GOLDEN TELECOM INC
Form 10-Q
November 12, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003

(COMMISSION FILE NUMBER: 0-27423)

GOLDEN TELECOM, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	51-0391303
(State of incorporation)	(I.R.S. Employer Identification No.)

REPRESENTATION OFFICE GOLDEN TELESERVICES, INC.
1 KOZHEVNICHESKY PROEZD
MOSCOW, RUSSIA 115114
(Address of principal executive office)

(011-7-501) 797-9300
(Registrant's telephone number, including area code)

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 registrants were required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [X] No [ ]

At November 3, 2003 there were 28,790,972 outstanding shares of common stock of the registrant.

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* Please refer to the special note regarding forward-looking statements in this section.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF GOLDEN TELECOM, INC.

GOLDEN TELECOM, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS OF US$, EXCEPT SHARE DATA)

	DECEMBER 31, 2002 (AUDITED)	SEPTEMBER 30, 2003 (UNAUDITED)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 59,625	$ 54,908
Accounts receivable, net	42,226	53,327
VAT receivable	3,998	11,539
Prepaid expenses	7,811	8,314
Other current assets	13,794	17,030
TOTAL CURRENT ASSETS	127,454	145,118
Property and equipment, net of accumulated depreciation of $99,541 and $122,251 at December 31, 2002 and September		

30, 2003, respectively	166,121	188,781
Goodwill and intangible assets:		
Goodwill	71,703	71,703
Intangible assets, net of accumulated amortization of $14,418 and $20,687 at December 31, 2002 and September 30, 2003, respectively	55,965	62,218
Net goodwill and intangible assets	127,668	133,921
Restricted cash	1,515	1,138
Other non-current assets	13,052	10,019
TOTAL ASSETS	$435,810	$478,977

See notes to condensed consolidated financial statements.

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GOLDEN TELECOM, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS OF US$, EXCEPT SHARE DATA)

	DECEMBER 31, 2002 (AUDITED)
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	$ 43,870
VAT payable	4,398
Debt maturing within one year	8,988
Current capital lease obligation	1,775
Due to affiliates and related parties	1,999
Other current liabilities	9,950
TOTAL CURRENT LIABILITIES	70,980
Long-term debt, less current portion	24,111
Long-term capital lease obligation, less current portion	5,621
Long-term deferred tax liability	12,406
Other non-current liabilities	13,047
TOTAL LIABILITIES	126,165
Minority interest	2,187
SHAREHOLDERS' EQUITY	

Preferred stock, $0.01 par value (10,000,000 shares authorized; none issued and outstanding at December 31, 2002 and September 30, 2003)	--
Common stock, $0.01 par value (100,000,000 shares authorized; 27,021,415 shares issued and outstanding at December 31, 2002 and 28,782,421 shares issued and outstanding at September 30, 2003)	270
Additional paid-in capital	446,215
Accumulated deficit	(139,027)
TOTAL SHAREHOLDERS' EQUITY	307,458
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 435,810

See notes to condensed consolidated financial statements.

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GOLDEN TELECOM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS OF US$, EXCEPT PER SHARE DATA)
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTH SEPTEMBE
	2002	2003	2002
REVENUE:			
Telecommunication services	$ 43,132	$ 89,714	$ 113,596
Revenue from affiliates and related parties	3,244	381	8,347
TOTAL REVENUE	46,376	90,095	121,943
OPERATING COSTS AND EXPENSES:			
Access and network services (excluding depreciation and amortization)	21,617	44,883	54,543
Selling, general and administrative (excluding depreciation and amortization)	10,792	15,764	30,716
Depreciation and amortization	7,318	11,135	19,568
TOTAL OPERATING COSTS AND EXPENSES	39,727	71,782	104,827
INCOME FROM OPERATIONS	6,649	18,313	17,116
OTHER INCOME (EXPENSE):			
Equity in earnings (losses) of ventures	3,294	(25)	3,781
Interest income	365	254	1,207
Interest expense	(498)	(182)	(1,425)

Foreign currency gain (losses)	(119)	(177)	(626)
Minority interest	(182)	(127)	(409)
TOTAL OTHER INCOME (EXPENSE)	2,860	(257)	2,528
Income before income taxes	9,509	18,056	19,644
Income taxes	1,630	5,550	3,779
Income before cumulative effect of a change in accounting principle	7,879	12,506	15,865
Cumulative effect of a change in accounting principle, net of tax effect of $0	--	--	974
NET INCOME	$ 7,879	$ 12,506	$ 16,839
Basic earnings per share of common stock:			
Income before cumulative effect of a change in accounting principle	$ 0.32	$ 0.44	$ 0.69
Cumulative effect of a change in accounting principle	--	--	0.04
Net income per share - basic	$ 0.32	$ 0.44	$ 0.73
Weighted average common shares - basic	24,251	28,157	23,152
Diluted earnings per share of common stock:			
Income before cumulative effect of a change in accounting principle	$ 0.32	$ 0.43	$ 0.67
Cumulative effect of a change in accounting principle	--	--	0.04
Net income per share - diluted	$ 0.32	$ 0.43	$ 0.71
Weighted average common shares - diluted	24,666	29,072	23,603

See notes to condensed consolidated financial statements.

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GOLDEN TELECOM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS OF US$)
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 3	
	2002	2003

OPERATING ACTIVITIES		
Net income	$ 16,839	$ 37,161
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	15,655	24,798
Amortization	3,913	7,284
Equity in (earnings) losses of ventures, net of dividends ..... received	(3,781)	54
Foreign currency (gain) losses	626	(36)
Cumulative effect of a change in accounting principle	(974)	--
Other	1,101	(528)
Changes in assets and liabilities:		
Accounts receivable	(2,996)	(10,195)
Accounts payable and accrued expenses	(944)	2,164
VAT, net	(877)	(3,036)
Other changes in assets and liabilities	279	5,455
NET CASH PROVIDED BY OPERATING ACTIVITIES	28,841	63,121
INVESTING ACTIVITIES		
Purchases of property and equipment and intangible assets	(16,575)	(42,838)
Acquisitions, net of cash acquired	(5,357)	(15,345)
Cash received from escrow account	3,000	--
Restricted cash	1,884	377
Proceeds from investments available for sale	10,976	--
Purchases of investments available for sale	(2,000)	--
Loan received from equity investee	9,973	--
Other investing	4,044	2,105
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	5,945	(55,701)
FINANCING ACTIVITIES:		
Repayments of debt	(9,020)	(31,123)
Net proceeds from exercise of employee stock options	3,786	20,327
Other financing	(1,199)	(1,357)
NET CASH USED IN FINANCING ACTIVITIES	(6,433)	(12,153)
Effect of exchange rate changes on cash and cash equivalents	(230)	16
Net increase (decrease) in cash and cash equivalents	28,123	(4,717)
Cash and cash equivalents at beginning of period	37,404	59,625
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 65,527	$ 54,908

See notes to condensed consolidated financial statements.

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GOLDEN TELECOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. FINANCIAL PRESENTATION AND DISCLOSURES

Golden Telecom, Inc. ("GTI", "Golden Telecom" or the "Company") is a provider of a broad range of telecommunications services to businesses, other telecommunications service providers and consumers. The Company provides these services through its operation of voice, Internet and data networks, international gateways, local access and various value-added services in the Commonwealth of Independent States ("CIS"), primarily in Russia, and through its fixed line and mobile operation in Ukraine.

The financial statements included herein are unaudited and have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") for interim financial reporting and United States Securities and Exchange Commission ("SEC") regulations. Certain information and footnote disclosures normally included in complete financial statements prepared in accordance with US GAAP and SEC rules and regulations have been condensed or omitted pursuant to such US GAAP and SEC rules and regulations. In the opinion of management, the financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly the Company's financial position, results of operations and cash flows for the interim periods. These financial statements should be read in conjunction with the Company's 2002 audited consolidated financial statements and the notes related thereto. The results of operations for the three and nine months ended September 30, 2003 may not be indicative of the operating results for the full year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES

Goodwill and Intangible Assets

Effective January 1, 2002, GTI adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." In accordance with SFAS No. 142, GTI discontinued the amortization of goodwill as of such date. The Company also reclassified to other intangible assets approximately $1.3 million previously classified as goodwill. Upon the adoption of SFAS No. 142, the Company recorded a cumulative effect of a change in accounting principle for negative goodwill (deferred credit) arising on the Company's equity method investments in the amount of $1.0 million.

The total gross carrying value and accumulated amortization of the Company's intangible assets by major intangible asset class is as follows:

	AS OF DECEMBER 31, 2002		AS OF SEPTEMBER 3	
	(IN THOUSANDS)			
	COST	ACCUMULATED AMORTIZATION	COST	ACCU AMOR
Amortized intangible assets:				
Telecommunications service contracts	$ 48,022	$ (6,775)	$ 61,498	$(
Contract-based customer relationships	8,322	(811)	8,322	
Licenses	3,167	(1,249)	3,659	
Other intangible assets	10,872	(5,583)	9,426	
Total	$ 70,383	$(14,418)	$ 82,905	$(

Other intangible assets include software, Internet software and related content, as well as other intangible assets.

Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from non-owner sources. For the three and nine months ended September 30, 2002 and 2003, comprehensive income for the Company is equal to net income.

Stock-Based Compensation

The Company follows the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," for its Equity Participation Plan. SFAS No. 123 establishes a fair value method of accounting for employee stock options and similar equity instruments. The fair value method requires compensation cost to be measured at the grant date based on the value of the award and to be recognized over the service period. SFAS No. 123 generally allows companies to either account for stock-based compensation under the fair value method of SFAS No. 123 or under the intrinsic value method of Accounting Principles Board ("APB") No. 25, "Accounting for Stock Issued to Employees." The Company has elected to account for its stock-based compensation in accordance with the provisions of APB No. 25 and present pro forma disclosures of results of operations as if the fair value method had been adopted.

