

“Sitronics”
Alexander Goldin
12th September 2007

Operator: Please stand by. This is Premiere Global Services; we are about to begin. Good afternoon ladies and gentlemen and welcome to today’s Sitronics First Half 2007 Financial Results Conference call. For your information, this conference is being recorded. At this time I would like to turn the call over to your host today, Mr Alexander Goldin. Please go ahead, sir.

Alexander Goldin: Good morning and good afternoon, and thank you for dialling in to this presentation and discussion of our First Half Financial Results for the 6 months ended June 30th, 2007. My name is Alexander Goldin and I am Head of Investor Relations. Joining me on the call today are our President, Evgeny Utkin; our Vice President and Chief Financial Officer, Dmitry Ivanov and also in the call to answer your questions later on are Bohdan Kupych and Elena Sanarova. Bohdan Kupych is our President for Business Development and Elena Sanarova is our President for Investor Relations. You can find our results statement on our website at www.sitronics.com. Now for our summary financial results: For the first quarter in June, we are date providing our full financial results for the 6 months ended June 30th 2007. A further interim trading update and summary financial results for the third quarter ended September 30th 2007 will then be provided in December 2007.

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 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 the actual

events or results may differ materially. We do not intend to update the statement to reflect events and circumstances according after the date hereof, which reflects the occurrence of anticipated events. Many factors could cause the actual results to differ materially from those contained in our projections or forward-looking statements.

Following presentations from our President and CFO, we will be happy to answer your questions. Our contact details are also included at the bottom of today’s announcements and our website, should you have any follow-up questions after this call. I will now hand the call over to Evgeny Utkin.

Evgeny Utkin: Good afternoon, ladies and gentlemen. Thank you for being on this call. Our results in the first half of 2007 saw a decline in revenues and negative OIBDA. These results are mostly the results of the same market dynamics in our Telecom Solutions Division, we discussed during our Q1 Conference call, delayed projects from several of our major customers. We have seen good results in both our IT Solutions and Microelectronic Solutions divisions, which are exceeding our expectations. Both IT and Microelectronic Solutions have achieved double digit growth rates. Our investments in business developments are starting to pay off. We are beginning to see the results of our investments in the Middle East and Africa, and have signed new contracts and increased our sales pipeline.

We now have three WiMAX projects underway and are establishing ourselves as a WiMAX leader in our region, Eastern Europe and the Middle East and Africa. We have continued to diversify our customer base during the first half of 2007, with more than 80% of revenues from clients outside of Sistema Group. We also continue to leverage our international technology partnership combined with our own products, with those of our partners to provide customers end to end solutions. The ICT market remains strong in our home market; remains strong driven by good economic growth and increasing consumer demand. Our home IT markets remain amongst the fastest-growing in the world.

Despite many positive developments, our first half financial results are disappointing. Revenues: \$638.3 million; operational loss before depreciation and amortisation of \$38.6 million; net loss of \$79.8 million. Our results in Telecommunications Solutions business unit in the first half of 2007 are significantly lower than expected, due to further delays in implementation of multi-phase and multi-year large scale projects by several key customers, in particular 3G at MTS and NGN at MGTS; a changing customer business environment with some customers reducing Capex and Opex; customers taking longer than expected to assess and initiate the implementation of new technology such as 3G; WiMAX; NGN and other technologies. Even within this environment, we have managed to sign a contract with MGTS for the first phase of our NGN solutions for \$8 million. New project in Russia for MICROMUSE Fault management (\$1.5 million); strengthened our sales and marketing team in Russia. We have new Sales Director from Siemens and Marketing Director from HP; new R&D manager from Amdocs; signed new contracts in Telecom Solutions with Vivatel in Bulgaria, and have been implementing our billing system in Wateen Telecom in Pakistan and Vodafone in Czech Republic. Total projects value is \$30 million. We are implementing numerous WiMAX networks in our EEMEA region, at M-TEL in Montenegro, ITC in Saudi Arabia and ZAIN (ex-MTC-Vodafone) in Bahrain; while we expected to continue establishing ourselves as the leading WiMAX network solution provider in the region, working on 50 million in WiMAX projects.

