

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 Baltics.

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 2005, Euro '000

	IT services revenue				Total revenue			
	2005	2004	Growth, %/year	% of total 2005	2005	2004	Growth, %/year	
1 Exigen Group (LV) ¹	19 994	17 585	14%	100%	19 994	17 585	14%	
2 Sonex Group (LT) ²	15 639	10 861	44%	20%	79 066	66 902	18%	
3 MicroLink Eesti (EE)	8 115	7 412	9%	62%	13 163	12 013	10%	
4 Alna Group (LT) ³	7 768	7 697	1%	38%	20 361	17 016	20%	
5 Elsis Group (LT) ⁴	4 300	3 840	12%	25%	17 450	13 707	27%	
6 Baltic Data Center (LT)	4 021	3 615	11%	100%	4 021	3 615	11%	
7 MicroLink Lietuva (LT)	4 018	2 823	42%	87%	4 630	2 887	60%	
8 Helmes (EE) ⁵	3 727	2 234	67%	56%	6 599	5 946	11%	
9 Webmedia (EE) ⁶	3 712	2 083	78%	92%	4 032	2 313	74%	
10 Blue Bridge (LT)	3 539	2 007	76%	15%	23 712	19 811	20%	
11 Sintagma Group (LT) ⁷	2 882	2 491	16%	39%	7 436	7 878	-6%	
12 Tilde SIA (LV)	2 636	2 260	17%	100%	2 636	2 260	17%	
13 New Vision Baltija Group (LT) ⁸	2 143	2 027	6%	20%	10 832	8 515	27%	
14 Regio (EE)	2 097	496	322%	89%	2 347	648	262%	
15 Algoritmu sistemos (LT) ⁹	1 722	1 970	-13%	75%	2 308	2 041	13%	
16 HNIT-Baltic Geoinfoservisas (LT)	1 702	1 183	44%	54%	3 131	2 318	35%	
17 Baltic Amadeus (LT)	1 561	1 277	22%	22%	7 180	10 641	-33%	
18 Prototechnika Group (LT) ¹⁰	1 334	1 300	3%	90%	1 485	1 481	0%	
19 Santa Monica Networks (EE) ¹¹	1 248	582	114%	16%	7 849	7 090	11%	
20 Edrana (LT)	1 206	1 056	14%	95%	1 265	1 103	15%	
Average			24.8%	39.0%			16.4%	

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. Value added is calculated as EBITDA plus personnel cost. The ranking has been compiled since 2001.

Baltic IT companies by added value in 2005, Euro '000

	Added value per employee			Added value			Av. number of employees	
	2005	2004	Growth, %/year	2005	2004	Growth, %/year	2005	2004
1 Helmes (EE)*5	53.1	53.2	0%	2 867	2 396	20%	54	45
2 Compservis atvirosios sistemos (LT)	43.7	37.5	17%	525	450	17%	12	12
3 Compservis (LT)	35.6	29.2	22%	1 708	1 402	22%	48	48
4 MicroLink Eesti (EE)	27.7	23.7	17%	4 728	4 026	17%	171	170
5 HNIT-Baltic Geoinfoservisas (LT)	26.9	32.4	-17%	1 264	1 296	-2%	47	40
6 NRD (LT)	24.4	26.0	-6%	804	780	3%	33	30
7 Etronika (LT)	24.0	17.5	37%	216	123	76%	9	7
8 Tilde SIA (LV)	23.8	23.8	0%	1 759	1 188	48%	74	50
9 BCS Itera (EE)	22.8	23.5	-3%	319	305	5%	14	13
10 Webmedia (EE)*6	22.5	33.3	-33%	2 268	1 565	45%	101	47
11 Exigen Group (LV)*1	22.1	19.1	16%	14 616	13 181	11%	660	690
12 Algoritmu sistemos (LT)*9	21.8	30.4	-28%	1 375	1 762	-22%	63	58
13 Sintagma Group (LT)*7	19.4	21.1	-8%	2 603	2 665	-2%	134	126
14 Baltic Software Solutions (LT)	16.7	24.7	-32%	502	396	27%	30	16
15 Elsis Group (LT)*4	14.9	14.3	5%	3 346	3 356	0%	224	235
16 Uptime (EE)	13.4	9.4	41%	734	463	59%	55	49
17 Alna Group (LT)*3	13.3	12.5	7%	5 256	3 701	42%	394	296
18 Prototechnika Group (LT)*10	9.5	7.0	36%	837	559	50%	88	80
19 Check IT (LV)	8.1	4.6	76%	65	23	181%	8	5
20 Edrana (LT)	7.3	6.3	16%	593	393	51%	81	62
21 Sekasoft (LT)	6.9	7.0	-1%	159	154	3%	23	22
Average	21.8	21.7	0.3%			15.8%		
Average per working day, EUR	87.2	87.0						

