Baltic ICT Market News

Prime INVESTMENT

July 2009

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### Prime TOP-20 Baltic IT services companies in 2008, Euro '000

		Company	IT services revenue				Total revenue		
			2008	2007	Growth, %	% of total'08	2008	2007	Growth, %
1	↔	Exigen Services	28,730	26,900	6.8%	100.0%	28,730	26,900	6.8%
2	↑(3)	Alna Group	20,021	16,438	21.8%	66.9%	29,922	26,578	12.6%
3	↑(5)	Webmedia Group	13,347	9,522	40.2%	95.2%	14,020	10,437	34.3%
4	↔	Microlink Eesti	12,461	11,340	9.9%	52.4%	23,764	23,350	1.8%
5	↑(8)	Blue Bridge	10,940	7,990	36.9%	30.6%	35,740	36,230	-1.4%
6	↑(9)	Baltic Data Center	10,544	7,428	41.9%	100.0%	10,544	7,428	41.9%
7	↓(2)	Lattelecom Group	9,978	16,829	-40.7%	38.9%	25,639	28,150	-8.9%
8	↓(7)	Atea	7,288	8,361	-12.8%	12.4%	58,557	69,856	-16.2%
9	↑(10)	Helmes	6,010	6,084	-1.2%	44.2%	13,593	10,572	28.6%
10	↓(6)	Elsis Group	5,678	9,157	-38.0%	27.9%	20,343	23,915	-14.9%
11	↔	FMS Group	4,820	4,896	-1.6%	94.4%	5,108	5,144	-0.7%
12	↑(13)	Tilde	4,342	4,663	-6.9%	100.0%	4,342	4,663	-6.9%
13	↑(22)	New Vision Baltija	3,932	2,391	64.5%	35.5%	11,084	9,159	21.0%
14	↑(16)	Regio	3,678	3,560	3.3%	96.7%	3,802	3,560	6.8%
15	↑(17)	HNIT- Baltic	3,587	3,376	6.3%	44.5%	8,068	6,846	17.8%
16	↑(18)	Baltic Amadeus	3,502	2,931	19.5%	60.4%	5,799	9,324	-37.8%
17	↑(21)	Baltijos Programine Iranga (BPĮ)	3,246	2,464	31.7%	100.0%	3,246	2,464	31.7%
18	↓(15)	Rix Technologies	3,016	3,807	-20.8%	100.0%	3,016	3,885	-22.4%
19	↑(24)	Uptime	2,443	2,186	11.8%	71.0%	3,443	3,066	12.3%
20	n/a	Nexum Insurance Technologies	2,160	1,552	39.2%	100.0%	2160	1552	39.2%
		Weigthed average			11.8%	70.1%			2.3%

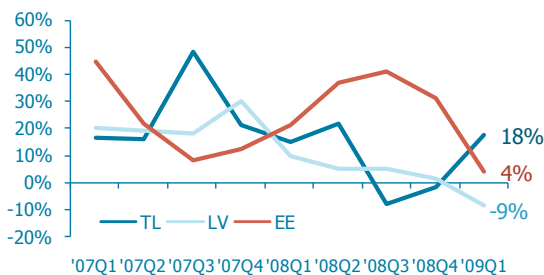|	Company	Added value/employee		Change	Added value		Change	Av.no of employees	
		2008	2007	08/07	2008	2007	08/07	2008	2007
1	Proact Lietuva	58.0	55.3	4.9%	1,044	995	4.9%	18	18
2	Helmes	54.2	52.0	4.4%	5,478	5,299	3.4%	101	102
3	DPA	51.6	75.1	-31.4%	2,062	2,479	-16.8%	40	33
4	Lattelecom Group	46.6	44.3	5.0%	132,575	127,139	4.3%	2848	2867
5	BCS Itera	37.3	31.2	19.5%	858	562	52.7%	23	18
6	Regio	33.7	27.7	21.6%	2,626	1,882	39.5%	78	68
7	Isoft Solutions	31.1	32.2	-3.5%	559	386	44.8%	18	12
8	Webmedia Group	29.2	21.7	34.4%	9,055	6,584	37.5%	310	303
9	Nexum IT	27.6	19.3	42.6%	1351	909	48.6%	49	47
10	FMS Group	27.1	33.5	-19.1%	3466	3181	9.0%	128	95
11	Compservis	26.9	39.1	-31.2%	1,398	2,032	-31.2%	52	52
12	Rix Technologies	26.3	34.2	-22.9%	1,370	1,641	-16.5%	52	48
13	Exigen Services	26.2	26.8	-2.2%	19,648	18,747	4.8%	750	700
14	Baltic Amadeus	26.1	n/a	n/a	2,742	n/a	n/a	105	127
15	ABC Software	25.7	39.5	-34.9%	695	1,107	-37.2%	27	28
16	Tilde	24.8	26.7	-7.2%	2,851	2,671	6.7%	115	100
17	Uptime	23.6	22.2	5.9%	1,649	1,601	3.0%	70	72
18	Prototechnika	19.1	15.6	22.3%	1,240	1,186	4.6%	65	76
19	Etronika	16.2	9.5	69.4%	340	134	154.1%	21	14
20	DEAC	16.1	12.2	31.7%	579	427	35.5%	36	35
21	Elsis Group	15.9	15.1	5.4%	3,100	2,971	4.3%	195	197
22	Edrana	4.7	4.2	11.4%	436	387	12.7%	93	92
		29.4	30.4	6%			6%	236	232

