Baltic ICT Market News
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Baltic ICT market news is a semi-annual review of recent developments in the sector of information technology, fixed and cellular telecommunications and Internet access in the Baltic States.

Prime Investment is one of the leading investment banking companies in the region, focusing on M&A, buyouts, fund raising, corporate restructuring and strategic advisory.

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Prime's TOP-20 Baltic IT services companies in IH 2006, Euro '000

	2006 IH	2005 IH	Growth, %/year	% of total 2006 IH	2006 IH	2005 IH	Growth, %/year
			IT services revenue				Total revenue
1 Sonex Group (LT) [1]	10,861	8,689	25%	34.9%	31,105	28,557	9%
2 Exigen Group (LV) [2]	9,373	8,300	13%	100.0%	9,373	8,300	13%
3 Microlink Eesti (EE)	4,839	3,769	28%	58.3%	8,299	5,715	45%
4 Alna Group (LT) [3]	4,270	3,629	18%	52.6%	8,114	8,083	0%
5 Elsis Group (LT) [4]	3,330	3,686	-10%	30.4%	10,969	8,984	22%
6 Webmedia Group (EE) [5]	2,480	1,223	103%	92.5%	2,680	1,544	74%
7 Columbus IT Partner (LT/LV/EE) [6]	2,374	2,068	15%	75.9%	3,128	3,256	-4%
8 Helmes (EE) [7]	2,264	1,126	101%	52.3%	4,331	2,327	86%
9 Baltic Data Center (LT)	2,137	1,841	16%	100.0%	2,137	1,841	16%
10 Microlink Lietuva (LT)	2,072	1,879	10%	77.5%	2,673	2,054	30%
11 Blue Bridge (LT)	1,832	1,474	24%	17.4%	10,516	8,621	22%
12 Tilde (LV)	1,580	1,052	50%	100.0%	1,580	1,052	50%
13 Baltic Amadeus (LT)	1,576	565	179%	27.5%	5,730	3,320	73%
14 Edrana (LT) [8]	1,034	527	96%	97.8%	1,057	564	87%
15 FMS (LV)	1,015	402	152%	97.0%	1,047	402	160%
16 Sintagma Group (LT) [9]	956	1,178	-19%	20.8%	4,602	2,894	59%
17 Santa Monica Networks (EE) [10]	924	623	48%	19.3%	4,800	3,263	47%
18 New Vision Baltija Group (LT) [11]	840	719	17%	22.8%	3,691	3,924	-6%
19 NRD (LT)	546	233	134%	96.9%	563	233	142%
20 Rix Technologies (LV)	529	435	22%	100.0%	529	435	22%
Average			*26.3%*	*46.9%*			*22.6%*

Source: data provided by the management of the companies

Prime's TOP-20 – is the proprietary ranking of the leading Baltic IT service companies by their revenues from in-house developed IT services and does not include any sales of hardware, distribution of software other than developed in-house, office equipment or other products. The ranking has been compiled since 2001.

IT services revenue growth continues

Prime's TOP-20 Baltic IT services companies sustained a high pace of growth during the first half of 2006, which indicates that the sector will show significant annual growth for the third year in a row. Companies in Prime's TOP-20 increased the share of revenue from IT services in the composition of total revenue as it grew by 26.3% compared to 22.6% growth in total revenue. Five companies in the ratings more than doubled IT services revenue comparing to IH 2005.

Sonex Group, the leader in the rankings reinforced its first place and had the largest total revenue among all TOP-20 Baltic IT services companies in IH 2006.

Revenue growth of over 40% from sales inside of the Baltic States was the main driver of Exigen Group's revenue growth. Income from the Baltics make up less than 40% of the company's total revenue, thus the total growth was quite smaller.

Meanwhile Lithuanian IT services provider Alna, which takes the 4th place, had almost 50% growth of revenue from exports outside of the Baltics. Export revenue make just below 35% of the company's total revenue.

Webmedia Group, a high-end software development company with headquarters in Estonia, continued its very fast organic growth and managed to double IT services revenue compared to IH 2005. The company has development centers in Estonia, Lithuania, Serbia and Romania, and it is starting its activities in Scandinavia, where it opened an office a year ago.

Helmes, an Estonian software development company was active in large projects in telecommunications, logistics and financial software solutions that allowed it to double IT services revenue. The revenue growth also resulted in a 311% increase in consolidated profit that reached EUR 0.7m. The last year's acquisition of Trigger Software, a former subsidiary of Tele2 Estonia, certainly contributed to such an improvement, and Helmes itself also carried out a larger number of projects than a year ago.