Source: data provided by the management of the companies

Baltic IT companies feel the continuing growth in demand for IT services

In 2005, Prime's TOP-20 Baltic IT services companies for the second year in a row recorded a total growth above 20% in revenues from IT services. The fact that the growth in IT services revenues exceeded the growth in total revenues (24.8% and 16.4%, respectively) confirms the tendencies identified in previous reports: the Baltic companies have already developed competitive IT infrastructure from the technical point of view; thus, now they increasingly concentrate investments on business application solutions, which should allow to effectively explore the advantages of IT infrastructure and increase the security of their IT systems.

MicroLink Group, the leader of our rankings during the last several years, has undergone the change in its ownership followed by a considerable restructuring during which it divested some of its business units while the Group was split into separate companies: MicroLink Eesti, MicroLink Lietuva and Lattelcom Technology (former MicroLink Latvia) (the latter one did not provide data for this issue).

As a result, Exigen Group secured the 1st place in Prime's TOP-20 rankings of IT services companies. The 2nd position was taken by Lithuanian Sonex Group, which is currently restructuring and changing its brand to Sonex Technologies. Sonex showed a 44% growth in revenue from IT services sales, which is the largest increase in monetary terms among all Baltic players. Sonex Group companies that develop business management, security and electronic identification solutions showed the fastest growth.

Two new entrants into Prime's TOP-20 are Baltic Data Center and Santa Monica Networks (SMN). Baltic Data Center (owned by TEO LT, formerly Lietuvos Telekomas) provides outsourcing services in system management, customer support and billing operations services. Another newcomer, SMN group of companies, operating in the field of IT networks and security solutions in all 3 Baltic States, demonstrated the 2nd largest growth of 114% in IT services revenues in the region. SMN benefited from the increased demand for security solutions, its accumulated experience in the field and investments into service quality. SMN's affiliate in Latvia showed the largest growth.

Regio of Estonia produced the most impressive growth figure of 322% owing to its success on international markets, where Regio uses the brand name of Reach-U. The company provides mostly location-based services (LBS) on GSM networks. Regio has a contract with Ericsson as a partner for LBS.

A number of established players have also shown significant growth in revenue from IT services: Webmedia Group increased its IT service sales by 78% while Blue Bridge and Helmes grew by 76% and 67% respectively. The acquisition of Trigger Software last year positively influenced the growth of Helmes, one of Estonia's largest software development and consulting firms. Webmedia continued its rapid expansion via acquisitions (see further). The number of employees in Webmedia Group currently comprises around 200, i.e. it doubled if compared to 101 in the last year.

The market drive towards increased IT security and management information systems also influenced the growth of Blue Bridge as the largest portion of growth came from information security solutions and IT processes management.

Knocking at Prime's TOP-20 door

Of the companies that came close to squeezing into our TOP-20 list, Estonian Uptime (software development and business application solutions) was the closest having grown its IT service revenues by 35% to EUR 971K. The company also showed a significant growth of 41% in value added per employee rankings.

