

# Baltic ICT Market News

Prime  
INVESTMENT

June, 2008

Baltic ICT market news is a semi-annual review of recent corporate developments in the sector of information technology, 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

Justė Pačauskaitė, juste@primeinvestment.lt  
Irma Janonienė, irma.janoniene@primeinvestment.lt

**UAB Prime Investment**  
Konstitucijos ave. 7, LT-09308 Vilnius, Lithuania;  
+370 5 2487211, www.priminvestiment.lt

*Disclaimer: The information contained in this document has been obtained from external sources, which we believe to be reliable. Although Prime Investment has taken steps to ensure the accuracy of the information presented we do not guarantee that it is accurate or complete, or make warranties regarding results of its usage. Data used in the tables and graphs are provided by the management of the surveyed companies, unless indicated otherwise.*

## Prime TOP-20 Baltic IT services companies in 2007, Euro '000

			IT services revenue				Total revenue		
			2007	2006	Growth, %	% of total 2007	2007	2006	Growth, %
1	↔	Exigen Group	26,900	20,916	28.6%	100.0%	26,900	20,916	28.6%
2	↑(4)	Lattellecom Technology	16,829	8,370	101.1%	59.8%	28,150	27,035	4.1%
3	↓(2)	Alna	16,438	14,288	15.0%	61.7%	26,639	25,459	4.6%
4	↓(3)	Microlink Eesti	11,340	9,616	17.9%	48.5%	23,363	17,901	30.5%
5	↔	Webmedia Group	9,454	6,662	41.9%	90.6%	10,437	7,149	46.0%
6	↔	Elsis Group	9,296	6,853	35.6%	38.6%	24,054	22,720	5.9%
7	n/a	Sonex	8,361	6,628	26.2%	12.0%	69,857	49,874	40.1%
8	↔	Blue Bridge	7,990	5,600	42.7%	22.1%	36,230	26,200	38.3%
9	↓(7)	Baltic Data Center	7,428	6,154	20.7%	100.0%	7,428	6,154	20.7%
10	↑(11)	Helmes	6,084	4,086	48.9%	57.5%	10,572	8,867	19.2%
11	↓(10)	FMS Group	4,896	4,364	12.2%	95.2%	5,144	4,395	17.0%
12	↑(14)	Sintagma Grupe	4,866	2,575	89.0%	73.3%	6,640	5,975	11.1%
13	↓(9)	Tilde	4,665	4,484	4.0%	100.0%	4,665	4,484	4.0%
14	↑(16)	Santa Monika Networks	4,359	2,428	79.5%	15.9%	27,461	14,707	86.7%
15	↑(21)	Rix Technologies	3,807	2,069	84.0%	98.0%	3,885	2,111	84.1%
16	↓(13)	Regio	3,560	3,523	1.1%	100.0%	3,560	3,523	1.1%
17	↑(18)	HNIT- Baltic GeoInfoServisas	3,376	2,597	30.0%	49.3%	6,846	5,734	19.4%
18	↓(15)	Baltic Amadeus	2,931	2,967	-1.2%	31.4%	9,324	11,410	-18.3%
19	↑(20)	ABC Software	2,707	2,079	30.2%	81.4%	3,325	2,103	58.1%
20	n/a	Etnomedijos intercentras	2,554	1,373	86.0%	81.7%	3,125	1,374	127.4%
Weighted average					34.2%	65.9%			25.9%

