

MOBILE TELESYSTEMS OJSC
Form 6-K
March 18, 2014

FORM 6-K

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer
March 18, 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 Fourth Quarter and Full Year Ended December 31, 2013

March 18, 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 and full year ended December 31, 2013.

Key Financial Highlights of Q4 2013 and FY 2013

- Consolidated Group revenues increased 5% y-o-y to RUB 398 billion
- Mobile service revenue in Russia rose 7% y-o-y to RUB 273 billion
- Data traffic revenue in Russia grew 43% y-o-y to RUB 47 billion
- Consolidated OIBDA¹ of RUB 45 billion increased 8% y-o-y to RUB 175 billion with 43.9% OIBDA margin
- Consolidated net income² of RUB 20 billion in Q4 2013 and a net income of RUB 80 billion in FY 2013
- Free cash-flow from continuing operations³ grew 52% to RUB 69 billion for FY 2013

Key Corporate and Industry Highlights

- Launched LTE networks in Pskov Region, Kirov Region, North Ossetia-Alania, Khabarovsk Krai, Udmurtia, Zabaikalsky Krai, Amur Krai, Rostov region, Kaluga region, Novosibirsk region, Tatarstan and St. Petersburg
- Launched sales of iPhone 5s/5c in the MTS retail network
- Through its MGTS subsidiary, MTS divests non-core real estate assets through sale of 51% stake in Business Nedvizhimost CJSC for RUB 3.2 billion
- Changed the terms of credit agreements with Sberbank for two non-revolving lines of credit in the amount of RUB 80 billion
- Redeemed remaining amount of Series 01 ruble-denominated bond
- Repurchased Series 03 ruble-denominated bonds in the amount of approximately RUB 3.9 billion
- Paid out semi-annual dividends of RUB 5.22 per ordinary MTS share (RUB 10.44 per ADR) amounting to the total of RUB 10.8 billion on the basis of the Company's H1 2013 financial and operating results
- Announced new 3D Strategy: Data, Differentiation, Dividends

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. Free Cash Flow from continuing operations excluding one-offs from settlement of proceedings over Bitel LLC in the amount of RUB 4.1 billion

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- Concluded a credit facility with Citibank Europe PLC and Swedish Export Credit Corporation for up to \$300 million⁴ supported by Sweden's Exportkreditnämnden (EKN)

Outlook for FY2014

MTS expects revenue growth for the Group of 3-5% for 2014; key factors may include:

- Growth in data revenues through higher penetration of smartphones and data-enabled devices
- Development of retail product platform and sales of tablets and handsets
- Growth in broadband/pay TV markets in Russia

MTS sees above 2% OIBDA growth for 2014; key factors expected to influence MTS's OIBDA dynamics:

- Revenue growth in core markets
- Adoption rate of data plans for smartphones and tablets
- Sales trends of handsets and accessories
- Competitive factors
- Increasing share of inflation-based expenses

CAPEX spending for 2014 is expected to be 21% of revenue. The investments include network enhancement and key projects:

- On-going roll out of LTE networks throughout Russia
- Enhancements to 3G networks
- Continued deployment of GPON in Moscow and Moscow region

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- Network improvements and equipment swaps in Ukraine
- Maintenance CAPEX in Armenia
- Build out of 3G networks in Turkmenistan

MTS sees significant macroeconomic uncertainty and volatility across its markets of operation, which may cause MTS to revisit its market guidance and, in turn, impact its financial and operating results

Commentary

Mr. Andrei Dubovskov, President and CEO of MTS, commented, "Overall in 2013, revenue for the Group grew by 5% to over 398 billion rubles. In all of our markets we see rising usage of voice and strong data adoption in virtually all customer segments. In Russia, we continue to realize benefits through data adoption from our focus in retail on sales of low-cost devices as we lead the market in data penetration through smartphones. Both internal data and independent sources confirm MTS's leadership in network speed, customer service, brand and other important factors that create our leading customer experience. Unfortunately, we also see macroeconomic factors that have hurt our ability to grow; in particular in Ukraine, macroeconomic uncertainty combined with the absence of 3G likely means that this market may lag the Group's pace of growth. In spite of these developments, we feel confident in our ability to further grow in our core markets, execute our strategy of differentiation and continue to generate value for our shareholders."

