MOBILE TELESYSTEMS OJSC
Form 20-F/A
December 17, 2002

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 20-F/A

o **Registration Statement pursuant to Section 12 (b) or (g) of The Securities Exchange Act of 1934**

or

ý **Annual report pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934 for the fiscal year ended December 31, 2001**

or

o **Transition report pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934**

Commission file number

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)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

NONE

(Title of Class)

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
AMERICAN DEPOSITARY SHARES, EACH REPRESENTING 20 ORDINARY SHARES, PAR VALUE 0.10 RUSSIAN RUBLES PER ORDINARY SHARE	NEW YORK STOCK EXCHANGE

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered

10.95% GUARANTEED NOTES DUE DECEMBER 21, 2004	LUXEMBOURG STOCK EXCHANGE

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

1,993,326,150 ordinary shares, par value 0.10 Russian rubles each, as of December 31, 2001

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes: ý No.: o

Indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17 o Item 18 ý

Explanatory Note

On December 4, 2002, Mobile TeleSystems OJSC, or MTS, announced that it would restate its consolidated financial statements for the year and three months ended December 31, 2001 and the first and second quarters of 2002.

The restatement relates primarily to the allocation of purchase prices for MTS' 2001 acquisitions of Telecom XXI, ReCom and Telecom 900. As a result of a review of its financial statements by MTS management, MTS has restated approximately $21 million previously allocated to licenses to property, plant and equipment and other intangible assets. This reallocation resulted in restatements of property, plant and equipment, licenses, depreciation and amortization expense, as well as certain related items of our balance sheet and statement of operations as of and for the year ended December 31, 2001.

Additionally, MTS has reclassified an impairment charge related to its investment in a joint venture with the government of Belarus from other expenses to impairment of investment, which is deducted in determining our net operating income, in order to conform to the US GAAP presentation requirements. As a result, the accompanying 2001 consolidated financial statements have been restated from the amounts previously reported.

The combined effect of the above changes is a reduction in the Company's reported net income by $1.5 million for the year ended December 31, 2001.

This Form 20-F/A amends Items 3, 4, 5 and 18 of the Form 20-F filed by MTS on June 28, 2002 (the "Form 20-F") as follows:

Item 3 "Key Information A. Selected Financial Data," and Item 5 "Operating and Financial Review and Prospects A. Operating Results Results of Operations" each amend in their entirety the corresponding sections of our Form 20-F to provide information regarding the effect of the restatement on our results of operations for the year ended December 31, 2001;

Item 4 "Information on Our Company B. Business Overview" amends EBITDA and EBITDA margin figures that have changed due to the restatement;

Item 5 "Operating and Financial Review and Prospects A. Operating Results Restatement" is amended to include a description of the restatement; and

Item 18 is amended to include our consolidated financial statements for the years ended December 31, 2000 and our restated consolidated financial statements for the year ended December 31, 2001, each as audited by Deloitte & Touche.

Other than as set forth above, this 20-F/A does not amend, update or restate any other Items or sections of the Form 20-F.

Information regarding the effect of the restatement on MTS' results of operations for the fiscal year ended December 31, 2001 is provided in Item 5 "Operating and Financial Review and Prospects A. Operating Results Restatement" of this amendment and in Note 28 to the consolidated financial statements included in Item 18 of this amendment. This Form 20-F/A does not amend, update or restate any other section or Items of the Form 20-F.

PART I

Item 3. ***Key Information***

A. Selected Financial Data

The selected financial data below shows our historical financial information at December 31, 1997, 1998, 1999, 2000 and 2001 and for the years then ended. This information is derived from our audited financial statements. The Company's financial statements for the year ended December 31, 2001 have been restated.

The selected financial data should be read in conjunction with the Consolidated Financial Statements and "Item 5. Operating and financial review and prospects" included in this document.

	Years Ended December 31,				
	1997	1998	1999	2000	2001 (as restated)(19)
	(Amounts in thousands, except earnings per share, industry and operating data and ratios)				
Statement of operations data:					
Net revenues:					
Service revenues(1)	$ 188,223	$ 313,282	$ 314,568	$ 484,469	$ 830,308
Connection fees	4,750	8,697	12,755	14,885	21,066
Equipment sales	15,435	16,344	31,004	36,358	41,873
Total net revenues	208,408	338,323	358,327	535,712	893,247
Cost of services and products:					
Interconnection and line rental	25,864	43,617	38,958	41,915	75,278
Roaming expenses	7,542	13,223	21,725	41,178	68,387
Cost of equipment	15,537	14,658	29,932	39,217	39,828
Cost of services and products	48,943	71,498	90,615	122,310	183,493
Operating expenses(2)	41,273	67,470	74,612	110,242	134,598
Sales and marketing expenses	9,554	15,657	23,722	76,429	107,729
Depreciation and amortization	14,757	19,629	53,766	87,684	133,318
Impairment of investment					10,000
Net operating income	93,881	164,069	115,612	139,047	324,109

