

# SITRONICS Financial Results For The Full Year 2006

**Investor Conference Call – May 14, 2007**

Evgeni Utkin, President

Dmitry Ivanov, CFO

Alexander Lutsenko, Chief of Strategy



# Disclaimer

Some of the information in this presentation may contain projections or other forward-looking statements regarding future events or the future financial performance of SITRONICS. You can identify forward looking statements by terms such as “expect,” “believe,” “anticipate,” “estimate,” “intend,” “will,” “could,” “may” or “might” the negative of such terms or other similar expressions. 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 and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, general economic conditions, our competitive environment, risks associated with operating in Russia and other CIS countries, rapid technological and market change in our industries, as well as many other risks specifically related to SITRONICS and its operations.

# Agenda

## CORPORATE OVERVIEW

## FINANCIAL RESULTS

## STRATEGY

# CORPORATE OVERVIEW



SITRONICS Today

Business Summary

Key Financial Highlights

Product and Service Summary

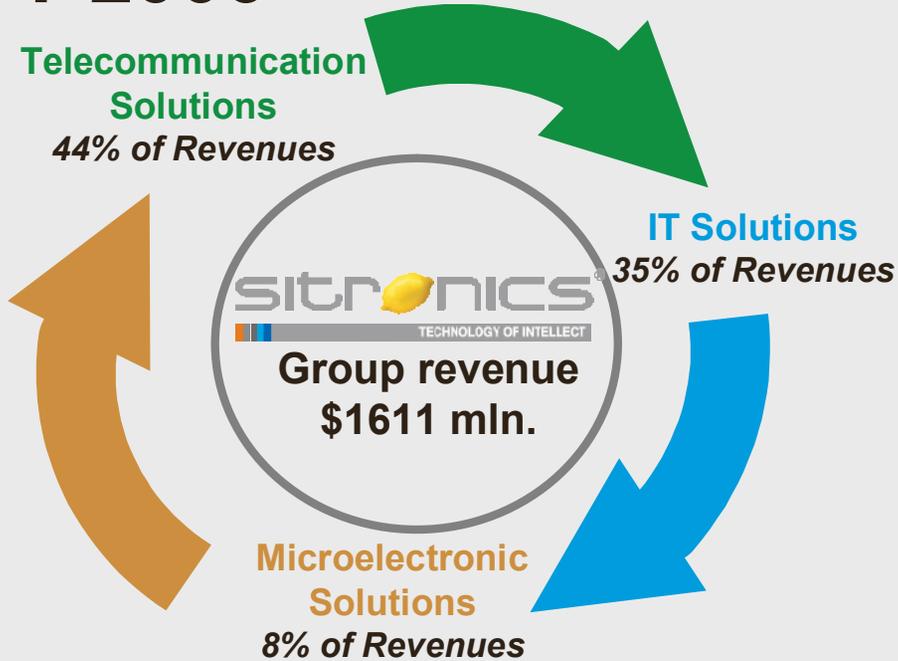
Geography and Customer Summary

2007 Commentary

# SITRONICS TODAY

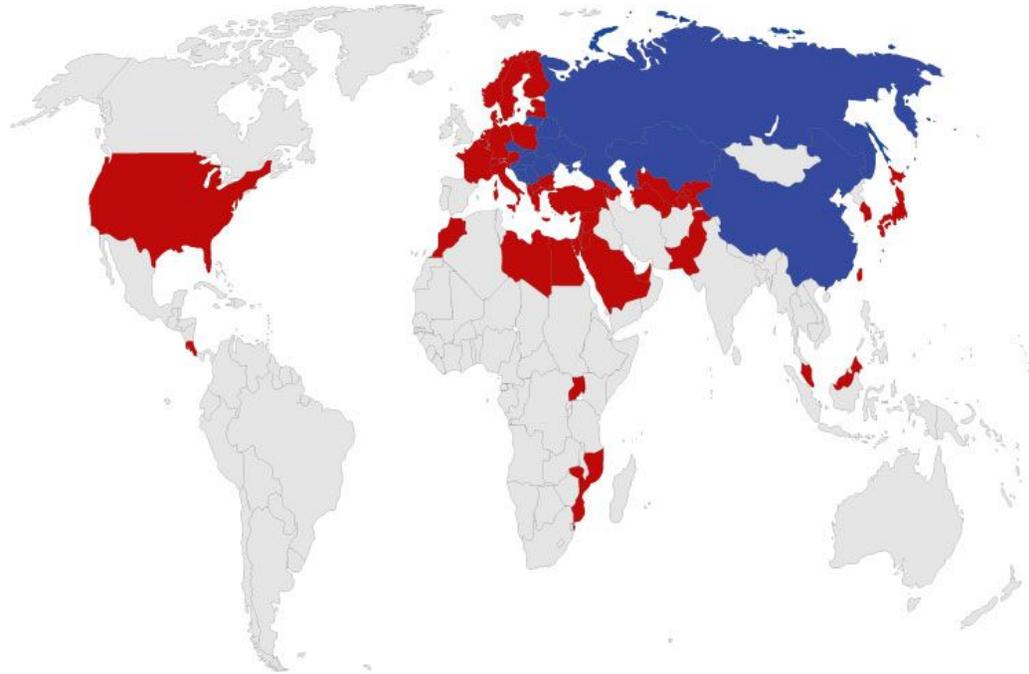
- ▶ Vertically integrated business providing end-to-end solutions
- ▶ Diversified player covering all substantial industries' growth areas
- ▶ Bringing leading technologies to fast growing emerging markets

