



# **Conference Transcription**

**Date of conference : 21 April 2011**  
**Conference title : Shared Value  
Limited –  
SITRONICS Fourth  
Quarter and Full  
Year 2010 Results  
Conference Call**

## CONFERENCE DETAILS

Conference Date: 21 April 2011

Conference Time: 1:00 PM UK Time

Conference Duration: Approximately 32 minutes

Chairperson: Irina Lanina

<b>KEY:</b>	
<b>words in bold</b>	Unsure if words heard correctly - please check
??	Words could not be distinguished
<i>(Inaudible - ....)</i>	Words that are entirely inaudible for the specified reason

## **ACT Operator**

Ladies and gentlemen, welcome to the SITRONICS Fourth Quarter and Full Year Results 2010 Conference call on 21 April 2011. 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 Irina Lanina. Please go ahead, madam.

## **Irina Lanina**

Good morning and good afternoon. Thank you for dialling in to this presentation and discussion of our financial results for the fourth quarter and full year 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 statements at the end of our press release. Additionally, some of the information provided during this call may contain projections or other forward-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 for the discussion of our operational and financial performance in the fourth quarter and full year 2010. Not only did we deliver accelerated growth of 21% in the fourth quarter but we also delivered \$64 million positive year-on-year swing from an OIBDA loss to an OIBDA profit of \$55 million with a margin of 11.3% and we also reported a profit at the net income level.

Full year sales were up 14% and OIBDA was up 15 fold to over \$100 million with a 9.1% margin, and we reported 62% year-on-year reduction in net losses. This reflects the deepening and strengthening of our relationship with public and private sector clients in each of our core verticals, and in each of our target markets which yielded higher contract volumes and completion rate in 2010. All of this was achieved despite the fact that demand levels are only just returning in telecommunications and broader technology industries.

SITRONICS is a leading information communication technology company with world recognised growing brand and established partnerships with some of the world's largest technology providers and operators. Our progress during the year reflects the fact that we have secured almost \$1 billion dollar worth of new contracts since the beginning of last year. Almost half of this volume has been secured since we reported our Q3 results at the beginning of December and over half of the value of this contract is expected to be booked as revenues in 2011.

Furthermore, we have just won a large scale tender to create an Intelligent Transport System for the city of Moscow, so we have a healthy pipeline of contracts with leading government organisations and corporations in Russia, the CIS countries, Europe, the Middle East and Africa. This clearly demonstrates substantial steps we have made in the implementation of our three year business strategy.

The first element of this strategy is our partnership and close work relationship with the Russian government. SITRONICS is a preferred government supplier and we participate in and drive a number of important public sector initiatives. Microelectronics continues to be a priority field for the Russian government and is the basis of ongoing innovation. Our joint venture project with state corporation of RUSNANO is proceeding according to plan. We produced the first sample of 90 nanometre microchips at the end of last year and expect to start production by the end of this year. The project will position Russia as one of the ten countries globally that are utilising this groundbreaking technology.

We signed contract during 2010 with the Russian Interior Ministry to provide training equipment for its ongoing restructuring. We have also won a tender to implement E-government solution in the Yamalo-Nenetskiy Region and are in discussion with a number of Russia regional administrations regarding the implementation of E-government projects as part of the broader federal E-government programme.

We secured the contract with the Moscow City Government in December to audit the city's telecommunication infrastructure and create a plan for its modernisation. And we intend to take part in the tender to modernise Moscow Telecommunication infrastructure during 2011 and further develop our successful cooperation with city authorities moving forward.

The second element of our strategy is to become a leading ICT company in each of our four core vertical market segments; telecoms, the public sector, finance and diversified industrials. Our focus in the telecom sector during 2010 was to develop our flagship in market leading FORIS billing solution. It is an extremely competitive product and it is already in use by number of leading telecom operators including MTS, Vodafone and the Warid Group. FORIS offers the flexibility that convergent telecom operators require and has enabled us to establish strong relationships with leading operators in number of fast growing markets.

We signed a contract with MTS Belarus in December to implement a new version with FORIS InterPartner cross operated billing solution during June 2011. And we have signed several new agreements with MTS since the beginning of the year to provide support for FORIS OSS billing solution and MEDIO SCP platform. We completed the launch of the FORIS Fix billing solution for MGTS in March and have also signed new contracts with MGTS this month to develop and implement additional functionalities and create a unified SAP bases business analysis platform.

Our INTRACOM TELECOM subsidiary in Greece made significant progress in the fourth quarter despite the ongoing economic crisis in the country. INTRACOM has signed support services contract with Moldtelecom in Moldova and Telekom Srpske in Bosnia-Herzegovina and will supply the INTRALINK solution to United Arab Emirates telecom Etisalat. INTRACOM has also signed three framework agreements with MTS to provide a

broad range of telecommunications equipment including the proprietary OmniBAS platform, the Intralink radio relay system and the next generation WiBAS wireless broadband network.