	Years Ended December 31,				
Currency exchange and translation loss(3)	1,389	25,125	3,238	1,066	2,264
Other expenses (income):					
Interest income	(1,086)	(2,181)	(801)	(7,626)	(11,829)
Interest expenses, net of amounts capitalized(4)	756	8,302	11,805	11,335	6,944
Other expenses (income), net	3,773	4,838	(829)	(502)	108
Total other expenses (income), net	3,443	10,959	10,175	3,207	(4,777)
Income before provision for income taxes and minority interest	89,049	127,985	102,199	134,774	326,622
Provision for income taxes	29,409	62,984	18,829	51,154	97,461
Minority interest in net (loss) income		(1,027)	(2,291)	(6,428)	7,536
Net income before cumulative effect of a change in accounting principle, and extraordinary gain	59,640	66,028	85,661	90,048	221,625
Cumulative effect of a change in accounting principle, net of income taxes of $9,644					(17,909)
Extraordinary gain on repayment of debt, net of income taxes of $667					2,113
Net income	$ 59,640	$ 66,028	$ 85,661	$ 90,048	$ 205,829
Dividends paid	$ 3,777	$ 9,624	$ 11,224	$ 14,425	$ 2,959
Earnings per share, basic and diluted:					
Net Income before change in accounting and extraordinary gain	$ 0.049	$ 0.047	$ 0.052	$ 0.050	$ 0.112
Change in accounting principle					(0.009)
Extraordinary gain in repayment of debt					0.001
Net Income	$ 0.049	$ 0.047	$ 0.052	$ 0.050	$ 0.104

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Pro forma net income giving effect to the change in accounting principle, had it been applied retroactively	$ 54,006	$ 59,439	$ 78,258	$ 93,108	$ 223,738
Pro forma earnings per share giving effect to the change in accounting principle, had it been applied retroactively	$ 0.044	$ 0.043	$ 0.048	$ 0.052	$ 0.113
Other data:					
EBITDA(5)	$ 103,476	$ 154,762	$ 169,260	$ 232,595	$ 422,746
EBITDA margin(6)	49.7%	45.7%	47.3%	43.4%	47.3%
Adjusted EBITDA(5)(7)	94,809	144,625	157,871	236,967	447,519
Adjusted EBITDA margin(5)(7)(8)	45.5%	42.8%	44.1%	44.2%	50.1%
Cash provided by operating activities	90,523	103,486	116,801	190,914	338,201
Cash used in investing activities	(71,351)	(122,051)	(115,184)	(423,349)	(441,523)
Cash provided by (used in) financing activities	28,253	(9,624)	(11,557)	298,543	247,592
Capital expenditures	71,351	103,132	118,338	224,898	441,200
Consolidated balance sheet data:					
Cash and cash equivalents	$ 52,664	$ 20,884	$ 10,000	$ 75,828	$ 219,629
Short-term investments				170,000	85,304
Total assets	252,519	614,165	682,047	1,101,332	1,727,492
Total debt (long-term and short-term)(9)	48,061	110,155	112,123	52,773	325,840
Total shareholders' equity:	113,280	269,942	343,724	801,084	1,018,279
including capital stock	46,800	49,276	49,276	40,352	40,352
Key financial ratios:					
Total debt/EBITDA(18)	0.5x	0.7x	0.7x	0.2x	0.8x
EBITDA/interest expense(18)	136.9x	18.6x	14.3x	20.5x	60.9x

Total debt/adjusted EBITDA(18)	0.5x	0.8x	0.7x	0.2x	0.7x
Adjusted EBITDA/interest expense(18)	125.4x	17.4x	13.4x	20.9x	64.4x
Ratio of earnings to fixed charges(10) (18)	21.2x	14.4x	8.8x	12.0x	48.1x
Key industry data:					
Estimated population in Russia (millions)(11)	146.7	146.3	145.6	144.8	146
Russian cellular subscribers (end of period, thousands)(12)	481	718	1,360	3,400	8,040
Industry penetration(12)	0.3%	0.5%	0.9%	2.3%	5.5%
Cellular subscribers Moscow region (end of period, (thousands)(12)	224	328	751	1,996	4,080
Moscow region penetration(12)	1.5%	2.2%	5.0%	13.3%	27.0%
MTS operating data:(13)					
MTS total subscribers (end of period, thousands)(14)	59	114	307	1,194	2,650
MTS share of total Russian subscribers (end of period)	12.2%	15.9%	22.6%	35.1%	33%
MTS subscribers in Moscow and Moscow region (end of period, thousands)	59	113	299	1,106	2,035
MTS share of subscribers in Moscow and Moscow region (end of period)	26%	35%	40%	55%	50%
Average monthly usage per subscriber (minutes)(15)	313	384	224	151	157
Average monthly revenue per subscriber (in U.S. dollars)(16)	409	302	124	54	36
Churn rate(17)	22.5%	31.2%	20.8%	21.6%	26.8%

