

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 (%) | 6.0% | 6.6% | 6.8% | 6.3% | 5.7% |
| SAC (UAH) | 56.2 | 57.1 | 53.3 | 49.4 | 50.8 |
| - dealer commission | 30.2 | 36.7 | 29.7 | 29.4 | 31.2 |
| - adv&mktg | 16.8 | 12.6 | 14.8 | 12.1 | 13.3 |
| - handset subsidy | 1.2 | 0.6 | 0.9 | 0.7 | 0.8 |
| - SIM card & voucher | 8.0 | 7.1 | 7.8 | 7.2 | 5.6 |

Armenia Highlights

| AMD mln | Q2 14 | Q2 13 | y-o-y | Q1 14 | q-o-q |
|------------|--------|--------|--------|--------|--------|
| Revenues | 18,876 | 19,823 | -4.8% | 17,138 | 10.1% |
| OIBDA | 9,043 | 10,369 | -12.8% | 7,802 | 15.9% |
| - margin | 47.9% | 52.3% | -4.4pp | 45.5% | +2.4pp |
| Net income | 1,934 | 2,876 | -32.8% | 1,855 | 4.3% |
| - margin | 10.2% | 14.5% | -4.3pp | 10.8% | -0.6pp |

| | Q2 13 | Q3 13 | Q4 13 | Q1 14 | Q2 14 |
|----------------|---------|---------|---------|---------|---------|
| ARPU (AMD) | 2,750.2 | 3,108.2 | 2,690.6 | 2,316.3 | 2,534.1 |
| MOU (min) | 365 | 389 | 398 | 399 | 445 |
| Churn rate (%) | 8.6% | 8.0% | 6.5% | 6.3% | 7.2% |
| SAC (AMD) | 6,287.4 | 6,077.1 | 6,800.7 | 5,129.8 | 5,302.3 |

Turkmenistan Highlights

| TMT mln | Q2 14 | Q2 13 | y-o-y | Q1 14 | q-o-q |
|------------|-------|-------|---------|-------|--------|
| Revenues | 69 | 63 | 10.7% | 66 | 5.4% |
| OIBDA | 31 | 21 | 48.1% | 26 | 19.8% |
| - margin | 44.3% | 33.1% | +11.2pp | 39.0% | +5.3pp |
| Net income | 27 | 14 | 92.2% | 21 | 27.9% |
| - margin | 38.6% | 22.2% | +16.4pp | 31.8% | +6.8pp |

| | Q2 13 | Q3 13 | Q4 13 | Q1 14 | Q2 14 |
|----------------|-------|-------|-------|-------|-------|
| ARPU (TMT) | 11.1 | 12.0 | 11.9 | 11.0 | 11.8 |
| MOU (min) | 527 | 541 | 531 | 505 | 499 |
| Churn rate (%) | 17% | 6.7% | 11.1% | 11.5% | 10.2% |
| SAC (TMT) | 13.6 | 18.1 | 22.1 | 23.9 | 24.1 |

CAPEX Highlights

| RUB mln | FY 2011 | FY 2012 | FY 2013 | H1 14 |
|----------------|----------------|----------------|----------------|--------------|
| Russia | 66,869 | 82,896 | 70,910 | 27,071 |
| - as % of rev | 21.4% | 24.5% | 20.0% | 15.2% |
| Ukraine | 4,487 | 4,125 | 8,840 | 1,421 |
| - as % of rev | 13.4% | 10.9% | 22.2% | 8.2% |
| Armenia | 1,344 | 751 | 1,093 | 172 |
| - as % of rev | 22.8% | 12.5% | 17.5% | 5.6% |
| Turkmenistan | n/a | 11 | 732 | 207 |
| - as % of rev | n/a | 3.4% | 25.8% | 12.5% |
| Group | 72,798 | 87,783 | 81,575 | 28,871 |
| - as % of rev | 20.9% | 23.2% | 20.5% | 14.7% |

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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 over 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.

