



JOINT-STOCK FINANCIAL CORPORATION  
**SISTEMA**

**SITRONICS**



**БИННОФАРМ**  
компания АФК "Система"

# **Sistema JSFC**

## **High Technology and Industry BU**

### **Capital Markets Day**

October 20, 2009

**Sergey BOEV**

Vice president, Head of High Technology and Industry Business Unit

# Disclaimer



Certain statements in this presentation may contain assumptions or forecasts in respect to forthcoming events within JSFC Sistema. The words “expect”, “estimate”, “intend”, “will”, “could” and similar expressions identify forward-looking statements. 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 above-mentioned date or to reflect the occurrence of unanticipated events. Many factors could cause the actual Sistema’s results to differ materially from those contained in our projections or forward-looking statements, including, among others, deteriorating economic and credit conditions, our competitive environment, risks associated with operating in Russia, rapid technological and market change in our industries, as well as many other risks specifically related to Sistema and its operations.



# **1. High Technology and Industry BU at a glance**

# 1.1. High Technology and Industry Business Unit Structure



## High Technology and Industry Business Unit



SITRONICS



97%

CRTIS

- ▶ Radio Construction
- ▶ Communication & Control Systems
- ▶ Power Devices
- ▶ Geoinformatics and Radio Navigation

- ▶ **Manufacturing facilities:** Russia, Austria
- ▶ **R&D centers:** Russia
- ▶ **Target markets:** Russia & CIS,
- ▶ **Main products & services:** Radar systems and complexes, Airborne Radio systems, Complex communication systems for government use, Satellite communication means and complexes, Aviation and Missile products, IT and telecommunication systems, Electric motors, Gear units, Low voltage units, Complex drive systems, Digital navigation maps, Vehicle and cargo tracking and control systems

70%

SITRONICS

- ▶ Telecommunications solutions
- ▶ Microelectronics
- ▶ Informational Technologies

- ▶ **Manufacturing facilities:** Russia, Greece, Czech Republic, Romania
- ▶ **R&D centers:** Russia, Ukraine
- ▶ **Target markets:** Russia and CIS, Central & Eastern Europe, India & SEA, Middle East & Africa, North America, Canada
- ▶ **Main products:** ERP & CRM systems implementation, IT-outsourcing, IT systems integration, Mobile Data Centers, Telematic solutions, SIM & RUM telecom cards, transport RFID cards, banking and social smart cards, FORIS Charging & Billing, Intralink, UTILIS

100%

BINNOPHARM

- ▶ Pharmaceuticals

- ▶ **Manufacturing facilities:** Russia
- ▶ **Target markets:** Russia & CIS
- ▶ **Main products & services:** pharmaceutical generics

# 1.2. High Technology & Industry BU Strategic Objectives



**BU Strategy core points are as follows:**

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## 1. Value creation

- Gaining competitive advantage through customizing products to fit complex demands of the large national customers
- Increasing State participation in the new products Research and Development
- Additional earnings from utilizing State resources


## 2. Observing strict financial discipline

- The TSR and ROIC are core indicators for investment decisions
- Transparent system of KPIs for all BU companies
- Organizing effective process of business management
- Using best world practices to provide for efficient usage of the funds

## 3. Optimization of the corporate management structure to achieve maximum cost efficiency

## 4. Strengthening Public Private Partnership

- Active participation in Federal target programs (FTP) and State Defense Order
- Attraction of State funding for CAPEX to provide for future growth projects
- Developing knowledge-intensive businesses together with the State



**Provide ROIC  
higher than CoE  
through capitalizing  
on the partnership  
with the State and  
carrying out R&D  
using state funding**

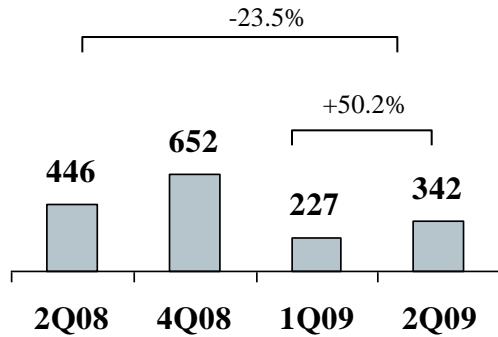
**The key priority is to provide ROIC higher than CoE through capitalizing on the partnership with the State and carrying out R&D using state funding**