In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB No. 28, "Interim Financial Reporting", to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While the Statement does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB No. 25. SFAS No. 148 disclosure provisions are effective for years ending after December 15, 2002. The Company has adopted the amendments to SFAS No. 123 disclosure provisions required under SFAS No. 148 but will continue to use the intrinsic value method under APB No. 25 to account for stock-based compensation. As such, the adoption of SFAS No. 148 did not have an impact on the Company's consolidated financial position or results of operations.

The effect of applying SFAS No. 123 on the net income as reported is not representative of the effects on reported net income in future years due to the vesting period of the stock options and the fair value of additional stock options in future years.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS END SEPTEMBER 30,	
	2002	2003	2002	20
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Net income, as reported	$ 7,879	$ 12,506	$ 16,839	$ 3
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	2,263	885	6,763	
Pro forma net income	$ 5,616	$ 11,621	$ 10,076	$ 3
Net income per share:				
Basic - as reported	$ 0.32	$ 0.44	$ 0.73	$
Basic - pro forma	0.23	0.41	0.44	
Diluted - as reported	0.32	0.43	0.71	
Diluted - pro forma	0.23	0.40	0.43	

Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement provides the accounting for the cost of legal obligations associated with the retirement of long-lived assets. SFAS No. 143 requires entities to record the fair value of a legal liability for an asset retirement obligation in the period it is incurred. This cost is initially capitalized and amortized over the remaining life of the asset. Once the obligation is ultimately settled, any difference between final cost and the recorded liability is recognized as a gain or loss on disposition. The Company reviewed the requirements under SFAS No. 143 and has determined that no material legal obligations to remove long-lived assets exist. SFAS No. 143 is effective for years beginning after June 15, 2002. The adoption of SFAS No. 143 did not have a material impact on the Company's consolidated financial position or results of operations.

Exit or Disposal Activities

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This statement nullifies Emerging Issues Task Force No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)," which required that a liability for an exit cost be recognized upon the entity's commitment to an exit plan. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of the provisions of SFAS No. 146 did not have an impact on the Company's results of operations or financial position.

Financial Guarantees

In November 2002, the FASB issued FASB Interpretation No. 45,"Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN No. 45"). FIN No. 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. The disclosure provisions of FIN No. 45 are effective for financial statements of annual periods that end after December 15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. The adoption of the FIN No. 45 did not have an impact on the Company's results of operations or financial position.

Consolidation of Variable Interest Entities

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities". FIN No. 46 defines the concept of "variable interest" and requires existing unconsolidated variable interest entities to be consolidated into the financial statement of their primary beneficiaries if the variable interest entities do not effectively disperse risks among the parties involved. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquires before February 1, 2003. If it is reasonably possible that an enterprise will consolidate or disclose information about a variable interest entity when FIN No. 46 becomes effective, the enterprise must disclose information about those entities in all financial statements issued after January 31, 2003. There were no such entities created after January 31, 2003. The interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years, with a cumulative-effect adjustment as of the beginning of the first year restated. In October 2003, the FASB deferred the effective date of FIN No. 46 to the fourth quarter of 2003 for variable interests acquired before February 1, 2003. The adoption of the remaining provisions of FIN No. 46 did not have an impact on the Company's results of operations or financial positions.

Derivative Instruments and Hedging Activities

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The new guidance amends SFAS No. 133 for decisions made: (a) as part of the Derivatives Implementation Group process that effectively required amendments to SFAS No. 133, (b) in connection with other Board projects dealing with financial instruments, and (c) regarding implementation issues raised in relation to the application of the definition of derivative. The amendments set forth in SFAS No. 149 improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003. The adoption of the provisions of SFAS No. 149 did not have an impact on the Company's results of operations or financial position.

Financial Instruments

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 requires certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity to be classified as liabilities. The provisions of SFAS No. 150 are effective for financial instruments entered into or modified after May 31, 2003 and to all other instruments that exist as of the beginning of the first interim financial reporting period beginning after June 15, 2003. The Company does not have any financial instruments that meet the provisions of SFAS No. 150, therefore, adopting the provisions of SFAS No. 150 did not have an impact on the Company's results of operations or financial position.

Use of Estimates in Preparation of Financial Statements

The preparation of these condensed, consolidated financial statements, in conformity with US generally accepted accounting principles, requires management to make estimates and assumptions that affect amounts in the financial statements and accompanying notes and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Figures

Certain 2002 amounts have been reclassified to conform to presentation adopted in the current period.

3. NET EARNINGS PER SHARE

Basic earnings per share at September 30, 2002 and 2003 is computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share at September 30, 2002 and 2003 is computed on the basis of the weighted average number of common shares outstanding plus the effect of outstanding employee stock options using the "treasury stock" method. The number of stock options excluded from the diluted earnings per share computation, because their effect was antidilutive for the three months ended September 30, 2002 and 2003 was 452,456 and 10,000 stock options, respectively. The number of stock options excluded from the diluted earnings per share computation, because their effect was antidilutive for the nine months ended September 30, 2002 and 2003 was 322,317 and 154,261 stock options, respectively.

The components of basic and diluted earnings per share were as follows:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS E SEPTEMBER 3	
	2002	2003	2002	2
	(IN THOUSANDS, EXCEPT PER SHARE DA			
Income before cumulative effect of a change in accounting principle	$ 7,879	$ 12,506	$ 15,865	$ 3
Weighted average outstanding of:				
Common stock	24,251	28,157	23,152	2
Dilutive effect of:				
Employee stock options	415	915	451	

Common stock and common stock equivalents	24,666	29,072	23,603	2
Earnings per share before cumulative effect of a change in accounting principle:				
Basic	$ 0.32	$ 0.44	$ 0.69	$
Diluted	$ 0.32	$ 0.43	$ 0.67	$

GOLDEN TELECOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

4. INVESTMENT TRANSACTIONS

In August 2003, the Company completed the acquisition of 100% of OOO Sibchallenge ("Sibchallenge"), telecommunications service provider in Krasnoyarsk, Russia. The total purchase price of approximately $15.4 million consisted of cash consideration of approximately $15.0 million and approximately $0.4 million in direct transaction costs, including an investment banking fee of $0.3 million paid to Belongers Limited, an affiliate of Alfa Telecom Limited, a shareholder of the Company. The acquisition of Sibchallenge establishes GTI's presence in the Krasnoyarsk region. In addition, Sibchallenge has numbering capacity and interconnect agreements. The Company intends to use the assets of Sibchallenge in the manner in which they were previously used. The impact of this acquisition on the operating results of the Company for the three and nine months ended September 30, 2002 and 2003, respectively, if presented on a pro-forma basis, would not have been material.

The acquisition of Sibchallenge was accounted for as a purchase business combination in accordance with SFAS No. 141, "Business Combinations". The following is the condensed balance sheet of Sibchallenge as of August 31, 2003 reflecting preliminary purchase price allocation to the net assets acquired:

	AUGUST 31, 2003 (IN THOUSANDS)
ASSETS:	
Current assets	$ 1,792
Property and equipment	7,723
Telecommunications service contracts intangible assets	10,509
Total assets	$ 20,024
LIABILITIES:	
Current liabilities	$ 1,519
Non-current liabilities	3,121
Net assets	$ 15,384

Consideration and acquisition costs:	
Cash consideration	15,000
Direct transaction costs	384
Total purchase consideration and transaction costs	$ 15,384

The Company's interim financial statements reflect the preliminary allocation of the purchase price based on a preliminary fair value assessment of the assets acquired and liabilities assumed and, as such, the Company has assigned approximately $10.5 million to telecommunications service contracts intangible assets. These identified intangible assets will be amortized over a period of 10 years. The purchase price allocation will be finalized upon the completion of intangible assets valuation. There was no goodwill recorded as a result of this transaction. The results of operations of Sibchallenge have been included in the Company's consolidated operations since August 31, 2003.

In August 2003, the Company entered into a share exchange agreement with Nye Telenor East Invest AS ("Telenor") to acquire 100% of the issued and outstanding shares of capital stock in OAO Comincom ("Comincom") held by Telenor. Upon closure, Telenor will be issued GTI common stock such that Telenor will hold 19.5% of the outstanding common shares of GTI on the date of closing. The consummation of the transaction is conditioned upon, among other things, financial performance covenants for both parties, approval of GTI's shareholders and the Board of Directors of Telenor, and the receipt of all necessary regulatory approvals in the United States and Russia, which have been received. Upon consummation of the transaction, GTI will own 100% of Comincom. The transaction is expected to close before the end of 2003. The acquisition of Comincom requires the Company to obtain the approval of GTI's shareholders and as such, the Company filed a definitive proxy statement with the SEC in October 2003.

5. CONTINGENCIES

Tax Matters

The Company's policy is to accrue for contingencies in the accounting period in which a liability is deemed probable and the amount is reasonably determinable. In this regard, because of the uncertainties associated with the Commonwealth of Independent States taxes ("CIS Taxes"), the Company's final CIS Taxes may be in excess of the estimated amount expensed to date and accrued at September 30, 2003. It is the opinion of management that the ultimate resolution of the Company's liability for CIS Taxes, to the extent not previously provided for, will not have a material effect on the financial condition of the Company. However, depending on the amount and timing of an unfavorable resolution of any contingencies associated with CIS Taxes, it is possible that the Company's future results of operations or cash flows could be materially affected in a particular period.

Russian Environment and Current Economic Situation

The Russian economy, while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market in transition. These characteristics have in the past included higher than normal historic inflation, lack of liquidity in the capital markets, and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

Financial Guarantees

As of September 30, 2003, the Company has guaranteed $0.8 million of long-term debt for certain Russian registered equity investee ventures. Management estimates the fair value of these guarantees to be immaterial.

Other Matters

During 2002, Golden Telecom (Ukraine) ("GTU") was involved in a number of commercial disputes with Ukrtelecom and Ukrainian regulatory authorities. The most significant disputes include routing of traffic and GTU's lease rights of Ukrtelecom's technical premises. By the end of the first quarter of 2003, GTU had resolved these issues with Ukretelecom, but it is possible that commercial disputes with Ukrtelecom and the Ukrainian authorities could resurface in the future.

