



Conference Transcription

Date of conference : 7 June 2011
**Conference title : Shared Value
Limited –
SITRONICS First
Quarter 2011
Results**

CONFERENCE DETAILS

Conference Date: 7 May 2011

Conference Time: 13:00 BST

Conference Duration: Approximately 22 minutes

Chairperson: Irina Lanina

KEY:	
words in bold	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

Welcome to the SITRONICS Q1 2011 Results Conference Call on 7 June 2011. Throughout today's presentation all participants will be in the 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 Ms 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 first quarter of 2011. 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 Evgeny Tarasov, who is acting as Chief Financial Officer while our Chief Financial Officer, Marina Zabolotneva, is on maternity leave.

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 acting 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 Irina and good morning and good afternoon to everyone. We have made a strong start to the year and continued the positive momentum from last year. Our revenues were up 46% to \$278 million with our Information Technologies business reporting a tripling of sales for the period. All three of our business segments reported OIBDA profits in the first quarter, we have halved our net loss to \$12.7 million.

Our first quarter sales were boosted by the delivery of a number of hardware equipment orders as several of our key customer advanced their anticipated purchasing from later in the year. We have secured almost \$1.5 billion of new contracts since the beginning of 2010 of which \$433 million has been secured in the six weeks since our Q4 results at the end of April. Approximately \$884 million of this pipeline is expected to be booked during 2011. We continue to deepen and strengthen our relationships with public and private sector clients in each of our core verticals and in each of our target market during the

first quarter. This yielded higher contract volumes and project completion levels for the period.

We remain on track with the implementation of our three year business development strategy and have made further progress during the first quarter of the year. The first element of this strategy is our partnership and close working relationship with the Russian government. We are a preferred partner and supplier to the Russian government and we participate in wide range of important public sector initiatives. In this context we have been entrusted with the implementation of the high profile and high priority intelligent transport system for the city of Moscow. The project is a major step in the modernisation of Moscow City and our experience, expertise and track record of providing innovative solution positioned us as a perfect partner for such large scale infrastructure project.

Microelectronics continues to be an area of focus for the Russian government and our joint venture with state corporation RUSNANO to develop 90 nanometre manufacturing capability is critical in this field. The joint venture project is proceeding according to plan. We have nearly doubled our production capacity by building new facilities and almost completed the installation of new equipment. We have also trained our employees in our international partner facilities in order to commence production of the microchips as planned by the end of this year.

We expect to start pilot tests of 180 nanometre microchip production for the universal electronic card within four to six weeks and are working to obtain certification for Master Card and Visa towards the end of the year. We are therefore almost in a position to be able to offer the market a domestic product with our own encryption core which would be certified on a global basis. This project has considerable potential and we are therefore in the process of acquiring a minority stake in UEC which is the company behind Universal Electronic Card project.

By becoming an investor in UEC we would be involved in establishing the technology protocols and specifications for electronic card production. To give you a sense of the opportunity here we expect that between 120 million and 140 million cards will be issued during the next five years. At the regional governmental level we signed a cooperation agreement during the quarter with the Bryansk Regional Authority to implement an E-government solution and to conduct a number of other projects developing information system.

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 industrial. Our FORIS billing solution continue to be in high demand in the telecom sector. We launched projects for MTS in Russia and Uzbekistan during the first quarter and also signed new contracts with MGTS. New contracts also have been signed with Telekom Srbija to provide support services and implement mobile number portability and supply IPTV set top box equipment.

Our INTRACOM TELECOM subsidiary in Greece has strengthened its market leading position as a solution provider to customers in Eastern Europe by signing new agreements with Telekom SRPSKE in Bosnia-Herzegovina, Cosmote subsidiary Globul in Bulgaria, Polkomtel in Poland and Magyar Telecom in Hungary. The objective for our work in the public sector is to be a preferred supplier of IT and high-tech solutions across a broad range of field in an increasing number of region.

We will launch our MIOS solution this month in schools in Udmurtia, Dagestan, Abkhasia, Irkutsk, Penza, and Ukraine. We are also contracted to deliver equipment and provide services for Ukraine's State Statistics Committee and Romania's National Authority for the Management and Regulation of Communications.

In the financial sector our IT division successfully completed the third stage of the CRM System implementation for Sberbank which now has more than 21,000 users across Russia. In partnership with Axios Systems we have also just completed an IT service management project for MBRD which is the first project of its kind to be implemented in the Russian banking sector. Our microelectronic division will deliver magnetic strip banking cards to Renaissance Credit, VTB24, Tinkoff Credit Systems Bank and Svyaznoy bank.