# 1.3. High Technology & Industry BU Key financial highlights

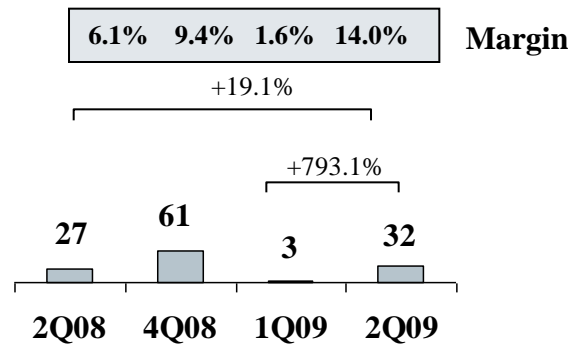


US GAAP, \$ mln

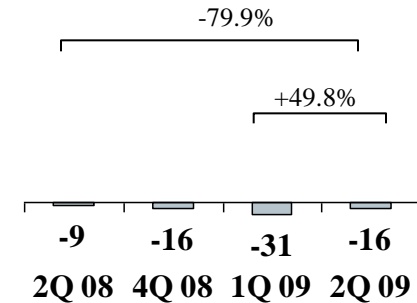
## REVENUE



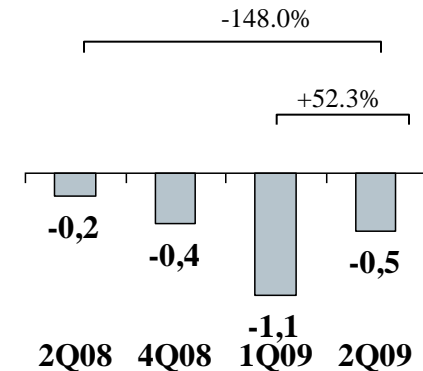
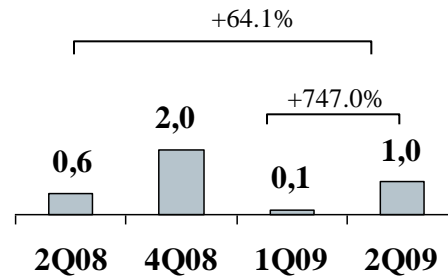
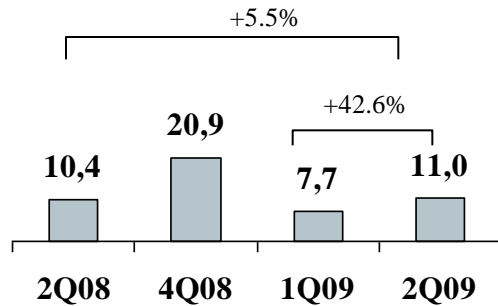
## OIBDA



## NET INCOME / LOSS



RUB bln



Technology & Industry unit's revenues increased by 50% q-o-q due to strong results of the High Technology business. OIBDA was up nearly eight times q-o-q following the improvement in the High Technology businesses operating performance. Net loss reduced by 49.8% q-o-q as a result of US\$ 14.1 mln foreign exchange gain

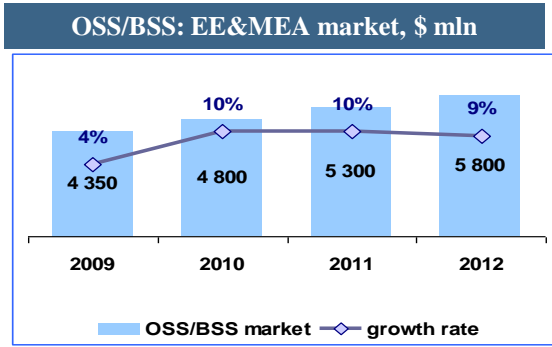
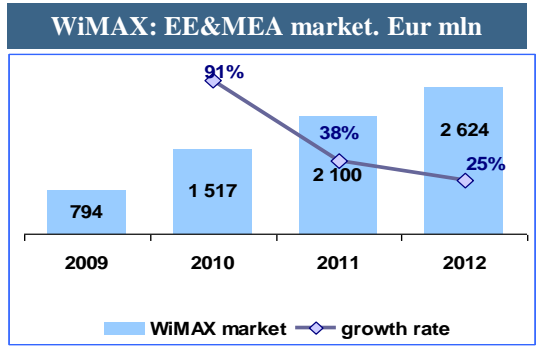
**Technology & Industry BU has significantly improved the results in 2Q 2009.**



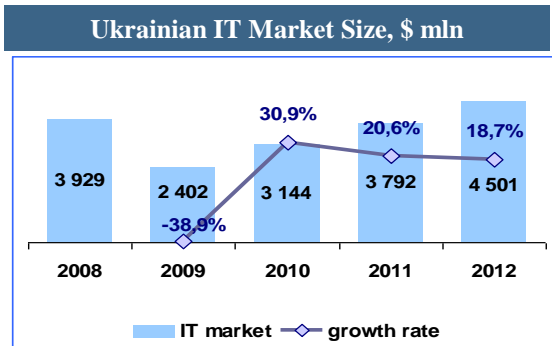
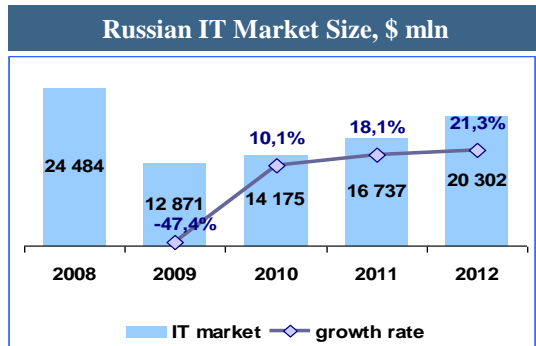
## **2. SITRONICS. Markets, Strategy Implementation, Products and Business Performance**