Several new large projects significantly boosted the revenue from IT services of Baltic Amadeus as well, which stood out with the highest IT services growth of 179%.

Edrana is another company that increased its revenue from IT services almost twice. The company offers business management systems but its strongest positions are in providing personnel and salary payment process management and accounting solutions. These positions were enhanced last year by acquiring one of the competitors (Infotema) with its clients' base, which also contributed to such performance improvement. This year Edrana made another small acquisition in Lithuania (see in Corporate news' part below) and launched a subsidiary in St Petersburg (Russia), where it has already found clients for its personnel and salary payment process management solutions adapted to Russian legislation. This sets up Edrana for continuing its pace of growth.

Latvian FMS (Finance Management Solutions) produced one of the largest percentage increases in revenue from IT services and had the largest growth in total revenue. The company was established only in March 2005, thus high percentage growth is understandable. Nevertheless, it also reflects general growth of the Latvian ERP market and successful business start of FMS.

NRD, a specialized registers development company, showed nice growth figures in the Baltics as well as in export markets. During IH 2006, NRD exported its services in the field of modernization and reformation of State registers, and the company's export revenue made up about 1/3 of total revenue.

CORPORATE NEWS

Summary table of M&A transactions in the Baltic ICT market since May 2006

Target	Acquirer	Deal size (%)
Dell Support (LT)	Askembla (SW)	100
Europos Telemetrijos Centras (Connecty) (LT)	Ambient Sound Investments (EE)	30
Europos Telemetrijos Centras (Connecty) (LT)	InnoCap (EE)	25
FMS (Finance Management Solutions) (LV)	7 private persons (LV)	100
Transport management IT systems business from Rojupis (LT)	Edrana (LT)	100

Sonex sells 100% of Dell support

Lithuanian IT group Sonex Group sold its secondary company Dell Support to a Swedish private equity fund, Askembla, which operates in the Baltics and is one of the shareholders of Sonex Group. This transaction is related to the reformation of the Group's business model Sonex Group is trying to concentrate on complex IT solutions and services to the corporate clients. Following the reorganisation, Sonex Group will incorporate all its subsidiaries and change its status from CJSC to a public company.

The new owners of Dell Support will rename it into DS Distribution and develop the business separately from Sonex Group.

After reorganisation, Askembla Growth Fund will own 53.33% of Sonex Group shares and the rest 46.67% will belong to the founder and manager Arunas Bartusevicius.

In 2005, Sonex Group's revenue from IT services was EUR 15.6m and total revenue amounted to EUR 79m. The company forecasts its total revenue to reach EUR 100m in 2006.

Edrana to continue acquisitions

Edrana, a Lithuanian Business management systems company has acquired the business of transport management IT systems from UAB Rojupis. This is the second acquisition in the last two years (in 2005 Edrana acquired InfoTema) as Edrana is trying to increase the number of qualified programmers in order to provide high quality programming products. According to the general director Aldona Lukosiene, the company will remain acquisitive in the future.

Currently Edrana has service centers in the biggest cities of Lithuania and the daughter company SIA Edrana in Latvia. It has just established a subsidiary company in St Petersburg, where Edrana has 60%.

In 2005, revenue of Edrana was just below EUR 1.3m.

Lithuanian telemetry start-up attracts investment of Skype's co-founders

Two Estonian investment groups acquired a majority stake in Europos Telemetrijos Centras, a Lithuanian start-up that provides remote monitoring and control solutions with the brand name of Connecty.

Ambient Sound Investments (ASI), established by four co-founders of Skype, now holds 30% of Connecty. Private equity firm InnoCap owns 25% of the company, with the remainder distributed between Connecty's two co-founders and a private investor.

The newly announced investments will help Connecty to develop new products and strengthen its position in the Lithuanian market. Tapping into ASI's existing investment portfolio, Connecty will also develop joint solutions with Oskando, an Estonian telematics company that makes vehicle-tracking devices.

Europos Telemetrijos Centras was founded in early 2005 in Vilnius, Lithuania, but it has already participated in CeBIT exhibition. Last year Connecty was awarded as the best information system of the year during InfoBalt, the biggest IT exhibition in the Baltic states. The company has five employees and expects to add several new staff in the near future.

Lattelecom Technology sold FMS

Lattelecom Group, the leading provider of electronic communication services in Latvia, sold FMS, which was a subsidiary of Group's company Lattelecom Technology (previously known as MicroLink Latvia).

One of 7 new private shareholders is Janis Bergs (27.5%), who was the board chairman of Lattelecom Technology until the deal and now continues as the chairman of FMS.