We have won additional contracts with Intralot Greece, who have recently won a tender to supply a lottery system in Russia, an upside opportunity for us. We continue to collaborate with our alliance partner, Cisco, developing replicable models for IPTV and NGN. We continue to see growth of our business in the Middle East and we expect to announce additional projects in the region in the near future. We believe that STS is uniquely positioned in the world market, because we can offer turn-key solutions, including best of breed own and third party products, combined with end to end professional and integration services.

Our project pipeline continues to expand. Today we have developed a pipeline of \$1.5 billion for projects over the next 2-3 years. We have a wide range of projects throughout our home markets and Middle East and Africa regions.

To summarise, the first half year company results were negatively impacted by an overall loss for the Telecom Solutions segment, primarily due to delay of wide-scale projects with key customers. We are well-positioned when customers are ready to resume these projects. The pipeline of contracts from Sistema and third party clients remains good in the second half of 2007. Our proportion of third party clients' revenue has continued to increase. Looking ahead to 2008, our Telecom Solutions Division has developed a much more diversified client base, to develop business in the future.

IT Solutions: Our IT Solutions Division has exceeded our expectations, with revenue up 23% in the first half of the year. The Russian and CIS markets remain strong with the IT market forecasted to grow by 17% in 2007, to 27% by 2010. IT Services is expected to grow by more than 25% by 2010. We have completed a number of large-scale systems integration projects for both Sistema Group Companies and externally. We continue our diversification in the new industries and have acquired new clients.

Some examples are: we expanded the data processing centres in UkrSotsbank, Rodovid bank and MBRD. We've started the implementation of Oracle E- Business Suite in Nurbank Kazakhstan, implemented a pilot of integrated banking system for VTB, one of the largest Russian banks; other projects at Index Bank and Delta Bank in Ukraine; also projects in Turkmen Investment Bank in Turkmenistan and Alliance Bank in Kazakhstan.

Government: We started a project at the Ministry of Finance of Armenia; started implementation for the Human Resources Department Russian Government Agencies; project with the Ministry of Health in Kazakhstan.

Transportation: We'll implement our multi-million interactive education system in the Moscow subway train facilities. As a newly won project, the retail system for Detsky Mir Retail Chain in Russia; CRM System at MTS; access control system for Russian Prosecutor's office and the pipeline remains strong in the second half, and we expect IT Solutions segment to exceed our expectations for 2007.

Microelectronic Solutions: Our Microelectronic Solutions Business Division is exceeding our expectations with revenues more than doubling over 2006. The demand for semiconductors continues growing at about 25% annually, with increasing demand for smart card and RFID. We have successfully launched new products; flexible chip models; metro subway credit cards and SIM cards. We signed new contracts with the Russian Government. In July we won a contract of approximately \$50 million from the Federal Agency of Industry to develop electronic components; increased the volume of microchip exports. Our successful RFID projects in the Moscow Metro helped us to attempt to provide telephone tickets for ground transportation in the Moscow region; signed a contract with Moscow Social Registry.

We also signed several contracts outside Russia; for Smart Card with Barash Communications Technologies in Turkmenistan; won a tender to supply SIM cards to Ukrtelecom in Ukrain for their 3G network. Sitronics today is the only supplier of 3G SIM cards in this area. In Q4 we will pass certification for Visa and Mastercard Banking Systems to start distribution of chip cards in 2008. Because of the increasing potential for nanotechnologies, we have created Sitronics Nanotechnologies as a part of Microelectronic Solutions Division. The pipeline in Microelectronic Solutions remains strong in the second half of 2007 and we expect Microelectronic Solutions segment to exceed our expectations for the year.

Other businesses: Our auxiliary businesses, EMS and consumer electronics businesses continue to undergo restructuring, which we believe will lead to developing more profitable BTC markets.

Today they remain unprofitable. The EMS (Electronics Manufacturing Service) revenue increased 4.4% for the year. The Consumer Electronics segment revenue declined year on year, as a result of change in the business focus, away from small margin electronic products. Currently the business is diversifying its product range into the sale of mobile devices and smartphones. We have recently appointed a new GM for the Consumer Electronics Division.

Now I would like to pass over to our CFO, Dmitry Ivanov.