Notes:

(1)
Service revenues represent subscription fees, usage charges and value-added service fees, as well as roaming fees charged to other operators for their subscribers, or guest roamers, utilizing our network. Guest roaming fees were $38.9 million, $56.5 million, $44.0 million, $43.2 million and $52.6 million for the years ended December 31, 1997, 1998, 1999, 2000 and 2001, respectively.

(2)
Operating expenses include taxes (other than Russian income taxes), primarily revenue and property-based taxes, of $8.9 million, $16.5 million, $15.6 million, $26.9 million and $25.3 million for the years ended December 31, 1997, 1998, 1999, 2000 and 2001, respectively.

(3)
On a day-to-day basis, we are exposed to exchange losses on cash balances and other monetary assets and liabilities denominated in rubles. See Note 2 to our consolidated financial statements included elsewhere in this document.

(4)
Capitalized interest expenses were $3.5 million, $1.2 million, $1.3 million, $0.9 million and $nil for the years ended December 31, 1997, 1998, 1999, 2000 and 2001, respectively.

(5)
EBITDA, which represents income before provision for income taxes, interest, depreciation and amortization, should not be considered in isolation as an alternative to net income, operating income or any other measure of performance under U.S. GAAP. We believe that EBITDA is a relevant measurement utilized by the cellular industry to assess performance which attempts to eliminate variances caused by the effects of differences in taxation, the amount and types of capital employed and depreciation and amortization policies.

(6)
"EBITDA margin" represents EBITDA as a percentage of net revenues.

(7)
"Adjusted EBITDA" represents EBITDA plus change in accounting for subscriber acquisition costs and the extraordinary gain on debt repayment. See our consolidated financial statements included elsewhere in this document.

(8)
"Adjusted EBITDA margin" represents adjusted EBITDA as a percentage of net revenues.

(9)
Includes bank loans, equipment financing and capital lease obligations.

(10)

Represents "earnings" divided by "fixed charges." "Fixed charges" are defined as the sum of interest expensed and capitalized and amortized capitalized expenses related to indebtedness. "Earnings" are defined as the result of adding income before provision for income taxes and minority interest, fixed charges, amortization of capitalized interest, and subtracting interest capitalized.

(11) Estimated population for the year ended December 31, 2001 is not available; estimated population for these periods is assumed to be equal to estimated population at December 31, 2000.

(12) Source: Sotovik.

(13) Source: Sotovik and our data.

(14) We define a "subscriber" as an individual or organization that has a contract with us for the provision of mobile cellular telecommunication services and whose invoices are not overdue by more than two months. Our subscriber figures exclude those of ReCom until April 2001, when ReCom became a consolidated subsidiary.

(15) Average monthly minutes of usage per subscriber is calculated by dividing the total number of minutes of usage during a given period by the average number of our subscribers during such period and dividing by the number of months in such period.

(16) We calculate our average monthly service revenue per subscriber by dividing our service revenues for a given period, including guest roaming fees, by the average number of our subscribers during that period and dividing by the number of months in that period.

(17) We define our "churn rate" or "churn" as the total number of subscribers who cease to be a "subscriber" as defined in note (14) 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.

(18) The following table presents our pro forma key financial ratios. Pro forma financial ratios have been computed assuming that the issuance of the $300 million notes was consummated as of January 1, 2000, and that we did not capitalize any of the interest expenses related to these notes. Pro forma key financial ratios are calculated without giving any effect to the application of the proceeds of these notes, including in respect of other indebtedness or EBITDA or earnings. Pro forma key financial ratios have been computed by adjusting the corresponding historical key financial ratios to reflect the notes and the incremental interest expense. This incremental interest expense of $34.3 million was computed based on the effective interest rates times the balances of these notes at the end of that period and includes amortization and deferred costs associated with issuance of these notes.

	Year Ended December 31, 2001
Pro forma key financial ratios:	
Pro forma total debt/EBITDA	0.9x
Pro forma EBITDA/interest expense	10.3x
Pro forma total debt/adjusted EBITDA	0.8x
Pro forma adjusted EBITDA/interest expense	10.9x
Pro forma ratio of earnings to fixed charges(10)	8.1x

(19) See note 28 of the notes to consolidated financial statements for a description of the adjustments resulting from the restatement.

