

MOBILE TELESYSTEMS OJSC
Form 6-K
November 25, 2014

FORM 6-K

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer
November 25, 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 Third Quarter Ended September 30, 2014

November 25, 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 September 30, 2014.

Key Financial Highlights of Q3 2014

- Consolidated Group revenues increased 3.6% y-o-y to RUB 107.1 billion
- Mobile service revenue in Russia rose 9.1% y-o-y to RUB 77.3 billion
- Data traffic revenue in Russia grew 37.2% y-o-y to RUB 17.2 billion
- Consolidated Group Adjusted OIBDA(1) up 4.1% y-o-y to RUB 48.2 billion
- Group OIBDA margin improved 0.2pp to 45.0%
- Consolidated net income(2) of RUB 16.1 billion

Amended Outlook for 2014

- Group revenue guidance increased from 1% to >2%
- Group OIBDA guidance increased from stable to 1%
- MTS Russia revenue guidance increased from 3-5% to 5%
- MTS Russia OIBDA guidance increased from 3-5% to 5%
- Group CAPEX guidance reiterated to approximately RUB 90 billion

Key Corporate and Industry Highlights

- Completed dividend payment of RUB 18.6 per ordinary MTS share (RUB 37.2 per ADR), or a total of RUB 38.435 bln based on the full-year 2013 financial results.
- Signed with the Republic of Uzbekistan a Settlement Agreement, the purpose of which was to resolve all disputes between the parties and enable MTS to resume operations in Uzbekistan, and discontinued international arbitration proceedings between MTS and the Republic of Uzbekistan at the International Center for Settlement of the Investment Disputes (the ICSID).
- Took possession a controlling stake in the Russian-Uzbek entity Universal Mobile Systems LLC and plans to commercially launch operations throughout the territory of Uzbekistan on December 1, 2014.

(1) OIBDA net of non-cash gain in the amount of RUB 3 604 mln due to transfer of a 50.01% stake in UMS, subsidiary in Uzbekistan, to MTS

(2) Attributable to the Group

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- Completed dividend payment of RUB 6.2 per ordinary MTS share (RUB 12.4 per ADR), or a total of RUB 12.812 bln based on the H1 2014 financial results.
- Signed an agreement with Sberbank of Russia to open a non-revolving line of credit for a total amount of RUB 50 billion and amended terms of an existing credit agreement in the amount of RUB 20 billion.
- Launched satellite TV under the MTS brand in Russia.
- Signed a binding agreement with MTS Bank OJSC to acquire 952,000 ordinary shares of the Bank's additional shares issuance for RUB 3,639,286,560.

Commentary

Mr. Andrei Dubovskov, MTS President and CEO, commented, "During the quarter we increased our Group revenues by 3.6% year-over-year to RUB 107.1 bln. We witnessed revenue growth in Russia, Ukraine and Turkmenistan, but registered a slight decline in Armenia. As in Q2, hryvna devaluation and a weakening ruble impacted our Group performance."

Mr. Vasyl Latsanych, MTS Vice President for Marketing, said "In Q3, we saw very strong growth in our Russian business unit with revenues improving by 8.4% year-over-year to RUB 99.2 bln. The growth was attributable to exceptionally strong performance of our mobile operations where revenues grew 9.1% year-over-year. Key drivers included subscriber migration from feature phones to smartphones as smartphone penetration in our active base reached almost 40%; success of our Smart family of tariffs which allows us to upsell existing subscribers on data plans by stimulating consumption of data products; continued growth from messaging as we increased sales of SMS bundles; growing penetration of tablets as number of tablets on our network increased by 35% year-over-year; expansion of the subscriber base as we added 5.95 million subscribers during the period; and high-quality of subscriber additions as demonstrated by positive dynamics in ARPU and sustained lowest level of churn in the market. Quarter-on-quarter our revenues rose by 9.1% as we benefited from seasonally strong roaming revenues throughout Russia and an increase in the subscriber base."

