

Baltic ICT Market News

Prime
INVESTMENT

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Baltic ICT market news is a semi-annual review of recent corporate 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 2007 H1, Euro '000

	IT services revenue			Total revenue			
	2007 H1	2006 H1	Growth, % y-o-y	% of total 2007 H1	2007 H1	2006 H1	Growth, % y-o-y
1 Exigen Services (LV) ¹	11,564	9,373	23.4%	100.0%	11,564	9,373	23.4%
2 Alna (LT) ²	5,821	4,270	36.0%	57.0%	10,256	8,114	26.4%
3 Microlink Eesti (EE)	5,320	4,839	9.9%	45.1%	11,800	8,299	42.2%
4 Webmedia Group (EE) ³	4,380	2,480	76.6%	95.6%	4,583	2,680	71.0%
5 Elsis Group (LT) ⁴	3,634	3,330	9.1%	27.9%	13,047	10,969	18.9%
6 Baltic Data Center (LT)	3,250	2,137	52.1%	100.0%	3,250	2,137	52.1%
7 Helmes AS (EE) ⁵	2,910	2,264	28.5%	44.6%	6,520	4,331	50.5%
8 Blue Bridge (LT)	2,578	1,832	40.7%	23.0%	11,229	10,517	6.8%
9 Tilde (LV)	2,307	1,569	47.0%	100.0%	2,307	1,569	47.0%
10 Microlink Lietuva (LT)	2,190	1,867	17.3%	93.2%	2,349	2,709	-13.3%
11 Santa Monika Networks (EE) ⁶	1,972	1,023	92.9%	16.6%	11,903	7,887	50.9%
12 FMS Group(LV) ⁷	1,742	1,009	72.7%	93.1%	1,871	1,040	79.9%
13 Regio (EE)	1,364	1,315	3.7%	97.0%	1,406	1,357	3.6%
14 Edrana (LT)	1,109	1,034	7.3%	98.7%	1,123	1,057	6.2%
15 BPI - Baltijos Programine iranga (LT)	1,054	529	99.2%	100.0%	1,054	529	99.2%
16 New Vision Baltija Group (LT) ⁸	999	875	14.3%	23.8%	4,208	3,655	15.1%
17 Prototechnika (LT) ⁹	759	716	6.1%	94.9%	800	770	3.9%
18 Uptime (EE)	702	686	2.4%	99.2%	708	945	-25.1%
19 Compservis (LT)	671	429	56.4%	21.0%	3,197	2,423	31.9%
20 Proact Lietuva (LT)	561	503	11.4%	41.6%	1,349	1,321	2.1%
Average			30.4%	52.5%			28.0%

Source: data provided by the management of the companies. Sector growth rates were calculated excluding IT Group, Lattelecom Technologies, Sonex Group and some other companies that were not able to provide data for this report.

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.

List of mergers and acquisitions, deal prices in mEUR

Acquired company	Buyer	Status	Acquired share	Deal value	Revenue multiple	EBITDA multiple
Lattelecom group	Lattelecom management Blackstone Group LP	awaiting approval	100%	426.8	2.1	5.1
UAB Sintagma	Asseco Poland S.A.	completed	56.24%	4.3	1.3	
AS Delfi	AS Ekspress Grupp	completed	100%	54.1	9.5	27.0
AS Starman	Baltic Moontech Investments Holding	takeover offer	43.02%	32.3	5.0	12.4
AS Starman	Baltic Moontech Investments Holding	completed	56.98%	42.8	5.0	12.4
UAB Nacionalinė skaitmeninė televizija	AB TEO LT	completed	100%			
UAB Viginta	SEB VB Kapitalo Valdymas	completed	49%			
SIA Zetcom	SIA LMT	completed	100%			
UAB Microlink Lietuva (data transmission services)	AS Norby Telecom	completed	n/a			
United Dogs & Cats Ltd	Ambient Sound Investments	completed	15%			
Median SD	Oskando	completed	n/a			
Apaja Online Entertainment	Martinson Trigon Venture Capital	completed	n/a	1.75		
UAB Informatikos pasaulis	UAB Positor	completed	100%			

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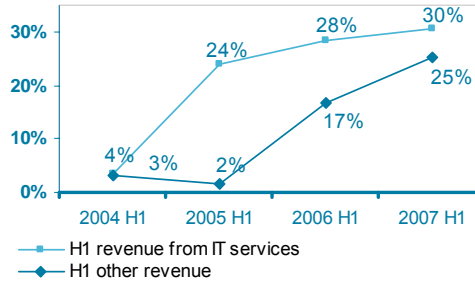
TRENDS IN PRIME'S TOP 20 PERFORMERS

IT sector growth continues, market conditions still strong

As expected, growth rates remain strong and stable in the Baltic ICT market. Combined revenues of Prime's Top 20 companies grew by 30.4% in 2007 H1, compared to 28.3% last year.

