a BPO and SSC center in Eastern Europe is equivalent to **USD 21,000**, while a BPO and SSC center in the local market is equivalent to **USD 6,000**.

- In the case of setting up an IT center in Tbilisi, 30% of revenue streams will come from international markets where the remaining 70% will come from the local market.
Financial projections – IT Support Tbilisi
High-level financial results suggest positive NPV, IRR

BPO IT support center in Tbilisi with a headcount of 200 FTEs
Percent of full capacity: 60% – 80% – 100%

Key inputs
- Initial CAPEX = c. USD 1.1m
- OPEX at full capacity reach USD 1.6m
- Revenue growth 2% as per CPI in the US
- WACC for service providers in Georgia equal to 17%

Average cost per FTE*: USD 5,000
Full cost per FTE**: USD 8,900
Revenue per FTE: USD 10,500

Disclaimer
- The purpose of this presentation is to provide high level information to assist in obtaining an overview of the project on development of BPO and SSC in Kutaisi, Batumi and Tbilisi.
- The presentation is not intended to serve as a basis for any investment decisions and may not be considered a recommendation for investment by the Consultant.
- Taking an investment decision, investors must rely on their own expertise and take into account the risks common to the investments in Georgia.

Note:
* Average cost - salary, bonuses, training and recruiting. Cost applicable to current case staff composition
** Including rent, utilities and communication costs

Source: Deloitte analysis
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Financial projections 2019-2022

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>TV</th>
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<td>2,229,394</td>
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<td>2,333,464</td>
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<tr>
<td>Annual cost FTE</td>
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<td>336,422</td>
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<td>352,126</td>
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<td>Electricity</td>
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<td>HVAC</td>
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<td>11,975</td>
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<td>12,497</td>
<td>12,801</td>
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<td>Communication</td>
<td>14,655</td>
<td>19,958</td>
<td>25,479</td>
<td>26,036</td>
<td>26,668</td>
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<tr>
<td>Training</td>
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<td>34,357</td>
<td>43,860</td>
<td>44,818</td>
<td>45,907</td>
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<td>Office rent</td>
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<td>Other unforeseen costs</td>
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<td>87,318</td>
<td>111,470</td>
<td>113,905</td>
<td>116,673</td>
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<tr>
<td>Property tax</td>
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<td>11,354</td>
<td>11,327</td>
<td>11,284</td>
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<tr>
<td>Total OPEX</td>
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<td>1,454,535</td>
<td>1,734,679</td>
<td>1,772,309</td>
<td>1,815,055</td>
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<tr>
<td>EBITDA</td>
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<td>494,715</td>
<td>505,800</td>
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<tr>
<td>Capex</td>
<td>1,147,280</td>
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<td>22,818</td>
<td>23,317</td>
<td>23,883</td>
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<tr>
<td>Free cash flow before tax</td>
<td>(1,044,425)</td>
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<td>494,526</td>
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<td>Income tax</td>
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<td>74,179</td>
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<td>FCFF</td>
<td>(1,044,425)</td>
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<td>410,111</td>
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<td>430,561</td>
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<td>NPV</td>
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<tr>
<td>IRR</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Payback period</td>
<td>4 year</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>EBITDA/FTE</td>
<td>USD 2,500</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note:
* Average cost - salary, bonuses, training and recruiting. Cost applicable to current case staff composition
** Including rent, utilities and communication costs

Source: Deloitte analysis
© 2018 Deloitte & Touche LLC

IT Support Tbilisi
Percent of full capacity: 60% – 80% – 100%

Key inputs
- Initial CAPEX = c. USD 1.1m
- OPEX at full capacity reach USD 1.6m
- Revenue growth 2% as per CPI in the US
- WACC for service providers in Georgia equal to 17%

Average cost per FTE*: USD 5,000
Full cost per FTE**: USD 8,900
Revenue per FTE: USD 10,500

Disclaimer
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- Taking an investment decision, investors must rely on their own expertise and take into account the risks common to the investments in Georgia.

Note:
* Average cost - salary, bonuses, training and recruiting. Cost applicable to current case staff composition
** Including rent, utilities and communication costs

Source: Deloitte analysis
© 2018 Deloitte & Touche LLC
Case #7 Tbilisi CRM services. Key assumptions and rationale
Large scale CRM service center in Tbilisi

Rationale for investment

- **Tbilisi meets the main criteria** for setting up a BPO or SSC center as per the Phase 1: Global BPO and SSC market overview report. The availability of labour workforce capable of working in an CRM center is sufficient as there are approximately 29,000 experienced CRM employees and 125,000 potential job candidates holding diplomas in CRM related fields. In Tbilisi, there are 8,000 foreign language speakers (English, German, Russian) working in CRM. Further, there are 150 language schools in Tbilisi teaching English and German.
- A German company established a 400-500 FTEs CRM center in Tbilisi,
- Telecom services such as fast broadband internet lines and multiuser telephone connections are available in Tbilisi.
- Tbilisi International airport is a half-hour drive to Tbilisi city center offering easily accessible air connections.
- Class A and B office space is available in abundance in and around the city center of Tbilisi.

**CRM total costs**

- **CAPEX** for establishing a BPO or SSC Center includes the following: a leasehold improvement, telecommunication infrastructure (establishing a server and telecom station), cost of office equipment and two idle months is applied.
- **OPEX** includes the following: Staff and Administrative salaries, Utilities, Rent, Telecommunication services and Staff training.

Business model

- **Services** Central and Eastern European customers will make up 90% of the customer base, potentially serving one international corporation. Customers in the CIS and the local markets will make up 10% during the first few years of operation.
- **Staff** In line with the typical size of an CRM center in Tbilisi, the CRM center is planned to hire 200 FTEs where one manager is planned to be hired for every ten CRM professionals. An IT manager R&Director/Technical Director respectively and Administrative staff will be hired in addition to CRM staff. CRM specialists will be the main driver of revenue per FTE.
- **Centrally Located office space** is available in the city center. By applying a rule of thumb the average working space per FTE is of 2 sq. m.
- Due to the availability of staff in Tbilisi, it is assumed to start off at 60% of full capacity in the first year of operation rising to 80% in the second year, reaching it’s maximum capacity in the 3rd year.

Revenue stream

- **Annual revenue per FTE** in a BPO and SSC center in Eastern Europe is equivalent to USD 14,000 (USD 9 per hour in CEE), while a BPO and SSC center in the local market is equivalent to USD 4,000 (10 CRM profiles).
- In the case of setting up a CRM center in Tbilisi, 90% of revenue streams will come from international markets where the remaining 10% will come from the local market. Also international revenue per FTE will be discounted at 40% to incentivize the entrance into the local market.

Source: ACT survey, global SSC report, Deloitte analysis, open CRM companies profiles and financial statements, testimonials

© 2018 Deloitte & Touche LLC

An International CRM outsourcing company established a large scale CRM center in Georgia, yielding USD 2,000 of Net Income per FTE
Financial projections – CRM Tbilisi
High-level financial results suggest positive NPV, IRR

Financial projections 2019-2022

<table>
<thead>
<tr>
<th></th>
<th>In USD</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>TV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
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<td>1,354,799</td>
<td>1,729,521</td>
<td>1,767,314</td>
<td>1,810,257</td>
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<tr>
<td>Operating expenses</td>
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<td></td>
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<tr>
<td>Annual cost FTE</td>
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<td>840,800</td>
<td>859,173</td>
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<td>Admin remuneration cost</td>
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<td>224,013</td>
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<td>HVAC</td>
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<td>Communication</td>
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<tr>
<td>Training</td>
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<td>27,443</td>
<td>35,033</td>
<td>35,799</td>
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<td>Other unforeseen costs</td>
<td>49,739</td>
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<td>Property tax</td>
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<td>9,562</td>
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<td>9,525</td>
<td>9,481</td>
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<tr>
<td>Total OPEX</td>
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<td>1,078,084</td>
<td>1,301,129</td>
<td>1,329,325</td>
<td>1,361,350</td>
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<tr>
<td>EBITDA</td>
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<td>276,714</td>
<td>428,393</td>
<td>437,989</td>
<td>448,907</td>
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<tr>
<td>Capex</td>
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<td>22,872</td>
<td>23,358</td>
<td>23,869</td>
<td>24,448</td>
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<tr>
<td>Free cash flow before tax</td>
<td>(831,365)</td>
<td>253,843</td>
<td>405,034</td>
<td>414,121</td>
<td>424,458</td>
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<td>Income tax</td>
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<td>60,755</td>
<td>62,118</td>
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</tr>
<tr>
<td>FCF</td>
<td>(831,365)</td>
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<td>344,279</td>
<td>352,003</td>
<td>360,790</td>
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</tr>
<tr>
<td>NPV</td>
<td>1,266,945</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

NPV USD 1.3m
IRR 26%
Payback period 4 years
EBITDA/FTE USD 2,140

Key inputs
- Initial CAPEX = c. USD 560k
- OPEX at full capacity reach USD 1,023k
- Revenue growth 2% as per CPI in the US
- WACC for service providers in Georgia equal to 17%

Average cost per FTE*: USD 4,000
Full cost per FTE**: USD 5,400
Revenue per FTE: USD 8,150

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Note:
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** Including rent, utilities and communication costs

Source: Deloitte analysis
© 2018 Deloitte & Touche LLC
Case #8 Batumi CRM services. Key assumptions and rationale
Medium-size CRM service center in Batumi

Rationale for investment

- **Batumi meets the main criteria** for setting up a BPO or SSC center as per the Phase 1: Global BPO and SSC market overview report. The availability of labour workforce capable of working in a CRM center is sufficient as there are approximately 3,000 experienced CRM employees and 13,000 potential job candidates holding diplomas in CRM related fields (Social Sciences, Law and Media). Moreover, there are approximately 26K pool of graduates in Georgia. Further, there are nine language schools in Batumi teaching mostly English and German. There is significant Turkish speaking share of specialists.
- A German company expressed of interest in establishing a CRM center in a relatively large city of Kutaisi.
- Telecom services such as fast broadband internet lines and multiuser telephone connections are available in Batumi.
- Batumi International airport is a five minutes drive to Batumi city center offering easily accessible air connections.
- Class A and B office space is available in abundance in and around the city center of Batumi.

**CRM total costs**

- CAPEX for establishing a BPO or SSC Center includes the following: a leasehold improvement, telecommunication infrastructure (establishing a server and telecom station), cost of office equipment and a first idle month is applied.
- OPEX includes the following: Staff and Administrative salaries, Utilities, Rent, Telecommunication services and Staff training.

Business model

- **Services** Central and East European customers will make up 80% of the customer base potentially serving one international corporation. Customers in the local market will make up 20% during the first few years of operation.
- **Staff** In line with the typical size of an CRM center in Batumi, the CRM center is planned to hire 100 FTEs where one manager is planned to be hired for every ten CRM professionals. An IT Manager/Technical Director respectively and Administrative staff will be hired in addition to CRM staff. CRM specialists will be the main driver of revenue per FTE.
- **Centrally Located office space** is available in the city center. By applying a rule of thumb the average working space per FTE is of 2 sq. m.
- Due to the availability of staff in Batumi, it is assumed to start off at 30% of full capacity in the first year of operation rising to 60% in the second year, 90% in the third year, reaching it's maximum capacity in the 4th year.

Revenue stream

- **Annual revenue per FTE** in a BPO and SSC center in Eastern Europe is equivalent to USD 14,000 (USD 9 per hour in CEE), while a BPO and SSC center in the local market is equivalent to USD 4,000 (10 CRM monthly salary profiles).
- In the case of setting up a CRM center in Batumi, 80% of revenue streams will come from international markets where the remaining 20% will come from the local market. Also international revenue per FTE will be discounted at 40% to incentivize the entrance into the local market.

Source: ACT survey, global SSC report, Deloitte analysis, open CRM companies profiles and financial statements, testimonials

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According to the 2016-2017 World Economic Forum report, Georgia has one of the lowest taxes worldwide ranked 8th place with a 16.4% total tax rate and only 7 active taxes, including profit tax deductible only in case of profit distribution from 2017. Georgia is 6th in the Ease of Doing Business Index and 16th in the Economic Freedom Index, which indicates a favorable investment climate. A favorable location and close time proximity to Europe makes Georgia an attractive place for outsourcing companies.