FMS was sold because its area of operations – development and maintenance of the finance and bookkeeping software solutions Apvarnis and UVIS, along with distribution of the data analysis solution MicroStrategy – was not a part of the Lattelecom Group's strategic priorities. Lattelecom Technology focuses on outsourced IT services and infrastructure solutions, installation and maintenance of company information and management systems, and user training.

FMS will continue developing functionality of its ERP solutions. It has made investments to localize its ERP software in Lithuania where it already started its first projects and plans to establish a subsidiary.

Hermitage Solutions opens a subsidiary in Lithuania

A French IT company Hermitage Solutions, which already has a subsidiary in Latvia, has made another move into the Baltic region and established a daughter company in Vilnius, Lithuania. Hermitage Solutions will distribute IT security solutions created to protect computers from spam, damaging programs and hackers, and to deal with other digital data security issues. The managers of the company see small and medium sized business as their client.

Paulius Ceponis, the director of the new Lithuanian subsidiary, forecasts that the demand for such products will grow by 20% in the coming years. In 2007, the company expects revenue of EUR 200k.

IT Partneris to work with IBM

Lithuanian company Skaitos Kompiuteriu Servisas (SKS) has established a subsidiary IT Partneris, which will provide complex IT solutions for business. The company will use IBM's products and experience in the business segment. Currently IT Partneris employs 15 specialists.

The parent company SKS produces computers Kaukas, imports and distributes network equipment and its parts, hardware, software and automation equipment. Sales of the company in 2005 reached EUR 4m.

Nexum Insurance Technologies to enter Lithuanian insurance market

Latvian IT company Nexum Insurance Technologies (Nexum IT) has opened a subsidiary in Vilnius. It is the only company in the Baltic States, which is specialized in the development and implementation of specialized software solutions for life and non-life insurance companies. Solutions by Nexum IT help optimize business processes, automate policies management, decrease handwork, increase and simplify productivity and operations analysis of insurance companies.

Nexum IT was established in 2004 by Tilde, the market leader of Latvian language software products. Nexum IT employs 35 skilled and experienced professionals and is a Microsoft Gold Certified Partner.

Shareholders of Alna – co-owners of Norby Telecom in Lithuania

In the last issue half-year ago we wrote that an Estonian capital based telecommunication company Norby Telecom opened a subsidiary in Lithuania (UAB Norby Telecom) together with Lithuanian investors. Recently it was announced that these investors are the Milaknis

family, the main shareholders of Alna Group, one of the largest Lithuanian IT holding companies. The Milaknis family owns about 2/3 of UAB Norby Telecom.

In Lithuania Norby Telecom will provide IP telephony solutions. Valentinas Milaknis, the chairman of the board of Alna Group expects that during the next 5 years Norby Telecom will have 5-10% of the fixed line telephony market in Lithuania.

Mr Milaknis has also revealed that they are considering opportunities to invest into broadband internet solutions based on WiMax technology as Norby Telecom already has experience in providing these solutions in Estonia.

Alna Group consolidated revenues reached EUR 38m in 2005, including EUR 20m from IT business.

Latvia and TeliaSonera are considering the swap of LMT and Lattelecom

Latvian Government and Scandinavian telecommunications corporation TeliaSonera are getting closer to an agreement on a swap deal by which the Government would regain full control of Lattelecom in exchange for its stake in the largest Latvian mobile network operator LMT.

The assessment of Lattelecom and LMT is carried out and it is expected that the valuation will be completed at the end of November or beginning of December.

Currently the Republic of Latvia owns 51% of Lattelecom and TeliaSonera holds 49%. The ownership of LMT is the following: TeliaSonera – 49%, Lattelecom – 23%, Latvian State Radio And Television Centre – 23%, and another 5% belong to the Ministry of Transport.

Euroset enters the Baltic States market

By the end of this year, Russian mobile handset retailer Euroset plans to open up to 150 outlets: 25-30 in Estonia, 50 in Latvia and 65 in Lithuania. It will invest EUR 50-70K in each outlet. Euroset plans to operate in the three countries under the brand name Ultra. Euroset has over 200 stores in Russia.

Euroset also plans to become a virtual network operator in the future.

MARKET NEWS

Bite launches HSDPA system in Lithuania and Latvia

Bite, a GSM operator active in Latvia and Lithuania is going to speed up mobile data transfer to 3.6 Mbps in partnership with Ericsson. Ericsson, a telecom equipment and services provider delivers HSDPA hardware, software and implementation services to upgrade Bite's 3G network in Lithuania and to build HSDPA-enabled WCDMA/UMTS network in Latvia.