* * *

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.

* * *

**Attachments to the Second Quarter 2014
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 and comprehensive income. 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 13 | Q3 13 | Q4 13 | Q1 14 | Q2 14 |
|------------------------|--------------|--------------|--------------|--------------|--------------|
| Operating income | 25,566 | 27,395 | 27,219 | 23,437 | 24,973 |
| Add: D&A | 18,819 | 18,895 | 17,769 | 18,014 | 18,258 |
| OIBDA | 44,385 | 46,290 | 44,988 | 41,451 | 43,231 |

| Russia (RUB mln) | Q2 13 | Q3 13 | Q4 13 | Q1 14 | Q2 14 |
|-------------------------|--------------|--------------|--------------|--------------|--------------|
| Operating income | 22,977 | 25,167 | 25,865 | 22,464 | 24,150 |
| Add: D&A | 16,245 | 16,356 | 15,243 | 15,310 | 16,159 |
| OIBDA | 39,222 | 41,523 | 41,107 | 37,773 | 40,309 |

| Ukraine (RUB mln) | Q2 13 | Q3 13 | Q4 13 | Q1 14 | Q2 14 |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| Operating income | 2,978 | 3,397 | 3,109 | 2,634 | 2,153 |
| Add: D&A | 2,236 | 2,165 | 2,085 | 2,256 | 1,665 |
| OIBDA | 5,214 | 5,562 | 5,194 | 4,890 | 3,818 |

| Armenia (RUB mln) | Q2 13 | Q3 13 | Q4 13 | Q1 14 | Q2 14 |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| Operating income/(loss) | 447 | 601 | (27) | 221 | 347 |
| Add: D&A | 345 | 382 | 448 | 440 | 419 |
| OIBDA | 791 | 983 | 420 | 662 | 766 |

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| Turkmenistan (RUB mln) | Q2 13 | Q3 13 | Q4 13 | Q1 14 | Q2 14 |
|------------------------|-------|-------|-------|-------|-------|
| Operating income | 229 | 305 | 488 | 289 | 354 |
| Add: D&A | 1 | 4 | 11 | 25 | 23 |
| OIBDA | 230 | 309 | 498 | 315 | 377 |

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

| Group | Q2 13 | Q3 13 | Q4 13 | Q1 14 | Q2 14 |
|------------------|-------|-------|-------|-------|-------|
| Operating margin | 26.2% | 26.5% | 26.0% | 24.0% | 25.3% |
| Add: D&A | 19.3% | 18.3% | 17.0% | 18.5% | 18.5% |
| OIBDA margin | 45.5% | 44.8% | 42.9% | 42.5% | 43.7% |

| Russia | Q2 13 | Q3 13 | Q4 13 | Q1 14 | Q2 14 |
|------------------|-------|-------|-------|-------|-------|
| Operating margin | 26.6% | 27.5% | 27.5% | 25.7% | 26.7% |
| Add: D&A | 18.8% | 17.9% | 16.2% | 17.5% | 17.9% |
| OIBDA margin | 45.4% | 45.4% | 43.7% | 43.3% | 44.6% |

| Ukraine | Q2 13 | Q3 13 | Q4 13 | Q1 14 | Q2 14 |
|------------------|-------|-------|-------|-------|-------|
| Operating margin | 30.0% | 31.4% | 31.3% | 27.6% | 28.1% |
| Add: D&A | 22.5% | 20.0% | 21.0% | 23.6% | 21.7% |
| OIBDA margin | 52.6% | 51.5% | 52.3% | 51.2% | 49.8% |

| Armenia | Q2 13 | Q3 13 | Q4 13 | Q1 14 | Q2 14 |
|------------------|-------|-------|-------|-------|-------|
| Operating margin | 29.5% | 33.2% | -1.7% | 15.2% | 21.7% |
| Add: D&A | 22.8% | 21.2% | 28.2% | 30.2% | 26.2% |
| OIBDA margin | 52.3% | 54.4% | 26.5% | 45.4% | 47.9% |

| Turkmenistan | Q2 13 | Q3 13 | Q4 13 | Q1 14 | Q2 14 |
|------------------|-------|-------|-------|-------|-------|
| Operating margin | 32.9% | 37.8% | 59.5% | 35.9% | 41.6% |
| Add: D&A | 0.2% | 0.5% | 1.3% | 3.1% | 2.7% |
| OIBDA margin | 33.1% | 38.3% | 60.8% | 39.0% | 44.3% |

