

MOBILE TELESYSTEMS OJSC
Form 6-K
August 20, 2013

FORM 6-K

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer
August 20, 2013

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

Commission file number: 333-12032

Mobile TeleSystems OJSC

(Exact name of Registrant as specified in its charter)

Russian Federation

(Jurisdiction of incorporation or organization)

**4, Marksistskaya Street
Moscow 109147
Russian Federation**

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

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Form 20-F Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

Press release

Mobile TeleSystems Announces Financial Results for the Second Quarter Ended June 30, 2013

August 20, 2013

Moscow, Russian Federation Mobile TeleSystems OJSC (MTS - NYSE: MBT), the leading telecommunications provider in Russia and the CIS, today announces its unaudited US GAAP financial results for the three months ended June 30, 2013.

Key Financial Highlights of Q2 2013

- Consolidated revenues up 5% y-o-y to RUB 97 billion
- Increase in mobile service revenue in Russia of 6% y-o-y to RUB 66 billion
- Data revenue growth of 40% y-o-y to RUB 11 billion
- Consolidated OIBDA(1) up 10% y-o-y to RUB 44 billion
- Group OIBDA margin improved 1.9 pp y-o-y to 45.5%
- Consolidated net income(2) of RUB 29 billion

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- Free cash-flow(3) reached RUB 45 billion for the six months ended June 30, 2013

Key Corporate and Industry Highlights

- Approved a new dividend policy aimed at a payout of a minimum dividend distribution amount of at least 75% of Free Cash Flow for the relevant financial period or, if greater, RUB 40.0 billion per year
- Approved annual dividends of RUB 14.6 per ordinary MTS share (approximately RUB 29.2 per ADR) for the 2012 fiscal year, amounting to a total of RUB 30.2 billion
- Acquisition of 25.095% stake in MTS Bank through a share issuance for RUB 5.09 bln
- Reached an agreement with Altime, Nomihold and other associated parties to settle all disputes related to investment in Bitel LLC, a mobile telephony services provider in the Kyrgyz Republic
- Issued USD-denominated Loan Participation Notes in the amount of \$500 million with an annual interest rate of 5.00% and maturity in June 2023
- Placed exchange-traded ruble bond of RUB 10.0 billion with a maturity of 10 years and a five-year put option
- Appointed Mr. Mikhail Arkhipov to the position of Vice President, Human Resources

(1) See Attachment A for definitions and reconciliation of OIBDA and OIBDA margin to their most directly comparable US GAAP financial measures.

(2) Attributable to the Group.

(3) See Attachment B for reconciliation of free cash-flow to net cash provided by operating activity.

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- MTS's brand was ranked in the BRANDZ Top 100 Most Powerful Brands, a ranking published by the Financial Times and Millward Brown Optimor, with a brand value of \$10.63 billion
- Signed an agreement with Ericsson to jointly develop telecommunications infrastructure for an LTE network rollout in Russia's Volga, Siberian, Ural and Southern Federal Districts
- Semi-annual dividend recommendation by the MTS Board of Directors of RUB 5.22 per ordinary MTS share (RUB 10.44 per ADR) on the basis of H1 2013 financial and operating results for a total payout of RUB 10.8 billion
- Partnership with Nokia Siemens Networks to jointly develop telecommunications infrastructure and build 4G networks in the Moscow region and Russia's Central Federal District

Commentary

Andrei Dubovskov, President and CEO of MTS, commented, "During the quarter group revenue increased 5% year-over-year. In Russia, revenues grew 4% year-on-year to 86.5 billion rubles. Mobile service revenues increased by 6% year-on-year to 66.2 billion rubles driven by data adoption and further monetization of data traffic, and messaging revenues. We continue to see market-leading growth in data traffic revenue, which grew 40% year-on-year. Our fixed-line operations showed strong performance in spite of sustained competitive pressures, having increased by 4% year-over-year to 14.4 billion rubles."