4 RUB 10.9 billion at the date of conclusion

Mr. Vasyl Latsanych, MTS Vice President for Marketing, said, "In Q4 2013, in our Russian business, we grew 7% year-over-year. Driving this growth was our mobile business, which grew over 8% year-over-year which, we believe, may be the fastest organic rate of growth in the market based on the publicly available data. One of the key drivers of growth was greater adoption of data plans as smartphone penetration among our active subscribers reached 34%, and our data attach rate increased to over 42%. In Q4 2013, this contributed to an increase in data traffic of 49% year-over-year. Revenue was also aided by a strong holiday performance in our retail chain, where sales improved by 9% quarter-on-quarter. We also registered high-value subscriber additions for the period. Our sales of SIM-cards continue to be both consistent and sustainable; churn fell slightly to 9.0% for the quarter, a 200 bps reduction from 2012, and MOU increased to 345 minutes. For the year, churn fell to 36.3%, which is a level we haven't seen since 2009 and a marked improvement versus our competitors. Our fixed business recorded 5% growth year-on-year and 9% quarter-on-quarter aided by contributions from MGTS.

Mr. Alexey Kornya, MTS Vice President and Chief Financial Officer, said, "For the year OIBDA grew 8% to 175 billion rubles, which translated to a rate of growth roughly 300 bps faster than topline growth. Overall we showed over 100 bps in improvement in our OIBDA margin through a mix of high-margin revenue growth and sustained improvement in our cost efficiencies. In Q4, OIBDA grew 11% year-over-year to 45 billion rubles for an OIBDA margin of nearly 43.0% or our highest Q4 margin in recent memory. Reflecting these trends, for the year OIBDA of MTS Russia increased 7% to 157.7 billion rubles.

Additional Information

The Company has received a voluntary request for documents and information regarding MTS's business in Uzbekistan from the United States Securities and Exchange Commission (SEC) regarding investigations into the activities of unaffiliated parties.

This press release provides a summary of some of the key financial and operating indicators for the period ended December 31, 2013. For full disclosure materials, please visit <http://www.mtsgsm.com/resources/reports/>.

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Financial Summary

RUB mln	Q4 13	Q4 12	y-o-y	Q3 13	q-o-q	2013	2012	y-o-y
Revenues	104,750.6	98,414.3	6.4%	103,387.8	1.3%	398,442.8	378,240.1	5.3%
OIBDA	44,988.4	40,456.0	11.2%	46,289.8	-2.8%	175,010.5	161,703.2	8.2%
- margin	42.9%	41.1%	+1.8pp	44.8%	-1.9pp	43.9%	42.8%	+1.1pp
Net operating income	27,219.4	23,412.6	16.3%	27,394.7	-0.6%	101,758.0	93,793.3	8.5%
- margin	26.0%	23.8%	+2.2pp	26.5%	-0.5pp	25.5%	24.8%	+0.7pp
Net income from continuing operations	19,750.1	15,450.2	27.8%	18,079.9	9.2%	76,105.5	62,488.1	21.8%
- margin	18.9%	15.7%	+3.2pp	17.5%	+1.4pp	19.1%	16.5%	+2.6pp
Net income attributable to the group	19,750.1	16,997.1	16.2%	18,079.9	9.2%	79,838.6	29,641.7	169.3%
- margin	18.9%	17.3%	+1.6pp	17.5%	+1.4pp	20.0%	7.8%	+12.2pp

Russia Highlights

RUB mln	Q4 13	Q4 12	y-o-y	Q3 13	q-o-q	2013	2012	y-o-y
Revenues ⁵	94,154.4	88,186.6	6.8%	91,532.6	2.9%	354,894.3	337,948.7	5.0%
- mobile	71,555.7	66,102.7	8.2%	70,844.2	1.0%	272,502.2	254,887.5	6.9%
- fixed	16,725.3	15,925.6	5.0%	15,384.4	8.7%	63,300.6	61,778.8	2.5%
- sales of handsets & accessories	7,759.9	8,114.8	-4.4%	7,093.9	9.4%	26,317.0	28,677.1	-8.2%
OIBDA	41,107.3	37,075.9	10.9%	41,522.5	-1.0%	157,698.7	148,008.0	6.5%
- margin	43.7%	42.0%	+1.7pp	45.4%	-1.7pp	44.4%	43.8%	+0.6pp
Net income	17,117.0	14,710.7	16.4%	15,630.1	9.5%	64,115.3	60,796.3	5.5%
- margin	18.2%	16.7%	+1.5pp	17.1%	+1.1pp	18.1%	18.0%	+0.1pp