## Baltic IT companies by added value in 2007, Euro '000

		Added value/employee		Change 07/06	Added value		Change 07/06	Av. no of employees	
		2007	2006		2007	2006		2007	2006
1	Santa Monika Networks	56	53	5.7%	n/a	n/a	n/a	n/a	n/a
2	Helmes	52	53	-1.0%	5,299	4,095	29.4%	102	78
3	Lattellecom Technology	44	43	3.4%	127,139	126,109	0.8%	2,867	2,941
4	ABC Software	39	25	56.7%	1,105	604	82.9%	28	24
5	Rix Technologies	34	23	51.3%	1,641	994	65.1%	48	44
6	FMS Group	33	53	-36.6%	3,181	3,484	-8.7%	95	66
7	Elsis Group	32	37	-15.1%	6,233	7,639	-18.4%	197	205
8	BCS Itera	31	34	-8.0%	562	543	3.5%	18	16
9	Microlink Eesti	31	31	-1.1%	7,974	7,726	3.2%	261	250
10	Regio	28	23	18.3%	1,882	1,525	23.4%	68	65
11	Exigen Group	27	22	21.3%	18,747	14,577	28.6%	700	660
12	Sintagma Grupe	27	24	12.1%	3,083	2,536	21.6%	116	107
13	Tilde	26	28	-6.2%	2,632	2,468	6.6%	100	88
14	Alna	24	22	11%	10,676	8,663	23%	440	396
15	Uptime	22	16	36.8%	1,576	1,056	49.3%	72	66
16	Webmedia Group	22	22	-2.2%	6,584	4,467	47.4%	303	201
17	Etnomedijos intercentras	21	22	-1.8%	704	565	25%	33	26
18	Baltic Software solutions	17	13	34.2%	627	493	27.2%	36	38
19	Prototechnika	16	14	8.7%	1,185	1,206	-1.7%	76	84
20	Sekasoft	10	7	38.9%	306	205	48.9%	30	28
21	Edrana	4	3	22.7%	387	315	22.7%	92	92
22	Compservis	0.04	0.03	25.4%	2	1	42.0%	56	49
Average		27.13	25.83	5%			6.5%	5738	5524

**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.

**Added value** is computed by summing EBITDA and personnel cost. The sum divided by the average number of employees results in added value per employee indicator.

## KEY PERFORMANCE TRENDS

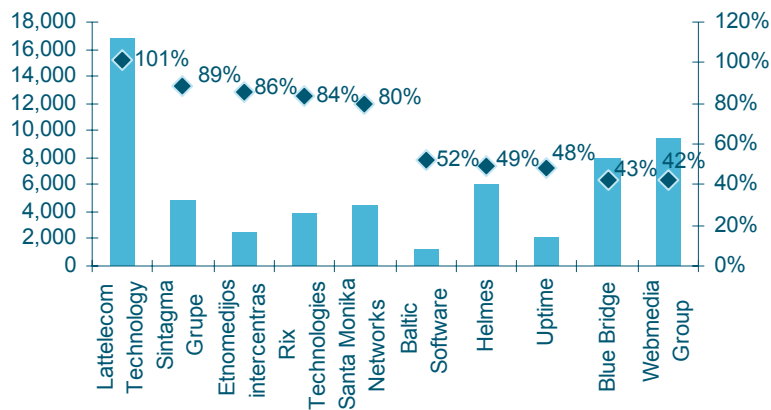
### The top-20 companies

The top IT companies had a good year in 2007 with notable growth and improving value added. Exigen Group leads the ranking with IT services revenue of 26.9m EUR, and its supremacy over the closest runners up is substantial. Lattelecom group is number two with 16.8m IT services revenue and the fastest growth of 101% among the Top-20 companies (however, this result is largely due to revenue reclassification from hardware sales to IT services), followed very closely by Alna with 16.4m EUR IT service revenue.

### Growth rates of IT services remain high...

Growth rates on average remain high. In 2007 IT services revenue grew 34.2% y-o-y, very close to 34.3% growth in 2006. Some companies like Sintagma, Santa Monica Networks, and specialized providers such as Etnomedijos Intercentras and Rix technologies have reported growth of 80% and above.

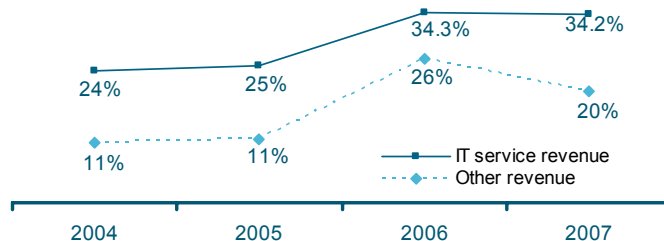
Graph 1 Top 10 companies by IT service revenue growth (yoy %) and volume ('000 EUR),



### ... and exceed growth of other revenue types

Total revenues of the surveyed companies grew by 25.9%, while other revenue, which mainly includes software and hardware sales, grew 20% compared to 26% in 2006. Performance of individual companies varies across the Baltics.