## FY 2006



\* Remaining 13% of revenues provided by EMS & CE

## RAPID GEOGRAPHICAL EXPANSION



● Existing markets      ● Markets entered in 2006

- Headquartered in Moscow
- Offices in 29 countries of EEMEA & SEA
- 300+ M people in home markets (600M addressable)
- Over 3,500 clients
- Exports to 60 countries
- 10,000+ employees (4,600+ R&D staff)

- A year of fundamental and far reaching change
- Significantly increasing Sitronics scale and market reach
- Benefiting from resulting synergies and economies of scale
- Enhanced relationships with governments
- Introduced a customer centric model (3500 customers of which 200 key customers)
- Good home market ICT growth forecasts – underpenetration of technology

# Key Financial Highlights 2006

- Revenues up 69,1% to \$1,611 mln.
- Total assets almost tripled to \$1,65 mln.
- Adjusted OIBDA\* grew 19% to \$184 mln.
- Improving capital structure:
  - Sistema's capital injection (\$207 mln., less reacquired stock of \$41 mln.)
  - Eurobonds (\$200 mln.)
  - EBRD purchased 3.67% of shares for \$80 mln.

\* Adjusted OIBDA represents operating income before depreciation and amortization excluding non-cash effect of a non-recurring write-down of Intracom Telecom inventories

- Enhancing our own developed products in fast growing technologies:
  - Billing
  - Next Generation Networks
  - IPTV
  - WIMAX
- 0.18 micron technology with STMicro
- Smart-Cards with Giesecke & Devrient
- Strengthening strategic alliances with international technology leaders

- Substantial growth – organic and through acquisitions
- Geographical expansion to new emerging markets
- Expanded reach to around 35 countries
- Customer diversification and cross selling

- Our home markets continue excellent ICT growth
- International peers consolidation effecting market
- Some telecom customers reducing capex reflecting on their changing business environment
- Customer centric model focusing on top 200 customers to offer end to end solutions

# Strategic Priorities

1.

**Consolidation of competencies, technologies and talents on our “home markets”**

2.

**Accelerated Customer diversification, decreasing reliance on Sistema Group companies**

3.

**Enhancing ecosystem of strategic partnerships, shareholders and core customers**

4.

**Selected Investment into R&D and Innovations**

5.