	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	2012	2013
ARPU (RUB)	306.1	292.1	305.8	318.7	314.8	297.1	307.9
MOU (min)	323	310	332	337	345	304	327
Churn rate (%)	11.0%	9.5%	9.4%	9.1%	9.0%	42.4%	36.3%

Ukraine Highlights

UAH million	Q4 13	Q4 12	y-o-y	Q3 13	q-o-q	2013	2012	y-o-y
Revenues	2,440.6	2,396.9	1.8%	2,633.5	-7.3%	9,965.2	9,676.8	3.0%
OIBDA	1,275.8	1,200.3	6.3%	1,355.4	-5.9%	5,176.0	4,919.1	5.2%
- margin	52.3%	50.1%	+2.2pp	51.5%	+0.8pp	51.9%	50.8%	+1.1pp
Net income	635.9	496.4	28.1%	683.9	-7.0%	2,464.3	1,983.3	24.3%
- margin	26.1%	20.7%	+5.4pp	26.0%	+0.1pp	24.7%	20.5%	+4.2pp

5 Revenue, net of intercompany between mobile and fixed.

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	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	2012	2013
ARPU (UAH)	38.17	37.40	38.32	38.92	35.08	39.19	37.51
MOU (min)	602	600	580	561	557	597	577
Churn rate (%)	5.8%	6.7%	6.0%	6.6%	6.8%	30.5%	26.1%
SAC (UAH)	60.4	51.9	56.2	57.1	53.3	60.5	54.8
- dealer commission	35.8	30.6	30.2	36.7	29.7	34.7	32.1
- adv&mktg	14.3	12.3	16.8	12.6	14.8	15.1	14.1
- handset subsidy	2.7	1.6	1.2	0.6	0.9	2.6	1.1
- SIM card & voucher	7.6	7.3	8.0	7.1	7.8	8.0	7.6

Armenia Highlights

AMD million	Q4 13	Q4 12	y-o-y	Q3 13	q-o-q	2013	2012	y-o-y
Revenues	19,777.5	20,053.1	-1.4%	22,521.8	-12.2%	79,925.7	77,586.2	3.0%
OIBDA	5,297.5	10,702.5	-50.5%	12,248.4	-56.7%	36,861.7	44,446.0	-17.1%
- margin	26.8%	53.4%	-26.6pp	54.4%	-27.6pp	46.1%	57.3%	-11.2pp
Net income/(loss)	(1,442.1)	2,329.7	n/a	4,296.7	n/a	8,400.3	8,944.5	-6.1%
- margin	n/a	11.6%	n/a	19.1%	n/a	10.5%	11.5%	-1.0pp

	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	2012	2013
ARPU (AMD)	2,761.8	2,433.6	2,750.2	3 108.2	2,690.6	2,656.4	2,736.5
MOU (min)	347	330	365	389	398	328	365
Churn rate (%)	6.7%	8.2%	8.6%	8.0%	6.5%	34.7%	30.7%
SAC (AMD)	6,332.7	6,506.2	6,287.4	6,077.1	6,800.7	5,909.9	6,415.7

Turkmenistan Highlights

TMT mln	Q4 13	Q4 12	y-o-y	Q3 13	q-o-q	2013
Revenues	71.8	27.0	165.8%	70.2	2.2%	252.9
OIBDA	43.5	8.5	411.3%	26.9	61.6%	104.2
- margin	60.6%	31.5%	+29.1pp	38.3%	+22.3pp	41.2%
Net income/(loss)	39.2	8.5	360.7%	24.0	63.2%	89.5
- margin	54.6%	31.6%	+23.0pp	34.1%	+20.5pp	35.4%

	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	2013
ARPU (TMT)	7.9	9.7	11.1	12.0	11.9	11.4
MOU (min)	302	473	527	541	531	564
Churn rate (%)	n/a	n/a	17%	6.7%	11.1%	35.5%
SAC (TMT)	6.2	9.5	13.6	18.1	22.1	14.9

CAPEX Highlights

RUB mln	FY 2010	FY 2011	FY 2012	FY 2013
Russia	69,277.8	66,868.7	82,896.2	70,909.9
- as % of rev	24.2%	21.4%	24.5%	20.0%
Ukraine	4,694.0	4,486.9	4,124.6	8,840.2
- as % of rev	14.5%	13.4%	10.9%	22.2%
Armenia	913.0	1,343.7	751.0	1,092.6
- as % of rev	14.5%	22.8%	12.5%	17.5%
Turkmenistan	1,353.6	n/a	11.2	732.1
- as % of rev	21.5%	n/a	3.4%	25.8%
Group	76,238.4	72,798.3	87,783.1	81,574.8
- as % of rev	23.1%	20.9%	23.2%	20.5%