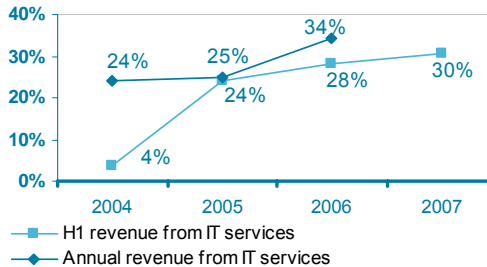
IT market conditions seem to remain healthy. IT sector growth has been accelerating for the last 4 consecutive years (Chart 1). Although acceleration of growth is diminishing (20%, 4%, 2% in 2004 H1 – 2007 H1 respectively), the increase itself is strong.

Chart 1. Historical Growth of revenues from IT services vs growth of other revenues (H1 2004 - H1 2007)



Both IT service revenues and all other revenues (mainly comprised of hardware and third-party developed software sales) increase significantly (30.4% and 25% respectively). It suggests that EU money input and State sector orders, the main growth drivers, have positive impact on both IT service and IT infrastructure fields, and that leads to more balanced market development.

Chart 2. Growth in H1 vs annual growth of revenue from IT services



Historically, IT service revenue growth in H2 is higher than in H1 as most projects are completed and revenues recognized towards the end of the year. This suggests that most of the companies are likely to enjoy strong results in H2 and in the whole year.

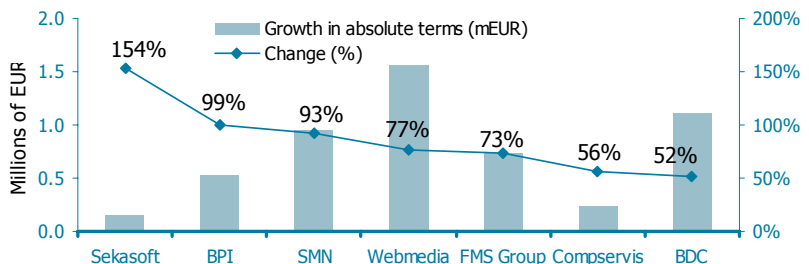
Few changes in Top 5

Exigen again secured the 1st place with IT services income of more than EUR 11.5m and growth of 23.4% y-o-y. It was followed by Alna and Microlink Eesti with EUR 5,8m and EUR 5,3m respectively. Webmedia Group has taken the 4th place with IT service revenue of EUR 4,38m followed by 77% growth.

Different year, same players

We see much the same companies among the fast growers (growing above 50%) as in the annual 2006 rankings, although growth in percentage is not as high. Average IT service revenue increase of fast growers comprised 118% in 2006 H1 compared to 86% this year.

Chart 3. The fastest growing companies by % increase in IT service revenue.



Webmedia Group increased IT service revenues by more than EUR 1.5m. The growth results from successful sales in the Nordic markets and from significant growth in the Baltic states, above all Estonia.

Strong H1 results again bring FMS Group to the list of the fastest growing companies. Its 73% growth converts to more than EUR 730k increase in monetary terms. It mainly resulted from the completion of several projects for Latvian Ministry of Finance.

BPI (Baltijos Programinė Įranga) involved in the development of a modeling software tool, IT project implementation and training already earned more than in full 2006. Revenues for 2007 H1 from IT services reached EUR 1.05m and have surpassed annual 2006 IT service sales by 54%. The main factors for growth identified by the company are high performance and increased demand for consulting and system implementation services in Lithuanian market.

Expansion to low labor cost markets targeted by Baltic IT service providers

Continuing labor force shortage urges IT companies to look for alternative ways to increase the resource pool.

IT service providers become increasingly interested in acquiring companies in low labor cost regions in order to use cheaper resources for penetrating bigger markets. Usual destinations include Ukraine, Belarus, Russia, Romania and Bulgaria. There is additional value behind such a strategy, as foot is often set on developing regions that may become attractive sales markets in the longer run.

At the same time, Baltic IT companies are now looking for ways to develop local labor markets. They team up with local universities and establish educational programs aimed at developing competences of students (i.e. Webmedia and Tartu University in Estonia, Lattelecom Technologies and their IT "Olimpiad" in Latvia). Such efforts create a more up to date knowledge base for current students and build loyalty to participating IT companies at early stages of professional careers.