On March 1, 2002, the Company became aware the Kiev City Prosecutor's Office had initiated an investigation into the activities of the Company's management in GTU. GTU received a letter dated July 17, 2002 from the General Prosecutor of Ukraine stating that effective July 9, 2002 the Prosecutor's Office withdrew all charges against management due to the absence of grounds on which to prosecute. On October 7, 2002, the Kiev City Prosecutor's Office notified GTU that the previous decision to close the investigation had been revoked. In subsequent discussions with the Kiev City Prosecutor's Office, the investigators advised the management of GTU that the Prosecutor's Office is reviewing internal procedural requirements with the intent to close the investigation again.

In the ordinary course of business, the Company may be party to various legal and tax proceedings, and subject to claims, certain of which relate to the developing markets and evolving fiscal and regulatory environments in which the Company operates. In the opinion of management, the Company's liability, if any, in all pending litigation, other legal proceeding or other matters, will not have a material effect upon the financial condition, results of operations or liquidity of the Company.

6. SEGMENT INFORMATION

The Company operates in four segments within the telecommunications industry. The four segments are: (1) Business and Corporate Services; (2) Carrier and Operator Services; (3) Consumer Internet Services; and (4) Mobile Services. The following tables present financial information for both consolidated subsidiaries and equity investee ventures, segmented by the Company's lines of businesses for the three and nine months ended September 30, 2002 and 2003, respectively. Transfers between lines of businesses are included in the adjustments to reconcile segment to consolidated results. The Company evaluates performance based on the operating income (loss) of each strategic business unit, among other performance measures. Prior to the completion of the acquisition of the remaining 50% ownership interest in Sovintel and the subsequent merger of TeleRoss into Sovintel in April 2003, the Company managed business segments based on telecommunications products the Company provided. In April 2003, the Company re-designed the business segments around customer characteristics, and in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", the Company has presented the following four segments consistent with the information used by the chief operating decision maker to manage the operations for purposes of making operating decisions and allocating resources. The Company has restated segment information for prior periods to conform to the presentation adopted in the current period.

	BUSINESS AND CORPORATE	CARRIER AND OPERATOR	CONSUMER INTERNET	MOBILE SERVICES	CORPORATE & ELIMINATIONS	BUSINESS SEGMENT TOTAL	CON R
					(IN THOUSANDS)		
THREE MONTHS ENDED SEPTEMBER 30, 2002							
Revenue from external customers	$ 38,685	$ 29,038	$ 5,155	$ 3,303	$ --	$ 76,181	$
Intersegment revenue	360	323	--	--	(683)	--	
Operating income (loss) ..	8,783	8,626	(1,337)	1,100	(1,191)	15,981	
Identifiable assets	164,507	190,788	40,736	8,700	35,967	440,698	
Capital expenditures	7,818	3,745	409	35	79	12,086	

	BUSINESS AND CORPORATE	CARRIER AND OPERATOR	CONSUMER INTERNET	MOBILE SERVICES	CORPORATE & ELIMINATIONS	BUSINESS SEGMENT TOTAL	CON R
					(IN THOUSANDS)		
THREE MONTHS ENDED SEPTEMBER 30, 2003							
Revenue from external customers	$ 46,470	$ 32,796	$ 7,215	$ 3,649	$ --	$ 90,130	$
Intersegment revenue	78	146	--	--	(224)	--	
Operating income (loss) ..	12,495	7,031	(835)	1,679	(1,937)	18,433	
Identifiable assets	166,776	154,824	43,983	7,004	110,141	482,728	
Capital expenditures	8,863	5,649	522	83	22	15,139	

GOLDEN TELECOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

	BUSINESS AND CORPORATE	CARRIER AND OPERATOR	CONSUMER INTERNET	MOBILE SERVICES	CORPORATE & ELIMINATIONS	BUSINESS SEGMENT TOTAL	CON R
					(IN THOUSANDS)		
NINE MONTHS ENDED SEPTEMBER 30, 2002							
Revenue from external customers	$ 110,128	$ 76,516	$ 15,332	$ 9,854	$ --	$211,830	$
Intersegment revenue	587	578	--	--	(1,165)	--	
Operating income (loss) ..	27,508	21,725	(3,487)	2,633	(4,533)	43,846	
Identifiable assets	164,507	190,788	40,736	8,700	35,967	440,698	
Capital expenditures	22,350	11,144	1,586	137	123	35,340	

	BUSINESS AND CORPORATE	CARRIER AND OPERATOR	CONSUMER INTERNET	MOBILE SERVICES	CORPORATE & ELIMINATIONS	BUSINESS SEGMENT TOTAL	CON R
					(IN THOUSANDS)		
NINE MONTHS ENDED SEPTEMBER 30, 2003							
Revenue from external customers	$128,478	$ 89,093	$ 21,437	$ 10,413	$ --	$249,421	$
Intersegment revenue	647	612	--	--	(1,259)	--	
Operating income (loss) ..	36,562	19,306	(1,895)	4,254	(5,069)	53,158	
Identifiable assets	166,776	154,824	43,983	7,004	110,141	482,728	
Capital expenditures	26,243	14,617	1,950	292	52	43,154	

GEOGRAPHIC DATA

Revenues are based on the location of the operating company providing the service.

The following tables present financial information segmented by the Company's geographic regions for the three and nine months ended September 30, 2002 and 2003.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

(IN THOUSANDS)

	RUSSIA	UKRAINE	CORPORATE, OTHER COUNTRIES AND ELIMINATIONS	CONSOLIDATED RESULTS
	(IN THOUSANDS)			
THREE MONTHS ENDED SEPTEMBER 30, 2002				
Revenue	$ 37,523	$ 9,199	$ (346)	$ 46,376
Long-lived assets	269,693	25,398	547	295,638

	RUSSIA	UKRAINE	CORPORATE, OTHER COUNTRIES AND ELIMINATIONS	CONSOLIDATED RESULTS
	(IN THOUSANDS)			
THREE MONTHS ENDED SEPTEMBER 30, 2003				
Revenue	$ 78,961	$ 11,991	$ (857)	$ 90,095
Long-lived assets	302,092	23,764	2,751	328,607

	RUSSIA	UKRAINE	CORPORATE, OTHER COUNTRIES AND ELIMINATIONS	CONSOLIDATED RESULTS
	(IN THOUSANDS)			
NINE MONTHS ENDED SEPTEMBER 30, 2002				
Revenue	$ 96,528	$ 26,121	$ (706)	$ 121,943
Long-lived assets ...	269,693	25,398	547	295,638

	RUSSIA	UKRAINE	CORPORATE, OTHER COUNTRIES AND ELIMINATIONS	CONSOLIDATED RESULTS
	(IN THOUSANDS)			

NINE MONTHS ENDED SEPTEMBER 30, 2003				
Revenue..................	$ 219,250	$ 31,852	$ (1,869)	$ 249,233
Long-lived assets........	302,092	23,764	2,751	328,607

7. SIGNIFICANT EQUITY METHOD SUBSIDIARY INFORMATION

The following table presents summarized income statement information from the Company's significant equity investee, Sovintel, for the period from July 1, 2002 to September 16, 2002 and the period from January 1, 2002 to September 16, 2002. Effective September 17, 2002, the Company began consolidating the results of operations of Sovintel as a result of the acquisition of the 50% interest not controlled previously.

	PERIOD FROM JULY 1 - SEPTEMBER 16, 2002	PERIOD FROM JANUARY 1 - SEPTEMBER 16, 2002
	(IN THOUSANDS)	
Revenues	$ 33,581	$ 101,261
Gross Margin	15,146	45,248
Income from operations ...	9,079	25,875
Net income	5,944	17,908

8. SHAREHOLDERS' EQUITY

The Company's outstanding shares of common stock increased by 1,099,003 and 1,761,006 shares issued in connection with the exercise of stock options in the three and nine months ended September 30, 2003, respectively.

9. DEBT

In June 2003, the Company settled early $30.0 million of outstanding debt plus accrued interest under a credit facility with ZAO Citibank. There was no penalty for the early settlement of this debt however an additional $0.2 million of previously capitalized financing costs was recognized as interest expense which was previously being recognized over the life of the facility.

10. SUBSEQUENT EVENTS

On October 27, 2003, our equity investee, MCT Corp. declared a cash dividend of $1.90 per common share to holders of record as of October 27, 2003. The Company's portion of this cash dividend is approximately $4.7 million.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis relates to our financial condition and results of operations of the Company for the three and nine months ended September 30, 2003 and 2002, respectively. This discussion should be read in conjunction with the Company's Condensed Consolidated Financial Statements and the notes related thereto appearing elsewhere in this Report.

OVERVIEW

We are a leading facilities-based provider of integrated telecommunications and Internet services to businesses and other high-usage customers and telecommunications operators in, 149 combined access points in Moscow, Kiev, St. Petersburg, Nizhny Novgorod, Krasnoyarsk and other major population centers throughout Russia and other countries of the Commonwealth of Independent States ("CIS"). We organize our operations into the four business groups, as follows:

- BUSINESS AND CORPORATE SERVICES. Using our fiber optic and satellite-based networks in major metropolitan areas of Russia, Ukraine and other countries of the CIS, we provide business and corporate services including voice and data services with corporate clients across all geographical markets and all industry segments, except other telecommunications operators;

- CARRIER AND OPERATOR SERVICES. Using our fiber optic and satellite-based networks in and between major metropolitan areas of Russia, Ukraine and other countries of the CIS, we provide a range of carrier and operator services including voice and data services with foreign and Russian telecommunications and mobile operators;

- CONSUMER INTERNET SERVICES. Using our fiber optic and satellite-based network, we provide dial-up Internet access and web content offered through a family of Internet portals throughout Russia; and

- MOBILE SERVICES. Using our mobile networks in Kiev and Odessa, Ukraine, we provide mobile services with value-added features, such as voicemail, roaming and messaging services on a subscription and prepaid basis.

We offer all of our integrated telecommunication services under the Golden Telecom brand and our consumer Internet services under the ROL brand in Russia.

Additionally, we hold a minority interest in MCT Corp. ("MCT"), which in turn has ownership interests in 19 mobile operations located throughout Russia and in Uzbekistan and Tajikistan. We treat our ownership interest in MCT as an equity method investment and are not actively involved in the day-to-day management of the operations.