# 2.1. SITRONICS Market position

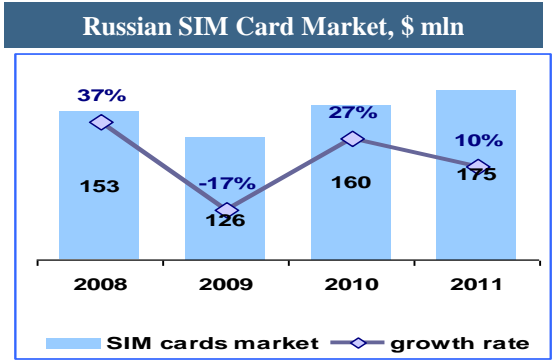
Telecommunication Solutions



Information Technologies



Microelectronics



- ▶ Growth points: VAS-solutions, broadband link and equipment, alternative wireless technologies (WiMAX), integrated NGN, solutions for 3G, convergent billing
- ▶ The target markets for SITRONICS are Russia and CIS, Central and Eastern Europe, India, the Middle East, Africa, North America, Canada
- ▶ The growth in targeted markets is expected to remain high
  
- ▶ Growth points by segments: government orders, banking industry, oil&gas complex, utilities
- ▶ Key technologies: outsourcing, business intelligence, CRM, XaaS
- ▶ The target markets for SITRONICS are Russia, Ukraine, CIS, Central & Eastern Europe
- ▶ Key markets are expected to start to recover in 2010
  
- ▶ Key drivers of growth: shift from cards with magnetic strip to smart-cards with chip;
- ▶ The target markets for SITRONICS are Russia and CIS, India & SEA, Africa
- ▶ Banking and SIM cards market has a strong growth potential in 2010-2011

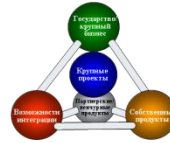
**SITRONICS's activity is concentrated on six high tech market segments**



## 2.2. SITRONICS Strategy implementation in 2009

### Strategy aimed at servicing large national clients and anti-crisis restructuring and optimization

1. Restructuring to meet large national clients needs
2. Structure optimization and closure of inefficient business parts



3. Repositioning for potential after-crisis growth
4. Access to perspective technologies

#### 1. Restructuring to meet large national clients needs

«Client Verticals»



- Strengthening Sales and Marketing Complex to attract large national clients that allowed to launch the production of banking cards (including cards with microprocessor chip) for SBERBANK and VTB 24.

#### 2. Structure optimization and closure of inefficient business parts



- Sale of inefficient low-margin IT distribution to increase efficiency: decrease SGNA and increase margin up to 11% OIBDA margin in 2011
- Restructuring and structure optimization for efficiency improvement

#### 3. Repositioning for potential after-crisis growth

Security, Finance,  
Data centers, Smart cards



- Repositioning for after-crisis growth in potential growth areas
- INTRACOM TELECOM, part of SITRONICS Telecommunication Solutions, has launched a new product for WiMAX-networks named OmniMAX.

#### 4. Access to technologies

Public Private  
Partnership: 90 nm,  
GLONASS, etc.



- Sistema JSFC and ROSNANO signed the investment agreement to set up serial production of VLSICs based on the 90 nm technology.
- Execution of projects that are financed by VEB: GLONASS, Housing and Public Utilities, Smart Vision-based products.

**Under current conditions SITRONICS key task is optimization of operation activity, entry into new business segments for potential after-crisis growth and expansion of cooperation with the State via Federal target programs, National projects and State corporations.**