The technology allows users to download information eight times faster than the current 3G connection using existing PC cards and up 40 times faster than by using a GSM/GPRS connection.

Baltic GSM operators owned by TeliaSonera (Omnitel in Lithuania, LMT in Latvia, and EMT in Estonia) have also introduced HSDPA technology. In Lithuania and Latvia the supplier was Nokia, while in Estonia the technology by Ericsson was used.

New players in the internet and fixed line telephony market in Lithuania

Virtual mobile and fixed line telephony operator Eurocom (belongs to VP Group, the largest group of private companies in Lithuania) enters a growing internet telephony market to challenge the fixed line telephony monopolist TEO LT. To provide services Eurocom will use SIP technology, which is already used by many small operators in Lithuania. At the beginning of the next year Eurocom plans to offer its clients convergence of fixed line and mobile telephony services. The highlight of the offering will be the possibility to have one number for mobile and fixed line connection. The turnover of Eurocom in 2005 made EUR 7.53m.

A Kaunas based subscription TV and data transfer service operator Mikrovisatos TV starts providing fixed line telephony services. Regular telephone with special device connected to the internet will provide an alternative to people, who previously used PC-based internet telephony programs. Subscribers will be able to preserve their existing number or choose a new one, which they will be able to use anywhere in Lithuania and abroad. Mikrovisatos TV promises free calls among the subscribers, regular fee for calls to TEO LT network, and no roaming fee for international calls.

At the end of March 2006 there were 40 alternative fixed line operators in Lithuania, and together they had 50.9 thousand users and 7% of the market.

Two new mobile operators are launching the services in Latvia

PMT, owned by a Russian citizen Evgenij Lupov, starts business with 30 000 numbers, reserved by regulatory authority of public services and which will be operated using Bite's network. According to the internet portal "Business and Baltics" the company sees itself as an ethnic mobile service provider and will target Russian speaking population living in Riga and Daugavpils.

Another emerging player in the market is Baltkom TV, which plans to start services before the end of this year. It will provide traditional mobile services as well as wireless IP telephony. Mobile connection will supplement the TRIO service, which consists of digital cable TV, internet and fixed line telephony.

In case Baltcom also joins Bite's network, there will be six virtual operators, namely, IZZI, Master Telecom, Teledema Latvia, Telekomunikaciju grupa, PMT and Baltcom, using Bite network.

Lattelecom to offer TV and mobile connections

At the beginning of 2007 Lattelecom will start broadcasting TV programs using its own cable TV net. The service will be a part of triple-play package, which consists of Internet, fixed line telephony and TV. Such package is already offered in Latvia by Baltcom.

At the same time, Lattelecom is looking for an opportunity to start providing cheap mobile connection services using Wi-Fi technologies. The company plans to have about 400 Wi-Fi access points by the end of the year.

Rankings on the Digital Opportunity Index (DOI) 2004/2005

World Rank	Rank in Europe	Country	Opportunity	Infrastructure	Utilisation	DOI
1	n.a.	Korea (Rep.)	0.99	0.74	0.64	0.79
3	1	Denmark	0.99	0.75	0.37	0.71
6	3	Sweden	0.99	0.74	0.35	0.69
8	5	Norway	0.99	0.66	0.34	0.67
17	8	Finland	0.99	0.60	0.34	0.64
20	**11**	**Estonia**	**0.98**	**0.47**	**0.44**	**0.63**
32	**20**	**Lithuania**	**0.99**	**0.38**	**0.32**	**0.56**
39	24	Poland	0.98	0.39	0.19	0.52
48	**30**	**Latvia**	**0.97**	**0.33**	**0.17**	**0.49**
60	33	Russia	0.96	0.25	0.13	0.45
76	37	Belarus	0.92	0.24	0.07	0.41

Source: World Information Society Report 2006 by International Telecommunication Union

DOI is structured around three categories: Opportunity, Infrastructure and Utilization. Opportunity measures accessibility to and affordability of ICTs services by using such indicators as the percentage of the population covered by mobile cellular telephony, Internet access and mobile cellular tariffs (as a percentage of per capita income).

Infrastructure includes the indicators of proportion of households with a fixed line telephone, households with Internet access at home, and households with a computer; mobile cellular and mobile Internet subscribers per 100 inhabitants.

Utilization shows the extent of ICT usage (the proportion of individuals that used the Internet) and quality (the ratio of broadband subscribers among Internet subscribers for both fixed and mobile technologies).