In August 2003, MCT concluded a binding agreement with OJSC Mobile TeleSystems on the sale of five of its cellular operators. OJSC Mobile TeleSystems acquired these five cellular operators from MCT for $70.0 million and assumed certain guarantees as part of the transaction.

Most of our revenue is derived from high-volume business customers and carriers. Our business customers include large multi-national companies, local enterprises, financial institutions, hotels and government agencies. We believe that the carriers, including mobile operators, which contribute a substantial portion of our revenues, in turn derive a portion of their business from high-volume business customers. Thus, we believe that the majority of our ultimate end-users are businesses that require access to highly reliable and advanced telecommunications facilities to sustain their operations.

We have traditionally competed for customers on the basis of network quality, customer service and range of services offered. In the past several years, other telecommunications operators have also introduced high-quality services to the segments of the business market in which we operate. Competition with these operators is intense, and frequently results in declining prices for some of our services, which adversely affect our revenues. In addition, some of our competitors do not link their prices to the dollar/ruble exchange rate, so when the ruble devalues, their prices effectively become relatively cheaper than our prices. The ruble exchange rate with the dollar has become relatively stable since early 2000, has appreciated during 2003 and price pressures associated with devaluation have eased considerably. We cannot be certain that the exchange rate will remain stable in the future and therefore we may experience additional price pressures.

Since early 2000, we have witnessed a recovery in the Russian market, but with downward pricing pressures persisting. The downward pricing pressures result from increased competition in Russia and the global trend toward lower telecommunications tariffs.

In 2001, 2002 and during 2003, our traffic volume increases exceeded the reduction in tariffs on certain types of voice traffic. This is a contributory factor to the increases in our revenue in 2001, 2002 and during 2003. We expect that this trend of year over year increases in traffic volume will continue as long as the Russian economy continues to develop at its current pace.

In order to handle additional traffic volumes, we have expanded and will continue to expand our fiber optic capacity along our heavy traffic and high cost routes to mitigate declines in traffic margins, reduce our unit transmission costs and ensure sufficient capacity to meet the growing demand for data and Internet services. We expect to and have continued to add additional transmission capacity, which due to its fixed cost nature can initially depress margins, but will ultimately allow us to improve or maintain our margins.

In Kiev, Ukraine, we have entered into agreements to obtain sufficient numbering capacity for our business services operations. Our ability to grow our business services operations in Kiev may become limited if the parties who provide our numbering capacity and other infrastructure requirements are unable or unwilling to perform their contracts with us.

During 2002, Golden Telecom (Ukraine) ("GTU") was involved in a number of commercial disputes with Ukrtelecom and Ukrainian regulatory authorities. The most significant disputes include routing of traffic and GTU's lease rights of Ukrtelecom's technical premises. By the end of the first quarter of 2003, GTU had resolved these issues with Ukretelecom, but it is possible that commercial disputes with Ukrtelecom and the Ukrainian authorities could resurface in the future.

In February 2003, the Ukrainian Parliament overrode the President's veto and adopted an amendment to the Ukrainian Communications law prohibiting all telecommunications operators from charging their customers for incoming calls, thus introducing the calling party pays' ("CPP") principle, which entered into effect on September 19, 2003. Simultaneously, state regulated tariffs for calls from the public switched telephone network to mobile networks have been introduced allowing operators to receive and share revenue from calls to mobile networks. To effect CPP settlements on our network we have entered into an interim arrangement with Ukrtelecom on assigning of a national destination code numbering to our mobile customers and on reallocation of our interconnect numbering capacity in Kiev from our mobile to our fixed network. This arrangement became effective in November 2003 and enables us to share revenue generated when a fixed line partly calls a mobile telephone.

On January 1, 2004, a new law on telecommunications will come into effect in Russia. The law sets the legal basis for the telecommunications business in Russia and defines the status that state bodies have in the telecommunications sector. We cannot predict with any certainty how the new law will affect us. The new law may increase the regulation of our operations and until such time as appropriate regulations consistent with the new law are promulgated, there will be a period of confusion and ambiguity as regulators interpret the legislation. The new law may result in increased costs to us.

In addition to our traditional voice and data service provision, prior to 2002, we were actively pursuing a strategy of developing non-traditional telecom service offerings including those related to the Internet, such as web-hosting, web design, and vertical and horizontal Internet portal development. In line with experience outside of Russia, we did not see the rapid development of Internet based services that were expected. Internet based advertising and e-commerce revenues did not develop to significant levels and we reviewed our long term strategy for Internet based products. As a result of this review, we evaluated the future cash flows for this business, and we recorded an impairment charge of $20.9 million in the fourth quarter of 2001. We expect to see some growth in Internet based advertising and will continue to offer this service to support our dial-up Internet service and be in a position to capitalize on any upturn in demand for this service.

We have seen a significant year over year increase in our dial-up Internet subscriber numbers and we expect the increase to continue, as our base of regional subscribers expands. As additional dial-up capacity becomes available in Moscow, we expect to increase our market share in the capital as well. In June 2001, we completed the purchase of a leading Russian Internet service provider, Cityline, together with Uralrelcom, another Internet service provider and an infrastructure company, PTK, and together, these entities allowed us to increase our regional dial-up Internet presence and increase our numbering capacity and access lines in Moscow. The new Moscow capacity was initially placed into service in July 2002. The Moscow numbering capacity and some of the access lines provided by PTK are allocated to support Business and Corporate Services and Carrier and Operator Services division end-user customers, with the majority of the access lines being allocated to support planned increases in dial-up Internet subscribers in our Consumer Internet Services division.

We have continued to integrate our acquisitions and improve operational efficiency while at the same time controlling costs. We expect to incur further costs in connection with overall streamlining of our operations in 2003. As of April 15, 2003, all assets,

liabilities, rights and obligations of TeleRoss were transferred to Sovintel as part of the legal merger of these two wholly-owned subsidiaries.

RECENT ACQUISITIONS

In August 2003, we completed the acquisition of 100% ownership interest in OOO Sibchallenge ("Sibchallenge") for cash consideration of approximately $15.4 million, a telecommunications service provider in Krasnoyarsk, Russia and have full operational and management control. The acquisition of Sibchallenge establishes our presence in the Krasnoyarsk region. In addition, Sibchallenge has numbering capacity and interconnect agreements. We intend to use the assets of Sibchallenge in the manner in which they were previously used.

In August 2003, we entered into a share exchange agreement with Nye Telenor East Invest AS ("Telenor") to acquire 100% of the issued and outstanding shares of capital stock in OAO Comincom ("Comincom") held by Telenor. Upon closure, Telenor will be issued our common stock such that Telenor will hold 19.5% of the outstanding common shares of GTI on the date of closing. The consummation of the transaction is conditioned upon, among other things, financial performance covenants for both parties, approval of GTI's shareholders and the Board of Directors of Telenor, and the receipt of all necessary regulatory approvals in the United States and Russia, which have been received. Upon consummation of the transaction, we will own 100% of Comincom. The transaction is expected to close before the end of 2003. The acquisition of Comincom requires the Company to obtain the approval of our shareholders and as such, we filed a definitive proxy statement with the SEC in October 2003.

CRITICAL ACCOUNTING POLICIES

The fundamental objective of financial reporting is to provide useful information that allows a reader to comprehend our business activities. To assist that understanding, management has identified our "critical accounting policies". These policies have the potential to have a significant impact on our financial statements, either because of the significance of the financial statement item to which they relate, or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events which are continuous in nature.

Revenue recognition policies; we recognize operating revenues as services are rendered or as products are delivered to customers. Certain revenues, such as connection fees, are deferred in accordance with Staff Accounting Bulletin ("SAB") No. 101. In connection with recording revenue, estimates and assumptions are required in determining the expected conversion of the revenue streams to cash collected. In line with guidance in SAB No. 101, we also defer direct incremental costs related to connection fees, not exceeding the revenue deferred. Deferred revenues are subsequently recognized over the estimated average customer lives, which are periodically reassessed by us, and such reassessment may impact our future operating results.

Allowance for doubtful accounts policies; the allowance estimation process requires management to make assumptions based on historical results, future expectations, the economic and competitive environment, changes in the creditworthiness of our customers, and other relevant factors. Changes in the underlying assumptions may have a significant impact on the results of our operations. In particular, we have certain amounts due to and from subsidiaries of a European telecommunications operator who is currently subject to bankruptcy proceedings. The ultimate resolution of this matter will be affected by a number of factors including the determination of legal obligations of each party, the course of the bankruptcy proceedings, and the enforceability of any determinations. We have recognized provisions based on our preliminary estimate of net exposure on the resolution of these receivables and payables. If our assessment proves to be incorrect we may have to recognize an additional provision of up to $1.6 million, net of tax, although management believes that the possibility of such an adverse outcome is remote.

Long-lived asset recovery policies; this policy is in relation to long-lived assets, consisting primarily of property and equipment and intangibles, which comprise a significant portion of our total assets. Changes in technology or changes in our intended use of these assets may cause the estimated period of use or the value of these assets to change. We perform periodic internal studies to confirm the appropriateness of estimated economic useful lives for each category of current property and equipment. Additionally, long-lived assets, including intangibles, are reviewed for impairment whenever events or changes in circumstances have indicated that their carrying amounts may not be recoverable. Estimates and assumptions used in both setting useful lives and testing for recoverability of our long-lived assets require the exercise of management's judgment and estimation based on certain assumptions concerning the expected life of any asset and expected future cash flows from the use of an asset.

Goodwill and assessment of impairment; Commencing from the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets", on January 1, 2002, we will perform a goodwill impairment testing annually as of October 1 or whenever impairment indicators exist. This test requires a significant degree of judgment about the future events and it includes determination of the reporting units, allocation of goodwill to the reporting units and comparison of the fair value with the carrying amount of each reporting unit. Based on the discounted cash flow valuations performed in 2002, we concluded that for all reporting units the fair value is in excess of the respective carrying amounts.

Valuation allowance for deferred tax asset; we record valuation allowances related to tax effects of deductible temporary differences and loss carryforwards when, in the opinion of management, it is more likely than not that the respective tax assets will not be realized. Changes in our assessment of probability of realization of deferred tax assets may impact our effective income tax rate.

