

MOBILE TELESYSTEMS OJSC
Form 6-K
August 20, 2014

FORM 6-K

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer
August 20, 2014

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, 2014

August 20, 2014

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, 2014.

Key Financial Highlights of Q2 2014

- Consolidated Group revenues increased 1.4% y-o-y to RUB 98.9 billion
- Mobile service revenue in Russia rose 6.3% y-o-y to RUB 70.9 billion
- Data traffic revenue in Russia grew 39.7% y-o-y to RUB 15.3 billion
- Fixed-line revenue in Russia grew 2.6% q-on-q to RUB 15.6 billion
- Consolidated Group OIBDA net of one-off effect due to compensation for the settlement over Bitel LLC(1) down 0.6% y-o-y to RUB 43.2 billion
- Group OIBDA margin net of one-off effect due to compensation for the settlement over Bitel LLC fell slightly 0.9 pp to 43.7%

- Consolidated net income⁽²⁾ of RUB 21.1 billion
- Free cash-flow from continuing operations⁽³⁾ adjusted for the compensation for the settlement over Bitel LLC increased 12.0% to RUB 46.0 billion for the six months ended June 30, 2014

Key Corporate and Industry Highlights

- MTS`s brand was included in the BrandZ Top 100 Most Valuable Global Brands 2014 ranking for the seventh consecutive year and placed ninth among the Top 10 leading telecommunications brands in the world. MTS ranked #80 overall among the top 100 global brands.
- Acquired a 10.82% stake in Ozon Holdings (Ozon), the leading Russian e-commerce company
- Sold a remaining 49% stake in Business-Nedvizhimost CJSC to Sistema JSFC for RUB 3.1 billion
- Redeemed the remaining amount of RUB 15.0 billion series 04 bond
- Completed dividend payment of RUB 18.6 per ordinary MTS share (RUB 37.2 per ADR), or a total of RUB 38.4 billion, based on the full-year 2013 financial results.
- Launched LTE networks in 25 regions throughout Russia

(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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- Semi-annual dividend recommendation by the MTS Board of RUB 6.2 per ordinary MTS share (RUB 12.4 per ADR) amounting to the total of RUB 12.8 billion on the basis of the H1 2014 results. The EGM to approve the dividends will be held on September 30, 2014
- Signed a settlement agreement with the Republic of Uzbekistan, which may allow the Company to relaunch operations through a joint venture with the government of Uzbekistan
- Moody's Investor Service has upgraded MTS's senior unsecured issuer rating from Ba2 to Baa3 with a stable outlook. This represents a two-notch upgrade and classifies MTS as investment grade
- Standard & Poor's Ratings Services raised MTS's corporate credit rating to BBB- from BB+ . The outlook on the foreign currency rating is negative and that on the local currency rating is stable. Ratings on the Company's senior unsecured debt were raised to BBB- from BB+ . This represents a one-notch upgrade and classifies MTS as investment grade

Commentary

Mr. Andrei Dubovskov, President and CEO of MTS, During the quarter we increased our Group revenues by 1.4% year-over-year to RUB 98.9 billion. We realized strong growth in our core Russian market and saw positive dynamics in Ukraine, Armenia and Turkmenistan despite macroeconomic issues. Growth in our markets, however, was offset by significant hryvna depreciation in Ukraine, while in Armenia, slight year-on-year weakness was mitigated by strong sequential growth.

Mr. Vasyl Latsanych, MTS Vice President for Marketing, said, In Q2, our Russian business grew 4.5% year-over-year to RUB 90.4 billion. Driving this growth were exceptionally strong mobile service revenues, which increased by 6.3% year-over-year. Key drivers included: greater adoption of data plans as smartphone penetration among our active subscribers reached 37.0%; upselling existing subscribers on data plans; increase in the subscriber base as we added 5.6 million subscribers during the year; and stable churn dynamics. We continued to see greater challenges in our Ukraine business unit, but we delivered growth year-over-year. In local currency, its revenues grew 2% year-over-year UAH 2.6 billion as MTS expanded its subscriber base.