Alexey Kornya, MTS Vice President and Chief Financial Officer, said, "In Q2 2013, Group OIBDA increased by 10% year-on-year up to 44.4 billion rubles with a margin of 45.5%. Strong OIBDA growth rate is attributable to both organic and inorganic factors. In Russia, OIBDA rose by 6% year-over-year to 39.2 billion rubles. For the quarter we delivered strong OIBDA margin of 45.4% compared to 44.6% margin in Q2 2012. Margin improvement was driven by one-off factors as well as the rising share of data traffic revenues in total revenues and reduced handset sales. Our topline performance, rising data consumption and continuous cost control initiatives continue to offset inflationary pressures, such as rising personnel costs, higher rent and network maintenance costs. Net income rose to 29.0 bln rubles. We realized a positive gain due to our settlement over Bitel through a reversal of the provision for the acquisition of the 49.0% stake in Tarino Limited, in 2005 the owner of Bitel LLC, and accrued interest in the amount of 223 million US dollars, as well the 125 million US dollars in compensation paid in cash. At the same time, we witnessed a non-cash FOREX loss in the amount of 3.1 bln rubles due to the weakening of the ruble versus the US dollar and Euro and its impact on our debt valuation."

Mr. Kornya continued, "Free cash flow for the first half of the year came improved to 45.2 billion rubles, a 34% increase over the first half 2012. Our net debt/ LTM adjusted OIBDA ratio came fell to 1.0x due to improvement in operating performance and our success in managing debt portfolio through the early redemption of loans, repurchase of ruble-denominated bonds and the timely and advantageous placement of debt securities. During the quarter we confirmed our commitment to increasing shareholders return. In early August MTS Board of Directors set the date for the Company's extraordinary general meeting of shareholders for September 30, 2013. The Board also recommended that the EGM approve semi-annual dividends of RUB 5.22 per ordinary MTS share (10.44 rubles per ADR) amounting to the total of RUB 10.8 billion on the basis of the Company's H1 2013 financial and operating results. If the recommendation is approved at the EGM, MTS will pay out around 41.0 billion rubles in 2013 calendar year. This is in line with our new dividend policy that calls for distribution in the form of dividends of an amount equal to at least 75% of Free Cash Flow for the relevant financial period or, if greater, 40.0 billion per year."

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Mr. Dubovskov concluded, We reiterate our revenue guidance of 5-7%.for 2013 -2015. Growth continues to be driven by the increased adoption of data services, as well as sustained sales of smartphone and stable subscriber dynamics. For OIBDA, we are pleased to raise our OIBDA margin guidance to over 43% for the year considering our strong organic

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performance in the first-half of the year, various one-off factors and continuation of the current stable competitive environments in our markets of operation. For the period 2013-2015 we see our OIBDA margin at about 42%.

This press release provides a summary of some of the key financial and operating indicators for the period ended June 30, 2013. For full disclosure materials, please visit <http://www.mts GSM.com/resources/reports/>.

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Financial Summary(4)

RUB mln	Q2 13	Q2 12	y-o-y	Q1 13	q-o-q
Revenues	97,450.2	92,777.8	5.0%	92,854.1	4.9%
OIBDA	44,384.9	40,422.1	9.8%	39,347.4	12.8%
- margin	45.5%	43.6%	+1.9pp	42.4%	+3.1pp
Net operating income	25,566.1	23,850.7	7.2%	21,577.8	18.5%
- margin	26.2%	25.7%	+0.5pp	23.2%	+3.0pp
Net income from continuing operations	25,364.2	10,415.7	143.5%	12,911.2	96.5%
- margin	26.0%	11.2%	+14.8pp	13.9%	+12.1pp
Net income/(loss) attributable to the group	29,045.8	(23,140.9)	n/a	12,962.7	124.1%
- margin	29.8%	n/a	n/a	14.0%	+15.8pp

Russia Highlights

RUB mln	Q2 13	Q2 12	y-o-y	Q1 13	q-o-q
Revenues	86,459.6	82,827.8	4.4%	82,747.7	4.5%
- mobile services	66,194.7	62,504.0	5.9%	63,027.2	5.0%
- fixed line services	14,441.8	13,834.2	4.4%	14,080.4	2.6%
- sales of handsets & accessories	5,823.1	6,489.6	-10.3%	5,640.1	3.2%
OIBDA	39,222.4	36,929.4	6.2%	35,846.5	9.4%
- margin	45.4%	44.6%	+0.8pp	43.3%	+2.1pp
Net income	19,534.9	10,190.3	91.7%	11,833.2	65.1%
- margin	22.6%	12.3%	+10.3pp	14.3%	+8.3pp