RECENT ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2002, we adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." In accordance with SFAS No. 142, we discontinued the amortization of goodwill as of such date. We also reclassified to other intangible assets approximately $1.3 million previously classified as goodwill. Upon the adoption of SFAS No. 142, we recorded a cumulative effect of a change in accounting principle for negative goodwill (deferred credit) arising on our equity method investments in the amount of $1.0 million.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement provides the accounting for the cost of legal obligations associated with the retirement of long-lived assets. SFAS No. 143 requires entities to record the fair value of a legal liability for an asset retirement obligation in the period it is incurred. This cost is initially capitalized and amortized over the remaining life of the asset. Once the obligation is ultimately settled, any difference between final cost and the recorded liability is recognized as a gain or loss on disposition. We reviewed the requirements under SFAS No. 143 and have determined that no material legal obligations to remove long-lived assets exist. SFAS No. 143 is effective for years beginning after June 15, 2002. The adoption of SFAS No. 143 did not have a material impact on our consolidated financial position or results of operations.

During the year ended December 31, 2002, the FASB issued several new accounting standards including, SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections", SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." In November 2002, the FASB also issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". These standards did not have a material impact on our financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This statement nullifies Emerging Issues Task Force No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)," which required that a liability for an exit cost be recognized upon the entity's commitment to an exit plan. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of the provisions of SFAS No. 146 did not have an impact on our results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB No. 28, "Interim Financial Reporting", to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While the Statement does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB No. 25. SFAS No. 148 disclosure provisions are effective for years ending after December 15, 2002. We have adopted the amendments to SFAS No. 123 disclosure provisions required under SFAS No. 148 but we will continue to use the intrinsic value method under APB No. 25 to account for stock-based

compensation. As such, the adoption of SFAS No. 148 did not have a significant impact on our consolidated financial position or results of operations.

The effect of applying SFAS No. 123 on the net income as reported is not representative of the effects on reported net income in future years due to the vesting period of the stock options and the fair value of additional stock options in future years.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS END SEPTEMBER 30	
	2002	2003	2002	20
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Net income, as reported	$ 7,879	$ 12,506	$ 16,839	$ 3
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	2,263	885	6,763	
Pro forma net income	$ 5,616	$ 11,621	$ 10,076	$ 3

Net income per share:				
Basic - as reported	$ 0.32	$ 0.44	$ 0.73	$
Basic - pro forma	0.23	0.41	0.44	
Diluted - as reported	0.32	0.43	0.71	
Diluted - pro forma	0.23	0.40	0.43	

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities". FIN No. 46 defines the concept of "variable interest" and requires existing unconsolidated variable interest entities to be consolidated into the financial statement of their primary beneficiaries if the variable interest entities do not effectively disperse risks among the parties involved. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquires before February 1, 2003. If it is reasonably possible that an enterprise will consolidate or disclose information about a variable interest entity when FIN No. 46 becomes effective, the enterprise must disclose information about those entities in all financial statements issued after January 31, 2003. As of the date of this report, there were no such entities created after January 31, 2003. The interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years, with a cumulative-effect adjustment as of the beginning of the first year restated. In October 2003, the FASB deferred the effective date of FIN No. 46 to the fourth quarter of 2003 for variable interests acquired before February 1, 2003. The adoption of the remaining provisions of FIN No. 46 did not have a material impact on our results of operations or financial positions.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The new guidance amends SFAS No. 133 for decisions made: (a) as part of the Derivatives Implementation Group process that effectively required amendments to SFAS No. 133, (b) in connection with other Board projects dealing with financial instruments, and (c) regarding implementation issues raised in relation to the application of the definition of derivative. The amendments set forth in SFAS No. 149 improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003. The adoption of the provisions of SFAS No. 149 did not have an impact on our results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 requires certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity to be classified as liabilities. The provisions of SFAS No. 150 are effective for financial instruments entered into or modified after May 31, 2003 and to all other instruments that exist as of the beginning of the first interim financial reporting period beginning after June 15, 2003. The Company does not have any financial instruments that meet the provisions of SFAS No. 150, therefore, adopting the provisions of SFAS No. 150 did not have an impact on our results of operations or financial position.

RESULTS OF OPERATIONS

GTI is a leading facilities-based provider of integrated telecommunications and Internet services to businesses and other high-usage customers and telecommunications operators in Moscow, Kiev, St. Petersburg, Nizhny Novgorod, Krasnoyarsk and other major population centers throughout Russia and other countries of the Commonwealth of Independent States. The results of our four business groups from the operations of our consolidated entities combined with the non-consolidated entities where we are actively involved in the day-to-day management, are shown in footnote 6 "Segment Information - Line of Business Data" to our condensed, consolidated financial statements.

Our functional currency is the US dollar, as the majority of our cash flows are indexed to, or denominated in US dollars. Through December 31, 2002, Russia has been considered to be a highly inflationary environment. From January 1, 2003, Russia ceased to be considered as a highly inflationary economy. As we currently believe our functional currency is the US dollar, we do not expect this change to have a material impact on our results of operations or financial position.

We have continued to integrate our acquisitions and improve operational efficiency while at the same time controlling costs. We expect to incur further costs in connection with overall streamlining of our operations in 2003. As of April 15, 2003, all assets, liabilities, rights and obligations of TeleRoss were transferred to Sovintel as part of the legal merger of these two wholly-owned subsidiaries. This resulted in the reorganization of our operations along the lines of customer characteristics as opposed to the types of telecommunications products we provide. Therefore, in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", we have aligned our operating segments in the manner that the chief operating decision maker manages the operations for purposes of making operating decisions and allocating resources.

The discussion of our results of operations is organized as follows:

- Consolidated Results of Operations. Consolidated Results of Operations for the Three Months Ended September 30, 2003 compared to the Consolidated Results of Operations for the Three Months Ended September 30, 2002.

- Consolidated Results of Operations. Consolidated Results of Operations for the Nine Months Ended September 30, 2003 compared to the Consolidated Results of Operations for the Nine Months Ended September 30, 2002.

- Consolidated Financial Positions. Significant changes in Consolidated Financial Position at September 30, 2003 compared to the Consolidated Financial Position at December 31, 2002.

CONSOLIDATED RESULTS-- CONSOLIDATED RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO THE CONSOLIDATED RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002

REVENUE

Our revenue increased by 95% to $90.1 million for the three months ended September 30, 2003 from $46.3 million for the three months ended September 30, 2002. The breakdown of revenue by business group was as follows:

	CONSOLIDATED REVENUE	CONSOLIDATED REVENUE

	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003
	(IN MILLIONS)	
REVENUE		
Business and Corporate Services	$ 20.3	$ 46.7
Carrier and Operator Services	18.3	32.9
Consumer Internet Services	5.2	7.2
Mobile Services	3.3	3.6
Eliminations	(0.8)	(0.3)
TOTAL REVENUE	$ 46.3	$ 90.1

Business and Corporate Services. Revenue from Business and Corporate Services increased by 130% to $46.7 million for the three months ended September 30, 2003 from $20.3 million for the three months ended September 30, 2002. The primary reason for the increase is due to the acquisition of the remaining 50% ownership interest in Sovintel which was completed in the third quarter of 2002. We began consolidating Sovintel into our results of operations from September 17, 2002. In addition, we had increases in our domestic traffic due to adding 456 new corporate customers and signing up 22 new multi-tenant business centers in the three months ended September 30, 2003 along with actively promoting our new services among our client base.

Revenue for the Business and Corporate Services division of Golden Telecom BTS increased by 15% to $4.7 million for the three months ended September 30, 2003 from $4.1 million for the three months ended September 30, 2002. The increase in revenue was due to an increase in the total of intercity minutes of use by business and corporate clients and monthly recurring charges.

Carrier and Operator Services. Revenue from Carrier and Operator Services increased by 80% to $32.9 million for the three months ended September 30, 2003 from $18.3 million for the three months ended September 30, 2002. The primary reason for the increase is due to the acquisition of the remaining 50% ownership interest in Sovintel which was completed in the third quarter of 2002. We began consolidating Sovintel into our results of operations from September 17, 2002. In addition, we have added a number of new carriers with increased volumes of traffic and increased the number of services that we offer to cellular providers which have more than offset general tariff declines, although pricing pressures still exists.

Revenue for the Carrier and Operator Services division of Golden Telecom BTS increased by 100% to $3.6 million for the three months ended September 30, 2003 from $1.8 million for the three months ended September 30, 2002. The increase in revenue was due to increasing volumes of incoming international traffic which we are able to terminate in a number of cities in Ukraine as well as increasing volumes of outgoing international traffic.

Consumer Internet Services. Revenue from Consumer Internet Services increased by 38% to $7.2 million for the three months ended September 30, 2003 from $5.2 million for the three months ended September 30, 2002. The increase is largely the result of increases in the number of dial-up Internet subscribers from 191,707 at September 30, 2002 to 291,167 at September 30, 2003 offset by a decrease in the average revenue per dial-up Internet subscriber from approximately $8.18 per month to approximately $8.13 per month over the same period.

Mobile Services. Revenue from Mobile Services increased by 9% to $3.6 million for the three months ended September 30, 2003 from $3.3 million for the three months ended September 30, 2002. Active subscribers increased from 35,576 at September 30, 2002 to 36,861 at September 30, 2003 and the average revenue per active subscriber has increased by 8% to approximately $33.26 per month due to an increasing number of subscribers on a tariff plan which allows for unlimited local calls for a fixed payment of $99 per month.