Baltic Software Solutions (hereafter, BSS) is another noteworthy IT services provider with a good potential to hit our list in a short while. Its IT service revenues grew by 47% in 2005 and reached EUR 755K. The company has also started offering ERP solutions. BSS plans to expand its Western European market coverage and if it succeeds the company is likely to be one of the new entrants into our list. Document and process management solutions provider Sekasoft may have a strong showing in our next ranking as it may well accelerate its revenue growth this year after the acquisition of document management systems unit from Microlink Lietuva several months ago. In 2005, the company's revenues from IT services were EUR 369K.

Unfortunately, the integration of Baltic IT companies into the internationally listed IT groups resulted in some of the formerly strong ranking performers being taken out of the list. This year Lithuanian Informacines Technologijos Group (IT service sales of EUR 11m in 2005) and Latvian IT Alise (currently, TietoEnator Alise; net sales of EUR ~7m in 2005) could not provide data separately from their listed parent companies: AffectoGenimap and TietoEnator.

Despite the revenue growth, performance efficiency did not increase

We also graded companies by performance efficiency measured as value added per employee. Companies, which provided data, added 15.8% more value last year comparing to 2004. However, this growth was supported not by higher efficiency but by the increased number of employees (by 10.6% in our sample). As a result, value added per employee in 2005 remained almost at the same level as in 2004. Helmes retained its leading position in the rankings with EUR 53.1K value added per employee.

In comparison, UK software and computer services' companies enjoyed the average value added per employee of EUR 79K in 2004 (data estimates based on the Value Added Scoreboard report, published by UK Department of Trade and Industry). Finland's TietoEnator's measure of productivity was EUR 81.8K in 2004 according to the same report.

Of course, we can only draw reserved conclusions from this comparison, because companies in the UK DTI's rankings are significantly larger than the ones in our rankings. Moreover, we have not been able to collect data from some companies, which we believe would have placed well in the rankings.

CORPORATE NEWS

Summary table of M&A transactions in the Baltic ICT market during H2 2005

Target	Acquirer	Deal size (%)
Attribute Plus (Serbia)	Webmedia (EE)	65
Baltic Data Center (LT)	Lietuvos Telekomas (LT)	40
Document management solutions business unit of MicroLink Lietuva (LT)	Sekasoft (LT)	100
Dokumentu Valdymo Sistemios (core-business of Info-Tec) (LT)	IT Group (LT)	100
E-Kanava (Finland)	MarkIT (EE)	100
Fao (LV)	Izzi (LV)	100
Microlink Lietuva (LT)	Martinson Trigon (EE)	100
NOW! Innovations (EE)	Helmes (EE)	50
Proginta (LT)	IT Group (LT)	10
SAP business unit of MicroLink Lietuva (LT)	Siemens UAB (LT)	100
Serenda Investment (EE)	EMT (EE)	51
Tieto Enator Consulting (LT)	Tieto Enator (Finland)	26
Zebra Infosüsteemid (EE)	MarkIT (EE)	60

Alna Business Solutions sets foot in Poland

Alna Business Solutions, the company developing ERP solutions and providing IT-related business consulting services, continues its expansion into the neighboring countries and established a subsidiary in Warsaw. According to Tomas Milaknis, Director of Alna Business Solutions, this year the subsidiary is planning to implement five projects in Poland and to employ 15 specialists within a year. Alna Business Solutions will offer its clients Business Process Management and ERP consultations and solutions.

Alna Group consolidated revenues reached EUR 38m (incl. EUR 20m from IT business).

EMT acquires 51% of Serenda Investment

The leading Estonian mobile operator EMT, the wholly owned subsidiary of Eesti Telekom, purchased a majority share of Serenda Investment, the owner of the brand name *Rate* and the administrator of the internet based communications portal *Rate.ee*, which has 360 thousand registered users. The remaining shares belong to the founder of *Rate.ee* Andrei Korobeinik through his company Rate Solution. The value of the transaction was EUR 2.5m. The sales of EMT Group totaled EUR 197m in 2005.