An International CRM outsourcing company established a large scale CRM center in Georgia, yielding USD 2,000 of Net Income per FTE.
Financial projections – CRM Batumi
High-level financial results suggest positive NPV, IRR

Financial projections 2019-2022

<table>
<thead>
<tr>
<th>In USD</th>
<th>2019</th>
<th>2020</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>TV</th>
</tr>
</thead>
<tbody>
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<td>492,189</td>
<td>753,987</td>
<td>856,070</td>
<td>876,871</td>
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<td>Operating expenses</td>
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<td></td>
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<tr>
<td>Annual cost FTE</td>
<td>108,811</td>
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<td>340,524</td>
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<td>107,775</td>
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<td>6,228</td>
<td>7,071</td>
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<td>HVAC</td>
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<td>5,988</td>
<td>6,115</td>
<td>6,249</td>
<td>6,400</td>
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</tr>
<tr>
<td>Communication</td>
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<td>7,484</td>
<td>11,465</td>
<td>13,018</td>
<td>13,334</td>
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<tr>
<td>Training</td>
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<td>14,189</td>
<td>16,109</td>
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<td>38,218</td>
<td>39,053</td>
<td>40,002</td>
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<tr>
<td>Other unforeseen costs</td>
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<td>37,699</td>
<td>42,804</td>
<td>43,844</td>
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<tr>
<td>Property tax</td>
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<td>3,134</td>
<td>3,129</td>
<td>3,115</td>
<td>3,093</td>
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<tr>
<td>Total OPEX</td>
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<td>419,783</td>
<td>565,343</td>
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<td>639,246</td>
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</tr>
<tr>
<td>EBITDA</td>
<td>(37,497)</td>
<td>72,406</td>
<td>188,645</td>
<td>231,893</td>
<td>237,625</td>
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<tr>
<td>Capex</td>
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<td>11,679</td>
<td>11,934</td>
<td>12,224</td>
<td></td>
</tr>
<tr>
<td>Free cash flow before tax</td>
<td>(356,431)</td>
<td>60,970</td>
<td>176,966</td>
<td>219,959</td>
<td>225,401</td>
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<tr>
<td>Income tax</td>
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<td>9,145</td>
<td>26,545</td>
<td>32,994</td>
<td>33,810</td>
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</tr>
<tr>
<td>FCFF</td>
<td>(356,431)</td>
<td>51,824</td>
<td>150,421</td>
<td>186,965</td>
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<tr>
<td>NPV</td>
<td>679,970</td>
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<td></td>
</tr>
</tbody>
</table>

Note:
* Average cost - salary, bonuses, training and recruiting. Cost applicable to current case staff composition
** Including rent, utilities and communication costs

Source: Deloitte analysis
© 2018 Deloitte & Touche LLC

BPO CRM center in Batumi with a headcount of 100 FTEs
Percent of full capacity: 30% - 60% - 90% - 100%

Key inputs
- Initial CAPEX = c. USD 300k
- OPEX at full capacity reach USD 600k
- Revenue growth 2% as per CPI in the US
- WACC for service providers in Georgia equal to 17%

Average cost per FTE*: USD 4,000
Full cost per FTE**: USD 5,400
Revenue per FTE: USD 8,150

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Note:
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** Including rent, utilities and communication costs

Financial projections – CRM Batumi
High-level financial results suggest positive NPV, IRR
Case #9 Batumi ADE services. Key assumptions and rationale

ADE service center in Batumi

Rationale for investment

- Batumi meeting main criteria for setting up BPO/SSC as per Phase 1: Global BPO and SSC market overview report. Availability of labour force capable for serving at ADE center is sufficient - approximately 24k potential professionals holding degrees in architecture fields. Moreover pool of graduates in Georgia reach approximately 26k, mostly in Tbilisi. Number of language schools reach 9 in Batumi, teaching mostly English and German.
- There are existing success stories of ADE centers serving the German and US markets. Revenue per FTE for companies providing services abroad is approximately four times more than companies providing services to the local market.
- Telecom services such as fast broadband internet lines and multiuser telephone connections are available in Batumi.
- Class A and B office space is available in abundance and around the city center of Batumi.

ADE total costs

- CAPEX for establishing a BPO or SSC Center includes the following: a leasehold improvement, telecommunication infrastructure (establishing a server and telecom station), cost of office equipment and a first 1.5 months is applied.
- OPEX includes the following: Staff and Administrative salaries, Utilities, Rent, Telecommunication services and Staff training.

Revenue stream

- Annual revenue per FTE in a BPO or SSC center in Eastern Europe is equivalent to USD 15,000, while a BPO or SSC center in the local market is equivalent to USD 3,700.
- In the case of setting up an ADE center in Batumi, 80% of revenue streams will come from international markets where the remaining 20% will come from the local market. Architects will be leased out full time.

Business model

- Services Central and East European customers will make up 80% of the customer base potentially serving one international corporation.
- Staff in line with the typical size of an ADE center in Georgia, the ADE center is planned to hire 30 FTEs composed of 20 CAD professionals and ten architects. Additionally it is planned to hire 1 manager for every five working professionals including CAD and Architect workers.
- Centrally Located office space is available in the city center. By applying a rule of thumb the average working space per FTE is of 2 sq. m.
- Due to the availability of staff in Batumi, it is assumed to start off at 60% of full capacity in the first year of operation rising to 80% in the second year, reaching it's maximum capacity in the 3rd year.

Rationale for investment

- Batumi meeting main criteria for setting up BPO/SSC as per Phase 1: Global BPO and SSC market overview report. Availability of labour force capable for serving at ADE center is sufficient - approximately 24k potential professionals holding degrees in architecture fields. Moreover pool of graduates in Georgia reach approximately 26k, mostly in Tbilisi. Number of language schools reach 9 in Batumi, teaching mostly English and German.
- There are existing success stories of ADE centers serving the German and US markets. Revenue per FTE for companies providing services abroad is approximately four times more than companies providing services to the local market.
- Telecom services such as fast broadband internet lines and multiuser telephone connections are available in Batumi.
- Class A and B office space is available in abundance and around the city center of Batumi.

ADE total costs

- CAPEX for establishing a BPO or SSC Center includes the following: a leasehold improvement, telecommunication infrastructure (establishing a server and telecom station), cost of office equipment and a first 1.5 months is applied.
- OPEX includes the following: Staff and Administrative salaries, Utilities, Rent, Telecommunication services and Staff training.

Revenue stream

- Annual revenue per FTE in a BPO or SSC center in Eastern Europe is equivalent to USD 15,000, while a BPO or SSC center in the local market is equivalent to USD 3,700.
- In the case of setting up an ADE center in Batumi, 80% of revenue streams will come from international markets where the remaining 20% will come from the local market. Architects will be leased out full time.

Business model

- Services Central and East European customers will make up 80% of the customer base potentially serving one international corporation.
- Staff in line with the typical size of an ADE center in Georgia, the ADE center is planned to hire 30 FTEs composed of 20 CAD professionals and ten architects. Additionally it is planned to hire 1 manager for every five working professionals including CAD and Architect workers.
- Centrally Located office space is available in the city center. By applying a rule of thumb the average working space per FTE is of 2 sq. m.
- Due to the availability of staff in Batumi, it is assumed to start off at 60% of full capacity in the first year of operation rising to 80% in the second year, reaching it's maximum capacity in the 3rd year.

Source: ACT survey, global SSC report, Deloitte analysis, open ADE companies profiles and financial statements, testimonials © 2018 Deloitte & Touche LLC
Financial projections – ADE Batumi
High-level financial results suggest positive NPV, IRR

### BPO ADE center in Batumi with a headcount of 30 FTEs

Percent of full capacity: 30% – 60% – 90% - 100%

### Key inputs
- Initial CAPEX = c. USD 100k
- OPEX at full capacity reach USD 170k
- Revenue growth 2% as per CPI in the US
- WACC for service providers in Georgia equal to 17%

### Financial projections 2019-2022

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Operating expenses</th>
<th>Total OPEX</th>
<th>EBITDA</th>
<th>Capex</th>
<th>Free cash flow before tax</th>
<th>Income tax</th>
<th>FCFF</th>
<th>NPV</th>
</tr>
</thead>
<tbody>
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<td>2019</td>
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<td>51,585</td>
<td>107,014</td>
<td>(68,117)</td>
<td>101,383</td>
<td>(169,501)</td>
<td>-</td>
<td>(169,501)</td>
<td>352,088</td>
</tr>
<tr>
<td>2020</td>
<td>161,788</td>
<td>52,690</td>
<td>117,570</td>
<td>44,218</td>
<td>4,710</td>
<td>39,508</td>
<td>3,926</td>
<td>33,582</td>
<td>352,088</td>
</tr>
<tr>
<td>2020</td>
<td>247,845</td>
<td>80,717</td>
<td>152,795</td>
<td>95,050</td>
<td>90,240</td>
<td>90,240</td>
<td>13,536</td>
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<td>2021</td>
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<td>109,225</td>
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<tr>
<td>2022</td>
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<td>116,947</td>
<td>111,913</td>
<td>111,913</td>
<td>16,787</td>
<td>95,126</td>
<td>352,088</td>
</tr>
</tbody>
</table>

### Financial projections 2019–2022

- Average cost per FTE*: USD 8,500
- Full cost per FTE**: USD 9,000
- Revenue per FTE: USD 13,500

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### Note:
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- ** Including rent, utilities and communication costs

Source: Deloitte analysis
© 2018 Deloitte & Touche LLC
Case #10 Kutaisi F&A services. Key assumptions and rationale F&A service center in Kutaisi

Rationale for investment

- **Kutaisi meets the main criteria** for setting up a BPO or SSC center as per the Phase 1: Global BPO and SSC market overview report. The availability of the labour workforce capable of working in a F&A center is sufficient as there are approximately 6,000 experienced F&A working professionals and a pool of 14,000 potential job candidates holding Finance and Accounting diplomas. Moreover, the pool of graduates in Georgia reached approximately 26,000. In Kutaisi, there are 1,000 foreign language speakers (English, German, Russian) working in F&A. There are 14 language schools in Kutaisi teaching English and German.

- Telecom services such as fast broadband internet lines and multiuser telephone connections are available in Kutaisi.

Business model

- **Services** - Central and East European customers will make up 40% of the customer base potentially serving one international corporation. Customers in the CIS and local markets will make up 60% during the first few years of operation.

- **Staff** in line with the typical size of a F&A center in Kutaisi, the F&A center is planned to hire 50 FTEs where 2 managers are planned to be hired for every five F&A professionals. An IT manager and Administrative staff are planned to be hired in addition to main staff. Managers and Financial Analysts are the two main drivers of Revenue per FTE.

- **Centrally Located office space** is available in the city center. By applying a rule of thumb the average working space per FTE is 2 sq. m.

- Due to the availability of staff in Kutaisi is assumed to start off at 30% of full capacity in the first year of operation rising to 60% in the second year, 90% in the third year, reaching maximum capacity in the 4th year.

F&A total costs

- **CAPEX** for establishing a BPO or SSC Center includes the following: a leasehold improvement, telecommunication infrastructure (establishing a server and telecom station), cost of office equipment and 8 idle month is applied.

- **OPEX** includes the following: Staff and Administrative salaries, Utilities, Rent, Telecommunication services and Staff training

Revenue streams

- **Annual Revenue per FTE** in a BPO and SSC center in Eastern Europe is equivalent to USD 38,000, while a BPO and SSC center in the local market is equivalent to USD 15,000.

- In the case of setting up a F&A center in Kutaisi; 40% of revenue streams will come from international markets where the remaining 60% will come from the local market.

Source: ACT survey, global SSC report, Deloitte analysis, open F&A companies profiles and financial statements, testimonials © 2018 Deloitte & Touche LLC

According to the 2016-2017 World Economic Forum report, Georgia has one of the lowest taxes worldwide ranked 8th place with a 16.4% total tax rate and only 7 active taxes, including profit tax deductible only in case of profit distribution from 2017.

Georgia is 6th in the Ease of Doing Business Index and 16th in the Economic Freedom Index, which indicates a favorable investment climate.

A favorable location and close time proximity to Europe makes Georgia an attractive place for outsourcing companies.
Financial projections – F&A Kutaisi
High-level financial results suggest positive NPV, IRR

BPO F&A center in Kutaisi with a headcount of 50 FTEs
Percent of full capacity: 30% – 60% – 90% - 100%

Key inputs
• Initial CAPEX = c. USD 470k
• OPEX at full capacity reach USD 700k
• Revenue growth 2% as per CPI in the US
• WACC for service providers in Georgia equal to 17%

Average cost per FTE*: USD 10,000
Full cost per FTE**: USD 10,500
Revenue per FTE: USD 17,400

Disclaimer
• The purpose of this presentation is to provide high level information to assist in obtaining an overview of the project on development of BPO and SSC in Kutaisi, Batumi and Tbilisi.
• The presentation is not intended to serve as a basis for any investment decisions and may not be considered a recommendation for investment by the Consultant.
• Taking an investment decision, investors must rely on their own expertise and take into account the risks common to the investments in Georgia.