Mr. Alexey Kornya, MTS Vice President for Finance and Investments, added, "In Q3 2014, Adjusted OIBDA increased by 4.1% to RUB 48.2 bln rubles. This figure was adjusted for a non-cash gain in the amount of 3.6 billion rubles we realized from the transfer of the controlling stake in UMS, an operating subsidiary in Uzbekistan, to MTS. Our growth in Adjusted OIBDA reflects many factors, including topline revenue dynamics in each of our markets of operation; the effect of a steadily rising contribution from data revenues in Russia; the impact of hryvna and ruble depreciation on our operating expenses; increased taxes and spectrum fees in Ukraine; rising G&A costs due to the enhancement of our mobile and fixed networks in Russia as well as pressure from inflationary expenses. On a quarterly basis, adjusted OIBDA grew by 11.5%, which was largely driven by seasonally higher roaming revenues and higher-quality subscriber additions, while maintaining steady sales & marketing expenses. Our Adjusted Group OIBDA margin net of the UMS effect came in at 45.0%. In Russia, OIBDA grew by 9.4% year-over-year to 45.4 billion rubles. This reflects both strong growth in mobile service revenues and an increased contribution from high-margin data revenues. This translates into a margin of 45.8%, the highest number we have registered in our Russian business unit since early 2009. In Ukraine, OIBDA declined by 10.7% year-over-year to UAH 1.21 billion. Profitability was under pressure due to increased taxes and frequency fees, higher payroll, electricity, site rentals costs and impact of the currency devaluation on cost items, including roaming and SIM cards, denominated in foreign currencies."

He continued, Despite macroeconomic weakness across our markets of operations, MTS continues to generate stable operating cash flows. Our free cash flows for the first nine months of 2014 declined by 11.7% compared to the previous period, but in Q2 2013 we benefited from a one-off gain from the settlement over Bitel LLC. Adjusted for this factor, our free cash flow was down by 7.6%, but this drop can be explained by higher CAPEX spending in Q3 2014; during the quarter we prepaid for a higher amount of non-ruble denominated equipment in anticipation of further weakening of the ruble. For the period, net income declined quarter-on quarter by 23.8% to RUB 16.1 bln. In Q4 2013, we registered a non-cash FOREX loss in the amount of RUB 9.5 bln from a revaluation of the foreign currency-denominated portion of the debt portfolio after significant ruble depreciation. The quarterly decline in bottom line was more pronounced as in the second quarter 2014 we had a non-cash FOREX gain in the amount of RUB 4.2 bln due to strengthening of the ruble.

Mr. Andrei Dubovskov, MTS President and CEO, concluded, The situation in Ukraine remains highly volatile and creates uncertainty at the Group level. It is hard to forecast what the operational trends in Ukraine would be going forward. Nevertheless, with the potential of 3G on the horizon we remain enthusiastic about the long-term prospects of the market. Nevertheless, we feel comfortable at this stage raising our Group guidance for 2014: we expect strength in the Russian market and better-than-expected performance in Ukraine and Armenia to lift revenue by at least 2% for the year. Russia will see around 5% of growth to this figure based on strong performance in the mobile market. In spite of the extreme volatility in the ruble we are seeing in Q4, we do expect Group OIBDA to improve by approximately 1%. CAPEX remains on track at roughly RUB 90 bln, but the figure might be impacted by currency fluctuations.

Additional Information

As of Q3 2014, MTS adjusted its subscriber reporting methodology to reflect three-months of subscriber activity instead of the previously used six-month methodology. In accompanying materials, subscriber numbers, as well as related operational indicators like Average Revenue Per User (ARPU) and Minutes of Use (MOU), Average Price Per Minute (APPM) and churn have been restated since Q1 2013 to provide like-for-like comparisons for FY2014 operational indicators.

In September 2014, MTS announced that Vladimir Evtushenkov, Chairman of the Board of Directors of Sistema JSFC (Sistema) (LSE: SSA), the parent company of MTS with effective ownership stake in MTS of 53.46%, was detained as part of an investigation into the privatization of BASHTEK Group, through which Sistema owns a number of enterprises devoted to the extraction and marketing of oil and oil-related products. Though MTS reiterates that the investigation and any subsequent outcome of this investigation would have no effect on the Company's operations, certain changes at Sistema, including its revenue structure and debt position and other implications directly or indirectly arising out of Mr. Evtushenkov's detainment and ongoing investigation, could potentially have an adverse effect on MTS's equity value, its credit ratings or other metrics used by investors to assess and value MTS public securities and tradable debt.