Dmitry Ivanov: Thank you, Evgeny. We have presented the Group's results for the first half and I would now like to address and explain the principal drivers behind the revenue and profit numbers that we have reported today and how these items compare with prior years. As we are preparing financial reports for 6 months 2007, we will show segmental breakdown in our full year audited results. As you know, in March 2007 the Company completed its IPO and received \$356 million of net proceeds. In the first half of 2007, Sitronics financed its business in accordance with earlier announced program and capital expenditure totalled \$67 million. As stated previously, we expect capital expenditure to approximately double, to \$150 million in 2007, as we continue to invest in new products and technologies. About \$41 million go directly to M&A deals.

In August 2007, Fitch Ratings have confirmed Sitronics long-term issue default rating (IDR) of “B-“, with a stable outlook. Also Moody's Investment Service have confirmed the long-term credit rating of Sitronics in foreign currency at the level “B3”, forecast - stable. During the first half of 2007, Sitronics paid special attention to the current exchange rate management and the results can be easily noted in our P&L. As previously announced, about 45% of the company's consolidated revenues are denominated in Ruble.

In June 2007, the company approved two Ruble-denominated bond issues in the total amount of 5 billion rubles (approximately US\$193 million). The company has also signed 2.6 billion (approximately US\$100 million) bridge financing agreement with Troika Dialog. The short term

bridge financing was used to redeem a part of the company's US\$ 200 million Eurobond Notes on June 27th of this year. Therefore the redemption of the Eurobond Notes in June 2007 and bridge financing from Troika Dialog is in line with our intention to refinance part of our US\$ denominated debt into local currency, in order to match our operating and reporting currency and thereby increase the visibility of our cash flows. We are also announcing first half results a month earlier than last year, as we continue to improve our US GAAP reporting procedures. We are prepared to provide financial results in accordance with new FSA rules which are coming into effect in 2008, and of course we are moving to the fast close procedure.

Total revenues for the first half are about \$638 million and our revenues are down 6% year on year in the first half, while OIBDA is negative. Although OIBDA margins in Microelectronics and IT Solutions have improved in first half of 2006, we reported a negative OIBDA of \$38.6 million for the period. The first half 2007 results reflect the losses reported by the Telecom Solutions segment, while our IT and Microelectronic Solutions businesses generated profit. The reduced profitability was caused by two main factors. Firstly, the deferral of revenues as a result of delays in signing a number of Telecom contracts which were expected in the first half, but now we anticipate to happen in 2008. The second factor continues to be cost increase. During 2006 our business was growing rapidly and in order to be able to service large number of contracts including major ones, we had to build respective capacity. So our costs were increasing in line with the business growth. Now we support this infrastructure in order to be able to service existing contracts and contracts we are anticipating. To prove the point, I can mention that our SG&A costs for the first half of 2007 are in line with the second half of 2006.

In terms of outlook, as we said during our first quarter conference call in June, the first quarter revenue and profitability trends had continued into the second quarter of the year and our revenue streams are largely dependent on scale contracts and **we now expect the contract with MTS likely to fall into 2008**. As a result of this we expect the full year 2007 revenue now to be lower than as we previously anticipated and to come to the level between \$1.6 billion and \$1.7

billion dollars. We also expect that OIBDA for the full year 2007 will be close to break-even.

OIBDA for the third quarter is expected to be positive and improve further in the fourth quarter.

That concludes my remarks and I will now hand the call back to Alexander.

Alexander Goldin: Thank you, Dmitry. We will now be happy to answer your questions.

Operator: Thank you, Mr Goldin. The question and answer session will be conducted electronically.

If you would like to ask a question, please press the star or * key followed by the digit 1 on your telephone keypad. Your first question is coming from Ms Olga Bystrova from Credit Suisse.

Please go ahead.

Olga Bystrova: Good afternoon. Olga Bystrova from Credit Suisse. I have two questions: One, I understand that you downgraded your guidance for about let's say twice in the past three months. I think this is obviously going to affect perception in the market in terms of credibility of the forecasting and guidance and if you believe that the outlook's as positive as you state in the press release, what is your strategy in improving this perception in the market? So this is the first question. The second question is, in terms of outlook for 2008, you are saying it's positive, but what does it mean? I mean what kind of pipeline we have in Telecom Solution business; what kind of pipeline do we expect in Microelectronics and IT Solutions business? And as much detail as possible would be highly preferred by me. Thank you very much.

