



# **Conference Transcription**

**Date of conference : 2 December 2010**  
**Conference title : Shared Value Ltd –  
SITRONICS Third  
Quarter 2010  
Teleconference**

# CONFERENCE DETAILS

Conference Date: 2 December 2010

Conference Time: 13:00 GMT

Conference Duration: Approximately 27 minutes

Chairperson: Irina Lanina

## **ACT Operator**

Welcome to the Third Quarter 2010 Financial result of SITRONICS on 2 December 2010. Throughout today's recorded presentation all participants will be in a listen-only mode. After the presentation there will be an opportunity to ask questions. If any participant has difficulty hearing the presentation, please press \*0 on your telephone for operator assistance.

I will now hand the conference over to your host for today. Please go ahead.

## **Irina Lanina**

Good morning and good afternoon. Thank you for dialling in to this presentation and discussion of our financial results for the third quarter and first nine months of 2010. My name is Irina Lanina, Vice President of Corporate Communications. Joining me on the call today are Sergey Aslanian, President and Chief Executive Officer, and Marina Zabolotneva, Chief Financial Officer.

Before we start I would like to draw your attention to the cautionary statement at the end of our press release. Additionally, some of the information provided during this call may contain projections or other forwarding-looking statements regarding future events or the future financial performance of SITRONICS. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not intend to update these statements to reflect events or circumstances occurring after today's date or to reflect the occurrence of unexpected events. Many factors could cause the actual results to differ materially from those contained in our projections or forward-looking statements.

Following the comments by our President and CFO, we will be happy to answer your questions. You can find our contact details at the bottom of today's announcement and on our website should you have any follow-up questions after this call.

I will now hand the call over to our President, Sergey Aslanian.

## **Sergey Aslanian**

Thank you everyone for joining us today. We continue to grow our sales in the third quarter as we consolidated our market leading positions, strengthened our core customer relationships and won new contracts. All three of our divisions reported OIBDA profits and Group OIBDA was up over 50% in Q3 and almost doubled for the year-to-date. We therefore generated substantially improved margins of 8% in the quarter and 7% for the nine month period.

Furthermore, we have secured more than \$200 million of new contracts since we announced our second quarter results in the beginning of September. This continued growth reflects a significant progress that we have made in the implementation of our three year business strategy. The first element of the strategy is the further strengthening of our position as a preferred technology and innovation partner of the Russian Government.

We are actively participating in a number of federal programmes including the programme for the development of electronic components in radioelectronics, the applied research and project programme in Moscow and the Electronic Russia project which involves e-government projects in Bashkortostan and Mordovia. We have also

just won a tender to implement a new e-government project in the Republic of Tatarstan.

Microelectronics continues to be a key area of innovation for the Russian government and our Micron subsidiary participated in a meeting hosted by Prime Minister Vladimir Putin in September to discuss government support for the microelectronics manufacturing industry. Mr Putin highlighted the government's commitment to the development of the domestic microelectronics market and the growing contribution from the private sectors. Frost & Sullivan have estimated that this state supported development will enable the Russian microelectronics market to triple in size by 2015 from \$1.2 billion this year.

We have also continued to consolidate our position in the state's preferred microelectronics innovation partner. Our joint project with state corporation RUSNANO, to establish 90 nanometre microchip manufacturing capacity, targets strategically important areas such as e-passport, smart cards, metering, GLONASS navigation and transportation systems. The project is proceeding according to plan and we will deliver the first prototype by the end of this year.

Our second strategic priority is to become a leading ICT company in each of our core vertical market segment: telecoms, the public sector, finance and diversified industrials. In the telecom sector we are extended our relationship with all of our Russian big three mobile operators. We will deliver another 14 million SIM cards to MegaFon in 2011 and we will supply VimpelCom with 1 million SIM cards with 64 kilobytes memory capacity. We now have 60% share of the mobile SIM card market.

We have also signed new contracts with a number of major emerging market operators including: Sistema Shyam TeleServices in India to expand the implementation of our FORIS billing solution, as well as to implement a Signaling Transfer Point platform and the Mobile Number Portability solution; Warid Telecom in Uganda to deliver 1.1 million additional FORIS licenses; Pakistan Telecommunications Company Limited to supply point-to-multipoint WiBAS system to Lahore; and Kornet in Armenia commenced trials of its WiMAX network in Tsahkadzor in October.

In the public sector we have expanded the implementation of our Multi-service Information Educational Environment solution to include the schools in Tula, Nizhny Novgorod and Arkhangelsk and we have also signed a new contract with Bashkirian Ministry of Education. The solution was developed six years ago and is now in place in more than 700 schools across the Russian regions and CIS countries. We are also developing an internal corporate portal for the Russian State Corporation for Technologies.