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 September 30, 2014. For full disclosure materials, please visit <http://www.mts-gsm.com/resources/reports/>.

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Financial Summary

RUB mln	Q3 14	Q3 13	y-o-y	Q2 14	q-o-q
Revenues	107,148	103,388	3.6%	98,860	8.4%
Adjusted OIBDA	48,186	46,290	4.1%	43,231	11.5%
- margin	45.0%	44.8%	+0.2pp	43.7%	+1.3pp
Adjusted net operating income	29,152	27,395	6.4%	24,973	16.7%
- margin	27.2%	26.5%	+0.7pp	25.3%	+1.9pp
Net income attributable to the Group	16,062	18,080	-11.2%	21,089	-23.8%
- margin	15.0%	17.5%	-2.5pp	21.3%	-6.3pp

Russia Highlights

RUB mln	Q3 14	Q3 13	y-o-y	Q2 14	q-o-q
Revenues(3)	99,209	91,533	8.4%	90,390	9.8%
- mobile	77,324	70,844	9.1%	70,884	9.1%
- fixed	15,799	15,384	2.7%	15,584	1.4%
- sales of handsets & accessories	7,785	7,094	9.7%	5,858	32.9%
OIBDA	45,437	41,523	9.4%	40,309	12.7%
- margin	45.8%	45.4%	+0.4pp	44.6%	+1.2pp
Net income	10,818	15,630	-30.8%	19,450	-44.4%
- margin	10.9%	17.1%	-6.2pp	21.5%	-10.6pp

	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
ARPU (RUB)	348.3	342.0	325.2	336.2	358.4
MOU (min)	368	375	353	373	377
Churn rate (%)	8.9%	9.8%	10.1%	10.9%	9.2%

Ukraine Highlights

UAH mln	Q3 14	Q3 13	y-o-y	Q2 14	q-o-q
Revenues	2,817	2,634	6.9%	2,563	+9.9%
OIBDA	1,210	1,355	-10.7%	1,276	-5.2%
- margin	42.9%	51.5%	-8.6pp	49.8%	-6.9pp
Net income	763	684	11.5%	768	-0.7%
- margin	27.1%	26.0%	+1.1pp	29.9%	-2.8pp

(3) Revenue, net of intercompany between mobile and fixed

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	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
ARPU (UAH)	41.0	37.0	36.8	38.3	41.1
MOU (min)	592	586	573	575	483
Churn rate (%)	6.8%	7.4%	6.2%	4.5%	4.6%
SAC (UAH)	57.1	53.3	49.4	50.8	63.4
- dealer commission	36.7	29.7	29.4	31.2	37.5
- adv&mktg	12.6	14.8	12.1	13.3	17.0
- handset subsidy	0.6	0.9	0.7	0.8	1.7
- SIM card & voucher	7.1	7.8	7.2	5.6	7.1

Armenia Highlights

AMD mln	Q3 14	Q3 13	y-o-y	Q2 14	q-o-q
Revenues	22,066	22,522	-2.0%	18,876	16.9%
OIBDA	12,057	12,248	-1.6%	9,043	33.3%
- margin	54.6%	54.4%	+0.2pp	47.9%	+6.7pp
Net income	4,243	4,297	-1.3%	1,934	119.4%
- margin	19.2%	19.1%	+0.1pp	10.2%	+9.0pp

	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
ARPU (AMD)	3,605.0	3,113.5	2,691.1	2,939.3	3,378.6
MOU (min)	451	461	464	516	527
Churn rate (%)	8.5%	8.3%	7.8%	7.7%	9.0%
SAC (AMD)	6,077.1	6,800.7	5,129.8	5,302.3	4,773.3

Turkmenistan Highlights

TMT mln	Q3 14	Q3 13	y-o-y	Q2 14	q-o-q
Revenues	72	70	1.9%	69	3.2%
OIBDA	30	27	11.2%	31	-2.6%
- margin	41.8%	38.3%	+3.5pp	44.3%	-2.5pp
Net income	26	24	7.1%	27	-3.7%
- margin	36.0%	34.1%	+1.9pp	38.6%	-2.6pp