Financial projections 2019-2022

<table>
<thead>
<tr>
<th>In USD</th>
<th>2019</th>
<th>2020</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
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<td>Revenue</td>
<td>265,922</td>
<td>543,245</td>
<td>832,201</td>
<td>944,873</td>
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<td>Annual cost per FTE</td>
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<td>Admin remuneration cost</td>
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<td>Electricity</td>
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<td>Communication</td>
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<td>Training</td>
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<td>44,996</td>
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<td>Other unforeseen costs</td>
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<td>Property tax</td>
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<td>Total OPEX</td>
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<td>410,084</td>
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<td>EBITDA</td>
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<td>224,943</td>
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<td>Capex</td>
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<td>Free cash flow before tax</td>
<td>(418,598)</td>
<td>127,866</td>
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<td>254,703</td>
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<td>Income tax</td>
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<td>NPV</td>
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</table>

Note:
* Average cost - salary, bonuses, training and recruiting. Cost applicable to current case staff composition
** Including rent, utilities and communication costs

Source: Deloitte analysis
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Disclosures:
- Disclaimer
- Key inputs
- Financial projections
- NPV
- IRR
- Payback period
- EBITDA/FTE
Appendices
Appendices for Phase I
1.4 Key Global Outsourcing Business Services market trends

**Outsourcing is Enabling Competitive Advantage**
- Momentum behind the GBS concept continues to build with large and mid-sized organizations achieving efficiency savings by sharing location, technology and support services; increased ‘value’ remains a key driver.
- Disruptive outsourcing when executed well, can deliver competitive advantage by transforming the way organisations operate, and making them more agile, efficient and effective. Organizations are citing benefits around data analytics, talent and innovation, as well as crediting GBS as a better platform to support growth and more end-to-end process thinking.
- Organizations are approaching transition in different ways: few organizations are successfully managing to break functional reporting lines to create a fully-managed model; most are settling with a ‘captive center’ model.

**Robotic Process Automation (RPA)**
- Many larger organizations are considering or exploring the potential for robotics or running trials with various software alternatives.
- Robotics work best with processes which are repetitive and rules based in nature.
- Robots are relatively quick and easy but require a robust governance structure for success.

**Data is Power**
- GBS and SSC leads are waking up to the potential to support a company-wide analytics strategy but are not yet clear how to make use of this during internal high level decision making processes. The success of an analytics offering will be in the ability to predict customer behaviour and patterns better than the business.
- The question remains whether analytics sit better in a shared services.

**BPO 2nd/3rd Generation**
- BPO vendors continue to try to move up the value chain – but demand for services beyond basic transaction-processing is diminishing.
- Repetitive, non-core, transactional-based services are widely outsourced and this has led to organizations exploring technology-based solutions or alternative delivery models such as shared services for higher value scope. Buyers of BPO are renegotiating more sophisticated contracts around gain-share.

**SMAC (Social, Mobility, Analytics and Cloud)**
The SMAC technology market is getting more sophisticated enabling better collaboration and flow of data but Consumer SMAC technologies are easier to implement and more user friendly than the technology available in businesses. Risk and control concerns are a key reason for this. SSC and GBS leads are starting to appreciate the need to explore SMAC technologies to engage with their globally dispersed and technology-savvy workforces need to leverage the experience of their employees to drive the technology agenda rather than relying on IT.
1.4 Key challenges for developing countries in BPO and SSC market

**Challenges facing BPO providers**

**Capital-intensive.** Outsourcing sector has become increasingly capital-intensive, and its potential to absorb large amounts of labor in rural areas has greatly diminished particularly for IT and F&A service areas.

**ICT infrastructure.** Poor ICT infrastructure (internet and call traffic management), political instability (shutdowns and strikes) have a greater impact on BPO firms. Since BPO firms have to operate on a 24/7 basis, there should be minimal disruptions in order to provide services in a timely manner.

**Cultural and language barriers** are one of the key obstacles for non-EU countries to serve American and European markets. BPO employees from The Philippines are more familiar with the American culture and well-versed in languages like German, Spanish, and French. This poses a huge barrier to other players to enter the market particularly for voice based services e.g. HR.

**Workforce.** Talent shortage is one of the main issues. The outsourcing sector is becoming more dependent on technology. However, the education system in developing countries does not provide the sufficient knowledge to keep pace with client requirements and compete against mature markets particularly for IT and ADE related business cases.

**Attrition rates** are a major concern for BPO companies as it results in a loss of a talent as well as increased costs of recruitment and training. The main reason for high employee turnover due to workers feeling trapped in dead-end positions with limited opportunities to grow professionally.

**Challenges facing SSC providers**

**Multinational Company presence** – large multinational companies mostly set-up SSC’s in the countries where they have local market presence. Therefore developing countries might not be chosen in selecting preferred locations for establishment due to the unfamiliarity of location.

**Infrastructure** - Issues (internet, black-outs), developed ICT infrastructure and a stable environment are one of the primary factors while considering setting up an SSC.

**Language and cultural affinity** - Establishing SSC in developing countries might be a challenge due to different working cultures and language barriers.

**Standardization of business processes** – Companies in developing countries are providing simple, repetitive transactional services and struggle to deliver high value added solutions like optimizing and standardizing business processes.
1.2.2 Business cases of companies outsourcing or offshoring
Business case of an outsourced operation in the Healthcare and Pharmaceutical industry vertical
Philips decided to sell their SSCs and outsource to Infosys, a BPO service provider to address their business challenges and realize business values

**Company name:** Philips
**Industry:** Healthcare, Consumer Lifestyle and Lighting
**Year of establishment:** 1891
**Number of FTE's worldwide:** 74,000

**Services outsourced:** F&A

**Company snapshot**
Philips Electronics a Dutch multinational company headquartered in Amsterdam currently focused on healthcare and consumer lifestyle products and services.

**Strategy**
Philips set up three SSCs in Poland, India and Thailand during the years 2002 to 2007 to handle and process its corporate wide F&A and Procurement operations. While centralization and labour arbitrage brought great benefits, Philips lacked internal capacity to drive innovation into product improvement projects, a detached outsourced workforce, non receptive cost structure to changes in demand or macro economic changes. Due to this, Philips were determined to outsource their F&A operations to Infosys.

**Decisive location factors**
Infosys, was selected due to costs optimization, demand responsive process line and increased integration of SSC employees.

**Company name:** Infosys
**Industry:** Healthcare, Consumer Lifestyle and Lighting
**Year of establishment:** 1891
**Number of FTE's worldwide:** 204,137

**Services outsourced:** F&A

**Company snapshot**
Infosys offers banking services across the value chain including (Retail Banking, Card Services, Mortgage and Lending, Commercial Banking); Capital Markets (Front, Middle and Back Office).
Functional support services covering CRM, F&A, HR, procurement, legal processing, research and analytics.

**Geographic Distribution of Shared Service Centers**
- Headquarters: Amsterdam, Netherlands
- SSC: Warsaw, Poland
- Beijing, China
- Mumbai, India
- Bangkok, Thailand
- Belo Horizonte, Brazil

**Key results achieved**
- **Focused effort on integration of SSCs** – Direct and targeted communication made to employees and inputs received to address concerns of post-acquisition on the work place dynamics. Infosys carried out a brand operation in Poland and Thailand, as well as provided access to online HR tools, and organized forums to enable more interconnected interaction with central offices.
- **Robust governance framework** – The governance model is granularly structured at strategic, tactical, operational levels with KPI (key performance indicators) on both sides focusing on ongoing service delivery, transformational initiatives, and scope expansion opportunities.
- **Leverage of best-shore locations** – Outsourcing of service hubs to established hubs in India and China to reduce cost savings. Infosys opening of a new outsourcing hub to better ensure costs effective service delivery in the geographic market.

Source: Company press statements; Deloitte Analysis
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Business case of an outsourced operation in the Healthcare and Pharmaceutical Industry vertical
Application Services, Secure Access, End User, Network and IT Facilities and Data Center are technical solution areas where the SSC brings value to Roche

**Roche**

**Company name:** Roche

**Industry:** Healthcare and pharmacy

**Year of establishment:** 1896

**FTE:** 93,734

**Services outsourced:** IT, Application and Software development and Testing, IT system management and Maintenance

**Company snapshot**

Roche is the largest biotech company headquartered in Switzerland that operates worldwide under two divisions: Pharmaceuticals and IT Diagnostics.

**Company snapshot**

Roche's IT professionals support 140,000+ Roche IT users around the globe with different solutions, services and technologies. Polish center is a part of a larger Roche IT structure.

**Strategy**

Roche opened an SSC in Poland for the creation of apps that are used during the clinical studies or for the development of the software that makes the production of new meds safe. Roche Global IT Solution Centre actually receives the largest funding from the Polish Government in which 80% of that money is directed to the IT department. Roche's offices in Malaysia and Canada were strong competitors during the decision making process but the company made a decision to open SSC in Poland as well.

**Decisive location factors**

Roche chose Poland for a range of benefits namely:

- Lower employment costs and flexible working regulations
- Access to the best pool of IT talent, with good availability of experienced functional skills
- Highest availability of the required language skills, notably German: German is the 2nd most sought for language in the market

**Key results achieved**

- Through the outsourcing strategy, the company has achieved the target goal by reaching growth rate between 15 and 20%, increasing year on year.
- Roche is going to expand its Polish operations and is also looking to invest in new biomedical technologies. For instance, in 2016 the American company Genentech, member of Roche Group, invested in a mRNA stability mechanism discovered by a group of scientists from the University of Warsaw.

Source: Company press statements; Deloitte Analysis
© 2018 Deloitte & Touche LLC
Business case of an outsourced operation in the Healthcare and Pharmaceutical Industry vertical

QIAGEN, IT outsourcing transforms customer experience with a futuristic e-commerce platform

QIAGEN is a provider of sample and assay technologies for molecular diagnostics, applied testing, academic and pharmaceutical research. Consolidated under the Dutch holding QIAGEN N.V., the company operates more than 35 offices in over 25 countries.

Strategy

QIAGEN wanted to engage its large international customer base with a savvy and seamless online platform. They also sought to boost sales by migrating their specialized suite of products to a self-service web shop. The platform had to be convenient, user-friendly, and personalized while still supporting a wide spectrum of capabilities and the latest web store features.

Decisive factors when selecting BPO provider company

- International company with a strong brand image, ranking number one in customer satisfaction survey in Europe;
- Expertise in various industries, including healthcare and pharmacy;
- 40 offices in WE, including 6 offices and 1 regional delivery center in Cologne, Germany. More than 100 offices worldwide, including offshore delivery centers and centers of excellence in several regions;
- Location-independent agile teams across several geographies.

Key results achieved

- TCS, an outsourcing company, tailored a transformative e-commerce solution for QIAGEN. For the platform’s essential features, they used a Minimum Viable Product approach. This included businesses and technical processes, along with key adoption elements;
- Under business processes, they managed QIAGEN’s exhaustive catalogue, pricing and payment, and order processing. Technical processes included Hybris Commerce, PIM integration, SAP integration, Salesforce integration, user interface, search and search engine optimization, and account management. Key adoption elements spanned integration testing, documentation, support, and training;
- By expertly leveraging the SAP Hybris, TCS enabled QIAGEN to offer its customers a sophisticated shopping experience across every touchpoint.

Source: Company press statements; Deloitte Analysis
© 2018 Deloitte & Touche LLC
Hendrick Medical Center, RPO fulfills health system needs for diverse nursing candidates and streamlined recruitment

Hendrick Health System is a 564 beds licensed medical center and the Hendrick family of services includes a women’s center, rehabilitation hospital, cancer center, hospice center, NICU. Hendrick health system had an urgent need for experienced nurses. With hundreds of requisitions at any given time, its small recruitment team needed a recruitment partner they could trust. In order to have access to the largest supply of healthcare professionals, create efficiencies resulting in lower bill rates and operational costs, reduce liability and mitigate insurance risks, increase compliance with clinical standards, clinic contracted AMN Healthcare Services, Inc. US largest healthcare staffing and workforce solutions company. With the Managed service provider (MSP) agreement Hendrick transferred the day-to-day healthcare staffing management responsibility to AMN.

Decisive factors of selecting BPO provider company

AMN healthcare services Inc. was chosen for the following reasons:

- Strategic location, Strong local market presence, 9 offices spread in different states;
- Expertise in local HR market and location-independent agile teams.

Key results achieved

- The MSP provided Hendrick access to automated administrative and operational processes associated with their supplemental labor and internal resource pool management.
- The RPO partnership gave Hendrick Medical Center the opportunity to outsource its core staff recruitment process to AMN. Benefits include reduction in cost per hire, access to the nation’s largest network of quality candidates, decreased vacancy rates and improved candidate satisfaction. By combining both MSP and RPO, Hendrick centralized the administration of both their permanent staffing recruitment and staffing vendor management to achieve an all-inclusive workforce management solution.
- As a result AMN RPO filled a total of 128 nursing positions during the partnership's first year and raised the hospital's average nursing experience by 10 years while decreasing its average time-to-fill.
Business case of an outsourced operation in the Business Services Industry vertical
IBM has established an International Shared Service Center (ISSC) in Budapest, Hungary, which provides back-office and call-center services for IBM’s own operations and global customer set

Company name: International Business Machines Corporation (IBM)
Industry: Information Technologies
Year of establishment: 1911
Number of FTE’s worldwide: 380,300

Services outsourced: F&A, HR and CRM

Company snapshot
IBM is a multinational IT company headquartered in New York, US with operations in 170+ countries. It manufactures and markets computer hardware, software and middleware and provides hosting and consulting services.

Strategy
With its highly qualified and multilingual staff, ISSC transforms and operates business processes for clients and IBM alike. The Business Transformation Outsourcing (BTO) department delivers a set of business outcomes, providing substantial gains in business value. The HR Center provides services including recruitment, workforce management, compensation/benefits, etc. CRM Center provides end-to-end customer relationship services, and Accounts Payable Center provides services related to accounting and invoice processing for IBM companies and clients.