In the financial sector we signed a contract in October with ROSNO to deliver a corporate fleet monitoring service and we have also signed new contract with VTB, HomeCredit and Svyaznoi Bank to deliver magnetic strip and microchip banking cards.

In a diversified industrials sector we signed an agreement in August to implement and maintain the UTILIS Metering Suite for Uzbekenergo and we have extended our relationship with Bashneft to include a project to create a Unified Transport Network for the company and its subsidiaries. We will build the Data Processing Centre for Bashneft and will upgrade the telemechanics systems of its oil production subsidiaries.

Our third strategic focus area is the development and execution of R&D projects in high demand product and service areas. In this context, we complete a research project for Nokia Siemens Networks to optimise its 3G network in July and we established a partnership last month with Ericsson to work together on solutions for IMS, OSS/BSS and new communication services. We are also participating in a joint project with

Rusatom, the Russian government's atomic energy corporation, to create a supercomputing outsourcing centre in the Sistema-Sarov Technology park and our Micron subsidiary is taking part in the EU-RU.net nanoelectronics joint development project between the European Union and Russia.

Finally, we also acquired a stake in Intellect Telecom last month, which will enable us to realise synergies on existing projects and execute the complete R&D lifecycle - from prototype stage to mass production. In summary then, our results continue to demonstrate the benefits of our market leading positions, and the close working relationships that we have established with leading public and private sector companies and organisations, across a range of industries and geographies.

I will now hand the call over to Marina for her comments on our financial performance and position.

### **Marina Zabolotneva**

Thank you, Sergey. Our revenues were up 9% for the nine months to the end of September, following significant year-on-year sales growth for our IT and microelectronics divisions. The results also reflected the strengthening of a number of our operating currencies against our US dollar reporting currency.

Total Group operating expenses excluding depreciation and amortization charges were down 24% year-on-year in the quarter and down 13% for the year-to-date. We have continued to work hard through the use and management of our operating expenses and focus our operating and capital expenditure on core programmes that will drive the short and medium term development of the business.

Our depreciation and amortization charges were up 76% for the first nine months of 2010. The increase primarily reflected the depreciation of 180 nanometer microelectronics equipment, the accelerated amortization of intangible assets recognised during the acquisition of the remaining 49% of SITRONICS IT, and the depreciation of newly acquired and developed software by our Telecommunication Solutions segment.

Overall, our revenue growth sustains gross margin and lower operating expenses resulted in increased OIBDA level up 51% in the third quarter and nearly doubling for the year-to-date and we also delivered significantly improved OIBDA margins of 7.8% in the third quarter and 7.4% for the nine months. Our borrowing cost decreased in the third quarter following the redemption of our bonds in September with funds provided by the Bank of Moscow credit facility. We then successfully placed RUB 3 billion of three year bonds in October and repaid the credit facility.

Our weighted average cost of borrowing stood at 7.8% at the end of the quarter, which compared to 8.6% at the end of June this year and at the end of the third quarter of last year. Our net income was impacted by non-cash ForEx transaction losses of \$1.7 million in the third quarter and \$1.8 million for the year-to-date but we still significantly reduced our reported net losses for both periods.

We ended the quarter with just over \$115 million of cash and cash equivalents compared to \$42 million at the same time last year and \$152 million at the end of June this year. Our total borrowing of \$745 million when excluding the \$46 million debt to the SITRONICS-Nano JV were at the same level as at the end of June at current rates and actually decreased by \$28 million quarter-on-quarter at constant exchange rates. The proportion of long term debt to total debt is now over 50% following the placement of the ruble bonds in October and over 40% of our debt is ruble denominated.

Now back to you, Irina.

**Irina Lanina**

Thank you, Marina. We will now be happy to open the floor to any questions you may have. Operator, over to you.

**ACT Operator**

Thank you. If any participant would like to ask a question, please press \*1 on your telephone. If you wish to cancel this request, please \*2. Your questions will be polled in the order they are received and there will be a short pause whilst participants register for a question.

**Sergey Aslanian**

Thank you. In summary, we have continued to execute our business strategy and have won more than \$200 million of contract since the announcement of our second quarter results in September. We have grown our sales and have strengthened our public and private sector customer relationships and market positions across our key geographies and verticals and we have delivered OIBDA profit in each of our three business segments, higher group OIBDA results and higher margins.

That's it for now. Thank you for your time today and we look forward to speaking to you and meeting with you over the coming weeks and months.

**ACT Operator**

This concludes the Third Quarter 2010 Financial Results for SITRONICS. Thank you for participating. You may now disconnect.

*END OF CONFERENCE*