	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
ARPU (TMT)	13.7	13.9	12.8	13.6	14.1
MOU (min)	617	620	588	575	564
Churn rate (%)	13.0%	13.5%	12.0%	10.4%	11.2%
SAC (TMT)	18.1	22.1	23.9	24.1	26.7

CAPEX Highlights

RUB mln	FY 2011	FY 2012	FY 2013	9M 14
Russia	66,869	82,896	70,910	50,778
- as % of rev	21.4%	24.5%	20.0%	18.3%
Ukraine	4,487	4,125	8,840	2,248
- as % of rev	13.4%	10.9%	22.2%	8.9%
Armenia	1,344	751	1,093	345
- as % of rev	22.8%	12.5%	17.5%	6.9%
Turkmenistan	n/a	11	732	456
- as % of rev	n/a	3.4%	25.8%	17.8%
Group	72,798	87,783	81,575	53,827
- as % of rev	20.9%	23.2%	20.5%	17.7%

* * *

For further information, please contact in Moscow:

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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 Third 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)	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
Adjusted operating income	27,395	27,219	23,437	24,973	29,153
Add: D&A	18,895	17,769	18,014	18,258	19,033
Adjusted OIBDA	46,290	44,988	41,451	43,231	48,186

Russia (RUB mln)	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
Operating income	25,167	25,865	22,464	24,150	28,249
Add: D&A	16,356	15,243	15,310	16,159	17,188
OIBDA	41,523	41,107	37,773	40,309	45,437

Ukraine (RUB mln)	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
Operating income	3,397	3,109	2,634	2,153	2,071
Add: D&A	2,165	2,085	2,256	1,665	1,410
OIBDA	5,562	5,194	4,890	3,818	3,481

Armenia (RUB mln)	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
Operating income/(loss)	601	(27)	221	347	642
Add: D&A	382	448	440	419	425
OIBDA	983	420	662	766	1,067

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Turkmenistan (RUB mln)	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
Operating income	305	488	289	354	352
Add: D&A	4	11	25	23	27
OIBDA	309	498	315	377	379

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

Group	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
Adjusted operating margin	26.5%	26.0%	24.0%	25.3%	27.2%
Add: D&A	18.3%	17.0%	18.5%	18.5%	17.8%
Adjusted OIBDA margin	44.8%	42.9%	42.5%	43.7%	45.0%

Russia	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
Operating margin	27.5%	27.5%	25.7%	26.7%	28.5%
Add: D&A	17.9%	16.2%	17.5%	17.9%	17.3%
OIBDA margin	45.4%	43.7%	43.3%	44.6%	45.8%

Ukraine	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
Operating margin	31.4%	31.3%	27.6%	28.1%	25.5%
Add: D&A	20.0%	21.0%	23.6%	21.7%	17.4%
OIBDA margin	51.5%	52.3%	51.2%	49.8%	42.9%

Armenia	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
Operating margin	33.2%	-1.7%	15.2%	21.7%	32.9%
Add: D&A	21.2%	28.2%	30.2%	26.2%	21.8%
OIBDA margin	54.4%	26.5%	45.4%	47.9%	54.6%

Turkmenistan	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
Operating margin	37.8%	59.5%	35.9%	41.6%	38.7%
Add: D&A	0.5%	1.3%	3.1%	2.7%	3.0%
OIBDA margin	38.3%	60.8%	39.0%	44.3%	41.7%

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 Sep 30, 2014
Current portion of debt and of capital lease obligations	25,064	11,431
Long-term debt and capital lease obligations	194,083	222,369
Total debt	219,147	233,800
Less:		
Cash and cash equivalents	30,612	45,937
Short-term investments	14,633	23,999
Net debt	173,903	163,864

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

RUB mln	For nine months ended Sep 30, 2013	For nine months ended Sep 30, 2014
Net cash provided by operating activities	121,602	120,548
Less:		
Purchases of property, plant and equipment	(35,967)	(40,771)
Purchases of intangible assets	(7,946)	(13,056)
Proceeds from sale of property, plant and equipment	270	506
Investments in and advances to associates	(5,089)	(2,862)
Free cash flow from continuing operations	72,870	64,365

