

MOBILE TELESYSTEMS OJSC
Form 6-K/A
October 07, 2003

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K/A

REPORT OF FOREIGN ISSUER
October 07, 2003
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.

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

This Form 6-K/A amends the Form 6-K filed by Mobile TeleSystems OJSC (the "Company") on August 27, 2003 (the "Form 6-K"), which contained the Company's financial statements for the second quarter of 2003 and a press release announcing the Company's financial results for such period. Certain information contained in both the press release and the financial statement filed as part of the Form 6-K has been affected by a change in the Company's method of consolidation for its subsidiary TAIF Telcom. This Form 6-K/A contains the Company's adjusted financial statements for the second quarter of 2002 and a description of the effect of the adjustment on the Company's financial results for such period.

**MTS REVISES ITS FINANCIAL INFORMATION
FOR THE SIX MONTHS ENDED JUNE 30, 2003**

Moscow, Russian Federation October 7, 2003 Mobile TeleSystems OJSC ("MTS" NYSE: MBT), the largest mobile phone operator in Russia, today announces that the Company revised its previously released financial information for the six months ended June 30, 2003.

MTS changed its consolidation method for its subsidiary TAIF Telcom, a company providing mobile services in the Tatarstan Republic of Russia. MTS acquired 52.7% of common shares and 50% of preferred shares in TAIF Telcom in April 2003 through a series of transactions for a total of \$63.3 million. The Company also signed put and call option agreements in April 2003 to acquire the remaining ownership in TAIF Telcom.

MTS reviewed the accounting treatment of its call options for the remaining interest in TAIF Telcom and determined that these arrangements should be accounted for in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-4, "Majority Owner's Accounting for a Transaction in the Shares of a Consolidated Subsidiary and a Derivative Indexed to the Minority Interest in That Subsidiary." Accordingly, MTS has decided to account for the Company's call option agreements for the remaining 47.3% of common shares and 50.0% of preferred shares in TAIF Telcom as financing derivatives as the risks and rewards of the additional ownership are maintained by MTS for the duration of the derivatives, notwithstanding the legal ownership of the minority interest. As the result of the change, MTS consolidated 100.0% of TAIF Telcom from April 2003 and reflected the call option purchase price of \$49.0 million for the common shares and \$10.0 million for the preferred shares as current portion of long-term debt as the Company intends to exercise the call options prior to June 30, 2004. MTS also recognized interest expense of approximately \$1.0 million related to these options for the six months ended June 30, 2003. MTS can give no assurance that the acquisition of the remaining interest in TAIF Telcom will be completed on the terms described or at all.

The change did not impact net revenues, operating income, net income or cash flows of MTS for the three or six months ended June 30, 2003.

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The effects of this change on the financial information for the three and six month periods ended June 30, 2003 were as follows (in thousands of U.S. dollars).

| | As previously reported | Adjustments | As adjusted |
|---|---------------------------|-------------|--------------|
| At June 30, 2003 | | | |
| Licenses and other intangible assets, net | \$ 742,588 | \$ 65,835 | \$ 808,423 |
| Total assets | 3,234,107 | 65,835 | 3,299,942 |
| Current portion of long-term debt and capital lease obligations | 141,001 | 59,965 | 200,966 |
| Total current liabilities | 754,564 | 59,965 | 814,529 |
| Deferred income taxes | 118,347 | 15,800 | 134,147 |
| Total long-term liabilities | 933,793 | 15,800 | 949,593 |
| Total liabilities | 1,688,357 | 75,765 | 1,764,122 |
| Minority interest | 142,454 | (9,930) | 132,524 |
| Total liabilities and shareholders' equity | \$ 3,234,107 | \$ 65,835 | \$ 3,299,942 |

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| | As previously reported | Adjustments | As adjusted |
|--|---------------------------|-------------|-------------|
| For the six months ended June 30, 2003 | | | |
| Interest expense | \$ 41,848 | \$ 965 | \$ 42,813 |
| Total other expenses, net | 33,880 | 965 | 34,845 |
| Income before provision for income taxes and minority interest | 342,564 | (965) | 341,599 |
| Minority Interest | \$ 37,410 | \$ (965) | \$ 36,445 |
| For the three months ended June 30, 2003 | | | |
| Interest expense | \$ 23,036 | \$ 965 | \$ 24,001 |
| Total other expenses, net | 18,050 | 965 | 19,015 |
| Income before provision for income taxes and minority interest | 208,036 | (965) | 207,071 |
| Minority Interest | \$ 23,569 | \$ (965) | \$ 22,604 |

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This press release is not a public offer or advertisement of securities in the Russian Federation, and is not an offer, or an invitation to make offers, to purchase any securities in the Russian Federation.