Bohdan Kupych: Hello, this is Bohdan Kupych; I am Vice President for Business Development, and I'll take that question. Regarding perception in the market, the best way to change perception is by signing contracts and bringing in business. The two projects that we referenced that were in our forecast earlier, that is the 3G project and NGN; these are customer-driven decisions based on market; based on their business requirements. To make up for those projects which are multi-phase, multi-year, is not an easy task, but we have said earlier, we will be

diversifying our client base and finding new customers. Typically, finding new customers projects are in the 2 million to 25-30 million dollar range, but what we do is developing long-term customer relationships and hope to continue working with those customers and as their business grows, we will become a valued partner. And this is our strategy.

We mentioned earlier, Evgeny mentioned a number of new contracts and new customers that we have signed and we hope to be able to announce several larger wins in the next little while. What happens is 3G and NGN for example projects, these are multi-year, multi-phase projects and typically are quite large. So we have been working on these and investing in these opportunities with the customer for quite a long time, and we would like of course for them to come to fruition.

Dmitry Ivanov: This is Dmitry Ivanov. I want to add that we have alerted the market that the negative trend will continue and so there are no surprises with our first half results. We felt an impact of customer and industry pressures in the first half, while still being able to build and diversify our revenue base and develop new products and technologies. Moving forward, we have a strong business and a positive outlook, because we expect positive developments in the customer delayed projects and start implementation of some of them in the second half. We continue to build our customer pipeline to external customers and in our home market, in new geographies such as the Middle East and Africa, where we are seeing positive development. Our IT and Microelectronics businesses, as I said before, are outperforming our expectations and we expect them to have a good second half. Traditionally our IT business experiences good demand in the fourth quarter.

Bohdan Kupych: And just a final comment regarding pipeline, as Evgeny mentioned, we have an identified pipeline of \$1.5 billion in our Telecom Solutions over the next 2-3 years, and we continually work to build that pipeline.

Olga Bystrova: Okay, thank you very much. My problem in reality was not the first half results, because I think you have guided for the weaker second quarter, but guidance for this year which you downgraded again after let's say two months from the last comments, on the first quarter conference call and that was my question about that specifically. But in terms of the pipeline, can you – this 1.5 billion – is it over 2-3 years and let's say what percentage of that is secured and what percentage of that are you still working on signing? This is the first question. And the second question, what about the other businesses which are doing very well, like Microelectronics and System Integration? What is the outlook for growth rates and let's say growth rates for next year?

Bohdan Kupych: Olga, to answer your question about Telecom Solutions and the pipeline, this is a pipeline of opportunities that we're working on. Typically they are multi-year and multi-phase projects. It's not possible for us to forecast accurately on a quarterly basis when those revenues will come in. Primarily they're driven by customer need, so if the customer implements projects, they will do it over a number of phases. We deliver according to phases and receive the revenue recognition at that time. Some of these are signed contracts; some of these are letters of intent and some of these are ongoing projects that we're already working on. We have done several additional projects with existing customers. Callax in Germany – we've signed a new contract. ITC in Saudi Arabia – we've signed new contracts in addition to those that we had earlier.

Dmitry Ivanov: Additionally, our Microelectronics Solutions and IT Solutions businesses are outperforming our expectations and we expect a further improvement year on year. Microelectronic Solutions we expect margin to be more than 20% and IT OIBDA margin more than year 2006.

Olga Bystrova: I'm sorry to take so much of your time – a quick clarification on the Telecom Solution pipeline – the press reports of the potential contract with Saudi Arabia of 1.2 billion; is this

included in this pipeline or is this an additional opportunity that you are not including in this pipeline? Thank you very much.

Bohdan Kupych: Well, first of all, the information that has been in the press is not our information. It's no secret we're working very actively in Saudi Arabia. We are developing a number of business opportunities and as usual when we, along with the customer, are ready to make an announcement, we make an announcement. We have invested in the Middle East and Africa, Saudi Arabia in particular because we see lots of opportunities there. There's under-penetration in Telecom and therefore not only Saudi but other countries in the Middle East and Africa, a country such as Pakistan where there's under-penetration or there are new Greenfield operators that are starting to come into play; these are the kinds of opportunities we're pursuing. By the way, Olga, just to finish, this is not included in that pipeline that we talked about.