Decisive location factors
Hungary was chosen based on the availability of skills, the qualified workforce, a rich and cultural background and the stable and attractive economic/political conditions. Since its establishment, ISSC has continuously expanded its activities and headcount.

Key results achieved
Allows for both IBM and its clients to be cost-saving and responsive to market demands, and operate their businesses more efficiently. ISSC enables many business processes, which have traditionally been managed in isolation and repeated across an organization, such as HR, payroll, customer support, order processing, and others to be standardized and centralized. Within this integrated business model, companies no longer have to replicate themselves floor to ceiling for every office, department, brand or country. For example, the procurement administration, which used to be processed in 300 different IBM locations in the world can now be done in only three, one of them being the ISSC (the others are similar service centers in Bangalore and Shanghai).

Source: Company press statements; Deloitte Analysis
© 2018 Deloitte & Touche LLC
Business case of an outsourced operation in the Business Services industry vertical

Royal Haskoning DHV enlisted TCS to assist in transforming its operations through cost-effective and consolidated IT infrastructure.

Company snapshot
Royal Haskoning DHV is an international engineering consultancy and project management firm headquartered in Amersfoort, Netherlands. With over 30 locations worldwide serving clients worldwide.

Company outsourcing
Company name: Royal Haskoning DHV
Industry: Project Management, engineering and consultancy
Year of establishment: 2012 (merger)
Number of FTE’s worldwide: 6,000

BPO service provider
Company name: Tate Consulting Services
Industry: Banking, Financial Services and Insurance Manufacturing, Retail and Consumer Packaged Goods and Telecom
Year of establishment: 1968
Number of FTE’s worldwide: 400,875

Services outsourced: IT

Key results achieved
TCS fully integrated the ICT infrastructure of Royal Haskoning DHV in a record time of six months. This engagement helped optimize their existing assets and allowed them to focus on their business performance, international growth plans in Europe and emerging markets. TCS provided end-to-end service management, automated office processes and facilitated pay-per-use customer service deliveries at multiple locations. By computing fixed and variable costs of designing, building, and running enterprise IT infrastructure, service delivery became more cost-transparent and flexible. TCS also refined service management, report monitoring, and health checks, which facilitated proactive, instant analyses, troubleshooting, and incident resolution. These solutions continuously improved the user experience of ICT and provided a globally unified digital way of working.

Strategy
The company was formed by the merger of Royal Haskoning and DHV, which produced an instant challenge when it came to merging IT landscapes, operating processes, and policies of both firms. This resulted in high costs, an inability to scale or innovate, and failure to uphold customer expectations in ICT services. TCS was brought in to make this transition more efficient. The services provided by TCS include datacenter hosting and management, end-user computing services, application support services and transformation solutions. TCS utilized its ‘White Box’ engagement model to design, build, and run IT infrastructures, as well as upgraded all the legacy systems to a Microsoft cloud environment. TCS was chosen for its experience in service delivery, round-the-clock service, broad expertise and strong technology alliances.

Decisive location factors
Skills, cost attractiveness, innovation and market as well as maturity and global market penetration factors. India possesses a long track record in delivering offshore services and is influential in determining the standards of setting up shared service centers.

Source: Company press statements; Deloitte Analysis
© 2018 Deloitte & Touche LLC

Geographic Distribution of Shared Service Centers

- Headquarters: Eindhoven, Netherlands
- SSC: Amersfoort, Netherlands; Mumbai, India
Business case of an outsourced operation in the Banking and Financial Services industry vertical. Finance, business services and manufacturing present highest future opportunities for outsourcing growth.

**Credit Suisse**

**Company name:** Credit Suisse  
**Industry:** Wealth Management and Investment Banking  
**Year of establishment:** 1856  
**Number of FTEs worldwide:** 46,840  
**Services outsourced:** Finance, Legal and Compliance, Risk Management, IT, HR

**Company snapshot**

A Swiss multinational investment bank and financial services company headquartered in Zurich, Switzerland, it maintains offices in all major financial centers around the world.

**Note:** Centralized corporate services and business support for Investment Banking, Private Banking and Asset Management.

**Strategy**

Credit Suisse is looking to set up centers of excellence with the aim of having a more pivotal role in strategic decision making aside from just providing decision support. The development and growth of these centers is charting the path from transactional based work to value added information provided to headquarter operations. Further, Credit Suisse is looking at aspects related to competitive advantage, regulatory and client confidentiality requirements, business know how and proximity, process maturity and vendor capability when assessing the suitability of sourcing models.

**Decisive location factors**

Wroclaw in Poland was chosen as the city sits within a special economic zone therefore corporate income tax exemptions are available. Poland offers robust, strong legal framework particularly around data protection and intellectual property rights to facilitate outsourced operations. Wroclaw’s location and well developed national and international communications and transport networks make it easily accessible.

**Geographic Distribution of Shared Service Centers**

- Headquarters  
- SSC  
- North Carolina, United States  
- Wroclaw, Poland  
- 2 centers Pune and Mumbai, India  
- Kuala Lumpur, Malaysia

**Key results achieved**

- Top end technical skills leveraging financial expertise and delivering high-value added services including quantitative analytics, IT related and financial mathematics services.
- Expansion in both the size and nature of operations by increasing number of senior level profiles entering the company hierarchy. This in turn has increased the service centers end-to-end ownership across a number of service lines independently.
- Created a footprint in the high value talent market with minimal CAPEX, quick time to market through close collaboration, improve client services and ultimately improve shareholder value.
Business case of an outsourced operation in the Banking and Financial Services industry vertical
Danske Bank has established a global service center in Lithuania utilizing their expertise to serve Nordic clients in the local market

**Company name:** Danske Bank  
**Industry:** Banking, Insurance, Investment Management  
**Year of establishment:** 1871  
**Number of FTE's worldwide:** 19,000  
  
**Company snapshot**  
Danske Bank is a major retail Danish Bank headquartered in Copenhagen, Denmark serving the Northern European region.

**Services outsourced:** F&A, HR, Legal  
  
**Note:** Service lines are across the banking value chain including support functions.

**Strategy**

As of recent, Danske Bank Group is focusing on supporting subsidiaries of Nordic customers and corporates with a Nordic footprint. The distribution platform will be re-aligned with customer needs and segment priorities leading to a future increase in the deployment of employees into finance centers and center of excellence. An emphasis was put on the Global services center providing key operational and digital support in delivering seamless customer journeys for their retail banking customers.

**Decisive location factors**

Lithuania is a full member of the European Union (ensuring a stable legal and political environment), Eurozone and the Schengen Agreement. The ease of doing business profile offers a low currency risk business environment for customers in other Eurozone countries falling in line with Danske Bank’s expansion plans.

**Key results achieved**

- **Multichannel approach** – Revamping its channel approach into a globally integrated branch network. Transformation of country-centric structure to integrated business units has enabled closer focus on its customers both at home and abroad.
- **Customer-centric mindset** – Heavy investment into improving and deepening customer relationships between corporates and institutions. Service lines were aligned to prioritize customers’ perspective within decision making processes.
- **Leader in digital services and digital customer experience** – adaptive strategy to transition to increasing its customer interaction through releasing mobile banking smart apps (MobilePay). Driving digitalization has charted a path for the company to move into high-potential segments.

Source: Company press statements; Deloitte Analysis  
© 2018 Deloitte & Touche LLC
Company name: Western Union
Industry: Financial Services and Communications
Year of establishment: 1851
Number of FTE's worldwide: 11,500

Services outsourced: F&A, HR, Legal

Company snapshot
The Western Union Company is an American financial services and communications company. Its headquarters is based in Colorado, United States.

Note: Received award for Robotics and Implementation at Central and Eastern European Shared Service and Outsourcing Awards in 2018.

Strategy
Strong “on the ground” local support from investment promotion agencies in providing details on the macroeconomic environment, future projections, education, employment rates and salary costings.

Decisive location factors
Overall EU umbrella provided familiarity and stability with regards to tax and compliance related issues as to establishing and setting up a legal entity.
Potential seen in young talent pool as strong impetus on the quality of hiring fresh graduates through building career orientated approach within the center of excellence. Continued effort to build bridges with universities to create a career leader to attract a steady supply of top-end graduates looking to enter the labour market. Local hires to date have accounted for 90% of graduate level employees.

Key results achieved

- Conforming to new EU directive laws to operate in the EU market – The newly enforced Payment Services directive meant setting up a strategically central operation center in the European Union would help them centralize the other global operating centers in Costa Rica, Mexico and the Philippines and conform to EU trading standards.
- Globally orientated operation – Supporting both global operations in other parts of the world while at the same time providing back-up to other sites during normal working hours. Handling work loads from a central location has lead to high potential cost savings as overnight work comes at a cost premium in eastern and western parts of the world.
Business case of an outsourced operation in the Manufacturing industry vertical
Diageo were able to standardize process through a single platform enabling a smoother transition in further outsourcing business processes.

Company name: Diageo
Industry: Beverages manufacturing and transport
Year of establishment: 1997
FTE: 30,433

Company snapshot
Diageo has been established in 1997 as a result of the merger between the Guinness and Grand Metropolitan. The company produces a wide range of alcoholic beverages and it has 80 offices worldwide.

Services outsourced: Centralized transactional services, tax, compliance and treasury

Strategy
As a result of the company growth and sharp increase in financial operations, Diageo emerged with an idea of establishing Shared Service Center for increasing efficiency through standardization. Standardized processes (through SSC) would aid Diageo in identifying risks and establishing control mechanisms.

Decisive location factors
Diageo has established its first Shared Service Center (SSC) in Budapest, Hungary in 2001. SSC has been serving both Europe and USA by providing transactional services. In 2001–2006 Budapest SSC expanded its operations in scale and scope by performing more complex and higher value operations.

Key results achieved
- Establishment of SSC enabled Diageo to reduce operating costs as the processes were run on a single platform. Successful implementation of transactional services in SSC created an opportunity for Diageo to develop standard rules and processes for further outsourcing activities, such as financial and management reporting, reconciliation and accounting activities, customer order management and purchasing.
- Diageo uses SAP as a single platform for running operations in SSC. SSC in Budapest served as a basis for creating a global hybrid network of SSCs of Diageo.

Geographic Distribution of Shared Service Centers
- Headquarters
- SSC
- London, UK
- Budapest, Hungary

Source: Company press statements; Deloitte Analysis
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128
Business case of an outsourced operation in the Manufacturing industry vertical Coca-Cola shared service center helped standardize company wide F&A processes lifting the burden of transactional type work in central offices.

Company name: The Coca Cola Company
Industry: Beverages manufacturing and transport
Year of establishment: 1886
FTE: 61,800

Services outsourced: F&A

Company snapshot
The largest non-alcoholic beverage company. The Coca Cola company produces and distributes beverage brands such as; Coca Cola, Sprite and Fanta. The company outsources financial operations in Europe through its subsidiary Coca Cola European Partners (CCEP).

An SSC was established by The Coca Cola Company through its subsidiary Coca Cola European Partners (CCEP) in the aspects of the business where a low level of proximity was required. Therefore, a new Transactional and Compliance SSC has been established in Sofia, Bulgaria to separate in-house financial teams from transactional responsibility. Moreover, Germany and Iberia transaction related activities were transferred to SSC in Bulgaria.

Decisive location factors
Bulgaria has a well qualified labor force with 45% of the population speaking a foreign language. Moreover, Bulgaria is easy to reach in 2 hours (by air) from most major capitals in Europe.

Key results achieved
- Transactional SSC of CCEP in Bulgaria gave an opportunity to German, Iberian and other European offices to get rid of transactional activity burden. Due to successful outsourcing of transactional services into Bulgaria, it has been decided that tax, compliance, expertise, procurement and treasury activities will also be transferred into the SSC.
- Such transition will give more room to commercial teams in other European offices for the development of better service lines and customer service. In addition, SSC helps The Coca Cola Company to standardize and make more consistent financial operations in Europe.

Source: Company press statements; Deloitte Analysis
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Business case of an outsourced operation in the Manufacturing industry vertical
Jarden BSG established a fast growing Finance SSC with the view of cost cutting as well as value adding service offerings.

Company name: Newel Brands
Industry: Manufacturing, consumer goods
Year of establishment: 1903
FTE: 53,400

Company name: Jarden BSG
Industry: Manufacturing, consumer goods
Year of establishment: 2015
FTE: 110

Services outsourced: F&A: Transactional operations and CRM

Company snapshot
Newel Brands was created in 2016 by the combination of Newell Rubbermaid and Jarden Corporation.

Strategy
Newell Brands through the acquisition of Jarden Corporation set the goal to make sharp portfolio choices, prioritizes businesses and capabilities for investment and establishes an aggressive cost program to fund growth, increase margins and strengthen cash flow.

Decisive location factors
Jarden BSG Shared Services operates from Prague, Czech republic Jarden chose Prague for a range of benefits:
- Central location in the EMEA region;
- Opportunity of expansion already existing entity;
- Availability of skilled workforce and its foreign language capabilities;
- Availability of great infrastructure;
- Sustainable office space;
- Existing supporting services as real estate, recruitment agencies, consulting/advisory services and tax/legal services.