	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
ARPU (RUB)	297.1	313.2	306.1	292.1	305.8
MOU (min)	309	311	323	310	332
Churn rate (%)	10.5%	10.3%	11.0%	9.5%	9.4%

Ukraine Highlights

UAH mln	Q2 13	Q2 12	y-o-y	Q1 13	q-o-q
Revenues	2,507.3	2,397.7	4.6%	2,383.8	5.2%
OIBDA	1,317.4	1,243.5	5.9%	1,227.4	7.3%
- margin	52.5%	51.9%	+0.6pp	51.5%	+1.0pp
Net income	640.9	509.5	25.8%	503.5	27.3%
- margin	25.6%	21.3%	+4.3pp	21.1%	+4.5pp

(4) Financial results of continuing operations, except Net income. Excluding Uzbekistan subsidiary, which was deconsolidated starting Q2 2013

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	Q2 12	Q3 12	Q4 12	Q1 13	Q1 13
ARPU (UAH)	40.06	43.77	38.17	37.40	38.32
MOU (min)	611	610	602	600	580
Churn rate (%)	7.7%	9.0%	5.8%	6.7%	6.0%
SAC (UAH)	61.7	56.7	60.4	51.9	56.2
- dealer commission	33.7	33.8	35.8	30.6	30.2
- adv & mktg	16.5	13.0	14.3	12.3	16.8
- handset subsidy	2.6	2.3	2.7	1.6	1.2
- SIM card & voucher	8.9	7.6	7.6	7.3	8.0

Armenia Highlights

AMD mln	Q2 13	Q2 12	y-o-y	Q1 13	q-o-q
Revenues	19,823.4	19,076.6	3.9%	17,802.9	11.3%
OIBDA	10,369.4	9,932.9	4.4%	8,946.5	15.9%
- margin	52.3%	52.1%	+0.2pp	50.3%	+2.0pp
Net income	2,876.0	2,815.6	2.1%	2,669.7	7.7%
- margin	14.5%	14.8%	-0.3pp	15.0%	-0.5pp

	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
ARPU (AMD)	2,739.2	3,054.6	2,761.8	2,433.6	2,750.2
MOU (min)	342	346	347	330	365
Churn rate (%)	8.7%	7.2%	6.7%	8.2%	8.6%
SAC (AMD)	4,572.7	6,294.7	6,332.7	6,506.2	6,287.4

Turkmenistan Highlights

TMT mln	Q3 12	Q4 12	Q1 13	Q2 13
Revenues	3.3	27.0	48.3	62.6
OIBDA	(9.5)	8.5	13.2	20.7
- margin	n/a	31.5%	27.2%	33.1%
Net income/(loss)	(9.5)	8.5	12.5	13.9
- margin	n/a	31.6%	25.8%	22.2%

	Q3 12	Q4 12	Q1 13	Q2 13
ARPU (TMT)	n/a	7.9	9.7	11.1
MOU (min)	n/a	302	473	527
Churn rate (%)	n/a	n/a	n/a	17%
SAC (TMT)	n/a	6.2	9.5	13.6

CAPEX Highlights

RUB mln	FY 10(5)	FY 11	FY 12	H1 13
Russia	69,277.8	66,868.7	82,896.2	22,973.4
- as % of rev	24.2%	21.4%	24.5%	13.6%
Ukraine	4,694.0	4,486.9	4,124.6	2,471.0
- as % of rev	14.5%	13.4%	10.9%	13.0%
Armenia	913.0	1 343.7	751.0	294.9
- as % of rev	14.5%	22.8%	12.5%	10.4%
Turkmenistan	1,353.6	n/a	11.2	354.7
- as % of rev	21.5%	n/a	3.4%	29.3%
Group	76,238.4	72,798.3	87,783.1	26,094.0
- as % of rev	n/a	20.9%	23.2%	13.7%