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Mobile TeleSystems OJSC (or "MTS") is the largest mobile phone operator in Russia in terms of subscribers. Together with its subsidiaries, the company services over 13.9 million subscribers. The regions of Russia as well as in Belarus and Ukraine in which MTS and its subsidiaries are licensed to provide GSM services have a total population of approximately 185.1 million. Since June 2000, MTS' shares have been listed on the New York Stock Exchange with the ticker symbol MBT. Additional information about MTS can be found on MTS' website 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" the negative of 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 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, 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, risks associated with operating in Russia, volatility of stock price, financial risk management, and future growth subject to risks.

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Appendix A

MOBILE TELESYSTEMS

CONDENSED UNAUDITED CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31, 2002 AND JUNE 30, 2003

| | December 31 2002 | June 30 2003 |
|--|---------------------|---------------------|
| (Amounts in thousands of U.S. dollars, except share amounts) | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 34 661 | \$ 113 561 |
| Short-term investments | 30 000 | 30 000 |
| Trade receivables, net | 40 501 | 82 929 |
| Accounts receivable, related parties | 3 569 | 4 284 |
| Inventory | 41 386 | 56 443 |
| Prepaid expenses and other current assets | 208 213 | 279 423 |
| Total current assets | 358 330 | 566 640 |
| PROPERTY, PLANT AND EQUIPMENT, NET | 1 344 633 | 1 866 543 |
| INTANGIBLE ASSETS, NET | 525 009 | 808 423 |
| INVESTMENTS IN AND ADVANCES TO AFFILIATES | 34 034 | 51 207 |
| OTHER ASSETS | 21 290 | 7 129 |
| Total assets | \$ 2 283 296 | \$ 3 299 942 |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 117 623 | \$ 161 077 |
| Accrued expenses and other | 213 291 | 446 904 |
| Accounts payable, related parties | 4 968 | 5 582 |
| Current portion of long-term debt, capital lease and finance obligations | 88 330 | 200 966 |
| Total current liabilities | 424 212 | 814 529 |
| LONG-TERM LIABILITIES | | |
| Long-term debt | 358 914 | 769 067 |
| Capital lease and finance obligations | 7 241 | 7 237 |

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| | December 31 2002 | June 30 2003 |
|---|---------------------|---------------------|
| Deferred income taxes | 105 818 | 134 147 |
| Deferred revenue and other | 19 694 | 39 142 |
| Total long-term liabilities | 491 667 | 949 593 |
| Total liabilities | 915 879 | 1 764 122 |
| COMMITMENTS AND CONTINGENCIES | | |
| MINORITY INTEREST | 65 373 | 132 524 |
| STOCKHOLDERS' EQUITY: | | |
| Common stock: (2,096,975,792 shares with a par value of 0.1 rubles authorized and 1,993,326,138 shares issued as of June 30, 2001 and December 31, 2000, 345,244,080 of which are in the form of ADS) | 50 558 | 50 558 |
| Treasury stock (9,966,631 common shares at cost) | (10 206) | (10 206) |
| Additional paid-in capital | 558 102 | 558 762 |
| Unearned compensation | (212) | (212) |
| Shareholder receivable | (34 412) | (31 087) |
| Retained earnings | 738 214 | 835 481 |
| Total shareholders' equity | 1 302 044 | 1 403 296 |
| Total liabilities and stockholders' equity | \$ 2 283 296 | \$ 3 299 942 |

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MOBILE TELESYSTEMS

CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

**FOR THE THREE MONTHS ENDED JUNE 30, 2002 AND 2003
AND SIX MONTHS ENDED JUNE 30, 2002 AND 2003**

| Three months ended June 30 | | Six months ended June 30 | |
|----------------------------|------|--------------------------|------|
| 2002 | 2003 | 2002 | 2003 |

(Amounts in thousands of U.S. dollars, except share and per share data)

OPERATING REVENUES

| | | | | |
|-----------------------|----------------|----------------|----------------|------------------|
| Service revenues, net | \$ 294 314 | \$ 571 375 | \$ 522 386 | \$ 992 673 |
| Connection fees | 5 687 | 8 852 | 12 228 | 16 166 |
| Equipment revenues | 16 297 | 25 812 | 29 288 | 43 295 |
| | 316 298 | 606 039 | 563 902 | 1 052 134 |

OPERATING EXPENSES

| | | | | |
|---------------------------------|--------|--------|--------|--------|
| Interconnection and line rental | 31 366 | 44 508 | 55 081 | 78 908 |
| Roaming expenses | 11 597 | 24 726 | 28 713 | 45 269 |