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 2002.

Added value is computed by summing EBITDA and personnel cost of all company activities including IT services as well as software, hardware sales and other activities. The sum divided by the average number of employees results in added value per employee indicator.

The trends
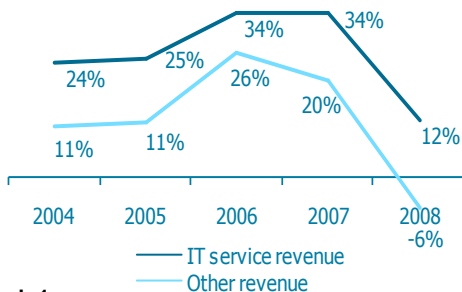
Graph 1
Surveyed companies' revenue growth by type, % yoy

Based on the survey data, Baltic IT services market saw slower overall annual growth of only 2.3% compared to 2007 when the market grew 25.9%.
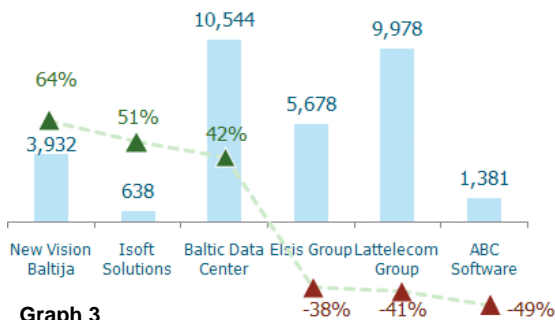
While IT services revenues grew by 12%, a pace much slower than a 34% growth in 2006-2007, revenues from other services, such as hardware and standard software sales declined by 6%, which indicates a growing client caution regarding their IT investments. This result is in line with overall IT industry revenue indexes compiled by the National Statistics bureaus (see Graph 2).

The 2008 results varied among different companies as some of them managed to maintain positive trends by adding new services and markets whereas others started to experience the impact of the economic slowdown. Market participants indicate that the worsening economic environment started to influence their results around October-November of 2008. The downward trend in IT sector revenues has not yet shown signs of reversal in 2009.[1] In the 1st quarter sales of IT services in all Baltic countries grew slower than in the end of 2008, as Latvian IT sector declined by 9% and Estonian IT grew by 4%, much lower than 31% in 2008 Q4. 18% growth in Lithuanian IT sector has been reported by the Lithuanian Statistics bureau, however, the figure is not confirmed by the market participants, and the result is mostly due to reclassifications in statistical reporting.

