

MOBILE TELESYSTEMS OJSC
Form 6-K
May 26, 2011

FORM 6-K

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer
May 26th, 2011

**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 First Quarter Ended March 31, 2011

May 26, 2011

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 March 31, 2011.

Key Financial Highlights of Q1 2011

- Consolidated revenues down 2.0% q-o-q to \$2,934 million
- Consolidated OIBDA(1) down 2.9% q-o-q to \$1,126 million with 38.4% OIBDA margin
- Consolidated net income(2) of \$322 million
- Free cash-flow(3) positive with \$621 million for the first three months of 2011

Key Corporate and Industry Highlights

- Appointment of Andrei Dubovskoy, former Head of Business Unit MTS Ukraine, as President and CEO of MTS

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- Completion of share buyback in March 2011 related to the statutory merger of Comstar with MTS
- Conversion of Comstar ordinary shares into MTS ordinary shares on April 1, 2011 and subsequent completion of the statutory merger of Comstar with MTS
- Continued acquisitions of regional fixed operators with a purchases of alternative operators in Kurgan and Altai Krai for RUB 435.0 million and RUB 545.8 million respectively
- Annual dividend recommendation by the MTS Board of Directors of RUB 14.54(4) per ordinary MTS share (approximately \$1.04 per ADR(5)) for the 2010 fiscal year, amounting to a total of RUB 30.05 billion (approximately \$1.08 billion or 78% of US GAAP net income)
- Receipt of GSM 900 MHz license in Penza region giving MTS full 2G coverage in Russia
- MTS brand has been named as one of the BRANDZ Top 100 Most Powerful Brands with the 80th position and a brand value of \$10.9 billion

(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.

(4) The dividend yield per share is 5.7% based on the closing price of the MTS ordinary share on the Moscow Interbank Currency Exchange as of April 26, 2011.

(5) According to the Russian Central Bank exchange rate of 27.8964 RUB/USD as of April 27, 2011. The dividend amount is set in Russian rubles by the Board of Directors; U.S. dollar amounts provided for reference using the foreign exchange rate as of April 27, 2011.

Commentary

Andrei Dubovskov, President and CEO of MTS, commented, "Group revenue for the quarter increased 12% year-over-year to reach \$2.93 billion on the back of strong subscriber additions and growth in data traffic and handset revenues. Revenues in Russia – including mobile, fixed and handset and equipment sales – increased 14% year-over-year to RUB 74.3 billion."

Alexey Kornya, MTS Vice President and Chief Financial Officer, said, "In the first quarter, Group OIBDA declined by 3% year-over-year to \$1.1 billion with the OIBDA margin for the period reaching 38.4%. Our Russia OIBDA margin increased sequentially from 37.7% to 39.1% in Q1 2011. The improvement is mainly attributable to the growing share of higher-margin data traffic revenues on the back of our modem sales push and expanding 3G networks."

Mr. Dubovskov added, "With the completion of the Comstar merger, we can now focus on the broader optimization of our business. Operationally, we can concentrate on rationalizing headcount to eliminate redundancies. We can also begin to examine asset disposals like real estate in our fixed line business in order to lower costs. For the customer, we can move ahead with critical steps in integrating our business, including convergent billing, so as to further improve our customer experience, increase loyalty and drive future growth."

This press release provides a summary of some of the key financial and operating indicators for the period ended March 31, 2011. For full disclosure materials, please visit <http://www.mtsgsm.com/resources/reports/>.

Financial Summary

USD million	Q1 11	Q1 10	y-o-y	Q4 10	q-o-q
Revenues	2,934.0	2,614.8	12.2%	2,995.1	-2.0%
Adjusted OIBDA(6)	1,125.8	1,157.4	-2.7%	1,159.2	-2.9%
- margin	38.4%	44.3%	-5.9pp	38.7%	-0.3%
Net operating income	563.8	679.6	-17.0%	493.0	14.4%
- margin	19.2%	26.0%	-6.8pp	16.5%	2.7pp
Net income/(loss)	321.6	383.1	-16.1%	156.3	105.8%
- margin	11.0%	14.7%	-3.7pp	5.2%	5.8pp