Finally, we signed a three year agreement with Oracle in April which will enable us to use unlimited number of Oracle licenses for MTS. This is the largest ever agreement of its kind in Russia and CIS has been made possible by our position as a preferred technology partner.

The focus of our work in the public sector is to be a preferred supplier of IT and high-tech solutions across the broad range of field. In this context we have signed a contract with the Moscow State University to delivery a supercomputer to be used in advanced research project. It will be the 26 most powerful supercomputer of its kind in Russia and will be based on equipment supplied by HP.

As I mentioned before, the modernisation of Russia's infrastructure is a priority for the federal government which is why it is encouraging companies to develop new markets for high-technology products. The result of one such initiative is that SITRONICS will deliver RFID microchips for the modernisation of the Siberian State Medical University's library in Tomsk. This is the first project of its kind in Russia and further consolidate our position as a successful, trusted and market-leading solutions provider. The experience that we have gained from this public sector project is one of the major reasons that we were able to secure a contract with a Turkish IT company Belbim to deliver 2.4 million RFID tickets for the Istanbul's over ground public transport system.

Finally, we completed a project in November to modernise the IT infrastructure of the Chernobyl nuclear power plant. The project is part of the long-term ongoing decommissioning work at the plant and we are proud to participate in such a socially and technically important project. In the financial sector we signed a contract to deliver magnetic strip and chip banking cards to Sberbank in Kazakhstan. We also completed a project to create an advanced communication system for Sberbank's Ukrainian subsidiary as well as the first stage of the project to automate the bank client management services. We implemented our first ever IT services management platform for the Moscow Bank for Reconstruction and Development in March in cooperation with Axios Systems and won two new contracts to deliver chip banking cards to VTB24.

The last of our four vertical sector focus areas is diversified industrial sector. We implemented an IT modernisation project for Bashneft in December and have also created an integrated IP based communication environment and information management centre for the energy company. Finally, we have signed contracts with Freight One in Russia to implement an Oracle based transportation management system and with leading Russian Petrochemical company Sibur to implement a CRM solution.

Our third and final strategic focus area is the development and execution of R&D projects in high demand product and service areas. We carefully managed the level of our investment in new R&D projects in 2010 and now as we are beginning to see a recovery in IT markets we plan to increase R&D expenses by approximately a third in 2011.

We intend to open new OSS/BSS R&D centre in our most important operating regions in Russia as well as in India. This will complement activities of our existing facilities in Moscow, Prague and Athens. We are also planning to open a new microelectronics design centre in Zelenograd which will be the largest research centre in Eastern Europe and will undertake projects for the Micron factory amongst others. As part of this ongoing work to develop our expertise and service offering we have signed an agreement with Singapore Computerisation Agency. This will enable us to share our experience in the field of electronic government solution and services and also provide us with access to international experts to work with us on our projects in Russia and the CIS.

In summary then we have continued to execute on our strategy and made significant progress in all areas during 2010. Looking forward in 2011 we expect to continue to outperform industry growth levels in 2011 and to generate low double digit percentage revenue growth while at the same time maintaining our OIBDA margin when excluding the 90 nanometer technology project. We will continue to generate positive net cash flow from operations which we will use to invest in the further operational and financial development of the business.

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

### **Marina Zabolotneva**

Thank you, Sergey. We continued our work throughout 2010 to optimise Group efficiency level by reducing operating and capital investment levels, tightly managing working capital level and repaying or restructuring our debt. Total Group operating expenses excluding depreciation and amortization charges were reduced by 19% year-on-year in the quarter and were down 9% for the full year. The cost savings reflect our efforts to reduce and manage our sales, general and administrative expense.

The year-on-year increase in depreciation expenses reflected the depreciation of 180 nanometer equipment, as well as a revision of the estimated useful life of capitalised software develop costs in the Telecommunication Solutions segment. The combination of strong revenue growth and lower costs resulted in healthy adjusted OIBDA level up 15% in the quarter and 21% for the full year and adjusted OIBDA margins of 12.8% and 10.5% for the two respective periods.

Our net interest expenses increased year-on-year for the 12 months period due to currency translation differences as well as our higher average borrowing levels for the year. Our average cost of borrowings stood at 7.5% at the end of the year compared to 8.6% at the end of 2009. We therefore reported a net profit of \$19.2 million in the fourth quarter and more than halved our net losses for the full year to \$45.6 million. Our net cash from operating activities also grew by 21% year-on-year to \$177.5 million. Net cash used in investing activities was 26% lower year-on-year which reflected the 10% year-on-year reduction in capital expenditure.