**Improved Operational efficiencies**

# Agenda

**CORPORATE OVERVIEW**

**FINANCIAL RESULTS**

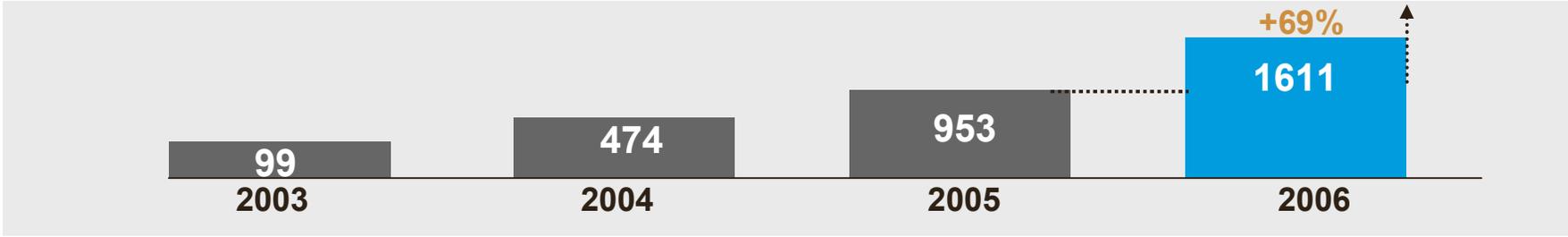
**STRATEGY**

# Group Financial Results For The Full Year 2006

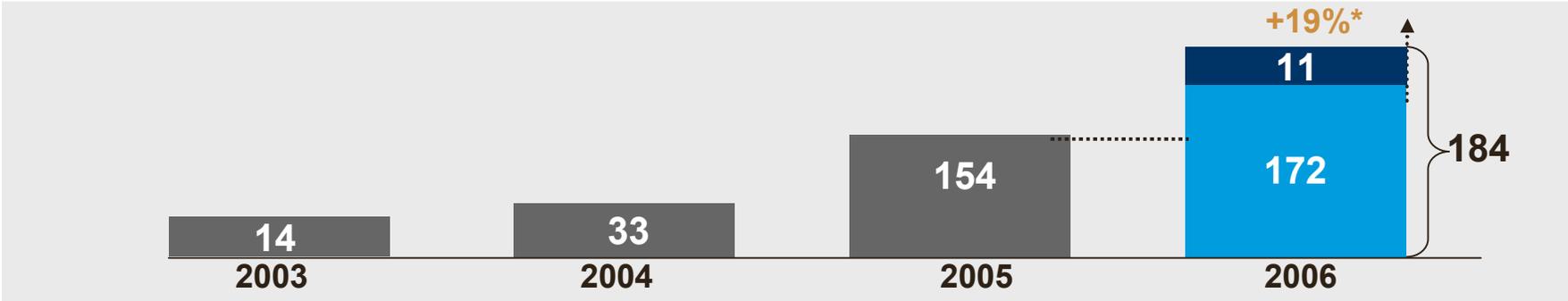


## 2003 - 2006

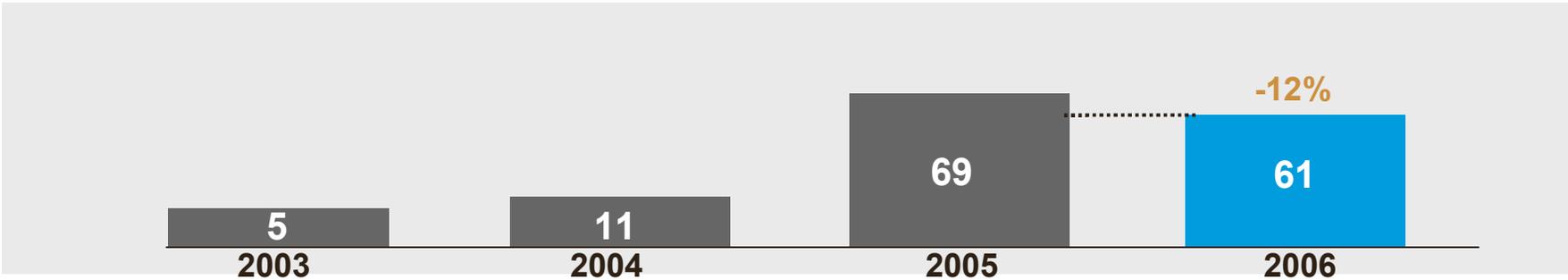
Revenue



OIBDA/  
Adjusted OIBDA



Net income



■ Non-cash Intracom Telecom inventories write-down

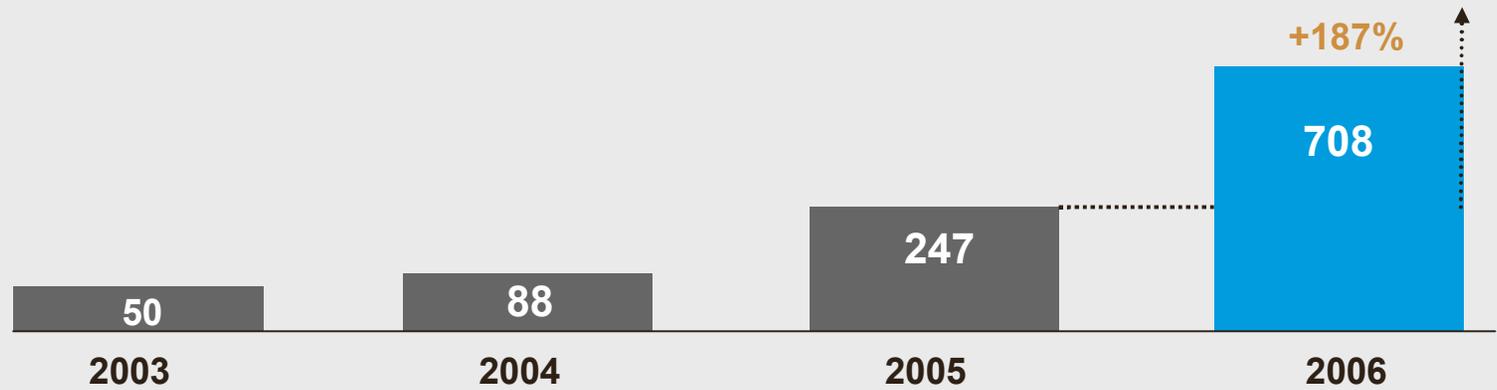
\* Adjusted for non-cash Intracom Telecom inventories write-down