Mr. Alexey Kornya, MTS Vice President and Chief Financial Officer, said, In Q2 2014, Group OIBDA declined by 2.6% year-over-year to over RUB 43.2 billion. In the second quarter of 2013 we realized one-off gain related to the compensation we received for the settlement over Bitel LLC. Without this effect, our OIBDA declined by 0.6%. The decline was largely attributable to macroeconomic factors impacting our business in Ukraine and greater G&A expenses due to roll-out of our mobile and fixed networks in Russia. Our OIBDA margin net of the Bitel LLC settlement declined year-over-year by merely 0.9pp to 43.7%. In Russia, OIBDA grew by 2.8% year-over-year to RUB 40.3 billion. This reflects our sustained revenue growth and increased share of high-margin data revenues in the revenue mix. In Ukraine, OIBDA declined by 3.1% to nearly UAH 1.3 billion. During the quarter, profitability was pressured by an increase in frequency fees and higher electricity costs. We also saw a currency devaluation effect as some of cost items, including roaming and SIM cards, are denominated in non-hryvna currencies.

He continued, For the period, Group net income from continuing operations increased Q-o-Q by 61.9% to RUB 21.1 billion. Primarily we benefitted from a non-cash FOREX gain in the amount of RUB 4.2 billion due to ruble appreciation versus the previous quarter. Operating cash

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flow from continuing operations for the first six months of 2014 increased slightly by 2.7% relative to the same period in 2013. Free cash flow for the first six months of 2013 adjusted for compensation for the settlement over Bitel LLC received in Q2 2013 increased by 12.0% year-over-year.

Mr. Andrei Dubovskov, President and CEO of MTS, added, "For now, as our results indicate, our business remains strong. However, macroeconomic weakness and uncertain political environment in Ukraine, however, force us to alter our full year guidance. While we expect Russia still to grow at the high end of our initial guidance of 3-5%, developments in Ukraine will limit Group growth to at least 1% in revenue for 2014. We should anticipate stable OIBDA year-over-year. Growth in our Russian markets will be offset by the decrease in profitability in our non-Russian assets, as well as the absence of certain positive one-offs we realized in 2013. Our CAPEX spending too should come in at 90 billion rubles, which is consistent with the guidance we gave at the beginning of the year."

Additional Information

MTS continues to see sustained macroeconomic volatility in its markets of operations that may impact the financial and operational performance throughout the Group

This press release provides a summary of some of the key financial and operating indicators for the period ended June 30, 2014. For full disclosure materials, please visit <http://www.mtsgsm.com/resources/reports/>.

Financial Summary

RUB mln	Q2 14	Q2 13	y-o-y	Q1 14	q-o-q
Revenues	98,860	97,450	1.4%	97,562	1.3%
OIBDA	43,231	44,385	-2.6%	41,451	4.3%
- margin	43.7%	45.5%	-1.8pp	42.5%	+1.2pp
Net operating income	24,973	25,566	-2.3%	23,437	6.6%
- margin	25.3%	26.2%	-0.9pp	24.0%	+1.3pp
Net income from continuing operations	21,089	25,364	-16.9%	13,025	61.9%
- margin	21.3%	26.0%	-4.7pp	13.4%	+7.9pp
Net income attributable to the Group	21,089	29,046	-27.4%	13,025	61.9%
- margin	21.3%	29.8%	-8.5pp	13.4%	+7.9pp

Russia Highlights

RUB mln	Q2 14	Q2 13	y-o-y	Q1 14	q-o-q
Revenues(4)	90,390	86,460	4.5%	87,252	3.6%
- mobile	70,884	66,711	6.3%	67,965	4.3%
- fixed	15,584	15,737	-1.0%	15,184	2.6%
-sales of handsets & accessories	5,858	5,823	0.6%	6,065	-3.4%
OIBDA	40,309	39,222	2.8%	37,773	6.7%
- margin	44.6%	45.4%	-0.8pp	43.3%	+1.3pp
Net income	19,450	19,535	-0.4%	9,610	102.4%
- margin	21.5%	22.6%	-1.1pp	11.0%	+10.5pp

	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
ARPU (RUB)	305.8	318.7	314.8	299.2	308.2
MOU (min)	332	337	345	325	342
Churn rate (%)	9.4%	9.1%	9.0%	9.1%	9.4%

Ukraine Highlights

UAH mln	Q2 14	Q2 13	y-o-y	Q1 14	q-o-q
Revenues	2,563	2,507	2.2%	2,418	6.0%
OIBDA	1,276	1,317	-3.1%	1,236	3.3%
- margin	49.8%	52.5%	-2.7pp	51.1%	-1.3pp
Net income	768	641	19.8%	1,034	-25.8%
- margin	29.9%	25.6%	+4.3pp	42.8%	-12.9pp

(4) Revenue, net of intercompany between mobile and fixed.

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	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
ARPU (UAH)	38.32	38.92	35.08	34.93	36.31
MOU (min)	580	561	557	544	552
Churn rate (%)					