EMT expects to generate increased advertising and telecommunication services revenues from the youth segment via the acquired portal.

Helmes grows by acquiring its business partners

After two years of cooperation in various e-payment projects in Europe, Helmes acquired 50% share of NOW! Innovations, a technology development company, established by Kalju Rütli and three other private persons in 2003. Both sides claim the deal to be a logical step in the on-going partnership.

NOW! Innovations has developed a RFID (Radio Frequency Identification) technology integrated software platform for the digital payment transfers and management. The ongoing joint projects include building, managing and marketing mobile parking systems in three European countries.

Informacines Technologijos (IT) Group strengthens its positions in Estonia and Lithuania

IT Group of Lithuania has established a new company Mebius IT in Estonia with more than 20 employees. The move is in line with the strategic expansion goal of the company and its parent AffectoGenimap of Finland.

IT also acquired 10% of shares of Proginta, Lithuanian IT company working in the fields of programming software creation and computer technical support. The other company acquired was Dokumentu Valdymo Sistemios, which recently took over the main business

of Info-Tec (Enterprise Content Management solutions) together with the brand Info-Tec. In this transaction Prime Investment acted as the exclusive strategic and financial advisor to Info-Tec.

IT Group's net profit in 2005 was EUR 1.1m and the turnover reached EUR 11m. As noted above, due to the changes in disclosure policies, IT Group is not included in Prime TOP-20 ranking.

IZZI acquires a cable operator FAO

Izzi, the Latvian cable television, internet and mobile telephony service provider, has boosted its cable TV subscribers to 300 thousand by acquiring its rival Fao, a cable TV and internet company operating in several Riga suburbs. Izzi is full of ambitions to catch up with the market leader Baltcom.

The turnover of Izzi reached EUR 6m in 2005 and increased by 23.5% compared to 2004.

Lietuvos Telekomas and TietoEnator swapped their shares in joint IT joint ventures

Lietuvos Telekomas (currently TEO LT) has acquired the remaining 40% of shares it did not own in the joint venture Baltic Data Center from TietoEnator OYJ, and signed an agreement to divest its 26% in TietoEnator Consulting UAB.

The transaction will allow TEO LT to expand the package of services by bundling telecommunication and IT services. Becoming a 100% owner of TietoEnator Consulting UAB will allow TietoEnator to exert a greater control and develop the business using the near-shore possibilities it represents.

Lietuvos Telekomas sells 100% of MicroLink Lietuva and Baltijos Kompiuteriu Akademija

Following the decision of Lithuanian Competition Council, Lietuvos Telekomas (currently TEO LT) resold MicroLink Lietuva and Baltijos Kompiuteriu Akademija to the Estonian private equity fund Martinson Trigon Venture Partners (MTVP). MTVP declared it would concentrate MicroLink Lietuva on its core business - data communication and systems technical support.

Consequently, MTVP reorganized Microlink Lietuva by selling its document management solutions business to UAB Sekasoft and the team of SAP consultants to UAB Siemens.

MTVP is aiming to invest EUR 20-30m into Baltic and Russian media, technology and telecom companies.

MarkIT acquires two companies in Estonia and Finland

MarkIT, the Baltics' largest internet based e-purchasing company, has acquired 60% of shares in Estonian e-procurement firm Zebra Infosüsteemid and 100% of shares in Finnish e-procurement company E-Kanava. It is now expected to boost the turnover and purchasing volume as well as to offer the best prices of IT products for its clients.

E-Kanava will be fully integrated into MarkIT group with its chief executive Mikko Hedman becoming a MarkIT partner in charge of the further expansion into Scandinavia. Zebra Infosüsteemid's management and former shareholders will retain 40% of shares and will run it as a separate company.

The combined MarkIT and Zebra sales to Estonian corporate IT hardware market exceeds EUR 8.4m.