Olga Bystrova: Good, thank you very much.

Operator: Thank you, Ms Bystrova. We'll now move to Mr Sergey Sedov of Citibank. Please go ahead.

Sergey Sedov: Hi, this is Sergey from Citi. I am sorry if I'm getting something wrong because I had some blockage on the line, but you were talking about the negative OIBDA and the reason was that you had some contracts delayed; could you just clarify please because I suppose if you had some costs already reported for those contracts and revenues are delayed, or what?

Dmitry Ivanov: The main reason for negative margins in Telecom Solutions segment is underperformance in actual sales volumes against business lines. Our results reflect the lower revenues in the Telecom Solutions segment, while the level of fixed costs was maintained at the same level as in the second half of 2006, following the expansion of our business last year and

the need to service ongoing and new projects which have been delayed into the second half of 2007 and beyond, as well as the continued expansion in the Middle East and Africa.

Sergey Sedov: Thank you.

Operator: Thank you, Mr Sedov. We now go to Ms Nadia Goloubeva, please go ahead.

Nadia Goloubeva: Good afternoon, I have a bunch of questions. Sorry if some of them were already asked, because I had a problem with the connection. So, first of all, I am interested; how much of your debt matured before the end of 2007 and can you see what level of the interest rate you see as a maximum once you are going to place and what in your opinion would happen if you are not able to meet these targets, so essentially you are not able to attract that this quarter- what will you do then? This is the first question.

Then I wanted to ask you to give a bit more colour on the new plant on which – so it was not in the press release, but Bloomberg reported that you are going to set up a new technology centre in Zelenograd, to profit from growing government orders, so I am wondering whether these are old facilities, upgradeable facilities, or whether they are new facilities and whether this implies more Capex but more revenue in Microelectronics and whether you are going to do this. So any details will be very useful. Also, I am wondering whether these contracts with MTS and MGTS you said now are only for 2008; do you think that they will materialise in 2008, or are they still not certain. And finally, given the very weak performance of Telecom Solutions, seeing that there will be a material recovery in 2008 and if you do, could you give some idea say of growth you expect from this year possibly, very roughly. And if not, if you don't have orders in Telecom Solutions enough to break even at EBITDA level next year, do you think that this might be for you to sell this business at all? Because now it looks like Telecom Solution is a burden for the total company value, because I see that it is not even zero but it's materially negative for your overall total. Thank you.

Dmitry Ivanov: Talking about our debt, not more than \$200 million of our debt is expiring before end of the year and we're going to roll over approximately one half and one half has to be substituted with bonds we're going to issue in the next month. Talking about our coupon, it will result of the auction which takes place in the next couple of weeks, so we have no intention to borrow money at any cost. If the cost will be high, we will just postpone the issue of the bond. We have other possibilities to finance our activities. We just wanted to hedge our debt in rubles because 45% of our contracts are denominated in ruble, so it's more technical operation when we are substituting \$200 million of Eurobonds with this ruble debt. So we have other possibilities such as the possibility to issue syndicated loans; to borrow money from investment banks – so we will not borrow money at any cost.

Nadia Goloubeva: Thank you, and what cost of debt do you see as a maximum?

Dmitry Ivanov: We suppose that 9% is the maximum cost of debt for us.

Nadia Goloubeva: In rubles?

Dmitry Ivanov: I mean in total currency our debt is denominated in Euros; in US\$; in Rubles and in Czech krone.

Nadia Goloubeva: Okay, but you are thinking of rubles, correct? So 9% you are talking, this is in rubles?

Dmitry Ivanov: No, I am not talking – I told you that the result of auction – I am talking about total debt which now currently is \$460 million and after this issue can be approximately \$550 million. So I am talking about total cost of debt. Accounting and other interest rates in other ...

Nadia Goloubeva: Okay, thank you very much. That’s very useful.