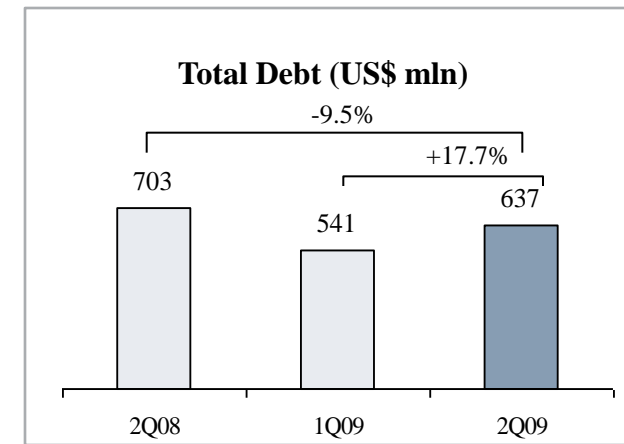
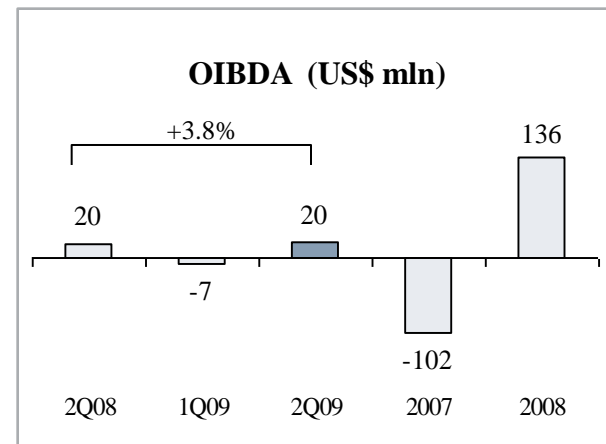
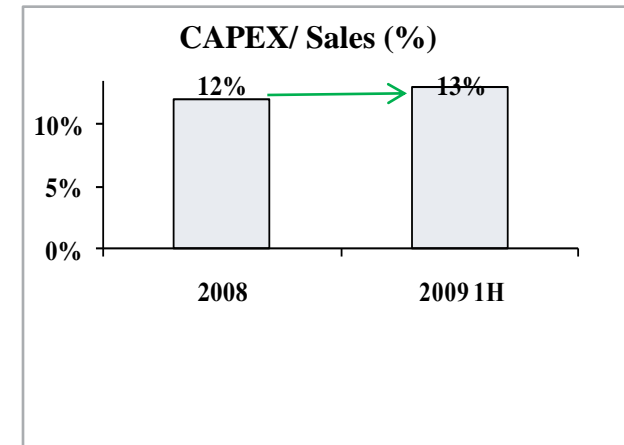
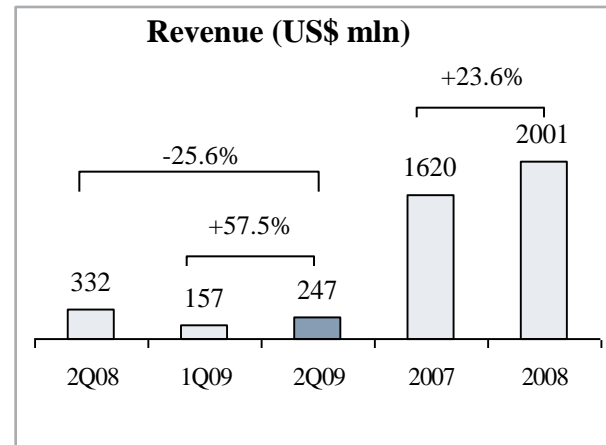
# 2.3. SITRONICS 1H 2009 Products and Business Performance

**SITRONICS**

70% SITRONICS

- Telecommunications solutions
- Microelectronics
- Informational Technologies

- Manufacturing facilities:** Russia, Greece, Czech Republic, Romania
- R&D centers:** Russia, Ukraine
- Target markets:** Russia and CIS, Central & Eastern Europe, India & SEA, Middle East & Africa, North America, Canada
- Main products:** ERP & CRM systems implementation, IT-outsourcing, IT systems integration, Mobile Data Centers, Telematic solutions, SIM & RUIIM telecom cards, transport RFID cards, banking and social smart cards, FORIS Charging & Billing, Intralink, UTILIS



**OIBDA margin**

5.9%	-	8.2%	-	6.8%
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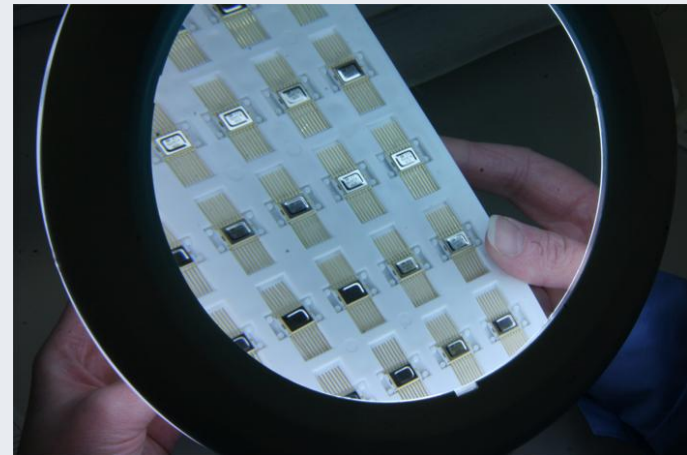
**SITRONICS has generated improved results following the restructuring of unprofitable divisions and cost cutting initiatives.**

## 2.4. Key strategic projects of Sitronics

### Construction of the '90 nm' microchip factory



- October 2009. Sistema JSFC and ROSNANO signed the investment agreement to set up serial production of VLSICs based on the 90 nm technology.
- It is planned to launch production in 2010 and to reach design capacity in 2011-2012.
- Project investment will amount to RUB 16.5 bln. ROSNANO will contribute cash, Sistema JSFC (represented by Sitronics) will provide the equipment of Micron.