Item 4. ***Information on Our Company***

B. Business Overview

As a result of the restatements, our EBITDA and EBITDA margin for the year ended December 31, 2001 have changed from the amounts disclosed in the table immediately preceding the "Business Strategy" subsection in our Form 20-F. Our EBITDA (in thousands) for the year ended December 31, 2001, which was reported in our Form 20-F as $424,062, as restated, is $422,746. Our EBITDA margin for the year ended December 31, 2001, which was reported in our Form 20-F as 47%, as restated, is 48%.

Item 5. ***Operating and Financial Review and Prospects***

A. Operating Results

Restatement

The restatement relates primarily to the allocation of purchase prices for our 2001 acquisitions of Telecom XXI, ReCom and Telecom 900. As a result of a review of our financial statements by our management, we have restated approximately $21 million previously allocated to licenses to property, plant and equipment and other intangible assets. This reallocation resulted in restatements of property, plant and equipment, licenses, depreciation and amortization expense, as well as certain related items of our balance sheet and statement of operations as of and for the year ended December 31, 2001.

Additionally, we have reclassified an impairment charge related to our investment in a joint venture with the government of Belarus from other expenses to impairment of investment, which is deducted in determining our net operating income, in order to conform to the US GAAP presentation requirements. As a result, the accompanying 2001 consolidated financial statements have been restated from the amounts previously reported.

Significant effects of this restatement were as follows (in thousands except per share amounts):

	As previously reported	Adjustments	As restated
At December 31, 2001:			
Property plant and equipment, net	841,308	14,748	856,056
Licenses, net	297,490	(20,541)	276,949
Other intangible assets, net	83,507	738	84,245
Total assets	1,732,547	(5,055)	1,727,492
Deferred taxes	72,192	(4,687)	67,505
Minority interest	12,999	1,445	14,444
Retained earnings	462,628	(1,537)	461,091
Total liabilities and shareholder's equity	1,732,547	(5,055)	1,727,492
For the year ended December 31, 2001:			
Depreciation and Amortization	133,143	175	133,318
Net operating income	334,284	(10,175)	324,109
Total other expense (income), net	5,223	(10,000)	(4,777)
Income before provision for income taxes and minority interest	327,190	(568)	326,622
Provision for Income Taxes	97,414	47	97,461
Minority Interest	6,614	922	7,536
Net income	207,366	(1,537)	205,829
Earnings per share net income (basic and diluted)	0.105	(0.001)	0.104

Results of Operations

The following table sets forth, for the periods indicated, the percentages that certain operations contribute to revenues.

	Year Ended December 31,		
	1999	2000	2001 Restated
Statement of Operations Data:			
Net revenues:			
Service revenues, net(1)	87.8%	90.4%	93.0%
Connection fees	3.6	2.8	2.3
Equipment sales	8.6	6.8	4.7
Total net revenues	100.0%	100.0%	100.0%
Cost of services and products:			
Interconnection and line rental	10.9%	7.8%	8.4%
Roaming expenses	6.1	7.7	7.7
Cost of equipment	8.3	7.3	4.4
Cost of services and products	25.3	22.8	20.5
Operating expenses(2)	20.8	20.5	15.1
Sales and marketing expenses	6.6	14.3	12.1
Depreciation and amortization	15.0	16.4	14.9
Impairment of investment			1.1
Net operating income	32.3	26.0	36.3
Currency exchange and translation losses (gain)(3)	0.9	0.2	0.3
Other expenses (income):			
Interest income	(0.2)	(1.4)	(1.3)
Interest expenses, net of amounts capitalized	3.3	2.1	0.8
Other (income) expenses, net	(0.2)	(0.1)	0.0
Total other expenses (income), net	2.9	0.6	(0.5)
Income before provision for income taxes and minority interest	28.5	25.2	36.6
Provision for income taxes	5.2	9.5	10.9
Minority interest in net (loss) income	(0.6)	(1.2)	0.8
Net income before cumulative effect of a change in accounting principle and extraordinary gain	23.9%	16.9%	24.8%
Cumulative effect of a change in accounting principle, net of income taxes			(2.0)
Extraordinary gain on debt repayment, net of income taxes			0.2
Net income	23.9%	16.9%	23.0%

(1)

Service revenues represent subscription fees, usage charges and value-added service fees, as well as roaming fees charged to other operators for guest roamers utilizing our network. Guest roaming fees represented 12.3% of our revenues in 1999, 8.1% in 2000, and 6.7% in 2001, respectively.

(2)

Operating expenses, including taxes (other than Russian income taxes) and primarily revenue and property-based taxes, represented 4.4% of our revenues in 1999, 5.0% in 2000, and 2.8% in 2001, respectively.

(3)

On a day-to-day basis, we are exposed to exchange losses on cash balances denominated in rubles and other monetary assets and liabilities. (See Note 2 to our consolidated financial statements as of December 31, 2001 included elsewhere in this document.).