Company snapshot
Jarden is a newly established captive SSC that is in the transition process. The SSC serves 30 different Newell brand companies across 15 different countries in the EMEA region.

Geographic Distribution of Shared Service Centers
- Headquarters: New Jersey, US
- SSC: Prague, Czech republic

Key results achieved
- According to the management due to first years of SSC there is no information about specific cost savings. However, they were not only looking at a cost reduction but also looking at an increased quality of services.
- The company is considering outsourcing non-core F&A tasks (e.g. document scanning) in the future when process volumes increase and scope areas will be stabilized.

Source: Company press statements; Deloitte Analysis
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Business case of an outsourced operation in the Telecommunications industry vertical VSS creates value for Vodafone by optimizing driving profitability, quality and efficiency.

Vodafone
Company name: Vodafone
Industry: Telecommunication
Year of establishment: 1985
FTE: 104,000

Company snapshot
Vodafone Group Plc is one of the world's leading telecommunications groups, with a significant presence in Europe, the Middle East, Africa and Asia Pacific through the Company's subsidiary undertakings, joint ventures, associated undertakings and investments.

Strategy
The Company uses Fit for Growth Strategy focused primarily on lowering operating cost. Group initiatives include centralizing procurement, developing shared service centers in low cost regions, improving sales channel efficiency, standardizing network design and zero based budgeting (ZBB) initiatives. Vodafone opened shared services (VSS) in 2006 that currently owns a wide portfolio of services, supporting Vodafone Group and Local Markets.

Decisive location factors
Vodafone Shared Services Europe operates from two countries, Hungary and Romania. Vodafone chose Budapest for a range of benefits:
- Strategic location in the EMEA region;
- Sophisticated communications network;
- Government support for SSC;

VSS
Company name: VSS
Industry: Telecommunication
Year of establishment: 2006
FTE: 19,000

Company snapshot
VSS has evolved from being a single entity into a multi-functional and multi-location organization which currently covers several geographic regions. The Shared Services operational framework ensures robust service delivery, better control, transparency and quality of service.

Geographic Distribution of Shared Service Centers
- Headquarters
  - London, UK
- SSC
  - Budapest, Hungary
  - Pune, Bangalore, Ahmedabad, India
  - Cairo, Giza, Alexandria, Egypt
  - Bucharest, Romania

Services provided by VSS: Finance, supply chain, CRM, sales, product development and management, legal, fraud, credit and collection, HR, IT, and business intelligence.

Key results achieved
- Through its outsourcing strategy the Company has achieved the target goal of growing adjusted EBITDA faster than service revenues, resulting a significant improvement in the adjusted EBITDA margins.
- The Budapest center is now a hub for Financial, Enterprise, HR and Business Intelligence services supporting 29 countries and offering solutions to more than 150 Enterprise customers.
- The Bucharest center started operating in 2014, and now it serves as a center of excellence in Technology, Customer Service, Fraud and Security and Finance services offering hi-tech solutions to Vodafone customers in 6 Western European markets.

Source: Company press statements; Deloitte Analysis © 2018 Deloitte & Touche LLC
Business case of an outsourced operation in the Telecommunications industry vertical
INDRA awarded best European outsourcing project for helping O2 with innovative real-time marketing approach

**O2**
- **Company name:** O2
- **Industry:** Telecommunication
- **Year of establishment:** 1983
- **FTE:** 6,700

**Indra**
- **Company name:** INDRA
- **Industry:** Technology and consulting/ Business services
- **Year of establishment:** 1993
- **FTE:** 40,000

**Services outsourced:** IT, application monitoring service on their highly critical network data analytics platform

**Company snapshot**
Telefónica UK Limited (trading as O2) is a telecommunications services provider in the United Kingdom, owned by the Spanish multinational Telefónica. O2 is the second-largest mobile network operator in the United Kingdom after EE, with Vodafone in third place.

**Company snapshot**
Indra is one of the leading global technology and consulting companies being a technological partner for core business operations of its customers worldwide.

**Strategy**
O2 were looking into way to gain insight into the behavior of the network in order to proactively prevent failures that could impact on the customer experience and business.

**Decisive factors of selecting BPO provider company**
INDRA was chosen for a range of benefits:
- One of the leading global technology and consulting company;
- Strong global market presence, local presence in 46 countries and business operations in over 140 countries, including UK and Spain;
- Expertise in IT outsourcing and high customer satisfaction ranking.

**Key results achieved**
- Through the operational service structure, O2 has managed to reduce overheads devoted to operational tasks, thus enhancing its tasks associated with the business. This enhancement has led to a reduction in the time that customer engineers spend engaged in certain monitoring activities.
- Lastly, O2 has been able to leverage operational intelligence in data analytics from 20 million homes with the Smart Metering Implementation Program (SMIP), an initiative promoted by the UK government with a view to move toward a more secure and sustainable energy model. In just one and a half months, this program called for a 900% increase in the demand for highly specialized professionals.

**Geographic Distribution of Business Process Outsourcing**
- Headquarters: Slough, UK
- BPO centers: Madrid, Spain

Source: Company press statements; Deloitte Analysis
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Business case of an outsourced operation in the Telecommunications industry vertical Symsoft reduced the lead times for projects by 30% leading cost savings passed on to end consumers enabling the companies to ascertain new business segments.

**Company snapshot**
Symsoft provides cloud-based communications services to enterprises and software solutions to mobile operators in more than 40 countries. Its portfolio covers network security, voice, messaging, mobile data, and customer management services.

Amazon Web Services (AWS) provides a highly reliable, scalable, low-cost infrastructure platform in the cloud, presented globally serving diverse companies.

**Strategic decision**
Company wanted to be able to set up environments quickly, complete tasks to improve customer satisfaction.

**Decisive factors of selecting BPO provider company**
Amazon Web Services (AWS) had a range of value-adding benefits:
- Low cost cloud infrastructure platform;
- Agility and Instant Elasticity, by instantly deploying new applications, instantly scale up as workload grows, and instantly scale down based on demand;
- Security, durable technology platform with industry-recognized certifications and audits;
- Open and flexible platform, AWS is a language and operating system agnostic platform.

**Key results achieved**
- The main benefit of using AWS is that developers now have a much more agile environment, one which allows greater freedom to innovate. Company practically eliminated the time-consuming tasks related to hardware deployment. As a result, reducing lead times for projects by 30%.
- Symsoft was able to lower costs with AWS, and it passed these savings on to customers. AWS allowed the company to target completely new segments of the market.
Business Process Outsourcing & Shared Service Centers
Investment Potential research development

Company name: Finnair
Industry: Airline and Travel
Year of establishment: 1923
Number of FTE’s worldwide: 11,500

Services outsourced: F&A, HR

Strategy

Finnair is striving to implement strategy across four key areas namely growth and customer experience, people experience and transformation. Through a customer focused business model, Finnair is aiming to shift its service lines from a commoditized to a customized form of service to fulfill and meet customer needs for industry-specific specialization.

Decisive location factors

Estonia was viewed a primary near-shore option due its close geographic proximity, a pool of young talent, highly qualified professionals. Estonia serves the outsourced travel sector including airliners like Viking line, Iceland Air, Norwegian Airlines. This provides access to a large pool of skilled agents with specific industry experience.

Geographic Distribution of Shared Service Centers

Key results achieved

- Significant cost savings – 60–75% costs savings per transaction across all services through the centralization of company activities to two key captive centers.
- Consumer-orientated services – Passenger revenue accounting service is partly business analytics work in delivering information for specific customers. Deep dive customer profiling tasks have helped Finnair gain a deep understanding of their customers’ business.
- Branching out into new customer markets – Having developed skill sets for specific customer profiles, Finnair has accumulated an intelligence pool for their current customer base. This in turn can be used as a tool to addressing and solving other customer’s needs when operating under a shared captive model.

Source: Company press statements; Deloitte Analysis
© 2018 Deloitte & Touche LLC
Business case of an outsourced operation in the Travel, Leisure and Hospitality industry vertical. Etihad Aviation Group have established a contact center and loyalty operations serving multiple airlines partners both within the Etihad partners network in the European marketplace.

**Company name:** Etihad Airways  
**Industry:** Airline  
**Year of establishment:** 2003  
**Number of FTE’s worldwide:** 22,954

**Company snapshot**  
Etihad Airways is the flag carrier and the second largest airline of the UAE, headquartered in Abu Dhabi. In addition to its core activity of passenger transportation, Etihad also operates as a travel agency and cargo courier services.

**Services outsourced:** CRM and HR

**Note:** Reservation and ticketing services provided out of the 200 employee customer service center including loyalty operations for Etihad Airways, Air Serbia, Air Seychelles and Etihad Regional.

**Strategy**

Etihad Airways are looking to take a more sustainable approach to growth amid its restructuring phase through strategic investments in Air Italia and Air Berlin. The Etihad Services Center brings many EAP airlines and their loyalty programs under one roof. Etihad Airways are looking for ways of using its scale to find efficiencies through service deals with other carriers; in addition to the mile management and loyalty program account servicing of its existing partner airlines.

**Decisive location factors**

Strong cultural affinities paired with strong links to Western economies aided by high proficiency levels in the English language are the key drivers in outsourcing operations to Serbia. Being one of a few non-EU members in the regions, international corporations are utilizing the relatively low employment costs to the proximate EU countries.

**Key results achieved**

- Improved delegation of workflow – Better handling the airline’s passenger accounts and other airline providers in Europe between the Manchester customer center. Increased spread of ascertaining commercial business opportunities in a global business arrangement.
- Operational synergies combined with strategic partnerships – Whilst maintaining a high level of quality service to clients within Europe at relatively lower operational costs, Etihad is building up partnerships outside its main global alliances strengthening its market position.
- Integration of Air Serbia (Serbian national airline carrier) – Sustained investment into national flag carrier involving re-branding and consolidation of operations. Increased effort to align networks, schedules and loyalty programs of Air Serbia in line with Etihad Airways Partner network.

**Geographic Distribution of Shared Service Centers**

- **Headquarters:** Abu Dhabi, United Arab Emirates  
- **SSC:** Belgrade, Serbia  
- **Manchester, United Kingdom**

Source: Company press statements; Deloitte Analysis  
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Business case of an outsourced operation in the Travel, Leisure and Hospitality industry vertical

Through joint collaboration Marriot International and Accenture established the world's first hospitality integrated F&A shared services model

**Company name:** Marriot International

**Industry:** Hospitality

**Year of establishment:** 1927

**Number of FTE’s worldwide:** 177,000

**Company snapshot**

Marriot International is an American multinational diversified company that manages and franchises a broad portfolio of hotels and related lodging facilities.

**Note:** Reservation and ticketing services provided out of the 200 employee customer service center including loyalty operations for Etihad Airways, Air Serbia, Air Seychelles and Etihad Regional.

**Services outsourced:** F&A transactional operations

**Strategy**

Marriot Business Services hereinafter (MBS) based in Louisville, Tennessee transferred its centralized, end-to-end F&A shared services unit to Accenture who provide F&A services to Marriot and its franchises. Marriot International's aim was to create a strategic, competitive advantage by lowering costs without having to invest in back-office infrastructure. Through this personnel, processes and technology were mobilized to a common shared service.

**Decisive location factors**

MBS headquarters were based in Louisville, Tennessee so the location selection to start transitioning services over to Accenture was already predetermined. With the aim of maximizing the performance of MBS, Accenture and MBS collaborated on over 10 projects focusing on expanding service offerings, broadening geographic and brand reach.

**Geographic Distribution of Shared Service Centers**

- Headquarters
- Louisville, United States

**Key results achieved**

- **Economies of scale - Standardization and re-engineering to a centralized system led to 25% cost savings in addition to the global reach of MBS to 20 countries.** Accenture is able to leverage their resources and brand to attract customers, something that MBS were not able to execute as a subsidiary of Marriot.

- **Strategy focused around customer needs - With Accenture, providing industry-specific F&A services through an automated and transformative F&A operating system; Marriot was able to remove the burden of F&A operations and re-align its focus on customer demands.** This in turn translated into greater agility and better targeting of strategic outcomes for MBS.

- **Smother and more efficient integration within the company - MBS was central to integrating new acquisitions brand, management and franchise business.** The centralized service center is assisting in facilitating the integration of new acquisitions into Marriot's operations more seamlessly.