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 statements of financial position as follows:

| RUB mln | As of Dec 31, 2013 | As of Jun 30, 2014 |
|--|---------------------------|---------------------------|
| Current portion of debt and of capital lease obligations | 25,064 | 10,381 |
| Long-term debt and capital lease obligations | 194,083 | 213,771 |
| Total debt | 219,147 | 224,152 |
| Less: | | |
| Cash and cash equivalents | 30,612 | 53,449 |
| Short-term investments | 14,633 | 20,778 |
| Net debt | 173,903 | 149,925 |

| RUB mln | Six months ended Dec 31, 2013 A | Six months ended Jun 30, 2014 B | Twelve months ended Jun 30, 2014 C=A+B |
|----------------------|--|--|---|
| Net operating income | 54,614 | 48,410 | 103,024 |
| Add: D&A | 36,664 | 36,272 | 72,936 |
| LTM OIBDA | 91,278 | 84,682 | 175,960 |

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

| RUB mln | For six months ended Jun 30, 2013 | For six months ended Jun 30, 2014 |
|---|--|--|
| Net cash provided by operating activities | 76,148 | 78,199 |
| Less: | | |
| Purchases of property, plant and equipment | (20,515) | (23,424) |
| Purchases of intangible assets | (5,579) | (5,447) |
| Proceeds from sale of property, plant and equipment | 230 | 231 |
| Investments in and advances to associates | (5,089) | (2,702) |
| Free cash flow from continuing operations | 45,195 | 46,857 |

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

MOBILE TELESYSTEMS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013 (UNAUDITED)

(Amounts in millions of RUB except per share amount)

| | Six months ended | | Three months ended | |
|--|------------------|----------------|--------------------|---------------|
| | June 30, 2014 | June 30, 2013 | June 30, 2014 | June 30, 2013 |
| Net operating revenue | | | | |
| Service revenue | 184 442 | 178 766 | 92 973 | 91 594 |
| Sales of handsets and accessories | 11 980 | 11 538 | 5 887 | 5 856 |
| | 196 422 | 190 304 | 98 860 | 97 450 |
| Operating expenses | | | | |
| Cost of services | (41 721) | (40 678) | (20 902) | (20 426) |
| Cost of handsets and accessories | (10 659) | (9 569) | (5 317) | (4 818) |
| Sales and marketing expenses | (10 440) | (10 983) | (5 395) | (5 817) |
| General and administrative expenses | (45 093) | (42 560) | (22 415) | (21 346) |
| Depreciation and amortization expense | (36 272) | (36 589) | (18 258) | (18 819) |
| Provision for doubtful accounts | (1 733) | (1 075) | (674) | (567) |
| Other operating expenses | (2 094) | (1 706) | (926) | (90) |
| Net operating income | 48 410 | 47 144 | 24 973 | 25 567 |
| Currency exchange and transaction gain/(loss) | 435 | (4 605) | 4 201 | (3 134) |
| Other (expenses)/income: | | | | |
| Interest income | 2 316 | 1 496 | 1 358 | 942 |
| Interest expense, net of capitalized interest | (8 012) | (8 479) | (3 839) | (4 182) |
| Other income | 1 128 | 10 904 | 552 | 10 638 |
| Total other (expenses)/income, net | (4 568) | 3 921 | (1 929) | 7 398 |
| Income from continuing operations before provision for income taxes | 44 277 | 46 460 | 27 245 | 29 831 |
| Provision for income taxes | (9 723) | (7 682) | (5 931) | (4 209) |
| Net income from continuing operations | 34 554 | 38 778 | 21 314 | 25 622 |
| Net income from discontinued operations | | 3 733 | | 3 682 |
| Net income | 34 554 | 42 511 | 21 314 | 29 304 |
| Less net income attributable to the noncontrolling interests | (440) | (502) | (225) | (258) |
| Net income attributable to the Group | 34 114 | 42 009 | 21 089 | 29 046 |
| Other comprehensive loss, net of taxes | | | | |
| Currency translation adjustment | (10 012) | (2 889) | (3 802) | (3 638) |
| Unrealized gains/(losses) on derivatives | 1 173 | 1 595 | (1 181) | 1 616 |
| Unrecognized actuarial (losses)/gains | 9 | 19 | 13 | 9 |