Revenue increase due to organic growth and acquisitions

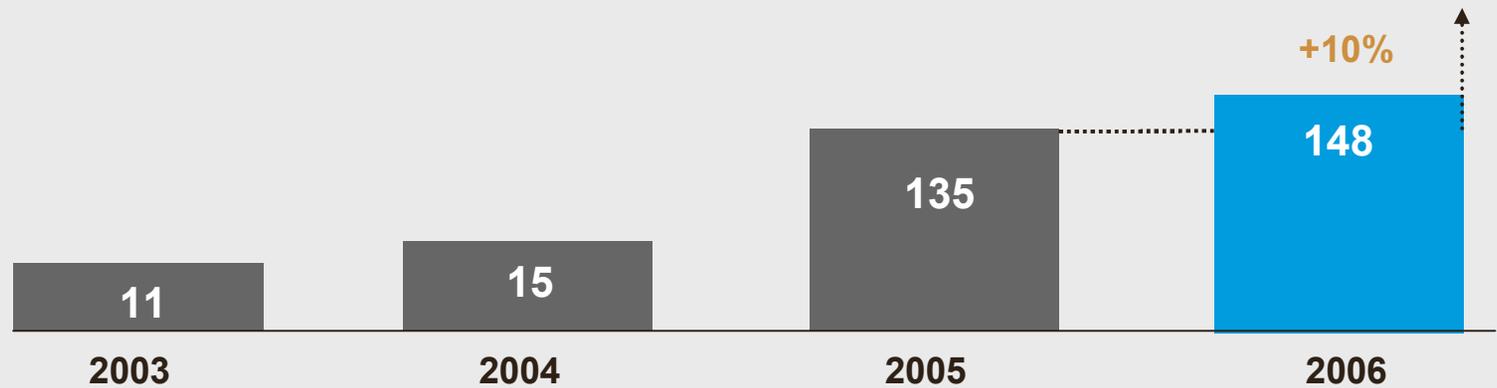
# TS Financial Results: Full Year 2006

2003 - 2006

Revenue



OIBDA

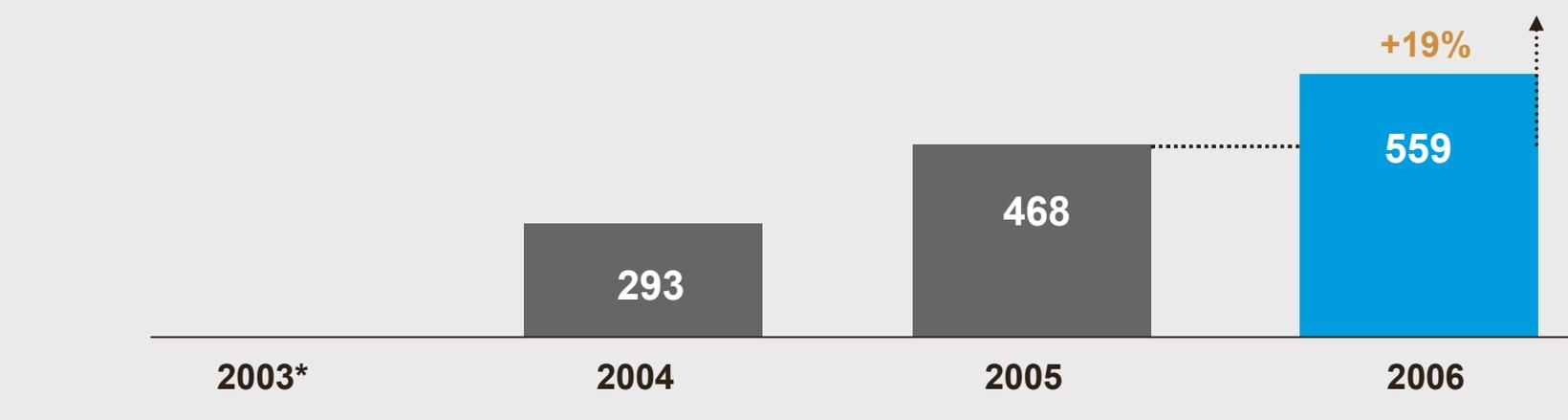


# IT Solutions Financial Results: Full Year 2006

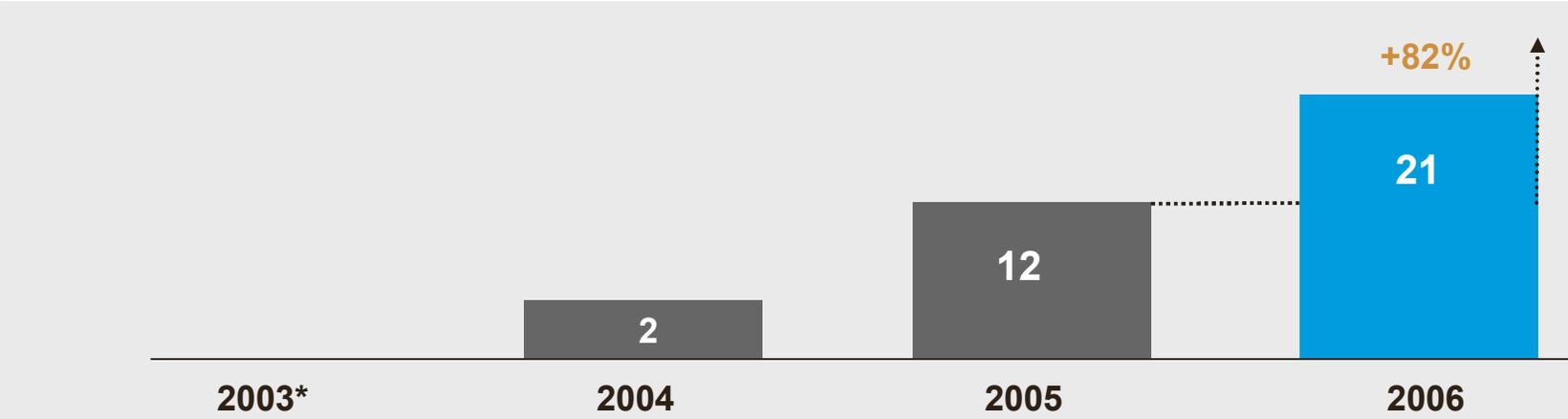


## 2003 - 2006

Revenue



OIBDA

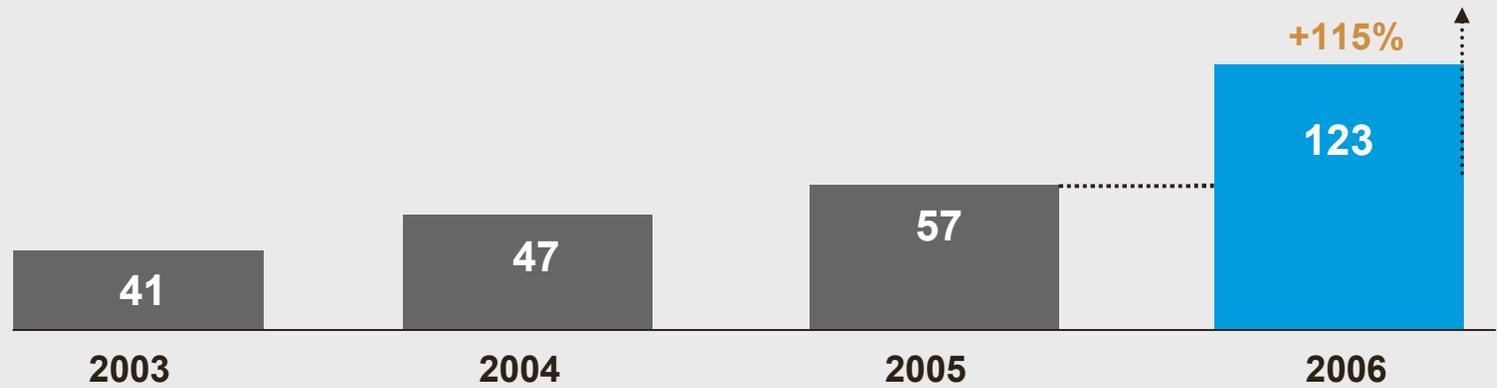