Graph 2
Look ahead: Baltic countries IT services' revenue index, %yoy. Source: National Statistics bureaus of Estonia, Latvia and LIthuania

The top companies

The top position among the Baltic IT service providers is maintained by Exigen Services, which grew by almost 7% and earned 28.7m EUR revenues in 2008. The company is still growing as many of its projects are long-term in nature, and the impact of the economic downturn comes with some delay. Other companies in the top-5 maintained positive revenue growth and improved their positions on the list. Webmedia Group exhibited an impressive 40% growth and reached 13.3m EUR in sales. The Company continues to expand its product range by adding document management, business intelligence and application management solutions and investing into geographic expansion in Eastern Europe, Middle-East and Africa. Blue Bridge also had a successful year and reached 5th position with almost EUR 11m revenues. Alna Group grew from new services as well as increased revenue in export markets, mainly in Poland.

Some companies like Prototechnika, Edrana from Lithuania as well as Latvian DEAC place quite close to the companies on the rating. The newcomer to top-20 this year is Nexum Insurance Technologies, a Latvian based insurance industry solutions company, created following a spin-off from RIX technologies in 2004.

The group of companies which saw a notable increase in IT service revenues includes New Vision Baltija, which grew 64% due to many small improvements in their sales policies, e.g. development of specialized utilities for retail networks and offering its clients different speed of service for a differing cost. In addition, the company worked on a significant project involving self checkout stations for the Baltic retail companies. Another company among the fast growers is Isoft Solutions, still a relatively small company whose growth resulted from winning new projects, for expample with Latvian statistics bureau.
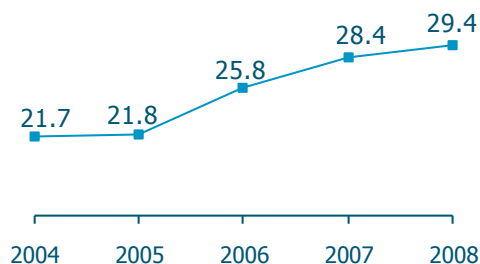
The new, the fast and the slow

Graph 3
Companies with fastest IT services revenue growth and deepest declines

Baltic Data Center reached 42% annual growth generated from clients in Lithuania and near-shore customers in retail, banking and insurance

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[1]The indexes represent a year-over-year comparison of net revenue from IT and related services for Lithuania and Estonia and IT and telecommunications services for Latvia. Pure IT and related services data for Latvia is not immediately available therefore the indexes are not fully comparable. Inclusion of telecommunications most likely improves Latvian index which otherwise would have a steeper decline.

sectors. Baltic Data Center also increased sales of standardized IT services for small and medium-sized businesses.

Seven companies in the top 20 saw their sales of IT services decline compared to 2007. Elsis group suffered as its clients reduced IT budgets and suspended new projects causing a 38% drop in revenue. Lattelecom group lost around 41% of IT services revenue after contract orders and projects stalled in both public and private sectors. ABC Software saw a decline of 49% due to a decrease in the number of projects after extremely successful 2007.

Value added per employee

29.4

28.4

25.8

21.7   21.8

2004   2005   2006   2007   2008

Graph 4
Average value added per employee

The average value added per employee has improved slightly and reached 29.4 thousand EUR. Eight companies fell short of 2007 level, frequently because of increase in workforce coupled with falling margins. The average EBITDA among the reporting companies fell from 12% in 2007 to 10% in 2008.

The leaders in value added per employee were Proact Lietuva which specializes in data storage, archiving and similar solutions, Helmes, an Estonian software developer, and DPA, a Latvian license provider and IT solutions company. Both Proact Lietuva and Helmes have good track record in producing high-value added in the past; Proact Lietuva was ranked 3rd in 2006-2007, while Helmes consistently toped EUR 50 thousand in value added per employee since 2004 and ranked 1-2nd. DPA is a newcomer to Prime ratings. The company is a member of Tilde group and mainly works with software licensing. Due to a large amount of license sales and a comparatively small staff DPA produced good value added results.

Exported goods and services

Most of the IT companies in the rating focus on the Baltic market. According to available data, only around 19% of revenue came from export. In 2008, Lithuanian and Estonian companies earned only around 9% of total revenue abroad. Latvia exports around 34% outside the Baltics, strongly influenced by Exigen services with exports is accounting for 48% of total sales.