### Strengthening Sales and Marketing Complex

This initiative has allowed SITRONICS to add several large national clients in 2009:

- Won a contract for supplying banking cards with magnetic stripe to VTB24
- Won a 3-year contract for supplying of Visa and MasterCard blank cards with microchips for Sberbank



### Exiting low margin distribution business in Sitronics

- Sitronics has sold low margin IT distribution segment to increase efficiency: decrease SGNA and increase margin up to 11% OIBDA margin in 2011

**Most of SITRONICS projects are targeted at creating value by establishing partnerships with big national clients**



### **3. CRTIS. Markets, Strategy Implementation, Products and Business Performance**

# 3.1. CRTIS Market position



**For the first time in its history CRTIS entered the Global Top 100 by Defense News Ranking of Defense Companies**

Rank	Company	Leadership	Country	Last Year's Rank	2008 Defense Revenue	2007 Defense Revenue	2008 Total Revenue	% of Revenue from Defense
1	Lockheed Martin	Robert Stevens	USA	1	39550	38513.0	42731	92.5
2	BAE Systems	Ian King	UK	3	32667	29800.0	34351	95.1
3	Boeing	W. James McNerney	USA	2	31082	31175.0	60909	51
4	Northrop Grumman	Ronald Sugar	USA	4	26579	24497.0	33887	78.4
16	Almaz-Antei	V.Menshikov	RF	24	4335.2	2782.1	4616.8	93.9
40	Aviation Holding Company Sukhoi	M. Pogosyan	RF	37	2039.2	1715.4	2169.4	94
<b>99</b>	<b>RTI Systems Concern</b>	<b>S. Tyschenko</b>	<b>RF</b>	<b>-</b>	<b>396.1</b>	<b>313.5</b>	<b>471.5</b>	<b>84</b>
100	ViaSat	Mark Dankberg	USA	98	389	320.0	628	61.9

## Defense industry trends

- Industry consolidation
- Complex Systems preferred by the Government client
- Government increases participation in Defense companies equity

## CRTIS Market position

- The RF Ministry of Defense is currently our main client (accounting for app. 80% of total sales)
- CRTIS enjoys leading position in its core market
- CRTIS is rapidly diversifying its client base outside its core market






**CRTIS activity is mostly focused on defense market**

## 3.2. CRTIS Strategy Implementation in 2009



**Strategy of capitalizing on existing partnership with the State and R&D using state funding. State defense orders provide for business stability and predictability.**

<b>The 2009 CRTIS Strategy:</b>	State Defense Order	<ul style="list-style-type: none"> <li>• Concentration on Lead Contracts. Utilizing budget of the State Defense Order</li> </ul>
	Markets	<ul style="list-style-type: none"> <li>• Increase presence at the global defense market</li> </ul>
	R&D	<ul style="list-style-type: none"> <li>• Keeping leadership in technologies</li> </ul>
	Fed. programs	<ul style="list-style-type: none"> <li>• Expansion of participation in FTP; Entry to new FTPs</li> </ul>
	Export	<ul style="list-style-type: none"> <li>• Development of export potential</li> </ul>

<b>STATE DEF.ORDER</b>		<ul style="list-style-type: none"> <li>• CRTIS has completed several strategic Government projects: Armavir VZG Radar Voronezh DM, designed Privolzhsky RCMC for Emercom RF, 1st stage of the RCMC in Siberia (Krasnoyarsk)</li> </ul>
<b>MARKETS</b>		<ul style="list-style-type: none"> <li>• Ranked as top 100 defense company globally in 2008, by The Defense News, the widely recognised professional defense companies publication. RTI was ranked based on its revenues from defense contracts.</li> </ul>
<b>R&amp;D</b>		<ul style="list-style-type: none"> <li>• CRTIS consolidated 100% of JSC OKB Planeta and acquired CJSC Center-Telco</li> <li>• Acquired a stake in OJSC “Radio technical institute named after Professor Mints” from OJSC Vimpel, thus increasing the shareholding to 51.19%.</li> <li>• Range of new R&amp;D. New Intellectual Property - 4 applications in Rospatent.</li> <li>• R&amp;D strategy was adopted, specific KPIs were developed</li> </ul>
<b>FTP</b> s		<ul style="list-style-type: none"> <li>• FTP for Emercom. The 2<sup>nd</sup> development stage of National CMCS has started.</li> <li>• Signed an agreement with Roskartographia, the Russian Federal Service for Geodesy and Cartography.</li> </ul>
<b>EXPORT</b>		<ul style="list-style-type: none"> <li>• Cooperation with EADS has started.</li> </ul>

**CRTIS strategy provides for state-of-the-art products creation through carrying out complex national-scale projects for key Government clients and increasing participation in FTPs.**