\*Kvazar Micro, basis of IT Solutions business division, was acquired in 2004

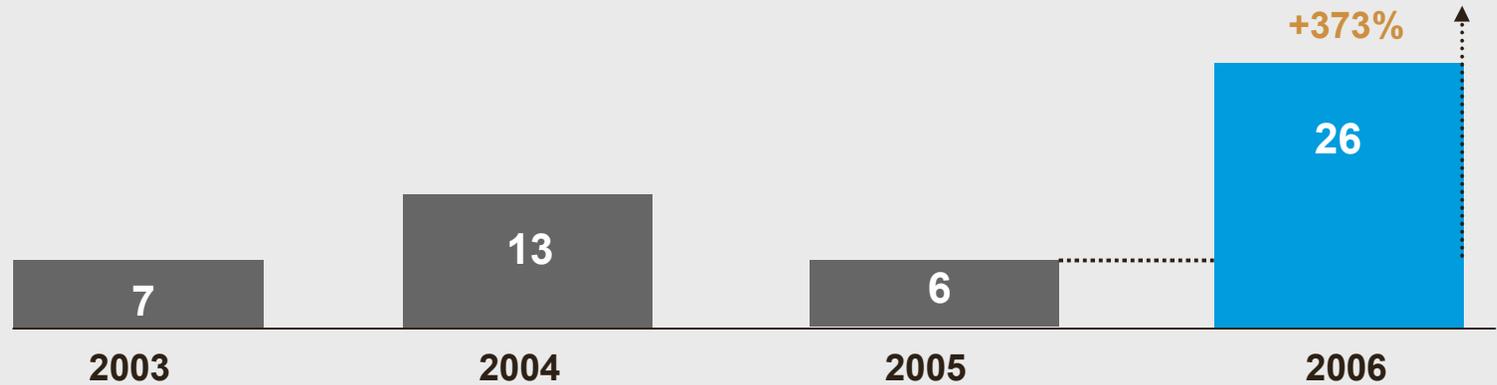
# MS Financial Results: Full Year 2006

2003 - 2006

Revenue

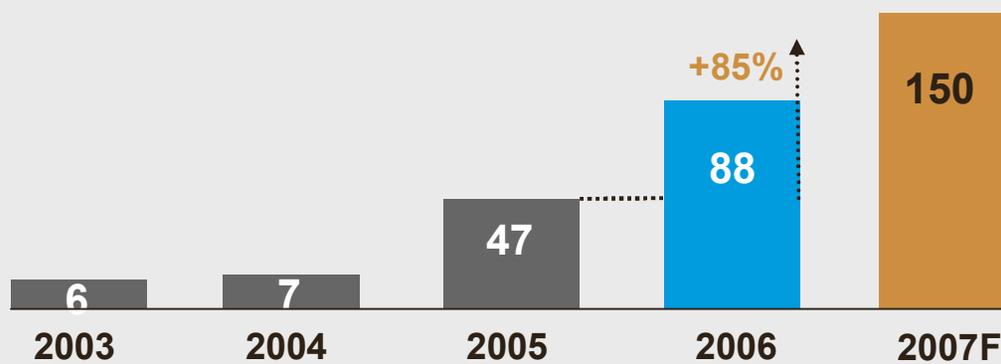


OIBDA

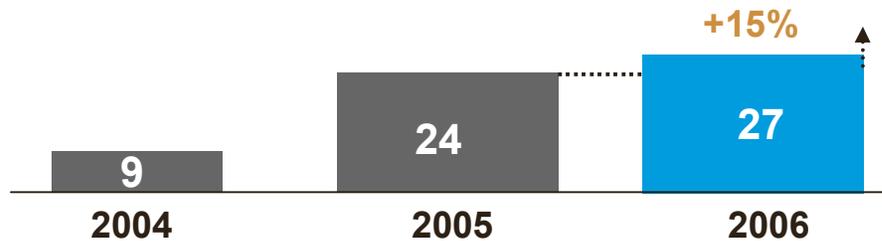


# Group Cash Capex and R&D Expenditures

## Cash Capex (US\$ mln)



## R&D Expenditures (US\$ mln)



■ R&D Expenses

- Considerable growth of capital expenditures in 2006
  - Launch of 0.18 micron technology
  - Start of production packaging chips into modules
  - Transportation cards project
- Capital expenditures remains insignificant in relation to revenue
- We expect twofold growth of capital expenditures in 2007

Solid base for future growth. Bulk of financial effects are expected from 2008.