New trends to come as market penetration is getting higher

The Baltic IT market is getting more penetrated, and most players recognize that revenue composition will shift in the future. Services and maintenance related to existing systems will gain more weight in the sales structures, compared to previous periods. The trend will be favorable to strong market players that have qualified staff, financial resources and technical capabilities to quickly gain scale in business where size does matter.

The area of such IT service and maintenance provision is attractive to companies as it brings a more stable revenue stream and is less cyclical than project based activity. High revenue share of maintenance related services is common to mature markets, i.e. Nordic countries that already enjoy high IT system penetration and significant revenue from IT maintenance services.

MERGERS AND ACQUISITIONS

Lattelecom MBO

Lattelecom privatization deal between the Latvian Government, TeliaSonera and Lattelecom management might be postponed indefinitely. The Latvian government confirmed that no decision will be taken in 2007, and the future of the deal becomes uncertain due to ongoing government crisis.

Earlier this year, the management of Lattelecom had signed a memorandum of understanding with Latvian Government and TeliaSonera which gave a preliminary approval for a buy out from the Government owning 51% shares and TeliaSonera (49%), which in return would gain full control of the largest Latvian GSM operator LMT, currently co-owned with Lattelecom (23%) and the Latvian Government (28%).

The proposed deal is valued EUR 426.8m. EUR 142.1m would be financed by a private equity firm Blackstone and the management of Lattelecom, the would-be shareholders of the company. Remaining EUR 284.5m would be financed by a syndicated bank loan.

The management announced earlier this year that it planned to finalize the deal no later than 31 December 2007.

Asseco Poland has acquired 56,24% in Sintagma

Asseco Poland S.A., a largest IT company in Poland, acquired a stake in UAB Sintagma, a Lithuanian IT company specializing in large scale projects mainly in the public sector and finance. Both companies plan further expansion in Lithuania and beyond by means of organic growth and acquisitions.

Asseco Group employs around 4,000 staff. It is also present in Slovak Republic, Romania, Czech Republic and Serbian markets and plans to move into Germany and Austria. The revenue is forecasted to reach around EUR 300m this year with net profit of around EUR 30m.

The newly acquired Sintagma has around 110 of employees and works on nationwide projects in Lithuania, such as integrated databases for Lithuanian library network, database and consultations in preparing Lithuanian IT systems and databases for Schengen arrangements. Sintagma's revenue in 2006 has reached EUR 5.8m

Ekspress Grupp acquires Delfi group

Ekspress Grupp, an Estonian media company listed on Tallinn stock exchange, concluded a deal to acquire AS Delfi, owning the largest internet portals in the Baltic countries and in Ukraine. Ekspress Grupp gained control over AS Delfi through the purchase of its holding company Interinfo Baltic OU.

The price of acquisition was EUR 54m. The deal was financed from the initial share offering of Ekspress Grupp held in March 2007 and from a syndicated loan by SEB Ühispank, Sampo Pank and Nordea Pank.

Delfi group is forecasted to earn EUR 7.5m in revenue in 2007 with EBITDA of EUR 2.7m. Delfi holds 45-48% of the Baltic online advertising market. It is expected to maintain 35-40% EBITDA in the following years, and benefit from expansion of online advertising market and to increase its own market share. With the acquisition Ekspress Grupp becomes the leader in online advertising market for the Baltics and also enters Ukraine. Delfi has an especially strong market position in Latvia and Lithuania, which in turn gives Ekspress Grupp a good opportunity for further expansion in these countries. The primary focus of Ekspress Grupp has been on printed publications. It owns well known newspapers and magazines "Ekstra", "Moters savaitē", "Ekstra panelē", "Moteris", "Panelē", "Mano namai" in Lithuania, and numerous publications and publishing houses in Estonia.

Baltic Moontech Investments Holding seeks full control in Starman

Baltic Moontech Investments Holding acquired a 56.98% stake in Starman, Estonian cable TV operator, Internet access and fixed line provider. On 29 October Moontech has made a tender offer to the remaining shareholders of Starman. The bid price stands at EUR 5.75 per share. Acquisition of 100% in Starman would cost around EUR 75m.

Starman is a leading Estonian cable television provider with estimated 130 thousand of cable TV, 33 thousand internet and 36 thousand fixed line subscribers. Baltic Moontech Investments Holding is paying an estimated EUR 377 per subscriber.