# 3.3. CRTIS 1H 2009 Products and Business Performance



97%

CRTIS

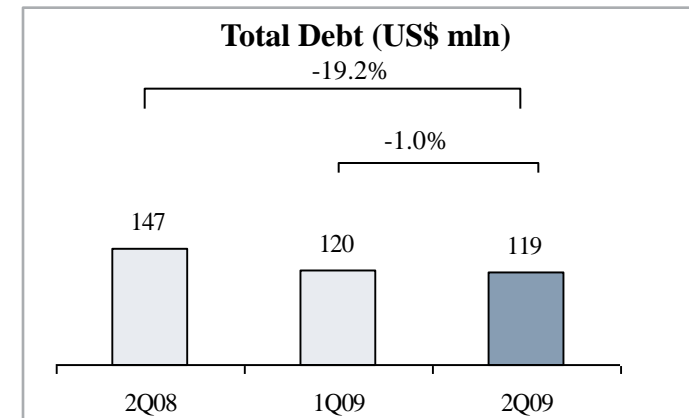
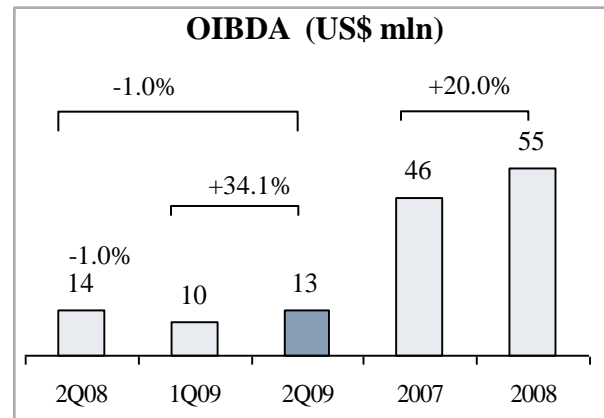
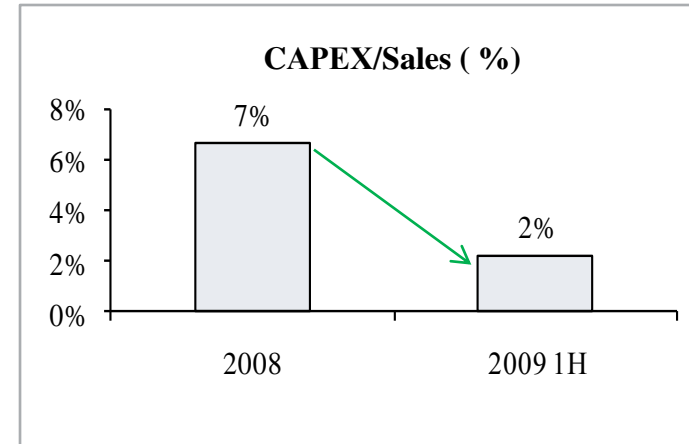
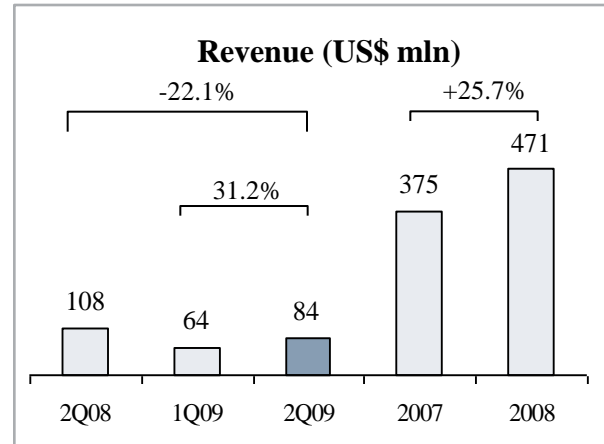
- ▶ Radio Construction
- ▶ Communication & Control Systems
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- ▶ Geoinformatics and Radio Navigation

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OIBDA margin

12.6% 15.6% 16.0% 12.2% 11.7%

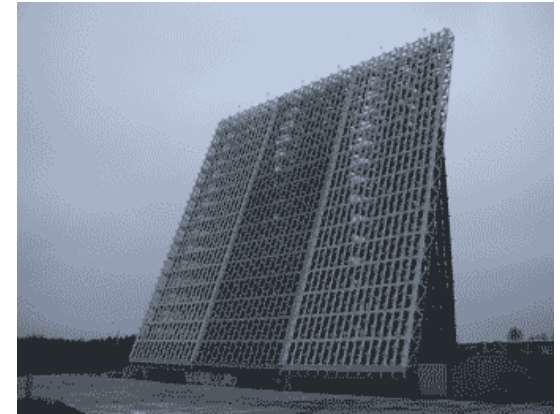
**CRTIS has generated improved results through deepening the partnership with the State**

## 3.4. Most important strategic projects of CRTIS



### **CRTIS has completed several strategic projects**

- Acquired 72.7% stake in Centrtelecom, based in Moscow, thus increasing the holding to 98.5%.
- Acquired a stake in OJSC “Radio technical institute named after Professor Mints” from OJSC Vimpel, thus increasing the shareholding to 51.19%.
- Signed an agreement with Roskartographia, the Russian Federal Service for Geodesy and Cartography.
- Acquired shares of OJSC “OKB Planeta” from minority shareholders, thus consolidating its shareholding to 100%.
- Armavir VZG Radar Voronezh DM: commenced operations of radar for the Russian space forces
- CRTIS consolidated 100% of JSC OKB Planeta and acquired CJSC Center-Telco
- VT i SS completed technical design of Privolzhsky regional crisis management center for Russian Ministry of emergencies
- First stage of the Siberian regional crisis management center for Russian Ministry of emergencies opened in Krasnoyarsk