# Agenda

**CORPORATE OVERVIEW**

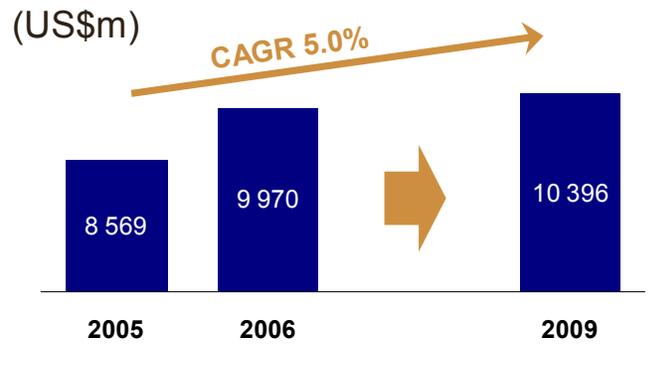
**FINANCIAL RESULTS**

**STRATEGY**

# Market Opportunities

## Telecommunication Equipment

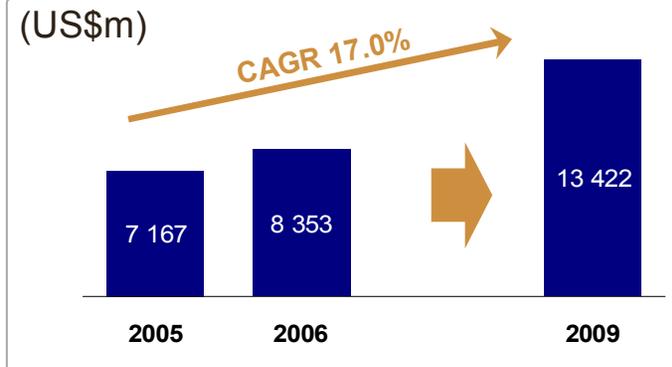
### Total Available Market, EEMEA



Source: IDC, 2006

## IT Services

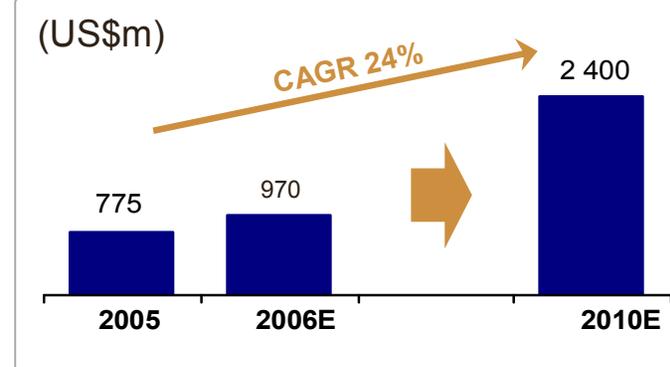
### Total Available Market Growing 17%, CEE



Source: IDC, November 2005

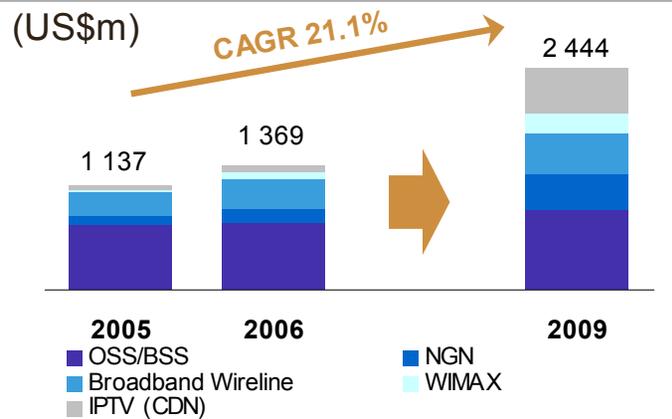
## Microelectronic Solutions

### Semiconductors Russian Market



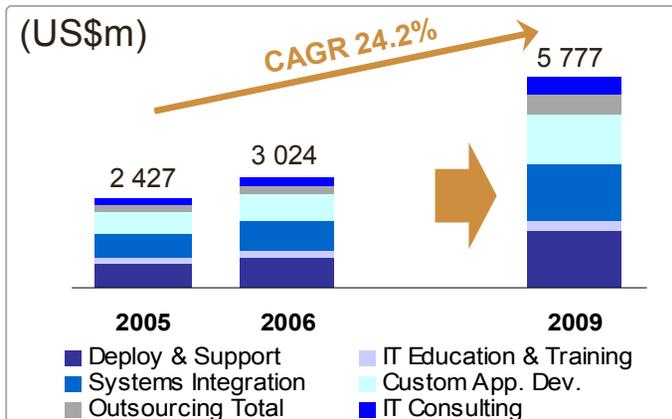
Source: Electronics Publishing House (Russia)

## Targeted Growth Opportunities, EEMEA



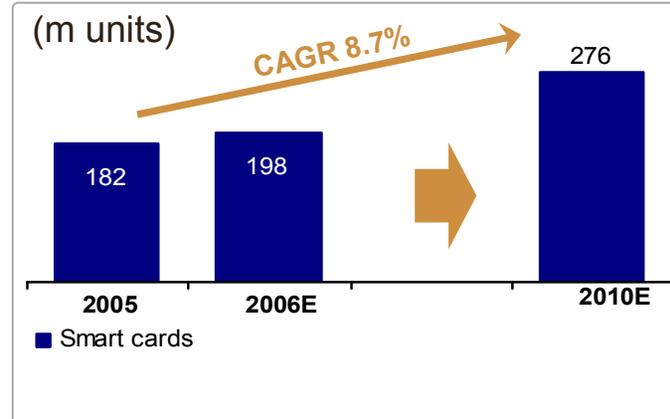
Source: IDC and Infonetics, October 2006

## Russian IT Services Market Growing 24%



Source: IDC, October 2006

## Eastern European Smart Cards Market



Source: Gartner Dataquest Research

**SITRONICS targets the most promising segments**

## Strategic Goals

### Leadership in high technology markets of Russia, CIS and EEMEA

Provider of end-to-end solutions

World class products in niche segments

Main technology partner for governments in CIS region

#### 1. Leadership On "Home Markets"

- Invest in consolidation of local technologies & competences (M&A deals in Telecom, IT Solutions and Microelectronic Solutions)
- Win large government infrastructure projects in Education, Nanotechnologies, Transport, E-passport, etc.

#### 2. Ecosystem

- Leverage strong ecosystem of strategic partnerships, shareholders and core customers
- Develop existing partnerships with Cisco, Oracle, STM, Infineon, G&D

#### 3. Seize Growth Opportunities

- Invest in distribution channels and penetrate the fastest growing markets
  - Selected markets of CIS (Turkmenistan, Kazakhstan, Azerbaijan)
  - MEA (Kingdom of South Arabia)
  - Selected markets in Asia
- Strategic investments: 0,13 -0,18μ EEPROM; RFID applications
- Diversification to new verticals (Finance, Transport, Retail, Utilities etc.)