TEO LT acquired Nacionaline Skaitmenine Televizija

TEO LT has signed an agreement on acquisition of a 100 % stake in Nacionaline Skaitmenine Televizija. The acquired company was spun off from UAB Mikrovisatos TV, TV operator, Internet access and fixed telephone line provider during reorganization. Nacionaline Skaitmenine Televizija was created to hold two licenses for re-broadcasting of television channels through digital terrestrial television networks (DVB-T).

Viginta attracts financial investor SEB VB Venture Capital

Lithuanian venture capital firm SEB VB Kapitalo Valdymas (SEB VB Venture Capital) acquired 49% of the new share issue by UAB Viginta, a Lithuanian provider of cable television, internet and fixed telephony. Since 2006 Viginta is providing service packages under VDNET trademark.

LMT acquired ZetCOM

Latvian SIA Latvijas Mobilais Telefons (LMT) has acquired a virtual mobile operator SIA ZetCOM which operates using LMT network. The acquired company plans to continue its prepaid telephone cards AMIGO and Hallo! business and as previously will use LMT network. The move will allow LMT to take over a client base of around 135 thousand Zetcom's users. ZetCOM products are close substitutes to some of LMT prepaid cards, targeted at younger mobile telephone users. ZetCOM is the biggest of 6 virtual mobile operators in Latvia, with EUR 11.2m revenue and net profit of EUR 1.56m in 2006.

Norby Telecom acquires data transmission from MicroLink Lietuva

In November MicroLink Lietuva sold its data transmission services to Norby Telecom. MicroLink was looking for a possibility to sell the data transmission business as it aims to focus on hosting services, and plans to expand by acquiring hosting companies in Eastern Europe.

Norby Telecom is a telecommunications company formed 5 years ago through a merger of leading Estonian communications companies Voicenet, Estonian Wireless Network, Linking, and Vianet. Norby Telecom is now focusing on building an effective data communications network within the Baltic states and used an opportunity to acquire MicroLink's Metro high speed network together with a team of 30 professionals. The acquirer has partner relations with MicroLink as well as with UAB Neltè on the Wimax project in Lithuania.

Ambient Sound Investments makes further investments into internet portals and telematics

Ambient sound Investments (ASI), an investment fund run by founding engineers of Skype, makes further investments into technology startups. The investment company is seeking start-up companies with technologies of high growth potential, primarily in Eastern Europe.

ASI holds a major share in Estonian telematics company Oskando, which has acquired a notable share in Estonian Median SD, a young company whose key products are web and desktop-based GIS software solutions, including GPS navigation systems.

Oskando is developing solutions to monitor motor vehicles and remote devices. Previously Oskando and Median have been collaborating in developing SeeMe, an online vehicle tracking solution.

Ambient Sound Investments has also acquired 15% stake in United Dogs & Cats Ltd (UDC), an Estonian internet start-up. UDC is developing new type of social networking websites that unite people based on their interests and hobbies. UDC aims to create a global network of localized websites and grow the number of active users.

Martinson Trigon Venture Partners invest in online gaming

Estonian Martinson Trigon Venture Partners invested EUR 1.75m into Apaja Online Entertainment, an online entertainment developer. The main Apaja's product is Playray, an online gaming community combining avatars, community features and games. The company employs 41 people mostly based in Helsinki, Finland.

Newly established Positor plans to acquire up to 30% of Lithuanian IT infrastructure business

Lithuanian based investment company AB Invalda has established a new company UAB Positor aimed to acquire up to 30% share in Lithuanian IT infrastructure and infrastructure services market. Positor plans to reach EUR 58m turnover in 3-4 years time. 2 months since establishment Positor announced of its first acquisition – a 100% stake of UAB Informatikos Pasaulis, a Lithuanian representative of Hewlett-Packard, specializing in national scale IT infrastructure projects. Informatikos pasaulis plans EUR 2.3m revenue in 2007 which is twice the revenue for 2006.

MARKET NEWS***ERP looks to expand into Belarus and Ukraine***

ERP, a Lithuanian IT and consulting company was the first Lithuanian business solutions developer to enter Kazakhstan and Ukraine and is now creating a subsidiary in Belarus. ERP's current core market is Lithuania with EUR 3.2m sales in 2006. However, the main growth is expected to come from the new markets, as Ukrainian and Kazakh orders tend to be of a larger scale.