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| | | | | |
|---|----------------|----------------|----------------|----------------|
| Total other comprehensive loss, net of taxes | (8 830) | (1 276) | (4 970) | (2 013) |
| Total comprehensive income | 25 724 | 41 235 | 16 344 | 27 291 |
| Less comprehensive income attributable to the noncontrolling interests | (476) | (645) | (160) | (417) |
| Comprehensive income attributable to the Group | 25 248 | 40 590 | 16 184 | 26 874 |
| Weighted average number of common shares outstanding, in millions - basic and diluted | 1 989 | 1 989 | 1 989 | 1 989 |
| Earnings per share attributable to the Group - basic and diluted: | | | | |
| EPS from continuing operations | 17.15 | 19.24 | 10.60 | 12.75 |
| EPS from discontinued operations | 0.00 | 1.88 | | 1.85 |
| Total EPS | 17.15 | 21.12 | 10.60 | 14.60 |

MOBILE TELESYSTEMS**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****AS OF JUNE 30, 2014 (UNAUDITED) AND DECEMBER 31, 2013**

(Amounts in millions of RUB)

| | As of June 30, 2014 | As of December 31, 2013 |
|--|------------------------|----------------------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 53 449 | 30 612 |
| Short-term investments | 20 778 | 14 633 |
| Trade receivables, net | 29 510 | 34 554 |
| Accounts receivable, related parties | 4 211 | 965 |
| Inventory and spare parts | 7 281 | 8 498 |
| VAT receivable | 6 312 | 6 651 |
| Prepaid expenses and other current assets | 18 393 | 20 763 |
| Total current assets | 139 934 | 116 676 |
| PROPERTY, PLANT AND EQUIPMENT | 265 723 | 270 660 |
| INTANGIBLE ASSETS | 73 554 | 74 329 |
| INVESTMENTS IN AND ADVANCES TO ASSOCIATES | 15 351 | 13 393 |
| OTHER INVESTMENTS | 18 046 | 4 392 |
| OTHER NON - CURRENT ASSETS | 6 416 | 6 074 |
| Total assets | 519 024 | 485 524 |
| CURRENT LIABILITIES | | |
| Trade accounts payable | 20 556 | 23 864 |
| Accrued expenses and other current liabilities | 88 584 | 49 619 |
| Accounts payable, related parties | 2 627 | 3 315 |
| Current portion of long-term debt, capital lease obligations | 10 381 | 25 064 |
| Total current liabilities | 122 148 | 101 862 |
| LONG-TERM LIABILITIES | | |
| Long-term debt | 208 484 | 194 074 |
| Capital lease obligation | 5 287 | 10 |
| Deferred income taxes | 23 827 | 21 202 |
| Deferred revenue and other long-term liabilities | 9 263 | 9 391 |
| Total long-term liabilities | 246 861 | 224 677 |
| Total liabilities | 369 009 | 326 539 |
| Redeemable noncontrolling interests | 2 153 | 2 932 |
| SHAREHOLDERS' EQUITY: | | |
| Total shareholders' equity attributable to the Group | 143 645 | 151 931 |
| Non-redeemable noncontrolling interest | 4 217 | 4 122 |

| | | |
|---|----------------|----------------|
| TOTAL SHAREHOLDERS` EQUITY | 147 862 | 156 053 |
| Total liabilities and shareholders` equity | 519 024 | 485 524 |