Evgeny Utkin: Okay and two questions I would like to answer for you, about Microelectronics. We have invested already around \$200 million for technology. Next year we will update this technology to 139 nanometres. In 2009 we have a plan to update for 90 nanometres and additional Capex will be around \$50 million. So that’s the question about Microelectronics. Telecom Solutions-

Nadia Goloubeva: Excuse me – I’m coming back to this question – so especially what I was looking for, I was trying to understand whether this was the old plans just you know, repeated by number, or there were some new projects? So from what you are talking, I understand that these are still old projects and you still stick to the old Capex guidance and there were no additional Capex plans in Microelectronics?

Evgeny Utkin: No, we have no exact plans, but we have figures – it’s \$50 million Capex for 2008 and partly for 2009.

Nadia Goloubeva: Yes, but this was the old guidance, so it remains intact? Correct?

Evgeny Utkin: I don’t know old or new. It was a guidance which we made during our IPO roadshow and we have now another guidance.

Nadia Goloubeva: Okay, thank you very much.

Evgeny Utkin: Concerning Telecom Solutions, we believe we are very well positioned to address our market with our own products and end to end solutions and as we mentioned already, we have very healthy pipeline for the end of the year and for the next year. Bohdan mentioned this \$1.5 billion pipeline and we see future opportunities for our company, but as every company has weaknesses and strengths, our weakness in this part of our business was strong dependency on

one customer; from Sistema-related companies. And nowadays we make a lot of investments in the Middle East and Africa regions, in Eastern Europe and we made already a couple of new projects for new customers, so that is why there is strong belief we will develop these directions.

Bohdan Kupych: If I may just comment on MTS and MGTS: These are customer-driven, as I mentioned, but it's based on business need. MGTS or MTS has recently won a 3G licence and they will be implementing 3G technology. There is no question about it. And MGTS is moving to an all IP network. This is their strategy and they will also be doing these projects. There is no question about it and it is not different than most other telecoms operators in the world that are moving towards an IP network. So both of these projects will be going forward and as I have said, we are extremely well-positioned. We have been working with the customer bringing new technologies and working with international technology partners to deliver these kinds of projects. As I mentioned they're multi-phase and multi-year.

Nadia Goloubeva: Okay, thank you. I apologise because I was interrupted – did you give guidance regarding the Telecom Solution pipeline for 2008 or is it \$1.5 billion, correct?

Bohdan Kupych: We have identified opportunities today of \$1.5 over the next two to three years, but we continually bring new projects on board; we continually work to increase that pipeline and it will increase. But for today we have identified \$1.5 billion in projects.

Nadia Goloubeva: Okay, and may I ask a last question? What are the growth rates in IT which you are targeting possibly for this year and 2008?

Bohdan Kupych: Well, the market in Russia and CIS is forecast to grow, depending on who you listen to, between 17% and 25%, so these are the – we believe we can grow faster than the market is growing and we also are moving in new geographies and new territories because Sitronics IT Solutions is the only company that is working on projects throughout all of the CIS

and we have a strong presence in Russia; strong presence in Ukraine; we’re working in Kazakhstan, Armenia, in Turkmenistan etc., and we are able to deploy resources to do projects throughout this territory.

Nadia Goloubeva: Okay, so do you believe that in 2008 you will be able to grow above the market pace, correct?

Bohdan Kupych: Yes, we do.

Nadia Goloubeva: Okay, thank you very much.

Operator: We’ll now go to Mr Alexander Balakhnin of Goldman Sachs. Please go ahead, sir.

Alexander Balakhnin: Good afternoon. I have a couple of questions if I may. Am I correct that you have provided breakdown of revenues and EBITDA?

Dmitry Ivanov: You are.

Alexander Balakhnin: Okay. Another question is on Capex guidance. Could you repeat it and how much would be Capex and how much will you spend on acquisitions for 2007?

Dmitry Ivanov: Capital expenditure for the first half of the year totals \$67 million, and we’ve stated previously, we expect capital expenditure to approximately double to \$150 million in 2007, as we continue to invest in new products and technologies. About \$41 million were directed for M&A deals. We cannot state how much we’ll spend for M&As till the end of this year.

Alexander Balakhnin: Can you give us an idea what your acquisition targets are? Probably not names but sectors of businesses, IT Solutions or Telecom Solutions?