EXPENSES

The following table shows our principal expenses for the three months ended September 30, 2003 and September 30, 2002:

	CONSOLIDATED EXPENSES FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002	CONSOLIDATED EXPENSES FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003
	(IN MILLIONS)	
COST OF REVENUE		
Business and Corporate Services	$ 11.6	$ 20.5
Carrier and Operator Services	6.3	19.1
Consumer Internet Services	3.7	4.9
Mobile Services	0.7	0.7
Eliminations	(0.8)	(0.3)
TOTAL COST OF REVENUE	21.5	44.9
Selling, general and administrative ...	10.8	15.8
Depreciation and amortization	7.3	11.2
Equity in earnings of ventures	(3.3)	--
Interest income	(0.4)	(0.3)
Interest expense	0.5	0.2
Foreign currency loss	0.1	0.2
Provision for income taxes	$ 1.6	$ 5.6

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Cost of Revenue

Our cost of revenue increased by 109% to $44.9 million for the three months ended September 30, 2003 from $21.5 million for the three months ended September 30, 2002.

Business and Corporate Services. Cost of revenue from Business and Corporate Services increased by 77% to $20.5 million, or 44% of revenue, for the three months ended September 30, 2003 from $11.6 million, or 57% of revenue, for the three months ended September 30, 2002. The decrease in cost of revenue as a percentage of revenue is due of the acquisition of the remaining 50% ownership interest in Sovintel which was completed in the third quarter of 2002. We began consolidating Sovintel into our results of operations from September 17, 2002.

Cost of revenue for the Business and Corporate Services division of Golden Telecom BTS increased by 11% to $2.1 million, or 45% of revenue, for the three months ended September 30, 2003 from $1.9 million, or 46% of revenue, for the three months ended September 30, 2002.

Carrier and Operator Services. Cost of revenue from Carrier and Operator Services increased by 203% to $19.1 million, or 58% of revenue, for the three months ended September 30, 2003 from $6.3 million, or 34% of revenue, for the three months ended September 30, 2002. The increase in cost of revenue as a percentage of revenue is due to the acquisition of the remaining 50% ownership interest in Sovintel which was completed in the third quarter of 2002. We began consolidating Sovintel into our results of operations from September 17, 2002.

Cost of revenue for the Carrier and Operator Services division of Golden Telecom BTS increased by 127% to $2.5 million, or 69% of revenue, for the three months ended September 30, 2003 from $1.1 million, or 61% of revenue, for the three months ended September 30, 2002. Cost of revenue increased as a percentage of revenue due to the increased volumes of certain lower margin international incoming traffic revenue.

Consumer Internet Services. Cost of revenue from Consumer Internet Services increased by 32% to $4.9 million, or 68% of revenue, for the three months ended September 30, 2003 from $3.7 million, or 71% of revenue, for the three months ended September 30, 2002. The decrease in cost of revenue as a percentage of revenue was mainly due to additional low cost local interconnect capacity becoming available in the third quarter of 2002.

Mobile Services. Cost of revenue from Mobile Services was $0.7 million, or 19% of revenue, for the three months ended September 30, 2003 level with the $0.7 million, or 21% of revenue, for the three months ended September 30, 2002. The decrease in cost of revenue as a percentage of revenue was mainly due to the increased number of subscribers using the unlimited local call tariff plan which does not lead to additional settlement costs with other operators.

Selling, General and Administrative

Our selling, general and administrative expenses increased by 46% to $15.8 million, or 18% of revenue, for the three months ended September 30, 2003 from $10.8 million, or 23% of revenue, for the three months ended September 30, 2002. This increase in selling, general and administrative expenses was mainly due to increases in employee related costs, advertising, inventory obsolescence, bad debt expense and other selling, general and administrative expenses arising from the consolidation of Sovintel from September 17, 2002 into our results of operations.

Depreciation and Amortization

Our depreciation and amortization expenses increased by 53% to $11.2 million for the three months ended September 30, 2003 from $7.3 million for the three months ended September 30, 2002. The increase was due in part to depreciation on continuing capital expenditures of the consolidated entities, but primarily relates to our acquisition of the remaining 50% of Sovintel and subsequent consolidation of Sovintel as of September 17, 2002 into our results of operations.

Equity in Earnings of Ventures

The earnings after interest and tax charges from our investments in non-consolidated ventures was negligible for the three months ended September 30, 2003 down from earnings of $3.3 million for the three months ended September 30, 2002. Our recognized earnings from Sovintel were $3.0 million for the three months ended September 30, 2002. The primary decrease in equity in earnings was due to the acquisition of the remaining 50% ownership interest in Sovintel which was completed in the third quarter of 2002. We began consolidating Sovintel into our results of operations from September 17, 2002.

Interest Income

Our interest income was $0.3 million for the three months ended September 30, 2003 down from $0.4 million for the three months ended September 30, 2002. The decrease in interest income mainly reflects lower interest rate earned on deposits in short-term US money market funds.

Interest Expense

Our interest expense was $0.2 million for the three months ended September 30, 2003 down from $0.5 million for the three months ended September 30, 2002. The decrease in interest expense mainly reflects the effect of lower balances of debt, including capital leases at September 30, 2003 as compared to September 30, 2002. Debt, excluding capital lease obligations, at September 30, 2003 was $1.9 million as compared to $4.2 million at September 30, 2002.

Foreign Currency Loss

Our foreign currency loss was $0.2 for the three months ended September 30, 2003, compared to a foreign currency loss of $0.1 million for the three months ended September 30, 2002. The increase in foreign currency loss is due to a combination of movements in exchange rates and changes in the amount of net monetary assets that we have denominated in foreign currencies.

Provision for Income Taxes

Our charge for income taxes was $5.6 million for the three months ended September 30, 2003 compared to $1.6 million for the three months ended September 30, 2002. Our effective tax rate was 31% for the three months ended September 30, 2003 compared to 17% for the three months ended September 30, 2002. The increase is primarily due to the acquisition of the remaining 50% of Sovintel and subsequent consolidation of Sovintel from September 17, 2002 into our results of operations. In addition, there were increased levels of taxable profits being incurred in our Russian and Ukrainian subsidiaries in the three months ended September 30, 2003 as compared to the three months ended September 30, 2002. By the fourth quarter of 2002, we had recognized the full amount of carry-forward tax losses at our wholly-owned Russian subsidiary, Teleross, which previously had been recognized on a quarterly basis.

Net Income and Net Income per Share

Our net income for the three months ended September 30, 2003 was $12.5 million, compared to a net income of $7.9 million for the three months ended September 30, 2002.

Our net income per share of common stock increased to $0.44 for the three months ended September 30, 2003, compared to a net income per share of $0.32 for the three months ended September 30, 2002. The increase in net income per share of common stock was due to the increase in net income partly offset by an increase in the number of weighted average shares to 28,157,339 for the three months ended September 30, 2003, compared to 24,250,734 for the three months ended September 30, 2002.

Our net income per share of common stock on a fully diluted basis increased to $0.43 for the three months ended September 30, 2003, compared to a net income per common share of $0.32 for the three months ended September 30, 2002. The increase in net income per share of common stock on a fully diluted basis was due to the increase in net income partly offset by an increase in the number of weighted average shares assuming dilution to 29,072,342 for the three months ended September 30, 2003, compared to 24,666,489 for the three months ended September 30, 2002.

CONSOLIDATED RESULTS-- CONSOLIDATED RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO THE CONSOLIDATED RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002

REVENUE

Our revenue increased by 104% to $249.2 million for the nine months ended September 30, 2003 from $121.9 million for the nine months ended September 30, 2002. The breakdown of revenue by business group was as follows:

	CONSOLIDATED REVENUE FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002	CONSOLIDATED REVENUE FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003
	(IN MILLIONS)	
REVENUE		
Business and Corporate Services	$ 52.4	$129.3
Carrier and Operator Services	45.6	89.5
Consumer Internet Services	15.7	21.5
Mobile services	9.9	10.4
Eliminations	(1.7)	(1.5)
TOTAL REVENUE	$121.9	$249.2

Business and Corporate Services. Revenue from Business and Corporate Services increased by 147% to $129.3 million for the nine months ended September 30, 2003 from $52.4 million for the nine months ended September 30, 2002. The primary reason for the increase is due to the acquisition of the remaining 50% ownership interest in Sovintel which was completed in the third quarter of 2002. We began consolidating Sovintel into our results of operations from September 17, 2002. In addition, we had increases in our domestic traffic due to adding 1,374 new corporate customers and signing up 49 new multi-tenant business centers in the nine months ended September 30, 2003 along with actively promoting our new services among our client base.

Revenue for the Business and Corporate Services division of Golden Telecom BTS increased by 12% to $13.5 million for the nine months ended September 30, 2003 from $12.1 million for the nine months ended September 30, 2002. The increase in revenue was due to an increase in the total intercity minutes of use by business and corporate clients and an increase in monthly recurring charges offset by lower equipment sales.

Carrier and Operator Services. Revenue from Carrier and Operator Services increased by 96% to $89.5 million for the nine months ended September 30, 2003 from $45.6 million for the nine months ended September 30, 2002. The primary reason for the increase is due to the acquisition of the remaining 50% ownership interest in Sovintel which was completed in the third quarter of 2002. We began consolidating Sovintel into our results of operations from September 17, 2002. In addition, we have added a number of new carriers with increased volumes of traffic and increased the number of services that we offer to cellular providers which has more than offset general tariff declines, although pricing pressures still exists.

Revenue for the Carrier and Operator Services division of Golden Telecom BTS increased by 93% to $7.9 million for the nine months ended September 30, 2003 from $4.1 million for the nine months ended September 30, 2002. The increase in revenue was due to increasing volumes of incoming international traffic which we are able to terminate in a number of cities in Ukraine as well as increasing volumes of outgoing international traffic.

Consumer Internet Services. Revenue from Consumer Internet Services increased by 37% to $21.5 million for the nine months ended September 30, 2003 from $15.7 million for the nine months ended September 30, 2002. The increase is largely the result of increases in the number of dial-up Internet subscribers from 191,707 at September 30, 2002 to 291,167 at September 30, 2003 partly offset by the average revenue per dial-up Internet subscriber decreasing from approximately $8.18 per month to approximately $8.13 per month over the same period.

Mobile Services. Revenue from Mobile Services increased by 5% to $10.4 million for the nine months ended September 30, 2003 from $9.9 million for the nine months ended September 30, 2002. Active subscribers increased from 35,576 at September 30, 2002 to 36,861 at September 30, 2003 and the average revenue per active subscriber has increased by 8% to approximately $33.26 per month due to an increasing number of subscribers on a tariff plan which allows for unlimited local calls for a fixed payment of $99 per month.