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| | Three months ended June 30 | | Six months ended June 30 | |
|--|----------------------------|-------------------|--------------------------|-------------------|
| Cost of equipment | 20 001 | 45 754 | 38 119 | 73 639 |
| Operating expenses | 51 826 | 88 219 | 91 672 | 168 944 |
| Sales and marketing expenses | 39 494 | 77 828 | 64 795 | 135 564 |
| Depreciation and amortization | 49 089 | 99 584 | 90 678 | 174 774 |
| | <u>203 373</u> | <u>380 619</u> | <u>369 058</u> | <u>677 098</u> |
| Net operating income | 112 925 | 225 420 | 194 844 | 375 036 |
| CURRENCY EXCHANGE AND TRANSLATION | | | | |
| LOSSES (GAINS) | (141) | (666) | 690 | (1 408) |
| OTHER EXPENSES (INCOME): | | | | |
| Interest income | (2 093) | (5 591) | (5 497) | (8 823) |
| Interest expenses | 11 084 | 24 001 | 20 687 | 42 813 |
| Other expense | 864 | 605 | 2 721 | 855 |
| Total other expenses, net | 9 855 | 19 015 | 17 911 | 34 845 |
| Income before provision for income taxes and minority interest | 103 211 | 207 071 | 176 243 | 341 599 |
| PROVISION FOR INCOME TAXES | 28 039 | 55 943 | 53 954 | 96 412 |
| MINORITY INTEREST | 10 389 | 22 604 | 14 688 | 36 445 |
| NET INCOME | \$ 64 783 | \$ 128 524 | \$ 107 601 | \$ 208 742 |
| Earnings per share basic and diluted | 0.033 6 | 0.065 | 0.054 | 0.105 |

FOR THE SIX MONTHS ENDED JUNE 30 2002 AND JUNE 30, 2003

| | Six months ended June 30 | Six months ended June 30 |
|--|-----------------------------|-----------------------------|
| | <u>2002</u> | <u>2003</u> |

(Amounts in thousands of U.S. dollars)

CASH FLOWS FROM OPERATING ACTIVITIES:

| | | |
|---|------------|------------|
| Net income | \$ 107,601 | \$ 208,742 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Minority interest | 14,688 | 36,445 |
| Depreciation and amortization | 90,678 | 174,774 |
| Amortization of deferred connection fees | (12,228) | (16,166) |
| Provision for obsolete inventory | 1,572 | 3,278 |
| Provision for doubtful accounts | 2,850 | 22,851 |
| Loan interest accrued | 20,827 | 42,813 |
| Loan interest paid | (19,674) | (25,969) |
| Deferred taxes | (3,375) | (17,064) |

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| | Six months ended June 30 | Six months ended June 30 |
|---|-----------------------------|-----------------------------|
| Non-cash expenses associated stock bonus and stock options | | |
| Changes in operating assets and liabilities: | | |
| Increase in accounts receivable | (15,465) | (41,732) |
| Increase in inventory | (4,434) | (4,255) |
| Increase in prepaid expenses and other current assets | (57,246) | (31,412) |
| (Decrease) Increase in accounts payable, accrued liabilities and other payables | (18,479) | 43,036 |
| Net cash provided by operating activities | 107,315 | 395,341 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property, plant and equipment | (234,144) | (325,843) |
| Purchase of intangible assets | (7,872) | (57,396) |
| Increase in short-term investments | 85,304 | |
| Increase in investments in and advances to affiliates | (10,846) | (17,173) |
| Purchases of businesses, net of cash acquired | (112,113) | (301,814) |
| Net cash used in investing activities | (279,671) | (702,226) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from notes issue | 50,808 | 400,000 |
| Notes issuance cost | (649) | (3,929) |
| Capital lease obligation principal paid | (6,400) | (6,982) |
| Proceeds from short-term debt and other payments | 23,338 | 58,144 |
| Loan principal paid | (1,800) | (61,895) |
| Net cash used in financing activities | 65,297 | 385,338 |
| Effect of exchange rate changes on cash and cash equivalents | (747) | 447 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS: | (107,806) | 78,900 |
| CASH AND CASH EQUIVALENTS, at beginning of period | 219,629 | 34,661 |
| CASH AND CASH EQUIVALENTS, at end of period | \$ 111,823 | \$ 113,561 |

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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

Date: October 07, 2003

By: /s/ VASSILY SIDOROV

Name: Vassily Sidorov
Title: Acting President/CEO

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