Russia Highlights

RUB mln	Q1 11	Q1 10	y-o-y	Q4 10	q-o-q
Revenues(7)	74,297.9	65,307.9	13.8%	77,822.8	-4.5%
- mobile	61,334.0	53,494.6	14.7%	64,428.1	-4.8%
- fixed	14,049.6	12,538.4	12.1%	14,380.5	-2.3%
Adjusted OIBDA	29,027.2	29,779.0	-2.5%	29,372.1	-1.2%
- margin	39.1%	45.6%	-6.5pp	37.7%	1.4pp
Net income/(loss)	9,765.7	10,898.2	-10.4%	7,363.1	32.6%
- margin	13.1%	16.7%	-3.6pp	9.5%	3.6pp

	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11
ARPU (RUB)(8)	236.7	253.9	269.4	261.9	252.1
MOU (min)	211	230	244	259	249
Churn rate (%)	10.4%	9.8%	13.5%	12.7%	12.0%
SAC (RUB)	534.4	612.8	508.2	656.6	669.6
- dealer commission	351.0	399.9	341.0	461.5	488.9
- adv & mktg	183.4	212.9	167.2	195.1	180.7

(6) Adjusted OIBDA results for Q4 2010 do not include long-lived and other assets impairment loss and acquisition related costs in the amount of \$137.8 million

(7) Revenue, net of intercompany.

(8) ARPU is now calculated 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.

Ukraine Highlights

UAH mln	Q1 11	Q1 10	y-o-y	Q4 10	q-o-q
Revenues	2,057.0	1,921.9	7.0%	2,138.9	-3.8%
OIBDA	918.9	836.9	9.8%	969.0	-5.2%
- margin	44.7%	43.5%	1.2pp	45.3%	-0.6pp
Net income	131.1	59.6	120.0%	119.9	9.3%
- margin	6.4%	3.1%	3.3pp	5.6%	0.8pp

	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11
ARPU (UAH)	35.21	39.49	41.57	37.59	36.05
MOU (min)	527	541	541	550	564
Churn rate (%)	9.4%	7.2%	6.6%	8.2%	7.6%
SAC (UAH)	66.9	64.3	58.0	68.1	73.0
- dealer commission	34.2	31.8	29.4	32.8	36.1
- adv & mktg	21.2	21.4	17.8	24.9	18.1
- handset subsidy	2.1	1.8	1.3	1.6	9.9
- SIM card & voucher	9.4	9.2	9.5	8.9	8.9

Uzbekistan Highlights(9)

USD mln	Q1 11	Q1 10	y-o-y	Q4 10	q-o-q
Revenues	104.7	103.5	1.2%	116.3	-10.0%
OIBDA	56.6	56.5	0.2%	62.0	-8.7%
- margin	54.1%	54.6%	-0.5pp	53.3%	0.8pp
Net income	16.0	24.5	-34.7%	27.3	-41.4%
- margin	15.3%	23.7%	-8.4pp	23.5%	-8.2pp

	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11
ARPU (USD)	4.8	5.0	4.8	4.6	3.9
MOU (min)	520	534	508	461	402
Churn rate (%)	5.9%	6.1%	7.2%	6.0%	9.2%
SAC (USD)	6.1	6.0	7.8	8.1	7.4

Armenia Highlights

AMD mln	Q1 11	Q1 10	y-o-y	Q4 10	q-o-q
Revenues	16,286.5	17,786.2	-8.4%	19,326.4	-15.7%
OIBDA	8,305.6	8,687.7	-4.4%	9,877.6	-15.9%
- margin	51.0%	48.8%	2.2pp	51.1%	-0.10pp
Net income	(3,032.9)	(2,409.3)	n/a	974.5	n/a
- margin	n/a	n/a	n/a	5.0%	n/a

	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11
ARPU (AMD)	2,813.4	3,013.5	3,194.2	2,725.5	2,141.3
MOU (min)	220	255	294	294	294

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Churn rate (%)	8.6%	8.5%	7.7%	7.0%	6.7%
SAC (AMD)	6,868.7	7,192.0	6,719.4	3,867.8	6,005.4

(9) The functional currency in Uzbekistan is the US dollar.

