

MOBILE TELESYSTEMS OJSC
Form 6-K
April 05, 2011

FORM 6-K

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer
April 5, 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 Fourth Quarter and Full Year Ended December 31, 2010

April 5, 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 and full year ended December 31, 2010.

Key Financial Highlights of Q4 2010 and FY 2010(1)

- Consolidated revenues up 2.9% q-o-q to \$2,995 million and up 14.5% y-o-y to \$11,293 million
- Consolidated OIBDA(2) down 12.0% q-o-q to \$1,159 million with 38.7% OIBDA margin and up 8.6% y-o-y to \$4,873 million with 43.1% OIBDA margin
- Consolidated net income(3) of \$156 million in Q4 2010 and a net income of \$1,381 million for FY 2010
- Free cash-flow(4) positive with \$1,529 million for FY 2010

Key Corporate and Industry Highlights

- Voluntarily repayment of the second tranche of the syndicated loan in the amount of \$161.5 mln; the loan was originally signed in April 2006 and carried a 5-year maturity
- Redemption of the \$400 mln 2010 Eurobond
- Placement of the series 07 and series 08 ruble-denominated bonds totaling RUB 25 bln
- Transfer of MTS ordinary shares to the A1 listing on the Moscow Interbank Currency Exchange

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- Purchase of 100% stake in Sistema-Telecom for RUB 11.59 bln (\$379.01 mln(5)) from Sistema and its wholly-owned subsidiary
- MTS recognized as the most valuable brand in Russia with a value of \$7.753 bln by InterBrand, the world's leading brand consultancy
- Acquisitions of local alternative operators in Novosibirsk and Saint Petersburg
- Signing of an agreement with Sberbank to open two non-revolving lines of credit for a total amount of RUB 100 bln
- Suspension of operations in Turkmenistan

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- (1) Because TS-Retail, Metro-Telecom and Sistema Telecom were acquired from JSC Sistema, the majority owner of both MTS and acquired entities, the acquisitions were accounted for as transactions between entities under common control. Similar to a pooling of interest, whereby the assets and liabilities of entities acquired from Sistema were recorded at Sistema's carrying value, MTS' historical financial information was recast to include the acquired entities for all periods presented.
 - (2) See Attachment A for definitions and reconciliation of OIBDA and OIBDA margin to their most directly comparable US GAAP financial measures.
 - (3) Attributable to the Group.
 - (4) See Attachment B for reconciliation of free cash-flow to net cash provided by operating activity.
 - (5) According to the average exchange rate of 30.57 RUB/USD for the 60-day period from September 4, 2010 to November 4, 2010
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- Approval of statutory merger of Comstar with MTS by the companies' respective Extraordinary General Meetings of shareholders
- Completion of share buyback in March 2011 related to the statutory merger of Comstar with MTS
- Appointment of Andrei Dubovskov, former Head of Business Unit MTS Ukraine, as President and CEO of 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

Commentary

Andrei Dubovskov, MTS President and CEO, commented, "2010 was a year of transition for MTS. With the completion of our statutory merger with Comstar last week, MTS has transformed itself from a simple mobile operator to a full-fledged telecommunications provider, offering mobile, fixed, internet and content products and services. For the year, in US GAAP terms, we exceeded our revenue guidance by four (4) percentage points. Revenue increased 14% to 11.3 billion US dollars. Revenues in Russia, including mobile, retail and fixed businesses increased 12% to 286.4 billion rubles. In our mobile business, growth was driven by: subscriber acquisitions, general growth in consumption of voice and data products, and strong handset sales. In Q4 2010, revenue from the sale of handsets, modems and accessories exceeded \$276 million US dollars - a 68% increase quarter-on-quarter. The increase was largely driven by the launch of premium handsets and smartphones."

Alexey Kornya, MTS Vice President and Chief Financial Officer, said, "In 2010, Group OIBDA grew by 9% to reach \$4.9 billion US dollars. For the year, our OIBDA margin was 43.1%, which is in line with the guidance we gave in April of last year. In Russia, our Q4 2010 mobile OIBDA margin decreased from 45.8% to 37.4% sequentially. We attribute margin deterioration to traditional seasonal factors, such as lower roaming revenues and traditional holiday promotions. However, the margin erosion also was based on certain commercial decisions we made to protect our leadership and stabilize the market. Higher gross additions increased our spending on dealer commissions. By March, however, we have reduced our sales through alternative channels and aim to see improvement by Q2. In addition, higher than anticipated handset sales - a 68% rise from Q3 2010 - also pressured our Q4 margins, but based on certain operational KPIs, our retail network did break even for the year. We anticipate margin improvement in 2011 through the optimization of this critical sales channel."