* * *

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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 Fourth Quarter and Full Year 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 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)	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	2012	2013
Operating income	23,412.6	21,577.8	25,566.1	27,394.7	27,219.4	93,793.3	101,758.0
Add: D&A	17,043.4	17,769.6	18,818.9	18,895.0	17,769.0	67,910.0	73,252.5
OIBDA	40,456.0	39,347.4	44,384.9	46,289.8	44,988.4	161,703.2	175,010.5

Russia (RUB mln)	Q4 12	Q3 12	Q2 13	Q3 13	Q4 13	2012	2013
Operating income	22,824.8	20,865.0	22,977.1	25,166.6	25,864.7	91,773.2	94,873.4
Add: D&A	14,251.0	14,981.5	16,245.3	16,355.9	15,242.6	56,234.8	62,825.3
OIBDA	37,075.9	35,846.5	39,222.4	41,522.5	41,107.3	148,008.0	157,698.7

Ukraine (RUB mln)	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	2012	2013
Operating income	2,387.3	2,261.2	2,978.3	3,396.6	3,109.0	9,647.1	11,745.0
Add: D&A	2,282.1	2,410.5	2,235.5	2,165.2	2,084.7	9,571.0	8,895.9
OIBDA	4,669.4	4,671.7	5,213.8	5,561.8	5,193.7	19,218.1	20,641.0

Armenia (RUB mln)	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	2012	2013
Operating income/loss	310.9	279.6	446.7	600.5	(27.3)	1,344.8	1,299.4
Add: D&A	507.7	385.4	344.6	382.4	447.5	2,094.8	1,559.9
OIBDA	818.6	665.0	791.3	982.8	420.2	3,439.7	2,859.3

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Turkmenistan (RUB mln)	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	2012	2013
Operating income	92.0	137.5	228.7	305.1	487.6	n/a	1,158.9
Add: D&A	0.2	2.2	1.1	4.3	10.5	n/a	18.1
OIBDA	92.2	139.7	229.8	309.4	498.1	n/a	1,177.1

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

Group	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	2012	2013
Operating margin	23.8%	23.2%	26.2%	26.5%	26.0%	24.8%	25.5%
Add: D&A	17.3%	19.1%	19.3%	18.3%	17.0%	18.0%	18.4%
OIBDA margin	41.1%	42.4%	45.5%	44.8%	42.9%	42.8%	43.9%

Russia	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	2012	2013
Operating margin	25.9%	25.2%	26.6%	27.5%	27.5%	27.2%	26.7%
Add: D&A	16.1%	18.1%	18.8%	17.9%	16.2%	16.6%	17.7%
OIBDA margin	42.0%	43.3%	45.4%	45.4%	43.7%	43.8%	44.4%

Ukraine	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	2012	2013
Operating margin	25.6%	24.9%	30.0%	31.4%	31.3%	25.6%	29.6%
Add: D&A	24.5%	26.6%	22.5%	20.0%	21.0%	25.4%	22.4%
OIBDA margin	50.1%	51.5%	52.6%	51.5%	52.3%	50.9%	52.0%

Armenia	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	2012	2013
Operating margin	20.3%	21.1%	29.5%	33.2%	-1.7%	22.4%	20.9%
Add: D&A	33.1%	29.1%	22.8%	21.2%	28.2%	34.9%	25.0%
OIBDA margin	53.4%	50.3%	52.3%	54.4%	26.5%	57.3%	45.9%

Turkmenistan	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	2012	2013
Operating margin	31.3%	26.7%	32.9%	37.8%	59.5%	n/a	40.8%
Add: D&A	0.1%	0.4%	0.2%	0.5%	1.3%	n/a	0.6%
OIBDA margin	31.4%	27.1%	33.1%	38.3%	60.8%	n/a	41.5%

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, 2012	As of Dec 31, 2013
Current portion of debt and of capital lease obligations	27,624.3	25,063.7
Long-term debt	204,432.3	194,073.2
Capital lease obligations	48.5	10.0
Total debt	232,105.1	219,146.9
Less:		
Cash and cash equivalents	22,014.2	30,611.7
Short-term investments	4,034.4	14,632.6
Net debt	206,056.5	173,902.6