In the diversified industrials sector, we have continued our successful cooperation with Bashneft, and completed the implementation of an ERP platform for the first of its subsidiaries - Ufaneftechim. We will also be delivering equipment to Borispol, which is Ukraine's largest international airport, and to Ukrainian automotive manufacturing plant ZAZ, as well as implementing a transportation management system for Russian Railways-Logistics, which is a subsidiary of Russian Railways.

Our third and final strategic focus area is the development and execution of R&D projects in high-demand product and service areas. Sitronics continues to lead the way in Russian microelectronics research and development, and Mikron has access to the most modern microelectronics production facilities in Russia. Mikron is participating in the Russian Federal Programme for the Development of Electronic Components, as well as the Osnova R&D programme, which is co-financed by Russia and Belarus to develop microchips for use in the telecom and industrial sectors.

We are expanding our network of R&D centres in the Russian regions. We have already opened an R&D centre in St. Petersburg, and are about to open a second centre in Krasnodar. All of these centres are managed centrally from Moscow and will develop billing, portal and CRM solutions, as well as network management systems, and various other proprietary products.

Given all of the above, we do expect to continue to outperform industry growth levels in 2011 but we now expect to generate 15 to 20% full year revenue growth, rather than the low double digit percentage point revenue growth that we indicated in April. At the same time, we expect to maintain our OIBDA margin at the full year 2010 level when excluding the impact of the 90 nanometer technology project. We also still expect to continue generating 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 the call over to Evgeny for his comments on our financial performance and position.

Evgeny Tarasov

Thank you, Sergey. As Sergey said, we reported very strong sales growth in the quarter. Our cost of sales increased accordingly BUT Group operating expenses, when excluding depreciation and amortization charges, were only up 2% year on year in the quarter. Selling, general and administrative expenses were up 6%, but impairment losses and reserves were more than halved year on year.

All three of our business segments reported OIBDA profits and Group OIBDA was down slightly year on year at \$5.8 million, with a slight reduction in margin to 2.1%. This mainly reflected the high level of lower margin hardware equipment sales during the quarter. Our depreciation and amortization charges were down 21% year on year, as various intangible assets recognized during the acquisition of INTRACOM TELECOM reached the end of their useful lives.

Our total borrowings stood at \$741 million at the end of the first quarter, when excluding the \$55 million of debt to the SITRONICS-Nano joint venture. This compared to total borrowings of \$756 million at the end of the first quarter of 2010 and \$699 million at the end of last year. Our weighted average cost of borrowing was reduced year on year to 7.6% at the end of the first quarter, and our net interest expenses were reduced by 13% year on year to \$15.6 million for the period. This also reflected the capitalization during the quarter of interest expenses on borrowings to finance the 90 nanometer project.

We reported a foreign exchange gain of 10 million dollars in the quarter, which was slightly lower than last year and merely reflected the difference in the value of the Group's US dollar denominated borrowings between the balance sheet dates. We therefore reported an almost halving year on year of the net loss attributable to SITRONICS to \$12.7 million. We repaid, refinanced or rescheduled a total of \$51 million of loans during the first quarter of 2011 and signed a new RUB700 million credit agreement with Bank of Moscow in January. We also increased our credit line with Bank of Moscow from RUB300 million to RUB500 million in February

Our SITRONICS-Nano affiliate signed a RUB1.8 billion credit agreement with RUSNANO in April, and a three year €27 million credit agreement with Bank of Moscow in March, which will be used for license and technology transfer projects. We therefore ended the quarter with \$171 million of cash and cash equivalents, compared to \$120 million at the end of March last year and \$262 million at the end of December.

Now back to you Irina.

Irina Lanina

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

ACT Operator

Thank you, madam. 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 time permits. If you find that your question has been answered you may remove yourself from the queue by press *2. Again please press *1 to ask a question. We will pause for just a moment to allow everyone to register for questions.

We will take the first question from Nadezhda Golubeva from UniCredit. Please go ahead, your line is open.

Nadezhda Golubeva – UniCredit

Good afternoon. I wanted to ask you when you are saying 15% to 20% growth which currency do you mean?

Sergey Aslanian

Dollars.

Nadezhda Golubeva – UniCredit

OK. Thank you. Could you update us on the CapEx given that you increased your revenue forecast?

Evgeny Tarasov

It will be single digit percent increase in CapEx.

Nadezhda Golubeva – UniCredit

Sorry single digit?