The company is preparing for the expansion into the Czech Republic, Finland and Poland. The e-purchasing system is currently used by more than 2 000 companies in the Baltics.

Webmedia purchases Serbian Attribute

Webmedia Group, one of the largest software development companies in the Baltics, has acquired 65% of Attribute Plus, a promising software development company in Serbia. By signing this deal, Webmedia aims to build a strong development center in Serbia to serve the customers in the Nordic countries and to put Attribute Plus in the front line of the growing Serbian IT market.

One of the most significant projects of Attribute Plus so far has been the delivery of a full IT solution in terms of IT system, ticket sales and support to the European Basketball Championship held in Serbia in 2005.

MARKET NEWS

Accenture opens IT center in Riga

IT services and consulting giant Accenture has opened a technology services center and joined the group of the other European companies that have already outsourced knowledge-based work to Latvia. Most of the services will be provided to foreign clients (Nordic countries in the first place), but the company also targets Russian and other countries where Russian is the business language. The services provided by the team in

Riga include designing, coding, deploying, testing and maintaining custom developed and packaged solutions.

Latvia was chosen because of its highly skilled IT workers, good level of language skills (Russian, English and Scandinavian) as well as cost efficiency. The owners forecast rapid growth of the Delivery center, currently employing 150, subject to availability of additional labor resources.

Accenture has over 40 similar centers in 30 countries. Among the companies that outsource knowledge-based business are Tele2, Seavus Group and TietoEnator.

Baltic fixed telecom operators are rebranding

Three Baltic fixed line carriers controlled by Telia Sonera finished rebranding, aiming to position themselves closer to the customers, as they move into the new business areas: internet, data access and cable TV. The process was started by Eesti Telefon (Estonia), which changed its name to Elion Enterprises three years ago. In 2006 Lietuvos Telekomas (Lithuania) has changed its brand name to TEO LT and Lattelekom (Latvia) has switched to a more international spelling - Lattelecom.

IBM chooses Lithuania for the application services development

IBM has chosen Lithuania as one of the most suitable regional locations in Northern Europe for the development of application services. In the beginning of 2006 at least 20 JAVA and SAP specialists will join the Lithuanian IT office and will form a new Application Services Delivery Centre after trainings. The center will service the Nordic and Baltic regions.

New players in mobile telephony market in Latvia and Lithuania

Master Telecom, previously a fixed line services provider, started its operations as a virtual GSM services provider in Latvia. MTS (Master Telecom Sakari) is a post-paid service provider, offering plans with 6 tariffs. It uses Bite's GSM network.

Another virtual operator – CSC Telecom announced its plans to start working both in Lithuania and Latvia later this year. It will also use Bite's network in both countries.

CSC Telecom operates in all three Baltic countries as a fixed line telephony provider and is the second largest company after the incumbent telecoms – Lattelecom and Elion in Latvia and Estonia, respectively.

Lithuanian virtual operator TeleDema is also launching its business in Latvia. It will also use Bite's network. Currently, the company has 30 thousand subscribers at home.

Three mobile operators in Lithuania awarded a 3G licence

Lithuanian mobile operators joined their neighbours by acquiring the third generation licences. Latvian (LMT, Tele2, and Bite) and Estonian (EMT, Tele2, and Radiolinija Eesti) mobile service providers were awarded 3G licences several years ago.

Based on the licensing requirements the operators should start providing 3G services in five biggest cities not later than in six years. However, the winners, Omnitel, Bite and Tele2, are eager to implement video telephony services as soon as possible. The 3G licence is valid for 20 years.

New fixed line telephony provider in Lithuania

Estonian Norby Telecom is starting its operations in Lithuania. Norby Telecom targets the business segment and plans to attract several thousand users within the first year of business. The company is going to help its clients to interlink currently separately existing services such as voice telephony, data transmission and business management systems. It will also offer free calls inside companies and cheaper international calls.