Source: Company press statements; Deloitte Analysis
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1.3.1 Key providers
Representative sample of some of the leading BPO service providers in the Banking and Financial Services market vertical

<table>
<thead>
<tr>
<th>Service Provider</th>
<th>Service Offerings</th>
<th>Delivery center</th>
<th>Global Operations</th>
<th>Competitive advantage</th>
</tr>
</thead>
</table>
| Infosys          | • Banking services offerings across the value chain including (Retail Banking, Card Services, Mortgage and Lending, Commercial Banking); Capital Markets (Front, Middle and Back Office)  
                    • Functional support services covering CRM, F&A, HR, procurement, legal processing, research and analytics                                                                                           | Foreign HQ provider | • 204,137 FTE’s in 20 delivery locations  
                    • US Canada (5 locations), India (6 locations), Europe, Asia Pacific (4 locations), Dubai  
                    • Revenue – USD 10.9 bln, 21.9% of revenue coming from Manufacturing and High Tech.  
                    • Market Cap – USD 88 bln*                                                                                                                | • Attracting and Retaining Talent. Talent reskilling programs at the top end of innovation and execution lattice. Reputation built on strong co-innovation with clients.  
                    • Development of joint tech solutions ranging from chat-based virtual assistant (Nikai), block chain trade finance solution for banks (Finacle Trade Connect). |
| Cognizant        | • Broad based solutions offering including front, middle and back office solutions, transaction and application processing, mobile payments, credit and operations risk management and trade finance serving investment banking, asset management and retail banking segments  
                    • Horizontal BPO offerings include F&A, CRM, HR, Legal Process Outsourcing, Research Analytics as well as BPaaS                                                                                     | Foreign HQ provider | • 255,800 FTE’s in >100 delivery locations  
                    • Americas (77%), United Kingdom (7.8%) and Rest of Europe (including Lithuania and Poland) – (7.8%)  
                    • Revenue - USD 14.8 bln (FY 2017), Market Cap - USD 40.9 bln*                                                                         | • Targets enterprises with more than USD 1 bln in revenue. Multidisciplinary team executing projects using structured yet agile methodology.  
                    • A service provider with strong intelligent automation offerings showing growth particularly within industry specific offerings. |
| Genpact          | • The company's core activities including business process management and information technology services across banking and capital markets  
                    • Genpact end to end service lines include HR, F&A, CRM, Engineering, enterprise application services offerings                                                                                  | Foreign HQ Provider | • 78,000 FTE’s with 46 delivery locations  
                    • Americas (16.6%), Asia (10.5%) and Europe (10.3% including Poland and Romania), India (62.6%)  
                    • Revenue USD 2.7 bln, Market Cap – USD 5.1 bln*                                                                                      | • Amongst the largest in the BFS market space with large depth and breadth range of processes across the banking and professional services chain.  
                    • Regarded as a strong overall innovators amongst competitors with focus on delivery automated driven services. |

Note: * Craft Co company profiles
Representative sample of the leading BPO service providers in the Manufacturing market vertical

<table>
<thead>
<tr>
<th>Service Provider</th>
<th>Service Offerings</th>
<th>Delivery center</th>
<th>Global Operations</th>
<th>Competitive advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>accenture</strong></td>
<td>• Manufacturing Automation, Digital Clone or Simulation, Augmented and Virtual Reality in Manufacturing, Artificial Intelligence and Visual Basics Intelligence</td>
<td>Foreign HQ provider</td>
<td>• 10,000 FTE's in 212 delivery locations</td>
<td>• The company's integration of digital capabilities focusing on 3rd generation technologies across three key areas critical areas of robotics, augmented reality and virtual reality.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Americas (46.9%), Europe (34.2%), Asia Pacific and the Middle East (18.9%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Revenue – USD 41.6 bln*, 27.3% of revenue coming from Product Manufacturing. Market Cap – USD 98.7 bln*. BPO revenue USD 4.2 bln</td>
<td></td>
</tr>
<tr>
<td><strong>HCL Technologies</strong></td>
<td>• Encompasses the core activities of Applications, Infrastructure, BPO and Engineering and R&amp;D services leveraging digital technology platforms • Experience centric and outcome orientated services through data analytics, IoT works, Cloud and Security to enable enterprise digitalization and business outcomes</td>
<td>Foreign HQ provider</td>
<td>• 127,000 FTE's in 116 delivery locations</td>
<td>• HCL have focused their service offerings within industry verticals, whilst heavily investing in developing its technical capabilities.</td>
</tr>
<tr>
<td><strong>HCL</strong></td>
<td></td>
<td></td>
<td>• Americas (57.5%), Europe (26.7%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Revenue - USD 468 bln (FY 2017)*. Revenue breakdown: IT Infrastructure (39%), Software Services (57.1%).</td>
<td></td>
</tr>
<tr>
<td><strong>wipro</strong></td>
<td>• Comprehensive portfolio of service offerings across BPO, Business application services, mobile and cloud solutions, infrastructure management services and product engineering services domains</td>
<td>Foreign HQ Provider</td>
<td>• 163,287 FTE's with 111 delivery locations</td>
<td>• Core strengths lie in Infrastructure and Application Management as companies growth path is orientated to digital based growth.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• US Canada (10 locations), Asia (25+ locations) and Europe (10 locations including Poland and Romania)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Revenue USD 8.4 bln (2017)</td>
<td>• Cross selling and upselling service offerings to increase their share of service offerings with existing customer base.</td>
</tr>
</tbody>
</table>

Note: * Craft Co company profiles

Source: HorsesforSources, Market Intelligence Reports
© 2018 Deloitte & Touche LLC
Representative sample of the leading BPO service providers in the Travel, Hospitality and Leisure market vertical

<table>
<thead>
<tr>
<th>Service Provider</th>
<th>Service Offerings</th>
<th>Delivery center</th>
<th>Global Operations</th>
<th>Competitive advantage</th>
</tr>
</thead>
</table>
| Sutherland       | • Digitally led, experience centric services, including consulting and research, analytics and artificial intelligence, platforms and tech services  
• Business Process services focused quote to cash, source to pay, record to report and industry specialized  
• Customer Engagement services covering front office customer experience services, premium tech support and other travel and support services | Foreign HQ provider | 4,500 FTE’s in 22 delivery locations  
N.America (4%), LATAM (1.6%), UK (0.1%), EMEA (14%), India (58.3%), Philippines (7%), Asia Pacific (15%)  
Revenue - USD 1.4 bln* | • Design Thinking approach - focus on employee centric solutions that impact customer experience. Design labs to aid travel clients in developing new tailor-made solutions.  
• Combined Omnichannel vision – front office customer experience offering complemented with the use of analytics driven omnichannel platform integrated into passenger service system for airline clients. Lightweight tech solution to help call agents get to places faster by using decision trees. |
| Hexaware         | • Provides information technology consulting, software development and business process management services worldwide  
• Business process services include F&A, CRM, HR and Automation Services  
• Service offerings cover enterprise solutions including human capital management, finance and supply chain transformation, SAP services, PeopleSoft services and infrastructure management services | Foreign HQ provider | 127,000 FTE's in 116 delivery locations  
Americas (37.8%), Europe (7%), India (54%)  
Revenue - USD 213 bln (FY 2017)*  
13.0% from Travel, Transportation and Leisure | • Customer relationships - Solid customer relationships with integrated customer feedback and account management aspects.  
• Setting automation as a priority - Automation first strategy within market offering to execute customer solutions. |
| WNS              | • Wide spectrum of business process management services covering F&A, Customer interaction services, technology solutions, research and analytics, and industry back and front office processes primarily for customers in the banking, financial services, insurance and travel industries | Foreign HQ Provider | 38,000 FTE’s with 55 delivery locations  
Majority of facilities in India. Delivery centers in Europe (including Poland and Romania)  
Revenue USD 602 mln. Market Cap – USD 2.5 bln | • Strong Analytics offering which serves travel clients looking for valuable insights and operational efficiency.  
• Ability to keep and recruit talent in the market  
• Automation driven to achieve business outcomes and service delivery excellence.  
• Marquee bouquet of proprietary technology to tackle travel specific issues differentiating it's leading market position. |

Note: * Dun & BradStreet – company profiles. company websites

Source: HorsesforSources, Market Intelligence Reports
© 2018 Deloitte & Touche LLC
1.1.1 Disruptive outsourcing solutions are challenging traditional methods and driving competitive advantage

5 year CAGR by regions, 2017-2022

<table>
<thead>
<tr>
<th>Description</th>
<th>AM</th>
<th>WE</th>
<th>EE</th>
<th>A&amp;P</th>
<th>ME and AF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consulting</td>
<td>7%</td>
<td>6%</td>
<td>8%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Implementation</td>
<td>3%</td>
<td>4%</td>
<td>3%</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td>Managed services and Cloud infrastructure</td>
<td>5%</td>
<td>3%</td>
<td>5%</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Traditional BPO</td>
<td>3%</td>
<td>2%</td>
<td>3%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>BPaaS</td>
<td>8%</td>
<td>7%</td>
<td>8%</td>
<td>9%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Key regional trends by service type

- All service types are forecasted to show positive growth trends. Largest spending areas are in Managed services and Cloud infrastructure (including BPaaS), followed by Application implementation and Consulting/Design services.
- The fastest-growing segment of the market is Cloud system infrastructure services (IaaS), which is forecasted to grow by 20% annually through 2022.
- Software as a service (SaaS) remains the largest segment of the cloud market. SaaS is estimated to reach 45% of total application software spending by 2021.
- BPaaS, Cloud Business Process Services are developing faster in advanced high scale outsourcing in the US and WE markets and amount to an average of 30% of total BPO service. It is estimated to increase by 6% annually through 2022.
- Following Cloud Business Process services: Application, Consulting and Implementation services are estimated to show the largest growth trends.

Source: Gartner, IT services worldwide 2016–2022 report © 2018 Deloitte & Touche LLC
1.1.2 Allocation of BPO staff by geography and number of functions that are outsourced

Allocation of BPO staff by geography

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Neighboring country</td>
<td>32</td>
<td>26</td>
<td>23</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Developing Country</td>
<td>50</td>
<td>60</td>
<td>59</td>
<td>60</td>
<td>62</td>
</tr>
<tr>
<td>End-user country*</td>
<td>18</td>
<td>14</td>
<td>17</td>
<td>19</td>
<td>17</td>
</tr>
</tbody>
</table>

Note: The country, where end market users of BPO services are located. E.g. End market buyers of Japanese cars in the US, therefore a BPO center is located in the US.

Number of BPO functions that are outsourced

- 31% 1 function
- 16% 2 functions
- 12% 6-10 functions
- 38% >10 functions
- 3% 3-5 functions

Source: Deloitte Survey 2017, Deloitte analysis © 2018 Deloitte & Touche LLC
Appendix for Phase II
2.1 Key monetary indicators

**Gross Domestic Product (GDP)**

The Georgian economy performed well in 2017 with GDP growth reaching 4.8%. This boost was largely driven by double-digit export growth that worked to improve the trade balance. Based on preliminary data, it is estimated that the annual export rate grew by 29% year-over-year. According to the National Bank of Georgia's preliminary data, tourism revenues grew by 27% and money transfers also increased by 20%, narrowing the current account deficit.

According to the International Monetary Fund's forecast, Georgia will maintain the economic growth at around 4 - 5.5% between years 2018-2021. The Georgian government is committed to fiscal sustainability and restrained current spending. Therefore, the fiscal deficit is expected to narrow through 2018-20.

**GDP structure by industries, 2017**

- Trade: 17.1%
- Industry: 16.7%
- Transport and communication: 37.7%
- Construction: 9.8%
- Public administration: 8.5%
- Other sectors: 10.1%

**GDP structure in 2017**

In 2017, the highest share in GDP is held by trade sector (17.1%) and Industry (16.7%), followed by other sectors. Construction and manufacturing sectors have increased significantly by 27% and 20% respectively year on year.

Source: National Statistics Office of Georgia, Colliers

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2.1 Key monetary indicators

**EUR vs GEL, USD vs GEL, January 2014 – October 2018**

<table>
<thead>
<tr>
<th>Year</th>
<th>Average 2014</th>
<th>Average 2015</th>
<th>Average 2016</th>
<th>Average 2017</th>
<th>Average 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EUR 2.34</td>
<td>EUR 2.52</td>
<td>EUR 2.62</td>
<td>EUR 2.83</td>
<td>EUR 3.05</td>
</tr>
<tr>
<td></td>
<td>USD 1.77</td>
<td>USD 2.27</td>
<td>USD 2.37</td>
<td>USD 2.51</td>
<td>USD 2.49</td>
</tr>
</tbody>
</table>

Source: National Bank of Georgia

**Average consumer price index, %**

Source: National Statistics Office of Georgia, National Bank of Georgia, Forecast - EIU

Georgia has a floating exchange rate regime, which is characterized by short-term fluctuations and its’ capacity to absorb shocks, however in the long-run the exchange rate is viewed as relatively stable over the past 5 years.

Since 2014, the weighted average exchange rate of the USD to GEL rate has grown by **41 percent** and the EUR to GEL exchange rate has grown by **31 percent**.

According to the statistics published by the National Bank of Georgia, annual inflation was equivalent to 2.9% in the third quarter of 2018. Inflation was due to higher oil prices in the global and local markets compared to recent years. Targeted rate of inflation for 2018-2020 is set at 3.3%. The National Bank of Georgia uses the following instruments to maintain price stability including: short-term interbank interest rates, loan refinancing, minimum reserve requirements, open market operations, overnight loans and deposits.
2.1 Georgia is ranked 6th in the World Bank’s Ease of Doing Business Index and 16th in the Economic Freedom Index, which indicates an overall favorable investment climate.

Overview about ease of doing business

The World Bank Group has ranked Georgia in sixth place worldwide in its 2019 Ease of Doing Business rating. Georgia has placed well above the average rankings for its European and Central Asian peers in most of these factors, mainly thanks to simplified legislation and streamlined processes for incorporating new enterprises.