Our financing activities provided \$10.9 million dollars of cash flow for the full year compared to \$2.9 million of cash flow used in financing activities in 2009. We repaid, refinanced or rescheduled a total of \$381 million of short-term debt during 2010 including the reduction of \$91.6 million of three year ruble bond and the repayment of \$20.5 million load from Deutsche Bank. We therefore ended the year with \$261.7 million of cash and cash equivalents compared to \$161.7 million at the end of 2009.

The Group's total borrowing amounted to \$699.1 million at the end of the year when excluding the \$45.6 million of debt to the SITRONICS-Nano Joint venture and compared to \$745.9 million at the end of 2009. Total Group net debt was therefore reduced by just over \$100 million from \$584 million at the end of 2009 to \$483 million at the end of 2010.

Now back to you, Irina.

### **Irina Lanina**

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

## **ACT operator**

Thank you. The Q&A session will be conducted electronically. If you would like to ask a question, please press \*1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. We will take questions in the order received and we will take as many as the time permits. If you find that your question has been answered you may remove yourself from the queue by pressing \*2. Again, please press \*1 to ask a question. We will pause for just a moment to allow everyone to register for question.

Thank you. Your first question comes from Nadia Goloubeva from UniCredit. Please proceed with your question.

### **Nadia Goloubeva – UniCredit**

Good afternoon. I wanted to ask you, what was the impact on the OIBDA, EBITDA from the 90 nanometer project in 2010, if any? What kind of impact do you expect in 2011? Also, could you possibly indicate what is going to be the margin including the impact from 90 nanometer project? Also I wonder if you could give some colour on the overall expected project impact on your financials include the P&L and cash flow for 2011 and 2012 possibly? This is first part.

Secondly, I wanted to ask you what was the portion of state contracts in the total 2010 revenues of SITRONICS? Also could you please indicate what was the portion of sales to Sistema group for the fourth quarter and on the full year basis? Thank you.

### **Marina Zabolotneva**

For the year 2010, there is no impact on OIBDA from our 90 nanometers project. As for the year 2011 generally we expect to maintain OIBDA marginality level but the influence of 90 nanometers project would take away a few percentage points from this marginality.

### **Nadia Goloubeva – UniCredit**

Sorry. Can you repeat it, please I didn't hear it very well, several percentage points you said.

### **Marina Zabolotneva**

A few percentage points, yes.

### **Nadia Goloubeva – UniCredit**

Few percentage points, OK.

### **Sergey Aslanian**

As to your second question, we are around 25% of the government and around 35% of Sistema.

### **Nadia Goloubeva – UniCredit**

25% is for the fourth quarter or for the full year?

### **Sergey Aslanian**

Full year. This is all for the full year.

**Nadia Goloubeva – UniCredit**

OK. And fourth quarter?

**Sergey Aslanian**

We will get back to you, we don't have this figure at the moment.

**Nadia Goloubeva – UniCredit**

May I then ask another question. You refer to more than \$300 million of short-term debt at the end of 2010. Could you please break down the maturity of this debt and your plans regarding its refinancing?

**Marina Zabolotneva**

Speaking about the short-term debt maturing 2010 back to the issues to deal with €120 million syndicated loan by INTRACOM TELECOM maturing in July 2010 and \$230 million loan from Bank of Moscow maturing November 2010.

**Nadia Goloubeva – UniCredit**

Sorry to interrupt you but you are saying 2010, you mean maturity 2011?

**Marina Zabolotneva**

Sure. Excuse me 2011 of course.

**Nadia Goloubeva – UniCredit**

Yes, OK.

**Marina Zabolotneva**

Speaking about INTRACOM TELECOM syndicated loan, the contract implies the possibility to prolong the syndicated loan for one year. We are using this possibility, we have been in negotiations with all the participants who are well known Greek banks and local branches of well known international banks. And we have been steadily progressing to success. Speaking about \$230 million loan from Bank of Moscow maturing November of this year this is to be a part of the ongoing discussion regarding LTI Systems.

**Nadia Goloubeva – UniCredit**

What is the interest rate on this loan now, I mean Bank of Moscow?

**Marina Zabolotneva**

What?

**Nadia Goloubeva – UniCredit**

What is the rate interest on the Bank of Moscow loan, can you say?

**Marina Zabolotneva**

That is 8.5%.

**Nadia Goloubeva – UniCredit**

OK. Thank you very much.

**ACT Operator**

Thank you. Our next question comes from Alexander Vengranovich from Otkritie. Please go ahead with your question.

**Alexander Vengranovich – Otkritie**

Good afternoon. I had a question regarding your guidance for 2011 revenues. You are saying that you are expecting lower double digit revenue growth in 2011 and you are also saying you have secured \$1 billion of new contract since the beginning of 2010, so you are expecting this growth. What portion of this growth comes from new contracts and what portion of the growth comes from the old contracts? That's the first question. Or may be you have also some kind of contracts in the pipeline which are not secured yet and already included in the revenue guidance?