In Lithuania Norby Telecom was established together with Lithuanian investors. The share capital of the company is EUR 0.26m.

Lithuania to preserve the leading position in mobile communication penetration

According to the 11th annual European Commission (EC) report on Electronic Communication regulations and markets (2005) Lithuania had the highest mobile communication penetration growth rate in the Baltics (37%) compared to Estonia (16%) and Latvia (14%).

Lithuania still enjoys the lowest mobile services prices in EU (Latvia is ranked as 8th and Estonia as 13th) in the low-end segment, while in the middle-end and high-end segments it holds 5th and 8th places, respectively.

EC compliments Lithuania on its rapid development of optical and wireless broadband technologies and intense competition in the broadband market.

According to the report, Lithuania and Estonia are among the few EU members where the xDSL broadband penetration is less than 50% (LT 43%, EE 48%, LV 57%).

Eurostat report - Internet access in the Baltics in 2005

	Lithuania	Latvia	Estonia
Internet access in households	16%	43%	40%
at enterprises	86%	75%	90%
Persons, who never used the internet	61%	51%	36%
Persons, who use the internet at least once a week	30%	36%	54%

ID-ticket system - one of the leaders in Estonian e-business

The number of purchased ID-tickets for public transport services in Estonia is approaching 1 million. Every day more than 100 thousand passengers use electronic tickets to pay their fares in the public transportation in Tartu, Tallinn and Viimsi districts. The ID-ticket system, based on personal ID card, which is compulsory in Estonia, was launched in the beginning of 2004. ID-ticket is personalized and electronic and, therefore, it cannot be counterfeited. It can be purchased via the internet, by direct debit, mobile phone, regular phone, from special automated machines as well as in commercial outlets.

The Estonian Association of Information Technology and Telecommunications awarded the ID-ticket system the "Accomplishment of the Year" award in 2005.

END NOTES

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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, ELTA, European Commission, European Information Technology Observatory, Eurostat, IDC, Infobalt, Information Society Development Committee, Infoworld, Lithuanian development agency, LITTA, Statistics Lithuania, TNS Emor, TNS Gallup, Verslo Zinios, data provided by the companies.

Abbreviations used:

EE - Estonia; LT - Lithuania; LV - Latvia.

Notes regarding the consolidated data of Baltic ICT companies:

¹ SIA Exigen Latvia, DATI Exigen Group

² UAB Sonex Kompiuteriai, UAB Sonex Sistemose, UAB Sonex Identifikaciniai Duomenys, UAB Informacinių technologijų techninis centras, UAB Ars Computandi, UAB Tetranea, 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).

³ In 2004: AB Alna, UAB Alna Business Solutions, UAB Alna Software, UAB Alnos infrastruktūros sprendimai, UAB Alnos mokymo centras (Group's company till January, 2005), UAB Alna Intelligence, UAB Terasas, UAB DocLogix. In 2005 also added Sia Unitree, OU Persimplex and OU Persimplex software.

⁴ UAB Elsis, UAB Elsis-Biuro sistemos, UAB Elsis-TS, UAB Elsis-Verslo sprendimai, UAB Elsis GP, UAB Elsis Pro.

⁵ In 2004: AS Helmes. In 2005: Helmes AS, Trigger Software OY.

⁶ Consolidated companies: in 2004: AS Webmedia. In 2005: AS WMG (holding), AS Webmedia, UAB Webmedia, Webmedia Finland Oy, Transbility OU.

⁷ UAB Sintagma, UAB Sintagma technika.

⁸ UAB New Vision Baltija, SIA New Vision, AS New Vision.

⁹ UAB Algoritmu sistemos, UAB Infoterra.

¹⁰ UAB Prototechnika, UAB Prototeknikos iranga, UAB Prototeknikos kompiuteriai, UAB Apskaitos sistemos, UAB Apskaitos iranga.

¹¹ AS Santa Monica Networks, UAB Santa Monica Networks, SIA.