**Most of CRTIS projects are targeted at creating value by means of attracting additional State funding**

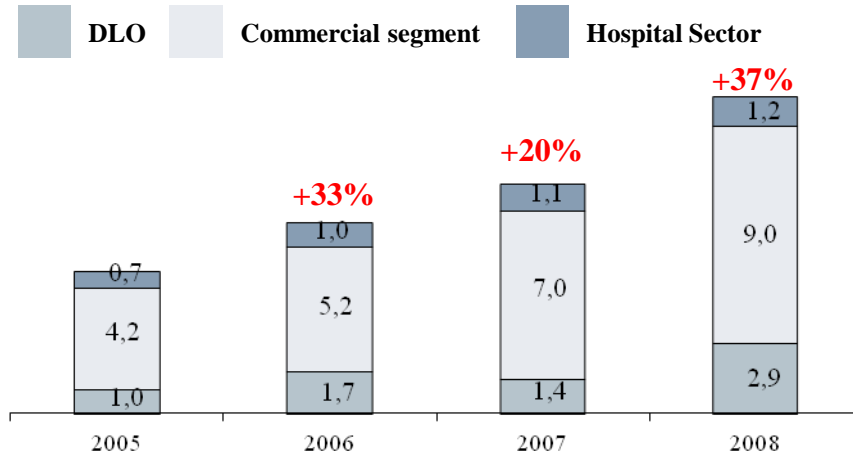




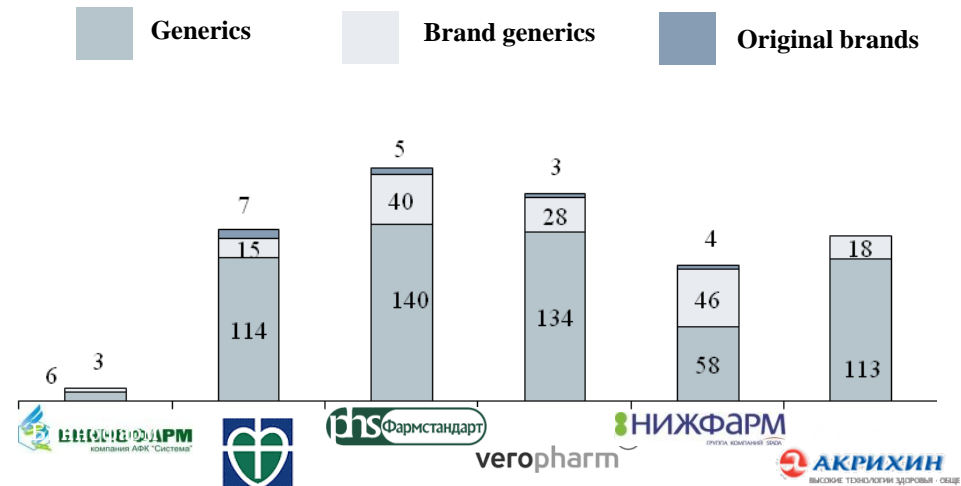
## **4. BINNOPHARM. Markets, Strategy Implementation, Products and Business Performance**

# 4.1. Binnopharm Market position

## Russian Pharmaceutical market (\$ bln)



## Number of Medicines manufactured



## Market trends

- CAGR 2007-2011 = ~30%
- Up to 78% of pharmaceuticals is imported
- Local production has good growth potential due to the announced Government support policy
- 95% of Russian pharmaceutical manufacturing is generics
- The market demonstrated rapid growth in expensive drugs sector

**Binnopharm activity is mostly focused on biotech production, as well as generics market sector**

## 4.2. Binnopharm Strategy Implementation

*(Strategy has been adopted on 18.12.2008)*



- **Strategic goal: to become #1 on biotechnology in Russia, to win hospitals sector in 3 years.**
- **To finish construction of the GMP-compliant factory at Zelenograd and start production. To get a strategic partner in 2010.**

### Pharma Production



- GMP-compliant factory at Zelenograd has been opened in May 2009 to start the production of Hepatitis B vaccine and other FPP.
- Strategic Partner engagement. Realization of “Biocity” project with State Corporation “Rusnano”.
- Expansion the activity towards the State programs (FTP tenders).



### Pharma Distribution



- Sales of medicine and high marginality essences through the subsidiary companies Fitaline and Mapichem
- Gradual reduction of Pharma Distribution business according to the strategic objectives (Priority to Pharma Production segment)

*FPP - finished pharmaceutical products*

**Launching the new production facility at Zelenograd and execution of State contract for Hepatitis B vaccine enable Binnopharm to achieve the 2009 strategic goals and approach to achieve the main Strategic goal to become #1 on biotechnology in Russia**