Also I wanted to know, if this new contract with the Moscow government regarding traffic system is also included in the guidance? Yes, that's it.

**Sergey Aslanian**

I think we had in the press release it is half of those contracts, so \$530 million of this \$1 billion that will become a revenue in 2011. As for new contract with Moscow government it will be that the vast majority of this contract will fall into 2011.

**Alexander Vengranovich – Otkritie**

OK. As for all these new contracts what part of new contracts will be booked in 2011, I just didn't get it? I mean \$1 billion is the full?

**Sergey Aslanian**

As I said \$530 million.

**Alexander Vengranovich – Otkritie**

OK. \$530 million will be booked in 2011.

**Sergey Aslanian**

\$530 million.

**Alexander Vengranovich – Otkritie**

OK. Then the majority of the contract with the Moscow government which is also included in this \$530 million?

**Sergey Aslanian**

No, it is not included. Because you should be careful with this, we had as I said \$1 billion is signed. The contract with Moscow government is not yet signed therefore it falls in a different category.

**Alexander Vengranovich – Otkritie**

OK. When you were saying that you were expecting 10%, I know, low double digit growth in 2011, that means half of the revenue is not secured yet?

**Sergey Aslanian**

No, I would put it like this, half of the revenue is secured.

**Alexander Vengranovich – Otkritie**

OK, good. Thank you.

**ACT Operator**

Thank you. As a reminder if you would like to ask a question, please press \*1 on your telephone. If you wish to cancel this request, please press \*2.

Thank you. Our next question comes from Kirill Bakhtin from TKB Capitals. Please go ahead with your question

**Kirill Bakhtin – TKB Capitals**

Hello. I have two quick questions. First, could you give us a guidance on the revenue growth in the segment breakdown? I mean if you anticipate that sales of Telecom Solutions will continue to decline?

My second question is on capital expenditure spend for 2011. The CapEx to sales ratio of 7% in 2010 looks to me very low for any high technology company?

**Sergey Aslanian**

We have been never giving the breakdown forecast guidance for the business. But I just heard your question about Telecom Solutions we expected to be flat for the year or low single digit percent growth. As for CapEx, CapEx is slightly increasing in 2011 and you are right this probably is not enough for high-tech company but you probably have known from my speech that we are increasing R&D cost by almost a third which is clearly an major increase.

**Kirill Bakhtin – TKB Capitals**

Thank you.

**ACT Operator**

Thank you. We do have a follow up question from Alexander Vengranovich from Otkritie. Please go ahead with your question.

**Alexander Vengranovich – Otkritie**

Yes, I have a follow-up question. What part of your short-term debt is debt related to Sistema companies? Just didn't get it from your press release. Thank you.

**Sergey Aslanian**

It is \$95 million.



**Alexander Vengranovich – Otkritie**

It is \$95 million. Are you going to repay them this year or prolong it?

**Sergey Aslanian**

We hope that we will be given a chance to prolong it.

**Alexander Vengranovich – Otkritie**

OK. Thank you.

**ACT Operator**

Your next question comes from Nadia Goloubeva from UniCredit. Please go ahead with your question.

**Nadia Goloubeva – UniCredit**

Yes, hi again. Just realised you didn't answer my question regarding the portion of the State contract in total revenue. Can you give me this number please?

**Sergey Aslanian**

Nadia, I gave you the 25% of state contract for the year and 35% for Sistema.

**Nadia Goloubeva – UniCredit**

Then I misunderstood you, so 25% this is for state contracts, yes?

**Sergey Aslanian**

Let say it again, 25% for the year for the government, for the state I would say and 35% for Sistema.

**Nadia Golubeva – UniCredit**

OK. You will give me the fourth quarter separate. OK, thank you very much.

**ACT Operator**

Thank you. This does conclude today's question and answer session. I will now hand the call back to the Company for the final remarks.

**Sergey Aslanian**

Thank you. To summarise briefly we have delivered excellent sales growth and substantially increased profitability levels on the back of higher contract volumes and lower costs. We have strengthened and extended our key public and private sector customer relationship in competitive market position. We have secured almost \$1 billion worth of new contracts since the beginning of the last year so we have a strong forward pipeline. We have also just won the large scale tender in Moscow and are continuing to execute on our business strategy.

We were profitable at the net income level in the fourth quarter and generated net cash flow from operations which enabled us to reduce our net debt level. Looking forward, we

expect to continue to outperform industry growth levels and are increasing our R&D investments. When excluding 90 nanometre project we are also expect to maintain our full year OIBDA margin level.

That is 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**

That concludes today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.

*END OF CONFERENCE*