#### 4. R&D And Innovations

- Product range optimization
- Focus on NGN, Wireless Access, IPTV, OSS/BSS, Defence & Security ICs, Smart cards, RFID, Multimedia apps.
- Optimization of R&D cost and productivity
- Relocation of R&D to most optimal geographical locations

#### 5. Operations/ Efficiency

- Focus on high-margin product portfolio
- Improved working capital management (optimization of customer relationships, operational planning and acceleration of turnover)
- Improving cost structure
- Streamline organizational structure & introduce international best practices

# Appendix: PL

	<u>2006</u>	<u>2005</u>
<b>Revenues</b>	<b>\$ 1,610,734</b>	<b>\$ 952,569</b>
Cost of sales, exclusive of depreciation and amortization shown separately below	-1,240,855	-715,634
Research and development expenses	-27,213	-23,644
Selling, general and administrative expenses	-160,805	-54,755
Depreciation and amortization	-44,048	-11,476
Other operating expenses, net	-6,531	-4,819
<b>OPERATING INCOME</b>	<b>\$ <u>128,238</u></b>	<b>\$ <u>142,241</u></b>
Interest income	11,060	872
Interest expense, net of amounts capitalized	-32,065	-9,810
Foreign currency transactions gain/(loss)	-9,002	-2,914
Income tax expense	-32,288	-35,147
Minority interests	-4,629	-26,015
<b>NET INCOME</b>	<b>\$ 61,314</b>	<b>\$ 69,227</b>

# Appendix: Balance Sheet

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Trade receivables, net	658,498	158,855
Other receivables and prepaid expenses, net	95,806	56,880
Inventories and spare parts	244,651	113,917
<b>TOTAL CURRENT ASSETS</b>	<u>1,123,282</u>	<u>428,193</u>
Property, plant and equipment, net	264,799	94,947
Intangible assets, net	95,513	19,734
<b>TOTAL ASSETS</b>	<u>\$ 1,637,695</u>	<u>\$ 566,090</u>
<b>Liabilities and shareholders' equity</b>		
Accounts payable	296,502	104,488
Taxes payable	34,490	40,557
Accrued expenses and other current liabilities	128,372	105,909
Short-term loans and notes payable	157,555	105,062
Current portion of long-term debt	9,935	925
<b>TOTAL CURRENT LIABILITIES</b>	<u>661,778</u>	<u>357,605</u>
Capital lease obligations	3,074	1,605
Long-term debt	330,966	6,125
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>355,101</u>	<u>16,740</u>
<b>TOTAL LIABILITIES</b>	<u>1,016, 878</u>	<u>374,345</u>
MINORITY INTERESTS	169,719	28,926
Total shareholders' equity	451,098	162,819
<b>Total liabilities and shareholders' equity</b>	<u>\$ 1,637,695</u>	<u>\$ 566,090</u>

# Appendix: OIBDA reconciliation

Non-GAAP financial measures. This presentation includes financial information prepared in accordance with accounting principles generally accepted in the United States of America, or US GAAP, as well as other financial measures referred to as non-GAAP. The non-GAAP financial measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with US GAAP.

Operating Income Before Depreciation and Amortization (OIBDA). OIBDA represents operating income before depreciation and amortization. OIBDA margin is defined as OIBDA as a percentage of our net revenues. OIBDA may not be similar to OIBDA measures of other companies, is not a measurement under accounting principles generally accepted in the United States and should be considered in addition to, but not as a substitute for, the information contained in our consolidated statement of operations. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of mobile operators and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under generally accepted accounting principles, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. Our OIBDA calculation is commonly used as one of the bases for investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies within the wireless telecommunications industry. OIBDA can be reconciled to our consolidated statements of operations as follows:

	2003				2004				2005				2006			
	Group	TS	IT	MS	Group	TS	IT	MS	Group	TS	IT	MS	Group	TS	IT	MS
<b>Operating income</b>	10.1	10.1	-	4.2	26.1	13.3	(0.8)	11.6	142.2	132.1	6.5	3.6	128.2	114.5	15.6	23.8
<b>Add: depreciation and amortization</b>	3.6	0.6	-	2.4	6.5	1.8	2.7	1.5	11.5	3.2	5.1	2.0	44.0	33.9	5.4	2.7
<b>OIBDA</b>	13.7	10.7	-	6.6	32.6	15.1	1.9	13.0	153.7	135.3	11.6	5.6	172.3	148.4	21.0	26.4

\* Adjusted OIBDA represents operating income before depreciation and amortization excluding non-cash effect of a non-recurring write-down of Intracom Telecom inventories acquisition.