LTM OIBDA can be reconciled to our consolidated statements of operations as follows:

RUB mln	Three months ended	Nine months ended	Twelve months ended
	Dec 31, 2013	Sep 30, 2014	Sep 30, 2014
	A	B	C=A+B
Adjusted net operating income	27,219	77,562	104,781
Add: D&A	17,769	55,306	73,075
LTM Adjusted OIBDA	44,988	132,868	177,856

Attachment C

Definitions

Subscriber. We define a subscriber as an organization or individual, whose SIM-card:

- shows traffic-generating activity or
- accrues a balance for services rendered or
- is replenished or topped off

Over the course of any three-month period, inclusive within the reporting period, and was not blocked at the end of the 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 NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (UNAUDITED)

(Amounts in millions of RUB except per share amount)

	Nine months ended		Three months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net operating revenue				
Service revenue	283 759	275 003	99 317	96 238
Sales of handsets and accessories	19 811	18 689	7 831	7 150
	303 570	293 692	107 148	103 388
Operating expenses				
Cost of services	(64 855)	(61 940)	(23 134)	(21 262)
Cost of handsets and accessories	(17 484)	(15 446)	(6 825)	(5 877)
Sales and marketing expenses	(15 869)	(16 768)	(5 429)	(5 785)
General and administrative expenses	(66 757)	(64 125)	(21 664)	(21 565)
Depreciation and amortization expense	(55 306)	(55 484)	(19 034)	(18 895)
Allowance for doubtful accounts	(2 497)	(1 600)	(764)	(525)
Other operating expenses	(3 240)	(3 791)	(1 146)	(2 084)
Gain from settlement agreement with Uzbekistan government	3 604		3 604	
Net operating income	81 166	74 538	32 756	27 395
Currency exchange and transaction loss	(9 088)	(4 633)	(9 523)	(28)
Other (expenses)/income:				
Interest income	3 413	2 118	1 097	622
Interest expense, net of capitalized interest	(12 171)	(12 515)	(4 159)	(4 036)
Other income/(expenses)	1 115	11 592	(13)	688
Total other (expenses)/income, net	(7 643)	1 195	(3 075)	(2 726)
Income from continuing operations before provision for income taxes	64 435	71 100	20 158	24 641
Provision for income taxes	(13 542)	(13 964)	(3 819)	(6 282)
Net income from continuing operations	50 893	57 136	16 339	18 359

Net income from discontinued operations		3 733		
Net income	50 893	60 869	16 339	18 359
Less net income attributable to the noncontrolling interests	(717)	(782)	(277)	(280)
Net income attributable to the Group	50 176	60 087	16 062	18 079
Other comprehensive loss, net of taxes				
Currency translation adjustment	(5 701)	(3 312)	4 312	(423)
Unrealized gains/(losses) on derivatives	4 293	1 370	3 119	(224)
Unrecognized actuarial gains	15	28	7	9
Total other comprehensive (loss) income net of taxes	(1 393)	(1 914)	7 438	(638)
Total comprehensive income	49 500	58 955	23 777	17 721
Less comprehensive income attributable to the noncontrolling interests	(1 004)	(874)	(529)	(229)
Comprehensive income attributable to the Group	48 496	58 081	23 248	17 492
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	25.23	28.33	8.08	9.09
EPS from discontinued operations		1.88		
Total EPS	25.23	30.21	8.08	9.09

MOBILE TELESYSTEMS

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2014 (UNAUDITED) AND DECEMBER 31, 2013

(Amounts in millions of RUB)