# 4.3. Binnopharm 1H 2009 Business Performance



100%

**BINNOFARM**

▶ **Pharmaceutics**

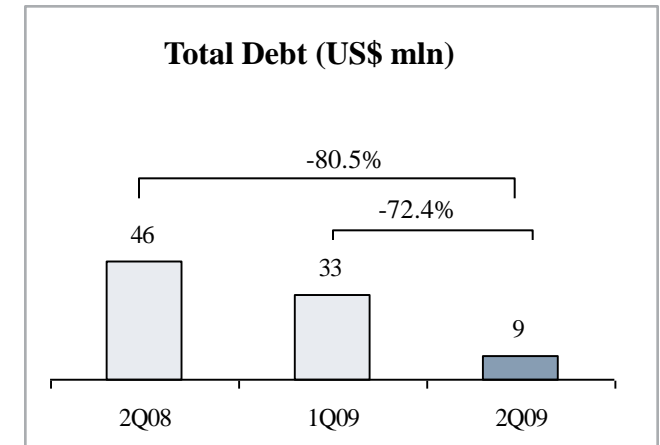
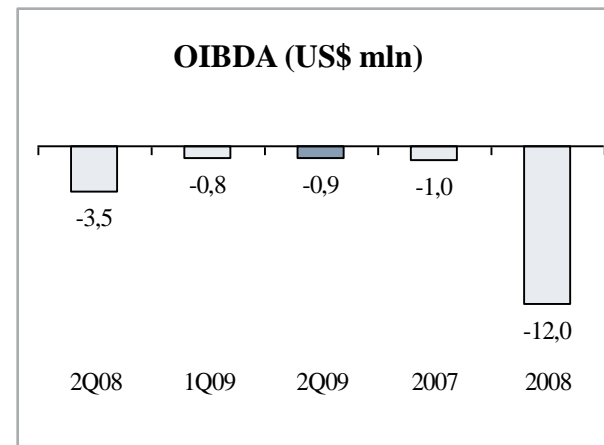
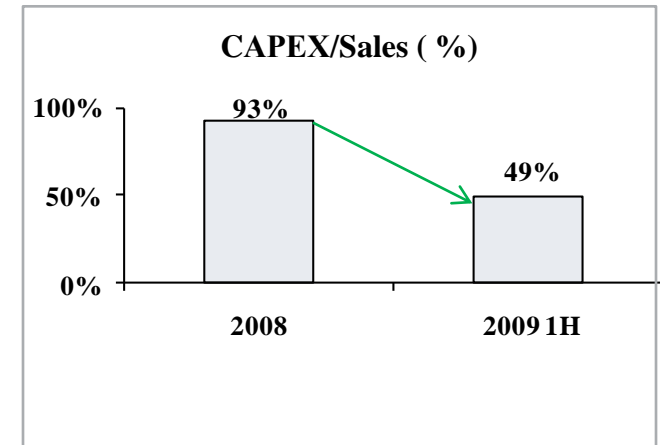
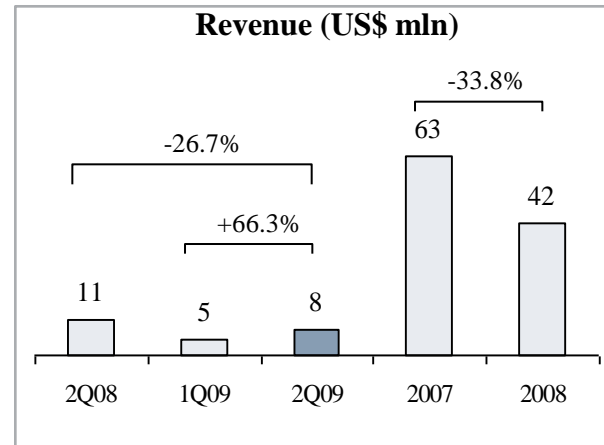
▶ **Manufacturing facilities:** Russia

▶ **Target markets:** Russia & CIS

**Main products & services**

**(current and prospective):**

pharmaceutical generics,  
VEGF – vial growth factor,  
IFNa2b – hepatitis and HIV treatment,  
IFNb1a – neurological disease treatment,  
GCSF – for oncology,  
HGH – growth hormone,  
NGF – Alzheimer disease treatment,  
IFNgamma– infection disease treatment,  
Kit - hepatitis treatment .



**Binnofarm opened new production facility and plans to start certification of its products as well as shipments of medications from new production lines by the end of 2009.**

## 4.4. Binnopharm. Most important strategic projects



### GMP-compliant factory at Zelenograd

- **May 2009.** Completion of the GMP-compliant factory construction at Zelenograd to start the production of Hepatitis B vaccine and other FPP.
- **2Q 2009.** Began shipments of Hepatitis B vaccine under a new contract signed with Rospotrebnadzor, the Russian Health and Consumer Rights Agency. The vaccine was manufactured using a full production cycle at the business' plant for the first time in Russia.
- **October 2009.** The biopharmaceutical factory at Zelenograd opened, the ceremony attended by the Chairman of the RF Government Mr V.Putin
- **Characteristics of the factory:** Full-cycle GMP-compliant manufacturing facility. The current portfolio includes 22 prescription medications. By the end of 2009, 18 mln. doses of hepatitis B vaccine will be produced under the public contract. Investment from Sistema JSFC amounted to over RUB 4.3bln



**Most of Binnopharm projects are targeted at creating value by means of implementation of the front edge technology demanded by the national economy**



**THANK YOU!**  
**YOUR QUESTIONS, PLEASE**

**Sergey BOEV**

Vice president, Head of High Technology and Industry Business Unit

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**Investor Relations Department**

Tel. +7 (495) 692 2288

[www.sistema.com](http://www.sistema.com)

[ir@sistema.ru](mailto:ir@sistema.ru)

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