Larger companies earned more abroad mostly owing to their subsidiaries established in foreign markets. The most export-oriented company on the list is Nexum Insurance Technologies, which earned 55% of its income in Scandinavia and Russian Federation.

Wages growth

Salary growth indication	2007	2008
Software development	15.8%	19.9%
System architecture	12.7%	23.2%
Infrastructure/ maintenance	14.9%	18.1%
Overall growth (all functions)	9.8%	12.5%
Median monthly expenses on 1 employee (all functions), thousand EUR	1.6	1.8

Table 1
Wage growth indicators obtained from the companies

Despite slowing economy and overall wage reduction, salaries of IT staff were still growing rapidly throughout 2008. System architects were in greatest demand based on salary dynamics. General wage expenses of all functions grew by 12.5% in 2008.

OVERVIEW OF RECENT MERGERS AND ACQUISITIONS

Exigen Services aquired Taihoo

Exigen Services, the largest IT systems developer in the Baltics acquired a leading Chinese customized software services provider Taihoo Technologies in May this year. This is a step to combine Exigen's outsourcing know-how with skilled Chinese labor force. Taihoo will be operating under the name of Exhigen Services China.

Lithuanian Baltnetos komunikacijos acquired Norby telecom business in Lithuania

Data transmission services provider Baltnetos komunikacijos increased its share in IP telephony market by acquiring Norby Telecom business in Lithuania in July, 2009. Baltnetos komunikacijos will also hire main company employees in Lithuania.

In the summer of 2008 Baltnetos komunikacijos acquired UAB „Norby Networks" (previously Microlink Lietuva) data transmission and maintenance business from Martinson Trigon Venture partners.

Linxtelecom acquired Norby Estonia

Norby Estonia was sold to telecommunications company Linxtelecom after the company made attempts to turn around its troubled business and reduce its excessive financial debt. Linxtelecom will gain control of the data transmission network Metroo in Tallin and VoIP –IP telephony and expand its geographical coverage in Estonia.

Prime
I N V E S T M E N T

Lithuanian gaming market consolidates

One of the most popular Lithuanian gaming sites www.zaidimai.lt was acquired by Argentum sistemos, the owner of real estate, job search and advertisement portals dedicated mainly to the Lithuanian market. The company is planning to gain about 60% of the gaming market in Lithuania.

Finnish Elcoteq sold majority of its operations in Tallinn to Ericsson.

Elcoteq, a leading electronics manufacturing services (EMS) company in the communications technology sector sold its Tallinn plants to Ericsson. The transaction included machinery, materials and the lease agreement of the plant building and is valued at approximately 30 million euros. Most employees will continue working on existing employment terms for Ericsson. Elcoteq will retain specialized manufacturing capacity in Estonia to serve its other customers.

MicroLink Eesti sold some of it's operations to Helmes

In June 2009 MicroLink Eesti, a company wholly owned by Eesti Telekom, sold it's enterprise resource planning and software development operations to an Estonian company Helmes.

Since then MicroLink Eesti is concentrating on providing ICT outsourcing, IT systems hosting and management for businesses as well as training.

Inida and Skaitos Kompiuteriu Servisas merged

Lithuanian IT equipment and infrastructure companies Inida and Skaitos Kompiuteriu sistemos merged in January this year. The companies seek to decrease their operational costs, better exploit their resources and offer new services.

Sintagma Technika acquired by UCG Baltic and renamed to RASO

UCG Baltic, a major solutions provider to hotels, restaurants and catering businesses in the Baltics has acquired Sintagma technika, a leading Lithuanian provider of point-of-sales equipment in autumn 2008. After the deal Sintagma technika was renamed to RASO in April 2009. The group claims it will seek further acquisitions and expansion.

MARKET NEWS

EITO projects ICT rebounding in 2010

The European Information Technology Observatory (EITO), an IT and consumer electronics research initiative, announced that according to its forecasts European ICT markets will exhibit slow positive growth already in 2010.

According to the researchers, telecommunications sector will only decline by 0.1% in 2009, but there will be changes within the sector as fixed voice telephony continues to decline, and wireless and fixed-line data services are growing. Mobile telephony is to stagnate due to fierce competition and EU regulation initiatives. Telecommunications are about to grow by 1% Europe-wide in 2010.