* * *

For further information, please contact in Moscow:

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Learn more about MTS. Visit the official blog of the Investor Relations Department at www.mtsgsm.com/blog/ and follow us on Twitter: JoshatMTS

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Mobile TeleSystems OJSC (MTS) is the leading telecommunications group in Russia and the CIS, offering mobile and fixed voice, broadband, pay TV as well as content and entertainment services in one of the world's fastest growing regions. Including its subsidiaries, the Group services nearly 100 million mobile subscribers. The Group has been awarded GSM licenses in Russia, Ukraine, Turkmenistan, Armenia and Belarus, a region that boasts a total population of more than 200 million. Since June 2000, MTS Level 3 ADRs have been listed on the New York Stock Exchange (ticker symbol MBT). Additional information about the MTS Group can be found at www.mtsgsm.com.

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Some of the information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of MTS, as defined in the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify forward looking statements by terms such as expect, believe, anticipate, estimate, intend, will, could, may or might, and 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 undertake or intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. We refer you to the documents MTS files from time to time with the U.S. Securities and Exchange Commission, specifically the Company's most recent Form 20-F. These documents contain and identify important factors, including those contained in the section captioned Risk Factors that could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, the severity and duration of current economic and financial conditions, including volatility in interest and exchange rates, commodity and equity prices and the value of financial assets; the impact of Russian, U.S. and other foreign government programs to restore liquidity and stimulate national and global economies, our ability to maintain our current credit rating and the impact on our funding costs and competitive position if we do not do so, strategic actions, including acquisitions and dispositions and our success in integrating acquired businesses, potential fluctuations in quarterly results, our competitive environment, dependence on new service development and tariff structures, rapid technological and market change, acquisition strategy, risks associated with telecommunications infrastructure, governmental regulation of the telecommunications industries and other risks associated with operating in Russia and the CIS, volatility of stock price, financial risk management and future growth subject to risks.

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(5) Group CAPEX, excluding Uzbekistan. Uzbekistan subsidiary was not deconsolidated from FY2010 financial results.

Attachments to the Second Quarter 2013

Earnings Press Release

Attachment A

Non-GAAP financial measures. This press release 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. Due to the rounding and translation practices, Russian ruble and functional currency margins, as well as other non-GAAP financial measures, may differ.

Operating Income Before Depreciation and Amortization (OIBDA) and OIBDA margin. 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:

Group (RUB mln)	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Operating income	23,850.7	27,067.5	23,412.6	21,577.8	25,566.1
Add: D&A	16,571.4	17,214.3	17,043.4	17,769.6	18,818.9
OIBDA	40,422.1	44,281.8	40,456.0	39,347.4	44,384.9

Russia (RUB mln)	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Operating income	23,216.6	25,833.3	22,824.8	20,865.0	22,977.1
Add: D&A	13,712.8	14,251.7	14,251.0	14,981.5	16,245.3
OIBDA	36,929.4	40,085.0	37,075.9	35,846.5	39,222.4

Ukraine (RUB mln)	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Operating income	2,508.8	3,258.8	2,387.3	2,261.2	2,978.3
Add: D&A	2,348.9	2,413.1	2,282.1	2,410.5	2,235.5
OIBDA	4,857.7	5,671.9	4,669.4	4,671.7	5,213.8

Armenia (RUB mln)	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Operating income	261.7	424.1	310.9	279.6	446.7
Add: D&A	507.3	546.7	507.7	385.4	344.6
OIBDA	768.9	970.8	818.6	665.0	791.3

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Operating income	(107.4)	92.0	137.5	228.7
OIBDA	(106.8)	92.2	139.7	229.8

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OIBDA margin can be reconciled to our operating margin as follows:

Group	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Operating margin	25.7%	27.2%	23.8%	23.2%	26.2%
Add: D&A	17.9%	17.3%	17.3%	19.1%	19.3%
OIBDA margin	43.6%	44.5%	41.1%	42.4%	45.5%

Russia	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Operating margin	28.0%	29.3%	25.9%	25.2%	26.6%
Add: D&A	16.6%	16.1%	16.1%	18.1%	18.8%
OIBDA margin	44.6%	45.4%	42.0%	43.3%	45.4%