Evgeny Tarasov

Single digit.

Nadezhda Golubeva – UniCredit

OK. Thank you very much.

ACT Operator

The next question comes from Alexander Vengranovich from Otkritie. Please go ahead your line is open.

Alexander Vengranovich – Otkritie

Yes, good afternoon. I have a question regarding your revenue guidance also for 2011. What part of the revenue is already secured? Thank you.

Sergey Aslanian

Excuse me, can you please repeat the question.

Alexander Vengranovich – Otkritie

Yes. You are telling that you got \$400 million new contracts this year and on the last call you told us that 50% of your new contracts which were agreed after the yearend represent 2011 revenue. And now I am asking what part of the new contracts will be allocated to 2011 revenue?

Sergey Aslanian

Let me tell you the figure and you probably consider what is the percentage, it is \$884 million from the contract that we have already signed for full revenue 2011.

Alexander Vengranovich – Otkritie

You mean now its \$800 million for 2011?

Sergey Aslanian

Excuse me, I can barely hear you. What was the question again.

Alexander Vengranovich – Otkritie

What part of 2011 revenue which you expected to be around \$1.4 billion is already secured by your contract?

Sergey Aslanian



It's around 62%.

Alexander Vengranovich – Otkritie

OK. Thank you.

ACT Operator

The next question comes from Kirill Bakhtin from TKB Capital. Please go ahead, your line is open.

Kirill Bakhtin – TKB Capital

Hello, I have one short question. Do you have guidance or projections on the amount of total debt and net debt at the end of this year?

Evgeny Tarasov

No, we don't have this forecast but we are aiming at using our operating cash flow to gradually reduce our debt level.

Kirill Bakhtin – TKB Capital

You expect that debt total will be reduced at the end of this year?

Evgeny Tarasov

Organic debt, yes, but please consider the debt which will be necessary to finance 90 nanometre project.

Kirill Bakhtin – TKB Capital

Thanks.

ACT Operator

As a reminder, please press *1 to ask the question.

The next question comes from Tibor Bokor from Otkritie. Please go ahead, your line is open.

Tibor Bokor – Otkritie

Good afternoon, I have two question regarding your projects. One is regarding the 90 nanometres, I was just wondering how much costs we should be expecting this year? sort of what cost impacting your OIBDA coming from this project?

Sergey Aslanian

The 90 nanometre project will reduce our OIBDA margin by a few percentage points in 2011.

Tibor Bokor – Otkritie

OK. Thank you for that one. And regarding the Moscow Traffic Light projects, is there – can we talk a little bit more about this. What is roughly the scale of the projects? I mean we have heard big numbers in the press, is there anything to comment on that. What

profitability, I would assume that profitability of such project should be higher than profitability what the SITRONICS is posting right now. Is that correct? And what percentage of such project can you feel yourself or how much do you have to outsource? I understand that its early stage but still any guidance would be helpful? Thank you.

Sergey Aslanian

I can only partially answer your question. First of all, the overall amounted to RUB6.2 billion. We expect the profitability of this project to be pretty much the same as we have for the whole business of SITRONICS. And, yes, we will have some sub-contractors but I will not disclose the division of those sub-contractors and the names of those sub-contractors.

Tibor Bokor – Otkritie

And in terms of the timing, is this project just –

Sergey Aslanian

This is towards the end of this year, 2011.

Tibor Bokor – Otkritie

Do I understand correctly that most likely the project will continue in 2012, may be 2013 that will be an additional budget for second part, right?

Sergey Aslanian

We are keeping our fingers crossed.

Tibor Bokor – Otkritie

OK. Thank you.

ACT Operator

This concludes 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 are on track with our three point three years strategy and we are delivering against each of our objectives. We have a healthy forward pipeline of contracts of which approximately \$884 million is expected to be booked in 2011. We are raising our revenue growth target for the full year to 15% to 20% and with a change in the typical seasonal patterns during the first half of the year. We are otherwise on track with our guidance and expect to continue to outperform industry growth levels in 2011 while maintaining our full year 2010 OIBDA margin levels when excluding the 90 nanometer project.

We have halved our net loss in the first quarter and expect to continue to generate positive net cash flow from operations which will use in the debt, in further operational and financial development of the Group. All in all we have continued the positive momentum of last year and we look forward to keep you updated on our progress moving forward. That is it for now and thank you for your time today.

ACT Operator

That concludes today's conference call. Thank you for your participation, ladies and gentlemen.

END OF CONFERENCE