Starting a business

Georgia made starting a business easier by allowing voluntary value added tax registration at the time of business incorporation. For starting up a Business, Georgia has the lowest number of procedures required in the Doing Business 2019 World Bank Index.

Paying taxes

Georgia made paying taxes easier by levying income tax on distributed profits rather than on taxable profits. At the same time, Georgia made paying taxes more difficult by requiring value added tax to be imposed on advance payments for goods and services.

Enforcing contracts

Georgia made enforcing contracts easier by introducing an automatic assignment of cases to be settled through the high court.

Corruption ranking

Georgia is the 46th least corrupt nation out of 175 countries, according to the 2017 Corruption Perceptions Index reported by Transparency International.

Corruption perception index

<table>
<thead>
<tr>
<th>Rating</th>
<th>Forecast</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fitch</td>
<td>BB-</td>
<td>Positive</td>
</tr>
<tr>
<td></td>
<td></td>
<td>16 March 2018</td>
</tr>
<tr>
<td>Moody's</td>
<td>Ba2</td>
<td>Stable</td>
</tr>
<tr>
<td></td>
<td></td>
<td>11 September 2017</td>
</tr>
<tr>
<td>SandP</td>
<td>BB-</td>
<td>Stable</td>
</tr>
<tr>
<td></td>
<td></td>
<td>16 November 2016</td>
</tr>
</tbody>
</table>

On March 2018, Fitch Ratings upgraded Georgia’s credit rating forecast from “stable” to “positive”.
2.1 Population The unemployment rate is steadily decreasing in recent years to 13.9%. In 2017, however a higher share of total employment is held by self-employed workers at 51.7%

**Employment**

In 2017, the population of Georgia equaled to 3.7 mln, while the labor force amounted to 1.98 mln people. In the same year the employed population equaled to 1.7m and unemployed population equaled to 0.3m, forming an unemployment ratio to 13.9%. The national unemployment rate overall decreased due to sustained growth of the private sector, however it still remains as one of the major challenges for the Georgian Economy. (the national unemployment rate equaled to 16.9%, 14.6%, 14.1% and 14% in 2013, 2014, 2015 and 2016 accordingly).

Based on the National Statistics office of Georgia, the self-employed population represents the majority of employed population, however it continually decreasing over the past recent years. In 2017, the self-employed population decreased by 1.5% compared to the previous year and equaled to 51.7% of the total employed population.

In 2017, the average monthly salary in Georgia equaled to USD 398 having increased by 6% year on year. The average national monthly wage levels equaled to USD 464, USD 463, USD 396 and USD 397 in 2013, 2014, 2015 and 2016 accordingly.)*

**Population**

The number of males in total population of Georgia is equal to 1.79m, which is 20% less than number of females equal to 1.94m.

The number of people between: 25-50 years old make up 34% of the total population, 1-25 years old make up 32% of the total population, between 50-75 years old make up 28% of the total population and finally people more than 75 years old make up 7% of the total population.

**Population distribution by age and gender, 2018**

![Population distribution by age and gender, 2018](image)

*Labor force* - The labor force is the actual number of people available to work and is the sum of the employed and the unemployed population.

*Unemployment Rate* – is the ratio of unemployed population to the number of the economically active population, expressed as a percentage.

**Average monthly salary by Sectors 2017, in USD**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial and Insurance</td>
<td>800</td>
<td></td>
</tr>
<tr>
<td>Information and Communication</td>
<td>568</td>
<td></td>
</tr>
<tr>
<td>Wholesale and Retail</td>
<td>336</td>
<td></td>
</tr>
<tr>
<td>Administrative and support</td>
<td>306</td>
<td></td>
</tr>
</tbody>
</table>

Note*: Average salaries in GEL are converted to USD by annual exchange rate of corresponding year.

Source: National Statistics office of Georgia, Deloitte Analyses
© 2018 Deloitte & Touche LLC
2.1 Taxation. The Georgian taxation system is fairly straightforward and is regulated by the Tax Code of Georgia. The Estonian Income tax model has been adopted since 2017 in order to stimulate economic growth.

**Taxation in Georgia**

Tax Code of Georgia is the principal source of taxation. The tax system is fairly straightforward, the application of tax regime is based on the type of legal entity. The Georgian Tax Code includes seven main taxes namely: Value added Tax, Personal Income Tax, Excise Tax, Profit Tax, Property Tax, Customs/Import Tax and Social security Tax/Pension fund.

- Property tax is the only local tax, meaning the tax rate is introduced by a representative authority of a local self-government, the remaining taxes are collected by the national government.

**Value added tax**

The object of VAT taxation is a taxable transaction or a taxable import. The VAT rate applicable in Georgia is 18%, referred to as the standard rate, which is applied to most goods/services.

**Personal Income tax**

Non-residents and tax resident individuals are subject to Georgian income tax only on income received from Georgian sources. The personal income tax is imposed on wages and other forms of compensation paid to employees as well as income earned by physical person, entrepreneurs from their economic activities.

Unless other rates apply (for example, for dividends and interest), income of a physical person is taxed at the flat rate of 20%. Income from renting out the residential space to a person for only residential purposes and not making any deductions from this income shall be taxed at 5%. Income from sale of vehicle or a residential apartment (house) with attached land plot are taxed at 5%.

**Corporate disbursed profit tax**

The profit tax is imposed on profits earned by Georgian and foreign enterprises. Legal entities incorporated in Georgia are normally treated as tax residents and are taxable on their worldwide income. Legal entities incorporated abroad are normally treated as foreign tax residents (“nonresidents”) and are taxable on income from Georgian sources or income from performing business activities through their permanent establishment in Georgia.

As a means to stimulate economic growth Georgia adopted Estonian corporate tax model from 1st January 2017. Under then new tax model, the companies only pay profit tax if profits are distributed.

**Property Tax**

Physical persons’ taxable object of the property tax (except for land) includes fixed assets used for economic activities, immovable property (building or a part of it) and construction in progress, also yachts (motor boats), helicopters, airplanes and vehicles under Code 8703 of the National Commodity Nomenclature of Foreign Economic Activities.

Payers of property tax, other than physical persons, include Georgian enterprises, and foreign enterprises engaged in economic activity in Georgia through permanent establishments, organizations whose property or part of property is used for economic activity. For foreign enterprises, property tax is imposed only on property located in Georgia.

The yearly property tax rate for companies and organizations should not exceed 1% of the value of taxable property.

**Excise tax**

All physical and legal persons producing excisable goods in the territory of Georgia, or importing excisable goods are subject to excise taxes. Excisable goods include all alcoholic beverages, oil and gas cars, tobacco and mobile communication services. The rate applied depends on unit and type of goods.

**Customs/Import tax**

Import tax of Georgia is 0%, 5% or 12% depending on the classification of goods.

**Social security tax/ Pension fund**

Social security tax is mandatory for the citizens up to age of 40. People who are above 40 will have a choice whether to participate in the program.

Employer – 2%, Employee – 2%, The state will apply an additional 2% from Income Tax paid by an individual therefore a total of 6% of income earned will be saved a month.

Note: *coming into force from January 1 2019

Source: Tax code of Georgia
© 2018 Deloitte & Touche LLC
All Business Administration (BA) students have minimum required technical knowledge of Accounting and Finance to start in an entry level position in the sector.

The two most widespread certifications in Finance are ACCA and CFA. Based on the information provided by certification units there are over 900 ACCA students out of which 109 are full members. As for CFA has 29 full members and 200 students.

According to the French institute of Georgia, there are on average 700-750 candidates entering for DELF Junior, DELF Scolaire and DELF Tout public certificates. There are approximately 6,500 DELF Junior, DELF Scolaire and DELF Tout public certificate holders since the French Institute’s between the years 2005-2018.

According to the Ministry of Economy database, 1,000 students were learning French in schools between the years 2016-2017.
### Average gross salaries in IT, USD

<table>
<thead>
<tr>
<th>Position</th>
<th>Average Gross Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software Developer</td>
<td>1,080</td>
</tr>
<tr>
<td>Junior Developer</td>
<td>350</td>
</tr>
<tr>
<td>Senior Developer</td>
<td>2,250</td>
</tr>
<tr>
<td>System Admin</td>
<td>1,000</td>
</tr>
<tr>
<td>Network Admin</td>
<td>1,350</td>
</tr>
</tbody>
</table>

Source: ACT survey, Deloitte analysis
2.7 Language Proficiency Results by Regions based on ACT survey

Population survey results on language proficiency tested by translation

Following the initial language competency survey, about a third of the respondents agreed to verify their skills through verbal testing.

![Bar chart showing language proficiency results by regions.]

- **Total 5 regions**: 574 k person
- **Tbilisi**: 448 k person
- **Batumi**: 56 k person
- **Telavi**: 20 k person
- **Zugdidi**: 14 k person
- **Kutaisi**: 49 k person

Source: ACT survey
## 2.7.5 Employee Related Taxes

<table>
<thead>
<tr>
<th></th>
<th>Poland</th>
<th>Czech Republic</th>
<th>Bulgaria</th>
<th>Romania</th>
<th>Bosnia and Herzegovina</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personal Income Tax</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax rate for annual taxable income under USD 26,600 per annum. A tax rate of 18% applies to personal income.</td>
<td>A tax rate of 18% for all income ranges. Czech tax residents are generally subject to Czech income tax on their worldwide income. Tax non-residents are generally taxed only on income considered Czech-source income.</td>
<td>A flat tax rate of 10% applies to all personal income, with some exceptions. Individuals are taxed in Bulgaria based on their tax residency status. Bulgarian tax residents are taxed on their worldwide income. Non-residents are taxed in Bulgaria only on their Bulgarian-source income, which has a very broad legal definition.</td>
<td>A flat rate of 10% is generally in place. Romanian citizens domiciled in Romania are considered Romanian tax residents and are taxed on their worldwide income. Non-resident individuals who meet the residence conditions become taxable on their worldwide income starting with the date when any of the mentioned criteria is met.</td>
<td>The rate in the Federation of Bosnia and Herzegovina is a flat rate of 10%. Residents, subjecting them to tax on their worldwide income. Non-residents who perform independent business or dependent business activity, who earn income from in the territory of the Federation of Bosnia and Herzegovina.</td>
<td></td>
</tr>
<tr>
<td>Polish tax residents pay PIT on their worldwide income. Non-residents are subject to Polish PIT on their Polish-sourced income only.</td>
<td>For 2018, the PIT rate is 15% for all income ranges.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Corporate Income Tax</strong></td>
<td>19%</td>
<td>19%</td>
<td>10%</td>
<td>16%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Total Tax and Contribution as % of profit</strong></td>
<td>14%</td>
<td>5%</td>
<td>5%</td>
<td>12%</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Social Contributions on gross salaries</strong></td>
<td>17%</td>
<td>22%</td>
<td>19%</td>
<td>16%</td>
<td>11%</td>
</tr>
<tr>
<td><strong>Paying Taxes Score (World Bank)</strong></td>
<td>69</td>
<td>45</td>
<td>92</td>
<td>49</td>
<td>139</td>
</tr>
</tbody>
</table>

Source: The World Bank's ease of doing business reports, PWC tax summaries on personal income
### 2.7.5 Employee Related Taxes

<table>
<thead>
<tr>
<th></th>
<th>Lithuania</th>
<th>Armenia</th>
<th>Ukraine</th>
<th>Albania</th>
<th>Moldova</th>
</tr>
</thead>
</table>
| **Personal Income Tax** | The standard flat rate is 15%. A reduced 5% PIT rate (income less than USD 22,600) is applicable to income from the sale of waste, provided that such income is not received under registered individual activity. | Tax on personal incomes apply to in the following order:
• 23% for USD 3726 per annum.
• Annual income in between USD 3726-50,000: USD 71 + 28% of the amount in excess of USD 50,000.
• Annual income in excess of USD 50,000: USD 1,144 + 36% of the amount in excess of USD 50,000. | The standard tax rate of 18% applies to income earned by tax non-residents from sources in Ukraine should be subject to tax laws specified by the Tax Code. | The following tax rates apply to income generated from employment:
• 0% rate for annual income up to USD 3,272.
• 13% rate for income between USD 3,272-14,181.
• 13% tax rate up to USD 14,181 and plus 23% of the amount over USD 14,181. | For residents and non-residents:
• 7% for annual income up to USD 1,941.
• 18% for annual income exceeding USD 1,941. |
| **Corporate Income Tax** | 15% on taxable profits | 20% on taxable profits | 18% on taxable profits | 15% on taxable profits | 12% on taxable profits |
| **Total Tax and Contribution as % of profit** | 18% | 18% | 11% | 14% | 9% |
| **Social Contributions on gross salaries** | 31% | 30% | 22% | 15% | 23% |
| **Paying Taxes Score (World Bank)** | 18 | 82 | 54 | 122 | 35 |

Source: The World Bank's ease of doing business reports, PWC tax summaries on personal income
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### 2.7.6 Labour Laws in benchmarking countries

Standardized number of hours and days worked in a month. Varying restrictions apply to laws applicable to Maternity Leave and Remuneration of overtime.