He added, "In 2010 CAPEX to sales reached 23% or \$2.7 billion US dollars as we continued to build-out our 3G and fixed networks in Russia. We expect CAPEX for 2011 to come in at 22-24% as a percentage of revenues. We will be roughly doubling the number of 3G base stations and advancing certain high-profile projects, like the digitization of our fixed-line networks, namely those in Moscow and other large urban centers."

Continued Mr. Dubovskov, "Obviously MTS has changed, and our financial performance is reflective of this. However, the change has allowed us to create a platform that will usher in a new era for MTS. To date we have been focused on an acquisition model of business. This has served us with the growth of subscribers and the changes in distribution over the years. Having now established ourselves in both the fixed-line space and retail, we can now begin to focus on retention and loyalty as key operational goals of our business."

He continued, "Overall, in terms of revenue we see about 10% growth for 2011. We anticipate that Group OIBDA margin will be 42-43% for the year. As we enter the second quarter, we do anticipate that margins will remain pressured. However, we do forecast significant improvement in the second half of the year. We aim to push more tariffs that promote on-net traffic and better monetize off-net calling. Network enhancement will

drive more profitable data usage through our networks. In addition, our ability to launch true convergent products, eliminating redundancy at both MTS and Comstar, will further drive usage and support our churn-reduction efforts.

This press release provides a summary of some of the key financial and operating indicators for the period ended December 31, 2010. For full disclosure materials, please visit <http://www.mtsgsm.com/resources/reports/>.

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Financial Summary(6)

USD million	Q4 10	Q4 09	y-o-y	Q3 10	q-o-q	2010	2009	y-o-y
Revenues	2,995.1	2,723.5	10.0%	2,910.8	2.9%	11,293.2	9,867.3	14.5%
- mobile	2,277.8	2,186.7	4.2%	2,322.1	-1.9%	8,899.2	8,017.6	11.0%
- handsets & accs	276.8	120.3	130.1%	165.0	67.8%	707.2	353.9	99.8%
- fixed	440.4	416.5	5.7%	423.6	4.0%	1,686.9	1,495.7	12.8%
Adjusted OIBDA(7)	1,159.2	1,201.8	-3.5%	1,317.5	-12.0%	4,872.9	4,486.5	8.6%
- margin	38.7%	44.1%	-5.4pp	45.3%	-6.6pp	43.1%	45.5%	-2.4pp
Net operating income	493.0	617.2	-20.1%	803.7	-38.7%	2,734.6	2,555.9	7.0%
- margin	16.5%	22.7%	-6.2pp	27.6%	-11.1pp	24.2%	25.9%	-1.7pp
Net income/(loss)	156.3	-22.9	n/a	483.5	-67.7%	1,380.6	1,014.2	36.1%
- margin	5.2%	n/a	n/a	16.6%	-11.4pp	12.2%	10.3%	1.9pp

Russia Highlights

RUB mln	Q4 10	Q4 09	y-o-y	Q3 10	q-o-q	2010	2009	y-o-y
Revenues(8)	77,822.8	66,732.1	16.6%	73,752.0	5.5%	286,407.3	254,748.7	12.4%
- mobile	64,428.1	55,151.9	16.8%	61,304.8	5.1%	236,722.8	210,344.3	12.5%
- fixed	14,380.5	12,291.5	17.0%	13,363.3	7.6%	53,123.6	47,368.6	12.1%
Adjusted OIBDA(9)	29,372.1	30,142.6	-2.6%	33,580.6	-12.5%	124,261.9	118,313.6	5.0%
- mobile	24,082.9	25,268.2	-4.7%	28,072.1	-14.2%	102,801.1	99,310.2	3.5%
- fixed	5,289.3	4,965.9	6.5%	5,508.5	-4.0%	21,460.9	19,095.0	12.4%
Adjusted OIBDA margin	37.7%	45.2%	-7.5pp	45.5%	-7.8pp	43.4%	46.4%	-3.0pp
- mobile	37.4%	45.8%	-8.4pp	45.8%	-8.4pp	43.4%	47.2%	-3.8pp
- fixed	36.8%	40.6%	-3.8pp	41.2%	-4.4pp	40.4%	40.4%	stable
Net income/(loss)	7,363.1	-2,545.4	n/a	12,804.5	-42.5pp	40,055.6		