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

RUB mln	For the year ended Dec 31, 2012	For the year ended Dec 31, 2013
Net cash provided by operating activities	134,855.8	159,924.4
Less:		
Purchases of property, plant and equipment	(79,835.9)	(67,146.2)
Purchases of intangible assets	(7,947.1)	(14,428.7)
Proceeds from sale of property, plant and equipment	394.8	418.0
Proceeds from sale of other investments	2,028.9	
Purchases of other investments	(2,100.0)	(702.9)
Investments in and advances to associates		(5,088.9)
Acquisition of subsidiaries, net of cash acquired	(1,936.8)	
Free cash flow	45,459.7	72,975.8

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

MOBILE TELESYSTEMS

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE THREE MONTHS (UNAUDITED) AND TWELVE MONTHS ENDED DECEMBER 31, 2013 AND 2012

(Amounts in millions of RUB except per share amount)

	Three months ended December 31, 2013	Three months ended December 31, 2012	Twelve months ended December 31, 2013	Twelve months ended December 31, 2012
Net operating revenue				
Service revenue and connection fees	96 947	90 247	371 950	349 338
Sales of handsets and accessories	7 804	8 167	26 493	28 902
	104 751	98 414	398 443	378 240
Operating expenses				
Cost of services	(21 837)	(21 496)	(83 777)	(83 051)
Cost of handsets and accessories	(7 190)	(6 914)	(22 636)	(25 042)
Sales and marketing expenses	(6 093)	(6 416)	(22 861)	(21 667)
General and administrative expenses	(21 333)	(20 503)	(85 458)	(77 977)
Depreciation and amortization expense	(17 769)	(17 043)	(73 253)	(67 910)
Provision for doubtful accounts	(1 506)	(537)	(3 106)	(2 606)
Impairment of long-lived assets		(126)		(522)
Other operating expenses	(1 803)	(1 966)	(5 594)	(5 671)
Net operating income	27 220	23 413	101 758	93 794
Currency exchange and transaction (loss)/gain	(840)	951	(5 473)	3 952
Other (expenses)/income:				
Interest income	675	402	2 793	2 588
Interest expense, net of capitalized interest	(2 983)	(4 449)	(15 498)	(17 673)
Other income/(loss)	1 516	220	13 108	181
Total other income/ (expenses), net	(792)	(3 827)	403	(14 904)
Income from continuing operations before provision for income taxes	25 588	20 537	96 688	82 842
Provision for income taxes	(5 669)	(4 858)	(19 633)	(19 384)
Net income from continuing operations	19 919	15 680	77 055	63 458
Net income/(loss) from discontinued operations		1 547	3 733	(32 846)
Net income	19 919	17 226	80 788	30 612
Less net income attributable to the noncontrolling interests	(167)	(229)	(949)	(970)
Net income attributable to the Group	19 752	16 997	79 839	29 642

Other comprehensive income/(loss), net of taxes				
Currency translation adjustment	435	1 796	(2 877)	(2 211)
Unrealized gains (losses) on derivatives	75	(209)	1 445	255
Unrecognized actuarial gains	157	(170)	185	(152)
Total other comprehensive loss, net of taxes	667	1 417	(1 247)	(2 108)
Total comprehensive income	20 586	18 643	79 541	28 504
Less comprehensive income attributable to the noncontrolling interests	(183)	(306)	(1 056)	(772)
Comprehensive income attributable to the Group	20 403	18 337	78 485	27 732
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	9.93	7.77	38.27	31.42
EPS from discontinued operations	0.00	0.78	1.88	16.51
Total EPS	9.93	8.55	40.14	14.90

MOBILE TELESYSTEMS**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****AS OF DECEMBER 31, 2013 AND DECEMBER 31, 2012**

(Amounts in millions of RUB)