<table>
<thead>
<tr>
<th></th>
<th>Poland</th>
<th>Czech Republic</th>
<th>Bulgaria</th>
<th>Romania</th>
<th>Bosnia and Herzegovina</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Minimum Gross Wage (USD)</strong></td>
<td>596</td>
<td>542</td>
<td>295</td>
<td>534</td>
<td>260</td>
</tr>
<tr>
<td><strong>Work Hours per week</strong></td>
<td>40</td>
<td>40</td>
<td>40</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td><strong>Working Days</strong></td>
<td>Average 5 day working week</td>
<td>Average 5 day working week</td>
<td>Average 5 day working week</td>
<td>Average 5 day working week</td>
<td>Average 5 day working week</td>
</tr>
<tr>
<td><strong>Holidays</strong></td>
<td>A minimum of 20 working days</td>
<td>A minimum of 20 working days</td>
<td>A minimum of 20 working days</td>
<td>A minimum of 20 working days</td>
<td>A minimum of 20 working days</td>
</tr>
<tr>
<td><strong>Maternity Leave</strong></td>
<td>The employee retains the right to 80% - 100% of regular remuneration depending on the cause of incapacity.</td>
<td>Female employees are entitled to 28 weeks of paid maternity leave. It is obligatory to take 14 weeks leave including at least six weeks before birth.</td>
<td>Maternity leave up to 59 weeks per child where daily maternity remuneration levels is set at 90 percent of the average daily remuneration.</td>
<td>The employee retains the right to 75% - 100% of regular for period up to 9 months since the commencement of the leave period.</td>
<td>Female employees are entitled to one year of maternity leave in addition to compensation of the equivalent of her average salary over the prior 12 months</td>
</tr>
<tr>
<td><strong>Remuneration of overtime</strong></td>
<td>For the work performed in excess of the working time standards employee is entitled to an allowance. Not specified requirements were identified.</td>
<td>For the work performed in excess of the working time standards employee is entitled to an allowance or bonus wage. Not specific requirements were identified.</td>
<td>For the work performed in excess of the working time standards employee is entitled to an allowance or bonus wage. A 150 hour annual overtime cap within a working week.</td>
<td>The overtime shall be compensated by hours off paid in the next 30 days after its performance. Allowance equivalent to normal working wage.</td>
<td>Overtime hours are limited to 52 hours per week for full time employees and 60 hours per week for seasonal jobs.</td>
</tr>
<tr>
<td><strong>Temporary Employees</strong></td>
<td>This type of work entails qualification requirements from the temporary employee, except duration of temporary employment, the working hours of the place of performing the work. The employee contracted for a total period not exceeding 18 months within 36 successive months.</td>
<td>Disabled persons and foreign nationals are not able to be employed on a temporary basis. Companies are able to employees local citizens on a temporary basis.</td>
<td>No specific temporary employee contracts were identified. The most common and generally accepted type of employment contract in Bulgaria is the contract with an indefinite term. This type of contract cannot last for more than three years.</td>
<td>A temporary position must surpass an initial duration of 24 months and can be renewed such that the total duration does not surpass 36 months.</td>
<td>Only employees employed for an indefinite period can be assigned. Assignment cannot be longer than 12 months (with the possibility of the extension), unless otherwise prescribed by law or an international contract.</td>
</tr>
</tbody>
</table>

Source: Websites of Government institutions, Law Bureaus, market reports © 2018 Deloitte & Touche LLC
### 2.7.6 Labour Laws in benchmarking countries

Foreign national are exempt from special work permit regulations. Similar hiring and termination principles apply for all countries.

<table>
<thead>
<tr>
<th>Poland</th>
<th>Czech Republic</th>
<th>Bulgaria</th>
<th>Romania</th>
<th>Bosnia and Herzegovina</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Foreign Employees</strong></td>
<td>Non-EU residents: Foreigners have to obtain a work permit by the competent local authority. Citizens of the Republic of Armenia, Republic of Belarus, Republic of Georgia, Republic of Moldova, Russian Federation and Ukraine can perform work in Poland for no longer than 6 months in a period of 12 consecutive months. EU residents: Citizens of the EU are allowed to perform work under the same conditions as citizens of Poland however if the foreigner plans to stay in Poland for longer than 3 months, one should register his/her stay.</td>
<td>A new type of single permit, which authorizes its holder to stay in the territory of the Czech Republic for the purpose of employment on a long term basis and to perform work in the job, for which the card was issued. The employee card applies to all foreign nationals from any country of the world apart from citizens of the EU/EEA and Switzerland and family members from among the citizens of the EU/EEA and Switzerland who are holders or applied for the employee card.</td>
<td>EU nationals: EU residents who wish to enter and stay in Bulgaria do not need a visa. Non-EU residents: All other individuals do need a visa. Visa requirements and the exemption from such requirements of foreigners are governed by the EU legislation, agreements of the European Union with third countries on visa regimes and the effective Bulgarian legislation. Foreigners who wish to reside in Bulgaria on a long-term basis (in any case more than three months within each six-month period) must obtain a residence permit.</td>
<td>Non-EU residents: Foreigners obtain the approval of the Romanian Immigration Office, and after this stage, the Employee may apply for the staying permit. EU residents: Citizens of the EU are allowed to perform work under an employment agreement in Romania. If the period of their staying in Romania exceeds 6 months in one year, they have to register at the Romanian Immigration Office.</td>
</tr>
<tr>
<td><strong>Hiring and Termination</strong></td>
<td>An employment contract should specify the parties of the agreement, the type of agreements, the data of its conclusion, as well as the work and remuneration conditions. There are 3 methods of terminating employment in Poland: termination by mutual consent; termination with notice; termination without notice.</td>
<td>Regular employment contracts fall under two categories: Employment contract for a definite period and an Employment contract for an indefinite period. Work outside an employment relationship is an agreement to complete a job or perform work. An employment contract can be terminated only by mutual agreement of both parties; notice; immediate termination; termination during trial period; when a finite-term employment contract expires.</td>
<td>Employment contracts must be in writing and an employer is obliged to notify in writing the respective division of the National Revenue. Termination of an employment agreement can be without notice, with notice and the termination by the employer closure of business or lack of effective fulfillment of employment obligations.</td>
<td>Employment contract fall on the grounds of an employment contract for an indefinite and definite period. Project based work may also be concluded for a limited duration. An employment contract is terminated when: the contract within the definite period; when the employer chooses to terminate the contract in the following cases: reasons related to the worker’s actions or non-actions.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>A foreign national seeking employment in companies operating in Bosnia and Herzegovina must have a work permit and a temporary work permit. Work permits are issued by the competent Employment Service offices in charge for the region of the employer’s head office.</td>
</tr>
</tbody>
</table>

Source: Websites of Government institutions, Law Bureaus, market reports © 2018 Deloitte & Touche LLC
## 2.7.6 Labour Laws in benchmarking countries

Standardized number of working hours however varying levels of vacation days.

<table>
<thead>
<tr>
<th></th>
<th>Lithuania</th>
<th>Armenia</th>
<th>Ukraine</th>
<th>Albania</th>
<th>Moldova</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Gross Wage</td>
<td>454</td>
<td>107</td>
<td>125</td>
<td>205</td>
<td>178</td>
</tr>
<tr>
<td>(USD)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work Hours per week</td>
<td>40 hours</td>
<td>40 hours</td>
<td>40 hours</td>
<td>40 hours</td>
<td>40 hours</td>
</tr>
<tr>
<td></td>
<td>per week</td>
<td>per week</td>
<td>per week</td>
<td>per week</td>
<td>per week</td>
</tr>
<tr>
<td>Working Days</td>
<td>Average 5 day working week</td>
<td>Average 5 day working week</td>
<td>Average 5 day working week</td>
<td>Average 5 day working week</td>
<td>Average 5 day working week</td>
</tr>
<tr>
<td>Holidays</td>
<td>A minimum of 20 working days</td>
<td>A minimum of 28 working days</td>
<td>A minimum of 24 working days</td>
<td>A minimum of 24 working days</td>
<td>A minimum of 28 working days</td>
</tr>
<tr>
<td>Maternity Leave</td>
<td>Employees are granted a leave until she goes on her maternity leave and shall be paid during the period of extra leave her average monthly wage.</td>
<td>Employees are granted a leave period of 9 months and shall be paid the equivalent of their full wage for the duration of the period.</td>
<td>Employees are granted a leave period of 4.5 months and shall be paid the equivalent of their full wage for the duration of the period.</td>
<td>Employees are granted a minimum of 98 days and a maximum of 365 days; or otherwise a minimum of 125 days and a maximum of 390 days if a woman carries more than one child.</td>
<td>Employees are granted a minimum of 9 months where remuneration is compensated to the equivalent of 70% of the gross salary.</td>
</tr>
<tr>
<td>Remuneration of overtime</td>
<td>Employee's overtime work must not exceed 8 hours in 7 consecutive calendar days. Maximum overtime might not 180 hours per year.</td>
<td>A supplement amounting to not less than one and a half times more than the hourly rate defined for overtime and night work. The remuneration for every hour of overwork is not less than the defined hourly rate of the employee.</td>
<td>Overtime may not exceed 2 hours per day in any two-day period or 120 hours per year. The law also requires overtime to be paid at double rates.</td>
<td>Overtime may not exceed 10 hours in a working week. The law also requires overtime to be paid at least the hourly rate of the employee</td>
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<tr>
<td>Temporary Employees</td>
<td>A temporary contract of employment is a contract concluded for a period not exceeding 2 months. The government establishes the list of types of seasonal work and circumstances under which a temporary contract can be concluded.</td>
<td>A temporary contract of employment is a contract concluded for a period not exceeding 2 months. Employees are entitled to paid vacation days which is calculated for two days for each month.</td>
<td>In order to perform services on a seasonal base, a special type of agreement is concluded in the form a service agreement where participating parties agree and acknowledge all conditions set forth in the contract.</td>
<td>A temporary contract of employment is a contract concluded for a period not exceeding 2 months.</td>
<td>A temporary contract for 3 months. Contracts for experienced professionals for up to 6 months and unqualified workers for one month.</td>
</tr>
</tbody>
</table>

Source: Websites of Government institutions, Law Bureaus, market reports

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## 2.7.6 Labour Laws in benchmarking countries.

Overall foreign employees are not required to conform to special visa and work requirements.

<table>
<thead>
<tr>
<th>Country</th>
<th>Foreign Employees</th>
<th>Hiring and Termination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lithuania</td>
<td>EU residents: Citizens of one of the EU members states and the Swiss Confederation may arrive and stay in the Republic of Lithuania for up to 3 months within a 6 month period. EU residents that have stayed longer than 3 months will be obliged to apply for a residence permit.</td>
<td>Employment contracts fall under 4 categories: project-based employment contract, Job-sharing employment contract, Employment contract for several employers and an apprenticeship employment contract. Employment termination can be exercised in two forms: Termination on the initiative of an employer without the fault of an employee and Termination based on employer's will.</td>
</tr>
<tr>
<td>Armenia</td>
<td>The foreign citizens, persons with no citizenship in the Republic of Armenia shall have the same labor legal capacity, as the citizens of the Republic of Armenia if not otherwise stipulated by the law.</td>
<td>Employment contracts fall under two categories: with an indefinite term, in case in terms of validity is not specified in the employment contract and with a definite term in case its term of validity is specified in the employment contract. An employment contract shall be terminated: upon the consent of the parties; in case the contract expires; upon the initiative of the employee or the employer; in other cases established by the Code.</td>
</tr>
<tr>
<td>Ukraine</td>
<td>The foreign citizens, persons with no citizenship in the Republic of Ukraine shall have the same labor legal capacity, as the citizens of the Republic of Ukraine unless the profession require Ukrainian citizenship (e.g. public officer) and does not require access to state secrecy.</td>
<td>Employment contacts can be singled out into the following types: indefinite term, fixed labour agreement and seasonal agreements. Termination of employment contracts may be due to staff reduction, liquidation, discharge for the violation of labour agreement, voluntary termination of one's labour agreement and by default at the date specified in the contract.</td>
</tr>
<tr>
<td>Albania</td>
<td>Foreign employees in Albania will benefit from the protection and be regulated by the provisions of the Labour code provided it includes legislation about maximum working time, minimum salary, annual paid leave, health and insurance, working conditions.</td>
<td>Employment contacts can be singled out into the following types: full time and part time employment contracts. The employers who decides to terminate the employment contract, with fixed or indefinite term, should notify the employee in written form, regarding the reasons of the termination.</td>
</tr>
<tr>
<td>Moldova</td>
<td>In general, foreign citizens have the same rights and obligations as Moldovan citizens. Foreigners who intend to work in the country have to obtain the permit for temporary stay for labor purposes.</td>
<td>There are three basic types of employment contracts: indefinite length contracts; contracts for a definite time period but extending to no more than five years and project specific projects upon provision of service. An employment contract can be terminated through mutual consent between the employee and employer; liquidation of the business and dismissal by the employer due to lack of qualification or legal restructuring.</td>
</tr>
</tbody>
</table>

Source: Websites of Government institutions, Law Bureaus, market reports

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