Graph 2 Revenue growth rate by type of revenues, yoy %



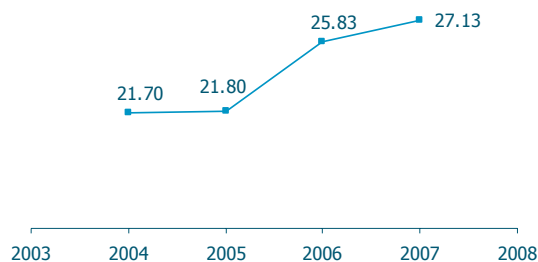
### Growth of value added by an employee has slowed down as companies hired more people and increased salaries

The overall value added increased by 6.5% only after the surge of 22% 2006. The highest value added per employee of EUR 56 thousand is reported by Santa Monica Networks. 36% of the surveyed companies faced a decline of this indicator, mostly due to the increasing numbers of employees. For example, Helmes and FMS that performed very well the previous year, hired more staff in 2007, FMS also implemented a major product upgrade which also had a temporary impact on margins and value added indicator.

IT sector salary trends as reported by ICT review respondents are not very different from overall economy in the context of economy-wide workforce shortages and rapid expansion of ITT sector in general. Salaries grew by 17.5% in 2006 and 19.37% in 2007 within ITT sector, slightly above the average salary growth in the Baltic States of 13.93% in 2006 and 16.9% in 2007.

In general, average value added per employee Baltic-wide shows a clear upward trend during 2004-2007.

Graph 3 Average value added per employee 2004-2007

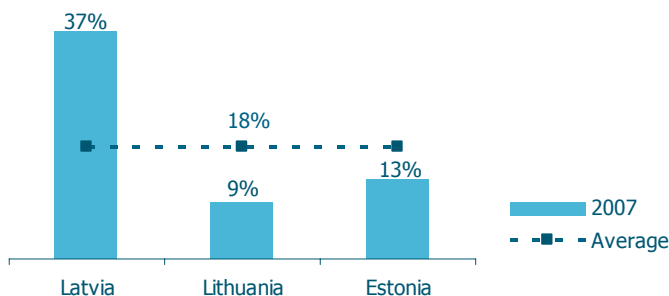


**Growth is driven by local demand**

The high growth of IT sector mostly indicates increasing local demand for IT solutions within the Baltic economies, as companies have reported only 5% growth in export.

Survey companies report that they have supplied 18% of IT services outside the Baltic region in 2007. Lithuanian IT companies are mostly focused on the Baltic market, Estonian companies export slightly more, while Latvian results are greatly influenced by Exigen Services, which alone makes 53% of all reported export value.

Graph 4 % Share of export outside the Baltic region in the total sales



Baltic market maintains further growth potential as current IT investments lag behind EU average. Based on survey companies, local IT services market is estimated at 165m EUR in 2007 or 0.3% of the Baltic states' GDP only. Continued belief into local market is also signaled by the attention from major IT and IT consultancy firms that open offices and plan to expand their operations locally.

EU structural funds and government IT spending still remains one of key driving forces behind increasing IT investment in the Baltics. All countries have specific strategies and commitments towards development of the information society that create new business opportunities for the IT companies.

**Latvian and Estonian companies are more focused on certain service type**

In addition to geographical breakdown, 60% of respondents have provided a breakdown of IT service revenues by service type. For Latvian and Estonian companies, software development and programming makes around half of total revenue.

Lithuanian IT companies less depend upon software development (26% compared to 51-44% in Latvia and Estonia), and supply more maintenance services (26% compared to 17%), all other service groups earn 11-13% of IT services revenue. As a conclusion, Lithuanian IT companies have no dominating service type, while Latvian and Estonian companies are more narrowly focused.

Table 1 Structure of IT services revenue

Sales of IT services	Estonia	Latvia	Lithuania
Software development and programming	51%	44%	26%
System integration	0%	17%	11%
Maintenance	17%	17%	26%
Software and system implementation	15%	9%	11%
Training and consulting services	5%	8%	12%
Sales of software products developed in-house	12%	5%	13%

Based on service type of this survey, Baltic IT companies can be grouped according to the areas they mostly specialize in. The grouping presented below is based on the analytical approximation,

consistency of the revenue structure across number of years and availability of the detailed service revenue breakdown by type per company.

The first group is growing most rapidly and would most likely include Exigen services, which did not provide sales breakdown. Companies in the second group mainly develop and sell specific software packages like accounting systems, GIS and vocabulary solutions.

For the most of the remaining companies the core business is hardware/software sales while system implementation and maintenance services constitute only 10-30% of the total revenue. However, these companies are larger (eg. Sonex, BlueBirdge, Microlink Eesti), and still get a high ranking in the Prime Top-20. Santa Monica Networks' business model is slightly different. It also derives more than 80% of sales from hardware, but in the IT services segment it sells such IT services as system integration, training and consulting, and earns from consulting more than any other company covered by the review.