Ukraine	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Operating margin	26.9%	30.5%	25.6%	24.9%	30.0%
Add: D&A	25.2%	22.6%	24.5%	26.6%	22.5%
OIBDA margin	52.1%	53.2%	50.1%	51.5%	52.6%

Armenia	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Operating margin	17.7%	25.0%	20.3%	21.1%	29.5%
Add: D&A	34.4%	32.2%	33.1%	29.1%	22.8%
OIBDA margin	52.1%	57.2%	53.4%	50.3%	52.3%

Turkmenistan	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Operating margin		n/a	31.3%	26.7%	32.9%
Add: D&A		n/a	0.1%	0.4%	0.2%
OIBDA margin		n/a	31.4%	27.1%	33.1%

* * *

Attachment B

Net debt represents total debt less cash and cash equivalents and short-term investments. Our net debt calculation is commonly used as one of the bases for investors, analysts and credit rating agencies to evaluate and compare our periodic and future liquidity within the wireless telecommunications industry. 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.

Net debt can be reconciled to our consolidated balance sheets as follows:

RUB mln	As of Dec 31, 2012	As of Jun 30, 2013
Current portion of debt and of capital lease obligations	27,624.3	49,455.8
Long-term debt	204,432.3	197,241.8
Capital lease obligations	48.5	26.2
Total debt	232,105.1	246,723.8
Less:		
Cash and cash equivalents	22,014.2	64,155.9
Short-term investments	4,034.4	17,213.1
Net debt	206,056.5	165,354.8

Last twelve month (LTM) OIBDA can be reconciled to our consolidated statements of operations as follows:

RUB mln	Six months ended Dec 31, 2012 A	Six months ended Jun 30, 2013 B	Twelve months ended Jun 30, 2013 C=A+B
Net operating income	50,480.1	47,143.9	97,624.0
Add: D&A	34,257.7	36,588.5	70,846.2
OIBDA	84,737.8	83,732.4	168,470.2

Free cash-flow can be reconciled to our consolidated statements of cash flow as follows:

RUB mln	For six months ended Jun 30, 2012	For six months ended Jun 30, 2013
Net cash provided by operating activities	66,612.7	76,147.7
Less:		
Purchases of property, plant and equipment	(28,994.7)	(20,514.7)
Purchases of intangible assets	(3,076.2)	(5,579.3)
Proceeds from sale of property, plant and equipment	68.3	230.0
Proceeds from sale of other investments	463.9	
Investments in and advances to associates		(5 088.9)
Acquisition of subsidiaries, net of cash acquired	(1 435.8)	
Free cash-flow	33,638.2	45,194.8

* * *

Attachment C

Definitions

Subscriber. We define a subscriber as an individual or organization whose account shows chargeable activity within sixty one days in the case of post-paid tariffs, or one hundred and eighty three days in the case of our pre-paid tariffs, or whose account does not have a negative balance for more than this period.

Average monthly service revenue per subscriber (ARPU). We calculate our ARPU by dividing our service revenues for a given period, including interconnect, guest roaming fees and connection fees, by the average number of our subscribers during that period and dividing by the number of months in that period.

Average monthly minutes of usage per subscriber (MOU). MOU is calculated by dividing the total number of minutes of usage during a given period by the average number of our subscribers during the period and dividing by the number of months in that period.

Churn. We define our churn as the total number of subscribers who cease to be a subscriber as defined above during the period (whether involuntarily due to non-payment or voluntarily, at such subscriber's request), expressed as a percentage of the average number of our subscribers during that period.

Subscriber acquisition cost (SAC). We define SAC as total sales and marketing expenses and handset subsidies for a given period. Sales and marketing expenses include advertising expenses and commissions to dealers. SAC per gross additional subscriber is calculated by dividing

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SAC during a given period by the total number of gross subscribers added by us during the period.

* * *

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MOBILE TELESYSTEMS OJSC

By:	/s/ Andrei Dubovskov	
	Name:	Andrei Dubovskov
	Title:	CEO

Date: **August 20, 2013**