EXPENSES

The following table shows our principal expenses for the nine months ended September 30, 2003 and September 30, 2002:

	CONSOLIDATED EXPENSES FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002	CONSOLIDATED EXPENSES FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003
	(IN MILLIONS)	
COST OF REVENUE		
Business and Corporate Services.....	$ 30.1	$ 56.1
Carrier and Operator Services.......	13.1	50.8
Consumer Internet Services..........	10.8	14.4
Mobile services.....................	2.2	1.8
Eliminations........................	(1.7)	(1.5)
TOTAL COST OF REVENUE.................	54.5	121.6
Selling, general and administrative...	30.7	42.6
Depreciation and amortization.........	19.6	32.1
Equity in losses earnings of ventures........................	(3.8)	--
Interest income.......................	(1.2)	(0.9)
Interest expense......................	1.4	1.8
Foreign currency loss (gain)..........	0.6	--
Provision for income taxes............	3.8	14.6

Cost of Revenue

Our cost of revenue increased by 123% to $121.6 million for the nine months ended September 30, 2003 from $54.5 million for the nine months ended September 30, 2002.

Business and Corporate Services. Cost of revenue from Business and Corporate Services increased by 86% to $56.1 million, or 43% of revenue, for the nine months ended September 30, 2003 from $30.1 million, or 57% of revenue, for the nine months ended September 30, 2002. The decrease as a percentage of revenue is due to the acquisition of the remaining 50% ownership interest in Sovintel which was completed in the third quarter of 2002. We began consolidating Sovintel into our results of operations from September 17, 2002.

Cost of revenue for the Business and Corporate Services division of Golden Telecom BTS increased by 9% to $6.2 million, or 46% of revenue, for the nine months ended September 30, 2003 from $5.7 million, or 47% of revenue, for the nine months ended September 30, 2002.

Carrier and Operator Services. Cost of revenue from Carrier and Operator Services increased by 288% to $50.8 million, or 57% of revenue, for the nine months ended September 30, 2003 from $13.1 million, or 29% of revenue, for the nine months ended September 30, 2002. The increase in cost of revenue as a percentage of revenue is due to the acquisition of the remaining 50% ownership interest in Sovintel which was completed in the third quarter of 2002. We began consolidating Sovintel into our results of operations from September 17, 2002.

Cost of revenue for the Carrier and Operator Services division of Golden Telecom BTS increased by 108% to $5.4 million, or 68% of revenue, for the nine months ended September 30, 2003 from $2.6 million, or 63% of revenue, for the nine months ended September 30, 2002. Cost of revenue increased as a percentage of revenue due to the increased volumes of lower margin international incoming and outgoing traffic.

Consumer Internet Services. Cost of revenue from Consumer Internet Services increased by 33% to $14.4 million, or 67% of revenue, for the nine months ended September 30, 2003 from $10.8 million, or 69% of revenue, for the nine months ended September 30, 2002. The decrease as a percentage of revenue was mainly due to additional low cost interconnect capacity becoming available in the third quarter of 2002.

Mobile Services. Cost of revenue from Mobile Services decreased by 18% to $1.8 million, or 17% of revenue, for the nine months ended September 30, 2003 from $2.2 million, or 22% of revenue, for the nine months ended September 30, 2002. The cost of revenue

as a percentage of revenue decreased due to the increased number of subscribers using the unlimited local call tariff plan which does not lead to additional settlement costs with other operators.

Selling, General and Administrative

Our selling, general and administrative expenses increased by 39% to $42.6 million, or 17% of revenue, for the nine months ended September 30, 2003 from $30.7 million, or 25% of revenue, for the nine months ended September 30, 2002. This increase in selling, general and administrative expenses was mainly due to increases in employee related costs, advertising, inventory obsolescence, bad debt expense, and other selling, general and administrative expenses arising from the consolidation of Sovintel from September 17, 2002 into our results of operations.

Depreciation and Amortization

Our depreciation and amortization expenses increased by 64% to $32.1 million for the nine months ended September 30, 2003 from $19.6 million for the nine months ended September 30, 2002. The increase was due in part to depreciation on continuing capital expenditures of the consolidated entities, but primarily relates to our acquisition of the remaining 50% of Sovintel and subsequent consolidation of Sovintel as of September 17, 2002 into our results of operations.

Equity in Earnings of Ventures

The earnings after interest and tax charges from our investments in non-consolidated ventures was negligible for the nine months ended September 30, 2003 down from earnings of $3.8 million for the nine months ended September 30, 2002. We recognized earnings at Sovintel of $9.0 million for the nine months ended September 30, 2002, which more than offset our recognized losses in MCT. The decrease in equity in earnings was due to the acquisition of the remaining 50% of Sovintel and its subsequent consolidation as of September 17, 2002 into our results of operations partly offset by writing down our investment in MCT to zero in the second quarter of 2002 thereby recognizing no more losses from this equity investee.

Interest Income

Our interest income was $0.9 million for the nine months ended September 30, 2003 down from $1.2 million for the nine months ended September 30, 2002. The decrease in interest income mainly reflects lower interest rates earned on deposits in short-term US money market funds.

Interest Expense

Our interest expense was $1.8 million for the nine months ended September 30, 2003 up from $1.4 million for the nine months ended September 30, 2002. The increase in overall interest expense mainly reflects the effect of higher average balances of debt, including capital leases. Debt, excluding capital lease obligations, at September 30, 2003 was $1.9 million compared to $4.2 million at September 30, 2002. On June 30, 2003, we settled $30.0 million of outstanding debt plus accrued interest under a credit facility with ZAO Citibank. There was no penalty for the early settlement of this debt however an additional $0.2 million of previously capitalized financing costs was recognized during the second quarter of 2003 which was previously being recognized over the life of the facility.

Foreign Currency Gain/Loss

Our foreign currency gain was negligible for the nine months ended September 30, 2003, compared to a foreign currency loss of $0.6 million for the nine months ended September 30, 2002. The improvement in foreign currency loss to negligible foreign currency gain is due to the combination of movements in exchange rates and changes in the amount of net monetary assets that we have denominated in foreign currencies.

Provision for Income Taxes

Our charge for income taxes was $14.6 million for the nine months ended September 30, 2003 compared to $3.8 million for the nine months ended September 30, 2002. Our effective tax rate was 28% for the nine months ended September 30, 2003 compared to 19% for the nine months ended September 30, 2002. The increase is primarily due to the acquisition of the remaining 50% of Sovintel and subsequent consolidation of Sovintel from September 17, 2002 into our results of operations. In addition, there were increased

levels of taxable profits being incurred in our Russian and Ukrainian subsidiaries in the nine months ended September 30, 2003 as compared to the nine months ended September 30, 2002. By the fourth quarter of 2002, we had recognized the full amount of carry-forward tax losses at our wholly-owned Russian subsidiary, Teleross, which previously had been recognized on a quarterly basis.

Cumulative Effect of a Change in Accounting Principle

We adopted SFAS No. 142 "Accounting for Goodwill," effective from January 1, 2002. As a result, we recorded a cumulative effect of a change in accounting principle for negative goodwill (deferred credit) arising on our equity method investments in the amount of $1.0 million for the nine months ended September 30, 2002.

Net Income and Net Income per Share

Our net income for the nine months ended September 30, 2003 was $37.2 million, compared to a net income of $16.8 million for the nine months ended September 30, 2002.

Our net income per share of common stock increased to $1.35 for the nine months ended September 30, 2003, compared to a net income per share of $0.73 for the nine months ended September 30, 2002. The increase in net income per share of common stock was due to the increase in net income partly offset by an increase in the number of weighted average shares to 27,569,748 for the nine months ended September 30, 2003, compared to 23,151,810 for the nine months ended September 30, 2002.

Our net income per share of common stock on a fully diluted basis increased to $1.32 for the nine months ended September 30, 2003, compared to a net income per common share of $0.71 for the nine months ended September 30, 2002. The increase in net income per share of common stock on a fully diluted basis was due to the increase in net income partly offset by an increase in the number of weighted average shares assuming dilution to 28,251,106 for the nine months ended September 30, 2003, compared to 23,602,715 for the nine months ended September 30, 2002.

CONSOLIDATED FINANCIAL POSITION-- SIGNIFICANT CHANGES IN CONSOLIDATED FINANCIAL POSITION AT SEPTEMBER 30, 2003 COMPARED TO CONSOLIDATED FINANCIAL POSITION AT DECEMBER 31, 2002

Accounts Receivable

Accounts receivable increased from December 31, 2002 to September 30, 2003 as a result of increased revenue during the period ended September 30, 2003 and delays in timing of certain cash collections as we commenced integrating customer databases and billing information from TeleRoss into Sovintel.

Intangible Assets

Our intangible assets increased at September 30, 2003 as compared to December 31, 2002 as a result of our acquisition of Sibchallenge in August 2003.

Debt Obligations

Our debt position decreased at September 30, 2003 as compared to December 31, 2002 as a result of retiring our debt that consisted mainly of ROL Holdings Citibank Credit Facility of $30.0 million.

Stockholders' Equity

Shareholders' equity increased from December 31, 2002 to September 30, 2003 as a result of our net income of $37.2 million and proceeds of approximately $20.3 million received from the exercise of stock options.

INCOME TAXES

Our effective rate of income tax differs from the US statutory rate due to the impact of the following factors (1) different income tax rates and regulations apply in the countries where we operate; and (2) amortization of certain acquired intangible assets is not deductible for income tax purposes. We have not recorded a tax benefit in relation to our US net operating loss carry-forward amount as our taxable US income is largely comprised of interest income and dividends which we do not expect to continue over the longer term. In 2002, as a result of our Russian and Ukrainian subsidiaries profitability for Russian and Ukrainian statutory purposes and reasonable certainty of future profits, we recorded deferred tax assets in the respective Russian and Ukrainian subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

Our cash and cash equivalents were $54.9 million and $59.6 million as of September 30, 2003 and December 31, 2002, respectively. Our total restricted cash was $1.1 million and $1.5 million as of September 30, 2003, and December 31, 2002, respectively. The restricted cash is maintained in connection with certain of our debt obligations as described below.