Table 2 Companies by specialization

Prevailing service type	Average growth	Companies
Software development / programming	51%	Lattelecom Group, Uptime, Helmes, Webmedia Group, Algoritmu sistemas, Alna, Baltic Software Solutions, Rix Technologies, ABC Software
Sales and maintenance of in-house developed products	14%	Regio, Prototechnika, Baltijos Programine Iranga, Edrana, Sekasoft, FMS, Tilde, HNIT Baltic-Geoinfoservisas
Hardware / software sales, maintenance and system implementation	30%	Microlink Eesti, Sonex, Compservis, Blue Bridge, Baltic Amadeus, Elsis, New Vision, BCS Itera, Santa Monica Networks

## MERGERS AND ACQUISITIONS TRENDS

### High activity in IT sector M&A

In total, at least 19 deals in the Baltic IT and telecommunications sector took place in during the last 18 months. 5 startups have attracted investment from Ambient Sound Investments, 2 acquisitions were made by the newly established vehicle of Lithuanian Invalda group, UAB Positor, that announced its goal to acquire up to 30% of Lithuanian market for IT infrastructure solutions. Consolidation is a strong rationale for acquisitions of Sintagma, MKTV, Sonex Sistemios, Microlink Lietuva data transfer services, while sellers seek to unite with stronger counterparties or to divest non-core activities. Some private equity investments, namely deals involving As Starman and Apaja Online Entertainment, also took place throughout the year.

### Lattelecom privatization expected this year

The negotiations on exchanging Lattelecom shares over LMT between the Latvian Government and TeliaSonera are still ongoing. Officials claim that the deal will be completed by the end of 2008. Main obstacle to finalizing talks is refusal of the Government officials to break up Lattelecom into two enterprises, as requested by TeliaSonera. Upon successful completion, Latvian government would increase its stake in Lattelecom from 51% to 100%, in exchange for 23-28% of LMT shares passed to TeliaSonera.

### UAB Columbus IT Partner acquired UAB Sonex Sistemios

In March 2008 the global technology consulting and software development company Columbus IT Partner acquired ERP business from Sonex Group, namely 100% of UAB Sonex Sistemios, for 2 mEUR. Earlier in December 2007, Norwegian Ementor ASA acquired 78,8% of UAB Sonex Group Holding from the exiting financial investor and partly from the founder.

### Smartlink acquired the South African operations of Revnetek

Estonian IT developer Smartlink acquired shareholding in the South African operations of Revnetek, another Estonian IT company, for an undisclosed amount. Revnetek and Smartlink previously operated as partners in South Africa in providing hosting related services. Smartlink views South African Business as the most successful foreign activity so far.

### UAB Viginta acquired MKTV

Cable TV, Internet access and telephone services provider UAB Viginta acquired MKTV (Marijampoles kabeline televizija), a regional cable TV provider. UAB Viginta sees the acquisition as a step towards becoming the largest independent telecommunication provider in Lithuania.

### Starman shares sold to financial investors

The consortium of financial investors, led by Bancroft Private Equity LLP, acquired a majority holding in Starman – cable television, VOIP telephony and ISP company founded in 1992 and located in Tallinn, Estonia. At the moment investors hold 65.16% of the company's shares. Considering the current structure of shareholders, delisting of the company from Tallinn Stock Exchange will

probably be applied for in the near future.

#### Invalda invests into specialized IT infrastructure market

At the end of last year UAB Positor, a subsidiary of Lithuanian investment company Invalda, acquired 100% of UAB Vitma shares. UAB Vitma owns 100% of UAB Baltic Amadeus Infrastruktūros Paslaugos shares, offering IT infrastructure decisions. UAB Positor earlier announced plans to acquire up to 30% of Lithuanian IT infrastructure business.

#### Founders of Skype make further investments into technology startups

Ambient Sound Investments (ASI), belonging to an investment holding of four Estonian co-founders of Skype, continues investments into technology startups throughout the region. In January 2008 it acquired a stake in EGeen – an Estonian origin clinical research company that conducts clinical trials of drugs for American and European clients. At the end of February 2008 ASI paid 0.2m USD (0.13m EUR) for 30% shares in LogneX, a Moscow based software development company specializing in business services to small and medium enterprises, such as online accounting, human resources management and CRM. In March 2008, ASI acquired 20% stake in Versita, a fast growing Polish venture, seeking to become the leading scientific online publisher and electronic publishing provider in Central and eastern Europe, for 0.4m EUR.