	As of December 31, 2013	As of December 31, 2012
CURRENT ASSETS:		
Cash and cash equivalents	30 612	22 014
Short-term investments	14 633	4 034
Trade receivables, net	34 554	33 372
Accounts receivable, related parties	965	336
Inventory and spare parts	8 498	8 586
VAT receivable	6 651	5 415
Prepaid expenses and other current assets	20 763	18 605
Total current assets	116 676	92 362
PROPERTY, PLANT AND EQUIPMENT	270 660	271 781
INTANGIBLE ASSETS	74 329	73 448
INVESTMENTS IN AND ADVANCES TO ASSOCIATES	13 393	5 532
OTHER INVESTMENTS	4 392	5 814
OTHER NON CURRENT ASSETS	6 074	6 041
Total assets	485 524	454 978
CURRENT LIABILITIES		
Trade accounts payable	23 864	22 588
Accrued expenses and other current liabilities	49 619	60 855
Accounts payable, related parties	3 315	2 338
Current portion of long-term debt, capital lease obligations	25 064	27 624
Total current liabilities	101 862	113 405
LONG-TERM LIABILITIES		
Long-term debt	194 074	204 432
Capital lease obligations	10	49
Deferred income taxes	21 202	10 670
Deferred revenue and other long-term liabilities	9 391	10 133
Total long-term liabilities	224 677	225 284
Total liabilities	326 539	338 689
Redeemable noncontrolling interests	2 932	2 298
SHAREHOLDERS' EQUITY:		
Total shareholders' equity attributable to the MTS Group	151 931	110 723

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Non-redeemable Noncontrolling interest	4 122	3 268
TOTAL SHAREHOLDERS EQUITY	156 053	113 991
Total liabilities and shareholders equity	485 524	454 978

MOBILE TELESYSTEMS

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2013 AND 2012

(Amounts in millions of RUB)

	Twelve months ended December 31, 2013	Twelve months ended December 31, 2012
Net income	80 788	30 612
Net (income) loss from discontinued operations	(3 733)	32 846
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	73 253	6 7 910
Currency exchange and translation loss / (gain)	5 473	(3 952)
Impairment of goodwill and long-lived assets		522
Debt issuance cost amortization	784	952
Amortization of deferred connection fees	(1 921)	(2 287)
Equity in net income of associates	(2 472)	(869)
Inventory obsolescence expense	660	759
Provision for doubtful accounts	3 106	2 606
Deferred tax loss	9 671	3 290
Other non-cash items	(192)	(61)
Changes in operating assets and liabilities:		
Increase in trade receivables	(3 474)	(8 489)
Increase in inventory	(592)	(61)
Increase in prepaid expenses and other current assets	(2 966)	(727)
(Increase)/decrease in VAT receivable	(1 190)	673
Increase in trade accounts payable, accrued liabilities and other current liabilities	898	9 606
Dividends received	1 831	1 526
Net cash provided by operating activities - continuing operations	159 924	134 856
Net cash used in operating activities - discontinued operations	(547)	(2 733)
Net cash provided by operating activities	159 377	132 123
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of subsidiaries, net of cash acquired		(1 937)
Purchases of property, plant and equipment	(67 146)	(79 836)
Purchases of intangible assets	(14 429)	(7 947)
Proceeds from sale of property, plant and equipment	418	395
Purchases of short-term investments	(37 623)	(33 474)
Proceeds from sale of short-term investments	27 785	31 548
Purchase of other investments	(703)	(2 100)
Proceeds from sale of other investments		2 029
Investments in and advances to associates, net	(5 088)	
Net cash used in investing activities - continuing operations	(96 786)	(91 322)
Net cash provided by/used in investing activities - discontinued operations	115	(2 045)
Net cash used in investing activities	(96 671)	(93 367)

CASH FLOWS FROM FINANCING ACTIVITIES:

Cash payments for the acquisitions of subsidiaries from entities under common control and non-controlling interests		(261)
Contingent consideration paid on acquisition of subsidiaries		(20)
Proceeds from issuance of notes	25 651	
Repayment of notes	(6 195)	(25 561)
Notes and debt issuance cost paid	(193)	
Reimbursement of debt issuance cost	959	
Capital lease obligation principal paid	(202)	(213)
Dividends paid	(39 706)	(29 626)
Cash on sale of MGTS Business Estate (net of cash disposed) to AFK	3 068	
Cash deconsolidated on loss of control over Stream		(227)
Proceeds from loans	353	17 955
Loan principal paid	(38 996)	(37 394)
Other financial activities	116	1
Net cash used in financing activities - continuing operations	(55 145)	(75 346)
Net cash provided by/(used in) financing activities - discontinued operations		
Net cash used in financing activities	(55 145)	(75 346)
Effect of exchange rate changes on cash and cash equivalents	1 037	(985)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS:	8 598	(37 575)
CASH AND CASH EQUIVALENTS, at beginning of the period	22 014	59 589
CASH AND CASH EQUIVALENTS, at end of the period	30 612	22 014
Less cash and cash equivalents from discontinued operations, at end of period		(411)
CASH AND CASH EQUIVALENTS from continuing operations, at end of period	30 612	21 603

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: **March 18, 2014**