Lithuanian Informacinės Technologijos sets up a subsidiary in Poland

IT group (Informacinės Technologijos) set up a subsidiary Mebius IT in Poland to improve business relations and get new contracts in the neighboring country. Informacinės Technologijos has already signed an agreement with PZU Polska for installation of a Danish insurance business management system *The Insurance Application*. Investment of EUR 0.6-0.9m is planned for Poland in the coming years. The company is also eyeing Russian and Ukrainian markets for expansion.

Baltkom re-entering mobile services market

SIA "Baltkom TV SIA" is re-entering the mobile telecommunications market. The new operator will use Bite network, and will closely match Bite in tariffs and services. The mobile service is bundled with cable TV, internet, fixed and mobile telephone or sold separately, primarily on offer to 170,000 of Baltkom's cable TV subscribers.

Baltkom started operations by establishing a mobile operator Baltkom GSM, which was sold in 2000 to Tele-2.

Skype facing hiring shortages in Estonia

Skype is facing staff shortages and is lobbying the Estonian government for more liberal hiring laws.

Skype is owned by Ebay and employs 500 in staff, 300 of which are based in Tallinn. The company is facing shortages in manpower due to brain drain, relatively small population, and strict European Union labor laws. Skype representatives are lobbying to relax the Estonian laws and allow for easier hiring of personnel from outside of the EU, including India. Manpower problems become pressing to other companies in the industry as well.

Communications Regulatory Authority announces winners of WiMax tender in Lithuania

The Communications Regulatory Authority selected the Lithuanian Radio and Television Centre, Balticum TV and Nelte as the winners of WiMax tender on October 19. The conclusion of Wimax license agreements was stalled after three other bidders who were left without licenses lodged complaints about the tender.

The licenses on radio frequencies allow the three tender winners to create a data transmission network based on Wimax technology. The new networks will be able to compete with ADSL and 3G technologies as it can allow for speeds of up to 40 Mbps. The winners of the tender are obliged to create a new network in 3 cities of Lithuania in 2 years and cover no less than 90 percent of territory in 10 years.

END NOTES**Disclaimer:**

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Source of information used in this report:

Prime Investment, Baltic Business News, Baltic OXM Group, Baltic Times, Biznes&Baltija, BNS, Communications Regulatory Authority, Delfi, Digital Media News for Europe, ECTA, Elektronika.lt, ELTA, European Commission, European Information Technology Observatory, Eurostat, JT news, IDC, Infobalt, Information Society Development Committee, Infoworld, International Telecommunication Union, Internet World Stats, LETA, Lithuanian development agency, LITTA, MergerMarket, Statistics Lithuania, TNS Emor, TNS Gallup, Verslo Zinios, WebSiteOptimization.com, World Economic Forum, Juris Kaza blog, data provided by the companies.

Abbreviations used:

EE - Estonia; LT - Lithuania; LV – Latvia; CEE - Central and Eastern Europe; EU – European Union;
ICT – Information and communication technology; IT – Information technology;
CRM – Customer relationship management; ERP – Enterprise resource planning; SCM - Suitability chain management;
H1 – first half of the year.

Notes regarding the consolidated data of Baltic ICT companies:

1 SIA Exigen Latvia, DATI Exigen Group.

2 UAB Alna, UAB Alna Business Solutions, Alna Business Solutions OU (Estonia), Alna Business Solutions Sp.z o.o. (Poland), UAB Alna Software, UAB Alna Intelligence, Unitree SIA (Latvia), UAB DocLogix, UAB Tesaurus.

3 AS WMG, AS Webmedia (Estonia), UAB Webmedia (Lithuania), OY Webmedia Finland (Finland), Acando Denmark AS (Denmark), Webmedia Romania, Webmedia Serbia

4 UAB „Elsis“, UAB „Elsis biuro sistemas“, UAB „Elsis verslo sprendimai“, UAB „Elsis TS“, UAB „Elsis PRO“, OOO „Elsis Kaliningrad“, ZAO „Elsis SPb“, SIA „Elsis LAT“

5 Trigger Software OÜ, Modus Software OÜ

6 SMN UAB, SMN AS, SMN SIA, SMN OY

7 In 2006: SIA FMS. In 2007: SIA FMS Group (the holding company), SIA FMS, SIA FMS Software.

8 UAB New Vision Baltija (Lithuania); AS New Vision (Estonia); SIA New Vision (Latvia)

9 In 2006: UAB Prototechnika, UAB Prototechnikos iranga, UAB Prototechnikos kompiuteriai, UAB Apskaitos sistemas, UAB Apskaitos iranga. In 2007: UAB Prototechnika, UAB Prototechnikos iranga.