CAPEX Highlights

USD mln	Q1 10	Q4 10	Q1 11
Russia	178.4	1,505.6	238.3
- as % of rev	8.2%	59.4%	9.4%
Ukraine	40.5	50.6	19.3
- as % of rev	16.8%	18.8%	7.5%
Uzbekistan	23.9	95.5	16.4
- as % of rev	23.1%	82.1%	15.6%
Turkmenistan	4.3	14.6	2.8
- as % of rev	8.9%	29.2%	n/a
Armenia	3.9	17.8	1.8
- as % of rev	8.5%	33.1%	4.1%
Group	251.0	1,684.1	278.6
- as % of rev	9.6%	56.2%	9.5%

* * *

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Learn more about MTS. Visit the official blog of the Investor Relations Department at www.mtsgsm.com/blog/

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Mobile TeleSystems OJSC (MTS) is the leading telecommunications group in Russia, Eastern Europe and Central Asia, 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 over 108.9 million mobile subscribers in Russia, Ukraine, Uzbekistan, Turkmenistan, Armenia and Belarus, a region that boasts a total population of more than 230 million. Since June 2000, MTS Level 3 ADRs have been listed on the New York Stock

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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, including Comstar-UTS, 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.

* * *

**Attachments to the First Quarter 2011
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, US dollar 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. Our 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 and fixed 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 (USD mln)	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11
Operating income	679.6	758.3	803.7	493.0	563.8
Add: D&A and impairment loss	477.9	480.5	513.8	666.2	562.0
Adjusted OIBDA(10)	1,157.4	1,238.8	1,317.5	1,159.2	1,125.8

Russia (USD mln)	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11
Operating income	663.9	708.3	728.1	572.4	576.9
Add: D&A and impairment loss	332.5	333.9	368.4	383.6	417.3
Adjusted OIBDA	996.4	1,042.2	1,096.5	956.0	994.2

Ukraine (USD mln)	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11
Operating income	11.2	35.8	59.8	37.7	27.9
Add: D&A	93.5	91.1	85.0	84.5	87.7
OIBDA	104.7	126.9	144.8	122.2	115.7

Uzbekistan (USD mln)	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11
Operating income	32.0	37.5	31.5	29.6	22.1
Add: D&A	24.5	28.3	32.9	32.4	34.6
OIBDA	56.5	65.8	64.4	62.0	56.6

(10) Adjusted OIBDA results for Q4 2010 do not include long-lived and other assets impairment loss and acquisition related costs in the amount of \$137.8 million

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Armenia (USD mln)	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11
Operating income/ (loss)	(0.5)	4.2	8.8	4.6	0.4
Add: D&A	23.1	22.7	22.7	22.8	22.2
OIBDA	22.6	26.9	31.5	27.4	22.7

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

Group	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11
Operating margin	26.0%	27.3%	27.6%	16.5%	19.2%
Add: D&A and impairment loss	18.3%	17.4%	17.7%	22.2%	19.2%
Adjusted OIBDA margin(11)	44.3%	44.7%	45.3%	38.7%	38.4%

Russia	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11
Operating margin	30.4%	30.8%	30.2%	22.6%	22.7%
Add: D&A and impairment loss	15.2%	14.5%	15.3%	15.1%	16.4%
Adjusted OIBDA margin	45.6%	45.3%	45.5%	37.7%	39.1%

Ukraine	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11
Operating margin	4.7%	13.2%	20.5%	14.0%	10.8%
Add: D&A	38.8%	33.6%	29.2%	31.3%	33.9%
OIBDA margin	43.5%	46.8%	49.7%	45.3%	44.7%

Uzbekistan	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11
Operating margin	30.9%	33.1%	27.5%	25.5%	21.1%
Add: D&A and impairment loss	23.7%	25.0%	28.6%	27.8%	33.0%
OIBDA margin	54.6%	58.1%	56.1%	53.3%	54.1%

Armenia	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11
Operating margin	(1.0%)	8.3%	15.3%	8.5%	1.0%
Add: D&A	49.8%	45.2%	39.8%	42.6%	50.0%
OIBDA margin	48.8%	53.5%	55.2%	51.1%	51.0%

(11) Adjusted OIBDA results for Q4 2010 do not include long-lived and other assets impairment loss and acquisition related costs in the amount of \$137.8 million

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:

USD mln	As of Dec 31, 2010	As of Mar 31, 2011
Current portion of debt and of capital lease obligations	757.1	1,127.1
Long-term debt	6,392.6	6,320.5
Capital lease obligations	10.9	9.4
Total debt	7,160.6	7,457.0
Less:		
Cash and cash equivalents	927.7	1,194.6
Short-term investments	333.6	480.4
Net debt	5,899.3	5,782.0

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