During the nine months ended September 30, 2003 we had net cash inflows of $63.1 million from our operating activities. During the nine months ended September 30, 2002, we had net cash inflows of $28.8 million from our operating activities. This increase in net cash inflows from operating activities at September 30, 2003 is mainly due to the increase in net income, increased revenues, and the consolidation of Sovintel into our results of operations and financial position from September 17, 2002. We used cash of $55.7 million for investing activities for the nine months ended September 30, 2003 which were principally attributable to building our telecommunications networks and the acquisition of Sibchallenge in August 2003. We had cash inflows of $5.9 million from investing activities for the nine months ended September 30, 2002 which were principally attributable to proceeds received from investments available for sale and a $9.0 million loan received from an equity investee, partially offset by cash outflows attributable to building our telecommunications networks. Network investing activities totaled $42.8 million for the nine months ended September 30, 2003 and included capital expenditures principally attributable to building out our telecommunications network and the purchase of additional numbering capacity. Network investing activities totaled $16.6 million for the nine months ended September 30, 2002 and included capital expenditures principally attributable to building our telecommunications network. For the nine months ended September 30, 2002, we recovered funds from escrow of $3.0 million in association with our acquisition of PTK in June 2001.

We had working capital of $68.1 million as of September 30, 2003 and $56.5 million as of December 31, 2002. At September 30, 2003, we had total debt, excluding capital lease obligations, of approximately $1.9 million, of which $1.3 million were current maturities. At December 31, 2002, we had total debt, excluding capital lease obligations, of approximately $33.1 million, of which $9.0 million were current maturities. Total debt includes amounts that were fully collateralized by restricted cash. At September 30, 2003 and December 31, 2002 none of our debt was at fixed interest rates. In June 2003, we settled early $30.0 million of outstanding debt plus accrued interest under a credit facility with ZAO Citibank. There was no penalty for the early settlement of this debt however an additional $0.2 million of previously capitalized financing costs was recognized as interest expense which was previously being recognized over the life of the facility.

Some of our operating companies have received debt financing through direct loans from affiliated companies. In addition, certain operating companies have borrowed funds under a back-to-back, seven-year credit facility for up to $22.7 million from a Russian subsidiary of Citibank. Under this facility, we provide full cash collateral, held in London, and recorded on our balance sheet as restricted cash, for onshore loans made by the bank to our Russian registered ventures. In a second, similar facility, we provide full cash collateral for a short term back-to-back, revolving, credit facility for up to $10.0 million from the same bank for Sovintel. The funding level as of September 30, 2003 for all these facilities totaled $1.0 million, of which $0.2 million was funded to our consolidated subsidiaries and $0.8 million was funded to our non-consolidated entities.

In order for us to compete successfully, we may require substantial capital to continue to develop our networks and meet the funding requirements of our operations and ventures, including possible losses from operations. We may also require capital for our acquisition and business development initiatives. The net proceeds from our IPO, our private placement and our operating cash flows have been applied to these funding requirements. We also expect to fund these requirements through additional cash flow from operations, proceeds from additional equity and debt offerings that we may conduct, and debt financing facilities.

In October 2003, we entered into an agreement with Mobile TeleSystems and Vimpelcom to build a fiber optic link ("FOL") between Moscow and Nizhny Novgorod. Our expected cost of the project is approximately $2.9 million and the link is expected to come on line in the second half of 2004. The FOL is expected to follow the main highway between Moscow and Nizhny Novgorod,

connecting the base stations of the two mobile operators, as well as our potential clients along the route. Three different FOL cables with 32 fiber pairs each will be constructed in two plastic protection tubes. Each partner will own its own electronics.

In the future, we may execute especially large or numerous acquisitions, which may require us to raise additional funds through a dilutive equity issuance, through additional borrowings with collateralization and through the divestment of non-core assets, or combinations of the above. In the case especially large or numerous acquisitions do not materialize, we expect our current sources of funding to finance our capital requirements for the next 12 to 18 months. The actual amount and timing of our future capital requirements may differ materially from our current estimates because of changes or fluctuations in our anticipated acquisitions, investments, revenue, operating costs and network expansion plans and access to alternative sources of financing on favorable terms. Further, in order for us to compete successfully, we may require substantial capital to continue to develop our networks and meet the funding requirements of our operations and ventures, including any possible losses from operations. We will also require capital for other acquisition and business development initiatives. We expect to fund these requirements through our cash on hand, cash flow from operations, proceeds from additional equity and debt offerings that we may conduct, and debt financing facilities.

We may not be able to obtain additional financing on favorable terms. As a result, we may be subject to restrictive financial covenants, our interest obligations may increase significantly and our shareholders may be adversely diluted. Our failure to generate sufficient funds in the future, whether from operations or by raising additional debt or equity capital, may require us to delay or abandon some or all of our anticipated expenditures, to sell assets, or both, which could have a material adverse effect on our operations. We may be required to offer some or all of our assets as collateral in any debt facility thereby limiting our ability to attract any additional debt.

As part of our drive to increase our network capacity, reduce costs and improve the quality of our service, we have leased additional fiber optic and satellite-based network capacity. The terms of these leases are generally five years or more and can involve significant advance payments. As demand for our telecommunication services increases we expect to enter into additional capacity agreements and may make significant financial commitments, in addition to our existing commitments.

As of September 30, 2003, we had the following contractual obligations, including short- and long-term debt arrangements, commitments for future payments under non-cancelable lease arrangements and purchase obligations:

	PAYMENTS DUE BY PERIOD (IN THOUSANDS)			
	TOTAL	LESS THAN 1 YEAR	1 - 3 YEARS	4 - 5 YEARS
Short- and long-term debt	$ 1,874	$ 1,250	$ 524	$ 100
Capital lease obligations	6,459	2,281	4,178	--
Non-cancelable lease obligations	3,575	1,662	1,913	--
Purchase obligations	15,479	10,081	5,398	--
Total contractual cash obligations	$27,387	$15,274	$12,013	$ 100

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other parts of this document, including, without limitation, those concerning (i) future acquisitions and capital expenditures, including our plans to fund such acquisitions and capital expenditures (ii) projected traffic volumes, tariff levels, subscriber numbers and other growth indicators; (iii) anticipated revenues and expenses, including taxes; (iv) the Company's competitive environment; (v) the Company's potential liability for litigation; (vi) the Company's future tax liability; (vii) future performance of consolidated and equity method investments; (viii) the anticipated effect of recent accounting pronouncements; (ix) recognition of doubtful accounts, (x) the political, regulatory and financial situation in the markets in which we operate, including the anticipated effect of the new law on telecommunication in Russia, and (xi) the expected closing of the Comincom transaction are forward-looking and concern the Company's projected operations, economic performance and financial condition. These forward-looking statements are made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. It is important to note that such statements involve risks and uncertainties and actual results may differ materially from those expressed or implied by such forward-looking statements. Among the key factors that have a direct bearing on the Company's results of operations, economic performance and financial condition are the commercial and execution risks associated with implementing the Company's business plan, the political, economic and legal

environment in the markets in which the Company operates, increasing competitiveness in the telecommunications and Internet-related businesses that may limit growth opportunities, and increased and intense downward price pressures on some of the services that we offer. These and other factors are discussed herein under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Report.

Additional information concerning factors that could cause results to differ materially from those in the forward looking statements are contained in the Company's filings with the U.S. Securities and Exchange Commission ("SEC") and especially in the Risk Factor sections therein, including, but not limited to the Company's report on Form 10-K for the year ended December 31, 2002.

In addition, any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely result," "are expected to," "estimated," "intends," "plans," "projection" and "outlook") are not historical facts and may be forward-looking and, accordingly, such statements involve estimates, assumptions and uncertainties which could cause actual results to differ materially from those expressed in the forward-looking statements. Accordingly, any such statements are qualified in their entirety by reference to, and are accompanied by, the factors discussed throughout this Report and investors, therefore, should not place undue reliance on any such forward-looking statements.

Further, any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors may emerge from time to time, and it is not possible for management to predict all of such factors. Further, management cannot assess the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Controls and Procedures

The Company maintains disclosure controls and procedures, which have been designed to ensure that material information related to Golden Telecom, Inc. including its consolidated and non-consolidated subsidiaries, is made known to a disclosure committee on a regular basis. In response to recent legislation and proposed regulations, the Company has reviewed the internal control structure and disclosure controls and procedures pursuant to Rule 13a-14 and

15(d)-14(c) under the Securities and Exchange Act of 1934, as amended. Although the Company believes that the pre-existing disclosure controls and procedures were adequate to enable the Company to comply with the Company's disclosure obligations, as a result of such review, the Company implemented minor changes, primarily to formalize and document certain procedures already in place. The Company also established a disclosure committee comprised of certain members of the Company's senior management.

As of September 30, 2003, the disclosure committee carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in causing material information to be recorded, processed, summarized, and reported by management of the Company on a timely basis and to ensure that the quality and timeliness of the Company's public disclosures complies with the SEC disclosure requirements.

Changes in Controls and Procedures

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these internal controls after the date of our most recent evaluation.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

DESIGNATION	DESCRIPTION
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

b) Reports on Form 8-K

DATE OF REPORT	SUBJECT OF REPORT
August 6, 2003	Golden Telecom, Inc. announces signing of a share purchase agreement to acquire 100% ownership interest in OOO Sibchallenge Telecom and 100% of the issued and outstanding shares of ZAO Tel.
August 13, 2003	Golden Telecom, Inc. announces second quarter 2003 results.
August 19, 2003	Golden Telecom, Inc. announces signing of a share exchange agreement to acquire 100% ownership interest in OAO Comincom.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GOLDEN TELECOM, INC.
(Registrant)

By: /s/ DAVID STEWART

Name: David Stewart
Title: Chief Financial Officer and Treasurer
(Principal Financial Officer)

By: /s/ MICHAEL D. WILSON

Name: Michael D. Wilson
Title: Corporate Controller
(Principal Accounting Officer)

Date: November 12, 2003

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INDEX TO EXHIBITS

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