Internet usage in statistics

Rank in World*	Rank in EU	Country	Population 2006	Internet Users	Penetration (% Population)	Usage % in EU	User Growth (2000-2006)
1	-	Iceland	297,072	258,000	**86.8%**	-	53.6%
3	1	Sweden	9,076,757	6.800.000	**74.9%**	2.8%	68.0%
7	3	Denmark	5,425,373	3,762,500	**69.4%**	1.6%	92.9%
13	-	Norway	4,632,911	3,140,000	**67.8%**	-	42.7%
21	6	Finland	5,260,970	3,286,000	**62.5%**	1.4%	70.5%
-	-	EU	462,371,237	239,881,917	**51.9%**	100.0%	157.5%
31	**11**	**Estonia**	**1,339,157**	**690,000**	**51.5%**	**0.3%**	**88.2%**
n.a.	**18**	**Latvia**	**2,293,246**	**1,030,000**	**44.9%**	**0.4%**	**586.7%**
n.a.	**20**	**Lithuania**	**3,416,941**	**1,221,700**	**35.8%**	**0.5%**	**443.0%**
n.a.	-	Belarus	9,714,257	3,394,400	**34.9%**	-	1,785.8%
n.a.	25	Poland	38,115,814	10,600,000	**27.8%**	4.4%	278.6%
n.a.	-	Russia	143,682,757	23,700,000	**16.5%**	-	664.5%

* World rank consists of companies with internet penetration higher than 50%
Source: Internet World Stats©

Broadband Penetration Rates in EU - Q1 2006

Rank in EU	Country	Broadband penetration rate
1	Denmark	29.3%
3	Finland	24.0%
4	Sweden	22.9%
8	**Estonia**	**15.8%**
	EU AVERAGE	**14.1%**
18	**Lithuania**	**7.6%**
20	**Latvia**	**6.5%**
23	Poland	3.3%

Source: ECTA and WebSiteOptimization.com

END NOTES

Disclaimer:
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Source of information used in this report:
Prime Investment, Baltic Business News, Baltic Times, BNS, Communications Regulatory Authority, Delfi, Digital Media News for Europe, ECTA, Elektronika.lt, ELTA, European Commission, European Information Technology Observatory, Eurostat, IDC, Infobalt, Information Society Development Committee, Infoworld, International Telecommunication Union, Internet World Stats, LETA, Lithuanian development agency, LITTA, Statistics Lithuania, TNS Emor, TNS Gallup, Verslo Zinios, WebSiteOptimization.com, data provided by the companies.

Abrevations used:
EE - Estonia; LT - Lithuania; LV - Latvia.

Notes regarding the consolidated data of Baltic ICT companies:

[1] UAB Sonex Kompiuteriai, UAB Sonex Sistemos, UAB Sonex Identifikaciniai Duomenys, UAB Informacinių technologijų techninis centras, UAB Ars Computandi, UAB Tetraneta, Informacinių technologijų gamykla, UAB Sonex Software Development, UAB IT techninis centras, ITTL, Sonex Infrastructure Solutions Group, UAB Bitsoftas, SIA Sonex Riga, SIA Softex Latvija, AS Sonex Computers, OOO Sonex (Russia), Xorex (Belarus).

[2] SIA Exigen Latvia, DATI Exigen Group.

[3] In 2005 IH: AB Alna, UAB Alna Business Solutions, UAB Alna Software, UAB Alna Intelligence, UAB Alnos infrastrukturos sprendimai, UAB DocLogix, UAB Tesauras, SIA Unitree, OU Persimplex. In 2006 IH added: UAB Organizaciju licencijavimo centras (former UAB Alnos infrastrukturos sprendimai), OU Alna Business Solutions (former OU Persimplex), OU Alna Business Software, ZOO Alna Business Solutions Sp.

[4] In 2005 IH: UAB Elsis, UAB Elsis-Biuro sistemos, UAB Elsis-TS, UAB Elsis-Verslo sprendimai, UAB Elsis GP. In 2006 IH added: UAB Elsis Pro, OOO Elsis Kaliningrad, ZAO Elsis SPb.

[5] in 2004: AS Webmedia. In 2005: AS WMG (holding), AS Webmedia, UAB Webmedia, Oy Webmedia Finland, OU Transbility.

[6] AS Columbus IT Partner Eesti, SIA Columbus IT Partner, UAB Columbus IT Partner.

[7] In 2005 IH: AS Helmes. In 2006 IH added: OU Trigger Software.

[8] In 2005 IH: Iļ Edrana. In 2006 IH added: SIA Edrana.

[9] UAB Sintagma, UAB Sintagma technika.

[10] AS Santa Monica Networks, UAB Santa Monica Networks, SIA Santa Monica Networks.

[11] UAB New Vision Baltija, SIA New Vision, AS New Vision.