#### UAB Webmmedia and Euritecha join forces

Lithuanian software development companies UAB "Webmmedia" and UAB "Euritecha" merged in April 2008. The new company will operate under UAB "Webmmedia" name, and will now be able to implement large scale Java and Microsoft technology based solutions. The company is located in Lithuania, and will employ 74 persons.

#### Summary of the latest M&A transactions, January 2007 – to date

Acquired company	Buyer	Status	Acquired share	Deal value, m EUR
UAB Sintagma	Asseco Poland	completed	56.24%	4.3
UAB Sonex Sistemas	UAB "Columbus IT Partner"	completed	100%	2.00
Webmmedia AS	Acando AB	completed	10.56%	
UAB Euritecha	UAB Webmmedia	completed	merger	
Apaja Online Entertainment	Martinson Trigon Venture Capital	completed	n/a	1.75
AS Delfi	AS Ekspress Grupp	completed	100%	54.1
Versita	Ambient Sound Investments	completed	20%	0.40
LogneX	Ambient Sound Investments	completed	30%	0.14
United Dogs & Cats Ltd	Ambient Sound Investments	completed	15%	
E Geen	Ambient Sound Investments	completed	n/a	
Median SD	Oskando	completed	n/a	
Eurosat Group OU	Oskando	completed	20%	
UAB Informatikos pasaulis	UAB Positor	completed	100%	
Baltic Amadeus Infrastruktūros paslaugos	UAB Positor	completed	100%	
Microlink Lietuva (data transmission services)	Norby Telecom	completed	n/a	
Starman	Bancroft Private Equity LLP	bid	45.96%	
UAB Nacionalinė skaitmeninė televizija	AB TEO LT	completed	100%	
UAB Viginta	SEB VB Kapitalo Valdymas	completed	49%	
MKTV (Marijampoles kabeline televizija)	UAB Viginta	completed		
SIA Zetcom	SIA LMT	completed	100%	
South African business of Revnetek	Smartlink	completed	n/a	

## MARKET NEWS

### CSC Baltic opened in Lithuania

A major multinational IT player Computer Sciences Corporation (CSC) opened an office in Lithuania in March. In the first stage of development, the company will work for existing SCS clients in Scandinavia and elsewhere. Local client search is foreseen only in the second stage of development. The company has a strategic partnership agreement with Alna, which performs personnel search and management. The company already employed around 80 people and is ready to employ up to 150 or even more, if local human resources will allow for further growth.

### MATERNA comes to Lithuania

At the beginning of May this year the leading European IT service management specialist MATERNA Information & Communications from Dortmund, Germany, opened its first office in the Baltic States in Vilnius, Lithuania. According to Dr. Winfried Materna, managing company partner and founder, the main reason for choosing Lithuania is rapid market growth and a companies need to optimize their inside processes as a consequence of that. In the next two years MATERNA is expecting to strengthen their position in the IT market of the Baltic States.

### \$42 Billion bid for TeliaSonera

On a 5<sup>th</sup> June 2008 France Telecom offered 42 billion USD in cash and stock for TeliaSonera, a major player in Eastern European IT&T market. The initial bid was rejected hours as too low. Market analysts predict that rejection will not deter further negotiations.

TeliaSonera would give France Telecom instant access to many of the fastest-growing markets in the former Soviet Union, in which cell phone penetration is still below 30% while most EU counties exceeds 100%.

### Internet usage in the Baltics

In April 2008 company GfK Custom Research Baltic performed unified simultaneous public research of Internet usage in all Baltic States. The results were close, but Estonia is the leader with 69% residents using internet, with 52,9% in Lithuania and 56% in Latvia respectively.

Latvians and Estonians mainly use internet for Internet Banking and shopping whereas Lithuanians use it for liaising, chatting and playing games.

## END NOTES

### Disclaimer:

The information contained in this document has been obtained from external sources, which we believe to be reliable. Although Prime Investment has taken steps to ensure the accuracy of the information presented we do not guarantee that it is accurate or complete, or make warranties regarding results of its usage.

### 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, Zephyr, Statistics Lithuania, TNS Emor, TNS Gallup, Verslo Zinios, WebSiteOptimization.com, World Economic Forum, Juris Kaza blog, data provided by the companies.

### Abbreviations used:

N/A – data not available

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;