IT sector is forecasted to decline by 2.2% in 2009, mainly due to significant decrease in IT hardware sales (-6.6%). Software and IT services sales are forecasted to decline only slightly by 0.3%. Overall IT market is about to increase by 0.6% in 2010. IT sector will suffer less than the overall economy due to its potential of increasing efficiency.

E-readiness index

According to the Economist Intelligence Unit E-readiness index for 2008, Estonia is the highest-ranking country in the Baltics, up by 4 places from 2007 and ranking 24th. Lithuania improved its position from 38th to 32nd, and Latvia remained 37th. The index covers 70 countries and takes into account connectivity and technology infrastructure, business environment, social and cultural environment, legal and policy environment, government policy and vision and consumer and business adoption

Snapshot of the information society

	EE	LV	LT	EU-27
% of households who have Internet access	58	53	51	60
% of individuals using e-government options	34	16	20	28
Number of broadband lines per 100 inhabitants	23.6	16.3	16.1	21.7

Table 2
Selected Information society Indicators, 2008 (Eurostat)

In general, Estonia seems to have a rather developed information society based on EU information society indicators, while Latvia and Lithuania still lag behind. Estonia is above average in use of internet to interact with government institutions (34% against 28% EU average) and the number of broadband access lines per 100 inhabitants, while Lithuania and Latvia are below average on all indicators.

Other information society benchmarking indicators not recently renewed but used to evaluate information society development level include company use of internet to interact with government and partners, e-commerce, e-government indicators, use of telecommunications, internet access and computers used by individuals, and computer skills indicators.

GetJar cooperates with Sonny Ericsson

In June 2009 mobile content portal GetJar started cooperation with Sony

Ericsson, giving access to more than 45 thousand items of mobile software and games to Sony Ericsson clients.

The Portal is managed by Lithuanian company GetJar Baltics which has successfully raised $6 million from Accel Partners in 2007. GetJar is the first Lithuanian company that opened a branch in Silicon Valley.

Lattelecom privatization postponed until after the crisis

In May 2009 Latvian minister of Economy Artis Kampars confirmed that the Latvian Government intends to sell its shares in Lattelecom. However, the plans are postponed until Latvian economy shows signs of recovery and the Government is able to get a good deal for its 51% stake in the company. In March 2009 government officials supported the decision to pay out 2008 net profit as dividends (a total of more than EUR 42m).

Barclays to set up IT centre in Vilnius

Barclays is planning to open an IT centre in Vilnius in August or September this year. The bank will invest around EUR 50m and create about 250-300 workplaces for IT specialists in the new centre that will maintain and develop the IT infrastructure for bank divisions.

Top managers of Informacines Technologijos resign

In November 2008 the top managers of Affecto Lietuva (previously Informacines Technologijos) group, consisting of five companies in the Baltics and Poland, have resigned from their positions. The founder and former Head of the group Kęstutis Užpalis indicated that the main reason for resignation was difference in view with regards to business development strategy between the company owners and the top management. Informacines Technologijos has been sold to Finnish group Affecto in 2004.

Staff cuts in Affecto

Affecto is decreasing it's staff by a quarter this year and will dismiss 130 employees across the Baltic states. The main reason cited is the decrease in government sector IT investment due to worsening financial situation of the public sector.

Blue Bridge sets up Blue Bridge Code

In December 2008 Lithuanian – based Blue Bridge reorganized its IT development unit into a separate subsidiary Blue Bridge Code. The move seeks to increase the flexibility and create good prerequisites for further development of the fastest growing line of business.

END NOTES

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Source of information used in this report:
Prime Investment, Baltic Business News, Baltic OXM Group, Baltic Times, BNS, Communications Regulatory Authority, Delfi, Digital Media News for Europe, ECTA, Elektronika.lt, ELTA, Eurostat, JT news, IDC, Infobalt, Information Society Development Committee, Infoworld, International Telecommunication Union, LETA, LITTA, Zephyr, Lithuania, Latvia and Estonia statistics bureaus, TNS Gallup, Verslo Zinios, Aripaev, World Economic Forum, 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;