MOBILE TELESYSTEMS**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013 (UNAUDITED)**

(Amounts in millions of RUB)

| | Six months ended June 30, 2014 | Six months ended June 30, 2013 |
|--|-----------------------------------|-----------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | 34 554 | 42 511 |
| Net (income) from discontinued operations | | (3 733) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 36 272 | 36 589 |
| Currency exchange and translation (gain)/loss | (435) | 4 605 |
| Debt issuance cost amortization | 337 | 1 377 |
| Amortization of deferred connection fees | (576) | (479) |
| Equity in net income of associates | (1 153) | (698) |
| Inventory obsolescence expense | 162 | 391 |
| Provision for doubtful accounts | 1 733 | 1 076 |
| Deferred tax loss | 1 922 | 5 310 |
| Other non-cash items | 160 | 120 |
| Changes in operating assets and liabilities: | | |
| Decrease/(Increase) in trade receivables | 2 027 | (6 286) |
| Decrease in inventory | 1 030 | 1 959 |
| Decrease/(Increase) in prepaid expenses and other current assets | 1 923 | (6 641) |
| Decrease/(increase) in VAT receivable | 280 | (36) |
| Decrease in trade payables, accrued liabilities and other current liabilities | (1 340) | (726) |
| Dividends received from associates | 1 303 | 809 |
| Net cash provided by operating activities - continuing operations | 78 199 | 76 148 |
| Net cash used in operating activities - discontinued operations | | (547) |
| Net cash provided by operating activities | 78 199 | 75 601 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property, plant and equipment | (23 424) | (20 515) |
| Purchases of intangible assets | (5 447) | (5 579) |
| Proceeds from sale of property, plant and equipment | 231 | 230 |
| Purchases of short-term investments | (29 186) | (26 598) |
| Proceeds from sale of short-term investments | 23 383 | 14 032 |
| Purchases of other investments | (15 283) | |
| Proceeds from sale of other investments | 730 | |
| Investments in and advances to associates, net | (2 702) | (5 089) |
| Net cash used in investing activities - continuing operations | (51 698) | (43 519) |
| Net cash provided by investing activities - discontinued operations | | 115 |
| Net cash used in investing activities | (51 698) | (43 404) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |

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| | | |
|--|----------------|---------------|
| Acquisition of noncontrolling interests in existing subsidiaries | (26) | |
| Proceeds from issuance of notes | | 25 651 |
| Repayment of notes | (16 619) | (1 876) |
| Notes and debt issuance cost paid | (25) | (146) |
| Capital lease obligation principal paid | (20) | (247) |
| Dividends paid | (56) | (50) |
| Proceeds from loans | 20 000 | |
| Loan principal paid | (5 944) | (14 528) |
| Other financial activities | 24 | (20) |
| Net cash (used in)/provided by financing activities - continuing operations | (2 666) | 8 784 |
| Net cash provided by/(used in) financing activities - discontinued operations | | |
| Net cash (used in)/provided by financing activities | (2 666) | 8 784 |
| Effect of exchange rate changes on cash and cash equivalents | (998) | 1 161 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS: | 22 837 | 42 142 |
| CASH AND CASH EQUIVALENTS, at beginning of the period | 30 612 | 22 014 |
| CASH AND CASH EQUIVALENTS, at end of the period | 53 449 | 64 156 |
| Less cash and cash equivalents from discontinued operations, at end of period | | |
| CASH AND CASH EQUIVALENTS from continuing operations, at end of period | 53 449 | 64 156 |

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, 2014**