	As of September 30, 2014	As of December 31, 2013
CURRENT ASSETS:		
Cash and cash equivalents	45 937	30 612
Short-term investments	23 999	14 633
Trade receivables, net	32 268	34 554
Accounts receivable, related parties	4 241	965
Inventory and spare parts	7 779	8 498
VAT receivable	7 556	6 651
Assets held for sale	792	
Prepaid expenses and other current assets	18 625	20 763
Total current assets	141 197	116 676
PROPERTY, PLANT AND EQUIPMENT	273 807	270 660
INTANGIBLE ASSETS	81 485	74 329
INVESTMENTS IN AND ADVANCES TO ASSOCIATES	16 371	13 393
OTHER INVESTMENTS	4 726	4 392
OTHER NON - CURRENT ASSETS	10 392	6 074
Total assets	527 978	485 524
CURRENT LIABILITIES		
Trade accounts payable	21 049	23 864
Accrued expenses and other current liabilities	68 495	49 619
Accounts payable, related parties	2 881	3 315
Current portion of long-term debt, capital lease obligations	11 431	25 064
Total current liabilities	103 856	101 862
LONG-TERM LIABILITIES		
Long-term debt	216 269	194 074
Capital lease obligation	6 100	10
Deferred income taxes	26 588	21 202
Deferred revenue and other long-term liabilities	9 383	9 391
Total long-term liabilities	258 340	224 677
Total liabilities	362 196	326 539
Redeemable noncontrolling interests	2 581	2 932
SHAREHOLDERS EQUITY:		
Total shareholders equity attributable to the Group	155 232	151 931

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Non-redeemable noncontrolling interest	7 969	4 122
TOTAL SHAREHOLDERS` EQUITY	163 201	156 053
Total liabilities and shareholders` equity	527 978	485 524

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

(Amounts in millions of RUB)

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	50 893	60 869
Net (income) from discontinued operations		(3 733)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	55 306	55 484
Currency exchange and translation loss	9 088	4 633
Debt issuance cost amortization	511	1 557
Amortization of deferred connection fees	(898)	(722)
Equity in net income of associates	(1 436)	(1 496)
Inventory obsolescence expense	289	599
Provision for doubtful accounts	2 497	1 600
Deferred tax loss	2 650	7 142
Non cash gain from a settlement agreement with Uzbekistan government	(3 604)	
Other non-cash items	61	(139)
Changes in operating assets and liabilities:		
Decrease/(Increase) in trade receivables	97	(6 857)
Decrease/(increase) in inventory	436	(379)
Decrease/(Increase) in prepaid expenses and other current assets	2 780	(4 281)
Increase in VAT receivable	(846)	(1 076)
Decrease in trade payables, accrued liabilities and other current liabilities	855	7 126
Dividends received	1 869	1 275
Net cash provided by operating activities - continuing operations	120 548	121 602
Net cash used in operating activities - discontinued operations		(547)
Net cash provided by operating activities	120 548	121 055

CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(40 771)	(35 967)
Purchases of intangible assets	(13 056)	(7 946)
Proceeds from sale of property, plant and equipment	506	269
Purchases of short-term investments	(33 093)	(27 997)
Proceeds from sale of short-term investments	40 019	21 290
Purchases of other investments	(15 714)	(703)
Proceeds from sale of other investments	730	
Investments in and advances to associates, net	(2 862)	(5 089)
Net cash used in investing activities - continuing operations	(64 241)	(56 143)
Net cash provided by investing activities - discontinued operations		115
Net cash used in investing activities	(64 241)	(56 028)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Acquisition of noncontrolling interests in existing subsidiaries	(26)	
Proceeds from issuance of notes	2	25 651
Repayment of notes	(17 441)	(1 876)
Notes and debt issuance cost paid	(25)	(184)
Capital lease obligation principal paid	(103)	(137)
Dividends paid	(37 547)	(29 086)
Proceeds from loans	20 000	
Loan principal paid	(8 095)	(37 041)
Other financial activities	22	(19)
Net cash (used in)/provided by financing activities - continuing operations	(43 213)	(42 692)
Net cash provided by/(used in) financing activities - discontinued operations		
Net cash (used in)/provided by financing activities	(43 213)	(42 692)
Effect of exchange rate changes on cash and cash equivalents	2 231	735
NET INCREASE IN CASH AND CASH EQUIVALENTS:	15 325	23 070
CASH AND CASH EQUIVALENTS, at beginning of the period	30 612	22 014
CASH AND CASH EQUIVALENTS, at end of the period	45 937	45 084

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:	<i>/s/ Andrei Dubovskov</i>	
	Name:	Andrei Dubovskov
	Title:	CEO

Date: **November 25, 2014**