Dmitry Ivanov: First of all, our acquisition criteria are as follows: Targeting Russia and CIS region; targeting IT Solutions segment and New System Integration and IT Consulting capabilities in order to get access to new verticals and clients and new competencies. We have different targets in our current M&A pipeline. Smaller targets, a few million dollars, are typical spot security and software development outsourcing. More sizeable targets are in the field of IT systems integration and consulting, up to a couple of hundred of million dollars. Based on the current status of our negotiations we are expecting to complete at least one sizeable deal by the end of 2007.

Alexander Balakhnin: Okay, and I guess my last question is on new developments, your development targets for 2007 – do you expect the third quarter will be better than the fourth quarter 2007? In your press release you were saying that the third quarter will be positive in terms of EBITDA and you anticipate a further improvement. My question is, should this trend continue in 2008 or in the first quarters of 2008 we should expect the same trend on profitability as we saw in 2007?

Dmitry Ivanov: First of all, the first quarter of 2008 will be definitely better than the first quarter of 2007. We cannot say it would be better than the fourth quarter of 2007, but it will generate positive EBITDA for sure.

Alexander Balakhnin: Thank you.

Operator: Thank you, Mr Balakhnin. We now have a follow-up question from Ms Olga Bystrova of Credit Suisse. Please go ahead, madam.

Olga Bystrova: What I wanted to check – first of all, what Alexander asked previously – you were saying that EBITDA will be positive in let's say starting in the second half 2007 and going into 2008, but can you give a bit of guidance in terms of approximate magnitude of margins and whether all

segments will have positive EBITDA or Telecom Solutions will still be under pressure in terms of profitability? The second question is about your M&A activities in IT Solutions business, which I think you indicated previously that you were very close to certain deals, you might complete them in the second half. So if you could maybe update us on whether it's going to happen or maybe not going to happen? And the final question is on the Microelectronics business; there was some news that Amsterdam is partnering with AMG on upgrading their technology as well, probably for certain different applications, but how do you view your competitive position in this particular segment evolving over the next two to three years in terms of complications for government projects and for current large scale projects that you have let's say in RFID cards, etc. That will be great. Thank you very much.

Dmitry Ivanov: Talking about our vision over the next year, we think that **we'll generate our EBITDA margin on the industry level.** All our business divisions will be positive in terms of OIBDA, so we think we are talking diversification in Telecom Solutions which was in the first half of the year. Talking about M&A, as I said, we're expecting to complete at least one sizeable deal by the end of this year.

Evgeny Utkin: Olga, I can't say about our competitors, but Sitronics is the only company which already has Intracom Technology and from the fourth quarter of this year we will start to produce our own microchips with our own design, with our own technology. We are not competing with other potential players in Russia, because we are the only company which has these technologies. Thank you.

Olga Bystrova: Okay, thank you very much. The reason I was asking is that I realise that now you are, but do you see any movements of your competitors into let's say in the same space, or potential movements of your competitors in the same space as you are operating in currently?

Evgeny Utkin: From public resources we see this announcement; it is about Siemens Technology and we have Intracom Technology and Siemens as well, so it's absolutely different technology. So we are playing in different places.

Olga Bystrova: Okay, thank you very much. The final question, I just want to clarify on the question that Nadia asked about the debt costs, because I think the debt that you referred to earlier was, the cost was about 8% and now you are talking about 9% cost of debt. Maybe I misunderstood something when you were explaining that issue. Could you perhaps talk about it again please?

Dmitry Ivanov: First of all, the situation on the market has changed and talking about 1% of a possible difference, we're talking about price of hedging. As you know, we lost \$10 million on the currency exchange in the last quarter, only in the year of 2006. So we are currently hedging our contracts, which is denominated in rubles, attracting debt denominated in rubles. So if you compare the price of hedging from possibly 8 to 9% with this \$10 million loss, I think we're doing the right thing.

Olga Bystrova: Okay, thank you very much.

Operator: Thank you, Ms Bystrova. As we have no further questions, I would like to turn the conference back over to Mr Alexander Goldin for any additional or closing remarks.

Evgeny Utkin: This is Evgeny Utkin. In summary we would like to thank you for joining us in today's call. This is our short investor call as a public company and we look forward to our next call and on sharing our progress with you. Thank you very much.

Operator: Ladies and gentlemen, that concludes today's conference. Thank you very much for your participation. You may now disconnect.